GROUPE COLABOR INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE 2016 FISCAL YEAR AND FOURTH QUARTER

FEBRUARY 24, 2017

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TABLE OF CONTENTS

1. Scope of the MD&A and notice to investors ... 3
2. Non-IFRS performance measures ... 4
3. Forward-looking statements ... 5
4. Highlights ... 5
5. Corporate profile ... 7
6. Early adoption of IFRS 15 ... 10
7. Performance analysis ... 12
   7.1 Net earnings ... 12
   7.2 Financial position ... 22
   7.3 Cash flows ... 24
8. Summary of recent quarters ... 26
9. Related party transactions ... 27
10. Subsequent event ... 27
11. Off-balance sheet transactions ... 28
12. Current economic situation, development strategies and outlook ... 28
13. Corporate developments ... 29
14. Risks and uncertainties ... 30
15. Significant accounting estimates ... 30
16. Internal controls over financial reporting ... 32
17. Standards, changes and interpretations issued but not yet effective ... 32

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 comprehensive income, financial position and cash flows for the fiscal year and the fourth quarter ended December 31, 2016. This report should be read in conjunction with the audited consolidated financial statements and related notes found in this annual report. 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. The years ended December 31, 2016 and December 26, 2015 comprised 53 and 52 weeks, respectively.

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

(in thousands of dollars)

	2016 119 days $	2015 112 days $	Variance $	2016 371 days $	2015 364 days $	Variance $
Net earnings (loss)	(160)	(29,314)	29,154	323	(33,764)	34,087
Income tax (recovery) expense	526	(6,309)	6,835	1,186	(7,961)	9,147
Financial expenses	3,273	3,739	(466)	11,973	12,968	(995)
Impairment of goodwill and intangible assets	-	33,756	(33,756)	-	33,756	(33,756)
Depreciation and amortization	3,514	4,987	(1,473)	11,509	15,451	(3,942)
EBITDA	7,153	6,859	294	24,991	20,450	4,541
Impairment of the available-for-sale financial asset	-	-	-	-	1,731	(1,731)
Costs not related to current operations	1,939	2,442	(503)	5,276	4,123	1,153
Adjusted EBITDA	9,092	9,301	(209)	30,267	26,304	3,963

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

In 2016, the following events had significant impacts on the Company's operations:

- 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.

- Influence of important contracts:
  - In the second quarter of 2016, contracts between several distributors to the Boucherville division became comparable. These contracts were renewed with lower margins in April 2015;
  - In the third quarter of 2016, the CARA contract with the Summit division became comparable. This contract was renewed with a lower margin in July 2015.

- On October 13, 2016, the Company announced the closing of a recapitalization transaction that reduced debt and improved the capital structure. The main components of this transaction are as follows:
  - The issue of share capital in a total amount of $50,000,000, or 74,626,866 shares;

  - An extension and a three-year renewal of the bank loan that was reduced by approximately $30,000,000;
  - A 4-year extension of the loan agreement and repayment of $17,500,000 in long-term debt;
  - A 5-year extension of the term of convertible debentures, an increase in their interest rate to 6.00%, and a reduction of their conversion price to $2.50 per common share;
  - The purchase of an option, exercisable by the Company, to acquire Dubé & Loiselle Inc. with a term of three years; and
  - Significant changes in the Board of directors of the Company. Four new members joined two existing directors.

- The Company proceeded with strategic hirings in Ontario and filled two vacant positions for its management committee:
  - Mr. Jack Battersby, President of the Summit Division, announced that he had decided to retire before the end of 2017 after almost 40 years with the Company. Mr. Darrell J. Moss, who joined the Company recently as Vice-President of Sales for Ontario, will succeed Mr. Battersby as Vice-President and General Manager of the Ontario Division during the year 2017;
  - Mr. Pierre Tanguay was appointed General Manager of the CFD Division;
  - Mr. Mathieu Dumulong was appointed General Manager of the Boucherville Distribution Division.

- Also in the fourth quarter, the Décarie Division experienced intensified competition following the arrival of a new competitor in the Montreal market. This led to a significant reduction in sales and it squeezed margins.

- The Company was unable to renew two major contracts in Ontario and in the Maritimes, which had a negative impact on sales and earnings in 2016. The Company has implemented a plan to further diversify its customer base to minimize the relative importance of each of its clients.

