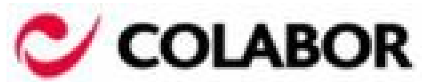

COLABOR GROUP INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
("MD&A")

Third quarter of 2019
84 and 252-day periods ended September 7, 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 third quarter ended September 7, 2019. This report should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for these periods and the audited consolidated financial statements for the fiscal year ended December 29, 2018, and related notes, along with the associated annual MD&A. These financial statements are in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standard Board ("IASB"). The financial statements have been published on the following sites: www.sedar.com and www.colabor.com.

Unless otherwise indicated, the information in this MD&A is current as of October 17, 2019.

Forward-Looking Statements

This MD&A may contain certain forward-looking statements that reflect Colabor's current views or expectations regarding its performance and respective business activities and future events. In addition, this MD&A contains forward-looking statements and information concerning the Company's future plans, objectives and intentions. These statements are subject to a number of risks, uncertainties and assumptions. Actual results and events may differ. The Company undertakes no obligation to update these forward-looking statements to reflect changes in management's beliefs, estimates and opinions or other factors, except as required by law.

Seasonality

Colabor's fiscal year comprises of thirteen periods of four weeks each. 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 such result, the operating results for the interim period are not necessarily indicative of the operating results for the full fiscal year. The Company expects the seasonal nature to be a significant factor in its quarterly results. Lower earnings are recorded during the first quarter. The second and third quarters are recording higher earnings than those recorded during the first quarter. Finally, since there are 16 weeks of operations in the last quarter compared to 12 weeks in the previous quarters, the fourth quarter is the most important one.

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 Business developments in 2019

During the 84 and 252-day periods ended September 7, 2019, the following events have influenced the Company's general development and operations, or reflect the evolution of Colabor's transformation and growth plan.

Changes to the Board of Directors

On May 2, 2019, the Company announced the appointment of Mr. Warren White as Chairman of the Board of Directors. Mr. White has been a member of Colabor's Board of Directors since January 1, 2018, and is a member of the Audit Committee. He replaces Mr. Robert Cloutier following the withdrawal of his candidacy for personal and professional reasons.

Executive Appointment

On May 2, 2019, the Company announced the appointment of Mr. Pierre Gagné, CPA, CA, MBA, to the position of Senior Vice-President and Chief Financial Officer, effective May 27, 2019. Mr. 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 Cogeco Inc./Cogeco Communications Inc.

Sale of the assets of the Viandes Décarie Division

On May 10, 2019, the Company concluded the sale of the assets of its Viandes Décarie division for an aggregate amount of $20.1 million, including final adjustments related to working capital, of which $17.8 million was received at closing. This asset disposal is in line with the Company's intention to refocus its strategic broadline activities, while reducing its debt.

Viandes Décarie division's operating earnings, net earnings and cash flows for the period of 84 days and the cumulative period of 252 days ended September 7, 2019, and the corresponding periods of the previous fiscal year, have been reclassified as discontinued operations.

Refer to Section 4 "Discontinued operations".

Changes to Executive

On August 19, 2019, the Company announced the resignation of Mr. Lionel Ettedgui as President and Chief Executive Officer. On September 19, 2019, the Company announced that Mr. Pierre Gagné has been appointed to the position of Interim Chief Executive Officer, in addition to his role as Chief Financial Officer.

Extension of Dubé & Loiselle Inc. purchase option

On August 19, 2019, the Company also announced the extension of the exercise period of the option to acquire Dubé & Loiselle Inc. to an extended period of 90 days after the hiring of the next President and Chief Executive Officer. This option to acquire Dubé & Loiselle Inc. was granted to Colabor at the time of the recapitalization in October 2016 and whose the exercise date was due as of October 13, 2019.

Optimization of Colabor's Broadline Distribution Activities in Ontario (Summit Division)

In the context of Colabor’s ongoing transformation plan which aims at optimizing its business units and improving profitability, the Company initiated discussions with Recipe Unlimited (“Recipe”) regarding the terms of its supply agreement. As a result of these discussions, Colabor and Recipe mutually agreed, on October 17, 2019, to the early termination of this supply agreement before its term as set forth in the agreement (December 29, 2022). This supply agreement also included a renewal option for an additional two years at Recipe’s discretion.

The supply agreement with Recipe was mainly a logistics-type contract and was initially entered into in 2007 upon the acquisition by Colabor of the Summit assets. This agreement was renewed in 2015 and currently generates annual sales of approximately $255 million. This contract was not profitable due to its low pricing which did not compensate for its associated labor, fixed and

variable costs (representing approximately $4 million of Adjusted EBITDA[1] effect on an annual basis). Under the termination agreement, the supply of Recipe banner restaurants will cease gradually until March 31, 2020.

