COLABOR

Colabor Group Inc.

(formerly Colabor Income Fund)

Interim Consolidated Financial Statements
June 19, 2010 and June 20, 2009
2nd Quarter

(unaudited)

Financial Statements

The interim consolidated financial statements were not reviewed by the Company's auditor.

Colabor Group inc.
Consolidated Earnings

(unaudited and in thousands of dollars, except earnings per share/unit)

	2010-06-19 (84 days)	2009-06-20 (84 days)	2010-06-19 (170 days)	2009-06-20 (171 days)
	$	$	$	$
Sales	245,155	283,722	470,510	540,667
Earnings before the following items	8,981	9,977	15,854	17,701
Financial expenses	1,495	1,426	2,805	2,987
Amortization of property, plant and equipment	868	868	1,704	1,756
Amortization of intangible assets	2,180	2,180	4,377	4,377
	4,543	4,474	8,886	9,120
Earnings before income taxes and non-controlling interest	4,438	5,503	6,968	8,581
Income taxes				
Current		1,754		1,844
Future	236	359	489	1,052
	236	2,113	489	2,896
Earnings before non-controlling interest	4,202	3,390	6,479	5,685
Non-controlling interest		1,646		2,726
Net earnings and comprehensive income	4,202	1,744	6,479	2,959
Earnings per share/unit (Note 9)				
Basic	$0.20	$0.12	$0.32	$0.20
Diluted	$0.20	N/A	$0.31	N/A

The accompanying notes are an integral part of the unaudited interim consolidated financial statements.

Colabor Group inc.

Consolidated Retained Earnings (Deficit)
Consolidated Contributed Surplus

(unaudited and in thousands of dollars)

	2010-06-19 (84 days)	2009-06-20 (84 days)	2010-06-19 (170 days)	2009-06-20 (171 days)
	$	$	$	$
CONSOLIDATED RETAINED EARNINGS (DEFICIT)				
Retained earnings (deficit), beginning of period	3,826	(18,635)	1,549	(17,236)
Net earnings	4,202	1,744	6,479	2,959
	8,028	(16,891)	8,028	(14,277)
Dividends/distributions	5,739	3,921	5,739	6,535
Retained earnings (deficit), end of period	2,289	(20,812)	2,289	(20,812)
CONSOLIDATED CONTRIBUTED SURPLUS				
Balance, beginning of period	35	39	447	349
Stock-based compensation cost	131	123	249	229
Acquisition of shares / units by participants of long-term incentive plan			(530)	(416)
Balance, end of period	166	162	166	162

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Colabor Group inc.
Consolidated Cash Flows
(unaudited and in thousands of dollars)

	2010-06-19 (84 days)	2009-06-20 (84 days)	2010-06-19 (170 days)	2009-06-20 (171 days)
	$	$	$	$
OPERATING ACTIVITIES				
Net earnings	4,202	1,744	6,479	2,959
Non-cash items				
Amortization of property, plant and equipment	868	868	1,704	1,756
Amortization of intangible assets	2,180	2,180	4,377	4,377
Amortization of deferred financing expenses	27	27	55	55
Non-controlling interest		1,646		2,726
Future income taxes	236	359	489	1,052
Stock-based compensation cost	131	123	249	229
Amortization of transaction costs related to debentures	238	230	485	468
	7,882	7,177	13,838	13,622
Changes in working capital items	(6,941)	(7,403)	(4,251)	(17,130)
Cash flows from operating activities	941	(226)	9,587	(3,508)
INVESTING ACTIVITIES				
Repayment of balances of purchase price		(4,015)		(4,015)
Property, plant and equipment	(812)	(380)	(1,231)	(867)
Cash flows from investing activities	(812)	(4,395)	(1,231)	(4,882)
FINANCING ACTIVITIES				
Bank loan	(41,624)	9,340	(28,858)	22,939
Convertible debentures issue (Note 3)	47,500		47,500	
Dividends paid	(5,739)		(13,192)	
Distributions paid to unitholders		(3,921)		(7,842)
Distributions paid to holders of exchangeable Colabor LP units		(1,369)		(2,738)
Repayment of long-term debt	(160)	(166)	(333)	(350)
Purchase of shares/units held by the Company for stock-based compensation plans	(240)		(240)	(789)
Disposal of shares held by the Company for a stock-based compensation plan	21		21	
Cash flows from financing activities	(242)	3,884	4,898	11,220
Net change in bank overdraft	(113)	(737)	13,254	2,830
Bank overdraft, beginning of period	(3,759)	(4,147)	(17,126)	(7,714)
Bank overdraft, end of period	(3,872)	(4,884)	(3,872)	(4,884)

The accompanying notes are an integral part of the unaudited interim consolidated financial statements.

