



PREMIUM BRANDS INCOME FUND

Management's Discussion and Analysis

Second Quarter 2009

This Management's Discussion and Analysis ("MD&A") has been prepared as of August 5, 2009. It should be read in conjunction with Premium Brands Income Fund's (the "Fund's") unaudited consolidated financial statements and the notes thereto for the period ended June 27, 2009 and its 2008 audited consolidated financial statements and the notes thereto, both of which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This document, as well as additional information on the Fund, 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.

CORPORATE CONVERSION

Subsequent to the Fund's second quarter, on July 22, 2009, the Fund completed a transaction by way of a plan of arrangement (the "Plan of Arrangement") with Thallion Pharmaceuticals Inc. ("Thallion") which resulted in the Fund converting to a publicly traded corporation (the "Conversion") named

Premium Brands Holdings Corporation ("New Premium Brands"). The common shares of New Premium Brands began trading on the TSX on July 27, 2009 under the symbol "PBH".

New Premium Brands did not retain any of the businesses carried on by Thallion but rather, pursuant to the Plan of Arrangement, Thallion transferred all of its assets and liabilities, with the exception of its tax attributes, to a new subsidiary of its parent corporation ("New Thallion"). As a result, New Premium Brands' businesses immediately after the Conversion consisted only of those owned by the Fund immediately prior to the Conversion. Furthermore, the existing trustees and management of the Fund became the board and management of New Premium Brands.

The number of New Premium Brands common shares outstanding at the time of the Conversion was 17,580,294, which equaled the combined total of the Fund's outstanding units and exchangeable units at the time of the Conversion.

The cost of the Conversion, which is subject to certain post-closing adjustments, is estimated at approximately \$10.0 million consisting of \$8.85 million paid to New Thallion and \$1.15 million for transaction costs.

Rationale and Benefits of the Conversion

The primary reason for the Conversion was to deal with changes made by the Federal Government to the manner in which publicly traded income trusts are taxed (see *Income Tax – Income Tax Changes*) and the resulting negative impact these changes had on the long term viability of the public business income trust market. Specific benefits of the Conversion include:

- It was an effective and efficient method to convert from an income trust to a corporation under existing legislation;
- Canadian taxable unitholders will, in many cases, benefit from lower income tax rates on dividends paid prior to January 1, 2011 relative to the income tax rates associated with cash distributions paid by the Fund prior to January 1, 2011;
- Elimination of the normal growth restrictions (see *Income Tax – Income Tax Changes*) imposed on certain public income trusts such as the Fund which could potentially have impacted the implementation of its core business acquisition strategies;
- Possible improved access to Canadian capital markets and improved liquidity in the trading of its shares given the diminishing significance of the public business income trust market;
- It is tax deferred such that no income tax will be payable by the Fund or its unitholders, other than those who exercise a dissent right;
- New Premium Brands will have an estimated aggregate tax shield in excess of \$260 million; and
- A simplified corporate structure once the post closing entity wind ups are complete.

Dividend Policy

New Premium Brands plans (see *Forward Looking Statements*) to pay a quarterly dividend of \$0.294 per share which, on an annualized basis, equals the Fund's current cash distribution. Its first dividend payment is expected to be made on October 15, 2009 for the quarter ended September 30, 2009.

The Plan of Arrangement, along with other documents detailing the Conversion, is filed electronically through SEDAR and is available online at www.sedar.com.

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 August 5, 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 August 5, 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 and net funded debt 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.

The Fund believes that EBITDA, as calculated below, is a useful indicator of the amount of normalized income generated by operating businesses controlled by the Fund before taking into account its financing strategies, consumption of tangible and intangible capital assets, taxable position and the ownership structure of non-wholly owned businesses. EBITDA is also used in the calculation of the Fund’s debt covenants. The following table provides a reconciliation of EBITDA to earnings before non-controlling interest:

<i>(in thousands of dollars)</i>	13 weeks ended June 27, 2009	13 weeks ended June 28, 2008	26 weeks ended June 27, 2009	26 weeks ended June 28, 2008
Earnings before non-controlling interest	6,605	7,422	8,596	10,873
Depreciation of capital assets ⁽¹⁾	2,191	1,876	4,290	3,623
Interest and other financing costs ⁽²⁾	1,463	1,850	2,820	3,718
Amortization of intangible and other assets ⁽¹⁾	630	645	1,277	1,137
Amortization of financing costs ⁽¹⁾	54	47	108	93
Accretion of puttable interest in subsidiaries ⁽³⁾	-	150	-	200
Unrealized loss (gain) on foreign currency contracts ⁽⁴⁾	439	(31)	455	(706)
Equity in loss of significantly influenced company ⁽⁵⁾	172	-	245	-
Income tax provision ⁽⁶⁾	-	351	70	413
EBITDA	11,554	12,310	17,861	19,351

(1) Amount relates to the consumption of the Fund’s tangible or intangible capital assets.

