



PREMIUM BRANDS HOLDINGS CORPORATION

Management's Discussion and Analysis

For the 52 Weeks Ended December 26, 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 March 17, 2009. It should be read in conjunction with the Company's 2009 audited consolidated financial statements and the notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (GAAP). This document, as well as additional information on the 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 Conversion Date) 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. Correspondingly, the shareholders of Thallion immediately prior to the Conversion became shareholders of a new company (New Thallion) resulting in the unitholders of the Fund immediately prior to the Conversion being identical to the shareholders of the Company immediately after the Conversion. Furthermore, the Conversion did not result in any changes to the underlying business operations of the Fund.

Rationale and Benefits of the Conversion

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

Furthermore, the ability of the Fund to defer the new tax provisions outlined above to 2011 was 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.

The primary reason for the Conversion was to deal with the above noted new tax provisions and the resulting negative impact they 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;
- The Company's Canadian taxable shareholders 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 above noted growth restrictions imposed on the Fund which could potentially have impacted the implementation of its business acquisition strategies;
- Improved access to Canadian capital markets and improved liquidity in the trading of the Company's 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;
- It resulted in an increase of approximately \$160 million in the Company's estimated aggregate tax shield; and
- A simplified corporate structure once the post closing entity wind ups are complete.

Accounting for the Conversion

The Conversion was accounted for using the continuity of interests method of accounting. As a result, the transfer of the Fund's assets, liabilities and equity to the Company was recorded at their respective net book values as at the Conversion Date. Accordingly, this MD&A and the Company's consolidated financial statements for the period ended December 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 Conversion also resulted in the Company recognizing certain future income tax assets and a deferred credit liability associated with the tax attributes that it was deemed to have acquired (see *Results of Operations – Income Taxes*).

BUSINESS OVERVIEW

Premium Brands is a food holding company investing in:

- **Food manufacturers with specialty food products, strong brands and leading niche market positions.** The Company defines specialty food products as those 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 its 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. The Company's focus on this segment of the food industry is based on the ability of these companies, in general terms, to earn higher and more consistent selling margins and to avoid competing with major food manufacturers that produce and distribute mainstream food products on a larger scale; and

- **Differentiated food distribution businesses.** The Company's focus on this segment of the food industry is based on the ability of these companies, in general terms, to generate higher margins by offering customers unique service and product solutions that differentiate them from distributors who are primarily focused on logistics. Furthermore, they enable the Company to generate and sustain additional margin by providing its specialty food manufacturing businesses with proprietary access to a diversified customer base. The Company's current distribution businesses service approximately 25,000 customers, including convenience stores, gas bars, restaurants, delicatessens, small specialty grocery chains, hotels and institutions, across primarily western Canada.

SELECT ANNUAL INFORMATION

The following is a summary of select annual consolidated financial information. All amounts, except Adjusted EBITDA and RONA, are derived from the Company's audited consolidated financial statements for each of the four most recently completed financial years and are prepared in accordance with GAAP. The calculation of RONA is shown below. See *Results of Operations* for the calculation of Adjusted EBITDA.

<i>(in millions of dollars except per share amounts)</i>	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008	Year ended Dec 31, 2007	Year ended Dec 31, 2006
Revenue	462.8	449.4	326.4	216.5
Adjusted EBITDA	40.7	40.6	33.4	22.7
Earnings from continuing operations before income taxes and non-controlling interest	18.7	22.4	19.6	14.4
Earnings from continuing operations	18.9	21.4	25.5	14.2
Basic and diluted earnings per share from continuing operations	1.07	1.22	1.46	0.91
Loss from discontinued operations	0.0	0.0	0.0	(1.4)
Earnings	18.9	21.4	25.5	12.8
Basic and diluted earnings per share	1.07	1.22	1.46	0.83
Total assets	350.0	307.2	285.7	174.2
RONA	14.6%	15.0%	18.1%	14.6%
Total long-term financial liabilities ⁽¹⁾	112.1	107.6	97.6	11.9
Dividends / distributions declared per share	1.176	1.176	1.176	1.176

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

Sales and Earnings

The Company has consistently grown its revenue and adjusted EBITDA over the last four years through the successful implementation of its branded specialty food and differentiated food distribution

based strategies. Over this same period, the Company's earnings have been relatively volatile primarily due to the following:

- In 2009 it incurred a charge of \$1.5 million for transaction costs associated with the Conversion (see *Conversion to a Corporation*);
- Also in 2009, it incurred a charge of \$0.8 million associated with the shut down of certain operations (see *Results of Operations – Operation Shutdown Costs*);
- Volatility associated with the valuation of its foreign currency contracts that resulted in a loss in 2009 of \$0.8 million, a gain in 2008 of \$1.2 million and a loss in 2007 of \$0.5 million. 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 2008 it recorded a charge for \$1.0 million associated with the write-off of an insurance receivable (see *Results of Operations – Product Recall Insurance Claim*);
- In 2007 it recorded a \$6.4 million future income tax recovery due to changes in the manner in which publicly traded trusts will be treated for tax purposes starting on or before January 1, 2011 (see *Conversion to a Corporation*); and
- In 2006 it shut down a discontinued operation and liquidated substantially all of that operation's assets resulting in a charge of \$1.4 million.

Total Assets

The four year trend of increasing total assets reflects both the Company's continuing investment in its existing businesses as well as the acquisition of new specialty food manufacturing and differentiated food distribution businesses. In addition, the Conversion (see *Conversion to a Corporation*) resulted in the Company recording a \$52.2 million future income tax asset in 2009 (see *Results of Operations – Income Taxes*).

