COLABOR GROUP INC.
MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE SECOND QUARTER OF 2018

DATED JULY 20, 2018

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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 comprehensive income, financial situation and cash flows for the second quarter ending June 16, 2018. This report should be read in conjunction with the unaudited interim consolidated financial statements and related notes for this period, as well as with the audited consolidated financial statements and related notes and related management's discussion and analysis for the fiscal year ended December 30, 2017. These financial statements are in Canadian dollars and have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, of the International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB). The financial statements have been published on 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 the last Saturday of December.

As a result, the Company's sales and net earnings are proportionately lower in the first, second and third quarter and higher in the fourth quarter because the fourth quarter generally has 33% more operating days than the other quarters of the year. It should also be noted that the Company's sales are seasonal, accordingly, sales in the first quarter are comparatively lower than sales in other quarters.

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 Corporate Profile

Activities

Colabor was founded in 1962 and is a distributor and master food wholesaler serving the foodservice market, specifically the hotels, restaurants and institutions ("HRI") and retail markets. It currently carries out its activities in two segments, Distribution and Wholesale, and in three geographic regions: Ontario, Quebec and the Maritimes.

A. Distribution Segment

Colabor's distribution activities span over the Ontario, Quebec and the Maritimes. The Company distributes both specialty products such as meat, fish and seafood ("Specialty Distribution"), as well as generalized food and related products ("Broadline Distribution"), in the HRI and retail markets.

i. Broadline Distribution

1. *Summit Foodservice ("Summit") – Ontario Division*

   Summit distributes more than 14,000 products from warehouses in Ottawa, London and Mississauga to more than 3,600 customers including (i) Cara Operations Limited (hereafter "Cara"); (ii) other foodservice chains; (iii) independent restaurants; and (iv) institutions, including hospitals, schools and government institutions. Summit's product line includes frozen products, dry staples, dairy products, meat, fish, seafood, fruits and vegetables, disposables and sanitation products.

   Since the closure of the Vaughan distribution centre on April 30, 2017, this division operates three distribution centers, including the London administrative head office.

   These warehouses are HACCP-certified. HACCP stands for Hazard Analysis Critical Control Point, and the objective is to identify specific risks, implement controls to mitigate the risks, and establish preventive measures.

2. *Skor Cash & Carry Division – Ontario Division*

   This division operates four "cash & carry" locations in southern Ontario and offers over 10,000 retail and food service products to convenience stores, small grocery stores, cafeterias and restaurants.

3. *Colabor Food Distributor ("CFD")*

   CFD is a major distributor to foodservice and retail customers in the Quebec City, Saguenay, Mauricie, Lower St. Lawrence and Gaspé Peninsula, New Brunswick and Côte-Nord regions. CFD distributes over 12,000 products from its two strategically located warehouses in Lévis and Rimouski. CFD's almost 4,600 customers consist primarily of restaurants, foodservice operators, specialty food stores, institutional accounts such as healthcare institutions, schools and universities, and certain other retail customers. CFD has a complete product offering, including frozen products, dry staples, dairy products, meat, fish and seafood, fruits and vegetables, disposables and sanitation products. It therefore offers its customers a "one-stop-shop" solution.

ii. Specialty Distribution

Les Pêcheries Norref Québec Inc. ("Norref")

Norref is a specialized fresh fish and seafood products importer and distributor in the province of Quebec and is recognized as the leading distributor of this type in the province.

Norref operates from a distribution centre in Montreal and is HACCP-certified and federally approved, which allows it to sell its products nationwide. Norref distributes a full range of fresh and frozen fish and seafood. It has a diversified client base comprised of supermarkets, restaurants, hotels and fish stores.

4. *Lauzon Meats ("Lauzon")*

Lauzon prepares and processes superior quality meat products for the provinces of Quebec and Ontario and is a major distributor of highly recognized brands such as Premium Signature Angus and Sterling Silver. Lauzon is known, among other things, for its products, expertise and for providing effective and flexible service to the restaurant, hotel and the institutional sectors. Lauzon operates out of a plant located in Montreal that is HACCP-certified and federally approved, which allows it to sell its products nationwide.

B. Wholesale Segment

Colabor's wholesale operations are primarily in the province of Quebec and, to a lesser extent, in Ontario. The Company offers specialty products ("Specialty Wholesale"), mainly meat, as well as generalized food and related products ("Broadline Wholesale") to food distributors and retailers.

i. Broadline Wholesale

1. *Boucherville Distribution Centre ("Boucherville")*

Boucherville sales consist of food and non-food products supplied to wholesalers who, in turn, redistribute these products to over 25,000 customers operating in the foodservice and retail market segments in Quebec and the Atlantic provinces.

This division operates a distribution centre located in Boucherville.

ii. Specialty Wholesale

2. *Viandes Décarie ("Décarie")*

Décarie is a wholesaler and distributor in the meat and meat products market. Décarie has a distribution centre located in Montreal. As a wholesaler, this division distributes a wide range of fresh and frozen meat including beef, veal, lamb, pork and poultry. It has a diversified customer base of distributors, food retailers and specialty butchers. Décarie holds a federal permit that allows it to sell its products across Canada. Décarie's facilities are HACCP-certified.

2.2 First half 2018 Business Developments

During the first half of 2018, the following elements have influenced the Company's general development and operations.

