COLABOR

COLABOR GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE FOURTH QUARTER OF 2018

DATED FEBRUARY 21, 2019

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

This Management's Discussion & Analysis ("MD&A") of Colabor Group Inc. (the "Company" or "Colabor") discusses the Company's net income, comprehensive income, financial situation and cash flows for the fourth quarter and fiscal year ended December 29, 2018. This report should be read in conjunction with the audited consolidated financial statements and related notes for this period. These financial statements are in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standard Board ("IASB"). The financial statements have been published on the following sites: www.sedar.com and www.colabor.com.

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. The years ended December 29, 2018 and December 30, 2017 are comprised respectively of 16 weeks (or 112 days) for the quarter, and of 52 weeks (or 364 days) for the twelve month period.

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

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

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

2. About Colabor

2.1 Corporate Profile

Activities

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

A. Distribution Segment

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

i. Broadline Distribution

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

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

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

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

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

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

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

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

ii. Specialty Distribution

4. Les Pêcheries Norref Québec Inc. ("Norref")

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

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

5. Lauzon Meats ("Lauzon")

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

B. Wholesale Segment

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

i. Broadline Wholesale

1. Boucherville Distribution Centre ("Boucherville")

This division operates a distribution centre located in Boucherville.

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

ii. Specialty Wholesale

2. Viandes Décarie ("Décarie")

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

2.2 Business developments in 2018

During the 2018 fiscal year, and subsequently to the end of the year, the following events have influenced the Company's general development and operations.

Nomination of the President and Chief Executive Officer

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

Reduction in the Number of Shares Outstanding

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

Optimization of Activities in Ontario and Changes to Leadership

After consolidating all its distribution activities in Ontario into three warehouses in April of 2017, Colabor has since rebalanced its portfolio of customers and implemented various initiatives to optimize its activities and protect the long-term net effect of the loss of volume of this division. During the first quarter of 2018, Mr. Lionel Ettedgui, President and CEO of Colabor, took on the role of interim General Manager for this division until the nomination of John Hemeon (see below paragraph entitled "Structuring Changes to the Management Team") on April 2, 2018.

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

The Ontario division continues to focus on growing its share of the independent and smaller restaurant chain markets, where it can offer a differentiated service and higher value added products. The Company has also implemented initiatives to further drive operating improvements.

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

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

Extension of the Terms of the Credit Facility and Subordinated Loan

On September 4, 2018, Colabor announced the extension of the term of its credit facility at the same conditions for an additional period of one year, until October 13, 2020, as well as the extension of the term of its subordinated loan with the Fonds de solidarité FTQ for an additional six-month period also at the same conditions, until April 13, 2021.

Structuring Changes to the Management Team

On August 2, 2018, Colabor announced the appointment of John Hemeon to the position of Senior Vice President and General Manager of its SUMMIT Foods Division in Ontario. In office since August 13, 2018, he replaces Lionel Ettedgui, President and Chief Executive Officer of Colabor who had taken on the role of interim General Manager for this division. Mr. Hemeon possesses a vast experience in the food distribution and restaurant sector, including as Chief Operating Officer of Canada Cartage, Executive Vice President, Supply Chain for Tim Hortons, and Executive Vice-President of SYSCO in Alberta.

The Company has also made other significant structuring changes to its management team, including the following appointments :

- Mathieu Dumulong to the position of Vice President, Sales for Colabor. Mr. Dumulong has 20 years of management and sales experience in the food industry, including the last two years as General Manager of Colabor's Broadline activities in the Wholesale segment. He was previously General Sales Manager at Molson Coors for Quebec.
- Élisabeth Tremblay as Vice President, Human Resources and Communications. Ms. Tremblay has over 20 years of human resources experience in the banking, IT, rail and food sectors, including at Saputo and Grupo Bimbo.
- Daniel Valiquette as Vice President, Central Procurement and Private Label. Mr. Valiquette has over 30 years of experience in procurement and negotiations. He has most notably held the position Director of Purchasing at Alimentation Couche Tard for many years.

On September 10, 2018, Colabor announced the appointed Mario Brin as its Interim Senior Vice President and Chief Financial Officer, replacing Jean-François Neault. Mr. Brin's mandate ended subsequent to the end of the fourth quarter of 2018, as announced on January 16, 2019.

On February 21, 2019, Colabor announced the end of Mr. Robert Briscoe's mandate as Executive Vice-Chairman of the Board of Directors of the Company. Mr. Briscoe, a seasoned entrepreneur and investor in the food service industry, was appointed Executive Vice-Chairman to support the previous management team and facilitate the transition with the new management team. Mr. Briscoe will remain a Director of Colabor and will be available to support management with his industry experience.

