



**COLABOR GROUP INC.**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**86-DAY PERIOD (1<sup>ST</sup> QUARTER)  
ENDED MARCH 27, 2010 FOR THE YEAR ENDING  
DECEMBER 31, 2010**

**APRIL 28, 2010**



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**TABLE OF CONTENTS**

<b>1. SCOPE OF MD&amp;A .....</b>	<b>3</b>
<b>2. FORWARD-LOOKING STATEMENTS .....</b>	<b>3</b>
<b>3. GENERAL .....</b>	<b>3-4</b>
<b>4. CORPORATE PROFILE .....</b>	<b>4-6</b>
<b>5. MAIN RESOURCES AND COMPETENCIES:</b>	
<b>BOARD OF DIRECTORS .....</b>	<b>7</b>
<b>MANAGEMENT .....</b>	<b>7</b>
<b>HUMAN RESOURCE DEVELOPMENT .....</b>	<b>8</b>
<b>6. PERFORMANCE ANALYSIS:</b>	
<b>EXECUTIVE SUMMARY OF PERFORMANCE .....</b>	<b>8</b>
<b>RESULTS OF OPERATIONS .....</b>	<b>8-12</b>
<b>BALANCE SHEETS.....</b>	<b>13-14</b>
<b>CASH FLOW .....</b>	<b>14-15</b>
<b>7. CONTRACTUAL OBLIGATIONS.....</b>	<b>16</b>
<b>8. SUMMARY OF PAST QUARTERS .....</b>	<b>16</b>
<b>9. RELATED PARTY TRANSACTIONS .....</b>	<b>16-17</b>
<b>10. OFF-BALANCE SHEET TRANSACTIONS .....</b>	<b>17</b>
<b>11. CURRENT ECONOMIC SITUATION, DEVELOPMENT STRATEGIES AND OUTLOOK .....</b>	<b>17-20</b>
<b>12. RISKS AND UNCERTAINTIES .....</b>	<b>20-21</b>
<b>13. SIGNIFICANT ACCOUNTING MEASUREMENTS .....</b>	<b>22</b>
<b>14. DISCLOSURE CONTROLS AND PROCESSES .....</b>	<b>22-25</b>
<b>15. SUBSEQUENT EVENT .....</b>	<b>25</b>

**April 28, 2010**

## **1. Scope of MD&A**

This Management's Discussion & Analysis ("MD&A") of Colabor Group Inc. ("GCL", the "Company" or "Colabor") (formerly Colabor Income Fund (the "Fund")) discusses the operating results, financial situation and cash flows for the 86-day period (1<sup>st</sup> quarter) ended March 27 of the year ending December 31, 2010. These financial statements are compared with the first quarter of 2009 which comprised 87 days. These financial statements are in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The financial statements have been published on SEDAR at [www.sedar.com](http://www.sedar.com).

GCL'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 December 31.

This report also contains information that is a non-GAAP measure of performance, such as the concept of earnings before financial expenses, amortization and income taxes (EBITDA). Since these concepts are not defined in Canadian GAAP, they may not be comparable with those of other companies.

## **2. 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 or inferred in these statements. The main factors that could result in a significant difference between GCL's actual results and the projections or expectations set out in the forward-looking statements are described herein under *Risks and Uncertainties*.

## **3. General**

### **Corporate arrangement resulting in the creation of Colabor Group Inc.**

The Fund was an unincorporated, open-ended, limited purpose trust that was established under the laws of the Province of Quebec under a Declaration of Trust dated May 19, 2005. The Fund's units were traded on the Toronto Stock Exchange under the symbol *CLB.UN*.

On July 8, 2009, the Fund had announced its intention to convert from an income trust structure to a corporation (the "Conversion"). In order to effect the Conversion, Colabor had entered into an arrangement agreement (the "Arrangement Agreement") with ConjuChem Biotechnologies Inc. ("ConjuChem"), in order to conclude the Conversion pursuant to a statutory plan of arrangement of ConjuChem (the "Plan of Arrangement") under Section 192 of the *Canada Business Corporations Act* ("CBCA") and the Conversion was completed on August 25, 2009, further to the approval of the unitholders of the Fund, which was obtained at a special meeting held on August 19, 2009.

## **Additional Information**

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

Additional information on GCL, and previously the Fund, may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on its information site [www.colabor.com](http://www.colabor.com).

## **4. Corporate Profile**

### **Activities**

Colabor was founded in 1962 and is a wholesaler and master food distributor serving the retail (small-sized grocery stores, convenience stores, etc.) and foodservice (cafeterias, restaurants, hotels, restaurant chains, etc.) markets.

It currently carries out its activities through two divisions:

#### ***Wholesale Segment:***

Sales of this Segment consist of food, food-related and non-food products that it purchases and supplies to wholesale distributors that, in turn, distribute these products to over 25,000 customers operating in the retail or foodservice market segments in Quebec and the Atlantic provinces.

Products are sold either directly from its distribution centre (“warehouse sales”) or through direct delivery from manufacturers and suppliers to the warehouses of wholesale distributors (“direct sales”).

This Segment generally sells its products at the manufacturers’ and suppliers’ list price. Accordingly, it generates gross profit on sales as follows:

(a) From a profit on warehouse sales:

Through a mark-up of the cost price of its private brand-name products and by making purchases from manufacturers and suppliers before a price increase and subsequently selling such products at the manufacturer’s new price. There is no profit margin on direct sales.

(b) Primarily from rebates from suppliers:

These rebates consist of: (i) agreements with suppliers relating principally to distribution agreements, central billing, truck load allowance and other incentives, (ii) rebates received from suppliers based on buying volumes, (iii) cash discounts on purchases based on terms of sale, and (iv) net advertising funds received in connection with promotional activities.

