



COLABOR GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

SECOND QUARTER OF THE 2012 FISCAL YEAR

84-DAY PERIOD ENDED JUNE 16, 2012

JULY 18, 2012

COLABOR GROUP INC.
MANAGEMENT'S DISCUSSION & ANALYSIS

FIRST QUARTER OF THE 2012 FISCAL YEAR
84-DAY PERIOD ENDED MARCH 24, 2012

TABLE OF CONTENTS

1. SCOPE OF MD&A AND NOTICE TO INVESTORS	3
2. FORWARD-LOOKING STATEMENTS	3
3. GENERAL	4
4. CORPORATE PROFILE	4
5. MAIN RESOURCES AND COMPETENCIES:	
5.1 BOARD OF DIRECTORS	8
5.2 MANAGEMENT	8
6. PERFORMANCE ANALYSIS	
6.1 EARNINGS	9
6.2 OTHER COMPREHENSIVE INCOME	16
6.3 FINANCIAL POSITION	18
6.4 CASH FLOWS	1
7. SUMMARY OF PAST QUARTERS	20
8. RELATED PARTY TRANSACTIONS	21
9. OFF-BALANCE SHEET TRANSACTIONS	21
10. CURRENT ECONOMIC SITUATION, DEVELOPMENT STRATEGIES AND OUTLOOK	22
11. RISKS AND UNCERTAINTIES	24
12. SIGNIFICANT ACCOUNTING MEASUREMENTS	25
13. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING	26
14. SUBSEQUENT EVENT	27

July 18, 2012

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 84-day period (2nd quarter) of the fiscal year ending December 31, 2012. 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 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 \$0.72 per share. For a more in-depth analysis of Colabor, investors should analyze the cash flows per share calculations in Section 6.1 (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 and three divisions: Ontario, Central Quebec and Eastern Quebec and New Brunswick.

Distribution Segment

This Segment includes the following operating activities:

1. Summit Distribution (Summit) (Ontario Division)

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)* (Eastern Quebec and New Brunswick Division)

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)* (Eastern Quebec and New Brunswick Division)

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)* (Central Quebec Division)

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. *Edfref* (Eastern Quebec and New Brunswick Division)

Edfref is a company specialized in the distribution of food products and in food servings to food stores, convenience stores, hotels, restaurants and institutions. Edfref 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 (Ontario Division)

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.

This division's operations were integrated into those of Summit on June 16, 2012.

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:

1. Boucherville Distribution Centre (Boucherville) (Central Quebec Division)

Sales of the Boucherville Distribution Centre 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 Centre 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.

The Centre, 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 operation’s sales are covered by long-term contracts.

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

Décarie is a wholesaler and distributor in the meat and meat products market. It has a distribution centre of about 27,000 square feet located in Montréal. As a wholesaler, it distributes a wide range of fresh and frozen meat including beef, veal, lamb, pork and poultry. It has a diversified customer base of foodservice distributors, food retailers and specialty butchers. Décarie's facilities are Hazard Analysis and Critical Control Points (HACCP) certified and it holds a federal permit giving it the opportunity to sell its products across Canada.

5. Main Resources and Competencies:

5.1 Board of Directors

	<u>Role</u>	<u>Occupation</u>
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	Ontario Division
Marko Potvin	Vice-President, Corporate Purchasing	Colabor Group Inc.
Denis Pascal	Vice-President and	Eastern Quebec and New Brunswick Division
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	Central Quebec Division

6. Performance Analysis

6.1 Earnings

Earnings, and their comparison with the comparable period of 2011, should be read in conjunction with the *Current Economic Situation* section presented further on in this MD&A and the following facts:

- 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 significant increases in the price of fuel and in commodity taxes, households have less disposable income for eating out. Additionally, higher fuel prices have been putting upward pressure on the Company's operating expenses.
- 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 for 2012, but from February 28, 2011 for the prior year's comparative period.
- 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 for 2012 but from March 30, 2011 for the prior year's comparative period.
- 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 income for 2012 but from May 9, 2011 for the prior year's comparative period.
- On January 1, 2012, the Company concluded the acquisition of Viandes Décarie Inc. Décarie's financial results are included in the Company's income for 2012 but not for the comparative 2011 quarter.