Rationalization plan

On November 16, 2018, the Company announced a plan to rationalize and optimize its operations. This plan, approved by the Board of Directors, is intended to allow Colabor to improve its operational efficiency, profitability and competitiveness. The implementation of the plan resulted in the elimination of 51 positions, approximately 3.7% of the total workforce of the Company. The plan encompasses most of Colabor's divisions in Quebec and in Ontario, including the closure of its Logan Street cash-and-carry operation in Toronto, Ontario.

These measures should result in cost reductions of approximately $2.9 million, before taxes, which have started to progressively materialize in the fourth quarter and will have full effect in the 2019 financial year. Colabor recorded a charge unrelated to current operations of approximately $1.1 million, before taxes, in its 2018 fourth quarter results.

2.3 Development Strategies and Outlook

Development Strategies and Outlook

For more than a year, Colabor has worked to grow its presence in the food service industry in Eastern Canada, where the market remains fragmented. The Company is in a good position to serve independent restaurants and ensure a better penetration of its private labels.

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

3. Financial highlights of the period ended December 29, 2018

3.1 Highlights of the fourth quarter of 2018

- Consolidated sales stood at $366.1 M, a reduction of 8.8%, resulting from the loss of volume in the two operating segments.
    - Sales in the Distribution segment decreased by 10.0% primarily from the loss of volume in Ontario, a situation that was mitigated by an improvement of sales from Broadline Distribution activities in Quebec.
    - Sales in the Wholesale Segment decreased by 5.3% as a result of the non-renewal of non-profitable contracts.
- Sales volume increased in Broadline Distribution activities in Quebec from the independent and HRI markets.
- Gross margins as a percentage of sales improved by 6.1% year-over year, from a more favorable customer mix, increased sales of private label and higher value added products.
- Net earnings stood at $(1.9) M or $(0.02) per share, representing a decrease from net earnings of $0.5 M or $0.00 per share in the corresponding quarter of last year. This variation is primarily attributable to a charge not related to current operations of $2.5 M associated with changes to the management team and the rationalization plan.
- Adjusted EBITDA stood at $5.9 M compared with $7.1 M in the corresponding quarter of last year. The loss of sales volume weighted on operating profitability but the effect was mitigated by gross margin improvements as a percentage of sales.

3.2 Highlights of the 2018 fiscal year

- Consolidated sales stood at $1,202.9M, a reduction of 8.8%, resulting from of volume in the two operating segments.
    - The 8.9% decrease in cumulative sales in the Distribution Segment came primarily from the loss of supply agreements for Popeye's Louisiana Kitchen and Montana's BBQ & Bar and restaurant chains in Ontario, a situation that was mitigated by an improvement of sales from Broadline Distribution activities in Quebec.
    - Cumulative sales in the Wholesale Segment decreased by 8.8% compared with the equivalent period of 2017. The reduction is explained by the non-renewal of non-profitable contracts.
- Sales volume increased in Broadline Distribution activities in Quebec from the independent and HRI markets, including the renewal of a supply contract from the GACEQ during the second quarter of 2018.
- Gross margins as a percentage of sales improved by 6.0% year-over-year from improvements in the customer mix.
- Net earnings stood at $(4.4)M or $(0.04) per share, representing an increase from net earnings of $(18.6)M or $(0.18) per share last year. This improvement is primarily attributable to a reduction of $13.5 M in asset impairment losses, and a reduction of $7.1 M in costs not related to current operations which includes the $2.5M charge that occurred in the fourth quarter of 2018.
- Adjusted EBITDA stood at $18.4M compared with $24.7M last year. The loss of sales volume weighted on operating profitability but the effect was mitigated by gross margin improvements as a percentage of sales.

4. Non-IFRS Performance Measures

This MD&A also contains information that are non-IFRS measures of performance. Such information should not be considered in isolation or as a substitute for other IFRS performance measures, but rather as supplementary information.

