COLABOR GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

SECOND QUARTER OF THE 2016 FISCAL YEAR

84-DAY AND 168-DAY PERIODS ENDED JUNE 11, 2016

JULY 13, 2016

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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. ("GCL," the "Company" or "Colabor") discusses the Company's comprehensive income, financial situation and cash flows for the second quarter of the fiscal year ending December 31, 2016. This report should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes found in this report, as well as with the consolidated financial statements and related notes included in the most recent Annual Report for the fiscal year ended December 26, 2015. 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. 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 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 on GCL 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. 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, except per-share data)

	84 days			168 days		
	2016 **$**	**2015** **$**	**Variance** **$**	**2016** **$**	**2015** **$**	**Variance** **$**
Net earnings (loss)	3,073	1,002	2,071	(2,225)	(5,313)	3,088
Income tax expense (recovery)	1,304	552	752	(543)	(1,753)	1,210
Financial expenses	3,044	3,046	(2)	6,038	6,145	(107)
Depreciation and amortization	2,653	3,405	(752)	5,372	6,821	(1,449)
EBITDA	10,074	8,005	2,069	8,642	5,900	2,742
Impairment of the available-for-sale financial asset	-	-	-	-	1,731	(1,731)
Costs not related to current operations	-	507	(507)	3,337	1,345	1,992
Adjusted EBITDA	10,074	8,512	1,562	11,979	8,976	3,003

3. Forward-looking statements

We have used, throughout this MD&A, different statements that could, within the context of regulations issued by the Canadian Securities Administrators, be construed as forward-looking information. In general, any statement contained in this MD&A that does not constitute a historical fact may be deemed a forward-looking statement. Expressions such as "continue," "expect" and other similar expressions are generally indicative of forward-looking statements. The MD&A is intended to assist shareholders in understanding the nature and extent of changes and trends, as well as risks and uncertainties. Consequently, actual results may differ significantly from information reported in or implied by these statements. These forward-looking statements do not provide any guarantees as to the future performance of the Company and are subject to potential risks, known and unknown, as well as uncertainties that could cause the outcome to differ significantly. The main factors that could result in a significant difference between Colabor's actual results and the projections or expectations set out in the forward-looking statements are described herein in the section "Risks and uncertainties." The Company does not intend to update any forward-looking statement contained herein, except as required by applicable law.

4. Corporate profile

Activities

Colabor was founded in 1962 and is a distributor and master food wholesaler serving the foodservice market (restaurants, restaurant chains, hotels and cafeterias) and the retail market (small-sized grocery stores, convenience stores, fish and meat for large-sized groceries, etc.). It currently carries out its activities in two segments and three geographic regions: Ontario, Quebec and the Maritimes.

A. Distribution segment

This segment includes the following operating activities:

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

   Summit distributes more than 8,000 products from warehouses in Ottawa, London, Mississauga and Vaughan to more than 3,000 customers including (i) Cara Operations Limited (hereafter "Cara"), which operates, among others, Swiss Chalet, Harvey's, Kelsey's, Montana's BBQ & Bar, and Milestone's Grill and Bar); (ii) Country Style; (iii) Mr Sub; (iv) Wild Wing; (v) other foodservice chains; (vi) independent restaurants; (vii) as well as to 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.

This division, with approximately 510 employees, operates four distribution centres, including the London administrative head office. These warehouses cover approximately 541,000 square feet, allocated as follows:

Mississauga	127,961 square feet
London	113,595 square feet (could be expanded)
Ottawa	103,460 square feet (could be expanded)
Vaughan	196,598 square feet

These warehouses, with the exception of the Vaughan warehouse, 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 12,000 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, Lower St. Lawrence and Gaspé Peninsula and New Brunswick regions and part of the North Shore. CFD employs approximately 480 people, distributes over 12,000 products from its two strategically located warehouses in Lévis and Rimouski, totalling approximately 303,000 square feet. CFD's almost 4,000 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.

4. *Les Pêcheries Norref Québec Inc. ("Norref") – Central Quebec Division*

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 40,000 square-foot distribution centre in Montréal and is (i) HACCP-certified and (ii) 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. Norref has approximately 200 employees.

5. *Lauzon Meats ("Lauzon") – Central Quebec Division*

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 and employees and for providing effective and flexible service to the restaurants, hotels and the institutional sector. Lauzon operates from a recently renovated plant of approximately 68,000 square feet located in Montréal that is HACCP-certified and federally approved, which allows it to sell its products nationwide. This division has approximately 85 employees.

