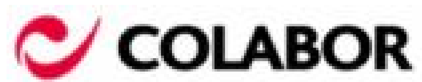


COLABOR GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS
("MD&A")

Third quarter of 2023

12 and 36-week periods ended September 9, 2023

COLABOR

TABLE OF CONTENTS

1. Scope of the MD&A and Notice to Investors 3
2. About Colabor 4
    - 2.1 Business Developments in 2023 4
    - 2.2 Development Strategies and Outlook 4
    - 2.3 Key Financial Performance Indicators 5
3. Operational and Financial Results 6
    - 3.1 Operating Results 6
        - 3.1.1 Segment Sales 6
        - 3.1.2 Operating Costs 7
        - 3.1.3 Adjusted EBITDA 8
        - 3.1.4 Depreciation and Amortization 9
        - 3.1.5 Financial Expenses 9
        - 3.1.6 Income Taxes 9
        - 3.1.7 Net Earnings 10
    - 3.2 Financial Position 11
    - 3.3 Other Significant Changes in Financial Position 12
    - 3.4 Data Related to Outstanding Shares 13
    - 3.5 Cash Flows 13
    - 3.6 Capital Resources 14
4. Summary of Recent Quarters 15
5. Non-IFRS Performance Measures 15
6. Risks and Uncertainties 17
7. Significant Estimates and Judgments 17
8. Internal Controls Over Financial Reporting 17
9. Financial Instruments 18

COLABOR

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

This Management's Discussion & Analysis ("MD&A") of Colabor Group Inc. and its subsidiaries (the "Company" or "Colabor") discusses the Company's net earnings, comprehensive income, financial situation and cash flows for the third quarter ended September 9, 2023, whose numbers are unaudited. This report should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes for this period and the audited consolidated financial statements and accompanying notes for the fiscal year ended December 31, 2022, along with the associated annual MD&A. These financial statements are in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standard Board ("IASB"). The financial statements have been published on the following sites: www.sedarplus.ca and www.colabor.com.

Forward-Looking Statements

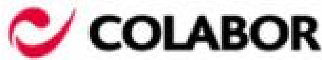
This MD&A contains certain forward-looking statements as defined under applicable securities law. Forward-looking information may relate to Colabor's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee"; "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Company's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Colabor believes are reasonable as of the current date. Refer in particular to section 2.2 "Development Strategies and Outlook" of this MD&A. While Management considers these assumptions to be reasonable based on information currently available to the Company, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Colabor currently expects. For more exhaustive information on these risks and uncertainties, the reader should refer to section 6 "Risks and Uncertainties" of this MD&A. These factors, which include the risks related to the pandemic of Covid-19 and the different underlying variants ("pandemic") as well as the possible impacts on consumers and the economy, are not intended to represent a complete list of the factors that could affect Colabor and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A, information representing Colabor's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made), which are subject to change after such date. While Management may elect to do so, the Company is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

Seasonality

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

As such result, the Company's sales and net earnings are proportionally less significant for the first, second and third quarters and more significant for the fourth quarter since the latter generally has 33% more days of operation in comparison with the other quarters of the period. Additionally, the Company's sales are seasonal, therefore generally lower sales volume is recorded during the first quarter in comparison with the other quarters.

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



The shares of Colabor Group Inc. are traded on the Toronto Stock Exchange under the symbol GCL.

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

2. About Colabor

2.1 Business Developments in 2023

During the 12 and 36-week period ended September 9, 2023, no events are to be reported that have had influenced the Company's general development and operations, reflecting the evolution of Colabor's transformational plan and growth.

2.2 Development Strategies and Outlook

Colabor has as main financial objectives to increase profitability and create value for its shareholders. In 2023, to achieve its objectives, the strategic plan is defined and based on the following pillars:

1. Develop new distribution territories in Quebec
    - Continue development in western Quebec; and
    - Seize acquisition opportunities.
2. Optimize profitability and efficiencies
    - Continue the development of its private brands;
    - Increase specialized distribution (meat and fish); and
    - Investment and modernization of certain distribution/division centers.
3. Attract, retain and develop talent
    - Improve employee engagement;
    - Launch of the employer brand; and
    - Prioritize efficient communication within the organization.
4. Renew and refresh our image
    - Continue to expand local offerings;
    - Investment in our branding; and
    - Setting objectives in terms of environment, social and governance ("ESG").

