COLABOR

**COLABOR GROUP INC.**

MANAGEMENT'S DISCUSSION & ANALYSIS

**For the First Quarter of 2019**

Dated March 23, 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 first quarter ended March 23, 2019. This report should be read in conjunction with the audited consolidated financial statements of December 29, 2018 and related notes. 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.

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) RECIPES Unlimited Corporation, previously Cara Operations Limited (hereafter “RECIPES Unlimited”); (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.

   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 the first quarter of 2019

During the first quarter of 2019, and subsequently to the end of the quarter, the following events have influenced the Company's general development and operations.

**Changes to the Management Team**

Mario Brin's mandate as Interim Senior Vice President and Chief Financial Officer ended on January 16, 2019. Mr. Brin was appointed on September 10, 2018.

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.

**Executive Appointment**

On May 2, 2019, The Corporation announces the appointment of Mr. Pierre Gagné, CPA, CA, MBA, to the position of Senior Vice-President and Chief Financial Officer, effective May 27, 2019. M. Gagné has over 30 years of experience in finance and held Chief Financial Officer positions at large private and public companies such as FLS Transportation Services Limited, GDI Integrated Facility Services Inc. and Cegeco Inc/Cogeco Cable Inc.

## 2.3 Development Strategies and Outlook

**Development Strategies and Outlook**

For several years now, Colabor has worked to grow its presence in the food service industry in Eastern Canada. It is in this market that the Company has a significant competitive advantage and stands out as a distributor serving the HRI market. This is also where growth opportunities are favorable, both in terms of potential consolidation and organic growth opportunities.

In 2014, Colabor acquired the assets of Marcotte Alimentation in Trois-Rivières, a transaction that allowed it to expand its broadline distribution network outside larger metropolitan areas. It is also in this spirit that, in October 2016, Colabor acquired a three-year option to purchase for Dubé & Loiselle Inc., a major food distributor operating primarily in the Greater Montreal Area. presenting an innovative vision of the Quebec food market.

Over the last few years, the Company has invested significantly in its Broadline Distribution activities in Quebec and has been able to grow the scope of its activities. Colabor now serves approximately 4,600 customers, primarily restaurants, food service operators, specialty food stores, institutional accounts such as health care institutions, schools and universities, and other retailers. It offers them a complete range of products including frozen products, dry goods for everyday consumption, dairy products, meat, fish and seafood, fruits and vegetables as well as disposable and sanitary products. It offers a multi-service solution to its customers and access to high value-added products including private brands.

The Company's Broadline Distribution activities in Québec has since enjoyed favorable growth and has helped sustain the Company's profitability.

# 3. Financial highlights for the quarter ended March 23, 2019

- Consolidated sales stood at $235.0 M, a reduction of 4.4%, resulting from the loss of volume in the two operating segments.
    - Sales in the Distribution segment decreased by 5.3% primarily from the loss of volume in Ontario (mainly from the loss of a supply contract for Montana's BBQ and Bar, a large restaurant chain, effective April 1, 2018), a situation that was partially mitigated by an improvement of sales from Broadline Distribution activities in Quebec.
    - Sales in the Wholesale Segment decreased by 1.4% as a result of a loss of sales volume from activities in the Wholesale Specialty business in the meat market.
- Gross margins as a percentage of sales improved by 2.5% year-over year, from a more favorable customer mix, increased sales of private label and higher value added products.
- EBITDA stood at $0.3 M compared with EBITDA $(1.2) M in the corresponding quarter of last year. This variation comes from the implementation of the rationalization plan, measures put in place to optimize operations and from an increase in gross margins.
- Net earnings stood at $(2.7) M or $(0.03) per share, representing an improvement from net earnings of $(4.5) M or $(0.04) per share in the corresponding quarter of last year.