Colabor Group inc.
Consolidated Balance Sheets
(in thousands of dollars)

	2010-06-19 (unaudited)	2009-12-31
	$	$
ASSETS		
Current assets		
Accounts receivable	88,623	75,438
Income taxes receivable	5,125	685
Inventory	67,107	71,909
Prepaid expenses	2,831	1,500
Future income taxes	8,257	8,540
	171,943	158,072
Deferred financing expenses	103	158
Share investment in Colabor Investments Inc., at cost	6,159	6,159
Property, plant and equipment	13,362	13,835
Intangible assets	129,492	133,869
Goodwill	72,317	72,317
Future income taxes	195	1,802
	393,571	386,212
LIABILITIES		
Current liabilities		
Bank overdraft	3,872	17,126
Accounts payable and accrued liabilities	71,197	65,762
Balance of purchase price payable, bearing interest at 4.5%	3,750	3,750
Balance of purchase price payable, non-interest bearing	6,331	6,331
Dividends payable		7,453
Rebates payable	18,147	13,808
Deferred revenue	1,090	961
Deferred credit	7,110	7,290
Instalments on long-term debt	571	636
	112,068	123,117
Bank loan	20,477	49,335
Long-term debt	39	307
Debentures (note 6)	70,983	46,711
Accrued benefit liability for employee benefits	787	787
Deferred credit	18,654	19,875
	223,008	240,132
SHAREHOLDERS' EQUITY		
Capital stock	165,406	143,018
Option to convert debentures (note 6)	3,639	2,314
Contributed surplus	166	447
Shares held for the stock-based compensation plans	(937)	(1,248)
Retained earnings	2,289	1,549
	170,563	146,080
	393,571	386,212

The accompanying notes are an integral part of the unaudited interim consolidated financial statements.

Colabor Group Inc.
Notes to Interim Consolidated Financial Statements

June 19, 2010

(unaudited, amounts in the tables are in thousands of dollars, except earnings per share/unit)

1 - BASIS OF PRESENTATION

These unaudited interim consolidated financial statements are in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. They are also consistent with the accounting policies outlined in the Company's audited financial statements for the year ended December 31, 2009. The interim financial statements should be read in conjunction with the previously mentioned financial statements.

On August 25, 2009, Colabor Income Fund (the "Fund"), which until that date had been a publicly listed income fund, became a publicly listed corporation as a result of a Plan of Arrangement with ConjuChem Biotechnologies inc. ("ConjuChem"). In connection with the conversion to a corporation, unitholders of the Fund exchanged their units for shares of the Company on a one-for-one basis. Additionally, unitholders who had the non-controlling interest converted their exchangeable units of Colabor, Limited Partnership (Colabor LP), a subsidiary of the Company, into shares of the Company and the Company, therefore, recognized the carrying amount of the non-controlling interest in capital stock.

To recognize the conversion, the Company applied EIC-170 "Conversion of an Unincorporated Entity to an Incorporated Entity". Accordingly, the Company is considered as the continuation of the Fund and these consolidated financial statements are prepared using the continuity of interests method. Under this method, the assets, liabilities and equity of the Fund transferred to the Company on the conclusion of the ConjuChem transaction are recognized at their net carrying amount. Due to the application of the continuity of interests method, some expressions, such as Company and Fund, shareholder and unitholder, share and unit, or dividend and distribution, may be used to describe the activities throughout these consolidated financial statements, depending on whether the transaction occurred before or after the conversion.

2 - NEW ACCOUNTING POLICIES

As a result of implementing new stock-based compensation plans in 2010, the Company has adopted the following new accounting policies.

