COLABOR

COLABOR INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

October 5, 2005

This management's discussion and analysis ("MD&A") of Colabor Income Fund (the "Fund") relates to the results of operations, cash flows and financial situation in the first report since the initial public offering, i.e. from June 28, 2005 to September 9, 2005. The MD&A should be read in conjunction with the unaudited financial statements and notes thereto for the 74-day period ended September 9, 2005. These financial statements are in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These financial statements have been published on SEDAR at www.sedar.com.

This report also contains information that is a non-GAAP measure of performance, such as the concept of distributable cash. Since this concept is not defined in Canadian GAAP, it may not be comparable with that of other funds.

Forward-looking Statements

The MD&A is intended to assist unitholders in understanding the nature and extent of changes and trends as well as risks and uncertainty and actual results may differ significantly from information reported or inferred in these statements. The main factors that could result in a significant difference between the Fund's actual results and the projections or expectations set out in the forward-looking statements are described under *Risk Management* of this MD&A.

General

Formation of the Fund

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the province of Québec on May 19, 2005. On June 28, 2005, the Fund completed an initial public offering of Fund units. Taking into account the exercise of the over-allotment option as at July 20, 2005, 5,775,000 $10 units were issued for overall gross proceeds of $57,750,000 to acquire and hold 53.2% of *Colabor Limited Partnership ("Colabor LP")*, with the remaining 46.8% interest being held by *Colabor Inc.*(the *«Vendor»)* in the form of exchangeable units of the Fund.

Additional information on the Fund and the initial public offering transactions may be obtained in the Prospectus dated June 17, 2005.

The Fund units are listed on the Toronto Stock Exchange under the symbol *CLB.UN*

Description of Activities

Colabor was founded in 1962 and is one of the largest master distributors of food, food-related and non-food products which it purchases and supplies to wholesale distributors who redistribute the products to over 25,000 customers operating in the retail or foodservice market segments serving Québec and the Atlantic provinces.

Scope of MD&A

This MD&A is the first report of the Fund's results since the June 28, 2005 initial public offering and covers the 74-day period from June 28 and September 9, 2005.

The Fund's fiscal year comprises thirteen 28-day periods, three quarters comprise three 28-day periods and the fourth quarter includes four 28-day periods. The Fund's year end is December 31.

Since the Fund does not have comparative financial statements for the corresponding 74-day period in 2004 and, in order to help readers compare, the Fund's results have been compared with the unaudited results of Colabor Inc. (the "Vendor") for the 74-day period ended September 10, 2004, and these results were corrected to reflect special aspects of the Fund's activities, in particular customer rebates and amortization of intangible assets.

Results of Operations

Colabor Income Fund
Earnings
(In thousands of dollars)
(Unaudited)

	2005-09-09 (74 days)	2005-09-09 (74 days)	2004-09-10 (74 days)
	$	% of sales	$
Sales	81,547	100,0%	78,233
Rebates	2,401	3.0%	2,309
Net sales	79,146	97,0%	75,924
Cost of sales	79,584	97,6%	76,340
Rebates from suppliers	5,691	7,0%	5,286
	73,893	90,6%	71,054
Gross profit	5,253	6,4%	4,870
Selling, distribution and administrative expenses	2,327	2,9%	2,360
Other revenue	-38	-0,1%	-48
	2,289	2,8%	2,312
Earnings before financial expenses and amortization	2,964	3,6%	2,558
Financial expenses	161	0,2%	149
Amortization of property, plant and equipment	226	0,3%	252
Amortization of intangible assets	349	0,4%	349
	736	0,9%	750
Earnings before non-controlling interest	2,228	2,7%	1,808

Highlights of the Period Ended September 9, 2005

- Conclusion of the initial public offering of 5,775,000 units for an injection of $57,750,000 ($54,285,000 net of the underwriters' fee);
- Increase in sales of about 4.2%;
- Increase in earnings before financial expenses and amortization (EBITDA) of $406,000 or 15.9% compared to the same period in the previous year;
- Declaration of monthly distributions of $0.08540 per unit ($0.09368 per unit for the initial 34-day distribution), for an annual return of 10.25%, based on the issue price of $10 per unit.

Sales

Colabor's sales are derived from the sale of food, food-related and non-food products to wholesale distributors servicing clients in the retail and foodservice segments. Sales of products are either made directly from its Distribution Centre ("warehouse sales") or through direct delivery from manufacturers and suppliers ("direct sales"). Gross profit is generated primarily by warehouse sales.