- Lastly, as described in Section 10, "Subsequent event," the Company announced the closure of the Vaughan's warehouse in Ontario on April 30, 2017. The volume will be redistributed to the remaining three distribution centers in Ontario.

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

As described in Section 10, "Subsequent event," the Company announced the closure of the Vaughan's warehouse in Ontario on April 30, 2017. The volume will be redistributed to the remaining three distribution centers in Ontario.

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 Lévis 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 fiscal year ended December 26, 2015 have been reclassed to reflect this change in accounting policy. The changes to comparative figures are as follows:

	Fourth quarter ended December 26, 2015		
	Result presented in 2015 $	**Change under IFRS 15 $**	**Reclassed result $**
Sales	468,052	(36,140)	431,912
Operating expenses, excluding costs not related to current operations, depreciation and amortization	458,751	36,140	422,611
Operating income before costs not related to current operations, depreciation and amortization	9,301	-	9,301

	Fiscal year ended December 26, 2015		
	Result presented in 2015	**Change under IFRS 15**	**Reclassed result**
	$	**$**	**$**
Sales	1,506,280	(115,683)	1,390,597
Operating expenses, excluding costs not related to current operations, depreciation and amortization	1,479,976	115,683	1,364,293
Operating income before costs not related to current operations, depreciation and amortization	26,304	-	26,304

7. Performance analysis

7.1 Net earnings

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

Consolidated Statements of Earnings

(in thousands of dollars, except per share data)

	2016 (119 days)		2015 Reclassed (112 days)		Variance	
	$	%	$	%	$	%
Sales	432,543	100.00	431,912	100.00	631	0.15
Operating expenses, excluding costs not related to current operations, depreciation and amortization	423,451	97.90	422,611	97.85	840	0.20
Operating earnings before costs not related to current operations, depreciation and amortization	9,092	2.10	9,301	2.15	(209)	(2.25)
Costs not related to current operations	1,939	0.45	2,442	0.57	(503)	(20.60)
Impairment of goodwill and intangible assets	-	0.00	33,756	7.82	33,756	100.00
Depreciation and amortization	3,514	0.81	4,987	1.15	(1,473)	(29.54)
	5,453	1.26	41,185	9.54	(35,732)	(86.76)
Operating earnings (loss)	3,639	0.84	(31,884)	(7.38)	35,523	111.41
Finance costs	3,273	0.76	3,739	0.87	(466)	(12.46)
Earnings (loss) before income taxes	366	0.08	(35,623)	(8.25)	35,989	101.03
Income tax expense (recovery)						
Current	114	0.03	(752)	0.17	866	115.16
Deferred	412	0.10	(5,557)	1.29	5,969	107.41
	526	0.12	(6,309)	(1.46)	6,835	108.34
Net loss	(160)	(0.04)	(29,314)	(6.79)	29,154	99.45
Basic and diluted loss per share	(0.00)		(1.07)			

The Company posted a net loss of $0.2 million for the quarter compared to a net loss of $29.3 million for the same quarter last year, for an improvement of $29.1 million. This variance was primarily attributable to the absence of an impairment of goodwill and intangible assets, which was $33.8 million in 2015. Furthermore, profitability was enhanced compared to 2015 by the decrease of $1.5 million in the depreciation and amortization expense, $0.5 million in the finance costs and $0.5 million in costs not related to current operations. However, adjusted EBITDA decreased slightly, by $0.2 million, and the income tax expense increased $6.8 million, mainly due to improved profitability. The basic and diluted loss per share for the quarter was $0.00, compared to a basic and diluted loss per share of $1.07 in the same period of 2015.

The following table presents the cumulative Consolidated Statements of Earnings.

