



PREMIUM BRANDS HOLDINGS CORPORATION

Management's Discussion and Analysis

Third Quarter 2009

The following Management's Discussion and Analysis ("MD&A") is a review of the financial performance and position of Premium Brands Holdings Corporation (the "Company" or "Premium Brands"), formerly known as Premium Brands Income Fund (the "Fund"), and is current to November 9, 2009. It should be read in conjunction with the Company's unaudited consolidated financial statements and the notes thereto for the period ended September 26, 2009 and the Fund's 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 Company and 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.

CONVERSION TO A CORPORATION

On July 22, 2009 the Fund completed a transaction (the "Conversion") by way of a plan of arrangement with Thallion Pharmaceuticals Inc. ("Thallion") which resulted in the Fund converting from a publicly traded income trust to a publicly traded corporation and the unitholders of the Fund becoming shareholders of the Company. The Conversion did not result in any changes to the underlying business operations of the Fund.

Under the continuity of interests method of accounting, the transfer of the Fund's assets, liabilities and equity to the Company were recorded at their net book values as at July 22, 2009 (the "Conversion Date"). Accordingly, this MD&A and the Company's financial statements for the period ended September 26, 2009 reflect Premium Brands as a corporation subsequent to the Conversion Date and as an income trust prior thereto. All references to "shares" refer collectively to Premium Brands' common shares on and subsequent to the Conversion Date and to the Fund's units prior to the Conversion Date. Similarly, all references to "shareholders" refer collectively to holders of Premium Brands shares on and subsequent to the Conversion Date and to holders of the Fund's units prior to the Conversion Date.

The cost of the Conversion, which is subject to certain post-closing adjustments, is estimated at approximately \$10.3 million consisting of \$8.9 million paid to Thallion and \$1.4 million for transaction costs.

BUSINESS OVERVIEW

Premium Brands 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 Company'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 Premium Brands' 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 Company's various specialty food operations with proprietary access to a large and diverse base of approximately 25,000 customers. In addition, the Company sells a variety of products purchased from third party manufacturers through its proprietary distribution networks.

RESULTS OF OPERATIONS

The Company owns a variety of specialty food manufacturing and distribution businesses, 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 Company's reportable segments, as defined under GAAP, does not necessarily represent what each of the segments would report if they were operating independently.

The Company reports on two reportable segments, Retail and Foodservice, as well as corporate costs (“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 Company's Centennial Foodservice, 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.

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

Revenue

(in thousands of dollars except percentages)

	13 weeks ended Sept 26, 2009	(1)	13 weeks ended Sept 27, 2008	(1)	39 weeks ended Sept 26, 2009	(1)	39 weeks ended Sept 27, 2008	(1)
Revenue by segment:								
Retail	58,310	47.3%	60,156	48.7%	163,232	46.4%	164,149	49.3%
Foodservice	65,094	52.7%	63,279	51.3%	188,373	53.6%	168,479	50.7%
<u>Consolidated</u>	<u>123,404</u>	<u>100.0%</u>	<u>123,435</u>	<u>100.0%</u>	<u>351,605</u>	<u>100.0%</u>	<u>332,628</u>	<u>100.0%</u>

(1) Expressed as a percentage of consolidated revenue

Retail's revenue for the third quarter of 2009 decreased by \$1.8 million or 3.1% as compared to the third quarter of 2008 primarily due to a decrease of approximately \$3.2 million in sales to convenience stores. The decrease in sales to convenience stores was the result of reduced consumer spending in this selling channel caused by a general slow down in the western Canadian economy. Partially offsetting this factor was continued organic growth in Retail's sales to grocery format retailers.

Retail's year-to-date revenue for 2009 as compared to 2008 decreased by \$0.9 million or 0.6% due to a decrease in sales to convenience stores of approximately \$5.7 million partially offset by \$1.2 million in incremental sales resulting from business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) and continued organic growth of its sales to grocery format retailers.

Foodservice's revenue for the third quarter of 2009 increased by \$1.8 million or 2.9% as compared to the third quarter of 2009. Acquisitions accounted for approximately \$6.2 million of the increase and organic growth of its WorldSource food brokerage business for another \$1.1 million. Partially offsetting these increases was a decrease in its sales to hotels and restaurants due to weaker economic conditions in western Canada that resulted in lower consumer sales in these venues and, to a lesser extent, lower average selling prices resulting from food cost deflation.

Foodservice's year-to-date revenue for 2009 as compared to 2008 increased by \$19.9 million due to business acquisitions, which accounted for \$27.7 million of the increase, and organic growth of approximately \$5.2 million in its WorldSource food brokerage business. These increases were partially offset by a decrease in sales to hotels and restaurants resulting from lower consumer sales in these venues.

Gross Profit

(in thousands of dollars except percentages)

	13 weeks ended Sept 26, 2009	(1)	13 weeks ended Sept 27, 2008	(1)	39 weeks ended Sept 26, 2009	(1)	39 weeks ended Sept 27, 2008	(1)
Gross profit by segment:								
Retail	20,404	35.0%	19,169	31.9%	54,186	33.2%	52,376	31.9%
Foodservice	13,625	20.9%	13,387	21.2%	38,103	20.2%	37,443	22.2%
<u>Consolidated</u>	<u>34,029</u>	<u>27.6%</u>	<u>32,556</u>	<u>26.4%</u>	<u>92,289</u>	<u>26.2%</u>	<u>89,819</u>	<u>27.0%</u>

(1) Expressed as a percentage of the corresponding segment's revenue

Retail's gross profit as a percentage of its revenue ("gross margin") for the third quarter of 2009 as compared to the third quarter of 2008 increased by 3.1 percentage points primarily due to lower costs for a range of commodities used in the manufacturing of its products and, to a lesser extent, improved production efficiencies resulting from a combination of factors including the recent merger of its two Edmonton based sandwich production facilities.

