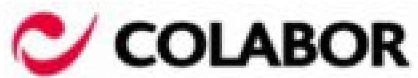

COLABOR GROUP INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
("MD&A")

For the fiscal year and the fourth quarter ended December 26, 2020

As at February 26, 2021

COLABOR

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1. Scope of the MD&A and Notice to Investors

This Management's Discussion & Analysis ("MD&A") of Colabor Group Inc. (the "Company" or "Colabor") discusses the Company's net income, comprehensive income, financial situation and cash flows for the fourth quarter and for the fiscal year ended December 26, 2020. The fourth quarter numbers were unaudited while numbers presented for the fiscal year 2020 are audited. This report should be read in conjunction with the audited consolidated financial statements and accompanying notes for the fiscal year ended December 26, 2020. 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 ("IASB"). The financial statements have been published on the following sites: www.sedar.com and www.colabor.com.

Forward-Looking Statements

This MD&A contains certain forward-looking statements as defined under applicable securities law. Forward-looking information may relate to Colabor's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Company's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Colabor believes are reasonable as of the current date. Refer in particular to section 2.3 "Development Strategies and Outlook" of this MD&A. While Management considers these assumptions to be reasonable based on information currently available to the Company, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Colabor currently expects. For more exhaustive information on these risks and uncertainties, the reader should refer to section 10 "Risks and Uncertainties" of this MD&A. These factors are not intended to represent a complete list of the factors that could affect Colabor and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A, information representing Colabor's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Company is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

Seasonality

Colabor's fiscal year is comprised of thirteen periods of four weeks each. The first three quarters are comprised of three periods each and the fourth quarter includes four periods. The Company's year-end is the last Saturday of December. The quarters and fiscal year ended December 26, 2020 and December 28, 2019 had respectively 16 weeks for the quarter and 52 weeks for the fiscal year.

As such result, the Company's sales and net earnings are proportionally less significant for the first, second and third quarters and more significant for the fourth quarter since the latter generally has 33% more days of operation in comparison with the other quarters of the period. Additionally, the Company's sales are seasonal, therefore generally lower sales volume are recorded during the first quarter in comparison with the other quarters. See section 2.2 "Business Developments in 2020" for the impacts related to the Covid-19 pandemic ("pandemic").

Additionally, working capital generally fluctuates throughout the fiscal year due to the seasonal nature of operations, especially during Spring and Summer, and during the Holiday Season (i.e. Christmas and Easter). In order to meet higher seasonal demand, inventories requirements increase as well as trade and other receivables. The credit facility is used when needed to support this seasonal activity.

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

Additional information concerning the Company 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. About Colabor

2.1 Corporate Profile

Activities

Founded in 1962, Colabor distributes and markets food and food-related products in eastern Canada, specifically hotels, restaurants, institutions ("HRI") and retail markets. It currently carries out its activities in two segments, Distribution and Wholesale.

A. Distribution Segment

Colabor's distribution activities consists of distribution of food products and related products in the HRI and retail markets. In this segment, the Company distributes both specialty products such as meat, fish and seafood ("Specialty Distribution"), as well as generalized food and related products ("Broadline Distribution"). These different types of products are grouped under the same segment because of their similar nature, type of clients and distribution methods.

i. Broadline Distribution

Quebec

Distribution activities in Quebec are done through Colabor Food Distributor ("CFD"). CFD is a major distributor to foodservice and retail customers in Quebec City, Saguenay, Mauricie, Lower St. Lawrence and Gaspé Peninsula and Côte-Nord regions, and to a lesser extent in New Brunswick. CFD distributes over 12,000 products from its two strategically located warehouses in Lévis and Rimouski. CFD's almost 5,000 customers consist primarily of restaurants, foodservice operators, specialty food stores and institutional accounts such as healthcare institutions, schools and universities, and 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.

CFD obtained the Safe Quality Food ("SQF") certification during fiscal year 2020, a leading global food safety standard specific to the warehousing and distribution sector in order to confirm to customers that our products are handled and distributed according to the most stringent worldwide standards. This SQF standard includes the *Hazard Analysis Critical Control Point* ("HACCP") system, to which management tools have been added to ensure its maintenance and continuous improvement. CFD undertook this turning point to demonstrate to its current and future customers its willingness to offer a range of services in accordance with the highest food safety standards and quality.

Ontario

As part of Colabor's business transformation, changes have been made to its Ontario's distribution operations. Refer to section 2.2 "Business Developments in 2020" for more details.

ii. Speciality Distribution

Les Pêcheries Norref Québec Inc. (“Norref”)

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 the province.

Norref operates from a distribution center in Montreal and is HACCP-certified and 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.

Lauzon Meats (“Lauzon”)

Lauzon prepares and processes superior quality meat products for the provinces of Quebec and Ontario and is a major distributor of highly recognized brands such as Boeuf Québec, Excel Premium Beef as well as its private brand Signature. Lauzon is known, among other things, for its products, expertise and for providing effective and flexible service to the HRI sector. Lauzon operates out of a plant located in Montreal that is HACCP-certified and federally approved, which allows it to sell its products nationwide.

B. Wholesale Segment

The Wholesale segment's operations include the sale of general food related products to distributors from its distribution center in Boucherville. Wholesale segment sales consist of food and non-food products, supplied to distributors who then redistribute the products to over 25,000 customers operating in food service and retail industries in the province of Quebec and in the Atlantic provinces.

2.2 Business Developments in 2020

During the fiscal year 2020, the following events have influenced the Company's general development and operations, or reflect the evolution of Colabor's transformational plan and growth.

Broadline Distribution activities in Ontario

On January 8, 2020, the Company announced the consolidation of its Broadline distribution activities of the Summit Food (“Summit division”) into its Mississauga distribution center, which resulted in the closure of its London and Ottawa distribution centers on February 9 and March 2, 2020 respectively. This decision ties with the termination by mutual agreement of the supply contract between Colabor and Recipe Unlimited (“Recipe”) which took place gradually during the first quarter of 2020.

On May 11, 2020, the Company announced it had concluded an agreement for the sale of the majority of the assets of its Summit division for an amount of $9.5 million, subject to certain adjustments after the closing and a contingent consideration based on sales level in the next 12 months. An amount of $7.7 million was received upon closing of the transaction and a net amount of $0.4 was received when finalizing the working capital. The remaining amount will be received in the coming months when the final adjustments are known. The sale includes the activities of independent and franchise restaurants as well as certain assets and transfer of certain sale employees. The closure of the Mississauga distribution center took place in July 2020. On September 21, 2020, the Company has signed an agreement to sublease this center for the remaining of the term. The Company also discharged its lease obligations for the London and Ottawa centers in December 2020.

The Company has reclassified as discontinued operations the results and cash flows for the current and previous periods of this division, separately from the continuing operations of the Company. Refer to section 4 “Discontinued operations” for more details.

Option to acquire Dubé & Loiselle inc.

On February 24, 2020, Colabor announced that it had decided not to exercise the option to acquire Dubé & Loiselle inc. according to the terms and conditions agreed in the original agreement.

Refinancing

On February 18, 2021, the Company entered into a new senior secured credit facility for a total amount of $80.0 million including a term loan of $30.0 million and a revolving credit of $50.0 million, of which $5.0 million in operating swingline. The facility bears interest at the cost of funds, plus a margin varying between 1.75% to 3.25% depending on the Company's leverage ratios and matures in February 2025. The credit facility is guaranteed by its subsidiaries and provides limits on the operations and activities, particularly regarding the authorized investments as well as some ratios essentially related to consolidated adjusted EBITDA, financial expenses and total debt. The term loan is repayable by an amount of $3.0 million per year. By mutual agreement, the credit facility may be increased by $20.0 million. This credit facility replaces the existing credit facility.

On February 18, 2021, the Company also entered into an agreement for a 20.0 million new subordinated debt, of which $15.0 million has been disbursed at closing and $5.0 million is available until February 2022 at the Company's option. The subordinated debt bears interest at a rate of 7.25% and 8.25% depending on the Company's leverage ratios and have a five years term.

This refinancing was used to repay the existing subordinated debt as at December 26, 2020 for the balance of the debt of $12.0 million and will serve to redeem the convertible debentures. To this end, on February 18, 2021, the Company announced its intent to proceed with the early redemption of all convertible debentures issued and outstanding on March 23, 2021.