(2) Amount relates to the Fund’s financing strategies.

(3) Amount relates to the ownership structure of the Fund’s individual businesses.

- (4) This amount represents the change in fair value of the Fund's U.S. dollar forward purchase contracts for the period. Amount is adjusted for on the basis that 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.
- (5) Amount relates to businesses that the Fund does not control.
- (6) Amount relates to the Fund's taxable position.

The Fund believes that distributable cash is a useful indicator of the amount of cash generated by it that is available for repayment of debt, investments for future growth and improved operating efficiencies, and distribution to its unitholders. The following table provides a reconciliation of distributable cash to cash flows from operating activities:

<i>(in thousands of dollars)</i>	Year ended Dec 31, 2008	26 weeks ended June 28, 2008	26 weeks ended June 27, 2009	Rolling Four Quarters
Cash flows from operating activities	33,912	14,709	9,984	29,187
Change in non-cash working capital (1)	(1,464)	865	3,711	1,382
Long-term incentive plan accrual (2)	(92)	(46)	1,561	1,515
Restricted Trust Unit Plan accrual (2)	(125)	59	(234)	(418)
Payments received on notes receivable (3)	739	639	82	182
Maintenance capital expenditures (4)	(2,600)	(1,395)	(1,187)	(2,392)
Accretion of puttable interest in subsidiaries (5)	(650)	(200)	-	(450)
Non-controlling interest (6)	(97)	(27)	125	55
Distributable cash	29,623	14,604	14,042	29,061

- (1) Cash used for increases in the Fund's non-cash working capital is funded through draws on its revolving credit facilities, while cash resulting from decreases in its non-cash working capital is used to pay down its revolving credit facilities. 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 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 relate to maintaining the Fund's existing capital asset base 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.

The Fund believes that net funded debt, used in conjunction with its EBITDA, is a useful indicator of its financial strength and ability to access additional debt financing. It is also used in the calculation of the Fund's debt covenants. The following table provides the calculation of net funded debt:

<i>(in thousands of dollars)</i>	June 27, 2009	Dec 31, 2008
Cheques outstanding	2,230	1,354
Bank indebtedness	8,617	9,676
Current portion of long-term debt	221	386
Deferred financing costs (1)	416	534
Long-term debt	114,263	107,067
	125,747	119,017
Less cash and cash equivalents	777	1,679
Net funded debt	124,970	117,338

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

RESULTS OF OPERATIONS

Second Quarter of 2009

The Fund's revenue for the second quarter of 2009 increased by 8.2% or \$9.5 million to \$124.3 million as compared to \$114.8 million in the second quarter of 2008 primarily due to \$12.0 million in incremental sales resulting from acquisitions. The Fund's legacy businesses' revenue declined by \$2.5

million in the quarter due to a \$1.3 million decrease in sales to convenience stores and a \$5.6 million decrease in sales to restaurants and hotels. The decreases in convenience store, restaurant and hotel sales were primarily due to weaker economic conditions in western Canada that resulted in lower consumer sales in these venues. Partially offsetting these decreases was \$2.5 million in increased sales through the Fund's WorldSource food brokerage business, continued organic growth of approximately \$1.3 million in its legacy businesses that are focused on the grocery channel and \$0.6 million in additional revenue due to Easter related sales occurring in the second quarter of 2009 versus the first quarter of 2008.

The Fund's gross profit as a percentage of revenue ("gross margin") for the second quarter of 2009 decreased by 1.6 percentage points to 26.5% from 28.1% in the second quarter of 2008 due primarily to:

- Lower margins in its Foodservice segment (see *Segmented Information – Foodservice*) that resulted in a decrease in the Fund's gross margin of approximately 1.6 percentage points.
- Changes in the Fund's sales mix with its lower margin Foodservice segment's revenue comprising 53.8% of its total revenue in the second quarter of 2009 as compared to 50.5% in the second quarter of 2008. This resulted in a decrease in the Fund's gross margin of approximately 0.4 percentage points.

Partially offsetting the above decreases were higher margins in the Fund's Retail segment (see *Segmented Information – Retail*) that resulted in an increase in the Fund's gross margin of approximately 0.4 percentage points.