Consolidated Statements of Earnings

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

	2016 371 days		2015 Reclassed 364 days		Variance	
	$	%	$	%	$	%
Sales	1,399,435	100.00	1,390,597	100.00	8,838	0.63
Operating expenses, excluding costs not related to current operations, depreciation and amortization	1,369,168	97.84	1,364,293	98.11	4,875	0.35
Operating earnings before costs not related to current operations, depreciation and amortization	30,267	2.16	26,304	1.89	3,963	15.07
Costs not related to current operations	5,276	0.38	4,123	0.30	1,153	27.97
Impairment of goodwill and intangible assets	-	0.00	33,756	2.43	(33,756)	(100.00)
Depreciation and amortization	11,509	0.82	15,451	1.11	(3,942)	(25.51)
	16,785	1.20	53,330	3.84	(36,545)	(68.53)
Operating earnings (loss)	13,482	0.96	(27,026)	(1.94)	40,508	149.89
Impairment of the available-for-sale financial asset	-	0.00	1,731	0.13	(1,731)	(100.00)
Finance costs	11,973	0.86	12,968	0.93	(995)	(7.67)
	11,973	0.86	14,699	1.06	(2,726)	(18.55)
Income before income taxes	1,509	0.11	(41,725)	(3.00)	43,234	103.62
Income tax expense (recovery)						
Current	565	0.04	(357)	(0.03)	922	258.26
Deferred	621	0.04	(7,604)	(0.55)	8,225	108.17
	1,186	0.08	(7,961)	(0.57)	9,147	114.90
Net earnings (loss)	323	0.02	(33,764)	(2.43)	34,087	100.96
Basic and diluted earnings (loss) per share	0.01		(1.23)			

Cumulative net earnings in fiscal 2016 amounted to $0.3 million compared to a cumulative net loss of $33.8 million in fiscal 2015, for a net improvement of $34.1 million. The variance is primarily due to the absence of an impairment of goodwill and intangible assets and a depreciation charge on the asset available for sale, which were $33.8 million and $1.7 million, respectively, in fiscal 2015. Profitability was also improved by the increase of $4.0 million in adjusted EBITDA, the decrease of $3.9 million in amortization and depreciation and the $1.0 million decrease in finance costs compared to fiscal 2015. However, costs not related to current operations increased $1.2 million and income tax expense was up $9.1 million. Basic and diluted earnings per share were $0.01 compared to a basic and diluted loss per share of $1.23 in 2015.

The following table presents fourth quarter comparable sales:

Comparable sales

(in thousands of dollars)

	Distribution segment				Wholesale segment				Consolidated			
	2016 119 days	2015 Reclassed 112 days	Variance		2016 119 days	2015 Reclassed 112 days	Variance		2016 119 days	2015 Reclassed 112 days	Variance	
	$	$	$	%	$	$	$	%	$	$	$	%
Total sales	318,809	311,743	7,066	2.3	113,734	120,169	(6,435)	(5.4)	432,543	431,912	631	0.1
Adjustment for seven days	(15,241)	-	(15,241)	(100.0)	(3,950)		(3,950)	(100.0)	(19,191)		(19,191)	(100.0)
Comparable sales	303,568	311,743	(8,175)	(2.6)	109,784	120,169	(10,385)	(8.6)	413,352	431,912	(18,560)	(4.3)

Adjustments for purposes of comparison

Adjustment for seven days

Adjustments are required because the periods being compared do not contain the same number of days as the current period.

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

Sales by Segment

(in thousands of dollars)

	2016 119 days	2015 Reclassed 112 days	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	324,495	319,056	5,439	1.7
Wholesale segment	145,059	151,982	(6,923)	(4.6)
	469,554	471,038	(1,484)	(0.3)
Inter-segment sales				
Distribution segment	5,686	7,313	(1,627)	(22.2)
Wholesale segment	31,325	31,813	(488)	(1.5)
	37,011	39,126	(2,115)	(5.4)
Consolidated sales				
Distribution segment	318,809	311,743	7,066	2.3
Wholesale segment	113,734	120,169	(6,435)	(5.4)
	432,543	431,912	631	0.1

Sales in the fourth quarter amounted to $432.5 million compared to $431.9 million in the corresponding quarter of 2015, for an increase of $0.6 million or 0.1%. Sales in the fourth quarter of 2016 are not comparable with those for 2015 because there were more days in the fourth quarter of 2016.

The decline of 2.6% in the Distribution segment's comparable sales were mostly due to the Ontario Division following the loss of a significant contract, offset in part by good performance in the Norref Division.

The 8.6% decrease in comparable sales in the Wholesale segment stemmed primarily from the Décarie Division, where a decline in sales of over 20% was attributable to lower beef prices and stiffer competition, which had a negative impact on volumes and margins.

The following table presents cumulative comparable sales.