Retail's year-to-date gross margin for 2009 as compared to 2008 increased by 1.3 percentage points due to a variety of factors including lower costs for a range of commodities used in the manufacturing of its products, improved production efficiencies and lower freight costs.

Foodservice's gross margin for the third quarter of 2009 as compared to the third quarter of 2008 decreased by 0.3 percentage points primarily due to changes in its sales mix resulting from the growth of its WorldSource food brokerage business and its acquisition of B&C Food Distributors 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 gross margin for the third quarter of 2009 as compared to the third quarter of 2008 was approximately 1.0 percentage points higher with the increase being due to a variety of factors including lower commodity input costs, improved product pricing and operational efficiencies.

Foodservice's year-to-date gross margin for 2009 as compared to 2008 decreased by 2.0 percentage points primarily due to changes in its sales mix as discussed above. Excluding the impact of the WorldSource and B&C businesses, Foodservice's year-to-date gross margin for 2009 as compared to 2008 was approximately 0.3 percentage points lower.

Selling, General and Administrative Expenses ("SG&A")

(in thousands of dollars except percentages)

	13 weeks ended Sept 26, 2009	(1)	13 weeks ended Sept 27, 2008	(1)	39 weeks ended Sept 26, 2009	(1)	39 weeks ended Sept 27, 2008	(1)
SG&A by segment:								
Retail	10,618	18.2%	11,423	19.0%	31,350	19.2%	31,401	19.1%
Foodservice	8,990	13.8%	8,422	13.3%	26,538	14.1%	23,792	14.1%
Corporate	1,241		1,039		3,360		3,603	
Consolidated	20,849	16.9%	20,884	16.9%	61,248	17.4%	58,796	17.7%

(1) Expressed as a percentage of the corresponding segment's revenue

Retail's selling, general and administrative expenses ("SG&A") for the third quarter of 2009 as compared to the third quarter of 2008 decreased by \$0.8 million due to a variety of factors including reduced sales commissions resulting from its lower convenience store sales (as the primary compensation for sales people in this channel are sales based commissions) and reduced freight and fuel costs resulting from a general decrease in gas and diesel prices.

Retail's year-to-date SG&A for 2009 as compared to 2008 was relatively flat at \$31.4 million as reduced sales commissions resulting from its lower convenience store sales and reduced freight and fuel costs resulting from a general decrease in gas and diesel prices were offset by a variety of cost increases including higher promotional spending in the grocery sales channel.

Foodservice's SG&A for the third quarter of 2009 as compared to the third quarter of 2008 increased by \$0.6 million due primarily to business acquisitions partially offset by lower variable selling expenses resulting from its lower sales to hotels and restaurants.

The change in Foodservice's year-to-date SG&A for 2009 as compared to 2008 reflects the same trends that impacted its SG&A expenses for the third quarter of 2009 as compared to the third quarter of 2008.

Adjusted EBITDA

Adjusted EBITDA is not defined under GAAP and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should it be construed as an alternative to other earnings measures determined in accordance with GAAP.

The Company believes that adjusted EBITDA is a useful indicator of the amount of normalized income generated by operating businesses controlled by the Company 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. Adjusted EBITDA is also used in the calculation of the certain financial debt covenants associated with the Company's senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*).

The following table provides a reconciliation of adjusted EBITDA to earnings before non-controlling interest:

<i>(in thousands of dollars)</i>	13 weeks ended Sept 26, 2009	13 weeks ended Sept 27, 2008	39 weeks ended Sept 26, 2009	39 weeks ended Sept 27, 2008
Earnings before non-controlling interest	6,873	7,479	15,469	18,352
Depreciation of capital assets ⁽¹⁾	2,142	1,929	6,432	5,552
Interest and other financing costs ⁽²⁾	1,928	1,923	4,748	5,641
Amortization of intangible and other assets ⁽¹⁾	621	516	1,898	1,653
Amortization of financing costs ⁽¹⁾	48	52	156	145
Accretion of puttable interest in subsidiaries ⁽³⁾	-	200	-	400
Unrealized loss (gain) on foreign currency contracts ⁽⁴⁾	429	(429)	884	(1,135)
Equity loss in significantly influenced company ⁽⁵⁾	132	-	377	-
Conversion costs ⁽⁶⁾	1,390	-	1,390	-
Income tax provision (recovery) ⁽⁷⁾	(383)	2	(313)	415
Adjusted EBITDA	13,180	11,672	31,041	31,023

- (1) Amount relates to the consumption of the Company's tangible or intangible capital assets.
(2) Amount relates to the Company's financing strategies.
(3) Amount relates to the ownership structure of the Company's individual businesses.
(4) Amount represents the change in fair value of the Company's U.S. dollar forward purchase contracts for the period and is adjusted for on the basis that the Company 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 Company does not control.
(6) Amount is an unusual item that is not part of the Company's normal operating costs.
(7) Amount relates to the Company's taxable position.

