Premium Brands Income Fund

Annual Report 2008

BALANCE

Premium Brands Income Fund

Annual Report 2008

Premium Brands owns a broad range of leading branded specialty food businesses with manufacturing and distribution facilities located in British Columbia, Alberta, Saskatchewan, Manitoba and Washington State. In addition, Premium Brands owns proprietary food distribution and wholesale networks through which it sells both its own products and those of third parties to approximately 25,000 customers. Its family of brands include Grimm's, Harvest, McSweeney's, Bread Garden, Hygaard, Hempler's, Quality Fast Foods, Gloria's the Best of Fresh, Harlan's and Centennial.

BALANCE

Premium Brands' collection of #1 brands and differentiated products, combined with its unique distribution strategies, has established it as the leading specialty food company in western Canada. From choice European style Grimm's deli products at the neighbourhood deli, to buttery Harlan's popcorn at the arena, flavour packed McSweeney's meat snacks at the corner gas station, fresh grab and go Bread Garden sandwiches at the convenience store, artisan-style Stuyver's breads at the grocery store and top quality cuts of Sterling Silver beef at a fine dining establishment, Premium Brands provides consumers with an exceptional food experience across a wide spectrum of venues.

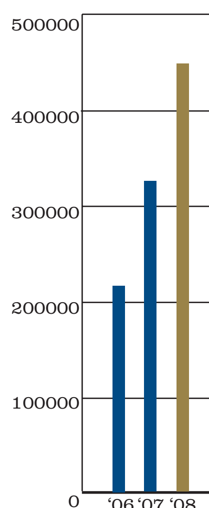
Table of Contents

Highlights	1
Letter to Unitholders	3
Q & A Section	4
Management's Discussion & Analysis	11
Auditors' Report	27
Consolidated Financial Statements	28
Notes to Consolidated Financial Statements	32
Investor Information	IBC

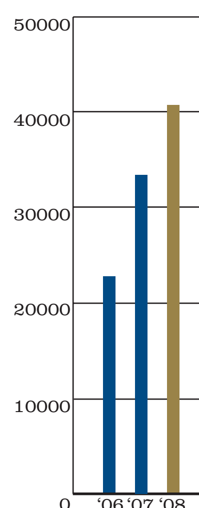
Premium Brands' balanced approach to managing the risks and rewards inherent in its business and industry is resulting in higher and more consistent cash flows and returns on invested capital.

(in 000s, except per unit amounts)	2008	2007	2006
Revenue	$ 449,363	$ 326,441	$ 216,465
EBITDA	$ 40,626	$ 33,351	$ 22,682
Earnings	$ 20,973	$ 25,488	$ 12,836
Earnings per unit	$ 1.20	$ 1.46	$ 0.83
Total assets	$ 307,436	$ 285,654	$ 174,199
Net funded debt	$ 117,338	$ 106,985	$ 16,295
Return on net assets	15.0%	18.1%	14.6%
Distributable cash	$ 29,622	$ 26,557	$ 18,783
Distributable cash per unit	$ 1.692	$ 1.52	$ 1.21
Cash distributions declared per unit	$ 1.176	$ 1.176	$ 1.176
Payout ratio	69.5%	77.2%	97.7%

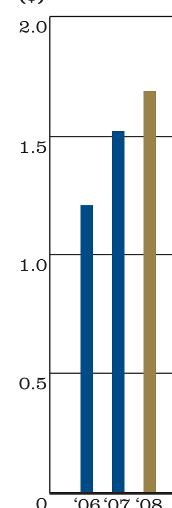
Revenue
(in 000's of $)



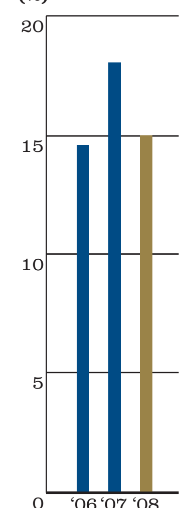
EBITDA
(in 000's of $)



Distributable Cash per Unit
($)



Return on Net Assets
(%)



BALANCE

Grocery Stores

DISTRIBUTION

Direct Plus Food Group's direct-to-store distribution network has over 125 trucks servicing 12,000 independently owned and operated food retailers, as well as larger regional and national grocery chains, across western Canada. It's full service solution has enabled it over the years to establish solid customer relationships leading to great results and successful, long-term partnerships.

2008 Letter to Unitholders

Dear Unitholders:

The year 2008 was another very eventful year for both Premium Brands and the world around us. However, while world events were dominated by doomsday predictions over the world economy and news headlines about massive corporate losses, the meltdown of the global financial system, record government deficits and rising unemployment, our situation was very different. For 2008 we once again achieved record sales, growing by over 37% to almost $450 million, and record EBITDA, which exceeded $40 million from just $14 million four years ago.

Furthermore, over the last three years our distributable cash per unit has grown by 44% from $1.176 per unit in 2005 to a record $1.692 per unit in 2008.

The theme of this year's annual report – BALANCE – captures the core of what has brought about our success and, more importantly, why we feel we are positioned to continue to do well despite today's uncertain and volatile times.

We strongly believe that the best way to serve the long-term interests of our unitholders is by taking a balanced approach to managing the risks and rewards inherent in our business and our industry. The current state of the global financial system, which includes massive volatility and unprecedented losses by many of the world's biggest financial institutions, illustrates what can happen when the balance between risk and reward is not properly managed.

It has been our focus on building balance into our business that has driven our transformation from a struggling commodity goods manufacturer just six years ago to Canada's leading specialty food manufacturer and distributor. Our product, customer, distribution and manufacturing diversification strategies, conservative organic growth targets and decentralized entrepreneurial management structure, are all based on bringing stability and balance to our business and in turn, reducing volatility and uncertainty in our margins and cash flows.

Our results for this past fiscal year are a good example of how our strategies have enabled Premium Brands to excel even in difficult times. The year 2008 brought with it numerous external challenges including record energy prices, rapid cost increases for a broad range of food commodities, an unprecedented product recall by one of Canada's largest food companies and challenging weather conditions throughout the year. Despite these challenges, which resulted in several of our businesses having difficult years, Premium Brands continued to prosper due to the diversification built into our business model.

Similarly, as we look to the future and the uncertainty about what lies ahead for the Canadian economy, we are confident that our balanced approach has positioned us very well and remain optimistic about our ability to continue to succeed without taking on undue risk.

As a final note I would like to once again thank all of our employees for their dedication and hard work and the critical role they have played in the continued success of our business. I would also like to acknowledge the many contributions of our long time CEO, Fred Knoedler, who passed away in May 2008. Fred and I worked together very closely for many years in building Premium Brands. He was an exceptional individual who truly understood the meaning of balance and how it not only applies to business but to life in general.

George Paleologou
President & CEO

Q & A Section

WHAT DO YOU MEAN BY BALANCE AND HOW DOES IT SERVE THE INTERESTS OF PREMIUM BRANDS' UNITHOLDERS?

In 2002 Premium Brands set out to re-position itself from a largely commodity goods manufacturer to a specialty food business. The transformation involved the sale of its commodity based businesses and a re-allocation of capital to businesses that fit our objective of bringing balance, in other words intelligent diversification, to Premium Brands.

The two primary strategies that drove this process, and still drive our decision making today, are:

- Investing in and developing specialty food businesses with strong brands and leading market positions. This element of our strategy results in not only product and brand name diversification, but also builds management depth and expertise through our decentralized management structure where each business is managed by its own team of talented individuals who are passionate about their products and brands.

- Investing in and developing differentiated food distribution networks that complement our specialty food businesses. This element of our strategy provides tremendous diversification in our customer base and greatly improves our ability to sell our products by providing us direct access to end users.

As a result of these strategies, Premium Brands today has:

- Twelve leading brands covering a diverse range of specialty food categories including meat snacks, fresh and pre-packaged sandwiches, deli products, fresh and pre-packaged pastries, premium processed meats, concession products and artisan breads.

- Three proprietary distribution networks servicing approximately 25,000 customers with our largest customer representing less than 5% percent of our total sales.

- A balance in sales into the foodservice and retail channels (each represents approximately 50% of total sales) that enables us to capture and serve consumers whether they are eating at home, on the go or in a dining establishment.

- Twelve passionate management teams that are focused on growing their specific business by not only leveraging its unique competitive advantages but also the advantages they gain by being part of the larger Premium Brands group. This element of our balanced approach creates a culture that has the entrepreneurial and adaptive spirit of a small business with the accountability and control of a larger operation.

These unique characteristics are, in turn, providing Premium Brands with stable margins, consistent cash flows and the ability to provide unitholders with steady cash distributions.

HOW WILL PREMIUM BRANDS' PERFORMANCE BE AFFECTED BY TODAY'S UNCERTAIN AND VOLATILE ECONOMIC ENVIRONMENT?

There is no question that we live in challenging times. Even Warren Buffet, one of the greatest investors of our time, acknowledges that we are in uncharted waters and that the recession of 2008 will likely be long and deep. However, we have several factors operating in our favour.

Firstly, our unique focus on building balance into our business through the strategies previously discussed positions us very favourably relative to our competitors and will enable us to emerge from these trying times well ahead of the pack.

Secondly, we are fortunate to be in an industry whose products are in demand during good and bad times. While some of our businesses will likely be impacted by reduced discretionary consumer spending in certain venues, we expect overall demand to remain and that consumer spending will shift to other channels that one or more of our other businesses service. Hence, what we lose in one market we expect to gain in another.

A good example of this is the impact that the economic slow-down is having on our Centennial Foodservice business, which services primarily hotels, restaurants and institutions. Centennial's hotel and restaurant sales are down in certain markets due to reduced consumer spending in these venues, however, these sales decreases are more than offset by growth in Premium Brands' sales into the retail channel resulting in net overall growth.

Thirdly, our entrepreneurial management teams, with their close market contact and flat management structures, have the ability to react very quickly to market changes and, correspondingly, are busy bringing many new products and services to market that address the issues at the forefront of consumers' minds.

BALANCE
Concessions

DISTRIBUTION

From hot buttery popcorn to icy cold Slush Puppies and mouth watering Harvest hot dogs, Harlan's provides concession operators with high margin cash flow streams that are a win-win for everyone.

With eight central locations in western Canada and one in Washington State, Harlan's extensive distribution network guarantees concession operators a complete solution that encompasses equipment, products and equipment servicing.

BALANCE

Fresh Convenience

DISTRIBUTION

"Fresh Food Fast!" Creekside Custom Foods' fresh convenience foods initiative, with its leading Bread Garden and Gloria's Best of Fresh brands, is fulfilling the needs of the on-the-go consumer who is looking for healthier convenience foods. Its trucks visit gas stations and convenience stores every day, seven days a week, to ensure products are as fresh as can be.

Finally, Premium Brands is still a relatively small player in the food industry and the niche markets that we focus on are somewhat more insulated from the economic shocks that are affecting the broader mainstream markets.

As a result, we remain confident in our ability to continue to generate stable margins and consistent cash flows, even in today's uncertain and volatile environment.

WILL YOUR ACQUISITION STRATEGY BE IMPACTED BY THE CURRENT ECONOMIC ENVIRONMENT?

Premium Brands is the product of over thirty successful acquisitions executed by its current management team. In fact, every business we own today has its roots in one or a series of acquisitions.

The success of our acquisitions strategy is clearly reflected in our positive earnings and cash flow trends but almost as importantly it is also reflected in our industry reputation as an acquirer of choice for entrepreneurs looking for tailored ownership solutions.

Our ability to be creative in designing a transaction, combined with our proven track record of respecting and growing the goodwill built by an entrepreneur, means that we are often the first call when a successful business owner is looking to sell. As a result, during these tough times we are seeing an increase in attractive acquisition opportunities as many business owners are calling us after they have reassessed their priorities, options and prospects and determined that the prudent thing to do in navigating these uncertain times is to take on a partner they can trust. Correspondingly, we expect to be very active in 2009 and for acquisitions to continue to play a key role in growing our business.

HOW DOES THE B&C FOOD DISTRIBUTORS TRANSACTION FIT WITH YOUR ACQUISITION STRATEGY?

The B&C Foods acquisition is a perfect example of the type of win-win transactions that we strive for. Don Bold, B&C's founder and major shareholder, was looking to retire from the business while his management team and minority partners were looking for a long term partner they were comfortable with. Premium Brands was able to meet both Don's and the management teams' needs and in turn was able to acquire B&C Foods who at the time was Centennial Foodservice's largest specialty competitor on Vancouver Island.

Looking forward, we are very excited about what the combined Centennial Foodservice and B&C Foods entity will be able to achieve. With its brands, critical mass and management team, along with access to Premium Brands' resources, it is positioned to be the leading protein foodservice provider on Vancouver Island, one of Canada's fastest growing geographic areas.

ARE THERE OTHER POSITIVE IMPACTS ON PREMIUM BRANDS RESULTING FROM THE CURRENT ECONOMIC ENVIRONMENT?

We see three key positive impacts resulting from what is happening in the economy. The first relates to production capacity.

One of the greatest enemies to profitability in our industry is over capacity and the undisciplined pricing behavior that many competitors pursue in order to fill it. The tightening credit environment is forcing many North America food companies to rationalize capacity or cancel plans to expand capacity. Furthermore, weaker competitors have seen their credit lines reduced, their financial flexibility eliminated and, in some cases, their ability to keep the doors open compromised. The net result is less capacity and better pricing stability for the industry in general.

The second positive impact resulting from the current economic environment relates to labour cost and availability. Over the past five years we have experienced significant inflationary pressure on our labour costs, as well as difficulties accessing stable high quality labour, due to the robust western Canadian economy. With the general economic slow-down these pressures have largely dissipated and, for the first time in many years, we are able to properly staff our production facilities and distribution networks. As a result, our plants are becoming more efficient and our selling networks more effective.

Finally, the slow down in the world economy is resulting in cost reductions for a variety of our commodity inputs. These reductions are providing us with the flexibility to offer additional marketing programs to our customers and attractive promotion prices to consumers, which are in turn, generating increased sales activity.

WHAT WERE SOME OF PREMIUM BRANDS' MAJOR ACCOMPLISHMENTS IN 2008?

Some of our more significant accomplishments in 2008 were as follows:

- The acquisition of B & C Food Distributors and its subsequent merger with our Centennial Foodservice's Victoria operation. B&C provides custom portion cutting and distribution of high quality protein products to restaurants, hotels and institutions on Vancouver

Island. In addition, it generates distribution efficiencies by providing warehousing and distribution services to grocery retailers on Vancouver Island, most of which is done on a cost plus basis.

- The acquisition of Mrs. Willman's B.C. operations and its subsequent merger with our Creekside Custom Foods operation. Both Mrs. Willman's and Creekside Custom Foods produce a variety of fresh baked goods.
- The acquisition of Noble House Distributors. Noble House is a direct-to-store distributor operating in Northern Alberta with a fleet of seven trucks and is a distributor for Premium Brands' Direct Plus direct-to-store distribution network.
- The start up of a new 20,000 square foot meat snack facility in Langley, B.C. This project provides us with much needed incremental capacity and is expected to generate operating efficiencies through improved production line designs.
- Industry leading gross profit and EBITDA margins.
- Solid financial results despite the challenges that Premium Brands faced in 2008. This included a 15.0 percent average return on net assets and an 11.1 percent increase in distributable cash per unit as compared to 2007.

DO YOU HAVE ANY CONCERNS ABOUT YOUR DEBT LEVEL?

Based on the stability of our cash flows we are comfortable with our existing debt levels. Furthermore, to the extent that we do see a net sales impact from the current economic situation, our cost structure and capital programs are very flexible and we are confident in our ability to make the appropriate reductions in order to maintain the stability of our cash flows.