This refinancing will allow the Company to meet the potential additional liquidity needs as well as future investment projects.

Change to the management team

On May 26, 2020, Mr. François R. Roy was elected as Director of the Company. The Board of Directors appointed Mr. Roy Chairman of the Audit Committee as of the same date.

On July 30, 2020, the Company announced the resignation of Mr. Pierre Gagné as Senior Vice-President and Chief Financial Officer. The Company continues, with the assistance of a recruitment firm, its selection process to replace Mr. Gagné. Until then, Mrs. Marie-France Laberge, Corporate Controller, has been appointed Interim Chief Financial Officer.

Update on the impact of the Covid-19 pandemic on activities and results

On March 11, 2020, the World Health Organization has qualified the Covid-19 virus a global pandemic. This pandemic has forced governments around the world to implement emergency measures to slow the spread of the virus, such as the travel ban, the closure of non-essential services, the confinement of citizens and physical distancing, resulting in an economic slowdown. The Company, as a food distributor, is considered an essential service and has continued its activities and to serve its current customers including hospitals, CHSLDs, military bases, food banks and the non-profit organizations while having implemented various measures, in order to protect its customers, suppliers and employees. These measures, which for the most part continue to be applied, included the following, among others:

- The adoption of teleworking for most office employees;
- Travel restrictions for sales and office representatives;
- Physical distancing measures for all employees; and
- New health and safety measures for our deliverers and warehouse employees.

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From the end of the first quarter of 2020, the pandemic impacted our activities and operating results due to the following factors:

- An economic downturn that has affected most sectors of the economy;
- Additional costs, including an increase in bad debts of $0.6 million following the temporary closure of some of our customers;
- A decrease in sales to our restaurant customers caused by the closure of dining rooms on an intermittent basis during the year, partially offset by an increase in sales for our retail network;
- Temporary layoffs or reductions in the working hours of our employees, a temporary decrease in the compensation of the management team and the board of directors; and,
- The obtention of the new Canada Emergency Wage Subsidy ("CEWS") and the new Canada Emergency Rent Subsidy ("CERS") allowed Colabor to face the challenges posed by the pandemic and which would be available until June 2021.

Given the uncertainty surrounding the pandemic's duration, extend and economic impacts and by the evolution of government measures, the Company is not currently in a position to reliably estimate the effects of the pandemic on its future financial results. Although the pandemic will continue to have an impact on sales and adjusted EBITDA[(1)] in the coming months, given the sanitary measures required by public health, Colabor does not expect a significant negative impact on its available cash. As previously indicated, the Company signed new credit agreements in February 2021 which, combined with the results of the year, will allow Colabor to pursue its strategic plan. Our teams continue to be proactive in order to seize any opportunities that may arise.

2.3 Development Strategies and Outlook

Colabor has as a main financial objective to increase profitability, and consequently create value for its shareholders. In order to achieve these objectives, the action plan in 2020 was based on the following pillars:

1. Increase distribution activities
    - Strategic growth based on strategic categories (protein, fruits and vegetables) and reposition its private brands;
    - Improve the share of existing client's portfolio and the extent of Quebec territories.
2. Increase efficiency
    - Evaluate and capitalize on strategic alternatives for certain assets;
    - Optimize internal management processes as part of continuous improvement in order to reduce business units' costs.
3. Prioritize Employee engagement
    - Implement new tools allowing an improved organizational communication;
    - Improve integration and training process efficiency.

[(1)] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

Action Plan for 2020

During the first semester of 2020, in order to focus more on its growth markets, Colabor ceased and finished serving the Recipe customer on March 2, 2020 and closed London and Ottawa distribution centers in February and March 2020, respectively as well as the closure of the Mississauga distribution center in July 2020. The announcement of the sale of the majority of the assets of its Summit division as described above is also part of this perspective of capitalizing on its resources and its strategic assets.

In 2020, the Company continued its transformation started in 2019, from its divisional structure to a functional structure in the Distribution sector and continued to deploy measures to optimize its operations, which had the effect of reducing operating expenses.

In 2020, Colabor deployed a new integrated human resources management platform, facilitating organizational communication and improving the employee experience. The Company has also improved its teleworking capabilities and developed new protocols to preserve the health and safety of employees.

As previously explained in section 2.2 "Business developments in 2020", the pandemic has had an impact on the evolution of the 2020 plan, particularly in terms of its growth, and will also continue to impact during 2021.

Action Plan for 2021

During 2021, the strategic plan to achieve its objectives is defined in the continuity of 2020 and is based on the following pillars:

1. Increase Distribution activities in Quebec
    - Improve the share of the existing clients portfolio and the extent of Quebec territories through organic growth or acquisitions;
    - Reposition its private brands;
    - Improve categories management (proteins, fruits and vegetables).
2. Optimize processes
    - Standardize and improve internal management processes in order to reduce business units costs.
3. Prioritize employee engagement
    - Continue the deployment of the new integrated human resources management platform; and
    - Deployment of a return protocol to the workplace.

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2.4 Key Financial Performance Indicators

Performance Indicators	**52 weeks**	
(in thousands of $, except financial leverage ratio)	**2020**	**2019**
		(Restated[5])
	$	**$**
Results and cash flow		
Sales from continuing operations	**461,319**	665,959
Net earnings from continuing operations	**3,798**	7,502
Adjusted EBITDA[1]	**28,913**	27,648
Cash flows from operating activities	**37,299**	31,456
Financial position	**As at December 26, 2020**	**As at December 28, 2019**
Working Capital[2]	**31,163**	58,066
Financial Leverage Ratio[3]	**1.8x**	2.6x
Net debt[4]	**52,100**	72,122

(1) Non-IFRS measure. Refer to the table Reconciliation of Net Earnings to adjusted EBITDA and to MD&A section 6 "Non-IFRS Performance Measures". Adjusted EBITDA corresponds to net earnings before costs not related to current operations, depreciation and amortization and expenses for stock-based compensation plan. The adjusted EBITDA for 2019 has not been modified to reflect the impact of IFRS 16 adoption.

(2) Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to MD&A section 3.2 "Financial Position" for detailed calculation. The working capital exclude the current portion of the convertible debentures. Refer to section 15 "Subsequent Events".

(3) Financial leverage ratio is an indicator of the Company's ability to service its long-term debt. It is defined as net debt / adjusted EBITDA for the last twelve months. Refer to MD&A section 6 "Non-IFRS Performance Measures".

(4) Non-IFRS measure. Refer to MD&A section 6 "Non-IFRS Performance Measures". Net debt corresponds to bank indebtedness, current portion of long-term debt, long-term debt and convertible debentures, net of cash.

(5) Some corresponding figures have been restated to exclude discontinued operations and assets and liabilities held for sale, see section 4 "Discontinued Operations" for more details.

Fiscal 2020 Highlights

- Consolidated sales were $461.3 million, down 30.7% compared to fiscal year 2019 resulting mainly from the termination of a contract in Specialized distribution activities, the effects of the pandemic and the volume loss in the Broadline distribution segment caused by the non-renewal of less-profitable contracts.

- Net earnings from continuing operations was $3.8 million, down $3.7 million compared to $7.5 million for fiscal year 2019, mainly due to lower sales and from an increase of costs not related to current operations, mitigated by a gross profit improvement and the deployment of operational optimization measures.

- Adjusted EBITDA[1] from continuing operations reached $28.9 million or 6.3% of sales from continuing operations compared to $27.6 million or 4.2% of sales from continuing operations, up 4.6%. These improvements in percentages come mostly from the IFRS 16 adoption, the subsidies in the amount of $7.1 million and the deployment of operational optimization measures, mitigated by the impact of lower sales related to the pandemic and the effect of the reversal of provisions for favorable CNESST settlements totaling $0.5 million during the fiscal year 2019.

- Net debt[4] decreased to $52.1 million as at December 26, 2020 compared to $72.1 million at the end of fiscal year 2019 which had a positive effect on the financial leverage ratio[3] at 1.8x as at December 26, 2020, an improvement from 2.6x, at the end of last fiscal year. Excluding the impact of IFRS 16 on the adjusted EBITDA of 2020, which resulted of $8.6 million in operating expenses for the fiscal year 2020, the debt ratio as at December 26, 2020 would have been 2.6x.

- As at December 26, 2020, the Company's working capital[2] was $31.2 million, down from $58.1 million at the end of fiscal year 2019. This variance is mainly due to the end of activities in Ontario and the reduced level of activity caused by the pandemic.