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

	2012-06-16 (84 days)		2011-06-18 (84 days)		Variance	
	\$		\$		\$	
Sales of goods	354,294	100.00%	317,411	100.00%	36,883	11.62%
Operating expenses, excluding costs not related to operations, depreciation and amortization	343,643	96.99%	307,184	96.78%	36,459	11.87%
Profit before costs not related to operations, depreciation and amortization	10,651	3.01%	10,227	3.22%	424	4.15%
Fixed assets write-off following an internal restructuring of operations	253	0.07%			253	100.00%
Direct costs related to realized, unrealized and potential business acquisitions			1,795	0.57%	(1,795)	-100.00%
Depreciation of property, plant and equipment	944	0.27%	857	0.27%	87	10.15%
Amortization of intangible assets	3,316	0.94%	3,107	0.98%	209	6.73%
	<u>4,513</u>	<u>1.28%</u>	<u>5,759</u>	<u>1.82%</u>	<u>(1,246)</u>	<u>-21.64%</u>
Operating profit	6,138	1.73%	4,468	1.40%	1,670	37.38%
Finance costs	2,266	0.64%	2,139	0.67%	127	5.94%
Profit before tax	3,872	1.09%	2,329	0.73%	1,543	66.25%
Tax expense						
Current						
Deferred	969	0.27%	654	0.21%	315	48.17%
	<u>969</u>	<u>0.27%</u>	<u>654</u>	<u>0.21%</u>	<u>315</u>	<u>48.17%</u>
Profit	2,903	0.82%	1,675	0.52%	1,228	73.31%
After-tax cash flows per share	\$0.33		\$0.32			
Basic and diluted earnings per share	\$0.13		\$0.07			

	2012-06-16 (168 days)		2011-06-18 (169 days)		Variance	
	\$		\$		\$	
Sales of goods	652,227	100.00%	556,827	100.00%	95,400	17.13%
Operating expenses, excluding costs not related to operations, depreciation and amortization	636,120	97.53%	541,696	97.28%	94,424	17.43%
Profit before costs not related to operations, depreciation and amortization	16,107	2.47%	15,131	2.72%	976	6.45%
Fixed assets write-off following an internal restructuring of operations	253	0.04%			253	100.00%
Direct costs related to realized, unrealized and potential business acquisitions			1,795	0.32%	(1,795)	-100.00%
Depreciation of property, plant and equipment	1,948	0.30%	1,571	0.28%	377	24.00%
Amortization of intangible assets	6,600	1.01%	5,744	1.03%	856	14.90%
	8,801	1.35%	9,110	1.63%	(309)	-3.39%
Operating profit	7,306	1.12%	6,021	1.09%	1,285	21.34%
Finance costs	4,416	0.68%	3,623	0.65%	793	21.89%
Profit before tax	2,890	0.44%	2,398	0.44%	492	20.52%
Tax expense						
Current						
Deferred	723	0.11%	671	0.12%	52	7.75%
	723	0.11%	671	0.12%	52	7.75%
Profit	2,167	0.33%	1,727	0.32%	440	25.48%
After-tax cash flows per share	\$0.47		\$0.45			
Basic and diluted earnings per share	\$0.09		\$0.07			

Sales

Sales consist of:

For the Wholesale Segment: Adding 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 and sales from Décarie.

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 (unaudited, in thousands of dollars)

		2012-06-16 (84 days)			2011-06-18 (84 days)						
		Sales subsequent to acquisitions	Comparable sales	Total sales	Adjustment for one day	Comparable sales	Variance Total sales		Variance Comparable sales		
		\$	\$	\$	\$	\$	\$	%	\$	%	
Distribution Segment		250,594	20,101	230,493	228,912	228,912	21,682	9.5%	1,581	0.7%	
Eliminations		(635)	(144)	(491)	(91)	(91)	(544)	N/A	(400)	N/A	
		249,959	19,957	230,002	228,821	228,821	21,138	9.2%	1,181	0.5%	
Wholesale Segment		152,932	26,350	126,582	128,033	128,033	24,899	19.4%	(1,451)	-1.1%	
Eliminations		(48,597)	(12,120)	(36,477)	(39,443)	(39,443)	(9,154)	23.2%	2,966	-7.5%	
		104,335	14,230	90,105	88,590	88,590	15,745	17.8%	1,515	1.7%	
		354,294	34,187	320,107	317,411	317,411	36,883	11.6%	2,696	0.8%	

