COLABOR GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FIRST QUARTER OF THE 2016 FISCAL YEAR

84-DAY PERIOD ENDED MARCH 19, 2016

APRIL 28, 2016

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1. Scope of MD&A and Notice to Investors

This Management's Discussion & Analysis ("MD&A") of Colabor Group Inc. ("GCL", the "Company" or "Colabor") discusses the comprehensive income, financial situation and cash flows for the first quarter of the fiscal year ending December 31, 2016. This report should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes found in this report, as well as with the audited consolidated financial statements and related notes included in the Annual Report for the fiscal year ended December 26, 2015. These financial statements are in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standard Board. The financial statements have been published on the following sites: www.sedar.com and www.colabor.com.

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

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

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

2. Non-IFRS Performance Measures

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

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

Reconciliation of net loss to adjusted EBITDA

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

	2016 $	**2015 $**	**Variance $**
Net loss	(5,298)	(6,315)	1,017
Recovery of income taxes	(1,847)	(2,305)	458
Financial expenses	2,994	3,099	(105)
Depreciation and amortization	2,719	3,416	(697)
EBITDA	(1,432)	(2,105)	673
Impairment of available-for-sale financial asset	-	1,731	(1,731)
Costs not relating to current operations	3,337	838	2,499
Adjusted EBITDA	1,905	464	1,441

3. Forward-looking Statements

We have used, throughout this MD&A, different statements that could, within the context of regulations issued by the Canadian Securities Administrators, be construed as being forward-looking information. In general, any statement contained in this MD&A that does not constitute a historical fact may be deemed a forward-looking statement. Expressions such as "continue", "expect" and other similar expressions are generally indicative of 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 in or implied by these statements. These forward-looking statements do not provide any guarantees as to the future performance of the Company and are subject to potential risks, known and unknown, as well as uncertainties that could cause the outcome to differ significantly. 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. The Company does not intend to update any forward-looking statement contained herein, except as required by applicable law.

4. Corporate Profile

Activities

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

A. 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 (i) Cara Operations Limited (hereafter “Cara”), which operates, among others, Swiss Chalet, Harvey’s, Kelsey’s, Montana’s BBQ & Bar, and Milestone’s Grill and Bar); (ii) Country Style; (iii) Mr Sub; (iv) Wild Wing; (v) other foodservice chains; (vi) independent restaurants; (vii) as well as to institutions, including hospitals, schools and government institutions. Summit’s product line includes frozen products, dry staples, dairy products, meat, fish, seafood, fruits and vegetables, disposables and sanitation products.

This division, with about 490 employees, operates four distribution centres, including the London administrative head office. These warehouses cover about 541,000 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	196,598 square feet

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

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

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

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

CFD is a major distributor to foodservice and retail customers in the Québec City regions, Saguenay, Lower St. Lawrence and Gaspé Peninsula, New Brunswick regions and part of the North Shore. CFD employs approximately 460 people, distributes over 12,000 products from its two strategically located warehouses in Lévis and Rimouski, totalling approximately 303,000 square feet. CFD's almost 4,000 customers consist primarily of restaurants, foodservice operators, specialty food stores, institutional accounts such as healthcare institutions, schools and universities, certain other retail customers. CFD has a complete product offering, including frozen products, dry staples, dairy products, meat, fish and seafood, fruits and vegetables, disposables and sanitation products. It therefore offers its customers a "one-stop-shop" solution.

4. *Les Pêcheries Norref Québec Inc. ("Norref") – Central Quebec Division:*

Norref is a specialized fresh fish and seafood products importer and distributor in the province of Quebec and is recognized as the leading distributor of this type in Quebec.

Norref operates from a 40,000 square-foot distribution centre in Montréal and is (i) HACCP-certified and (ii) federally-approved, which allows it to sell its products nationwide. Norref distributes a full range of fresh and frozen fish and seafood. It has a diversified client base comprised of supermarkets, restaurants, hotels and fish stores. Norref has approximately 200 employees.