# 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 EBITDA**

(unaudited, in thousands of dollars)

| | **2019**<br>**$** | **2018**<br>**$** | **Variance**<br>**$** |
|---|---|---|---|
| **Net earnings (loss)** | (2,733) | (4,480) | 1,747 |
| Income taxes (recovery) | (1,051) | (1,550) | 499 |
| Financial expenses | 1,829 | 1,837 | (8) |
| Impairment loss on financial instruments at fair value through profit or loss | — | 118 | (118) |
| Depreciation and amortization | 2,212 | 2,746 | (534) |
| Impairment loss on goodwill, intangible assets and property, plant and equipment | 24 | 127 | (103) |
| EBITDA | 281 | (1,202) | 1,483 |

# 5. Performance Analysis

## 5.1 Net Earnings

The following table presents the Consolidated Statements of Earnings for the first quarter of 2019 and 2018:

**First Quarter Consolidated Statements of Earnings**

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

| | 2019 | | 2018 | | Variance | |
|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % |
| **Sales** | 235,048 | 100.0 | 245,890 | 100.0 | (10,842) | (4.4) |
| Operating expenses, excluding costs not related to current operations, depreciation and amortization | 234,767 | 99.9 | 247,092 | 100.5 | (12,325) | (5.0) |
| **Operating earnings before costs not related to current operations, depreciation and amortization** | 281 | 0.1 | (1,202) | (0.5) | 1,483 | (123.4) |
| Depreciation and amortization | 2,212 | 0.9 | 2,746 | 1.1 | (534) | (19.4) |
| Impairment loss on goodwill, intangible assets and property, plant and equipment | 24 | — | 127 | 0.1 | (103) | (81.1) |
| | 2,236 | 1.0 | 2,873 | 1.2 | (637) | (22.2) |
| **Operating earnings** | (1,955) | (0.8) | (4,075) | (1.7) | 2,120 | (52.0) |
| Impairment loss on financial instruments at fair value through profit or loss | — | — | 118 | — | (118) | (100.0) |
| Financial expenses | 1,829 | 0.8 | 1,837 | 0.7 | (8) | (0.4) |
| **Earnings (loss) before taxes** | (3,784) | (1.6) | (6,030) | (2.5) | 2,246 | (37.2) |
| Income taxes (recovery) | (1,051) | (0.4) | (1,550) | (0.6) | 499 | (32.2) |
| **Net earnings (loss)** | (2,733) | (1.2) | (4,480) | (1.8) | 1,747 | (39.0) |
| **Basic and diluted net earnings per share** | (0.03) | | (0.04) | | 0.00 | 0.00 |

Net earnings for the first quarter of 2019 amounted to $(2.7) M or $(0.03) per share, an increase of $1.7M compared to $(4.5)M or $(0.04) per share in corresponding quarter of the previous year. Better control over costs and improving gross margins as a percentage of sales contributed to the improvement of net earnings, in spite of the 4.4% loss in sales volume mainly from Broadline Distribution activities in Ontario.

The weighted average number of shares outstanding during the period was 101,139,418 compared to 101,306,364 in the equivalent quarter of 2018. 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 sales by segment for the first quarter:

**First Quarter Sales by Segment**

(unaudited, in thousands of dollars)

| | 2019 | 2018 | Variance | |
|---|---|---|---|---|
| | $ | $ | $ | % |
| **Sales before eliminations** | | | | |
| Distribution segment | 182,448 | 192,912 | (10,464) | (5.4) |
| Wholesale segment | 67,148 | 71,530 | (4,382) | (6.1) |
| | 249,596 | 264,442 | (14,846) | (5.6) |
| **Inter-segment sales** | | | | |
| Distribution segment | 1,668 | 2,034 | (366) | (18.0) |
| Wholesale segment | 12,880 | 16,518 | (3,638) | (22.0) |
| | 14,548 | 18,552 | (4,004) | (21.6) |
| **Consolidated sales** | | | | |
| Distribution segment | 180,780 | 190,878 | (10,098) | (5.3) |
| Wholesale segment | 54,268 | 55,012 | (744) | (1.4) |
| | 235,048 | 245,890 | (10,842) | (4.4) |