In terms of debt capacity, we have approximately $25 million in unused committed credit facilities to take advantage of smaller acquisitions, capital projects and other growth opportunities. We are, however, taking a conservative approach in the use of our available capital and being very selective in the opportunities that we pursue.

WILL PREMIUM BRANDS REMAIN AS A TRUST OR WILL IT CONVERT BACK TO A CORPORATION IN THE NEAR FUTURE?

Our income trust structure has been a very tax efficient way for us to distribute our consistent and growing cash flows to our unitholders – since converting to an income trust in July 2005 we have distributed over $70 million to our unitholders.

Unfortunately, changes in the way we will be taxed starting on or before 2011 will eliminate the efficiency of our trust structure and may even make it punitive to our unitholders. As a result we are considering alternative ownership structures with the goal of mitigating the impact of the 2011 tax rule changes. One alternative that we are examining is the conversion of the Fund into a corporate structure through a plan of arrangement that would include the acquisition of a public company with significant non-capital tax loss carry forwards. The non-capital tax loss carry forwards could then be used to reduce the impact of income taxes on our distributable cash for a period of time.

In the event that we are unable to find a satisfactory alternative to our existing structure then we will likely maintain our current tax status and, subject to meeting our expected cash flows, our current cash distribution through to the end of 2010 at which time we will convert to a corporate structure and begin paying an after tax dividend.

BALANCE

Hotels, Restaurants and Institutions

DISTRIBUTION

Since its inception in 1967, Centennial has been providing customers with "best in class" protein product solutions and today services over one thousand hotel, restaurant and institutional locations daily, seven days a week.

Centennial's culture of "people who care" combined with its nine distribution and custom cutting operations has made it the leading specialty food distributor in western Canada.

BALANCE
Convenience Stores

DISTRIBUTION

Direct Plus Food Group is a market leader in store merchandising and distribution. Delivering fine brands to great customers is what they're all about.

Management's Discussion & Analysis

For the Year Ended December 31, 2008

This Management's Discussion and Analysis ("MD&A") has been prepared as of March 26, 2009. It should be read in conjunction with Premium Brands Income Fund's (the "Fund's") 2008 audited consolidated financial statements and the notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This document, as well as additional information on the Fund and its predecessor Premium Brands Inc., are filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online at www.sedar.com.

All amounts are expressed in Canadian dollars except as noted otherwise.

BUSINESS OVERVIEW

The Fund owns a broad range of businesses that manufacture, market and/or distribute a variety of branded specialty food products to markets in western Canada and, to a lesser extent, central and eastern Canada as well as the western United States. It defines "specialty food products" as food products where the consumer's purchasing decision is based primarily on factors other than price, such as quality, convenience, product consistency, health and/or lifestyle. Examples of the Fund's specialty food products include meat snacks such as pepperoni, beef jerky and kippered beef; snack foods such as fresh and individually wrapped pastries and cookies; concession products such as popcorn, hot and frozen beverage supplies and ice cream accessories; fresh and pre–packaged sandwiches; delicatessen items such as European–style deli meats; cheeses, fresh salads, wraps and specialty crackers; and premium smoked sausages.

A core part of the Fund's strategy is the diversification of its customer base through the development of proprietary distribution networks that service a variety of end users including niche food retailers, convenience stores, delicatessens, restaurants, concession stands and small grocery chains. These networks provide the Fund's various specialty food operations with proprietary access to a large and diverse base of approximately 25,000 customers. In addition, the Fund sells a variety of products purchased from third party manufacturers through its proprietary distribution networks.

FORWARD LOOKING STATEMENTS

This discussion and analysis includes forward looking statements with respect to the Fund, including its business operations strategy and financial performance and condition. These statements generally can be identified by the use of forward looking words such as "may", "could", "should", "would", "will", "expect", "intend", "plan", "estimate", "project", "anticipate", "believe" or "continue", or the negative thereof or similar variations. Although management believes that the expectations reflected in such forward looking statements are reasonable and represent the Fund's internal expectations and belief as of March 26, 2009, such statements involve unknown risks and uncertainties beyond the Fund's control which may cause the Fund's actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements. Important factors that could cause actual results to differ materially from the Fund's expectations include, among other things: (i) seasonal and/or weather related fluctuations in the Fund's sales; (ii) changes in consumer discretionary spending resulting from changes in economic conditions and/or general consumer confidence levels; (iii) changes in the cost of raw materials used for the Fund's products; (iv) changes in the cost of products sourced from third party manufacturers and sold through the Fund's proprietary distribution networks; (v) changes in Canadian income tax laws; (vi) changes in consumer preferences for food products; (vii) competition from other food manufacturers and distributors; (viii) new government regulations affecting the Fund's business and operations; and (ix) other factors as discussed in the Fund's Annual Information Form, which is filed electronically through SEDAR and is available online at www.sedar.com. It should be noted that this list of important factors affecting forward looking information may not be exhaustive.

Unless otherwise indicated, the forward looking information in this document is made as of March 26, 2009 and, except as required by applicable law, will not be publicly updated or revised. This cautionary statement expressly qualifies the forward looking information in this document.

SUPPLEMENTAL DISCLOSURE

EBITDA, distributable cash, net funded debt and RONA are not terms defined under GAAP. As a result, these terms, as defined by the Fund, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should they be construed as alternatives to other earnings measures determined in accordance with GAAP.

Management's Discussion & Analysis (continued)

The Fund believes that earnings before interest and other financing costs, taxes, depreciation, amortization, unrealized gains or losses on foreign currency contracts, accretion of puttable interest, product recall insurance claim and non-controlling interest ("EBITDA") is a useful indicator of the amount of cash generated by the Fund's operating businesses on a normalized basis. The following table provides a reconciliation of EBITDA to earnings before non-controlling interest:

(in thousands of dollars)	13 weeks ended Dec 31, 2008	13 weeks ended Dec 31, 2007	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Earnings before non-controlling interest	2,919	3,282	21,070	25,895
Depreciation of capital assets (1)	2,375	1,623	7,927	6,164
Interest and other financing costs (2)	1,652	1,792	7,293	4,932
Amortization of intangible and other assets (1)	937	1,200	2,701	2,030
Amortization of financing costs (1)	54	97	199	97
Accretion of puttable interest in subsidiaries (1)	250	43	650	43
Unrealized (gain) loss on foreign currency contracts (3)	(51)	461	(1,186)	461
Product recall insurance claim (4)	987	—	987	—
Income tax provision (recovery) (2)	480	402	985	(6,271)
EBITDA	9,603	8,900	40,626	33,351

(1) Amount added back as this is a non-cash expense.
(2) Amount added back as this is a financing or tax related charge.
(3) This amount represents the change in fair value of the Fund's U.S. dollar forward purchase contracts for the period. Amount is added back as the Fund does not intend to liquidate these contracts but rather uses them to stabilize the cost of its U.S. dollar denominated purchases and, in turn, its selling margins.
(4) Amount added back based on the Fund's expectation that this amount will be recovered in 2009 (see *Results of Operations – Product Recall Insurance Claim and Forward Looking Statements*).

The Fund believes that distributable cash is a useful indicator of the amount of cash available for distribution to its unitholders. The following table provides a reconciliation of distributable cash to cash flows from operating activities:

(in thousands of dollars)	13 weeks ended Dec 31, 2008	13 weeks ended Dec 31, 2007	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Cash flows from operating activities	4,848	11,763	33,912	32,033
Change in non-cash working capital (1)	2,159	(4,447)	(1,464)	(3,206)
Long-term incentive plan accrual (2)	(23)	(136)	(92)	(525)
Restricted Trust Unit Plan accrual (2)	(42)	(82)	(125)	(82)
Payments received on notes receivable (3)	28	132	739	463
Maintenance capital expenditures (4)	(617)	(417)	(2,600)	(1,780)
Accretion of puttable interest in subsidiaries (5)	(250)	(43)	(650)	(43)
Non-controlling interest (6)	44	(110)	(97)	(407)
Unusual cash income taxes (7)	—	—	—	104
Distributable cash	6,147	6,660	29,623	26,557

(1) Cash used for increases in the Fund's non-cash working capital is funded through draws on its bank lines of credit, while cash resulting from decreases in its non-cash working capital is used to pay down its bank lines of credit. As a result, changes in the Fund's non-cash working capital are excluded from the calculation of distributable cash.
(2) Cash payments under the Fund's Restricted Trust Unit Plan and Long-term incentive plans will be funded from cash generated by operations and therefore the corresponding expense is deducted in the calculation of distributable cash.
(3) Amount represents principal payments received on notes receivable. This amount is an unallocated cash flow and is therefore included in the calculation of distributable cash.
(4) Amount represents the portion of the Fund's capital expenditures that are funded from cash generated by its operations and therefore is deducted in the calculation of distributable cash. See "*Liquidity and Capital Resources*".
(5) Amount represents the accrued value on options held by third parties that entitles them to require the Fund to purchase their interest in non-wholly owned subsidiaries of the Fund. Payments to these third parties will be funded from cash generated by operations and therefore the corresponding expense is deducted in the calculation of distributable cash.
(6) Amount represents the portion of the Fund's cash flows that is attributable to non-controlling interests and is therefore deducted in the calculation of distributable cash.
(7) Amount is the result of an income tax reassessment for a business that was sold by the Fund in 2003 (the "Sold Business"). The income tax reassessment related to years in which the Fund owned the Sold Business and for which the Fund had indemnified the purchaser of the Sold Business. This amount has been funded out of the Fund's bank lines of credit and is therefore added back in the calculation of distributable cash.

The Fund believes that net funded debt is a useful indicator of its financial strength. The following table provides the calculation of net funded debt:

(in thousands of dollars)	Dec 31, 2008	Dec 31, 2007
Cheques outstanding	1,354	695
Bank indebtedness	9,676	9,703
Current portion of long-term debt	386	148
Deferred financing costs (1)	534	641
Long-term debt	107,067	96,914
	119,017	108,101
Less cash and cash equivalents	1,679	1,116
Net funded debt	117,338	106,985

(1) Deferred financing costs are classified as a reduction to long-term debt.

The Fund believes that return on adjusted net assets ("RONA") is a useful indicator of the performance of its operations relative to the assets employed. The following table provides the calculation of RONA:

(in thousands of dollars)	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Return:		
EBITDA	40,626	33,351
Maintenance capital expenditures	(2,600)	(1,780)
	38,026	31,571
Adjusted net assets:		
Closing net assets (1)	264,952	249,670
Acquisitions timing adjustment (2)	(6,502)	(55,174)
Adjusted closing net assets	258,450	194,496
Opening net assets (1)	249,670	153,900
Average (3)	254,060	174,198
RONA (4)	15.0%	18.1%

(1) Calculated as total assets less: future income tax assets, accounts payable and accrued liabilities.
(2) Adjustment normalizes for business acquisitions occurring part way through the year by weighting the net assets of each acquisition for the number of days in the year that the Fund did not own the applicable business.
(3) Calculated as the sum of the adjusted closing net assets and the opening net assets divided by two.
(4) Calculated as the return amount divided by average adjusted net assets.

SELECT ANNUAL INFORMATION

The following is a summary of select annual consolidated financial information. All amounts except EBITDA and RONA are derived from the Fund's audited consolidated financial statements for each of the three most recently completed financial years and are prepared in accordance with GAAP. See the *Supplemental Disclosure* for details on the calculation of EBITDA and RONA.

(in millions of dollars except per unit amounts and percentages)	Year ended Dec 31, 2008	Year ended Dec 31, 2007	Year ended Dec 31, 2006
Revenue	449.4	326.4	216.5
EBITDA	40.6	33.4	22.7
Earnings from continuing operations before income taxes and non-controlling interest	22.1	19.6	14.4
Earnings from continuing operations	21.0	25.5	14.2
Basic and diluted earnings per unit from continuing operations	1.20	1.46	0.91
Loss from discontinued operations	—	—	(1.4)
Earnings	21.0	25.5	12.8
Basic and diluted earnings per unit	1.20	1.46	0.83
Total assets	307.4	285.7	174.2
RONA	15.0%	18.1%	14.6%
Total long-term financial liabilities (1)	107.6	97.6	11.9
Cash distributions declared per unit	1.176	1.176	1.176

(1) Excludes deferred financing costs and puttable interest in subsidiaries.

Management's Discussion & Analysis (continued)

The Fund has consistently grown its revenue, EBITDA and earnings from continuing operations before income taxes and non-controlling interest over the last three years through the successful implementation of its branded specialty food and distribution strategies, which include the acquisition of complementary businesses.

In 2007 the Fund recorded a $6.8 million future income tax recovery due to changes in the manner in which publicly traded trusts, such as the Fund, will be treated for tax purposes starting on or before January 1, 2011 (see *Income Tax – Income Tax Changes*).

In 2006 the Fund shut down a discontinued operation and liquidated substantially all of that operation's assets.

The three year trend of increasing total assets reflects both the Fund's continuing investment in its existing specialty food manufacturing and distribution businesses as well as the acquisition of new specialty food manufacturing and distribution businesses.

The Fund's RONA for each of the last three years has been near or exceeded its targeted rate of 15%.

The increase in the Fund's long-term financial liabilities over the last three years is due to long-term debt being the Fund's primary financing source for its acquisitions strategy. In total, the Fund invested $111.3 million in new businesses from the beginning of 2006 to the end of 2008.

RESULTS OF OPERATIONS

Revenue

The Fund's revenue for 2008 increased by 37.7% or $123.0 million to $449.4 million as compared to $326.4 million in 2007. Acquisitions made part way through 2007 and in 2008 accounted for $110.0 million of the increase and organic growth at a rate of 4.0% for the balance. See *Liquidity and Capital Resources – Cash Flows from Investing Activities* for details on the Fund's 2008 acquisitions.

The Fund's organic growth was driven by a combination of product selling price increases (estimated to be on average in the 2% to 3% range) and a variety of new product, distribution and geographical expansion sales initiatives. Offsetting these factors was approximately $1.6 million in lost pre-packaged sandwich sales due to a product recall by one of the Fund's plants in the third quarter of 2008 (see *Product Recall Insurance Claim*).

For 2008 the Fund set a targeted organic revenue growth rate range of 6% to 8%. The variance between its actual and targeted growth rates was primarily due to:

i. Historically high fuel prices during the summer months, which resulted in less driving and lower discretionary spending by consumers at gas station retail outlets, and in turn, reduced sales growth in the Fund's direct-to-store distribution network. Sales to gas station retail outlets through the Fund's direct-to-store distribution network account for 6% to 7% of its total sales.

ii. A generally slower economy in certain areas of western Canada that resulted in reduced growth rates in the Fund's foodservice business.

iii. Unseasonably cold weather across western Canada in the beginning and at the end of 2008 that resulted in reduced consumer travelling and correspondingly lower sales to the Fund's convenience based customers, e.g. convenience stores, gas stations and restaurants.

iv. The previously mentioned product recall by one of the Fund's pre-packaged sandwich plants.

Gross Profit

The Fund's gross profit as a percentage of revenue ("gross margin") for 2008 decreased to 26.8% from 29.5% in 2007 due primarily to the acquisitions of Centennial in mid-2007 and B&C Food Distributors ("B&C") in 2008. These transactions resulted in a higher portion of the Fund's sales being generated from the lower margin foodservice channel, i.e. 51.0% of total sales in 2008 as compared to 37.4% of total sales in 2007.

