COLABOR GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FISCAL YEAR AND 112-DAY PERIOD (4TH QUARTER) ENDED DECEMBER 31, 2011

MARCH 21, 2012

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1. Scope of MD&A and Notice to Investors

This Management's Discussion & Analysis ("MD&A") of Colabor Group Inc. ("GCL", the "Company" or "Colabor") (formerly Colabor Income Fund (the "Fund")) discusses the comprehensive income, financial situation and cash flows for the 112 day period (4th quarter) and the fiscal year ended December 31, 2011. These financial statements are in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been published on SEDAR at 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 December 31. As a result, the Company's sales and earnings have been 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.

This report also contains information that is a non-IFRS measure of performance, such as the concept of earnings before financial expenses, depreciation and amortization and income taxes (EBITDA), presented in the financial statements under "Operating profit before costs not related to current operations, depreciation and amortization". Since these concepts are not defined in IFRS, they may not be comparable with those of other companies.

In reviewing Colabor's financial statements, investors should consider that the statements of earnings include significant depreciation expenses for property, plant and equipment and amortization expense for intangible assets resulting from Colabor's acquisitions in recent years, for deferred taxes and a non-cash portion of the implicit interest on debentures. The depreciation, amortization and non-cash transactions have a major impact on the basic and diluted earnings per share calculation. Investors often compare this basic and diluted earnings per share amount, which is lower than the annual dividend of $1.08 per share. *For a more in-depth analysis of Colabor, investors should analyze the cash flows per share calculations in Section 6.3 (Operating Profit – Earning per Share) in the MD&A as they are a better indication of the Company's ability to support its annual dividend.*

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 Colabor'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, on that date, 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.A*.

Additional information on GCL, and previously the Fund, may be found on SEDAR at www.sedar.com and on its information site www.colabor.com.

4. Corporate Profile

Activities

Colabor was founded in 1962 and is a wholesaler and master food distributor serving the foodservice (cafeterias, restaurants, hotels, restaurant chains) the retail (small-sized grocery stores, convenience stores, etc.) markets.
It currently carries out its activities through two segments:

Distribution Segment

This Segment includes the following operating activities:

1. Summit Distribution (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, Extendicare, 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 and sanitation products.

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

This division, with about 500 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:

Mississauga:	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 Distribution (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 to 331,000 square feet) 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.

3. RTD Distribution (RTD)

RTD specializes in distributing food and non-food products to grocery stores, convenience stores, hotels, restaurants and institutions in the Lower St. Lawrence, Gaspésie, part of the North Shore and the Lower North Shore and in north-eastern New Brunswick. RTD operates a 120,000 square-foot distribution centre in Rimouski and offers over 10,000 products to about 2,500 customers across its territory with a fleet of more than 50 trucks. It has about 260 employees.

4. Les Pêcheries Norref Québec Inc. (Norref)

Norref is a fresh fish and seafood products importer and distributor in the province of Quebec and the Ottawa region and is recognized as the leading importer and distributor of this type in Quebec.
Norref operates from a 40,000 square-foot warehouse in Montréal, and distributes a full range of fresh and frozen fish products as well as ready-to-eat fish and seafood meals. Its diversified client base is comprised of restaurants, hotels, grocery stores, caterers and fish stores. It has about 180 employees and 50% of its sales are from medium-term contracts.

5. Edfrex

Edfrex is a company specialized in the distribution of food products and in food servings to food stores, convenience stores, hotels, restaurants and institutions. Edfrex operates a distribution center located in Edmundston, New Brunswick of about 96,000 square feet and offers 8,000 products to some 2,800 customers with a fleet of around 15 trucks and about 60 employees.

6. Skor

Skor is an integrated full service wholesale food supplier to the food service and retail industries, mainly in Ontario.

Skor has three operating divisions:

Skor Distribution:

This division specializes in food distribution to food service and institutional accounts, such as health care establishments as well as the two other divisions described below. It operates a 205,000 square-foot, HACCP-certified facility in Vaughan, Ontario with a fleet of about 25 trucks.

Cash & Carry Division:

This division operates five “Cash & Carry” locations in southern Ontario and offers over 12,000 retail and food service products to convenience stores, small grocery stores, cafeterias and restaurants.

Culinary Concepts Division:

This division, whose clients primarily consist of vending machine operators, mobile canteen owners, schools, health care establishment and government institutions, prepares over 400 fresh and frozen products in its Mississauga, Ontario facilities.

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.

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

Over 90% of this Segment's sales are covered by long-term contracts.

Over 50% of the sales activities of the two segments is secured by long-term agreements.

5. Main Resources and Competencies:

5.1 Board of Directors

Director	Role	Occupation
Jacques Landreville	Chairman	Corporate Director
Richard Lord FCMA	Chairman, Human Resources and Corporate Governance Committee	President and Chief Executive Officer, Quincaillerie Richelieu Ltée
Robert Panet-Raymond	Chairman, Audit Committee	Corporate Director
Gilles C. Lachance	Director	Corporate Director
Donald Dubé	Director	Corporate Director

5.2 Management

Claude Gariépy	President and Chief Executive Officer	Colabor Group Inc.
Michel Loignon CA	Vice-President and Chief Financial Officer	Colabor Group Inc.
Jack Battersby	President	Summit Division
Marko Potvin	Vice-President, Corporate Purchasing	Colabor Group Inc.
Denis Pascal	Vice-President and	Bertrand and RTD Divisions
Louise Laforce	Vice-President Human Resources	Colabor Group Inc.
Michel Delisle	Vice-President Information Technology	Colabor Group Inc.
Geneviève Brouillette, CA	Vice-President and General Manger	Wholesale Segment and Norref
Christine Dubé	Operations Manager	Edfrex Division
Bart Trentadue	President	Skor Division

5.3 Human Resource Development and Succession Planning

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.

