COLABOR GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

THIRD QUARTER OF THE 2012 FISCAL YEAR

84-DAY PERIOD ENDED SEPTEMBER 8, 2012

OCTOBER 22, 2012

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1. Scope of MD&A and Notice to Investors

This Management's Discussion & Analysis ("MD&A") of Colabor Group Inc. ("GCL", the "Company" or "Colabor", formerly Colabor Income Fund (the "Fund") discusses the comprehensive income, financial situation and cash flows for the 84-day period (3rd quarter) of the fiscal year ending December 31, 2012. These financial statements are in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been published on SEDAR at the following sites: www.sedar.com and www.colabor.com.

Colabor's fiscal year comprises thirteen periods, the first three quarters comprise three periods each and the fourth quarter includes four periods. The Company's year end is December 31. As a result, the Company's sales and earnings have been proportionately lower in the first quarter and higher in the fourth quarter because the fourth quarter generally has 33% more operating days than the other quarters of the year.

This report also contains information that is a non-IFRS measure of performance, such as the concept of earnings before financial expenses, depreciation and amortization and income taxes (EBITDA), presented in the financial statements under "Operating profit before depreciation and amortization". Since these concepts are not defined in IFRS, they may not be comparable with those of other companies.

In reviewing Colabor's financial statements, investors should consider that the statements of earnings include significant depreciation expenses for property, plant and equipment and amortization expense for intangible assets resulting from Colabor's acquisitions in recent years, for deferred taxes and a non-cash portion of the implicit interest on debentures. The depreciation, amortization and non-cash transactions have a major impact on the basic and diluted earnings per share calculation. Investors often compare this basic and diluted earnings per share amount, which is lower than the annual dividend of $0.72 per share. *For a more in-depth analysis of Colabor, investors should analyze the cash flows per share calculations in Section 6.1 (Operating Profit – Earning per Share) in the MD&A as they are a better indication of the Company's ability to support its annual dividend.*

2. Forward-looking Statements

The MD&A is intended to assist shareholders in understanding the nature and extent of changes and trends, as well as risks and uncertainties. Consequently, actual results may differ significantly from information reported or inferred in these statements. The main factors that could result in a significant difference between Colabor's actual results and the projections or expectations set out in the forward-looking statements are described herein under *Risks and Uncertainties*.

3. General

Corporate arrangement resulting in the creation of Colabor Group Inc.

The Fund was an unincorporated, open-ended, limited purpose trust that was established under the laws of the Province of Quebec under a Declaration of Trust dated May 19, 2005. The Fund's units were traded on the Toronto Stock Exchange under the symbol CLB.UN.

On July 8, 2009, the Fund had announced its intention to convert from an income trust structure to a corporation (the "Conversion"). In order to effect the Conversion, on that date, Colabor had entered into an arrangement agreement (the "Arrangement Agreement") with ConjuChem Biotechnologies Inc. ("ConjuChem"), in order to conclude the Conversion pursuant to a statutory plan of arrangement of ConjuChem (the "Plan of Arrangement") under Section 192 of the *Canada Business Corporations Act* ("CBCA"). The Conversion was completed on August 25, 2009, further to the approval of the unitholders of the Fund, which was obtained at a special meeting held on August 19, 2009.

Additional information

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

Additional information on GCL, and previously the Fund, may be found on SEDAR at www.sedar.com and on its information site www.colabor.com.

4. Corporate Profile

Activities

Colabor was founded in 1962 and is a wholesaler and master food distributor serving the foodservice (cafeterias, restaurants, hotels, restaurant chains) the retail (small-sized grocery stores, convenience stores, etc.) markets.
It currently carries out its activities through two segments and three divisions: Ontario, Central Quebec and Eastern Quebec and New Brunswick.

Distribution Segment

This Segment includes the following operating activities:

1. Summit Foodservice (Summit) (Ontario Division)

Summit distributes more than 8,000 products from warehouses in Ottawa, London, Mississauga, Cambridge and Vaughan to more than 3,000 customers, including Cara (Swiss Chalet, Harvey's, Kelsey's Neighbourhood Bar and Grill, Montana's Cookhouse and Milestone's Grill and Bar), County Style, Extendicare, Mr Sub, Wild Wing, other foodservice chains and independent restaurants as well as to institutions, including hospitals, schools and government institutions.

Summit's product line includes frozen products, dry staples, dairy products, meat, seafood, fruits and vegetables and sanitation products.

This division services primarily the Ontario market, but also distributes Cara restaurant products in Quebec.

This division, with about 700 employees, operates five distribution centres, including the London head office, where administrative services are located.

These warehouses cover a total of 454,476 square feet, allocated as follows:

Mississauga:	127,961 square feet
London:	113,595 square feet (could be expanded)
Ottawa:	103,460 square feet (could be expanded)
Cambridge:	109,460 square feet
Vaughan:	205,000 square feet

2. Colabor Eastern Quebec and New Brunswick Division (Colabor)

Colabor Eastern Quebec and New Brunswick Division is a major distributor to foodservice and retail customers in the Québec City, Saguenay, eastern Quebec and northern New Brunswick regions and part of the North Shore and the Lower North Shore regions. It employs approximately 650 people, distributes over 12,000 products from its four strategically located warehouses in Lévis, Saguenay Rimouski and Edmusndson, totalling 580,000 square feet. This division's customers consist primarily of foodservice operators, specialty food stores, institutional accounts such as healthcare institutions, schools and universities, certain other retail customers, in all reaching approximately 4,000 customers. With a complete product offering, including frozen products, dry staples, dairy products, fresh meat, fresh fish and seafood, poultry, fresh fruits and vegetables, disposables and sanitation products as well as meat processing and preparation services, it therefore offers its customers a "one-stop-shop" solution.