Excluding the impact of the Centennial and B&C acquisitions, the Fund's adjusted gross margin for 2008 of 32.9% was relatively consistent with the comparable 2007 gross margin of 33.3% with the decrease being due primarily to:

i. $0.6 million one-time costs associated with the start up of a new 34,000 square foot meat snack facility in Langley, B.C., and the consolidation of the Fund's B.C. based fresh sandwich and pastry operations into a new 27,000 square foot facility. Both of these projects are now complete and, in addition to providing much needed incremental capacity, are expected to generate operating efficiencies through improved production line designs.

ii. Unusually rapid increases in the cost of a variety of commodity protein inputs part way through the third quarter of 2008 that could not be immediately passed on through increased selling prices (mainly due to customer required minimum notice periods) and therefore resulted in lower than average gross margins for part of the third and fourth quarters.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") for 2008 increased by $16.9 million to $79.7 million from $62.8 million in 2007 mainly due to acquisitions which accounted for approximately $14.7 million of the increase. The remainder of the increase was primarily due to higher variable selling costs, such as sales commissions and freight expense, associated with Fund's organic sales growth and approximately $1.4 million in increased freight and fuel costs associated with a run up in energy based commodities in 2008.

SG&A as a percentage of revenue for 2008 decreased to 17.7% from 19.2% in 2007 due mainly to a higher portion of its sales being generated from the foodservice channel, which historically has lower selling costs, as a percentage of revenue, as compared to those in the Fund's retail distribution channels.

EBITDA

The Fund's EBITDA for 2008 increased to $40.6 million from $33.4 million in 2007. Excluding one-time costs of $0.6 million associated with the start up of a new 34,000 square foot meat snack facility in Langley, B.C. and the consolidation of the Fund's B.C. based fresh sandwich and pastry operations into a new 27,000 square foot facility, its EBITDA for 2008 was $41.2 million.

Product Recall Insurance Claim

During the third quarter of 2008 one of the Fund's plants issued a recall for pre-packaged sandwiches that had potentially been contaminated with Listeria monocytogenes. The recall was completed in an orderly manner with minimal customer complaints and no known instances of consumer illness associated with the consumption of these products.

As a result of the recall, the Fund destroyed approximately $0.4 million in products, incurred $0.4 million in disposal costs and lost approximately $0.3 million in product contribution margin due to lost revenue. The Fund expects to recover these costs (see *Forward Looking Statements*), less $0.1 million for its deductible, under its product recall insurance policy. It has, however, expensed its insurance claim receivable due to its insurance provider attempting to deny coverage on the basis that none of the recalled products tested positive for Listeria monocytogenes. The Fund has been advised by legal counsel that the insurance provider's position is most likely not defensible in court and intends to pursue legal action. The amount of any insurance recovery will be recognized when determinable.

Other Items

Depreciation for 2008 increased to $7.9 million from $6.2 million in 2007 primarily due to acquisitions.

Interest and other financing costs for 2008 increased to $7.3 million from $4.9 million in 2007 due to additional debt associated with acquisitions made in 2008 and part way through 2007 partially offset by average lower interest rates on the Fund's floating debt.

Amortization of intangible and other assets increased from $2.0 million in 2007 to $2.7 million in 2008 due to the amortization of intangible assets associated with businesses acquired in mid-2007 and 2008 partially offset by a $0.4 million charge in 2007 resulting from the write off of a note receivable from Tapp Technologies Inc. ("Tapp"). The note receivable from Tapp resulted from the sale of a non-core label printing business to Tapp in 2003.

Management's Discussion & Analysis (continued)

The Fund's accretion of puttable interest in subsidiaries increased by $0.6 million to $0.7 million. This expense represents the value accrued in the applicable period on options that entitle third parties to require the Fund to purchase their respective interest in non-wholly owned subsidiaries of the Fund.

In 2008 the Fund recognized an unrealized gain on foreign currency contracts of $1.2 million as a result of changes in the fair market valuation of its U.S. dollar forward purchase contracts. The Fund does not intend to liquidate these contracts, but rather uses them to stabilize the cost of its U.S. dollar denominated purchases and, in turn, its selling margins. In 2007 the change in the fair market value of the Fund's foreign currency contracts resulted in an unrealized loss of $0.5 million.

The Fund recorded a future income taxes recovery in 2007 of $6.4 million due to the recognition of $6.8 million in future income tax assets resulting from changes in the manner in which publicly traded trusts such as the Fund will be treated for tax purposes starting on or before January 1, 2011 (see *Income Tax – Income Tax Changes*), partially offset by a $0.4 million provision relating to other changes in the Fund's future income tax accounts in 2007. The Fund's 2008 future income taxes expense of $1.0 million relates primarily to changes in assumptions relating to the expected timing of the reversal of temporary differences between the value of its net assets for tax purposes and their value for accounting purposes.

Segmented Information

The Fund is made up of a variety of specialty food businesses, consisting of both manufacturing and distribution operations, most of which are highly integrated and are characterized by substantial cooperation, cost allocation and sharing of assets. As a result, the operating performance and other financial information presented on the Fund's reportable segments, as defined under GAAP, does not necessarily represent what each of the segments would report if they were operating independently.

The Fund reports on two reportable segments: Retail and Foodservice. The Retail segment includes the Fund's specialty manufacturing businesses (such as Harvest, Grimm's, Hygaard, Quality Fast Foods, Hempler's, Creekside and Stuyver's) and its Direct Plus retail proprietary distribution networks. Substantially all of the Retail segment's external sales are to retailers, including delicatessens, small specialty grocery chains, convenience stores, gas bars, large national and regional grocery chains and warehouse clubs.

The Foodservice segment includes the Fund's Centennial, Harlan Fairbanks and E1even businesses, all of which are primarily focused on foodservice customers such as restaurants, concessions, bars, caterers, hotels, recreation facilities, schools and hospitals.

The Fund's revenue and segment earnings by reportable segment are as follows:

(in thousands of dollars)	**Year ended Dec 31, 2008**	**Year ended Dec 31, 2007**
Revenue:		
Retail	220,276	204,480
Foodservice	229,087	121,961
	449,363	326,441
Segment earnings (loss):		
Retail	20,896	22,216
Foodservice	14,555	9,408
Corporate costs	(5,453)	(6,467)
	29,998	25,157

Retail

The Retail segment's revenue for 2008 increased by $15.8 million or 7.7% to $220.3 million as compared to $204.5 million in 2007. Acquisitions accounted for $8.1 million of the increase and organic growth at a rate of 3.8% for the balance.

Retail's organic growth was driven by a combination of product selling price increases (estimated to be on average in the 2% to 3% range) and volume increases across its various specialty product lines. Offsetting these factors was approximately $1.3 million in lost pre-packaged sandwich sales due to a product recall (see *Product Recall Insurance Claim*) by one of Retail's plants in the third quarter.

Retail's segment earnings in 2008 were $20.9 million as compared to $22.2 million in 2007 while its segment earnings as a percentage of revenue ("segment margin") was 9.5% versus 10.9% in 2007. The decrease in its earnings and segment margin were primarily due to:

i. $0.6 million one time costs associated with the start up of a new meat snack facility in Langley, B.C., and the consolidation of its B.C. based fresh sandwich and pastry operations into a new 27,000 square foot facility. Both of these projects are now complete and, in addition to providing much needed incremental capacity, are expected to generate operating efficiencies through improved production line designs.

ii. Approximately $1.4 million in increased freight and fuel costs associated with a run up in energy based commodities in 2008.

iii. $0.4 million in additional amortization costs resulting from higher amortization rates in 2008 as compared to 2007.

iv. Unusually rapid increases in the cost of a variety of commodity protein inputs part way through the third quarter of 2008 that could not be immediately passed on through increased selling prices due mainly to customer required minimum notice periods. As a result the Retail segment generated lower than average gross margins for part of the third and fourth quarters.

The impact of the above factors, particularly the increased freight, fuel and commodity protein input costs, was partially offset by a variety of selling price increases put through by Retail over the course of 2008.

Foodservice

The Foodservice segment's revenue for 2008 increased by $107.1 million to $229.1 million from $122.0 million in 2007. Acquisitions accounted for $101.9 million of the increase and organic growth at a rate of 4.3% for the balance.

Foodservice's organic growth was driven primarily by a combination of the continued stable growth of its concession product sales and by the expansion of its food brokerage activities whereby it is leveraging its unique global procurement initiatives to create selling opportunities in a variety of distribution channels.

Foodservice's segment earnings in 2008 increased by $5.2 million to $14.6 million from $9.4 million in 2007 due to its higher sales level. Its segment earnings, as a percentage of revenue, decreased to 6.4% in 2008 from 7.7% in 2007 due to its acquisitions of Centennial in mid-2007 and B&C in 2008. These transactions resulted in a higher percentage of Foodservice's sales being generated from products with lower selling margins relative to the segment's historic product mix.

Corporate

Corporate costs decreased from $6.5 million in 2007 to $5.5 million in 2008 mainly due to the write off of a $0.4 million note receivable from Tapp in 2007 and lower executive compensation in 2008 due to the CEO and president roles being combined after the Fund's CEO passed away in May 2008.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected quarterly consolidated financial information. All amounts, except EBITDA, are derived from the Fund's unaudited consolidated interim financial statements for each of the eight most recently completed quarters and are prepared in accordance with GAAP (see *Supplemental Disclosure*).

(millions of dollars except per unit amounts)	**Q1 2007**	**Q2 2007**	**Q3 2007**	**Q4 2007**	**Q1 2008**	**Q2 2008**	**Q3 2008**	**Q4 2008**
Revenue	52.3	63.7	108.6	101.8	94.3	114.9	123.5	116.7
EBITDA	4.6	8.3	11.6	8.9	7.0	12.3	11.7	9.6
Earnings:								
Total	2.4	12.7	7.2	3.2	3.3	7.4	7.3	3.0
Per unit (basic and diluted)	0.14	0.73	0.41	0.18	0.19	0.42	0.42	0.17

Management's Discussion & Analysis (continued)

The Fund's operations are based primarily in western Canada and its quarterly results are subject to fluctuations associated with the impact on consumer demand of seasonal changes in weather. In general terms, results are weaker in the first quarter due to a combination of:

i. Winter weather conditions, which result in less consumer travelling and outdoor activities and, in turn, reduced consumer traffic through many of the Fund's convenience oriented customers (such as convenience stores, gas stations and restaurants) and reduced demand for its outdoor oriented products (such as barbeque and on-the-go convenience foods).

ii. A general decline in consumer activity at the beginning of each calendar year.

The Fund's results then peak in the spring and summer months due to favourable weather conditions and decline in the fourth quarter due to a return to poorer weather conditions.

On a comparative year over year basis, the Fund's quarterly sales and EBITDA have shown consistent improvement reflecting the successful implementation of its specialty food and distribution strategies including the acquisition of several complementary businesses.

In the second quarter of 2007 the Fund recorded a $6.8 million future income tax recovery due to changes in the manner in which publicly traded trusts, such as the Fund, will be treated for tax purposes starting on or before January 1, 2011 (see *Income Tax – Income Tax Changes*).

In the fourth quarter of 2008 the Fund recorded a $1.0 million charge relating to a product recall insurance claim (see *Results of Operations – Product Recall Insurance Claim*).

LIQUIDITY AND CAPITAL RESOURCES

The Fund's primary uses of cash, and how these uses are funded, are as follows:

Cash distributions to unitholders. Cash distributions are financed primarily through operations. However, as an income trust, a key objective of the Fund is to maintain a steady cash distribution to its unitholders, which is achieved by basing its monthly cash distributions on an annual rate divided into twelve equal monthly payments. As a result, it is possible that in some months its cash distribution to unitholders may exceed the distributable cash generated by its operations due to the seasonality of its business, or unexpected short term shocks to one or more of its operations. Under these circumstances the Fund's credit facilities can be used to balance its cash needs.

Acquisition of businesses that complement the Fund's specialty food and distribution based strategies. The source of financing for an acquisition depends primarily on the size of the transaction. Smaller acquisitions are generally financed through the Fund's credit facilities, while larger acquisitions can be financed through a variety of financing sources including existing credit facilities and the issuance of new debt and/or equity.

Capital expenditures. The Fund's capital expenditures can be categorized into two types: project capital expenditures and maintenance capital expenditures. Project capital expenditures are capital expenditures that are expected to generate a minimum return on investment of 15% through increased production capacity and/or improved operating efficiencies. Maintenance capital expenditures include all capital expenditures that do not qualify as a project capital expenditure, and consist mainly of expenditures necessary for maintaining the Fund's existing level of production capacity and operating efficiency.

Maintenance capital expenditures are financed primarily through operations while project capital expenditures are generally funded through the Fund's credit facilities, however, larger expenditures, such as the building of a new plant or a major expansion of an existing plant, may also be funded through the issuance of new debt and/or equity.

Maintenance of the Fund's truck fleet. The Fund currently operates a fleet of approximately 202 trucks which service customers across western Canada. The majority of the trucks utilized in this fleet are leased under a full maintenance operating lease program and, as a result, primarily all of the cost of maintaining the Fund's fleet is funded through operations and expensed in the calculation of the Fund's EBITDA.

Working capital. The Fund generally funds increases in its accounts receivable and inventory balances through draws on its bank lines of credit and terms on its trade purchases (i.e. accounts payable). The Fund's working capital needs generally peak in the spring and summer months and around festive holiday seasons (e.g. Easter, Thanksgiving and Christmas) as inventories and accounts receivable are built up in anticipation of increased consumer demand.

Repayment of long-term debt. The majority of the Fund's long-term debts, subject to meeting certain conditions, have no scheduled principal payments prior to their maturity dates. The Fund intends to fund long-term debt that is due through the issuance of new long-term debt and/or equity. In addition, it intends to use any excess cash flow from its operations to pay down revolving credit facilities that can then be drawn on at a later date to fund project capital expenditures and/or acquisitions (see *Liquidity and Capital Resources – Credit Capacity*).

Credit Capacity

At December 31, 2008 the Fund had the following unutilized credit capacity:

(in thousands of dollars)	Credit Facilities	Net Funded Debt	Unutilized Credit Capacity
Revolving senior credit facilities [1][2]	32,500	7,997	24,503
Revolving senior credit facility [3]	40,000	35,000	5,000
Non-revolving senior credit facility [4]	64,000	64,000	—
Industrial Development Revenue Bond [5]	7,427	7,427	—
Cheques outstanding	—	1,354	(1,354)
Other	1,560	1,560	—
	145,487	117,338	28,149

(1) Facility utilization is net of cash and cash equivalents.

(2) Amount is made up of two credit facilities: a $32.0 million bank line of credit that matures in July 2010, and a US$0.5 million bank line of credit that matures in July 2009. Both of these facilities can be used to fund the Fund's working capital and general operating needs and neither has any principal payments due prior to their maturity dates.

(3) Credit facility matures in July 2010, can be used to fund capital projects and acquisitions, and has no principal payments due prior to its maturity date.

(4) Credit facility matures in July 2010 and has no principal payments due prior to its maturity date as long as the Fund's debt to EBITDA ratio does not exceed 3.0:1 for two consecutive quarters. In the event that the Fund's debt to EBITDA ratio does exceed 3.0:1 for two consecutive quarters, then the Fund will have to make monthly principal payments of $0.3 million if its debt to EBITDA ratio is below 3.25:1 and $0.7 million if its debt to EBITDA ratio is above 3.25:1. The principal payments will cease if subsequently the Fund's debt to EBITDA ratio falls below 3.0:1 for two consecutive quarters.

(5) Credit facility relates to the Fund's U.S. subsidiary, Hempler Foods Group LLC, is denominated in U.S. dollars (US$6.1 million), matures in 2036 and has no principal payments due prior to its maturity date.

The financial covenants associated with the Fund's senior credit facilities are as follows:

	Covenant Requirements	Dec. 31, 2008 Calculation
Net funded debt to EBITDA ratio [1]	=< 3.50 : 1.0	2.83 : 1.0
Current ratio [2]	> 1.30 : 1.0	1.50 : 1.0
Interest coverage ratio [3]	> 4.00 : 1.0	5.68 : 1.0

(1) EBITDA is calculated as the Fund's rolling four quarters EBITDA adjusted for the trailing EBITDA of new acquisitions so that the total EBITDA amount includes four quarters of EBITDA for new acquisitions. Covenant decreases to 3.25:1 in the second quarter of 2009 and 3.0:1 in the fourth quarter of 2009. These reductions, however, are subject to a 0.25:1 add-on for a period of two consecutive quarters in the event of an acquisition.