In a July 7, 2011 press release, the Company announced that Claude Gariépy would be the Company's next President and Chief Executive Officer, effective the beginning of January 2012. He would succeed Gilles C. Lachance, who was to retire at that date to become a special advisor to the President and Chief Executive Officer. Mr. Lachance would remain in this capacity through the end of 2012 to ensure a harmonious and efficient transition.

Mr. Gariépy took office on January 9, 2012 and Mr. Lachance became a director of the Company, filling the seat previously held by Mr. Gariépy.

6. Performance Analysis

6.1 Highlights for the Fiscal Year

Results for Colabor’s 2011 fiscal year should be read taking the following significant events into account:

- The Company’s sales and profit margins in some of its divisions continue to be impacted by the economic situation prevailing in Eastern Canada which led to intense competition among players in the foodservice distribution sector.
- As a result of a significant increase in the price of fuel and in commodity taxes since the start of the year, households have less disposable income for eating out. Additionally, higher fuel prices have been putting strong upward pressure on the Company’s operating expenses.
- The acquisitions of RTD Distributions in September 2010, Pêcheries Norref Québec Inc. at the end of February 2011, Edfrex at the end of March 2011 and Skor Food Group Inc. in early May 2011.

6.2 Executive Summary of Performance

Fiscal year ended December 31, 2011 (compared with 2010 year)

- 0.9% increase in comparable sales (overall increase in sales of 24.8%)
- Decrease in EBITDA percentage from 3.56% to 2.91%
- Debt/EBITDA ratio, based on the banking syndicate’s calculation: 2.69:1.00 (banking syndicate’s requirement: <3.25:1.00)
- Finance costs coverage ratio, based on the banking syndicate’s calculation: 4.50:1.00 (required: >3.50:1.00)
- Dividend payout ratio over the last twelve months of 94%

Stock transactions during the year

- Redemption of 351,800 shares under a normal course issuer bid for $3,194,000, that is an average price of $9.08 per share
- Conversion of convertible debentures into 413,557 new common shares
- Redemption of convertible debentures 7%, maturing on December 31, 2011, for $10,028,000
- Share price: as at December 31, 2011: $10.60; as at December 31, 2010: $12.22; High: $12.75; Low: $8.00
- Annual dividend: $1.08

6.3 Earnings

Earnings, and their comparison with the comparable period of 2010, should be read in conjunction with the Current Economic Situation section presented further on in this MD&A and the following facts:

- On September 21, 2010, the Company concluded the acquisition of the assets of RTD. The RTD division's financial results are included in the Company's results for all of 2011 only from September 21 to December 31, 2010.
- On February 28, 2011, the Company concluded the acquisition of the shares of Les Pêcheries Norref Québec Inc. Norref's financial results are included in the Company's income since that date but not in 2010.
- On March 30, 2011, the Company concluded the acquisition of Edfrex Inc.'s assets. Edfrex's financial results are included in the Company's income since that date but not in 2010.
- On May 9, 2011, the Company concluded the acquisition of The Skor Food Group Inc. Skor's financial results are included in the Company's results since that date but not in 2010.

Consolidated Earnings (unaudited, in thousands of dollars, except per share amounts)

	2011-12-31 (365 days)		2010-12-31 (365 days)		Variance	
	$		$		$	
Sales of goods	**1,313,251**	**100.00%**	**1,051,960**	**100.00%**	**261,291**	**24.84%**
Operating expenses, excluding costs not related to operations, depreciation and amortization	1,275,053	97.09%	1,014,475	96.44%	260,578	25.69%
Profit before costs not related to operations, depreciation and amortization	38,198	2.91%	37,485	3.56%	713	1.90%
Costs not related to operations	3,618	0.28%	1,704	0.16%	1,914	112.32%
Depreciation of property, plant and equipment	4,063	0.31%	3,345	0.32%	718	21.46%
Amortization of intangible assets	13,562	1.03%	10,400	0.99%	3,162	30.40%
	21,243	1.62%	15,449	1.47%	5,794	37.50%
Operating profit	16,955	1.29%	22,036	2.09%	(5,081)	-23.06%
Finance costs	8,511	0.65%	6,178	0.59%	2,333	37.76%
Profit before tax	8,444	0.64%	15,858	1.50%	(7,414)	-46.75%
Tax expense						
Current						
Deferred	1,616	0.12%	5,741	0.55%	(4,125)	-71.85%
	1,616	0.12%	5,741	0.55%	(4,125)	-71.85%
Earnings	6,828	0.52%	10,117	0.95%	(3,289)	-32.51%
Cash flows per share	$1.15		$1.42			
Basic and diluted earnings per share	$0.30		$0.47			

