COLABOR GROUP INC.
MANAGEMENT'S DISCUSSION & ANALYSIS

FIRST QUARTER OF THE 2017 FISCAL YEAR

May 8, 2017

COLABOR GROUP INC.

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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 comprehensive income, financial situation and cash flows for the first quarter of the fiscal year ending December 30, 2017. This report should be read in conjunction with the unaudited interim condensed financial statements and related notes found in this report, as well as with the audited consolidated financial statements and related notes included in the Annual Report for the fiscal year ended December 31, 2016. 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 Standards Board (IASB). The financial statements have been published on the following sites: www.sedar.com and www.colabor.com.

Colabor's fiscal year comprises thirteen periods. The first three quarters comprise three periods each and the fourth quarter includes four periods. The Company's year-end is the last Saturday of December.

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

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

Additional information on 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. Non-IFRS performance measures

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

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

Reconciliation of net earnings (loss) to adjusted EBITDA

(unaudited, in thousands of dollars)

	2017 **$**	**2016** **$**	**Variance** **$**
Net earnings (loss)	(3,446)	(5,298)	1,852
Income tax recovery	(876)	(1,847)	971
Financial expenses	1,813	2,994	(1,181)
Depreciation and amortization	2,540	2,719	(179)
EBITDA	31	(1,432)	1,463
Costs not related to current operations	869	3,337	(2,468)
Adjusted EBITDA	900	1,905	(1,005)

3. Forward-looking statements

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

4. Highlights

During the first quarter of 2017, the following events had significant impacts on the Company's operations:

- On January, 2017, the Company announced the closure of his Vaughan's Distribution Center. Since April 30, 2017 Summit has been distributing its products from the three remaining warehouses located in Ontario focusing on geography rather than grouping by customers. In the future, this approach is going to bring significant savings and better market penetration.
- During the first quarter, Decarie's decline in profitability, which began in the fourth quarter of 2016, has increased, causing a negative impact on adjusted EBITDA. This decline in profitability is due to a significant decline in sales due to strong deflation in beef prices and increased competitive pressures.
- Renewal of a major fresh fish and seafood supply contract with Sobeys Quebec Inc.

5. Corporate profile

Activities

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

A. Distribution Segment

This segment includes the following operating activities:

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

Summit distributes more than 8,000 products from warehouses in Ottawa, London, Mississauga and Vaughan to more than 3,600 customers, including (i) Cara Operations Limited (hereafter "Cara"), which operates, among others, Swiss Chalet, Harvey's, Kelsey's, Montana's BBQ & Bar, Milestone's Grill and Bar and East side Mario's; (ii) Popeyes Louisiana Kitchen; (iii) Wild Wing; (iv) other foodservice chains; (v) independent restaurants; and (vi) institutions, including hospitals, schools and government institutions. Summit's product line includes frozen products, dry staples, dairy products, meat, fish and seafood, fruits and vegetables, disposables and sanitation products.

This division, with approximately 500 employees, operates four distribution centres, including the London administrative head office. These warehouses cover approximately 541,000 square feet, allocated as follows:

Mississauga	127,961 square feet
London	113,595 square feet (could be expanded)
Ottawa	103,460 square feet (could be expanded)
Vaughan	196,598 square feet (closed April 30, 2017)

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

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

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

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

   CFD is a major distributor to foodservice and retail customers in the Quebec, Saguenay, Mauricie, Lower St. Lawrence and Gaspé Peninsula, New Brunswick regions and North Shore. CFD employs approximately 460 people, distributes over 12,000 products from its two strategically located warehouses in Levis and Rimouski, totalling approximately 303,000 square feet. CFD's almost 4,600 customers consist primarily of restaurants, foodservice operators, specialty food stores, institutional accounts such as healthcare institutions, schools and universities, and certain other retail customers. CFD has a complete product offering, including frozen products, dry staples, dairy products, meat, fish and seafood, fruits and vegetables, disposables and sanitation products. It therefore offers its customers a "one-stop-shop" solution.

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

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

   Norref operates from a 40,000 square-foot distribution centre in 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. Norref has approximately 200 employees.

