COLABOR GROUP INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
("MD&A")

Second quarter of 2020

12 and 24-week periods ended June 13, 2020

COLABOR

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1. Scope of the MD&A and Notice to Investors

This Management's Discussion & Analysis ("MD&A") of Colabor Group Inc. (the "Company" or "Colabor") discusses the Company's net income, comprehensive income, financial situation and cash flows for the second quarter ended June 13, 2020 whose numbers are unaudited. This report should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes for the period ended June 13, 2020 and the audited consolidated financial statements for the fiscal year ended December 28, 2019, and related notes, along with the associated annual MD&A. These financial statements are in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standard Board ("IASB"). The financial statements have been published on the following sites: www.sedar.com and www.colabor.com.

Forward-Looking Statements

This MD&A contains certain forward-looking statements as defined under applicable securities law. Forward-looking information may relate to Colabor's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Company's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Colabor believes are reasonable as of the current date. Refer in particular to section 2.2 "Development Strategies and Outlook" of this MD&A. While Management considers these assumptions to be reasonable based on information currently available to the Company, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Colabor currently expects. For more exhaustive information on these risks and uncertainties, the reader should refer to section 10 "Risks and Uncertainties" of this MD&A. These factors are not intended to represent a complete list of the factors that could affect Colabor and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A, information representing Colabor's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Company is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

Seasonality

Colabor's fiscal year is comprised of thirteen periods of four weeks each. The first three quarters are comprised of three periods each and the fourth quarter includes four periods. The Company's year-end is the last Saturday of December. The fiscal year ended the last Saturday of December.

As such result, the Company's sales and net earnings are proportionally less significant for the first, second and third quarters and more significant for the fourth quarter since the latter generally has 33% more days of operation in comparison with the other quarters of the period. Additionally, the Company's sales are seasonal, therefore generally lower sales volume are recorded during the first quarter in comparison with the other three quarters. See section 2 for the impacts related to the Covid-19 pandemic ("pandemic").

Additionally, working capital fluctuates throughout the fiscal year due to the seasonal nature of operations, especially during Spring and Summer, and during the Holiday Season (i.e. Christmas and Easter). In order to meet higher seasonal demand, inventories requirements increase as well as trade and other receivables. The credit facility fluctuates to support this seasonal activity.

The shares of Colabor Group Inc. are traded on the Toronto Stock Exchange under the symbol GCL, while its convertible debentures are traded under the symbol GCL.DB.A.

Additional information concerning the Company may be found on SEDAR at www.sedar.com and on Colabor's website at www.colabor.com. The information contained on the Company's website is not included by reference in this MD&A.

2. About Colabor

2.1 Business Developments in 2020

During the 12 and 24-week period ended June 13, 2020, the following events have influenced the Company's general development and operations, or reflect the evolution of Colabor's transformational plan and growth.

Broadline Distribution activities in Ontario

On January 8, 2020, the Company announced the consolidation of its Broadline distribution activities of the Summit Food ("Summit") into its Mississauga distribution center, which resulted in the closure of its London and Ottawa distributions centers on February 9, 2020 and March 2, 2020 respectively. This decision ties with the termination by mutual agreement of the supply contract between Colabor and Recipe Unlimited ("Recipe") which took place gradually during the first quarter of 2020.

On May 11, 2020, the Company announced the closing of the sale of the majority of the assets of its Summit division for an amount of $9.4 million subject to certain adjustments after the closing, including the finalization of working capital and a contingent consideration based on sales level in the next 12 months. An amount of $7.7 million was received upon closing of the transaction and the remaining amount will be received in the coming months when the final adjustments are known. The sale includes the activities of independent and franchise restaurants as well as certain sales assets and transfer of certain employees.

The Company has reclassified as discontinued operations the results and cash flows for the current and previous periods of this division, separately from the continuing operations of the Company. Refer to section 4 "Discontinued operations" for more details.

Option to acquire Dubé & Loiselle inc.

On February 24, 2020, Colabor announced that it had decided not to exercise the option to acquire Dubé & Loiselle inc. according to the terms and conditions agreed in the original agreement.

Covid-19

On March 11, 2020, the World Health Organization has qualified the Covid-19 virus a global pandemic. This pandemic has forced governments around the world to implement emergency measures to slow the spread of the virus, such as the travel ban, the closure of non-essential services, the confinement of citizens and physical distancing, resulting in an economic slowdown. The Company, as a food distributor, is considered an essential service and has continued to serve its current customers including hospitals, CHSLDs, military bases, food banks and the non-profit organizations while having implemented various measures including those described below, in order to protect its customers, suppliers and employees. Although deconfinement measures and the resumption of activities in several sectors have started during the second quarter, this pandemic could continue to have an impact on customer demand, and therefore on the number of employees needed, could require tighter government regulations and increased government intervention, these factors could negatively affect operations, financial results and the balance sheet of the Company.

Refinancing

On May 29, 2020, the Company extended its credit facility for an additional year, maturing on October 13, 2021, on similar terms. The credit facility is comprised of a revolving credit of up to $90.0 million including an operating swingline of $13.5 million. In addition, at the same date, the Company extended the maturity of its subordinated debt with the Fonds de solidarité FTQ until February 15, 2022.

These refinancing will allow the Company to meet the potential additional liquidity needs resulting from the pandemic as well as future investment projects.

2.2 Development Strategies and Outlook

Colabor has for main financial objectives to increase profitability, and consequently create value for its shareholders. In order to achieve these objectives, the action plan in 2020 is based on the following pillars:

1. Increase Broadline distribution activities
    - Strategic growth based on strategic categories (protein, fruits and vegetables) and reposition its private brands;
    - Improve the share of existing client's portfolio and the extent of Quebec territories.
2. Increase efficiency
    - Evaluate and capitalize on strategic alternatives for certain assets;
    - Optimize internal management processes as part of continuous improvement in order to reduce business units' costs.
3. Prioritize Employee engagement
    - Implement new tools allowing an improved organizational communication;
    - Improve integration and training process efficiency.

Action Plan for 2020

During the first semester of 2020, in order to focus more on its growth markets, Colabor ceased and finished serving the Recipe customer on March 2, 2020 and closed London and Ottawa distribution centers in February and March 2020, respectively as well as the closure of the Mississauga distribution center by the end of July 2020. The announcement of the sale of the majority of the assets of its Summit division as described above is also part of this perspective of capitalizing on our resources and our more strategic assets.