This Segment operates a 371,120 square-foot distribution centre in Boucherville that employs about 150 people and could be expanded to 650,000 square feet.

Almost 90% of this Segment’s sales are covered by long-term contracts.

## **Distribution Segment**

This Segment includes the following operating activities:

### *1. Summit Food Service Distributors (Summit)*

Summit distributes more than 8,000 products from warehouses in Ottawa, London, Mississauga and Cambridge to more than 3,000 customers, including Cara (Swiss Chalet, Harvey's, Kelsey's Neighbourhood Bar and Grill, Montana's Cookhouse and Milestone's Grill and Bar), Compass, Extencare, Mr Sub, Zehrs, other foodservice chains and independent restaurants as well as to institutions, including hospitals, schools and government institutions. Summit's product line includes frozen products, dry staples, dairy products, meat, seafood, poultry and sanitation products.

This division services primarily the Ontario market, but also distributes Cara restaurant products in Quebec.

This division, with about 525 employees, operates four distribution centres, including the London head office, where administrative services are located.

These warehouses cover a total of 454,476 square feet, allocated as follows:

Toronto: 127,961 square feet

London: 113,595 square feet (could be expanded)

Ottawa: 103,460 square feet (could be expanded)

Cambridge: 109,460 square feet

### *2. Bertrand Food Distributor (Bertrand)*

Bertrand is a major distributor to foodservice and retail customers in the Québec City and Saguenay regions. Bertrand, which employs approximately 325 people, distributes over 12,000 products from its two strategically located warehouses in Lévis and Saguenay, totalling 231,000 (could be expanded) and 133,000 square feet, respectively. Bertrand's customers consist primarily of foodservice operators, specialty food stores, institutional accounts such as healthcare institutions, schools and universities, certain other retail customers, in all reaching approximately 4,000 customers. With a complete product offering, including frozen products, dry staples, dairy products, fresh meat, fresh fish and seafood, poultry, fresh fruits and vegetables, disposables and sanitation products as well as meat processing and preparation services, Bertrand therefore offers its customers a "one-stop-shop" solution.

The Distribution Segment generates gross profit on sales as follows:

#### (a) From a profit on warehouse sales:

Generated primarily from a mark-up of the cost price of products pursuant to rates negotiated with its customers.

#### (b) From rebates from suppliers

These rebates consist of: (i) rebates received from suppliers based on buying volumes, (ii) cash discounts on purchases and (iii) net advertising funds received in connection with promotional activities.

Almost 50% of this Segment's sales are covered by long-term contracts.

Over 55% of the sales activities of the Fund's two segments is secured by long-term agreements and manufacturers' and suppliers' cost increases which can be passed on to customers, thereby significantly reducing its risk.

## 5. Main Resources and Competencies

### 5.1 Board of Directors

The members of the Board of Directors are listed below:

<u>Director</u>	<u>Role</u>	<u>Occupation</u>
Jacques Landreville	Chairman	Corporate Director
Richard Lord	Chairman, Human Resources and Corporate Governance Committee	President and Chief Executive Officer, Quincaillerie Richelieu Ltée
Robert Panet-Raymond	Chairman, Audit Committee	Corporate Director
Claude Gariépy	Director	Executive Vice-President and Chief Executive Officer, Familiprix Inc.
Donald Dubé	Director	President, Edfrex Inc.

### 5.2 Management

Gilles C. Lachance	President and Chief Executive Officer	Colabor Group Inc.
Michel Loignon CA	Vice-President and Chief Financial Officer	Colabor Group Inc.
Jack Battersby	President	Colabor Limited Partnership, Summit Division
Marko Potvin	Vice-President, Corporate Purchasing	Colabor Limited Partnership
Denis Melançon	Vice-President and General Manager	Colabor Group Inc., Bertrand Division
Louise Laforce	Vice-President Human Resources	Colabor Limited Partnership
Michel Delisle	Vice-President Information Technology	Colabor Limited Partnership
Geneviève Brouillette, ca	Vice-President and General Manger	Colabor Limited Partnership, Wholesale Division

## 5.3 Human Resource Development

The Board of Directors is pursuing a succession planning process, through the Human Resources and Corporate Governance Committee and with the assistance of an external human resources consulting firm.

## 6. Performance Analysis

### 6.1 Executive Summary of Performance

#### Quarter ended March 27, 2010

- Comparable sales down 3.4% (total sales down by 12.3%)
- EBITDA percentage rose from 3.01% to 3.05%
- Net earnings up \$1,062,000 to \$2,277,000
- Debt/EBITDA ratio: 1.64:1.00 (banking syndicate's requirement: <3.00:1.00)
- Interest coverage ratio: 6.98:1.00 (banking syndicate's requirement: >3.50:1.00)

#### Stock transactions during the quarter

- Share price: as at December 31, 2009: \$11.07; Share price: as at March 27, 2010: \$12.35
- Share price increase from January 1 to March 27, 2010: 11.56%
- Conversion of debentures with a par value of \$13,516,000 into 1,318,627 shares

### 6.2 Results of Operations

The results of operations and their comparison with the first quarter of 2009 should be read in conjunction with the *Current Economic Situation* section presented further on in this MD&A and the following facts:

- A \$20 million decrease in sales following the loss of major contract in the Summit division, as explained in the 2009 third and fourth quarter reports;
- The results for the first quarter of 2009 were achieved as an income fund before the Fund's conversion to a corporation. Accordingly, the 2009 quarter includes expenses relating to a minority interest and current taxes, which are nil in 2010.
- The first quarter of 2010 comprises 86 days, compared with 87 days for 2009.

