COLABOR

COLABOR INCOME FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

July 12, 2007

This Management's Discussion & Analysis ("MD&A") of Colabor Income Fund (the "Fund") discusses the operating results, cash flows and financial situation for the 84-day period ended June 16, 2007 (2nd Quarter) of the fiscal year ending December 31, 2007. 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 uncertainties. Consequently, actual results may differ significantly from information reported or inferred in these statements. The main factors that could result in a significant difference between the Fund's actual results and the projections or expectations set out in the forward-looking statements are described under *Risks and Uncertainties*.

General

The Fund

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Québec under a Declaration of Trust dated May 19, 2005.

The Fund's units are traded on the Toronto Stock Exchange under the symbol CLB.UN.

Activities

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

On January 8, 2007, Colabor Income Fund acquired Summit Food Service Distributors Inc. ("Summit"), one of the major foodservice distributors in the industry, from Cara Operations Limited ("Cara"). Summit distributes more than 8,000 products from warehouses in Ottawa, London and Mississauga to more than 3,000 customers, including Cara (Swiss Chalet, Harvey's, Kelsey's Neighbourhood Bar and Grill, Montana's Cookhouse and Milestone's Grill and Bar), other foodservice chains and independent restaurants as well as to institutions including hospitals, schools and government institutions. Summit's product line includes frozen products, current consumption dry products, dairy products, produce, meat, seafood, poultry and sanitation products.

Scope of MD&A

This MD&A covers the Fund's results for the 84-day period ended on June 16, 2007, which represents the second quarter of the fiscal year ending December 31, 2007.

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

The Fund's financial statements for the 84-day period and for the 167-day period ended June 16, 2007 include results for Colabor since January 1, 2007 and those of Summit since January 8, 2007. However, results for the same periods for the prior year include only results for Colabor.

Results of Operations

Colabor Income Fund

Consolidated Earnings

(unaudited and in thousands of dollars, except per unit amounts)

	2007-06-16 (84 days)		2006-06-16 (84 days)		Variance	
	$		$		$	%
Net sales	200,210	100.00%	98,531	100.00%	101,679	103.19%
Earnings before financial expenses and amortization	6,327	3.16%	3,323	3.37%	3,004	90.40%
Financial expenses	1,552	0.78%	166	0.17%	1,386	834.94%
Amortization of property, plant and equipment	798	0.40%	213	0.22%	585	274.65%
Amortization of intangible assets	1,655	0.83%	744	0.76%	911	122.45%
	4,005	2.01%	1 123	1.15%	2,882	256,63%
Earnings before non-controlling interest	2,322	1.15%	2,200	2.22%	122	5.55%
Non-controlling interest	799	0.40%	1 035	1.05%	(236)	-22,80%
Net earnings	1,523	0.75%	1,165	1.17%	358	30.73%
Basic and diluted net earnings per unit	$0.15		$0.20			

	2007-06-16 (167 days)		2006-06-16 (167 days)		Variance	
	$		$		$	%
Net sales	362,877	100.00%	171,994	100.00%	190 883	110.98%
Earnings before financial expenses and amortization	10,974	3.02%	5,047	2.93%	5,927	117.44%
Financial expenses	3,090	0.85%	315	0.18%	2,775	880.95%
Amortization of property, plant and equipment	1,443	0.40%	421	0.24%	1,022	242.76%
Amortization of intangible assets	3 180	0,88%	1,488	0,87%	1,692	113,71%
	7 713	2,13%	2,224	1.29%	5,489	246,81%
Earnings before non-controlling interest	3,261	0.89%	2,823	1.64%	438	15.52%
Non-controlling interest	1,192	0.33%	1,331	0.77%	(139)	-10.44%
Net earnings	2,069	0.56%	1,492	0.87%	577	38.67%
Basic and diluted net earnings per unit	$0.21		$0.26			

Net Sales

Net sales consist of:

For the Boucherville division:
Gross sales to customers from the Boucherville warehouse and direct sales to affiliated wholesalers, less rebates of about 3% of the affiliated wholesalers' sales, as provided in the agreement between Colabor LP and the affiliated-wholesalers of the Vendor (Colabor Investments Inc.).

For the Summit division:
Gross sales to customers from the London, Mississauga and Ottawa warehouses less rebates, as provided in individual agreements with these customers.

The $101.7 million increase in net sales for the quarter is attributable to $97 million in sales from the Summit division, which has contributed $183.2 million in sales since its acquisition on January 8, 2007.