2.5 Highlights of the Last Three Periods

Financial Highlights	**52 weeks**		
(in thousands of $, except per share data and percentages)	**2020**	**2019**	**2018**
		(Restated[3])	**(Restated[3])**
	$	**$**	**$**
Sales from continuing operations	**461,319**	665,959	676,065
Net earnings (loss) from continuing operations	**3,798**	7,502	5,419
Net earnings (loss) from discontinued operations	**(12,410)**	225	(9,806)
Adjusted EBITDA[1]	**28,913**	27,648	25,945
Adjusted EBITDA margin[1]	**6.3%**	4.2%	3.8%
Basic and diluted net earnings per share of continuing operations	**0.04**	0.08	0.05
Basic and diluted net earnings (loss) per share of discontinued operations	**(0.12)**	0.00	(0.09)
Total assets	**234,000**	261,148	303,594
Long-term financial liabilities[2]	**11,860**	67,502	111,658

[1] Adjusted EBITDA and adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". Adjusted EBITDA margin is calculated this way: Adjusted EBITDA divided by sales for the corresponding period.

[2] Long-term financial liabilities include long-term debt and convertible debentures, with the exception of fiscal 2020 where convertible debentures are presented in current liabilities given their short-term maturity. Refer section 15 "Subsequent Events".

[3] Some corresponding figures have been restated to exclude discontinued operations and assets and liabilities held for sale, Refer section 4 "Discontinued Operations" for more details.

The improvement in net earnings from continuing operations for the fiscal year 2019 compared to 2018 is mainly explained by an increase of adjusted EBITDA[1], a decrease in depreciation and amortization of $1.0 million and in financial expenses of $0.8 million.

The decrease in sales from continuing operations in fiscal year 2019 compared to 2018 is explained by the volume loss in the Broadline Distribution segment resulting from the non-renewal of less-profitable contracts.

The increase in adjusted EBITDA[1] and adjusted EBITDA[1] margin for fiscal year 2019 compared to 2018 is mainly explained by the deployment of operational optimization measures and to the rationalization plan that has started at the end of the 2018 and which continued in 2019, resulting to a reduction in operating expenses.

The decrease in long-term liabilities as at December 28, 2019 compared to the previous fiscal year is explained by a repayment of $10.0 million of the subordinated debt and $32.0 million diminution on credit facility during fiscal year 2019 following the amount received from the sale of the Viandes Décarie division and the cash flows generated by current operations.

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3. Operational and Financial Results

3.1 Operating Results

Summary of Operating Results for the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2020	2019	Variance	2020	2019	Variance
	$	$	%	$	$	%
Sales	**133,317**	192,900	(30.9)	**461,319**	665,959	(30.7)
Cost of goods sold	**110,898**	161,630	(31.4)	**384,500**	562,322	(31.6)
Operating expenses	**14,960**	23,082	(35.2)	**47,906**	75,989	(37.0)
Operating expenses	**125,858**	184,712	(31.9)	**432,406**	638,311	(32.3)
Adjusted EBITDA[(1)]	**7,459**	8,188	(8.9)	**28,913**	27,648	4.6
Adjusted EBITDA margin[(1)]	**5.6%**	4.2%		**6.3%**	4.2%	

[(1)] The adjusted EBITDA and the adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales for the corresponding period.

3.1.1 Segment Sales

Consolidated Sales for the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2020	2019	Variance	2020	2019	Variance
	$	$	%	$	$	%
Distribution Segment	**86,451**	134,070	(35.5)	**309,258**	491,359	(37.1)
Wholesale Segment	**58,775**	75,821	(22.5)	**192,388**	229,973	(16.3)
Intersegment eliminations and others	**(11,909)**	(16,991)	29.9	**(40,327)**	(55,373)	27.2
Sales	**133,317**	192,900	(30.9)	**461,319**	665,959	(30.7)

Consolidated sales for the fourth quarter were $133.3 million compared to $192.9 million during the corresponding quarter of last fiscal year, representing a decrease of 30.9%.

- Distribution segment sales have decreased by 35.5%, explained by an amount of $20.5 million related to the termination of a contract from the Specialized distribution, an amount of $3.5 million following the decision to cease serving less-profitable contracts during the last quarter of 2019 in Broadline Distribution, as well as the volume decrease related to the pandemic for restaurants and chains clients, partially mitigated by a volume increase for retail and institutional clients.

- Wholesale segment sales have decreased by 22.5%, due to a volume decrease from the pandemic and lower intersegment sales, partly mitigated by growth from some customers less affected by the effects of the pandemic and new customers.

- Intersegment eliminations and others have decreased by $5.1 million or 29.9%, mainly explained by the end of the activities in Ontario and a volume decline in Distribution segment in Quebec as described above.

Cumulative consolidated sales for the fiscal year 2020 were $461.3 million compared to $666.0 million during the previous year, representing a decrease of 30.7%.

- Distribution segment sales have decreased by 37.1%, explained by an amount of $84.0 million related to the termination of a contract from the Specialized distribution, an amount of $27.1 million following the decision to cease serving less-profitable contracts during the last quarter of 2019 in Broadline Distribution, as well as the volume decrease related to the pandemic for our client's restaurant, partially compensated by a volume increase for retail clients.
- Wholesale segment sales have decreased by 16.3%, due to a decrease in volume due to the pandemic and lower intersegment sales, partly mitigated by growth from some customers less affected by the effects of the pandemic and by new customers.
- Intersegment eliminations and others have decreased by $15.1 million or 27.2%, mainly explained by the gradual end of the activities in Ontario and a volume decline in Distribution segment in Quebec as described above.

3.1.2 Operating Expenses

Operating Expenses for the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2020 $	2019 $	Variance %	2020 $	2019 $	Variance %
Distribution segment	**81,728**	130,611	(37.4)	**291,022**	474,082	(38.6)
Wholesale segment	**54,071**	69,005	(21.6)	**175,395**	212,315	(17.4)
Intersegment eliminations and others	**(9,941)**	(14,904)	33.3	**(34,011)**	(48,086)	29.3
Operating expenses[(1)]	**125,858**	184,712	(31.9)	**432,406**	638,311	(32.3)

(1) Operating expenses excluding costs not related to current operations, depreciation and amortization, expenses for stock-based compensation plan.

Consolidated operating expenses for the fourth quarter were $125.9 million compared to $184.7 million for the corresponding period of last fiscal year, a decrease of 31.9%, mostly explained by lower cost of goods sold due to sales decline and gross profit improvement, by the impact of IFRS 16 adoption, a decrease in salaries and other expenses resulting from the measures taken as part of the pandemic and subsidies obtained.

- Distribution segment operating expenses have decreased by 37.4%, mostly explained by lower cost of goods sold due to sales decline and a gross profit improvement following the decision to stop serving less-profitable contracts, a $1.9 million operating expenses reduction resulting from the IFRS 16 adoption, a decrease in salaries and other expenses from measures taken during the pandemic and by a $1.4 million of subsidies acquired during the fourth quarter.
- Wholesale segment operating expenses have decreased by 21.6%, explained by lower cost of goods sold due to sales decline, a decrease in operating expenses of $0.7 million resulting from the adoption of IFRS 16, a decrease in salary expenses resulting from measures taken during the pandemic and by a $0.2 million of subsidies acquired during the fourth quarter.
- Intersegment eliminations and others have decreased by 33.3%, mainly due to a decrease in intersegment sales as explained above and by a $0.2 million of subsidies acquired during the fourth quarter.

Consolidated operating expenses for fiscal year 2020 were $432.4 million compared to $638.3 million during the last fiscal year, representing a decrease of 32.3%, mostly explained by lower cost of goods sold due to sales decline and gross profit improvement, by the impact of IFRS 16 adoption, a decrease in salaries and other expenses resulting from the measures taken during the pandemic and the subsidies obtained.

- Distribution segment operating expenses have decreased by 38.6%, mostly explained by lower cost of goods sold due to sales decline and a gross profit improvement following the decision to stop serving less-profitable contracts, the termination of a contract from Specialized distribution, a $6.3 million operating expenses reduction resulting from the IFRS 16 adoption, a decrease in salaries and other expenses from measures taken during the pandemic and a $5.5 million of subsidies acquired during the year, mitigated by the unfavorable effect of the reversal of provisions caused by favorable CNESST settlements totaling $0.5 million during the fiscal year 2019.