The pandemic is evolving rapidly and despite the almost complete deconfinement at the end of the second quarter, some uncertainties remain surrounding the possibility of a second wave, its scale and its economic repercussions. This crisis has had, and will no doubt continue to have an impact on the evolution of our 2020 plan. Despite financial results above our expectations for the second quarter, the Company is not currently able to reliably estimate the effects of the pandemic on the Company's financial results for fiscal year 2020. For the second quarter of 2020, sales from continuing operations amounted to $95.5 million (compared to forecast sales between $80 and 90 million) and adjusted EBITDA[(1)] was $7.6 million (adjusted EBITDA[(1)] expected between $5 and $6 million).

[(1)] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

From the beginning of the pandemic, Colabor implemented various measures to protect its customers, suppliers and employees while continuing to meet the needs of its customers. These measures, which for the majority continue to be applied, included among others:

- The adoption of teleworking for most office employees;
- Travel restrictions for sales and office representatives;
- Physical distancing measures for all employees; and
- New health and safety measures for our deliverers and warehouse employees.

The pandemic began to impact the Company at the end of the first quarter of 2020 and continued throughout the second quarter, due to the following factors:

- An economic slowdown that will affect most sectors of the economy;
- An increase in bad debts due to the deterioration of the economy and the temporary closure of some of our customers;
- A decrease in sales for our catering customers, particularly caused by the closure of these establishments due to physical distancing measures put in place by governments; and
- Temporary layoffs or reductions in the hours of work of our employees, a temporary decrease in the compensation of the management team and the board of directors.

Although the almost complete deconfinement began at the end of the second quarter, the Company expects to continue to suffer certain repercussions in the coming months, given the gradual recovery of activities.

On March 27, 2020, Canada announced a new Canada Emergency Wage Subsidy ("CEWS") enabling businesses to meet the challenges of the pandemic. During the second quarter, the Company met the eligibility criteria for this subsidy, thereby allowing it to partially compensate the decrease in sales and net results caused by the pandemic. As the eligibility criteria for the period starting July 5 are now known and the Company will be eligible for this subsidy during the third quarter.

Although the pandemic has had and will continue to have an impact on revenue and Adjusted EBITDA[(1)] in the foreseeable future, Colabor does not currently expect negative impact on its free cash flow. As noted in Section 2.1, Colabor has signed agreements to extend the maturity of its credit facility and subordinated debt, which, combined with the first half results, will allow Colabor to pursue its 2020 action plan. Our teams continue to be proactive in order to seize any opportunities that may arise.

[(1)] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

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2.3 Key Financial Performance Indicators

Performance Indicators (in thousands of $, except financial leverage ratio)	12 weeks 2020 $	12 weeks 2019 (Restated[5]) $	24 weeks 2020 $	24 weeks 2019 (Restated[5]) $
Results and cash flow				
Sales from continuing operations	**95,458**	180,713	**207,071**	307,256
Net earnings (loss) from continuing operations	**1,608**	2,934	**(263)**	1,875
Adjusted EBITDA[1]	**7,613**	8,713	**11,311**	10,975
Cash flows from operating activities	**3,217**	1,198	**8,830**	4,985
Financial position			**As at June 13, 2020**	**As at December 28, 2019**
Working Capital[2]			**41,617**	58,066
Financial Leverage Ratio[3]			**2.3x**	2.5x
Net debt[4]			**62,969**	68,155

[1] Non-IFRS measure. Refer to the table Reconciliation of Net Earnings to adjusted EBITDA and to MD&A section 6 "Non-IFRS Performance Measures". Adjusted EBITDA corresponds to net earnings before costs not related to current operations, depreciation and amortization and expenses for stock-based compensation plan. The adjusted EBITDA for 2019 has not been modified to reflect the impact of IFRS 16 adoption.

[2] Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to MD&A section 3.2 "Financial Position" for detailed calculation.

[3] Financial leverage ratio is an indicator of the Company's ability to service its long-term debt. It is defined as net debt / adjusted EBITDA for the last twelve months. Refer to MD&A section 6 "Non-IFRS Performance Measures".

[4] Non-IFRS measure. Refer to MD&A section 6 "Non-IFRS Performance Measures". Net debt corresponds to bank indebtedness, current portion of long-term debt, long-term debt and convertible debentures net of cash.

[5] Some corresponding figures have been restated to exclude discontinued operations and assets and liabilities held for sale, see section 4 "Discontinued Operations" for more details.

Second Quarter Highlights

- Consolidated sales of the second quarter were $95.5 million, down 47.2% compared to the corresponding period of 2019 resulting mainly from the effects of the pandemic and the volume loss in the Broadline distribution sector caused by the non-renewal of non-profitable contracts in Broadline distribution activities in Quebec and by the termination of a contract in Specialized distribution activities. Cumulative consolidated sales amounted to $207.1 million, down 32.6% compared to the corresponding period of 2019 and is essentially explained by the elements mentioned above, with the exception of the impact of the pandemic, of which we have seen the effects only from the end of the first quarter of 2020.

- Second quarter net earnings from continuing operations was $1.6 million, down $1.3 million compared to $2.9 million for the corresponding quarter of 2019, due to lower sales. Cumulative net earnings from continuing operations was $(0.3) million, down $2.1 million compared to $1.9 million in 2019, mainly from costs increase not related to current operations and by the sales decrease.

- Adjusted EBITDA[1] from continuing operations reached 7.6 million or 8.0% of sales from continuing operations compared to $8.7 million or 4.8%, down 12.6%. Cumulative adjusted EBITDA[1] from continuing operations reached $11.3 million or 5.5% of sales from continuing operations compared to $11.0 million or 3.6%, up 3.1%.These improvements come from the IFRS 16 adoption and obtaining the CEWS in the amount of $4.4 million, mitigated by the impact of lower sales related to the pandemic and the effect of the reversal of provisions for favorable CNESST settlements totaling $0.4 million and $0.9 million during the corresponding 12 and 24 week periods of 2019.

- Net debt[4] decreased to $63.0 million as at June 13, 2020 compared to $68.2 million at the end of fiscal year 2019 which had a positive effect on the financial leverage ratio[3] at 2.3x, an improvement from 2.5x, at the end of last fiscal year. Excluding the impact of IFRS 16 on the adjusted EBITDA of 2020, a decrease in operating expenses of $4.0 million for the 24-week period ended June 13,2020, the debt ratio as at June 13, 2020 would have been 2.6x.

- As at June 13, 2020, the Company's working capital[2] was $41.6 million, down from $58.1 million at the end of fiscal year 2019. This variance is mainly due to the end of the contract with Recipe, by the sale of some assets of the Summit division and the reduced level of activity caused by the pandemic.