5. *Lauzon Meats ("Lauzon") – Central Quebec Division:*

Lauzon prepares and processes superior quality meat products for the provinces of Quebec and Ontario and is a major distributor of highly recognized brands as Premium Signature Angus and Sterling Silver. Lauzon is known, among other, for its products and employees and for providing effective and flexible service to the restaurants, hotel industries and the institutional sector. Lauzon operates from a recently renovated plant of approximately 68,000 square feet located in Montréal that is HACCP-certified and federally approved, which allows it to sell its products nationwide. This division has approximately 85 employees.

B. Wholesale Segment

1. *Boucherville Distribution Centre (“Boucherville”) – Central Quebec Division:*

   Boucherville sales consist of food and non-food products supplied 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”).

   Boucherville operates a distribution centre of approximately 371,000 square feet located in Boucherville and has about 75 employees.

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 and about 55 employees. As a wholesaler, this division distributes a wide range of fresh and frozen meat including beef, veal, lamb, pork and poultry. It has a diversified customer base of distributors, food retailers and specialty butchers. Décarie’s facilities are HACCP-certified and Décarie holds a federal permit giving it the opportunity to sell its products across Canada.

5. Performance Analysis

5.1 Earnings

Net loss for the quarter amounted to $5.3M compared to a net loss of $ 6.3M in the corresponding quarter of 2015, a loss reduction of $1.0M. This change is primarily attributable to an increase in adjusted EBITDA of $1.5M, a decrease of $0.7M in amortization and depreciation expense, no impairment loss on equity investment compared to a loss of $1.7M incurred in 2015, partially offset by higher restructuration charges of $2.5M compared to the corresponding quarter of 2015. Net loss per share amounted to $0.19 compared to a net loss per share of $0.23.

The following table presents the first quarter consolidated statements of loss.

Consolidated Statements of Loss

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

	2016		2015		Variance	
	$	%	$	%	$	%
Sales	307,064	100.00	304,662	100.00	2,402	0.79
Operating expenses, excluding costs not relating to current operations, depreciation and amortization	305,159	99.38	304,198	99.85	961	0.32
Operating earnings before costs not relating to current operations, depreciation and amortization	1,905	0.62	464	0.15	1,441	310.56
Costs not relating to current operations	3,337	1.09	838	0.28	2,499	298.21
Impairment loss on equity investment	-	-	1,731	0.57	(1,731)	(100.00)
Depreciation and amortization	2,719	0.89	3,416	1.12	(697)	(31.23)
	6,056	1.97	5,985	1.96	71	1.19
Operating loss	(4,151)	(1.35)	(5,521)	(1.81)	1,370	(24.81)
Financial expenses	2,994	0.98	3,099	1.02	(105)	(3.39)
Loss before income taxes	(7,145)	(2.33)	(8,620)	(2.83)	1,475	(17.11)
Recovery of income taxes	(1,847)	(0.60)	(2,305)	(0.76)	458	(19.87)
Net loss	(5,298)	(1.73)	(6,315)	(2.08)	1,017	(16.10)
Basic and diluted net loss per share	(0.19)		(0.23)			

The following table presents segment sales for the first quarter:

Segment Sales

(unaudited, in thousands of dollars)

	2016	2015	Variance	
	$	$	$	%
Sales before eliminations				
Distribution Segment	219,339	210,250	9,089	4.3
Wholesale Segment	133,496	138,250	(4,754)	(3.4)
	352,835	348,500	4,335	1.2
Inter-Segment Sales				
Distribution Segment	3,819	4,617	(798)	(17.3)
Wholesale Segment	41,952	39,221	2,731	7.0
	45,771	43,838	1,933	4.4
Consolidated Sales				
Distribution Segment	215,520	205,633	9,887	4.8
Wholesale Segment	91,544	99,029	(7,485)	(7.6)
	307,064	304,662	2,402	0.8