Nomination of the President and Chief Executive Officer

Colabor announced, on February 5, 2018, the appointment of Mr. Lionel Ettedgui as President and Chief Executive Officer of the Company. Mr. Ettedgui served for more than 6 years as President and Chief Operating Officer of Saputo's bakery division, primarily Vachon cakes, leading an impressive operational turnaround and restoring the profitability of this division. As previously announced, Mr. Claude Gariépy left the Company on March 2, 2018, after a transition period with Mr. Ettedgui.

Reduction in the Number of Shares Outstanding

On January 15, 2018, Colabor announced the reduction in the number of shares outstanding due to the ongoing liquidation and dissolution of Colabor Investments Inc. Following this operation, the number of shares outstanding was reduced from 102,112,832 to 101,177,932 shares.

Optimization of Broadline Distribution Activities in Ontario and Changes to Leadership

After consolidating all its distribution activities in Ontario into three warehouses in April of 2017, Colabor has since rebalanced its portfolio of customers and implemented various initiatives to optimize its activities and protect the long-term net effect of the loss of volume of this division. Since the first quarter of 2018, Mr. Lionel Ettedgui, President and CEO of Colabor, has taken on the role of interim General Manager for this division.

Since April 1, 2018, the supply agreement with Cara for the Montana's BBQ & Bar restaurant banner has ceased. This contract represented annual sales of just over $30 M. The Company as already implemented measures to mitigate the effect of the loss of volume on operating margins in the Ontario division.

Renewal of a supply contract for health care institutions members of GACEQ in Eastern Quebec

At the beginning of the second quarter, the Distribution Segment renewed a Broadline Distribution contract for a two-year term with the Groupe d'approvisionnement en commun de l'Est du Québec ("GACEQ") on behalf of members of its network, and with the addition of a new territory.

2.3 Current Economic Situation, Development Strategies and Outlook

Current Economic Situation

Colabor conducts its business activities in Eastern Canada, Quebec and Ontario. Over the last few quarters, the Quebec economy has pursued its growth trajectory. A sustained lower unemployment rate has boosted household discretionary spending, leading to growth in tertiary sectors such as retail and food services.

In this favorable context, Colabor believes that there exists additional business opportunities that have the potential to further enhance the value of the Company.

Development Strategies and Outlook

In order to grow its presence in the food service industry in Canada, Colabor has, invested over the last year in its Distribution Segment, particularly in its sales force focused in Eastern Canada, where the food distribution industry remains very fragmented. The Company is now in a better position to serve the HRI market, including independent restaurants, and ensure a better penetration of its private labels. This initiative could equally benefit to its Specialty Distribution activities.

With this in mind, the Company acquired in October 2016, a three year option exercisable at the Company's discretion, to purchase Dubé & Loiselle Inc., an important food distributor operating primarily in the regions with an innovative vision of the Quebec food market.

Colabor is also currently focused on organic growth in specific metropolitan areas, including the greater Montreal area and remains on the lookout for specific acquisition opportunities to increase its current small market share. This would allow the Company to significantly increase its sales, purchasing power and ability to generate economies of scale, always with the objective of improving its net earnings.

3. Highlights of the Quarter

- Consolidated sales amount to $299.9 M, a reduction of 9.5%, primarily from the loss of contracts in the Distribution segment (Popeye's Louisiana Kitchen and Montana's BBQ & Bar in Ontario) and from a loss of volume in the Wholesale Segment in both Broadline and Specialty activities.

- Lower sales volume was slightly mitigated by an improvement of sales primarily in the Broadline Distribution activities in Quebec, including the effect of the renewal of a supply contract from the GACEQ.

- Adjusted EBITDA amounted to $6.1 M from $9.0 M in the corresponding quarter of last year. Although margins improved as a percentage of sales, the loss of volume of sales affected the operating result. It should be noted that the Adjusted EBITDA of the comparable period was buoyed by the positive effect of a reversal of a provision of $0.8 M taken in connection with a non-recurring executive retention program.

- Net earnings amounted to $0.8 M or $0.01 per share, representing a decrease compared with net earnings of $3.1 M or $0.03 per share in the corresponding quarter of last year.

- Further improvements to the profitability of the Specialty Wholesale activities, following efforts to turnaround the Décarie division lead by a new Director, and from changes in the mix of products sold.

4. Non-IFRS Performance Measures

This MD&A also contains information that are 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.

For example, the Company uses the concept of earnings before financial expenses, depreciation and amortization, costs not related to current operations and income taxes (adjusted EBITDA), presented in the financial statements under "Operating earnings before costs not related to current operations, depreciation and amortization." Adjusted EBITDA is derived from EBITDA defined by the financial community as earnings before interest, taxes, depreciation and amortization, as shown in the following table. There is no EBITDA equivalent in the Company's financial statements. Such measures are widely used in financial circles to measure operational profitability. They reflect the inclusion or exclusion of certain amounts that are not considered to be representative of the Company's recurring financial performance. Since these concepts are not defined in IFRS, they may not be comparable with those of other companies.

Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

(unaudited, in thousands of dollars)

	84 days			168 days		
	2018	**2017**	**Variance**	**2018**	**2017**	**Variance**
	$	**$**	**$**	**$**	**$**	**$**
Net earnings (loss)	817	3,097	(2,280)	(3,663)	(349)	(3,314)
Income taxes expense (recovery)	352	1,155	(803)	(1,198)	279	(1,477)
Financial expenses	1,860	1,758	102	3,697	3,572	125
Impairment loss on financial instruments at fair value through profit or loss	—	—	—	118	—	118
Depreciation and amortization	2,745	2,541	204	5,491	5,080	411
Impairment loss on goodwill, intangible assets and property, plant and equipment	288	—	288	415	—	415
EBITDA	6,062	8,551	(2,489)	4,860	8,582	(3,722)
Costs not related to current operations	—	467	(467)	—	1,336	(1,336)
Adjusted EBITDA	6,062	9,018	(2,956)	4,860	9,918	(5,058)

5. Performance Analysis

5.1 Net Earnings

The following table presents the Consolidated Statements of Earnings for the second quarter.

Second Quarter Consolidated Statements of Earnings

(unaudited, in thousands of dollars, except per-share data)

	2018		2017		Variance	
	$	%	$	%	$	%
Sales	299,898	100.0	331,372	100.0	(31,474)	(9.5)
Operating expenses, excluding costs not related to current operations, depreciation and amortization	293,836	98.0	322,354	97.3	(28,518)	(8.8)
Operating earnings before costs not related to current operations, depreciation and amortization	6,062	2.0	9,018	2.7	(2,956)	(32.8)
Costs not related to current operations	—	—	467	0.1	(467)	(100.0)
Depreciation and amortization	2,745	0.9	2,541	0.8	204	8.0
Impairment loss on goodwill, intangible assets and property, plant and equipment	288	0.1	—	—	288	100.0
	3,033	1.0	3,008	0.9	25	0.8
Operating earnings	3,029	1.0	6,010	1.8	(2,981)	(49.6)
Financial expenses	1,860	0.6	1,758	0.5	102	5.8
Earnings (loss) before taxes	1,169	0.4	4,252	1.3	(3,083)	(72.5)
Income taxes expense (recovery)	352	0.1	1,155	0.4	(803)	(69.5)
Net earnings (loss)	817	0.3	3,097	0.9	(2,280)	(73.6)
Basic and diluted net earnings per share	0.01		0.03			

Net earnings for the second quarter of 2018 decreased by $2.3 M compared to the corresponding quarter of the previous year, amounting to net earnings of $0.8 M, resulting from the effect of a 9.5% loss in the volume of sales and from the increase in operating expenses from an under-absorption of fixed costs, although gross margins improved on a percentage of sales basis across the organization.

The basic and diluted net earnings per share for the quarter was $0.01, lower than the basic and diluted net earnings per share of $0.03 during the second quarter of 2017. The weighted average number of shares outstanding during the period was 101,139,418 compared to 102,074,318 in the comparable quarter of 2017. The reduction in the number of shares outstanding results from the ongoing liquidation and dissolution of Colabor Investments Inc. as announced on January 15, 2018.

The following table presents the cumulative Consolidated Statements of Earnings :

Cumulative Consolidated Statements of Earnings

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

	2018		2017		Variance	
	$	%	$	%	$	%
Sales	545,788	100.0	598,559	100.0	(52,771)	(8.8)
Operating expenses, excluding costs not related to current operations, depreciation and amortization	540,928	99.1	588,641	98.3	(47,713)	(8.1)
Operating earnings before costs not related to current operations, depreciation and amortization	4,860	0.9	9,918	1.7	(5,058)	(51.0)
Costs not related to current operations	—	—	1,336	0.2	(1,336)	(100.0)
Depreciation and amortization	5,491	1.0	5,080	0.9	411	8.1
Impairment loss on goodwill, intangible assets and property, plant and equipment	415	0.1	—	—	415	100.0
	5,906	1.1	6,416	1.1	(510)	(7.9)
Operating earnings	(1,046)	(0.2)	3,502	0.6	(4,548)	(129.9)
Impairment loss on financial instruments at fair value through profit or loss	118	—	—	—	118	100.0
Financial expenses	3,697	0.7	3,572	0.6	125	3.5
Earnings (loss) before taxes	(4,861)	(0.9)	(70)	0.0	(4,791)	6,844.3
Income taxes expense (recovery)	(1,198)	(0.2)	279	0.1	(1,477)	(529.4)
Net earnings (loss)	(3,663)	(0.7)	(349)	(0.1)	(3,314)	949.6
Basic and diluted net earnings per share	(0.04)		0.00			

The cumulative net loss during the period ended June 16, 2018 stood at $3.7 M, compared to net loss of $0.3 M in the corresponding period of the previous year, representing a decrease of $3.3 M. This decrease comes mainly from the effect of a 8.8% reduction in the volume of sales and from the increase in operating expenses from an under-absorption of fixed costs, although gross margins improved on a percentage of sales basis across the organization.

The basic and diluted cumulative net loss per share stood at $0.04, compared to net earnings per share of $0.00 in the comparative period of 2017. The weighted average number of shares outstanding during the period stood at 101,222,891 compared to 102,074,229 in the comparable period of 2017. The lower number of shares issued and outstanding is the result of the ongoing liquidation and dissolution of Colabor Investments Inc., as announced on January 15, 2018.