<i>(in thousands of dollars except percentages)</i>	13 weeks ended Sept 26, 2009	(1)	13 weeks ended Sept 27, 2008	(1)	39 weeks ended Sept 26, 2009	(1)	39 weeks ended Sept 27, 2008	(1)
Adjusted EBITDA by segment:								
Retail	9,786	16.8%	7,746	12.9%	22,836	14.0%	20,975	12.8%
Foodservice	4,635	7.1%	4,965	7.8%	11,565	6.1%	13,651	8.1%
Corporate	(1,241)		(1,039)		(3,360)		(3,603)	
Consolidated	13,180	10.7%	11,672	9.5%	31,041	8.8%	31,023	9.3%

- (1) Expressed as a percentage of the corresponding segment's revenue

The Company's adjusted EBITDA for the third quarter of 2009 as compared to the third quarter of 2008 increased by \$1.5 million primarily due to:

- Disciplined product pricing strategies that enabled the Company to benefit from decreases in a range of commodity input costs;
- Continued organic growth in the grocery segment of the retail market and through its WorldSource food brokerage business;
- The successful implementation of the Company's business acquisition and integration strategies; and
- The ongoing improvement in the efficiency of its manufacturing operations.

Partially offsetting these favourable factors was the continued impact of the challenging economic environment on the Company's sales to convenience stores, restaurants and hotels.

The Company's year-to-date adjusted EBITDA for 2009 as compared to 2008 remained constant at \$31.0 million. Excluding \$0.4 million in unusual costs incurred in the first quarter of 2009 for the start up of a new beef jerky production line and the merger and capacity expansion of its Edmonton

sandwich production facilities, the Company's year-to-date adjusted EBITDA for 2009 was \$31.4 million.

Depreciation and Amortization

(in thousands of dollars)

	13 weeks ended Sept 26, 2009	13 weeks ended Sept 27, 2008	39 weeks ended Sept 26, 2009	39 weeks ended Sept 27, 2008
Depreciation and amortization of intangible and other assets by segment:				
Retail	1,682	1,532	5,153	4,641
Foodservice	908	715	2,656	1,969
Corporate	173	198	521	595
Consolidated	2,763	2,445	8,330	7,205

The increases in Retail's combined depreciation and amortization in the 2009 periods as compared to the corresponding 2008 periods were primarily due to the expansions of its Langley, BC meat snack operation and Delta, BC fresh pastry / sandwich operation part way through 2008 and the expansion of its Yorkton, SK processed meats operation in 2009 (see *Liquidity and Capital Resources – Capital Expenditures*).

The increases in the Foodservice's combined depreciation and amortization in the 2009 periods as compared to the corresponding 2008 periods were due to a combination of recent business acquisitions, changes in the amortization period of certain intangible assets and recent capital projects.

Interest

Interest and other financing costs for the third quarter of 2009 as compared to the third quarter of 2008 remained constant at \$1.9 million despite the Company's higher net funded debt level (see *Liquidity and Capital Resources – Debt Financing Activities*) due to a general decline in the Bank of Canada overnight lending rate and the corresponding favourable impact on the cost of the Company's floating rate debt.

On a year-to-date basis the Company's interest and other financing costs for 2009 as compared to 2008 were \$0.9 million lower due to the lower rates associated with the Company's floating rate debt as discussed above.

Gains / Losses on Foreign Currency Contracts

In the third quarter of 2009 the Company recognized a \$0.4 million (year-to-date \$0.9 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 Company 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 third quarter of 2008 the change in the fair market value of the Company's foreign currency contracts resulted in a gain of \$0.4 million (year-to-date \$1.1 million).

Income Taxes

An estimate of Company's tax attributes as at the end of the third quarter of 2009 (in thousands of dollars) is as follows:

Scientific research and experimental development tax credits (1)	81,741
Un-depreciated capital costs (1)	77,775
Non-capital losses carried forward (1)	45,178
Cumulative eligible capital (1)	41,742
Investment tax credits (1)	14,729

Total	261,165
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(1) Amount is estimated and is subject to finalization of certain aspects of the Conversion (see *Conversion to a Corporation*).

As a result of the Company's tax attributes it does not expect to incur any substantial current income tax expense in the near future (see *Forward Looking Statements*). Correspondingly, the majority of its provision for (recovery of) income taxes relates to changes in the value of its future income tax ("FIT") assets and liabilities as shown below:

<i>(in thousands of dollars)</i>	39 weeks ended Sept 26, 2009	39 weeks ended Sept 27, 2008
Opening FIT liability (1)	(1,372)	(733)
Adjustments:		
Foreign currency translation adjustment (2)	(406)	(7)
Acquisitions impact	8,850	(371)
Adjusted opening FIT asset (liability)	7,072	(1,111)
Closing FIT asset (liability) (1)	7,475	(1,521)
Provision for (recovery of) FIT	(403)	410

(1) Calculated as current FIT assets plus long term FIT assets less current deferred credits less long term FIT liabilities less long term deferred credits at the beginning of the applicable period.

(2) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars.

The \$8.9 million acquisitions impact adjustment was due to the Conversion (see *Conversion to a Corporation*) which increased the Company's tax attributes by approximately \$160.0 million (note that this amount is an estimate and is subject to finalization of certain aspects of the Conversion).

An increase in the Company's closing FIT asset as at September 26, 2009 as compared to the corresponding adjusted opening FIT asset resulted in a recovery of FIT of \$0.4 million. This increase was primarily due to the Conversion and the corresponding change in the Company's tax status which resulted in the recognition of certain temporary timing difference reversals relating to 2009 and 2010 that had not been recognized previously under its income trust structure.