3. Operational and Financial Results

3.1 Operating Results

Summary of Operating Results for the Second Quarter for the 12 and 24-week periods

(in thousands of dollars, except percentages)

	12 weeks			24 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Sales	**95,458**	180,713	(47.2)	**207,071**	307,256	(32.6)
Cost of goods sold	**80,870**	154,407	(47.6)	**174,178**	261,317	(33.3)
Operating expenses	**6,975**	17,593	(60.4)	**21,582**	34,964	(38.3)
Operating expenses	**87,845**	172,000	(48.9)	**195,760**	296,281	(33.9)
Adjusted EBITDA[1]	**7,613**	8,713	(12.6)	**11,311**	10,975	3.1
Adjusted EBITDA margin[1]	**8.0%**	4.8%		**5.5%**	3.6%	

[1] The adjusted EBITDA and the adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales for the corresponding period.

3.1.1 Segment Sales

Consolidated Sales for the Second Quarter for the 12 and 24-week periods

(in thousands of dollars, except percentages)

	12 weeks			24 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Distribution Segment	**60,423**	138,530	(56.4)	**141,101**	234,416	(39.8)
Wholesale Segment	**43,050**	56,619	(24.0)	**82,814**	97,405	(15.0)
Intersegment eliminations and others	**(8,015)**	(14,436)	44.5	**(16,844)**	(24,565)	31.4
Sales	**95,458**	180,713	(47.2)	**207,071**	307,256	(32.6)

Consolidated sales for the second quarter were $95.5 million compared to $180.7 million during the corresponding quarter of last fiscal year, representing a decrease of 47.2%.

- Distribution segment sales have decreased by 56.4%, due to the Specialized distribution activities for an amount of $50.5 million explained by the termination of a contract for an amount of $40.0 million and a decrease in volume due to the pandemic. Québec Broadline Distribution sales have decreased by $27.6 million, and essentially stemming from a volume decrease related to the pandemic for our restaurant and institutional clients and the decision to cease serving less-profitable contracts during the last quarter of 2019 for an amount of $6.3 million partially compensated by a volume increase for retail clients.

- Wholesale segment sales have decreased by $13.6 million or 24.0%, due to a volume decrease from the pandemic and lower intersegment sales.

- Intersegment eliminations and others have decreased by $6.4 million or 44.5%, mainly due to a volume decline in Ontario and the Distribution segment in Quebec as described above.

Consolidated sales for the 24-week period were $207.1 million compared to $307.3 million during the corresponding period of last fiscal year, representing a decrease of 32.6%.

- Distribution segment sales have decreased by 39.8%, due to the Specialized distribution activities for $58.2 million explained by the termination of a $46.0 million contract and a decrease in volume due to the pandemic. Québec Broadline Distribution sales have decreased by $35.1 million and essentially explained by a decrease in volume related to the pandemic for our clients' restaurant and institutional, by the decision to cease serving non-profitable contracts during the last quarter of 2019 for an amount of $14.1 million mitigated by a volume increase for retail clients.

- Wholesale segment sales have decreased by $14.6 million or 15.0%, due to a decrease in volume due to the pandemic and lower intersegment sales.

- Intersegment eliminations and others have decreased by $7.7 million or 31.4%, mainly due to a volume decline in Ontario and the Distribution segment in Quebec as described above.

3.1.2 Operating Expenses

Operating Expenses for the Second Quarter for the 12 and 24-week periods

(in thousands of dollars, except percentages)

	12 weeks			24 weeks		
	2020	**2019**	Variance	**2020**	**2019**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Distribution segment	**55,531**	131,737	(57.8)	**134,165**	226,598	(40.8)
Wholesale segment	**39,458**	52,813	(25.3)	**75,572**	90,542	(16.5)
Intersegment eliminations and others	**(7,144)**	(12,550)	43.1	**(13,977)**	(20,859)	33.0
Operating expenses[1]	**87,845**	172,000	(48.9)	**195,760**	296,281	(33.9)

[1] Operating expenses excluding costs not related to current operations, depreciation and amortization and expenses for stock-based compensation plan.

Consolidated operating expenses for the second quarter were $87.8 million compared to $172.0 million for the corresponding period of last fiscal year, a decrease of 48.9%, mostly explained by lower cost of goods sold due to sales decline, by the impact of IFRS 16 adoption, a decrease in salaries and other expenses resulting from the measures taken as part of the pandemic and the obtaining the CEWS.

- Distribution segment operating expenses have decreased by 57.8%, mostly explained by lower cost of goods sold due to sales decline, a gross profit improvement following the decision to stop serving certain non-profitable contracts and a $1.5 million operating expenses reduction resulting from the IFRS 16 adoption, a decrease in salaries and other expenses from measures taken during the pandemic, by a $3.4 million of CEWS acquired during the second quarter, mitigated by the unfavorable effect of the provision reversal caused by favorable CNESST settlements totaling $0.4 million during the corresponding period of 2019.

- Wholesale segment operating expenses have decreased by 25.3%, explained by lower cost of goods sold due to sales decline, a decrease in salary expenses resulting from measures taken during the pandemic and a decrease in operating expenses of $ 0.5 million resulting from the adoption of IFRS 16 and by a $0.5 million of CEWS acquired during the second quarter.

- Intersegment eliminations and others have decreased by 43.1%, mainly due to a decrease in intersegment sales as explained above and a decrease in corporate expenses. The decrease in corporate expenses is essentially explained by lower salaries resulting from the measures taken during the pandemic, namely temporary layoffs or reductions of working hours and by the temporary reduction in compensation for the management team and board of directors and by a $0.5 million of CEWS acquired.

Consolidated operating expenses for the 24-week period were $195.8 million compared to $296.3 million during the corresponding period of last fiscal year, representing a decrease of 33.9%, mostly explained by lower cost of goods sold due to sales decline, by the impact of IFRS 16 adoption, a decrease in salaries and other expenses resulting from the measures taken during the pandemic and the obtaining of the CEWS.

- Distribution segment operating expenses have decreased by 40.8%, mostly explained by lower cost of goods sold due to sales decline, a gross profit improvement following the decision to stop serving certain non-profitable contracts, a decrease in salaries and other expenses from measures taken within the pandemic a $3.0 million operating expenses reduction resulting from the IFRS 16 adoption, a $3.4 of CEWS acquired, million received during the second quarter, mitigated by the unfavorable effect of the reversal of provisions caused by favorable CNESST settlements totaling $0.9 million during the corresponding period of 2019.