**Consolidated Earnings** (in thousands of dollars, except net per share/unit amounts, unaudited)

	2010-03-27 (86 days)		2009-03-28 (87 days)		Variance	
	\$	%	\$	%	\$	%
<b>Sales</b>	<u>225,355</u>	<u>100.00%</u>	<u>256,945</u>	<u>100.00%</u>	<u>(31,590)</u>	<u>-12,29%</u>
Earnings before financial expenses, amortization and income taxes	6,873	3.05%	7,724	3.01%	(851)	-11.02%
Financial expenses	1,310	0.58%	1,561	0.61%	(251)	-16.08%
Amortization of property, plant and equipment	836	0.37%	888	0.35%	(52)	-5.86%
Amortization of intangible assets	2,197	0.97%	2,197	0.86%		0.00%
	<u>4,343</u>	<u>1.92%</u>	<u>4,646</u>	<u>1.82%</u>	<u>(303)</u>	<u>-6.52%</u>
Earnings before income taxes and non- controlling interest	<u>2,530</u>	<u>1.13%</u>	<u>3,078</u>	<u>1.19%</u>	<u>(548)</u>	<u>-17.80%</u>
Income taxes						
Current		0.00%	90	0.04%	(90)	-100.00%
Future	253	0.11%	693	0.27%	(440)	-63.49%
	<u>253</u>	<u>0.11%</u>	<u>783</u>	<u>0.31%</u>	<u>(530)</u>	<u>-67.69%</u>
Earnings before non-controlling interest	<u>2,277</u>	<u>1.02%</u>	<u>2,295</u>	<u>0.88%</u>	<u>(18)</u>	<u>-0.78%</u>
Non-controlling interest		0.00%	1,080	0.42%	(1,080)	-100.00%
<b>Net earnings</b>	<u><b>2,277</b></u>	<u><b>1.02%</b></u>	<u><b>1,215</b></u>	<u><b>0.46%</b></u>	<u><b>1,062</b></u>	<u><b>87.41%</b></u>
Basic and diluted net earnings per share/unit	<u>\$0.12</u>		<u>\$0.08</u>			

## Sales

Sales consist of:

For the Wholesale Segment: Gross sales from the Boucherville warehouse and direct sales to affiliated-wholesalers, less rebates of 3% of the affiliated-wholesalers' sales, as provided in the agreement between Colabor LP and the affiliated-wholesalers and sales to other customers, less rebates, as provided in individual agreements with these customers. Net sales are allocated between foodservice sales and retail sales.

For the Distribution Segment: Gross sales to customers from the London, Mississauga, Ottawa, Cambridge, Lévis and Saguenay warehouses less rebates, as provided in individual agreements with these customers.

Inter-segment sales are then eliminated. These are primarily sales by the Wholesale Segment to Summit and Bertrand in the Distribution Segment essentially for foodservice.

The following table presents a comparison of comparable sales for the first quarter of 2010 and 2009.

Because the 2010 first quarter comprises 86 days, whereas the 2009 first quarter had 87 days, sales for the 2009 first quarter have been adjusted based on the number of days in 2010 to display the actual organic growth.

**Sales** (in thousands of dollars, unaudited)

	2010-03-27	2009-03-28							
	(86 days) Actual sales	(87 days) Actual sales	One-day adjustment	Loss of customer	Comparable sales	Variance Comparable sales		Variance Actual sales	
	\$	\$	\$	\$	\$	\$	%	\$	%
<b>Wholesale Segment</b>									
Foodservice									
Carrying amount	69,828	74,423	(855)		73,568	(3,740)	N/A	(4,595)	N/A
Intersegment eliminations	(17,696)	(19,942)	229		(19,713)	2,017	N/A	2,246	N/A
	52,132	54,481	(626)		53,855	(1,723)	-3.2%	(2,349)	-4.3%
Retail	26,781	26,977	(310)		26,667	114	0.4%	(196)	-0.7%
	78,913	81,458	(936)		80,522	(1,609)	-2.0%	(2,545)	-3.1%
<b>Distribution Segment</b>									
Foodservice	146,442	175,487	(2,017)	(19,937)	153,533	(7,091)	-4.0%	(29,045)	-16.6%
	225,355	256,945	(2,953)	(19,937)	234,055	(8,700)	-3.4%	(31,590)	-12.3%

The *Current Economic Situation* section presented further on in this MD&A provides an overview of the context in which the Company and its competitors operate.

According to the industry, the first quarter of 2010 was characterized by a slowdown in the foodservices industry. It appears that our customers have adopted a “wait and see” attitude about whether the economic recession will truly end or whether it will continue for some time.

Generally, we believe that the Company fared quite well during the first quarter with only a 3.4% decreased in comparable sales from the previous year.

### Wholesale Segment

The recession had a lesser impact on this Segment, which primarily services distributors in Quebec and the Atlantic provinces, than on the Distribution Segment, with an overall drop in comparable sales of about 2.0%.

### *Foodservices*

The slowdown in the foodservices caught up to distributors in this segment, as comparable sales were down 3.2%.

### *Retail*

This sector continues to benefit from the major procurement agreements signed in 2008 by affiliated-wholesalers in this sector, with, among others, an integrated oil company, which contributed to organic growth of 0.4%.

### **Distribution Segment**

The 4.0% decline in this Segment's comparable sales is primarily attributable to the Summit Division, whose activities are mainly in Ontario, the province that continues to be the hardest hit by the recession, due to its manufacturing structure and where the restaurant segment, including fast food, cafeteria and independent restaurants is affected.