3. Les Pêcheries Norref Québec Inc. (Norref) (Central Quebec Division)

Norref is a fresh fish and seafood products importer and distributor in the province of Quebec and the Ottawa region and is recognized as the leading importer and distributor of this type in Quebec.
Norref operates from a 40,000 square-foot warehouse in Montréal, and distributes a full range of fresh and frozen fish products as well as ready-to-eat fish and seafood meals. Its diversified client base is comprised of supermarkets, restaurants, hotels, caterers and fish stores. It has about 200 employees and 50% of its sales are from medium-term contracts.

4. Skor Cash & Carry Division (Ontario Division):

This division operates five "Cash & Carry" locations in southern Ontario and offers over 12,000 retail and food service products to convenience stores, small grocery stores, cafeterias and restaurants.

5. Skor Culinary Concepts Division (Ontario Division):

This division, whose clients primarily consist of vending machine operators, mobile canteen owners, schools, health care establishment and government institutions, prepares over 400 fresh and frozen products in its Mississauga, Ontario facilities.

The Distribution Segment generates gross profit on sales as follows:
(a) From a profit on warehouse sales:
Generated primarily from a mark-up of the cost price of products pursuant to rates negotiated with its customers.
(b) From rebates from suppliers:
These rebates consist of: (i) rebates received from suppliers based on buying volumes, (ii) cash discounts on purchases and (iii) net advertising funds received in connection with promotional activities.

Wholesale Segment:

1. *Boucherville Distribution Centre (Boucherville)* (Central Quebec Division)

Sales of the Boucherville Distribution Centre consist of food, food-related and non-food products that it purchases and supplies to wholesale distributors that, in turn, distribute these products to over 25,000 customers operating in the retail or foodservice market segments in Quebec and the Atlantic provinces.

Products are sold either directly from its distribution centre ("warehouse sales") or through direct delivery from manufacturers and suppliers to the warehouses of wholesale distributors ("direct sales").

This Centre generally sells its products at the manufacturers' and suppliers' list price. Accordingly, it generates gross profit on sales as follows:

(a) From a profit on warehouse sales:
Through a mark-up of the cost price of its private brand-name products and by making purchases from manufacturers and suppliers before a price increase and subsequently selling such products at the manufacturer's new price. There is no profit margin on direct sales.

(b) Primarily from rebates from suppliers:
These rebates consist of: (i) agreements with suppliers relating principally to distribution agreements, central billing, truck load allowance and other incentives, (ii) rebates received from suppliers based on buying volumes, (iii) cash discounts on purchases based on terms of sale, and (iv) net advertising funds received in connection with promotional activities.

The Centre, that employs about 150 people, operates a 371,120 square-foot distribution centre in Boucherville that could be expanded to 650,000 square feet.

Over 90% of this operation's sales are covered by long-term contracts.

2. *Viandes Décarie (Décarie)* (Central Quebec Division)

Décarie is a wholesaler and distributor in the meat and meat products market. It has a distribution centre of about 27,000 square feet located in Montréal. As a wholesaler, it distributes a wide range of fresh and frozen meat including beef, veal, lamb, pork and poultry. It has a diversified customer base of foodservice distributors, food retailers and specialty butchers. Décarie's facilities are Hazard Analysis and Critical Control Points (HACCP) certified and they hold a federal permit giving them the opportunity to sell their products across Canada.

5. Main Resources and Competencies:

5.1 Board of Directors

	Role	Occupation
Jacques Landreville	Chairman	Corporate Director
Richard Lord, FCMA	Chairman, Human Resources and Corporate Governance Committee	President and Chief Executive Officer, Quincaillerie Richelieu Ltée
Robert Panet-Raymond	Chairman, Audit Committee	Corporate Director
Gilles C. Lachance	Director	Corporate Director
Donald Dubé	Director	Corporate Director

5.2 Management

Claude Gariépy	President and Chief Executive Officer	Colabor Group Inc.
Michel Loignon, CPA, CA	Vice-President and Chief Financial Officer	Colabor Group Inc.
Jack Battersby	President	Ontario Division
Marko Potvin	Vice-President, Corporate Purchasing	Colabor Group Inc.
Denis Pascal	Vice-President and	Eastern Quebec and New Brunswick Division
Louise Laforce	Vice-President Human Resources	Colabor Group Inc.
Michel Delisle	Vice-President Information Technology	Colabor Group Inc.
Geneviève Brouillette, CPA, CA	Vice-President and General Manger	Central Quebec Division

6. Performance Analysis

6.1 Earnings

Earnings, and their comparison with the comparable period of 2011, should be read in conjunction with the *Current Economic Situation* section presented further on in this MD&A and the following facts:

- The Company's sales and profit margins in some of its divisions continue to be impacted by the economic situation prevailing in Eastern Canada which led to intense competition among players in the foodservice distribution sector.
- As a result of significant increases in the price of fuel and in commodity taxes, households have less disposable income for eating out. Additionally, higher fuel prices have been putting upward pressure on the Company's operating expenses.
- On February 28, 2011, the Company concluded the acquisition of the shares of Les Pêcheries Norref Québec Inc. Norref's financial results are included in the Company's income for 2012, but from February 28, 2011 for the prior year's comparative period.
- On March 30, 2011, the Company concluded the acquisition of Edfrex Inc.'s assets. Edfrex's financial results are included in the Company's income for 2012 but from March 30, 2011 for the prior year's comparative period.
- On May 9, 2011, the Company concluded the acquisition of The Skor Food Group Inc. Skor's financial results are included in the Company's income for 2012 but from May 9, 2011 for the prior year's comparative period.
- On January 1, 2012, the Company concluded the acquisition of Viandes Décarie Inc. Décarie's financial results are included in the Company's income for 2012 but not for the comparative 2011 quarter.

