



**COLABOR GROUP INC.**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**FIRST QUARTER OF THE 2014 FISCAL YEAR**

**81-DAY PERIOD ENDED MARCH 22, 2014**

**MAY 1, 2014**

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**May 1, 2014**

## **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 first quarter of the fiscal year ending December 31, 2014. 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](http://www.sedar.com) and [www.colabor.com](http://www.colabor.com).

Colabor's fiscal year comprises thirteen periods, the first three quarters comprise three periods each and the fourth quarter includes four periods. The Company's year-end is the last Saturday of December. As a result, the Company's sales and earnings are proportionately lower in the first quarter and higher in the fourth quarter because the fourth quarter generally has 33% more operating days than the other quarters of the year.

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.

## **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"). 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](http://www.sedar.com) and on its information site [www.colabor.com](http://www.colabor.com).

## **4. Corporate Profile**

### **Activities**

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

### ***Distribution Segment***

This Segment includes the following operating activities:

#### *1. Summit Foodservice (Summit) (Ontario Division)*

Summit distributes more than 8,000 products from warehouses in Ottawa, London, Mississauga and Vaughan to more than 3,000 customers, including Cara (Swiss Chalet, Harvey's, Kelsey's Neighbourhood Bar and Grill, Montana's Cookhouse and Milestone's Grill and Bar), County Style, Extendicare, Mr Sub, Wild Wing, 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, fruits and vegetables and sanitation products.

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

This division, with about 600 employees, operates four distribution centres, including the London head office, where administrative services are located.

These warehouses cover about 550,000 square feet, allocated as follows:

Mississauga:	127,961 square feet
London:	113,595 square feet (could be expanded)
Ottawa:	103,460 square feet (could be expanded)
Vaughan:	205,000 square feet

## 2. *Skor Cash & Carry Division (Ontario 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.

## 3. *Colabor Eastern Quebec and Maritimes Division*

Colabor Eastern Quebec and Maritimes Division is a major distributor to foodservice and retail customers in the Québec City, Saguenay, eastern Quebec and northern New Brunswick regions and part of the North Shore and the Lower North Shore regions. It employs approximately 500 people, distributes over 12,000 products from its two strategically located warehouses in Lévis, and Rimouski, totalling approximately 341,000 square feet. This division’s customers consist primarily of restaurants, 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, fish and seafood, fruits and vegetables, disposables and sanitation products. It therefore offers its customers a “one-stop-shop” solution.

## 4. *Les Pêcheries Norref Québec Inc. (Norref) (Central Quebec Division)*

Norref is a fresh fish and seafood products importer and distributor in the province of Quebec and is recognized as the leading 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 and seafood. Its diversified client base is comprised of supermarkets, restaurants, hotels, caterers and fish stores. It has about 210 employees and 50% of its sales are from medium-term contracts.

## 5. *Lauzon Meats (Central Quebec Division)*

Lauzon is a major distributor of Cargill beef brands such as Angus Pride, Sterling Silver, preparing and processing high quality meat products throughout the provinces of Quebec and Ontario. As a well-known and established distributor in Quebec, it holds a reputation for excellent products and experienced, skilled employees providing effective and flexible service to the restaurant and hotel industries. Lauzon operates from a recently renovated 68,000 square-foot HACCP-certified and federally-approved plant located in Montréal.

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

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

Sales of the Boucherville Distribution Centre consist of food and non-food products that it supplies to wholesalers that, in turn, redistribute these products to over 25,000 customers operating in the foodservice and retail 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 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.

(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, which employs about 100 people, operates a 371,120 square-foot distribution centre in Boucherville that could be expanded to 650,000 square feet.

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

Décarie is a wholesaler and distributor in the meat and meat products market. Décarie has a distribution centre of about 27,000 square feet located in Montréal. As a wholesaler, this division distributes a wide range of fresh and frozen meat including beef, veal, lamb, pork and poultry. It has a diversified customer base of distributors, food retailers and specialty butchers. Décarie's facilities are HACCP-certified and hold a federal permit giving them the opportunity to sell their products across Canada.

