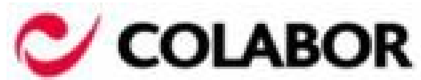

COLABOR GROUP INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
("MD&A")

For the fiscal year and the fourth quarter ended December 28, 2019

As at February 26, 2020

COLABOR

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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 for the fiscal year ended December 28, 2019. The fourth quarter's numbers are unaudited while numbers presented for the fiscal year 2019 are audited. This report should be read in conjunction with the audited consolidated financial statements and accompanying notes for the fiscal year ended December 28, 2019. 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.

Forward-Looking Statements

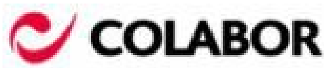
This MD&A contains certain forward-looking statements as defined under applicable securities law. Forward-looking information may relate to Colabor's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Company's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Colabor believes are reasonable as of the current date. Refer in particular to section 2.3 "Development Strategies and Outlook" of this MD&A. While Management considers these assumptions to be reasonable based on information currently available to the Company, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Colabor currently expects. For more exhaustive information on these risks and uncertainties, the reader should refer to section 10 "Risks and Uncertainties" of this MD&A. These factors are not intended to represent a complete list of the factors that could affect Colabor and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A, information representing Colabor's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Company is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

Seasonality

Colabor's fiscal year is comprised of thirteen periods of four weeks each. The first three quarters are comprised of three periods each and the fourth quarter includes four periods. The Company's year-end is the last Saturday of December. The quarters and periods ended December 28, 2019 and December 29, 2018 had respectively 16 weeks for the quarter and 52 weeks for the 12-month period.

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

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



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

Founded in 1962, Colabor distributes and markets food and food-related products in Canada, specifically hotels, restaurants, institutions ("HRI") and retail markets. It currently carries out its activities in two segments, Distribution and Wholesale.

A. Distribution Segment

Colabor's distribution activities consists of distribution of food products in the HRI and retail markets. 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. These different types of products are grouped under the same segment because of their similar nature, type of clients and distribution methods.

i. Broadline Distribution

Quebec

Distribution activities in Quebec are done through Colabor Food Distributor ("CFD"). CFD is a major distributor to foodservice and retail customers in Quebec City, Saguenay, Mauricie, Lower St. Lawrence and Gaspé Peninsula and Côte-Nord regions, and to a lesser extent in New Brunswick. 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.

CFD is currently in the process of obtaining the Safe Quality Food ("SQF") certification, a leading global food safety standard specific to the warehousing and distribution sector in order to confirm to customers that our products are handled and distributed according to the most stringent standards worldwide. This SQF standard includes the *Hazard Analysis Critical Control Point* ("HACCP") system, to which management tools have been added to ensure of its maintenance and continuous improvement. CDF is undertaking this turning point to demonstrate to its current and future customers its willingness to offer a range of services in accordance with the highest food safety standards and quality.

Ontario

Distribution activities in Ontario are done through two subsidiaries, Summit Foodservice (hereafter "Summit") and Skor. Summit distributes more than 14,000 products from warehouses in Ottawa, London and Mississauga to more than 3,600 customers including (i) Recipe Unlimited (hereafter "Recipe") whose supply contract will end on March 31, 2020; (ii) independent restaurants; (iii) 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. Skor operates three "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.

In the context of Colabor's ongoing transformation plan, changes were made in the distribution activities in Ontario. Refer to section 2.2 "Business Developments in 2019" for more details.

ii. Speciality Distribution

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.

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

The Wholesale segment's operations include the sale of general food related products to distributors from its distribution center in Boucherville. Wholesale segment sales consist of food and non-food products, supplied to distributors who then redistribute the products to over 25,000 customers operating in food service and retail industries in the province of Quebec and in the Atlantic provinces.

2.2 Business Developments in 2019

During the 2019 period, the following events have influenced the Company's general development and operations, or reflect the evolution of Colabor's transformation and growth plan.

Changes in the management team and 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 replacing Mr. Robert Cloutier following the withdrawal of his candidacy for personal and professional reasons. Mr. White has been a member of Colabor's Board of Directors since January 1, 2018, and is a member of the Audit Committee.

On May 2, 2019, the Company announced the appointment of Mr. Pierre Gagné, MBA, CPA, CA, 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.

On August 19, 2019, the Company announced the resignation of Mr. Lionel Ettedgui as President and Chief Executive Officer and the appointment of Mr. Briscoe as Chief Executive Officer by interim. On September 19, 2019, Mr. Pierre Gagné has been appointed to the position of Interim Chief Executive Officer, in addition to his role as Chief Financial Officer, until the appointment of Mr. Louis Frenette on November 25, 2019. Mr. Frenette has a broad experience in the food industry and has especially been the CEO of Parmalat Canada, Bonduelle North America and Danone Canada.

On November 5, 2019, the Company announced the departure of Mr. John Hemeon as Senior Vice-President and General Manager of Summit Division.

On November 25, 2019, Mrs. Danièle Bergeron, Designated Representative for the Caisse de dépôt et de placement du Québec ("CDPQ"), has joined the Board of Directors to replace Mr. Marc Baillargeon, who has served on the Board since October 2016.

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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 16 and 52-week periods ended December 28, 2019, and the corresponding periods of the previous fiscal year, have been reclassified as discontinued operations.

Refer to Section 4 "Discontinued operations".

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 following the beginning of the employment of the next President and Chief Executive Officer. Since M. Frenette started on November 25, 2019, the exercise period ends on February 23, 2020. 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. On February 24, 2020, Colabor announced the decision not to exercise the option to acquire Dubé & Loiselle inc. under the terms and conditions set forth in the original agreement. Colabor remains dedicated to strategically grow in Broadline distribution market in Quebec and continues to look at all opportunities to continue to grow profitably.