(2) Covenant increases to 1.5:1 in the first quarter of 2009.

(3) This ratio is calculated as the Fund's rolling four quarters EBITDA adjusted for the trailing EBITDA of new acquisitions so that the total EBITDA amount includes four quarters of EBITDA for new acquisitions, divided by the Fund's interest expense.

The key indicator that the Fund uses for assessing its debt leverage levels is its net funded debt to EBITDA ratio. Its long-term targeted range for this ratio is 2.0:1 to 2.5:1 based on the following considerations:

i The likely conversion of the Fund into a corporate ownership structure by the end of 2010 due to upcoming changes in the Fund's tax status (see *Income Tax – Income Tax Changes*).

ii. As a corporate entity, the tax efficiency associated with financing the Fund's operations with debt since interest is generally deductible in the calculation of taxable income.

iii. The risks associated with the consistency and sustainability of the Fund's cash flows (see *Risks and Uncertainties*).

iv. The Fund's payout ratio (see *Distributable Cash – Payout Ratio*).

In the short term, the Fund expects (see *Forward Looking Statements*) at times to exceed its targeted net funded debt to EBITDA ratio range mainly due to the timing of significant expenditures, such as acquisitions and capital projects, relative to the timing of the Fund's raising of new equity capital. This is the case as at December 31, 2008 with the Fund's net funded debt to EBITDA ratio being 2.8:1.

Looking forward (see *Forward Looking Statements*), the Fund has started the process of renewing the senior credit facilities that mature in July 2010, and, at this time, does not anticipate any issues in extending the maturity date of these facilities.

Cash Flows from Operating Activities

For 2008 the Fund generated $32.4 million from its operations before taking into account changes in non-cash working capital. Changes in non-cash working capital generated an additional $1.5 million primarily due to an increase in the Fund's accounts payable and accrued liabilities balance which was, in turn, the result of the timing of payments to suppliers.

Cash Flows from Financing Activities

For 2008 the Fund's financing activities used $10.2 million consisting of $20.6 million for distributions paid to unitholders partially offset by $10.4 million raised from the issuance of debt and equity in conjunction with the Fund's business acquisitions.

Cash Flows from Investing Activities

For 2008 the Fund used $23.5 million for investing activities consisting primarily of $15.9 million for business acquisitions and $13.5 million for capital expenditures partially offset by proceeds of $5.0 million from the sale and leaseback of a distribution facility as part of one of the Fund's business acquisitions. The $13.5 million used for capital expenditures consisted of $2.6 million for maintenance capital expenditures and $10.9 million for project capital expenditures. Project capital expenditures included $3.0 million for equipment and leasehold improvements at Centennial's new Edmonton, AB operation, $1.5 million for equipment and leasehold improvements at a new meat snack production facility located in Langley, B.C., $1.4 million for the merger of the Fund's two Edmonton, AB sandwich plants, $0.9 million for the consolidation of the Fund's B.C. based fresh sandwich and pastry operations into a new 27,000 leased facility and the balance for a variety of smaller projects.

The $15.9 million used for acquisitions related to the following three transactions:

i. On April 11, 2008 the Fund completed the acquisition of Noble House Distributors for $2.1 million consisting of cash of $1.6 million (after $0.4 million in excess inventory purchases) and a three year note payable for $0.5 million. Noble House is a direct-to-store distributor operating in Northern Alberta with a fleet of seven trucks and is a distributor for the Fund's Direct Plus direct-to-store distribution network.

ii. On May 2, 2008 the Fund completed the acquisition of the B.C. operations of Mrs. Willman's Baking Limited for $1.7 million consisting of cash of $1.4 million plus a five year note payable for $0.3 million. In addition, the Fund agreed to pay a 2.5% royalty, to a maximum of $0.7 million, on sales of Mrs. Willman's products to certain defined customers over the next ten years.

iii. On August 13, 2008 the Fund completed the acquisition of B&C Food Distributors Ltd. for $12.9 million including $0.6 million for excess net working capital, $0.2 million for transfer taxes and $0.1 million for other costs such as legal fees. B&C provides custom portion cutting and distribution of high quality protein products to restaurants, hotels and institutions on Vancouver Island. In addition, it generates distribution efficiencies by providing warehousing and distribution services to grocery retailers on Vancouver Island, most of which is done on a cost plus basis. In conjunction with this transaction the Fund raised $5.0 million from the sale and leaseback of B&C's distribution facility (see *Transactions with Related Parties*)

All of these transactions complement the Fund's existing businesses in some manner with the Noble House purchase strengthening its Direct Plus retail distribution network, the Mrs. Willman's transaction expanding its line of specialty fresh baked goods and providing it with much needed incremental fresh sandwich and pastry production capacity and the B&C transaction strengthening its Centennial foodservice distribution network.

Financial Position

The significant changes in the Fund's December 31, 2008 balance sheet as compared to its December 31, 2007 balance sheet were as follows:

Current assets at the end of 2008 rose by $9.1 million to $83.4 million from $74.3 million at the end of 2007 due primarily to the Fund's increased sales. Year over year, both the Fund's days sales in accounts receivable and days purchases in inventory remained relatively consistent at approximately 27 days to 28 days and 47 to 48 days, respectively.

Capital assets increased to $69.8 million at the end of 2008 from $59.9 million at the end of 2007 due to $13.5 million in capital expenditures (see *Cash Flows from Investing Activities*), $2.9 million in capital assets acquired as part of business acquisitions and $1.6 million in foreign currency translation adjustments partially offset by $7.9 million in depreciation and $0.2 million in asset dispositions.

Intangible assets decreased to $41.1 million at the end of 2008 from $41.4 million at the end of 2007 due to $2.4 million in amortization partially offset by $1.6 million in additional intangible assets resulting from business acquisitions and $0.5 million in foreign currency translation adjustments.

Goodwill increased to $110.8 million at the end of 2008 from $107.7 million at the end of 2007 due to business acquisitions, which resulted in $2.7 million in additional goodwill, and $0.4 million in foreign currency translation adjustments.

Current liabilities at the end of 2008 rose by $7.4 million to $55.6 million from $48.2 million at the end of 2007 due primarily to higher accounts payable and accrued liabilities which in turn were mainly the result of the Fund's increased sales and the timing of payments to suppliers. The Fund's days purchases in accounts payable and accrued liabilities increased from 35 days at the end of 2007 to 37 days at the end of 2008.

Net funded debt increased by $10.3 million to $117.3 million at the end of 2008 from $107.0 million at the end of 2007 primarily due to the use of its credit facilities to finance $10.9 million in business acquisitions and $10.9 million in project capital expenditures partially offset by excess cash flow of $11.5 million from the Fund's other activities including a $1.9 million share issuance.

Future income tax liabilities net of future income tax assets at the end of 2008 increased to $1.8 million from $0.3 million at the end of 2007 due to business acquisitions, which resulted in the recognition of $0.4 million in future income tax liabilities, and the Fund's 2008 future income tax provision of $1.0 million, and $0.1 million in foreign currency translation adjustments.

Unitholders' capital increased to $156.2 million at the end of 2008 from $154.4 million at the end of 2007 due to the issuance of 161,988 units for net proceeds of $1.9 million.

DISTRIBUTABLE CASH

The Fund's distributable cash for 2008 increased to $29.6 million or $1.692 per unit as compared to $26.6 million or $1.522 per unit for 2007 due primarily to the continued improvement in its operating results (see *Results of Operations*).

The Fund's distributable cash for 2008 exceeded its net earnings before future income taxes of $22.0 million by $7.6 million primarily due to:

a. Depreciation of capital assets expense of $7.9 million being $5.3 million higher than the corresponding item used in the calculation of distributable cash, namely maintenance capital expenditures of $2.6 million. This difference is mostly the result of a portion of the costs associated with maintaining the Fund's capital assets being funded through operating expenses, such as repairs and maintenance, and through project capital expenditures;

b. Amortization of intangible and other assets expense of $2.7 million being excluded from the calculation of distributable cash. This is on the basis that most of this expense relates to costs that are either non-recurring, such as plant start up costs, or that relate to an intangible asset that is being maintained through operating expenses, such as the maintenance of the Fund's customer lists; and

c. Collections of $0.7 million on long-term notes receivable resulting from the sale of non-core assets and businesses being included in the calculation of distributable cash but not net earnings.

The above factors were partially offset by the exclusion from distributable cash of a $1.2 million unrealized gain on the change in fair value of the Fund's foreign currency contracts recognized in the Fund's 2008 earnings.

Declared cash distributions for 2008 were $20.6 million which is consistent with the declared cash distributions in 2007 of $20.5 million as the Fund's monthly distribution has remained constant at $0.098 per unit since its conversion to an income trust structure in July 2005.

From the Fund's inception in July 2005 to December 31, 2008, the Fund has generated $83.0 million in distributable cash and declared cash distributions of $67.1 million.

Payout Ratio

For 2008 the Fund's payout ratio (defined as cash distributions divided by distributable cash) was 69.5% based on distributable cash of $29.6 million and declared cash distributions of $20.6 million. This compares to a payout ratio of 77.2% for 2007, 97.7% for 2006 and 100% when the Fund was created in July 2005. The continuous improvement in the Fund's payout ratio was due solely to the growth of its distributable cash as its monthly distribution has remained constant at $0.098 per unit.

Looking forward (see *Forward Looking Statements*), the Fund expects to see continued improvement in its payout ratio on the basis of:

a. The continued organic growth of its specialty food and distribution businesses;

b. The continued execution of its business acquisitions strategy; and

c. Subject to ensuring that the taxable income allocated to its unitholders does not exceed its cash distributions to unitholders (see *Income Tax*), the Fund does not intend to increase its monthly distribution, but instead plans to use any additional distributable cash to reduce its debt, fund project capital expenditures and/or make acquisitions.

Due to the seasonality of the Fund's operations (see *Summary of Quarterly Results*) the calculation of its payout ratio on a quarterly basis is not meaningful.

Maintenance Capital Expenditures

The capital expenditures used in the calculation of distributable cash generally represent the expenditures incurred during the applicable period to maintain the Fund's production capacity (see *Liquidity and Capital Resources – Capital Expenditures*). Capital maintenance expenditures for 2008 rose to $2.6 million as compared to $1.8 million in 2007 and $1.9 million in 2006 primarily due to acquisitions, which accounted for $0.5 million of the increase.

Impact of 2011 Income Tax Changes on Cash Distribution Policy

The Fund is examining alternatives (see *Forward Looking Statements*) available to it to deal with the new income tax provisions that will impact its tax status starting on or before January 1, 2011 (see *Income Tax – Income Tax Changes*). One alternative being considered is the conversion of the Fund into a corporate structure through a plan of arrangement that would include the acquisition of a public company with significant non-capital tax loss carry forwards. The non-capital tax loss carry forwards could then be used to reduce the impact of income taxes on Premium Brands' distributable cash for a period of time.

In the event that the Fund is unable to find a satisfactory alternative to its existing structure then it will likely maintain its current tax status and, subject to meeting its expected cash flows, current cash distribution through to the end of 2010 at which time it will convert to a corporate structure. At that it will set a dividend payment policy taking into account a variety of factors including its growth capital needs, debt amortization schedule, income tax cash requirements and shareholder demand for cash yield.

INCOME TAX

The Fund, subject to certain conditions, currently does not pay income tax but rather allocates its taxable income to its unitholders. Historically, due to the Fund's tax assets, it has been able to keep the taxable income allocated to its unitholders significantly lower than its cash distributions. This, in turn, has resulted in a portion of the Fund's cash distributions being classified for tax purposes as a return of capital as opposed to a return on capital.

For both 2008 and 2007, 85% of the Fund's cash distributions were classified for tax purposes as a return on capital and 15% as a return of capital. Looking forward (see *Forward Looking Statements*), the Fund expects the portion of its cash distributions that is considered to be a return on capital to increase due to its intention to reduce its payout ratio (see *Distributable Cash – Payout Ratio*) and to defer the utilization of a portion of its tax assets to such time when or if it becomes subject to the new income tax provisions.

As at December 31, 2008, the Fund's Canadian tax assets included approximately $40.8 million in cumulative eligible capital expenditures (deductible at a rate of 7% per year for tax purposes) and $54.9 million in un-depreciated capital costs.

Income Tax Changes

In 2007, amendments were made to the manner in which publicly traded income trusts such as the Fund are taxed. Under the new tax provisions starting on or before January 1, 2011 the Fund will be subject to entity level taxation that will reduce the amount of cash available for distribution to its unitholders. More specifically, the Fund will be taxed on income (other than taxable dividends) distributed by the Fund to its unitholders at a rate that approximates the tax rate applicable to income earned by Canadian public corporations. The applicable rate in 2011 will be based on tax rates at that time, which, based on information released by the Department of Finance, will be 29.5% but is subject to change.

Corresponding with the above changes, income distributions received by the Fund's unitholders beginning January 1, 2011 will be characterized as eligible dividends received from a Canadian public corporation. Generally, individual unitholders resident in Canada will be subject to tax based on the enhanced gross-up and dividend tax credit applicable to eligible dividends and, assuming such unitholders are subject to the highest marginal rate of tax, will receive an after-tax return from their now reduced distribution of income approximately equal to the after-tax return if the pre-tax income of the Fund had been distributed directly to and taxed in the hands of the unitholders. However, reduced distributions will be an absolute cost to other types of unitholders including pension funds, registered retirement savings plans and non-residents who will not benefit from characterization of the distributions as dividends.

The ability of the Fund to defer the new tax provisions outlined above to 2011 ("the grandfathered period") is subject to the Fund not exceeding certain growth guidelines as set out by the Department of Finance. Under these guidelines a trust is only able to defer the new tax provisions to 2011 as long as it limits its issuance of new equity prior to 2011 to the greater of $50 million per year and the "safe harbour" amount, where the safe harbour amount for a particular trust is 40% of its market capitalization on October 31, 2006 for 2007 and 20% of its market capitalization on October 31, 2006 for each of 2008, 2009 and 2010.

The Fund's market capitalization on October 31, 2006 was approximately $188.0 million resulting in a safe harbour amount of approximately $75 million in 2007 and $50 million in each of 2008, 2009 and 2010. Presently the Fund does not expect (see *Forward Looking Statements*) to exceed the normal growth guidelines during the grandfathered period, however, there is always the possibility that a change in circumstances may result in the Fund losing its grandfathered status and, as a result, no assurance can be given that the Fund will be able to maintain its grandfathered status through to January 1, 2011. Loss of this status may result in material adverse tax consequences for the Fund and/or its unitholders.

The normal growth guidelines also provide an exception for certain exchange rights pursuant to which the issue of new equity during the grandfathered period will not be considered growth to the extent that the issuance is made in satisfaction of the exercise of a right in place on October 31, 2006 to exchange an interest in a partnership or a share of a corporation into that new equity. As a result, the issuance of the Fund's units in exchange for 600,000 exchangeable units issued by the Fund's subsidiary, Premium Brands Holdings Limited Partnership, will not be considered growth under the proposed tax changes.

As a result of the expected change in the Fund's tax status in 2011, the Fund recorded in the second quarter of 2007 a $6.8 million future income tax asset on its balance sheet and a corresponding future income tax recovery in its statement of operations. In general terms, this amount equals the temporary differences between the value of the Fund's net assets for tax purposes and their value for accounting purposes that will reverse after December 31, 2010, multiplied by the applicable future tax rate (currently projected at 29.5% for 2011 then reducing to 28.0% in 2012).