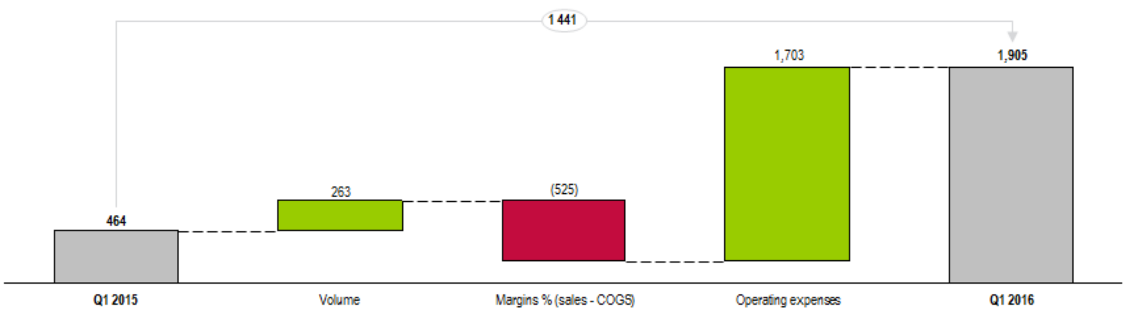
Sales in the first quarter amounted to $307.1M compared to $304.7M in the corresponding quarter of 2015, an increase of $2.4M or 0.8%. Sales growth stems primarily from the Distribution segment and partially offset by a decrease in the Wholesale segment.

The 4.8% growth in Sales for the Distribution segment is due in part to the Ontario division as a result of significant customers' growth and, to a lesser extent, from the Lauzon division due to new contracts with customers. The 7.6% decrease in Sales for the Wholesale segment is due to the Décarie division, where the decrease in Sales is primarily attributable to a market strategy which maximises the gross margin, and, to a lesser extent, to our Boucherville division where a contract with a distributor expired on April 15, 2015 was not renewed, which explains the decrease in sales.

Operating earnings before costs not relating to current operations, depreciation and amortization (adjusted EBITDA)

Analysis of variances in operating earnings before costs not relating to current operations and quarterly amortization (adjusted EBITDA)

(unaudited, in thousands of dollars)



For the first quarter of 2016, adjusted EBITDA amounted to $1.9M or 0.62% of Sales, compared to $0.5M or 0.15% for the corresponding quarter of 2015 with the main variances being:

- An increase in Sales due primarily to the Ontario division as a result of growth from significant customers.
- The decrease in profit margins as a % of sales, partly due to contract renewals or new contracts signed with a lower margin. Contracts will be comparable as off the 3rd quarter.
- A decrease in operating costs attributable to the rationalization and optimization plan announced on January 26, 2016 as well as an improvement in operating performance.

Costs not relating to current operations

Note 5 to the first quarter financial statements provides a summary of costs not relating to current operations. This item in the statement of earnings includes extraordinary items.

	2016 **$**	**2015** **$**
Severance pay and restructuring costs	3,337,000	838,000
Amounts paid	1,758,000	838,000
Amounts payable	1,579,000	-

In the first quarter of 2016, the Company announced a plan to rationalize and optimize its operations. The plan, approved by the Board of Directors, is intended to further improve Colabor's operating efficiency and profitability despite difficult business conditions in the foodservice distribution industry, and to complete the integration of its acquisitions of recent years. This plan follows on the Board of Director's decision, announced on March 12, 2015, to suspend the declaration of dividends in order to deploy more financial resources to its operations, while applying excess funds to debt repayment. The plan encompasses most of Colabor's divisions and consists mainly of centralizing and consolidating certain operations at the head office of the Company or of its divisions. It will entail the elimination of approximately 120 jobs, or 8% of the Company's headcount.

Depreciation and amortization

The depreciation and amortization for the first quarter of 2016 amounted to $2.7M compared with $3.4M in the corresponding quarter of 2015. This decrease that is primarily attributable to the impairment of intangible assets recognized in the fourth quarter of 2015.

