COLABOR GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THIRD QUARTER OF FISCAL 2017

DATED OCTOBER 19, 2017

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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. ("GCL," the "Company" or "Colabor") discusses the Company's comprehensive income, financial situation and cash flows for the third quarter ending September 9, 2017. This report should be read in conjunction with the unaudited interim consolidated financial statements and related notes for this period, as well as with the audited consolidated financial statements and related notes and related management's discussion and analysis 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 Standard Board. 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 quarter and higher in the fourth quarter because the fourth quarter generally has 33% more operating days than the other quarters of the year. It should also be noted that the Company's sales are seasonal, accordingly, sales in the first quarter are comparatively lower than sales in other quarters.

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

Additional information on GCL may be found on SEDAR at www.sedar.com and on Colabor's website at www.colabor.com. The information contained on the Company's website is not included by reference in this MD&A.

2. About Colabor

2.1 Corporate Profile

Activities

Colabor was founded in 1962 and is a distributor and master food wholesaler serving the foodservice market (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

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

   Summit distributes more than 8,000 products from warehouses in Ottawa, London and Mississauga 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, seafood, fruits and vegetables, disposables and sanitation products.

   Since the closure of the Vaughan distribution centre on April 30, 2017, this division now has approximately 460 employees and operates three distribution centers, including the London administrative head office. These warehouses represent a total of approximately 345,000 square feet.

Warehouse	Total Size
Mississauga	127,961 square feet
London	113,595 square feet (could be expanded)
Ottawa	103,460 square feet (could be expanded)

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

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

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

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

   CFD is a major distributor to foodservice and retail customers in the Quebec City, Saguenay, Mauricie, Lower St. Lawrence and Gaspé Peninsula, New Brunswick and Côte-Nord regions. CFD employs approximately 430 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")*

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 Montréal 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 175 employees.

5. *Lauzon Meats ("Lauzon")*

Lauzon prepares and processes superior quality meat products for the provinces of Quebec and Ontario and is a major distributor of highly recognized brands such as Premium Signature Angus and Sterling Silver. Lauzon is known, among other things, for its products and employees and for providing effective and flexible service to the restaurant, hotel and the institutional sectors. Lauzon operates out of a plant of approximately 68,000 square feet located in Montréal that is HACCP-certified and federally approved, which allows it to sell its products nationwide. This division has approximately 95 employees.

B. Wholesale Segment

1. *Boucherville Distribution Centre ("Boucherville")*

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

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

2. *Viandes Décarie ("Décarie")*

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 Montréal 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 Décarie holds a federal permit that allows it to sell its products across Canada.

2.2 Business Development

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.

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 resulted in significant cost reductions before taxes on an annual basis. These savings were realized during fiscal 2016.

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.

Procurement Contracts at the Ontario Division

Earlier in the quarter, and in parallel with initiatives implemented in order to reevaluate its portfolio of customers, the Company received a termination notice from Popeye's Louisiana Kitchen, for a contract that represents over $40 M of revenues, which will take effect on November 13, 2017 (refer to the Management Discussion and Analysis document for the period ended June 17, 2017). Most recently, a mutual agreement with Cara to cease supplying restaurants operating under the Montana's BBQ & Bar banner starting on April 1, 2018 was entered into once Cara secured an alternative distribution arrangement. This contract represented annual sales of just over $30 M.

In order to protect the long-term net effect of the refocusing of its activities on its operating profitability, Colabor relies on efficiency measures already in place, the hiring of staff dedicated to business development with the independent segment and on these additional measures :

- Optimize routes in order to reduce delivery costs
- Reduce the size of the rolling stock fleet
- Optimize warehousing activities and configuration in order to improve productivity

The positive effects of these initiatives should allow to compensate for the increased operating costs resulting from the closure of the Vaughan facility and the longer-term effect of the loss of volume on profit margins.

In order to reach a better balance between volume and profit margin and optimize its operations, Colabor has proceeded to reevaluate its portfolio of customers. With this in mind, Colabor will place more emphasis on growing within the independent and smaller restaurant chain market, where it can offer a differentiated service and higher value added products. It is in this niche that the CFD division has prospered in eastern Quebec.