Selling, general and administrative expenses ("SG&A") for the second quarter of 2009 increased by \$1.5 million to \$21.4 million from \$19.9 million in the second quarter of 2008 primarily due to acquisitions. As a percentage of revenue, SG&A costs decreased slightly to 17.2% for the second quarter of 2009 as compared to 17.3% for the second quarter of 2008 as the benefits of lower freight and fuel costs and higher revenue levels were largely offset by additional infrastructure costs.

Depreciation for the second quarter of 2009 increased by \$0.3 million to \$2.2 million from \$1.9 million in the second quarter of 2008 period due to acquisitions and the recent expansions of the Fund's meat snack and fresh pastry / sandwich production facilities.

Interest and other financing costs for the second quarter of 2009 decreased by \$0.4 million to \$1.5 million from \$1.9 million in the second quarter of 2008 due to a general decline in the Bank of Canada overnight lending rate and the corresponding favourable impact on the cost of the Fund's bank prime rate based debt.

In the second quarter of 2009 the Fund recognized a \$0.4 million loss on foreign currency contracts 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 the second quarter of 2008 the change in the fair market value of the Fund's foreign currency contracts resulted in a nominal gain.

See *Segmented Information* for a more detailed discussion of the Fund's operating results for the second quarter of 2009 as well as for the year-to-date period.

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 three reportable segments: Retail, Foodservice and Corporate. 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 Eleven businesses, all of which are primarily focused on foodservice customers such as restaurants, concessions, bars, caterers, hotels, recreation facilities, schools and hospitals.

The Corporate segment consists primarily of the Fund's head office activities, including strategic leadership, finance and information systems.

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

<i>(in thousands of dollars)</i>	13 weeks ended June 27, 2009	13 weeks ended June 28, 2008	26 weeks ended June 27, 2009	26 weeks ended June 28, 2008
Revenue:				
Retail	57,433	56,842	104,922	103,993
Foodservice	66,865	58,002	123,279	105,200
	<u>124,298</u>	<u>114,844</u>	<u>228,201</u>	<u>209,193</u>
Segment earnings (loss):				
Retail	6,829	6,380	9,581	10,121
Foodservice	3,451	4,845	5,381	7,431
Corporate	(1,547)	(1,436)	(2,668)	(2,961)
	<u>8,733</u>	<u>9,789</u>	<u>12,294</u>	<u>14,591</u>

Retail

Retail's revenue for the second quarter of 2009 increased by \$0.6 million to \$57.4 million as compared to \$56.8 million in the second quarter of 2008. The increase was due to organic growth of approximately \$1.3 million or 3.4% in the segment's businesses selling to the grocery channel (see the Fund's 2008 Annual Information Form for details on its organic growth strategies) and an estimated \$0.6 million in additional revenue due to Easter related sales occurring in the second quarter of 2009 versus the first quarter of 2008. These increases were partially offset by a decrease of approximately \$1.3 million or 7.0% in sales to convenience stores due primarily to weaker economic conditions in western Canada that resulted in lower consumer sales in this channel.

Retail's year-to-date revenue increased by \$0.9 million or 0.9% to \$104.9 million due to organic growth of approximately \$2.2 million or 3.2% in the segment's businesses selling to the grocery channel and acquisitions, which accounted for approximately \$1.2 million of the increase. These increases were partially offset by a reduction of approximately \$2.5 million or 7.1% in sales to convenience stores.

Retail's segment earnings for the second quarter of 2009 increased to \$6.8 million from \$6.4 million in the second quarter of 2008 while its segment earnings as a percentage of revenue ("segment margin") was 11.9% and 11.2% in the respective periods. The increase in Retail's earnings and segment margin were due to a variety of factors including improved plant operating efficiencies, lower freight and fuel costs and lower input costs for certain food commodities used by its manufacturing operations.

Retail's year-to-date segment earnings decreased to \$9.6 million in 2009 from \$10.1 million 2008 while its segment earnings as a percentage of revenue ("segment margin") was 9.1% and 9.7% in the respective periods. The decreases in Retail's earnings and segment margin were primarily due to:

- Approximately \$0.4 million in unusual production costs in the first quarter of 2009 consisting of \$0.2 million for the start up of a new beef jerky production line and \$0.2 million associated with the merger and capacity expansion of its Edmonton sandwich production facilities.
- Approximately \$0.3 million in additional depreciation associated with its new meat snack and fresh pastry / sandwich plants.

Foodservice

Foodservice's revenue for the second quarter of 2009 increased by \$8.9 million to \$66.9 million from \$58.0 million in the second quarter of 2008. Acquisitions accounted for approximately \$12.0 million of the increase and organic growth of its WorldSource food brokerage business for another \$2.5 million (see the Fund's 2008 Annual Information Form for details on its organic growth strategies). Partially offsetting these increases was a decrease in its hotel and restaurant business of approximately \$5.6 million or 9.9% due to weaker economic conditions in western Canada that resulted in lower consumer sales in these venues.