## **Earnings Before Financial Expenses, Amortization and Income Taxes (EBITDA)**

### *Gross Profit*

Gross profit is composed of the following items:

- Wholesale Segment: Profit on gross warehouse sales only, which consists primarily of a profit margin on private brand-name products and profit on inventory held. No profit margin is recognized on direct sales. Income is attributed on such sales for purposes of rebates from suppliers only.  
Distribution Segment: Product acquisition cost with a percentage mark-up that is market-driven or negotiated in current agreements.
- Rebates from suppliers  
A significant portion of Colabor's gross profit is derived from rebates from suppliers. These rebates consist of: (i) agreements with suppliers relating principally to distribution agreements, central billing, truck load allowance and other incentives, (ii) rebates received from suppliers based on buying volumes, (iii) cash discounts on purchases based on terms of sale, and (iv) net advertising funds received in connection with promotional activities.

### *Selling, operating and administrative expenses*

The main expenses consist of salaries and employee benefits, delivery costs for the Distribution Segment and occupancy costs relating to the Company's distribution centres.

Despite a decline in its sales, the Company continued to manage expenses conservatively to offset the lower revenues.

It was, therefore, able to increase its EBITDA percentage from 3.01% for the 2009 quarter to 3.05% in 2010. However, as a result of lower sales, EBITDA was down \$851,000 compared with the 2009 quarter.

## **Income Taxes**

The acquisition of the assets of Summit Food Service Distributors Inc. by the Fund was finalized and carried out on January 8, 2007. Since this transaction was considered an “undue expansion” by the Department of Finance in its ruling rendered at the end of 2007, the Fund became taxed immediately in 2007 instead of in 2011.

As explained under the *General* section, on August 25, 2009, the Fund became a corporation as a result of a Plan of Arrangement with ConjuChem, and acquired approximately \$130M in tax losses for \$5M.

In 2009, the Company had recorded current income taxes, however, subsequent to the above transaction and through the use of its tax losses, there are no current income taxes for the quarter.

For future income taxes, the Company uses the liability method to account for its income taxes. Under this method, income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

Another future income tax item is attributable to the amortization of the ConjuChem purchase price, \$5,000,000, calculated proportionally to the utilization of the future income tax asset.

## **Non-controlling Interest**

Additionally, in connection with the conversion to a corporation described in the *General* section above, unitholders who had a non-controlling interest in the Fund converted their exchangeable Colabor LP units into shares of the Company and the Company therefore recorded the carrying amount of the non-controlling interest in capital stock.

An amount of \$1,080,000 was recognized as a non-controlling interest in the first quarter of 2009.

## 6.3 Balance Sheets

### Consolidated Balance Sheets

(in thousands of dollars)

	2010-03-27 (unaudited)	2009-12-31
	\$	\$
<b>ASSETS</b>		
Current assets		
Accounts receivable	80,166	75,438
Income taxes receivable	6,335	685
Inventory	60,411	71,909
Prepaid expenses	2,106	1,500
Future income taxes	8,399	8,540
	<u>157,417</u>	<u>158,072</u>
Deferred financing expenses	130	158
Share investment in Colabor Investments Inc., at cost	6,159	6,159
Property, plant and equipment	13,418	13,835
Intangible assets	131,672	133,869
Goodwill	72,317	72,317
Future income taxes	1,322	1,802
	<u>382,435</u>	<u>386,212</u>
<b>LIABILITIES</b>		
Current liabilities		
Bank overdraft	3,759	17,126
Accounts payable and accrued liabilities	65,910	65,762
Balance of purchase price payable, bearing interest of 4.5%	3,750	3,750
Balance of purchase price payable, non-interest bearing	6,331	6,331
Dividends payable		7,453
Sales rebates payable	15,695	13,808
Deferred revenue	1,102	961
Deferred credit	7,110	7,290
Instalments on long-term debt	600	636
	<u>104,257</u>	<u>123,117</u>
Bank loan	62,101	49,335
Long-term debt	170	307
Debentures	34,028	46,711
Accrued benefit liability for employee benefits	787	787
Deferred credit	19,687	19,875
	<u>221,030</u>	<u>240,132</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	156,585	143,018
Option to convert debentures	1,677	2,314
Contributed surplus	35	447
Shares held for the long-term incentive plan	(718)	(1,248)
Retained earnings	3,826	1,549
	<u>161,405</u>	<u>146,080</u>
	<u>382,435</u>	<u>386,212</u>

The main changes in the balance sheet as at March 27, 2010, other than current operating transactions, compared to the December 31, 2009 balance sheet relate to the convertible debentures issued in 2007.

During the first quarter of 2010, debentures with a par value of \$13,516,000 were converted into 1,318,627 Company shares.

The \$12,930,000 carrying amount of these debentures and the \$637,000 related conversion option were recognized in capital stock.

## 6.4 Cash Flow

### Consolidated Cash Flows (in thousands of dollars)

	2010-03-27 (86 days) (unaudited)	2009-03-28 (87 days) (unaudited)
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net earnings	2,277	1,215
Non-cash items		
Amortization of property, plant and equipment	836	888
Amortization of intangible assets	2,197	2,197
Amortization of deferred financing expenses	28	28
Non-controlling interest		1,080
Future income taxes	253	693
Compensation cost from long-term incentive plan	118	106
Amortization of transaction costs related to debentures	247	238
	<u>5,956</u>	<u>6,445</u>
Changes in operating assets and liabilities		
Accounts receivable	(4,728)	(8,402)
Income taxes receivable	(5,650)	
Inventory	11,498	5,728
Prepaid expenses	(606)	(1,050)
Accounts payable and accrued liabilities	148	(7,990)
Income taxes payable		816
Rebates payable	1,887	859
Deferred revenue	141	312
	<u>2,690</u>	<u>(9,727)</u>
Cash flows from operating activities	<u>8,646</u>	<u>(3,282)</u>
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment	(419)	(487)
Cash flows from investing activities	<u>(419)</u>	<u>(487)</u>
<b>FINANCING ACTIVITIES</b>		
Bank loan	12,766	13,599
Dividends paid	(7,453)	
Distributions paid to unitholders		(3,921)
Distributions paid to holders of exchangeable Colabor LP units		(1,369)
Repayment of long-term debt	(173)	(184)
Purchase of units held by the Fund for long-term incentive plan		(789)
Cash flows from financing activities	<u>5,140</u>	<u>7,336</u>
<b>Net change in bank overdraft</b>	<u>13,367</u>	<u>3,567</u>
Bank overdraft, beginning of period	(17,126)	(7,714)
Bank overdraft, end of period	<u>(3,759)</u>	<u>(4,147)</u>