Succession Plan for Colabor's Senior Management

On October 18, 2017, Claude Gariépy, President and Chief Executive Officer of Colabor, informed the Corporation's Board of Directors of his intent to retire from his position on March 2, 2018. Mr. Gariépy has held this position since January 2012. Since he was appointed, Mr. Gariépy has worked to raise Colabor's profile and increase its reach in Quebec and Ontario. He has put in place a competent and solid team that will continue to ensure the Corporation's development. Mr. Gariépy told the Board he would remain available after March 2, 2018, to ensure a smooth transition.

The Board of Directors is now starting a process to identify and select a successor for Mr. Gariépy. An executive recruitment firm was hired to facilitate and accelerate the search. This firm will assess internal and external applications and will make recommendations to the selection committee.

2.3 Current Economic Situation, Development Strategies and Outlook

Current Economic Situation

Colabor's activities are in Eastern Canada, in Quebec and Ontario. Since the start of the year, the economic situation in Quebec continued to demonstrate signs of a turnaround. The sustained lower unemployment rate is boosting household discretionary spending, leading to growth in tertiary sectors such as retail and foodservices.

Colabor has prepared a business plan, described below, and believes that the current situation could offer additional business opportunities that 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, dedicated to independent restaurants in Ontario and Quebec. This initiative will also provide better penetration of the company's private label 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.

3. Highlights of the Quarter

- Improving profitability at the CFD division, which focuses on independent restaurants, for a second consecutive quarter
- Reduction in financial charges of $0.9M in the third quarter, a decrease of 34.2%.
- Decrease in sales of 5.8%, from the historical loss of an important contract in Ontario and on continued competitive pressures experienced since the fourth quarter of 2016 at the Décarie division.
    - In order to mitigate the effects of the loss of volume at the Ontario and Décarie divisions, management started implementing the following initiatives since the last quarter:
        - Hired new leadership at the Décarie division (in Q2 2017) with their first initiatives resulting in improved inventory management.
        - Closed the Vaughan distribution center and consolidated all distribution activities under the umbrella of three centers (completed in Q2 2017), reducing this division's warehousing expenses.
        - Reevaluated the portfolio of customers in order to refocus activities towards higher value added niches such as smaller chains, independents and institutions, in order to improve EBITDA contribution. Refer to section 2.2., subtitle "Procurement Contracts at the Ontario Division".
- Recognition of charges not related to current operations of $7.0M, of which $6.5M is a provision for a preliminary assessment Advice received from the Ontario Ministry of Finance. The Advice relates mainly to sales that took place during a short period of time between 2013 and 2014 with one customer in particular and for which the Ontario Ministry of Finance considers that sales taxes should have been collected and remitted. This assessment would not have a significant impact on the Company's ability to meet its financial obligations or on its working capital. Refer to section 5.1 Net Earnings, subtitle "Costs Not Related to Current Operations".
- Recognition of asset impairment charges of $16.4 M related to the acquisition of Summit in Ontario. Refer to section 5.1 Net Earnings, subtitle "Asset Impairment Charge".

4. Non-IFRS Performance Measures

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

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

Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

(unaudited, in thousands of dollars)

	84 days			**252 days**		
	2017	**2016**	**Variance**	**2017**	**2016**	**Variance**
	$	**$**	**$**	**$**	**$**	**$**
Net earnings (loss)	(18,753)	2,708	(21,461)	(19,101)	483	(19,584)
Income taxes expense (recovery)	(1,271)	1,203	(2,474)	(992)	660	(1,652)
Financial expenses	1,751	2,662	(911)	5,322	8,700	(3,378)
Depreciation and amortization	2,554	2,623	(69)	7,634	7,995	(361)
Impairment loss on goodwill, intangible assets and property, plant and equipment	16,440	—	16,440	16,440	—	16,440
EBITDA	721	9,196	(8,475)	9,303	17,838	(8,535)
Costs not related to current operations	6,961	—	6,961	8,297	3,337	4,960
Adjusted EBITDA	7,682	9,196	(1,514)	17,600	21,175	(3,575)

