



COLABOR INCOME FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

**84-DAY PERIOD (3rd QUARTER) ENDED SEPTEMBER 6
FOR THE YEAR ENDING DECEMBER 31, 2008**

October 1, 2008



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October 1, 2008

1. Scope of MD&A

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 September 6, 2008 (3rd quarter) of the fiscal year ending December 31, 2008. These financial statements are in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The financial statements have been published on SEDAR at www.sedar.com.

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.

This report also contains information that is a non-GAAP measure of performance, such as the concept of earnings before financial expenses, income taxes and amortization (EBITDA) and the concept of standardized distributable cash. Since these concepts are not defined in Canadian GAAP, they may not be comparable with those of other funds.

2. 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*.

3. General

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

The Fund owns a 74% interest in Colabor, Limited Partnership ("Colabor LP"), a limited partnership established under the laws of Quebec pursuant to a limited partnership agreement dated May 19, 2005, and amended June 28, 2005. The Fund carries out its business activities through Colabor LP.

Additional Information

Additional information on Colabor Income Fund may be found on SEDAR at www.sedar.com and on its information sites: www.colaborincomefund.com, www.colabor.com, www.summitfoods.com and www.dbertrand.ca.

4. Corporate Profile

Activities

Colabor was founded in 1962 and is a wholesaler and master food distributor serving the retail (small-sized grocery stores, convenience stores, etc.) and foodservice (cafeterias, restaurants, hotels, restaurant chains, etc.) markets.

It currently carries out its activities in two segments:

Wholesale Segment (Boucherville):

Sales of this Segment consist 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 Quebec and the Atlantic provinces. Approximately 90% of this Division's sales are covered by long-term contracts.

Products are sold either directly from its Distribution Centre ("warehouse sales") or through direct delivery from manufacturers and suppliers to the warehouses of wholesale distributors ("direct sales").

This Segment generally sells its products at the manufacturers' and suppliers' list price. Accordingly, it generates gross profit on sales as follows:

a) From a profit on warehouse sales:

Through a mark-up of the cost price of its private brand-name products and by making purchases from manufacturers and suppliers before a price increase and subsequently selling such products at the manufacturer's new price. There is no profit margin on direct sales.

b) Primarily from rebates from suppliers:

These rebates consist of: (i) agreements with suppliers relating principally to distribution agreements, central billing, truck load allowances and other incentives, (ii) rebates received from suppliers based on buying volumes, (iii) cash discounts on purchases based on terms of sale, and (iv) net advertising funds received in connection with promotional activities.

This Segment operates a 371,120 square-foot distribution centre in Boucherville that employs 150 people and could be expanded to 650,000 square feet.

Distribution Segment

This Segment includes the following operating activities:

1. *Summit Food Service Distributors*

On January 8, 2007, Colabor LP acquired substantially all of the assets of *Summit Food Service Distributors Inc.* (“Summit”), one of the major foodservice distributors in the industry in Canada, 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), Compass, Extendicare, other foodservice chains and independent restaurants as well as to institutions including hospitals, schools and government institutions. Summit’s product line includes frozen products, dry staples, dairy products, meat, seafood, poultry and sanitation products.

This Division services the Ontario market primarily, but also distributes Cara restaurant products in Quebec.

Prior to the acquisition of *Bruce Edmeades Foodservice Distribution* described below, this division, with about 500 employees, operated three distribution centers, including the London head office, where administrative services are located.

These warehouses cover a total of 345,016 square feet, allocated as follows:

Toronto: 127,961 square feet

London: 113,595 square feet (could be expanded)

Ottawa: 103,460 square feet (could be expanded)

On March 17, 2008, Colabor completed the acquisition of substantially all of the assets of *Bruce Edmeades Foodservice Distribution* (“Bruce Edmeades”), one of the leading foodservice distributors in the Canadian industry with annual revenues exceeding \$230 million for the year ended December 31, 2007.

Bruce Edmeades offers about 9,000 products and operates mainly out of an approximately 130,000 square-foot HACCP-certified warehouse in Cambridge, Ontario. It distributes to customers primarily in Southern Ontario, but also across Canada servicing several large and well-known customers, including Wendy’s, Mr. Sub and Zehrs and other customers operating in the restaurant, healthcare and education industries.

Bruce Edmeades is currently being integrated into the Summit Division. The integration is discussed in greater detail below, under Integration and Synergies.

2. Bertrand Distributeur en alimentation

On April 28, 2008, Colabor acquired all the outstanding shares of *Gestion Bertrand & Frères Inc.* (now called *Bertrand Distributeur en alimentation*) (“Bertrand”), a leading independent distributor of food in Eastern Quebec and one of Colabor’s most important affiliated wholesalers.