Foodservice's year-to-date revenue increased by \$18.1 million to \$123.3 million due to acquisitions, which accounted for \$21.5 million of the increase, and organic growth of approximately \$4.1 million in its WorldSource food brokerage business. These increases were partially offset by a decrease in sales to hotels and restaurants of approximately \$7.5 million or 7.3%.

Foodservice's segment earnings for the second quarter of 2009 decreased to \$3.5 million from \$4.8 million in the second quarter of 2008 due to:

- Lower margins on its sales to hotel and restaurant customers, which were in turn due to increased competitive pressures resulting from a weaker economic environment in western Canada and increased input costs on certain commodities resulting primarily from a weaker Canadian dollar relative to the U.S. dollar.
- Approximately \$0.2 million in additional amortization costs due to acceleration of the amortization period of certain intangible assets.

Foodservice's segment margin decreased to 5.2% for the second quarter of 2009 as compared to 8.4% in the second quarter of 2008 due to the above noted factors as well as changes in its sales mix resulting from the growth of its WorldSource food brokerage business and its B&C Food Distributors acquisition in the latter half of 2008 (both of which generate lower margins relative to its legacy businesses) combined with the contraction of its higher margin hotel and restaurant sales as discussed above. Excluding the impact of the WorldSource and B&C businesses, Foodservice's segment margin for the second quarter of 2009 was approximately 6.0%.

Foodservice's year-to-date segment earnings decreased to \$5.4 million in 2009 from \$7.4 million 2008 while its segment earnings as a percentage of revenue ("segment margin") was 4.4% and 7.1% in the respective periods. The decreases in Foodservice's segment earnings and segment margin were primarily due to the same factors that resulted in lower segment earnings and a lower segment margin in the second quarter of 2009 as compared to the second quarter of 2008. Excluding the impact of the WorldSource and B&C businesses, Foodservice's segment margin for first two quarters of 2009 was 5.2%.

Corporate

Corporate costs for the second quarter of 2009 were relatively consistent with those of the second quarter of 2008. On a year-to-date basis Corporate costs decreased from \$3.0 million in 2008 to \$2.7 million in 2009 due to a variety of factors including reduced executive compensation resulting from the combining of the CEO and President roles after the Fund's CEO passed away in May 2008 and additional interest income from several sources including a new promissory note that formed part of the Fund's investment in S.J. Irvine Fine Foods (see *Liquidity and Capital Resources – Cash Flows From Investing Activities*).

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*).

<i>(millions of dollars except per unit amounts)</i>	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Revenue	108.6	101.8	94.3	114.9	123.5	116.7	103.9	124.3
EBITDA	11.6	8.9	7.0	12.3	11.7	9.6	6.3	11.6
Earnings:								
Total	7.2	3.2	3.4	7.4	7.3	3.0	2.1	6.6
Per unit (basic and diluted)	0.41	0.18	0.19	0.42	0.42	0.17	0.12	0.38

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:

- 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, restaurants and concessionary venues) and reduced demand for its outdoor oriented products (such as barbeque and on-the-go convenience foods).
- 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.

Subject to the items outlined below, on a comparative year over year basis, the Fund's quarterly sales, EBITDA and earnings have generally shown consistent improvement reflecting the successful implementation of its specialty food and distribution strategies including the acquisition of several complementary businesses. Unusual items that have impacted the Fund's results over the last eight quarters include:

- In the first quarter of 2008 the Fund recorded a \$0.7 million unrealized gain on foreign currency contracts.
- In the fourth quarter of 2008 the Fund recorded a \$1.0 million charge relating to a product recall insurance claim.
- In the first quarter of 2009 the Fund recorded \$0.4 million in costs associated with the start up of a new beef jerky production line and the merger and capacity expansion of its Edmonton sandwich production facilities.
- In the first and second quarters of 2009 the Fund's sales, and in some cases margins, generated from convenience stores, hotels and restaurants were impacted by a slow down in western Canada's economy.
- In the second quarter of 2009 the Fund recorded a \$0.4 million unrealized loss on foreign currency contracts.

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 operating cash flows 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 200 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. Under the terms of New Premium Brands' renegotiated credit facilities it has certain principal payment obligations which it intends to fund through operating cash flows (see *Renegotiated Credit Facilities*).