## 5. Main Resources and Competencies:

### 5.1 Board of Directors

	<u>Role</u>	<u>Occupation</u>
Jacques Landreville	Chairman	Corporate Director
Robert Panet-Raymond	Chairman, Audit Committee	Corporate Director
Richard Lord, FCMA	Chairman, Human Resources and Corporate Governance Committee	President and Chief Executive Officer, Quincaillerie Richelieu Ltée
Stéphane Gonthier	Director	President and Chief Executive Officer, 99¢ Only Stores
Gilles C. Lachance	Director	Corporate Director
Paul Webb	Director	Executive Vice-President and General Manager, J.B. Cadrin Inc., a division of Beaudry & Cadrin Inc.

### 5.2 Management

Claude Gariépy	President and Chief Executive Officer	Colabor Group Inc.
Jean-François Neault CPA, CMA, MBA	Vice-President and Chief Financial Officer	Colabor Group Inc.
Marko Potvin	Vice-President Centralized Purchasing	Colabor Group Inc.
Michel Delisle	Vice-President Information Technology	Colabor Group Inc.
Denis Desaulniers, CRHA	Vice-President Human Resources and Communications	Colabor Group Inc.
Jack Battersby	President	Ontario Division
Geneviève Brouillette, CPA, CA	Vice-President and General Manager	Boucherville Division
Claude Saillant	Vice-President and General Manager	Eastern Quebec and Maritimes Division

## 6. Performance Analysis

### 6.1 Earnings

The net loss for the quarter was \$5.6M, compared with \$3.3M for the prior year's same period. The net loss per share is \$0.21 per share, compared with \$0.14 in 2013.

#### Consolidated Statements of Earnings

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

	2014-03-22 (81 days)		2013-03-23 (82 days)		Variance	
	\$		\$		\$	
<b>Sales of goods</b>	<b>279,318</b>	<b>100.00%</b>	<b>293,580</b>	<b>100.00%</b>	<b>(14,262)</b>	<b>-4.86%</b>
Operating expenses, excluding costs not relating to current operations, depreciation and amortization	279,170	99.95%	291,271	99.21%	(12,101)	-4.15%
<b>Operating earnings before costs not relating to current operations, depreciation and amortization</b>	<b>148</b>	<b>0.05%</b>	<b>2,309</b>	<b>0.79%</b>	<b>(2,161)</b>	<b>-93.59%</b>
Costs not relating to current operations		0.00%	247	0.08%	(247)	-100.00%
Depreciation of property, plant and equipment	975	0.35%	1,219	0.42%	(244)	-20.02%
Amortization of intangible assets	3,279	1.17%	3,023	1.03%	256	8.47%
	<u>4,254</u>	<u>1.52%</u>	<u>4,489</u>	<u>1.53%</u>	<u>(235)</u>	<u>-5.24%</u>
<b>Operating earnings</b>	<b>(4,106)</b>	<b>-1.47%</b>	<b>(2,180)</b>	<b>-0.74%</b>	<b>(1,926)</b>	<b>S/O</b>
Finance costs	3,391	1.21%	2,323	0.79%	1,068	45.98%
<b>Earnings before tax</b>	<b>(7,497)</b>	<b>-2.68%</b>	<b>(4,503)</b>	<b>-1.53%</b>	<b>(2,994)</b>	<b>S/O</b>
Income taxes						
Current						
Deferred	(1,931)	-0.69%	(1,145)	-0.39%	(786)	S/O
	<u>(1,931)</u>	<u>-0.69%</u>	<u>(1,145)</u>	<u>-0.39%</u>	<u>(786)</u>	<u>S/O</u>
<b>Earnings</b>	<b>(5,566)</b>	<b>-1.99%</b>	<b>(3,358)</b>	<b>-1.14%</b>	<b>(2,208)</b>	<b>S/O</b>
<b>Basic and diluted earnings per share</b>	<b>\$ (0.21)</b>		<b>\$ (0.14)</b>			

### Sales

Comparable sales (unaudited, in thousands of dollars)