- Wholesale segment operating expenses have decreased by 16.5%, explained by lower cost of goods sold due to sales decline, a decrease in salary expenses resulting from the measures taken within the pandemic, a decrease in operating

expenses of $1.0 million resulting from the adoption of IFRS 16 and by a $0.5 million of CEWS acquired during the second quarter.

- Intersegment eliminations and others have decreased by 33.0%, mainly due to a decrease in intersegment sales and a decrease in corporate expenses, as explained above.

3.1.3 Adjusted EBITDA

Adjusted EBITDA for the Second Quarter for the 12 and 24-week periods

(in thousands of dollars, except percentages)

	12 weeks			24 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Distribution Segment	**4,892**	6,793	(28.0)	**6,936**	7,818	(11.3)
Wholesale Segment	**3,592**	3,806	(5.6)	**7,242**	6,863	5.5
Intersegment eliminations and others	**(871)**	(1,886)	53.8	**(2,867)**	(3,706)	22.6
Adjusted EBITDA[(1)]	**7,613**	8,713	(12.6)	**11,311**	10,975	3.1
Adjusted EBITDA margin[(1)]	**8.0%**	4.8%		**5.5%**	3.6%	

[(1)] The adjusted EBITDA and the adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales for the corresponding period.

Adjusted EBITDA[(1)] for the second quarter of 2020 amounted to $7.6 million compared to $8.7 million in the corresponding quarter of the previous year, a decrease of 12.6 % and as percentage of sales, adjusted EBITDA margin[(1)] reached 8.0% compared to 4.8% for the corresponding period of 2019, and is mainly due to gross margin improvement following a decision to cease serving less-profitable contracts, the deployment of operational optimization measures, the IFRS 16 adoption which reduced operating expenses for both segments, the decrease in salaries resulting from the measures taken during the pandemic and the CEWS of $4.4 million acquired, mitigated by the sales drop due to the pandemic and by the unfavorable effect of the provisions reversal caused by a $0.4 million favorable CNESST settlements during the 12-week period ended in 2019 :

- Adjusted EBITDA[(1)] in the Distribution segment has increased by $1.9 million or 28.0% . However, as percentage of sales, the Adjusted EBITDA[(1)] margin improved to 8.1% compared to 4.9% in 2019 mainly due to the gross margin improvement as explained above, the deployment of optimization measures, IFRS16 adoption which reduced operating expenses, a decrease in salaries and other expenses resulting from measures taken within the pandemic and the CEWS in the amount of $3.4 million, mitigated by the decrease in sales related to the pandemic.

- Adjusted EBITDA[(1)] in the Wholesale segment has decreased by $0.2 million, despite 24.0% lower sales; mainly due to the deployment of optimization measures, the IFRS16 adoption which reduced operating expenses, a decrease in salaries related to the pandemic and the CEWS acquired during the second quarter, mitigated by the decrease in sales related to the pandemic.

- Adjusted EBITDA[(1)] from intersegment eliminations and others has decreased by $1.0 million, essentially explained by corporate expenses reduction resulting from measures taken within the pandemic as explained above.

Adjusted EBITDA[1] for the 24-week period of 2020 reached $11.3 million compared to $11.0 million in the corresponding period of the previous year, an increase of 3.1%. As percentage of sales, adjusted EBITDA margin[1] reached 5.5% compared to 3.6% in the corresponding period of 2019, and is mainly due to gross margin improvement following a decision to cease serving non-profitable contracts, the deployment of operational optimization measures, the IFRS 16 adoption which reduced operating expenses for both segments, the decrease in salaries resulting from the measures taken within the pandemic and the CEWS of $ 4.4 million acquired, mitigated by the sales drop due to the pandemic and by the unfavorable effect of the provisions reversal caused by a $0.9 million favorable CNESST settlements during the 24-week period ended in 2019 :

- Adjusted EBITDA[1] in the distribution segment has decreased by $0.9 million or 11.3%, a smaller decrease than the 39.8% drop in sales resulting from the improvement in the gross margin as explained above, the deployment of optimization measures and the adoption of IFRS16 which reduced operating expenses , the decrease in salaries and other expenses resulting from the measures taken within the pandemic and the CEWS acquired, mitigated by the drop in sales related to the pandemic.
- Adjusted EBITDA[1] in the Wholesale segment has increased by $0.4 million, despite 15.0% lower sales; mainly due to the deployment of optimization measures, a decrease in salaries resulting from the measures taken within the pandemic, the IFRS16 adoption which reduced operating expenses and the CEWS acquired during the second quarter.
- Adjusted EBITDA[1] in the Intersegment eliminations and others has decreased by $0.8 million, essentially explained by corporate expenses reduction related to the pandemic, as explained above.

3.1.4 Costs not Related to Current Operations

(in thousands of dollars, except percentages)

	12 weeks			24 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	$	**%**	**$**		**%**
Severance costs	**74**	178	(58.4)	183	178	2.8
Allowance for bad debt accounts	**226**	—	—	516	—	—
Others	**208**	—	—	889	—	—
Costs not related to current operations	**508**	178	185.4	1,588	178	792.1

An additional provision for bad debts was taken in the amount of $0.2 million during the second quarter to reflect the effect of the pandemic following the temporary closure of some of our customers mainly in the restaurant industry. This provision was in addition to the provision taken during the first quarter and represented a total amount of $0.5 million for the first semester of 2020.

Other costs not related to current operations mainly represent legal fees and other charges related to non-recurring activities as well as the write-off of the option to purchase Dubé & Loiselle inc. following the Company's decision not to exercise it during the first quarter of 2020.

3.1.5 Depreciation and Amortization

Depreciation and Amortization for the Second Quarter for the 12 and 24-week periods

(in thousands of dollars, except percentages)

	12 weeks			24 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	**$**	**%**	**%**	**$**	**%**
Depreciation of property, plant and equipment	**612**	607	0.8	**1,236**	1,220	1.3
Amortization of intangible assets	**1,296**	1,586	(18.3)	**2,690**	3,168	(15.1)
Depreciation of right-of-use assets	1,510	—	—	3,036	—	—
Depreciation and Amortization	**3,418**	2,193	55.9	**6,962**	4,388	58.7

For the 12-week and 24-week of 2020, depreciation and amortization expense were up by 55.9% and 58.7% respectively, compared to the same period last year stemming from the IFRS 16 adoption. Refer to section 13 “New accounting policy adopted during the current fiscal year".