5. Performance Analysis

5.1 Net Earnings

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

Consolidated Statements of Earnings

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

	2017		2016 Reclassified		Variance	
	$	%	$	%	$	%
Sales[a]	319,334	100.00	339,100	100.00	(19,766)	(5.83)
Operating expenses, excluding costs not related to current operations, depreciation and amortization	311,652	97.59	329,904	97.29	(18,252)	(5.53)
Operating earnings before costs not related to current operations, depreciation and amortization	7,682	2.41	9,196	2.71	(1,514)	(16.46)
Costs not related to current operations	6,961	2.18	—	0.00	6,961	100.00
Depreciation and amortization	2,554	0.80	2,623	0.77	(69)	(2.63)
Impairment loss on goodwill, intangible assets and property, plant and equipment	16,440	5.15	—	0.00	16,440	100.00
	25,955	8.13	2,623	0.77	23,332	889.52
Operating earnings	(18,273)	(5.72)	6,573	1.94	(24,846)	(378.00)
Financial expenses	1,751	0.55	2,662	0.79	(911)	(34.22)
Earnings (loss) before taxes	(20,024)	(6.27)	3,911	1.15	(23,935)	(611.99)
Income taxes expense (recovery)	(1,271)	(0.40)	1,203	0.35	(2,474)	(205.65)
Net earnings (loss)	(18,753)	(5.87)	2,708	0.80	(21,461)	(792.50)
Basic and diluted net earnings per share	(0.18)		0.10			

[a] On December 31, 2016, the Company elected for early adoption of IFRS 15, *Revenues from Contracts with Customers.* For purposes of comparison, last year figures have been reclassified to reflect this change in accounting policy. Please refer to section 12, "Early adoption of IFRS 15" of this MD&A report.

Net earnings for the third quarter of 2017 decreased by $21.5M compared to the corresponding quarter of the previous year, amounting to a net loss of $(18.8)M. The increase in charges not related to current operations from the effects of a provision for a preliminary assessment advice of $6.5M, an asset impairment charge without effect on treasury of $16.4M, the effects of a decrease in sales of 5.8% and the increase in operating expenses put pressure on net earnings during the quarter. Financial charges

improved during the period, with a reduction of $0.9M resulting from the recapitalization transaction concluded in October of 2016.

The basic and diluted net earnings per share for the quarter was $(0.18), compared to net earnings of $0.10 per share in the third quarter of 2016. The rights issue completed as part of the recapitalization transaction increased the weighted average number of shares outstanding during the period to 102,074,318 compared to 27,453,960 in the comparable quarter of 2016.

The following table presents the cumulative Consolidated Statements of Earnings :

Cumulative Consolidated Statements of Earnings

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

	2017		**2016 Reclassified**		**Variance**	
	$	%	$	%	$	%
Sales(a)	917,893	100.00	966,892	100.00	(48,999)	(5.07)
Operating expenses, excluding costs not related to current operations, depreciation and amortization	900,293	98.08	945,717	97.81	(45,424)	(4.80)
Operating earnings before costs not related to current operations, depreciation and amortization	17,600	1.92	21,175	2.19	(3,575)	(16.88)
Costs not related to current operations	8,297	0.90	3,337	0.35	4,960	148.64
Depreciation and amortization	7,634	0.83	7,995	0.83	(361)	(4.52)
Impairment loss on goodwill, intangible assets and property, plant and equipment	16,440	1.79	—	0.00	16,440	100.00
	32,371	3.53	11,332	1.17	21,039	185.66
Operating earnings	(14,771)	(1.61)	9,843	1.02	(24,614)	(250.07)
Financial expenses	5,322	0.58	8,700	0.90	(3,378)	(38.83)
Earnings (loss) before taxes	(20,093)	(2.19)	1,143	0.12	(21,236)	(1,857.92)
Income taxes expense (recovery)	(992)	(0.11)	660	0.07	(1,652)	(250.30)
Net earnings (loss)	(19,101)	(2.08)	483	0.05	(19,584)	(4,054.66)
Basic and diluted net earnings per share	(0.19)		0.02			

[a] On December 31, 2016, the Company elected for early adoption of IFRS 15, *Revenues from Contracts with Customers*. For purposes of comparison, last year figures have been reclassified to reflect this change in accounting policy. Please refer to section 12, "Early adoption of IFRS 15" of this MD&A report.

The cumulative net loss during the period ended September 9, 2017 stood at $19.1M compared to net earnings of $0.5M in the corresponding period of the previous year, a decrease of $19.6M. The increase in charges not related to current operations from the effects of a provision for a preliminary assessment advice of $6.5M, an asset impairment charge without effect on treasury of

$16.4M in the third quarter, the effects of a decrease in sales of 5.1% and the effects of an increase in operating charges, which also occurred during the third quarter, put pressure on the cumulative net earnings. The decrease in financial charges of $3.4M since the beginning of the year and the reversal of a provision of $0.8M related to the executive retention program during the second quarter have contributed positively to the cumulative net result.