Bertrand, whose sales totalled \$159 million for the 12-month period ended December 21, 2007, is a major distributor to foodservice and retail customers in the Québec City and Saguenay regions. The Company, which employs approximately 400 people, distributes over 12,000 products from its two strategically located warehouses in Lévis and Saguenay, totalling 231,000 and 133,000 square feet, respectively. Bertrand's customers consist primarily of foodservice operators, specialty food stores, institutional accounts such as healthcare institutions, schools and universities, certain other retail customers, in all reaching approximately 4,000 customers. With a complete product offering, including frozen products, dry staples, dairy products, fresh meat, fresh fish and seafood, poultry, fresh fruits and vegetables, disposables and sanitation products as well as meat transformation and preparation services, Bertrand therefore offers a “one-stop-shop” solution to its customers.

This Segment generates gross profit on sales as follows:

a) From a profit on warehouse sales:

Generated primarily from a mark-up of the cost price of products pursuant to rates negotiated with its customers.

b) From rebates from suppliers:

These rebates consist of: (i) rebates received from suppliers based on buying volumes, (ii) cash discounts on purchases based on terms of sale, and (iii) net advertising funds received in connection with promotional activities.

Almost 50% of this Segment’s sales are covered by long-term contracts.

A significant percentage of the sales activities of the Fund’s two segments is secured by long-term agreements and manufacturers’ and suppliers’ cost increases which can be passed on to customers, thereby significantly reducing its risk.

5. Main Resources and Competencies

5.1 Board of Trustees

The members of the Board of Trustees are listed below:

<u>Trustee</u>	<u>Role</u>	<u>Occupation</u>
Jacques Landreville	Chairman	Corporate Director
Richard Lord	Trustee and Chairman, Human Resources and Corporate Governance Committee	President and Chief Executive, Quincaillerie Richelieu Ltée
Robert Panet-Raymond	Trustee and Chairman, Audit Committee	Corporate Director
Claude Gariépy	Trustee	Executive Vice-President and Chief Executive Officer, Familiprix Inc.
Donald Dubé	Trustee	President, Edfrex Inc.

5.2 Management

Gilles C. Lachance	President and Chief Executive Officer	Colabor, Limited Partnership
Michel Loignon CA	Vice-President and Chief Financial Officer	Colabor Limited Partnership
Jack Battersby	President	Colabor Limited Partnership, Summit Division
Marko Potvin	Vice-President, Corporate Purchasing	Colabor Limited Partnership
Denis Melançon	Vice-President and General Manager	Bertrand Distributeur en Alimentation, subsidiary of Colabor Limited Partnership
Louise Laforce	Vice-President Human Resources	Colabor Limited Partnership

6. Performance Analysis

6.1 Results of Operations

The results of operations below should be read taking the following into account:

- Results subsequent to the Bruce Edmeades acquisition are included for the entire quarter without a comparison to 2007;
- Results subsequent to the Bertrand Distributeur en alimentation acquisition are included for the entire quarter, also without a comparison to 2007;
- Integration costs and synergies from these acquisitions (see Integration and Synergies).

Consolidated Earnings (in thousands of dollars, except per unit amounts)

	2008-09-06 (84 days) (unaudited)		2007-09-08 (84 days) (unaudited)		Variance	
	\$	%	\$	%	\$	%
Sales	<u>288,446</u>	<u>100.00%</u>	<u>195,488</u>	<u>100.00%</u>	<u>92,958</u>	<u>47.55%</u>
Earnings before the following items	<u>10,014</u>	<u>3.47%</u>	<u>6,798</u>	<u>3.48%</u>	<u>3,216</u>	<u>47.31%</u>
Financial expenses	1,813	0.63%	1,622	0.83%	191	11.78%
Amortization of property, plant and equipment	975	0.34%	858	0.44%	117	13.64%
Amortization of intangible assets	1,633	0.57%	1,634	0.84%	(1)	-0.06%
	<u>4,421</u>	<u>1.54%</u>	<u>4,114</u>	<u>2.11%</u>	<u>307</u>	<u>7.46%</u>
Earnings before income taxes and non-controlling interest	<u>5,593</u>	<u>1.93%</u>	<u>2,684</u>	<u>1.37%</u>	<u>2,909</u>	<u>108.38%</u>
Income taxes						
Current	1,224	0.42%			1,224	
Future	297	0.10%			297	
	<u>1,521</u>	<u>0.52%</u>			<u>1,521</u>	
Earnings before non-controlling interest	<u>4,072</u>	<u>1.41%</u>	<u>2,684</u>	<u>1.37%</u>	<u>1,388</u>	<u>51.71%</u>
Non-controlling interest	<u>1,761</u>	<u>0.61%</u>	<u>948</u>	<u>0.48%</u>	<u>813</u>	<u>85.76%</u>
Net earnings	<u>2,311</u>	<u>0.80%</u>	<u>1,736</u>	<u>0.89%</u>	<u>575</u>	<u>33.12%</u>
Basic and diluted earnings per unit	<u>\$ 0.16</u>		<u>\$ 0.18</u>			