	Distribution Segment				Wholesale Segment				Consolidated			
	2014-03-22		2013-03-23		2014-03-22		2013-03-23		2014-03-22		2013-03-23	
	(81 days)	(82 days)	Variance		(81 days)	(82 days)	Variance		(81 days)	(82 days)	Variance	
Total sales	\$ 187,639	\$ 204,891	(17,252)	-8.4%	\$ 91,679	\$ 88,689	2,990	3.4%	\$ 279,318	\$ 293,580	(14,262)	-4.9%
Acquisitions	(5,003)		(5,003)		(7,628)		(7,628)		(12,631)		(12,631)	
Specific items		(19,637)	19,637						(19,637)	19,637		
Adjustment for one day		(2,590)	2,590			(1,082)	1,082		(3,672)	3,672		
Comparable sales	<u>182,636</u>	<u>182,664</u>	<u>(28)</u>	<u>0.0%</u>	<u>84,051</u>	<u>87,607</u>	<u>(3,556)</u>	<u>-4.1%</u>	<u>266,687</u>	<u>270,271</u>	<u>(3,584)</u>	<u>-1.3%</u>

**Segment sales of goods** (unaudited, in thousands of dollars)

	2014-03-22 (81 days)	2013-03-23 (82 days)	Variance	
	\$	\$	\$	%
Sales before elimination				
Distribution Segment	193,289	208,416	(15,127)	-7.3%
Wholesale Segment	123,642	120,949	2,693	2.2%
	<u>316,931</u>	<u>329,365</u>	<u>(12,434)</u>	<u>-3.8%</u>
Inter-Segment Sales				
Distribution Segment	5,650	3,525	2,125	60.3%
Wholesale Segment	31,963	32,260	(297)	-0.9%
	<u>37,613</u>	<u>35,785</u>	<u>1,828</u>	<u>5.1%</u>
Consolidated sales				
Distribution Segment	187,639	204,891	(17,252)	-8.4%
Wholesale Segment	91,679	88,689	2,990	3.4%
	<u>279,318</u>	<u>293,580</u>	<u>(14,262)</u>	<u>-4.9%</u>

First quarter sales amounted to \$279.3M, compared with \$293.6M in the same quarter in 2013, down \$14.3M or 4.9%. The decline is primarily attributable to the loss of a major client in Ontario in April 2013, the discontinuation of a large portion of its tobacco product sales in February 2013 and a significant drop in demand in the first quarter of 2014 due essentially to unusual winter weather and a difficult economic situation, partly offset by the Lauzon acquisition.

Comparable sales were down 1.3%, primarily due to the wholesale segment, with sales in the distribution segment remaining stable.

The reduction in the wholesale segment can be explained by the loss of certain contracts by affiliated distributors and lower demand, specifically during the first quarter of 2014.

The distribution segment's sales remained stable thanks to strong growth in fresh fish sales and growth in existing Ontario clients. This helped offset the negative effect of a decline in eastern Quebec clients as a result of the above-mentioned external factors.

**Results of operations**

In the first quarter of 2014, results of operations were \$0.148M or 0.05% of sales, compared with \$2.3M or 0.79% of sales in the same period in 2013. Lower profitability is mainly due to the combined effect of lower comparable sales in the wholesale segment, the loss of a major client in Ontario and the negative contribution of the Lauzon acquisition to consolidated earnings, partially offset by lower warehousing and delivery costs.

### **Costs not relating to current operations**

In 2014, no costs not relating to current operations were recognized. Costs not relating to current operations in the comparable period in 2013 relate to costs incurred for the acquisition of Lauzon.

### **Amortization of property, plant and equipment**

The \$4.2M amortization expense for property, plant and equipment and intangible assets for the first quarter of 2014 is stable compared with 2013. The increase in the amortization of intangible assets compared with 2013 is mainly due to the Lauzon acquisition.

### **Financial expenses**

Financial expenses in the first quarter of 2014 were \$3.4M, up \$1.1M from \$2.3M in 2013. This increase can be explained primarily by the combined effect of higher weighted interest rates between long-term debt and the bank loan, the increase in the amortization expenses of the new credit agreement and write-off of deferred transaction costs following repayment of the long-term debt and the conclusion of an interest rate swap, partially offset by a decrease in the average total debt.

### **Recovery of deferred taxes**

The deferred tax recovery for the first quarter results from the loss.

With respect to the draft notice of assessment from the Canada Revenue Agency using the general anti-avoidance rule to refuse tax losses acquired during the Company's conversion from an income trust to a corporation, in March 2013 the Company sent its arguments to the General Anti-avoidance Rule Committee. The Company is still waiting for a decision.

### **Earnings per share**

The net loss per share in the first quarter of 2014 is \$0.21 per share, compared with a \$0.14 per share loss in the first quarter of 2013, a \$0.07 increase in the loss per share.