The following table presents Colabor's sales for the periods indicated:

	Periods ended			
	September 9, 2005 (74 days) (unaudited)	**September 9, 2005 (74 days) (unaudited)**	**September 10, 2004 (74 days) (unaudited)**	**September 10, 2004 (74 days) (unaudited)**
Operating data				
Sales by channel				
Retail				
Private brands	1,624	2.0%	1,549	2.0%
Brand name products	24,206	29.7%	25,637	32.8%
	25,830	31.7%	27,186	34.8%
Foodservice				
Private brands	4,697	5.8%	4,624	5.9%
Brand name products	26,769	32.8%	24,777	31.7%
Frozen food	24,251	29.7%	21,646	27.6%
	55,717	68.3%	51,047	65.2%
Total sales	81,547	100.0%	78,233	100.0%
Warehouse sales and direct sales				
Warehouse sales	56,674	69.5%	51,283	65.6%
Direct sales	24,873	30.5%	26,950	34.4%
Total sales	81,547	100.0%	78,233	100.0%

Sales totalled $81.6 million for the 74-day period ended September 9, 2005, compared to $78.2 million for the corresponding period in the previous year, a $3.4 million or 4.2% increase. This growth in sales is primarily attributable to the performance of affiliated-wholesalers and other customers who experience improved sales in their respective business and markets.

During the 74-day period ended September 9, 2005, retail sales totalled $25.9 million, a $1.3 million or 4.8% decline from the $27.2 million achieved in the corresponding period of the previous year, whereas foodservice posted sales of $55.7 million, a $4.7 million or 9.2% increase over the $51 million achieved in the corresponding period in the previous year. The significant increase in foodservice sales compared to retail sales is mainly due to the affiliated-wholesalers' own sales which are increasing at a faster pace in the foodservice segment of the industry.

Frozen food products sales continued to grow at a rapid pace as they increased by $2.6 million or 12% to $24.3 million, during the 74-day period ended September 9, 2005, from $21.7 million for the same period the prior year. This increase is reflective of the continued growing trend and demand for frozen food products resulting from the increasing popularity of ready-to-serve products.

Finally, warehouse sales increased by $5.4 million, or 10.5%, to $56,7 million for the 74-day period ended September 9, 2005 from $51.3 million for the same period the prior year, whereas direct sales declined by $2 million, or 7.4%, to $24.9 million for the 74-day period ended September 9, 2005 from $26.9 million for the same period the prior year. The variation in the proportion of warehouse sales to direct sales is primarily attributable to new agreements with suppliers to distribute their products through the warehouse.

Rebates

Rebates to affiliated-wholesalers are 3%, as provided in the agreement between the Fund and the affiliated-wholesalers of the vendor, whereas the rebate rate on sales to other customers is 2%.

Rebates increased by $92,000 as a result of an increase in sales.

Rebates from Suppliers

A significant portion of Colabor's gross profit is derived from rebates from suppliers. Rebates from suppliers consist of (i) agreements with suppliers relating principally to distribution agreements, central billing, truck load allowance and other incentive plans, (ii) rebates received from suppliers based on buying volume, (iii) cash discounts on purchases based on terms of sale, and (iv) net advertising funds received in connection with promotional activities,

For the 74-day period ended September 9, 2005, rebates from suppliers increased by $405,000 or 7.7% from $5.3 million in the corresponding period in 2004 to $5.7 million. This improvement is mainly attributable to an increase in purchases following higher sales combined with new supplier agreements, which explains that, based on gross sales, rebates from suppliers increased from 6.8% to 7%.

Selling, Distribution and Administrative Expenses

Selling, distribution and administrative expenses include the costs associated with purchasing, warehousing and distributing products as well as general and administrative expenses. Fixed costs include energy costs relating to the operation of the Distribution Centre, rent, property taxes and general and administrative expenses, whereas variable costs include packaging material, repair and maintenance costs related to warehouse equipment usage and, to some extent, warehouse employee wages.

These costs, amounting to $2.3 million, decreased by $33,000 or 1.4% compared to the corresponding period in 2004. As a percentage of gross sales, these costs were down from 3.0% in 2004 to 2.9%.