Financial expenses

Financial expenses in the first quarter of 2016 are relatively stable at $3.0M, compared with $3.1M in the corresponding quarter of 2015. This modest decrease is primarily attributable to lower average debt and a decrease in accretion expense related to balances of purchase price paid in the beginning of the fourth quarter of 2015.

Recovery of income taxes

Recovery of income taxes in the first quarter of 2016 amounted to $1.8M, compared to $2.3M in the corresponding quarter of 2015, and is attributable to loss before income taxes incurred in the quarter, adjusted for permanent differences, not deductible for fiscal purposes.

Net loss per share

Net loss per share in the first quarter of 2016 amounted to $0.19 compared to $0.23 in the corresponding quarter of 2015, a decrease of $0.04 per share.

5.2 Financial Position

The following table presents the Company's consolidated statements of financial position:

Consolidated Statements of Financial Position
(in thousands of dollars)

	For the period ended March 19, 2016 $	For the period ended March 21, 2015 $	For the period ended December 26, 2015 $
Assets			
Current			
Trade and other receivables	99,098	106,180	104,351
Inventory	79,813	89,093	87,282
Prepaid expenses	4,032	4,086	2,936
Other	1,761	1,815	1,699
Current assets	184,704	201,174	196,268
Non-current			
Available-for-sale financial asset	966	1,072	926
Loans receivable	556	-	576
Property, plant and equipment	15,007	15,679	15,835
Intangible assets	61,100	91,565	62,844
Goodwill	84,130	94,945	84,130
Deferred income tax asset	3,981	-	2,089
Non-current assets	165,740	203,261	166,400
Total assets	350,444	404,435	362,668
Liabilities and Equity			
Liabilities			
Current			
Bank overdraft	4,835	7,081	4,106
Trade and other payables	85,434	98,258	93,530
Rebates payable	8,411	10,436	8,301
Balances of purchase price payable	-	907	-
Bank borrowings	88,063	5,500	1,000
Long-term debt	21,194	-	-
Obligations under leases	561	366	497
Other	1,920	1,873	1,689
Current liabilities	210,418	124,421	109,123
Non-current			
Bank borrowings	-	85,810	87,038
Long-term debt	21,130	42,208	42,295
Convertible debentures	49,050	48,264	48,859
Obligation under leases	2,242	800	2,376
Pension obligation	1,600	1,840	1,271
Provisions	3,631	3,238	3,816
Deferred income tax liabilities	552	3,654	573
Non-current liabilities	78,205	185,814	186,228
Total liabilities	288,623	310,235	295,351
Equity			
Share capital	209,972	209,972	209,972
Deficit	(151,354)	(118,741)	(145,770)
Other components of equity	3,203	2,969	3,115
Total equity	61,821	94,200	67,317
Total liabilities and equity	350,444	404,435	362,668

The changes in current assets and liabilities between the first quarter and the 2015 year end are primarily due to the seasonality of the Company's activities.

Accounts receivables

Trade and other receivables are down by $7.1M compared with 2015. This significant decrease mainly results from collection efforts to improve working capital management.

Inventories

Inventories are down $9.3M compared with 2015. This significant decrease mainly results from efforts to reduce inventory levels to improve working capital management and from the closure of the Trois-Rivières warehouse in the fourth quarter of 2015.

Trade and other payables

The trade and other payables balance decreased by $12.8M compared with 2015. This reduction is mainly the result of one-off cyclical adjustments.

Credit Facilities

Under certain circumstances, the Company is required to satisfy a fixed charge coverage ratio. As at March 19, 2016, the Company was in compliance with this ratio.

Liquidity Risk

Liquidity risk management serves to maintain a sufficient amount of cash and sources of financing in the form of authorized bank loans. The Company prepares budgets and cash flow forecasts to ensure it has the necessary funds to fulfill its obligations when they come due. In 2015 and 2014, the Company generated cash flows of $28,174,000 and $32,428,000 respectively. For the 84-day period ended March 19, 2016, the Company generated cash flows of $2,166,000.

