COLABOR INCOME FUND

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

April 20, 2006

*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 of the first quarter of the year ending December 31, 2006, that is the 83-day period ended March 24, 2006. 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 Quebec under a Declaration of Trust dated 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 Investments Inc.* (the "*Vendor*", formerly *Colabor Inc.*) in the form of exchangeable units of the Fund.

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 food-service market segments serving Québec and the Atlantic provinces.

## Scope of MD&A

This MD&A covers the results of the Fund for the first quarter of the year ending December 31, 2006, that is the 83-day period between January 1 and March 24, 2006. It also covers to the 270-day period since the June 28, 2005 initial public offering, even though such results straddle two fiscal periods of the Fund, in order to provide readers with an idea of results over a longer period, as though they had been realized in a single year.

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 prior-year period and, in order to help readers compare, the Fund's results have been compared with the results of the Vendor for the 84-day period ended March 25, 2005, and these results were corrected to reflect special aspects of the Fund's activities, in particular customer rebates and amortization of intangible assets. This also applies to the 270-day period ended March 25, 2005.*

**Highlights of the 83-day Period Ended March 24, 2006**

- Increase in gross sales of about 1.5% and earnings before financial expenses and amortization (EBITDA) of $241,000, or **16.3%** compared to the same period last year;
- Distributable cash per unit: $0.1435; distributed cash per unit: $0.2365; distribution ratio of distributable cash: 164.8% (See Distributable Cash);
- Increase in net earnings of 116,000 $, or 55% compared to the same period last year.

**Highlights of the 270-day Period Ended March 24, 2006**

- Increase in gross sales of about 4.4% and earnings before financial expenses and amortization (EBITDA) of $1,304,000, or **14%** compared to the same period last year;
- Distributable cash per unit: $0.8911; distributed cash per unit: $0.7572; distribution ratio of distributable cash: 85.0%;
- Increase in net earnings of $670, 000, or 22.8% compared to the same period last year.

# Results of Operations

**Colabor Income Fund**
**Consolidated Earnings**
('000)

| | Quarter ended | | | | | Periods ended | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | March 24, 2006 (83 days) | | March 25, 2005 (84 days) | | Change % | March 24, 2006 (270 days) | | March 25, 2005 (270 days) | | Change % |
| **Sales** | 75,698 | 100.0% | 74,601 | 100.0% | 1.5% | 297,354 | 100.0% | 284,884 | 100.0% | 4.4% |
| Rebates | 2,235 | 3.0% | 2,198 | 2.9% | 1.7% | 8,799 | 3.0% | 8,414 | 3.0% | 4.6% |
| Net sales | 73,463 | 97.0% | 72,403 | 97.1% | 1.5% | 288,555 | 97.0% | 276,470 | 97.0% | 4.4% |
| Cost of sales | 73,894 | 97.6% | 72,971 | 97.8% | 1.3% | 290,525 | 97.7% | 279,039 | 97.9% | 4.1% |
| Rebates from suppliers | 4,959 | 6.6% | 4,687 | 6.3% | 5.8% | 21,386 | 7.2% | 20,340 | 7.1% | 5.1% |
| | 68,935 | 91.0% | 68,284 | 91.5% | 1.0% | 269,139 | 90.5% | 258,699 | 90.8% | 4.0% |
| **Gross profit** | 4,528 | 6.0% | 4,119 | 5.6% | 9.9% | 19,416 | 6.5% | 17,771 | 6.2% | 9.3% |
| Selling, distribution and administration expenses | 2,804 | 3.7% | 2,636 | 3.5% | 6.4% | 8,822 | 3.0% | 8,481 | 3.0% | 4.0% |
| Earnings before financial expenses and amortization | 1,724 | 2.3% | 1,483 | 2.1% | 16.3% | 10,594 | 3.5% | 9,290 | 3.2% | 14.0% |
| Financial expenses | 149 | 0.2% | 109 | 0.1% | 36.7% | 576 | 0.2% | 459 | 0.2% | 25.5% |
| Amortization of property, plant and equipment | 208 | 0.3% | 225 | 0.3% | -7.6% | 740 | 0.2% | 811 | 0.3% | -8.8% |
| Amortization of intangible assets | 744 | 1.0% | 744 | 1.0% | 0.0% | 2,396 | 0.8% | 2,396 | 0.8% | 0.0% |
| | 1,101 | 1.5% | 1,078 | 1.4% | 2.4% | 3,712 | 1.2% | 3,666 | 1.3% | 2.4% |
| Earnings before non-controlling interest | 623 | 0.8% | 405 | 0.7% | 53.8% | 6,882 | 2.3% | 5,624 | 1.9% | 22.4% |
| Non-controlling interest | 296 | 0.4% | 194 | 0.3% | 52.6% | 3,269 | 1.1% | 2,681 | 0.9% | 21.9% |
| **Net earnings** | 327 | 0.4% | 211 | 0.4% | 55.0% | 3,613 | 1.2% | 2,943 | 1.0% | 22.8% |
| Basic and diluted net earnings per unit | 0.06 $ | | 0.04 $ | | | 0.63 $ | | 0.51 $ | | |