The Fund intends to fund maturing long-term debt that is not subject to principal payments, or is subject to principal payments but has a balance outstanding at its maturity date, 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 June 27, 2009 the Fund had the following unutilized credit capacity:

<i>(in thousands of dollars)</i>	Credit Facilities	Net Funded Debt	Unutilized Credit Capacity
Revolving senior credit facilities ⁽¹⁾ ⁽²⁾	32,500	12,840	19,660
Revolving senior credit facility ⁽³⁾	40,000	37,500	2,500
Non-revolving senior credit facility ⁽⁴⁾	64,000	64,000	-
Industrial Development Revenue Bond ⁽⁵⁾	7,063	7,063	-
Cheques outstanding	-	2,230	(2,230)
Other	1,337	1,337	-
	144,900	124,970	19,930

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

(2) Amount is made up of two credit facilities: a \$32.0 million revolving facility that matures in July 2010 (see *Renegotiated Credit Facilities*), and a US\$0.4 million bank line of credit that matures in January 2010. 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 (see *Renegotiated Credit Facilities*), 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 (see *Renegotiated Credit Facilities*) 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.

Renegotiated Credit Facilities

As part of the Fund's conversion back to a corporate structure (see *Corporate Conversion*), it negotiated a number of changes to its senior credit facilities including the following:

- The maturity date on the Fund's existing senior credit facilities, consisting of the \$32.0 million and \$40.0 million revolving facilities and the \$64.0 million non-revolving facility, was extended to July 2012.
- The Fund added a \$10.0 million non-revolving facility that was used to fund the conversion transaction (see *Corporate Conversion*).
- A quarterly principal payment of \$2.0 million with \$1.25 million of the payment first going to reduce its new \$10.0 million non-revolving credit facility and the balance to its \$40.0 million revolving credit facility (hence enabling it to redraw this amount to fund future capital projects and acquisitions).
- A revised covenant structure as outlined below.

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

	Covenant Requirements	Jun 27, 2009 Calculation
Net funded debt to EBITDA ratio ⁽¹⁾	=< 3.50 : 1.0	3.14 : 1.0
Current ratio	> 1.30 : 1.0	1.61 : 1.0
Interest coverage ratio ⁽²⁾	> 4.00 : 1.0	6.12 : 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 fourth quarter of 2009 and 3.0:1 in the fourth quarter of 2010. 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) 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.

Post the Fund's conversion to a corporate structure, it will continue to use its net funded debt to EBITDA ratio as the key indicator in assessing its debt leverage level. As an income trust, the Fund had set 2.0:1 to 2.5:1 as its long-term targeted range for this ratio. Subsequent to the conversion, it revised its targeted range to 2.5:1 to 3.0:1 based on the following considerations:

- The tax efficiency associated with financing its operations with debt since interest is generally deductible in the calculation of taxable income.
- The risks associated with the consistency and sustainability of its cash flows (see *Risks and Uncertainties*).
- Expected improved access to equity capital as a result of its conversion to a more widely accepted corporate ownership structure (see *Corporate Conversion*).
- Its intention to reduce its payout ratio over time by growing its business but maintaining, if appropriate, its current quarterly dividend (see *Distributable Cash – Payout Ratio*).

In the short term, the Fund expects (see *Forward Looking Statements*) to exceed its targeted net funded debt to EBITDA ratio range primarily due to:

- The timing of certain significant expenditures, such as acquisitions, capital projects and the cost of its conversion to a corporate structure, relative to the timing of its issuance of new equity capital.
- The seasonal build up and opportunistic buying of inventory (see *Summary of Quarterly Results* and *Cash Flows from Operating Activities*)

As part of its strategies to reduce its debt to EBITDA ratio, the Fund recently announced the implementation of a dividend re-investment plan (see *Proposed and Subsequent Transactions – Implementation of Dividend Re-Investment Plan ("DRIP")*).

Cash Flows from Operating Activities

For the second quarter of 2009 the Fund generated \$8.5 million from its operations before taking into account changes in non-cash working capital (see *Results of Operations*). Changes in non-cash working capital for the second quarter of 2009 used \$0.2 million as increases in the Fund's accounts receivable due to higher sales levels were mostly offset by lower inventory levels and a higher accounts payable balance (see *Financial Position*).

On a year-to-date basis, for 2009 the Fund generated \$13.7 million from its operations before taking into account changes in non-cash working capital (see *Results of Operations*). Changes in non-cash working capital on a year-to-date basis used \$3.7 million primarily due to seasonal increases in accounts receivable and inventory in anticipation of its busy spring and summer months as well as approximately \$3.0 million in opportunistic inventory positions, partially offset by seasonal increases in its accounts payable (see *Financial Position*).

Cash Flows from Financing Activities

For the second quarter of 2009 the Fund's financing activities used \$6.6 million primarily due to distributions to unitholders of \$5.2 million (see *Distributable Cash*) and payments on its revolving credit facilities of \$1.2 million (see *Credit Capacity*).