		2012-06-16 (168 days)			2011-06-18 (169 days)						
		Sales subsequent to acquisitions	Comparable sales	Total sales	Adjustment for one day	Comparable sales	Variance Total sales		Variance Comparable sales		
		\$	\$	\$	\$	\$	\$	%	\$	%	
Distribution Segment		465,711	69,144	396,567	396,050	394,084	69,661	17.6%	2,483	0.6%	
Eliminations		(1,014)	(283)	(731)	(94)	(94)	(920)	N/A	(637)	N/A	
		464,697	68,861	395,836	395,956	393,990	68,741	17.4%	1,846	0.5%	
Wholesale Segment		270,030	43,976	226,054	222,981	221,864	47,049	21.1%	4,190	1.9%	
Eliminations		(82,500)	(16,833)	(65,667)	(62,110)	(61,843)	(20,390)	32.8%	(3,824)	6.2%	
		187,530	27,143	160,387	160,871	160,021	26,659	16.6%	366	0.2%	
		652,227	96,004	556,223	556,827	554,011	95,400	17.1%	2,212	0.4%	

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.

Significant sales agreements

In the first quarter MD&A, management reported the loss of a food service procurement contract in Ontario of about \$85M as of April 2013.

Since then, through Norref, it has renewed a major procurement contract with Sobeys for more than \$50M for an additional three-year period until 2017.

Additionally, Summit renewed a procurement contract in Ontario with MTY for about \$25M for Mr Sub, a client it has been serving for many years. Summit was also awarded a new procurement contract of about \$25M for MTY's Country Style banner. Both agreements end in 2015.

Profit before costs not related to 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:
Boucherville: 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.
Décarie: Product acquisition costs plus a percentage negotiated according to current contracts or market rates.
- 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 in the second quarter of 2012, of \$10,561K or 3.01% of sales compared with \$10,227K or 3.22% of sales in the previous quarter, is up \$424K or 4.15%. Despite continued competitive pressure on gross margins and the fact that the Distribution Segment's organic growth remains weak at 0.5%, the Company has been able to benefit from sales from recent acquisitions and spending controls to increase its EBITDA.

Company's measures:

In its 2012 first quarter report, the Company had stated: *In the wake of the lower-than-expected results in the fourth quarter of 2011, management took 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.
- Under an administrative and operational reorganization, eight divisions will be combined under three regional departments with a mission to achieve synergies and combine the 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.

Follow-up of announced measures

The Company undertook the following changes since making this statement:

- All of Colabor's operating units purchase their meat products from Viandes Décarie;
- The administrative and operational reorganization of the eight divisions under three regional divisions has been initiated:
 - In the Ontario Division, this reorganization started with the transfer of the Skor Food Distribution activities to the Summit Business Unit, on June 16, 2012, at the end of the second quarter. Fixed assets of \$253K were written off and presented separately in the statement of earnings. The write-off is attributable to the harmonization of computer systems. This Division will take further measures in the third quarter to achieve additional operating synergies;
 - In the Eastern Quebec and New Brunswick Division, the Company continues to harmonize the computer systems into a single platform for the Bertrand, RTD and Edfrefx Business Units in order to maximize their operations and combine them into a single unit. It is expected the computer system harmonization will be completed during the fourth quarter;
- A Purchasing Manager started on July 16, 2012 and will handle all common service purchases in the operating units.

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

Respective increases of \$296,000 and \$1,233,000 in the above items compared to the previous year's quarter and cumulative period are mainly due to the additional depreciation and amortization resulting from the acquisitions of RTD, Norref, Edfrefx, Skor and Décarie.

Finance costs

The \$127,000 and \$793,000 increase in finance costs is attributable to the previously mentioned acquisitions.