3.1.6 Financial Expenses

Financial expenses for the second quarter of 2020 have decreased to $1.6 million compared to $1.9 million for the corresponding period of 2019 related to the debt level reduction, mitigated by the $0.5 million financial expenses increase following the IFRS 16 adoption.

Financial expenses for the 24-week period ended June 13, 2020 have decreased to $3.3 million compared to $3.6 million for the corresponding period of 2019 related to the decrease in our debt level and mitigated by the $1.0 million financial expenses increase following the IFRS 16 adoption.

3.1.7 Income Taxes

In the second quarters of 2020 and 2019, income tax expenses were $0.4 million and $1.6 million, respectively essentially explained by the net earnings decrease.

In the 24-week periods of 2020, the recovery tax was $0.4 million compared to an income tax expense of $1.2 million essentially explained by the net loss increase.

3.1.8 Net Earnings

Net Earnings of the Second Quarter for the 12 and 24-week periods

(in thousands of dollars, except net earnings per share and percentages)

	12 weeks			24 weeks		
	2020 $	**2019 $**	**Variance %**	**2020 $**	**2019 $**	**Variance %**
Net earnings (loss) from continuing operations	**1,608**	2,934	(45.2)	**(263)**	1,875	(114.0)
Net earnings (loss) from discontinued operations	**(4,490)**	6,105	(173.5)	**(10,949)**	4,430	(347.2)
Net earnings (loss)	**(2,882)**	9,039	(131.9)	**(11,212)**	6,305	(277.8)
Basic and diluted net earnings (loss) per share of continuing operations	**0.01**	0.03	(66.7)	**0.00**	0.02	(100.0)
Basic and diluted net earnings (loss) per share of discontinued operations	**(0.04)**	0.06	(166.7)	**(0.11)**	0.04	(375.0)
Basic and diluted net earnings (loss) per share	**(0.03)**	0.09	(133.3)	**(0.11)**	0.06	(283.3)

Net earnings from continuing operations for the second quarter was $1.6 million, or $0.01 per share, compared to $2.9 million, or $0.03 per share, for the corresponding period of last fiscal year. The variation is mainly explained by the decrease in adjusted EBITDA[(1)], the increase in the depreciation and amortization expenses and costs not related to current operations, mitigated by the decrease in financial expenses and the income tax expenses. Net loss for the second quarter was $(2.9) million, or $(0.03) per share, a decrease of $11.9 million compared to $9.0 million, or $0.09 per share during the corresponding period of last fiscal year. The variation is explained by the facts describe above and by the increase of $10.6 million related to the net loss related to discontinued operations. The weighted average number of shares outstanding during the period was 101,639,418 compared to 101,139,418 for the corresponding period in 2019.

Net loss from continuing operations for the cumulative 24-week period was $(0.3) million, or $0.00 per share, compared to net earnings of $1.9 million, or $0.02 per share, for the corresponding period of last fiscal year. The decline is mainly explained by the increase in the depreciation and amortization expenses and costs not related to current operations, mitigated by the increase of the adjusted EBITDA[(1)] and the decrease in financial expenses and the income tax expenses. Net loss for the cumulative 24-week period was $(11.2) million, or $(0.11) per share, a decrease of $17.5 million compared to net earnings of $6.3 million or $0.06 per share during the corresponding period of last fiscal year. The variation is mainly explained by facts describe above and by the net loss increase of $15.4 million related to discontinued operations. The weighted average number of shares outstanding during the period was 101,639,418 compared to 101,139,418 for the corresponding period in 2019.

[(1)] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

3.2 Financial Position

The following table presents the main elements of current assets and liabilities, that make up the Company's working capital[2].
(in thousands of dollars)

	As at June 13, 2020 $	As at December 28, 2019 $	Variance $
Current assets			
Trade and other receivables	**44,772**	72,643	(27,871)
Inventories	**38,986**	67,747	(28,761)
Current assets	**83,758**	140,390	(56,632)
Current liabilities			
Trade and other payables	**42,141**	82,324	(40,183)
Working capital[2]	**41,617**	58,066	(16,449)

[2] Working capital is a non-IFRS performance measure. The Company calculates its working capital as described above. See Section 1 "Scope of the MD&A and Notice to Investors" for more information on the seasonality of sales.

As at June 13, 2020, the Company's working capital[2] was $41.6 million, down $16.4 million compared at the end of the last fiscal year. The decrease is explained as follows:

Trade and Other Receivables

Trade and other receivables balance were down $27.9 million from December 28, 2019, stemming from the sale of some assets of the Ontario division for $3.7 million, the termination of a contract in Specialized distribution and with Recipe, combined with the pandemic effect of lower sales during the quarter.

Inventories

Inventory balance decreased by $28.8 million from December 28, 2019. This reduction is due from the sale of some assets of the Ontario division for $6.9 million, combined with the termination of the contract with Recipe and the inventory level drop due to lower demand caused by the pandemic.

Trade and Other Payables

The balance of trade and other payables decreased by $40.2 million from December 28, 2019. This decrease is mainly due to the sales of liabilities of the Ontario division for $2.4 million, by the termination of the contract with Recipe and inventory decrease related to lower demand from the pandemic.

3.3 Other Significant Changes in Financial Position

The following table presents the other significant items of the Company's financial position as at June 13, 2020 and their corresponding variances from the fiscal year ended December 28, 2019.

(in thousands of dollars)

	As at June 13, 2020 $	As at December 28, 2019 $	Variance $
Property, Plant and Equipment	**6,590**	10,486	(3,896)
Intangible Assets	**29,009**	31,461	(2,452)
Right-of-use Assets	**49,801**	—	49,801
Deferred Tax Asset	**6,924**	2,295	4,629
Long-Term Debt	**11,789**	17,926	(6,137)
Lease Liabilities	**42,422**	—	42,422
Convertible Debentures	**49,685**	49,576	109
Pension Obligations	**1,204**	1,553	(349)
Equity Attributable to Shareholders	**86,693**	100,103	(13,410)

Property, Plant and Equipment

The reduction in property, plant and equipment is mainly due to depreciation and the reclassification of road vehicles held as finance leases to right-of-use assets resulting from the IFRS 16 adoption.

Intangible Assets

The reduction in intangible assets is mainly due to amortization.

Right-of-use Asset

The increase results from the IFRS 16 adoption which is explained in more details in the section 13.

Deferred Tax Asset

The increase in deferred tax assets comes mainly from the creation of tax attributes during the period related to IFRS16 adoption and the operating losses.

Long-Term Debt

Long-term debt reduction is mainly due to the increase in cash flow from operating activities, which were used to repay the credit facility and the reclassification of $3.0 million in current liabilities following the refinancing and explained in further details in section 2.1.