- Wholesale segment operating expenses have decreased by 17.4%, explained by lower cost of goods sold due to sales decline, a decrease in operating expenses of $2.3 million resulting from the adoption of IFRS 16, a decrease in salary expenses resulting from the measures taken within the pandemic and by a $0.8 million of subsidies acquired during fiscal year 2020.

- Intersegment eliminations and others have decreased by 29.3%, mainly due to a decrease in intersegment sales and a decrease in corporate expenses. The decrease in corporate expenses is essentially explained by lower salaries resulting from the measures taken during the pandemic, namely temporary layoffs or reductions of working hours and by the temporary reduction in compensation for management team and board of directors and by a $0.8 million of subsidies acquired.

3.1.3 Adjusted EBITDA

Adjusted EBITDA for the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Distribution Segment	**4,723**	3,459	36.5	**18,236**	17,277	5.6
Wholesale Segment	**4,704**	6,816	(31.0)	**16,993**	17,658	(3.8)
Intersegment eliminations and others	**(1,968)**	(2,087)	5.7	**(6,316)**	(7,287)	13.3
Adjusted EBITDA[1]	**7,459**	8,188	(8.9)	**28,913**	27,648	4.6
Adjusted EBITDA margin[1]	**5.6%**	4.2%		**6.3%**	4.2%	

[1] The adjusted EBITDA and the adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales for the corresponding period.

Adjusted EBITDA[1] for the fourth quarter of 2020 amounted to $7.5 million compared to $8.2 million in the corresponding quarter of the previous year, a decrease of 8.9% and as percentage of sales, adjusted EBITDA margin[1] reached 5.6% compared to 4.2% for the corresponding period of 2019. The improvement, as a percentage of sales, is mainly due to gross profit margin improvement following the decisions to cease serving less-profitable contracts, the deployment of operational optimization measures, the IFRS 16 adoption which reduced operating expenses for both segments amounting to $2.6 million, the decrease in salaries resulting from measures taken during the pandemic and the subsidies of $1.8 million acquired, mitigated by the sales drop due to the pandemic:

- Adjusted EBITDA[1] in the Distribution segment has increased by $1.3 million or 36.5%. As percentage of sales, the adjusted EBITDA[1] margin improved to 5.5% compared to 2.6% in 2019 mainly due to the gross margin improvement as explained above, the deployment of operational optimization measures, IFRS16 adoption which reduced operating expenses by $1.9 million, a decrease in salaries and other expenses resulting from measures taken within the pandemic and the subsidies acquired amounting to $1.4 million, mitigated by the decrease in sales related to the pandemic.
- Adjusted EBITDA[1] in the Wholesale segment has decreased by $2.1 million, or 31.0% and is mainly due to a decrease of 22.5% of sales as explained above, mitigated by the IFRS16 adoption which reduced operating expenses, a decrease in salaries related to the pandemic and the subsidies acquired during the fourth quarter.
- Adjusted EBITDA[1] from intersegment eliminations and others is similar in the fourth quarter of 2020 compared to the corresponding period of 2019.

Adjusted EBITDA[1] for the fiscal year 2020 reached $28.9 million compared to $27.6 million in the last fiscal year, an increase of 4.6%. As percentage of sales, adjusted EBITDA margin[1] reached 6.3% compared to 4.2% in 2019, and is mainly due to gross margin improvement following a decision to cease serving less-profitable contracts, the deployment of operational optimization measures, the IFRS 16 adoption which reduced operating expenses for both segments amounting to $8.6 million, the decrease in salaries resulting from the measures taken within the pandemic and the subsidies of $7.1 million acquired, mitigated by the sales drop due to the pandemic and by the unfavorable effect of the provisions reversal caused by a $0.5 million favorable CNESST settlements during the fiscal year 2019:

- Adjusted EBITDA[1] in the distribution segment has increased by $1.0 million or 5.6%, despite a 37.1% drop in sales. As percentage of sales, the adjusted EBITDA[1] margin improved to 5.9% compared to 3.5% in 2019 mainly due to the gross margin improvement as explained above, the adoption of IFRS16 which reduced operating expenses by $6.3 million, the decrease in salaries and other expenses resulting from the measures taken within the pandemic, the deployment of operational optimization measures and the subsidies acquired, mitigated by the drop in sales related to the pandemic.
- Adjusted EBITDA[1] in the Wholesale segment has decreased by $0.7 million or 3.8%, mainly due to 16.3% lower sales, mitigated by a decrease in salaries resulting from the measures taken within the pandemic, the IFRS16 adoption which reduced operating expenses, by the deployment of operational optimization measures and the subsidies acquired.
- Adjusted EBITDA[1] in the Intersegment eliminations and others has increased by $1.0 million, essentially explained by corporate expenses reduction related to the pandemic, as explained above.

[1] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

3.1.4 Costs not Related to Current Operations

Costs not Related to Current Operations for the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Severance costs	**328**	266	23.3	**511**	444	15.1
Allowance for bad debt accounts	**—**	—	—	**626**	—	—
Others	**16**	437	(96.3)	**674**	437	54.2
Costs not related to current operations	**344**	703	(51.1)	**1,811**	881	105.6

During fiscal years 2020 and 2019, the Company has undertaken some changes to its workforce in order to further optimize its operating activities, thus resulting in severance costs.

An additional provision for bad debts was taken amounting to $0.6 million during the fiscal year 2020 to reflect the effect of the pandemic following the temporary or definitive closure of some of our customers mainly in the restaurant industry.

Other costs not related to current operations mainly represent legal fees and other charges related to non-recurring activities as well as the write-off of the option to purchase Dubé & Loiselle inc. following the Company's decision not to exercise it during the first quarter of 2020, mitigated by the favorable settlement of a provision for onerous contract.

3.1.5 Depreciation and Amortization

Depreciation and Amortization for the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Depreciation of property, plant and equipment	**1,004**	852	17.8	**2,877**	2,812	2.3
Amortization of intangible assets	**1,632**	2,083	(21.7)	**5,570**	6,793	(18.0)
Depreciation of right-of-use assets	**2,120**	—	100.0	**6,665**	—	100.0
Depreciation and Amortization	**4,756**	2,935	62.0	**15,112**	9,605	57.3

For the fourth quarter and fiscal year 2020, depreciation and amortization expense were up by 62.0% and 57.3% respectively, compared to the same periods last year stemming from the IFRS 16 adoption. Refer to section 13 “New accounting policy adopted during the current fiscal year".

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3.1.6 Financial Expenses

(in thousands of dollars, except percentages)

	16 weeks			52 weeks		
	2020	2019	Variance	2020	2019	Variance
	$	$	%	$	$	%
Interest on credit facility	**148**	260	(43.1)	**822**	1,673	(50.9)
Interest on subordinated debt	**307**	488	(37.1)	**1,009**	1,812	(44.3)
Effective interest on debentures	**993**	993	—	**3,227**	3,227	—
Interest on lease obligations	**465**	—	—	**1,552**	—	—
Other	**61**	68	(10.3)	**102**	311	(67.2)
Financial expenses	**1,974**	1,809	9.1	**6,712**	7,023	(4.4)

Financial expenses for the fourth quarter of 2020 have increased to $2.0 million compared to $1.8 million for the corresponding period of 2019, due to the $0.4 million financial expenses increase following the IFRS 16 adoption, mitigated by the debt level reduction.

Financial expenses for the fiscal year 2020 have decreased to $6.7 million compared to $7.0 million compared to last fiscal year related to the decrease in our debt level, mitigated by the $1.5 million financial expenses increase following the IFRS 16 adoption.

3.1.7 Income Taxes

In the fourth quarters of 2020 and 2019, income tax recovered were $0.3 million and $0.7 million, respectively. The decrease is essentially explained by the earnings before taxes increase.

In fiscal year 2020, the income tax expense was $1.2 million compared to $2.6 million in fiscal year 2019, essentially explained by the earnings before taxes decrease.