Comparable Sales

(in thousands of dollars)

	Distribution segment				Wholesale segment				Consolidated			
	2016 371 days	2015 Reclassed 364 days	Variance		2016 371 days	2015 Reclassed 364 days	Variance		2016 371 days	2015 Reclassed 364 days	Variance	
	$	$	$	%	$	$	$	%	$	$	$	%
Total sales	1,041,782	1,015,020	26,762	2.6	357,653	375,577	(17,924)	(4.8)	1,399,435	1,390,597	8,838	0.6
Adjustment for seven days	(15,241)	-	(15,241)	(100.0)	(3,950)	-	(3,950)	(100.0)	(19,191)	-	(19,191)	(100.0)
Comparable sales	1,026,541	1,015,020	11,521	1.1	353,703	375,577	(21,874)	(5.8)	1,380,244	1,390,597	(10,353)	(0.7)

Adjustments for purposes of comparison

Adjustment for seven days

Adjustments are required because the periods being compared do not contain the same number of days as the current period.

The following table presents cumulative sales by segment.

Sales by Segment

(in thousands of dollars)

	2016 371 days	2015 Reclassed 364 days	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	1,060,706	1,038,768	21,938	2.1
Wholesale segment	458,622	483,995	(25,373)	(5.2)
	1,519,328	1,522,763	(3,435)	(0.2)
Inter-segment sales				
Distribution segment	18,924	23,748	(4,824)	(20.3)
Wholesale segment	100,969	108,418	(7,449)	(6.9)
	119,893	132,166	(12,273)	(9.3)
Consolidated sales				
Distribution segment	1,041,782	1,015,020	26,762	2.6
Wholesale segment	357,653	375,577	(17,924)	(4.8)
	1,399,435	1,390,597	8,838	0.6

Cumulative sales for 2016 were $1,399 million compared to $1,391 million for the same period in 2015. Sales for 2016 are not comparable with those for 2015 because there were more days in fiscal 2016.

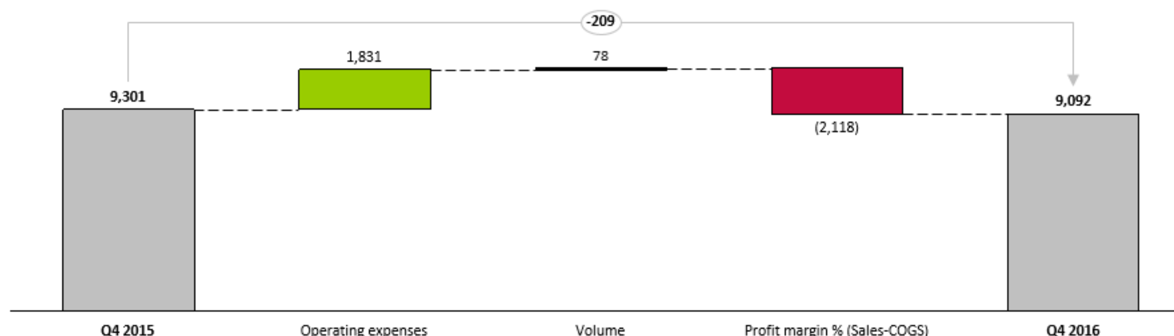
The 1.1% growth in cumulative comparable sales in the Distribution segment came primarily from the Ontario Division, as a result of strong customer growth, and from the Norref Division.

Cumulative comparable sales for the Wholesale segment were down 5.8% compared to 2015. This decline was in part due to the Décarie Division, where a decline in sales was partly attributable to lower beef prices and stiffer competition. On the other hand, sales also decreased in the Boucherville Division where a contract with a distributor that expired on April 15, 2015 was not renewed.

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

Analysis of adjusted EBITDA for the fourth quarter:

(in thousands of dollars)



For the fourth quarter of 2016, adjusted EBITDA amounted to $9.1 million or 2.1% of sales compared to $9.3 million or 2.2% of sales for the corresponding quarter of 2015. The main variances included:

- A decrease in **operating expenses**, primarily attributable to the rationalization and optimization plan announced by the Company on January 26, 2016;
- An increase in **volume**, mostly due to the fact that the fourth quarter of 2016 had 119 days compared to a fourth quarter of 112 days in 2015. This favourable impact on volumes was offset by intensified competition in the Decarie Division and the loss of a contract in Ontario;