B. Wholesale segment

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

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

Boucherville operates a distribution centre of approximately 371,000 square feet located in Boucherville and has approximately 85 employees.

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

Décarie is a wholesaler and distributor in the meat and meat products market. Décarie has a distribution centre of approximately 27,000 square feet located in Montréal and approximately 55 employees. 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's facilities are HACCP-certified and Décarie holds a federal permit that allows it to sell its products across Canada.

5. Performance analysis

5.1 Earnings

Net earnings for the quarter amounted to $3.1 million compared to $1.0 million in the corresponding quarter of 2015, for a net improvement of $2.1 million. This change was due to a $1.6 million increase in adjusted EBITDA, a $0.8 million decrease in depreciation and amortization expense, a $0.5 million decrease in costs not related to current operations, partially offset by a $0.8 million increase in income tax expense compared to the corresponding quarter of 2015. Basic and diluted net earnings per share amounted to $0.11 compared to $0.04 in 2015.

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

Consolidated Statements of Earnings

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

	2016		2015		Variance	
	$	%	$	%	$	%
Sales	364,801	100.00	366,635	100.00	(1,834)	(0.50)
Operating expenses, excluding costs not related to current operations, depreciation and amortization	354,727	97.24	358,123	97.68	(3,396)	(0.95)
Operating earnings before costs not related to current operations, depreciation and amortization	10,074	2.76	8,512	2.32	1,562	18.35
Costs not related to current operations	-	-	507	0.14	(507)	(100.00)
Depreciation and amortization	2,653	0.73	3,405	0.93	(752)	(22.09)
	2,653	0.73	3,912	1.07	(1,259)	(32.18)
Operating earnings	7,421	2.03	4,600	1.25	2.821	61.33
Financial expenses	3,044	0.83	3,046	0.83	(2)	(0.07)
Earnings before taxes	4,377	1.20	1,554	0.42	2,823	181.66
Income tax expense (recovery)						
Current	234	0.06	262	0.07	(28)	(10.69)
Deferred	1,070	0.29	290	0.08	780	268.96
	1,304	0.36	552	0.15	752	136.23
Net earnings	3,073	0.84	1,002	0.27	2,071	206.69
Basic and diluted net earnings per share	0.11		0.04			

The cumulative loss was $2.2 million compared to a net loss of $5.3 million in the corresponding quarter of 2015. This change was due to a $3.0 million increase in adjusted EBITDA, a $1.4 million decrease in depreciation and amortization expense, the absence of a depreciation charge on the asset available for sale that was $1.7 million for the corresponding period in 2015, a $1.2 million decrease in tax recovery, partially offset by a $2.0 million increase in costs not related to current operations. Basic and diluted net loss per share amounted to $0.08 compared to a net loss per share of $0.19 in the same period of 2015.

The following table presents the cumulative Consolidated Statements of Earnings.

Consolidated Statements of Earnings

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

	2016		2015		Variance	
	$	%	$	%	$	%
Sales	671,865	100.00	671,297	100.00	568	0.08
Operating expenses, excluding costs not related to current operations, depreciation and amortization	659,886	98.22	662,321	98.66	(2,435)	(0.37)
Operating earnings before costs not related to current operations, depreciation and amortization	11,979	1.78	8,976	1.34	3,003	33.46
Costs not related to current operations	3,337	0.50	1,345	0.20	1,992	148.10
Impairment of the available-for-sale financial asset	-	-	1,731	0.26	(1,731)	(100.00)
Depreciation and amortization	5,372	0.80	6,821	1.02	(1,449)	(21.24)
	8,709	1.30	9,897	1.48	(1,188)	(12.00)
Operating earnings	3,270	0.49	(921)	(0.14)	4,191	(455.05)
Financial expenses	6,038	0.90	6,145	0.92	(107)	(1.74)
Earnings before taxes	(2,768)	(0.41)	(7,066)	(1.06)	4,298	(60.83)
Income tax expense (recovery)						
Current	234	0.03	262	0.04	(28)	(10.69)
Deferred	(777)	(0.12)	(2,015)	(0.30)	1,238	(61.44)
	(543)	(0.08)	(1,753)	(0.26)	1,210	(69.02)
Net loss	(2,225)	(0.33)	(5,313)	(0.79)	3,088	(58.12)
Basic and diluted net loss per share	(0.08)		(0.19)			

The following table presents sales by segment for the second quarter.