As for the Boucherville division, it contributed $4.6 million to the increase in net sales for the quarter, a 4.7% increase over the same quarter in 2006. This division's contribution to net sales for 167-day period ended June 16 was $7.7 million, or 4.5%, compared with 2006. The improvement in sales in this division is attributable primarily to the foodservice segment which offsets a slight decline in the retail segment.

Earnings Before Financial Expenses and Amortization (EBITDA)

The $3 million increase for the quarter and the $5.9 million increase for the 167-day period over the same periods in 2006 is attributable primarily to the Summit acquisition and the synergies resulting from the Summit acquisition.

Synergies

As mentioned in the December 21, 2006 short form prospectus, the Fund's management expects that synergies from the acquisition of Summit will be about $2.2 million. These synergies will primarily result of streamlining and negotiating new supply agreements with suppliers and combining certain programs, such as property insurance, group insurance and others.
Several agreements have been negotiated to date with suppliers and results reflect a portion of the negotiated synergies. The Company is confident it will achieve the targeted synergies during its fiscal year.

Amortization of Intangible Assets

This item increased as a result of the amortization, over 10 and 15-year periods, of customer relationships following the Summit acquisition.

Distributable Cash

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. They then increase gradually during the spring and summer months as sales of food consumed away from home increase and reach their peak in the last four months of the fiscal year.

The Fund declares monthly distributions to unitholders of record on the last day of each month and pays the distributions on or around the 15th of the following month. The annual distribution per unit is $1.076.

The following table shows the changes in distributable cash for the second quarter of 2007 and the cumulative results for the 167 days ended June 16, compared with the same periods in 2006.

The Canadian Securities Administrators has concluded that distributable cash is in all cases a measure of cash flows, a fair picture of which may only be presented if it is matched with the cash flows related to the operating activities presented in the issuer's financial statements without adjusting variations in operating assets and liabilities.

	2007-06-16 (84 days)	2006-06-16 (84 days)	2007-06-16 (167 days)	2006-06-16 (167 days)
	$	$	$	$
Cash flows from operating activities	6,174	643	11,275	5,972
Acquisition of property, plant and equipment (1)	(100)	(198)	(450)	(214)
Repayment of long-term debt	(117)	(117)	(234)	(234)
Repayment of security deposits				(468)
Distributable cash	**5,957**	**328**	**10,591**	**5,056**
Distributions paid to unitholders	2,655	1,480	4,940	2,959
Distributions paid on exchangeable Colabor LP units	1,369	1,304	2,738	2,607
Distributed cash	**4,024**	**2,784**	**7,678**	**5,566**
(1) Acquisition of property, plant and equipment:				
Maintenance assets (recurring)	100	146	344	162
Distribution software (non-recurring)		52	106	52
	100	198	450	214

Cash

Credit Facilities

The Company has entered into a three-year agreement with a banking syndicate for operating credit facilities for an authorized amount of $70 million secured by a first ranking hypothec on the Company's assets.

Under the terms of the credit agreement, the Fund is required to maintain (i) a prescribed ratio of total debt (excluding the debentures) to EBITDA and (ii) a prescribed ratio of EBITDA to interest expenses.

Activities

During the period, the Fund generated cash flows from operations of about $6,174,000. It acquired $100,000 in property, plant and equipment, paid distributions to public unitholders and holders of exchangeable Colabor LP units of $4,024,000, and repaid long-term debt of $117,000.

As previously stated, the Fund has a $70-million operating line of credit available. As at June 16, 2007, the Fund used $39,199,000 of this operating credit and complied with the above-mentioned ratios.

In management's opinion, cash flows from operating activities and the new operating credits are sufficient to support planned acquisitions of property, plant and equipment, working capital requirements and monthly cash distributions of $0.0897 per unit.

Summary of Past Quarters

('000)	2007-06-17	2007-03-24	2006-12-31	2006-09-08	2006-06-16	2006-03-24	2005-12-31	2005-09-09
	(84 days)	(83 days)	(114 days)	(84 days)	(84 days)	(83 days)	(113 days)	(74 days)
	$	$	$	$	$	$	$	$
Net sales	200,210	162,667	137,119	91,285	98,531	73,463	135,946	79,146
EBITDA	6,327	4,647	5,799	3,215	3,323	1,724	5,906	2,964
Net earnings	1 523	546	2 257	1 062	1 165	327	2 270	1 016
Basic and diluted net earnings per unit	$0.15	$0.06	$0.39	$0.18	$0.20	$0.06	$0.39	$0.18

Related Party Transactions

Following the initial public offering, the Fund had indirectly acquired a 53.2% interest in Colabor LP, with the remaining 46.8% interest in Colabor LP being held by the Vendor ("Colabor Investments Inc.") as exchangeable Colabor LP units.
Subsequent to the Summit acquisition, the Vendor now holds an undiluted 34% interest and a diluted 24.7% interest in Colabor LP, which enables it to exercise significant influence over the Fund.

