COLABOR INCOME FUND

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

February 21, 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 since the initial public offering that is from June 28, 2005 to December 31, 2005. The MD&A should be read in conjunction with the audited financial statements and notes thereto for the 187-day period ended December 31, 2005. These financial statements are in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These financial statements have been published on SEDAR at www.sedar.com.

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

Forward-looking Statements

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

General

Formation of the Fund

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the province of Québec 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.

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

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

Description of Activities

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

Scope of MD&A

This MD&A relates to the results of the Fund since the June 28, 2005 initial public offering until December 31, 2005, that is 187 days. It also relates to the fourth quarter, i.e., the 113-day period since September 9, 2005.

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

Since the Fund does not have comparative financial statements for the corresponding period in 2004, and, in order to help readers compare, the Fund's results have been compared with the audited results of Colabor Investments Inc. (the "Vendor") for the 186-day period ended December 31, 2004 and the 112-day period starting September 10, 2004 for the fourth quarter, and these results were corrected to reflect special aspects of the Fund's activities, in particular customer rebates and amortization of intangible assets.

Highlights of the 187-day Period Ended December 31, 2005

- Conclusion of the initial public offering of 5,775,000 units for a cash injection of $57,750,000 ($54,285,000 net of the underwriters' fee);
- Increase in gross sales of about **5.4%** and earnings before financial expenses and amortization (EBITDA) of $1,063,000, or **13.6%** compared to the same period last year;
- Distributable cash per unit: $0.7475; distributed cash per unit: $0.5207; distribution ratio of distributable cash: **69.66%.**

Results of Operations

Colabor Income Fund
Consolidated Earnings
('000)

	Quarter ended					Year ended				
	December 31, 2005 (113 days)		December 31, 2004 (112 days)		Change %	December 31, 2005 (187 days)		December 31, 2004 (186 days)		Change %
Sales	**140,109**	**100.0%**	**132,050**	**100.0%**	**6.1%**	**221,656**	**100.0%**	**210,283**	**100.0%**	**5.4%**
Rebates	4,163	3.0%	3,907	3.0%	6.6%	6,564	3.0%	6,216	3.0%	5.6%
Net sales	135,946	97.0%	128,143	97.0%	6.1%	215,092	97.0%	204,067	97.0%	5.4%
Cost of sales	137,047	97.8%	129,728	98.2%	5.6%	216,631	97.7%	206,068	98.0%	5.1%
Rebates from suppliers	10,736	7.7%	10,367	7.9%	3.6%	16,427	7.4%	15,653	7,5%	4.9%
	126,311	90,1%	119,361	90,3%	5.8%	200,204	90.3%	190,415	90,5%	5.1%
Gross profit	9,635	6.9%	8,782	6.7%	9.7%	14,888	6.7%	13,652	6.5%	9.1%
Selling, distribution and administrative expenses	3,729	2.7%	3,533	2.7%	5.5%	6,018	2.7%	5,845	2.8%	3.0%
Earnings before financial expenses and amortization	**5,906**	**4.2%**	**5,249**	**4.0%**	**12.5%**	**8,870**	**4.0%**	**7,807**	**3.7%**	**13.6%**
Financial expenses	266	0.2%	201	0.2%	32.3%	427	0.2%	350	0.2%	22.0%
Amortization of property, plant and equipment	306	0.2%	334	0,2%	-8.4%	532	0.2%	586	0.3%	-9.2%
Amortization of intangible assets	993	0.7%	993	0.8%	0.0%	1,652	0,8%	1,652	0.8%	0.0%
	1,565	1.1%	1,528	1.2%	2.4%	2,611	1.2%	2,588	1.3%	0.9%
Earnings before non-controlling interest	**4,341**	**3.1%**	**3,721**	**2.8%**	**16.7%**	**6,259**	**2.8%**	**5,219**	**2.4%**	**19.9%**

Sales

Colabor's sales are derived from the sale of food, food-related and non-food products to wholesale distributors servicing clients in the retail and foodservice segments. 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 by warehouse sales.