Second Quarter Sales by Segment

(unaudited, in thousands of dollars)

	2018 84 days	2017 84 days	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	229,853	251,252	(21,399)	(8.5)
Wholesale segment	95,096	105,378	(10,282)	(9.8)
	324,949	356,630	(31,681)	(8.9)
Inter-segment sales				
Distribution segment	3,580	2,931	649	22.1
Wholesale segment	21,471	22,327	(856)	(3.8)
	25,051	25,258	(207)	(0.8)
Consolidated sales				
Distribution segment	226,273	248,321	(22,048)	(8.9)
Wholesale segment	73,625	83,051	(9,426)	(11.3)
	299,898	331,372	(31,474)	(9.5)

Consolidated sales in the second quarter amounted to $299.9 M compared to $331.4 M in the corresponding quarter of the previous year, representing a decrease of 9.5%.

The 8.9% decrease in sales in the Distribution Segment came primarily from the loss of supply agreements for Popeye's Louisiana Kitchen and Montana's BBQ & Bar restaurant chains in Ontario (these contract were terminated effective November 13, 2017 and April 1, 2018 respectively). This was slightly mitigated by an improvement of sales from the Broadline Distribution activities in Quebec.

The 11.3% decrease in sales in the Wholesale Segment is explained by the non-renewal of non-profitable contracts.

Cumulative Sales by Segment

(unaudited, in thousands of dollars)

	2018 168 days	2017 168 days	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	422,765	457,940	(35,175)	(7.7)
Wholesale segment	166,626	186,223	(19,597)	(10.5)
	589,391	644,163	(54,772)	(8.5)
Inter-segment sales				
Distribution segment	5,614	5,165	449	8.7
Wholesale segment	37,989	40,439	(2,450)	(6.1)
	43,603	45,604	(2,001)	(4.4)
Consolidated sales				
Distribution segment	417,151	452,775	(35,624)	(7.9)
Wholesale segment	128,637	145,784	(17,147)	(11.8)
	545,788	598,559	(52,771)	(8.8)

Cumulative sales reached $545.8 M compared to $598.6 M for the corresponding period of the previous year, representing a decrease of 8.8%.

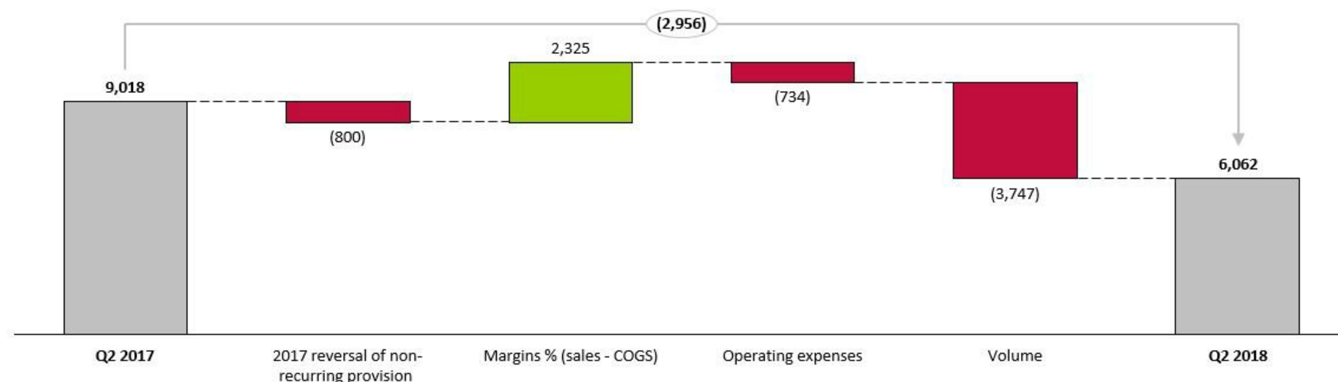
The 7.9% decrease in cumulative sales in the Distribution Segment came primarily from the loss of supply agreements for Popeye's Louisiana Kitchen and Montana's BBQ & Bar restaurant chains in Ontario. This was slightly mitigated by a continued improvement of sales from the Broadline Distribution activities in Quebec.

Cumulative sales in the Wholesale segment were down by 11.8% compared with the previous quarter. This is explained by the non-renewal of non-profitable contracts.

Operating Earnings Before Costs Not Related to Current Operations, Depreciation and Amortization (Adjusted EBITDA)

Analysis of adjusted EBITDA for the second quarter :

(unaudited, in thousands of dollars)



Adjusted EBITDA for the second quarter of 2018 stood at $6.1 M or 2.0% of sales compared to $9.0 M or 2.7% for the corresponding period of 2017. The main factors explaining this variance are:

- A decrease in the volume of sales resulting primarily from the loss of supply agreements with large restaurant chains in Ontario, and from the loss of volume in the Wholesale Segment from lower sales in both Broadline activities and Specialty activities, slightly mitigated by growing sales in Broadline Distribution activities in Quebec.
- A non-recurring provision relating to an executive retention program was reversed during the second quarter of 2017, improving the comparable period's Adjusted EBITDA.
- A temporary under-absorption of fixed costs in the Distribution activities in Quebec.