Stock option plan

The Company uses the fair value method to recognize options awarded. Compensation cost is measured on the award date and recognized over the holders' vesting period with a corresponding increase in contributed surplus. Any consideration received from employees when options are exercised or shares purchased is included in capital stock and the corresponding compensation cost is recognized as contributed surplus.

Performance stock unit plan

The Company has a performance stock unit ("PSU") plan for its officers and key employees. PSUs vest after a maximum three-year period on the basis of incentive targets. The value of the compensation expense is recognized on a straight-line basis over the vesting period with a corresponding increase in contributed surplus. The impact of any changes in the number of PSUs to vest is recognized in the period in which the estimate is revised.

Directors' share units plan

Members of the Company's Board of Directors may elect to receive some or all of their annual fees in the form of Directors' Share Units (DSUs). The accrued DSU compensation liability is recognized on the basis of the number of outstanding share units and the market price of the Company's common shares. Changes in the fair market value are recognized as a compensation expense and the consideration is included in accounts payable and accrued liabilities.

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3 - PUBLIC OFFERING

On April 27, 2010, the Company issued a total of $50,000,000 of unsecured subordinated debentures (the “New Debentures”). The Company’s net proceeds after deducting underwriters' fees of $2,000,000 and $500,000 in other estimated costs were $47,500,000.

The New Debentures bear interest at a rate of 5.70% per annum payable semi-annually on April 30 and October 31 of each year, commencing on October 31, 2010. The effective rate of the New Debentures is 7.44%. The New Debentures will be convertible at the holder’s option into common shares (the "shares") of the Company at a conversion rate of 59.347 shares per $1,000 principal amount of debentures which is equal to a conversion price of $16.85 per share. The New Debentures will mature on April 30, 2017 and the Company may redeem them in advance in certain circumstances, after April 30, 2015.

The net proceeds of the offering were used by the Company to enhance its financial flexibility by reducing existing indebtedness under its current credit facilities.

4 - INVENTORY

For the 170-day period ended June 19, 2010, an amount of $416,482,000 in inventories has been expensed in consolidated earnings ($411,437,000 in 2009).

5 - REBATES FROM SUPPLIERS

In connection with CICA Handbook EIC-144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor", the Company is required to disclose the amount of any vendor rebate that has been recognized in income but for which the full requirements for entitlement have not yet been met. For the 170-day period ended June 19, 2010, the Company recognized $ 6,347,000 ($6,813,000 in 2009) which has been estimated on the basis of meeting certain requirements to be entitled to the rebates.

6 - DEBENTURES

		Carrying amount	
	Par value	Debentures	Conversion option
7% convertible debentures, maturing on December 31, 2011, issued on January 4, 2007			
Balance as at December 31, 2009	49,055	46,711	2,314
Conversion into 2,172,769 shares during the 170-day period ended June 19, 2010. The carrying amount of the converted debentures and the related conversion option were recognized in capital stock	(22,271)	(21,338)	(1,050)
Amortization of debenture-related transaction costs		410	
Balance as at June 19, 2010	26,784	25,783	1,264
5.7% convertible debentures, maturing on October 31, 2017, issued on April 27, 2010			
April 27, 2010 issue (Note 3)	50,000	45,125	2,375
Amortization of debenture-related transaction costs		75	
Balance as at June 19, 2010	50,000	45,200	2,375
	76,784	70,983	3,639

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7 - STOCK-BASED COMPENSATION

Stock option plan

In 2009, the Company adopted a stock option plan (the “Option Plan”) authorizing the Company’s Board of Directors to issue options to purchase common shares of the Company to its directors, officers, employees and certain consultants. The Company's Board of Directors implemented the plan in 2010.

The maximum number of common shares of the Company that can be issued pursuant to options awarded under the Option Plan is equivalent to 10% of the number of the Company's outstanding common shares at the time of the award, and the total number of common shares of the Company reserved to award options to a single person cannot be greater than 5% of the issued and outstanding common shares of the Company. Since the Option Plan does not provide for a set maximum number of common shares of the Company that can be issued thereunder, it will have to be re-approved by the shareholders of the Company every three years from the date of the Annual Meeting of the Company.