## 6.2 Financial Position

### Consolidated Statements of Financial Position

(in thousands of dollars)

	2014-03-22 (unaudited)	2013-03-23 (unaudited)	2013-12-31
<b>ASSETS</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Current</b>			
Trade and other receivables	100,795	124,117	114,803
Recoverable tax assets	2,960	2,974	2,853
Inventory	73,421	82,792	80,243
Prepaid expenses	2,380	3,024	1,996
<i>Current assets</i>	<u>179,556</u>	<u>212,907</u>	<u>199,895</u>
<b>Non-current</b>			
Equity investment in Colabor Investments Inc.	4,748	7,570	5,113
Property, plant and equipment	16,844	16,164	16,615
Intangible assets	128,752	140,585	131,112
Goodwill	115,065	115,696	115,065
<i>Non-current assets</i>	<u>265,409</u>	<u>280,015</u>	<u>267,905</u>
<b>Total assets</b>	<u>444,965</u>	<u>492,922</u>	<u>467,800</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current</b>			
Bank overdraft	3,911	7,882	6,828
Trade and other payables	77,431	105,426	84,684
Rebates payable	7,409	12,749	8,663
Balances of purchase price payable	761	13,265	11,496
Bank loan	6,000		
Obligations under leases	178		
Deferred revenue	409	339	41
Provisions	974		1,111
<i>Current liabilities</i>	<u>97,073</u>	<u>139,661</u>	<u>112,823</u>
<b>Non-current</b>			
Bank loan	81,448	100,004	108,684
Derivative financial instrument		216	78
Long-term debt	42,101	14,681	14,737
Convertible debentures	47,533	46,854	47,373
Obligations under leases	753		
Pension obligation	1,004	2,109	520
Provisions	4,142		4,365
Deferred income tax liabilities	3,307	6,293	5,407
<i>Non-current liabilities</i>	<u>180,288</u>	<u>170,157</u>	<u>181,164</u>
<b>Total liabilities</b>	<u>277,361</u>	<u>309,818</u>	<u>293,987</u>
<b>EQUITY</b>			
Share capital	208,622	208,645	208,622
Deficit	(43,412)	(26,871)	(37,439)
Other components of equity	2,394	1,330	2,630
<i>Total equity</i>	<u>167,604</u>	<u>183,104</u>	<u>173,813</u>
<b>Total liabilities and equity</b>	<u>444,965</u>	<u>492,922</u>	<u>467,800</u>

## **Credit Facilities**

On January 31, 2014, the Company entered into two agreements to refinance its current credit facilities. These agreements will provide the Company with greater financial flexibility and operational leeway in accordance with its business model.

First, a bank syndicate overseen by BMO Bank of Montreal has granted Colabor a maximum credit facility of \$140M for a three-year period. This credit facility includes an “accordion” feature to increase the authorized amount by \$30M, subject to certain conditions. The Company was also granted term credit facilities for a maximum amount of \$18M, to be used for special purposes and repayable over a 24-month period from the time they are used, should this occur.

Second, the Company reached a loan agreement for a total principal amount of \$42.5M.

These two agreements were used partially to repay a \$15M loan concluded by the Company in December 2011.

To secure each of these credit facilities, the Company, its subsidiaries and related entities have agreed to hypothecate on the universality of their property in favour of each of these lender groups.

Under certain circumstances, the Company is required to respect a fixed charge coverage ratio. As at March 22, 2014, this ratio has been respected.

## **Average indebtedness**

In reviewing the statement of cash flows, investors should consider that it is more relevant to assess fluctuations in indebtedness using the average daily indebtedness for the period, rather than the balance at period-end which is subject to greater volatility.

Also, considering management’s focus on reducing debt, this method is more suited to assessing progress made in this regard.

For the first quarter, average daily indebtedness was \$96M compared to an average of \$102M in the fourth quarter. The variance is due primarily to cash flows generated internally during the quarter before changes in working capital.

Average indebtedness for the first quarter of 2014 compared with the same period in 2013 is, respectively, \$96M compared to \$128M, a \$32M decrease. The variance is mainly due to equity issued net of acquisitions, a decrease in working capital and the generation of free cash flows from dividend payments.

## **Capital stock**

As at March 22, 2014 and March 23, 2013, there were 27,089,321 issued and outstanding common shares.