The basic and diluted cumulative net loss per share stood at $(0.19), compared to net earnings per share of $0.02 in the comparative period of 2016. The rights issue completed as part of the recapitalization transaction increased the weighted average number of shares outstanding during the period to 102,074,258 compared to 27,453,960 in the comparable period of 2016.

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

Sales by Segment

(unaudited, in thousands of dollars)

	2017 84 days	2016 Reclassified 84 days	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	247,805	257,801	(9,996)	(3.88)
Wholesale segment	97,253	107,535	(10,282)	(9.56)
	345,058	365,336	(20,278)	(5.55)
Inter-segment sales				
Distribution segment	2,931	3,524	(593)	(16.83)
Wholesale segment	22,793	22,712	81	0.36
	25,724	26,236	(512)	(1.95)
Consolidated sales				
Distribution segment	244,874	254,277	(9,403)	(3.70)
Wholesale segment	74,460	84,823	(10,363)	(12.22)
	319,334	339,100	(19,766)	(5.83)

Consolidated sales in the third quarter amounted to $319.3M compared to $339.1M in the corresponding quarter of the previous year, representing a decrease of 5.8%.

The 3.7% decrease in sales in the Distribution segment came primarily from the Ontario Division, as a result of the historical contract loss, and to a lesser extent, from the Norref division which experienced the effects of an important deflation in the price of salmon. The CFD division performed well, with an increase in sales, while the Lauzon division remained stable.

The 12.2% decrease in sales in the Wholesale segment was largely due to the Décarie Division, where sales continued to decrease, by 20.7%, in the context of increased competitive pressures which started in the fourth quarter of 2016 and, to a lesser degree, from a slight reduction at the Boucherville Division.

The following table presents cumulative sales by segment :

Cumulative sales by Segment

(unaudited, in thousands of dollars)

	2017 252 days	2016 Reclassified 252 days	Variance	
	$	$	$	%
Sales before eliminations				
Distribution segment	705,745	731,112	(25,367)	(3.47)
Wholesale segment	283,476	313,563	(30,087)	(9.60)
	989,221	1,044,675	(55,454)	(5.31)
Inter-segment sales				
Distribution segment	8,097	8,140	(43)	(0.53)
Wholesale segment	63,231	69,643	(6,412)	(9.21)
	71,328	77,783	(6,455)	(8.30)
Consolidated sales				
Distribution segment	697,648	722,972	(25,324)	(3.50)
Wholesale segment	220,245	243,920	(23,675)	(9.71)
	917,893	966,892	(48,999)	(5.07)

Cumulative sales reached $917.9M compared to $966.9M for the corresponding period of the previous year, representing a decrease of 5.1%.

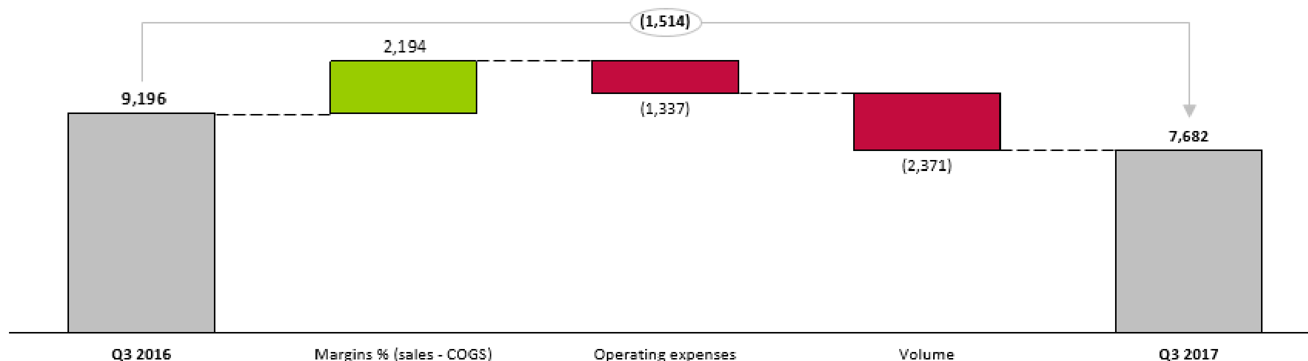
The 3.5% decrease in sales in the Distribution segment came primarily from the Ontario Division as a result of the historical contract loss and from the CFD Division, during the first quarter of the current year also resulting from a historical contract loss, a trend that reversed during the last two quarters on the combined effects of a strong tourist season and investments made in the Company's sales force. The Norref Division's performance remained positive since the start of the year, largely on strong results during the first half of the year.