Earnings Before Financial Expenses and Amortization

These earnings are used as a basis to calculate distributable cash and increased by $406,000 or 15.9%, compared to the same period in the previous year. The rate on gross sales increased from 3.3% for the 74-day period ended September 10, 2004 to 3.6% for the same period in 2005.

Financial Expenses

Financial expenses increased by $12,000 or 8% to $161,000 compared to the same period in 2004. This increase is mainly attributable to higher interest rates on a larger bank loan as a result of higher receivables and inventory following an increase in sales. As a percentage of gross sales, the rate remained stable at 0.2%.

Amortization

Amortization of property, plant and equipment

Amortization of property, plant and equipment decreased by $26,000 or 10.3%, to $226,000 for the 74-day period ended September 9, 2005, compared to $252,000 for the corresponding period in the prior year. Amortization is comprised of the amortization of furniture and fixtures, warehouse equipment and warehouse vehicles, computer hardware, computer software and leasehold improvements.

Amortization of intangible assets

If the Fund had been in operation in 2004, the amortization of the customer relationships would have been similar to that for the 74-day period ended September 9, 2005 since customer relationships are amortized on a straight-line basis over their estimated useful lives of 20 years.

Distributable Cash

The following table sets forth the calculation of distributable cash for the 74-day period ended September 9, 2004.

Earnings before financial expenses and amortization (as per Fund's September 9, 2005 financial statements)		2,964,000
Deduct:		
Financial expenses	161,000	
Acquisition of property, plant and equipment	86,000	247000
Distributable cash		**2,717,000**
Number of units:		
Colabor LP ordinary units	5,775,000	
Colabor LP exchangeable units held by the vendor	5 087 439	**10,862,439**
Distributable cash per unit		**$0.2501**
Distributions paid (as specified in the June 17, 2005 prospectus)		
From June 28, 2005 to July 31, 2005	**$0.0937**	1,017,811
From August 1, 2005 to August 31, 2005	**$0.0854**	927,652
		1,945,463
Unpaid distribution declared:		
Estimate for period of September 1, to September 9	**$0.0854**	278 296
		2,223,759
		$0.2047
Distribution ratio of distributable cash		**81.85%**

Distributions were paid from cash from activities.

Distributions

The Fund intends to make equal monthly cash distributions to unitholders of its available cash to the maximum extent possible, net of acquisitions of property, plant and equipment, financial expenses and certain reserves which the Board of Trustees may deem necessary.

Seasonality

Although the distribution ratio of distributable cash for this 74-day period, i.e. June 28 to September 9, is 81.85%, readers should be aware that the Fund's first and second quarters, i.e. the period of January 1 to June 17, reflect seasonal factors that affect the distribution ratio.

Colabor's business is subject to normal industry seasonal fluctuations due to weather conditions and holiday periods. Sales are generally lower at the beginning of the year due to lower consumer spending following the Christmas holiday season, increase progressively thereafter during spring and summer months as sales of food consumed away from home increase and reach their peak in the last four months before year-end and following Colabor's yearly trade show held in September of each year.

Variable costs are managed to mitigate the impact of seasonality. However, an important portion of Colabor's costs, including the rent and energy costs related to the operation of its Distribution Centre, are fixed and cannot be adjusted for seasonality.

The Fund declares monthly distributions to unitholders of record on the last day of each month and pays the distributions on or about the 15th of the following month. The annual distribution per unit should be $1.025.

Liquidity and Cash Resources

During the period, the Fund completed its initial public offering, including the exercise of the over-allotment option as at July 20, 2005, of 5,775,000 units for proceeds of $57,750,000 ($54,285,000 net of the underwriters' fees) to acquire and hold 53.2% of Colabor LP for a consideration of $69.3 million.

During the 74-day period ended September 9, 2005, the Fund generated cash flows from operations of about $12.6 million. It acquired $86,000 in property, plant and equipment, primarily for the upgrade of its management information system and to acquire forklifts and paid distributions to public unitholders and holders of exchangeable units of Colabor LP of about $1,018,000.

The Fund has a $30-million operating line credit available. As at September 9, 2005, the Fund has used about $12 million of this operating line of credit. In the opinion of management of the Fund, cash flows from operations and funds from the operating line of credit are sufficient to support planned acquisitions of property, plant and equipment, working capital requirements and monthly cash distributions of $0.0854 per unit.