## **Dividends**

In accordance with its dividend policy, on March 12, 2014, the Company’s Board of Directors declared a quarterly dividend of \$0.06 per common share which was paid on April 15, 2014 to shareholders of record as at March 31, 2014.

## 6.3 Cash Flows

### Consolidated cash flows

(unaudited, in thousands of dollars)

	2014-03-22 (81 days)	2013-03-23 (82 days)
	\$	\$
<b>Operating activities</b>		
Earnings before income taxes	(7,497)	(4,503)
Depreciation of property, plant and equipment	975	1,219
Amortization of intangible assets	3,279	3,023
Change in provisions	(360)	
Financial expenses	3,391	2,323
Stock-based compensation plan expenses	25	13
	(187)	2,075
Income tax withholdings	(107)	(174)
Net changes in working capital	12,241	(27,690)
<b>Cash flows from operating activities</b>	<u>11,947</u>	<u>(25,789)</u>
<b>Investing activities</b>		
Business acquisitions, net of cash acquired		(10,000)
Dividends received from Colabor Investments Inc.		2,342
Purchase of property, plant and equipment	(273)	(632)
Disposal of property, plant and equipment	8	
Purchase of intangible assets	(919)	
<b>Cash flows from investing activities</b>	<u>(1,184)</u>	<u>(8,290)</u>
<b>Financing activities</b>		
Bank borrowings	(21,455)	11,947
Lease payment	(8)	
Issuance of shares		28,638
Dividends paid		(4,161)
Refund of advance received on dividends to be declared by Colabor Investments Inc.		(1,722)
Payment of balance of purchase price	(10,735)	(404)
Repayment of long-term debt	(15,000)	
Net issuance of long-term debt	42,087	
Finance costs paid	(2,735)	(2,107)
<b>Cash flows from financing activities</b>	<u>(7,846)</u>	<u>32,191</u>
<b>Net change in bank overdraft</b>	2,917	(1,888)
Bank overdraft, beginning of period	<u>(6,828)</u>	<u>(5,994)</u>
<b>Bank overdraft, end of period</b>	<u><u>(3,911)</u></u>	<u><u>(7,882)</u></u>

## Operating activities

Cash flows from operating activities in the first quarter are a positive amount of \$11.9M, compared with a negative flow of \$25.8M in the same period in 2013. The more than \$37.7M variance is essentially attributable to the change in working capital. The unusual situation in the first quarter of 2013 was due to an unusually high level of accounts payable as at December 31, 2012. The decline in accounts payable did not recur in 2014. Additionally, the positive change in working capital in the first quarter of 2014 was supported by the introduction of sustainable capital management initiatives.

## Investing activities

Cash flows used for investing activities in the first quarter amounted to \$1.2M, compared with \$8.2M in the same period in 2013. The change is primarily attributable to the net effect of non-recurring items in 2013, that is, the Lauzon acquisition and dividend income from the investment in Colabor Investment.

## Financing activities

Cash flows from financing activities of \$7.8M in the first quarter are negative, compared with positive cash flows of \$32.2M in the same period in 2013. The major portion of this variance is attributable to two events which are the \$28.6M share issue in the first quarter of 2013 and the new \$42.5M subordinated debt which was offset by repayment of \$15M of the old subordinated debt in January 2014.

## 7. Summary of Past Quarters

('000)	2014-03-22 (81 days)	2013-12-31 (115 days)	2013-09-07 (84 days)	2013-06-15 (84 days)	2013-03-23 (82 days)	2012-12-31 (114 days)	2012-08-09 (84 days)	2012-06-16 (84 days)
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Sales</b>	279,318	456,489	343,584	345,817	293,580	464,280	350,341	354,294
EBITDA	148	11,761	10,228	9,728	2,309	11,977	11,022	10,651
<b>Earnings</b>	(5,566)	(1,978)	(3,883)	2,390	(3,358)	(2,005)	3,047	2,903
Basic net earning per share	\$(0.21)	\$(0.07)	\$(0.14)	\$0.09	\$(0.14)	\$(0.09)	\$0.13	\$0.13

## 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 conversion to a corporation, the conversion of debentures and subsequent issuance of shares, Investments now holds an undiluted 18.8% in Colabor Group Inc.

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 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.