Evolution of the 2023 Plan

During the 36-week period of 2023, in order to develop new distribution territories in Quebec, we continued to invest in our sales force to break into certain regions of Quebec, which until then were relatively underdeveloped by the Company.

In addition, investments continue during 2023 to improve our private label positioning.

The Company wants to stand out for its offer of local high quality products that support a sustainable agricultural and fisheries ecosystem, and in addition to its various certifications already hold, the Company received the "Blue Fork" certification for its subsidiary Les Pêcheries Norref Québec Inc. This certification allows the Company to be aligned with the Government of Quebec's 2018/2025 Biofood Policy requirements. As of June 22, 2023, the Company also made a 13% investment in 9374-1502 Québec inc. ("Maturin"), which exclusively offers food from nearly 600 local farms and processors. The Company was already a partner of Maturin, being its exclusive distributor for the hotels, restaurants, institutional markets ("HRI") sector. Those projects actively contribute to Quebec's food autonomy by increasing its offer of local products to the HRI sector.

COLABOR

2.3 Key Financial Performance Indicators

Performance Indicators	12 weeks		36 weeks	
(in thousands of $, except financial leverage ratio)	2023	2022	2023	2022
	$	$	$	$
Results and cash flow				
Sales from continuing operations	**164,700**	145,670	**462,809**	380,825
Net earnings from continuing operations	**3,539**	2,832	**5,693**	2,869
Adjusted EBITDA[1]	**11,034**	8,894	**25,902**	19,213
Cash flows from operating activities	**7,969**	8,757	**20,044**	19,962

Financial position	As at September 9, 2023	As at December 31, 2022
	$	$
Working Capital[2]	**52,171**	48,800
Financial Leverage Ratio[3]	**2.2x**	2.3x
Net debt[4]	**53,364**	47,764

[1] Non-IFRS measure. Refer to the table Reconciliation of Net Earnings to adjusted EBITDA in section 5 "Non-IFRS Performance Measures". Adjusted EBITDA corresponds to net operating earnings before costs not related to current operations, depreciation and amortization and expenses for stock-based compensation plan.
[2] Working capital is a non-IFRS performance measure. Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to section 3.2 "Financial Position" for detailed calculation.
[3] Financial leverage ratio is an indicator of the Company's ability to service its long-term debt. It is defined as net debt / adjusted EBITDA less lease liability payments for the last four quarters. The corresponding figure for 2022 has been restated to reflect the new calculation method established for 2023. Refer to section 5 "Non-IFRS Performance Measures".
[4] Non-IFRS measure. Refer to section 5 "Non-IFRS Performance Measures". Net debt corresponds to bank indebtedness, current portion of long-term debt and long-term debt, net of cash.

Third Quarter Highlights

- Consolidated sales of the third quarter were $164.7 million, up 13.1% compared to the corresponding period of 2022. Cumulative consolidated sales amounted to $462.8 million, up 21.5% compared to the corresponding period of last fiscal year.
- Third quarter net earnings from continuing operations were $3.5 million, up $0.7 million, compared to a net earnings of $2.8 million for the corresponding quarter of 2022. Cumulative net earnings from continuing operations were $5.7 million, compared to $2.9 million in 2022. This result is explained by the increase in adjusted EBITDA[1] and a decrease of costs not related to current operations, which was mitigated by the increase in depreciation and amortization expenses and financial expenses.
- Third quarter adjusted EBITDA[1] from continuing operations amounted to $11.0 million or 6.7% of sales from continuing operations compared to $8.9 million or 6.1% of sales from continuing operations in 2022. Cumulative adjusted EBITDA[1] from continuing operations amounted to $25.9 million or 5.6% of sales from continuing operations compared to $19.2 million or 5.0% of sales from continuing operations in 2022, an increase of 34.8%. These increases are due to the increase in sales, mitigated by an increase in labor costs and other supply chain costs, as well as investments to expand our territory.
- Net debt[4] increased to $53.4 million as at September 9, 2023, compared to $47.8 million at the end of fiscal year 2022, resulting from the additional use of the credit facility for $6.5 million in connection with the equipment purchases related to our new warehouse. The financial leverage ratio[3] decreased at 2.2x compared to 2.3x at the end of the last fiscal year.

COLABOR

- As at September 9, 2023, the Company's working capital[2] was $52.2 million, up from $48.8 million at the end of fiscal year 2022. This increase is related to sales growth during 2023.