RONA

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

<i>(in thousands of dollars)</i>	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008
Return:		
Adjusted EBITDA	40,727	40,626
Maintenance capital expenditures	(2,026)	(2,600)
	<u>38,701</u>	<u>38,026</u>
Adjusted net assets:		
Closing net assets ⁽¹⁾	264,123	264,637
Acquisitions timing adjustment ⁽²⁾	-	(6,502)
Adjusted closing net assets	264,123	258,135
Opening net assets ⁽¹⁾	264,637	249,670
Average ⁽³⁾	<u>264,380</u>	<u>253,903</u>
RONA ⁽⁴⁾	14.6%	15.0%

(1) Calculated as total assets less: future income tax assets, accounts payable and accrued liabilities.

(2) Adjustment normalizes for business acquisitions occurring part way through the year by weighting the net assets of each acquisition for the number of days in the year that the Company did not own the applicable business.

(3) Calculated as the sum of the adjusted closing net assets and the opening net assets divided by two.

(4) Calculated as the return amount divided by average adjusted net assets.

The Company's RONA for each of the last four years has been near or exceeded its targeted rate of 15%. In 2009 its RONA was slightly below its targeted rate of 15% primarily due to the impact of a challenging economic environment on its businesses servicing the foodservice and convenience store industries (see *Results of Operations*). Over the last four years, the Company's RONA has averaged 15.6%.

Long-term Financial Liabilities

The increase in the Company's long-term financial liabilities over the last four years is due to long-term debt being the primary funding source for its acquisitions strategy. In total, the Company has invested \$120.8 million in new businesses from the beginning of 2006 to the end of 2009, \$115.8 million of which was financed with debt.

RESULTS OF OPERATIONS

The Company owns a variety of specialty food manufacturing and differentiated food 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 Company's specialty manufacturing businesses (such as Harvest, Grimm's, Hygaard, Quality Fast Foods, Hempler's, Creekside and Stuyver's) and its Direct Plus retail distribution business. 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, B&C Food Distributors, 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 Dec 26, 2009	% (1)	13 weeks ended Dec 31, 2008	% (1)	52 weeks ended Dec 26, 2009	% (1)	Year ended Dec 31, 2008	% (1)
Revenue by segment:								
Retail	54,374	48.9%	56,127	48.1%	217,606	47.0%	220,276	49.0%
Foodservice	56,785	51.1%	60,608	51.9%	245,158	53.0%	229,087	51.0%
<u>Consolidated</u>	<u>111,159</u>	<u>100.0%</u>	<u>116,735</u>	<u>100.0%</u>	<u>462,764</u>	<u>100.0%</u>	<u>449,363</u>	<u>100.0%</u>

(1) Expressed as a percentage of consolidated revenue

Retail's revenue for 2009 decreased by \$2.7 million or 1.2% as compared to 2008 primarily due to a decrease of approximately \$8.3 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 and \$1.2 million in incremental sales resulting from business acquisitions made part way through 2008.

Retail's revenue for the fourth quarter of 2009 decreased by \$1.7 million or 3.1% as compared to the fourth quarter of 2008 primarily due to a decrease of approximately \$2.6 million in sales to convenience stores partially offset by continued organic growth of its sales to grocery format retailers.

Foodservice's revenue for 2009 increased by \$16.1 million or 7.0% as compared to 2008. Acquisitions made part way through 2008 and in 2009 (see *Liquidity and Capital Resources – Corporate Investments*) accounted for approximately \$29.2 million of the increase and organic growth of its WorldSource food brokerage business for another \$6.7 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. To a lesser extent, lower average selling prices resulting from food cost deflation also partially offset Foodservice's sales increases from acquisitions and WorldSource.

Foodservice's revenue for the fourth quarter of 2009 decreased by \$3.8 million or 6.3% as compared to the fourth quarter of 2009 due to decreased sales to hotels and restaurants and, to a lesser extent, lower average selling prices resulting from food cost deflation. These decreases were partially offset by organic growth of its WorldSource food brokerage business of approximately \$1.4 million and acquisitions, which also resulted in approximately \$1.3 million in incremental sales.

Gross Profit

(in thousands of dollars except percentages)

	13 weeks ended Dec 26, 2009	% (1)	13 weeks ended Dec 31, 2008	% (1)	52 weeks ended Dec 26, 2009	% (1)	Year ended Dec 31, 2008	% (1)
Gross profit by segment:								
Retail	17,258	31.7%	17,259	30.7%	71,445	32.8%	69,635	31.6%
Foodservice	12,064	21.2%	13,232	21.8%	50,166	20.5%	50,675	22.1%
Consolidated	29,322	26.4%	30,491	26.1%	121,611	26.3%	120,310	26.8%

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

Retail's gross profit as a percentage of its revenue (gross margin) for 2009 as compared to 2008 increased by 1.2 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.

The change in Retail's gross margin for the fourth quarter of 2009 as compared to the fourth quarter of 2008 reflects the same trends that impacted its gross margin for 2009 as compared to 2008.

Foodservice's gross margin for 2009 as compared to 2008 decreased by 1.6 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 (see *Results of Operations – Revenue*). Excluding the impact of the WorldSource and B&C businesses, Foodservice's gross margin for 2009 as compared to 2008 was approximately 0.4 percentage points higher.

Foodservice's gross margin for the fourth quarter of 2009 as compared to the fourth quarter of 2008 decreased by 0.6 percentage points primarily due to changes in its sales mix as discussed above.

Selling, General and Administrative Expenses (SG&A)

(in thousands of dollars except percentages)

	13 weeks ended Dec 26, 2009	% (1)	13 weeks ended Dec 31, 2008	% (1)	52 weeks ended Dec 26, 2009	% (1)	Year ended Dec 31, 2008	% (1)
SG&A by segment:								
Retail	9,595	17.6%	10,461	18.6%	40,946	18.8%	41,862	19.0%
Foodservice	8,513	15.0%	9,377	15.5%	35,050	14.3%	33,169	14.5%
Corporate	1,528		1,050		4,888		4,653	
Consolidated	19,636	17.7%	20,888	17.9%	80,884	17.5%	79,684	17.7%

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

Retail's selling, general and administrative expenses (SG&A) for 2009 as compared to 2008 decreased by \$0.9 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. These factors were partially offset by higher promotional spending in the grocery sales channel earlier in the year.