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

   Lauzon prepares and processes superior quality meat products for the provinces of Quebec and Ontario and is a major distributor of highly recognized brands such as Premium Signature Angus and Sterling Silver. Lauzon is known, among other things, for its products and employees and for providing effective and flexible service to the restaurants, hotels and the institutional sector. Lauzon operates from a recently renovated plant of approximately 68,000 square feet, located in Montreal, that is HACCP-certified and federally approved, which allows it to sell its products nationwide. This division has approximately 100 employees.

B. Wholesale Segment

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

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

Boucherville operates a distribution centre of approximately 371,000 square feet located in Boucherville and has approximately 80 employees.

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

Décarie is a wholesaler and distributor in the meat and meat products market. Décarie has a distribution centre of approximately 27,000 square feet located in Montreal and approximately 50 employees. As a wholesaler, this division distributes a wide range of fresh and frozen meat including beef, veal, lamb, pork and poultry. It has a diversified customer base of distributors, food retailers and specialty butchers. Décarie's facilities are HACCP-certified, and it holds a federal permit that allows it to sell its products across Canada.

6. Early adoption of IFRS 15

The Company elected for early adoption of IFRS 15, "Revenues from Contracts with Customers," which resulted in adjustments to how certain transactions are presented in the financial statements. The main change concerns the recognition of sales involving direct delivery to customers.

When a supplier delivered products directly to a Colabor customer, the revenue was recognized as sales, less rebates made to Colabor customers. The cost of goods sold was recognized in operating expenses, less supplier rebates.

Under IFRS 15, revenue from direct sales to customers is now recognized against operating expenses. The cost of goods sold is still recognized in operating expenses, less supplier rebates. The impact of this change was to reduce sales and to reduce operating expenses by an equivalent amount, such that the net impact on operating earnings was nil.

For purposes of comparison, the figures for the 84-day period ended March 19, 2016 have been reclassed to reflect this change in accounting policy. The changes to comparative figures are as follows:

(unaudited, in thousands of dollars)

	First quarter ended March 19, 2016		
	Result presented in 2016 $	**Change under IFRS 15 $**	**Reclassed result 2016 $**
Sales	307,064	(22,253)	284,811
Operating expenses, excluding costs not related to current operations, depreciation and amortization	305,159	22,253	282,906
Operating income before costs not related to current operations, depreciation and amortization	1,905	-	1,905

7. Performance analysis

7.1 Net earnings

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

Consolidated Statements of Earnings (loss)

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

	2017		2016 Reclassed		Variance	
	$	%	$	%	$	%
Sales	267,187	100.00	284,811	100.00	(17,624)	(6.19)
Operating expenses, excluding costs not related to current operations, depreciation and amortization	266,287	99.66	282,906	99.33	(16,619)	(5.87)
Operating earnings before costs not related to current operations, depreciation and amortization	900	0.34	1,905	0.67	(1,005)	(52.76)
Costs not related to current operations	869	0.33	3,337	1.17	(2,468)	(73.96)
Depreciation and amortization	2,540	0.95	2,719	0.95	(179)	(6.58)
	3,409	1.28	6,056	2.13	(2,647)	(43.71)
Operating earnings (loss)	(2,509)	(0.94)	(4,151)	(1.46)	1,642	(39.56)
Finance costs	1,813	0.68	2,994	1.05	(1,181)	(39.45)
Earnings (loss) before income taxes	(4,322)	(1.62)	(7,145)	(2.51)	2,823	(39.51)
Income tax recovery	876	0.33	1,847	0.65	(971)	(52.57)
Net earnings (loss)	(3,446)	(1.29)	(5,298)	(1.86)	1,852	34.96
Earnings (loss) per share	(0.03)		(0.19)			

The Company posted a net loss of $3.4M for the quarter compared to a net loss of $5.3M for the same quarter last year, for an improvement of $1.9M. This variance was primarily attributable by the decrease in costs not related to current operations of $2.5M and finance costs of $1.2M compared to 2016. However, adjusted EBITDA decreased by $1.0M. The basic and diluted loss per share for the quarter was $0.03, compared to a basic and diluted loss per share of $0.19 in the same period of 2016.

