



**Colabor Income Fund**  
**Interim Consolidated Financial Statements**  
**September 8, 2007 and 2006**  
**3<sup>rd</sup> Quarter**  
(unaudited)

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

## Colabor Income Fund Consolidated Earnings

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

	2007-09-08 (84 days)	2006-09-08 (84 days)	2007-09-08 (251 days)	2006-09-08 (251 days)
	\$	\$	\$	\$
Net sales	<u>195,488</u>	<u>91,285</u>	<u>558,365</u>	<u>263,279</u>
Earnings before financial expenses and amortization	6,798	3,215	17,772	8,262
Financial expenses	1,622	259	4,712	574
Amortization of property, plant and equipment	858	215	2,301	636
Amortization of intangible assets	<u>1,634</u>	<u>744</u>	<u>4,814</u>	<u>2,232</u>
	4,114	1,218	11,827	3,442
Earnings before non-controlling interest	2,684	1,997	5,945	4,820
Non-controlling interest	948	935	2,140	2,266
<b>Net earnings</b>	<u>1,736</u>	<u>1,062</u>	<u>3,805</u>	<u>2,554</u>
Basic and diluted net earnings per unit (Note 8)	<u>0.18 \$</u>	<u>0.18 \$</u>	<u>0.39 \$</u>	<u>0.44 \$</u>

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

**Colabor Income Fund**  
**Consolidated Deficit**  
**Consolidated Contributed Surplus**

(unaudited and in thousands of dollars)

	2007-09-08 (84 days)	2006-09-08 (84 days)	2007-09-08 (251 days)	2006-09-08 (251 days)
	\$	\$	\$	\$
<b>CONSOLIDATED DEFICIT</b>				
Balance, beginning of period	(3,330)	(695)	(977)	279
Net earnings	<u>1,736</u>	<u>1,062</u>	<u>3,805</u>	<u>2,554</u>
	(1,594)	367	2,828	2,833
Distributions declared	<u>2,663</u>	<u>1,529</u>	<u>7,085</u>	<u>3,995</u>
Balance, end of period	<u><u>(4,257)</u></u>	<u><u>(1,162)</u></u>	<u><u>(4,257)</u></u>	<u><u>(1,162)</u></u>
<b>CONSOLIDATED CONTRIBUTED SURPLUS</b>				
Balance, beginning of period	69	47	128	
Compensation cost from long-term incentive plan	53	34	144	81
Acquisition of units by participants of long-term incentive plan			(150)	
Balance, end of period	<u><u>122</u></u>	<u><u>81</u></u>	<u><u>122</u></u>	<u><u>81</u></u>

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

## Colabor Income Fund

### Consolidated Cash Flows

(unaudited and in thousands of dollars)

	2007-09-08 (84 days) \$	2006-09-08 (84 days) \$	2007-09-08 (251 days) \$	2006-09-08 (251 days) \$
<b>OPERATING ACTIVITIES</b>				
Net earnings	1,736	1,062	3,805	2,554
Non-cash items				
Amortization of property, plant and equipment	858	215	2,301	636
Amortization of intangible assets	1,634	744	4,814	2,232
Non-controlling interest	948	935	2,140	2,266
Compensation cost from long-term incentive plan	53	34	144	81
Accretion of difference between effective and nominal debenture rate	194		573	
	<u>5,423</u>	<u>2,990</u>	<u>13,777</u>	<u>7,769</u>
Changes in operating assets and liabilities	<u>5,757</u>	<u>3,575</u>	<u>8,678</u>	<u>4,768</u>
Cash flows from operating activities	<u>11,180</u>	<u>6,565</u>	<u>22,455</u>	<u>12,537</u>
<b>INVESTING ACTIVITIES</b>				
Business acquisition (Note 2)			(109,048)	
Property, plant and equipment	(134)	(249)	(584)	(463)
Cash flows from investing activities	<u>(134)</u>	<u>(249)</u>	<u>(109,632)</u>	<u>(463)</u>
<b>FINANCING ACTIVITIES</b>				
Bank loans	(8,658)	1,683	26,919	1,801
Distributions paid to unitholders	(1,775)	(1,011)	(6,715)	(3,970)
Distributions paid to holders of exchangeable Colabor LP units	(913)	(987)	(3,651)	(3,594)
Repayment of notes payable		(6,087)		(6,195)
Repayment of long-term debt	(78)	(78)	(312)	(312)
Repayment of security deposits				(468)
Purchase of units held by the Fund for long-term incentive plan		(301)	(238)	(448)
Issue of debentures (Note 2)			47,186	
Issue of trust units (Note 2)			24,171	
Cash flows from financing activities	<u>(11,424)</u>	<u>(6,781)</u>	<u>87,360</u>	<u>(13,186)</u>
<b>Net change in cash</b>	<u>(378)</u>	<u>(465)</u>	<u>183</u>	<u>(1,112)</u>
Bank overdraft, beginning of period	<u>(2,776)</u>	<u>(899)</u>	<u>(3,337)</u>	<u>(252)</u>
Bank overdraft, end of period	<u>(3,154)</u>	<u>(1,364)</u>	<u>(3,154)</u>	<u>(1,364)</u>