3. Operational and Financial Results

3.1 Operating Results

Summary of Operating Results for the 12 and 36-week periods ended September 9, 2023

(in thousands of dollars, except percentages)

	12 weeks			36 weeks		
	2023 $	2022 $	Variance %	2023 $	2022 $	Variance %
Sales	**164,700**	145,670	13.1	**462,809**	380,825	21.5
Cost of goods sold	**133,586**	119,366	11.9	**377,032**	312,600	20.6
Operating expenses[2]	**20,080**	17,410	15.3	**59,875**	49,012	22.2
Operating costs	**153,666**	136,776	12.3	**436,907**	361,612	20.8
Adjusted EBITDA[1]	**11,034**	8,894	24.1	**25,902**	19,213	34.8
Adjusted EBITDA margin[1]	**6.7%**	6.1%		**5.6%**	5.0%	

[1] The adjusted EBITDA and the adjusted EBITDA margin are non-IFRS measures. Refer to section 5 "Non-IFRS Performance Measures". The adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales for the corresponding period.
[2] The operating expenses are adjusted to exclude the expenses related to stock-based compensation plans.

3.1.1 Segment Sales

Consolidated Sales for the 12 and 36-week periods ended September 9, 2023

(in thousands of dollars, except percentages)

	12 weeks			36 weeks		
	2023 $	2022 $	Variance %	2023 $	2022 $	Variance %
Distribution Segment	**120,214**	99,863	20.4	**335,573**	260,647	28.7
Wholesale Segment	**52,875**	57,828	(8.6)	**157,560**	152,423	3.4
Intersegment eliminations and others	**(8,389)**	(12,021)	30.2	**(30,324)**	(32,245)	6.0
Sales	**164,700**	145,670	13.1	**462,809**	380,825	21.5

Consolidated sales for the third quarter of 2023 were $164.7 million compared to $145.7 million during the corresponding quarter of last fiscal year, representing an increase of 13.1%.

- Distribution segment sales have increased by 20.4%, explained by a volume increase, part of which is related to the conclusion of two supply contracts with chains, and the impact of inflation.

- Wholesale segment sales decline of 8.6% is mainly explained by a supply optimization project between our warehouses reducing our internal sales to the Distribution segment, as well as an external volume decrease, mitigated by the impact of inflation.

- Intersegment eliminations and others decreased by 30.2% resulting mainly by a decrease in intersegment sales as described above and by Le Groupe Resto-Achats Inc. ("GRA") sales growth.

Cumulative consolidated sales for the 36-week period of 2023 were $462.8 million compared to $380.8 million during the corresponding period of last fiscal year, representing an increase of 21.5%. During the first quarter of 2022, restaurant dining rooms were closed for four weeks due to Covid-19 measures.

- Distribution segment sales have increased by 28.7%, explained by volume increase, as explained above, the impact of inflation and the acquisition of assets in the Laurentians and Outaouais regions.
- Wholesale segment sales have increased by 3.4%, resulting by the impact of inflation, mitigated by a volume decrease.
- Intersegment eliminations and others have decreased by 6.0%, mainly explained by the decrease in purchases in the Distribution segment as described above and by GRA sales growth, company which was acquired on April 4th, 2022.

3.1.2 Operating Costs

Operating Costs for the 12 and 36-week periods ended September 9, 2023

(in thousands of dollars, except percentages)

	12 weeks			36 weeks		
	2023 $	2022 $	Variance %	2023 $	2022 $	Variance %
Distribution segment	**112,156**	93,431	20.0	**317,047**	248,019	27.8
Wholesale segment	**47,936**	53,641	(10.6)	**143,918**	140,327	2.6
Intersegment eliminations and others	**(6,426)**	(10,296)	37.6	**(24,058)**	(26,734)	10.0
Operating costs[(1)]	**153,666**	136,776	12.3	**436,907**	361,612	20.8

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

Consolidated operating costs for the third quarter of 2023 were $153.7 million compared to $136.8 million for the corresponding period of 2022, an increase of 12.3%, mostly explained by the increase of 13.1% in sales.

- Distribution segment operating costs have increased by 20.0% during the third quarter, mostly explained by the increase of 20.4% in sales, an increase in labor costs and other supply chain costs, in connection with the increase in inflation, as well as investments to expand our territory.
- Wholesale segment operating costs have decreased by 10.6%, mainly explained by the decrease of 8.6% in sales during the third quarter of 2023.
- Intersegment eliminations and others have decreased by 37.6%, mainly due to a decrease in intersegment sales and the increase of charges related to GRA and head office during the third quarter of 2023.