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

Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

(unaudited, in thousands of dollars)

	16 weeks			52 weeks		
	2018	**2017**	**Variance**	**2018**	**2017**	**Variance**
	$	**$**	**$**	**$**	**$**	**$**
Net earnings (loss)	(1,904)	509	(2,413)	(4,387)	(18,592)	14,205
Income taxes (recovery)	(984)	438	(1,422)	(1,686)	(554)	(1,132)
Financial expenses	2,324	2,249	75	7,790	7,571	219
Impairment loss on financial instruments at fair value through profit or loss	—	224	(224)	118	224	(106)
Depreciation and amortization	3,933	3,637	296	12,432	11,271	1,161
Impairment loss on goodwill, intangible assets and property, plant and equipment	132	—	132	2,916	16,440	(13,524)
EBITDA	3,501	7,057	(3,556)	17,183	16,360	823
Costs not related to current operations (1)	2,419	—	2,419	1,225	8,297	(7,072)
Adjusted EBITDA	5,920	7,057	(1,137)	18,408	24,657	(6,249)

1 The variation in costs not related to current operations results from fees related to the tobacco notice of $6.5 M in the third quarter of 2017, a $2.5 M charge from the rationalization plan and changes to the executive team in the fourth quarter of 2018 and from the reversal of provisions following the termination of an onerous contracts amounting to $1.2 M in the third quarter of 2018. Refer to section 5.1, in costs not related to current operations.

5. Performance Analysis

5.1 Net Earnings

The following table presents the Consolidated Statements of Earnings for the fourth quarter:

Fourth Quarter Consolidated Statements of Earnings

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

	2018 16 weeks		2017 16 weeks		2016 17 weeks	
	$	%	$	%		
Sales	366,122	100.0	401,557	100.0	432,543	100.0
Operating expenses, excluding costs not related to current operations, depreciation and amortization	360,202	98.4	394,500	98.2	423,451	97.9
Operating earnings before costs not related to current operations, depreciation and amortization	5,920	1.6	7,057	1.8	9,092	2.1
Costs not related to current operations	2,419	0.7	—	0.0	1,939	0.4
Depreciation and amortization	3,933	1.1	3,637	0.9	3,514	0.8
Impairment loss on goodwill, intangible assets and property, plant and equipment	132	0.0	—	—	—	—
	6,484	1.8	3,637	0.9	5,453	1.3
Operating earnings	(564)	(0.2)	3,420	0.9	3,639	0.8
Impairment loss on financial instruments at fair value through profit or loss	0	0.0	224	0.06		—
Financial expenses	2,324	0.6	2,249	0.6	3,273	0.8
Earnings (loss) before taxes	(2,888)	(0.8)	947	0.2	366	0.1
Income taxes (recovery)	(984)	(0.3)	438	0.1	526	0.1
Net earnings (loss)	(1,904)	(0.5)	509	0.1	(160)	0.0
Basic and diluted net earnings per share	(0.02)		0.00		0.00	

Net earnings for the fourth quarter of 2018 amounted to $(1.9) M or $(0.02) per share, a decrease of $(2.4)M compared to $0.5M or $0.00 per share in corresponding quarter of the previous year. Despite the improvement in gross margins as a percentage of sales, the 8.8% loss in sales volume and $2.5 M in charges not related to current operations resulting from changes to the management team and implementation of the rationalization plan, weighted on net earnings.

The weighted average number of shares outstanding during the period was 101,139,418 compared to 102,074,318 in the comparable quarter of 2017. The reduction in the number of shares outstanding results from the ongoing liquidation and dissolution of Colabor Investments Inc. as announced on January 15, 2018.

The following table presents the cumulative Consolidated Statements of Earnings:

Cumulative Consolidated Statements of Earnings

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

	2018 52 weeks		2017 52 weeks		2016 53 weeks	
	$	%	$	%	$	%
Sales	1,202,916	100.0	1,319,450	100.0	1,399,435	100.0
Operating expenses, excluding costs not related to current operations, depreciation and amortization	1,184,508	98.5	1,294,793	98.1	1,369,168	97.8
Operating earnings before costs not related to current operations, depreciation and amortization	18,408	1.5	24,657	1.9	30,267	2.2
Costs not related to current operations	1,225	0.1	8,297	0.6	5,276	0.4
Depreciation and amortization	12,432	1.0	11,271	0.9	11,509	0.8
Impairment loss on goodwill, intangible assets and property, plant and equipment	2,916	0.2	16,440	1.2	—	—
	16,573	1.4	36,008	2.7	16,785	1.2
Operating earnings	1,835	0.2	(11,351)	(0.9)	13,482	1.0
Impairment loss on financial instruments at fair value through profit or loss	118	—	224	—	—	—
Financial expenses	7,790	0.6	7,571	0.6	11,973	0.9
Earnings (loss) before taxes	(6,073)	(0.5)	(19,146)	(1.5)	1,509	0.1
Income taxes (recovery)	(1,686)	(0.1)	(554)	0.0	1,186	0.1
Net earnings (loss)	(4,387)	(0.4)	(18,592)	(1.4)	323	—
Basic and diluted net earnings per share	(0.04)		(0.18)		0.01	

The cumulative net earnings during the period ended December 29, 2018 stood at $(4.4) M or $(0.04) per share, compared to net earnings of $(18.6) M, or $(0.18) per share in the corresponding period of the previous year, representing an improvement of $14.2 M. This variation is mainly the result of the reduction of $13.5 M in asset impairment losses, and of $7.1 M in costs not related to current operations which was mitigated by a reduction of $6.3 M in operating earnings when compared with last year's result.