Consolidated Income Statements (unaudited, in thousands of dollars, except per share amounts)

	2012-09-08 (84 days)		2011-09-10 (84 days)		Variance	
	$		$		$	
Sales of goods	**350,341**	**100.00%**	**324,760**	**100.00%**	**25,581**	**7.88%**
Operating expenses, excluding the following items	339,319	96.85%	314,206	96.75%	25,113	7.99%
Profit before the following items	11,022	3.15%	10,554	3.25%	468	4.43%
Costs not related to current operations	1,102	0.31%			1,102	S/O
Depreciation of property, plant and equipment	935	0.27%	1,125	0.35%	(190)	-16.89%
Amortization of intangible assets	3,324	0.95%	3,031	0.93%	293	9.67%
	5,361	1.53%	4,156	1.28%	1,205	28.99%
Operating profit	5,661	1.62%	6,398	1.97%	(737)	-11.52%
Finance costs	2,151	0.61%	1,861	0.57%	290	15.58%
Profit before tax	3,510	1.01%	4,537	1.40%	(1,027)	-22.64%
Tax expense						
Current						
Deferred	463	0.13%	1,438	0.44%	(975)	-67.80%
	463	0.13%	1,438	0.44%	(975)	-67.80%
Profit	3,047	0.88%	3,099	0.96%	(52)	-1.68%
After-tax cash flows per share	$0.33		$0.34			
Basic and diluted earnings per share	$0.13		$0.14			

	2012-09-08 (252 days)		2011-09-10 (253 days)		Variance	
	$		$		$	
Sales of goods	**1,002,568**	**100.00%**	**881,587**	**100.00%**	**120,981**	**13.72%**
Operating expenses, excluding the following items	975,439	97.29%	855,902	97.09%	119,537	13.97%
Profit before the following items	27,129	2.71%	25,685	2.91%	1,444	5.62%
Costs not related to current operations	1,355	0.14%	1,795	0.20%	(440)	-24.51%
Depreciation of property, plant and equipment	2,883	0.29%	2,696	0.31%	187	6.94%
Amortization of intangible assets	9,924	0.99%	8,775	1.00%	1,149	13.09%
	14,162	1.42%	13,266	1.51%	896	6.75%
Operating profit	12,967	1.29%	12,419	1.40%	548	4.41%
Finance costs	6,567	0.66%	5,484	0.62%	1,083	19.75%
Profit before tax	6,400	0.63%	6,935	0.78%	(535)	-7.71%
Tax expense						
Current						
Deferred	1,186	0.12%	2,109	0.24%	(923)	-43.76%
	1,186	0.12%	2,109	0.24%	(923)	-43.76%
Profit	5,214	0.51%	4,826	0.54%	388	8.04%
After-tax cash flows per share	$0.81		$0.79			
Basic and diluted earnings per share	$0.23		$0.21			

Sales

Sales consist of:

For the Distribution Segment: Gross sales to customers from the London, Mississauga, Ottawa, Cambridge, Vaughan, Lévis, Saguenay, Rimouski, Edmundston and Montréal (Norref) warehouses, and sales of Skor Cash & Carry and Skor Culinary Concepts less rebates, as provided in individual agreements with these customers.

For the Wholesale Segment: Adding gross sales from the Boucherville warehouse and direct sales to affiliated-wholesalers, less rebates of 3% of the affiliated-wholesalers' sales, as provided in the agreement between Colabor LP and the affiliated-wholesalers and sales to other customers, less rebates, as provided in individual agreements with these customers and sales from Décarie.

Inter-segment and inter-division sales are eliminated.

Sales (unaudited, in thousands of dollars)

	2012-09-08 (84 days)			2011-09-10 (84 days)						
	Total sales	Sales subsequent to acquisitions	Comparable sales	Total sales	Adjustment for one day	Comparable sales	Variance Total sales		Variance Comparable sales	
	$	$	$	$	$	$	$	%	$	%
Distribution Segment	253,063		253,063	239,938		239,938	13,125	5.5%	13,125	5.5%
Eliminations	(4,929)		(4,929)	(347)		(347)	(4,582)	N/A	(4,582)	N/A
	248,134		248,134	239,591		239,591	8,543	3.6%	8,543	3.6%
Wholesale Segment	151,570	19,849	131,721	123,521		123,521	28,049	22.7%	8,200	6.6%
Eliminations	(49,363)	(4,585)	(44,778)	(38,352)		(38,352)	(11,011)	28.7%	(6,426)	16.8%
	102,207	15,264	86,943	85,169		85,169	17,038	20.0%	1,774	2.1%
	350,341	15,264	335,077	324,760		324,760	25,581	7.9%	10,317	3.2%

	2012-09-08 (252 days)			2011-09-10 (253 days)						
	Total sales	Sales subsequent to acquisitions	Comparable sales	Total sales	Adjustment for one day	Comparable sales	Variance Total sales		Variance Comparable sales	
	$	$	$	$	$	$	$	%	$	%
Distribution Segment	726,666	65,956	660,710	635,988	1,966	634,022	90,678	14.3%	26,688	4.2%
Eliminations	(13,835)	(83)	(13,752)	(441)		(441)	(13,394)	N/A	(13,311)	N/A
	712,831	65,873	646,958	635,547	1,966	633,581	77,284	12.2%	13,377	2.1%
Wholesale Segment	421,600	58,868	362,732	346,502	1,117	345,385	75,098	21.7%	17,347	5.0%
Eliminations	(131,863)	(16,264)	(115,599)	(100,462)	(267)	(100,195)	(31,401)	31.3%	(15,404)	15.4%
	289,737	42,604	247,133	246,040	850	245,190	43,697	17.8%	1,943	0.8%
	1,002,568	108,477	894,091	881,587	2,816	878,771	120,981	13.7%	15,320	1.7%

The *Current Economic Situation...* section presented further on in this MD&A provides an overview of the context in which the Company and its competitors operate.