	2011-12-31 (112 days) (unaudited)		2010-12-31 (111 days) (unaudited)		Variance	
	$		$		$	
Sales of goods	**431,664**	**100.00%**	**347,141**	**100.00%**	**84,523**	**24.35%**
Operating expenses, excluding costs not related to operations, depreciation and amortization	419,151	97.10%	333,136	95.97%	86,015	25.82%
Profit before costs not related to operations, depreciation and amortization	12,513	2.90%	14,005	4.03%	(1,492)	-10.65%
Costs not related to operations	1,823	0.42%	1,704	0.49%	119	6.98%
Depreciation of property, plant and equipment	1,367	0.32%	1,211	0.35%	156	12.88%
Amortization of intangible assets	4,787	1.11%	3,400	0.98%	1,387	40.79%
	7,977	1.85%	6,315	1.82%	1,662	26.32%
Operating profit	4,536	1.05%	7,690	2.21%	(3,154)	-41.01%
Finance costs	3,027	0.70%	1,831	0.53%	1,196	65.32%
Profit before tax	1,509	0.35%	5,859	1.68%	(4,350)	-74.24%
Tax expense						
Current						
Deferred	(493)	-0.11%	2,666	0.77%	(3,159)	-118.49%
	(493)	-0.11%	2,666	0.77%	(3,159)	-118.49%
Earnings	2,002	0.46%	3 193	0.91%	(1,191)	-37.30%
Cash flows per share	$0.35		$0.54			
Basic and diluted earnings per share	$0.09		$0.14			

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.

For the Distribution Segment: Gross sales to customers from the London, Mississauga, Ottawa, Cambridge, Lévis, Saguenay, Rimouski, Montréal (since the acquisition of Norref), Edmundston (since the acquisition of Edfrex) and Vaughan (since the acquisition of Skor) warehouses less rebates, as provided in individual agreements with these customers.

Sales (in thousands of dollars)

	2011-12-31 (365 days)			2010-12-31 (365 days)						
	Total sales	Sales subsequent to acquisitions	Comparable sales	Total sales	Loss of a major customer	Comparable sales	Variance Total sales		Variance Comparable sales	
	$	$	$	$	$	$	$	%	$	%
Wholesale Segment	525,943		525,943	502,506		502,506	23,437	4.7%	23,437	4.7%
Eliminations	(154,564)	(38,655)	(115,909)	(100,624)		(100,624)	(53,940)	53.6%	(15,285)	15.2%
	371,379	(38,655)	410,034	401,882		401,882	(30,503)	-7.6%	8,152	2.0%
Distribution Segment	943,077	299,976	643,101	650,078	8,212	641,866	292,999	45.1%	1,235	0.2%
Eliminations	(1,205)	(1,205)					(1,205)	N/A		N/A
	941,872	298,771	643,101	650,078	8,212	641,866	291,794	44.9%	1,235	0.2%
	1,313,251	260,116	1,053,135	1,051,960	8,212	1,043,748	261,291	24.8%	9,387	0.9%

	2011-12-31 (unaudited) (112 days)			2010-12-31 (unaudited) (111 days)						
	Total sales	Sales subsequent to acquisitions	Comparable sales	Total sales	Adjustment for one day	Comparable sales	Variance Total sales		Variance Comparable sales	
	$	$	$	$	$	$	$	%	$	%
Wholesale Segment	179,441		179,441	167,160	1,506	168,666	12,281	7.3%	10,775	6.4%
Eliminations	(54,102)	(9,749)	(44,353)	(38,924)	(351)	(39,275)	(15,178)	39.0%	(5,078)	12.9%
	125,339	(9,749)	135,088	128,236	1,155	129,391	(2,897)	-2.3%	5,697	4.4%
Distribution Segment	307,089	86,314	220,775	218,905	1,972	220,877	88,184	40.3%	(102)	0.0%
Eliminations	(764)	(764)					(764)	N/A		N/A
	306,325	85,550	220,775	218,905	1,972	220,877	87,420	39.9%	(102)	0.0%
	431,664	75,801	355,863	347,141	3,127	350,268	84,523	24.3%	5,595	1.6%

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.

Comparable sales were up 1.6% for the fourth quarter and 0.9% for the year, attributable to the Wholesale Segment, whereas there was essentially no growth in the Distribution Segment, which now accounts for over 70% of the Company's sales.

Profit before costs not related to current operations, depreciation and amortization (which corresponds to earnings before finance costs, depreciation, amortization and income tax expense (EBITDA))

EBITDA is composed of the following:

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.

Operating expense

The main expenses consist primarily of salaries and employee benefits, delivery costs for the Distribution Segment and occupancy costs relating to the Company's distribution centres. These expenses include a considerable portion of fixed costs which have a significant impact on operating profit.

EBITDA of 2.90% in the fourth quarter of 2011 is down 1.13% from the same period in 2010 and EBITDA of 2.91% for the year 2011 is down 0.65% compared with 2010.

The decline is primarily attributable to the following:

- The Company’s sales and profit margins, in terms of organic growth and acquisition-related, continue to be impacted by the economic situation prevailing in Eastern Canada, which has led to intense competition among players in the foodservice distribution sector, resulting in lower profit margins as they try to keep their client base.

- EBITDA continues to be negatively affected by higher operating expenses, such as significant rises in fuel prices.

- The Company’s governance-related expenses were higher compared to 2010, primarily as a result of its acquisitions during the fiscal year, which increased both regular and special audit costs to ensure compliance with standards regarding disclosure controls and procedures and to verify internal control over financial reporting, in accordance with Autorité des marchés financiers requirements.

- The Company has not yet achieved the anticipated operating synergies from its acquisitions in 2010 and 2011.

Company's measures:

In the wake of the clearly well-below expectation results in the fourth quarter, the management intends to take immediate measures that should lead to operation and procurement cost reductions during 2012 and begin to have an impact on earnings by the second half of 2012. These measures include:

- With the acquisition of Viandes Décarie in early January 2012, meat purchases by Colabor's operating units will be made with Viandes Décarie, rather than with the latter's competitors, as was the case before the acquisition.