## Credit Facilities

The Company has entered into a three-year agreement with a banking syndicate for operating credit facilities for an authorized amount of \$100M secured by a first ranking hypothec on the Company's assets.

Under the terms of the credit agreement, the Fund is required to maintain (i) a prescribed ratio of total debt (excluding the debentures) to EBITDA less than 3.00:1.00 and (ii) a prescribed ratio of EBITDA to interest expenses greater than 3.50:1.00.

Based on the banking syndicate's method of calculation, the debt/EBITDA ratio is 1.64:1.00 and the interest coverage ratio is 6.98:1.00 times.

## Distributions/Dividends

A \$7,453,000 dividend was paid on January 15, 2010 to shareholders of record on December 31, 2009. Additionally, a dividend of \$0.2691 per share was paid on April 15, 2010 to shareholders of record on March 31, 2010.

In management's opinion, cash flows from operating activities and the funds from operating credits are sufficient to support planned capital expenditures, working capital requirements, quarterly dividends of \$0.2691 per share and will comply with the banking syndicate's ratio requirements.

## Basic and Diluted Cash Flows per Share and Dividend Payout Ratio

	Cash flows \$000	Diluted cash flows \$000
Net earnings	2,277	2,277
Amortization of property, plant and equipment	836	836
Amortization of intangible assets	2,197	2,197
Amortization of deferred financing expenses	28	28
Future income taxes	253	253
Compensation cost from long-term incentive plan	118	118
Amortization of transaction costs related to debentures	247	247
Interest savings on debentures		773
Property, plant and equipment	(419)	(419)
Cash flows from operating activities before changes in operating assets and liabilities	<u>5,537</u>	<u>6,310</u>
Shares outstanding, end of quarter	20,978,259	20,978,259
Adjustment to take account of debenture conversion		3,467,220
Number of shares for calculation purposes	<u>20,978,259</u>	<u>24,445,479</u>
<b>Cash flows per share</b>	<u><b>\$0.264</b></u>	<u><b>\$0.258</b></u>
Annual dividend portion for current quarter	<u><b>\$0.248</b></u>	<u><b>\$0.248</b></u>
<b>Dividend payout ratio</b>	<u><b>94%</b></u>	<u><b>96%</b></u>

## 7. Contractual Obligations

('000)	Payments due per period				
	<u>Total</u>	<u>Less than 1 year</u>	<u>From 1 to 3 years</u>	<u>From 4 to 5 years</u>	<u>5 years and over</u>
Bank loan	\$62,101		\$62,101		
Long-term debt	\$770	\$600	\$170		
Balances of purchase price payable	\$10,081	\$10,081			
Debentures (par value)	\$35,539		\$35,539		
Operating leases and service contracts	\$90,416	\$11,829	\$21,860	\$18,411	\$38,316
Total	\$198,907	\$22,510	\$119,670	\$18,411	\$38,316

Although the debentures are included in the above contractual obligations, one of their characteristics is that they are convertible into shares in 2010 or 2011.

The debentures are redeemable between December 31, 2009 and December 31, 2010, with advance notice, at a price that corresponds to the principal plus accrued and unpaid interest, provided the current market price is at least 125% of the conversion price.

After December 31, 2010, they are redeemable, with advance notice, at a price that is equivalent to the principal plus accrued and unpaid interest.

## 8. Summary of Past Quarters

('000)	2010-03-27 (86 days)	2009-12-31 (110 days)	2009-09-12 (84 days)	2009-06-20 (84 days)	2009-03-28 (87 days)	2008-12-31 (116 days)	2008-09-06 (84 days)	2008-06-14 (84 days)
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Sales</b>	225,355	364,973	276,841	283,722	256,945	398,906	288,446	278,721
EBITDA	6,873	15,073	10,026	9,977	7,724	15,472	10,014	9,428
<b>Net earnings</b>	2,277	9,002	4,710	1,744	1,215	4,326	2,311	1,147
Basic and diluted net earnings per share/unit	\$0.12	\$0.53	\$0.30	\$0.12	\$0.08	\$0.33	\$0.16	\$0.09

Readers should bear in mind that results for quarters prior to September 12, 2009 were achieved in an income fund structure. Results for the quarter ended September 12, 2009 include income tax recoveries calculated for the quarters ended June 20, 2009 and March 28, 2009 following conversion to a corporation and the acquisition of ConjuChem's tax losses.

## 9. Related Party Transactions

Following the initial public offering on June 28, 2005, the Fund had indirectly acquired a 53.2% interest in Colabor LP, with the remaining 46.8% interest in Colabor LP being held by Colabor Investments Inc. ("Investments") as exchangeable Colabor LP units.

Subsequent to the Summit and Bertrand acquisitions, Investments held an undiluted 25.9% interest and a diluted 20.8% interest in Colabor LP.