Cumulative sales at the Wholesale segment were down by 9.7% compared to the comparable period. This reduction comes mainly from the Décarie Division, where the decrease in sales is attributable to increased competition.

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

Analysis of adjusted EBITDA for the third quarter :

(unaudited, in thousands of dollars)



Adjusted EBITDA for the third quarter of 2017 stood at $7.7M or 2.4% of sales compared to $9.2M or 2.7% for the corresponding period of 2016. The main variances were:

- A significant increase of margins as a percentage of sales following efforts dedicated to improve procurement processes and the positive effect of a slight inflation on average selling prices mainly at the CFD Division.

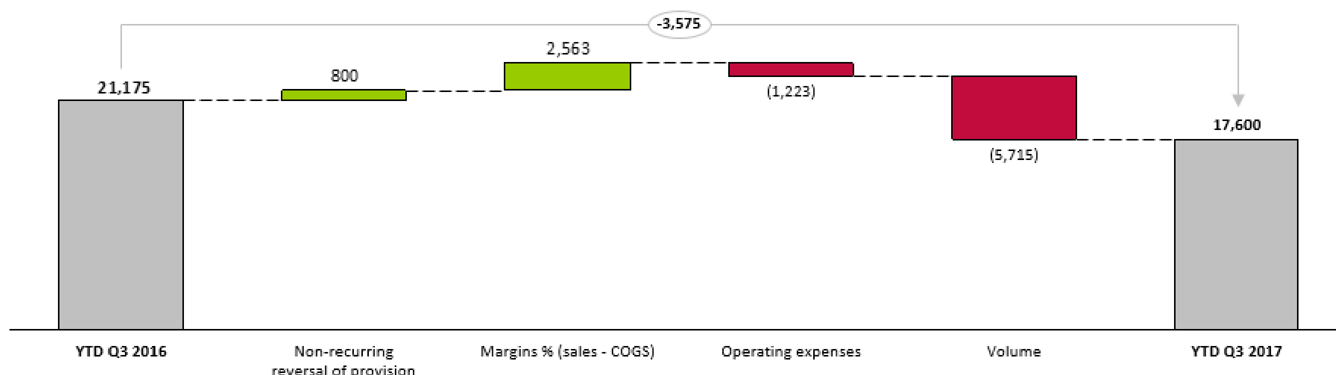
Partially offset by:

- The decrease in the volume of sales mainly from the historical contract loss in Ontario and increased competition at the Décarie Division.
- An increase in operating expenses mainly from inefficiencies experienced at the Ontario Division resulting from the closure of the Vaughan facility and continued investments in the Company's sales force.

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

Analysis of cumulative adjusted EBITDA :

(unaudited, in thousands of dollars)



The cumulative Adjusted EBITDA for the period stood at $17.6M or 1.9% of sales compared to $21.2M or 2.2% for the corresponding period of 2016. This variance is explained in most part by the following elements:

- A significant increase of margins as a percentage of sales following efforts dedicated to improve procurement processes and positive effect of a slight inflation on average selling prices, mainly at the CFD division during the last two quarters.
- The one-time reversal of a $0.8M provision in the second quarter.

Partially offset by:

- A decrease in the volume of sales mainly coming from the historical contract loss in Ontario and increased competition at the Décarie Division. Strong performance at the Norref Division, particularly in the second quarter, slightly alleviated these results.
- An increase in operating expenses primarily from continued investments in the Company's sales force and inefficiencies experienced at the Ontario Division resulting from the closure of the Vaughan facility.

Costs Not Related to Current Operations

Note 4 to the financial statements provides a summary of costs not related to current operations. This item in the Statement of earnings includes extraordinary items.