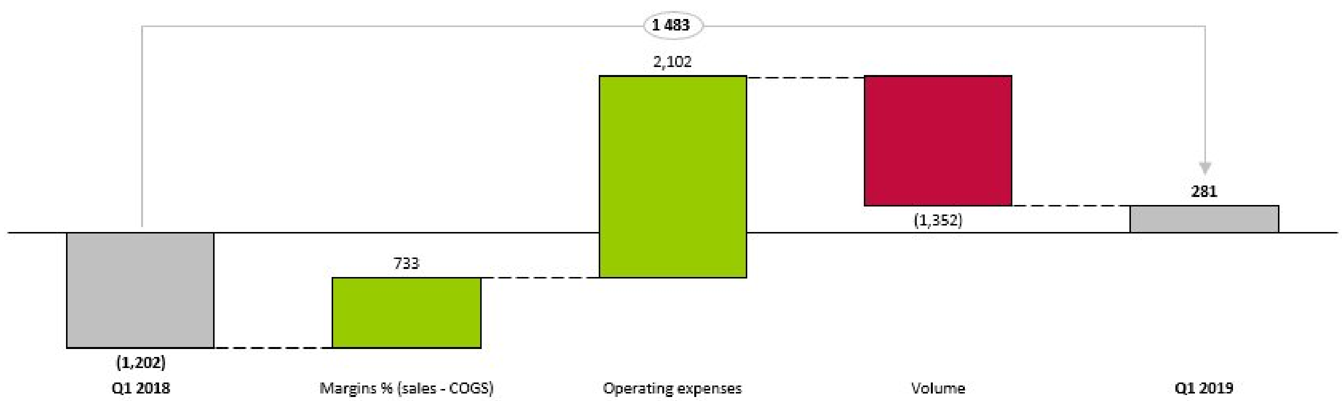
Consolidated sales in the first quarter amounted to $235.0 M compared to $245.9 M in the equivalent quarter of the previous year, representing a decrease of 4.4%.

The 5.3% decrease in sales in the Distribution Segment came primarily from the loss of volume in Ontario from the loss of a supply agreement for Montana's BBQ & Bar restaurant chain (the contract was terminated effective April 1, 2018). This was mitigated by an improvement of sales from the Broadline Distribution activities in Quebec.

The 1.4% decrease in sales in the Wholesale Segment is primarily explained by of a loss of sales volume from activities in the Wholesale Specialty business in the meat market.

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

Analysis of EBITDA for the first quarter :
(unaudited, in thousands of dollars)




EBITDA for the first quarter of 2019 stood at $0.3 M or 0.1% of sales compared to $(1.2) M or (0.5)% for the corresponding period of 2018. The variance is explained by the following elements:

- Improvement of control over costs from the implementation of the cost rationalization plan of 2018 and recent measures to optimize operations.
- And from an improvement of gross margins as a percentage of sales of 2.5% year-over-year, from customer mix, private label sales and of value added products.

Mitigated by:

- A decrease in the volume of sales in Ontario resulting from the loss of supply agreement with Montana's BBQ and Grill effective April 1, 2018, mitigated by growing sales from Broadline Distribution activities in Quebec.

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

No charge was taken during the first quarter of 2019 in relation with the ongoing liquidation and dissolution of Colabor Investments Inc.

### Amortization

The amortization expense for the first quarter of 2019 was $2.2 M, compared with $2.7M in the corresponding quarter of 2018 when investments in equipment to improve efficiency and productivity were higher.

### Financial Expenses

Financial expenses in the first quarter of 2019 were $1.8 M compared with $1.8M in the corresponding quarter of 2018. The interest expenses on the $25.0 M subordinated debt increases to 8.0% in 2019 (compared with 7.0% in 2018).

### Income Tax Recovery

The income tax recovery of $1.1 M in the first quarter of 2019 compares to $1.6 M in the first quarter of 2018. This variation result from a difference between the accounting and fiscal profit resulting from amortization expenses.

## 5.2 Financial Position

The following table presents the Company's Consolidated statements of financial position for the first quarter:

**Consolidated Statements of Financial Position**

(unaudited, in thousands of dollars)

| | As at March 23, 2019 $ | As at December 29 2018 $ | As at March 24 2018 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Trade and other receivables | 78,735 | 90,038 | 83,727 |
| Inventory | 75,379 | 78,229 | 74,189 |
| Prepaid expenses | 2,932 | 2,911 | 4,217 |
| Other | 1,814 | 1,621 | 1,799 |
| Current assets | 158,860 | 172,799 | 163,932 |
| **Non-current** | | | |
| Property, plant and equipment | 10,622 | 11,142 | 12,351 |
| Intangible assets | 36,551 | 38,090 | 44,314 |
| Goodwill | 70,813 | 70,813 | 70,813 |
| Deferred tax assets | 5,265 | 4,383 | 4,656 |
| Other | 492 | 581 | 525 |
| Non-current assets | 123,743 | 125,009 | 132,659 |
| **Total assets** | 282,603 | 297,808 | 296,591 |
| **Liabilities** | | | |
| **Current** | | | |
| Bank overdraft | 5,226 | 5,684 | 5,496 |
| Trade and other payables | 81,587 | 96,562 | 84,439 |
| Current portion of long-term debt | 988 | 1,027 | 853 |
| Other | 916 | 533 | 1,343 |
| Current liabilities | 88,717 | 103,806 | 92,131 |
| **Non-current** | | | |
| Long-term debt | 53,771 | 50,847 | 59,359 |
| Convertible debentures | 49,395 | 49,341 | 49,160 |
| Pension obligations | 1,928 | 1,066 | 1,224 |
| Provisions | 34 | 140 | 2,064 |
| Deferred tax liabilities | 0 | 253 | 712 |
| Non-current liabilities | 105,128 | 101,647 | 112,519 |
| **Total liabilities** | 193,845 | 205,453 | 204,650 |
| **Equity** | | | |
| Share capital | 88,758 | 92,355 | 91,941 |
| **Total liabilities and equity** | 282,603 | 297,808 | 296,591 |

## Accounts Receivable

Trade and other receivables decreased by $11.3 M compared to December 30, 2018. The Company maintains systematic efforts to ensure a more efficient customer account collection. This variation also reflects the reduction of sales volume when compared to the end of the previous financial year.

## Inventory

Inventory decreased by $2.9 M when compared to December 30, 2018. This reduction comes from efforts dedicated to improve inventory management in order to reflect the reduction of sales volume when compared to the end of the previous financial year.

## Trade and Other Payables

The trade and other payables balance decreased by $15.0 M when compared to December 30, 2018. This decrease results largely from a lower level of purchasing in order to maintain an optimal level of inventory across the organization in anticipation of lower sales volumes and from a change in suppliers' conditions when compared to the end of the previous financial year.

## Share Capital

As at May 1, 2019, 101,177,932 common shares and 50,000 convertible debentures were issued and outstanding. In addition, 3,307,304 stock options were outstanding, of which 903,600 could be exercised.

## 5.3 Cash Flows

The following table presents the Company’s consolidated statements of cash flows for the first quarter of 2019 and 2018:

**Consolidated Statements of Cash Flows**

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

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Operating activities** | | |
| Net earnings (loss) | (2,733) | (4,480) |
| Deferred income taxes | (900) | (1,221) |
| Depreciation and amortization | 2,212 | 2,746 |
| Impairment loss on goodwill, property, plant and equipment and intangible assets | 24 | 127 |
| Financial expenses | 1,829 | 1,837 |
| Other | (313) | (252) |
| | 119 | (1,243) |
| Net changes in working capital | (645) | 601 |
| **Cash flows used in operating activities** | (526) | (642) |
| **Investing activities** | | |
| Purchase of property, plant and equipment | (121) | (1,062) |
| Proceeds on disposal of property, plant and equipment | 17 | 15 |
| Purchase of intangible assets | (55) | (79) |
| Other | 31 | 51 |
| **Cash flows used in investing activities** | (128) | (1,075) |
| **Financing activities** | | |
| Use of the credit facility | 3,007 | 4,607 |
| Lease payments | (251) | (187) |
| Financial expenses paid | (1,644) | (1,640) |
| **Cash flows used in financing activities** | 1,112 | 2,780 |
| **Net change in bank overdraft** | 458 | 1,063 |
| **Bank overdraft at the beginning of the period** | (5,684) | (6,559) |
| **Bank overdraft at the end of the period** | (5,226) | (5,496) |

## Operating Activities

Cash flows from operating activities in the first quarter stood at $(0.5) M compared to cash flows from operating activities of $(0.6) M in the equivalent period of 2018. This is explained by the effect of a slight reduction in working capital from a reduction in trade and other payables, while net earnings increased.