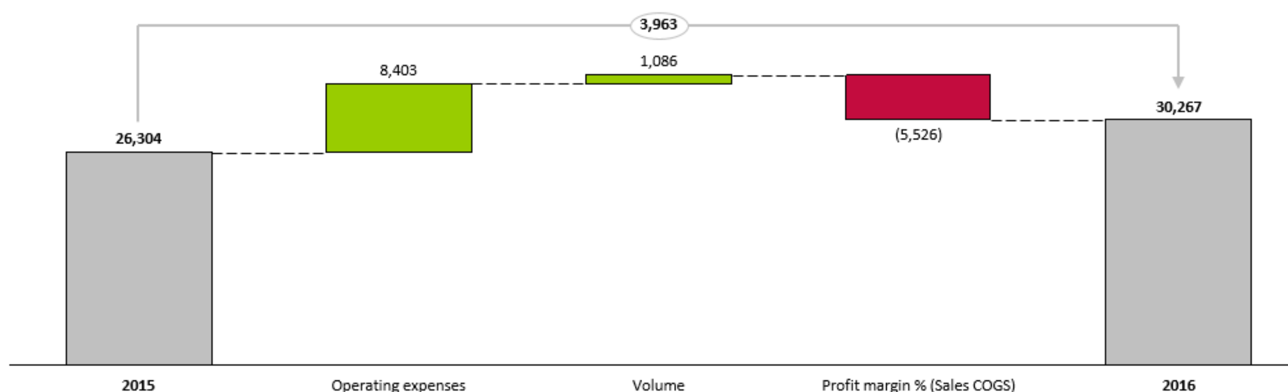
Partially offset by:

- A lower **profit margin %**, explained by the combined effect of year-over-year variations in the amount and the timing of supplier rebates in the Ontario and Quebec divisions.

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

Analysis of cumulative adjusted EBITDA:

(in thousands of dollars)



Adjusted EBITDA for fiscal 2016 amounted to close to $30.3 million or 2.2% of sales compared to $26.3 million or 1.9% of sales for the corresponding period of 2015. The main variances included:

- A decrease in **operating expenses**, primarily attributable to the rationalization and optimization plan announced by the Company on January 26, 2016, as well as reduced energy costs;
- An increase in **volume**, mostly due to the fact that fiscal 2016 had 53 weeks, compared to 52 weeks in fiscal 2015. This favourable impact on volumes was offset by intensified competition in the Decarie Division and the loss of major customers in the Distribution segment;

Partially offset by:

- A reduced **profit margin %**, following contract renewals and the signing of major contracts in 2015 with lower margin, which had effects on the first semester of 2016.

Costs not related to current operations

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

(in thousands of dollars)

	2016 119 days $	2015 112 days $	2016 371 days $	2015 364 days $
Internal restructuring of operations[a]				
Severance pay and other costs	300	536	3,637	2,174
Provision for warehouse closure[b]	850	-	850	-
Severance allowances	626	-	626	-
Provisions for onerous contracts	(115)	1,138	(115)	1,138
Costs related to business acquisitions	-	757	-	780
Other	278	11	278	31
	1,939	2,442	5,276	4,123

[a] 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.

[b] As described in Section 10, "Subsequent event".

Depreciation and amortization

The depreciation and amortization expense for the fourth quarter of 2016 was $3.5 million compared to $5.0 million in 2015. The cumulative depreciation and amortization expense for 2016 was $11.5 million compared to $15.5 million in the corresponding period of 2015. These decreases were primarily attributable to the impairment of intangible assets recognized in the fourth quarter of 2015.

Finance costs

Financial expenses in the fourth quarter of 2016 were $3.3 million, down from $3.7 million posted for the corresponding quarter of 2015. Cumulative financial expenses of $12.0 million also declined compared to $13.0 million posted for the same period of 2015. These decreases were primarily due to the combined effect of a reduction in the average bank loan and a lower average rate, mainly in the fourth quarter following the recapitalization.

Income tax expense (recovery)

Income tax expense was $0.5 million in the fourth quarter of 2016 compared to a $6.3 million recovery in the corresponding period of 2015, attributable primarily to higher profitability in 2016 compared to 2015. The income tax expense for fiscal 2016 amounted to $1.2 million, compared to an $8.0 million recovery in the corresponding period of 2015, primarily due to improved profitability in 2016 compared to 2015.

Earnings (loss) per share

The loss per share in the fourth quarter of 2016 amounted to $0.00 compared to a loss per share of $1.07 in the corresponding quarter of 2015, representing an increase of $1.07 in earnings per share. This result reflects both higher net earnings and the greater number of shares outstanding following the recapitalization. Cumulative earnings per share in fiscal 2016 amounted to $0.01 compared to a cumulative loss of $1.23 per share in fiscal 2015, representing an increase of $1.24 in net earnings per share. These increases were due to higher net earnings, as described above, and the greater number of shares outstanding following the recapitalization.