Subsequent to the conversion into a corporation and the conversion of debentures, Investments now holds an undiluted 24.3% and a diluted 20.8% interest in Colabor Group Inc., which enables it to exercise significant influence over GCL.

Related party transactions include the following:

- Sales to customers controlled by directors, which are on the same terms and conditions as sales to Company's other customers.
- Rebates to affiliated- and preferred wholesalers of Investments at the rate of 3% of their sales, as provided in the agreement in effect until 2015;
- Until 2022, the Company leases the building in which its head office and the Boucherville distribution centre are located from Investments;
- Under an agreement expiring in 2015, the Company pays fees to a subsidiary of Investments for IT services.

All of these transactions were concluded in the normal course of business and are measured at the exchange amount.

**Related party transactions** (in thousands of dollars)

	2010-03-27 (86 days) (unaudited)	2009-03-28 (87 days) (unaudited)
	\$	\$
Sales to customers controlled by trustees	2,663	3,284
Rebates	2,659	2,714
Rent	468	468
IT services	223	244

## 10. Off-balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than, primarily, a \$2,028,000 bank letter of guarantee supporting one year of leasing the Boucherville distribution centre.

## 11. Current Economic Situation, Development Strategies and Outlook

### Current Economic Situation

Colabor's activities are in Eastern Canada, principally in Quebec and Ontario. During 2009, the Canadian economy underwent one of the most severe economic downturns in the past 40 years, leading to job losses of 239,700 across the country, with 26,800 in Quebec and 141,600 in Ontario. Ontario accounted for 59% of job losses in Canada due to the province's weakened manufacturing sector.

A recent study published in early 2010 by the Canadian Restaurant and Foodservices Association (CRFA) presents a preliminary comparison of 2009 and 2008 results as well as forecasts for 2010. The study conclusions, in percentages only, are presented below:

	<u>Change %</u> <u>2009/2008</u>	<u>Forecast of change %</u> <u>2010/2009</u>
<b>Commercial:</b>		
Full service restaurants	-3.0%	3.0%
Fast food	1.6%	2.9%
Cafeterias	-4.5%	3.5%
Beverages	<u>-2.6%</u>	<u>1.7%</u>
	<b>-1.2%</b>	<b>2.9%</b>
<b>Non commercial</b>	<b><u>-1.3%</u></b>	<b><u>3.6%</u></b>
Total foodservice	-1.2%	3.1%
Menu inflation	3.5%	2.4%
<b>Actual growth</b>	<b><u>-4.7%</u></b>	<b><u>0.7%</u></b>

The study also shows the actual growth or decline in sales in the *commercial sector* by province for 2009 and 2010.

The provinces served by Colabor are included below:

	<u>Change %</u> <u>2009/2008</u>	<u>Forecast of change %</u> <u>2010/2009</u>
Newfoundland and Labrador	-2.3%	-2.1%
Nova Scotia	-5.6%	-0.4%
New Brunswick	-4.2%	-1.5%
<i>Quebec</i>	-2.9%	0.9%
<i>Ontario</i>	-5.0%	0.4%

Based on these results and forecast, it appears that the 2010 fiscal year will be somewhat difficult, at least during the first half of the year, with a moderate improvement in the second half, since the food sector is generally the last sector to fully regain its robustness.

A recent *Desjardins Economic Studies Bulletin* indicated that there were some positive signs in Quebec pointing to a recovery. The real estate market is stabilizing, job losses are slowing and consumer confidence is improving.

In Ontario, however, the automobile industry restructuring will prolong the recession in the coming months. Because of its strong manufacturing base, this province is the hardest hit by the recession. Additionally, a rapid appreciation of the Canadian dollar compared to the US dollar would slow the resurgence of exports and tourism.

Colabor's management is well aware of this situation and has prepared its budgets to deal with it. It has already taken the necessary measures to cope with the situation, in particular, reviewing processes and operating expenses and limiting capital spending solely to projects that will contribute to increasing productivity.

Colabor has prepared its business plan, described below, and believes that the current situation could offer business opportunities that it is prepared to analyse for their potential to contribute to a strategic sales growth, with the objective of providing added value for the shareholders.

## **Development Strategies**

The Company's management is firmly convinced that there are major channels which could be used to increase its penetration of the food services market in Canada.

### *Affiliated-wholesalers network in Quebec and the Atlantic Provinces*

Despite a slowdown in the organic growth in the Wholesale Segment, management is confident that these loyal, entrepreneurial, customer-service-driven affiliated-wholesalers will continue to grow their market share in their respective regions.

### *Consolidation of food distribution services*

The Summit acquisition has made it possible for the Company to gain a foothold in Ontario, the most important foodservices market in Canada. The Company could acquire other distributors operating in Ontario and use its business model to integrate any new acquisitions. This strategy has proven beneficial with the Bruce Edmeades acquisition, for example.

The Company could also acquire affiliated-wholesalers' networks in Quebec, using its Bertrand division to integrate these new acquisitions, and in the Atlantic Provinces. This would allow it to complete its distribution network in Eastern Canada.

### *Geographic expansion*

At this time, the Company is not present in Western Canada. Since this region was experiencing the fastest economic growth in the country in recent years, there is no doubt that expansion into this region could be beneficial, although it must be considered carefully in light of the labour availability issues. Additionally, a prerequisite to expansion in this region is developing a solid customer base before investing in new infrastructure.

### *Related sectors*

The Company's mission is to provide its customers with one-stop shopping in the food distribution services market.

In the future, the Company could add a meat, fish, fruit and vegetables, packaged goods and natural and organic products distribution network.

### *Convenience stores and small-sized grocery stores*

The Company believes that, in the medium term, there will be opportunities to acquire convenience store networks currently owned by major food chains wishing to return to their original niche, serving medium- and large-sized grocery stores.