Cumulative consolidated operating costs for the 36-week period of 2023 were $436.9 million compared to $361.6 million during the corresponding period of last fiscal year, an increase of 20.8%, mostly explained by sales increase of 21.5%.

- Distribution segment operating costs have increased by 27.8%, mostly explained by higher cost of goods sold and operating expenses due to sales increase of 28.7%, increase in labor costs and other supply chain costs in connection with the increase in inflation and investments to expand our territory.
- Wholesale segment operating costs have increased by 2.6%, mainly explained by higher cost of goods sold as a result of increase in sales of 3.4%.

- Intersegment eliminations and others have decreased by 10.0%, mainly due to an decrease in intersegment sales, and an increase of charges related to GRA and head office.

3.1.3 Adjusted EBITDA

Adjusted EBITDA for the 12 and 36-week periods ended September 9, 2023

(in thousands of dollars, except percentages)

	12 weeks			36 weeks		
	2023 $	2022 $	Variance %	2023 $	2022 $	Variance %
Distribution Segment	**8,058**	6,432	25.3	**18,526**	12,628	46.7
Wholesale Segment	**4,939**	4,187	18.0	**13,642**	12,096	12.8
Intersegment eliminations and others	**(1,963)**	(1,725)	(13.8)	**(6,266)**	(5,511)	(13.7)
Adjusted EBITDA[(1)]	**11,034**	8,894	24.1	**25,902**	19,213	34.8
Adjusted EBITDA margin[(1)]	**6.7%**	6.1%		**5.6%**	5.0%	

[(1)] The adjusted EBITDA and the adjusted EBITDA margin are non-IFRS measures. Refer to section 5 "Non-IFRS Performance Measures". The adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales for the corresponding period.

Adjusted EBITDA[(1)] for the third quarter of 2023 amounted to $11.0 million compared to $8.9 million in the corresponding quarter of the previous year, an increase of 24.1% and as a percentage of sales, adjusted EBITDA margin[(1)] reached 6.7% compared to 6.1% for the corresponding period of 2022. These variations are mainly explained by the increased sales and gross margin from a better mix of products and customers:

- Adjusted EBITDA[(1)] in the Distribution segment has increased by $1.6 million or 25.3%. As a percentage of sales, the adjusted EBITDA margin[(1)] stood at 6.7% compared to 6.4% in 2022. This increase is mainly due to the increase in sales of 20.4% as explained above.

- Adjusted EBITDA[(1)] in the Wholesale segment has increased by $0.8 million, or 18.0% and is mainly due to an increase of 8.6% of sales as explained above.

- Adjusted EBITDA[(1)] from intersegment eliminations and others in the third quarter of 2023 decreased by $0.2 million or 13.8% compared to the corresponding quarter of 2022 and is mainly due to an increase of head office's charges.

Cumulative adjusted EBITDA[(1)] for the 36-week period of 2023 reached $25.9 million compared to $19.2 million in the corresponding period of the previous year, an increase of 34.8% and as a percentage of sales, adjusted EBITDA margin[(1)] reached 5.6% compared to 5.0% for the corresponding period of 2022. These variations are mainly due to an increase in sales and gross margin from a better mix of products and customers.

- Adjusted EBITDA[(1)] in the Distribution segment has increased by $5.9 million or 46.7%. As a percentage of sales, the adjusted EBITDA[(1)] margin was 5.5%, compared to 4.8% in 2022. The variations are explained by an increase in sales, mitigated by the increase in labor costs and other supply chain costs and investments to expand our territory, as explained above.

- Adjusted EBITDA[(1)] in the Wholesale segment has increased by $1.5 million, or 12.8% and is mainly due to a sales growth.

- Adjusted EBITDA[(1)] from intersegment eliminations and others in the 36-week period of 2023 decreased by $0.8 million or 13.7% compared to the corresponding period of 2022 and is mainly due to increased charges from head office, mitigated by GRA's adjusted EBITDA[(1)] increase.

3.1.4 Depreciation and Amortization

Depreciation and Amortization for the 12 and 36-week periods ended September 9, 2023

(in thousands of dollars, except percentages)

	12 weeks			36 weeks		
	2023	**2022**	**Variance**	**2023**	**2022**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Depreciation of property, plant and equipment	**961**	529	81.7	**2,969**	1,532	93.8
Amortization of intangible assets	**940**	957	(1.8)	**2,826**	2,792	1.2
Depreciation of right-of-use assets	**2,799**	2,186	28.0	**8,047**	6,290	27.9
Depreciation and Amortization	**4,700**	3,672	28.0	**13,842**	10,614	30.4

For the third quarter of 2023, depreciation and amortization expense was up by 28.0%, compared to the same quarter of 2022, and is mainly explained by the increase in the depreciation of right-of-use assets following the renewal and signing of new leases over the last 12 months as well as the acquisition of tangible assets, mitigated by certain intangible assets fully amortized and depreciated.