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 $255.0 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 $4.0 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 2, 2020. Under the terms of the agreement, Recipe will purchase the remaining inventory on March 2, 2020.

On January 8, 2020, Colabor announced the consolidation of Summit's Broadline distribution activities in Ontario into its Mississauga distribution center, which results in the closure of its Ottawa and London distribution centers. The Mississauga center will become Colabor's distribution platform in Ontario and will focus on its Broadline distribution activities for independent restaurant customers and banners operating in Ontario. Sales and marketing activities will be maintained in Ottawa and London, as well as administrative support in London. The closure of the London and Ottawa distribution centers takes effect on February 9, 2020 and March 2, 2020 respectively. Restructuring costs are expected. Management is currently finalizing the analysis of these costs and expects that it should not significantly different from those disclosed in the third quarter of 2019, ranged between $8.0 million to $9.0 million. In the near term, these restructuring costs are paid by the sale of Recipe's inventory and accounts receivable, net of related accounts payable.

[(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 Development Strategies and Outlook

Colabor's main financial objectives are to increase its profitability, and consequently to create value for its shareholders. In order to meet its objectives, the Company made significant changes to its management team in November 2018 and began the 2019 fiscal year with an action plan based on three pillars:

1. Reduce the debt level
   - Evaluate strategic alternatives for certain assets that are not within Colabor's growth niches;
   - Increase Adjusted EBITDA[(1)];
   - Optimize current assets and liabilities management.

2. Integrate and optimize business units
   - Evolve from a divisional structure to a functional structure with one business model;
   - Instill rigor in all the Company's operations and activities, allowing a better control of operating expenses.

3. Increase Broadline distribution activities
   - Organic growth based on strategic categories (protein, fruits and vegetables) and reposition its private brands.

Evolution of the 2019 Action Plan

In the second quarter of 2019, in order to focus on growth niches 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 as well as higher cash flows from current operations allowed a $10.0 million repayment on the subordinated debt and a diminution of the credit facility.

Additionally, the early termination of Recipe's supply agreement is part of the measures implemented over the last fifteen months within the purpose of optimizing activities and improving Colabor’s profitability. Following the sale of the assets of the Viandes Décarie division which allowed a reduction in bank indebtedness, the termination of this non-profitable supply agreement will allow a better allocation of financial and human resources in order to serve existing clients more efficiently, and to continue to grow in value-added niches.

In 2019, the Company initiated a transformation of its divisional structure in Quebec to a functional structure in the Wholesale and Broadline Distribution segments in Quebec and deployed measures to optimize its operations, which resulted in decreasing operational expenses. This measure, combined with the non-renewal of non-profitable contracts and sales growth in the Specialized Distribution activities have improved the adjusted EBITDA[(1)] by 17.3% for the 2019 fiscal year.

In 2019, marketing analysis were conducted in order to better establish growth areas for 2020 and to reposition our private brands and strategic categories.

[(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.

Action Plan for 2020

In 2020, the action plan to meet the objectives is defined in the continuity of 2019 and is based on the following pillars:

1. Increase Broadline distribution activities
    - Strategic growth based on strategic categories (protein, fruits and vegetables) and reposition its private brands;
    - Improve the share of existing clients portfolio and the extent of Quebec territories.
2. Increase efficiency
    - Evaluate and capitalize on strategic alternatives for certain assets;
    - Optimize internal management processes as part of continuous improvement in order to reduce business units' costs.
3. Prioritize Employee engagement
    - Implement new tools allowing an improved organizational communication;
    - Improve integration and training process efficiency.

2.4 Key Financial Performance Indicators

Performance Indicators (in thousands of $, except financial leverage ratio)	52 weeks 2019 $	 2018 $
Sales of continuing operations	**1,060,071**	1,096,411
Net earnings from continuing operations	**654**	(4,901)
Adjusted EBITDA[(1)]	**18,964**	16,162
Working Capital[(2)]	**58,066**	71,705
Financial Leverage Ratio[(3)]	**3.8**	6.3
Cash flows from operating activities	**21,998**	14,154
Net debt[(4)]	**72,122**	101,780

[(1)] Non-IFRS measure. Refer to table Reconciliation of Net Earnings to adjusted EBITDA and to MD&A section 6 "Non-IFRS Performance Measures". Adjusted EBITDA corresponds to net earnings before costs not related to current operations and impairment loss on goodwill, intangible assets and property, plant and equipment, depreciation and amortization and expenses for stock-based compensation plan.

[(2)] Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to MD&A section 3.2 "Financial Position" for detailed calculation.

[(3)] Financial leverage ratio is an indicator of the Company's ability to service its long-term debt. It is defined as net debt / adjusted EBITDA. Refer to MD&A section 6 "Non-IFRS Performance Measures".

[(4)] Non-IFRS measure. Refer to table Reconciliation of net earnings to adjusted EBITDA and to MD&A section 6 "Non-IFRS Performance Measures". Net debt corresponds to bank indebtedness, current portion of long-term debt, long-term debt and convertible debentures net of cash.

Fiscal 2019 Highlights

- Consolidated sales were $1,060.1 million, down 3.3% resulting from volume loss in the two operating segments, essentially explained by volume losses in Ontario and the non-renewal of non-profitable contracts in the Wholesale and Broadline distribution activities in Quebec.
- Net earnings from continuing operations was $0.7 million, up $5.6 million from a $(4.9) million net loss, resulting from an improvement of the adjusted EBITDA[(1)], a lower impairment loss on goodwill, intangible assets and property, plant and equipment of $2.7 million.