3.1.8 Net Earnings

Net Earnings of the Fourth Quarter for the 16 and 52-week periods

(in thousands of dollars, except net earnings per share and percentages)

	16 weeks			52 weeks		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	$	**$**	**%**	**$**	**$**	**%**
Net earnings from continuing operations	**620**	1,945	(68.1)	**3,798**	7,502	(49.4)
Net earnings (loss) from discontinued operations	**191**	(2,233)	(108.6)	**(12,410)**	225	(5,615.6)
Net earnings (loss)	**811**	(288)	(381.6)	**(8,612)**	7,727	(211.5)
Basic and diluted net earnings per share of continuing operations	**0.01**	0.02	(50.0)	**0.04**	0.08	(50.0)
Basic and diluted net earnings (loss) per share of discontinued operations	**—**	(0.02)	(100.0)	**(0.12)**	—	—
Basic and diluted net earnings (loss) per share	**0.01**	—	—	**(0.08)**	0.08	(200.0)

Net earnings from continuing operations for the fourth quarter was $0.6 million, or $0.01 per share, compared to $1.9 million, or $0.02 per share, for the corresponding period of last fiscal year. The variation is mainly explained by the decrease in adjusted EBITDA[(1)] as explained above, the increase in the depreciation and amortization expenses, mitigated by the decrease in costs not related to current operations and income tax expenses. Net earnings for the fourth quarter was $0.8 million, or $0.01 per share, an increase of $1.1 million compared to $(0.3) million, or $0.00 per share during the corresponding period of last fiscal year. The variation is explained by the facts describe above and by the decrease of $2.4 million related to the net loss from discontinued operations as explained in section 4 "Discontinued operations". The weighted average number of shares outstanding during the period was 101,640,026 compared to 101,639,418 for the corresponding period of 2019.

Cumulative net earnings from continuing operations for the fiscal year 2020 was $3.8 million, or $0.04 per share, compared to $7.5 million, or $0.08 per share, for the last fiscal year. The variation is mainly explained by the increase in the depreciation and amortization expenses and costs not related to current operations, mitigated by the increase of the adjusted EBITDA[(1)] and the decrease in financial expenses and income tax expenses. Net loss for the fiscal year 2020 was $(8.6) million, or $(0.08) per share, a decrease of $16.3 million compared to net earnings of $7.7 million or $0.08 per share during the last fiscal year. The variation is mainly explained by facts describe above and by the net loss increase of $12.6 million related to discontinued operations as explained in section 4 "Discontinued operations". The weighted average number of shares outstanding during the fiscal year 2020 was 101,640,026 compared to 101,346,836 for the corresponding period of 2019.

[(1)] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures".

3.2 Financial Position

The following table presents the main elements of current assets and liabilities, that make up the Company's working capital[2]. (in thousands of dollars)

	As at December 26, 2020 $	As at December 28, 2019 $	Variance $
Current assets			
Trade and other receivables	**34,416**	72,643	(38,227)
Inventories	**35,266**	67,747	(32,481)
Current assets	**69,682**	140,390	(70,708)
Current liabilities			
Trade and other payables	**38,519**	82,324	(43,805)
Working capital[2]	**31,163**	58,066	(26,903)

[2] Working capital is a non-IFRS performance measure. The Company calculates its working capital as described above. Working capital excludes the short-term portion of convertible debentures. See section 15 "Subsequent Events". See Section 1 "Scope of the MD&A and Notice to Investors" for more information on the seasonality of sales.

As at December 26, 2020, the Company's working capital[2] was $31.2 million, down $26.9 million compared to the end of the last fiscal year. The decrease is explained as follows:

Trade and Other Receivables

Trade and other receivables balance were down $38.2 million from December 28, 2019, stemming from the sale of the assets and the end of the activities of the Ontario division for $24.4 million, combined with the pandemic effect of lower sales during the fourth quarter.

Inventories

Inventory balance decreased by $32.5 million from December 28, 2019. This reduction is due from the sale of the assets and the end of the activities for the Ontario division for $25.5 million and the inventory level drop due to lower demand caused by the pandemic.

Trade and Other Payables

The balance of trade and other payables decreased by $43.8 million from December 28, 2019. This decrease is mainly due to the sales of liabilities and the end of activities for the Ontario division for $23.4 million and inventory decrease related to lower demand from the pandemic.

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3.3 Other Significant Changes in Financial Position

The following table presents the other significant items of the Company's financial position as at December 26, 2020 and their corresponding variances from the fiscal year ended December 28, 2019.

(in thousands of dollars)

	As at December 26, 2020 $	As at December 28, 2019 $	Variance $
Property, Plant and Equipment	**6,122**	10,486	(4,364)
Intangible Assets	**26,569**	31,461	(4,892)
Right-of-use Assets	**38,450**	—	38,450
Deferred Tax Asset	**6,351**	2,295	4,056
Long-Term Debt	**11,860**	20,909	(9,049)
Lease Liabilities	**41,633**	—	41,633
Convertible Debentures	**49,812**	49,576	236
Pension Obligations	**2,887**	1,553	1,334
Equity Attributable to Shareholders	**88,567**	100,103	(11,536)

Property, Plant and Equipment

The reduction in property, plant and equipment is mainly due to depreciation and the reclassification of road vehicles held as finance leases to right-of-use assets resulting from the IFRS 16 adoption.

Intangible Assets

The reduction in intangible assets is mainly due to amortization.

Right-of-use Asset

The increase in right-of-use assets results from the IFRS 16 adoption which is explained in more details in the section 13 "New accounting policy adopted during the current fiscal year".

Deferred Tax Asset

The increase in deferred tax assets comes mainly from the creation of tax attributes during the period related to the operating losses.

Long-Term Debt

Long-term debt reduction is mainly due to the increase in cash flow from operating activities, which were used to repay the credit facility for an amount of $2.0 million and $3.0 million of the subordinated debt.

Lease Liabilities

The increase in lease liabilities results from the IFRS 16 adoption which is explained in more details in the section 13 "New accounting policy adopted during the current fiscal year".

Equity Attributable to Shareholders

The decrease in shareholders' equity is mainly due to net loss for the fiscal year combined with the impact IFRS 16 adoption on the opening balance.

3.4 Data Related to Outstanding Shares

The following table presents the Company's shares and options data as at February 24, 2021. Refer to Notes 9, 19 and 21 of the audited consolidated financial statements for further details.

(in thousands of dollars, except the number of shares and the number of stock-options)

	Number of shares / stock-options	Amount $
Common shares		
Participating and voting common shares	101,681,285	256,300
Options on participating and voting stock		
Outstanding options	2,658,982	
Exercisable options	1,471,436	

3.5 Cash Flows

The following table represents consolidated cash flows of the fourth quarter for the 16 and 52-week periods.

(in thousands of dollars)

	16 weeks		52 weeks	
	2020 $	2019 $	2020 $	2019 $
Cash flows from operating activities	**11,231**	7,905	**37,299**	31,456
Cash flows from investing activities	**(492)**	(548)	**(1,453)**	(1,601)
Cash flows from financing activities	**(7,327)**	(24,278)	**(19,520)**	(48,586)
Net change in cash and cash equivalents from continuing operations	**3,412**	(16,921)	**16,326**	(18,731)
Net change in cash and cash equivalents from discontinued operations	**(405)**	(2,548)	**(1,697)**	7,510
Cash and cash equivalents (bank indebtedness) at the beginning	**6,187**	14,034	**(5,435)**	(5,684)
Cash and cash equivalents (bank indebtedness) at the end	**9,194**	(5,435)	**9,194**	**(5,435)**

Operating Activities

Cash flows from operating activities reached $11.2 million for the fourth quarter, compared to $7.9 million for the corresponding period of 2019. This increase is mainly due to a lower utilization of working capital[2], by the reclassification to financing activities of the payments relating to operating leases after IFRS 16 adoption, mitigated by the decrease in adjusted EBITDA[1].

Cash flows from operating activities reached $37.3 million for the fiscal year 2020, compared to $31.5 million for the last fiscal year. This increase is mainly due to a lower utilization of working capital[2], by the reclassification to financing activities of the payments relating to operating leases after IFRS 16 adoption and by the increase in adjusted EBITDA[1].

[1] The adjusted EBITDA and the adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales for the corresponding period.

[2] Working capital is an indicator of the Company's ability to hedge its current liabilities with its current assets. Refer to MD&A section 3.2 "Financial Position" for detailed calculation.

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Investing Activities

Cash flows used from investing activities amounted to $(0.5) million and $(1.5) million for the fourth quarter and fiscal year 2020, respectively, similar to the corresponding periods of 2019.