For the 36-week period ended September 9, 2023, depreciation and amortization expense was up by 30.4% compared to the same period of 2022 and is mainly explained by the increase in the depreciation of right-of-use assets following the renewal and signing of new leases over the last 12 months as well as the acquisition of tangible and intangible assets.

3.1.5 Financial Expenses

Financial expenses for the 12 and 36-week periods ended September 9, 2023 amounted to $1.3 million and $3.9 million respectively, compared to $1.1 million and $3.0 million for the corresponding periods of 2022. This increase is due to higher interest rates and an increase in our debt level.

3.1.6 Income Taxes

Income taxes expenses for the 12 and 36-week periods ended September 9, 2023 amounted to $1.4 million and $2.1 million, respectively, compared to $1.1 million and $1.1 million for the corresponding periods of 2022. The variation is essentially explained by the increase of earnings before taxes.

3.1.7 Net Earnings

Net earnings of the 12 and 36-week periods ended September 9, 2023

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

	12 weeks			36 weeks		
	2023	**2022**	**Variance**	**2023**	**2022**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Net earnings from continuing operations	**3,539**	2,832	25.0	**5,693**	2,869	98.4
Net loss from discontinued operations	**—**	—	0.0	**—**	(67)	(100.0)
Net earnings	**3,539**	2,832	25.0	**5,693**	2,802	103.2
Basic and diluted net earnings per share from continuing operations	**0.03**	0.03	—	**0.06**	0.03	100.0
Basic and diluted net loss per share from discontinued operations	**—**	—	—	**—**	—	—
Basic and diluted net earnings per share	**0.03**	0.03	—	**0.06**	0.03	100.0

Net earnings from continuing operations and net earnings for the third quarter of 2023 were $3.5 million, or $0.03 per share, compared to $2.8 million, or $0.03 per share for the corresponding period of last fiscal year. The main variations in the quarter are an increase of the adjusted EBITDA[1] as explained previously, mitigated by higher depreciation and amortization, financial and income taxes expenses. The weighted average number of basic shares outstanding during the 12-week period was 101,986,464 compared to 101,954,885 for the corresponding period of 2022.

Net earnings from continuing operations and net earnings for the cumulative 36-week period of 2023 were $5.7 million, or $0.06 per share, up from $2.8 million, or $0.03 per share during the corresponding period of 2022. The variation is explained by an increase of the adjusted EBITDA[1] as explained previously, combined with a decrease in costs not related to current operations, mitigated by higher depreciation and amortization, financial and income taxes expenses. The weighted average number of basic shares outstanding during the 36-week period was 101,969,547 compared to 101,954,885 for the corresponding period of 2022.

[1] EBITDA and Adjusted EBITDA are non-IFRS measures. Refer to section 5 "Non-IFRS performance measures" for definitions and reconciliations to the most directly comparable IFRS measures.

COLABOR

3.2 Financial Position

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

(in thousands of dollars)

	As at September 9, 2023 $	As at December 31, 2022 $	Variance $
Current assets			
Trade and other receivables	**52,886**	45,776	7,110
Inventories	**47,822**	45,084	2,738
Current assets	**100,708**	90,860	9,848
Current liabilities			
Trade and other payables	**48,537**	42,060	6,477
Working capital[(2)]	**52,171**	48,800	3,371

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

As at September 9, 2023, the Company's working capital[(2)] was $52.2 million, up by $3.4 million compared to the end of the last fiscal year. This increase is explained as follows:

Trade and Other Receivables

Trade and other receivables balance were up $7.1 million from December 31, 2022, due to higher sales towards the end of the third quarter compared to the end of the fourth quarter of 2022.

Inventories

Inventory balance increased by $2.7 million from December 31, 2022. This increase is explained by the increase in sales and investments, among other things for the establishment of new contracts.

Trade and Other Payables

The balance of trade and other payables increased by $6.5 million from December 31, 2022, mainly due to growth and the timing of supplier payments.