Over the next 12 months, bank borrowings amounting to $88,063,000 as well as a portion of long-term debt amounting to $21,194,000, for a total amount of $109,257,000 will mature and are presented in short-term liabilities. The Company has recently announced the formation of a committee composed of independent directors to analyse the Company's debt structure and present its recommendations. In that respect, it is important to note the following matters:

a) Bank borrowings are secured by a first-ranking hypothec on the Company's present and future assets and the long-term debt is secured by a second-ranking hypothec of the Company's present and future assets. As at March 19, 2016, Trade and other receivables and inventory amounted $178,911,000 while short-term secured bank borrowing and long-term debt amounted to $109,257,000.

b) Convertible debentures mature in April 2017. On or after April 30, 2016 and prior to the maturity date, the convertible debentures may be redeemed in whole or in part at the option of the Company and pay the principal amount of the convertible debentures on redemption or at maturity through the issuance of common shares, subject to certain conditions as described in the Company's prospectus dated April 20, 2010.

c) On January 26, 2016, the Company also announced a rationalization plan intended to centralize certain services. On an annual basis, this rationalization plan will enable the Company to generate significant savings.

The Company continues to evaluate the refinancing alternatives available, and as of this date, nothing suggests that the Company will not be able to refinance itself when its debts mature.

Share capital

Colabor's share capital consists of an unlimited number of common and preferred shares issuable in series that are all without par value. The rights, privileges, restrictions and terms of Colabor's common and preferred shares are summarized in Colabor's Annual Information Form dated March 17, 2016, which may be viewed on the SEDAR website at www.sedar.com.

As at April 27,2016, 27,480,966 common shares and 50,000 convertible debentures were issued and outstanding. 1,804,400 stock options were also outstanding, of which 445,725 could be exercised.

Convertible debentures

On April 27, 2010, Colabor issued unsecured convertible debentures ("debentures") for total gross proceeds of $50M. The debentures mature on April 30, 2017 and bear interest at 5.7% per annum, payable semi-annually. The effective rate of the debentures is 7.54%. The debentures are convertible into shares, at the holder's option, at a conversion rate of 59.347 shares per $1,000 of principal amount, for a conversion price of $16.85 per share. Under certain circumstances, after April 30, 2015, the Company could redeem the debentures in whole or in part, prior to maturity. There were no redemptions during the year ended December 26, 2015 or the quarter ended March 19, 2016. On or after April 30, 2016 and prior to the maturity date, the convertible debentures may be redeemed in whole or in part at the option of the Company and pay the principal amount of the convertible debentures on redemption or at maturity through the issuance of common shares, subject to certain conditions as described in the Company's prospectus dated April 20, 2010. At the date of this MD&A, no conversions had occurred.

5.3 Cash Flows

The following table presents the Company's consolidated statements of cash flows:

Consolidated Statements of Cash Flows

(unaudited, in thousands of dollars)

	2016 $	2015 $
Operating activities		
Net loss for the period	(5,298)	(6,315)
Recovery of income taxes	(1,847)	(2,305)
Depreciation and amortization	2,719	3,416
Impairment of available-for-sale financial asset	-	1,731
Financial expenses	2,994	3,099
Other	(253)	(545)
	(1,685)	(919)
Net changes in working capital	3,851	8,774
Cash flows from operating activities	2,166	7,855
Investing activities		
Business acquisitions, net of cash acquired	-	100
Changes in loans receivable	20	-
Purchase of property, plant and equipment	(75)	(519)
Disposal of property, plant and equipment	20	280
Purchase of intangible assets	(61)	(307)
Cash flows used by investing activities	(96)	(446)
Financing activities		
Bank borrowings	(92)	(2,883)
Lease payments	(81)	(143)
Financial expenses paid	(2,626)	(2,682)
Cash flows used for financing activities	(2,799)	(5,708)
Net change in bank overdraft	(729)	1,701
Bank overdraft at beginning	(4,106)	(8,782)
Bank overdraft at end	(4,835)	(7,081)

Operating activities

Cash flows from operating activities for the first quarter amount to $2.2M, compared with $7.9M for the same period in 2015. The $5.7M variance is essentially attributable to a less favourable change in working capital in 2016, due in part to a slight decrease in trade and other receivables and inventories, partially offset by a decrease in trade and other payables. Also, an additional expense of $0.9M related to the rationalization plan was accounted for during the period.