Management's Discussion & Analysis (continued)

OUTLOOK

The information contained in this *Outlook* section is forward looking information. (see *Forward Looking Statements).*

The Fund has historically set an annual targeted organic growth rate range of 6% to 8% based on its three key organic growth initiatives: the development of new specialty food products, the introduction of new products sourced from other suppliers into the Fund's distribution networks and geographical expansion into the U.S. Pacific Northwest and central Canada. For 2009, the Fund is not providing guidance on its expected organic growth rate for the year due to the current uncertainty and concerns surrounding the strength of the western Canadian economy.

The Fund does, however, intend to continue to pursuing its acquisition strategy, which focuses on businesses that complement its existing manufacturing and/or distribution businesses, expand its distribution capabilities, or further diversify its product offerings.

OFF BALANCE SHEET ARRANGEMENTS

The Fund does not have any off balance sheet arrangements.

Contractual Obligations

The Fund's significant contractual obligations at December 31, 2008 were as follows:

(in millions of dollars)	Total	2009	2010	2011	2012	2013	There-after
Long-term debt	107,842	329	99,262	525	—	300	7,426
Capital leases	145	57	57	29	2	—	—
Operating leases	36,960	6,433	5,692	5,137	4,244	3,267	12,187
Total	144,947	6,819	105,011	5,691	4,246	3,567	19,613

PROPOSED AND SUBSEQUENT TRANSACTIONS

Subsequent to December 31, 2008 the Fund completed the following two transactions:

a. In March 2009, the Fund completed the acquisition of an interest in S.J. Irvine Fine Foods Ltd. ("Irvine") for $2.5 million consisting of $1.26 million for a 25% equity interest and $1.24 million for a shareholder loan. As part of the transaction Premium Brands negotiated certain call options that enable it to increase its ownership in Irvine to 100% over time. Irvine which started operating in January 2008, manufactures high quality processed meats for the foodservice and retail industries out of a modern 40,000 square foot facility located in Saskatoon, SK.

b. Also in March 2009, the Fund acquired the business and working capital assets of Multi-National Foods ("MNF") for approximately $1.6 million. MNF is a food brokerage business with sales of approximately $9 million and is based in Calgary, AB. MNF will be combined with the Fund's relatively new food brokerage initiative.

RISKS AND UNCERTAINTIES

The Fund is subject to a number of risks and uncertainties related to both its business and its legal structure that may have adverse effects on its results of operations and financial position and, in turn, its ability to make cash distributions. These risks and uncertainties include: (i) seasonal and/or weather related fluctuations in the Fund's sales; (ii) changes in consumer discretionary spending resulting from changes in economic conditions and/or general consumer confidence levels; (iii) changes in the cost of raw materials used for the Fund's products; (iv) changes in the cost of products sourced from third party manufacturers and sold through the Fund's proprietary distribution networks; (v) changes in Canadian income tax laws (vi) changes in consumer preferences for food products; (vii) competition from other food manufacturers and distributors; (viii) new government regulations affecting the Fund's business and operations; and (ix) other factors as discussed in the Fund's Annual Information Form, which is filed electronically through SEDAR and available online at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Fund's consolidated financial statements requires management to make certain estimates and assumptions, which are based on the Fund's experience and management's understanding of current facts and circumstances.

These estimates affect the reported amounts of assets, liabilities, contingencies, revenues and expenses included in the Fund's consolidated financial statements and may differ materially from actual results. Significant areas requiring the use of management estimates include:

Inventories. Inventories are valued at the lower of cost and net realizable value, where cost includes raw materials, manufacturing labour and overhead. Inherent in the determination of the cost of inventories are certain management judgments and estimates.

Intangible assets and goodwill. The Fund assesses the impairment of goodwill and intangible assets with indefinite lives on an annual basis and finite life intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which the Fund considers could trigger an impairment review include significant underperformance relative to plan, a change in the Fund's business strategy, or significant negative industry or economic trends.

Capital assets. Capital assets are recorded at cost then depreciated over their estimated useful life. Redundant assets are recorded at the lesser of cost less accumulated depreciation and estimated fair market value. A significant amount of judgment is required to estimate the useful life of an asset as well as the fair market value of a redundant asset. Changes in the life of an asset are reflected prospectively through changes in future depreciation rates, while decreases in the fair market value of redundant assets are expensed when the decline in value occurs.

Income tax provision. As a result of the changes in the way publically traded trusts such as the Fund are taxed (see *Income Tax – Income Tax Changes*) the Fund now records projected temporary differences between the value of its net assets for tax purposes and their value for accounting purposes that are expected to reverse after the date on which the Fund is expected to become subject to entity level taxation (currently January 1, 2011). In determining these temporary differences certain management judgements and estimates are required. Furthermore, future income tax assets are recognized only to the extent that management determines that it is more than likely than not that the future income tax assets will be realized.

Puttable interest in subsidiaries. Puttable interest in subsidiaries is calculated using the effective interest rate method and, correspondingly, a significant amount of judgement is required in estimating the future cash flows to be used under this valuation method.

OTHER

Outstanding Units

The total units and exchangeable units outstanding as of March 26, 2009 were 17,586,894 consisting of 16,986,894 units and 600,000 exchangeable units.

Disclosure Controls and Procedures

Management has designed, or caused to be designed under their supervision, the Fund's disclosure controls and procedures ("DCP") and internal control over financial reporting ("ICFR") as defined under National Instrument NI 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109").

Management has evaluated the Fund's DCP as at December 31, 2008 and has concluded that such procedures are adequately designed and effective to provide reasonable assurance that (i) material information relating to the Fund, including its consolidated subsidiaries, is made known to Management on a timely basis to ensure adequate disclosure and (ii) information required to be disclosed by the Fund in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time period.

Management has also evaluated the Fund's ICFR as at December 31, 2008 and has concluded that the design of the Fund's ICFR provides reasonable assurance that the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with Canadian GAAP.

In assessing the design of the Fund's DCP and ICFR as at December 31, 2008, the Fund has excluded the controls, policies and procedures of B&C Food Distributors Ltd. ("B&C"), an acquisition that the Fund completed on August 13, 2008, and accounts for approximately $18.0 million of the Fund's consolidated revenue. Furthermore, current assets, non current assets, current liabilities and non current liabilities of B&C that have been consolidated into the Fund's financial statements are $2.0 million, $3.4 million, $3.2 million and $nil, respectively. Documentation and assessment of B&C's impact on the overall design of the Fund's DCP and ICFR has been initiated and is expected to be completed in 2009.

In assessing the ICFR effectiveness, a material weakness was identified in one of the Fund's operating divisions. The material weakness involved the inadequate supervisory review of account reconciliations that resulted in unresolved reconciling items. All such items have since been corrected. Management believes no impact has been had on the Fund's financial reporting and the effectiveness of its overall ICFR as at December 31, 2008. To prevent future occurrences, supervisory accounting staff at the particular operating division have been replaced and additional resources have been made available to provide further assistance.

Although the Fund's assessment of DCP and ICFR are based on the integrated framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), both DCP and ICFR, no matter how well designed, have inherent limitations. Therefore, DCP and ICFR can only provide reasonable assurance and thus may not prevent or detect all misstatements.

The Fund's Management has also concluded that there have been no changes to the Fund's ICFR during the interim period ending December 31, 2008 that has materially affected, or are reasonably likely to affect, its ICFR.

Responsibilities of Management and Board of Directors

Management is responsible for the reliability and timeliness of content disclosed in the Management's Discussion & Analysis ("MD&A"), which is current as of March 26, 2009. It is the responsibility of the Audit Committee to provide oversight in reviewing the MD&A and the Board of Trustees to approve the MD&A.

The Board of Trustees and the Audit Committee also review all material matters relating to the necessary systems, controls and procedures in place to ensure the appropriateness and timeliness of MD&A disclosures.

This MD&A, dated March 26, 2009, has been approved by the Fund's Board of Trustees.

Additional Information

Additional information, including the Fund's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

Auditors' Report

To the Unitholders of Premium Brands Income Fund

We have audited the consolidated balance sheets of Premium Brands Income Fund as at December 31, 2008 and 2007 and the consolidated statements of operations, accumulated earnings, accumulated other comprehensive loss, comprehensive earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia

March 31, 2009

Consolidated Balance Sheets

(in thousands of Canadian dollars)	December 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 1,679	$ 1,116
Accounts receivable (note 19)	35,020	30,870
Current portion of other assets (note 6)	247	897
Inventories (note 3)	44,088	39,533
Prepaid expenses	2,240	1,855
Future income taxes (note 17)	85	70
	83,359	74,341
Capital assets (note 4)	69,833	59,931
Intangible assets (note 5)	41,063	41,384
Goodwill	110,769	107,716
Other assets (note 6)	2,485	2,282
	307,509	285,654
Liabilities		
Current liabilities		
Cheques outstanding	1,354	695
Bank indebtedness (note 7)	9,676	9,703
Distributions payable (note 11)	1,725	1,710
Accounts payable and accrued liabilities	42,472	35,914
Current portion of long-term debt (note 8)	386	148
	55,613	48,170
Puttable interest in subsidiaries (note 2)	4,224	3,575
Future income taxes (note 17)	1,532	423
Long-term debt (note 8)	107,067	96,914
	168,436	149,082
Non-controlling interest	1,155	1,158
Unitholders' Equity		
Unitholders' capital (note 9)	156,238	154,382
Accumulated earnings	53,078	32,647
Accumulated distributions declared (note 11)	(67,052)	(46,459)
Accumulated other comprehensive loss	(4,346)	(5,156)
	137,918	135,414
	$ 307,509	$ 285,654

Commitments and contingent liabilities (notes 14 and 18)
Subsequent events (note 24)

Approved by the Board of Trustees

Trustee　　　　Trustee

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

Consolidated Statements of Operations

(in thousands of Canadian dollars, except per unit amounts)	Year ended December 31, 2008	Year ended December 31, 2007
Revenue	$ 449,363	$ 326,441
Gross profit	120,310	96,190
Selling, general and administrative expenses	79,684	62,839
	40,626	33,351
Depreciation of capital assets	7,927	6,164
Interest and other financing costs	7,293	4,932
Amortization of intangible and other assets	2,701	2,030
Amortization of financing costs	199	97
Accretion of puttable interest in subsidiaries	650	43
Unrealized (gain) loss on foreign currency contracts (note 19)	(1,186)	461
Product recall insurance claim (note 18)	987	—
Earnings before income taxes and non-controlling interest	22,055	19,624
Provision for (recovery of) income taxes (note 17)		
Current	5	104
Future	980	(6,375)
	985	(6,271)
Earnings before non-controlling interest	21,070	25,895
Non-controlling interest – net of income taxes	97	407
Earnings	20,973	25,488
Earnings per unit		
Basic and diluted (note 13)	$ 1.20	$ 1.46

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

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Year ended December 31, 2008	Year ended December 31, 2007
Cash flows from operating activities		
Earnings before non-controlling interest	$ 21,070	$ 25,895
Items not involving cash:		
Depreciation of capital assets	7,927	6,164
Amortization of intangible assets	2,400	1,190
Amortization of other assets	301	840
Amortization of financing costs	199	97
Accretion of puttable interest in subsidiaries	650	43
(Gain) loss on sale of assets	(37)	22
Restricted Trust Unit Plan accrual (note 10)	125	82
Long-term incentive plan accrual (note 10)	92	525
Accrued interest income	(73)	(117)
Unrealized (gain) loss on foreign currency contracts	(1,186)	461
Future income taxes	980	(6,375)
	32,448	28,827
Change in non-cash working capital	1,464	3,206
	33,912	32,033
Cash flows from financing activities		
Long-term debt – net	7,968	86,860
Bank indebtedness and cheques outstanding	632	767
Financing costs	(50)	(550)
Proceeds from issuance of units net of issuance costs (note 9)	1,926	—
Purchase of units under normal course issuer bid (note 9)	(70)	—
Distributions paid to unitholders (note 11)	(20,593)	(20,514)
	(10,187)	66,563
Cash flows from investing activities		
Collection of notes receivable	739	463
Net proceeds from sales of assets	103	44
Capital asset additions	(13,514)	(7,677)
Business acquisitions (note 12)	(15,907)	(91,840)
Sale and leaseback (note 12)	5,000	—
Purchase of units for unit purchase loan plan (note 6)	—	(150)
Repayment of unit purchase loans (note 6)	278	113
Payments to shareholders of non-wholly owned subsidiaries	(100)	(218)
Other	(69)	25
	(23,470)	(99,240)
Effects of exchange on cash and cash equivalents	308	(180)
Increase (decrease) in cash and cash equivalents	563	(824)
Cash and cash equivalents – beginning of year	1,116	1,940
Cash and cash equivalents – end of year	$ 1,679	$ 1,116

Supplemental cash flow information (note 22)

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

Consolidated Statements of Accumulated Earnings

(in thousands of Canadian dollars)	Year ended December 31, 2008	Year ended December 31, 2007
Accumulated earnings – beginning of year	$ 32,647	$ 7,058
Transition adjustment as of January 1 (note 2)	(542)	101
Adjusted balance – beginning of year	32,105	7,159
Earnings for the year	20,973	25,488
Accumulated earnings – end of year	$ 53,078	$ 32,647

Consolidated Statements of Accumulated Other Comprehensive Loss

(in thousands of Canadian dollars)	Year ended December 31, 2008	Year ended December 31, 2007
Accumulated other comprehensive loss – beginning of year	$ (5,156)	$ (2,459)
Other comprehensive loss		
Unrealized loss on interest rate swap (note 19)	(1,396)	(637)
Unrealized foreign exchange translation gain (loss) on investment in self sustaining foreign operations	2,206	(1,640)
Transfer of unrealized gain on foreign currency contracts to earnings	—	(420)
Accumulated other comprehensive loss – end of year	$ (4,346)	$ (5,156)

Consolidated Statements of Comprehensive Earnings

(in thousands of Canadian dollars)	Year ended December 31, 2008	Year ended December 31, 2007
Earnings for the year	$ 20,973	$ 25,488
Unrealized loss on interest rate swap (note 19)	(1,396)	(637)
Unrealized foreign exchange translation gain (loss) on investment in self-sustaining foreign operations	2,206	(1,640)
Transfer of unrealized gain on foreign currency contracts to earnings	—	(420)
Comprehensive earnings	$ 21,783	$ 22,791

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

1. NATURE OF BUSINESS

Premium Brands Income Fund (the Fund) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust. Through its subsidiaries, the Fund owns a broad range of leading specialty food businesses with manufacturing and distribution facilities located in British Columbia, Alberta, Saskatchewan, Manitoba and Washington State. In addition, the Fund owns proprietary food distribution and wholesale networks through which it sells both its own products and those of third parties.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and take into account the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of the Fund and all of its majority-owned subsidiaries after elimination of intercompany transactions and balances.

The Fund has a 60% interest in Hempler Foods Group LLC (Hempler's) and an 80% interest in Stuyver's Bakestudio (Stuyver's). The Fund holds options to purchase the third party interests in Hempler's and Stuyver's (calls), and in both cases, the third party shareholders hold options that entitle them to require the Fund to purchase their interest (puts). The Hempler's and Stuvyer's puts can be exercised at any time after February 2009 and August 2010, respectively, with the purchase price being based on a formula tied to future EBITDA of the businesses. For accounting purposes, the Fund has consolidated 100% of Hempler's and Stuyver's and has recognized the estimated purchase price of the third party interests as a liability on the consolidated balance sheet using the effective interest rate method. Accordingly, non-controlling interest has not been recognized in respect of these subsidiaries. Accretion as a result of using the effective interest rate method of accounting and the impact of changes in the estimated future put exercise prices are recorded in earnings as determined.

Fiscal year

The fiscal year end of the Fund is December 31. The fiscal year of the Fund's subsidiaries is a 52-week or 53- week period ending the Saturday nearest December 31. Fiscal years 2008 and 2007 ended on December 27 and December 29, respectively.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

Inventories

Inventories of raw materials, work-in-progress and finished goods are valued at the lower of cost and net realizable value. Cost includes raw materials, manufacturing labour and overhead.