Sales by Segment

(unaudited, in thousands of dollars)

	2016	2015	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	257,615	253,522	4,093	1.6
Wholesale segment	163,255	175,353	(12,098)	(6.9)
	420,870	428,875	(8,005)	(1.9)
Inter-segment sales				
Distribution segment	4,440	6,134	(1,694)	(27.6)
Wholesale segment	51,629	56,106	(4,477)	(8.0)
	56,069	62,240	(6,171)	(9.9)
Consolidated sales				
Distribution segment	253,175	247,388	5,787	2.3
Wholesale segment	111,626	119,247	(7,621)	(6.4)
	364,801	366,635	(1,834)	(0.5)

Sales in the second quarter amounted to $364.8 million compared to $366.6 million in the corresponding quarter of 2015, a decrease of $1.8 million or 0.5%. This decrease stemmed primarily from the Wholesale segment and was partially offset by increased sales in the Distribution segment.

The 2.3% sales growth in the Distribution segment came primarily from the Ontario Division as a result of strong customer growth and growth in the Norref Division, partially offset by a decrease in sales in the CFD Division. The 6.4% decrease in sales in the Wholesale segment was due to the Décarie Division, where the decrease in sales was primarily attributable to a deflation in beef prices and a voluntary decrease in sales volume in certain categories and, to a lesser extent, to the Boucherville Division, where a contract with a distributor expired on April 15, 2015 and was not renewed.

The following table presents cumulative sales by segment.

Sales by Segment

(unaudited, in thousands of dollars)

	2016	2015	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	476,954	463,772	13,182	2.8
Wholesale segment	296,751	313,603	(16,852)	(5.4)
	773,705	777,375	(3,670)	(0.5)
Inter-segment sales				
Distribution segment	8,259	10,751	(2,492)	(23.2)
Wholesale segment	93,581	95,327	(1,746)	(1.8)
	101,840	106,078	(4,238)	(4.0)
Consolidated sales				
Distribution segment	468,695	453,021	15,674	3.5
Wholesale segment	203,170	218,276	(15,106)	(6.9)
	671,865	671,297	568	0.1

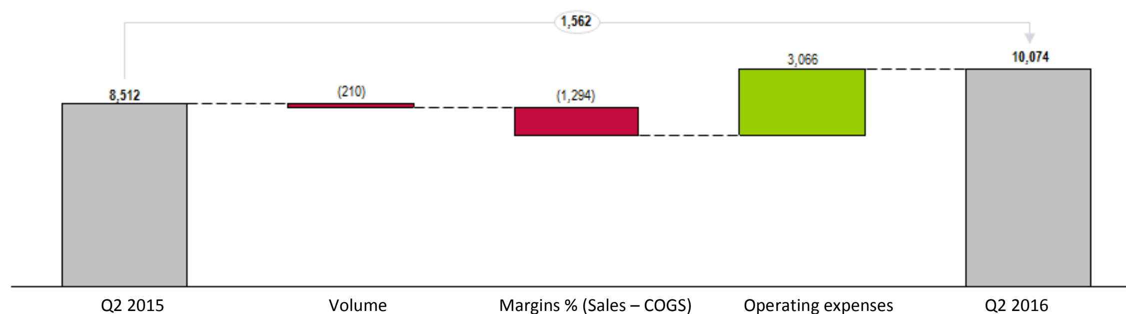
Cumulative sales for 2016 were $671.9 million compared to $671.3 million for the same period of 2015, for an increase of $0.6 million or 0.1%. This growth in sales came from the Distribution segment, partially offset by decreased sales in the Wholesale segment.

The 3.5% sales growth in the Distribution segment came primarily from the Ontario Division as a result of strong customer growth and, to a lesser extent, from the Norref Division. The 6.9% decrease in sales in the Wholesale segment came from the Décarie Division, where the decrease in sales was primarily attributable to a deflation in beef prices and a voluntary decrease in sales volume in certain categories and, to a lesser extent, to the Boucherville Division where a contract with a distributor expired on April 15, 2015 and was not renewed.

Operating earnings before costs not related to current operations, depreciation and amortization (adjusted EBITDA)

Analysis of variances in operating earnings before costs not related to current operations and quarterly depreciation and amortization (adjusted EBITDA)

(unaudited, in thousands of dollars)



For the second quarter of 2016, adjusted EBITDA amounted to $10.1 million or 2.76% of sales compared to $8.5 million or 2.32% for the corresponding quarter of 2015. The main variances were:

- The decrease in operating expenses attributable to the rationalization and optimization plan announced by the Company on January 26, 2016 as well as improved performance.