- Warehouse operations will be re-focussed and the administrative operations of certain recent acquisitions will be centralized in a regional head office in Quebec or Ontario.

- The Ontario sales force will be reorganized to capitalize on the strengths of the Summit and Skor sales forces.

- Major product negotiations, other than for resale purposes, will be centralized at head office to maximize synergies, for example, on purchases of tires, fuel, etc.

Costs not related to current operations

This earnings statement item includes non-recurring items in the Company's current operations having triggered costs during the fiscal year.

These costs consist of:

• Direct costs relating to realized and unrealized business acquisitions	2 547 000$
IFRS now require that realized and unrealized business acquisition-related costs be accounted for as expenses, contrary to GAAP in force before the changeover to IFRS, which required that these costs be capitalized in goodwill. Generally, these costs include, among others, legal fees, due diligence fees and solicitation fees related to these transactions.	
• Direct costs for the conversion of the financial statements to IFRS	222,000
• Recruiting costs for a new President and Chief Executive Officer	99,000
• Special retiring allowances to certain officers	750,000

Depreciation of property, plant and equipment and amortization of intangible assets

Respective increases of $718,000 and $3,162,000 in the above items compared to the previous year are mainly due to the additional depreciation and amortization resulting from the acquisitions of RTD, Norref, Edfrex and Skor.
Note 3 to the December 31, 2011 consolidated financial statements presents the purchase price allocation for the above enterprises between assets acquired and liabilities assumed, including property, plant and equipment and intangible assets.

Finance costs

The finance costs increase is attributable to higher bank borrowings following the debt financing of the four previously mentioned acquisitions.

Deferred tax expense

The tax expense is $4,125,000 lower than in the previous year, mostly because of a decrease in taxable income. The Company converted from an income fund structure to a corporation through an arrangement agreement with ConjuChem Biotechnologies Inc. ("ConjuChem") in August 2009. As part of the transaction, the Company acquired approximately $39M in deferred tax assets. When recognizing this transaction in accordance with GAAP, the Company recognized deferred tax assets and an offsetting $5M disbursement (price paid for the tax losses) and deferred credits, which made it possible to eliminate current taxes and recognize a deferred tax expense.

On the transition to IFRS, the Company had to transfer the deferred credit balance, shown in liabilities on the balance sheet, to retained earnings. The Company now recognizes a tax expense equivalent to the Company’s tax rates that is presented under Deferred tax expense. However, until it can benefit from the tax losses acquired, it will not have a current tax expense, which means there is no impact on cash.

The new treatment impacts earnings and the calculation of basic earnings per share.

The Company has tax losses equivalent to $19M in cash which it can use in the coming years.

Earnings per share

In reviewing Colabor's financial statements, investors should consider that the statement of earnings includes significant depreciation and amortization expenses for property, plant and equipment and intangible assets resulting from Colabor's acquisitions in recent years, deferred tax expenses (described above) and a non-cash portion of the implicit interest on debentures included in finance costs. The depreciation, amortization and non-cash transactions have a major impact on the basic and diluted earnings per share calculation. Investors often compare the basic and diluted earnings per share amount, which is lower than the annual dividend of $1.08 per share approved by the Board of Directors. *For a more in-depth analysis of Colabor, investors should also analyze basic cash flows per share, which are indicated below.*

The following table indicates the cash flow per share and dividend ratio calculation for the year and the last quarter of 2011. The latter calculation makes it possible for investors to analyze whether the Company’s cash flows from operations are sufficient and capable of supporting the dividend payment.

After-tax cash flows per share (in thousands of dollars, except per share amounts)

	2011-12-31 (365 days)	2010-12-31 (365 days)	2011-12-31 (112 days) (unaudited)	2010-12-31 (111 days) (unaudited)
	$	$	$	$
Cash flows from operating activities before income tax recovery (withdrawal) and net change in working capital	34,856	36,090	10,805	12,478
Costs not related to current operations	3,618	1,704	1,823	1,704
Finance costs	(8,511)	(6,178)	(3,027)	(1,831)
Non-cash portion of the implicit interest on debentures included in finance costs	917	1,034	285	297
Purchase of property, plant and equipment	(3,700)	(1,457)	(1,301)	(109)
Purchase of intangible assets	(918)	(784)	(564)	(242)
	26,262	30,409	8,021	12,297
Weighted average number of shares outstanding	22,928,311	21,471,521	22,779,172	22,735,529
After-tax cash flows per share	**$1.15**	**$1.42**	**$0.35**	**$0.54**
Current period portion of annual dividend declared	$1.08	$1.08	$0.33	$0.33
Dividend payout ratio	**94%**	**76%**	**94%**	**60%**

The preceding table indicates that, based on the last twelve months, the dividend payout ratio is 94%, a decline from the 76% calculated on the same basis for the previous year.

The Company's cash flows during the 2011 fiscal year therefore supported an annual dividend of $1.08.

Company’s Decision to Reduce the Dividend

A number of events in the Company’s development are summarized below together with investor perceptions:

- Colabor became a listed entity in June 2005 as an Income Fund with annual sales of about $400M. This structure, which at the time was tax exempt, made it possible to distribute the major portion of cash generated by the Fund to unitholders.
- Colabor’s first distributions were $1.02 per unit and were soon increased to $1.08.
- On October 31, 2006, the Minister of Revenue of Canada announced that income trusts would become subject to income tax as of May 2011; however, an income trust that undertook acquisitions that exceeded normal growth standards adopted by the Department would be taxable as of the date of the announcement. In 2007, because of the transaction to acquire the assets of Summit, the fund surpassed these normal growth standards and became subject to income tax. The Fund nevertheless maintained its $1.08 per unit distribution.