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

Sales by Segment

(unaudited, in thousands of dollars)

	2017 84 days	2016 Reclassed 84 days	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	206,689	219,339	(12,650)	(5.8)
Wholesale segment	80,845	90,248	(9,403)	(10.4)
	287,534	309,587	(22,053)	(7.1)
Inter-segment sales				
Distribution segment	2,235	3,819	(1,584)	(41.5)
Wholesale segment	18,112	20,957	(2,845)	(13.6)
	20,347	24,776	(4,429)	(17.8)
Consolidated sales				
Distribution segment	204,454	215,520	(11,066)	(5.1)
Wholesale segment	62,733	69,291	(6,558)	(9.5)
	267,187	284,811	(17,624)	(6.2)

Sales in the first quarter amounted to $267,2M compared to $284,8M in the corresponding quarter of 2016, for an decrease of $17,6M or 6.2%.

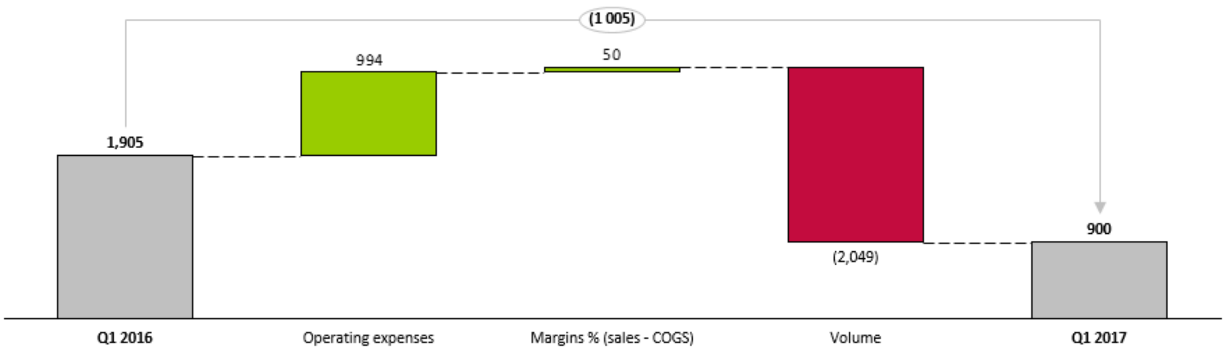
The decline of 5.1% in the Distribution segment's comparable sales were mostly due to the Ontario Division and Colabor Food Distributors following the loss of significant contracts. Besides of those losses, the sales are going up.

The 9.5% decrease in comparable sales in the Wholesale segment stemmed primarily from the Decarie Division, where a decline in sales of over 23% was attributable to lower beef prices and stiffer competition, which had a negative impact on volumes and margins.

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

Analysis of adjusted EBITDA for the first quarter:

(unaudited, in thousands of dollars)



For the first quarter of 2017, adjusted EBITDA amounted to $0.9M or 0.34% of sales compared to $1.9M or 0.67% of sales for the corresponding quarter of 2016. The main variances included:

- A decrease in **volume** explained by a stiffer competition for the Decarie division and the loss of contracts in Ontario and Colabor Food Distributor.

Partially offset by:

- A decrease in **operating expenses**, mainly due to a lower sales volume; and
- Steady **margins in %**.

Costs not related to current operations

This item in the Statement of Earnings includes unusual items :

(unaudited, in thousands of dollars)

	2017 84 days $	2016 84 days $
Internal restructuring of operations		
Provision for warehouse closure[a]	809	-
Severance pay and other costs[b]	-	3,255
Severance allowances	94	-
Provisions for onerous contracts	(34)	82
	869	3,337

[a] On January 31, 2017, the Company announced the closure of the Vaughan warehouse, effective on April 30, 2017. A provision for closing costs of $809 was booked in 2017 relatively to, among other elements, severance benefits.

[b] On January 26, 2016, the Company announced a plan to rationalize and optimize its operations. The plan is intended to further improve Colabor's operating efficiency and profitability despite difficult business conditions in the foodservice distribution industry, and to complete the integration of acquisitions made in recent years. The plan encompasses most of Colabor's divisions and consists mainly of centralizing and consolidating certain operations at the head office of the Company or of its divisions. The plan entailed the elimination of approximately 120 jobs, or 8% of the Company's headcount.