(unaudited, in thousands of dollars)

	2017 84 days $	2016 84 days $	2017 252 days $	2016 252 days $
Provision for preliminary assessment advice [(a)] (Note 14)	6,500	—	6,500	—
Costs of internal restructuring of operations				
Costs for warehouse closure	346	—	1,484	—
Severance and other costs	125	—	125	3,337
Severance allowances	—	—	174	—
Change in provision for onerous contracts	(10)	—	14	—
	6,961	—	8,297	3,337

(a) **Provision for preliminary assessment Advice**

Colabor received a preliminary assessment advice (the "Advice") from the Ontario Ministry of Finance related to commercial activities concerning the sale of tobacco products on First Nation territory which took place between September 2013 and 2016 at a division in Ontario. The Advice relates mainly to sales that took place during a short period of time between 2013 and 2014 with one customer in particular and for which the Ontario Ministry of Finance considers that sales taxes should have been collected and remitted. The Advice led to the recognition of a provision of $6.5M on the Company's interim financial statements for the third quarter of 2017. Colabor is currently in discussions with the Ontario Ministry of Finance concerning this Advice and an assessment notice should be received in the coming weeks. This assessment notice would be paid from Colabor's available liquidities and will not have a major impact of the Company's ability to meet its financial obligations or on its working capital. Colabor believes that the provision is conservative and represents the maximum amount that could be claimed.

Asset Impairment Charge

Long term assets and cash-generating units (CGU) undergo impairment tests when events or changes in circumstances indicate that their carrying amount may not be recoverable.

The Company recorded an asset impairment charge without effect on its liquidities of $16.4 M which relates primarily to the impairment of goodwill at the Boucherville division, in the Wholesale segment, and to certain tangible and intangible assets of the Summit division, in the Distribution segment. The goodwill impairment reflects the recent loss of volume and the revision of growth prospects at the Summit division, which also have an impact on future procurement synergies that could be realized at the Boucherville division.

Depreciation and Amortization

The depreciation and amortization expense for the third quarter of 2017 was $2.6M, equivalent to the corresponding quarter of 2016. The cumulative depreciation and amortization expense for the cumulative period was $7.6M compared to $8.0M in the corresponding period of the previous year.

Financial Expenses

Financial expenses in the third quarter of 2017 were $1.8M and lower compared to $2.7M in the corresponding quarter of 2016. Year-to-date, the cumulative financial expenses were also lower at $5.3M compared to $8.7M in the corresponding period of 2016. This decrease was attributable to a decrease in the average interest rate, a reduction in the bank loan following the recapitalization and to cash flow generated by operations.

Income Tax Expense (Recovery)

The income tax recovery of $1.3M in the third quarter of 2017 compared to an income tax expense of $1.2M in the third quarter of 2016 is mainly the result of lower earnings before income taxes when compared to the equivalent quarter of last year. Year-to-date, income tax recovery amounts to $1.0M compared to a expense of $0.7M for the equivalent period of 2016.

Net Earnings per Share

Net loss per share in the third quarter of 2017 amounted to $(0.18) compared to net earnings per share of $0.10 in the third quarter of 2016, representing a decrease of $0.28. The weighted average number of shares outstanding during the period was 102,074,318 compared to 27,453,960 in the comparable quarter of 2016.

Cumulative net loss per share amounted to $(0.19) compared to a cumulative net earnings per share of $0.02 in the corresponding period of 2016, representing a decrease of $0.21. This decrease is explained by the reduction in net earnings and by the increased number of shares issued as described earlier.

5.2 Financial Position

The following table presents the Company's Consolidated statements of financial position for the third quarter.

Consolidated Statements of Financial Position

(unaudited, in thousands of dollars)

	As at September 9, 2017 $	As at September 3, 2016 $	As at December 31, 2016 $
Assets			
Current			
Trade and other receivables	104,164	102,708	99,981
Inventory	81,255	78,133	83,246
Prepaid expenses	4,908	8,815	3,081
Other	2,863	3,242	1,830
Current assets	193,190	192,898	188,138
Non-current			
Property, plant and equipment	11,237	13,564	13,128
Intangible assets	48,872	57,750	55,593
Goodwill	70,813	84,130	84,130
Deferred tax assets	4,023	2,130	2,015
Other	1,269	1,360	1,693
Non-current assets	136,214	158,934	156,559
Total assets	329,404	351,832	344,697
Liabilities			
Current			
Bank overdraft	6,150	6,694	7,468
Trade and other payables	101,027	98,774	105,314
Current portion of long-term debt	750	98,248	550
Convertible debentures	—	49,433	—
Provision for assessment project	6,500	—	—
Other	2,125	2,357	654
Current liabilities	116,552	255,506	113,986
Non-current			
Long-term debt	62,954	23,129	61,211
Convertible debentures	49,033	—	48,870
Pension obligations	1,119	2,330	662
Provisions	2,560	3,300	2,998
Deferred tax liabilities	421	526	517
Non-current liabilities	116,087	29,285	114,258
Total liabilities	232,639	284,791	228,244
Equity			
Share capital	96,765	67,041	116,453
Total liabilities and equity	329,404	351,832	344,697

The changes in current assets and liabilities between the end of the third quarter and year-end are explained in part by seasonality of the Company's activities.