The weighted average number of shares outstanding during the period stood at 101,177,944 compared to 102,074,277 in the comparable period of 2017. The lower number of shares issued and outstanding is the result of the ongoing liquidation and dissolution of Colabor Investments Inc., as announced on January 15, 2018.

The following table presents the sales by segment for the fourth quarter:

Fourth Quarter Sales by Segment

(unaudited, in thousands of dollars)

	2018 16 weeks	2017 16 weeks	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	270,545	301,454	(30,909)	(10.3)
Wholesale segment	120,541	129,533	(8,992)	(6.9)
	391,086	430,987	(39,901)	(9.3)
Inter-segment sales				
Distribution segment	2,779	3,783	(1,004)	(26.5)
Wholesale segment	22,185	25,647	(3,462)	(13.5)
	24,964	29,430	(4,466)	(15.2)
Consolidated sales				
Distribution segment	267,766	297,671	(29,905)	(10.0)
Wholesale segment	98,356	103,886	(5,530)	(5.3)
	366,122	401,557	(35,435)	(8.8)

Consolidated sales in the fourth quarter amounted to $366.1 M compared to $401.6 M in the corresponding quarter of the previous year, representing a decrease of 8.8%.

The 10.0% decrease in sales in the Distribution Segment came primarily from the loss of supply agreements for Popeye's Louisiana Kitchen and Montana's BBQ & Bar restaurant chains in Ontario (these contracts were terminated effective November 13, 2017 and April 1, 2018 respectively). This was slightly mitigated by an improvement of sales from the Broadline Distribution activities in Quebec.

The 5.3% decrease in sales in the Wholesale Segment is primarily explained by the non-renewal of non profitable contracts.

The following table presents the cumulative sales by segment:

Cumulative Sales by Segment

(audited, in thousands of dollars)

	2018 52 weeks	2017 52 weeks	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	917,351	1,007,199	(89,848)	(8.9)
Wholesale segment	374,659	413,009	(38,350)	(9.3)
	1,292,010	1,420,208	(128,198)	(9.0)
Inter-segment sales				
Distribution segment	10,203	11,880	(1,677)	(14.1)
Wholesale segment	78,891	88,878	(9,987)	(11.2)
	89,094	100,758	(11,664)	(11.6)
Consolidated sales				
Distribution segment	907,148	995,319	(88,171)	(8.9)
Wholesale segment	295,768	324,131	(28,363)	(8.8)
	1,202,916	1,319,450	(116,534)	(8.8)

Cumulative sales reached $1,202.9 M compared to $1,319.5 M for the corresponding period of the previous year, representing a decrease of 8.8%.

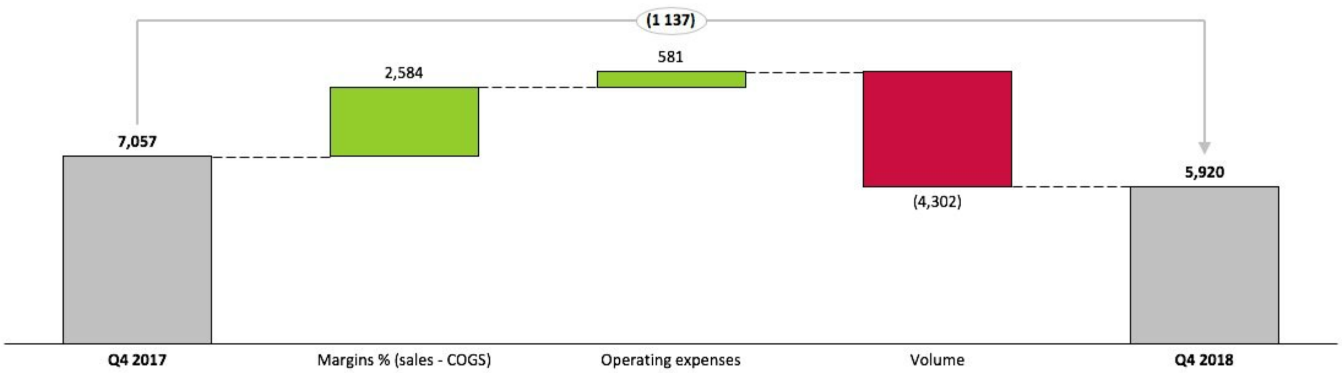
The 8.9% decrease in cumulative sales in the Distribution Segment came primarily from the loss of supply agreements for Popeye's Louisiana Kitchen and Montana's BBQ & Bar restaurant chains in Ontario (these contract were terminated effective November 13, 2017 and April 1, 2018 respectively). This was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

Cumulative sales in the Wholesale Segment were down by 8.8% compared with the corresponding period of 2017. This is explained by the non-renewal of non profitable contracts.