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

## Colabor Income Fund

### Consolidated Balance Sheets

(in thousands of dollars)

	2007-09-08 (unaudited) \$	2006-09-08 (unaudited) \$	2006-12-31 \$
<b>ASSETS</b>			
Current assets			
Accounts receivable	56,599	27,061	24,501
Withholding taxes recoverable	1,917		1,620
Inventory	44,080	23,957	24,049
Prepaid expenses	1,902	198	494
	<u>104,498</u>	<u>51,216</u>	<u>50,664</u>
Deferred financing expenses	107		
Property, plant and equipment	11,060	3,876	3,866
Intangible assets	119,228	67,816	66,823
Goodwill	33,610	13,459	13,459
	<u>268,503</u>	<u>136,367</u>	<u>134,812</u>
<b>LIABILITIES</b>			
Current liabilities			
Bank overdraft	3,154	1,364	3,337
Bank loans		9,801	3,377
Accounts payable and accrued liabilities	60,864	28,653	28,234
Distributions payable to unitholders	888	518	518
Distributions payable to holders of exchangeable Colabor LP units	456	456	456
Rebates payable	9,020	9,102	13,005
Deferred revenue	1,265	1,567	739
Instalments on long-term debt	468	468	468
	<u>76,115</u>	<u>51,929</u>	<u>50,134</u>
Bank loans	30,541		
Long-term debt	1,365	1,833	1,677
Debentures	44,973		
Accrued benefit liability for employee benefits	436		
Non-controlling interest	28,502	29,849	30,013
	<u>181,932</u>	<u>83,611</u>	<u>81,824</u>
<b>UNITHOLDERS' EQUITY</b>			
Unitholders' capital account	88,905	54,285	54,285
Option to convert debentures	2,337		
Contributed surplus	122	81	128
Units held for the long-term incentive plan	(536)	(448)	(448)
Deficit	(4,257)	(1,162)	(977)
	<u>86,571</u>	<u>52,756</u>	<u>52,988</u>
	<u>268,503</u>	<u>136,367</u>	<u>134,812</u>

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

# Colabor Income Fund

## Notes to Interim Consolidated Financial Statements

September 8, 2007

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

### 1 - BASIS OF PRESENTATION

These unaudited interim consolidated financial statements are in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. They are also consistent with the policies outlined in the Fund's audited financial statements for the year ended December 31, 2006 and those of Summit Food Services Distributors Inc. ("Summit") for the year ended April 2, 2006 as presented in the prospectus dated December 21, 2006 in connection with the acquisition of substantially all of the assets of Summit (see Note 2 - Public Share Offering and Business Acquisition). The interim financial statements should be read in conjunction with the previously mentioned financial statements.

### 2 - PUBLIC SHARE OFFERING AND BUSINESS ACQUISITION

On January 4, 2007, the Fund issued 2,825,000 subscription receipts at \$8.85 each ("subscription receipts") for a total of \$25,001,000 to purchase a Fund unit, and 7% extendible unsecured subordinate debentures totalling \$50,000,000 ("debentures").

On January 8, 2007, the Fund acquired substantially all of the net assets of Summit, a company carrying on business in the same sector as that of the Fund. The results of operation are consolidated in the earnings statement since the acquisition date.

At that date, the subscription receipts were exchanged for units. Moreover, the Fund issued 1,130,000 units at \$8.85 to the shareholder of Summit for a total of \$10,000,000. On January 28, 2007, there was a partial exercise of the over-allotment option by the underwriters of 120,000 units at \$8.85 per unit for a total of \$1,062,000.

After compensation of \$3,303,000 paid to underwriters and other expenses of \$1,404,000, the Fund's net proceeds were \$34,171,000 for units and \$47,186,000 for debentures.

Including direct acquisition costs of \$1,145,000, the preliminary purchase price allocation is determined as follows:

	\$
Current assets	59,979
Property, plant and equipment	8,911
Customer relationships	47,832
Trademarks	9,387
Goodwill	20,151
Current liabilities	(26,776)
Accrued social benefit liability	(436)
Preliminary purchase price	119,048
Units issued to Summit shareholder	10,000
Consideration paid in cash	109,048

The acquisition is financed as follows:

	\$
Purchase price	109,048
Issue expenses	1,404
Financing costs	245
	110,697

## Colabor Income Fund

### Notes to Interim Consolidated Financial Statements

September 8, 2007

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

#### 2 - PUBLIC SHARE OFFERING AND BUSINESS ACQUISITION (continued)

	\$
Net proceeds from issue of units (i)	34,761
Net proceeds from issue of debentures (i) (ii)	48,000
New credit facilities (iii)	37,936
	<u>120,697</u>

(i) Issue expenses of \$1,404,000 and the underwriters' compensation are applied against the units and debentures.