Lease Liabilities

The increase results from the IFRS 16 adoption which is explained in more details in the section 13.

Retirement obligation

The decrease in the retirement obligation results from the increase in the fair value of the plan assets following the global market recovery linked to the pandemic.

Equity Attributable to Shareholders

The decrease in shareholders' equity is mainly due to net loss for the period combined with the impact IFRS 16 adoption on the opening balance.

3.4 Data Related to Outstanding Shares

The following table presents Colabor's shares and options data as at July 22, 2020. Refer to Notes 10, 12 and 13 of the condensed interim consolidated financial statements for further details.

(in thousands of dollars, except the number of shares and the number of stock-options)

	Number of shares / stock-options	Amount $
Common shares		
Participating and voting common shares	101,677,932	256,296
Options on participating and voting stock		
Outstanding options	3,187,582	
Exercisable options	1,125,036	

3.5 Cash Flows

The following table represents consolidated cash flows of the second quarter for the 12 and 24-week periods.

(in thousands of dollars)

		12 weeks		24 weeks	
		2020	2019	2019	2018
	Notes	$	$	$	$
Cash flows from operating activities		**3,217**	1,198	**8,830**	4,985
Cash flows from investing activities		**(277)**	839	**(297)**	428
Cash flows from financing activities		**(2,627)**	(14,755)	**(8,963)**	(10,833)
Net change in cash and cash equivalents from continuing operations		**313**	(12,718)	**(430)**	(5,420)
Net change in cash and cash equivalents from discontinued operations		**(3,366)**	11,441	**4,803**	7,336
Cash and cash equivalents at the beginning		**1,991**	(2,491)	**(5,435)**	(5,684)
Cash and cash equivalents at the end		**(1,062)**	(3,768)	**(1,062)**	(3,768)

Operating Activities

Cash flows from operating activities reached $3.2 million and $8.8 million for the 12 and 24-week periods, respectively, compared to $1.2 million and $5.0 million for the corresponding periods in 2019. This increase is mainly due to a lower utilization of working capital[(2)], by the reclassification to financing activities of the payments relating to operating leases after IFRS 16 adoption and by the increase in Adjusted EBITDA[(1)] for the 24-week period.

Investing Activities

Cash flows used from investing activities amounted to $(0.3) million for the 12 and 24-week periods, down from $0.8 million and $0.4 million for the corresponding periods in 2019.

Financing Activities

Cash flows used in financing activities amounted to $(2.6) million and $(9.0) million for the 12 and 24-week periods, respectively, compared to $(14.8) million and $(10.8) million for the corresponding periods in 2019. The change for the 12-week period is mostly due to lease payments under IFRS 16, compared to a subordinated debt repayment of $5.0 million and a credit facility repayment of $7.9 million during the corresponding period in 2019. The change for the 24-week period is mainly due to lease payments under IFRS 16, compared to a subordinated debt repayment of $5.0 million during the corresponding period in 2019.

[(1)] The adjusted EBITDA and the adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales for the corresponding period.
[(2)] Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to MD&A section 3.2 "Financial Position" for detailed calculation.

3.6 Capital Resources

As of June 13, 2020, the Company was in compliance with all debt covenants. To meet its capital needs, the Company has a credit facility of which $34.1 million was available as of June 13, 2020. Refer to section 14 for the liquidity risk management.

Credit facility

On May 29, 2020, the Company extended its credit facility for an additional year, maturing on October 13, 2021, on similar terms. Under this new agreement, the credit facility is comprised of a revolving credit of up to $90.0 million including an operating swingline of $13.5 million. By mutual agreement, the credit facility may be increased by an additional $20.0 million.

Subordinated debt

On May 29, 2020, the Company extended the maturity of its subordinated debt until February 15, 2022 on the same conditions, except for the repayment of an amount of $3.0 million as of October 31, 2020 under certain conditions.

Financing costs of $0.2 million were incurred during the 12 week period ended June 13, 2020 relating to the extension of these two agreements.

4. Discontinued Operations

As mentioned in section 2.1 Business Developments in 2020, on May 11, 2020, the Company announced the closing of the sale of the majority of the assets of its Summit division. The Company has reclassified as discontinued operations the results and cash flows for the current and previous financial years of the Summit division separately from the continuing operations of the Company.

The discontinued activities of 2019 also include the activities of its Viandes Décarie division. On May 10, 2019, the Company concluded the sale of the assets of the Viandes Décarie division for an amount of $20.1 million including final adjustments related to working capital, of which $17.8 million was received at closing. The balance of the sale price receivable will be payable over a maximum period of five years according to the terms of the agreement, from which $0.4 million has been received as at June 13, 2020.

Proceeds from disposal and book value of the net assets sold

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

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Net loss summary for discontinued operations

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

(in thousands of dollars)

	12 weeks		24 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Sales	**9,431**	108,611	**68,822**	217,115
Cost of goods sold	**8,645**	98,033	**62,408**	196,120
Gross Margin	**786**	10,578	**6,414**	20,995
Operating expenses	**1,527**	11,642	**8,971**	24,258
Depreciation and amortization	**616**	25	**1,254**	42
Costs not related to current operations	**4,040**	(7,729)	**10,313**	(7,729)
Impairment loss on goodwill, intangible assets and property, plant and equipment	**—**	49	**—**	73
Operating earnings	**(5,397)**	6,591	**(14,124)**	4,351
Financial expenses	**155**	33	**354**	71
Earnings (loss) before taxes	**(5,552)**	6,558	**(14,478)**	4,280
Income taxes recovered	**(1,062)**	453	**(3,529)**	(150)
Net earnings (loss) from discontinued operations	**(4,490)**	6,105	**(10,949)**	4,430

Sales

Sales for the 12 and 24-week periods amounted to $9.4 million and $68.8 million, respectively, down from $108.6 million and $217.1 million for the corresponding periods of last fiscal year. The sales reduction steemed from the disposal of the Viandes Décarie division concluded on May 10, 2019 and sales for the corresponding periods of last year amounted to $15.1 million and $37.4 million, respectively. Sales from Ontario activities for the 12 and-24 week periods ended June 13, 2020, reached $9.4 million and $68.8 million, respectively, compared to $93.5 million and $179.7 million for the corresponding periods of fiscal 2019. This decrease is mainly explained by the termination of the contract with Recipe, the sale of the rest of the activities of the Summit division, as well as by the effects of the pandemic.