The price for which the common shares of the Company may be subscribed pursuant to any option granted under the Option Plan of the Company is the market price. For the purposes of the Option Plan, “market price” means the volume weighted average trading price for the common shares of the Company during the five trading days on the TSX prior to the applicable date of grant.

Unless the Board of Directors of the Company determines otherwise on the date of grant, any option granted will be vested and become exercisable by the eligible participant who has been granted an option (an “Optionee”) in four equal tranches on the first, second, third and fourth anniversary of date of grant. The Optionee may then exercise any vested option at any time not later than the tenth anniversary of the date of grant or such earlier date fixed by the Board of Directors (the “Expiry Date”) and all unexercised options shall expire and terminate and be of no further force or effect whatsoever following such Expiry Date.

If approved by the Board of Directors of the Company, in lieu of paying the applicable exercise price, an Optionee may elect to acquire the applicable number of the common shares of the Corporation determined by subtracting the applicable exercise price from the market price of the common shares of the Company on the date of exercise, multiplying the difference by the number of the common shares of the Company in respect of which the option was otherwise being exercised and then dividing that product by such market price.

Under the terms of the Option Plan, on March 1, 2010, the Board of Directors granted to the Company's officers 70,000 options for $11.49 expiring on March 1, 2017. On April 30, 2010, an additional 117,500 options at $12.10 expiring on April 30, 2017 were granted to other officers.

The fair value of the options granted of $1.10 per option has been estimated at the award date using a binomial option pricing model using the following weighted average assumptions for options granted during the period:

Risk-free interest rate	2.85 %
Expected volatility of shares	24 %
Expected annual dividend	1.08 $
Expected term (in years)	5.5 years

For the 170-day period ended June 19, 2010, the compensation cost expensed pursuant to the Option Plan was $23,000 ($0 in 2009).

Long-term incentive plan

On February 24, 2010, under the terms of the long-term incentive plan ("LTIP"), 55,653 shares were released (with a cost of $530,000). Additionally, during the period, the Company disposed of 1,860 shares for $21,000 on the retirement of a participant. On August 25, 2009, on the conversion of the Fund to a corporation, the LTIP discontinued all new awards.

For the 170-day period ended June 19, 2010, the compensation cost expensed under the LTIP was $201,000 ($229,000 in 2009).

Colabor Group Inc.
Notes to Interim Consolidated Financial Statements

June 19, 2010

(unaudited, amounts in the tables are in thousands of dollars, except earnings per share/unit)

7 - STOCK-BASED COMPENSATION (Continued)

Performance stock unit plan

Under the terms of the Company's PSU plan, introduced on April 28, 2010, shares may be granted to certain employees of the Company. A trustee appointed to administer the PSU plan purchases shares on the market and holds them until such time as ownership is vested to each participant. The shares vest after a maximum three-year period, on the basis of incentive targets. On the vesting date, PSU plan participants will receive dividends on all shares held on their account between the grant date and the applicable vesting date. Unvested shares held by the trustee for a plan participant will be forfeited if the participant resigns for a reason other than his retirement or is terminated for just cause prior to the applicable vesting date. In such an event, these shares will be sold and the proceeds returned to the Company. Dividends on these shares will also be remitted to the Company.

On April 28, 2010, under the terms of the PSU plan, the Company granted 19,900 shares and 19,900 shares were purchased on the market for that purpose for $240,000. The Company recognizes the PSU plan expense based on the expected attainment of performance targets. For the 170-day period ended June 19, 2010, the stock-based compensation cost expensed under this plan was $25,000 ($0 in 2009).

Directors' share units plan

Since April 28, 2010, the Company has a DSU plan for its external directors. Under the terms of this plan, the directors may elect to receive 50%, 75% or 100% of their fees receivable as directors in the form of DSU. When a director opts for this plan, the Company credits to the director's account the number of units corresponding to the deferred compensation, divided by the average closing market price of the common shares during the five days immediately preceding the last day of each of the Company's quarters. Changes in the fair market value are recognized as a compensation expense and the consideration in accounts payable and accrued liabilities on the consolidated balance sheet. DSUs granted under the DSU plan are redeemable and their value is payable only when the DSU holder has ceased to be a director of the Company.