Financing Activities

Cash flows used from financing activities amounted to $(7.3) million for the fourth quarter, down from $(24.3) million for the corresponding period in 2019. The change is mostly due to a subordinated debt repayment of $3.0 million and to lease payments under IFRS 16 for the fourth quarter 2020, compared to a credit facility repayment of $17.5 million and a subordinated debt repayment of $5.0 million during the corresponding period of 2019.

Cash flows used from financing activities amounted to $(19.5) million for the fiscal year 2020, compared to $(48.6) million for the corresponding period of 2019. The change is mostly due to a subordinated debt repayment of $3.0 million, a credit facility repayment of $2.0 million and to lease payments under IFRS 16, compared to a subordinated debt repayment of $10.0 and a credit facility repayment of $32.0 million during the fiscal year 2019 following the sale of the Viandes Décarie division.

Payments Due

Undiscounted cash flows, including capital and interest related to the Company's liabilities expire as follows:

(in thousands of dollars)

		Payments due per period			
Contractual obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**5 years and over**
	$	**$**	**$**	**$**	**$**
Trade and other payables	38,519	38,519	—	—	—
Lease liabilities	48,587	10,360	13,787	8,789	15,651
Subordinated debt	12,877	780	12,097	—	—
Convertible debentures (nominal value)	52,384	52,384	—	—	—
Commitments	724	459	240	25	—
	153,091	102,502	26,125	8,814	15,651

3.6 Capital Resources

During the fiscal year 2021, the Company anticipates that it will require cash to finance:

- its investments fixed assets;
- its investment opportunities; and
- its contractual obligations.

Available sources of internal and external financing are:

- cash flows from operating activities; and
- Unused portion of the credit facility.

As at December 26, 2020, the Company was in compliance with all debt covenants.

The Company is expecting to be able to meet its obligations for the next 12 months by using future cash flows from operating activities with the exception of convertible debentures which expire in October 2021. As mentioned in section 2.2 "Business Developments in 2020", the Company concluded, in February 2021, new financing agreements allowing the early redemption of all convertible debentures, which should be completed in March 2021.

As at December 26, 2020, the Company had the following sources of financing. See section 2.2 "Business Developments in 2020" for more details on new financing agreements concluded after the closing date.

Credit facility

The credit facility is comprised of a revolving credit facility of up to $90.0 million, including an operating swingline of a $13.5 million. As at December 26, 2020, the credit facility is unused. As at December 28, 2019, the amounts borrowed under the credit facility bore interest at rates varying between 3.55% and 3.66%. The Company is required to respect a fixed charges coverage ratio. As at December 26, 2020, this ratio has been met and the available credit facility was $30.0 million given the assets on that date. This credit facility was terminated on February 18, 2021 upon refinancing, which is more fully described in section 2.2 "Business Developments in 2020".

As at December 26, 2020, letters of guarantee amounting to $1.0 million ($1.0 million as at December 28, 2019) had been used to support the lease of one of the Company's distribution centers.

Subordinated debt

Under the initial term of the agreement, the subordinated debt had a nominal value of $25.0 million. During fiscal year 2020 and 2019, the Company has reimbursed a lump sum of $3.0 million and two lumps sums for a total of $10.0 million, respectively, decreasing the nominal value to $12.0 million. Under the terms of the agreement, the interest on the debt is payable monthly at a prime rate of 7.0% in 2020 (8.0% in 2019). On May 29, 2020, the Company signed an agreement to extend the maturity of its subordinated debt until February 15, 2022 on the same conditions. This debt was repaid in full from the refinancing as described in section 2.2 "Business Developments in 2020".

Convertible debentures

The debentures are convertible at the holders' option into shares at a conversion rate of 400 shares per $1,000 of debenture capital, for a conversion price of $2.50 per share ($2.50 per share in 2019). On February 18, 2021, the Company announced its intent to proceed with the early redemption of all convertible debentures in accordance with the prescribed terms.

The debentures have a nominal value of $50.0 million maturing on October 13, 2021, with an interest rate of 6.0% (6.0% in 2019). Under the terms of the agreement, effective interest rate on the debentures is 6.55% (6.55% in 2019).

Share-capital

Colabor's share-capital consist of an unlimited number of common and preferred shares that may be issued in series, without nominal value. A summary of designation, rights, restrictions and conditions related to common and preferred shares is presented in Colabor's Annual Information Form ("AIF") dated February 26, 2021 and is available on the SEDAR website at www.sedar.com.

4. Discontinued Operations

As mentioned in section 2.2 "Business Developments in 2020", on May 11, 2020, the Company announced it had concluded an agreement for the closing of the sale of the majority of the assets of its Summit division. The Company has reclassified as discontinued operations the results and cash flows for the current and previous financial years of the Summit division separately from the continuing operations of the Company.

The discontinued activities of 2019 also include the activities of its Viandes Décarie division. On May 10, 2019, the Company concluded the sale of the assets of the Viandes Décarie division for an amount of $20.1 million including final adjustments related to working capital, of which $17.8 million was received at closing. The balance of the sale price receivable will be payable over a maximum period of five years according to the terms of the agreement, from which $0.5 million has been received as at December 26, 2020.

Proceeds from disposal and book value of the net assets sold

(in thousands of dollars)

	$
Proceeds from disposition	9,457
Book value of assets and liabilities disposed:	
Trade and other receivables	3,709
Inventories	6,903
Prepaid expenses	661
Right-of-use assets	3,037
Trade and other payables	(2,389)
Lease liabilities	(3,037)
	8,884
Transaction fees	(474)
Gain on disposal	99

Net earnings (loss) summary for discontinued operations

Net earnings (loss) from discontinued operations are as follows:

(in thousands of dollars)

	16 weeks		52 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Sales	—	118,650	**68,822**	431,503
Cost of goods sold	—	107,338	**62,408**	390,006
Gross Margin	—	11,312	**6,414**	41,497
Operating expenses	**74**	14,118	**9,348**	49,560
Depreciation and amortization	**456**	125	**2,263**	225
Costs not related to current operations	**(1,289)**	—	**11,014**	(7,799)
Impairment loss on goodwill, intangible assets and property, plant and equipment	—	170	—	243
Operating earnings	**759**	(3,101)	**(16,211)**	(732)
Financial expenses	**85**	39	**493**	140
Earnings (loss) before taxes	**674**	(3,140)	**(16,704)**	(872)
Income taxes (recovered)	**483**	(907)	**(4,294)**	(1,097)
Net earnings (loss) from discontinued operations	**191**	(2,233)	**(12,410)**	225

Sales

Sales for the fourth quarter and fiscal year 2020 amounted to $nil and $68.8 million, respectively, down from $118.7 million and $431.5 million for the corresponding periods of last fiscal year. The sales reduction for the fourth quarter is due to the sale of the majority of the assets of the Summit division in May 2020. The sales reduction for fiscal year 2020 stemmed from the disposal of the Viandes Décarie division concluded on May 10, 2019, which sales amounted to $37.4 million. Sales from Ontario activities for the fiscal year 2020 reached $68.9 million compared to $394.1 million in 2019. This decrease is mainly explained by the end of the operations following the termination of the contract with Recipe, the sale of the rest of the activities of this division, as well as by the effects of the pandemic.

Operating Expenses

Operating expenses from the Ontario division for the fourth quarter and fiscal year 2020, amounted to $nil and $9.3 million, respectively, compared to $14.1 million and $47.0 million for the corresponding periods of 2019. These decreases are mainly due to the gradual closure of our distribution centers in Ontario following the end of the contract with Recipe, the sale of certain assets of the Summit division and by the adoption of IFRS 16. Operating expenses from the Viandes Décarie division for the fourth quarter and fiscal year 2019 were $nil and $2.5 million, respectively.

Adjusted EBITDA[(1)]

Adjusted EBITDA[(1)] for the fourth quarter reached $(0.1) million, up from $(2.8) million for the corresponding period of last year and $(2.9) million and $(8.1) million for the fiscal year 2020 and 2019, respectively, due to the facts explained above.

[(1)] The Adjusted EBITDA and the Adjusted EBITDA margin are non-IFRS measures. Refer to section 6 "Non-IFRS Performance Measures". The Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales for the corresponding period.