- On July 8, 2009, the Fund announced its intention to convert from an income trust structure to a corporation (the "Conversion"). In order to effect the Conversion, on that date, Colabor 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. Again, the Company’s Board of Directors decided to retain its $1.08 per share distribution, which became a dividend.
- Since becoming a listed entity, the Company has carried out the following acquisitions:
    - Acquisition of Summit assets in 2007
    - Acquisition of Bruce Edmeades assets in 2008
    - Acquisition of Bertrand shares in 2008
    - Acquisition of RTD assets in 2010
    - Acquisitions of Norref shares in 2011
    - Acquisition of Edfrex assets in 2011
    - Acquisition of Skor shares in 2011
    - Acquisition of Viandes Décarie assets (in January 2012)

  Thanks to these acquisitions, sales have grown from $400M in 2005 to over $1.3B in 2011. These acquisitions were financed primarily through the convertible debentures and bank borrowings.
- Despite these acquisitions, investors continue to perceive and assess Colabor as a performance company rather than a growth one because of the high dividend.
- The economic slowdown that has persisted for several years has intensified competition in the market place, reducing profit margins and increasing the dividend payout ratio.

In light of these facts and perceptions, the Company has decided to reduce its quarterly dividend by $0.2691 to $0.18, as of the first quarter of the fiscal year ending December 31, 2012.

This dividend reduction will make it possible for the Company to:

> Use the resulting savings to either reduce its debt, improve operations or for potential acquisitions while continuing to offer an attractive dividend to shareholders and being a source of value creation through sustained expansion initiatives.

Earnings per share (in thousands of dollars, except per share amounts)

	2011-12-31 (365 days)	2010-12-31 (365 days)	2011-12-31 (112 days) (unaudited)	2010-12-31 (111 days) (unaudited)
	$	$	$	$
Earnings	6,828	10,117	2,002	3,193
Weighted number of shares outstanding to calculate basic and diluted earnings per share	22,928,311	21,471,521	22,779,172	22,735,529
Basic and diluted earnings per share	$0.30	$0.47	$0.09	$0.14

6.4 Other Comprehensive Income

Other comprehensive income (in thousands of dollars)

	2011-12-31 (365 days)	2010-12-31 (365 days)
	$	$
Other comprehensive income		
Available-for-sale financial asset – gain (loss) for the year	(952)	476
Cash flow hedges – loss for the year	(618)	
Taxes on other comprehensive income	285	(62)
Total other comprehensive income	(1,285)	414

As part of the transition to IFRS, the Company must now measure the equity investment in Colabor Investments Inc. at fair value. This fair value measurement was undertaken as at December 31, 2011 and 2010 and January 1, 2010 and indicates an increase in the value of the investment in 2010 and impairment in 2011. Colabor Investments Inc.'s main asset is an equity investment of 5,087,349 shares of Colabor Group Inc., representing a 22% interest. This value is therefore strongly dependent on the market price of Colabor Group Inc.'s shares in an active market.

The other item relates to a derivative financial instrument. On November 8, 2011, the Company entered into two interest swap agreements to convert a portion of the variable rate bank loan into a fixed rate loan. Because interest rates are lower as at December 31, 2011 than they were when the agreements were negotiated, the Company must indicate a loss on cash flow hedges on the statement of other comprehensive income and a corresponding liability on the statement of financial position.

These items will be re-measured at each quarter.

6.5 Financial Position

Consolidated Statements of Financial Position
(in thousands of dollars)

	2011-12-31	2010-12-31
	$	$
ASSETS		
Current		
Trade and other receivables	108,164	82,540
Recoverable income tax assets	2,421	2,694
Inventory	76,632	69,669
Prepaid expenses	2,596	1,196
Current assets	189,813	156,099
Non-current		
Equity investment in Colabor Investments Inc.	12,410	11,434
Property, plant and equipment	17,319	10,920
Intangible assets	154,845	136,995
Goodwill	114,775	78,272
Deferred income tax assets		354
Non-current assets	299,349	237,975
Total assets	489,162	394,074
LIABILITIES AND EQUITY		
LIABILITIES		
Current		
Bank overdraft	10,151	10,709
Trade and other payables	105,575	69,365
Dividends payable	6,220	6,204
Rebates payable	11,783	14,283
Balances of purchase price payable	12,560	13,236
Deferred revenue	344	491
Bank borrowings		24,308
Convertible debentures		13,905
Long-term debt		307
Current liabilities	146,633	152,808
Non-current		
Bank borrowings	96,167	
Derivative financial instrument	618	
Balances of purchase price payable	250	1,143
Long-term debt	14,598	
Convertible debentures	46,080	45,500
Pension obligations	448	642
Deferred income tax liabilities	8,354	
Non-current liabilities	166,515	47,285
Total liabilities	313,148	200,093
EQUITY		
Capital stock	179,652	177,960
Retained earnings (deficit)	(6,661)	11,789
Other components of equity	3,023	4,232
Total equity	176,014	193,981
Total liabilities and equity	489,162	394,074

The December 31, 2011 financial situation was prepared in accordance with IFRS and is compared with the financial situation as at December 31, 2010 and January 1, 2010, which were converted to IFRS. Note 30 to the December 31, 2011 consolidated financial statements explains the changes.