Significant sales agreements

In the first quarter MD&A, management reported the loss of a food service procurement contract in Ontario of about $85M as of April 2013.

Since then, through Norref, it has renewed a major procurement contract with Sobeys Québec for more than $50M for an additional three-year period until 2017.

Additionally, Summit renewed a procurement contract in Ontario with MTY for about $25M for Mr Sub, a client it has been serving for many years. Summit was also awarded a new procurement contract of about $25M for MTY's Country Style banner. Both agreements end in 2015.

During the third quarter, the Company renewed contracts with Wild Wing and Extendicare for eight- and three-year periods respectively, which represent annual sales of about $40M.

Organic growth

Organic growth in the third quarter was 3.6% for the Distribution Segment and 2.1% for the Wholesale Segment, for combined growth of 3.2%. These are considered to be excellent results considering the difficult economic situation.

For the year to date, organic growth was 2.1%, 0.8% and 1.7% respectively.

Profit before costs not related to operations, depreciation and amortization (which corresponds to earnings before finance costs, depreciation, amortization and income tax expense (EBITDA))

EBITDA is composed of the following:

Gross Profit

Gross profit is composed of the following items:

- Wholesale Segment:
  Boucherville: Profit on gross warehouse sales only, which consists primarily of a profit margin on private brand-name products and profit on inventory held. No profit margin is recognized on direct sales. Income is attributed on such sales for purposes of rebates from suppliers only.
  Décarie: Product acquisition costs plus a percentage negotiated according to current contracts or market rates.

- Distribution Segment: Product acquisition cost with a percentage mark-up that is market-driven or negotiated in current agreements.

- Rebates from suppliers
  A significant portion of Colabor's gross profit is derived from rebates from suppliers. These rebates consist of: (i) agreements with suppliers relating principally to distribution agreements, central billing, truck load allowance and other incentives, (ii) rebates received from suppliers based on buying volumes, (iii) cash discounts on purchases based on terms of sale, and (iv) net advertising funds received in connection with promotional activities.

Operating expense

The main expenses consist primarily of salaries and employee benefits, delivery costs for the Distribution Segment and occupancy costs relating to the Company's distribution centres. These expenses include a considerable portion of fixed costs which have a significant impact on operating profit.

EBITDA in the third quarter of 2012, of $11,022K or 3.15% of sales compared with $10,554K or 3.25% of sales in the previous quarter, is up $468K or 4.43%. Despite continued competitive pressure on gross margins, the Company has been able to benefit from organic growth in sales, sales from recent acquisitions and spending controls to increase its EBITDA.

The 0.10% decline compared with the same quarter in the previous year is a considerable improvement over the first two quarters which were down 0.25%.

Company's measures:

In its 2012 first quarter report, the Company had stated: *In the wake of the lower-than-expected results in the fourth quarter of 2011, management took immediate measures that should lead to operation and procurement cost reductions during 2012 and begin to have an impact on earnings by the second half of 2012, and primarily during the 2013 year.*
Measures taken:

- With the acquisition of Viandes Décarie in early January 2012, meat purchases by Colabor's operating units will be made with Viandes Décarie, rather than with the latter's competitors, as was the case before the acquisition.

- Under an administrative and operational reorganization, eight divisions will be combined under three regional departments with a mission to achieve synergies and combine the sales forces.

- Major product negotiations, other than for resale purposes, will be centralized at head office to maximize synergies, for example, on purchases of tires, fuel, etc.

Follow-up of announced measures

The Company undertook the following changes since making this statement:

During the second quarter:

- All of Colabor's operating units purchase their meat products from Viandes Décarie, which has led to a significant increase in inter-division sales;

- The administrative and operational reorganization of the eight divisions under three regional divisions has been initiated:

    - In the Ontario Division, this reorganization started with the transfer of the Skor Food Distribution activities to the Summit Business Unit, on June 16, 2012, at the end of the second quarter;

    - In the Eastern Quebec and New Brunswick Division, the Company continued to harmonize the computer systems into a single platform for the Bertrand, RTD and Edfrex Business Units in order to maximize their operations and combine them into a single unit.

- A Purchasing Manager started on July 16, 2012 and will handle all common service purchases in the operating units.

During the third quarter and coming in the fourth quarter:

- Ontario Division

  - The transfer of Skor Food Distribution's activities to the Summit business unit was completed;

  - The Company decided to close its Cambridge distribution centre, scheduled for December 14, 2012. Customers serviced through this distribution centre will now be serviced through the Vaughan distribution centre;

  - The Company has also decided to sell the Skor Culinary Concepts division. This division prepares over 400 fresh and frozen products in production facilities located in Mississauga, Ontario. Its clients primarily consist of vending machine operators, mobile canteen owners, schools, health care establishment and government institutions. The Company believes that this division's activities are no longer consistent with its mission and business vision. It is expected that the results of this transaction will be known during the fourth quarter.

- Colabor, Eastern Quebec and New Brunswick Division

  - The Company continued to harmonize the computer systems into a single platform for the Bertrand, RTD and Edfrex Business Units in order to maximize their operations and combine them into a single unit. Edfrex's administrative activities have been centralized in the Québec City head office since the end of September and RTD's activities since October 20, 2012.

The Company's management considers that its internal reorganization plan complies with its anticipated timetable and will be very advanced by the end of the 2012 fiscal year.

Costs not relating to current operations

Note 5 to the financial statements indicates $2,575 and $3,010 under *Internal operational restructuring* for the quarter and year-to-date respectively.

This internal restructuring, which is described in greater detail in the preceding section, resulted in non-recurrent costs related primarily to:

- Closure of the Cambridge warehouse;
- Severance pay for employees whose jobs are terminated;
- The new computer system integration costs;
- Impairment of computer equipment that will no longer be needed.

As a result of the reorganizations described above, the Company's management believes that expenses for the 2013 year will be decreased by about $2M.