Investing activities

Cash flows used in investing activities in the first quarter amounted to $0.1M, compared with $0.4M for the same period in 2015. This improvement is mostly due to the acquisition of important property, plants and equipment as well as intangible assets in the first quarter of 2015.

Financing activities

Cash flows used in financing activities in the first quarter are a negative $2.8M, compared to a negative $5.7M for the same period in 2015. The variance is mostly due to changes in the bank borrowing.

Payments due in the next five years are as follows:

		Payments due per period			
Contractual obligations	**Total $**	**Less than 1 year $**	**From 1 to 3 years $**	**From 4 to 5 years $**	**5 years and over $**
Bank borrowing	88,492	88,492	-	-	-
Obligations under leases	3,151	663	1,238	728	522
Long-term debt (par value)	42,500	21,250	21,250	-	-
Convertible debentures (par value)	50,000	-	50,000	-	-
Provision	5,100	1,104	1,715	1,516	765
Operating leases	69,946	16,876	22,345	18,673	12,052
	259,189	128,385	96,548	20,917	13,339

6. Summary of the past quarters

	March 19, 2016 (84 days) $	Dec. 26, 2015 (112 days) $	Sept. 5, 2015 (84 days) $	June 13, 2015 (84 days) $	March 21, 2015 (84 days) $	Dec. 27, 2014 (112 days) $	Sept. 6, 2014 (84 days) $	June 14, 2014 (84 days) $
Sales	307,064	468,052	366,931	366,635	304,662	460,043	345,164	347,200
Adjusted EBITDA	1,905	9,301	8,027	8,512	464	10,332	10,162	9,504
Net earnings (loss)	(5,298)	(29,314)	863	1,002	(6,315)	(48,312)	(15,042)	1,630
Net earnings (loss) per share, basic and diluted	(0.19)	(1.07)	0.03	0.04	(0.23)	(1.76)	(0.56)	0.06

7. Related Party transactions

Related party transactions included rebates to affiliated and preferred distributors of Colabor Investments Inc. ("Investments") at a rate of 3% of their sales, as provided in the agreement in effect until the start of the second quarter of 2015. Further to the renewal of affiliation agreements directly with the affiliated and preferred distributors in April 2015, rebates are paid directly to the distributors rather than to Investments. These payments to distributors are now treated as an unrelated party transaction.

The transactions between the Company and Investments in 2015 were concluded in the normal course of business and are measured at the exchange amount.

The following table presents transactions between the Company and Investments:

(unaudited, in thousands of dollars)

	2016 **$**	**2015** **$**
Rebates	-	2,473

8. Off-Balanced 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.

9. Current Economic Situation, Development Strategies and Outlook

Current Economic Situation

Colabor’s activities are in Eastern Canada, in Quebec and Ontario. Quebec’s economic activity is slow. This 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.

Despite the factors mentioned above, 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.

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. Such acquisitions would allow the Company to increase the density of its distribution network in Eastern Canada, thereby increasing operating profitability.

Outlook

Despite the economic downturn, in light of the Company’s small market share in certain major metropolitan areas 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.

10. Corporate Developments

Rationalization plan

On January 26, 2016, the Company announced a plan to rationalize and optimize its operations. The plan, approved by the Board of Directors, is intended to further improve Colabor’s operating efficiency and profitability despite difficult business conditions in the foodservice distribution industry, and to complete the integration of its acquisitions of recent years. This plan follows on the Board of Director’s decision, announced on March 12, 2015, to suspend the declaration of dividends in order to deploy more financial resources to its operations, while applying excess funds to debt repayment.