On a year-to-date basis, for 2009 the Fund's financing activities used \$3.4 million primarily due to distributions to unitholders of \$10.3 million (see *Distributable Cash*) partially offset by \$7.1 million in net draws on its revolving credit facilities (see *Financial Position*).

Cash Flows from Investing Activities

For the second quarter of 2009 the Fund used \$2.2 million for investing activities consisting primarily of \$2.1 million in capital expenditures which were, in turn, comprised of \$0.8 million for maintenance capital expenditures (see *Distributable Cash – Maintenance Capital Expenditures*), \$0.6 million as part of a \$1.0 million expansion of the Fund's Yorkton, SK premium processed meats production facility and the balance for a variety of smaller projects.

On a year-to-date basis, for 2009 the Fund used \$7.6 million for investing activities consisting primarily of the following:

- \$3.4 million in capital expenditures consisting of \$1.2 million for maintenance capital expenditures, \$0.8 million as part of a \$1.0 million expansion of its Yorkton, SK premium processed meats production facility and the balance for a variety of smaller projects.
- \$1.7 million for the acquisition of the business and working capital assets of Multi-National Foods ("MNF"). MNF is a food brokerage business with sales of approximately \$9 million and is based in Calgary, AB. MNF has been combined with the Fund's relatively new WorldSource food brokerage business.
- \$2.6 million for the acquisition of an interest in S.J. Irvine Fine Foods Ltd. ("Irvine") consisting of \$1.3 million for a 25% equity interest, \$1.2 million in exchange for a promissory note and \$0.1 million for transaction costs. 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.

Financial Position

The significant changes in the Fund's June 27, 2009 balance sheet as compared to its December 31, 2008 balance sheet were as follows:

Current assets rose by \$9.7 million primarily due to a build up of inventory in anticipation of the Fund's busy spring and summer months, approximately \$3.0 million in opportunistic inventory positions, and a seasonal increase in its trade accounts receivable. Year over year, the Fund's days sales in accounts receivable decreased by approximately two days to 26 days while its days purchases in inventory increased by approximately six days to 52 days mainly due to:

- Opportunistic inventory positions, which accounted for approximately half of the increase in days purchases in inventory.
- General timing of inventory purchases.
- Increased purchases of products from offshore manufacturers that are resulting in larger inventory levels due to reduced order frequencies.

Accounts payable increased by \$4.1 million primarily due to seasonal factors. Year over year, the Fund's days purchases in accounts payable decreased by approximately three days to 38 days.

Long-term debt increased by \$7.2 million primarily due to a \$2.6 million draw on its revolving credit facilities relating to its investment in Irvine (see *Cash Flows from Investing Activities*), the reclassification of \$5.0 million of bank indebtedness to long-term debt on the basis that the amount is not due until July 2010 (see *Renegotiation of Credit Facilities*), partially offset by \$0.2 million in payments on capital leases and miscellaneous notes.

Net funded debt increased by \$7.7 million to \$125.0 million from \$117.3 million at the end of 2008 mainly due to the use of its credit facilities to finance the build up in its net working capital, the \$2.6

million investment in Irvine, the \$1.7 million acquisition of MNF (see *Cash Flows from Investing Activities*) and \$2.2 million in project capital expenditures (see *Cash Flows from Investing Activities*).

DISTRIBUTABLE CASH

The Fund's distributable cash for the first two quarters of 2009 decreased to \$14.0 million or \$0.799 per unit as compared to \$14.6 million or \$0.837 per unit for the first two quarters of 2008 primarily due to its lower EBITDA partially offset by lower interest costs (see *Results of Operations*) and lower maintenance capital expenditures (see *Maintenance Capital Expenditures*).

The Fund's distributable cash for the first two quarters of 2009 exceeded its net earnings before future income taxes of \$8.8 million by \$5.2 million primarily due to:

- Depreciation of capital assets expense of \$4.3 million being \$3.1 million higher than the corresponding item used in the calculation of distributable cash, namely maintenance capital expenditures of \$1.2 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.
- Amortization of intangible and other assets expense of \$1.3 million being excluded from the calculation of distributable cash on the basis that most of this expense relates to intangible assets that are being maintained through operating expenses, such as the maintenance of the Fund's customer lists.
- The unrealized loss on foreign currency contracts of \$0.5 million being excluded from the calculation of distributable cash on the basis that 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.
- Equity in loss of significantly influenced company of \$0.3 million being excluded from the calculation of distributable cash on the basis that the Fund is not obligated to fund this loss.