Retail's SG&A for the fourth quarter of 2009 as compared to the fourth quarter of 2008 also decreased by \$0.9 million for the same reasons that its SG&A for 2009 as compared to 2008 decreased, however, in the fourth quarter of 2009 there was no increase in promotional spending partially offsetting these decreases.

Foodservice's SG&A for 2009 as compared to 2008 increased by \$1.9 million due primarily to business acquisitions partially offset by lower variable selling expenses resulting from its lower sales to hotels and restaurants; and lower employee incentive payments due to a smaller increase in the Company's free cash flow in 2009 relative to the increase in 2008.

Foodservice's SG&A for the fourth quarter of 2009 as compared to the fourth quarter of 2008 decreased by \$0.9 million due primarily to lower variable selling expenses and employee incentive payments as discussed above.

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 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 income taxes and non-controlling interest:

<i>(in thousands of dollars)</i>	13 weeks ended Dec 26, 2009	13 weeks ended Dec 31, 2008	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008
Earnings before income taxes and non-controlling interest	3,549	3,584	18,705	22,351
Depreciation of capital assets ⁽¹⁾	1,869	2,375	8,301	7,927
Interest and other financing costs ⁽²⁾	2,323	1,652	7,071	7,293
Amortization of intangible and other assets ⁽¹⁾	660	752	2,558	2,405
Amortization of financing costs ⁽¹⁾	88	54	244	199
Accretion of puttable interest in subsidiaries ⁽³⁾	200	250	200	650
Unrealized loss (gain) on foreign currency contracts ⁽⁴⁾	(66)	(51)	818	(1,186)
Equity loss in significantly influenced company ⁽⁵⁾	115	-	492	-
Conversion costs ⁽⁶⁾	108	-	1,498	-
Operation shut down costs	840	-	840	-
Product recall insurance claim	-	987	-	987
Adjusted EBITDA	9,686	9,603	40,727	40,626

- (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 controlled 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 not a normal operating cost.

<i>(in thousands of dollars except percentages)</i>	13 weeks ended Dec 26, 2009	% (1)	13 weeks ended Dec 31, 2008	% (1)	52 weeks ended Dec 26, 2009	% (1)	Year ended Dec 31, 2008	% (1)
Adjusted EBITDA by segment:								
Retail	7,663	14.1%	6,798	12.1%	30,503	14.0%	27,773	12.6%
Foodservice	3,551	6.3%	3,855	6.4%	15,116	6.2%	17,507	7.6%
Corporate	(1,528)		(1,050)		(4,892)		(4,654)	
Consolidated	9,686	8.7%	9,603	8.2%	40,727	8.8%	40,626	9.0%

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

The Company's adjusted EBITDA for 2009 as compared to 2008, and for the fourth quarter of 2009 as compared to the fourth quarter of 2008, improved despite the challenging economic environment that it faced in 2009 (see *Results of Operations – Revenue*) primarily due to:

- Disciplined product pricing strategies that enabled the Company to benefit from decreases in a range of commodity input costs;
- The diversification of the Company's selling channels which enabled it to benefit from growth in the grocery sales channel while the foodservice and convenience store markets were contracting;
- The strong performance of its relatively new WorldSource food brokerage initiative;
- The successful implementation of the Company's business acquisition strategies; and
- The ongoing improvement in the efficiency of its manufacturing operations.

Excluding \$0.4 million in 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 adjusted EBITDA for 2009 was \$41.1 million.

Depreciation and Amortization

(in thousands of dollars)

	13 weeks ended Dec 26, 2009	13 weeks ended Dec 31, 2008	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008
Depreciation and amortization of intangible and other assets by segment:				
Retail	1,452	1,940	6,605	6,581
Foodservice	902	983	3,558	2,952
Corporate	175	204	696	799
Consolidated	2,529	3,127	10,859	10,332

The decrease in Retail's combined depreciation and amortization in the fourth quarter of 2009 as compared to the fourth quarter of 2008 was primarily due to the reversal of \$0.4 million of excess depreciation recorded by Retail in the first three quarters of 2009.

The increase in Foodservice's combined depreciation and amortization for 2009 as compared to 2008 was due primarily to a business acquisition made in mid-2008.

Interest

Interest and other financing costs for 2009 as compared to 2008 decreased by \$0.2 million despite the Company's higher total 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.

Gains / Losses on Foreign Currency Contracts

In 2009 the Company recognized a \$0.8 million loss (fourth quarter – \$0.1 million gain) 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 hold these contracts for speculative purposes nor does it intend to liquidate them, but rather uses the contracts to stabilize the cost of its U.S. dollar denominated purchases and, in turn, its selling margins.

In 2008 the change in the fair market value of the Company's foreign currency contracts resulted in a gain of \$1.2 million (fourth quarter – \$0.1 million gain).

Conversion Costs

In 2009 the Company expensed \$1.5 million in costs associated with the Conversion (see *Conversion to a Corporation*).

Operation Shutdown Costs

In 2009 the Company incurred \$0.8 million of costs associated with the following initiatives:

- In October 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*). \$0.7 million of costs associated with the shutdown of the Edmonton plant were expensed in 2009; and

- In November 2009 the Company resolved the last remaining dispute relating to its shutdown of a retail franchise business in 2006. \$0.1 million of costs associated with the settlement were expensed in 2009.

Product Recall Insurance Claim

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

As a result of the recall, the Company destroyed approximately \$0.4 million in products, incurred \$0.4 million in disposal costs and lost approximately \$0.3 million in product contribution margin due to lost sales. The Company believes it should recover these costs, less \$0.1 million for its deductible, under its product recall insurance policy. It did, however, expense in 2008 its insurance claim receivable due to its insurance provider attempting to deny coverage on the basis that none of the recalled products tested positive for *Listeria monocytogenes*.