The Company is also in the process of reviewing its entire distribution network and could make other decisions with respect to this reorganization during the fourth quarter.

However, costs not related to current operations were reduced by an adjustment of the acquisition cost of Norref Québec Inc. Following the acquisition of Les Pêcheries Norref Québec Inc. on February 28, 2011, the Company submitted a number of claims to an arbitration process. On July 12, 2012, the arbitrator reached a decision in the Company's favour and the vendors were required to repay a certain amount. The Company recognized gains of $1,655,000 net of its costs.

Depreciation of property, plant and equipment and amortization of intangible assets

Respective increases of $187,000 and $1,149,000 in the above items compared to the previous year's cumulative period are mainly due to the additional depreciation and amortization resulting from the acquisitions of RTD, Norref, Edfrex, Skor and Décarie.

Finance costs

The $290,000 and $1,083,000 increase in finance costs is attributable to the previously mentioned acquisitions.

Deferred tax expense

Earnings include a $463,000 deferred taxes expense as a result of taxable income in the quarter. The Company converted from an Income Fund structure to a Corporation through an arrangement agreement with ConjuChem Biotechnologies Inc. ("ConjuChem") in August 2009. As part of the transaction, the Company acquired approximately $39M in deferred tax assets in exchange for a $5M disbursement. The Company has tax losses equivalent to $19M in cash which it can use in the coming years.

Superior Plus Corp., the first corporation to use a reverse takeover to purchase tax losses to convert from an Income Fund to a Corporation in December 2008, recently issued a press release notifying the financial markets that it was expecting a notice of assessment from Revenue Canada in the near future regarding this type of transaction.

The Company has not received, to date, any notices from Revenue Canada regarding this transaction. Furthermore, it should be noted that Revenue Canada has audited financial years 2008 to 2010 inclusively.

Earnings per share

In reviewing Colabor's financial statements, investors should consider that the statement of earnings includes significant depreciation and amortization expenses for property, plant and equipment and intangible assets resulting from Colabor's acquisitions in recent years, deferred tax expenses (described above) and a non-cash portion of the implicit interest on debentures included in finance costs. The depreciation, amortization and non-cash transactions have a major impact on the basic and diluted earnings per share calculation. Investors often compare the dividend per share to the basic and diluted earnings per share, this one is lower. *For a more in-depth analysis of Colabor, investors should also analyze basic cash flows per share, which are indicated below.*

The following table indicates the cash flow per share and dividend ratio calculation for the 2012 third quarter and year-to-date, compared with the same periods in 2011. The table also shows the calculation for the past 365 days. The latter calculation makes it possible for investors to analyze whether the Company's cash flows from operations are sufficient and capable of supporting the dividend payment.

After-tax cash flows per share

(unaudited, in thousands of dollars, except per share amounts)

	2012-09-08 (84 days)	2011-09-10 (84 days)	2012-09-08 (252 days)	2011-09-10 (253 days)	2012-09-08 (365 days)
	$	$	$	$	$
Cash flows from operating activities before income tax recovery (withholding) and net change in working capital	9,949	10,631	26,063	24,051	36,868
Costs not related to current operations	1,102		1,355	1,795	3,178
Finance costs	(2,151)	(1,861)	(6,567)	(5,484)	(9,594)
Non-cash portion of effective interest on long-term debt and debenture included in finance costs	158	208	476	632	761
Acquisition of property, plant and equipment	(1,049)	(988)	(2,176)	(2,399)	(3,477)
Acquisition of intangible assets	(416)	(160)	(463)	(354)	(1,027)
	7,593	7,830	18,688	18,241	26,709
Weighted average number of shares outstanding	23,088,315	22,923,146	23,075,153	23,002,391	22,983,521
After-tax cash flows per share	**$0.33**	**$0.34**	**$0.81**	**$0.79**	**$1.16**
Current period portion of annual dividend declared	$0.17	$0.25	$0.50	$0.75	$0.83
After-tax dividend payout ratio	52%	74%	62%	95%	71%

The annual dividend declared for the corresponding periods in 2011 was based on a $1.08 per share dividend, which was reduced to $0.72 in 2012.

The previous table indicates an improvement, despite an economic slowdown, of after-tax cash flows and the after-tax dividend payout ratio. This results primarily from the Company's decision to reduce the annual dividend from $1.08 to $0.72 per share.

On the basis of the past 365 days, and weighting the portion of the annual dividend declared, the after-tax dividend payout ratio is 71%. Calculating this annual ratio using the annual dividend of $0.72 for the past 365 days, it would be 62%.

Earnings per share
(unaudited, in thousands of dollars, except per share amounts)

	2012-09-08 (84 days)	2011-09-10 (84 days)	2012-09-08 (252 days)	2011-09-10 (253 days)
	$	$	$	$
Earnings used for consolidated basic and diluted earnings per share	3,047	3,099	5,214	4,826
Weighted average number of shares outstanding to calculate basic and diluted earnings per share	23,088,315	22,923,146	23,075,153	23,002,391
Basic and diluted earnings per share	$0.13	$0.14	$0.23	$0.21

6.2 Other Comprehensive Income, Net of Taxes

Other comprehensive income (in thousands of dollars)

	2012-09-08 (84 days)	2011-09-10 (84 days)	2012-09-08 (252 days)	2011-09-10 (253 days)
	$	$	$	$
Other comprehensive income				
Available-for-sale financial asset – gain (loss) for the period	368		(1,120)	
Cash flow hedges – gain for the period	482		639	
Taxes on other comprehensive income	(171)		(20)	
Total other comprehensive income	679		(501)	

As part of the transition to IFRS, the Company must now measure the equity investment in Colabor Investments Inc. at fair value. Colabor Investments Inc.'s main asset is an equity investment of 5,087,349 shares of Colabor Group Inc., representing a 22% interest. Colabor Group Inc. holds 18% of Colabor Investment Inc. This fair value measurement indicates a pre-tax decrease of $1,120,000 in the value of this investment compared with December 31, 2011, primarily as a result of a decrease in the market value of Colabor Group Inc.'s shares following the announced dividend reduction.