No DSUs have been granted under this plan.

8 - SEGMENT DISCLOSURES

The Company has two reportable segments: distribution to food distributors (Wholesale Segment) and distribution to foodservice enterprises (Distribution Segment). Head office costs are not allocated.

The accounting policies that apply to the reportable segments are the same as those described in the Company's audited financial statements for the year ended December 31, 2009. The Company evaluates performance according to earnings before financial expenses, amortization, income taxes and non-controlling interest.

	2010-06-19 (84 days)			
	Wholesale segment	Distribution segment	Head office	Total
	$	$	$	$
Segment sales	126,300	142,767		269,067
Inter-segment sales	(23,912)			(23,912)
Sales	102,388	142,767	–	245,155
Earnings (loss) before financial expenses, amortization and income taxes	5,377	4,727	(1,123)	8,981
Total assets	140,651	252,920	–	393,571
Acquisition of property, plant and equipment	476	336	–	812

Colabor Group Inc.
Notes to Interim Consolidated Financial Statements
June 19, 2010
(unaudited, amounts in the tables are in thousands of dollars, except earnings per share/unit)

8 - SEGMENT DISCLOSURES (Continued)

	2009-06-20 (84 days)			
	Wholesale segment	Distribution segment	Head office	Total
	$	$	$	$
Segment sales	125,046	183,168		308,214
Inter-segment sales	(24,492)			(24,492)
Sales	100,554	183,168	–	283,722
Earnings (loss) before financial expenses, amortization, income taxes and non-controlling interest	5,214	5,628	(865)	9,977
Total assets	137,453	264,216	–	401,669
Acquisitions				
Property, plant and equipment	30	350	–	380
Goodwill	–	2,743	–	2,743

	2010-06-19 (170 days)			
	Wholesale segment	Distribution segment	Head office	Total
	$	$	$	$
Segment sales	222,909	289,209		512,118
Inter-segment sales	(41,608)			(41,608)
Sales	181,301	289,209	–	470,510
Earnings (loss) before financial expenses, amortization and income taxes	9,526	8,308	(1,980)	15,854
Total assets	140,651	252,920	–	393,571
Acquisition of property, plant and equipment	724	507	–	1,231

	2009-06-20 (171 days)			
	Wholesale segment	Distribution segment	Head office	Total
	$	$	$	$
Segment sales	226,446	358,655		585,101
Inter-segment sales	(44,434)			(44,434)
Sales	182,012	358,655	–	540,667
Earnings (loss) before financial expenses, amortization, income taxes and non-controlling interest	9,460	9,923	(1,682)	17,701
Total assets	137,453	264,216	–	401,669
Acquisitions				
Property, plant and equipment	43	824	–	867
Goodwill	–	2,743	–	2,743

Colabor Group Inc.
Notes to Interim Consolidated Financial Statements
June 19, 2010
(unaudited, amounts in the tables are in thousands of dollars, except earnings per share/unit)

9 - EARNINGS PER SHARE/UNIT

The following table presents basic and diluted earnings per share / unit:

	2010-06-19 (84 days)	2009-06-20 (84 days)	2010-06-19 (170 days)	2009-06-20 (171 days)
	$	$	$	$
Earnings				
Net earnings for purposes of calculating basic and diluted earnings per share / unit	4,202	1,744	6,479	2,959
Number of shares				
Weighted number of shares / units used to calculate basic earnings per share / unit (1)	21,259,081	14,454,071	20,501,877	14,437,001
Dilutive effect of stock options	117,500		117,500	
Weighted number of shares / units used to calculate diluted earnings per share / unit	21,376,581	14,454,071	20,619,377	14,437,001
Basic earnings per share/unit	$0.20	$0.12	$0.32	$0.20
Diluted earnings per share/unit	$0.20	N/A	$0.31	N/A

(1) The weighted average of shares/units excludes the shares/units acquired by the Company for the LTIP and the PSU plan.

(2) Hypothetically issued shares / units on the conversion of convertible debentures were not included in the diluted earnings per share / unit calculation because their impact is anti-dilutive.