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

Analysis of adjusted EBITDA for the fourth quarter :

(unaudited, in thousands of dollars)



Adjusted EBITDA for the fourth quarter of 2018 stood at $5.9 M or 1.6% of sales compared to $7.1 M or 1.8% for the corresponding period of 2017. The variance is explained by the following elements:

- An improvement of gross margins as a percentage of sales of 6.1% year-over-year, from improvements in the customer mix, private label sales and of value added products.
- An improvement of operating expenses mainly from the implementation of the rationalization plan and improved control over expenses in Ontario.

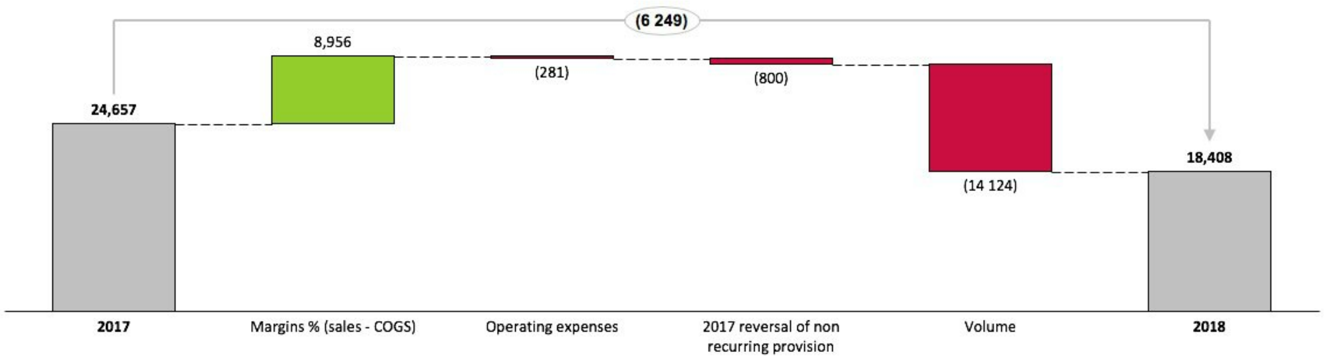
Mitigated by:

- A decrease in the volume of sales resulting from the loss of supply agreements with large restaurant chains in Ontario and from the non-renewal of non profitable contracts in the Wholesale Segment, mitigated by growing sales in Broadline Distribution activities in Quebec.

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

Analysis of cumulative adjusted EBITDA :

(unaudited, in thousands of dollars)



The cumulative Adjusted EBITDA for the period stood at $18.4 M or 1.5% of sales compared to $24.7 M or 1.9% for the corresponding period of 2017. The variance is explained by the following elements:

- An improvement of gross margins as a percentage of sales of 6.0% year-over-year from improvements in the customer mix.

Mitigated by:

- An under-absorption of operating expenses mainly related to distribution activities.
- The negative effect of the reversal of a provision for executive compensation in the second quarter of 2017.
- A decrease in the volume of sales resulting primarily from the loss of supply agreements with large restaurant chains in Ontario and from the non-renewal of non profitable contracts in the Wholesale Segment, compensated by growing sales in Broadline Distribution activities in Quebec.

Costs Not Related to Current Operations

Note 6 to the financial statements provides a summary of costs not related to current operations. This item in the Statement of earnings includes extraordinary items.

(unaudited for the 16 week period, audited for the 52 week period, in thousands of dollars)

	16 weeks		52 weeks	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Fees related to tobacco notice [(a)]	(80)	—	(80)	6,500
Costs of internal restructuring of operations				
Costs for warehouse closure [(b)]	—	—	—	1,484
Severance and other costs	2,499	—	2,499	125
Severance allowances	—	—	—	174
Change in provision for onerous contracts [(c)]	—	—	(1,194)	14
	2,419	—	1,225	8,297

The Company has disbursed an amount of $2,496 ($5,912 in 2017) during the 112-day period ended December 29, 2018 and an amount of $3,367 ($8,176 in 2017) during the 364-day period on the same date in connection with the provision established in 2017.