SUMMARY OF QUARTERLY RESULTS

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

<i>(millions of dollars except per share amounts)</i>	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Revenue	101.8	94.3	114.8	123.4	116.7	103.9	124.3	123.4
Adjusted EBITDA	8.9	7.0	12.3	11.7	9.6	6.3	11.6	13.2
Earnings:								
Total	3.2	3.4	7.4	7.4	3.0	2.1	6.6	6.9
Per share (basic and diluted)	0.18	0.19	0.43	0.42	0.17	0.12	0.38	0.39

The Company'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 Company's convenience oriented customers' stores (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 Company'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.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position and liquidity for the 39 weeks ended September 26, 2009 were impacted by the following:

Funds from Operations

Funds from operations is not defined under GAAP and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that funds from operations is a useful indicator of the cash generated by its operating activities before changes in non-cash working capital.

The following table provides a reconciliation of funds from operations to cash flow from operating activities:

<i>(in thousands of dollars)</i>	13 weeks ended Sept 26, 2009	13 weeks ended Sept 27, 2008	39 weeks ended Sept 26, 2009	39 weeks ended Sept 27, 2008
Cash flow from operating activities	18,409	14,281	28,392	28,990
Changes in non-cash working capital	(8,395)	(4,414)	(4,683)	(3,549)
Funds from operations	10,014	9,867	23,709	25,441

See *Results of Operations* for an analysis of the factors impacting the funds from operations generated by the Company.

Net Working Capital Requirements

Net Working Capital is not defined under GAAP and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that Net Working Capital is a useful indicator of the cash needed to fund the Company's working capital requirements.

The following table provides the calculation of Net Working Capital:

<i>(in thousands of dollars)</i>	As at Sept 26, 2009	As at Dec 31, 2008	As at Sept 27, 2008
Accounts receivable	34,343	35,020	37,145
Inventory	47,637	44,088	46,027
Prepays	2,580	2,240	3,368
Accounts payable and accrued liabilities	(44,487)	(42,472)	(47,847)
Net Working Capital	40,073	38,876	38,693

The Company's Net Working Capital needs are seasonal in nature and 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 (see *Summary of Quarterly Results*).

At the end of the third quarter the Company's net working capital is generally at lower than average levels due to the summer seasonal peak its business ending in early September.

At the end of the third quarter of 2009 the Company's net working capital was up slightly from its level at the end of the third quarter of 2008 due to a variety of fluctuations in various working capital accounts. The Company's net working capital at the end of the third quarter of 2009 was also reasonably consistent with its December 2008 net working capital position as its year end is also historically a below average point in its net working capital needs.

Cash flows from changes in non-cash working capital were as follows:

<i>(in thousands of dollars)</i>	13 weeks ended Sept 26, 2009	13 weeks ended Sept 27, 2008	39 weeks ended Sept 26, 2009	39 weeks ended Sept 27, 2008
Changes in non-cash working capital	8,395	4,414	4,683	3,549

The \$8.4 million in cash generated by the Company from changes in non-cash working capital during the third quarter of 2009 was primarily due to the liquidation of inventory positions taken earlier in the year and an increase in its dividend payable resulting from a change in its dividend payment policy to quarterly payments from monthly payments (see *Liquidity and Capital Resources – Dividends*).

The \$4.7 million in cash generated by the Company from changes in non-cash working capital during the first three quarters of 2009 was primarily due to the change to a quarterly dividend payment combined with the liquidation of net working capital purchased as part of business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*). These sources of cash were partially offset by an overall net increase in the Company's net working capital during the first three quarters of 2009.

Debt Financing Activities

At the end of the third quarter of 2009 the Company's credit facilities and the unutilized portion of those facilities were as follows:

<i>(in thousands of dollars)</i>	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Facility A – revolving senior credit ⁽¹⁾	32,500	1,753	30,747
Facility B – revolving senior credit ⁽²⁾	40,000	37,500	2,500
Facility C – non-revolving senior credit ⁽³⁾	64,000	64,000	-
Facility D – non-revolving senior credit ⁽⁴⁾	10,000	10,000	-
Industrial Development Revenue Bond ⁽⁵⁾	6,685	6,685	-
Cheques outstanding	-	1,389	(1,389)
Cash and cash equivalents	-	(386)	386
Other long-term debt	1,195	1,195	-
	154,380	122,136	32,244

- (1) Amount is made up of two credit facilities: a \$32.0 million revolving facility that matures in July 2012, 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 Company's working capital and general operating needs and neither has any principal payments due prior to their maturity dates.
- (2) Facility matures in July 2012, can be used to fund capital projects and acquisitions, and has quarterly principal payments of \$1.25 million until the Company's Facility D is repaid at which time the quarterly principal payments increase to \$2.0 million. Repaid amounts can be redrawn to fund new capital projects and acquisitions.
- (3) Facility matures in July 2012 and has no principal payments prior to its maturity date unless Facility B is fully paid in which case the facility would have quarterly principal payments of \$2.0 million.
- (4) Facility matures in July 2011 and has quarterly principal payments of \$1.25 million
- (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.

During the first three quarters of 2009 the Company generated \$11.7 million in cash from its long-term debt facilities consisting of:

- A \$2.5 million draw in the first quarter of 2009 on Facility B (see table above), the proceeds of which were used to fund the costs associated with the Company's investment in S.J. Irvine Fine Foods Ltd. (see *Liquidity and Capital Resources – Corporate Investments*);
- A \$10.0 million draw in the third quarter of 2009 on Facility D (see table above), the proceeds of which were used to fund the costs associated with the Conversion (see *Conversion to a Corporation*).

The above amounts were partially offset by principal payments of \$0.4 million on other long-term debt and a \$0.4 million increase in deferred financing costs resulting from extending the maturity date on the Company's senior credit facilities to July 2012.