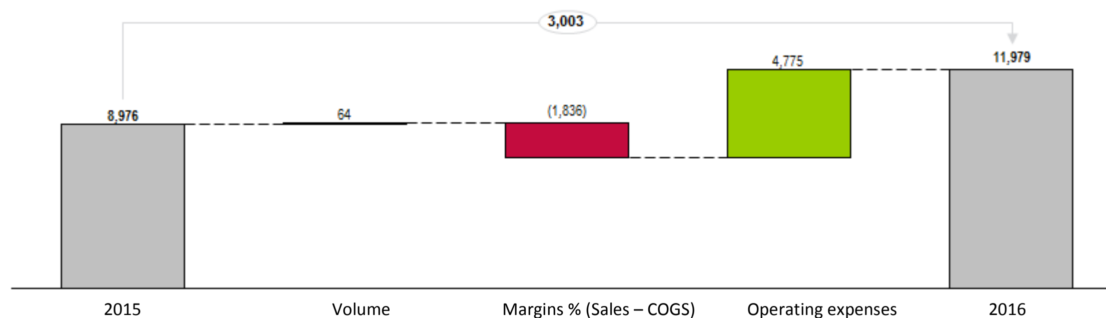
Partially offset by:

- The decrease in profit margins as a % of sales, partly due to contract renewals or new contracts signed with lower margins. Contracts will be comparable starting in the third quarter of 2016.
- The decrease in sales came from the Décarie Division and was primarily attributable to a deflation of beef prices and a voluntary decrease in sales volume in certain categories.

Operating earnings before costs not related to current operations, depreciation and amortization (adjusted EBITDA)

Analysis of variances in operating earnings before costs not related to current operations and cumulative depreciation and amortization (adjusted EBITDA)

(unaudited, in thousands of dollars)



For the fiscal year to June 11, 2016, adjusted EBITDA amounted to $12.0 million or 1.78% of sales compared to $9.0 million or 1.34% for the corresponding period of 2015. The main variances were:

- The decrease in operating expenses attributable to the rationalization and optimization plan announced by the Company on January 26, 2016 as well as improved performance.

Partially offset by:

- The decrease in profit margins as a % of sales, partly due to contract renewals and new contracts signed with lower margins. Contracts will be comparable starting in the third quarter of 2016.
- An increase in sales that came primarily from the Ontario Division as a result of significant customer growth partially offset by decreased sales in Décarie Division primarily attributable to a deflation of beef prices and a voluntary decrease in sales volume in certain categories.

Costs not related to current operations

Note 5 to the second quarter financial statements provides a summary of costs not related to current operations. This item in the Statement of earnings includes extraordinary items.

	84 days		168 days	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Severance pay and restructuring costs	-	507,000	3,337,000	1,345,000
Amount paid	-	507,000	2,243,000	1,345,000
Amount payable	1,094,000	-	1,094,000	-

In the first quarter of 2016, the Company announced a plan to rationalize and optimize its operations. The plan, approved by the Board of Directors, is intended to further improve Colabor's operating efficiency and profitability despite difficult business conditions in the foodservice distribution industry, and to complete the integration of the acquisitions made in recent years. This plan follows on a decision by the Board of Directors, announced on March 12, 2015, to suspend the declaration of dividends in order to deploy more financial resources to operations, while applying surplus funds to debt repayment. The plan encompasses most of Colabor's divisions and consists mainly in centralizing and consolidating certain operations at the head office of the Company or at its divisions. It entails the elimination of approximately 120 jobs, or 8% of the Company's headcount.

Depreciation and amortization

The depreciation and amortization expense for the second quarter of 2016 was $2.7 million compared to $3.4 million in the corresponding quarter of 2015. The cumulative depreciation and amortization expense for 2016 was $5.4 million compared to $6.8 million in the corresponding period of 2015. These decreases were primarily attributable to the impairment of intangible assets recognized in the fourth quarter of 2015.

Financial expenses

Financial expenses in the second quarter of 2016 were stable at $3.0 million, compared to $3.0 million in the corresponding quarter of 2015. Cumulative financial expenses were $6.0 million compared to $6.1 million in the corresponding period of 2015. This modest decrease was attributable both to a lower average debt and a decrease in accretion expense related to the balance of purchase price paid in the beginning of the fourth quarter of 2015.