[(a)] **Fees related to tobacco notice**

During the third quarter of 2017, Colabor received a preliminary assessment advice (the "Advice") from the Ontario Ministry of Finance related to commercial activities concerning the sale of tobacco products on First Nation territory which took place between September 2013 and 2016 at a division in Ontario. The Advice related mainly to sales that took place during a short period of time between 2013 and 2014 with one customer in particular and for which the Ontario Ministry of Finance considers that sales taxes should have been collected and remitted. The Advice led to the recognition of a provision for Assessment Advice on the Corporation's interim financial statements for the third quarter of 2017.

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

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

[(c)] **Costs related to changes made to the executive team and internal restructuring of operations**

The Company made structuring changes to its executive team which incurred non-recurring costs. On November 16, 2018, Colabor announced a plan to rationalize and optimize its operations. This plan, approved by the Board of Directors, is intended to allow Colabor to improve its operational efficiency, profitability and competitiveness. The implementation of the plan results in the elimination of 51 positions, approximately 3.7% of the total workforce of the Company.

[(d)] **Change in provision for onerous contracts**

During the third quarter of 2018, the Company recorded a gain following the termination of an onerous contract.

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

No charge was taken during the fourth quarter of 2018 in relation with the ongoing liquidation and dissolution of Colabor Investments Inc. The cumulative impairment charge taken in relation with the financial instrument at fair value through profit or loss amounted to $0.1 M compared to 0.2 M$ taken during the equivalent period of 2017.

Asset Impairment Charge

Long term assets and cash-generating units (CGU) undergo impairment tests when events or changes in circumstances indicate that their carrying amount may not be recoverable. During the fourth quarter of 2018, the Company recorded an asset impairment charge without effect on its liquidities of 0.1 M$ which relates to the impairment of certain tangible assets, primarily capital leases for road vehicles held as finance leases at the Summit division in the Distribution Segment. During the equivalent quarter of last year, no asset impairment charge was recorded in relation with the Summit division. For the cumulative period, the impairment charge amounted to $2.9 M and 16.4 M$ in 2018 and 2017, in relation to the Summit and Boucherville divisions respectively.

Amortization

The amortization expense for the fourth quarter of 2018 was $3.9 M, compared with $3.6M in the corresponding quarter of 2017. The cumulative amortization expense was $12.4 M compared to $11.3 M in the corresponding period of 2017, from investments in equipment to improve efficiency and productivity.

Financial Expenses

Financial expenses in the fourth quarter of 2018 were $2.3 M compared with $2.2M in the corresponding quarter of 2017. Year-to-date, the financial expenses stood at $7.8 M compared to $7.6 M in the corresponding period of 2017. The interest expenses on the $25.0 M subordinated debt increased to 7.0% in 2018 compared with 6.5% in 2017.

Income Tax Recovery

The income tax recovery of $1.0 M in the fourth quarter of 2018 compares to a charge of $0.4 M in the fourth quarter of 2017. The cumulative income tax recovery amounts to $1.7 M compared to a recovery of $0.6 M for the equivalent period of last year. These variations result mainly from the asset impairment charge in Ontario in the fourth quarter of 2018 that generated future income tax assets.

5.2 Financial Position

The following table presents the Company’s Consolidated statements of financial position for the fourth quarter:

Consolidated Statements of Financial Position

(audited, in thousands of dollars)

	As at December 29 2018 $	As at December 30 2017 $	As at December 2016 $
Assets			
Current			
Trade and other receivables	90,038	94,651	99,981
Inventory	78,229	78,663	83,246
Prepaid expenses	2,911	3,636	3,081
Other	1,621	1,124	1,830
Current assets	172,799	178,074	188,138
Non-current			
Property, plant and equipment	11,142	11,140	13,128
Intangible assets	38,090	46,228	55,593
Goodwill	70,813	70,813	84,130
Deferred tax assets	4,383	3,382	2,015
Other	581	1,452	1,693
Non-current assets	125,009	133,015	156,559
Total assets	297,808	311,089	344,697
Liabilities			
Current			
Bank overdraft	5,684	6,559	7,468
Trade and other payables	96,562	97,787	105,314
Current portion of long-term debt	1,027	758	550
Other	533	982	654
Current liabilities	103,806	106,086	113,986
Non-current			
Long-term debt	50,847	54,129	61,211
Convertible debentures	49,341	49,105	48,870
Pension obligations	1,066	1,301	662
Provisions	140	2,267	2,998
Deferred tax liabilities	253	639	517
Non-current liabilities	101,647	107,441	114,258
Total liabilities	205,453	213,527	228,244
Equity			
Share capital	92,355	97,562	116,453
Total liabilities and equity	297,808	311,089	344,697