- Adjusted EBITDA[1] from continuing operations reached $19.0 million or 1.8% of sales from continuing operations compared to $16.2 million or 1.5%, up 17.3%. This increase is explained by the deployment of optimization measures on the operations and by the rationalization plan, which have decreased operating expenses, and by the effect of the provision reversal mainly explained by favorable settlement totaling $0.5 million for the 52-week period ended December 28, 2019.
- Net debt[4] decrease of $72.1 million as at December 28, 2019 compared to $101.8 million for the corresponding 2018 period had a positive effect on the financial leverage ratio[3] of 3.8 as at December 28, 2019, an improvement from 6.3, a year prior. The amount received of $17.8 million coming from the sale of the assets of Viandes Décarie division, as well as higher cash flows from current operations allowed a $10.0 million subordinated debt repayment and a $32.0 million diminution on the credit facility.
- As at December 28, 2019, the Company's working capital[2] was $58.1 million, down from $71.7 million at the end of the previous period. This variance is mainly due to the sale of the assets of Viandes Décarie division for $11.6 million, and improvements made in inventory and trade receivables management.

2.5 Highlights of the Last Three Periods

Financial Highlights	**52 weeks**		
(in thousands of $, except per share data and percentages)	**2019**	**2018**	**2017**
	$	**$**	**$**
Sales from continuing operations	**1,060,071**	1,096,411	1,202,638
Net earnings (loss) from continuing operations	**654**	(4,901)	(19,238)
Net earnings from discontinued operations	**7,073**	514	646
Adjusted EBITDA[1]	**18,964**	16,162	23,396
Adjusted EBITDA margin[1]	**1.8%**	1.5%	1.9%
Basic and diluted net earnings (loss) per share of continuing operations	**0.01**	(0.05)	(0.19)
Basic and diluted net earnings per share of discontinued operations	**0.07**	0.01	0.01
Total assets	**261,148**	303,594	311,089
Long-term financial liabilities[2]	**67,502**	111,658	105,457

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

[2] Long-term financial liabilities include long-term debt and convertible debentures.

The improvement in net earnings from continuing operations for the 2018 period against 2017 is mainly due to a decrease of $13.5 million in assets impairment and of $7.1 million in costs not related to current operations.

The decrease in sales and adjusted EBITDA[1] for the 2018 period against 2017 originates mainly from supply contracts loss from large restaurant chains: Popeye's, Louisiana Kitchen and Montana's BBQ in Ontario (contracts that ended November 13, 2017 and April 1, 2018 respectively).

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3. Operational and Financial Results

3.1 Operating Results

Summary of Operating Results for the Fourth Quarter for the 16 and 52-week periods.

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2019	2018	Variance	2019	2018	Variance
	$	$	%	$	$	%
Sales	**311,551**	334,739	(6.9)	**1,060,071**	1,096,411	(3.3)
Cost of goods sold	**268,963**	290,555	(7.4)	**918,083**	950,476	(3.4)
Operating expenses	**37,204**	38,792	(4.1)	**123,024**	129,773	(5.2)
Operating expenses	**306,167**	329,347	(7.0)	**1,041,107**	1,080,249	(3.6)
Adjusted EBITDA[(1)]	**5,384**	5,392	(0.1)	**18,964**	16,162	17.3
Adjusted EBITDA margin[(1)]	**1.7%**	1.6%		**1.8%**	1.5%	

[(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 Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2019	2018	Variance	2019	2018	Variance
	$	$	%	$	$	%
Distribution Segment	**253,249**	270,544	(6.4)	**887,236**	917,350	(3.3)
Wholesale Segment	**75,133**	82,638	(9.1)	**229,973**	242,862	(5.3)
Intersegment eliminations and others	**(16,831)**	(18,443)	8.7	**(57,138)**	(63,801)	10.4
Sales	**311,551**	334,739	(6.9)	**1,060,071**	1,096,411	(3.3)

Consolidated sales for the fourth quarter reached $311.6 million compared to $334.7 million during the corresponding quarter of last fiscal year, representing a decrease of 6.9%.

- Sales in the Distribution segment decreased by 6.4%, mainly due to a $6.1 million loss of volume in Ontario and the decrease in Broadline Distribution sales in Québec, mainly related to the decision to cease serving some regions in Quebec and the Maritimes and non-profitable contracts, mitigated by an increase in volume from other clients.
- Sales in the Wholesale segment decreased by 9.1%, mainly due to lower intersegment sales, the non-renewal of non-profitable agreements and by a purchase lag by certain clients.
- Intersegment eliminations and others have decreased by $1.6 million or 8.7%, mainly due to a decrease in volume in Ontario and an increase in direct purchases from suppliers in the Distribution segment.

Cumulative consolidated sales for the 2019 period were $1,060.1 million compared to $1,096.4 million in the corresponding period of last fiscal year, a decrease of 3.3%.

- The 3.3% decrease in cumulative sales in the Distribution segment is primarily attributable to lower sales volume in Ontario for an amount of $26.9 million of which $13.2 million stemmed from the loss of a supply agreement with Recipe as well as another customer, a decrease in Broadline Distribution sales in Quebec, mostly related to the decision to cease serving some regions in Quebec and the Maritimes and some non-profitable contracts, mitigated by an increase of the Specialized Distribution sales, mainly related to a promotion put in place by a retailer.
- Cumulative sales in the Wholesale segment were down 5.3% compared to the corresponding period of 2018. This reduction is explained by a decrease of $5.4 million in intersegment sales, by the non-renewal of non-profitable contracts and by a purchase lag by certain clients.
- Intersegment eliminations and others decreased by $6.7 million or 10.4%, mainly due to a loss of volume in Ontario and an increase in direct purchases from the Distribution segment.