The main changes in the December 31, 2011 balance sheet, compared to the December 31, 2010 balance sheet, relate to the following:

- First, the presentation in current liabilities (instead of non-current liabilities) of bank borrowing as at December 31, 2010. At that date, the bank borrowing had been presented as current liabilities as the Company had not renewed its credit facilities that were to expire on April 28, 2011; however, it has since renewed them for five years.

- Second, the presentation in current liabilities (instead of non-current liabilities), as at December 31, 2010, of the convertible debentures 7%, maturing on December 31, 2011. The Company redeemed these debentures on December 31, 2011 with long-term debt in the amount of $15M, 6.5%, maturing on February 28, 2017.

- Third, the acquisition of assets and assumption of liabilities of the acquired companies, as described in Note 3 to the financial statements.

- Fourth, the recognition at fair value of the equity investment in Colabor Investments Inc.

- Lastly, the recognition of a non-current liability, titled Derivative financial instrument, explained as follows: on November 8, 2011, the Company entered into two interest rate swaps to convert a portion of the variable rate bank loan into a fixed rate loan. One of the swaps for $20M expiring on November 28, 2013, sets the interest rate at 1.07% plus banker's acceptance stamping fees (i.e. a total of 3.07% as at December 31, 2011). The other for $50M expiring on April 28, 2016, sets the interest rate at 1.48% plus banker's acceptance stamping fees (i.e. a total of 3.48% as at December 31, 2011).

  Because market interest rates are lower as at December 31, 2011 than they were when the agreements were negotiated, the Company must indicate a loss on cash flow hedges on the statement of other comprehensive income and a corresponding liability on the statement of financial position over the term of these agreements. This calculation will be reviewed at each interim financial reporting date.

  Although this situation has created a loss and a financial liability as at December 31, 2011, management believes this decision will prove beneficial for the Company over the long term, as interest rates should increase by the end of these agreements.

6.6 Cash Flows

Credit Facilities

The Company has entered into a five-year agreement with a banking syndicate for operating credit facilities for an authorized amount of $150M secured by a first-ranking hypothec on the Company's assets. An additional amount of $100M could also be available based on the Company's needs.

Under the terms of the credit agreement, the Company is required to maintain (i) a prescribed ratio of total debt (excluding the convertible debentures and long-term debt) to EBITDA less than 3.00:1.00 (which ratio can be 3.25:1.00 for one year following an acquisition by the Company in excess of $40M) and (ii) a prescribed ratio of EBITDA to finance costs greater than 3.50:1.00.

Important note about the DEBT/EBITDA ratio:

As mentioned above, the DEBT/EBITDA ratio must be less than 3.00:1.00, and can be 3.25:1.00 for one year following an acquisition by the Company in excess of $40M.
Readers are reminded that the Company signed a new agreement with the banking syndicate in April 2011. Further, the Norref acquisition for $44M was concluded in February 2011. The new banking agreement was negotiated during January and February 2011 but was only signed in April as a result of the standard period required to finalize the legal and security aspects.
Accordingly, the banking syndicate agreed to consider the Norref acquisition as part of the new bank agreement and to increase the DEBT/EBITDA ratio to be respected to 3.25:1.00 until June 30, 2012.

Based on the banking syndicate's method of calculation to support these ratios, the DEBT/EBITDA ratio is 2.69:1.00 (2.89:1.00 in the third quarter of 2011) and the finance costs coverage ratio is 4.50:1.00 (5.29:1.00 in the third quarter of 2011).

Dividends

A quarterly dividend of $0.2691 per share, corresponding to $1.08 per annum, was paid during the year, for a total amount of $24,790,000.

Consolidated Statements of Cash Flows (in thousands of dollars)

	2011-12-31 (365 days)	2010-12-31 (365 days)	2011-12-31 (112 days) (unaudited)	2010-12-31 (111 days) (unaudited)
	$	$	$	$
Operating activities				
Earnings before income taxes	8,444	15,858	1,509	5,859
Depreciation of property, plant and equipment	4,063	3,345	1,367	1,211
Amortization of intangible assets	13,562	10,400	4,787	3,400
Finance costs	8,511	6,178	3,027	1,831
Stock-based compensation plan expenses	417	527	115	177
Company acquisition of shares under the stock-based compensation plan	(141)	(218)		
	34,856	36,090	10,805	12,478
Income tax recovery (withholding)	856	(2,083)	26	466
Net change in cash flows	11,553	5,093	13,288	(3,622)
Cash flows from operating activities	47,265	39,100	24,119	9,322
Investing activities				
Business acquisitions, net of cash acquired	(79,069)	(21,830)	(128)	(21,830)
Purchase of property, plant and equipment	(3,700)	(1,457)	(1,301)	(109)
Purchase of intangible assets	(918)	(784)	(564)	(242)
Cash flows from investing activities	(83,687)	(24,071)	(1,993)	(22,181)
Financing activities				
Bank borrowings	72,454	(24,990)	(17,316)	15,124
Normal course issuer bid	(3,194)		(204)	
New long-term debt	14,598		14,598	
Repayment of long-term debt	(307)	(850)		(398)
Redemption of convertible debentures	(10,028)		(10,028)	
Convertible debenture issue		47,500		
Dividends paid	(24,790)	(25,249)	(6,141)	(6,177)
Payment of balances of purchase price	(3 564)		(1,551)	
Finance costs paid	(8,189)	(5,023)	(2,715)	(1,497)
Cash flows from financing activities	36,980	(8,612)	(23,357)	7,052
Net change in bank overdraft	558	6,417	(1,231)	(5,807)
Bank overdraft, beginning of period	(10,709)	(17,126)	(8,920)	(4,902)
Bank overdraft, end of period	(10,151)	(10,709)	(10,151)	(10,709)

Normal course issuer bid

On October 26, 2011, the Company's Board of Directors renewed the normal course issuer bid program that had been adopted on October 25, 2010 that allows it to purchase for cancellation, until October 27, 2012, up to 500,000 common shares, representing about 2.9% of the outstanding common shares. Under the terms of this bid, the shares will be purchased at market price.