## **Outlook**

Despite the economic downturn, these acquisition opportunities would make it possible for the Company to significantly increase its purchasing power and ability to generate cost savings in order to increase its net earnings.

## **12. Risks and Uncertainties**

The Company's activities are subject to numerous risks and uncertainties that are described in detail in its Annual Information Form. In addition to those risks, the Company wishes to emphasize the industry-related risks that could impact profitability and return on investments and that are beyond management's control.

### **Industry-related risks that could impact profitability and that are beyond management's control:**

- *Dependence on affiliated-wholesalers*

Sales generated by affiliated-wholesalers account for a significant portion of the Company's sales. The loss of a significant number of these wholesalers could have a negative impact on Colabor's earnings.

This risk has been mitigated by the execution of agreements to amend the affiliate agreements to provide for an initial ten-year period, renewal provisions for two additional terms of five years and also provide for the granting of a right of first refusal by the affiliated-wholesalers to Colabor LP on their businesses and through the recent acquisition of Bertrand, one of its main customers. However, there is no assurance that Colabor LP will be able to finance the exercise of such right of first refusal. Moreover, incentives are built in the contractual relationships existing between the affiliated-wholesalers, Colabor LP and Investments to encourage the affiliated-wholesalers to increase their purchases from Colabor.

- *Absence of long-term agreements between affiliated-wholesalers and their customers*

In accordance with general industry practice, affiliated-wholesalers do not normally enter into long-term agreements with their customers. As a result, customers may, without notice or penalty, terminate their relationship with the affiliated-wholesalers. In addition, even if customers should decide to continue their relationship with the affiliated-wholesalers, there is no guarantee they will purchase the same volume of products as in the past or that they will pay the same price for those products as they have in the past. Any loss of customers by the affiliated-wholesalers, or decrease in the volume purchased or the price paid by them for products, could affect the Company's sales and have an adverse effect on its financial condition and results of operations. In the past, affiliated-

wholesalers, relying on their knowledge of their respective markets, have been able to differentiate themselves from their competitors by providing personalized services to their customers, in particular flexible delivery schedules and a product line tailored to their customers' needs. In management's view, there will be no change in this regard in the future.

- *Customer choices*

Colabor's success also depends on the continuing interests of customers in its products. A change in customer choices could affect demand for Colabor's products.

- *Dependence on Cara and other chains*

Subsequent to the Summit acquisition, sales to Cara (including franchisees of Cara) represented a significant portion of the Company's sales. The loss of Cara as a customer, a decrease in purchases by Cara or a decrease in Cara's market share in the foodservice industry could have a material and adverse effect on the Company's financial condition, results of operations and liquidity. This risk has been mitigated by the execution of a ten-year distribution agreement, with a five-year renewal option with Cara and through the recent acquisition of Bruce Edmeades and Bertrand.

- *Integration of acquired companies*

While some acquisitions will be managed with little change, some could result in major streamlining. Difficulties encountered with such integrations could have an impact on the Company's results.

- *Product recall*

Colabor could have to deal with product recalls due to sanitation issues encountered by certain manufacturers, such as the listeriosis problems during 2008. Such recalls can trigger a decrease in sales of certain types of products for a period of time and cause a slump in sales figures. At this time, Colabor has the necessary mechanisms in place to quickly trace contaminated products, return them to the manufacturer and recover the cost of the contaminated products from these manufacturers.

## **Return on Investment**

The return on an investment in Colabor Group Inc. is not comparable to the return on an investment in a fixed-income security. The return is based on many assumptions. Although the Company intends to pay quarterly dividends, such dividends may be reduced or suspended. The dividends paid will depend on numerous factors, in particular, the inherent industry risks described above and other risks described in the Company's Annual Information Form. Additionally, the market value of the shares could decline significantly if the Company is unable to respect its dividend payment objectives, in particular, non-compliance with the financial ratio requirements under the credit agreement described under the *Cash Flow* section.

## **Climate change**

Colabor has very little climate change risk exposure.

### **13. Significant Accounting Measurements**

Some of the amounts in the financial statements are based on estimates made by management using its knowledge of current or anticipated economic events. Significant estimates relate exclusively to the allowance for excess or obsolete inventory, accounting for rebates from suppliers, goodwill and intangible assets.

- *Allowance for excess or obsolete inventory*

Inventory is valued at the lower of net realizable value or cost calculated using the first-in first-out method. The Company records an allowance for obsolescence that is calculated on the basis of assumptions relating to future demand for its products and conditions in the markets in which its products are sold. The allowance, which reduces inventory to the net realizable value, is then applied against inventory in the balance sheet. Management has to make estimates and exercise judgement when determining these allowances. If actual market conditions are less favourable than management's assumptions, additional allowances may be required.

- *Accounting for rebates from suppliers*

Colabor negotiates procurement contracts with its suppliers providing for the payment of rebates based on volumes purchased. The procurement contracts with suppliers are reviewed periodically and rebates adjusted according to prevailing market conditions.

- *Goodwill and intangible assets*

Goodwill is the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized. Each year, or more often if events or changes in circumstances indicate a decrease in fair value, it is tested for impairment. The impairment test involves comparing the fair value of the Company's business with its carrying amount. If the carrying amount of the business exceeds its fair value, the Company compares the fair value of any goodwill relating to the business to its carrying amount. An impairment loss equal to the amount of the excess is charged to earnings. The fair value of the business is calculated using discounted cash flows.

Intangible assets include customer relationships and trademarks. Customer relationships are amortized on the straight-line basis over their estimated useful lives of 20 years for relationships with affiliated-wholesalers, 15 years for customer relationships with Cara and 10 years for relationships with other customers. Trademarks are not amortized.