3.1.2 Operating Expenses

Operating Expenses for the Fourth Quarter for the 16 and 52-week periods.

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Distribution segment	**252,021**	270,312	(6.8)	**878,643**	912,759	(3.7)
Wholesale segment	**68,998**	75,820	(9.0)	**212,315**	225,337	(5.8)
Intersegment eliminations and others	**(14,852)**	(16,785)	11.5	**(49,851)**	(57,847)	13.8
Operating expenses[1]	**306,167**	329,347	(7.0)	**1,041,107**	1,080,249	(3.6)

[1] Operating expenses excluding costs not related to current operations, depreciation and amortization, impairment loss on goodwill, intangible assets and property, plant and equipment and expenses for stock-based compensation plan.

Consolidated operating expenses for the fourth quarter were $306.2 million compared to $329.3 million for the corresponding period of last fiscal year, a decrease of 7.0%, 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 6.8%, mostly explained by lower cost of good sold due to the decrease in sales and by tightening operating costs.
- Operating expenses in the Wholesale segment decreased by 9.0%, related to the decrease in sales in the Wholesale segment.
- Intersegment eliminations and others decreased by 11.5%, mainly due to a decrease in intersegment sales as explained above, offset by an increase in corporate expenses, essentially related to salaries, in connection with the transformation towards a functional structure, among other things.

Cumulative consolidated operating expenses for the 2019 period amounted to $1,041.1 million compared to $1,080.2 million in the corresponding period of last fiscal year, a decrease of 3.6%, mainly explained by lower 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 3.7%, due to lower costs of goods sold related to lower sales of approximatively $25.0 million, as well as a tightening of operating costs and the effect of the provision reversal mainly explained by favorable settlements totaling $0.5 million during the 52-week period ended December 28, 2019.
- Cumulative operating expenses in the Wholesale segment decreased by 5.8%, mainly due to a decrease in costs of goods sold explained by lower sales of approximatively $12.0 million and the tightening of operating costs.
- Intersegment eliminations and others decreased by 13.8%, mainly due to lower intersegment sales as explained above, offset by an increase in corporate expenses, essentially related to salaries in connection with the transformation towards a functional structure and by an increase in bonuses, related to results improvement.

3.1.3 Adjusted EBITDA

Adjusted EBITDA for the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Distribution Segment	**1,228**	232	429.3	**8,593**	4,591	87.2
Wholesale Segment	**6,135**	6,818	(10.0)	**17,658**	17,525	0.8
Intersegment eliminations and others	**(1,979)**	(1,658)	(19.4)	**(7,287)**	(5,954)	(22.4)
Adjusted EBITDA[(1)]	**5,384**	5,392	(0.1)	**18,964**	16,162	17.3
Adjusted EBITDA margin[(1)]	**1.7 %**	1.6 %		**1.8 %**	1.5 %	

[(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[(1)] for the fourth quarter of 2019 and 2018 was $5.4 million and as percentage of sales, adjusted EBITDA margin[(1)] reached 1.7% compared to 1.6% in the corresponding period of 2018, essentially explained by the deployment of operations optimization measures and by the rationalization plan, which reduced operating expenses in those two segments :

- Adjusted EBITDA[(1)] in the Distribution segment increased by $1.0 million, despite 6.4% lower sales, mostly due to the deployment of operations optimization measures and by the rationalization plan, which reduced operating expenses;
- Adjusted EBITDA[(1)] in the Wholesale segment decreased by $0.7 million, related to 9.1% lower sales;
- Adjusted EBITDA[(1)] from intersegment eliminations and others decreased by $0.3 million, essentially explained by an increase in corporate expenses, related to salaries and bonuses, as explained above.

Adjusted EBITDA[1] for the 2019 fiscal year reached $19.0 million, up 17.3% or $2.8 million compared to the corresponding period of 2018. As a percentage of sales, adjusted EBITDA margin[1] reached 1.8% compared to 1.5% in the corresponding period of 2018. This improvement is due to non-renewal of non-profitable contracts in the Wholesale and Broadline distribution activities in Quebec and to the deployment of operational optimization measures and the rationalization plan, which reduced operating expenses.

- Adjusted EBITDA[1] in the Distribution segment increased by $4.0 million, despite 3.3% lower sales, mostly due to the deployment of operations optimization measures and by the rationalization plan, which reduced operating expenses and the effect of the provision reversal mainly explained by favorable settlements totaling $0.5 million.
- Adjusted EBITDA[1] in the Wholesale segment increased by $0.1 million, despite 5.3% lower sales, mostly due to the deployment of operations optimization measures and by the rationalization plan, which reduced operating expenses.
- Adjusted EBITDA[1] from intersegment eliminations and others decreased by $1.3 million, essentially explained by an increase in corporate expenses, related to salaries and bonuses for the 2019 period, as explained above.

3.1.4 Costs not Related to Current Operations

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Costs of internal restructuring of operations						
Severance and other costs	**266**	2,499	(89.4)	**444**	2,499	(82.2)
Change in provision for onerous contracts	**—**	—	—	**—**	(1,194)	—
Others	**437**	(80)	646.3	**437**	(80)	646.3
Costs not related to current operations	**703**	2,419	(70.9)	**881**	1,225	(28.1)

In 2019, the Company has undertaken some changes in the management team, incurring costs not related to current operations. In 2018, Colabor had announced the implementation of efforts on workforce rationalization to optimize the operations, which has incurred the severance and other costs.

During fiscal year 2018, the Company has recorded a gain resulting from the termination of an onerous contract. In 2019, other costs not related to current operations consist mainly of legal fees and other non-recurring costs.