	2008-09-06 (250 days) (unaudited)		2007-09-08 (251 days) (unaudited)		Variance	
	\$		\$		\$ %	
Sales	<u>747,196</u>	<u>100.00%</u>	<u>558,365</u>	<u>100.00%</u>	<u>188,831</u>	<u>33.82%</u>
Earnings before the following items	<u>24,797</u>	<u>3.32%</u>	<u>17,772</u>	<u>3.18%</u>	<u>7,025</u>	<u>39.53%</u>
Financial expenses	4,864	0.65%	4,712	0.84%	152	3.23%
Amortization of property, plant and equipment	2,496	0.33%	2,301	0.41%	195	8.47%
Amortization of intangible assets	5,093	0.68%	4,814	0.86%	279	5.80%
	<u>12,453</u>	<u>1.66%</u>	<u>11,827</u>	<u>2.11%</u>	<u>626</u>	<u>5.29%</u>
Earnings before income taxes and non-controlling interest	<u>12,344</u>	<u>1.66%</u>	<u>5,945</u>	<u>1.07%</u>	<u>6,399</u>	<u>107.64%</u>
Income taxes						
Current	2,543	0.34%			2,543	
Future	1,490	0.20%			1,490	
	<u>4,033</u>	<u>0.54%</u>			<u>4,033</u>	
Earnings before non-controlling interest	8,311	1.12%	5,945	1.07%	2,366	39.80%
Non-controlling interest	4,262	0.57%	2,140	0.38%	2,122	99.16%
Net earnings	<u>4,049</u>	<u>0.55%</u>	<u>3,805</u>	<u>0.69%</u>	<u>244</u>	<u>6.41%</u>
Basic and diluted earnings per unit	<u>\$ 0.33</u>		<u>\$ 0.39</u>			

Sales

Sales consist of:

For the Wholesale Segment: Gross sales to customers from the Boucherville warehouse and direct sales to affiliated wholesalers, less rebates of 3% of the affiliated-wholesalers' sales, as provided in the agreement between Colabor LP and the affiliated-wholesalers.

For the Distribution Segment: Gross sales to customers from the London, Mississauga, Ottawa, Cambridge, Lévis and Saguenay warehouses less rebates, as provided in individual agreements with these customers.

Inter-segment sales are then eliminated.

Sales (in thousands of dollars, unaudited)

	2008-09-06 (84 days)			2007-09-08 (84 days)			Variance		Variance	
	(Comparable sales)	(Post-acquisition sales)	(Total sales)	(Comparable sales)	(Comparable sales)		(Total sales)			
	\$	\$	\$	\$	\$	%	\$	%		
Wholesale Segment										
Retail	29,350		29,350	29,874	(524)	-1.8%	(524)	-1.8%		
Foodservice	78,958		78,958	69,418	9,540	13.7%	9,540	13.7%		
	108,308		108,308	99,292	9,016	9.1%	9,016	9.1%		
Distribution Segment										
Foodservice	99,874	96,416	196,290	96,490	3,384	3.5%	99,800	103.4%		
	208,182	96,416	304,598	195,782	12,400	6.3%	108,816	55.6%		
Inter-segment elimination	(1,063)	(15,089)	(16,152)	(294)	(769)	N/A	(15,858)	N/A		
	207,119	81,327	288,446	195,488	11,631	5.9%	92,958	47.6%		
	2008-09-06 (250 days)			2007-09-08 (251 days)			Variance		Variance	
	(Comparable sales)	(Post-acquisition sales)	(Total sales)	(Comparable sales)	(Comparable sales)		(Total sales)			
	\$	\$	\$	\$	\$	%	\$	%		
Wholesale Segment										
Retail	86,169		86,169	81,943	4,226	5.2%	4,226	5.2%		
Foodservice	218,636		218,636	197,092	21,544	10.9%	21,544	10.9%		
	304,805		304,805	279,035	25,770	9.2%	25,770	9.2%		
Distribution Segment										
Foodservice	285,461	184,113	469,574	279,689	5,772	2.1%	189,885	67.9%		
	590,266	184,113	774,379	558,724	31,542	5.6%	215,655	38.6%		
Inter-segment elimination	(2,054)	(25,129)	(27,183)	(359)	(1,695)	N/A	(26,824)	N/A		
	588,212	158,984	747,196	558,365	29,847	5.3%	188,831	33.8%		

Wholesale Segment

The Wholesale Segment continues to experience significant sustained organic growth of 9.1% for the quarter and 9.2% for the cumulative period, at a faster pace than in the 2007 fiscal period, which was about 6.6%.

Retail

Sales of products for the retail market are down slightly by 1.8% for the quarter, while posting growth of 5.2% for the cumulative 250-day period compared with the prior year's corresponding period. The primary reason for the quarter decline is attributable to a major confectionary products customer postponing deliveries of seasonal products to the fourth quarter.