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

Colabor Income Fund
Sales by Channel
('000)

	Quarter ended					Year ended				
	December 31, 2005 (113 days)		December 31, 2004 (112 days)		Change %	December 31, 2005 (187 days)		December 31, 2004 (186 days)		Change %
Retail										
Private brands	2,774	2.0%	2,504	1.9%	10.8%	4,398	2.0%	4,053	1.9%	8.5%
Brand name products	48,081	34.3%	47,185	35.7%	1.9%	72,287	32.6%	72,822	34,7%	-0.7%
	50,855	**36.3%**	**49,689**	**37.6%**	**2.3%**	**76,685**	**34.6%**	**76,875**	**36.6%**	**-0.2%**
Foodservice										
Private brands	9,559	6.8%	8,504	6.4%	12.4%	14,256	6.4%	13,128	6.2%	8.6%
Brand name products	43,717	31.2%	37,812	28.6%	15.6%	70,486	31.8%	62,589	29.8%	12.6%
Frozen food	35,978	25.7%	36,045	27.4%	-0.2%	60,229	27.2%	57,691	27.4%	4.4%
	89,254	**63.7%**	**82,361**	**62.4%**	**8.4%**	**144,971**	**65.4%**	**133,408**	**63.4%**	**8.7%**
Total sales	**140,109**	**100.0%**	**132,050**	**100.0%**	**6.1%**	**221,656**	**100.0%**	**210,283**	**100.0%**	**5.4%**
Warehouse sales and direct sales										
Warehouse sales	97,654	69.7%	86,574	65.6%	12.8%	154,328	69.6%	137,857	65.6%	11.9%
Direct sales	42,455	30.3%	45,476	34.4%	-6.6%	67,328	30.4%	72,426	34.4%	-7.0%
Total sales	**140,109**	**100.0%**	**132,050**	**100.0%**	**6.1%**	**221,656**	**100.0%**	**210,283**	**100.0%**	**5.4%**

In the 187-day period ended December 31, 2005, sales increased by $11,373,000 compared to the corresponding period in 2004, a 5.4% increase to $221,656,000. This growth in sales, which is mainly from the foodservices sector, is primarily attributable to the performance of affiliated wholesalers who experienced improved sales in their respective business and markets and to the recruiting of new wholesale distributors in this sector.

The Company's private labels increased by $1,473,000, or 8.6%, which is a clear reflection of one of the Company's strategies to grow through private label development.

Moreover, brand name products, primarily in the foodservices sector, and frozen food increased by $7,362,000, or 5.4%, and $2,538,000, or 4.4% respectively, increases that mirror the trend towards restaurant food consumption and the continued growth trend in the demand for frozen food products, resulting from the increasing popularity of ready-to-serve products.

These explanations also explain the sales growth in the last quarter compared to the same period in 2004.

The increase from 65.6% to 69.6% in the proportion of warehouse sales to total sales is primarily attributable to new agreements with suppliers to distribute their products through the warehouse.

Rebates

Rebates to affiliated-wholesalers are 3% of their sales, as provided in the agreement between the Fund and the affiliated-wholesalers of the Vendor, whereas the rebate rate on sales to other customers is 2.24% of their sales.

Rebates from Suppliers

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

For the 187-day period ended December 31, 2005, rebates from suppliers increased by $774,000, or 4.9%, to $16.427 million compared to $15.653 million for the corresponding period in 2004. The fourth quarter contributed $369,000, or 3.6%, to this growth. These increases result primarily from an increase in purchases following higher sales combined with new supplier agreements.

Selling, Distribution and Administrative Expenses

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

These expenses increased by $173,000, or 3%, for the 187-day period compared to the corresponding period in 2004. As a percentage of gross sales, these costs were down from 2.8% in 2004 to 2.7% for the 187-day period ended December 31, 2005. The rate remained unchanged at 2.7% for the fourth quarter of 2004 and 2005.

Earnings Before Financial Expenses and Amortization

These earnings are used as a basis to calculate distributable cash and increased by $1,063,000, or 13.6%, compared to the corresponding period in the previous year. The rate on gross sales increased from 3.7% for the 186-day period ended December 3l, 2004 to 4.0% for the same period in 2005. The rate increased to 4.2% for the fourth quarter in 2005 compared to 4.0% for the fourth quarter in 2004.

Financial Expenses

Financial expenses totalled $427,000, a $77,000, or 22%, increase for the 187-day period ended December 31, compared to the same period in 2004. The increase, which results primarily from a $65,000 increase in the fourth quarter compared to 2004, is attributable essentially to higher interest rates on a larger bank loan as a result of higher receivables and inventory following an increase in sales and an increase in bank charges compared to 2004. However, as a percentage of gross sales, the rate remains stable at 0.2%.

Amortization

Amortization of property, plant and equipment

Amortization of property, plant and equipment totalled $532,000, down by $54,000, or 9.2%, for the 187-day period ended December 31, 2005, compared to $586,000 for the corresponding period in the previous year. Amortization is comprised of the amortization of furniture and fixtures, warehouse equipment and warehouse vehicles, computer hardware, computer software and leasehold improvements.