The plan encompasses most of Colabor's divisions and consists mainly of centralizing and consolidating certain operations at the head office of the Company or of its divisions. It will entail the elimination of approximately 120 jobs, or 8% of the Company's headcount. Essentially reflecting these layoffs, Colabor has recorded a charge not related to current operations of approximately $3.3M before taxes, in its statement of loss for the first quarter of fiscal 2016.

The rationalization measures are expected to result in significant cost reductions before taxes on an annual basis. These savings will be progressively realized during fiscal 2016 and will take full effect during fiscal 2017.

Long-term debt

In connection with its bank refinancing in 2014, the Company entered into a loan agreement for a total capital amount of $42,500,000. The subordinated loan agreement was signed with a banking syndicate made up of several creditors. As at December 26, 2015, a $12,500,000 portion was secured by a second-ranking hypothec on the Company's present and future assets. One of the lenders had an option to become a secured creditor under certain conditions and exercised this option on March 16, 2016. The total amount of the loan is now subject to a second-ranking hypothec.

Management committee

Mr. Paul Webb, vice-president et general manager since January 12, 2015 of the Colabor Food Distributor, resigned on April 16, 2016 for a well deserved retreat and the Company does not intend to find a replacement. Mr. Webb remains available, as a consultant, to assist the Company during the transition period.

11. Risks and uncertainties

The Company's activities are subject to numerous risks and uncertainties that are described in detail in its March 17, 2016 Annual Information Form (the "AIF"), which may be viewed on the SEDAR website at www.sedar.com. The risks described in the AIF are incorporated by reference in this MD&A.

12. Significant Accounting Estimates

Some of the amounts in the first quarter 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 Company's assets. 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 in the following 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 for 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 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 value. 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 consolidated statement of earnings in the subsequent period.

Pension obligation

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

13. Internal Controls Over Financial Reporting

Management has designed and assessed disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) to provide reasonable assurance that the financial information presented by the Company is reliable and that its financial statements are prepared in accordance with IFRS. The President and CEO and the Vice-President and CFO assessed, in accordance with Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings, the design and operation of ICFR and DC&P as at December 26, 2015, and, on the basis of this assessment, they have concluded that the design and operation of ICFR and DC&P are efficient.

14. Standards, changes and interpretations issued but not yet effective

IFRS 9, "Financial Instruments"

In July 2014, the IASB published IFRS 9 which replaces IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 introduces improvements including a more logical model for classification and measurement of financial assets, a single, forward-looking "expected loss" impairment model, and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has yet to assessed the impact of this standard on its consolidated financial statements.

IFRS 15, "Revenues from Contracts with Customers"

In May 2014, the IASB published IFRS 15 which replaces IAS 18, "Revenue," IAS 11, "Construction Contracts" and some revenue-related interpretations. IFRS 15 establishes a control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics, and expands and improves disclosures about revenues. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has yet to assessed the impact of this standard on its consolidated financial statements.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16 which will replace IAS 17, "Leases." IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position with exemptions permitted for leases of low-value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and the liability (including complexities such as non-lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements, largely retains the approach to lessor accounting in IAS 17, and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted in certain circumstances. The Company has yet to assessed the impact of this standard on its consolidated financial statements.

IAS 7, "Statement of Cash Flows"

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows," to improve the information provided to users of financial statements concerning financing activities. The amendments are effective for annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted. The Company has yet to assessed the impact of this standard on its consolidated financial statements.

IAS 12, "Income Taxes"

In February 2016, the IASB issued amendments to IAS 12, "Income Taxes" concerning recognition of deferred tax assets for unrealized losses. The amendments are effective for annual reporting periods beginning on or after January 1, 2017. These amendments clarify how to recognize deferred tax assets recognized on financial liabilities measured at fair value. The Company has yet to assessed the impact of this standard on its consolidated financial statements.