Related party transactions include the following:

- Sales to customers controlled by trustees of the Fund, which are on the same terms and conditions as sales to other customers of the Fund;

- Rebates to affiliated and preferred wholesalers of the Vendor at the rate of 3% of their sales, as provided in the agreement in effect until 2015;

- Until 2022, the Fund leases the building in which its head office and the Boucherville distribution centre are located;

- Under an agreement expiring in 2015, the Fund pays fees to a subsidiary of the Vendor for computer services.

All of these transactions were concluded in the normal course of business and are measured at the exchange amount.

The following table presents amounts per category and period.

(‘000)	2007-06-16 (84 days)	2006-06-16 (84 days)	2007-06-16 (167 days)	2006-06-16 (167 days)
	$	$	$	$
Net sales to customers controlled by trustees	3,611	9,942	13,075	17,546
Rebates	3,004	2,867	5,228	4,993
Rent	468	468	936	936
IT services	192	132	297	247

Off-balance Sheet Transactions

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

Risks and Uncertainties

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

- *Dependence on affiliated-wholesalers*

  Sales generated by affiliated-wholesalers account for a significant portion 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 by the execution of agreements to amend the affiliate agreements to provide for an initial ten-year period, renewal provisions for two additional terms of five years and also provide for the granting of a right of first refusal by the affiliated-wholesalers to Colabor LP on their businesses. However, there is no assurance

that Colabor LP will be able to finance the exercise of such right of first refusal. Moreover, incentives are built in the contractual relationships existing between the affiliated-wholesalers, Colabor LP and the Vendor to encourage the 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 the affiliated-wholesalers. In addition, even if customers should decide to continue their relationship with the affiliated-wholesalers, there is no guarantee they will purchase the same volume of products as in the past or that they will pay the same price for those products as they have in the past. Any loss of customers by the affiliated-wholesalers, or decrease in the volume purchased or the price paid by them for products, could affect the Fund's sales and have an adverse effect on its financial condition and results of operations as well as on the amount of cash available for distribution to unitholders. In the past, affiliated-wholesalers, relying on their knowledge of their respective markets, have been able to differentiate themselves from their competitors by providing personalized services to their customers, in particular flexible delivery schedules and a product line tailored to their customers' needs. In management's view, there will be no change in this regard in the future.

- *Customer choices*

  Colabor's success also depends on the continuing interests of customers in its products. A change in customer choices could affect demand for Colabor's products.

- *Dependence on Cara*

  Subsequent to the Summit acquisition, sales to Cara (including franchisees of Cara) represented a significant portion of the Fund's sales. The loss of Cara as customer, a decrease in purchase by Cara or a decrease in Cara's market share in the foodservice industry could have a material and adverse effect on the Fund's financial condition, business, results of operations and liquidity. This risk has been mitigated by the execution of a ten-year distribution agreement, with a five-year renewal option.

- *Tax position*

  On October 31, 2006, the Minister of Finance of Canada announced a proposal to apply a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The documents released as part of this announcement provided that existing trusts would have a four-year transition period and would not be subject to the new rules until 2011. However, these documents also provide that the application date of 2011 is subject to the possible need to foreclose inappropriate new avoidance techniques. As an example, the proposals provided that, while there is now no intention to prevent existing income trusts from normal growth prior to 2011, any undue expansion of an existing income trust such as might be attempted through the insertion of a disproportionately large amount of additional capital could cause this to be revisited.

After the close of markets on December 15, 2006, i.e. after the underwriting agreement was signed and the preliminary prospectus was filed to arrange a portion of the financing required for the Summit asset acquisition, the Department of Finance issued a press release that provided guidance on what the Department means by “normal growth”. The Department indicated that it will not recommend that an income trust will not lose the benefit of the tax deferral to 2011 if the aggregate amount of new equity (including units and debt that is convertible into units) issued by it before 2008 does not exceed $50 million. The Department also provided other safe harbours limiting the issuance of new equity on an annual basis to a percentage of a trust’s market capitalisation as of October 31, 2006.