Foodservice

Organic growth in the affiliated wholesalers' foodservice sales continues to outpace industry levels, anticipated to be 3.3% in 2008 according to the Canadian Restaurant and Foodservices Association (CRFA), an indication that affiliated wholesalers are continuing to increase their market share compared with their competitors. The increase was about 13.7% for the quarter and 10.9% for the cumulative 250-day period.

The increase is partially attributable to the acquisition, by an affiliated-wholesaler serving the Gaspé and Lower St. Lawrence region in Quebec, of the activities of its main competitor.

Distribution Segment

2007 comparable sales:

Only sales in the Summit Division are comparable. Sales for the first week of January 2008, of approximately \$7.5 million are not included in the comparison for the cumulative period, since the acquisition occurred on January 8, 2007. The 3.5% increase in sales during the third quarter over the prior year's sales is comparable with the CFRA's expected growth of 3.3%. The cumulative 250-day period nevertheless posted growth of 2.1% despite a difficult first quarter attributable to the economic situation in Ontario and a severe winter.

Sales attributable to acquisitions:

	<u>3rd Quarter</u>	<u>Cumulative</u>
Bruce Edmeades	\$53.4M	\$107.5M
Bertrand	\$43.0M	\$69.1M
Summit (1 st week of January 2008)		\$7.5M

Bertrand is currently experiencing strong sales growth due to the festivities surrounding the 400th anniversary of the founding of Québec City.

Inter-segment elimination

Eliminated sales are sales by the Wholesale Segment to the Summit and Bertrand divisions of the Distribution Segment.

Earnings Before Financial Expenses, Income Taxes and Amortization (EBITDA)

The Fund posted solid results again in the third quarter, with an approximate 47.3% increase in EBITDA over the same quarter of the 2007 fiscal year and 39.5% for the 250-day period. The increase in earnings is virtually identical to the 47.5% increase in sales for the quarter, but 5.7% higher than the 33.8% increase in sales for the cumulative 250-day period.

Gross Profit and Synergies

Gross Profit:

Gross profit is composed of the following items:

- Wholesale Segment: 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 is recognized on direct sales. Income is attributed on such sales for purposes of rebates from suppliers only.
Distribution Segment: Product acquisition cost with a percentage mark-up that is market-driven or negotiated in current agreements.
- Rebates from suppliers
A significant portion of Colabor's gross profit is derived from rebates from suppliers. These rebates consist of: (i) agreements with suppliers relating principally to distribution agreements, central billing, truck load allowances and other incentives, (ii) rebates received from suppliers based on buying volumes, (iii) cash discounts on purchases based on terms of sale, and (iv) net advertising funds received in connection with promotional activities.

EBITDA for the quarter increased from \$6.8M in 2007 to over \$10M in 2008. For the cumulative 250-day period, EBITDA is \$24.8M compared with \$17.8M in 2007, primarily as a result of:

- Significant organic growth in the Wholesale Segment which generated better agreements with suppliers.
- The Bertrand acquisition, which has already made it possible to generate a number of sales synergies (see *Integration and Synergies*).

These factors helped to offset the negative effect of the following on EBITDA:

- Skyrocketing fuel prices.
While the Summit division is able to recover fuel costs from its clients, additional net costs attributable to rising fuel costs were almost \$230,000 for the quarter and \$480,000 for the 250-day period ended September 6, 2008 compared to the same period in 2007.
- Bruce Edmeades' approximate \$1M operating loss since its acquisition

At the time of preparing the second quarter MD&A, we had reported that the operating loss from the Bruce Edmeades acquisition was only \$150,000.

While the Company's overall results had been correctly presented at the time, a number of inter-warehouse expenses had been incorrectly charged to the newly acquired division. The corrections were made during the third quarter.

Income Taxes

The acquisition of the assets of *Summit Food Service Distributors Inc.* was finalized and carried out on January 8, 2007. Under the new tax regime for “specified investment flowthrough” (“SIFT”) entities, also called listed income trusts and partnerships, SIFTs are now subject to a similar tax treatment as corporations. This new tax treatment is applicable as of fiscal year 2007. However, existing SIFTs on October 31, 2006 could benefit from certain transitional rules and would not be taxable under the new rules until 2011, provided they had not undergone an “undue expansion”. As indicated in its decision rendered at the end of 2007, the Department of Finance considered the Summit acquisition transaction as an undue expansion. Accordingly, the Fund does not benefit from the transitional rules and is therefore subject to the new SIFT tax regime as of the 2007 taxation year. Since the total amount these taxes for the entire the 2007 year was recognized only in the fourth quarter of 2007, there is no comparative amount with the third quarter and cumulative period of 2007.