Depreciation and amortization

The depreciation and amortization expense for the first quarter of 2017 was $2.5M compared to $2.7M in 2016, which is relatively stable.

Finance costs

Financial expenses in the first quarter of 2017 were $1.8M, down from $3.0M posted for the corresponding quarter of 2016. The decrease is primarily due to the combined effect of a reduction in the average bank loan and a lower average rate, following the recapitalization.

Recovery tax expense

Recovery of income taxes in the first quarter of 2017 amounted to $0.9M compared to a $1.8M recovery in the corresponding quarter of 2016, and is attributable to loss before income taxes lower in 2017 compared to 2016.

Earnings per share

The loss per share in the first quarter of 2017 amounted to $0.03 compared to a loss per share of $0.19 in the corresponding quarter of 2016, representing an increase of $0.16 in earnings per share. This increase is explained by a decrease in the net loss, as described previously, and by an increase in the number of shares in circulation as a result of the recapitilization.

7.2 Financial position

The following table presents the Company's Consolidated Statements of Financial Position for the first quarter:

Consolidated Statements of Financial Position

(unaudited, in thousands of dollars)

	As at March 25, 2017 $	As at March 19, 2016	As at December 31, 2016 $
Assets			
Current			
Trade and other receivables	94,586	99,098	99,981
Inventories	80,269	79,813	83,246
Prepaid expenses	3,802	4,032	3,081
Other	2,515	1,761	1,830
Current assets	181,172	184,704	188,138
Non-current			
Property, plant and equipment	12,807	15,007	13,128
Intangible assets	53,931	61,100	55,593
Goodwill	84,130	84,130	84,130
Deferred tax assets	2,712	3,981	2,015
Other	1,497	1,522	1,693
Non-current assets	155,077	165,740	156,559
Total assets	336,249	350,444	344,697
Liabilities and equity			
Liabilities			
Current			
Bank overdraft	7,283	4,835	7,468
Trade and other payables	93,140	93,845	105,314
Current portion of long-term debt	572	109,818	550
Other	1,551	1,920	654
Current liabilities	102,546	210,418	113,986
Non-current			
Long-term debt	68,136	23,372	61,211
Convertible debentures	48,924	49,050	48,870
Pension obligations	605	1,600	662
Provisions	2,917	3,631	2,998
Deferred tax liabilities	484	552	517
Non-current liabilities	121,066	78,205	114,258
Total liabilities	223,612	288,623	228,244
Equity			
Equity attributable to shareholders	112,637	61,821	116,453
Total liabilities and equity	336,249	350,444	344,697

Accounts receivable

Trade and other receivables were down $4.5M compared with 2016 and $5.4M compared with December 31, 2016. This significant decrease was mainly due to more systematic collection efforts, made to improve working capital management.

Inventories

Despite an increase in meat, inventories were down $3.0M compared with December 31, 2016. This reduction is the result of efforts to reduce inventory levels to improve working capital management.

Trade and other payables

The trade and other payables balance are stable compared with 2016 but were down $12.2M compared with December 31, 2016. This reduction is the result of purchases reduction and a deterioration in the average age of accounts payable, caused by a higher assortment of meat in inventories where the terms of payments are disadvantageous.

Credit facilities

The Company is required to satisfy a fixed charge coverage ratio. As at March 25, 2017, the Company was in compliance with this ratio.

Share capital

Colabor's share capital consists of an unlimited number of common and preferred shares issuable in series that are all without par value. The rights, privileges, restrictions and terms of Colabor's common and preferred shares are summarized in Colabor's Annual Information Form dated February 24, 2017, which may be viewed on the SEDAR website at www.sedar.com.

As at May 8, 2017, the Company had 102,112,832 common shares and 50,000 convertible debentures issued and outstanding. In addition, 5,570,420 stock options were outstanding, of which 820,250 could be exercised.