Over the next five months as the Company gradually ceases supplying the Recipe banners, Colabor will be implementing alternatives in order to optimize the Summit operations and leverage its existing resources. It can be reasonably expected that there will be restructuring costs in the amount of $8 to 9 million. In the near term, these restructuring costs will be essentially paid for by the realization of Recipe's inventory and accounts receivable, net of related accounts payable. Under the termination agreement, Recipe will purchase the remaining inventory on March 31, 2020.

2.2 Development Strategies and Outlook

Recent history

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

During the last years, the Company has invested significantly in its broadline distribution activities in Quebec and has been able to grow the scope of its activities by offering a multi-service solution to its customers and access to high value-added products including private brands. The Company's broadline distribution activities in Quebec has since enjoyed favorable growth.

Transformation and Growth Plan

In 2018, the Company made significant changes to its management team, implemented an action plan to optimize operations and improved its customer mix. Colabor began its 2019 fiscal year with an action plan based on three pillars:

1. Increase broadline distribution activities
    - Organic growth based on strategic categories (protein, fruits and vegetables) and reposition its private brands.
2. Integrate and optimize business units
    - Evolve from a divisional structure to a functional structure with a single business model;
    - Instill rigor in all the Company's operations and activities, allowing for a better control of operating expenses.
3. Reduce the debt level
    - Evaluate strategic alternatives for certain assets that are not within Colabor's growth niches;
    - Increase Adjusted EBITDA[1];
    - Optimize management of current assets and liabilities.

Transformation plan update

In the second quarter of 2019, in order to even more on its growth niche and reduce its debt level, Colabor sold its meat wholesale activities (the Viandes Décarie division). The sale of the assets of the Viandes Décarie division was completed for $ 20.1 million, including the final adjustments related to working capital, of which $ 17.8 million was received at closing. Net proceeds from the sale of assets of the Viandes Décarie division and higher cash flow from current operations resulted in the repayment of $5.0 million of subordinated debt and a decrease in the credit facility balance.

In addition, the early termination of Recipe's supply agreement is part of the measures implemented over the last fifteen months in order to optimize activities and improve Colabor's profitability. Following the sale of the assets of the Viandes Décarie division which has allowed us to reduce our indebtedness; the termination of this unprofitable contract will allow to better allocate financial and human resources to more serve efficiently our existing clients and to continue our growth objectives in value-added niches.

[1] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6. " Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

2.3 Performance Indicators

The management team assesses the Company's performance based primarily on improving its operating profitability and financial position.

Profitability: Net earnings

The net earnings from continuing operations for the third quarter of 2019 amounted to $1.6 million compared to $0.8 million for the corresponding period of 2018, despite a decrease in sales of 1.5%. The change is mainly explained by the $2.4 million impairment loss on goodwill, property, plant and equipment and intangibles and the $1.2 million non-current costs gain in the 2018 period.

Operating Profitability: Adjusted EBITDA[(1)]

During the third quarter of 2019, Adjusted EBITDA from continuing operations decreased by 8.9%. This is mainly due to the effect of the reversal of provisions mostly explained by favorable settlements totaling $1.1 million during the 84-day period ended September 8, 2018, offset by the deployment of optimization efforts and a better control of operating expenses, particularly with the implementation of the rationalization plan last November ("Rationalization Plan"). Excluding these 2018 provision reversals, Adjusted EBITDA has increased by 8.5 %.

Financial Position: Working Capital[(2)]

Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets.

At the end of the third quarter of 2019, the Company's working capital amounted to $56.8 million, down from $71.7 million at the end of the corresponding fiscal year. This variation is mainly due to the sale of the assets of the Viande Décarie division and an improvement in inventory management.

Financial Position: Debt Leverage[(3)]

Debt leverage is an indicator of the Company's ability to service its long-term debt.

At the end of the third quarter of 2019, the debt leverage was 4.3 times, an improvement from 6.8 times in the same period in 2018. The net proceeds of $17.8 million from the sale of the assets of the Viandes Décarie division and the increase in cash flow from operating activities have permitted to reimburse $5.0 million of the subordinated debt and to reduce the balance of the credit facility.

[(1)] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6. " Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

[(2)] Working capital is calculated as follows: the balance of trade and other receivables, plus inventories, less trade and other payables as described in the interim consolidated statements of financial position - Section 3.2.

[(3)] Debt leverage is defined as the ratio of net debt to Adjusted EBITDA. Refer to Section 6 "Non-IFRS performance measures" for the definition of net debt.