Cash Distributions and Payout Ratio

The Fund declared cash distributions for the first two quarters of 2009 of \$10.3 million resulting in a payout ratio (defined as cash distributions divided by distributable cash) of 73.6%. The Fund does not, however, view its payout ratio for a period of less than twelve months as a good indicator of the sustainability of its distributable cash due to the seasonality of its business (see *Summary of Quarterly Results*) but rather focuses on its rolling four quarters payout ratio. For the rolling four quarters ended June 27, 2009 the Fund's distributable cash was \$29.1 million as compared to declared cash distributions of \$20.7 million resulting in a payout ratio of 71.1%. This is up slightly from its payout ratio of 69.5% for 2008 but still well below its 2007 and 2006 payout ratios of 77.2% and 97.7%, respectively.

The Fund's monthly distribution rate has, since its inception in July 2005, remained constant at \$0.098 per unit per month, resulting in total declared cash distributions of \$77.4 million.

Looking forward (see *Forward Looking Statements*), post the Fund's conversion to a corporate structure (see *Corporate Conversion*) it intends to pay a quarterly dividend that is the quarterly equivalent of its historic monthly distribution of \$0.098 per unit, i.e. \$0.294 per share per quarter, on the basis of:

- The continued performance of its operating businesses;
- Being able to access reasonably priced debt and equity capital to fund its acquisition and capital project initiatives; and
- Its significant cash yield being fairly reflected in its share price.

Premium Brands does not intend to increase its dividend in the near or medium term but rather will focus on reducing its payout ratio by maintaining its quarterly dividend while continuing to increase its distributable cash through its organic and acquisition based growth strategies.

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*). Maintenance capital expenditures for the rolling four quarters ended June 27, 2009 were \$2.4 million as compared to \$2.6 million for 2008, \$1.8 million for 2007 and \$1.9 million for 2006. The recent increases in its capital maintenance expenditures were primarily due to business acquisitions.

INCOME TAX

Income Tax Changes

In 2007, amendments were made to the manner in which publicly traded income trusts, such as the Fund prior to its conversion (see *Corporate Conversion*), are taxed. Under the new tax provisions starting on or before January 1, 2011 certain publicly traded income trusts will be subject to entity level taxation that will likely reduce the amount of cash available for distribution to its unitholders. More specifically, such trusts will be taxed on income (other than taxable dividends) distributed to their 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, is expected to be 29.5% but is subject to change.

Corresponding with the above changes, beginning January 1, 2011 income distributions received by unitholders of taxable publicly traded income trusts will be characterized as eligible dividends received from a Canadian public corporation. Correspondingly, 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 taxable publicly traded income trust 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 a taxable publicly traded income trust to defer the new tax provisions outlined above to 2011 is subject to it 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.

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 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 June 27, 2009 were as follows:

<i>(in millions of dollars)</i>	Total	2009	2010	2011	2012	2013	There- after
Long-term debt	114,783	164	106,732	524	-	300	7,063
Capital leases	117	57	53	7	-	-	-
Operating leases	31,922	6,169	5,424	4,360	3,160	2,501	10,308
Total	146,822	6,390	112,209	4,891	3,160	2,801	17,371

TRANSACTIONS WITH RELATED PARTIES

During the first two quarters of 2009 the Fund entered into the following transactions with related parties:

- Pursuant to a supply agreement (the "Supply Agreement") which was to end in December 2013, the Fund purchased approximately \$0.5 million of labels from Tapp Technologies Inc. ("Tapp"), a company in which the Fund's Chairman, Bruce Hodge, one of its directors, John Zaplatynsky, and its Chief Financial Officer, Will Kalutycz each hold a minority interest. During the second quarter of 2009 Tapp sold a portion of its label business to an arms length third party (the "Purchaser") and, as part of this sale, the Supply Agreement was terminated and the Fund entered into a new supply agreement with the Purchaser.
- Pursuant to a ten year real property lease ending in August, 2018, the Fund made \$0.2 million in lease payments to a company in which the Fund's Chairman, Bruce Hodge, has a minority interest.
- Pursuant to the Fund's employee loan program, the Fund received principal payments totaling approximately \$0.1 million from various employees, including its President and Chief Executive Officer, George Paleologou, and its Chief Financial Officer, Will Kalutycz.

PROPOSED AND SUBSEQUENT TRANSACTIONS

Conversion to a Corporate Structure

On July 22, 2009 the Fund completed a transaction by way of a plan of arrangement which resulted in it converting to a publicly traded corporation named Premium Brands Holdings Corporation (see *Corporate Conversion*).