During the first three quarters of 2009 the Company used \$7.9 million in cash to pay down its bank indebtedness (Facility A as shown in the table above) and cheques outstanding. This, combined with a \$1.3 million decrease in the Company's cash and cash equivalents during this period, reflects the net impact of all of the Company's other activities on its liquidity as these are the cash sources used to manage its daily cash requirements.

Senior net funded debt and net funded debt are not defined under GAAP and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that senior net funded debt and net funded debt, used in conjunction with its EBITDA, are useful indicators of its financial strength and ability to access additional debt financing. Senior net funded debt is also used in the calculation of the debt covenants associated with the Company's senior credit facilities.

The following table provides the calculation of senior net funded debt and net funded debt:

<i>(in thousands of dollars)</i>	Sept 26, 2009	Dec 31, 2008
Cheques outstanding	1,389	1,354
Bank indebtedness	1,753	9,676
Current portion of long-term debt	10,216	386
Deferred financing costs ⁽¹⁾	762	534
<u>Long-term debt</u>	<u>108,402</u>	<u>107,067</u>
	122,522	119,017
<u>Less cash and cash equivalents</u>	<u>386</u>	<u>1,679</u>
Senior net funded debt	122,136	117,338
<u>Subordinated debt</u>	<u>-</u>	<u>-</u>
<u>Net funded debt</u>	<u>122,136</u>	<u>117,338</u>

(1) Deferred financing costs are included as an offsetting amount in long-term debt.

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

	Covenant Requirement	Sept 26, 2009 Ratio
Senior net funded debt to EBITDA ratio ⁽¹⁾	=< 3.50 : 1.0	2.97 : 1.0
Current ratio	> 1.30 : 1.0	1.35 : 1.0
Interest coverage ratio ⁽²⁾	> 4.00 : 1.0	6.35 : 1.0

(1) EBITDA is calculated as the Company'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. Furthermore, in the event that Facility D is repaid in its entirety prior to its maturity date then the covenant decreases to 3.0:1. 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 Company'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 for the corresponding rolling four quarter period.

Two of the key indicators that the Company uses to assess the appropriateness of its net funded debt and senior net funded debt levels are their respective ratios to the Company's EBITDA. The Company has set 2.5:1 to 3.0:1 as its long-term targeted range for its senior funded debt to EBITDA ratio and 3.5:1 to 4.0:1 as its long-term targeted range for its funded debt to EBITDA ratio. These ranges are based on a number of factors including:

- The tax efficiency associated with financing the Company's operations with debt since interest is generally deductible in the calculation of taxable income.
- The risks associated with the consistency and sustainability of the Company's cash flows (see *Risks and Uncertainties*).
- The financial covenants associated with the Company's senior credit facilities.
- The Company's dividend policy (see *Liquidity and Capital Resources – Dividends*).

As at the end of the third quarter the Company was well within the financial covenants associated with its senior credit facilities and at the top of its targeted senior net funded debt to EBITDA ratio range. The Company's higher senior net funded debt to EBITDA ratio was 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 and/or subordinate debt.

As part of its strategies to reduce its senior funded debt to EBITDA ratio, subsequent to the quarter the Company completed a public offering of \$35.0 million of convertible debentures that are subordinated to its senior credit facilities (see *Proposed and Subsequent Transactions*). This offering is expected (see *Forward Looking Statements*) to reduce the Company's senior net funded debt ratio to below its

targeted long-term range hence giving it improved financial flexibility and additional borrowing capacity to fund capital projects and business acquisitions.

Dividends

Free cash flow is not defined under GAAP and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should it be construed as an alternative to other cash flow measures determined in accordance with GAAP.

The Company believes that free cash flow is a useful indicator of the amount of cash generated by it that is available for the payment of dividends to shareholders, debt repayment and for investing in project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*) and business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*).

Furthermore, one of the key considerations the Company uses in determining its dividend policy is the ratio of its dividends to its free cash flow on a rolling four quarter basis. The Company uses a rolling four quarter basis due to the seasonality of its business (see *Summary of Quarterly Results*) which results in significant fluctuations in its free cash flow on a quarter by quarter basis, combined with the Company's objective of maintaining a stable quarterly per share dividend (note that, due to the seasonal nature of the Company's business, it is possible that in some quarters its dividends to shareholders may exceed its free cash flow for that particular quarter).

The following table provides a reconciliation of free cash flow to cash flow from operating activities:

<i>(in thousands of dollars)</i>	Year ended Dec 31, 2008	39 weeks ended Sept 27, 2008	39 weeks ended Sept 26, 2009	Rolling Four Quarters
Cash flow from operating activities	33,912	28,990	28,392	33,314
Changes in non-cash working capital ⁽¹⁾	(1,464)	(3,549)	(4,683)	(2,598)
Capital maintenance expenditures ⁽²⁾	(2,600)	(1,983)	(1,685)	(2,302)
Free cash flow	29,848	23,458	22,024	28,414

(1) Cash used for increases in the Company's non-cash working capital is funded through draws on its Facility A revolving credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*), while cash resulting from decreases in its non-cash working capital is used to pay down its Facility A revolving credit facilities. As a result, changes in the Company's non-cash working capital are excluded from the calculation of free cash flow.

(2) Amount represents the portion of the Company's capital expenditures that relate to maintaining its existing capital asset base (see *Liquidity and Capital Resources – Capital Expenditures*).

Other key considerations used by the Company in setting its dividend policy are:

- Debt principal repayment obligations (see *Liquidity and Capital Resources – Debt Financing Activities*);
- Financing needs for capital project expenditures (see *Liquidity and Capital Resources – Capital Expenditures*) and business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*);
- Ability to access reasonably priced debt and equity financing;
- Significant changes in the status of one or more of the various risk factors facing the Company (see *Forward Looking Statements and Risks and Uncertainties*); and
- The ratio of its annual dividend per share to the trading price of its shares on the Toronto Stock Exchange, i.e. dividend yield.