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Summary of costs not related to current operations

Costs not related to current operations from discontinued operations are as follows:
(in thousands of dollars)

	16 weeks		52 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Severance costs	**(190)**	—	**7,741**	—
Provision for onerous contracts	**(205)**	—	**1,504**	—
Provision for obsolescence of inventory and bad debt	**250**	—	**490**	—
Gain on disposal	**(1,561)**	—	**(1,547)**	(7,799)
Closing costs and others	**417**	—	**2,826**	—
Total	**(1,289)**	—	**11,014**	(7,799)

Costs not related to current operations for 2020 result from the closure of London and Ottawa distribution centers which took place in February and March 2020, respectively, as well as the closure of the Mississauga distribution center in July 2020. In 2020, the Company recognized an impairment reversal amounting to $0.7 million for its distribution centers. The costs not related to current operations in 2019 represent the gain on disposal realized on the sale of the Viandes Décarie division.

Cash Flow Summary for Discontinued Operations

(in thousands of dollars)

	16 weeks		52 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Cash flows from operating activities	**448**	(2,224)	**(5,593)**	(8,836)
Cash flows from investing activities	**19**	(201)	**7,614**	16,745
Cash flows from financing activities	**(872)**	(123)	**(3,718)**	(399)
Net change in cash and cash equivalents from discontinued operations	**(405)**	(2,548)	**(1,697)**	7,510

Net change in cash from discontinued operations for the fourth quarter of 2020 amounted to $(0.4) million compared to $(2.5) million for the corresponding period of last fiscal year. This increase is mainly due to cash flows from operating activities due to lower use of working capital following the closure of operations in Ontario. The net change in cash from discontinued operations for fiscal year 2020 is $(1.7) million compared to $7.5 million and is mainly due to cash flow from investing activities following the proceeds of the disposition of $17.8 million from Viandes Décaries division in 2019.

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5. Summary of Recent Quarters

The following table presents a summary of results for the last eight quarters:

(in thousands of dollars, except per share data)

	2020				2019			
	T4 (16 weeks) $	T3 (12 weeks) $	T2 (12 weeks) $	T1 (12 weeks) $	T4 (16 weeks) $	T3 (12 weeks) $	T2 (12 weeks) $	T1 (12 weeks) $
Sales[1]	**133,317**	120,931	95,458	111,613	192,900	165,803	180,713	126,543
Adjusted EBITDA[1]	**7,459**	10,143	7,613	3,698	8,188	8,485	8,713	2,262
Costs not related to current operations	**344**	(121)	508	1,080	703	—	178	—
Net earnings (loss) from continuing operations[1]	**620**	3,441	1,608	(1,871)	1,945	3,682	2,934	(1,059)
Net earnings (loss) from discontinued operations[1]	**191**	(1,652)	(4,490)	(6,459)	(2,233)	(1,972)	6,105	(1,674)
Net earnings (loss)[1]	**811**	1,789	(2,882)	(8,330)	(288)	1,710	9,039	(2,733)
Basic and diluted net earnings (loss) per share of continuing operations	**0.01**	0.03	0.01	(0.02)	0.02	0.04	0.03	(0.01)
Basic and diluted net earnings (loss) per share	**0.01**	0.02	(0.03)	(0.08)	—	0.02	0.09	(0.03)

[1] Sales, adjusted EBITDA and net earnings have been restated to reclassify the results of the Viandes Décarie division and Ontario activities as discontinued operations. Refer to Section 4 "Discontinued operations".

Sales for the last eight quarters have been impacted by different factors, such as non-renewal of less-profitable contracts in the Wholesale and Broadline distribution activities in Quebec from the fourth quarter of 2019, by the termination of a contract in the Specialized distribution during the first quarter of 2020 and by the pandemic from the second quarter of fiscal year 2020. Net earnings for the first quarters are generally negatively impacted by seasonality. Net earnings for the fourth quarter of 2019, 2019 and the first quarter of 2020 were negatively impacted by costs not related to current operations. The adjusted EBITDA[1] for the quarters of 2020 also includes the impact of the IFRS 16 adoption.

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6. Non-IFRS Performance Measures

This MD&A also contains information that follows non-IFRS measures of performance. Such information should not be considered in isolation or as a substitute for other IFRS performance measures, but rather as supplementary information. These measures are widely used in the financial community to evaluate the profitability of operations. They reflect the inclusion or exclusion of certain amounts that are not considered representative of the Company's recurring financial performance. Since these concepts are not defined by IFRS, they may not be comparable with those of other companies.

Adjusted EBITDA

It is a measure commonly used by management, as well as investors and analysts, that can assess of an entity's performance and capacity of generating cash flows from its current operations. Adjusted EBITDA corresponds to net earnings to which the following items are added: depreciation and amortization, costs not related to current operations, expenses for stock-based compensation plan, financial expenses and income taxes.

Reconciliation of Net Earnings to Adjusted EBITDA

(in thousands of dollars)

	16 weeks		52 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Net earnings from continuing operations	**620**	1,945	**3,798**	7,502
Income taxes (recovered)	**(320)**	741	**1,171**	2,605
Financial expenses	**1,975**	1,808	**6,712**	7,023
Operating earnings	**2,275**	4,494	**11,681**	17,130
Expenses for stock-based compensation plan	**84**	56	**309**	32
Costs not related to current operations	**344**	703	**1,811**	881
Depreciation and amortization	**4,756**	2,935	**15,112**	9,605
Adjusted EBITDA	**7,459**	8,188	**28,913**	27,648

Net Debt

Net debt corresponds to bank indebtedness, current portion of long-term debt, long-term debt and convertible debentures net of cash as presented in Colabor's consolidated statements of financial position.

The following table presents the calculation of net debt:

(in thousands of dollars)

	As at December 26, 2020	**As at December 28, 2019**
	$	**$**
Bank indebtedness (cash)	**(9,712)**	1,579
Current portion of long-term debt	**—**	2,983
Long-term debt[(1)]	**12,000**	17,984
Convertible debentures	**49,812**	49,576
Net debt	**52,100**	72,122

[(1)] Following the IFRS 16 adoption, the liabilities related to capital leases are no longer included in long-term debt but as lease liabilities on the balance sheet as at December 26, 2020. See section 13 "New accounting policy adopted during the current fiscal year".

Financial Leverage Ratio

The net financial leverage ratio is defined as net debt divided by adjusted EBITDA from continuing operations for the last twelve months. Refer to the table in Section 5 "Summary of Recent Quarters".

7. Related Party Transactions

Transactions between related parties of the Company consist of sales occurring with Dubé & Loiselle Inc., an entity owned by a director of the Company. The transactions were carried out in accordance with the various contracts governing relations between the Company and Dubé & Loiselle Inc., in the normal course of business.

The following table shows the transactions between the Company and Dubé & Loiselle Inc.:

(in thousands of dollars)

	16 weeks		52 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Sales	**5,323**	10,159	**15,884**	26,936
Trade and other receivables, net of remittances			**187**	447
Dubé & Loiselle inc. option			**—**	500

8. Off-Balance Sheet Transactions

The Company does not have any off-balance sheet transaction obligations, other than $1.0 million in letters of credit to support the leasing of one of the Company’s distribution centers.

9. Contingency

During the third quarter of 2019, a lawsuit of $7.7 million has been initiated by a client against the Company alleging a default to the terms of their agreement. The Company intends to defend itself vigorously.

10. Risks and Uncertainties

The Company’s activities are subject to numerous risks and uncertainties that are described in detail in its February 26, 2021, Annual Information Form (the “AIF”), which may be viewed on the SEDAR website at www.sedar.com and on the Company's website at www.colabor.com. The risks described in the AIF are incorporated by reference in this MD&A.

11. Significant Estimates and Judgments

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. These judgments and estimates are based on facts and information that are available to management, and are reassessed yearly at the end of each reporting period. The actual results are likely to differ from judgments, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below.

Supplier rebates

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

Useful lives of depreciable assets

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

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 obligation 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 the terms of the related pension liability. The estimates are subject to uncertainties, and may vary significantly in future appraisals of the Company's defined benefit obligations.

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 loss. If a positive forecast of taxable income indicates the probable use of deferred tax assets, especially when it can be utilized without a time limit, those deferred tax assets are 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.

Impairment

An impairment loss is recognized for the amount by which an asset's or CGU’s carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or CGU 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 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.

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12. 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 as well as Corporate Controller and Interim CFO have 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 for the period ended December 26, 2020. On the basis of this assessment, they have concluded that the design and operations of ICFR and DC&P are effective. For the 52-week period ended December 26, 2020, the President and CEO as well as the Corporate Controller and Interim CFO have also assessed that there were no changes in DC&P and ICFR that have materially affected or are reasonably likely to materially affect the internal controls and procedures.