Income tax expense (recovery)

Income tax expenses of $1.3 million in the second quarter of 2016 and $0.6 million in the corresponding period of 2015 were attributable to the realized quarterly earnings adjusted for expenses that are not deductible for tax purposes. Recovery of income taxes for the year to date amounting to $0.5 million, compared to $1.8 million in the corresponding period of 2015, was attributable to the realized cumulative loss adjusted for expenses that are not deductible for tax purposes.

Net earnings per share

Net earnings per share in the second quarter of 2016 amounted to $0.11 compared to $0.04 in the corresponding quarter of 2015, representing an increase of $0.07 in earnings per share. The cumulative net loss per share in 2016 amounted to $0.08 compared to a cumulative loss of $0.19 per share in the corresponding period of 2015, representing a decrease of $0.11 in loss per share.

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

(in thousands of dollars)

	For the period ended June 11, 2016 $	For the period ended June 13, 2015 $	For the period ended December 26, 2015 $
Assets			
Current			
Trade and other receivables	106,787	118,514	104,351
Inventory	87,785	93,250	87,282
Prepaid expenses	4,320	6,491	2,936
Other	1,628	1,795	1,699
Current assets	200,520	220,050	196,268
Non-current			
Available-for-sale financial asset	870	1,040	926
Loans receivable	486	616	576
Property, plant and equipment	14,198	15,214	15,835
Intangible assets	59,346	91,697	62,844
Goodwill	84,130	94,945	84,130
Deferred tax assets	3,025	-	2,089
Non-current assets	162,055	203,512	166,400
Total assets	362,575	423,562	362,668
Liabilities and Equity			
Liabilities			
Current			
Bank overdraft	5,578	2,826	4,106
Trade and other payables	83,928	114,023	93,530
Rebates payable	8,839	10,659	8,301
Balances of purchase price payable	-	945	-
Bank borrowings	97,665	4,000	1,000
Long-term debt	21,209	-	-
Convertible debentures	49,242	-	-
Obligations under leases	560	295	497
Other	1,779	1,818	1,689
Current liabilities	268,800	134,566	109,123
Non-current			
Bank borrowings	-	93,626	87,038
Long-term debt	21,142	42,234	42,295
Convertible debentures	-	48,442	48,859
Obligation under leases	2,113	732	2,376
Pension obligations	1,989	1,541	1,271
Provisions	3,459	2,991	3,816
Deferred tax liabilities	535	4,005	573
Non-current liabilities	29,238	193,571	186,228
Total liabilities	298,038	328,137	295,351
Equity			
Share capital	209,972	209,972	209,972
Deficit	(148,608)	(117,548)	(145,770)
Other components of equity	3,173	3,001	3,115
Total equity	64,537	95,425	67,317
Total liabilities and equity	362,575	423,562	362,668

The changes in current assets and liabilities between the second quarter and the 2015 year end were partly due to the seasonality of the Company's activities.

Accounts receivable

Trade and other receivables were down $11.7 million compared with 2015. This significant decrease is mainly explained by more systematic efforts in collection to improve working capital management.

Inventory

Inventory was down $5.5 million compared with 2015. This decrease was mainly the result of efforts to reduce inventory levels to improve working capital management and the closure of the Trois-Rivières warehouse in the fourth quarter of 2015.

Trade and other payables

The trade and other payables balance decreased $30.1 million compared with 2015. This decline was primarily attributable to the CFD, Décarie and Boucherville divisions, mainly due to lower sales compared to the same period in 2015 combined with shorter payments terms due to line of credit agreements with major protein suppliers.

Credit facilities

Under certain circumstances, the Company is required to satisfy a fixed charge coverage ratio. As at June 11, 2016, the Company was in compliance with this ratio.

Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has sources of financing in the form of sufficient authorized bank borrowings. In order to do so, the Company establishes budget and cash estimates to ensure it has the necessary funds to fulfill its obligations when they come due.

Over the next 12 months, the bank borrowings in an amount of $97,665,000, a portion of the long-term debt in an amount of $21,209,000 and convertible debentures in an amount of $49,242,000, for a total amount of $168,116,000, will mature and have been presented in short-term liabilities. In 2015 and 2014, the Company generated cash flows of $28,174,000 and $32,428,000, respectively. For the periods of 84 and 168 days ended June 11, 2016, the Company used cash flows of $7,499,000 and $5,333,000, respectively.