Accounts Receivable

Trade and other receivables increased by $1.5M compared to the third quarter of 2016. The Company maintains systematic efforts to improve customer account collection. This variation results largely from a temporary growth in accounts receivable principally from the CFD Division.

Inventory

Inventory increased by $3.1M compared with the third quarter of 2016. This variation results largely from an increase in inventory in the wholesale segment in preparation for an annual sales trade show, mitigated by lower inventory levels at the Ontario Division following the closure of the Vaughan distribution center.

Trade and Other Payables

The trade and other payables balance increased when compared with the third quarter of 2016, by $2.3M. This variation results largely from improving credit conditions from suppliers following the recapitalization and efforts dedicated to improve working capital.

Credit Facilities

Under certain circumstances, the Company is required to satisfy a fixed charge coverage ratio. As at October 19, 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 October 19, 2017, 102,112,832 common shares and 50 000 convertible debentures were issued and outstanding. In addition, 5,550,420 stock options were outstanding, of which 989,000 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 2016). The effective interest rate on the debentures is 6.6% (7.5% in 2016). 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 2016). 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 September 9, 2017. The cost of renewing the debentures contract in an amount of $687,000 was recognized against debentures.

5.3 Cash Flows

The following table presents the Company’s consolidated statements of cash flows.

Consolidated Statements of Cash Flows

(unaudited, in thousands of dollars)

	84 days		252 days	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Operating activities				
Net earnings (loss)	(18,753)	2,708	(19,101)	483
Deferred income taxes	(1,983)	986	(1,919)	209
Depreciation and amortization	2,554	2,623	7,634	7,995
Impairment loss on goodwill, intangible assets and property, plant and equipment	16,440	—	16,440	—
Provision for preliminary assessment advice	6,500	—	6,500	—
Financial expenses	1,751	2,662	5,322	8,700
Other	(26)	(137)	(629)	(715)
	6,483	8,842	14,247	16,672
Net changes in working capital	2,441	14,149	(7,617)	986
Cash flows from operating activities	8,924	22,991	6,630	17,658
Investing activities				
Purchase of property, plant and equipment	(420)	(210)	(902)	(410)
Disposal of property, plant and equipment	17	11	54	199
Purchase of intangible assets	(81)	(189)	(400)	(282)
Other	38	36	115	125
Cash flows used in investing activities	(446)	(352)	(1,133)	(368)
Financing activities				
Change in long-term debt	(6,343)	(21,316)	1,007	(11,923)
Lease payments	(179)	(143)	(470)	(354)
Share issuance	—	—	5	—
Financial expenses paid	(1,552)	(2,296)	(4,721)	(7,601)
Cash flows used in financing activities	(8,074)	(23,755)	(4,179)	(19,878)
Net change in bank overdraft	404	(1,116)	1,318	(2,588)
Bank overdraft at the beginning of the period	(6,554)	(5,578)	(7,468)	(4,106)
Bank overdraft at the end of the period	(6,150)	(6,694)	(6,150)	(6,694)

Operating Activities

Cash flows from operating activities in the third quarter were positive and reached $8.9M compared to cash flows from operating activities of $23.0M in the same period of 2016. This is explained by an important positive net change in working capital items on significant efforts to improve the Company's working capital situation during the third quarter of 2016.

Cumulative cash flows from operating activities are positive and reached $6.6M compared with cash flows from operating activities during the equivalent period of last year of $17.7M. The variation from the equivalent period of 2016 is mainly attributable to the effects of improving terms of credit with the Company's suppliers.

Investing Activities

Cash flows from investing activities in the third quarter were negative $0.4M and equivalent to the corresponding period in 2016.

Cumulative cash flows from investing activities were negative $1.1M compared with negative cash flows of $0.4M for the equivalent period of 2016 This increase is mainly due to higher acquisitions of tangible and intangible assets in the first half of 2017.