The Company has been advised by legal counsel that its insurance provider's position is most likely not defensible in court and correspondingly, it is pursuing legal action against them. The amount of any insurance recovery will be recognized when determinable.

Income Taxes

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

Scientific research and experimental development tax credits ⁽¹⁾	84,028
Un-depreciated capital costs ⁽¹⁾	52,499
Non-capital losses carried forward ⁽¹⁾	64,376
Cumulative eligible capital ⁽¹⁾	40,444
<u>Investment tax credits ⁽¹⁾</u>	<u>15,435</u>
Total	256,782

(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>	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008
Opening FIT liability (1)	(1,372)	(353)
Adjustments:		
Foreign currency translation adjustment (2)	(325)	143
Change in accounting policy (3)	-	75
Conversion	8,850	(371)
Adjusted opening FIT asset (liability)	7,153	(506)
Closing FIT asset (liability) (1)	7,300	(1,372)
Provision for (recovery of) FIT	(147)	866

(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.

(3) Adjustment is the result of changes in the Company's accounting policies. See *New Accounting Policies – New Accounting Pronouncements Effective 2009*.

As a result of the Conversion (see *Conversion to a Corporation*), the Company was deemed to have acquired certain tax attributes totaling approximately \$160.0 million which resulted in it recording the following amounts in accordance with EIC Abstract 110 "Accounting for Acquired Future Tax Benefits in Certain Purchase Transactions that are not Business Combinations":

<i>(in thousands of dollars)</i>	Current	Long-term	Total
Future income tax asset	1,889	50,295	52,184
Deferred credit	(1,568)	(41,766)	(43,334)
			<u>8,850</u>

The deferred credit will be amortized to income taxes and calculated proportionally to the utilization of the corresponding future income tax assets.

It should be noted that there is considerable uncertainty about whether the tax authorities will accept the deduction of some or any of the tax attributes resulting from the Conversion. Should the deduction of all or a portion of the tax attributes be disallowed, the Company would derecognize the appropriate portion of the future income tax assets, net of the proportionate amount of the deferred credit, as a charge to income.

The increase in the Company's closing FIT asset as at December 26, 2009 as compared to the corresponding adjusted opening FIT asset resulted in a recovery of FIT of \$0.1 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 2010 that had not been recognized previously under its income trust structure.

FOURTH QUARTER FINANCIAL STATEMENTS

The Company's operating results for the fourth quarters of 2009 and 2008 were as follows:

<i>(in thousands of dollars)</i>	13 weeks ended Dec 26, 2009	13 weeks ended Dec 31, 2008
Revenue	111,159	116,735
Gross profit	29,322	30,491
Selling, general and administrative expenses	19,636	20,888
	9,686	9,603
Depreciation of capital assets	1,869	2,375
Interest and other financing costs	2,323	1,652
Amortization of intangible and other assets	660	752
Amortization of financing costs	88	54
Accretion of puttable interest in subsidiaries	200	250
Equity in loss of significantly influenced company	115	-
Conversion costs	108	-
Plant closure costs	840	-
Product recall insurance claim	-	987
Unrealized gain on foreign currency contracts	(66)	(51)
	3,549	3,584
Income tax provision	177	456
Earnings before non-controlling interest	3,372	3,128
Non-controlling interest – net of income taxes	112	(44)
Net earnings	3,260	3,172

See *Results of Operations* for a discussion of the Company's operating results for the fourth quarter of 2009.

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>	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Revenue	94.3	114.9	123.5	116.7	103.9	124.3	123.4	111.2
Adjusted EBITDA	7.0	12.3	11.7	9.6	6.3	11.6	13.1	9.7
Earnings:								
Total	3.4	7.4	7.4	3.2	2.1	6.6	6.9	3.3
Per share (basic and diluted)	0.19	0.43	0.42	0.18	0.12	0.38	0.39	0.19

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 52 weeks ended December 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 Dec 26, 2009	13 weeks ended Dec 31, 2008	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008
Cash flow from operating activities	(1,758)	4,908	26,634	33,898
Changes in non-cash working capital	8,550	2,099	3,867	(1,449)
Funds from operations	6,792	7,007	30,501	32,447

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

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 Dec 26, 2009	As at Dec 31, 2008
Accounts receivable	34,380	35,020
Inventories	45,991	44,088
Prepaid expenses	2,116	2,240
Accounts payable and accrued liabilities	(37,429)	(42,472)
Net Working Capital	45,058	38,876

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*). The cash requirements associated with fluctuations in the Company's net working capital are managed through draws and repayments on its Facility A revolving credit facility (see *Liquidity and Capital Resources – Debt Financing Activities*).

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

At the end of 2009 the Company's net working capital increased by \$6.2 million as compared to its level at the end of 2008 due primarily to a \$5.0 million decrease in accounts payable and accrued liabilities (payables). The Company's lower payables balance in 2009 was largely the result of two factors:

- The timing of payments on a variety of trade payable accounts, which can fluctuate significantly based on the timing of inventory purchases and the date on which payment is processed; and
- Reduced employee incentive plan accruals due to a smaller increase in the Company's free cash flow in 2009 relative to 2008.

Net Working Capital Cash Flows

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

<i>(in thousands of dollars)</i>	13 weeks ended Dec 26, 2009	13 weeks ended Dec 31, 2008	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008
Changes in non-cash working capital	(8,550)	(2,099)	(3,867)	1,449

The additional cash used for non-cash working capital in 2009 as compared to 2008 (\$5.3 million for the year and \$6.5 million for the fourth quarter) was largely due to the decrease in Company's accounts payable and accrued liabilities as discussed above.