Operating Expenses

Operating expenses from the Viandes Décarie division for the 12 and 24-week periods amounted to $0.9 million and $2.5 million, respectively, for the corresponding periods of 2019. Operating expenses from the Ontario division for the 12 and 24-week periods ended June 13, 2020 were $1.5 million and $9.0 million respectively, compared to $10.8 million and $21.7 million for the corresponding periods of 2019. These decreases are mainly due to the gradual closure of our distribution centers in Ontario following the end of the contract with Recipe and the sale of certain assets of the Summit division, by the adoption of IFRS 16, the effects of the pandemic as well as obtaining the CEWS.

Adjusted EBITDA[(1)]

Adjusted EBITDA[(1)] for the second quarter reached $(0.7) million, up from $(1.1) million for the corresponding period of last year and $(2.6) million and $(3.3) million for the 24-week period, due to the facts explained above.

Summary of costs not related to current operations

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

(in thousands of dollars)

	12 weeks		24 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Severance costs	**3,852**	—	**7,449**	—
Provision for onerous contracts	**(148)**	—	**948**	—
Provision for obsolescence of inventory and bad debt	—	—	**240**	—
Loss (gain) on disposal	**14**	(7,729)	**14**	(7,729)
Closing costs and others	**322**	—	**1,662**	—
Total	**4,040**	(7,729)	**10,313**	(7,729)

Costs not related to current operations for 2020 result from the closure of London and Ottawa distribution centers which took place in February and March 2020, respectively, as well as the closure of the Mississauga distribution center by the end of July 2020. The unpaid amounts of its restructuring costs are disclosed in note 8 of the financial statements. The costs not related to current operations in 2019 represent the gain on disposal realized on the sale of the Viandes Décarie division.

Cash Flow Summary for Discontinued Operations

(in thousands of dollars)

	12 weeks		24 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Cash flows from operating activities	**(7,227)**	(5,461)	**(190)**	(9,775)
Cash flows from investing activities	**7,249**	17,017	**7,239**	17,300
Cash flows from financing activities	**(3,388)**	(115)	**(2,246)**	(189)
Net change in cash and cash equivalents from discontinued operations	**(3,366)**	11,441	**4,803**	7,336

Net change in cash from discontinued operations amounted to $(3.4) million compared to $11.4 million for the corresponding period of last fiscal year. This decrease is mainly due to cash flows from operating activities due to lower use of working capital following the contract termination with Recipe and the closure of two warehouses. The change in cash flows from investing activities is explained by the proceeds of disposition of $17.8 million from the Viandes Décarie division in 2019 and the proceeds of disposition of Summit in 2020.

[1] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

5. Summary of Recent Quarters

The following table presents a summary of results for the last eight quarters:

(in thousands of dollars, except per share data)

	2020		2019				2018	
	T2 (12 weeks)	T1 (12 weeks)	T4 (16 weeks)	T3 (12 weeks)	T2 (12 weeks)	T1 (12 weeks)	T4 (16 weeks)	T3 (12 weeks)
		$	$	$	$	$	$	$
Sales[1]	**95,458**	111,613	192,900	165,803	180,713	126,543	210,120	166,805
Adjusted EBITDA[1]	**7,613**	3,698	8,189	8,483	8,713	2,262	8,828	8,618
Costs not related to current operations	**508**	1,080	703	—	178	—	2,322	(1,194)
Net earnings (loss) from continuing operations[1]	**1,608**	(1,871)	3,711	3,682	2,934	(1,059)	1,785	4,875
Net earnings (loss) from discontinued operations[1]	**(4,490)**	(6,459)	(3,999)	(1,972)	6,105	(1,674)	(3,688)	(3,694)
Net earnings (loss)[1]	**(2,882)**	(8,330)	(288)	1,710	9,039	(2,733)	(1,903)	1,181
Basic and diluted net earnings (loss) per share of continuing operations	**0.01**	(0.02)	0.04	0.04	0.03	0.02	0.02	0.05
Basic and diluted net earnings (loss) per share	**(0.03)**	(0.08)	—	0.02	0.09	0.06	(0.02)	0.01

[1] Sales, Adjusted EBITDA and net earnings have been restated to reclassify the results of the Viandes Décarie division as discontinued operations. Refer to Section 4 "Discontinued operations".

Sales for the last eight quarters have been impacted by different factors, such as non-renewal of non-profitable contracts in the Wholesale and Broadline distribution activities in Quebec from the third quarter of 2019, by the termination of the contract in the Specialized distribution and Distribution Ontario during the first quarter of 2020 and by the pandemic during the second quarter of 2020. Net earnings for the first quarters are generally negatively impacted by seasonality. Net earnings for the fourth quarter of 2018, 2019 and the first quarter of 2020 were negatively impacted by costs not related to current operations. The Adjusted EBITDA for the first two quarters of 2020 also includes the impact of the IFRS 16 adoption.

6. Non-IFRS Performance Measures

This MD&A also contains information that follows non-IFRS measures of performance. Such information should not be considered in isolation or as a substitute for other IFRS performance measures, but rather as supplementary information. These measures are widely used in the financial community to evaluate the profitability of operations. They reflect the inclusion or exclusion of certain amounts that are considered not representative of the Company's recurring financial performance. Since these concepts are not defined by IFRS, they may not be comparable with those of other companies.

Adjusted EBITDA

It is a measure commonly used by management, as well as investors and analysts, that can assess of an entity's performance and capacity of generating cash flows from its current operations. Adjusted EBITDA corresponds to net earnings to which the following items are added: depreciation and amortization, costs not related to current operations, expenses for stock-based compensation plan, expenses related to the pandemic, financial expenses and income taxes.

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Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

(in thousands of dollars)

	12 weeks		24 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Net earnings (loss) from continuing operations	**1,608**	2,934	**(263)**	1,875
Income taxes (recovered)	**403**	1,607	**(447)**	1,159
Financial expenses	**1,598**	1,851	**3,294**	3,643
Operating earnings	**3,609**	6,392	**2,584**	6,677
Expenses for stock-based compensation plan	**78**	(50)	**177**	(268)
Costs not related to current operations	**508**	178	**1,588**	178
Depreciation and amortization	**3,418**	2,193	**6,962**	4,388
Adjusted EBITDA	**7,613**	8,713	**11,311**	10,975

Net Debt

Net debt corresponds to bank indebtedness, current portion of long-term debt, long-term debt and convertible debentures net of cash as presented in Colabor's consolidated statements of financial position.