Credit Facilities

On October 13, 2016, the Company concluded an agreement with its lenders to extend its credit facility by a maximum authorized amount of $140 M for a term of three years. On September 4, 2018, the Company announced the extension of the term of its credit facility at the same conditions for an additional period of one year, until October 13, 2020. This revolving credit facility may be increased at the request of Colabor by an additional amount of $30 M. The credit facility is secured by a first mortgage on the present and future assets of the Company. The amounts borrowed from the facility can take many forms and the interest rate varies depending on the type of loan. As at December 29, 2018, the facility consists of a loan and bankers' acceptances bearing interest at rates ranging from 2.19% to 3.95% (2.86% to 3.20% at December 30, 2017) and was drawn in an amount of $22.5 M, down from $28.1 M at the end of the previous year. The Company is required to maintain a fixed charge coverage ratio. As at December 29, 2018, this ratio was respected.

Subordinated debt

The subordinated debt has a nominal value of $25 M and matures on April 13, 2021. Under the terms of the agreement, interest on the debt is payable monthly at a prime rate of 7,0 % in 2018 compared with 6.5% in 2017.

Convertible Debentures

The convertible debentures have a nominal value of $50 M and mature on October 13, 2021. The interest rate on the debentures is 6.0% in 2018 (6.0% in 2017). The effective interest rate on the debentures is 6.55% (6.55% in 2017). The debentures are convertible at the holder's option into shares at a conversion rate of 400 shares per $1,000 of debenture capital, for a conversion price of $2.50 per share ($2.50 per share in 2017). Under certain circumstances, the Company could redeemed some or all of the debentures in advance after April 30, 2015. There were no advance redemptions during the period ended December 29, 2018.

Share Capital

Colabor’s share capital consists of an unlimited number of common and preferred shares issuable in series that are all without par value. The rights, privileges, restrictions and terms of Colabor’s common and preferred shares are summarized in Colabor’s Annual Information Form dated February 21, 2019, which may be viewed on the SEDAR website at www.sedar.com.

As at October 18, 2018, 101,177,932 common shares and 50,000 convertible debentures were issued and outstanding. In addition, 4,218,943 stock options were outstanding, of which 1,463,850 could be exercised.

5.3 Cash Flows

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

Consolidated Statements of Cash Flows

(unaudited for the 16 week period, audited for the 52 week period, in thousands of dollars)

	16 weeks		52 weeks	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Operating activities				
Net earnings (loss)	(1,904)	509	(4,387)	(18,592)
Deferred income taxes	(614)	843	(1,446)	(1,075)
Depreciation and amortization	3,933	3,637	12,432	11,271
Impairment loss on goodwill, property, plant and equipment and intangible assets	132	—	2,916	16,440
Financial expenses	2,324	2,248	7,790	7,571
Other	(189)	77	(2,511)	(554)
	3,682	7,314	14,794	15,061
Net changes in working capital	7,611	4,174	3,697	3,056
Cash flows from operating activities	11,293	11,488	18,491	18,117
Investing activities				
Purchase of property, plant and equipment	(321)	(950)	(3,554)	(1,851)
Proceeds on disposal of property, plant and equipment	84	276	163	330
Purchase of intangible assets	(230)	(89)	(552)	(490)
Other	(8)	(173)	(32)	(58)
Cash flows used in investing activities	(475)	(936)	(3,975)	(2,069)
Financing activities				
Use of the credit facility	(9,420)	(8,792)	(5,689)	(7,784)
Lease payments	(341)	(188)	(993)	(658)
Share issuance, net of related expenses	—	—	—	5
Financial expenses paid	(2,073)	(1,982)	(6,959)	(6,702)
Cash flows used in financing activities	(11,834)	(10,962)	(13,641)	(15,139)
Net change in bank overdraft	(1,016)	(410)	875	909
Bank overdraft at the beginning of the period	(4,668)	(6,150)	(6,559)	(7,468)
Bank overdraft at the end of the period	(5,684)	(6,560)	(5,684)	(6,559)

Operating Activities

Cash flows from operating activities in the fourth quarter stood at $11.3 M compared to cash flows from operating activities of $11.5 M in the equivalent period of 2017. This is explained by an improving working capital situation. On a cumulative basis, cash flows from operating activities stood at $18.5M, up from $18.1M on an improving working capital situation resulting mainly from efforts to better manage accounts receivable.