Debt Financing Activities

Credit Facilities

At the end 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⁾	32,000	2,411	29,589
Facility B – revolving senior credit ⁽²⁾	40,000	12,000	28,000
Facility C – non-revolving senior credit ⁽³⁾	64,000	64,000	-
Convertible debenture ⁽⁴⁾	36,769	36,769	-
Industrial Development Revenue Bond ⁽⁵⁾	6,424	6,424	-
Cheques outstanding	-	2,470	(2,470)
Cash and cash equivalents	-	(469)	469
Other long-term debt	1,159	1,159	-
	180,352	124,764	55,588

- (1) Facility matures in July 2012, can be used to fund the Company's working capital and general operating needs and has no principal payments due prior to its maturity date.
- (2) Facility matures in July 2012, can be used to fund capital projects and acquisitions, and has quarterly principal payments of \$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) Consists of the debt component of the \$40.3 million in convertible unsecured subordinated debentures issued by the Company in 2009 (discussed below). The debentures mature in December 2014 and have no principal payments prior to that date.
- (5) Credit facility relates to the Company'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.

Debt Activities

During 2009 the Company's debt activities consisted of the following:

- In the first quarter of 2009 the Company drew \$2.5 million on Facility B (see table above) to fund its investment in S.J. Irvine Fine Foods Ltd. (see *Liquidity and Capital Resources – Corporate Investments*);
- In the third quarter of 2009 the Company drew \$10.0 million on a new non-revolving credit facility (Facility D) to fund the costs associated with the Conversion (see *Conversion to a Corporation*);
- As part of its strategies to reduce its senior funded debt to EBITDA ratio, in the fourth quarter of 2009 the Company issued \$40.3 million of convertible unsecured subordinated debentures (the debentures). The debentures bear interest at an annual rate of 7% payable semi-annually and have a maturity date of December 31, 2014. The proceeds of the offering were used as follows: \$24.3 million to reduce the amount outstanding under Facility B (see table above), \$8.7 million to retire Facility D, \$5.0 million to reduce the amount outstanding under Facility A (see table above) and \$2.3 million to fund commission and other transaction costs associated with the debenture offering.

For accounting purposes, the Company has allocated the proceeds of the debentures between debt and equity based on estimated fair values of the debt and conversion option, as determined by the residual valuation of the equity component. Under this approach, the debt component was valued first and the difference between the proceeds of the debentures and the fair value of the debt component was assigned to the conversion option (the equity component). The present value of the debt component was calculated using a discount rate of 9.2%, which was the estimated market interest rate for similar debentures having no conversion rights;

- Over the course of the year the Company made \$2.9 million in scheduled long-term debt principal payments; and
- Also over the course of the year the Company used \$1.1 million to reduce its bank indebtedness (Facility A as shown in the table above). Facility A, combined with the Company's available cash and cash equivalents, is used to manage its daily cash requirements.

As a result of the above activities, the Company used \$23.4 million to reduce its long-term debt, raised \$37.9 million (consisting of \$40.3 in gross proceeds less \$2.3 million for commissions and other transaction costs) from the issuance of the debentures and used \$6.1 million to reduce its bank indebtedness.

Funded Debt

Senior funded debt and total 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 funded debt and total funded debt, used in conjunction with its EBITDA, are useful indicators of its financial strength and ability to access additional debt financing. Senior 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 funded debt and total funded debt:

<i>(in thousands of dollars)</i>	Dec 26, 2009	Dec 31, 2008
Cheques outstanding	2,470	1,354
Bank indebtedness	2,411	9,676
Current portion of long-term debt	8,212	386
Deferred financing costs ⁽¹⁾	666	534
<u>Long-term debt</u>	<u>74,705</u>	<u>107,067</u>
	88,464	119,017
<u>Less cash and cash equivalents</u>	<u>469</u>	<u>1,679</u>
Senior funded debt	87,995	117,338
<u>Subordinated debt</u>	<u>36,769</u>	<u>-</u>
<u>Total funded debt</u>	<u>124,764</u>	<u>117,338</u>

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

Banking Covenants

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

	Covenant Requirement	Dec 26, 2009 Ratio
Senior funded debt to EBITDA ratio ⁽¹⁾	=< 3.00 : 1.0	2.10 : 1.0
Current ratio ⁽²⁾	> 1.30 : 1.0	1.56 : 1.0
Interest coverage ratio ⁽³⁾	> 4.00 : 1.0	5.76 : 1.0

- (1) Covenant is increased by 0.25:1 to a maximum of 3.25:1 for a period of two consecutive quarters in the event of an acquisition. Furthermore, 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. For covenant calculation purposes, senior funded debt excludes cheques outstanding.
- (2) Dividend payable is excluded from the Company's current liabilities in the calculation of the current ratio covenant.
- (3) 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 Company's interest expense for the corresponding rolling four quarter period.

Financial Leverage

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

- 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*); and
- The tax efficiency associated with financing the Company's operations with debt since interest is generally deductible in the calculation of taxable income.

As at the end of 2009 the Company's senior funded debt to EBITDA ratio of 2.1:1 was below its long term targeted range due to its recent offering of convertible debentures. The Company's total funded debt to EBITDA ratio of 3.1:1 at the end of 2009 was also below its targeted range.

The Company intends (see *Forward-Looking Statements*) to use a significant portion of its excess financial leverage capacity to fund future acquisitions and capital projects.

Dividends

Free Cash Flow

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>	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008
Cash flow from operating activities	26,634	33,897
Changes in non-cash working capital ⁽¹⁾	3,867	(1,449)
Capital maintenance expenditures ⁽²⁾	(2,026)	(2,600)
Free cash flow	28,475	29,848

(1) Cash used for increases in the Company's non-cash working capital is funded through draws on its Facility A revolving credit facility (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 facility. 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*).

Dividend Policy

The Company considers a variety of factors in setting its dividend policy including the following:

- As discussed above, the ratio of its dividends to its free cash flow on a rolling four quarter basis;
- 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.