3. Operational and Financial Results

3.1 Operating Results

Summary of Operating Results for the Third Quarter of 84 Days and the Cumulative Period of 252 Days
(unaudited, in thousands of dollars, except percentages)

	84 days			252 days		
	2019	2018	Variance	2019	2018	Variance
	$	$	%	$	$	%
Sales	**261,541**	265,504	(1.5)	**748,520**	761,672	(1.7)
Operating expenses, excluding costs not related to current operations, depreciation and amortization	**255,295**	258,645	(1.3)	**734,915**	750,980	(2.1)
Adjusted EBITDA [(1)]	**6,246**	6,859	(8.9)	**13,605**	10,692	27.2
Adjusted EBITDA margin [(1)]	**2.4%**	2.6%		**1.8%**	1.4%	

[(1)] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6. " Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

3.1.1 Segment sales

Consolidated Sales for the Third Quarter of 84 Days and the Cumulative Period of 252 Days
(unaudited, in thousands of dollars, except percentages)

	84 days			252 days		
	2019	2018	Variance	2019	2018	Variance
	$	$	%	$	$	%
Distribution Segment	**219,045**	224,041	(2.2)	**633,987**	646,806	(2.0)
Wholesale Segment	**57,435**	56,422	1.8	**154,840**	160,224	(3.4)
Intersegment eliminations and others	**(14,939)**	(14,959)	(0.1)	**(40,307)**	(45,358)	(11.1)
Sales	**261,541**	265,504	(1.5)	**748,520**	761,672	(1.7)

Consolidated sales for the third quarter reached $261.5 million compared to $265.5 million during the corresponding quarter of last fiscal year, representing a decrease of 1.5%.

- Sales in the Distribution segment decreased by 2.2% mainly due to a $2.5 million loss of volume in Ontario and the decrease in sales at Distribution broadline in Québec, mostly related to the decision to stop serving some less profitable regions in Quebec and the Maritimes, partially offset by an increase in the volume of the Les Pêcheries Norref Québec Inc. (''Norref'') subsidiary.
- Sales in the Wholesale segment increased by 1.8%, mainly due to a targeted sales strategy in recent months, thereby offsetting the non-renewal of non-profitable contracts.

Cumulative consolidated sales for the 252-day period were $748.5 million compared to $761.7 million in the corresponding period of last fiscal year, a decrease of 1.7%.

- The 2.0% decrease in cumulative sales in the Distribution segment is primarily attributable to lower sales volumes in Ontario resulting from the loss of a supply agreement with a major restaurant chain and changes the customers mix, offset by an increase in Norref's sales mainly due by a favorable effect of a promotion put in place by a retailer.

- Cumulative sales in the Wholesale segment were down 3.4% compared to the corresponding period of 2018. This decrease is explained by the non-renewal of non-profitable contracts.
- Intersegment sales decreased by 11.1%, mainly due to an increase in direct purchases from the Distribution segment.

3.1.2 Operating Expenses

Operating Expenses for the Third Quarter of 84 Days and the Cumulative Period of 252 Days

(unaudited, in thousands of dollars, except percentages)

	84 days			252 days		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Distribution segment	**215,727**	219,527	(1.7)	**626,622**	642,447	(2.5)
Wholesale segment	**52,682**	52,559	0.2	**143,317**	149,517	(4.1)
Intersegment eliminations and others	**(13,114)**	(13,441)	(2.4)	**(35,024)**	(40,984)	(14.5)
Operating expenses, excluding costs not related to current operations, depreciation and amortization	**255,295**	258,645	(1.3)	**734,915**	750,980	(2.1)

Consolidated operating expenses for the third quarter were $255.3 million compared to $258.6 million for the corresponding period of last fiscal year, a decrease of 1.3%, mainly due to decrease in sales, to tight cost control following the implementation of the Rationalization plan and the deployment of operational optimization measures.

- Operating expenses in the Distribution segment decreased by 1.7% mostly explained by lower cost of good sold due to the decrease in sales, by th tightening of operating costs, partially offset by the reversal of provisions for favorable settlements totaling $1.1 million during the 84-day period ended September 8, 2018.
- Operating expenses in the Wholesale segment increased by 0.2%, despite the increase in Wholesale segment's sales of 1.8% due to the tightening of costs.

Cumulative consolidated operating expenses for the 252-day period amounted to $734.9 million compared to $751.0 million in the corresponding period of last fiscal year, a decrease of 2.1%, mainly explained by the decrease in sales, better costs control resulting from the rationalization plan and the deployment of operational optimization measures.