The Company declared its first distribution in August 2005. The following table outlines the Company's distribution / dividend payment history starting in 2006, which was its first full year of declared distributions.

(in thousands of dollars except per share amounts and ratios)

	Declared Shareholder Distributions/ Dividends	Nature of Distribution	Free Cash Flow	Ratio (1)	Average Annual Distribution Per Share
Rolling four quarters ended:					
Sept 26, 2009	20,683	(2)	28,414	72.8%	\$1.176 (3)
Dec 31, 2008	20,593	Trust distribution	29,848	69.0%	\$1.176 (4)
Dec 31, 2007	20,514	Trust distribution	27,047	75.8%	\$1.176 (4)
Dec 31, 2006	18,357	Trust distribution	17,247	106.4%	\$1.176 (4)

(1) Ratio of dividends declared to free cash flow for the corresponding rolling four quarter period.

(2) Consisted of trust distributions for the first three quarters and dividends for the last quarter.

(3) Consisted of nine monthly distributions of \$0.098 per unit plus one quarterly dividend of \$0.294 per share.

(4) Consisted of twelve monthly distributions of \$0.098 per unit.

At the time of the Conversion (see *Conversion to a Corporation*) the Company set its quarterly dividend at \$0.294 per share, which on an annualized basis, is equivalent to the annual distribution of \$1.176 per share that it was paying as an income trust.

Looking forward (see *Forward Looking Statements*), the Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors that may become relevant in the future and, correspondingly, there can be no assurance that its current quarterly dividend of \$0.294 per share will be maintained. Furthermore, the Company does not intend to use any future growth in its free cash flow to increase its dividend in the near or medium term but rather will focus on reducing the ratio of its dividends paid to its free cash flow and using the additional cash to pay down debt and fund business acquisitions and capital projects.

Capital Expenditures

The Company'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 Company's existing level of production capacity and operating efficiency.

Maintenance capital expenditures are financed primarily through free cash flow (see *Liquidity and Capital Resources – Dividends*) while project capital expenditures are generally funded through the Company's credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*), 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.

The following table shows the changes in the Company's capital assets during the first three quarters of 2009:

<i>(in thousands of dollars)</i>	39 weeks ended Sept 26, 2009
Opening capital assets at December 31, 2008	69,833
Depreciation	(6,432)
Foreign currency translation adjustment ⁽¹⁾	(878)
Acquisitions	-
Capital expenditures:	
Project	3,224
Maintenance	1,685
Closing capital assets	67,432

(1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars.

During the first three quarters of 2009 the Company used \$3.2 million for project capital expenditures consisting of \$1.2 million for the expansion of its Yorkton, SK premium processed meats production facility and the balance for a variety of smaller projects.

Maintenance capital expenditures for the first three quarters of 2009 decreased to \$1.7 million as compared to \$2.0 million in the first three quarters of 2008 due to the timing of a variety of items.

The following table outlines the Company's historic maintenance capital expenditures starting from 2006:

<i>(in thousands of dollars)</i>	Total
Rolling four quarters ended:	
September 26, 2009	2,302
December 31, 2008	2,600
December 31, 2007	1,780
December 31, 2006	1,887

Corporate Investments

Corporate investments consist primarily of three activities: business acquisitions, equity investments in non-controlled businesses and loans to non-controlled businesses. Corporate investments, in general, and business acquisitions, in particular, involving companies that complement the Company's specialty food and distribution based strategies are a core part of Premium Brands' growth strategy.

The financing for corporate investments depends primarily on the size of the transaction. Smaller transactions are generally financed through the Company's credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*), while larger transaction can be financed through a variety of sources including existing credit facilities and the issuance of new debt and/or equity.

During the first three quarters of 2009 the Company used \$13.2 million for corporate investments consisting primarily of the following:

- During the third quarter of 2009 the Company invested \$8.9 million in the Conversion (see *Conversion to a Corporation*) and expensed \$1.4 million in costs associated with the Conversion.
- During the first quarter of 2009 the Company invested \$1.7 million in 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 Company's relatively new WorldSource food brokerage business.

- Also during the first quarter of 2009, the Company invested \$2.6 million in 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 the Company 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.

Primarily all of the Company's intangible assets and goodwill are the result of corporate investments.

The following table shows the changes in the combined total of the Company's intangible assets and goodwill during the first three quarters of 2009:

<i>(in thousands of dollars)</i>	39 weeks ended Sept 26, 2009
Opening intangible assets and goodwill at December 31, 2008	151,832
Amortization of intangibles	(1,894)
Foreign currency translation adjustment ⁽¹⁾	(397)
Additions:	
Goodwill resulting from the acquisition of MNF	40
Closing intangible assets and goodwill	149,581

- (1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars

OUTLOOK

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

The Company 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 Company's distribution networks and geographical expansion into the U.S. Pacific Northwest and Central Canada. For 2009, the Company 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 Company 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 Company does not have any off balance sheet arrangements.