The following table presents the calculation of net debt:
(in thousands of dollars)

	As at June 13, 2020	**As at December 28, 2019**
	$	**$**
Bank indebtedness (cash)	**(1,716)**	1,579
Current portion of long-term debt	**3,000**	1,979
Long-term debt[(1)]	**12,000**	15,021
Convertible debentures	**49,685**	49,576
Net debt	**62,969**	68,155

[(1)] Following the IFRS 16 adoption, the liabilities related to capital leases are no longer included in long-term debt but as lease liabilities on the balance sheet as at June 13, 2020. The liabilities related to capital leases have been restated for the balance of the net debt as at December 28, 2019 for comparability, an amount of $3.0 million.

Financial Leverage Ratio

The net financial leverage ratio is defined as net debt divided by Adjusted EBITDA from continuing operations for the last twelve months. Refer to the table in Section 5 "Summary of Recent Quarters".

7. Related Party Transactions

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

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

(in thousands of dollars)

	12 weeks		24 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Sales	**2,577**	5,726	**7,205**	11,019
Trade and other receivables, net of remittances			**862**	774
Dubé & Loiselle inc. option			—	500

8. Off-Balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than $1.0 million in letters of credit to support the leasing of one of the Company's distribution centers.

9. Contingency

During the second quarter of 2019, a lawsuit of $7.7 million has been initiated by a client against the Company alleging a default to the terms of their agreement. The Company intends to defend itself vigorously.

10. Risks and Uncertainties

The Company's activities are subject to numerous risks and uncertainties that are described in detail in its February 26, 2020, Annual Information Form (the "AIF"), which may be viewed on the SEDAR website at www.sedar.com and on the Company's website at www.colabor.com. The risks described in the AIF are incorporated by reference in this MD&A.

Public health crises and emergencies, such as epidemics and pandemics

The crisis surrounding the pandemic is evolving rapidly and could have a significant unfavorable impact on operations, the operating results and the financial position of the Company. The magnitude of the potential impact of the pandemic on the Company and its activities will depend on future developments, which involve a high degree of uncertainty and which cannot be predicted with certainty, which includes the spread of the disease, the duration of the outbreak, the impact on consumers, possible disruptions in the supply chain, as well as the effectiveness of measures taken by Quebec and Canadian authorities. Management will continue to monitor the situation closely as it evolves.

11. Significant Judgments and Estimates

The preparation of the financial statements requires the management of the Company to undertakes some judgments and estimates about the recognition and measurement of the assets, liabilities, revenues and expenses which are based on the facts and information that are available to management. Because of the pandemic, management has revised its judgments and estimates as part of the preparation of its interim condensed consolidated financial statements and concluded that there was no significant change as of June 13, 2020 compared to the last fiscal year ending December 28, 2019, with exception of what is mentioned above.

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

12. Internal Controls Over Financial Reporting

Management has designed and assessed disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) to provide reasonable assurance that the financial information presented by the Company is reliable and that its financial statements are prepared in accordance with IFRS. The President and CEO and the Senior Vice-President and CFO have assessed, in accordance with Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings, the design of ICFR and DC&P for the period ended June 13, 2020. On the basis of this assessment, they have concluded that the design of ICFR and DC&P are adequate. For the 24-week period ended June 13, 2020, the President and CEO and the Senior Vice-President and CFO have also assessed that there were no changes in DC&P and ICFR that have materially affected or are reasonably likely to materially affect the internal controls and procedures.

13. New accounting policy adopted during the current fiscal year

IFRS 16 - Leases

Accounting policy

In January 2016, the IASB published IFRS 16 which replace IAS 17 Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position by eliminating the distinction between operating leases and finance leases.

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

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

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

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

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

Impact of adoption

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

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

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

Adjustment to opening equity is related to an impairment charge of $3.3 million, net of a deferred income taxes of $0.7 million, recorded on the right-of-use assets for which the fair value was lower than the carrying amount.

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

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

The Company used its incremental borrowing rates as at December 29, 2019 to measure lease liabilities. which is 3.58% for buildings and 5.98% for vehicles. The right-of-use assets are attributable to the following underlying assets: buildings for $41.7 million and vehicles for $15.7 million.

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

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

The impact of the adoption of IFRS 16 in the 2020 second quarter for the 12 and 24-week periods is as follows:

	12 weeks		
	Continuing operations	**Discontinued operations**	**Total**
	$	**$**	**$**
Decrease in operating expenses	(1,985)	(498)	(2,483)
Increase in financial expenses	344	141	485
Increase in depreciation and amortization	1,510	560	2,070

	24 weeks		
	Continuing operations	**Discontinued operations**	**Total**
	$	**$**	**$**
Decrease in operating expenses	(3,989)	(1,398)	(5,387)
Increase in financial expenses	709	318	1,027
Increase in depreciation and amortization	3,036	1,137	4,173

14. Financial Instruments

A) Fair value

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

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

(in thousands of dollars)

	As at June 13, 2020		As at December 28, 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	$	**$**	**$**	**$**
Financial liabilities				
Non-current				
Subordinated debt	**11,833**	**11,970**	14,963	14,957
Convertible debentures	**49,685**	**35,630**	49,576	42,260
	61,518	**47,600**	64,539	57,217

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

The fair value of the convertible debentures was determined based on the trading price on June 13, 2020.

Fair value measurement

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

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

As at June 13, 2020, the Company has classified the fair value measurement of non-current liabilities presented in the table above as follows: Convertible debentures (Level 1) and Subordinated debt (Level 2). There was no transfer between the levels during the 12 and 24-week periods ended June 13, 2020.

B) Financial risks management

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

Interest rate risk

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

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

Credit risk

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

The Company's credit risk is primarily attributable to its trade accounts receivable and loans receivable. The credit risk related to trade accounts receivable is generally diversified. The Company requires a guarantee or letter of credit from some of its customers. As at June 13, 2020, the Company had guarantees for about 1.0% of its trade accounts receivable (1.0% as at December 28, 2019). In addition, following the pandemic, the payment terms of some customers have been modified for prepayments or payments on delivery in order to minimize credit risks. An additional provision for bad debts in the amount of $0.2 million and $0.5 million was recorded during the 12 and 24-week periods ended June 13, 2020, respectively, following the temporary closure of some of our customers in the restaurant industry.

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

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

Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and sources of financing in the form of authorized bank loans. The Company establishes budget estimates and cash flow forecasts to ensure it has the necessary funds to fulfill its obligations. These forecasts are updated on a regular basis to consider the impacts of the rapidly evolving Covid-19 pandemic. According to our updated forecast based on information currently available to management, the Company is expecting to be able to meet its obligations for the next 12 to 15 months by using future cash flows from operating and financing activities.