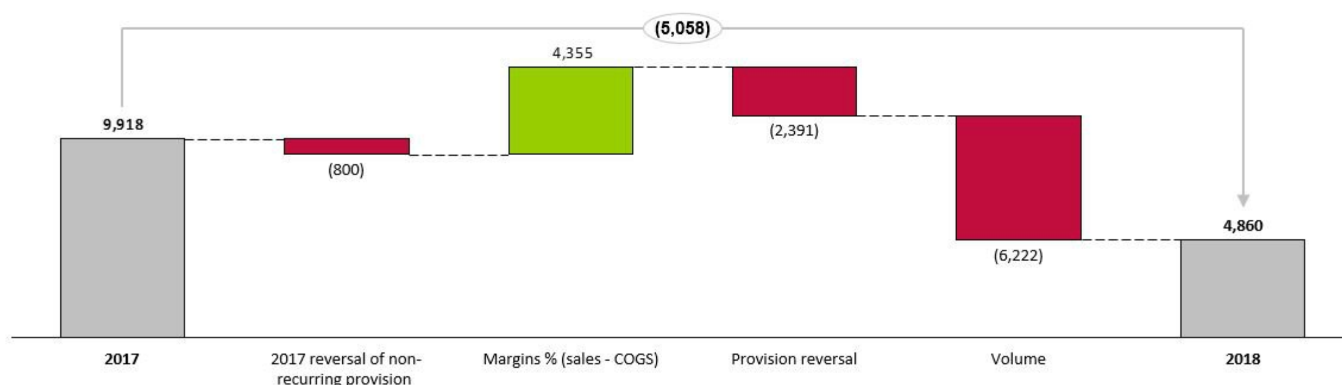
Compensated by:

- An improvement of margins as a percentage of sales across the organization.

Operating Earnings Before Costs Not Related to Current Operations, Depreciation and Amortization (Adjusted EBITDA)

Analysis of cumulative adjusted EBITDA :

(unaudited, in thousands of dollars)



The cumulative Adjusted EBITDA for the period stood at $4.9 M or 0.9% of sales compared to $9.9 M or 1.7% for the corresponding period of 2017. This variance is explained in most part by the following elements:

- A decrease in the volume of sales resulting primarily from the loss of supply agreements with large restaurant chains in Ontario, and from the loss of volume in the Wholesale Segment from lower sales in both Broadline activities and Specialty activities, slightly mitigated by growing sales in Broadline Distribution activities in Quebec.
- A temporary under-absorption of fixed costs in the Distribution activities.
- A non-recurring provision relating to an executive retention program was reversed during the second quarter of 2017, improving the comparable period's Adjusted EBITDA.

Compensated by:

- An improvement of margins as a percentage of sales across the organization.

Costs Not Related to Current Operations

Note 4 to the financial statements provides a summary of costs not related to current operations. This item in the Statement of earnings includes extraordinary items.

(unaudited, in thousands of dollars)

	84 days		168 days	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Costs of internal restructuring of operations				
Costs for warehouse closure [(a)]	—	329	—	1,138
Severance allowances	—	80	—	174
Change in provision for onerous contracts	—	58	—	24
	—	467	—	1,336

The Company has disbursed an amount of $181 ($1,166 in 2017) during the 84-day period ended June 16, 2018 and an amount of $863 ($1,698 in 2017) during the 168-day period on the same date in connection with the provision established in 2017.

[(a)] **Costs for warehouse closure**

On January 31, 2017, the Company announced the closure of the Vaughan warehouse, effective on April 30, 2017.

Impairment Loss on Financial Instrument at Fair Value Through Profit or Loss

No charge was taken during the second quarter of 2018 in relation with the ongoing liquidation and dissolution of Colabor Investments Inc. The cumulative impairment charge taken in relation with the financial instrument at fair value through profit or loss amounted to $0.1 M and no charge was taken during the equivalent period of 2017.

Asset Impairment Charge

Long term assets and cash-generating units (CGU) undergo impairment tests when events or changes in circumstances indicate that their carrying amount may not be recoverable. During the second quarter of 2018, the Company recorded an asset impairment charge without effect on its liquidities of $0.3 M which relates to the impairment of certain tangible assets of the Summit division, in the Distribution segment. For the cumulative period, the impairment charge amounted to $0.4 M and no charge was taken during the equivalent period of 2017.

Amortization

The amortization expense for the second quarter of 2018 was $2.7 M, compared with $2.5M in the corresponding quarter of 2017. The cumulative amortization expense was $5.5 M compared to $5.1 M in the corresponding period of 2017.

Financial Expenses

Financial expenses in the second quarter of 2018 were $1.9 M compared to $1.8 M in the corresponding quarter of 2017. Year-to-date, the cumulative financial expenses stood at $3.7 M compared to $3.6 M in the corresponding period of 2017. The increase in interest expenses on the $25.0 M subordinated debt, following an increase in the interest rate to 7.0% (6.5% in 2017), was compensated by the lower level of debt.

Income Tax Recovery

The income tax charge of $0.4 M in the second quarter of 2018 compared to $1.2 M in the second quarter of 2017 is mainly the result of lower earnings before income taxes when compared to the equivalent quarter of last year. The cumulative income tax recovery amounts to $1.2 M compared to a charge of $0.3 M for the equivalent period of last year.

Net Earnings per Share

Net earnings per share in the second quarter of 2018 amounted to $0.01, a reduction compared with $0.03 recognized in equivalent quarter of 2017. The weighted average number of shares outstanding during the period was 101,139,418 compared to 102,074,318 in the comparable quarter of 2017.