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 unit 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.

Dividend History

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/ Dividend Per Share
Rolling four quarters ended:					
Dec 26, 2009	20,687	(2)	28,475	72.6%	\$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 of the period and dividends for the last quarter of the period.

(3) Consisted of six monthly distributions of \$0.098 per unit plus two quarterly dividends of \$0.294 per share.

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

Capital Expenditures

Expenditure Classification

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.

2009 Changes in Capital Assets

The following table shows the changes in the Company's capital assets during 2009:

(in thousands of dollars)		52 weeks ended Dec 26, 2009
Opening capital assets at December 31, 2008		69,833
Depreciation		(8,301)
Foreign currency translation adjustment (1)		(1,043)
Acquisitions		-
Asset sales		(202)
Capital expenditures:		
Project		3,716
Maintenance		2,026
Closing capital assets		66,029

(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 2009 the Company used \$3.7 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 2009 decreased to \$2.0 million as compared to \$2.6 million for 2008 due a variety of factors including the deferral of certain discretionary projects in response to the challenging economic environment faced by the Company in 2009 (see *Results of Operations – Revenue*).

Historic Capital Maintenance Expenditures

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

(in thousands of dollars)		Total
Rolling four quarters ended:		
December 26, 2009		2,026
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, are a core part of the Company's 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 2009 the Company used \$13.4 million for corporate investments consisting of the following:

- In 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 in 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 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; and
- In the third quarter of 2009 the Company invested \$8.9 million in the Conversion (see *Conversion to a Corporation*);
- In the fourth quarter of 2009 the Company provided Irvine with an additional \$0.2 million resulting in a corresponding increase in the promissory note.

Goodwill and Intangible Assets

Primarily all of the Company's intangible assets and goodwill are the result of business acquisitions.

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

<i>(in thousands of dollars)</i>	52 weeks ended Dec 26, 2009
Opening intangible assets and goodwill at December 31, 2008	151,832
Amortization of intangible assets	(2,509)
Foreign currency translation adjustment ⁽¹⁾	(530)
Additions:	
Goodwill resulting from the acquisition of MNF	40
Closing intangible assets and goodwill	148,833

- (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

Due to the current uncertain economic environment in western Canada, the Company is currently not providing guidance on its expected organic growth and profitability for 2010. It 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 (see *Forward-Looking Statements*).

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 December 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	83,494	8,155	4,577	64,038	300	-	6,424
Capital leases	89	57	29	3	-	-	-
Convertible debentures	40,250	-	-	-	-	40,250	-
Operating leases	36,290	4,906	5,876	4,825	3,779	3,037	13,867
Total	160,123	13,118	10,482	68,866	4,079	43,287	20,291

TRANSACTIONS WITH RELATED PARTIES

During 2009 the Company entered into the following transactions with related parties:

- Pursuant to a ten year real property lease ending in August, 2018, the Company made \$0.4 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 \$0.2 million from various employees, including its President and Chief Executive Officer, George Paleologou, and its Chief Financial Officer, Will Kalutycz.

SUBSEQUENT TRANSACTIONS

In January 2010, the Company completed the acquisition of 100% of the shares of South Seas Meats Ltd. (South Seas) for approximately \$2.1 million. The purchase price consisted of cash of \$1.5 million, a non-interest bearing promissory note for \$0.4 million and the issuance of 14,618 of the Company's common shares from treasury. South Seas is a distributor of specialty meats, including a wide range of Halal and other ethnic foods, to restaurants, hotels and specialty butcher shops in the Greater Vancouver area.

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 March 17, 2010, 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. Assumptions used by the Company are based on information currently available to it, including information obtained from third party sources, and include those outlined below. Readers are cautioned that this list of assumptions is not exhaustive.

- Current economic conditions in western Canada 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;
- The Company will be 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 businesses compete;
- There will be no major changes to western Canada's historic weather patterns for the next several years;
- The Company will be able to negotiate new collective agreements with no labour disruptions;
- The Company will be able to continue accessing sufficient qualified staff;
- The Company will be able to continue to access reasonably priced debt and equity capital;
- The Company's average interest cost on floating rate debt will increase modestly in 2010;
- 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 March 17, 2010 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 its businesses that may have adverse effects on its results of operations and financial position. Some of these risks and uncertainties are outlined below. Prospective investors should carefully review and evaluate the following risk factors together with all of the other information contained in this MD&A. The risk factors described below are not the only risk factors facing the Company and it may be subject to risks and uncertainties not described below that it is not presently aware of or that the Company may currently deem insignificant (see *Forward Looking Statements*).

Seasonality and Weather Risk

The Company's business is seasonal and weather dependent due to poor weather generally resulting in: (i) reduced consumer travel and a corresponding decrease in consumer demand for the Company's products (including meat snacks, sandwiches and pastries) that are sold through retailers such as

convenience stores and gas bars; and (ii) reduced consumer outdoor activities, such as barbequing and visiting outdoor attractions, which also often results in decreased consumer demand for the Company's products, including premium processed meats and concession products. As a result, poor weather conditions, particularly in the spring and summer, could have a material adverse effect on the Company's sales and in turn its results of operations and financial condition.

Consumer Discretionary Spending Risk

The Company's business can be impacted by changes in consumer discretionary spending resulting from actual or consumers' perceived changes in the condition of a regional and/or the national economy. The Company's foodservice and convenience related businesses, in particular, are sensitive to this factor since reduced consumer discretionary spending generally results in a decrease in the frequency and amount spent for food prepared away from home and on convenience related items. As a result, actual or consumers' perceived changes in regional and/or the national economy could negatively impact the Company's sales and/or margins and in turn have a material adverse effect on its results of operations and financial condition.

The Company's customer diversification strategies, which include the development of customers in both the retail and foodservice channels of the food industry, help to mitigate this risk as a decline in sales in one channel often results in an increase in sales in the other channel.