3.1.5 Depreciation and Amortization

Depreciation and Amortization for the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Depreciation of property, plant and equipment	**976**	1,273	(23.3)	**3,009**	3,787	(20.5)
Depreciation of intangible assets	**2,083**	2,120	(1.7)	**6,792**	6,871	(1.1)
Depreciation and Amortization	**3,059**	3,393	(9.8)	**9,801**	10,658	(8.0)

During the fourth quarter of 2019 and the fiscal 2019, depreciation and amortization expense decreased by 9.8% and 8.0% respectively compared to 2018, due to lower acquisitions of property, plant and equipment compared to the previous fiscal year and by impairment charges recorded during fiscal year 2018.

3.1.6 Financial Expenses

Financial expenses for the fourth quarter of 2019 decreased to $1.9 million compared to $2.3 million for the corresponding period of 2018. For the 52-week cumulative period, financial expenses decreased to $7.2 million compared to $7.9 million for the corresponding period of 2018. This decrease is explained by lower borrowings on the credit facility for an amount of $32.0 million, by the repayment of $10.0 million of the nominal value of the subordinated debt, thus reducing it from $25.0 million to $15.0 million and partially offset by the increase in the subordinated debt rate interest to 8.0% for fiscal 2019 compared to 7.0% in the prior year.

3.1.7 Income Taxes

In the fourth quarter of 2019 and 2018, income taxes were $1.0 million. The tax recovery related to higher net earnings before taxes is lowered by a tax expense reclassification of $0.9 million in the discontinued operations during the quarter. For the 2019 period, income taxes were $0.2 million compared to a recovery of $1.7 million in 2018. The tax related to the increase in net earnings before taxes mainly explains this increase.

3.1.8 Net Earnings

Net Earnings of the Fourth Quarter for the 16 and 52-week periods

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

	16 weeks			52 weeks		
	2019	**2018**	**Variance**	**2019**	**2018**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Net earnings (loss) from continuing operations	**572**	(1,873)	(130.5)	**654**	(4,901)	113.3
Net earnings from discontinued operations	**(860)**	(31)	2,674.2	**7,073**	514	1,276.1
Net earnings (loss)	**(288)**	(1,904)	(84.9)	**7,727**	(4,387)	276.1
Basic and diluted net earnings (loss) per share of continuing operations	**0.01**	(0.02)	(150.0)	**0.01**	(0.05)	120.0
Basic and diluted earnings per share of discontinued operations	**(0.01)**	—	—	**0.07**	0.01	600.0
Basic and diluted net earnings (loss) per share	**0.00**	(0.02)	(100.0)	**0.08**	(0.04)	300.0

Net earnings for the fourth quarter reached $(0.3) million, or $nil per share, up by $1.6 million from $(1.9) million, or $(0.02) per share, for the corresponding period of last fiscal year. The change is mainly explained by lower amortization and depreciation, costs not related to current operations of $1.7 million and financial expenses, mitigated by income taxes from the sale of the assets of the Viandes Décarie division. Net earnings from continuing operations reached $0.6 million or $0.01 per share, up from $(1.9) million or $(0.02) per share in the corresponding period of last fiscal year. The weighted average number of shares outstanding during the period is 101,639,418 compared to 101,139,418 for the corresponding period in 2018.

Net earnings for fiscal 2019 was $7.7 million, or $0.08 per share, up $12.1 million from $(4.4) million or $(0.04) per share in the corresponding period of last fiscal year. Net earnings of $7.1 million from discontinued operations of Viandes Décarie division contributed to this growth, as did the adjusted EBITDA[(1)] improvement, a lower impairment loss on goodwill, intangible assets and property, plant and equipment of $2.7 million, a decreased depreciation expense and decreased costs not related to current operations of $0.3 million, mitigated by an increase in income taxes. Net earnings from continuing operations was $0.7 million or $0.01 per share compared to $(4.9) million or $(0.05) per share for the corresponding period of 2018. The weighted average number of shares outstanding during the 52-week period is 101,346,836 compared to 101,177,944 for the corresponding period in 2018.

[(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.

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3.2 Financial Position

The following table presents the main elements of current assets and liabilities, that make up the Company's working capital[1]. (in thousands of dollars)

	As at December 28, 2019 $	As at December 29, 2018 $	Variance $
Current assets			
Trade and other receivables	**72,643**	90,038	(17,395)
Inventories	**67,747**	78,229	(10,482)
Current assets	**140,390**	168,267	(27,877)
Current liabilities			
Trade and other payables	**82,324**	96,562	(14,238)
Working capital[1]	**58,066**	71,705	(13,639)

[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.

As at December 28, 2019, the Company's working capital[1] was $58.1 million, down $13.6 million from a year ago. The decrease is explained as follows:

Trade and Other Receivables

Trade and other receivables were down $17.4 million from December 29, 2018, stemming from the sale of the assets of the Viandes Décarie division for an amount of $6.6 million, combined with a shorter collection period of trade receivables and lower sales in the quarter.

Inventories

Inventory balance decreased by $10.5 million from December 29, 2018. This reduction is due to the effect of the sale of the assets of the Viandes Décarie division for an amount of $6.7 million, combined with improved inventory level.

Trade and Other Payables

The balance of trade and other payables decreased by $14.2 million from December 29, 2018. This decrease is mainly due to the sale of the assets of the Viandes Décarie division and an inventory reduction.

3.3 Other Significant Changes in Financial Position

The following table presents the other significant items of the Company's financial position as at December 28, 2019 and their corresponding variances from the fiscal year ended December 29, 2018.