Cumulative net earnings for the first half of 2018 stood at a loss of $0.04 per share compared with a cumulative loss of $0.00 per share during the equivalent period of 2017, representing a reduction of $0.04 per share. The weighted average number of shares outstanding during the first six months of the year stood at 101,222,891 shares compared with 102,074,229 shares in the comparable period of 2017.

5.2 Financial Position

The following table presents the Company's Consolidated statements of financial position for the second quarter.

Consolidated Statements of Financial Position

(unaudited, in thousands of dollars)

	As at June 16, 2018 $	As at December 30, 2017 $	As at June 17, 2017 $
Assets			
Current			
Trade and other receivables	101,077	94,651	110,802
Inventory	83,550	78,663	86,563
Prepaid expenses	3,659	3,636	3,339
Other	1,409	1,124	2,189
Current assets	189,695	178,074	202,893
Non-current			
Property, plant and equipment	12,449	11,140	12,377
Intangible assets	42,467	46,228	52,351
Goodwill	70,813	70,813	84,130
Deferred tax assets	4,595	3,382	2,148
Other	611	1,452	1,204
Non-current assets	130,935	133,015	152,210
Total assets	320,630	311,089	355,103
Liabilities			
Current			
Bank overdraft	5,478	6,559	6,554
Trade and other payables	100,982	97,787	109,394
Current portion of long-term debt	875	758	644
Other	903	982	1,049
Current liabilities	108,238	106,086	117,641
Non-current			
Long-term debt	66,822	54,129	68,883
Convertible debentures	49,214	49,105	48,978
Pension obligations	1,045	1,301	1,366
Provisions	1,747	2,267	2,707
Deferred tax liabilities	606	639	454
Non-current liabilities	119,434	107,441	122,388
Total liabilities	227,672	213,527	240,029
Equity			
Share capital	92,958	97,562	115,074
Total liabilities and equity	320,630	311,089	355,103

Accounts Receivable

Trade and other receivables increased by $6.4 M compared to December 30, 2017 from the variation in the volume of sales. The Company maintains systematic efforts to improve customer account collection. This increase comes from the temporary increase in accounts receivable, mainly from an increase in sales at the end of the second quarter in anticipation of the summer season.

Inventory

Inventory increased by $4.9 M compared with the end of fiscal 2017 resulting from the management of procurement activities in anticipation of the summer season.

Trade and Other Payables

The trade and other payables balance increased by $3.2 M when compared to the end of fiscal 2017. This increase results largely from a higher level of purchasing in order to maintain an optimal level of inventory across the organization in anticipation of higher sales in the summer season.

Credit Facilities

On October 13, 2016, the Company concluded an agreement with its lenders to extend its credit facility by a maximum authorized amount of $140 M for a term of three years. This revolving credit facility may be increased at the request of Colabor by an additional amount of $30 M. The facility's maturity date is October 13, 2019 and is secured by a first mortgage on the present and future assets of the Company. The amounts borrowed from the facility can take many forms and the interest rate varies depending on the type of loan. As at June 16, 2018, the facility consists of a loan and bankers' acceptances bearing interest at rates ranging from 3.11% to 3.45% (2.42% to 3.20% at June 17, 2017) and was drawn in an amount of $39.8 M, up from $28.1 M at the end of the previous year. The Company is required to maintain a fixed charge coverage ratio. As at June 16, 2018, this ratio was respected.

Subordinated debt

As part of the recapitalization transaction finalized on October 13, 2016, the Company signed an agreement to extend and amend the loan agreement for a total amount of $25 M, maturing on October 13, 2020. Under the terms of the agreement, interest on the debt is payable monthly at a prime rate of 7.0% in 2018 compared with 6.5% in 2017.

Convertible Debentures

On October 13, 2016, the Company entered into an agreement to amend conditions concerning the convertible debentures issued on April 27, 2010. The interest rate on the debentures is 6.0% in 2018 (6.0% in 2017). The effective interest rate on the debentures is 6.55% (6.55% in 2017). The debentures are convertible at the holder's option into shares at a conversion rate of 400 shares per $1,000 of debenture capital, for a conversion price of $2.50 per share ($2.50 per share in 2017). Under certain circumstances, the Company could have redeemed some or all of the debentures in advance after April 30, 2015. There were no advance redemptions during the period ended June 16, 2018.

Share Capital

Colabor’s share capital consists of an unlimited number of common and preferred shares issuable in series that are all without par value. The rights, privileges, restrictions and terms of Colabor’s common and preferred shares are summarized in Colabor’s Annual Information Form dated February 22, 2018, which may be viewed on the SEDAR website at www.sedar.com.

As at June 16, 2018, 101,177,932 common shares and 50,000 convertible debentures were issued and outstanding. In addition, 5,078,852 stock options were outstanding, of which 1,333,250 could be exercised.