Since the Company's shares were undervalued in the marketplace, during the year, the Company redeemed 351,800 shares for $3,194,000, for an average price of $9.08, under the normal course issuer bid program adopted on October 25, 2010.

Redemption of debentures 7%, maturing on December 31, 2011, issued on January 4, 2007

The Company redeemed these debentures on maturity for $10,028,000. To this end, it contracted subordinate, unsecured long-term debt of $15M, five years, implicit rate of 6.5% The difference between the two amounts was used to settle a portion of the purchase of Viandes Décarie assets (See – *Subsequent events*).

7. Contractual Obligations

('000)		Payments due per period			
Contractual obligations	Total	Less than one year	From 1 to 3 years	From 4 to 5 years	5 years and more
Bank borrowings	$96,167	$-	$-	$96,167	$-
Balances of purchase price payable	$12,810	$12,560	$250		
Long-term debt (par value)	$15,000				$15,000
Convertible debentures (par value)	$50,000				$50,000
Operating leases	$101,980	$16,438	$28,215	$22,260	$35,067
Total	$275,957	$28,998	$28,465	$118,427	$100,067

Convertible debentures 5.7%, maturing on October 31, 2017, issued on April 27, 2010

These debentures may be converted into shares at a conversion price of $16.85 per share.

The debentures are redeemable between April 30, 2015 and April 30, 2016, 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 April 30, 2016, 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

	Under IFRS				Under Canadian GAAP before the transition to IFRS			
('000)	2011-12-31 (112 days)	2011-09-10 (84 days)	2011-06-18 (84 days)	2011-03-26 (85 days)	2010-12-31 (111 days)	2010-09-11 (84 days)	2010-06-19 (84 days)	2010-03-27 (86 days)
	$	$	$	$	$	$	$	$
Sales	431,664	324,760	317,411	239,416	347,141	234,309	245,155	225,355
EBITDA	12,513	10,554	10,227	4,904	13,984	7,578	8,981	6,873
Net earnings	2,002	3,099	1,675	52	5,868	3,885	4,202	2,277
Basic earnings per share	$0.09	$0.14	$0.07	$0.00	$0.26	$0.18	$0.20	$0.12

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 to a corporation and the conversion of debentures, Investments now holds an undiluted 22.0% and a diluted 18.6% interest in Colabor Group Inc., which enables it to exercise significant influence over GCL.

However, following the acquisition of Bertrand, RTD and Edfrex, Colabor Group Inc. now holds 18.12% of Colabor Investments Inc., which has a 5,087,349 equity investment in Colabor Group Inc.

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.
- The Company paid fees to a subsidiary of Investments for computer 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)

	2011-12-31 (365 days)	2010-12-31 (365 days)	2011-12-31 (112 days) (unaudited)	2010-12-31 (111 days) (unaudited)
	$	$	$	$
Sales of goods to customers controlled by directors	5,537	14,862	1,407	5,047
Rebates	14,019	13,943	4,688	4,634
Rent	2,028	2,028	624	624
Computer services	939	1,131	570	129

10. Off-balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than about $2,568,000 in bank letters of guarantee, of which the main one of about $2,028,000 supports 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.

In Canada, consumption is expected to slow in the face of deteriorating consumer confidence combined with slower income growth and stagnating employment. Annual growth in average weekly earnings dropped to a mere 1.1% in September 2011, compared with 4.5% at the start of 2011. Considering consumer price increases during the same period, in real terms, average weekly earnings declined 2.2%. Household buying power has therefore deteriorated significantly. Job creation has also become much more modest recently. After several months of sustained growth, that saw the recovery of all jobs lost in the last recession, there have been practically no job gains since last summer. Given the modest economic growth forecasted in the coming quarters, job creation is expected to be very limited until mid-2012. All signs point to consumer growth maintaining its moderate pace in the coming quarters.

The economic outlook appears fragile in Quebec as well. Consumer and corporate confidence is a long time coming, exports are stagnating and retail sales are sluggish. Since the start of 2011, consumer spending has been disappointing. Weak retail sales in the first six months do not appear to be making way for resurgence and are casting doubt on the ability of households to sustain economic growth. Consumer reluctance has been fuelled by a number of constraints. The higher tax burden, among others, following Quebec sales tax (QST) increases from 7.5% to 8.5% on January 1, 2011 and from 8.5% to 9.5% on January 1, 2012 continues to weigh heavily. Other increases over the years, such as the 1% per litre increase in the fuel tax on April 1, 2011, have also dug into the pockets of consumers, putting a damper on consumer spending. The coming quarters could continue to see sluggish consumer spending as a result of a heavier tax burden and continued job market hesitations.

The province of Ontario was the hardest hit by the economic troubles in the spring of 2011. The tsunami in Japan, together with the problems in certain nuclear plants, interrupted numerous supply chains around the world and triggered a 1.3% drop in the Ontario GDP, on an annualized basis, more than the Canadian (-0.5%) and Quebec (-0.8%) averages. Ontario's sensitivity is due to the high proportion of manufacturing in that province, which saw manufacturing production drop by 8.7% in the second quarter and 29.5% in the hard-hit automotive industry. (This section is from « Prévisions économiques et financières – hiver 2012 de Desjardins – Études économiques.)