Convertible debentures

On October 13, 2016, the Company entered into an agreement to amend conditions concerning the convertible debentures issued on April 27, 2010. Commencing October 31, 2016, the interest rate on the debentures was raised to 6.0%. The effective interest rate on the debentures is 6.55%. 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. Under certain circumstances, the Company could have redeemed some or all of the debentures in advance after April 30, 2015. There were no advance redemptions during the period ended March 25, 2017. The cost of renewing the debentures contract in an amount of $687,000 was recognized against debentures.

7.3 Cash flows

The following table presents the Company's Consolidated Statements of Cash Flows.

Consolidated Statements of Cash Flows

(unaudited, in thousands of dollars)

	2017 $	2016 $
Operating activities		
Net earnings	(3,446)	(5,298)
Deferred income taxes	(876)	(1,847)
Depreciation and amortization	2,540	2,719
Finance costs	1,813	2,994
Other	(472)	(253)
	(441)	(1,685)
Net change in working capital	(4,093)	3,851
Cash flows from operating activities	(4,534)	2,166
Investing activities		
Purchases of property, plant and equipment	(320)	(75)
Disposals of property, plant and equipment	13	20
Purchases of intangible assets	(116)	(61)
Other	22	20
Cash flows used in investing activities	(401)	(96)
Financing activities		
Bank loan	6,863	(92)
Lease payments	(137)	(81)
Share issuance, net of related expenses	5	-
Finance costs paid	(1,611)	(2,626)
Cash flows used in financing activities	5,120	(2,799)
Net change in bank overdraft	185	(729)
Bank overdraft, beginning of period	(7,468)	(4,106)
Bank overdraft, end of period	(7,283)	(4,835)

Operating activities

Cash flows from operating activities for the first quarter are negative to $4.5M compared to cash flows from operating activities of $2.2M for the same period in 2016. The $6.7M variance was essentially attributable to a less favourable change in working capital in 2017, in part due to a more significant decrease in inventory in the first quarter of 2016 added to a important decline in trade and other payables durint the first quarter of 2017, following the increase in meat inventories from suppliers whose terms of payment are unfavorable.

Investing activities

Cash flows used in investing activities in the first quarter 2017 are negative of $0.4M$ compared to negative cash flows of $0.1M for the same period in 2016. This change was due to the acquisition of slightly more property, plant and equipment in the first quarter of 2017.

Financing activities

Cash flows used in financing activities in the first quarter were $5.1M compared to negative cash flows used in financing activities of $2.8M for the same period in 2016. This variance was primarily due to increase in bank loan and a decrease in finance costs paid in the first quarter of 2017.

Payments due in the next five years are as follows:

(unaudited, in thousand of dollars)

		Payments due per period			
Contractual obligations	**Total** $	**Less than 1 year** $	**From 1 to 3 years** $	**From 3 to 5 years** $	**5 years and over** $
Bank loan	42,784	-	42,784	-	-
Obligations under leases	2,609	658	1,030	752	169
Long-term debt (par value)	25,000	-	-	25,000	-
Convertible debentures (par value)	50,000	-	-	50,000	-
Provision	4,106	785	1,472	1,255	594
Operating leases	56,902	9,466	21,919	16,499	9,018
	181,401	10,909	67,205	93,506	9,781

8. 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)

	2017	2016	2016 Reclassed			2015 Reclassed		
	Q1 (84 days)	**Q4 (119 days)**	**Q3 (84 days)**	**Q2 (84 days)**	**Q1 (84 days)**	**Q4 (112 days)**	**Q3 (84 days)**	**Q2 (84 days)**
Sales	267,187	432,543	339,102	342,979	284,811	431,912	339,202	340,044
Adjusted EBITDA	900	9,092	9,196	10,074	1,905	9,301	8,027	8,512
Net earnings	(3,446)	(160)	2,708	3,073	(5,298)	(29,314)	863	1,002
Basic and diluted net earnings per share	(0.03)	(0.00)	0.10	0.11	(0.19)	(1.07)	0.03	0.04

9. 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)

	As at March 25, 2017 $
Consolidated Statements of Earnings	
Sales	5,232
Consolidated Statements of Financial Position	
Trade and other receivables less rebates payable	944
Option to acquire Dubé & Loiselle Inc. [(a)]	500

[(a)] 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. 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.