- The Distribution segment's cumulative operating expenses decreased by 2.5% due to lower costs of goods sold related to the decrease in sales, as well as a tightening of operating costs and the effect of the provision reversal mainly explained by favorable settlements totaling $0.8 million during the 252-day period ended September 7, 2019.
- Cumulative operating expenses in the Wholesale segment decreased by 4.1%, mainly due to a decrease in costs of goods sold explained by lower sales and the tightening of operating costs.
- Intersegment and other eliminations decreased by 14.5%, mainly due to lower intersegment sales as explained above, offset by an increase in corporate expenses related to salaries and professional fees.

3.1.3 Operational Results

Operational Results Before Costs Not-Related to Current Operations, Depreciation and Amortization (Adjusted EBITDA) for the Third Quarter of 84 Days and the Cumulative Period of 252 Days

(unaudited, in thousands of dollars, except percentages)

	84 days			252 days		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Distribution Segment	**3,318**	4,514	(26.5)	**7,365**	4,359	69.0
Wholesale Segment	**4,753**	3,863	23.0	**11,523**	10,707	7.6
Intersegment eliminations and others	**(1,825)**	(1,518)	20.2	**(5,283)**	(4,374)	20.8
Operational Results (Adjusted EBITDA [1])	**6,246**	6,859	(8.9)	**13,605**	10,692	27.2
Operational Results (Adjusted EBITDA margin[1])	**2.4%**	2.6%		**1.8 %**	1.4%	

[1] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6. " Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

Adjusted EBITDA for the third quarter of 2019 was $6.2 million, a decrease of 8.9% or $0.6 million compared to the corresponding period of 2018. This decrease is explained by the effect of the reversal of provisions due to favorable settlements totaling $1.1 million during the 84-day period ended September 8, 2018, offset by the deployment of operations optimization measures through the Rationalization plan, which reduced operating expenses. Excluding 2018 provision reversals, Adjusted EBITDA has increased by 8.5%.

Cumulative Adjusted EBITDA for the 252 days reached $13.6 million, up 27.2% or $2.9 million compared to the corresponding period of 2018. As a percentage of sales, Adjusted EBITDA margins reached 1.8% compared to 1.4% in the corresponding period of 2018. This improvement is due to the deployment of operational optimization measures and the Rationalization plan, which reduced operating expenses as well as the effect of the reversal of provisions mainly explained by favorable settlements totaling $0.8 million during the 252 days ended September 7, 2019, mitigated by an increase of $0.9 million in corporate expenses. Excluding the favorable 2019 settlements, Adjusted EBITDA has increased by 19.8%.

3.1.4 Costs not Related to Current Operations

For the 84 and 252-day periods ended September 7, 2019 , non-current costs of $nil and $0.2 million respectively, were incurred in an effort of workforce rationalization to optimize the operations. During the same periods of fiscal year 2018, the Company recorded a gain of $1.2 million as a result of the termination of an onerous contract.

3.1.5 Depreciation and Amortization

Depreciation and Amortization for the Third Quarter of 84 Days and the Cumulative Period of 252 Days

(unaudited, in thousands of dollars, except percentages)

	84 days			252 days		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Depreciation of property, plant and equipment	**799**	1,028	(22.3)	**2,033**	2,514	(19.1)
Depreciation of intangible assets	**1,542**	1,573	(2.0)	**4,709**	4,751	(0.9)
Depreciation and Amortization	**2,341**	2,601	(10.0)	**6,742**	7,265	(7.2)

For the 84 and 252-day periods ended September 7, 2019, depreciation and amortization expense decreased by 10.0% and 7.2%, respectively, due to acquisitions of property, plant and equipment decreased compared to the previous fiscal year and by impairment incurred during fiscal year 2018.

3.1.6 Financial Expenses

Financial Expenses

Financial expenses for the third quarter of 2019 decreased to $1.6 million compared to $1.8 million in the corresponding period of 2018. For the 252 days cumulative period, financial expenses decreased to $5.3 million compared to $5.4 million for the corresponding period of 2018. This decrease is explained by a decrease in borrowings on the credit facility, by the repayment of $5 million of the nominal value of the subordinated debt, thus reducing it from $ 25 million to $ 20 million and partially offset by the increase in the subordinated debt rate interest at 8.0% for fiscal 2019 compared to 7.0% in the prior year.

3.1.7 Income Taxes

Income Tax Expense

In the third quarter of 2019, income tax expense was $0.7 million compared to $0.5 million in the corresponding period of 2018. The tax relating to higher net income before tax mainly explains the increase. For the 252 days cumulative period, income tax expense was $1.2 million, compared to a recovery of $0.7 million. The tax related to the increase in net income before tax mainly explains this increase.