## 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 food-service segments. Products are sold either directly from its Distribution Centre ("warehouse sales") or through direct delivery from manufacturers and suppliers ("direct sales"). Gross profit is generated primarily from warehouse sales.

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

**Colabor Income Fund**
**Sales by channel**
('000)

| | Quarter ended | | | | | Periods ended | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | March 24, 2006 (83 days) | | March 25, 2005 (84 days) | | Change % | March 24, 2006 (270 days) | | March 25, 2005 (270 days) | | Change % |
| **Retail** | | | | | | | | | | |
| Private labels | 1,377 | 1.8% | 1,480 | 2.0% | -7.0% | 5,775 | 1.9% | 5,533 | 2.0% | 4.4% |
| Branded products | 22,104 | 29.2% | 24,407 | 32.7% | -9.4% | 94,391 | 31.8% | 97,229 | 34.1% | -2.9% |
| | **23,481** | **31.0%** | **25,887** | **34.7%** | **-9.3%** | **100,166** | **33.7%** | **102,762** | **36.1%** | **-2.5%** |
| **Foodservice** | | | | | | | | | | |
| Private labels | 5,731 | 7.6% | 6,046 | 8.1% | -5.2% | 25,621 | 8.6% | 24,535 | 8.6% | 4.4% |
| Branded products | 25,867 | 34.2% | 23,368 | 31.3% | 10.7% | 96,275 | 32.4% | 86,033 | 30.2% | 11.9% |
| Frozen food | 20,619 | 27.2% | 19,300 | 25.9% | 6.8% | 75,292 | 25.3% | 71,554 | 25.1% | 5.2% |
| | **52,217** | **69.0%** | **48,714** | **65.3%** | **7.2%** | **197,188** | **66.3%** | **182,122** | **63.9%** | **8.3%** |
| **Total sales** | **75,698** | **100.0%** | **74,601** | **100.0%** | **1.5%** | **297,354** | **100.0%** | **284,884** | **100.0%** | **4.4%** |
| **Warehouse and direct sales** | | | | | | | | | | |
| Warehouse sales | 48,273 | 63.8% | 48,627 | 65.2% | -0.7% | 202,601 | 68.1% | 186,484 | 65.5% | 8.6% |
| Direct sales | 27,425 | 36.2% | 25,974 | 34.8% | 5.6% | 94,753 | 31.9% | 98,400 | 34.5% | -3.7% |
| **Total sales** | **75,698** | **100.0%** | **74,601** | **100.0%** | **1.5%** | **297,354** | **100.0%** | **284,884** | **100.0%** | **4.4%** |

Readers are reminded that the first quarter coincides with the Company's least active period (see Distributable Cash). For the 83-day period ended March 24, 2006, sales rose to $75,698,000, up 1.5%, or $1,097,000 from the same period in the prior year, which was also one day longer. In the food sector in general, the first quarter was characterized by sluggish activity.