Furthermore, the difficult economic situation which is continuing in the United States and in a number of countries in the European Community could also contribute to rattling the Canadian economic environment.

Colabor has prepared its business plan, described below, and believes that the current situation could offer more business opportunities that it is prepared to analyse for their potential to provide 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.

Consolidation of food distribution services

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 by undertaking highly synergetic acquisitions. The Company could acquire other distributors operating in Ontario and use its business model to integrate these new acquisitions. This strategy has proven beneficial with, for example, the Bruce Edmeades and Skor Food Group Inc. acquisitions in 2008 and 2011 as well as the Summit acquisition in 2007.

The Company could also acquire other affiliated-wholesalers' networks in Quebec and in the Atlantic Provinces. This was the case with the recent acquisitions of RTD and Edfrex as well as Bertrand. These acquisitions would make it possible to increase the density of its distribution network in Eastern Canada, thereby increasing operating profitability.

Affiliated-wholesalers network in Quebec and the Atlantic Provinces

Despite the economic slowdown, the loyal, entrepreneurial, customer-service-driven independent affiliated-wholesalers continue to grow their market share in their respective regions.

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 fruit and vegetables, packaged goods, natural and organic products and ethnic products distribution network, as was the case in 2011 with the acquisition of

Pêcheries Norref and more recently with the acquisition of the assets of Viandes Décarie (See – *Subsequent events*).

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.

Outlook

Despite the economic downturn, in light of the Company's small market share in certain major regions in Canada, such as Toronto and Montréal, these acquisition opportunities would make it possible for the Company to significantly increase its sales, purchasing power and ability to generate cost savings in order to increase its net income.

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 not fully under management's control:

- *Dependence on affiliated-wholesalers*

  Sales generated by affiliated-wholesalers account for a significant portion (±28%) 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. However, there is no assurance that Colabor LP would 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 Colabor Investments Inc. 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, operating results 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 Bertrand, RTD Distributions, Norref, Edfrex and Skor acquisitions.

- *Integration of acquired companies*

  While some acquisitions are managed autonomously, others required significant rationalization measures. 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 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 Flows 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 events and actual economic conditions. 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. This impairment test consists of a comparison of 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 among others. 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 2 to 10 years for relationships with other customers. Trademarks are not amortized.

14. Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure controls and procedures (DC&P) are designed to provide reasonable assurance that all the information required is accumulated and communicated to the Group's management which ensure the information is reported appropriately. Internal control over financial reporting (ICFR) is a process designed to provide reasonable assurance regarding the completeness and reliability of financial reporting in accordance with IFRS.

The President and Chief Executive Officer, and the Vice-President and Chief Financial Officer are responsible for the implementation and maintenance of DC&P and ICFR, in accordance with the guidance in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. They are supported in this task by the Disclosure Committee and the Audit Committee.

As at December 31, 2011, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of ICFR, and based on that evaluation, concluded that it was effective at that date and adequately designed.

As at December 31, 2011, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of ICFR and, based on that evaluation, concluded that it was effective at that date and adequately designed.

The DC&P evaluation was performed using the control framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
The evaluation of the design and effectiveness of internal control over financial reporting was performed in accordance with the COSO control framework for entity level and financial controls, and Control Objectives for Information and Related Technologies (COBIT) for general IT controls.

Given the inherent limitations of any control systems, management's evaluation of controls can only provide reasonable, not absolute assurance that all control issues that may result in material misstatement, if any, have been detected.

Changes to Internal Controls over Financial Reporting

During 2011, the Group completed the following acquisitions;
Les Pêcheries Norref Québec Inc (February 28, 2011); Edfrex Inc (March 30, 2011) and Skor Food Group Inc (May 9, 2011). The Company availed itself of provision NI 52-109 3.3(1)(b), which permits exclusion of these acquisitions in the disclosure controls and the internal control over financial reporting evaluation for a maximum period of 365 days.

During the year ended December 31, 2011, with exception of the previously described acquisitions, no changes to internal controls over financial reporting affected materially, or are reasonably likely to materially affect, internal controls over financial reporting. The following information summarizes the acquisitions for the year ended December 31, 2011.

Sales	$200.3M
Earnings	$3.6M
Current assets:	$29.2M
Non-current assets:	$9.3M
Current liabilities:	$18.9M
Non-current liabilities:	$1.1M

15. Conversion to International Financial Reporting Standards ("IFRS")

The Company's financial statements are prepared in accordance with IFRS. Note 30 to the December 31, 2011 consolidated financial statements explains the transition to IFRS.

16. Subsequent events

Acquisition of Viandes Décarie

On January 6, 2012, the Company acquired substantially all of the assets of Viandes Décarie Inc. for about $8M. Viandes Décarie is a wholesaler of meat and related products.

Certain declarations and guarantees of the vendors in the acquisition of Les Pêcheries Norref Québec Inc.'s shares under arbitration

This transaction was concluded on February 28, 2011. In preparing its financial statements subsequent to the acquisition, management noted that EBITDA used to determine the consideration for this transaction was considerably lower than the amount determined at the closing of the transaction. Management then noted that a number of the vendors' declarations and guarantees may not be accurate and has submitted the difference of opinion for arbitration, as provided in the acquisition documents. The arbitration process has commenced and, in the opinion of management, a decision should be rendered during the third quarter of the fiscal year ending December 31, 2012.