On July 13, 2016, the Company's board of directors approved the announcement of a recapitalization transaction that will reduce indebtedness and enhance the capital structure. The proposed transaction has the following main components:

- $50,000,000 rights offering, fully backstopped by five shareholders;
- Extension and renewal for three years of the bank borrowings and reduction to its outstanding balance of approximately $30,000,000;
- Extension by four years of the current loan agreement and a repayment of $17,500,000 of long-term debt;
- Extension by five years of the term of the convertible debentures, increase in their interest rate to 6.00% and reduction of their conversion price to $2.50 per common share;
- Purchase of an option, in favour of the Company, to acquire Dubé & Loiselle Inc. within three years after the closing of the proposed recapitalization transaction; and
- Vote by shareholders and debenture holders scheduled in August 2016.

If the conditions for closing the proposed recapitalization transaction are satisfied, including acceptance by a majority of the voting minority shareholders and acceptance by 66.66% of the holders of convertible debentures voting at the special meetings scheduled for August 2016, the Company intends to complete the proposed recapitalization transaction in October 2016 or before November 30, 2016. Even though management is confident that this proposed recapitalization will be realized, as at the date of issue of these financial statements the transaction has not been completed.

On January 26, 2016, the Company also announced a rationalization plan intended to centralize certain services. This rationalization plan will enable the Company to generate significant annual cash flows.

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 March 17, 2016, which may be viewed on the SEDAR website at www.sedar.com.

As at July 13, 2016, 27,480,966 common shares and 50,000 convertible debentures were issued and outstanding. In addition, 1,778,000 stock options were outstanding, of which 814,400 could be exercised.

Convertible debentures

On April 27, 2010, Colabor issued unsecured convertible debentures ("debentures") for total gross proceeds of $50 million. The debentures mature on April 30, 2017 and bear interest at 5.7% per annum, payable semi-annually. The effective rate of the debentures is 7.54%. The debentures are convertible into shares, at the holder's option, at a conversion rate of 59.347 shares per $1,000 of principal amount, for a conversion price of $16.85 per share. Under certain circumstances, after April 30, 2015, the Company could redeem the debentures in whole or in part, prior to maturity. There were no redemptions during the year ended December 26, 2015 or the 168-day period ended June 11, 2016. Between April 30, 2016 and the maturity date, the debentures are redeemable in whole or in part at the Company's option, and they can be settled in whole or in part through the issue of common shares. At the date of this MD&A, no conversions had occurred.

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	
	2016 $	**2015 $**	**2016 $**	**2015 $**
Operating activities				
Net earnings (loss) for the period	3,073	1,002	(2,225)	(5,313)
Deferred income taxes	1,070	290	(777)	(2,015)
Depreciation and amortization	2,653	3,405	5,372	6,821
Impairment of the available-for-sale financial asset	-	-	-	1,731
Financial expenses	3,044	3,046	6,038	6,145
Other	(325)	(302)	(578)	(847)
	9,515	7,441	7,830	6,522
Net change in working capital	(17,014)	(3,827)	(13,163)	4,947
Cash flows from operating activities	(7,499)	3,614	(5,333)	11,469
Investing activities				
Business acquisitions, net of cash acquired	-	-	-	100
Changes in loans receivable	69	(5)	89	(5)
Purchases of property, plant and equipment	(125)	(422)	(200)	(941)
Disposals of property, plant and equipment	168	6	188	286
Purchases of intangible assets	(32)	(2,367)	(93)	(2,674)
Cash flows used by investing activities	80	(2,788)	(16)	(3,234)
Financing activities				
Bank borrowings	9,485	6,200	9,393	3,317
Lease payments	(130)	(139)	(211)	(282)
Financial expenses paid	(2,679)	(2,632)	(5,305)	(5,314)
Cash flows used for financing activities	6,676	3,429	3,877	(2,279)
Net change in bank overdraft	(743)	4,255	(1,472)	5,956
Bank overdraft at beginning	(4,835)	(7,081)	(4,106)	(8,782)
Bank overdraft at end	(5,578)	(2,826)	(5,578)	(2,826)

Operating activities

Cash flows used in operating activities in the second quarter were $7.5 million compared to cash flows from operating activities of $3.6 million for the same period in 2015. The $11.1 million difference is essentially attributable to a less favourable change in working capital in 2016, primarily due to a significant decrease in trade and other payables.

In 2016, cash flows used in operating activities were $5.3 million compared to cash flows from operating activities of $11.5 million for the same period in 2015. The $16.8 million difference was essentially attributable to a less favourable change in working capital in 2016, primarily due to a significant decrease in trade and other payables.