Deferred tax expense

Earnings include a \$969,000 deferred taxes expense following the tax gain in the quarter. 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 in exchange for a \$5M disbursement. 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 dividend per share to the basic and diluted earnings per share, this one is lower. *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 2012 second quarter and year-to-date, compared with the same periods in 2011. The table also shows the calculation for the past 365 days. 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

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

	2012-06-16 (84 days)	2011-06-18 (84 days)	2012-06-16 (168 days)	2011-06-18 (169 days)	2012-06-16 (365 days)
	\$	\$	\$	\$	\$
Cash flows from operating activities before income tax recovery (withholding) and net change in working capital (see Cash Flows)	10,621	8,391	16,114	13,420	37,550
Direct costs related to realized, unrealized and potential business acquisitions		1,795		1,795	1,823
Finance costs	(2,266)	(2,139)	(4,416)	(3,623)	(9,304)
Non-cash portion of the implicit interest on long-term debt included in finance costs	16		31		31
Non-cash portion of the implicit interest on debentures included in finance costs	144	209	287	424	780
Acquisition of property, plant and equipment	(901)	(831)	(1,127)	(1,411)	(3,416)
Acquisition of intangible assets	(47)	(135)	(47)	(194)	(771)
	<u>7,567</u>	<u>7,290</u>	<u>10,842</u>	<u>10,411</u>	<u>26,693</u>
Weighted average number of shares outstanding	<u>23,075,795</u>	<u>23,099,777</u>	<u>23,068,571</u>	<u>23,041,779</u>	<u>22,948,834</u>
After-tax cash flows per share	<u>\$0.33</u>	<u>\$0.32</u>	<u>\$0.47</u>	<u>\$0.45</u>	<u>\$1.16</u>
Current period portion of annual dividend declared	<u>\$0.17</u>	<u>\$0.25</u>	<u>\$0.33</u>	<u>\$0.50</u>	<u>\$0.91</u>
After-tax dividend payout ratio	<u>51%</u>	<u>78%</u>	<u>71%</u>	<u>110%</u>	<u>78%</u>

The annual dividend declared for the corresponding periods in 2011 was based on a \$1.08 per share dividend, which was reduced to \$0.72 in 2012.

The previous table indicates an improvement, despite an economic slowdown, of after-tax cash flows and the after-tax dividend payout ratio, primarily as a result of the Company's decision to reduce the annual dividend from \$1.08 to \$0.72 per share.

On the basis of the past 365 days, and weighting the portion of the annual dividend declared, the after-tax dividend payout ratio is 78%. Calculating this annual ratio using the annual dividend of \$0.72 for the past 365 days, it would be 62%, indicating that the Company generates sufficient cash flows to support an annual dividend of \$0.72.

Earnings per share

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

	2012-06-16 (84 days)	2011-06-18 (84 days)	2012-06-16 (168 days)	2011-06-18 (169 days)
	\$	\$	\$	\$
Earnings	<u>2,903</u>	<u>1,675</u>	<u>2,167</u>	<u>1,727</u>
Weighted average number of shares outstanding to calculate basic and diluted earnings per share	<u>23,075,795</u>	<u>23,099,777</u>	<u>23,068,571</u>	<u>23,041,779</u>
Basic and diluted earnings per share	<u>\$0.13</u>	<u>\$0.07</u>	<u>\$0.09</u>	<u>\$0.07</u>

6.2 Other Comprehensive Income, Net of Taxes**Other comprehensive income** (in thousands of dollars)

	2012-06-16 (84 days)	2011-06-18 (84 days)	2012-06-16 (168 days)	2011-06-18 (169 days)
	\$	\$	\$	\$
Other comprehensive income				
Available-for-sale financial asset – gain (loss) for the period	43		(1,488)	
Cash flow hedges – gain (loss) for the period	(919)		157	
Taxes on other comprehensive income	<u>232</u>		<u>151</u>	
Total other comprehensive income	<u>(644)</u>		<u>(1,180)</u>	

As part of the transition to IFRS, the Company must now measure the equity investment in Colabor Investments Inc. at fair value. Colabor Investments Inc.'s main asset is an equity investment of 5,087,349 shares of Colabor Group Inc., representing a 22% interest. Colabor Group Inc. holds 18% of Colabor Investment Inc. This fair value measurement indicates a pre-tax decrease of \$1,488,000 in the value of this investment compared with December 31, 2011, primarily as a result of a decrease in the market value of Colabor Group Inc.'s shares following the announced dividend reduction.