(in thousands of dollars)

	As at December 28, 2019 $	As at December 29, 2018 $	Variance $
Property, Plant and Equipment	**10,486**	11,142	(656)
Intangible Assets	**31,461**	38,090	(6,629)
Deferred Tax Asset	**2,295**	4,383	(2,088)
Long-Term Debt	**17,926**	62,317	(44,391)
Convertible Debentures	**49,576**	49,341	235
Pension Obligations	**1,553**	1,066	487
Equity Attributable to Shareholders	**100,103**	92,355	7,748

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 sale of the assets of the Viande Décarie division and 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.

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 February 26, 2020. Refer to Notes 9, 18 and 20 of the audited consolidated interim financial statements for further details.

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

	Number of shares / stock-options	Amount $
Common shares		
Participating and voting common shares	101,677,932	256,296
Options on participating and voting stock		
Outstanding options	3,416,471	
Exercisable options	840,082	

3.5 Cash Flows

The following table represents consolidated cash flows of the fourth quarter for the 16 and 52-week periods.

(in thousands of dollars)

	16 weeks		52 weeks	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cash flows from operating activities	**5,682**	8,177	**21,998**	14,154
Cash flows from investing activities	**(749)**	2,378	**(2,628)**	696
Cash flows from financing activities	**(12,932)**	(356)	**(48,979)**	(2,146)
Net change in cash and cash equivalents from continuing operations	**(7,999)**	10,199	**(29,609)**	12,704
Net change in cash and cash equivalents from discontinued operations	**—**	255	**18,388**	(359)
Cash and cash equivalents at the beginning	**2,564**	(4,668)	**5,786**	(6,559)
Cash and cash equivalents at the end	**(5,435)**	5,786	**(5,435)**	5,786

Operating Activities

Cash flows from operating activities in the fourth quarter reached $5.7 million, down from $8.2 million for the corresponding period of 2018. This decrease is mainly due to a higher utilization of working capital[2].

Cash flows from operating activities in the 2019 fiscal year reached $22.0 million, up from $14.2 million for the corresponding period of 2018. This increase is mainly due to a lower utilization of working capital[2], lower financial expenses and the adjusted EBITDA[1] growth.

Investing Activities

Cash flows used from investing activities amounted to $(0.7) million and $(2.6) million for the 16 and 52-week periods compared to $2.4 million and $0.7 million for the corresponding periods in 2018, respectively. This change is explained by a $0.4 million and $0.7 million decrease in advances from Viandes Décarie division for the 16 and 52-week periods ended December 28, 2019 respectively, offset by a reduction in property, plant and equipment acquisitions.

Financing Activities

Cash flows used in financing activities in the fourth quarter amounted to $12.9 million compared to $0.4 million for the corresponding period of 2018. This change is mostly due to the repayment of $6.0 million of the credit facility and to the repayment of $10.0 million of the subordinated debt in 2019 compared to a net increase of $2.0 million for the corresponding period in 2018 .

For the cumulative 52-week period, cash flows used in financing activities amounted to $49.0 million compared to $2.1 million for the corresponding period of 2018. This change is due to the repayment of $10.0 million of the subordinated debt as well as $32.0 million of credit facility compared to a net increase of $5.7 million in credit facility for the corresponding period of 2018.

[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 an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to MD&A section 3.2 "Financial Position" for detailed calculation.

Payments Due

Undiscounted cash flows, including capital and interest related to the Company's liabilities expire as follows:

(in thousands of dollars)

Contractual obligations	Total	Payments due per period			
		Less than 1 year	1 to 3 years	3 to 5 years	5 years and over
	$	$	$	$	$
Bank overdraft	5,435	5,435	—	—	—
Trade and other payables	82,324	82,324	—	—	—
Credit facility	2,062	2,062	—	—	—
Obligations under leases	4,310	1,167	1,989	1,001	153
Subordinated debt	16,253	975	15,278	—	—
Convertible debentures	55,384	2,992	52,392	—	—
Operating leases	48,520	14,427	20,357	8,544	5,192
	214,288	109,382	90,016	9,545	5,345

3.6 Capital Resources

During the 2020 period, the Company anticipates that it will require cash to finance :

- its tangible assets investments;
- its investment opportunities; and
- its contractual obligations.

Available sources of internal and external financing are :

- cash flows from operating activities; and
- unused portion of the credit facility.

As of December 28, 2019, the Company is in compliance with all of its banking covenants.

The Company is expecting to be able to meet its obligations for the next 12 months by using future cash flows from operating activities. Because its credit facility is expiring in October 2020, the Company is in discussion regarding refinancing and is currently exploring different options. The Company has always been able to finance itself in the past and the management continue to believe that it will be able to refinance itself and cover its liquidity needs in the foreseeable future.

Credit facility

The credit facility is composed of a revolving credit facility for a maximum amount of $140.0 million, of which $2.0 million is used as at December 28, 2019, a term loan of $18.0 million (unused as at December 28, 2019) and a $15.0 million line of credit, of which $1.6 million is drawn as at December 28, 2019. By mutual consent, the credit facility may be increased by an additional $30.0 million. It is secured by a first-ranking mortgage on all Company's present and future assets. Amounts borrowed from the credit facility may take various forms and the interest rate varies based on the type of loan. As at December 28, 2019, the facility consisted of a loan and banker's acceptances bearing interest at rates varying between 3.55% and 3.66% (between 2.19% and 3.95% as at December 29, 2018). The credit facility is expiring on October 13, 2020.

The Company is required to respect a fixed charges coverage ratio. As at December 28, 2019, this ratio has been met and the availability of the credit facility amounted to $68.5 million.

As at December 28, 2019, letters of guarantee amounting to $1.0 million ($4.6 million as at December 29, 2018) had been used to support the lease of one of the Company's distribution centers.