Draft legislation was tabled on December 21, 2006 which did not provide for any “normal growth” requirement. The March 19, 2007 budget confirmed the federal government’s intention of implementing the measures announced on October 31, 2006 and, finally, Bill 52 was tabled on March 29, 2007 which includes amendments to the *Income Tax Act* with respect to the taxation of income trusts, including the requirement that income trusts comply with the guidance in the December 15, 2006 press release. Parliament ratified Bill 52 on June 22, 2007.

The Fund’s public offering of trust units and convertible debentures, concurrently with the Summit acquisition exceeds both the $50 million threshold and the safe harbours based on market capitalisation. However, the Fund’s management believes that the Summit acquisition was sufficiently advanced that the financing arrangement preceded the Department’s guidance and that the type of financing to acquire the Summit assets could have been modified had the Fund been aware of the Department’s guidance at the time of signing the underwriting agreement with the underwriters. The Fund has initiated steps and met the Department of Finance to clarify Colabor’s situation. When it prepared the second quarter of 2007 financial statements, the Fund’s management decided to wait for the Department of Finance’s interpretation before considering whether the Fund is taxable and will keep unitholders apprised of any developments in this matter.

If the Fund is considered taxable, the Fund’s management intends to maintain its current distribution policy, which represents an annual distribution to unitholders of $1.076 per unit because, in the opinion of the Fund’s management, the Fund’s activities will make it possible to increase distributable cash available for distributions per unit during the first full year of operation following the Summit acquisition, both on an undiluted and fully diluted basis.

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 suppliers, goodwill and intangible assets.

- *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 its products are sold. The allowance, which reduces inventory to the net realizable value, is then applied against inventory in the balance sheet. Management has to make estimates and exercise judgement when determining these allowances. If actual market conditions are less favourable than management's assumptions, additional allowances may be required.

- *Accounting for rebates from supplies*

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

- *Goodwill and intangible assets*

  Goodwill is the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized. Each year, or more often if events or changes in circumstances indicate a decrease in fair value, it is tested for impairment. The impairment test involves comparing the fair value of the Fund's business with its carrying amount. If the carrying amount of the business exceeds its fair value, the Fund compares the fair value of any goodwill relating to the business to its carrying amount. An impairment loss equal to the amount of the excess is charged to earnings. The fair value of the business is calculated using discounted cash flows.

  Intangible assets include customer relationships and trademarks. Customer relationships are amortized on the straight-line basis over their estimated useful lives of 20 years for relationships with affiliated wholesalers and of 15 years for customer relationships with Cara. Trademarks are not amortized.

Controls and Procedures for Financial Information

To ensure that the consolidated financial statements and the MD&A present fairly, in all material respects, the financial position of the Fund and its operating results, it is the responsibility of management to establish and maintain controls and reporting procedures, and internal control of financial information. The Canadian Securities Administrators' adoption of regulations for reinforcing investors' confidence, in particular Multilateral Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, led the Fund to review its processes for filing these documents in 2005.

A policy on the disclosure of information provides a framework for the disclosure of information process presented in the annual and interim documents, and the other reports filed or sent in accordance with securities legislation. The policy identifies important information and validates related reporting. The disclosure committee, created last year, ensures compliance with this policy. The committee members reviewed the main documents filed with regulatory organizations to ensure that significant information relating to all transactions is reported on a timely basis.

During the 2006 fiscal year, management documented and evaluated the design of internal controls to provide reasonable assurance that the financial information is reliable and that the financial statements were established, for external reporting purposes, in accordance with Canadian generally accepted accounting principles. This work enabled the President and CEO and the Vice-president and CFO to attest to the efficiency of the design of internal control with respect to financial information.

The President and CEO and the Vice-president and CFO of the Fund also concluded that the controls and reporting procedures, as at June 16, 2007, were adequate to provide reasonable assurance as to the completeness and reliability of the financial information to be disclosed. During the quarter ended June 16, 2007, no change in internal control over financial information had a significant impact or is likely to have a significant impact on internal control over financial information.

Outlook

Following the acquisition of Summit, the Fund's management is consolidating its role in food distribution services in Canada for future years.

Firstly, Colabor will continue to benefit from its loyal and entrepreneurial affiliated-wholesalers network in Québec and the Atlantic provinces, its customer-driven distribution network, recent investments in information technology and low operating costs.

Secondly, the acquisition of Summit helps to:

- Create a major player in the foodservices industry that has a foothold in Ontario, one of the most important foodservices market in Canada;
- Significantly increase its purchasing power and ability to generate cost savings;
- Increase its distributable cash per unit through the growth of its operating revenue.

Additional Information

Additional information on Colabor Income Fund may be found on SEDAR at www.sedar.com and on its information site www.colaborincomefund.com.