Financing Activities

Cash flows from financing activities in the third quarter were negative $8.1M compared to negative cash flows of $23.8M in the equivalent period of 2016. The variation comes mainly from the reduction of the banking facility and of interest payments following the recapitalization transaction concluded in October of 2016.

Cumulative cash flows from financing activities were negative $4.2M compared with negative cash flows of $19.9M during the equivalent period of 2016. This variation is explained by the reduction of the banking facility and of interest payments following the recapitalization transaction.

Payments Due

Payments due in the next five years are as follows:

(unaudited, in thousands of dollars)

		Payments due per period			
Contractual obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**5 years and over**
	$	**$**	**$**	**$**	**$**
Bank borrowings	36,929	—	36,929	—	—
Obligations under leases	3,301	876	1,327	1,098	—
Long-term debt (par value)	25,000	—	—	25,000	—
Convertible debentures (par value)	50,000	—	—	50,000	—
Provision	10,135	6,814	1,472	1,255	594
Operating leases	64,566	12,313	22,560	16,579	13,114
	189,931	20,003	62,288	93,932	13,708

6. Summary of Recent Quarters

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

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

	2017						2016 Reclassified	2015 Reclassified
	Q3 (84 days)	Q2 (84 days)	Q1 (84 days)	Q4 (119 days)	Q3 (84 days)	Q2 (84 days)	Q1 (84 days)	Q4 (112 days)
	$	$	$	$	$	$	$	$
Ventes	319,334	331,372	267,187	432,543	339,100	342,979	284,811	431,912
Adjusted EBITDA	7,682	9,018	900	9,092	9,196	10,074	1,905	9,301
Net earnings (loss)	(18,753)	3,097	(3,446)	(160)	2,708	3,073	(5,298)	(29,314)
Basic and diluted net earnings (loss) per share	(0.18)	0.03	(0.03)	—	0.1	0.11	(0.19)	(1.07)

7. Related Party Transactions

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

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

(unaudited, in thousands of dollars)

	2017	
	84 days	252 days
	$	$
Consolidated Statements of Earnings		
Sales	6,368	18,957
Consolidated Statement of Financial Position		
Trade and other receivables, net of remittances		1,476
Dubé & Loiselle Inc. Stock option [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.

8. 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 to support the leasing of one of the Company's distribution centres and a line of credit with a supplier.

9. Risks and Uncertainties

The Company's activities are subject to numerous risks and uncertainties that are described in detail 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.

10. Significant Accounting Estimates

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

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

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

Estimates

Impairment of Trade and Other Receivables

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

Supplier Rebates

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

Impairment of 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.

11. Internal Controls Over Financial Reporting

Management has designed and assessed disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) to provide reasonable assurance that the financial information presented by the Company is reliable and that its financial statements are prepared in accordance with IFRS. The 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 are efficient. For the 252-day period ended September 9, 2017, there were no changes in DC&P and ICFR that have materially affected, or are reasonably likely to materially affect the internal controls and procedures.

12. 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 and 252-day periods ended September 3, 2016, have been reclassified to reflect this change in accounting policy. The changes to comparative figures are as follows:

(unaudited, in thousands of dollars)

	84-day periods ended September 3, 2016			252-day periods ended September 3, 2016		
	Result presented	Adjustment under IFRS 15	Adjusted results	Result presented	Adjustment under IFRS 15	Adjusted results
	$	$	$	$	$	$
Sales	360,857	(21,757)	339,100	1,032,722	(65,830)	966,892
Operating expenses, excluding costs not related to current operations, depreciation and amortization	351,661	(21,757)	329,904	1,011,547	(65,830)	945,717
Operating results, excluding costs not related to current operations, depreciation and amortization	9,196	—	9,196	21,175	—	21,175

13. 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. he Company believes that the adoption of this new standard will have no impact 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.

14. Contingencies

In the normal course of operations, the Company may be audited by the tax authorities. While the Company believes that its tax returns are appropriate and justifiable, certain items may be subject to review and challenge by tax administrations.

During the third quarter of 2017, the Company received a preliminary assessment Advice from the Ontario Ministry of Finance relating to business activities that occurred between September 2013 and 2016 within a division in Ontario. This Advice led to the recognition of a provision of $6.5M. Refer to section 5.1 Net Earnings, subtitle "Cost Not Related to Current Operations".