5.3 Cash Flows

The following table presents the Company's consolidated statements of cash flows:

Consolidated Statements of Cash Flows

(unaudited, in thousands of dollars)

	84 days		168 days	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Operating activities				
Net earnings (loss)	817	3,097	(3,663)	(349)
Deferred income taxes	(93)	771	(1,314)	64
Depreciation and amortization	2,745	2,541	5,491	5,080
Impairment loss on goodwill, property, plant and equipment and intangible assets	288	—	415	—
Financial expenses	1,860	1,758	3,697	3,572
Other	(278)	(131)	(530)	(603)
	5,339	8,036	4,096	7,764
Net changes in working capital	(9,463)	(5,797)	(8,862)	(10,058)
Cash flows (used in) from operating activities	(4,124)	2,239	(4,766)	(2,294)
Investing activities				
Purchase of property, plant and equipment	(848)	(161)	(1,910)	(481)
Disposal of property, plant and equipment	23	24	38	37
Purchase of intangible assets	(129)	(203)	(208)	(319)
Other	(78)	55	(27)	77
Cash flows used in investing activities	(1,032)	(285)	(2,107)	(686)
Financing activities				
Use of the credit facility	7,072	487	11,679	7,350
Lease payments	(234)	(154)	(421)	(291)
Share issuance, net of related expenses	—	—	—	5
Financial expenses paid	(1,664)	(1,558)	(3,304)	(3,169)
Cash flows used in financing activities	5,174	(1,225)	7,954	3,895
Net change in bank overdraft	18	729	1,081	915
Bank overdraft at the beginning of the period	(5,496)	(7,283)	(6,559)	(7,469)
Bank overdraft at the end of the period	(5,478)	(6,554)	(5,478)	(6,554)

Operating Activities

Cash flows from operating activities in the second quarter stood at $(4.1) M compared to cash flows from operating activities of $2.2 M in the equivalent period of 2017. This is explained by a higher sequential increase in net working capital during the second quarter of 2018 when compared with the equivalent quarter of 2017.

Investing Activities

Cash flows from investing activities in the second quarter were $(1.0) M and higher than the corresponding period in 2017 when cash flows stood at $(0.3) M. On a cumulative basis, $2.1 M was used for leasehold improvements and the purchase of equipment, compared with $0.7 M invested during the corresponding period of last year.

Financing Activities

Cash flows from financing activities in the second quarter stood at $5.2 M, an increase compared to $(1.2) M in the equivalent period of 2017. For the cumulative period of 2018, cash flow from financing activities stood at $8.0 M, also representing an increase from $3.9 M in the equivalent cumulative period of last year. These variations come almost entirely from the increased use of the banking facility.

Payments Due

Payments due in the next five years are detailed as follows:

(unaudited, in thousands of dollars)

		Payments due per period			
Contractual obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**5 years and over**
	$	**$**	**$**	**$**	**$**
Bank borrowings	39,816	—	39,816	—	—
Obligations under leases	3,655	866	1,420	1,012	357
Long-term debt (par value)	25,000	—	25,000	—	—
Convertible debentures (par value)	50,000	—	—	50,000	—
Provision	4,026	943	1,886	1,052	145
Operating leases	57,460	12,093	21,231	14,183	9,953
	179,957	13,902	89,353	66,247	10,455

6. Summary of Recent Quarters

The following table presents a summary of results for the last eight quarters:
(unaudited, in thousands of dollars, except per share data)

	2018		2017				2016	
	Q2 (84 days)	Q1 (84 days)	Q4 (112 days)	Q3 (84 days)	Q2 (84 days)	Q1 (84 days)	Q4 (119 days)	Q3 (84 days)
	$	$	$	$	$	$	$	$
Sales	299,898	245,890	401,557	319,334	331,372	267,187	432,543	339,102
Adjusted EBITDA	6,062	(1,202)	7,057	7,682	9,018	900	9,092	9,196
Net earnings (loss)	817	(4,480)	509	(18,753)	3,097	(3,446)	(160)	2,708
Basic and diluted net earnings (loss) per share	0.01	(0.04)	0.00	(0.18)	0.03	(0.03)	0.00	0.10

7. Related Party Transactions

The Company's related party transactions are composed of sales concluded with Dubé & Loiselle Inc., an entity owned by one of the Company's directors. The transactions were carried out in accordance with various contracts governing relations between the Company and Dubé & Loiselle Inc., in the normal course of operations.

The following table presents transactions between the Company and Dubé & Loiselle Inc:
(unaudited, in thousands of dollars)

	84 days		168 days	
	2018	2017	2018	2017
	$	$	$	$
Consolidated Statements of Earnings				
Sales	3,761	7,357	12,790	12,589
Consolidated Statement of Financial Position				
Trade and other receivables, net of remittances			1,748	1,246
Dubé & Loiselle Inc. Stock option [(a)]			500	500

[(a)] As part of the recapitalization transaction carried out in October 2016, the Company paid an amount of $0.5 M to Robraye Management Ltd. in consideration for the option to acquire Dubé & Loiselle Inc. in the three years following the closing of the recapitalization transaction. The Company believes that it has neither the control nor the influence to consolidate this entity in its financial statements; rather, Dubé & Loiselle Inc. is considered a related party of the Company.

8. Off-Balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than $1,764,000 in bank letters of guarantee to support the leasing of one of the Company’s distribution centres and a line of credit with a supplier.

9. Risks and Uncertainties

The Company's activities are subject to numerous risks and uncertainties that are described in detail in its February 22, 2018, Annual Information Form (the "AIF"), which may be viewed on the SEDAR website at www.sedar.com. The risks described in the AIF are incorporated by reference in this MD&A.

10. Significant Accounting Estimates

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

Actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses, is provided below.

Estimates

Impairment of Trade and Other Receivables

The amount recognized as impairment of trade and other receivables is based on management's assessment of the risks associated with each item of trade and other receivables with reference to losses incurred in prior periods, collection experience and the impact of the current and expected economic conditions.