6.2 Cash Flow

Consolidated Cash Flows (in thousands of dollars)

	2008-09-06 (84 days) (unaudited) \$	2007-09-08 (84 days) (unaudited) \$	2008-09-06 (250 days) (unaudited) \$	2007-09-08 (251 days) (unaudited) \$
OPERATING ACTIVITIES				
Net earnings	2,311	1,736	4,049	3,805
Non-cash items				
Amortization of property, plant and equipment	975	858	2,496	2,301
Amortization of intangible assets	1,633	1,634	5,093	4,814
Amortization of deferred financing expenses	29	19	72	57
Non-controlling interest	1,761	948	4,262	2,140
Future income taxes	297		1,490	
Compensation cost from long-term incentive plan	96	53	258	144
Amortization of debenture transaction costs	210	194	624	573
	<u>7,312</u>	<u>5,442</u>	<u>18,344</u>	<u>13,834</u>
Changes in operating assets and liabilities				
Accounts receivable	(5,012)	12,262	(20,753)	496
Withholding taxes recoverable	350	(50)	(518)	(297)
Inventory	5,079	1,053	1,352	6,193
Prepaid expenses	(936)	409	(2,107)	(166)
Accounts payable and accrued liabilities	(766)	(591)	17,417	5,854
Income taxes payable			(605)	
Rebates payable	(6,226)	(7,666)	(3,294)	(3,985)
Deferred revenue	1,082	321	1,442	526
	<u>(6,429)</u>	<u>5,738</u>	<u>(7,066)</u>	<u>8,621</u>
Cash flows from operating activities	<u>883</u>	<u>11,180</u>	<u>11,278</u>	<u>22,455</u>
INVESTING ACTIVITIES				
Business acquisitions			(70,424)	(109,048)
Property, plant and equipment	(428)	(134)	(878)	(584)
Cash flows from investing activities	<u>(428)</u>	<u>(134)</u>	<u>(71,302)</u>	<u>(109,632)</u>
FINANCING ACTIVITIES				
Bank loans	4,607	(8,658)	38,591	26,919
Financing expenses			(225)	
Distributions paid to unitholders	(3,921)	(1,775)	(8,783)	(6,715)
Distributions paid on exchangeable Colabor LP units	(1,369)	(913)	(3,651)	(3,651)
Repayment of long-term debt	(146)	(78)	(406)	(312)
Purchase of units held by the Fund for long-term incentive plan			(575)	(238)
Issue of debentures				48,000
Issue of trust units			38,022	24,761
Units and debentures issue costs			(1,150)	(1,404)
Cash flows from financing activities	<u>(829)</u>	<u>(11,424)</u>	<u>61,823</u>	<u>87,360</u>
Net change in bank overdraft	<u>(374)</u>	<u>(378)</u>	<u>1,799</u>	<u>183</u>
Bank overdraft, beginning of period	<u>(7,600)</u>	<u>(2,776)</u>	<u>(9,773)</u>	<u>(3,337)</u>
Bank overdraft, end of period	<u><u>(7,974)</u></u>	<u><u>(3,154)</u></u>	<u><u>(7,974)</u></u>	<u><u>(3,154)</u></u>

Credit Facilities

The Company has entered into a three-year agreement with a banking syndicate for operating credit facilities for an authorized amount of \$100M 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 less than 3.00:1.00 and (ii) a prescribed ratio of EBITDA to interest expenses greater than 3.50:1.00.

Based on the banking syndicate's method of calculation, the debt/EBITDA ratio is 1.56:1.00 and the interest coverage ratio is 5.07 times for the 364-day period ended September 6, 2008.

During the quarter, the operating credit increased from \$59.8M to \$64.5M, primarily as a result of changes in operating assets and liabilities.

Distributions

In management's opinion, cash flows from operating activities and the funds from operating credits are sufficient to support planned acquisitions of property, plant and equipment, working capital requirements, monthly cash distributions of \$0.0897 per unit and current income taxes and will comply with the banking syndicate's ratio requirements.

6.3 Standardized Distributable Cash

Information about standardized distributable cash has been prepared, in all material respects, in accordance with National Policy 41-201 – Income Trusts and Other Indirect Offerings published by the Canadian Securities Administrator in July 2007 and in accordance with the guidelines on disclosures in management's discussion and analysis in Standardized Distributable Cash in Income Trusts and Other Flow-through Entities, also released in July 2007 by the Canadian Institute of Chartered Accountants.

Standardized distributable cash is a non-GAAP measure and is a general indication of net cash from operations, which the enterprise may distribute to unitholders, at its discretion.

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, following the Colabor Exhibition at the end of September for the Wholesale Segment and, for the Summit Division Distribution Segment, as a result of purchases at the Sell-A-Rama which is also held at that time.

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 standardized distributable cash and distributed distributions for the third quarter of 2008 and 2007 and the cumulative period. It also provides information since the creation of the Fund, that is, as at June 28, 2005.