3.1.8 Net Earnings

Net Earnings for the Third Quarter of 84 Days and the Cumulative Period of 252 Days

(unaudited, in thousands of dollars, except percentages)

	84 days			252 days		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Net earnings (loss) from continuing operations	**1,640**	823	99.3	**82**	(3,028)	102.7
Net earnings from discontinued operations	**70**	357	(80.4)	**7,933**	545	1,355.6
Net earnings (loss) for the period	**1,710**	1,180	44.9	**8,015**	(2,483)	422.8
Basic and diluted net earnings (loss) per share of continuing operations	**0.02**	0.01	100.0	—	(0.03)	100.0
Basic and diluted earnings per share of discontinued operations	—	—	—	**0.08**	0.01	700.0
Basic and diluted net earnings (loss) per share for the period	**0.02**	0.01	100.0	**0.08**	(0.02)	500.0

Net earnings for the third quarter reached $1.7 million, or $0.02 per share, up $0.5 million from $1.2 million, or $0.01 per share, for the corresponding period of last fiscal year. The change is mainly explained by the $2.4 million impairment loss on goodwill, property, plant and equipment and intangibles and the $1.2 million non-current costs gain in similar period of 2018 and the sale of the assets of the Viandes Décarie division, mitigated by lower Adjusted EBITDA. Net earnings from continuing operations reached $1.6 million or $0.02 per share, up from $0.8 million or $0.01 per share in the corresponding period of last fiscal year. The weighted average number of shares outstanding during the period is 101,371,561, compared to 101,139,418 for the corresponding period in 2018.

Net earnings for the 252-day period was $8.0 million, or $0.08 per share, up $10.5 million from a net loss of $2.5 million or ($0.02) per share in the corresponding period of last fiscal year. The $7.9 million net earnings of the Viandes Décarie division as discontinued operations contributed to this growth, as did the improvement in Adjusted EBITDA net of income taxes, the $2.8 million impairment loss on goodwill, property, plant and equipment and intangibles, and the $1.2 million gain on non-current cost gain in 2018, mitigated by an increase in income taxes. Net earnings from continuing operations was $0.1 million compared to net loss of $3.0 million for the corresponding period of 2018.

The weighted average number of shares outstanding during the 252-day period is 101,216,799 compared to 101,195,067 for the corresponding period in 2018.

3.2 Financial Position

The following table presents the main elements of current assets and liabilities, that make up the Company's working capital.
(unaudited, in thousands of dollars)

	As at September 7, 2019	As at December 29 2018	Variance
	$	$	$
Current Assets			
Trade and other receivables	**80,803**	90,038	(9,235)
Inventories	**66,325**	78,229	(11,904)
	147,128	168,267	(21,139)
Current Liabilities			
Trade and other payables	**90,297**	96,562	(6,265)
Working Capital[1]	**56,831**	71,705	(14,874)

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

Working capital fluctuates during the fiscal year due to the seasonal nature of operations, mainly in the Spring and Summer and during the Holiday Season (i.e. Christmas and Easter). In order to meet higher seasonal demand, inventories requirements increase and so do trade and other receivables. The credit facility fluctuates to support this seasonal activity.

As at September 7, 2019, the Company's working capital amounted to $56.8 million, down $14.9 million from the corresponding period of 2018. The decrease is explained as follows:

Trade and Other Receivables

Trade and other receivables were down $9.2 million from December 29, 2018, explained by the sale of the assets of the Viandes Décarie division, combined with the impact of seasonality and the effect of lower sales in the quarter.

Inventories

The inventory balance decreased $11.9 million from December 29, 2018. This reduction is due to the effect of the sale of the assets of the Viandes Décarie division, combined with the impact of seasonality and with improved inventories management.

Trade and Other Payables

The balance of trade and other payables decreased $6.3 million from December 29, 2018. This decrease is mainly due to the sale of the assets of the Viandes Décarie division and the reduction in inventories.

3.3 Other Significant Changes in Financial Position

The following table presents the other significant items of the Company's financial position as at September 7, 2019 and their variances from the fiscal year ended December 29, 2018.

(unaudited, in thousands of dollars)

	As at September 7, 2019	**As at December 29 2018**	**Variance**
	$	**$**	**$**
Property, Plant and Equipment	**10,738**	11,142	(404)
Intangible Assets	**33,537**	38,090	(4,553)
Deferred Tax Asset	**2,608**	4,383	(1,775)
Long-Term Debt	**31,063**	50,847	(19,784)
Pension Obligations	**2,322**	1,066	1,256
Equity Attributable to Shareholders	**99,766**	92,355	7,411

Property, Plant and Equipment

The reduction in property, plant and equipment is mainly due to the sale of the assets of the Viande Décarie division and depreciation and amortization, mitigated by the acquisitions of property, plant and equipment.