10. Off-balance sheet transactions

The Company does not have any off-balance sheet transaction obligations, other than $1,764,000 in bank letters of guarantee supporting the leasing of one of the Company's distribution centres and a line of credit with a supplier.

11. Corporate developments

Rationalization plan

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

The plan encompasses most of Colabor's divisions and consists mainly in centralizing and consolidating certain operations at the head office of the Company or at its divisions. It entailed the elimination of approximately 120 jobs, or 8% of the Company's headcount. Essentially reflecting these layoffs, Colabor recorded a charge not related to current operations of approximately $3.6 million, before taxes, in its Statement of Earnings for the year ended December 31, 2016.

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

Recapitalization transaction

On October 13, 2016, Colabor completed a recapitalization transaction that reduced debt and improved the Company's capital structure. As a result, the bank loan, long-term debt and convertible debentures have now been reclassified as long term.

12. Current economic situation, development strategies and outlook

Current economic situation

Colabor's activities are in Eastern Canada, Quebec and Ontario. Colabor has prepared a business plan, described below, and believes that the current situation could offer more business opportunities, which it is prepared to analyze for their potential to provide added value for shareholders.

Development strategies

The Company's management believes that there are major channels which could be used to expand its penetration of the Canadian food services market.

Food distribution services are still very fragmented in Eastern Canada, a situation that provides Colabor with opportunities to significantly increase its market share in regions where it is already present.

In order to diversify its customer base and thus minimize the relative importance of each customer, the Company decided to invest in a larger sales force in 2017 towards independent restaurants in Ontario and Quebec. This initiative will also provide better penetration of the company's private brands and a significant improvement in gross margins.

In addition, the Company believes that its specialized products divisions (Norref and Lauzon) will also benefit from these investments.

Outlook

Although the company expects to focus primarily on its organic growth in 2017, in light of the Company's small market share in certain major metropolitan areas in Canada, such as Toronto and Montreal, some acquisition opportunities would make it possible for the Company to significantly increase its sales, purchasing power and ability to generate cost savings in order to increase its net earnings.

13. Risks and uncertainties

The Company's activities are subject to numerous risks and uncertainties that are more fully described in its February 24, 2017 Annual Information Form (the "AIF"), which may be viewed on the SEDAR website at www.sedar.com. The risks described in the AIF are incorporated by reference in this MD&A.

14. Significant accounting estimates

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

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

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

Estimates

Impairment of trade and other receivables

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

Supplier rebates

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

Impairment of available-for-sale financial assets

Management assesses whether there are any indications of impairment of the available-for-sale financial asset at each reporting date. When management determines that the asset is impaired, the cumulative loss recognized in other comprehensive income is reclassified to earnings.

Inventory valuation

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

Useful lives of depreciable assets

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

Deferred tax assets

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

Pension obligation

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

Significant judgments

Impairment of trademarks and goodwill

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

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

Option to acquire Dubé & Loiselle Inc.

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

15. Internal controls over financial reporting

Management has designed and assessed disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) to provide reasonable assurance that the financial information presented by the Company is reliable and that its financial statements are prepared in accordance with IFRS. The President and CEO and the Vice-President and CFO assessed, in accordance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, the design and operation of ICFR and DC&P as at December 31, 2016, and, on the basis of this assessment, they have concluded that the design and operation of ICFR and DC&P were efficient. In the 84-day period ended March 25, 2017, no changes were made to the process of internal control over financial reporting nor to financial reporting controls and procedures that have materially affected, or are reasonably likely to materially affect, the Company's internal controls and procedures.

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

IFRS 9, "Financial Instruments"

In July 2014, the IASB published IFRS 9 which replaces IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 introduces improvements including a more logical model for classification and measurement of financial assets, a single, forward-looking "expected loss" impairment model, and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has yet to assess the impact of this standard on its consolidated financial statements.

IFRS 16, "Leases"

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

IAS 7, "Statement of Cash Flows"

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows," to improve the information provided to users of financial statements concerning financing activities. The amendments are effective for annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted. The Company believes that this new standard will increase disclosures about cash flows arising from financing activities.