The other item relates to a derivative financial instrument. On November 8, 2011, the Company entered into two interest swap agreements to convert a portion of the variable rate bank loan into a fixed rate loan. There is a $639,000 increase in the pre-tax value of this financial item since December 31, 2011.

6.3 Financial Position

Consolidated Statements of Financial Position
(in thousands of dollars)

	2012-09-08 (unaudited)	2011-12-31
	$	$
ASSETS		
Current		
Trade and other receivables	120,988	108,164
Recoverable income tax assets	3,206	2,421
Inventory	78,752	76,632
Prepaid expenses	4,348	2,596
Current assets	207,294	189,813
Non-current		
Equity investment in Colabor Investments Inc.	11,290	12,410
Derivative financial instrument	21	
Property, plant and equipment	17,325	17,319
Intangible assets	147,719	154,845
Goodwill	115,065	114,775
Non-current assets	291,420	299,349
Total assets	498,714	489,162
LIABILITIES AND EQUITY		
LIABILITIES		
Current		
Bank overdraft	9,733	10,151
Trade and other payables	103,701	105,575
Dividends payable		6,220
Rebates payable	9,621	11,783
Balances of purchase price payable	11,877	12,560
Deferred revenue	1,720	344
Current liabilities	136,652	146,633
Non-current		
Bank borrowings	117,999	96,167
Derivative financial instrument		618
Balances of purchase price payable	404	250
Long-term debt	14,644	14,598
Convertible debentures	46,510	46,080
Pension obligations	249	448
Deferred income tax liabilities	9,815	8,354
Non-current liabilities	189,621	166,515
Total liabilities	326,273	313,148
EQUITY		
Capital stock	179,652	179,652
Retained earnings (deficit)	(9,769)	(6,661)
Other components of equity	2,558	3,023
Total equity	172,441	176,014
Total liabilities and equity	498,714	489,162

The main changes in the September 8, 2012 balance sheet, compared to the December 31, 2011 balance sheet, relate to the acquisition of assets and assumption of liabilities of Décarie, acquired on January 1, 2012, as described in Note 3 to the financial statements.

At September 8, 2012, 23,115,321 shares are issued and outstanding.

6.4 Cash Flows

Credit Facilities

The Company has entered into a five-year agreement with a banking syndicate for operating credit facilities for an authorized amount of $150M secured by a first-ranking hypothec on the Company's assets. An additional amount of $100M could also be available based on the Company's needs.

Under the terms of the credit agreement, the Company is required to maintain (i) a prescribed ratio of total debt (excluding the convertible debentures and long-term debt) to EBITDA less than 3.00:1.00 and (ii) a prescribed ratio of EBITDA to finance costs greater than 3.50:1.00.

In light of the recent acquisitions and to give the Company some latitude to achieve its operating synergies, the banking syndicate has accepted that the DEBT/EBITDA ratio to be met will be 3.50:1.00 through the third quarter of 2012 and 3.25:1.00 through the third quarter of 2013 and 3.00:1.00 thereafter. The Company is also required to maintain a DEBT/EBITDA ratio of 4.75:1.00 until the third quarter of 2012 and of 4.50:1.00 until the third quarter of 2013.

As at September 8, 2012, the DEBT/EBITDA ratio was 3.29:1.00, the interest coverage ratio was 4.16:1.00 and the DEBT/EBITDA ratio was 4.65:1:00.

Dividends

A $4,161K dividend was paid on April 15, 2012 and another in the same amount on July 15, 2012, based on a quarterly dividend of $0.18 per share.

Consolidated Statements of Cash Flows (unaudited, in thousands of dollars)

	2012-09-08 (84 days)	2011-09-10 (84 days)	2012-09-08 (252 days)	2011-09-10 (253 days)
	$	$	$	$
Operating activities				
Earnings before income taxes	3,510	4,537	6,400	6,935
Fixed assets write-off following an internal restructuring			253	
Depreciation of property, plant and equipment	935	1,125	2,883	2,696
Amortization of intangible assets	3,324	3,031	9,924	8,775
Finance costs	2,151	1,861	6,567	5,484
Stock-based compensation plan expenses	29	77	36	302
Purchase of shares by the Company for stock-based compensation plans				(141)
	9,949	10,631	26,063	24,051
Income tax recovery (withholding)	1,225	1,201	(785)	830
Net change in cash flows	(9,164)	12,637	(16,014)	(1,735)
Cash flows from operating activities	2,010	24,469	9,264	23,146
Investing activities				
Business acquisitions, net of cash acquired			(6,069)	(78,941)
Purchase of property, plant and equipment	(1,049)	(988)	(2,176)	(2,399)
Purchase of intangible assets	(416)	(160)	(463)	(354)
Cash flows from investing activities	(1,465)	(1,148)	(8,708)	(81,694)
Financing activities				
Bank borrowings	9,252	(2,550)	21,882	89,770
Normal course issuer bid		(2,812)		(2,990)
Repayment of long-term debt		(39)		(307)
Dividends paid	(4,161)	(6,220)	(14,542)	(18,649)
Payment of balances of purchase price	(1,250)		(1,337)	(2,013)
Finance costs paid	(1,949)	(1,689)	(6,141)	(5,474)
Cash flows from financing activities	1,892	(13,310)	(138)	60,337
Net change in bank overdraft	2,437	10,011	418	1,789
Bank overdraft, beginning of period	(12,170)	(18,931)	(10,151)	(10,709)
Bank overdraft, end of period	(9,733)	(8,920)	(9,733)	(8,920)