Supplier Rebates

Supplier rebates recognized are estimated on the basis that the necessary conditions for obtaining the rebates have been satisfied.

Impairment of Financial Instruments at Fair Value Through Profit or Loss

Management assesses whether there are any indications of impairment of the financial instruments at fair value through profit or loss at each reporting date. When management determines that the asset is impaired, the cumulative loss recognized in other comprehensive income is reclassified to earnings.

Inventory Valuation

Inventory is measured at the lower of cost and net realizable value. In estimating net realizable value, management takes into account the most reliable evidence available at the time the estimates are made. The quantity, age and condition of inventory are measured and evaluated regularly during the year.

Useful Lives of Depreciable Assets

Management reviews the useful lives of depreciable assets at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence, particularly for distribution software and computer hardware.

Deferred Tax Assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss. If a positive forecast of taxable income indicates the probable use of deferred tax assets, especially when it can be utilized without a time limit, those deferred tax assets are usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Pension Obligation

Management estimates the pension obligation annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its pension obligation is based on rates of inflation and mortality that management considers to be reasonable. It also takes into account the Company's specific anticipation of future salary increases, retirement ages of employees and other actuarial factors. Discount factors are determined close to each year-end by reference to high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The estimates are subject to uncertainties, and they may vary significantly in future appraisals of the Company's defined benefit obligations.

Significant judgments

Impairment of Trademarks and Goodwill

An impairment loss is recognized for the amount by which an asset's or CGU’s carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets in the next financial years.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Option to Acquire Dubé & Loiselle Inc.

During fiscal 2016, the Company bought an option to acquire Dubé & Loiselle Inc., an entity owned by one of the Company’s directors. This purchase option is valid for a period of three years. The Company, believing that it has neither the control nor the influence required over the decisions of Dubé & Loiselle Inc. to consolidate this entity in its financial statements, considers it a related party.

11. 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 assessed, in accordance with Regulation 52-109 respecting Certification of Disclosure in Issuers’ Annual and Interim Filings, the design and operation of ICFR and DC&P as at June 16, 2018, and, on the basis of this assessment, they have concluded that the design and operation of ICFR and DC&P are efficient. For the 168-day period ended June 16, 2018, 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.

12. Accounting Standards, Changes and Interpretations

IFRS 9, "Financial Instruments"

In July 2014, the IASB published IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement (IAS39). IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected credit loss" impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

The company adopted IFRS 9, « Financial Instruments » effective December 31, 2017. The adoption of this standard resulted in changes in accounting policies but no adjustment to the amounts recognized in the consolidated financial statements. Below is the Company's new method of accounting for financial instruments under IFRS 9.

a) Classification

The Company determines the classification of financial instruments at initial recognition and classifies them in the following categories for valuation purposes:

- instruments that will be subsequently measured at fair value, either at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVTOCI)
- instruments that will be measured at amortized cost.

The classification of debt instruments is derived from the Company's business model for the management of financial assets and the contractual cash flow characteristics of those assets. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Equity instruments that are held for trading (including all equity derivative) are classified as at FVTPL. As for the other equity instruments, the Company may make the irrevocable election (instrument by instrument), on the day of acquisition, to designate them at FVTOCI. Financial liabilities are measured at amortized cost, unless they should be evaluated as at FVTPL (such as held-for-trading instruments or derivatives) or the Company has chosen to evaluate them at FVTPL.

Financial instruments comprising embedded derivatives are fully considered to determine whether their cash flows are solely for principal repayments and interest payments.

The Company has made a detailed assessment of its financial assets and liabilities as at December 31, 2017. The following table presents the initial classification under IAS39 and the new classification under IFRS 9:

Financial assets & liabilities	Initial classification under IAS 39	New classification under IFRS 9
Trade and other receivables	Loans and receivables (amortized cost)	Amortized cost
Bank overdraft	Other liabilities	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost

b) Assessment

Financial instruments at amortized cost

Financial instruments at amortized cost are initially recognized at fair value, and subsequently at amortized cost, less any impairment loss.

Financial instruments at FVTPL

Financial instruments at FVTPL are initially recognized at fair value and the transaction costs are expensed in the consolidated statements of earnings. Realized and unrealized gains and losses arising from changes in the fair value of financial assets and liabilities held by the FVTPL are included in the consolidated statements of earnings in the period in which they occur. When management has elected to record a financial liability at FVTPL, changes in the Company's own credit risk will be recognized in the consolidated statements of earnings.

c) Depreciation

Since December 31, 2017, the Company has been prospectively evaluating expected credit losses related to debt instruments recognized at amortized cost and at FVTOCI. The depreciation method applied varies depending on whether or not there is a significant increase in credit risk. For customers, the Company applies the simplified method permitted by IFRS 9, which requires expected losses on lifetime to be recognized from the initial recognition of customers.

d) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights on cash flows from financial assets reach expiry, or when it transfers financial assets and substantially all risks and rewards of ownership to another entity. Gains and losses from derecognition are generally recognized in the consolidated statements of comprehensive income.

Financial liabilities

The Company derecognizes financial liabilities only when the resulting obligations are discharged, canceled or expired. The difference between the carrying amount of a derecognized financial liability and the consideration paid or payable, including non-monetary assets transferred or liabilities assumed, is recognized in the consolidated statements of earnings.