Commodity Risk

The Company's results of operations and financial condition are dependent upon the cost and supply of various commodity inputs, including beef, pork, poultry, flour, corrugated packing materials, dairy products and fuel, all of which are determined by relatively volatile market forces of supply and demand over which the Company has limited or no control. The market cost of many of these commodities is highly cyclical, being characterized by periods of supply and demand imbalance and sensitivity to changes in industry capacity. If there is a sudden or severe increase in the price of such raw materials and the Company is not able to pass those additional costs onto its customers through increased selling prices, this could have a material adverse effect on its margins and in turn its results of operations and financial condition. See the Company's Annual Information Form, which is filed electronically through SEDAR and is available online at www.sedar.com, for a summary of the types and amounts of raw material commodities purchased by the Company.

The Company's product diversification strategy, which reduces its exposure to any single commodity, combined with its focus on differentiated products and services, and niche markets that are less price sensitive, help to mitigate this risk.

Conversion Risk

The Company is subject to certain 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 Company 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 operations of the Company.
- ***Due Diligence Risks.*** Although the Company 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 Company 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 Company 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 operations of the Company.
- **Reliance on the Indemnity, Insurance and the Letter of Credit.** The Company 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 operations 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 expects to have approximately \$260 million in federal tax pools, including scientific research and experimental development expenditures, non-capital loss-carryforwards and investment tax credits post the Conversion. 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 a material impact on current and future taxes payable by the Company and, in turn, on the Company's ability to maintain its current dividend rate (see *Liquidity and Capital Resources – Dividends*).

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.

Sales and Margin Risk

The Company's profitability depends on its ability to maintain its sales and profit margins. If the Company's cost of products sold increases, including through increased prices from suppliers for products distributed by the Company or increases in commodity prices for materials used by the Company in the manufacturing of its products, or through operating cost increases, its sales and/or margins, or both, could be adversely affected.

In addition, the competitive market in which the Company conducts its business may require it to reduce the prices it charges. If competitors offer discounts on certain products or services in an effort to capture or gain market share or to sell other products, the Company may be required to lower its prices or offer other favourable terms to compete successfully. Any such changes could reduce the Company's sales and/or margins and in turn have a material adverse effect on its results of operations and financial condition.

Product Liability Risk

The Company, like other food manufacturers, is subject to potential liabilities and expenses associated with product defects. The Company's products require a high degree of quality control to ensure their safety for consumption by consumers. Furthermore, a significant portion of the Company's products must be kept refrigerated prior to consumption. Improper production, handling or storage of these products could result in the development of bacteria in the product that may cause food-borne illness.

The Company maintains product liability and other insurance coverage that it believes to be in accordance with industry practices. Nevertheless, such insurance coverage may not be adequate to fully protect the Company against substantial damage claims which may arise from product defects. In addition, even if a claim is unsuccessful, the negative publicity associated with the claim could be harmful to the Company's reputation. A recall or claim against the Company due to product defects caused by contamination, product tampering, mislabeling or damage to the Company's products could have a material adverse effect on its results of operations and financial condition.

Consumer Preference Risk

The Company's business is dependent, in part, upon stable, continued consumer interest in its products. While the Company believes it is well positioned to benefit from factors such as the trends towards healthier eating, convenience and snacking and demand for premium and gourmet food products, there is no assurance that these trends will continue in the future or that contrary trends will not emerge. If consumer preferences change, the Company's success will depend upon its ability to respond to these changes and its failure to anticipate, identify or react to them could result in declining demand for the Company's products, which in turn could cause a material adverse effect on the Company's results of operations and financial condition.

In addition, part of the Company's growth strategy, as well as its strategy for dealing with changes in consumer preference, is based on the development of new and innovative products. There can be no assurance that consumers will accept any such new products or that the Company will be able to attain sufficient market share for those products. Any such failure on the Company's part to sustain demand for its products or to attain sufficient market share for new products could also have a material adverse effect on its results of operations and financial condition.

Competition Risk

The Company competes with many local, regional and national food manufacturers and distributors and its competition varies by distribution channel, product category and geographic market. Certain of the Company's competitors have greater financial and other resources than those of the Company or may have access to labour or products that are not available to the Company. In addition, the Company's competitors may be able to withstand market volatility better than the Company. There can be no assurance that the Company's principal competitors will not be successful in capturing, or that new competitors will not emerge and capture, a share of the Company's present or potential customer base.

In addition, it is possible that some of the Company's suppliers or customers could become competitors of the Company if they decide to distribute their own food products. Furthermore, if one or more of the Company's competitors were to merge or partner with another of its competitors, the change in the competitive landscape could adversely affect the Company's ability to compete effectively. Competitors may also establish or strengthen relationships with parties with whom the Company has relationships, thereby limiting its ability to distribute certain products. Disruptions in the Company's business caused by these events could have a material adverse effect on its results of operations and financial condition.

Growth and Acquisition Risk

A key component of the Company's strategy is to continue to grow by increasing sales and earnings in existing markets with existing products; by expanding into new markets and products; and through accretive acquisitions. There can be no assurance that the Company will be successful in growing its business or in managing its growth. Expansion may place a significant strain on the Company's senior management team and other key personnel as well as its business processes, operations and other resources. The Company's ability to manage growth will also depend in part on its ability to continue to enhance its management information systems in a timely fashion, particularly if customer demands change in ways that the Company does not anticipate. Any inability to manage growth could result in delivery delays and cancellation of customer orders.

Acquisitions and business combinations involve inherent risks relating to such matters as assumption of transaction costs, risk of non-completion, undisclosed liabilities, integration and successful management of growth. While the Company conducts due diligence and takes steps to ensure successful integration, factors beyond the Company's control could influence the results of acquisitions. Furthermore, the process of integrating an acquired business into the Company's operations may result in operating difficulties and expenditures, may absorb significant management attention that would otherwise be available for the ongoing development of the Company's business or may cause disruptions to the ongoing business and result in unanticipated expenses, events or circumstances and possibly changes to operating results. In addition, the Company may be unable to identify and acquire appropriate businesses.