7. Summary of Past Quarters

	Under IFRS							Under Canadian GAAP before transition to IFRS
('000)	2012-08-09	2012-06-16	2012-03-24	2011-12-31	2011-09-10	2011-06-18	2011-03-26	2010-12-31
	(84 days)	(84 days)	(84 days)	(112 days)	(84 days)	(84 days)	(85 days)	(111 days)
	$	$	$	$	$	$	$	$
Sales	350,341	354,294	297,933	431,664	324,760	317,411	239,416	347,141
EBITDA	11,022	10,651	5,456	12,513	10,554	10,227	4,904	13,984
Earnings	3,047	2,903	(736)	2,002	3,099	1,675	52	5,868
Basic net earnings per share	$ 0.13	$0.13	$ (0.03)	$0.09	$0.14	$0.07	$0.00	$0.26

8. Related Party Transactions

Following the initial public offering on June 28, 2005, the Fund had indirectly acquired a 53.2% interest in Colabor LP, with the remaining 46.8% interest in Colabor LP being held by Colabor Investments Inc. ("Investments") as exchangeable Colabor LP units.

Subsequent to the Summit and Bertrand acquisitions, Investments held an undiluted 25.9% interest and a diluted 20.8% interest in Colabor LP.

Subsequent to the conversion to a corporation and the conversion of debentures, Investments now holds an undiluted 22.0% and a diluted 18.6% interest in Colabor Group Inc., which enables it to exercise significant influence over GCL.

However, following the acquisition of Bertrand, RTD and Edfrex, Colabor Group Inc. now holds 18.12% of Colabor Investments Inc., which has a 5,087,349 equity investment in Colabor Group Inc.

Related party transactions include the following:

- Sales to customers controlled by directors, which are on the same terms and conditions as sales to Company's other customers.

- Rebates to affiliated and preferred wholesalers of Investments at the rate of 3% of their sales, as provided in the agreement in effect until 2015.

- Until 2022, the Company leases the building in which its head office and the Boucherville distribution centre are located from Investments.

- The Company paid fees to a subsidiary of Investments for computer services until December 31, 2011.

All of these transactions were concluded in the normal course of business and are measured at the exchange amount.

(**Related party transactions** (unaudited, in thousands of dollars)	2012-09-08 (84 days)	2011-09-10 (84 days)	2012-09-08 (252 days)	2011-09-10 (253 days)
	$	$	$	$
Sales of goods to customers controlled by directors		865		4,130
Rebates	3,387	3,295	9,389	9,331
Rent	466	466	1,404	1,404
Computer services		130		369

9. Off-balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than about $2,053,000 in bank letters of guarantee, of which the main one of $2,028,000 supports one year of leasing the Boucherville distribution centre.

10. Current Economic Situation, Development Strategies and Outlook

Current Economic Situation

Colabor's activities are in Eastern Canada, principally in Quebec and Ontario.

(The italicised text is based on "Economic and Financial Outlook – Spring 2012" from Desjardins – Economic Studies.)

With forecast real GDP growth of just 1.4% in 2012, Québec will be among the weakest performing provinces. This lacklustre performance will be due to fairly anaemic consumption, curbed by increases to Québec's sales tax and other taxes and tariffs. The GDP is expected to grow 2% in 2013.

In Ontario, the GDP is expected to rise 1.8% in 2012, primarily due to growth in the automobile manufacturing sector. However, public finance issues continue to plague the province and will hamper its economic growth in the coming quarters. Ontario is grappling with a significant structural deficit which may limit consumer spending in the wake of tax increases. A 2.1% rise in the GDP is expected for 2013.

Furthermore, the difficult economic situation which is continuing in the United States and in a number of countries in the European Community could also contribute to rattling the Canadian economic environment.

Colabor has prepared its business plan, described below, and believes that the current situation could offer more business opportunities that it is prepared to analyse for their potential to provide added value for the shareholders.

Development Strategies

The Company's management is firmly convinced that there are major channels which could be used to increase its penetration of the food services market in Canada.

Consolidation of food distribution services

Food distribution services are still very fragmented in Eastern Canada, a situation that provides Colabor with opportunities to significantly increase its market share in regions where it is already present by undertaking highly synergetic acquisitions.

The Company could also acquire other affiliated-wholesalers' networks in Quebec and in the Atlantic Provinces. These acquisitions would make it possible to increase the density of its distribution network in Eastern Canada, thereby increasing operating profitability.

Affiliated-wholesalers network in Quebec and the Atlantic Provinces

Despite the economic slowdown, the loyal, entrepreneurial, customer-service-driven independent affiliated-wholesalers continue to grow their market share in their respective regions.

Related sectors

The Company's mission is to provide its customers with one-stop shopping in the food distribution services market.

In the future, the Company could add a fruit and vegetables, packaged goods, natural and organic products and ethnic products distribution network, as was the case in 2011 with the acquisition of Pêcheries Norref and more recently with the acquisition of the assets of Viandes Décarie.

Geographic expansion

At this time, the Company is not present in Western Canada. Since this region was experiencing the fastest economic growth in the country in recent years, there is no doubt that expansion into this region could be beneficial, although it must be considered carefully in light of the labour availability issues. Additionally, a prerequisite to expansion in this region is developing a solid customer base before investing in new infrastructure.

Outlook

Despite the economic downturn, in light of the Company's small market share in certain major regions in Canada, such as Toronto and Montréal, these acquisition opportunities would make it possible for the Company to significantly increase its sales, purchasing power and ability to generate cost savings in order to increase its net income.

11. Risks and Uncertainties

The Company's activities are subject to numerous risks and uncertainties that are described in detail in its Annual Information Form. In addition to those risks, the Company wishes to emphasize the industry-related risks that could impact profitability and return on investments and that are beyond management's control.