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Subordinated Debt

The subordinated debt has a nominal value of $25.0 million maturing on April 13, 2021. During the fiscal 2019, the Company has reimbursed two lump sums for a total of $10.0 million, reducing the nominal value to $15.0 million. Under the terms of the agreement, the interest on the debt is payable monthly at a prime rate of 8.0% in 2019 (7.0% in 2018). The subordinated debt is secured by a mortgage on all Company's present and future assets, which is subordinated to the first-ranking security on the credit facility.

Convertible debentures

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 2018). Under certain circumstances, the Company could redeem some or all of the debentures in advance since April 30, 2015.

The debentures have a nominal value of $50.0 million maturing on October 13, 2021 with an interest rate of 6.0% (6.0% in 2018). Under the terms of the agreement, effective interest rate on the debentures is 6.55% (6.55% in 2018).

Share-capital

Colabor's share-capital consist of an unlimited number of common and preferred shares that may be issued in series, without nominal value. A summary of designation, rights, restrictions and conditions related to common and preferred shares is presented in Colabor's Annual Information Form ("AIF") dated February 26, 2020 and is available on the SEDAR website at www.sedar.com.

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 five years according to the terms of the agreement of which $0.2 million has been received during the reporting period. 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 proceeds of disposition and the carrying amount of net assets sold in 2019 :

(in thousands of dollars)

	$
Proceeds from 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

(in thousands of dollars)

	16 weeks		52 weeks	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Sales	—	31,383	**37,392**	106,505
Cost of goods sold	—	28,830	**34,245**	97,687
Gross Margin	—	2,553	**3,147**	8,818
Operating expenses	—	2,035	**2,525**	6,504
Depreciation and amortization	—	540	**29**	1,774
Costs not related to current operations	—	—	**(7,799)**	—
Operating earnings	—	(22)	**8,392**	540
Financial expenses	—	9	**6**	26
Earnings (loss) before taxes	—	(31)	**8,386**	514
Income taxes (recovered)	860	—	**1,313**	—
Net earnings (loss) from discontinued operations	(860)	(31)	**7,073**	514

Sales

Sales for fiscal 2019 were $37.4 million down from $106.5 million in the corresponding period of last fiscal year. Sales reduction is mainly due to the fact that the sale of assets of the Viande Décarie division was completed on May 10, 2019 and the results of the 2019 fiscal year comprised of 130 days of sales compared to 364 days in 2018.

Operating Expenses

For the 2019 fiscal year, operating expenses from the Viandes Décarie division amounted to $36.8 million, down from $104.2 million in the corresponding period of 2018, but also stable relative to sales levels. The lower number of days of operations subsequent to the sale of the assets of the Viandes Décarie division on May 10, 2019 explains the expense reduction.

Adjusted EBITDA[1]

Cumulative Adjusted EBITDA[1] was $0.6 million, down from $2.3 million in the cumulative period of last fiscal year, considering what is aforementioned.

Cash Flow Summary for Discontinued Operations

(in thousands of dollars)

	16 weeks		52 weeks	
	2019	2018	2019	2018
	$	$	$	$
Cash flows from operating activities	—	3,117	**622**	4,338
Cash flows from investing activities	—	(2,852)	**17,772**	(4,672)
Cash flows from financing activities	—	(10)	**(6)**	(25)
Net change in cash of discontinued operations	—	255	**18,388**	(359)

Net change in cash from discontinued operations is $18.4 million compared to $(0.4) million in the cumulative period of 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:

(in thousands of dollars, except per share data)

	2019				2018			
	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[1]	**311,551**	261,541	274,198	212,781	334,739	265,504	273,564	222,604
Adjusted EBITDA[1]	**5,384**	6,488	7,254	(162)	5,392	7,017	5,391	(1,638)
Costs not related to current operations	**703**	—	178	—	2,419	(1,194)	—	—
Net earnings (loss) from continuing operations[1]	**572**	1,640	1,378	(2,936)	(1,873)	823	498	(4,349)
Net earnings (loss) from discontinued operations[1]	**(860)**	69	7,661	203	(31)	357	319	(131)
Net earnings (loss)[1]	**(288)**	1,709	9,039	(2,733)	(1,904)	1,180	817	(4,480)
Basic and diluted net earnings (loss) per share of continuing operations	**0.01**	0.02	0.01	(0.03)	(0.02)	0.01	0.01	(0.04)
Basic and diluted net earnings (loss) per share	**—**	0.02	0.09	(0.03)	(0.02)	0.01	0.01	(0.04)

[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".

Sales for the last eight quarters have been impacted by different factors, such as non-renewal of non-profitable contracts in the Wholesale and Broadline distribution activities in Quebec and the effect of seasonal nature. Net earnings for the first quarters are generally negatively impacted by seasonality. Net earnings for the fourth quarter of 2018 and 2019 were negatively impacted by costs not related to current operations.

[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.

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6. Non-IFRS Performance Measures

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

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

Reconciliation of Net Earnings to Adjusted EBITDA

(in thousands of dollars)

	16 weeks		52 weeks	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Net earnings (loss) from continuing operations	**572**	(1,873)	**654**	(4,901)
Income taxes (recovered)	**(1,026)**	(984)	**195**	(1,686)
Financial expenses	**1,849**	2,315	**7,158**	7,882
Operating earnings	**1,395**	(542)	**8,007**	1,295
Depreciation and amortization	**3,058**	3,393	**9,801**	10,658
Impairment loss on goodwill, intangible assets and property, plant and equipment	**171**	132	**243**	2,916
Expenses for stock-based compensation plan	**57**	(10)	**32**	68
Costs not related to current operations	**703**	2,419	**881**	1,225
Adjusted EBITDA	**5,384**	5,392	**18,964**	16,162

Net Debt

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

The following table presents the calculation of net debt:

(in thousands of dollars)

	As at December 28, 2019	As at December 29, 2018
	$	$
Bank indebtedness (cash)	**1,579**	(11,466)
Current portion of long-term debt	**2,983**	1,027
Long-term debt	**17,984**	62,878
Convertible debentures	**49,576**	49,341
Net debt	**72,122**	101,780

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".