Contractual Obligations

The payments due on the Company's significant contractual obligations at September 26, 2009 are as follows:

<i>(in thousands of dollars)</i>							
	Total	1 year out	2 years out	3 years out	4 years out	5 years out	There-after
Long-term debt	119,273	10,159	10,577	91,550	1	300	6,686
Capital leases	106	57	44	5	-	-	-
Operating leases	30,294	5,910	5,110	4,024	3,046	2,494	9,710
Total	149,673	16,126	15,731	95,579	3,047	2,794	16,396

TRANSACTIONS WITH RELATED PARTIES

During the first three quarters of 2009 the Company entered into the following transactions with related parties:

- Pursuant to a supply agreement (the "Supply Agreement") which was to end in December 2013, the Company purchased approximately \$0.5 million of labels from Tapp Technologies Inc. ("Tapp"), a company in which the Company'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 Company entered into a new supply agreement with the Purchaser.
- Pursuant to a ten year real property lease ending in August, 2018, the Company made \$0.3 million in lease payments to a company in which the Company's Chairman, Bruce Hodge, has a minority interest.
- Pursuant to the Company's employee loan program, the Company 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

Plant Shut Down

On October 26, 2009 the Company permanently shut down its 25,000 square foot deli meats processing facility located in Edmonton, Alberta (the "Edmonton Plant"). A portion of the Edmonton Plant's production was transferred to the Company's Richmond, BC deli plant and the balance to the Saskatoon, SK plant operated by Irvine (see *Liquidity and Capital Resources – Corporate Investments*). Approximately \$0.6 million in costs associated with the shut down of the Edmonton Plant will be expensed in the fourth quarter of 2009.

Convertible Debenture Offering

On November 9, 2009 the Company completed a public offering (the "Offering") of \$35.0 million of convertible unsecured subordinated debentures (the "Debentures") resulting in net proceeds of \$33.1 million after underwriting fees of \$1.4 million and costs of approximately \$0.5 million. Some of the terms associated with the Debentures are as follows:

- Semi-annual interest payments at an annual rate of 7%;
- Maturity date of December 31, 2014;

- An option for holders to convert the Debentures into common shares of the Company at any time prior to the close of business on the earlier of December 31, 2014 and the business day immediately preceding the date specified by the Company for redemption of the Debentures, at a conversion price of \$14.50 per common share, subject to adjustment in certain events; and
- Redeemable by the Company on or after December 31, 2012 at a formula based price.

As part of the Offering, the Company granted the underwriters of the Offering an option to purchase up to an additional \$5.3 million of Debentures, exercisable in whole or in part and at the sole discretion of the underwriters, at any time up to December 9, 2009. As of the date of this discussion and analysis the underwriters had not exercised this option. In the event that the underwriters do fully exercise this option, the total net proceeds of the Offering will be approximately \$38.2 million.

The Company intends to use \$8.75 million of the net proceeds of the Offering to repay the amount outstanding under Facility D with the balance of the net proceeds being used to pay down Facility B (see *Liquidity and Capital Resources – Debt Financing Activities*). The Company will then be able to draw, as required, the portion of the Offering used to pay down Facility B for capital projects and business acquisitions (see *Liquidity and Capital Resources – Capital Expenditures* and *Liquidity and Capital Resources – Corporate Investments*).

FORWARD LOOKING STATEMENTS

This discussion and analysis contains forward looking statements with respect to the Company, 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 Company’s internal expectations and belief as of November 9, 2009, such statements involve unknown risks and uncertainties beyond the Company’s control which may cause its 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.

Some of the factors that could cause actual results to differ materially from the Company’s expectations are outlined below under *Risks and Uncertainties*.

Forward-looking information contained or incorporated by reference in this discussion and analysis is based on various assumptions. Those assumptions are based on information currently available to the Company, including information obtained from third party sources and include the following list of assumptions. Readers are cautioned that this list of assumptions is not exhaustive.

- Current economic conditions in western Canada will improve in the latter half of 2009 and will continue to show modest improvement throughout 2010. Furthermore, corresponding with such improvement, consumers will return to pre-2009 buying patterns in the convenience store, hotel and restaurant food channels;
- The average cost of the basket of commodities the Company purchases on a regular basis will continue to fluctuate in line with historic trends for the remainder of 2009 and 2010;
- The Company is able to continue to access sufficient goods and services for its manufacturing and distribution operations;
- There will be no major changes in the competitive environment or consumer food consumption trends in the markets in which the Company’s various specialty businesses compete;

- There will be no major changes to western Canada's historic weather patterns for the next several years;
- The Company is able to negotiate new collective agreements with no labour disruptions;
- The Company is able to continue accessing sufficient qualified staff;
- The Company is able to continue to access reasonably priced debt and equity capital;
- The Company's average interest cost on floating rate debt will remain stable for 2009 and the first half of 2010, increasing modestly thereafter;
- Contractual counterparties will continue to fulfill their obligations to the Company;
- There will be no material changes to the regulatory requirements governing the Company;
- Other than the harmonization of the Federal Goods and Services Tax ("GST") with British Columbia Provincial Sales Tax ("PST"), there will be no material changes to the tax laws governing the Company; and
- The harmonization of the GST and PST will not have a material impact on the Company's sales in British Columbia.

Unless otherwise indicated, the forward looking information in this document is made as of November 9, 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.

RISKS AND UNCERTAINTIES

The Company 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 pay dividends. These risks and uncertainties include: (i) seasonal and/or weather related fluctuations in the Company'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 in the production of the Company's products; (iv) changes in the cost of products sourced from third party manufacturers and sold through the Company's proprietary distribution networks; (v) changes in Canadian income tax laws; (vi) changes in consumer food product preferences; (vii) competition from other food manufacturers and distributors; (viii) new government regulations affecting the Company's business and operations; and (xi) 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.