Intangible Assets

The reduction in intangible assets is mainly due to depreciation and amortization.

Deferred Tax Asset

The reduction in deferred tax asset comes mainly from the use of tax attributes during the period.

Long-Term Debt

Long-term debt reduction is mainly due to the proceeds from the sale of the assets of the Viandes Décarie division and the increase in cash flow from operating activities, which were used to repay part of the subordinated debt and the credit facility.

Pension Obligations

The increase in the pension obligation is mainly due to the reduction in the discount rate used to calculate this obligation.

Equity Attributable to Shareholders

The increase in shareholders' equity is mainly due to the increase in net earnings.

3.4 Data Related to Outstanding Shares

The following table presents Colabor's shares and options data as at October 17, 2019. Refer to Notes 9, 11 and 12 of the condensed consolidated interim financial statements for further details.

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

	Number of shares / stock-options	Amount $
Common shares		
Participating and voting common shares	101,677,932	256,296
Participating and voting stock-options		
Outstanding options	2,908,304	
Exercisable options	673,582	

3.5 Cash Flows

The following table represents consolidated cash flows for the 84 and 252-day periods ended September 7, 2019:

Consolidated Cash Flows Table

(unaudited, in thousands of dollars)

	84 days		252 days	
	2019	2018	2019	2018
	$	$	$	$
Cash flows from operating activities	**21,224**	10,897	**16,316**	5,977
Cash flows from investing activities	**(1,332)**	(342)	**(1,879)**	(1,682)
Cash flows from financing activities	**(13,560)**	(9,755)	**(24,577)**	(1,790)
Net change in cash from continuing operations	**6,332**	800	**(10,140)**	2,505
Net change in cash from discontinued operations	—	10	**18,388**	(614)
Cash net of the bank indebtedness at the beginning	**(3,768)**	(5,478)	**(5,684)**	(6,559)
Cash net of the bank indebtedness at the end	**2,564**	(4,668)	**2,564**	(4,668)

Operating Activities

Cash flows from operating activities in the third quarter reached $21.2 million and $16.3 million for the 84 and 252-day periods, up from $10.9 million and $6.0 million for the corresponding periods of 2018, respectively. This increase is mainly due to a lower utilization of working capital and the Adjusted EBITDA growth for the period of 252 days.

Investing Activities

Cash flows used in investing activities in the third quarter of 2019 amounted to $1.3 million and $1.9 million for the 84 and 252-day periods, compared to $0.3 million and $1.7 million for the corresponding periods in 2018, respectively. This change is explained by a $1.1 million and $1.8 million decrease in advances from Viandes Décarie division for the 84 and 252-day periods ended September 7, 2019 respectively, offset by a reduction in property, plant and equipment acquisitions.

Financing Activities

Cash flows used in financing activities in the third quarter of 2019 amounted to $13.6 compared to $9.8 million for the corresponding period of 2018. This change is mostly due to the repayment of $12.3 million of the credit facility in 2019 compared to $7.9 million in 2018. For the cumulative 252-day period, cash flows used in financing activities amounted to $24.6 million compared to $1.8 million for the corresponding period of 2018. This change is also due to the repayment of $5.0 million of the subordinated debt and $14.5 million of the credit facility compared to a net increase of $3.7 million in credit facility for the corresponding period of 2018.

3.6 Capital resources

As of September 7, 2019, the Company is in compliance with all its banking covenants. In order to meet its capital requirements, the Company has a credit facility of which $73.6 million were available as of September 7, 2019.

4. Discontinued Operations

On May 10, 2019, the Company concluded the sale of the assets of the Viandes Décarie division for an amount of $20.1 million including final adjustments related to working capital, of which $17.8 million were received at closing. The balance of sale receivable will be payable over a maximum period of 5 years according to the terms of the agreement. During the 84 and 252-day periods ended September 7, 2019, $0.1 million and $0.1 million were received respectively.

The Company has reclassified as discontinued operations all earnings and cash flows for the current and previous periods, separately from its continuing operations.

The following table presents the gain on disposal and the carrying amount of net assets sold.