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. There is a \$157,000 increase in the pre-tax value of this financial item during since December 31, 2011.

6.3 Financial Position

Consolidated Statements of Financial Position

(in thousands of dollars)

	2012-06-16 (unaudited)	2011-12-31
	\$	\$
ASSETS		
Current		
Trade and other receivables	114,170	108,164
Recoverable income tax assets	4,431	2,421
Inventory	81,084	76,632
Prepaid expenses	4,713	2,596
<i>Current assets</i>	<u>204,398</u>	<u>189,813</u>
Non-current		
Equity investment in Colabor Investments Inc.	10,922	12,410
Property, plant and equipment	17,464	17,319
Intangible assets	150,374	154,845
Goodwill	115,065	114,775
<i>Non-current assets</i>	<u>293,825</u>	<u>299,349</u>
Total assets	<u><u>498,223</u></u>	<u><u>489,162</u></u>
LIABILITIES AND EQUITY		
LIABILITIES		
Current		
Bank overdraft	12,170	10,151
Trade and other payables	104,160	105,575
Dividends payable		6,220
Rebates payable	15,326	11,783
Balances of purchase price payable	12,877	12,560
Deferred revenue	533	344
<i>Current liabilities</i>	<u>145,066</u>	<u>146,633</u>
Non-current		
Bank borrowings	108,704	96,167
Derivative financial instrument	461	618
Balances of purchase price payable	654	250
Long-term debt	14,629	14,598
Convertible debentures	46,367	46,080
Pension obligations	315	448
Deferred income tax liabilities	9,180	8,354
<i>Non-current liabilities</i>	<u>180,310</u>	<u>166,515</u>
Total liabilities	<u>325,376</u>	<u>313,148</u>
EQUITY		
Capital stock	179,652	179,652
Retained earnings (deficit)	(8,655)	(6,661)
Other components of equity	1,850	3,023
<i>Total equity</i>	<u>172,847</u>	<u>176,014</u>
Total liabilities and equity	<u><u>498,223</u></u>	<u><u>489,162</u></u>

The main changes in the June 16, 2012 balance sheet, compared to the December 31, 2011 balance sheet, relate to the acquisition of assets and assumption of liabilities of Décarie, acquired on January 1, 2012, as described in Note 3 to the financial statements.

At June 16, 2012, 23,115,321 shares are issued and fully paid.

6.4 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.

In light of the recent acquisitions and to give the Company some latitude to achieve its operating synergies, the banking syndicate has accepted that the DEBT/EBITDA ratio to be met will be 3.50:1.00 through the third quarter of 2012 and 3.25:1.00 through the third quarter of 2013 and 3.00:1.00 thereafter.

As at June 16, 2012, the DEBT/EBITDA ratio was 3.11:1.00 and the interest coverage ratio was 4.26:1.00.

Dividends

A \$4,161K dividend was paid on April 15, 2012 based on a quarterly dividend of \$0.18 per share.

Consolidated Statements of Cash Flows (unaudited, in thousands of dollars)