Brand name products increased by about 0.4% in the quarter and 4.0% for the 270-day period. The increase is primarily attributable to the food-services sector, in particular as a result of the recruitment of new distributors to serve this sector.

Demand for frozen foods continues to increase and is up 6.8% compared to the same period in the previous year.

**Rebates**

Rebates to affiliated-wholesalers were 3% of their sales, as provided in the agreement between Colabor LP and the affiliated-wholesalers of the Vendor, whereas the rebate rate on sales to other customers was 2.25% of their sales.

**Gross Profit**

The Company's gross profit is composed of the following:

- Profit on *gross warehouse sales only*, which consists primarily of a profit margin on private brand-name products and profit on inventory held. No profit margin on direct sales is recognized. Income is attributed on such sales for purposes of rebates from supplier only.

- 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 83-day period ended March 24, 2006, gross profit rose 9.9%, or $409,000 compared to the same quarter in 2005-following an increase in profit margins on sales of products in warehouse and higher rebates from suppliers as a result of more profitable agreements with suppliers stemming from the significant increase in purchases in the 2005 year.

**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.

During the 83-day period of 2006, these expenses increased by $168,000 or 6.4% over the same period in 2005. The increase is primarily attributable to salary increases granted in January and higher fixed costs, essentially for real estate taxes. As a percentage of gross sales, although the rate increase to 3.7% for the first quarter of 2006, compared to 3.5% for the same quarter in 2005, it is unchanged at 3.0% for the 270-day period ended March 24, 2006 compared to the same period in 2005.

### Earnings Before Financial Expenses and Amortization

These earnings are used as a basis to calculate distributable cash and increased by $241,000 or 16.3%, compared to the same period in the previous year. The rate on gross sales increased from 2.1% in the 2005 first quarter to 2.3% for the same quarter in 2006. It also increased to 3.5% for the 270-day period ended March 25, 2006 from 3.2% form the period ended on March 25, 2005.

### Financial Expenses

Financial expenses increased by $40,000 to $149,000 for the first quarter of 2006 compared to 2005. This increase is mainly attributable to higher interest rates on a larger bank loan as a result of higher receivables and inventory coupled with higher bank rates compared to 2005.

### Amortization

Amortization of property, plant and equipment

Amortization of property, plant and equipment dropped $17,000 to $208,000 for the quarter ended in 2006 compared to 2005. Amortization is comprised of the amortization of furniture and fixtures, warehouse equipment and warehouse vehicles, computer hardware, computer software and leasehold improvements. The decrease is primarily attributable to the use of the diminishing balance method to amortize property, plant and equipment.

Amortization of intangible assets

If the Fund had been in operation in 2005, amortization of customer relationships expenses would have been similar to those for the 83-day period ended March 24, 2006, since customer relationships are amortized on a straight-line basis over their estimated useful lives of 20 years.

## 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, 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, a significant 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 current annual distribution per unit should be $1.025.

The following table sets forth the calculation of distributable cash for the 83-day period ended March 24, 2006 and illustrates the seasonality of Colabor's business. To offset this seasonality, the table also presents distributable cash for the 270-day period then ended, that is from June 28, 2005, the start of the Fund's operations.

(000s)

| | | 2006-03-24 (83 days) | 2006-03-24 (270 days) |
|---|---|---|---|
| | | $ | $ |
| Earnings before financial expenses and amortization (as per Fund's financial statements) | | 1,724 | 10,594 |
| Deduct: | | | |
| Financial expenses | | (149) | (576) |
| Acquisition of property, plant and equipment | | (16) | (338) |
| **Distributable Cash** | | **1,559** | **9,680** |
| Number of units: | | | |
| Colabor LP ordinary units | 5,775,000 | | |
| Exchangeable Colabor LP units held by the vendor | 5,087,439 | **10,862,439** | **10,862,439** |
| **Distributable cash per unit** | | **0.1435** | **0.8911** |
| Distributions declared (as specified in the June 17, 2005 prospectus) | | | |
| From June 28, 2005 to July 31, 200 ($0.0937) | | | 1,018 |
| From August 1, 2005 to February 28, 2006 ($0.0854/months) | | 1,855 | 6,493 |
| Estimate for period of March 1 to March 24, 2006 | | 714 | 714 |
| | | **2,569** | **8,225** |
| **Distributable cash per unit** | | **0.2365** | **0.7572** |
| **Distribution ratio of distributable cash** | | **164.8%** | **85.0%** |

Distributions were paid from cash from operating activities.