13. New accounting policy adopted during the current fiscal year

IFRS 16 - Leases

Accounting policy

In January 2016, the IASB published IFRS 16 which 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 by eliminating the distinction between operating leases and finance leases.

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 applies to fiscal years beginning on or after January 1, 2019. The lease liability is equal to the net present value of future lease payments discounted using the implicit rate of the lease, if this rate can be determined or the Company incremental borrowing rate. The future lease payments include:

- Fixed payments and variable lease payments that are based on an index or a rate;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease if the Company expects to terminate the lease before the term.

Right-of-use assets are measured at cost which includes the initial lease liability amount, adjusted for payments made at or before the lease commencement date, lease incentives, initial direct costs and restoration costs. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and are depreciated over the shorter period of the lease term or useful life of the underlying asset.

The Company uses the practical expedient permitted for leases whose underlying assets have a low value and those whose term is less than twelve months.

In May 2020, the IASB also issued an amendment for covid-19-Related Rent Concessions ("Amendment to IFRS 16") which modifies the standard so that lessees can benefit from the exemption to assess whether a covid-19 rent relief is a modification of the rental agreement. Concurrently, the IASB also published a proposed Taxonomy Update to reflect this amendment. This amendment had no impact on the Company's consolidated financial statements.

Impact of Adoption of IFRS 16

The Company adopted IFRS 16 on December 29, 2019 using the modified retrospective approach. The Company has recorded the cumulative effects of initial application as adjustment to deficit as at December 29, 2019 without restatement of the comparative period. At the adoption date, lease liability for leases previously classified as operating leases under IAS 17 equals the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as permitted under IFRS 16. The Company elected to measure the underlying right-of-use asset at an amount equal to the lease liability.

At the adoption date, the Company has used the following practical expedients permitted by IFRS 16:

- Keep the definition of a lease included under IAS 17 for existing contracts at the date of initial application, allowing the Company not to reassess all contracts;
- Apply the standard to a portfolio of leases with similar characteristics and use a single discount rate to the portfolio. This measure has been used for vehicle contracts;
- Exclude initial direct costs from the measurement of the right-of-use asset; and
- Use hindsight in determining lease term at the date of initial application.

Adjustment to opening equity is related to an impairment charge of $3.3 million, net of a deferred income taxes of $0.7 million, recorded on the right-of-use assets for which the fair value was lower than the carrying amount.

The impacts of adopting IFRS 16 on the Company's balance sheet as at December 29, 2019 was as follows:

(in thousands of dollars)

	Balance as at December 28, 2019	Adoption of IFRS 16	Restated balance as at December 29, 2019
Assets	**$**	**$**	**$**
Property, plant and equipment	10,486	(2,940)	7,546
Right-of-use assets	—	57,437	57,437
Deferred tax assets	2,295	734	3,029
Total	12,781	55,231	68,012
Liabilities			
Current portion of long-term debt	2,983	(1,004)	1,979
Current portion of leases liabilities	—	11,941	11,941
Long-term debt	17,926	(2,963)	14,963
Lease liabilities	—	49,831	49,831
Total	20,909	57,805	78,714
Equity			
Equity attributable to shareholders	100,103	(2,574)	97,529

The Company used its incremental borrowing rates as at December 29, 2019 to measure lease liabilities, which is 3.58% for buildings and 5.98% for vehicles. The right-of-use assets are attributable to the following underlying assets: buildings for $41.7 million and vehicles for $15.7 million.

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The following reconciliation is between lease liabilities recognized as at December 29, 2019 and operating leases commitments disclosed under IAS 17 in note 19 *Operating leases and commitments* in the consolidate financial statements as at December 28, 2019:

(in thousands of dollars)

	$
Operating lease commitments as at December 28, 2019	48,520
Effect of discounting using the incremental borrowing rate	(9,296)
Add: finance leases as at December 29, 2019	3,967
Less: leases for which the underlying asset is low-value	(76)
Add: extension options reasonably certain to be exercised	19,606
Less: contracts as at December 29, 2019 excluded from IFRS 16	(950)
Lease liabilities as at December 29, 2019	61,771
Current portion of lease liabilities	11,941
Non-current portion of lease liabilities	49,830
	61,771

The impact of the adoption of IFRS 16 for the fourth quarter and fiscal year ended December 26, 2020, is as follows:

(in thousands of dollars)

	16 weeks		
	Continuing operations	**Discontinued operations**	**Total**
	$	**$**	**$**
Decrease in operating expenses	(2,643)	(949)	(3,592)
Increase in financial expenses	440	82	522
Increase in depreciation and amortization	2,120	456	2,576

	52 weeks		
	Continuing operations	**Discontinued operations**	**Total**
	$	**$**	**$**
Decrease in operating expenses	(8,617)	(2,909)	(11,526)
Increase in financial expenses	1,477	452	1,929
Increase in depreciation and amortization	6,666	1,937	8,603

14. Financial Instruments

A) Fair value

Fair value of cash, trade and other receivables, bank indebtedness, trade and other payables as well as current portion of long-term debt, is equivalent to the carrying amount due to their short-term maturity. Therefore, the time value of money is non-significant.

The carrying amount and fair value of the other financial instruments in the consolidated statements of financial position are as follows:

(in thousands of dollars)

	As at December 26, 2020		As at December 28, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial liabilities				
Current				
Convertible debentures	**49,812**	**49,500**	—	—
Non-current				
Subordinated debt	**11,860**	**11,969**	14,963	14,957
Convertible debentures	—	—	49,576	42,260
	61,672	**61,469**	64,539	57,217

The fair value of subordinated debt was determined by discounting future cash flows at 6.5% (6.5% as at December 28, 2019), the current rate of subordinated debt.

The fair value of the convertible debentures was determined based on the trading price on December 26, 2020.

Fair value measurement

When determining an asset or a liability's fair value, the Company uses observable market data as much as possible. Financial assets and liabilities measured at fair value are presented using a three-level fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements of these items. The three fair value hierarchy levels are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data.

As at December 26, 2020, the Company has classified the fair value measurement of liabilities presented in the table above as follows: Convertible debentures (Level 1) and Subordinated debt (Level 2). There was no transfer between the levels during the fiscal year 2020.

B) Financial risks management

The Company is exposed to various financial risks resulting from its operating, investing and financing activities. The Company's management manages financial risks in the purpose of limiting the Company's main financial risk exposure and its financial risk management policies are detailed below. The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

Interest rate risk

The credit facility bears interest at variable rates, and this exposes the Company to the cash flow risks resulting from interest rate fluctuations. The Company's other financial assets and liabilities do not result in any interest rate risk since they do not bear interest at variable rates.

As the balance of the credit facility was entirely repaid during the first quarter of 2020, a reasonably possible 1.0% fluctuation in the bank prime rate based on current market conditions would not have had a significant impact on net earnings in 2020 ($nil in 2019).

Credit risk

The carrying amount on the consolidated statements of financial position of trade and other accounts receivable and other assets represents the maximum amount exposed to credit risk.

The Company's credit risk is primarily attributable to its trade accounts receivable and other assets. The credit risk related to trade accounts receivable is generally diversified. The Company requires a guarantee or letter of credit from some of its customers. As at December 26, 2020, the Company had guarantees for about 1.8% of its trade accounts receivable (1.0% as at December 28, 2019). In addition, following the pandemic, the payment terms of some customers have been modified for prepayments or payments on delivery in order to minimize credit risks. An additional provision for bad debts amounting to $0.1 million and $0.6 million was recorded during the fiscal year 2020, following the temporary closure of some of our customers in the restaurant industry.

The Company's policy is to have each customer undergo a credit check.

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 establishes budget estimates and cash flow forecasts to ensure it has the necessary funds to fulfill its obligations. These forecasts are updated on a regular basis to consider the impacts of the rapidly evolving pandemic. According to our updated forecast based on information currently available to management, the Company is expecting to be able to meet its obligations for the next 12 to 15 months by using future cash flows from operating and financing activities. See section 2.2 "Business Developments in 2020" for the financing that took place on February 18, 2021.

15. Subsequent Events

As previously mentioned in section 2.2 "Business Developments in 2020", on February 18, 2021, the Company entered into new financing agreements. In addition, the Company announced on February 18, 2020, its intent to redeem all of the convertible debentures.