	2012-06-16 (84 days)	2011-06-18 (84 days)	2012-06-16 (168 days)	2011-06-18 (169 days)
	\$	\$	\$	\$
Operating activities				
Earnings before income taxes	3,872	2,329	2,890	2,398
Fixed assets write-off following an internal restructuring	253		253	
Depreciation of property, plant and equipment	944	857	1,948	1,571
Amortization of intangible assets	3,316	3,107	6,600	5,744
Finance costs	2,266	2,139	4,416	3,623
Stock-based compensation plan expenses	(30)	100	7	225
Purchase of shares held by the Company for stock-based compensation plans		(141)		(141)
	<u>10,621</u>	<u>8,391</u>	<u>16,114</u>	<u>13,420</u>
Income tax recovery (withholding)	(1,678)	(428)	(2,010)	(371)
Net change in cash flows	<u>(427)</u>	<u>(15,466)</u>	<u>(6,850)</u>	<u>(14,372)</u>
Cash flows from operating activities	<u>8,516</u>	<u>(7,503)</u>	<u>7,254</u>	<u>(1,323)</u>
Investing activities				
Business acquisitions, net of cash acquired	1,371	(36,110)	(6,069)	(78,941)
Purchase of property, plant and equipment	(901)	(831)	(1,127)	(1,411)
Purchase of intangible assets	(47)	(135)	(47)	(194)
Cash flows from investing activities	<u>423</u>	<u>(37,076)</u>	<u>(7,243)</u>	<u>(80,546)</u>
Financing activities				
Bank borrowings	(11,779)	46,075	12,630	92,320
Normal course issuer bid		(178)		(178)
Repayment of long-term debt		(131)		(268)
Dividends paid	(4,161)	(6,225)	(10,381)	(12,429)
Payment of balances of purchase price			(87)	(2,013)
Finance costs paid	(2,234)	(2,544)	(4,192)	(3,785)
Cash flows from financing activities	<u>(18,174)</u>	<u>36,997</u>	<u>(2,030)</u>	<u>73,647</u>
Net change in bank overdraft	(9,235)	(7,582)	(2,019)	(8,222)
Bank overdraft, beginning of period	(2,935)	(11,349)	(10,151)	(10,09)
Bank overdraft, end of period	<u>(12,170)</u>	<u>(18,931)</u>	<u>(12,170)</u>	<u>(18,931)</u>

7. Summary of Past Quarters

	Under IFRS						Under Canadian GAAP before transition to IFRS	
	16/06/2012 (84 days)	2012-03-24 (84 days)	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)
('000)	\$	\$	\$	\$	\$	\$	\$	\$
Sales	354,294	297,933	431,664	324,760	317,411	239,416	347,141	234,309
EBITDA	10,651	5,456	12,513	10,554	10,227	4,904	13,984	7,578
Earnings	2,903	(736)	2,002	3,099	1,675	52	5,868	3,885
Basic net earnings per share/unit	\$0.13	\$(0.03)	\$0.09	\$0.14	\$0.07	\$0.00	\$0.26	\$0.18

8. 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) (unaudited, in thousands of dollars)	2012-06-16 (84 days)	2011-06-18 (84 days)	2012-06-16 (168 days)	2011-06-18 (169 days)
	\$	\$	\$	\$
Sales of goods to customers controlled by directors		495		3,265
Rebates	3,999	3,441	6,002	6,036
Rent	470	470	938	938
Computer services		111		239

9. Off-balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than about \$2,063,000 in bank letters of guarantee, of which the main one of \$2,028,000 supports one year of leasing the Boucherville distribution centre.

10. Current Economic Situation, Development Strategies and Outlook

Current Economic Situation

Colabor's activities are in Eastern Canada, principally in Quebec and Ontario.

(The italicised text is based on "Economic and Financial Outlook – Winter 2012" from Desjardins – Economic Studies.)

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.

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 Edfref 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.

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.

11. 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 ($\pm 28\%$) 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, Edfref, Skor and Décarie 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.

12. 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.

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

With respect to the Décarie acquisition (January 1, 2012), 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 quarter ended June 16, 2012, with exception of this acquisition, no changes to internal controls over financial reporting affected materially, or are reasonably likely to materially affect, internal controls over financial reporting. Financial information relating to this acquisition for the quarter ended June 16, 2012 is presented below.

Sales	\$19.5M
Operating profit before amortization	\$0.2M
Current assets:	\$10.2M
Non-current assets:	\$3.0M
Current liabilities:	\$4.3M
Non-current liabilities:	\$0.5M

14. Subsequent event

Claims related to the acquisition of Les Pêcheries Norref Québec Inc.'s shares under arbitration

Following the acquisition of Les Pêcheries Norref Québec Inc. on February 28, 2011, the Company submitted a number of claims to an arbitration process. On July 12, 2012, the arbitrator reached a decision in the Company's favour and the vendors are required to repay a certain amount. In the next quarter, the Company will recognize an estimated amount of \$1,700,000 net of its costs.