COLABOR

3.3 Other Significant Changes in Financial Position

The following table presents the other significant items of the Company's financial position as at September 9, 2023, and their corresponding variances from the fiscal year ended December 31, 2022.

(in thousands of dollars)

	As at September 9, 2023 $	As at December 31, 2022 $	Variance $
Property, Plant and Equipment	**16,856**	8,247	8,609
Intangible Assets	**19,764**	22,079	(2,315)
Right-of-use Assets	**39,032**	38,057	975
Deferred Tax Assets	**2,616**	3,026	(410)
Long-Term Debt	**52,975**	46,375	6,600
Lease Liabilities	**42,428**	42,457	(29)
Pension Obligations	**2,272**	2,279	(7)
Contingent consideration	**1,342**	1,188	154
Deferred Tax Liabilities	**628**	715	(87)
Equity Attributable to Shareholders	**108,723**	102,894	5,829

Property, Plant and Equipment

The increase in property, plant and equipment is mainly due to acquisitions, including progressive deposits for equipment purchases related to our new warehouse in Saint-Bruno-de-Montarville, which we will take possession of in the upcoming months, offset by depreciation.

Intangible Assets

The reduction in intangible assets is mainly due to amortization.

Right-of-use Assets

The increase in right-of-use assets is mainly due to the signing of new leases, mitigated by depreciation.

Deferred Tax Assets

The reduction in deferred tax assets comes mainly from the reversal of tax attributes during the period.

Long-Term Debt

Long-term debt increase is mainly due to the use of the credit facility which is due to higher utilization of working capital[(2)] and to the purchase of equipments related to our new warehouse, as explained above.

Lease Liabilities

The decrease in lease liabilities is mainly due to the payments made during the period, mitigated by the signing of new leases.

Pension obligations

The process for winding up the defined benefit pension plan, which began in 2021, is expected to be completed in 2023 and the obligations will be reimbursed at the same time.

Contingent consideration

The increase in contingent consideration comes mainly from the financial actualization expense.

Deferred Tax Liabilities

The reduction in deferred tax assets comes mainly from the creation of tax attributes during the period.

[(2)] Working capital is a non-IFRS performance measure. Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to section 3.2 "Financial Position" for detailed calculation.

Equity Attributable to Shareholders

The increase in shareholders' equity is mainly due to net earnings, mitigated by other comprehensive loss for the fiscal year.

3.4 Data Related to Outstanding Shares

The following table presents the Company's shares and options data as at October 17, 2023. Refer to Notes 7, 9 and 10 of the interim condensed consolidated financial statements for further details.

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

	Number of shares / stock-options	Amount $
Common shares		
Participating and voting common shares	101,986,464	257,054
Options on participating and voting stock		
Outstanding options	4,623,982	
Exercisable options	2,588,982	

3.5 Cash Flows

The following table represents consolidated cash flows of the 12 and 36-week periods ended September 9, 2023.

(in thousands of dollars)

	12 weeks		36 weeks	
	2023 $	2022 $	2023 $	2022 $
Cash flows from operating activities	**7,969**	8,757	**20,044**	19,962
Cash flows from investing activities	**(9,520)**	(649)	**(13,127)**	(4,002)
Cash flows from financing activities	**(1,067)**	(7,559)	**(5,782)**	(15,427)
Net change in cash and cash equivalents from continuing operations	**(2,618)**	549	**1,135**	533
Net change in cash and cash equivalents from discontinued operations	**—**	—	**—**	(8)
Cash and cash equivalents (bank indebtedness) at the beginning	**2,478**	1,982	**(1,275)**	2,006
(Bank indebtedness) cash and cash equivalents at the end	**(140)**	2,531	**(140)**	2,531

Operating Activities

Cash flows from operating activities amounted to $8.0 million for the third quarter compared to $8.8 million for the corresponding period of the previous fiscal year. This decrease is mainly due to higher utilization of working capital[2], mitigated by higher adjusted EBITDA[1]. The higher utilization of working capital[2] is explained by higher supplier payments in 2023 related to higher inventories.

Cash flows from operating activities amounted $20.0 million for the 36-week period of 2023 and for the corresponding period of 2022. The higher adjusted EBITDA[1] is mitigated by a higher utilization of working capital[2]. The higher utilization of working capital[2] is explained by the receipt of the non-recurring gain in 2022 of $4.0 million, which was receivable as at December 25, 2021, and the increase in inventories related to sales growth.