Investing activities

Cash flows from investing activities in the second quarter were $0.1 million compared to cash flows used in investing activities of $2.8 million for the same period in 2015. This improvement is mostly due to the acquisition of more property, plant and equipment as well as intangible assets in the second quarter of 2015.

In 2016, cash flows from investing activities were $0.02 million compared to cash flows used in investing activities of $3.2 million for the same period in 2015. This improvement was due to the acquisition of more property, plant and equipment in 2015.

Financing activities

Cash flows from financing activities in the second quarter were $6.7 million compared to $3.4 million for the same period in 2015. The difference was mostly due to the change in the bank borrowings.

In 2016, cash flows from financing activities were $3.9 million compared to cash flows used in financing activities of $2.3 million for the same period in 2015. The difference was mostly due to changes in the bank borrowings.

Payments due in the next five years are as follows:

Contractual obligations	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	5 years and over $
		Payments due per period			
Bank borrowings	97,977	97,977	-	-	-
Obligations under leases	2,987	655	1,185	713	434
Long-term debt (par value)	42,500	21,250	21,250	-	-
Convertible debentures (par value)	50,000	50,000	-	-	-
Provision	4,779	1,018	1,654	1,426	681
Operating leases	66,627	13,830	22,357	21,169	9,271
	264,870	184,730	46,446	23,308	10,386

6. Summary of recent quarters

	2016		2015				2014	
	Q2 (84 days) $	Q1 (84 days) $	Q4 (112 days) $	Q3 (84 days) $	Q2 (84 days) $	Q1 (84 days) $	Q4 (112 days) $	Q3 (84 days) $
Sales	364,801	307,064	468,052	366,931	366,635	304,662	460,043	345,164
Adjusted EBITDA	10,074	1,905	9,301	8,027	8,512	464	10,332	10,162
Net earnings (loss)	3,073	(5,298)	(29,314)	863	1,002	(6,315)	(48,312)	(15,042)
Basic and diluted net earnings (loss) per share	0.11	(0.19)	(1.07)	0.03	0.04	(0.23)	(1.76)	(0.56)

7. Related party transactions

Related party transactions included rebates to affiliated and preferred distributors of Colabor Investments Inc. ("Investments") at a rate of 3% of their sales, as provided in the agreement in effect until the start of the second quarter of 2015. Further to the renewal of affiliation agreements directly with the affiliated and preferred distributors in April 2015, rebates are now paid directly to the distributors rather than to Investments. These payments to distributors are now treated as an unrelated party transaction.

The transactions between the Company and Investments in 2015 were concluded in the normal course of business and are measured at the exchange value.

The following table presents transactions between the Company and Investments.

(unaudited, in thousands of dollars)

	84 days		168 days	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Rebates	-	822	-	3,295

8. Off-balance sheet transactions

The Company does not have any off-balance sheet transaction obligations, other than approximately $2,514,000 in bank letters of guarantee supporting the leasing of one of the Company's distribution centres and a line of credit with a supplier.

9. Current economic situation, development strategies and outlook

Current economic situation

Colabor's activities are in Eastern Canada, in Quebec and Ontario. Quebec's economy is developing slowly. This is primarily due to fairly anaemic consumption, curbed by tax and tariff increases, household debt and a stagnating job situation in Quebec. All of these aspects hinder discretionary household consumer spending.

Despite the factors mentioned above, Colabor has prepared a business plan, described below, and believes that the current situation could offer more business opportunities that it is prepared to analyze for their potential to provide added value for shareholders.

Development strategies

The Company's management is firmly convinced that there are major channels which could be used to expand, when circumstances permit, its penetration in the Canadian food services market.

Food distribution services are still very fragmented in Eastern Canada, a situation that provides Colabor with opportunities to significantly increase its market share in regions where it is already present by undertaking highly synergistic acquisitions. Such acquisitions would allow the Company to increase the density of its distribution network in Eastern Canada, thereby enhancing operating profitability.

Outlook

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

10. Corporate developments

Rationalization plan

On January 26, 2016, the Company announced a plan to rationalize and optimize its operations. The plan, approved by the Board of Directors, is intended to further improve Colabor's operating efficiency and profitability despite difficult business conditions in the foodservice distribution industry, and to complete the integration of its acquisitions of recent years. The plan follows on the Board of Directors' decision, announced on March 12, 2015, to suspend the declaration of dividends in order to deploy more financial resources to its operations, while applying surplus funds to debt repayment.