Standardized Distributable Cash (in thousands of dollars)

	2008-09-06 (84 days) (unaudited)	2007-09-08 (84 days) (unaudited)	2008-09-06 (250 days) (unaudited)	2007-09-08 (251 days) (unaudited)	Since the creation of the Fund as at 2005-06-28
	\$	\$	\$	\$	\$
Cash flows from operating activities	883	11,180	11,278	22,455	82,399
Acquisition of property, plant and equipment:	(428)	(134)	(878)	(584)	(3,413)
Standardized distributable cash	455	11,046	10,400	21,871	78,986
Distributions paid on units	3,921	1,775	8,783	6,715	27,604
Distributions paid on exchangeable Colabor LP units	1,369	913	3,651	3,651	16,760
Distributed cash	5,290	2,688	12,434	10,366	44,364
Weighted average number of units					
Units	14,490,072	9,895,793	12,297,469	9,714,557	9,823,863
Exchangeable Colabor LP units	5,087,439	5,087,439	5,087,439	5,087,439	5,087,439
	19,577,511	14,983,232	17,384,908	14,801,996	14,911,302
Standardized distributable cash per unit	\$ 0.02	\$ 0.74	\$ 0.60	\$ 1.48	\$ 5.30
Cash distributed per unit	\$ 0.27	\$ 0.18	\$ 0.72	\$ 0.70	\$ 2.98

While cash flows related to the operating activities amounted to only \$883,000 for the quarter, it should be noted that cash flows from operations before variations in operating assets and liabilities amounted to \$7.3M (see Cash Flow). The overall negative variation in operating assets and liabilities of \$6.4M is primarily attributable to the \$5M increase in accounts receivable in the wake of a significant increase in sales. However, the 250-day period ended September 6, 2008 indicates distributable cash of \$10.4M or \$0.60 per unit.

These negative variations in operating assets and liabilities are expected to reverse in the fourth quarter.

Subsequent to publication by the Canadian Institute of Chartered Accountants of a document entitled *Improved Communication with Non-GAAP Financial Measures – General Principles and Guidance for Reporting EBITDA and Free Cash Flow*, the Fund's management decided to present the following table, which is presented in a format that is largely used by financial analysts in their evaluation of distributable cash when making recommendations to investors.

This table contains information that is a non-GAAP measure of performance, such as the concept of earnings before financial expenses, income taxes and amortization (EBITDA) and the concept of standardized distributable cash. Since these concepts are not defined in Canadian GAAP, they may not be comparable with those of other funds.

However, the information disclosed in this table are shown directly in the Fund's financial statements, either in the consolidated statement of earnings, consolidated cash flows and notes to the consolidated financial statements.

The Fund's management also believes that the periods during which distributable cash is earned are synchronized with the same periods in which distributed cash is reported, even though such cash is not yet distributed and with the weighted average number of units issued for those periods.

Readers may also obtain information on the growth of distributable cash over the previous year, before and after income taxes, with the knowledge that the Fund did not recognize income taxes before the last quarter of the 2007 fiscal year.

Distributable cash (in thousands of dollars)

	2008-09-06 (84 days) (unaudited)	2007-09-08 (84 days) (unaudited)	2008-09-06 (250 days) (unaudited)	2007-09-08 (251 days) (unaudited)
	\$	\$	\$	\$
Earnings before financial expenses, amortization and income taxes	10,014	6,798	24,797	17,772
Financial expenses	(1,813)	(1,622)	(4,864)	(4,712)
Acquisition of property, plant and equipment:	(428)	(134)	(878)	(584)
Distributable cash before current income taxes	7,773	5,042	19,055	12,476
Current income taxes	(1,224)		(2,543)	
Distributable cash after current income taxes	6,549	5,042	16,512	12,476
Weighted average number of units				
Units	14,490,072	9,895,793	12,297,469	9,714,557
Exchangeable Colabor LP units	5,087,439	5,087,439	5,087,439	5,087,439
	<u>19,577,511</u>	<u>14,983,232</u>	<u>17,384,908</u>	<u>14,801,996</u>
Distributable cash per unit before current income taxes	\$ 0.397	\$ 0.337	\$ 1.096	\$ 0.843
Variation before current income taxes	18.0%		30.0%	
Distributable cash per unit after current income taxes	\$ 0.335	\$ 0.337	\$ 0.950	\$ 0.843
Variation after current income taxes	-0.6%		12.7%	
Distributions declared – Units	3,921	2,663	9,202	7,085
Distributions declared – Exchangeable Colabor LP units	1,369	1,369	3,651	3,651
Allowance for distributions relating to days included in the period for which no distribution was declared	382	358	382	358
Reversal of allowance	(823)	(715)		
Distributed cash	4,849	3,675	13,235	11,094
Excess of distributable cash over distributed cash	1,700	1,367	3,277	1,382
Ratio of distributed cash to standardized distributable cash	74.0%	72.9%	80.2%	88.9%

In reading this table, it becomes obvious that, for the 250-day period ended September 6, 2008, the Fund was able to increase distributable cash by 12.7% despite recognition of \$2.543M in income taxes, whereas no income taxes were recognized in 2007. Excess cash is used to reduce indebtedness.