(unaudited, in thousands of dollars)

	$
Proceeds of disposition	20,070
Carrying amount of assets and liabilities sold:	
Trade and other receivables	7,329
Inventories	7,152
Prepaid expenses	133
Property, plant and equipment	722
Trade and other payables	(3,065)
	12,271
Gain on disposal	7,799

Net earnings summary for discontinued operations

(unaudited, in thousands of dollars)

	84 days		252 days	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Sales	—	25,502	**37,392**	75,122
Operating expenses, excluding depreciation and amortization	—	24,733	**36,770**	73,326
Operation earnings before depreciation and amortization	—	769	**622**	1,796
Gain on disposal	**(70)**	—	**(7,799)**	—
Depreciation and amortization	—	407	**29**	1,234
Financial expenses	—	5	**6**	17
Earnings before taxes	**70**	357	**8,386**	545
Income taxes	—	—	**453**	—
Net earnings from discontinued operations	**70**	357	**7,933**	545

Sales

Cumulative sales for the 252-day period were $37.4 million down from $75.1 million in the corresponding period of last fiscal year. The reduction in sales is mainly due to the fact that the sale of the assets of the Viande Décarie division was completed on May 10, 2019 and the results of fiscal year 2019 include 130 days of sales compared to 252 days in 2018.

Operating Expenses

For the cumulative 252-day period in fiscal 2019, operating expenses from the Viandes Décarie division amounted to $36.8 million, down from $73.3 million in the corresponding period of 2018, but also stable relative to sales level. The sale of the assets of the Viandes Décarie division on May 10, 2019 explains the reduction in expenses.

Operating Earnings Before Depreciation and Amortization (Adjusted EBITDA)

Cumulative Adjusted EBITDA was $0.6 million, down from $1.8 million in the cumulative period last fiscal year.

Cash Flow Summary for Discontinued Operations

(unaudited, in thousands of dollars)

	84 days		252 days	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cash flows from operating activities	—	1,066	**622**	1,221
Cash flows from investing activities	—	(1,051)	**17,772**	(1,818)
Cash flows from financing activities	—	(5)	**(6)**	(17)
Net change in cash of discontinued operations	—	10	**18,388**	(614)

During the third quarter of 2019 and 2018, the net change in cash from discontinued operations was $nil. Cumulatively, the net change in cash of discontinued operations stood at $18.4 million, compared with $(0.6) million in the cumulative period last fiscal year. This increase is explained mainly by the proceeds from the disposal of the assets of the Viandes Décarie division of $17.8 million.

5. 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**
	Q3 (84 days)	**Q2 (84 days)**	**Q1 (84 days)**	**Q4 (112 days)**	**Q3 (84 days)**	**Q2 (84 days)**	**Q1 (84 days)**	**Q4 (112 days)**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Sales[(1)]	**261,541**	274,198	212,781	334,739	265,504	273,564	222,604	368,980
Adjusted EBITDA[(1)]	**6,246**	7,304	55	5,402	6,859	5,323	(1,490)	6,296
Costs not related to current operations	—	178	—	2,419	(1,194)	—	—	—
Net earnings (loss) from continuing operations	**1,640**	1,378	(2,936)	(1,873)	823	498	(4,349)	306
Net earnings from discontinued operations	**70**	7,661	203	(31)	357	319	(131)	203
Net earnings (loss) for the period	**1,710**	9,039	(2,733)	(1,904)	1,180	817	(4,480)	509
Basic and diluted net earnings (loss) per share of continuing operations	**0.02**	0.01	(0.03)	(0.02)	0.01	0.01	(0.04)	0.00
Basic and diluted net earnings (loss) per share for the period	**0.02**	0.09	(0.03)	(0.02)	0.01	0.01	(0.04)	0.00

(1) Sales, Adjusted EBITDA and net earnings have been restated to reclassify the results of the Viandes Décarie division as discontinued operations. Refer to Section 4 Discontinued operations.

6. 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. These measures are widely used in the financial community to measure the profitability of operations. They reflect the inclusion or exclusion of certain amounts that are considered not representative of the Company's recurring financial performance. Since these concepts are not defined by IFRS, they may not be comparable with those of other companies.

Adjusted EBITDA

For example, the Company uses the concept of earnings before costs not related to current operations, depreciation and amortization, impairment loss on goodwill, intangible assets and property, plant and equipment, impairment loss on financial instruments at fair value through profit and loss, financial expenses and income taxes ("Adjusted EBITDA"), presented in the financial statements under "Operating earnings before costs not related to current operations, depreciation and amortization."