Equipment inventories are carried at the lower of cost and net realizable value.

Capital assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line and a declining balance basis over the period in use at the following annual rates, which are based on the expected useful life of the assets:

Buildings	2.5% to 5%
Machinery and equipment	10% to 20%
Automotive equipment	10% to 30%

For significant capital projects, the Fund capitalizes interest as a component of the cost.

An impairment loss is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized is measured as the amount by which the carrying value of the asset exceeds its fair value.

Intangible assets

Intangible assets consist of acquired brand names, customer relationships, customer supply agreements and trade secrets.

Brand names have been determined to have an indefinite useful life and are not amortized but are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Under the requirements of the impairment test, the carrying value of the intangible asset is compared with its fair value and any excess is expensed.

Customer relationships, customer supply agreements and trade secrets are amortized on a straight-line basis over their estimated useful life as follows:

Customer relationships	15 to 20 years
Customer supply agreements	Term of agreement
Trade secrets	5 years

An impairment loss is recognized when the carrying value of a customer relationship, customer supply agreement or trade secret exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized is measured as the amount by which the carrying value of the asset exceeds its fair value.

Goodwill

Goodwill represents the difference between the cost of an acquired business and the fair value of its underlying net identifiable assets at the time of acquisition. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying amount of the reporting unit's net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

Deferred start-up costs

Plant start-up costs are deferred and amortized on a straight-line basis over five years.

Long-term debt

The Fund's long-term debt is recognized at fair value, net of financing costs incurred. Long-term debt is subsequently stated at amortized cost; any difference between the proceeds (net of financing costs) and the redemption value is recognized in the consolidated statement of operations over the term of the debt using the effective interest rate method.

Exchangeable securities

In accordance with the Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstract 151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts", the exchangeable limited partnership units of the Fund's subsidiary, Premium Brands Holdings Limited Partnership (PBHLP), have been accounted for as part of unitholders' capital as they have substantially the same rights as the Fund units in terms of distributions.

Revenue recognition

For products sold and delivered to customers by third party carriers, revenue is recognized at the time the goods leave the Fund's possession and collection is reasonably assured. For products sold through the Fund's proprietary distribution networks, revenue is recognized when the product is delivered to the customer. Revenue is reported net of rebates, allowances and returns.

Revenue from foodservice equipment rentals is recognized on a straight-line basis over the term of the rental contract.

Income taxes

The Fund qualifies as a unit trust for tax purposes and as such, is currently only taxable on income not allocated to unitholders. In June 2007, legislation was substantively enacted to tax distributions of publicly traded income trusts, commencing on or before 2011. As a result, the Fund is now required to recognize the future income tax assets and liabilities expected to arise when the tax on distributions becomes applicable.

The Fund follows the asset and liability method of accounting for income taxes whereby future income tax assets and liabilities are recognized for differences between the bases of assets and liabilities used for financial statement and income tax purposes. Future income tax assets and liabilities are calculated using substantively enacted tax rates for the period in which the differences are expected to reverse. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Foreign currency translation

The Fund's United States based operations are considered to be self-sustaining foreign operations and accordingly have been translated to Canadian dollars using the year end exchange rate for the consolidated balance sheet and the average exchange rate for the period for the consolidated statement of operations. Gains or losses resulting from translation adjustments are recorded in other comprehensive earnings (loss) until there is a realized reduction in the net investment in the foreign operation.

Foreign currency accounts of Canadian operations have been translated to Canadian dollars using the year end exchange rate for monetary assets and liabilities and the prevailing exchange rate at the time for income and expense transactions. Gains and losses resulting from this translation are included in the consolidated statement of operations.

Notes to Consolidated Financial Statements (continued)
December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

Financial instruments

The Fund recognizes a financial asset or financial liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and liabilities should, with certain exceptions, be initially measured at fair value. After initial recognition, the measurement of each financial instrument will vary depending on its classification: financial assets and financial liabilities held for trading, available-for-sale financial assets, held-to-maturity investments, loans and receivables, or other financial liabilities.

Cash and cash equivalents and foreign currency contracts are classified as held-for-trading and are measured at fair value at each balance sheet date with changes reflected in the consolidated statement of operations. Interest rate swap agreements are also held for trading.

Accounts receivable and notes and loans receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.

Cheques outstanding, bank indebtedness, distributions payable, accounts payable and accrued liabilities, long-term debt and puttable interest in subsidiaries are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Financing charges are netted against debt and are amortized over the term of the loan facility.

Hedging instruments

The Fund uses interest rate swap agreements to manage risks from fluctuations in interest rates. All such instruments are used only for risk management purposes. These agreements are considered to be cash flow hedges; as a result, changes in the fair value, to the extent they are effective, are recorded in other comprehensive earnings (loss) and are only recognized in earnings when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in earnings immediately.

The Fund uses foreign currency contracts to manage exchange risks from U.S. dollar inventory purchases. All such contracts are used only for risk management purposes. The Fund has not applied hedge accounting to the contracts during 2008 and accordingly, fluctuations in the fair value of the contracts are recognized in the consolidated statement of operations. The Fund may choose to apply hedge accounting to its foreign currency contracts in the future.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of goodwill, inventory and long-lived assets; calculation of future income taxes and puttable interest in subsidiaries and the useful lives of assets in the calculation of amortization and depreciation. Actual results could differ from these estimates.

Unit based compensation plans

The Fund has a long-term incentive plan, a Restricted Trust Unit Plan and an employee unit purchase plan which provide awards to eligible trustees, directors, executives, consultants and employees of the Fund and its subsidiaries. The Fund recognizes the compensation expense associated with these plans over the vesting period of the awards using the fair value method.

Employee future benefit plan

The Fund has a defined benefit pension plan covering certain employees. Benefits under this plan are based on years of service and the employee's compensation level. The cost of the plan is funded on a current basis. The Fund accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected rate of return on plan assets, the fair value method is used. The excess of any net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Earnings per unit

The Fund uses the treasury stock method to calculate diluted earnings per unit.

Changes in accounting policies

Effective January 1, 2008 the Fund adopted CICA Handbook Section 1535 "Capital Disclosures". This new standard requires disclosure of qualitative and quantitative information that will enable users of financial statements to evaluate the Fund's objectives, policies and processes for managing capital (note 20).

Effective January 1, 2008 the Fund adopted CICA Handbook Sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation", which replaced Section 3861 "Financial Instruments – Disclosure and Presentation". These new standards increase the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed (note 19).

Effective January 1, 2008 the Fund adopted CICA Handbook Section 3031 "Inventories". This standard introduces changes to the measurement and disclosure of inventories and converges with International Financial Reporting Standards (IFRS). As a result of the Fund's adoption of this standard, it no longer includes in the valuation of its inventories costs associated with the storage and handling of finished goods. The Fund applied the new standard on a retroactive basis without restatement of prior periods and correspondingly on January 1, 2008, recorded a $0.5 million decrease in its opening accumulated earnings and inventories.

Effective January 1, 2007, the Fund adopted CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement". The adoption of this standard resulted in a net increase of $0.1 million to open retained earnings.

New accounting pronouncements

Effective January 1, 2009, the Fund will adopt CICA Handbook Section 3064 "Goodwill and Intangible Assets" which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, Emerging Issues Committee Abstract 27 "Revenues and Expenditures During the Pre-operating Period" will be withdrawn. Accordingly, effective January 1, 2009 all pre-production and start-up costs will be expensed as incurred. The change in accounting policy will be adopted with retroactive restatement of prior periods. The Fund is assessing the impact of this new standard on its financial statements.

International Financial Reporting Standards (IFRS)

In February 2008 the Canadian Accounting Standards Board confirmed that IFRS will replace Canada's current GAAP for publicly accountable profit-oriented enterprises. The effective date of transition is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Fund for the year ended December 31, 2010.

The Fund's IFRS implementation project consists of two elements. The first, which the Fund expects to complete in 2009, consists of determining the differences between the Fund's current accounting policies and the requirements under IFRS, identifying the impact of the options, if any, under IFRS on the Fund's accounting and business processes, selecting the appropriate policy and disclosure option under IFRS and preparing an implementation plan.

The second element, which the Fund expects to complete in 2010, consists of designing and implementing the accounting and business processes, reports and internal controls needed to facilitate collection of the data required for reporting under IFRS.

While the Fund has initiated the first element of its IFRS implementation project, it is not at this time able to determine the exact impact that the transition will have on its financial reporting.

3. INVENTORIES

	December 31, 2008	December 31, 2007
Raw materials	$ 4,394	$ 3,421
Finished goods	32,900	29,694
Equipment for sale	6,794	6,418
	$ 44,088	$ 39,533

During 2008, $276.2 million of inventories were expensed as cost of goods sold.

Notes to Consolidated Financial Statements (continued)
December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

4. CAPITAL ASSETS

	December 31, 2008		
	Cost	Accumulated depreciation	Net
Land	$ 4,143	$ —	$ 4,143
Buildings	37,912	11,131	26,781
Machinery and equipment	86,047	48,309	37,738
Automotive equipment	2,165	994	1,171
	$ 130,267	$ 60,434	$ 69,833

	December 31, 2007		
	Cost	Accumulated depreciation	Net
Land	$ 4,045	$ —	$ 4,045
Buildings	31,616	9,400	22,216
Machinery and equipment	76,086	42,843	33,243
Automotive equipment	1,382	955	427
	$ 113,129	$ 53,198	$ 59,931

Assets under capital lease with a net book value of $29,000 (2007 – $26,000) are included within machinery and equipment.

5. INTANGIBLE ASSETS

	December 31, 2008		
	Cost	Accumulated amortization	Net
Brand names	$ 16,283	$ —	$ 16,283
Customer relationships	24,468	2,075	22,393
Customer supply agreement	5,418	4,178	1,240
Trade secrets	1,564	417	1,147
	$ 47,733	$ 6,670	$ 41,063

	December 31, 2007		
	Cost	Accumulated amortization	Net
Brand names	$ 16,092	$ —	$ 16,092
Customer relationships	22,871	604	22,267
Customer supply agreement	4,372	2,871	1,501
Trade secrets	1,564	40	1,524
	$ 44,899	$ 3,515	$ 41,384

6. OTHER ASSETS

	December 31, 2008	December 31, 2007
Notes receivable	$ 138	$ 919
Employee unit purchase loans	1,027	1,232
	1,165	2,151
Less: current portion	247	897
	918	1,254
Pension benefit asset (note 15)	355	340
Unrealized gain on foreign currency contracts (note 19)	724	—
Other	488	688
	$ 2,485	$ 2,282

Notes receivable

The notes receivable bear interest at rates ranging from nil% to 8.5% (2007 – nil% to 8.5%).

Unit purchase loans

As part of the Fund's strategies to fully align the interests of management with those of the Fund's unitholders, it has provided certain members of management with non-interest bearing loans (unit purchase loans), the proceeds of which were used to purchase the Fund's units in the open market (the Purchased Units) on behalf of the individuals. The unit purchase loans bear no interest, have monthly principal payments equal to 55% of the monthly distribution received on the Purchased Units, are collateralized by the Purchased Units and a promissory note, and are due upon the termination of the individual's employment or if the individual sells the units. The amount of unit purchase loans issued in 2008 was $nil (2007 – $0.2 million).

The payments expected to be received from the collection of notes receivable and employee unit purchase loans are as follows:

	Notes receivable	Unit purchase loans	Total
2009	$ 68	$ 179	$ 247
2010	5	170	175
2011	5	146	151
2012	5	126	131
2013 and thereafter	55	638	693
	138	1,259	1,397
Future interest using the effective interest rate method	—	232	232
	$ 138	$ 1,027	$ 1,165

7. BANK INDEBTEDNESS

Bank indebtedness consists of borrowings on bank lines of credit. The Fund has bank lines of credit totalling $32.5 million (2007 – $23.5 million); $32.0 million of these lines of credit is due on July 6, 2010, bears interest at the bank's prime rate to prime plus 0.5% (2007 – prime to prime plus 0.5%), depending on the Fund's debt to cash flow ratio, and is secured by an assignment of inventories, accounts receivable, insurance policies and a general lien on all other assets of the Fund. The remaining line of credit is due in July 2009, bears interest at a U.S. bank's prime rate and is secured by an assignment of inventories, accounts receivable, insurance policies and a general lien on all other assets of the Fund.

As at December 31, 2008, actual amounts drawn on bank lines of credit are $9.7 million (2007 – $9.7 million). Interest on bank indebtedness in 2008 was $0.8 million (2007 – $0.9 million).

8. LONG-TERM DEBT

	December 31, 2008	December 31, 2007
$40.0 million revolving term facility with no principal payments until maturity in July 2010. The loan bears interest at prime to prime plus 1.0% or at the banker's acceptance rate plus 1.0% to 2.75% based on the Fund's ratio of debt to cash flow calculated quarterly	$ 35,000	$ 27,000
Non-revolving term loan with no principal payments until maturity in July 2010 as long as the Fund's debt to cash flow ratio does not exceed 3.0:1 for two consecutive quarters. In the event that the Fund's debt to cash flow ratio does exceed 3.0:1 for two consecutive quarters, then the Fund will have to make monthly principal payments of $0.3 million if its debt to cash flow ratio is below 3.25:1 and $0.7 million if its debt to cash flow ratio is above 3.25:1. The principal payments will cease if subsequently the Fund's debt to cash flow ratio falls below 3.0:1 for two consecutive quarters. The loan bears interest at prime to prime plus 1.0% or at the banker's acceptance rate plus 1.0% to 2.75% based on the Fund's ratio of debt to cash flow calculated quarterly	64,000	64,000
US$6.1 million secured Industrial Development Revenue Bond (IRB) with no principal payments until maturity in July 2036. The bond bears interest at the weekly variable rate for such bonds, which averaged 2.4976% (2007 – 3.7379%) for the year, plus 1.0% to 2.0% based on the Fund's ratio of debt to cash flow calculated quarterly	7,427	5,993
Unsecured notes payable bearing interest at a rate of 5% to 6.5% and due in 2009 to 2013	1,228	454
Other, including capital leases	332	256
	107,987	97,703
Deferred financing costs	(534)	(641)
Current portion	(386)	(148)
	$ 107,067	$ 96,914

Notes to Consolidated Financial Statements (continued)
December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

The Fund's term loans and IRB are collateralized by an assignment of inventories, accounts receivable and insurance policies, fixed charges on capital assets, and a general lien on all other assets of the Fund. In addition, they contain financial covenants that require the maintenance of certain ratios regarding working capital, fixed charge coverage and debt to cash flow. At December 31, 2008, the Fund was in compliance with all such covenants.

IRBs are a financing instrument available in the U.S. for U.S. based capital projects that meet certain conditions.

During 2008, the Fund incurred interest expense of $5.8 million (2007 – $3.0 million) on its long-term debt. The Fund's estimated blended average effective cost of borrowing for 2008 was approximately 5.6% (2007 – 5.3%) after taking into account the impact on the interest rate hedge.

Scheduled principal repayments on long-term debt are disclosed in note 19.

9. UNITHOLDERS' CAPITAL

The following is a summary of changes in unitholders' capital from December 31, 2006 to December 31, 2008:

	Units and exchangeable units	
	Number	**Amount**
Balance at December 31, 2006 and December 31, 2007[(1)]	17,443,906	$ 154,382
Fund units issued	161,988	1,936
Unit issuance costs	—	(10)
Purchase of units under normal course issuer bid	(10,000)	(70)
Balance at December 31, 2008	17,595,894	$ 156,238

(1) Includes 600,000 exchangeable units carried at $6,926,000.