## Investing Activities

Cash flows used in investing activities in the first quarter were $0.1 M and are lower than the $1.1 M used during the corresponding period in 2018, resulting from lower investments in tangible assets when compared with the equivalent quarter of last year.

## Financing Activities

Cash flows used in financing activities in the first quarter stood at $1.1 M, compared to $2.8 M in the equivalent period of 2018, from higher utilization of the credit facility.

# 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)

| | 2019 | 2018 | | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 (84 days) | Q4 (112 days) | Q3 (84 days) | Q2 (84 days) | Q1 (84 days) | Q4 (112 days) | Q3 (84 days) | Q2 (84 days) |
| | | $ | $ | $ | $ | $ | $ | $ |
| **Sales** | 235,048 | 366,122 | 291,006 | 299,898 | 245,890 | 401,557 | 319,334 | 331,372 |
| Adjusted EBITDA | 281 | 5,920 | 7,628 | 6,062 | (1,202) | 7,057 | 7,682 | 9,018 |
| **Net earnings (loss)** | (2,733) | (1,902) | 1,180 | 817 | (4,480) | 509 | (18,753) | 3,097 |
| Basic and diluted net earnings (loss) per share | (0.03) | (0.02) | 0.01 | 0.01 | (0.04) | 0.00 | (0.18) | 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)

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Consolidated Statements of Earnings** | | |
| **Sales** | 5,293 | 9,029 |
| **Consolidated Statement of Financial Position** | | |
| Trade and other receivables, net of remittances | 1,305 | 988 |
| Dubé & Loiselle Inc. Stock option [(a)] | 500 | 500 |

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

# 8. Subsequent event

On May 2, 2019, The Corporation announces the appointment of Mr. Pierre Gagné, CPA, CA, MBA, to the position of Senior Vice-President and Chief Financial Officer, effective May 27, 2019. M. Gagné has over 30 years of experience in finance and held Chief Financial Officer positions at large private and public companies such as FLS Transportation Services Limited, GDI Integrated Facility Services Inc. and Cegeco Inc/Cogeco Cable Inc.

# 9. Off-Balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than $3.8 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.

# 10. 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.

# 11. 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.

# 12. 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 March 23, 2019, 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 March 23, 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.

# 13. Financial Instruments

The fair value of the trade and other receivables, the loans receivable, the bank overdraft, the trade and other payables (excluding taxes and salaries payable) as well as the short-term portion of bank borrowing, is equivalent to the carrying amount due to their short-term maturity. Therefore, the time value of money is non-significant.

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

| | As at March 23, 2019 | | As at December 30, 2018 | |
|---|---|---|---|---|
| | **Carrying amount** $ | **Fair value** $ | **Carrying amount** $ | **Fair value** $ |
| **Financial liabilities** | | | | |
| Non-current | | | | |
| Credit facility | 25,228 | 25,228 | 22,108 | 22,108 |
| Subordinated debt | 24,879 | 24,919 | 24,862 | 24,929 |
| Convertible debentures | 49,395 | 38,500 | 49,341 | 31,500 |
| | 99,502 | 88,647 | 96,311 | 78,537 |

The fair value of the financial instruments at fair value through profit or loss was primarily determined using the bid price on the closing date for the underlying asset.

The fair value of the non-current portion of bank borrowings is equivalent to the carrying amount.

The fair value of subordinated debt was determined by discounting future cash flows at 8.0% (7.0% as at December 29, 2018), the current rate of subordinated debt.

The fair value of the liability component of the convertible debentures was determined based on the trading price on March 23, 2019.

**Financial instruments measured at fair value**

Financial assets and liabilities measured at fair value are presented using a three-level fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements of these items. The three fair value hierarchy levels are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments measured at fair value consisted of the equity investment in Colabor Investments Inc. (Level 2) during the periods of 2017. Following the liquidation of Colabor Investments Inc. in the first quarter of 2018, the Company no longer holds financial assets measured at fair value (level 2) as at March 23, 2019. The Company's financial liabilities are as follows: Credit facility (Level 1), Debenture (Level 1), Subordinated debt (Level 2).