The table also highlights the improvement in the payout ratio from 88.9% to 80.2%, taking into account the impact of recognizing income taxes in 2008.

7. Integration and Synergies

Acquisition of Bruce Edmeades and integration within Summit Division

As previously mentioned, on March 17, 2008, Colabor acquired substantially all of the net assets of Bruce Edmeades, which had sustained a loss before financial expenses, amortization and income taxes of about \$2.5M during the twelve-month period prior to its acquisition.

The acquisition integration plan is summarized below:

- a) Closure of the Kitchener warehouse and transfer of the Bruce Edmeades administrative functions to the Summit head office in London;
- b) Improved efficiency and productivity at the Cambridge warehouse, by, among others:
 - Relocating restaurant clientele to the London warehouse, which already specializes in this field;
 - Relocating industrial clientele to a new industrial products warehouse (acquired at the time of the Cara acquisition);
 - Concentration of main clients such as Wendy's, Mr. Sub and Zehrs in Cambridge;
- c) Review of the sales territories and improvement in delivery routes;
- d) Optimisation of supplier agreements.

All of these steps had been completed at the end of the third quarter.

Management has decided to introduce the automated warehouse management system already in use in its other locations in Cambridge during the last quarter of the current year.

As previously mentioned, EBITDA for the 250-day period includes \$1M which represents the operating loss attributable to the Bruce Edmeades acquisition.

Management believed its integration could have enabled it to achieve the operational breakeven point by the end of the 2008 fiscal year. However, in order to enhance customer service, management decided to postpone its staff cutbacks somewhat. Based on its revised

plan, management believes that the breakeven point will be achieved during the first quarter of the 2009 fiscal year instead, i.e. one year after the Bruce Edmeades acquisition.

Acquisition of Bertrand

The integration risk is very low, since the company's management remained after its acquisition. Additionally, a new Vice-President and General Manager was hired upon the closing of the acquisition to manage Bertrand's activities.

At the time of the acquisition, management had mentioned that estimated procurement-related synergies of \$1M would be achieved during the twelve-month period following the acquisition. A number of synergies have already been achieved and are included in the quarterly results. Upon conclusion of ongoing negotiations with suppliers, management is confident it will attain the forecasted synergies within the expected time period.

8. Summary of Past Quarters

('000)	2008-09-06 (84 days)	2008-06-14 (84 days)	2008-03-22 (82 days)	2007-12-31 (114 days)	2007-09-08 (84 days)	2007-06-16 (84 days)	2007-03-24 (83 days)	2006-12-31 (114 days)
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	288,446	278,721	180,029	279,703	195,488	200,210	162,667	137,119
EBITDA	10,014	9,428	5,355	12,776	6,798	6,327	4,647	5,799
Net earnings	2,311	1,147	591	(3,990)	1,736	1,523	546	2,257
Basic and diluted earnings per unit	\$ 0.16	\$ 0.09	\$ 0.06	\$ (0.41)	\$ 0.18	\$ 0.15	\$ 0.06	\$ 0.39

Readers should consider the fact that the net loss for the 114-day period ended December 31, 2007 (4th quarter) was recognized after \$9,005,000 was recognized in full during that quarter, consisting of current income taxes of \$2,715,000 and future income taxes of \$6,290,000 as a result of the Finance Department's decision that the Fund is not eligible to benefit from the transitional rules for existing SIFTs on October 31, 2006. Accordingly, this should be taken into account when comparing results with those of previous quarters.

9. Related Party Transactions

Following the initial public offering, on June 28, 2005, 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 Colabor Investments Inc. ("Investments") as exchangeable Colabor LP units.

Subsequent to the Summit and Bertrand acquisitions, Investments now holds an undiluted 26% interest and a diluted 21% 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 Investments 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 from Investments;
- Under an agreement expiring in 2015, the Fund pays fees to a subsidiary of Investments for IT 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.

Related Party Transactions (in thousands of dollars)

	2008-06-09 (84 days) (unaudited)	2007-09-08 (84 days) (unaudited)	2008-06-09 (250 days) (unaudited)	2007-09-08 (251 days) (unaudited)
	\$	\$	\$	\$
Sales to customers controlled by trustees	3,709	3,966	10,889	17,041
Rebates	2,684	2,874	8,069	8,102
Rent	468	468	1,404	1,404
IT services	111	95	331	822

10. Off-balance Sheet Transactions

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

11. Development Strategies and Outlook

The Fund's management is firmly convinced that there are major channels which could be used to increase its penetration of the food services market in Canada.

Affiliated wholesalers network in Québec and in the Atlantic Provinces:

In light of the Boucherville Division's organic growth in sales, as described under *Results of Operations*, it is clear that these loyal, entrepreneurial, customer-service-driven affiliated wholesalers will continue to grow their market share in their respective regions.