In October 2006, the Fund issued 2,444,280 units in a public offering at a price of $11.60 per unit for gross proceeds of $28.4 million and incurred issuance costs of $1.8 million. Proceeds of the offering were used to pay down bank indebtedness and long-term debt and for general corporate purposes.

In August 2008, the Fund issued 161,988 units in conjunction with the acquisition of B&C Food Distributors Ltd. (note 12) at a price of $11.95 per unit for gross proceeds of $1.9 million and incurred issuance costs of $10,000.

Fund units

An unlimited number of units may be created and issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of a termination or winding up of the Fund. Each unit entitles the holder to one vote at all meetings of voting unitholders.

The units are redeemable at any time on demand by the holders at amounts related to market prices at the time, subject to certain terms and conditions. The total amount payable by the Fund in respect of units tendered for redemption in the same calendar month shall not exceed $50,000, provided that the trustees of the Fund may, in their sole discretion, waive this limitation.

Exchangeable limited partnership units of PBHLP

An unlimited number of exchangeable limited partnership (ELP) units may be created and issued by PBHLP. Each ELP unit is intended to be, to the greatest extent possible, the economic equivalent of a Fund unit. Holders of ELP units are entitled to receive distributions that are, to the greatest extent practicable, equal to distributions paid by the Fund to holders of Fund units. ELP units are exchangeable into an equal number of Fund units, are non-transferable, except in connection with an exchange for a Fund unit, and can be redeemed by the Fund under certain circumstances for an equal number of Fund units. In addition, for each ELP unit held, the holder receives one special voting unit.

Special voting units of the Fund

An unlimited number of special voting units may be created and issued by the Fund. The holders of special voting units are not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of a termination or winding up of the Fund. Each special voting unit entitles the holder to one vote at all meetings of voting unitholders. Special voting units are to be cancelled on the exchange of ELP units for Fund units. As at December 31, 2008, 600,000 (2007 - 600,000) special voting units have been issued.

Issuer bid

In November 2006, the Fund put into place a normal course issuer bid that allows it to repurchase and cancel units of the Fund. In 2008, 10,000 units were repurchased under the normal course issuer bid.

10. UNIT BASED COMPENSATION

Restricted Trust Unit Plan

In 2007, the Fund adopted an employee tracking units plan (the Restricted Trust Unit Plan). Under the terms of this plan, tracking units may be granted to trustees, directors, executives and consultants (the Participants) of the Fund in lieu of cash consideration. Each tracking unit awarded is equivalent to a publicly traded unit (Unit) of the Fund at the time of the grant, mirrors the value of a Unit over time, including the issuance of additional tracking units in lieu of cash distributions paid on a Unit, and is redeemable by the Participant for cash based on the market price of the Units at the date of redemption after a three year vesting period. Vesting can be accelerated at the discretion of the trustees or on the occurrence of certain events such as a change of control. Participants continuing to be employed by the Fund after redeeming tracking units are required to invest a minimum of 40% of the proceeds received upon redemption in Units which will be held in trust by the Fund.

The Fund recognizes compensation expense for granted tracking units over the associated three year vesting period based on the redemption value of the restricted units at the end of each reporting period.

In 2008, 16,000 (2007 – 70,000) tracking units were issued and for 2008, the Fund recorded compensation expense relating to the Restricted Trust Unit Plan of $0.3 million (2007 – $0.1 million).

Long-term incentive plan

The Fund established a long-term incentive plan (the LTIP) in which officers and key employees of the Fund, or a subsidiary of the Fund, are eligible to participate. Pursuant to the LTIP, the Fund will set aside a pool of funds based upon, among other things, the amount, if any, by which the Fund's distributable cash exceeds certain defined per Unit distributable cash threshold amounts as set by the Fund's Board of Trustees. The funds in the pool are then used to purchase Units in the open market which are, in turn, granted to LTIP participants.

For grants made in 2007 the Units vest as follows: (a) one half (1/2) immediately; (b) one quarter (1/4) on the first anniversary of the acquisition of the Units; and (c) one quarter (1/4) on the second anniversary of the acquisition of the Units. For grants made in 2008 and subsequent years the Units vest as follows: (a) one third (1/3) immediately; (b) one third (1/3) on the first anniversary of the acquisition of the Units; and (c) one third (1/3) on the second anniversary of the acquisition of the Units. Vesting can be accelerated at the discretion of the trustees or on the occurrence of certain events such as change of control. Vested LTIP grants are distributed to LTIP Participants on vesting unless a deferral is requested. Any distributions received on Units held by the plan are distributed to the LTIP Participant who has been granted the related Units.

For 2008, the Fund's distributable cash per unit exceeded the target base distribution threshold of $1.522 and, as a result, $0.3 million will be contributed to the LTIP in 2009. In addition, to further promote employee ownership of the Fund, certain executives were given the option to replace a portion of their 2008 cash bonus with an LTIP award equal to the reduction in their cash bonus plus 10% to 25% of their cash bonus. As a result of certain executives electing this option, the Fund will contribute an additional $1.6 million to the LTIP in 2009.

The Fund recognizes compensation expense for contributions to the LTIP over the vesting period. Correspondingly, for 2008 the Fund recorded compensation expense of $0.6 million (2007 – $0.3 million) relating to the LTIP.

Employee unit purchase plan

In 2008, the Fund adopted an employee unit purchase plan (the EUPP) whereby employees may subscribe, through payroll withholdings, to purchase the Fund's units at 85% of the market price. The Fund will make an employer's contribution equal to the 15% discount to a maximum of $225 per employee per year. All units purchased under the EUPP are purchased on the open market. For 2008, the Fund recorded compensation expense of $0.1 million in respect of its employer's contribution to the EUPP.

Notes to Consolidated Financial Statements (continued)
December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

11. DISTRIBUTIONS

During the year ended December 31, 2008, the Fund declared distributions to unitholders of $19.9 million or $1.176 per unit and PBHLP declared distributions of $0.7 million or $1.176 per unit to ELP unitholders.

The aggregate amounts and record dates of these distributions are as follows:

Record date	Amount	Per unit
January 31, 2008	$ 1,709	$ 0.098
February 29, 2008	1,710	0.098
March 31, 2008	1,710	0.098
April 30, 2008	1,709	0.098
May 30, 2008	1,709	0.098
June 30, 2008	1,710	0.098
July 31, 2008	1,709	0.098
August 29, 2008	1,725	0.098
September 30, 2008	1,726	0.098
October 31, 2008	1,725	0.098
November 28, 2008	1,726	0.098
December 31, 2008	1,725	0.098
	20,593	$ 1.176
Accumulated distributions declared – beginning of year	46,459	
Accumulated distributions declared – end of year	$ 67,052	

In December 2008, the Fund and PBHLP declared aggregate distributions of $1.7 million to unitholders and ELP unitholders of record on December 31, 2008, which was paid subsequent to year-end and is reported as a current liability at December 31, 2008.

12. ACQUISITIONS

The Fund has accounted for these acquisitions using the purchase method and the results of the acquisitions have been included in the Fund's consolidated financial statements from the date of each acquisition.

2008 acquisitions

On April 11, 2008, the Fund completed the acquisition of the assets of Noble House Distributors (Noble House) for $2.1 million consisting of cash of $1.6 million and a three year note payable for $0.5 million bearing interest at 5.0%. Noble House is a direct-to-store distributor of meat snacks, sandwiches and pastries operating in northern Alberta and is a distributor for the Fund's Direct Plus direct-to-store distribution network.

On May 2, 2008, the Fund completed the acquisition of the assets of the B.C. operations of Mrs. Willman's Baking Limited (Mrs. Willman's) for $1.7 million consisting of cash of $1.4 million plus a five year note payable for $0.3 million bearing interest at 6.5%. In addition, the Fund has agreed to pay a 2.5% royalty, to a maximum of $0.7 million, on sales of Mrs. Willman's products to certain defined customers over the next ten years.

On August 13, 2008, the Fund completed the acquisition of 100% of the shares of B&C Food Distributors Ltd. (B&C) for $12.9 million and as part of this transaction entered into a sale and leaseback of B&C's distribution facility, resulting in proceeds of $5.0 million (note 21). B&C provides custom portion cutting and distribution of high quality protein products to restaurants, hotels and institutions on Vancouver Island. In addition, it provides warehousing and distribution services to grocery retailers on Vancouver Island.

The following table summarizes the estimates of the fair values of the assets acquired and obligations assumed for these acquisitions:

Net working capital	$ 4,977
Capital assets	7,873
Goodwill	2,671
Intangible assets – customer relationships	1,582
Future income taxes	(371)
Total purchase cost	16,732
Purchase cost	15,396
Transaction costs	511
	15,907
Purchase cost – notes payable	825
Total purchase cost	$ 16,732

2007 acquisitions

On July 6, 2007, the Fund completed the acquisition of 100% of Centennial Foodservice, a specialty distributor of high quality protein products to hotels, restaurants and institutions, for $84.2 million in cash.

On August 10, 2007, the Fund acquired an 80% interest in Stuyver's, a specialty baked goods business, for $6.8 million in cash. As part of the transaction, the Fund received a call to purchase the remaining 20% interest in Stuyver's at a formula based price at any time after August 2010 and gave the third party owning the 20% interest a put that entitles them to require the Fund to purchase their interest at any time after August 2010 at the same formula based price. For the 20% of Stuyver's not purchased by the Fund, it has recognized a liability relating to the put based on the estimated acquisition price discounted using the effective interest rate method.

The following table summarizes the estimates of the fair values of the assets acquired and obligations assumed for these acquisitions:

Net working capital	$ 16,737
Notes receivable	82
Capital assets	6,692
Goodwill	41,659
Intangible assets:	
Brand names	13,363
Customer relationships	21,021
Trade secrets	1,564
Future income taxes	(7,550)
Puttable interest in subsidiaries	(1,728)
Total purchase cost	91,840
Purchase price	91,009
Transaction costs	831
Total purchase cost	$ 91,840

13. EARNINGS PER UNIT

Earnings per unit is calculated using the weighted average number of Fund units and ELP units outstanding for the year, which was 17,504,866 for 2008 (2007 – 17,443,906).

14. COMMITMENTS AND CONTINGENT LIABILITIES

a) The Fund leases land, warehouses, offices and equipment under operating leases that expire from 2009 to 2022. The aggregate future minimum annual rental payments under these leases are as follows:

2009	$ 6,433
2010	$ 5,692
2011	$ 5,137
2012	$ 4,244
2013 and thereafter	$ 15,424

b) The Fund had a commitment with Investment Saskatchewan to have made $15.0 million in qualified expenditures in the Province of Saskatchewan by December 31, 2004. The Fund claims to have made $18.5 million in qualified expenditures and therefore to have fulfilled its commitment. Investment Saskatchewan has challenged $6.7 million of the expenditures submitted by the Fund on the basis that these costs do not meet the definition of a qualified expenditure. The Fund and Investment Saskatchewan are attempting to negotiate a resolution to this difference. In the event that these negotiations are unsuccessful and it is determined that Investment Saskatchewan's interpretation of what meets the criteria of a qualified expenditure is correct, then the Fund would incur a penalty of approximately $0.9 million, payable in cash and/or Fund units.

c) As part of the sale of a discontinued operation in 2004, the Fund assigned its interest in a plant operating lease (the Lease) to the purchaser of the discontinued operation. The Fund has been fully indemnified by the purchaser for any future liabilities under the Lease; however, it continues to be obligated for any future defaults under the Lease. The Lease expires on March 31, 2014 and the annual rent payments due under the lease are $0.8 million.

d) The Fund has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Fund's financial position.

Notes to Consolidated Financial Statements (continued)
December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

15. EMPLOYEE FUTURE BENEFITS

The Fund maintains a defined benefit pension plan that covers certain salaried staff (the Pension Plan). Benefits under the Pension Plan are based on years of credited service and average compensation. The measurement date used to measure the plan assets and accrued benefit obligation is December 31 of each year. The most recent actuarial valuation of the Pension Plan for funding purposes was as of December 31, 2006 and the effective date of the next required actuarial valuation for funding purposes is as of December 31, 2009.

Additional information on the Pension Plan is as follows:

	December 31, 2008	December 31, 2007
Accrued benefit obligation		
Balance – beginning of year	$ 5,164	$ 5,180
Current service costs – net of employee contributions	268	235
Employee contributions	60	47
Interest cost	270	260
Benefits paid	(839)	(260)
Actuarial gains	(981)	(298)
Balance – end of year	3,942	5,164
Fair value of plan assets		
Fair value – beginning of year	5,285	5,138
Actual return on plan assets	(633)	155
Employer contributions	239	205
Employee contributions	60	47
Benefits paid	(839)	(260)
Fair value – end of year	4,112	5,285
Fund status – surplus	170	121
Unamortized net actuarial loss	116	138
Unamortized transitional obligation	69	81
Pension benefit asset	$ 355	$ 340

The plan assets for the Pension Plan consist of the following:

	December 31, 2008	December 31, 2007
Asset category		
Equity securities	% 60	% 58
Cash and debt securities	40	42
Total	% 100	% 100

The elements of the defined benefit costs recognized for the years ended December 31, 2008 and December 31, 2007 are as follows:

	December 31, 2008	December 31, 2007
Current service costs – net of employee contributions	$ 268	$ 235
Interest cost	270	260
Actual return on plan assets	633	(155)
Differences between expected and actual return on plan assets for year	(959)	(179)
Amortization of transition obligation	12	12
Defined benefit costs recognized	$ 224	$ 173

The significant actuarial assumptions adopted in measuring the Fund's accrued benefit obligations and in determining net cost were as follows:

	December 31, 2008	December 31, 2007
Discount rate	% 7.50	% 5.50
Expected long-term rate of return on plan assets	6.50	6.50
Rate of compensation increase	% 2.50	% 2.50

16. SEGMENTED INFORMATION

The Fund has two reportable segments, Retail and Foodservice. The Retail segment includes three operating segments consisting of its specialty food manufacturing and retail distribution businesses. The Foodservice segment includes three operating segments consisting of its three foodservice related businesses. The operating segments within each reportable segment have been aggregated as they have similar economic characteristics. The accounting policies for the segments are as described in note 2.