7. Related Party Transactions

The Company's related party transactions are those concluded with key management personnel and administrators. Unless otherwise indicated, none of the transactions have special features or special conditions. Amounts are usually paid in cash.

Transactions with Dubé & Loiselle inc., a company owned by one of the Company's administrator

(in thousands of dollars)

	16 weeks		52 weeks	
	2019	2018	2019	2018
	$	$	$	$
Sales	**9,353**	8,341	**26,130**	27,537
Trade and other receivables, net of remittances	**447**	126	**447**	126
Dubé & Loiselle inc. option[1]	**500**	500	**500**	500

[1] As part of the recapitalization transaction carried out in October 2016, the Company paid an amount of $0.5 million 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. In August 2019, the option's maturity has been extended by 90 days following the beginning of the employment of the next President and Chief Executive Officer. Since M. Frenette started on November 25, 2019, the expiration was on February 23, 2020. Refer to sections 2.2 "2019 Business Developments in 2019" and 15 "Subsequent Events". 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.

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 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 26, 2020, 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 Judgments and Estimates

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. These judgments and estimates are based on facts and information that are available to management, and are reassessed yearly at the end of each reporting period.

The actual results are likely to differ from 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.

Supplier Rebates

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

Useful Lives of Depreciable Assets

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

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 may vary significantly in future appraisals of the Company's defined benefit obligations.

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.

Impairment

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.

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 and the Senior Vice-President and CFO have 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 for the period ended December 28, 2019. On the basis of this assessment, they have concluded that the design and operation of ICFR and DC&P are adequate. For the 52-week period ended December 28, 2019, the President and CEO and the Senior Vice-President and CFO have also assessed that 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. 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 and for leases for which the term is less than 12 months. 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 impact of the initial application of the standard as an adjustment to opening deficit. The company has chosen the latter of the two options. 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 did not 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 financial expenses. The Company is finalizing the assessment of the extent of the impact of this standard on its consolidated financial statements.

14. Financial Instruments

A) Fair value

Fair value of cash, trade and other receivables, bank indebtedness, trade and other payables as well as current 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:

(in thousands of dollars)

	As at December 28, 2019		As at December 29, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial liabilities				
Non-current				
Credit facility	—	—	22,108	22,108
Subordinated debt	**14,963**	**14,957**	24,862	24,929
Convertible debentures	**49,576**	**42,260**	49,341	31,500
	64,539	**57,217**	96,311	78,537

The fair value of subordinated debt was determined by discounting future cash flows at 6.5% (8.0% as at December 29, 2018), the current rate of subordinated debt.

The fair value of the convertible debentures was determined based on the trading price on December 28, 2019.

Fair value measurement

When determining an asset or a liability's fair value, the Company uses observable market data as much as possible. 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 December 28, 2019, the Company has classified the fair value measurement of non-current liabilities presented in the table above as follows: Credit facility (Level 2), Convertible debentures (Level 1) and Subordinated debt (Level 2). There was no transfer between the levels during the fiscal year 2019.

B) Financial risks management

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

Interest rate risk

The credit facility bears interest at variable rates, and this exposes the Company to the cash flow risks resulting from interest rate fluctuations. The Company's other financial assets and liabilities do not result in any interest rate risk since they do not bear interest at variable rates. The Company manages its interest rate risk exposure through an appropriate mix of fixed-rate and variable-rate financial liabilities.

The sensitivity analysis includes items bearing interest at variable rates and indicates that a reasonably possible 1.0% fluctuation in the bank prime rate based on current market conditions would have an impact of $nil on earnings in 2019 ($0.4 million in 2018).

Credit risk

The carrying amount on the consolidated statements of financial position of trade and other accounts receivable and loans receivable represents the maximum amount exposed to credit risk.

The Company's credit risk is primarily attributable to its trade accounts receivable and loans receivable. The credit risk related to trade accounts receivable is generally diversified, except for what is mentioned at note 25 of the audited consolidated financial statements ended December 28, 2019. The Company requires a guarantee or letter of credit from some of its customers. As at December 28, 2019, the Company had guarantees for 1.0% of its trade accounts receivable (1.0% as at December 29, 2018).

The Company's policy is to have each customer undergo a credit check.

The credit risk related to loans receivable is not diversified. For some of its loans, the Company has a movable mortgage on the assets held by the borrower.

Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and sources of financing in the form of authorized bank loans. The Company establishes budget estimates and cash flow forecasts to ensure it has the necessary funds to fulfill its obligations. The Company is expecting to be able to meet its obligations for the next 12 months by using future cash flows from operating activities. Because its credit facility is expiring in October 2020, the Company is in discussion regarding refinancing and is currently exploring different options. The Company has always been able to finance itself in the past and the management continue to believe that it will be able to refinance itself and cover its liquidity needs in a foreseeable future. In light of the cash sources available to the Company, management believes that the liquidity risk is low.

15. Subsequent Events

As previously mentioned in section 2.2 "Business Developments in 2019", on January 8, 2020, the Company announced the consolidation of its Broadline distribution activities in Ontario into its Mississauga distribution center, which resulted in the closure of its Ottawa and London distribution centers. Refer to this section for more details.

On February 24, 2020, Colabor announced the decision not to exercise the option to acquire Dubé Loiselle inc. Refer to section 2.2 "Business Developments in 2019" for more details.