Consolidation of food distribution services:

The Summit acquisition has made it possible for the Fund to gain a foothold in Ontario, one of the most important food services market in Canada. The Funds could acquire other distributors operating in Ontario, and use its business model to integrate any new acquisitions. This strategy has proven beneficial, for example, with the Bruce Edmeades acquisition.

The Fund could also acquire affiliated-wholesalers' networks in Quebec and in the Atlantic Provinces, as illustrated with the Bertrand acquisition. This would allow it to complete its distribution network in Eastern Canada.

Geographic expansion:

At this time, the Fund is not present in Western Canada. Since this region is experiencing the fastest economic growth in the country, there is no doubt that expansion into this region could be beneficial, although it must be considered carefully in light of the availability-of-labour issues. Additionally, a prerequisite to expansion in this region is developing a solid customer base before investing in new infrastructure.

Related sectors:

The Fund's mission is to provide its customers with one-stop shopping in the food distribution services market.

In the future, the Fund could add a meat, fruit and vegetables and packaged goods distribution network.

Convenience stores and small-sized grocery stores:

The Fund believes that, in the medium term, there will be opportunities to acquire convenience store networks currently owned by major food chains wishing to return to their original niche, serving medium- and large-sized grocery stores.

These acquisition opportunities would make it possible for the Fund to significantly increase its purchasing power and ability to generate cost savings in order to increase its distributable cash per unit through the growth of its operating revenue.

12. Risks and Uncertainties

The Fund's activities are subject to numerous risks and uncertainties that are described in detail in the Fund's Annual Information Form. In addition to those risks, the Fund wishes to emphasize the industry-related risks that could impact profitability and return on investments that are beyond management's control.

Industry-related risks that could impact profitability and that are beyond management's control:

- 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 and through the recent acquisition of Bertrand, one of its main customers. 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 Investments 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 with Cara and through the recent acquisition of Bruce Edmeades and Bertrand.
- Integration of acquired companies*

While some acquisition will be managed with little change, some could result in major streamlining. Difficulties encountered with such integrations could have an impact on the Fund's results.

Return on Investment

A return on an investment in Colabor Income Fund is not comparable to the return on an investment in a fixed-income security. The return is based on many assumptions. Although the Fund intends to continue distributing its available cash to Unitholders, distributions may be reduced or suspended. The distributed amount depends on numerous factors, in particular, the inherent industry risks described above and other risks described in the Funds' Annual Information Form. Additionally, the market value of the units could drop significantly if the Fund is unable to respect its cash distribution objectives, in particular, non-compliance with the financial ratio requirements under the credit agreement described under the *Cash* section.

13. Significant Accounting Measurements

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 suppliers*

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.

14. Controls over Reliability and Timeliness of Disclosures

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 financial reporting process in annual and interim filings, and other reports filed or sent in accordance with securities legislation. The policy identifies important information and validates related reporting. The disclosure committee 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 was reported on a timely basis.

Controls and Reporting processes

The preparation of the financial statements and MD&A was based on a framework of controls and reporting processes implemented by management. The design and operation of these controls and processes continue to be evaluated to ascertain their effectiveness.

The evaluation confirmed the effectiveness of the both the design and operation of controls and reporting processes. This evaluation was consistent with the control framework recognized by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) adopted by Colabor Income Fund and in accordance with the guidance of the Canadian Securities Administrators described in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. In light of the inherent limitations of any control system, the Fund's management acknowledges that control and reporting processes cannot prevent and detect all misstatements resulting from fraud or error. However, based on the work performed, the Fund's management is able to provide reasonable assurance that important information is provided to it on a timely basis so it is able to report complete and reliable information to investors.

The financial statements and MD&A were reviewed by the Audit Committee and the Board of Trustees, who approved them prior to publication.

Internal Controls over Financial Reporting

The Fund's Audit Committee supervises the evaluation of the design of internal controls over financial reporting supporting the Fund's main transactions and accounting processes. This work serves to document, control and improve the design of internal controls.

As was the case for the evaluation of controls and reporting processes, the evaluation of the design of internal controls over financial reporting is carried out in accordance with the COSO control framework and the guidance in Multilateral Instrument 52-109. Based on the work carried out, management concluded that internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Fund's financial statements in accordance with GAAP. Tests started during the first quarter of 2008 and are continuing at this time to evaluate the effectiveness of internal controls over financial reporting. Management will use the results of these tests if it is required to report on the effectiveness of internal controls over financial reporting in accordance with Multilateral Instrument 52-109.

Transition to International Accounting Standards

Management has begun considering the transition from its current accounting standards to international accounting standards by attending various courses and seminars presented by competent authorities in this matter and expects it will be able to comply with the instructions of the *Autorité des marchés financiers* and the Canadian Institute of Chartered Accountants on the application dates stipulated by these entities.