	\$
(ii) Liability component of debentures	44,827
Equity component of debentures	2,359
	<u>47,186</u>

(iii) The Fund negotiated new operating credit facilities with a banking syndicate for an amount of \$70,000,000, for three years.

#### 3 - CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Fund adopted recommendations of the CICA Handbook, Section 1530, Comprehensive Income; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; Section 3865, Hedges; and Section 3251, Equity. These sections apply to fiscal years beginning on or after October 1, 2006 and establish standards for the recognition, measurement, disclosure and presentation of financial assets and liabilities and non-financial derivatives, as well as the use and application of hedging. Section 1530 establishes standards for reporting and display of comprehensive income, which is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with generally accepted accounting principles, are recognized in comprehensive income, but excluded from net income.

According to these new standards, all financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale. Also, all financial liabilities must be classified as held for trading or other financial liabilities. All financial instruments are initially recorded in the balance sheet at their fair value. After their initial valuation, financial instruments must be measured at their fair value except for held-to-maturity investments or loans and receivables and other financial liabilities which must be recognized at amortized cost. The effective interest rate for financial liabilities and the gains and losses resulting from a change in the fair value of a financial asset or liability held for trading, are included in net earnings in the period in which they arise. If a financial asset is classified as available-for-sale, the gain or loss should be recognized in comprehensive income until the financial asset is derecognized, at which time the gain or loss will be recognized in net earnings.

## Colabor Income Fund

### Notes to Interim Consolidated Financial Statements

September 8, 2007

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

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#### **3 - CHANGES IN ACCOUNTING POLICIES (continued)**

The Fund classified accounts receivable as loans and receivables. The bank overdraft, accounts payable and accrued liabilities, bank loans, long-term debt and debentures were classified as other financial liabilities. These changes had no effect during the adoption of the new recommendations.

Transaction costs for financial liabilities considered as other financial liabilities are applied against these liabilities and amortized in net earnings under financial expenses.

#### **4 - REBATES FROM SUPPLIERS**

In connection with EIC-144, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*, the Fund is required to disclose the amount of any vendor rebate that has been recognized in income but for which the full requirements for entitlement have not yet been met. For the 251-day period ended September 8, 2007, the Fund recognized \$8,091,000 (\$4,743,000 in 2006) which has been estimated on the basis of meeting certain requirements to be entitled to the rebates.

#### **5 - LONG-TERM INCENTIVE PLAN**

On February 21, 2007, under the terms of the long-term incentive plan, 11,946 units were released (which cost \$150,000). On February 27, 2007, the Fund granted \$238,000 under the long-term incentive plan and 24,500 units were acquired on the market for this purpose. For the 251-day period ended September 8, 2007, past service compensation expense amounted to \$144,000 (\$81,000 in 2006) and \$53,000 (\$34,000 in 2006) for the 84-day period ended September 8, 2007.

#### **6 - EMPLOYEE FUTURE BENEFITS**

For the 251-day period ended September 8, 2007, total expenses for defined benefit pension plans amounted to \$108,000 (nil in 2006) and \$37,000 (nil in 2006) for the 84-day period ended September 8, 2007.

#### **7 - CONVERSION OF DEBENTURES**

On May 25, 2007 and on July 9, 2007, debentures of a nominal value of \$462,000 and \$10,000 respectively were converted into units according to rules in effect. The carrying amount of these debentures of \$427,000 and of the related option to convert of \$22,000 were recognized in the unitholders capital account.



## Colabor Income Fund

### Notes to Interim Consolidated Financial Statements

September 8, 2007

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#### 8 - EARNINGS PER UNIT

The following table presents basic and diluted earnings per unit:

	2007-09-08 (84 days)	
	Weighted average number of units	Earnings per unit
Earnings	\$	\$
Basic and diluted earnings per unit	<u>1,736</u>	<u>0.18</u>
	2006-09-08 (84 days)	
	Weighted average number of units	Earnings per unit
Earnings	\$	\$
Basic and diluted earnings per unit	<u>1,062</u>	<u>0.18</u>
	2007-09-08 (251 days)	
	Weighted average number of units	Earnings per unit
Earnings	\$	\$
Basic and diluted earnings per unit	<u>3,805</u>	<u>0.39</u>
	2006-09-08 (251 days)	
	Weighted average number of units	Earnings per unit
Earnings	\$	\$
Basic and diluted earnings per unit	<u>2,554</u>	<u>0.44</u>

The units hypothetically issued following the exchange of exchangeable Colabor LP units and the conversion of convertible debentures have not been included in the calculation of diluted earnings per unit because the impact is anti-dilutive.

## Colabor Income Fund

### Notes to Interim Consolidated Financial Statements

September 8, 2007

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#### **9 - CONTINGENCY**

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 capitalization 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 and 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 capitalization. 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 with the Department of Finance to clarify Colabor's situation. When it prepared the 2007 third-quarter financial statements, the Fund's management decided to wait for the Department of Finance's interpretation before considering whether the Fund is taxable.