The plan encompasses most of Colabor's divisions and consists mainly of centralizing and consolidating certain operations at the head office of the Company or of its divisions. It will entail the elimination of approximately 120 jobs, or 8% of the Company's headcount. Essentially reflecting these layoffs, Colabor has recorded a charge not related to current operations of approximately $3.3 million before taxes, in its Statement of earnings for the first quarter of fiscal 2016.

The rationalization measures are expected to result in significant cost reductions before taxes on an annual basis. These savings will be gradually realized during fiscal 2016 and will take full effect in fiscal 2017.

Long-term debt

In connection with its bank refinancing in 2014, the Company entered into a loan agreement for a total principal amount of $42,500,000. The subordinated loan agreement was signed with a banking syndicate made up of several creditors. As at December 26, 2015, a $12,500,000 portion was secured by a second-ranking hypothec on the Company's present and future assets. One of the lenders had an option to become a secured creditor under certain conditions and exercised this option on March 16, 2016. The total amount of the loan principal is now subject to the second-ranking hypothec.

Management Committee

Paul Webb, who had been Vice-President and General Manager of the Colabor Food Distributor division since January 12, 2015, left this position on April 16, 2016 for a well-deserved retirement. The Company has no immediate plans to replace him. Mr. Webb continues to be available as a consultant to support the Company through the transition period.

11. Risks and uncertainties

The Company's activities are subject to numerous risks and uncertainties that are described in detail in its March 17, 2016 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.

12. Significant accounting estimates

Some of the amounts in the second quarter financial statements are based on estimates made by management using its knowledge of current or anticipated events and current economic conditions.

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 of the Company's trade and other receivable based on losses incurred in prior periods, collection experience and the impact of current and expected economic conditions.

Supplier rebates

Supplier rebates are recognized by estimating the degree to which the necessary conditions for obtaining the rebates are satisfied.

Impairment of the available-for-sale financial asset

Management assesses whether there are any indications of impairment of the available-for-sale financial asset 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 Company's assets. Actual results, however, may vary due to technical obsolescence, particularly for distribution software and hardware.

Impairment of trademarks and goodwill

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable value. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit 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 following 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.

Deferred tax assets

The assessment of the probability of future taxable income for 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 losses. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is 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.

Business combinations

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the Consolidated statements of financial position at their fair value. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would impact the amount of goodwill if the change qualifies as an adjustment in the measurement period. Any other change would be recognized in the consolidated statements of earnings in the subsequent period.

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 pension obligations is based on inflation and mortality rates that management considers reasonable. It also takes into account the Company's specific anticipation of future salary increases, retirement age of employees and other actuarial factors. Discount rates are determined close to each year-end by referring 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. Estimation uncertainties exist that may vary in future appraisals of the Company's defined benefit obligations.

13. 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 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 December 26, 2015, 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 11, 2016, 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.

14. Standards, changes and interpretations issued but not yet effective

IFRS 9, "Financial Instruments"

In July 2014, the IASB published IFRS 9 which replaces IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 introduces improvements including a more logical model for classification and measurement of financial assets, a single, forward-looking "expected 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. Earlier application is permitted. The Company has yet to assess the impact of this standard on its consolidated financial statements.

IFRS 15, "Revenues from Contracts with Customers"

In May 2014, the IASB published IFRS 15 which replaces IAS 18, "Revenue," IAS 11, "Construction Contracts" and some revenue-related interpretations. IFRS 15 establishes a control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics, and expands and improves disclosures about revenue. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has yet to assess the impact of this standard on its consolidated financial statements.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16 which will replace IAS 17, "Leases." IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position with exemptions permitted for leases of low-value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and the liability (including complexities such as non-lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements, largely retains the approach to lessor accounting in IAS 17, and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted in certain circumstances. The Company has yet to assess the impact of this standard on its consolidated financial statements.

IAS 7, "Statement of Cash Flows"

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows," to improve the information provided to users of financial statements concerning financing activities. The amendments are effective for annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted. The Company has yet to assess the impact of this standard on its consolidated financial statements.

IAS 12, "Income Taxes"

In February 2016, the IASB issued amendments to IAS 12, "Income Taxes" concerning recognition of deferred tax assets for unrealized losses. The amendments are effective for annual reporting periods beginning on or after January 1, 2017. These amendments clarify how to recognize deferred tax assets recognized on financial liabilities measured at fair value. The Company has yet to assess the impact of this standard on its consolidated financial statements.