Industry-related risks that could impact profitability and that are not fully under management's control:

- *Dependence on affiliated-wholesalers*

  Sales generated by affiliated-wholesalers account for a significant portion (about 28%) of the Company's sales. The loss of a significant number of these wholesalers could have a negative impact on Colabor's earnings.
  This risk has been mitigated by the execution of agreements to amend the affiliate agreements to provide for an initial ten-year period, renewal provisions for two additional terms of five years and also provide for the granting of a right of first refusal by the affiliated-wholesalers to Colabor LP on their businesses. However, there is no assurance that Colabor LP would be able to finance the exercise of such right of first refusal. Moreover, incentives are built in the contractual relationships existing between the affiliated-wholesalers, Colabor LP and Colabor Investments Inc. to encourage the affiliated-wholesalers to increase their purchases from Colabor.

- *Absence of long-term agreements between affiliated-wholesalers and their customers*

  In accordance with general industry practice, affiliated-wholesalers do not normally enter into long-term agreements with their customers. As a result, customers may, without notice or penalty, terminate their relationship with the affiliated-wholesalers. In addition, even if customers should decide to continue their relationship with the affiliated-wholesalers, there is no guarantee they will purchase the same volume of products as in the past or that they will pay the same price for those products as they have in the past. Any loss of customers by the affiliated-wholesalers, or decrease in the volume purchased or the price paid by them for products, could affect the Company's sales and have an adverse effect on its financial condition and results of operations. In the past, affiliated-wholesalers, relying on their knowledge of their respective markets, have been able to differentiate themselves from their competitors by providing personalized services to their customers, in particular flexible delivery schedules and a product line tailored to their customers' needs. In management's view, there will be no change in this regard in the future.

- *Customer choices*

  Colabor's success also depends on the continuing interests of customers in its products. A change in customer choices could affect demand for Colabor's products.

- *Dependence on Cara and other chains*

  Subsequent to the Summit acquisition, sales to Cara (including franchisees of Cara) represented a significant portion of the Company's sales. The loss of Cara as a customer, a decrease in purchases by Cara or a decrease in Cara's market share in the foodservice industry could have a material and adverse effect on the Company's financial condition, operating results and liquidity. This risk has been mitigated by the execution of a ten-year distribution agreement, with a five-year renewal option with Cara.

- *Integration of acquired companies*

  While some acquisitions are managed autonomously, others required significant rationalization measures. Difficulties encountered with such integrations could have an impact on the Company's results.

- *Product recall*

  Colabor could have to deal with product recalls due to sanitation issues encountered by certain manufacturers. Such recalls can trigger a decrease in sales of certain types of products for a period of time and cause a slump in sales figures. At this time, Colabor has the necessary mechanisms in place to quickly trace contaminated products, return them to the manufacturer and recover the cost of the contaminated products from these manufacturers.

Return on investment

The return on an investment in Colabor Group Inc. is not comparable to the return on an investment in a fixed-income security. The return is based on many assumptions. Although the Company intends to pay quarterly dividends, such dividends may be reduced or suspended. The dividends paid will depend on numerous factors, in particular, the inherent industry risks described above and other risks described in the Company's Annual Information Form. Additionally, the market value of the shares could decline significantly if the Company is unable to respect its dividend payment objectives, in particular, non-compliance with the financial ratio requirements under the credit agreement described under the Cash Flows section.

Climate change

Colabor has very little climate change risk exposure.

12. Significant Accounting Measurements

Some of the amounts in the financial statements are based on estimates made by management using its knowledge of current or anticipated events and actual economic conditions. Significant estimates relate exclusively to the allowance for excess or obsolete inventory, accounting for rebates from suppliers, goodwill and intangible assets.

- *Allowance for excess or obsolete inventory*

  Inventory is valued at the lower of net realizable value or cost calculated using the first-in first-out method. The Company records an allowance for obsolescence that is calculated on the basis of assumptions relating to future demand for its products and conditions in the markets in which its products are sold. The allowance, which reduces inventory to the net realizable value, is then applied against inventory in the balance sheet. Management has to make estimates and exercise judgement when determining these allowances. If actual market conditions are less favourable than management's assumptions, additional allowances may be required.

- *Accounting for rebates from suppliers*

  Colabor negotiates procurement contracts with its suppliers providing for the payment of rebates based on volumes purchased. The procurement contracts with suppliers are reviewed periodically and rebates adjusted according to prevailing market conditions.

- *Goodwill and intangible assets*

  Goodwill is the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized. Each year, or more often if events or changes in circumstances indicate a decrease in fair value, it is tested for impairment. This impairment test consists of a comparison of the fair value of the Company's business with its carrying amount. If the carrying amount of the business exceeds its fair value, the Company compares the fair value of any goodwill relating to the business to its carrying amount. An impairment loss equal to the amount of the excess is charged to earnings. The fair value of the business is calculated using discounted cash flows.

  Intangible assets include customer relationships and trademarks among others. Customer relationships are amortized on the straight-line basis over their estimated useful lives of 20 years for relationships with affiliated-wholesalers, 15 years for customer relationships with Cara and 2 to 10 years for relationships with other customers. Trademarks are not amortized.

13. Disclosure Controls and Procedures and Internal Control Over Financial Reporting

With respect to the Décarie acquisition (January 1, 2012), the Company availed itself of provision NI 52-109 3.3(1)(b), which permits exclusion of these acquisitions in the disclosure controls and the internal control over financial reporting evaluation for a maximum period of 365 days.

During the quarter ended September 8, 2012, with exception of this acquisition, no changes to internal controls over financial reporting affected materially, or are reasonably likely to materially affect, internal controls over financial reporting. Financial information relating to this acquisition for the quarter ended September 8, 2012 is presented below.

Sales	\$19.5M
Operating profit before amortization	\$0.3M
Current assets:	\$11.0M
Non-current assets:	\$2.9M
Current liabilities:	\$3.9M
Non-current liabilities:	\$0.4M