[1] EBITDA and Adjusted EBITDA are non-IFRS measures. Refer to section 5 "Non-IFRS performance measures" for definitions and reconciliations to the most directly comparable IFRS measures.
[2] Working capital is a non-IFRS performance measure. Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to section 3.2 "Financial Position" for detailed calculation.

Investing Activities

Cash flows used in investing activities amounted to $(9.5) million and $(13.1) million for the 12 and 36-week periods of 2023 respectively, compared to $(0.6) million and $(4.0) million for the corresponding periods of 2022. The variations are mainly due to higher property, plant and equipment acquisitions, including progressive deposits for equipment purchases related to our new warehouse, as described above, mitigated by the acquisition of GRA for an amount of $1.0 million compared to $1.5 million in 2022.

Financing Activities

Cash flows used in financing activities amounted to $(1.1) million for the third quarter of 2023, up from $(7.6) million for the corresponding period of 2022. The variation is primarily due to an increase in disbursements related to lease obligations and financial expenses, combined with an additional use of the credit facility of $3.3 million in 2023, compared to a repayment of $4.8 million in 2022.

Cash flows used by financing activities amounted to $(5.8) million for the 36-week period of 2023, compared to $(15.4) million for the corresponding period of 2022. The variation is primarily due to an increase in disbursements related to lease obligations and financial expenses, combined with an additional use of credit facility for $6.5 million, compared to a repayment of $7.3 million in the corresponding period of 2022.

3.6 Capital Resources

As at September 9, 2023, the Company was in compliance with all debt covenants. The Company is expecting to be able to meet its obligations for the next 12 months by using future cash flows from operations and the unused portion of the credit facility. As at September 9, 2023, the available credit facility is $34.0 million. Refer to section 9 for liquidity risk management.

4. Summary of Recent Quarters

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

(in thousands of dollars, except per share data)

	2023			2022				2021
	Q3 (12 weeks) $	Q2 (12 weeks) $	Q1 (12 weeks) $	Q4 (17 weeks) $	Q3 (12 weeks) $	Q2 (12 weeks) $	Q1 (12 weeks) $	Q4 (16 weeks) $
Sales	**164,700**	164,186	133,923	193,246	145,670	137,986	97,169	151,014
Adjusted EBITDA[1]	**11,034**	9,294	5,574	9,855	8,894	8,006	2,313	7,080
Costs (income) not related to current operations	**99**	2	49	107	102	831	314	(3,998)
Net earnings (loss) from continuing operations	**3,539**	2,314	(160)	1,682	2,832	1,690	(1,653)	5,336
Net loss from discontinued operations	**—**	—	—	(419)	—	(14)	(53)	(197)
Net earnings (loss)	**3,539**	2,314	(160)	1,263	2,832	1,676	(1,706)	5,139
Basic and diluted net earnings (loss) per share from continuing operations	**0.03**	0.02	—	0.02	0.03	0.02	(0.02)	0.05
Basic and diluted net earnings (loss) per share	**0.03**	0.02	—	0.01	0.03	0.02	(0.02)	0.05

Sales for the last eight quarters have been impacted by different factors, such as the pandemic from the second quarter of fiscal year 2020 and until the first quarter of 2022. Fourth quarter sales of 2022 include an additional week compared to 2021. Net earnings for the first quarter of each financial year are generally negatively impacted by seasonality. Net earnings for the fourth quarter of 2021 were positively impacted by costs (income) not related to current operations.

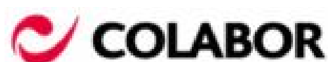
5. Non-IFRS Performance Measures

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

Adjusted EBITDA

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

[1] EBITDA and Adjusted EBITDA are non-IFRS measures. Refer to section 5 "Non-IFRS performance measures" for definitions and reconciliations to the most directly comparable IFRS measures.



Reconciliation of Net Earnings to Adjusted EBITDA

(in thousands of dollars)

	12 weeks		36 weeks	
	2023	2022	2023	2022
	$	$	$	$
Net earnings from continuing operations	**3,539**	2,832	**5,693**	2,869
Income taxes	**1,362**	1,097	**2,109**	1,140
Financial expenses	**1,271**	1,080	**3,896**	3,030
Operating earnings	**6,172**	5,009	**11,698**	7,039
Expenses for stock-based compensation plan	**63**	111	**212**	313
Costs not related to current operations	**99**	102	**150**	1,247
Depreciation and amortization	**4,700**	3,672	**13,842**	10,614
Adjusted EBITDA	**11,034**	8,894	**25,902**	19,213

Net Debt

Net debt corresponds to bank indebtedness, current portion of long-term debt and long-term debt, net of cash as presented in Colabor's consolidated statements of financial position. The measure is used by investors and to calculate the financial leverage ratio.