Investing Activities

Cash flows used in investing activities in the fourth quarter were $0.5 M representing a slight decrease from $0.9 M during the corresponding period in 2017. On a cumulative basis, cash flows used in investing activities stood at $4.0 M compared with $2.1 M, resulting from higher investments in tangible assets such as in equipment used to improve efficiency and productivity along with maintenance CAPEX.

Financing Activities

Cash flows used in financing activities in the fourth quarter stood at $11.8 M, representing an increase compared to $11.0 M in the equivalent period of 2017, resulting from higher reimbursements of the credit facility. For the cumulative period, cash flows used in financing activities stood at $13.6 M, compared with $15.1 M in the equivalent cumulative period of last year, reflecting an increase in the reimbursement of the credit facility during the cumulative period.

Payments Due

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

(unaudited, in thousands of dollars)

		Payments due per period			
Contractual obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**5 years and over**
	$	**$**	**$**	**$**	**$**
Bank borrowings	22,530	—	22,530	—	—
Obligations under leases	4,892	1,023	2,000	1,210	659
Long-term debt (par value)	25,000	—	25,000	—	—
Convertible debentures (par value)	50,000	—	50,000	0	—
Provision	597	457	73	67	—
Operating leases	58,226	13,455	22,587	13,336	8,848
	161,245	14,935	122,190	14,613	9,507

6. Summary of Recent Quarters

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

	2018				2017			
	Q4 (112 days)	**Q3 (84 days)**	**Q2 (84 days)**	**Q1 (84 days)**	**Q4 (112 days)**	**Q3 (84 days)**	**Q2 (84 days)**	**Q1 (84 days)**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Sales	366,122	291,006	299,898	245,890	401,557	319,334	331,372	267,187
Adjusted EBITDA	5,920	7,628	6,062	(1,202)	7,057	7,682	9,018	900
Net earnings (loss)	(1,902)	1,180	817	(4,480)	509	(18,753)	3,097	(3,446)
Basic and diluted net earnings (loss) per share	(0.02)	0.01	0.01	(0.04)	0.00	(0.18)	0.03	(0.03)

7. Related Party Transactions

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

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

	16 weeks			
	2018	**2017**	**2018**	**2017**
	$	**$**	$	**$**
Consolidated Statements of Earnings				
Sales	6,406	6,368	27,537	29,651
Consolidated Statement of Financial Position				
Trade and other receivables, net of remittances	1,474	1,476	126	1,604
Dubé & Loiselle Inc. Stock option [a]	500	500	500	500

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

8. Off-Balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than $4.6 M in letters of credit to support the leasing of one of the Company’s distribution centres and a line of credit with certain suppliers.

9. Risks and Uncertainties

The Company's activities are subject to numerous risks and uncertainties that are described in detail in its February 21, 2019, Annual Information Form (the "AIF"), which may be viewed on the SEDAR website at www.sedar.com and on the Company's website at www.colabor.com. The risks described in the AIF are incorporated by reference in this MD&A.

10. Significant Accounting Estimates

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

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

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

Estimates

Impairment of Trade and Other Receivables

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

Supplier Rebates

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

Impairment of Financial Instruments at Fair Value Through Profit or Loss

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

Inventory Valuation

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

Useful Lives of Depreciable Assets

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

Deferred Tax Assets

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

Pension Obligation

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

Significant judgments

Impairment of Trademarks and Goodwill

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

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

Option to Acquire Dubé & Loiselle Inc.

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

11. Internal Controls Over Financial Reporting

Management has designed and assessed disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) to provide reasonable assurance that the financial information presented by the Company is reliable and that its financial statements are prepared in accordance with IFRS. The President and CEO 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 29, 2018, and, on the basis of this assessment, they have concluded that the design and operation of ICFR and DC&P are efficient. For the period ended December 29, 2018, there were no changes in DC&P and ICFR that have materially affected, or are reasonably likely to materially affect the internal controls and procedures.

12. Accounting Standards, Changes and Interpretations

IFRS 9, "Financial Instruments"

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

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

a) Classification

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

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

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

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

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

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

b) Assessment

Financial instruments at amortized cost

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

Financial instruments at FVTPL

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

c) Depreciation

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

d) Derecognition

Financial assets

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

Financial liabilities

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

Standards, changes and interpretations issued but not yet effective

In January 2016, the IASB published 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. An exemption is 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 adoption is permitted in certain circumstances. The Company believes that this new standard will increase the value of property, plant and equipment and the obligations arising under leases, reduce operating expenses, and increase depreciation and amortization and finance costs. The Company has not assessed the impact of the implementation of this new standard which will be adopted during the fiscal year 2020.