7.2 Financial position

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

Consolidated Statements of Financial Position

(in thousands of dollars)

	As at December 31, 2016 $	As at December 26, 2015 $
Assets		
Current		
Trade and other receivables	99,981	104,351
Inventories	83,246	87,282
Prepaid expenses	3,081	2,936
Other	1,830	1,699
Current assets	188,138	196,268
Non-current		
Property, plant and equipment	13,128	15,835
Intangible assets	55,593	62,844
Goodwill	84,130	84,130
Deferred tax assets	2,015	2,089
Other	1,693	1,502
Non-current assets	156,559	166,400
Total assets	344,697	362,668
Liabilities and equity		
Liabilities		
Current		
Bank overdraft	7,468	4,106
Trade and other payables	105,314	101,831
Current portion of long-term debt	550	1,497
Other	654	1,689
Current liabilities	113,986	109,123
Non-current		
Long-term debt	61,211	131,709
Convertible debentures	48,870	48,859
Pension obligations	662	1,271
Provisions	2,998	3,816
Deferred tax liabilities	517	573
Non-current liabilities	114,258	186,228
Total liabilities	228,244	295,351
Equity		
Equity attributable to shareholders	116,453	67,317
Total liabilities and equity	344,697	362,668

Accounts receivable

Trade and other receivables were down $4.4 million compared with 2015. This significant decrease was mainly due to more systematic collection efforts, made to improve working capital management.

Inventories

Inventories were down $4.0 million compared with 2015. This decrease was mainly the result of efforts to reduce inventory levels to improve working capital management and by the closure of Trois-Rivières warehouse in December 2015.

Trade and other payables

The trade and other payables balance increased $3.5 million compared with 2015. This increase was primarily due to the Company recovering its terms of credit with suppliers following the recapitalization as well as efforts made to improve working capital management.

Credit facilities

The Company is required to satisfy a fixed charge coverage ratio. As at December 31, 2016, 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 February 24, 2017, the Company had 102,112,832 common shares and 50,000 convertible debentures issued and outstanding. In addition, 5,701,920 stock options were outstanding, of which 736,900 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% (5.7% in 2015). The effective interest rate on the debentures is 6.55% (7.54% in 2015). 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 ($16.85 in 2015). 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 year ended December 31, 2016. The cost of renewing the debentures contract in an amount of $687 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

(in thousands of dollars)

	2016 119 days $	2015 112 days $	2016 371 days $	2015 364 days $
Operating activities				
Net earnings (loss)	(160)	(29,314)	323	(33,764)
Deferred income taxes	412	(5,557)	621	(7,604)
Impairment of goodwill and intangible assets	-	33,756	-	33,756
Depreciation and amortization	3,514	4,987	11,509	15,451
Impairment of the available-for-sale financial asset	-	-	-	1,731
Finance costs	3,273	3,739	11,973	12,968
Other	(718)	735	(1,433)	(361)
	6,321	8,346	22,993	22,177
Net change in working capital	9,165	5,304	10,151	5,997
Cash flows from operating activities	15,486	13,650	33,144	28,174
Investing activities				
Purchases of property, plant and equipment	(556)	(429)	(966)	(1,608)
Disposals of property, plant and equipment	36	148	235	435
Purchases of intangible assets	(179)	(213)	(461)	(3,132)
Other	22	21	147	138
Cash flows used in investing activities	(677)	(473)	(1,045)	(4,167)
Financing activities				
Bank loan	(42,127)	(7,238)	(54,050)	(6,544)
Lease payments	(145)	(202)	(499)	(578)
Payment of balances of purchase price	-	(1,000)	-	(1,000)
Share issuance, net of related expenses	47,831	-	47,831	-
Repayment of long-term debt	(17,500)	-	(17,500)	-
Refinancing costs paid	(947)	-	(947)	-
Finance costs paid	(2,695)	(3,240)	(10,296)	(11,209)
Cash flows used in financing activities	(15,583)	(11,680)	(35,461)	(19,331)
Net change in bank overdraft	(774)	1,497	(3,362)	4,676
Bank overdraft, beginning of year	(6,694)	(5,603)	(4,106)	(8,732)
Bank overdraft, end of year	(7,468)	(4,106)	(7,468)	(4,106)

Operating activities

Cash flows from operating activities in the fourth quarter were $15.5 million compared to cash flows from operating activities of $13.7 million for the same period in 2015. The $1.8 million variance was essentially attributable to a more favourable change in working capital in 2016, in part due to an increase in trade and other payables in the fourth quarter of 2016 compared to a decline in the same period of 2015.