				December 31, 2008
	Retail	Foodservice	Corporate	Total
Revenue	$ 222,160	$ 230,259	$ —	$ 452,419
Elimination of inter-segment sales	(1,884)	(1,172)	—	(3,056)
Revenue from external parties	220,276	229,087	—	449,363
Earnings (loss) before the following	27,773	17,507	(4,654)	40,626
Depreciation of capital assets	5,562	1,566	799	7,927
Amortization of intangible and other assets	1,315	1,386	—	2,701
Segment earnings (loss)	20,896	14,555	(5,453)	29,998
Interest and other financing costs	—	—	7,293	7,293
Amortization of financing costs	—	—	199	199
Accretion of puttable interest in subsidiaries	—	—	650	650
Unrealized gain on foreign currency contracts	—	—	(1,186)	(1,186)
Product recall insurance claim	987	—	—	987
Provision for income taxes	—	—	985	985
Earnings (loss) before non controlling interest	19,909	14,555	(13,394)	21,070
Segment assets				
Capital asset additions	9,885	11,397	105	21,387
Goodwill additions	1,386	1,285	—	2,671
Total assets	$ 146,103	$ 138,552	$ 22,855	$ 307,509

				December 31, 2007
	Retail	Foodservice	Corporate	Total
Revenue	$ 207,082	$ 122,134	$ —	$ 329,216
Elimination of inter-segment sales	(2,602)	(173)	—	(2,775)
Revenue from external parties	204,480	121,961	—	326,441
Earnings (loss) before the following	27,917	10,553	(5,119)	33,351
Depreciation of capital assets	4,719	540	905	6,164
Amortization of intangible and other assets	982	605	443	2,030
Segment earnings (loss)	22,216	9,408	(6,467)	25,157
Interest and other financing costs	—	—	4,932	4,932
Amortization of financing costs	—	—	97	97
Accretion of puttable interest in subsidiaries	—	—	43	43
Unrealized loss on foreign currency contracts	—	—	461	461
Recovery of income taxes	—	—	(6,271)	(6,271)
Earnings (loss) before non controlling interest	22,216	9,408	(5,729)	25,895
Segment assets				
Capital asset additions	6,686	7,522	161	14,369
Goodwill additions	4,936	36,723	—	41,659
Total assets	$ 144,899	$ 129,560	$ 11,195	$ 285,654

Notes to Consolidated Financial Statements (continued)
December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

Revenue, segment earnings (loss) (defined as earnings (loss) before interest and other financing costs, amortization of financing costs, accretion of puttable interest in subsidiaries, unrealized (gain) loss on foreign currency contracts, product recall insurance claim, income taxes and non-controlling interest) and capital assets and goodwill for the years presented are geographically segmented as follows:

	Revenue	Segment earnings (loss)	Capital assets and goodwill
December 31, 2008			
Canada	$ 433,863	$ 29,615	$ 169,197
United States	15,500	383	11,405
	449,363	29,998	180,602
December 31, 2007			
Canada	311,454	25,189	157,838
United States	14,987	(32)	9,809
	$ 326,441	$ 25,157	$ 167,647

17. INCOME TAXES

The provision for (recovery of) income taxes varies from the basic combined federal, provincial, and state income taxes as a result of differing treatment of deductibility of certain amounts for accounting and taxation purposes. The variations for the fiscal years are explained as follows:

	December 31, 2008	December 31, 2007
Weighted average basic federal, provincial and state statutory income tax rate	31.0%	34.1%
Earnings before income taxes and non-controlling interest	$ 22,055	$ 19,624
Income tax based on statutory rate	6,837	6,692
Deductible Fund distributions	(5,240)	(5,742)
Partnership income allocated to partners	(219)	(241)
Impact of June 2007 tax legislation	—	(6,700)
Adjustments for changes in enacted tax laws and rates	(965)	605
Amounts not deductible for tax and other	572	(885)
Provision for (recovery of) income taxes	$ 985	$ (6,271)

The future income tax assets and liabilities as at December 31, 2008 and December 31, 2007 comprise the following temporary differences:

	December 31, 2008	December 31, 2007
Future income tax assets (current)		
Tax loss carry-forwards	$ 85	$ 70
Future income tax assets and liabilities (non-current)		
Tax loss carry-forwards	1,884	1,946
Capital assets	(802)	(41)
Employee unit purchase loans	35	69
Goodwill and intangible assets	(1,460)	(1,250)
Reserves, provisions and other	394	531
	51	1,255
Valuation allowance	1,583	1,678
	(1,532)	(423)
Future income tax liabilities – net	$ (1,447)	$ (353)

At December 31, 2008, the Fund has $6.2 million (2007 – $6.9 million) of non-capital losses that may be available for deduction against taxable income in future years. These losses expire between 2009 and 2028 as follows:
2009 – $0.6 million, 2010 – $0.1 million, 2011 – $0.1 million, 2012 – $1.0 million and 2013 and thereafter – $4.8 million.

18. PRODUCT RECALL INSURANCE CLAIM

In September 2008, one of the Fund's plants issued a recall for pre-packaged sandwiches that had potentially been contaminated with Listeria monocytogenes. The recall was completed in an orderly manner with minimal customer complaints and no known instances of consumer illness associated with the consumption of these products.

As a result of the recall, the Fund destroyed approximately $0.4 million in products, incurred $0.4 million in disposal costs and lost approximately $0.3 million in product contribution margin due to lost sales. The Fund believes it should recover these costs, less $0.1 million for its deductible, under its product recall insurance policy. It has, however, expensed its insurance claim receivable due to its insurance provider attempting to deny coverage on the basis that none of the recalled products tested positive for Listeria monocytogenes. The Fund has been advised by legal counsel that its insurance provider's position is most likely not defensible in court and intends to pursue legal action. The amount of any insurance recovery will be recognized when determinable.

19. FINANCIAL INSTRUMENTS

Fair value

The carrying values of cash and cash equivalents, accounts receivable, cheques outstanding, bank indebtedness, distributions payable and accounts payable and accrued liabilities approximate their fair values because of their short-term maturities.

The carrying values of puttable interest in subsidiaries, interest rate swap contract and foreign currency contracts approximate fair value.

The carrying value of long-term debt approximates fair value, either because the instrument bears interest at floating rates or effective interest rates approximate current market rates for similar debt instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Financial risk management

The Fund's activities result in exposure to a variety of financial risks, including risks relating to foreign currency, interest rate, credit, commodity price and liquidity.

Foreign currency risk

The Fund has exposure to U.S. dollar currency exchange risk due to annual net U.S. dollar inventory purchases of approximately US$30.0 million. In order to help stabilize the cost of its U.S. dollar denominated purchases, the Fund, from time to time, enters into foreign currency contracts. The Fund does not hold foreign currency contracts for speculative purposes.

As of December 31, 2008, the Fund had outstanding foreign currency contracts for the purchase of US$5.3 million over the next 12 months at a blended rate of CA$1.0772. As at December 31, 2008, these contracts have a fair value of $0.7 million favourable (2007 – $0.5 million unfavourable) (note 6) and during 2008, the Fund recorded an unrealized gain in respect of these contracts of $1.2 million (2007 – unrealized loss of $0.5 million) in the consolidated statement of operations.

Based on the U.S. dollar balance sheet exposure and the foreign currency contracts outstanding on December 31, 2008, a change of $0.01 in the value of the Canadian dollar relative to the U.S. dollar would have resulted in an unrealized gain (if the Canadian dollar weakens) or an unrealized loss (if the Canadian dollar strengthens) of approximately $0.1 million in its consolidated statement of operations.

Interest rate risk

All of the Fund's bank indebtedness and approximately 99% (2007 – 99%) of its long-term debt bear interest at floating rates. The Fund manages some of its interest rate exposure by entering into interest rate swap contracts.

During 2007, the Fund entered into an interest swap contract fixing the rate of interest on $32.0 million of its long-term debt for the three-year period ending July 6, 2010 at an effective rate of 5.05% plus 1.0% to 2.75%, based on the Fund's ratio of debt to cash flow calculated quarterly. The Fund has designated this contract as a cash flow hedge and, correspondingly, changes in its fair market value are recognized in the consolidated statement of accumulated other comprehensive loss and the consolidated statement of comprehensive earnings.

Notes to Consolidated Financial Statements (continued)
December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

As at December 31, 2008, the interest rate swap contract had a fair value of $2.0 million unfavourable (2007 – $0.6 million unfavourable) and during 2008, the Fund recorded an unrealized loss in respect of the swap of $1.4 million (2007 – loss of $0.6 million) in other comprehensive loss. The fair value is included in accounts payable and accrued liabilities.

Based on the interest swap contract outstanding on December 31, 2008, a change of 0.25 percentage points in the effective variable interest rate will result in the Fund recognizing a gain (if interest rates increase) or loss (if interest rates decrease) of approximately $0.1 million in its consolidated statement of comprehensive earnings.

Credit risk

The Fund is subject to credit risk primarily through its accounts receivable. This risk is mitigated by the Fund's diversified customer base, its customer credit evaluation procedures and the ongoing monitoring of the collectability of its trade accounts receivable. Bad debt expense of $0.3 million (2007 – $0.6 million) was recorded for the year.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2008:

Trade accounts receivable	
Current	$ 19,118
Past due 1 to 15 days	8,940
Past due 16 to 30 days	2,748
Past due over 30 days	2,406
	33,212
Less allowance for doubtful accounts	(590)
Other receivables	2,398
Accounts receivable	$ 35,020

The change in the allowance for doubtful accounts provision for the years ended December 31, 2008 and 2007 is as follows:

	December 31, 2008	December 31, 2007
Balance, beginning of year	$ 746	$ 122
Net additions to provision	307	921
Effect of foreign exchange rate differences	8	(4)
Accounts receivable written off, net of recoveries	(471)	(293)
Balance, end of year	$ 590	$ 746

The Fund is also exposed to credit risk on its cash (comprised primarily of deposits with Canadian chartered banks) and its foreign currency and interest rate swap contracts. This risk is mitigated by the Fund only dealing with counterparties that are major international institutions with strong credit ratings.

Commodity price risk

The Fund's financial performance is dependent upon the cost of various commodity inputs, including pork, beef, poultry, corrugated packing materials, dairy products, flour and energy, all of which are determined by relatively volatile market forces of supply and demand over which the Fund has limited or no control. The Fund manages its risk exposure to sudden or severe increases in the price of such inputs through a variety of methods including the diversification of its product offerings, differentiated marketing and selling strategies, taking long inventory positions when buying opportunities are presented, and in limited circumstances entering into fixed price supply contracts. The Fund's purchases of commodity inputs are for its own use. The Fund currently does not use any derivative financial contracts in the management of its commodity risk exposure.

Liquidity risk

The Fund maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements. In addition, the Fund regularly monitors and reviews both actual and forecasted cash flows.

The following table summarizes the aggregate amount of contractual future cash outflows for long-term debt:

	Total	2009	2010	2011	2012	Thereafter
Long-term debt	$ 75,987	$ 386	$ 67,319	$ 554	$ 2	$ 7,726
Net settled (interest rate swap contract)	32,000	—	32,000	—	—	—
Long-term debt (note 8)	107,987	386	99,319	554	2	7,726
Interest on debt (1)	7,145	2,859	1,504	134	126	2,521
Net settled (interest on swap contract) (1)	504	336	168	—	—	—
	$ 115,636	$ 3,581	$ 100,991	$ 688	$ 128	$ 10,247

(1) Assumes debt level, foreign exchange rate and floating interest rates remain at balance sheet date levels and rates.

In addition, the Fund has a contractual future cash outflow of $5.7 million in 2009 for foreign currency.

20. CAPITAL DISCLOSURES

The Fund's objective in managing its capital, which currently consists of equity raised through the issuance of units and accumulated earnings not distributed to unitholders and debt, is to minimize its overall cost of capital while ensuring that it:

(a) has the ability to absorb reasonably anticipated shocks to its business resulting from the various risks it is exposed to;
(b) is able to maintain its monthly distribution to unitholders of $0.098 per unit; and
(c) has adequate capital to pursue its organic and acquisition based growth objectives.

The key indicators used by the Fund to monitor its capital structure are its net funded debt to EBITDA ratio and its unutilized debt capacity. The net funded debt to EBITDA ratio is calculated as the Fund's debt less cash and cash equivalents divided by the trailing twelve months EBITDA. Unutilized debt capacity is calculated as the Fund's total credit facilities plus cash and cash equivalents less amounts drawn on its credit facilities.

Factors that the Fund considers in determining an appropriate net funded debt to EBITDA level and unutilized credit capacity include the following:

(a) the cash flows expected to be generated by its operations over the next twelve months;
(b) anticipated business acquisitions and project capital expenditures over the next twelve months;
(c) distributions to be paid to unitholders over the next twelve months;
(d) the cost of adding incremental debt;
(e) the cost of issuing new equity; and
(f) the Fund's banking covenant requirements.

The Fund's banking covenants currently require it to limit its net funded debt to EBITDA ratio to 3.5:1. This covenant decreases to 3.25:1 in the second quarter of 2009 and 3.0:1 in the fourth quarter of 2009. These reductions, however, are subject to a 0.25:1 add-on for a period of two consecutive quarters in the event of an acquisition.

The Fund's net funded debt to EBITDA ratio at December 31, 2008 was 2.8:1, which is higher than its long-term targeted range of 2.0:1 to 2.5:1 but below its banking covenant requirements and within what the Fund considers a reasonable level based on its current fundamentals.

The Fund's unutilized debt capacity at December 31, 2008 was $28.1 million, which the Fund considers to be a reasonable level for the near term.

21. RELATED PARTY TRANSACTIONS

a) During 2008, pursuant to a long-term contract, the Fund purchased approximately $0.9 million (2007 – $1.0 million) of labels from Tapp Technologies Inc. (Tapp), a company in which certain officers and directors hold a minority interest. The Fund also paid $0.2 million to Tapp in 2008 in exchange for a 10% discount on all purchases made for the balance of its supply contract which ends in December 2013.

b) During 2008, the Fund leased various properties from companies affiliated with trustees and officers of the Fund. Rent expense recognized on these leases was $0.8 million (2007 – $0.4 million) and is included in the consolidated statement of operations.

c) As part of the acquisition of B&C (note 12), the Fund entered into a sale and leaseback transaction for a distribution facility with a company in which a trustee of the Fund has a minority interest. The distribution facility was effectively sold for $5.0 million and annual payments under this ten year lease are approximately $0.4 million.

Notes to Consolidated Financial Statements (continued)
December 31, 2008 and 2007
(Tabular amounts in thousands of Canadian dollars except unit and per unit amounts)

These transactions have been recorded at the exchange amount, which is the amount agreed upon by the Fund and the related parties.

22. SUPPLEMENTAL CASH FLOW INFORMATION

During 2008, the Fund's consideration for its acquisition (note 12) included notes payable of $0.8 million. This amount is not considered to be a cash transaction and does not appear in the consolidated statements of cash flows.

The Fund paid interest of $7.5 million (2007 – $4.4 million) and income taxes of $nil (2007 – $nil) during 2008.

Change in non-cash working capital is as follows:

	December 31, 2008	December 31, 2007
Accounts receivable	$ 142	$ (718)
Inventories	612	(1,193)
Prepaid expenses	(143)	341
Distribution payable	15	—
Accounts payable and accrued liabilities	838	4,776
	$ 1,464	$ 3,206

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in 2008.

24. SUBSEQUENT EVENTS

Subsequent to December 31, 2008, the Fund completed the following two transactions:

a) In March 2009, the Fund completed the acquisition of an interest in S.J. Irvine Fine Foods Ltd. (Irvine) for $2.5 million consisting of $1.26 million for a 25% equity interest and $1.24 million for a shareholder loan. As part of the transaction the Fund negotiated certain call options that enable it to increase its ownership in Irvine to 100% over time. Irvine, which started operations in January 2008, manufactures high quality processed meats for the foodservice and retail industries out of a modern 40,000 square foot facility located in Saskatoon, SK.

b) Also in March 2009, the Fund acquired the business and working capital of Multi-National Foods (MNF) for approximately $1.6 million. MNF is a food brokerage business based in Calgary, AB. MNF will be combined with the Fund's relatively new food brokerage initiative.

Investor Information

EXECUTIVE OFFICERS

George Paleologou, CA
President & Chief Executive Officer

Will Kalutycz, CA
Chief Financial Officer

Douglas Goss, QC
General Counsel & Corporate Secretary

BOARD OF TRUSTEES

Bruce Hodge[1][2]
Chairman of the Board

Johnny Ciampi[1]
Trustee

Hugh McKinnon[2][3]
Trustee

George Paleologou
Trustee

John Zaplatynsky[1][2][3]
Trustee

(1) Audit Committee
(2) Human Resources and Compensation Committee
(3) Corporate Governance and Nominating Committee

LEGAL COUNSEL

Bryan & Company LLP
Edmonton, Alberta

Ryan, Swanson & Cleveland PLLC
Seattle, Washington

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Vancouver, British Columbia

TRANSFER AGENT & REGISTRAR

Valiant Trust Company
600 – 750 Cambie Street
Vancouver, BC V6B 0A2

STOCK INFORMATION

Premium Brands Income Fund's units are listed on the TSX under the ticker symbol PBI.UN

Premium Brands
Income Fund

7720 Alderbridge Way
Richmond, B.C. V6X 2A2
Tel: 604.656.3100
Fax: 604.656.3170
www.premiumbrandsincomefund.com