In addition to the above noted risks, the Company is subject to additional risks resulting from the Conversion (see *Conversion to a Corporation*) including the following:

- Third Party Credit/Contractual Risks. The Company is or may be exposed to third party credit/contractual risk relating to obligations of Thallion and Thallion's successor ("New Thallion"). The Fund has, through the conditions of an arrangement agreement and certain agreements entered into pursuant to such agreement, attempted to ensure that the liabilities and obligations relating to the business of Thallion were transferred to and assumed by New Thallion, and that the Company was released from any such obligations. However, where such transfers or releases were not effective or are not obtained, the Company is subject to third party credit/contractual risk relating to the obligations of Thallion and New Thallion. Such third party liabilities for which the Company may become liable could have a material adverse effect on the business, financial conditions and results of operation of the Company
- Due Diligence Risks. Although the Fund conducted investigations of, and engaged legal and accounting advisors to review, the corporate, legal, financial, tax and business records of

Thallion to identify third party credit/contractual risk and to structure the transaction to protect against such risks, there may be liabilities or risks that the Fund may not have uncovered in its due diligence investigations, or that may have an unanticipated material adverse effect on the Company. These liabilities and risks could have, individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of the Company.

- Thallion Operational Risks. The Company is or may be exposed to operational risk relating to obligations of Thallion and New Thallion, including with respect to intellectual property matters, product liability, clinical trial liability or environmental damage. The Fund has, through the conditions of an arrangement agreement and certain agreements entered into pursuant to such arrangement agreement, attempted to ensure that the liabilities and obligations relating to the business of Thallion were transferred to and assumed by New Thallion, and that the Company was released from any such obligations. However, where such transfers or releases were not effective or were not obtained, the Company is subject to operational risks of Thallion and New Thallion. Should the Company become liable for such matters, it could have a material adverse effect on the business, financial conditions and results of operation of the Company.
- Reliance on the Indemnity, Insurance and the Letter of Credit. The Fund attempted to reduce the third party credit/contractual risk, due diligence risk and Thallion operational risk by obtaining, for the benefit of the Company: (i) the covenants under an indemnity agreement delivered by New Thallion pursuant to an arrangement agreement; (ii) certain insurance coverage; and (iii) a letter of credit delivered by New Thallion pursuant to an arrangement agreement. The Company believes that the protection afforded by the terms of the indemnity agreement, the insurance coverage and the letter of credit reduces these risks to an acceptable level. However, this presumes that: New Thallion has the financial resources to meet its obligations under the indemnity agreement, the insurance coverage is available, and the letter of credit has not expired or the losses sustained are not in excess of the value of the letter of credit.

In the event that New Thallion defaults on its contractual obligations under the indemnity agreement or becomes insolvent or bankrupt, or in the event that the insurance coverage and/or the letter of credit are not available, the Company could become liable for the liabilities of Thallion and New Thallion, which could have a material adverse effect on the business, financial conditions and results of operation of the Company.

- Income Taxes. The Company will file all required income tax returns and believes that it will be in full compliance with the provisions of the Canadian Income Tax Act and all applicable provincial legislation. It is expected that the Company's tax horizon will be deferred for several years as it is expected to have approximately \$260 million in federal tax pools, including scientific research and experimental development expenditures, non-capital loss-carryforwards and investment tax credits. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Company, whether by re-characterization of certain expenditures, availability of the tax pools, including non-capital loss-carryforwards, scientific research and experimental development expenditures, investment tax credits or otherwise, such reassessment may have an impact on current and future taxes payable by the Company and such impact may be material.

Furthermore, Canadian federal or provincial income tax legislation may be amended, or its interpretation changed, retroactively or for the future, so as to alter fundamentally the availability of the tax pools to the Company.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions, which are based on the Company'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 Company'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 Company 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 Company considers could trigger an impairment review include significant underperformance relative to plan, a change in the Company'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. The Company's provision for (recovery of) future income taxes is based on changes in the estimated temporary differences between the value of its net assets for tax purposes and their value for accounting purposes. 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 Company's Interim Consolidated Financial Statements for the period ended September 26, 2009 for a discussion and analysis of the new accounting pronouncements and their impact on the Company's financial reporting.

International Financial Reporting Standards (IFRS)

See Note 2 of the Company's Interim Consolidated Financial Statements for the period ended September 26, 2009 for a discussion and analysis of the impact on the Company's financial reporting from the expected adoption of IFRS in 2011.

FINANCIAL INSTRUMENTS

The Company, 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 Company 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 Company's ratio of debt to cash flow calculated quarterly.

See Note 14 of the Company's Interim Consolidated Financial Statements for the period ended September 26, 2009 for a discussion and analysis of its financial exposure resulting from these financial instruments.

OTHER

Outstanding Shares

The shares outstanding in Company as of November 9, 2009 were 17,617,560 after the issuance of 37,266 shares on October 15, 2009 as part of the Company's dividend re-investment plan.

Disclosure Controls and Procedures

Management has designed, or caused to be designed under their supervision, the Company'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 Company's DCP as of September 26, 2009 and has concluded that such procedures are adequately designed to provide reasonable assurance that (i) material information relating to the Company, 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 Company 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 Company's ICFR as of September 26, 2009 and has concluded that the design of the Company'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.

Although the Company'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 Company's Management has also concluded that there have been no changes to the Company's ICFR during the interim period ending September 26, 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 this management's discussion & analysis ("MD&A"), which is current as of November 9, 2009. It is the responsibility of the Company's Audit Committee to provide oversight in reviewing the MD&A and the Company's Board of Directors to approve the MD&A.

The Company's Board of Directors and its 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 November 9, 2009, has been approved by the Company's Board of Directors.

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.