In fiscal 2016, cumulative cash flows from operating activities were $33.1 million compared to $28.2 million for the same period in 2015. The $4.9 million increase was due to higher operating results combined with lower finance costs paid and better working capital management.

Investing activities

Cash flows used in investing activities in the fourth quarter were $0.7 million compared to cash flows used in investing activities of $0.5 million for the same period in 2015. This change was due to the acquisition of slightly more property, plant and equipment in the fourth quarter of 2016.

In fiscal 2016, cumulative cash flows used in investing activities were $1.0 million compared to cash flows used in investing activities of $4.2 million for the same period in 2015. This improvement was due to signing bonuses paid in 2015 on renewals of agreements, which generated higher cash outflows.

Financing activities

Cash flows used in financing activities in the fourth quarter were $15.6 million compared to cash flows used in financing activities of $11.7 million for the same period in 2015. In fiscal 2016, cumulative cash flows used in financing activities were $35.5 million compared to cash flows used in financing activities of $19.3 million for fiscal 2015. This variance was primarily due to recapitalization transactions on October 13, 2016 that included the issuance of share capital, the repayment of a portion of long-term debt and a reduction in bank borrowing, as discussed in the Highlights section.

Payments due in the next five years are as follows:

Contractual obligations	**Total**	**Payments due per period**			
		Less than 1 year	**From 1 to 3 years**	**From 3 to 5 years**	**5 years and over**
	$	**$**	**$**	**$**	**$**
Bank loan	35,921	-	35,921	-	-
Obligations under leases	2,653	636	1,054	706	257
Long-term debt (par value)	25,000	-	-	25,000	-
Convertible debentures (par value)	50,000	-	-	50,000	-
Provision	4,342	1,020	1,472	1,256	594
Operating leases	59,742	12,306	21,919	16,499	9,018
	177,658	13,962	60,366	93,461	9,869

8. Summary of recent quarters

The following table presents a summary of results for the last eight quarters.

	2016				2015 Reclassed			
	Q4 (119 days)	**Q3 (84 days)**	**Q2 (84 days)**	**Q1 (84 days)**	**Q4 (112 days)**	**Q3 (84 days)**	**Q2 (84 days)**	**Q1 (84 days)**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Sales	432,543	339,102	342,979	284,811	431,912	339,202	340,044	279,439
Adjusted EBITDA	9,092	9,196	10,074	1,905	9,301	8,027	8,512	464
Net earnings (loss)	(160)	2,708	3,073	(5,298)	(29,314)	863	1,002	(6,315)
Basic and diluted net earnings (loss) per share	(0.00)	0.10	0.11	(0.19)	(1.07)	0.03	0.04	(0.23)

9. Related party transactions

The Company's related party transactions consisted 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.

(in thousands of dollars)

	2016	
	119 days **$**	**371 days** **$**
Consolidated Statements of Earnings		
Sales	9,089	26,931
Consolidated Statements of Financial Position		
Trade and other receivables less rebates payable		442
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. Subsequent event

On January 31, 2017, the Company announced the closure of the Vaughan warehouse, effective on April 30, 2017. The restoration cost has been estimated at $850, the amount is provisioned as at December 31, 2016. Additional closure expenses, including severances, are planned for fiscal 2017. The Company expects that recurring cost savings related to the closure of the Vaughan warehouse will be partially reduced by additional transportation costs.

11. 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.

12. Current economic situation, development strategies and outlook

Current economic situation

Colabor's activities are in Eastern Canada, Quebec and Ontario. Quebec's economy is developing slowly. This is primarily due to fairly anaemic consumption, curbed by tax and tariff increases. All of these aspects hinder discretionary consumer spending.

Despite the factors mentioned above, 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, these 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. 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 $3.3 million, before taxes, in its Statement of Earnings for the first quarter of fiscal 2016.

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

Management Committee

Mr. Paul Webb, who had been Vice-President and General Manager of the Colabor Food Distributor division since January 12, 2015, left this position on April 16, 2016 for a well-deserved retirement. Mr. Webb remained available until December 2016 as a consultant to support the Company through the transition period.

Recapitalization transaction

As described in Section 4, "Highlights", 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.

14. 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.

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

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.

16. 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 371-day period ended December 31, 2016, 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.

17. 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.