Reconciliation of Net Earnings to Adjusted EBITDA

(unaudited, in thousands of dollars)

	84 days			252 days		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**$**	**$**	**$**	**$**
Net earnings (loss) from continuing operations	**1,640**	823	817	**82**	(3,028)	3,110
Income taxes	**664**	496	168	**1,221**	(702)	1,923
Financial expenses	**1,601**	1,764	(163)	**5,309**	5,449	(140)
Impairment loss on financial instruments at fair value through profit or loss	**—**	—	—	**—**	118	(118)
Depreciation and amortization	**2,341**	2,601	(260)	**6,742**	7,265	(523)
Impairment loss on goodwill, intangible assets and property, plant and equipment	**—**	2,369	(2,369)	**73**	2,784	(2,711)
Costs not related to current operations	**—**	(1,194)	1,194	**178**	(1,194)	1,372
Adjusted EBITDA from continuing operations	**6,246**	6,859	(613)	**13,605**	10,692	2,913

Net Debt

Net debt corresponds to bank indebtedness, current portion of long-term debt, long-term debt and convertible debentures as presented in Colabor's consolidated statements of financial position.

The following table presents the calculation of net debt:

(unaudited, in thousands of dollars)

	As at September 7, 2019	**As at December 29, 2018**	**As at September 8, 2018**
Bank indebtedness	—	5,684	4,668
Current portion of long-term debt	**1,001**	1,027	1,120
Long-term debt	**31,063**	50,847	60,340
Convertible debentures	**49,504**	49,341	49,268
Net debt	**81,568**	106,899	115,396

Financial Leverage Ratio

The net financial leverage ratio is defined as net debt divided by Adjusted EBITDA from continuing operations for the last twelve months. Refer to the table in Section 5. Summary of Recent Quarters. For the calculation of the comparative leverage ratio, please refer to the Management's Discussion and Analysis for the third quarter of 2018.

7. Related Party Transactions

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

The following table presents transactions between the Company and Dubé & Loiselle Inc:

(unaudited, in thousands of dollars)

	84 days		**252 days**	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Sales	**5,758**	6,406	**16,777**	19,196
Trade and other receivables, net of remittances			**1,172**	1,474
Dubé & Loiselle Inc. option [a]			**500**	500

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

8. Off-Balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than $1,0 million in letters of credit to support the leasing of one of the Company's distribution centers and certain suppliers' line of credit.

9. Contingency

During the second quarter of 2019, a lawsuit of $7.7 million has been initiated by a client against the Company alleging a default to the terms of their agreement. The Company believes that this lawsuit is without merit and intends to defend itself vigorously.

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. 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 interim CEO, and Senior Vice-President-CFO and the Corporate Controller assessed, in accordance with Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings, the design of ICFR and DC&P as at September 7, 2019, and, on the basis of this assessment, they have concluded that the design of ICFR and DC&P are adequate. For the 252-day period ended September 7, 2019, 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. Standard issued but not yet in effect

IFRS 16 leases

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 or for short-term leases. 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 provides practical expedient to simplify the transition, including the choice to not re-evaluate existing contracts to determine whether they meet the lease definition under the new standard. At adoption, the Company has the option to apply IFRS 16 retrospectively for each comparative period disclosed or uses a modified retrospective approach by recognizing the cumulative effect of the initial application of the standard as an adjustment to opening deficit. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, ie from December 29, 2019 for the Company. Early adoption of this standard is permitted under certain conditions, but the Company does not intend to use this choice.

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 continues to asses the extent of the impact of this standard on its consolidated financial statements.

13. Financial Instruments

The fair value of the cash, the trade and other receivables, the bank indebtedness, the trade and other payables as well as the short-term portion of long-term debt, 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:

(unaudited, in thousands of dollars)

	As at September 7, 2019		**As at December 29, 2018**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	$	**$**	**$**	**$**
Financial liabilities				
Non-current				
Credit facility	**7,917**	**7,917**	22,108	22,108
Subordinated debt	**19,932**	**19,933**	24,862	24,929
Convertible debentures	**49,504**	**43,000**	49,341	31,500
	77,353	**70,850**	96,311	78,537

The fair value of the financial instruments accounted at fair value through net earnings was primarily determined using the bid price on the closing date for the underlying asset.

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 September 7, 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.

As at September 7, 2019, the Company has classified the fair value measurement of non-current liabilities presented in the table above as follows: Credit facility (Level 1), Convertible debentures (Level 1) and Subordinated debt (Level 2). There was no transfer between the levels during the 84 and 252-day periods ended September 7, 2019.

14. Subsequent Event

As previously mentioned in section 2.1 "Business Developments in 2019", the Company agreed to a mutual agreement with Recipe Unlimited to terminate the supply agreement before the end of its term. Refer to this section for more details.