Implementation of a Dividend Re-Investment Plan ("DRIP")

On August 5, 2009 New Premium Brands' Board of Directors approved the implementation of a Dividend Re-Investment Plan ("DRIP") that will provide shareholders with the option to re-invest all or a portion of the dividends received by them in New Premium Brands shares. New Premium Brands expects to have the DRIP in place in the near future at which time further details on its terms will be provided.

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.

In addition to the risks associated with the Fund, New Premium Brands is subject to additional risks including the following:

- ***Realization of Anticipated Tax Benefits Associated with the Conversion.*** As a result of the Conversion (see *Corporate Conversion*), New Premium Brands will have approximately \$165 million in tax attributes (the "Tax Assets") associated with the Thallion business. While New Premium Brands expects to utilize the Tax Assets to mitigate its taxable income, it is possible that the amount and/or the utilization of the Tax Assets may be reviewed and challenged by tax authorities. If such a challenge were to succeed, it could have a material adverse effect on New Premium Brands taxable income, cash flows and financial position. Furthermore, the interpretation of and changes in tax law, whether by legislative or judicial action or decision, could also impact New Premium Brands ability to utilize the Tax Assets, and in turn could have a materially adverse effect on its taxable income, cash flows and financial position.
- ***Contingent Risk Associated with Thallion's and New Thallion's Business.*** As a result of the nature and structure of the Conversion (see *Corporate Conversion*), New Premium Brands is or may be exposed to third party credit/contractual risk and operational risk relating to the obligations of Thallion and New Thallion. Significant steps were taken to transfer all of these obligations to New Thallion including extensive due diligence and obtaining where possible, third party releases. Furthermore, New Thallion indemnified New Premium Brands for up to \$8.85 million in losses related to such obligations and provided certain collateral security (by way of \$1 million declining balance letter of credit) in support of its obligation to indemnify. In addition, insurance coverage was obtained to further protect New Premium Brands against such obligations. To the extent that New Premium Brands incurs liability with respect to such obligations that exceeds \$8.85 million, or the insurance coverage and/or the letter of credit are not available, or New Thallion is unable to fund its indemnification obligations to New Premium Brands, this could have a material adverse impact on its cash flow and financial position.
- ***Dividend Payments.*** Future cash dividend payments by New Premium Brands and the level thereof will be dependent upon a variety of factors including its cash flows from operations, capital expenditure requirements, ability to access capital, debt service requirements, and other factors beyond the control of New Premium Brands. In the event that New Premium Brands is unable to meet its cash dividend targets there could be a material adverse effect on the market value of its shares.

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. Internally manufactured products 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 such 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. A significant amount of judgment is required to estimate the useful life of an asset. Changes in the life of an asset are reflected prospectively through changes in future depreciation rates.

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 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.

NEW ACCOUNTING POLICIES

New Accounting Pronouncements Effective 2009

See Note 2 of the Fund's Interim Consolidated Financial Statements for the period ended June 27, 2009 for a discussion and analysis of the new accounting pronouncements and their impact on the Fund's financial reporting.

International Financial Reporting Standards (IFRS)

See Note 2 of the Fund's Interim Consolidated Financial Statements for the period ended June 27, 2009 for a discussion and analysis of the impact on the Fund's financial reporting from the expected adoption of IFRS in 2011.

FINANCIAL INSTRUMENTS

The Fund, from time to time, enters into foreign currency contracts to stabilize the U.S. dollar currency exchange rate relating to its U.S. dollar denominated inventory purchases of approximately US\$35.0 million per year.

The Fund has also entered into interest rate swaps that fix the interest rate on \$32.0 million of its long-term debt until July 2010 at an effective rate of 5.05% plus 1.0% to 2.75% depending on the Fund's ratio of debt to cash flow calculated quarterly.

See Note 12 of the Fund's Interim Consolidated Financial Statements for the period ended June 27, 2009 for a discussion and analysis of the Fund's financial exposure relating to these financial instruments.

OTHER

Outstanding Units

The shares outstanding in New Premium Brands as of August 5, 2009 were 17,580,294.

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 June 27, 2009 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 June 27, 2009 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 June 27, 2009, the Fund has excluded the controls, policies and procedures of B&C Food Distributors ("B&C"), an acquisition that the Fund completed on August 13, 2008, and for the second quarter of 2009 accounts for approximately \$22.6 million of the Fund's consolidated sales, \$0.4 million of its consolidated earnings before discontinued operations and extraordinary items, \$0.4 million of its consolidated earnings and \$nil of its contingencies and commitments.

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 for the second quarter of 2009 are \$7.6 million, \$1.9 million, \$1.6 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.

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 June 27, 2009 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 August 5, 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 August 5, 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.