Contractual Obligations

		Payments Due by Period			
Contractual obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Long-term debt	2,769	468	936	936	429
Operating lease	35,747	2,028	4,056	4,056	25,607
Total	38,516	2,496	4,992	4,992	26,036

Off-balance Sheet Transactions

The Fund does not have any off-balance sheet transaction obligations.

Risk Management

The Fund is exposed to various industry-related risks that could impact its profitability and which are beyond management's control, including the following:

- *Dependence on affiliated-wholesalers*

  Sales generated by affiliated-wholesalers account for over 90% of the Fund's sales. The loss of a significant number of these wholesalers could have a negative impact on Colabor's earnings.

  This risk has been mitigated, on a going forward basis after the closing of the offering, by the execution of agreements to amend the affiliate agreements to provide for an initial ten-year term, renewal provisions for two additional terms of five years and also provide for the granting of a right of first refusal by the affiliated-wholesalers to Colabor LP on their businesses. However, there is no assurance that Colabor LP will be able to finance the exercise of such right of first refusal. Moreover, incentives are built-in the contractual relationship existing between the affiliated-wholesalers, Colabor LP and the Vendor encouraging affiliated-wholesalers to increase their purchases from Colabor.

- *Absence of long-term agreements between affiliated-wholesalers and their customers*

  In accordance with general industry practice, the affiliated-wholesalers do not normally enter into long-term agreements with their customers. As a result, customers may, without notice or penalty, terminate their relationship with affiliated-wholesalers. In addition, even if customers should decide to continue their relationship with the affiliated-wholesalers, there can be no guarantee that they will purchase the same volume of products as in the past or that they will pay the same price for those products as they have in the past. Any loss of customers by affiliated-wholesalers, or decrease in the volume purchased or price paid by them for products, could affect Colabor LP's sales and result in an adverse effect on Colabor LP's financial condition and results of operations and the amount of cash available for distribution to unitholders. In the past, affiliated-wholesalers, using their knowledge of the respective markets in which they operate, have been able to differentiate themselves from their competitors by providing personalized services to their customers, including flexible delivery schedules and product offering tailored to the needs of their customers; management believes they will continue to do so in the future.

- *Customer Choices*

  Colabor's success also depends on the continuing interest of customers in the products it distributes. Any change in customer choices could have an impact on the demand for products distributed by Colabor.

Significant Accounting Estimates

Some of the amounts in the financial statements are based on estimates made by management using its knowledge of current or anticipated events. Significant estimates relate exclusively to the allowance for excess or obsolete inventory, accounting for rebates from supplier and goodwill.

- *Allowance for excess or obsolete inventory*

  Inventory is valued at the lower of net realizable value or cost calculated using the first in, first out method. The Fund records an allowance for obsolescence that is calculated on the basis of assumptions relating to future demand for its products and conditions in the markets in which the products are sold. The allowance is reduced by inventory at the net realizable value and then applied against inventory on the balance sheet. Management makes estimates and judgments at the time of determining these allowances. If actual market conditions are less favourable than management's assumptions, additional allowances may be required.

- *Accounting for rebates from suppliers*

  Colabor negotiates procurement contracts with its suppliers that included payment of rebates based on volumes purchased. The procurement contracts with suppliers are reviewed periodically and rebates adjusted according to prevailing market conditions.

- *Goodwill*

  Goodwill is the excess of the purchase price of the enterprise over its carrying amount on the acquisition date. This goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment of goodwill would be expensed in the year or period it occurs.

Outlook

Results for the 74-day period ended September 9, 2005 are consistent with management's expectations. Colabor is entering into its last quarter which, traditionally, is the most profitable.

Management believes that Colabor will continue to benefit from its loyal and entrepreneurial affiliated-wholesalers network, customer driven distribution network, recent investments in information technology and low operating costs. Management believes that Colabor will also continue to be proactive in terms of expanding its product offering, services provided to affiliated-wholesalers and will continue to grow its business through the recruitment of wholesale distributors. Management believes that volume of sales of frozen food products and private label products will continue their growth and that Colabor is well positioned to take advantage of the continued importance of these two product.

Additional Information

Additional information on Colabor Income Fund may be found on SEDAR at www.sedar.com.

Notice Regarding the Review of Interim Financial Statements

These interim financial statements as at September 9, 2005 have not been reviewed by the Fund's auditor.