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)

	2014-03-22 (81 days)	2013-03-23 (82 days)
	\$	\$
Rebates	2,360	2,575

## 9. Off-balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than about \$1,014,000 in bank letters of guarantee supporting the leasing of one of the Company’s distribution centres.

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

### Current Economic Situation

Colabor’s activities are in Eastern Canada, principally in Quebec and Ontario. The economic situation in these regions has slowed down, particularly in Quebec, which is primarily due to fairly anaemic consumption, curbed by tax and tariff increases, household debt and a stagnating job situation in Quebec. All of these aspects hinder discretionary household consumer spending.

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 shareholders.

### Development Strategies

The Company's management is firmly convinced that there are major channels which could be used to increase, when circumstances permits, its entry into the food services market in Canada.

To allow itself to better focus on its core business of distribution, and after further analysis, Colabor sold all rights of its banners trademarks (“Point d’aide”, “Visez Juste!”, “Dépanneur Ultra”, “Votre dépanneur Sermax”, “Groupe Affilié”, “Marché Éclair Plus” et “Marché Éclair”) in addition to all agreement which are incidental to Beaudry & Cadrin Inc. in the renewal of its long-term supply agreement with this company. The book value of these assets was not significant.

### *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 also acquire other affiliated-wholesalers' networks in Quebec and in the Atlantic Provinces. These acquisitions would make it possible to increase the density of its distribution network in Eastern Canada, thereby increasing operating profitability.

#### *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.

### **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 (about 25%) 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 amendments to 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 into 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.

To date, Colabor has signed four agreements with distributors prior to their expiration, including the two most significant distributors. Extending these agreements on a long-term basis as procurement agreements represents about 40% of sales to affiliated distributors.

- *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.

- *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.

- *Client indebtedness*

A challenging economic situation could limit client credit for purchases and discretionary products, which could lead to a decrease in sales in the food services distribution sector.

- *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.

- *Market price sensitivity s of some commodities*

Colabor may be faced with sudden inflationary changes in the commodity price index of some commodities such as beef, pork, fuel and others. In the short term, these fluctuations could create pressure on margins.

- *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.

- *Intensification of the competition in an economically challenging situation*

To retain their market share, competitors have the tendency to lower their profit margins.

## **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.

## **Climate change**

Colabor has very little world climate change risk exposure. However, the daily temperature affects the Company's quarterly economic performance.

## **12. Significant Accounting Estimates**

Some of the amounts in the financial statements are based on estimates made by management using its knowledge of current or anticipated events and current economic conditions.

### **Impairment of trade and other receivables**

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

### **Supplier rebates**

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

### **Impairment of available-for-sale financial assets**

Management assesses whether there are any indications of impairment of the available-for-sale financial asset at each reporting date. When management determines that the asset is impaired, the cumulative loss recognized in other comprehensive income is reclassified to earnings.

### **Inventory valuation**

Inventory is measured at the lower of cost and net realizable value. In estimating net realizable value, management takes into account the most reliable evidence available at the time the estimates are made. The quantity, age and condition of inventory are measured and evaluated regularly during the year.

### **Useful lives of depreciable assets**

Management reviews the useful lives of depreciable assets at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence, particularly for distribution software and hardware.

## **Impairment of trademarks and goodwill**

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial years.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

## **Deferred tax assets**

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax losses. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

## **Business combinations**

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated statement of financial position at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as an adjustment in the measurement period. Any other change would be recognized in the income statement in the subsequent period.

## **Pension obligations**

Management estimates the pension obligation annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its pension obligations is based on rates of inflation and mortality that management considers to be reasonable. It also takes into account the Company's specific anticipation of future salary increases, retirement ages of employees and other actuarial factors. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist, which may vary significantly in future appraisals of the Company's defined benefit obligations.

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

As indicated in the December 31, 2013 MD&A, available on SEDAR at [www.sedar.com](http://www.sedar.com), management has designed and assessed disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) to provide reasonable assurance that the financial information presented by the Company is reliable and that its financial statements are prepared in accordance with IFRS. The President and CEO and the Vice-President and CFO assessed, in accordance with Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings, the design and operation of ICFR and DC&P as at December 31, 2013 and, on the basis of this assessment, they have concluded that the design and operation of ICFR and DC&P are efficient.