### **14. Disclosure Controls and Processes**

To ensure that the consolidated financial statements and MD&A present fairly, in all material respects, the financial position of the Company and the results of its operations, it is the responsibility of management to establish and maintain appropriate internal control over financial reporting. Internal control over financial reporting is a process designed by the President and Chief Executive Officer and the Chief Financial Officer, or under their supervision. It is

implemented by the Board of Directors, management and other employees to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A policy on the disclosure of information provides a framework for the financial reporting process in annual and interim filings, and other reports filed or sent in accordance with securities legislation. The Disclosure Committee ensures compliance with this policy.

In light of the inherent limitations of any control system, the Company's management acknowledges that control and reporting processes cannot prevent and detect all misstatements resulting from fraud or error. However, based on the work performed, the Company's management is required to provide reasonable assurance that important information is provided to it on a timely basis so it is able to report complete and reliable information to investors.

### **Controls and Reporting Processes**

The preparation of the financial statements and MD&A is based on a framework of controls and reporting processes implemented by management. The design and operation of these controls and processes were subject to an evaluation that confirmed, as at March 27, 2010, the effectiveness of the both the design and operation of controls and reporting processes. This evaluation was consistent with the criteria in the control framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) adopted by the Company and in accordance with the guidance of the Canadian Securities Administrators described in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings.

The financial statements, MD&A and press release were reviewed by the Audit Committee and the Board of Directors, who approved them prior to publication.

### **Internal Controls over Financial Reporting**

The Company's Audit Committee supervises the documentation, evaluation of the design and operation of internal controls over financial reporting supporting the Company's main transaction and accounting processes. This work serves to improve the design of internal controls.

As was the case for the evaluation of controls and reporting processes, the evaluation of the design and operation of internal controls over financial reporting is carried out in accordance with the COSO control framework and the guidance in Multilateral Instrument 52-109. As at March 27, 2010, based on the work carried out, the President and Chief Executive Officer and the Chief Financial Officer concluded that internal control over financial reporting was designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements in accordance with GAAP.

These two officers also determined that there were no material weaknesses in the Company's internal control over financial disclosures as at March 27, 2010.

## Transition to International Accounting Standards

On February 13, 2008, the Accounting Standards Board confirmed the date of the changeover from GAAP to International Financial Reporting Standards (IFRSs). Canadian publicly accountable enterprises must adopt IFRSs for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date to produce comparative information for the conversion year is January 1, 2010.

Following the initial diagnostic phase, the Company set up a project structure. A task force analyzes, recommends accounting policy choices and implements each IFRS standard. The Company's Audit Committee ensures that management fulfills its responsibilities and successfully achieves the conversion to IFRSs. Additionally, a work plan was developed, whose phases, activities, deadlines and progress are summarized below:

<b>Phase 1 Diagnostic Activities</b>	
Activities	<p>Identification of IFRSs that will result in changes in the consolidated financial statement measurements and disclosures.</p> <p>Classification of the standards according to their expected impact on the consolidated financial statements and the implementation effort required.</p>
Deadline	June 30, 2009
Progress	Finished
<b>Phase 2 Detailed Analysis</b>	
Activities	<p>Detailed analysis of the differences between GAAP and IFRSs.</p> <p>Selection of accounting policies.</p> <p>Selection of IFRS 1 exemptions at the date of transition.</p> <p>Calculation of the quantitative impact on the consolidated financial statements.</p> <p>Disclosure analysis.</p> <p>Inventory of systems, documents and spreadsheets currently used to collate information.</p> <p>Analysis of the impact of applying the new standards on:</p> <ul style="list-style-type: none"> <li>• Information systems and spreadsheets</li> <li>• Policies and procedures</li> <li>• Internal control activities</li> <li>• Processes relating to Colabor Group Inc.'s compliance with applicable laws and regulations</li> <li>• Business processes</li> </ul>
Deadline	December 31, 2009
Progress	Finished

<b>Phase 3 Solution and implantation</b>	
<b>Activities</b>	Preparation of the January 1, 2010 opening balance sheet. Changes to documents used to collate information, spreadsheets and procedures. Preparation of IFRS financial statements for the comparative year and for each interim period. Preparation of first interim period financial statements. Preparation of IFRS financial statements for the year of conversion. Preparation of a questionnaire on financial disclosures.
<b>Deadline</b>	December 31, 2010
<b>Progress</b>	In progress

On the basis of the work performed to date, that is the detailed standards analysis, conversion to IFRSs will only results in changes in financial disclosures. The analyses have not identified any significant impact on the previous recognition of Group Colabor Inc.'s assets, liabilities or results or on its information systems and other business processes.

The Company should be able to comply with the instructions of the *Autorité des marchés financiers* and the Canadian Institute of Chartered Accountants on the application dates stipulated by these entities.

## **15. Subsequent Event**

On April 7, 2010, the Company issued a news release announcing a \$50,000,000 financing, on a bought-deal basis, of convertible unsecured subordinated debentures.

A prospectus was prepared and approved by the relevant authorities and the financing closing was on April 27, 2010.

The debentures bear interest at a rate of 5.70% per annum payable semi-annually on April 30 and October 31 each year, commencing on October 31, 2010.

The debentures will be convertible at the holder's option into common shares of the Company at a conversion rate of 59.347 common shares per \$1,000 principal amount of debentures, which is equal to a conversion price of \$16.85 per common share. The debentures will mature on April 30, 2017 and may be redeemed by the Corporation in certain circumstances, after April 30, 2015, as explained in greater detail in the related prospectus.

The net proceeds of the offering were used by the Company to improve its financial flexibility by reducing existing indebtedness under its current credit facilities and for general corporate purposes.