## Liquidity and Cash Resources

During the period, the Fund generated cash flows from operations of about $5,329,000. It acquired $16,000, in property, plant and equipment, paid distributions to public unitholders and holders of exchangeable units of Colabor LP of about $2,782,000, repaid $117,000 in long-term debt and fully repaid $468,000 in security deposits from customers following a new payment guarantee agreement with the Vendor.

The Fund has a $30-million operating line credit available. As at March 24, 2006, the Fund has used $6 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.

The Fund is required to comply with a financial ratio (Debt/Earnings before financial expenses, income taxes, depreciation and amortization and customer rebates less than 1.75:1.00) under the terms of the credit agreement with a lending institution. Based on the institution's method of calculation, this ratio is about 0.34:1.00 for the period ended March 24, 2006.

## Contractual Obligations

| (000s) | | | 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 | 2,496 | 468 | 936 | 936 | 156 |
| Operating lease | 34,733 | 2,028 | 4,056 | 4,056 | 24,593 |
| Outsourcing of computer services | 4,801 | 518 | 1,036 | 1,036 | 2,211 |
| Total | 42,030 | 3,014 | 6,028 | 6,028 | 26,96, |

## Summary of Past Three Quarters

| (000s) | 2005-09-09 (74 days) | 2005-12-31 (113 days) | 2006-03-24 (83 days) |
|---|---|---|---|
| | $ | $ | $ |
| Sales | 81,547 | 140,109 | 75,698 |
| Earnings before financial expenses and amortization | 2,964 | 5,906 | 1,724 |
| Net earnings | 1,016 | 2,270 | 327 |
| Basic and diluted earnings per unit | 0.18 | 0.39 | 0.06 |

## Related Party Transactions

Subsequent to the initial public offering, the Fund indirectly acquired a 53.2% interest in Colabor LP.

The remaining 46.8% interest in Colabor LP is held by the Vendor as exchangeable Colabor LP units, which provides it with significant influence.

Related party transactions consist of the following:

- 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;

- Sales to customers controlled by the Fund's trustees. These sales are under the same terms as those to other customers of the Fund;

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

All 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.

| (000s) | 2006-03-24 (83 days) | 2006-03-24 (270 days) |
|---|---|---|
| | $ | $ |
| Sales to customers controlled by the trustees | 7,840 | 29,463 |
| Rebates | 2,126 | 8,704 |
| Computer services | 115 | 498 |

## 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 nearly 88% 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 the Fund's sales and result in an adverse effect on its 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 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 the products are sold. The allowance, which reduces inventory to the net realizable value, is 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 and intangible assets*

  Goodwill is the excess of the cost of acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is impaired. The impairment test consists of a comparison of the fair value of the Fund's business with its carrying amount. When the carrying amount of the business exceeds the fair value, the Fund compares the fair value of any goodwill relating to the business to its carrying amount. An impairment loss is recognized in earnings in an amount equal to the excess. The fair value of the business is calculated using discounted cash flows.

  Intangible assets include customer relationships and trademarks. Customer relationships are amortized on a straight-line basis over their estimated useful lives of 20 years and trademarks are not amortized.

## Outlook

Although sales for the first quarter of 2006 rose by only 1.5% compared to the first quarter of 2005, earnings before financial expenses and amortization increased by 16.3%, a clear indication of the company's ability to generate profit.

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 and at its information site www.fondsderevenucolabor.com.

## Notice Regarding the Review of Interim Financial Statements

These interim financial statements as at March 24, 2006 have not been reviewed by the Fund's auditor.