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

	As at September 9, 2023	As at December 31, 2022
	$	$
Bank indebtedness	**114**	1,014
Current portion of long-term debt	**3,000**	3,000
Long-term debt	**50,250**	43,750
Net debt	**53,364**	47,764

COLABOR

Financial Leverage Ratio

The financial leverage ratio is defined as net debt divided by adjusted EBITDA from continuing operations from which are deducted the lease liability payments for the last four quarters as presented in the consolidated statement of cash flows, and used by management to assess its ability to borrow capital.

The following table presents the calculation of financial leverage ratio:
(in thousands of dollars)

	As at September 9, 2023 $	As at December 31, 2022 $
Last four-quarter adjusted EBITDA	**35,757**	29,068
Last four-quarter lease liability payments	**11,446**	8,197
Financial Leverage Ratio[1]	**2.2x**	2.3x

[1] In 2023, the Company has modified the calculation of the financial leverage ratio to align with the one used by its lenders and to better reflect its actual financial position. Therefore, the corresponding figure of 2022 has been restated to subtract the lease liability payments of $8.2 million from the adjusted EBITDA for the last four quarters for comparability.

6. Risks and Uncertainties

The Company's activities are subject to numerous risks and uncertainties that are described in detail in its March 1, 2023, Annual Information Form (the "AIF"), which may be viewed on the SEDAR+ website at www.sedarplus.ca and on the Company's website at www.colabor.com. The risks described in the AIF are incorporated by reference in this MD&A.

7. Significant Estimates and Judgments

The preparation of the financial statements requires the management of the Company to undertake some judgments and estimates about the recognition and measurement of the assets, liabilities, revenues and expenses which are based on the facts and information that are available to management. Because of the pandemic, management has revised its judgments and estimates as part of the preparation of its interim condensed consolidated financial statements and concluded that there was no significant change as of September 9, 2023, compared to December 31, 2022.

8. 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 the financial statements it releases to the public are prepared in accordance with IFRS.

The President and CEO as well as Senior Vice President and Chief Financial Officer have assessed, in accordance with Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings, the design of ICFR and DC&P as at September 9, 2023. On the basis of this assessment, they have concluded that the design of ICFR and DC&P are adequate. For the 36-week period ended September 9, 2023, the President and CEO as well as the Senior Vice President and Chief Financial Officer have also assessed that there were no changes in the internal control over financial reporting process or in the disclosure controls and procedures that have materially affected, or are reasonably likely to materially affect, internal controls and procedures.

9. Financial Instruments

A) Fair value

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

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

(in thousands of dollars)

		As at September 9, 2023		**As at December 31, 2022**
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	$	**$**	**$**	**$**
Financial asset				
Non-current				
Derivative financial instrument	**630**	**630**	740	740
Financial liabilities				
Current				
Purchase price balance	—	—	993	1,000
Non-current				
Credit facility	**38,097**	**38,250**	31,531	31,750
Subordinated debt	**14,878**	**15,000**	14,844	15,000
Contingent consideration	**1,342**	**1,342**	1,188	1,188
	54,317	**54,592**	48,556	48,938

The fair value of the interest rate swap is calculated at the present value of the estimated future cash flows using an appropriate interest rate yield curve. Assumptions are based on market conditions prevailing at each reporting date. The fair value of derivative instrument reflects the estimated amounts that the Company would receive or pay to settle the contract at the reporting date. As at September 9, 2023, the fair value of the interest rate swap is an asset of $0.6 million and is accounted for under Other in the non-current assets of the consolidated statement of financial position.

The fair value of contingent consideration was determined by discounting future cash flows at the Company's marginal borrowing rate.

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

The fair value of subordinated debt was determined by discounting future cash flows at 7.25% (7.25% as at December 31, 2022), the current rate of subordinated debt.

Fair value measurement

The valuation techniques as well as the significant observable market data used in the measurement of Level 2 and Level 3 fair values are the same as those described in the consolidated financial statements for the year ended December 31, 2022.

There was no transfer between the levels during the 12 and 36-week periods ended September 9, 2023.

B) Financial risks management

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

There were no significant changes in the Company's risk exposure during the 36-week period ended September 9, 2023 compared to the description given in the consolidated financial statements for the year closed on December 31, 2022.