Amortization of intangible assets

If the Fund had been in operation in 2004, the amortization of the customer relationships would have been similar to that for the 187-day period ended December 31, 2005 since customer relationships are amortized on a straight-line basis over their estimated useful lives of 20 years. New accounting rules were applied retroactively as at the Fund creation date, June 28, 2005, to comply with new guidance in EIC-151 entitled *Exchangeable Securities Issued by Subsidiaries of Income Trusts.* (See *Changes in Accounting Policies.*)

Distributable Cash

The following table sets forth the calculation of distributable cash for the 187-day period ended December 31, 2005.

('000)		
Earnings before financial expenses and amortization (as per Fund's December 31, 2005 financial statements)		8,870
Deduct:		
Financial expenses	427	
Acquisition of property, plant and equipment	322	749
Distributable cash		**8,121**
Number of units:		
Colabor LP ordinary units	5,775,000	
Colabor LP exchangeable units held by the Vendor ,	5,087,439	**10,862,439**
Distributable cash per unit		**$0.7475**
Distributions paid (as specified in the June 17, 2005 prospectus)		
From June 28, 2005 to July 31, 2005	**$0.0937**	1,018
From August 1, 2005 to December 31, 2005	**$0.0854/month**	4,638
		5,656
Distributable cash per unit		**$0.5207**
Distribution ratio of distributable cash		**69.66%**

Distributions were paid from cash from activities.

Distributions

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

Seasonality

Although the distribution ratio of distributable cash for this 187-day period, i.e. June 28 to December 31, 2005 is 69.66%, readers should be aware that the Fund's first and second quarters in a regular year, i.e. the period of January 1, to June 17, may reflect seasonal factors that affect the distribution ratio.

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

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.

Liquidity and Cash Resources

During the 187-day period ended December 31, 2005, the Fund completed its initial public offering, including the exercise of the over-allotment option as at July 20, 2005, of 5,775,000 units for proceeds of $57,750,000 ($54,285,000 net of the underwriters' fees) to acquire and hold 53.2% of Colabor LP for a consideration of $54.285 million.

During this period, the Fund generated cash flows from operations of about $20.394 million. It acquired $322,000 in property, plant and equipment, primarily for the upgrade of its management information system and to acquire forklifts and paid distributions to public unitholders and holders of exchangeable units of Colabor LP of about $4.728 million.

The Fund has a $30-million operating line of credit available. As at December 31, 2005, the Fund has used $8 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 **0.42 :1.00** for the period ended December 31, 2005.

Contractual Obligations

('000)			Payments Due by Period		
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 Years
Contractual obligations	$	$	$	$	$
Long-term debt	2,613	468	936	936	273
Operating lease	35,240	2,028	4,056	4,056	25,100
Outsourcing of computer services	4,921	518	1,036	1,036	2,331
Total	42,774	3,014	6,028	6,028	27,704

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

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

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

- *Customer Choices*

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

Significant Accounting Estimates

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

- *Allowance for excess or obsolete inventory*

  Inventory is valued at the lower of net realizable value or cost calculated using the first in, first out method. The Fund records an allowance for obsolescence that is calculated on the basis of assumptions relating to future demand for its products and conditions in the markets in which the products are sold. The allowance, 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*

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

Changes in Accounting Policies

As a result of changes in December 2005 in the Emerging Issues Committee’s abstract, EIC-151, *Exchangeable Securities Issued by Subsidiaries of Income Trusts*, the Fund reviewed the purchase price allocation to recognize the full amount of the excess of the purchase price over the carrying amount of the net assets instead of on the basis of the Fund's percentage of interest in Colabor LP. Accordingly, the non-controlling interest is now recognized according to Colabor LP’s fair value.

Following this change, the Fund re-valued its intangible assets, in particular, customer relationships and trademarks, by $34.291 million and $3.823 million respectively to $64.5 million and $7.2 million. Goodwill decreased from $16.166 million to $13.459 million.

This change led to an increase of about $774,000 in the amortization of intangible assets with a corresponding decrease in the non-controlling interest in earnings. Application of these new rules therefore did not impact net earnings.

Outlook

Results for the 187-day period ended December 31, 2005 are ahead of management's expectations. Colabor’s outlook for the first quarter of fiscal 2006 is positive. 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 the volume of sales of frozen food and private label products will continue to grow and that Colabor is well positioned to take advantage of the continued importance of these two products.

Additional Information

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