Any of the above factors could have a material adverse effect on the Company's results of operations and financial condition.

Availability of Capital Risk

The Company's growth strategies, including its acquisition initiatives, as well as its ongoing operations are dependent on being able to access debt and equity financing at a reasonable cost. A number of factors can impact the Company's ability and the associated cost to finance its activities, including general market conditions, investor sentiment, credit availability and the Company's operating performance.

If the Company is unable to source financing as needed or to the extent that the Company is able to access sufficient capital but the cost of such capital is significantly higher than its current cost, its ability to execute its business strategies could be impaired which, in turn, could have a material adverse effect on the Company's results of operations and financial condition.

Food Manufacturing Risks

The Company's food manufacturing operations are subject to federal, state, provincial and local manufacturing controls and may be impacted by consumer product liability claims, product tampering, and the possible unavailability and/or expense of liability and/or product recall insurance. A determination by applicable regulatory authorities that any of the Company's plants are not in compliance with any such controls in any material respect may have a material adverse effect on the its financial condition and results of operations. In addition, negative publicity, significant decreases in demand or increased costs associated with any of these circumstances may have a material adverse effect on the Company's results of operations and financial condition.

The operation of the Company's facilities is dependent on the continued operation of certain critical equipment, such as refrigerators, freezers and processing equipment, and this equipment may incur downtime as a result of unanticipated failures. The Company may in the future experience plant shutdowns, periods of reduced production or unexpected interruptions in production capabilities as a result of such equipment failures, which could have a material adverse effect on its results of operations and financial condition.

The Company mitigates its exposure to manufacturing risks through a combination of maintaining strict and rigorous controls and processes in its manufacturing facilities, including regular equipment maintenance, and prudent levels of insurance.

Customer Risk

Although the Company distributes food products to approximately 25,000 customers, its large format retail customers, including Costco, Federated Coop, Safeway, Sobey's and Overwaitea Food Group currently account for approximately 17% of its total sales. Furthermore, as is customary in the food industry, the Company does not have long-term contracts with any of its major customers. The loss of any of the Company's major customers could have a material adverse effect upon its results of operations and financial condition.

Potential Labour Risks

Approximately 29% of the Company's non-management employees are represented by labour unions or employee associations. In addition, the Company cannot predict with certainty which, if any, groups of employees that are not currently represented by a trade union or employee association may seek such representation in the future. Any labour disruption could result in a material adverse effect on the Company's results of operations and financial condition.

In addition, several of the Company's significant customers and suppliers employ workers who are represented by labour unions which, from time to time, may engage in labour disruptions. Any such labour disruptions could have a material adverse effect on the Company's results of operations and financial condition.

Furthermore, the continued efficient operation and growth of the Company's business is dependent on hiring and retaining sufficient skilled and unskilled production and distribution labour, which if the Company is unable to do could have a material adverse effect on its results of operations and financial condition.

Dependence on Key Personnel

The Company is dependent on the continued services of its senior management team and its ability to retain and/or hire other highly qualified personnel. The loss of key personnel and/or the inability to attract and assimilate qualified personnel in the future could have a material adverse effect on the Company's financial condition and results of operations.

Credit Risks

Like most businesses in the food industry, the Company extends credit to its customers, which is generally unsecured. Although the Company has a system of credit management in place which includes credit limits and close monitoring of payment, there is a risk that some of the Company's customers may not be able to meet their obligations when they become due. The loss of a large receivable could have a material adverse effect on the Company's results of operations and financial condition.

Financial Risks

The Company is exposed to interest rate fluctuations under its bank operating and term debt facilities. The Company is also exposed to foreign exchange fluctuations on revenues earned in U.S. dollars or products purchased in U.S. dollars. Where appropriate, these exposures are managed through interest rate swaps and foreign currency contracts. There can be no assurance that the Company will be able, in the future, to adequately manage these exposures and, if the Company is unable to do so, any change in interest rates or exchange rates could have a material adverse effect on the Company's results of operations and financial condition.

Livestock Risk

The Company is susceptible to risks related to the health status of livestock. Livestock health problems could adversely affect both the supply of raw materials to the Company's production facilities as well as consumer confidence in the Company's products. As a result, any outbreak of animal disease could have a material adverse effect on the Company's results of operations and financial condition.

International Trade Risks

The Company imports products from and, to a lesser extent, exports products to other countries and as such can be adversely affected by international events that affect the price of food commodities or the free flow of food products between countries. In addition, the Company can be adversely affected if such events affect the supply/demand balance in the marketplace and result in increased prices for raw materials being purchased by the Company for use in its products. An example of such an event was the discovery of bovine spongiform encephalopathy, also known as BSE, in Canada in 2003 and the resulting refusal by several countries to allow imports of Canadian food products containing ruminant animal products and/or by-products. This refusal adversely affected North American prices for beef and, due to substitution of pork as a raw material in place of beef, the price of pork increased. The occurrence of similar events in the future could have a material adverse effect on the Company's financial condition and results of operations.

Governmental Regulation Risks

The Company is subject to extensive laws, rules, regulations and policies with respect to the production, processing, preparation, packaging and labeling of its internally produced food products. Such laws, rules, regulations and policies are administered by various federal, state, provincial, regional and local health agencies and other governmental authorities, including, without limitation, Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency, the United States Department of Agriculture and the United States Food and Drug Administration.

Although the Company maintains strict and rigorous controls and processes in its manufacturing facilities; and strives to maintain material compliance with all applicable laws and regulations and maintain all material permits and licences relating to its operations, there can be no assurance that it is in compliance with all such laws and regulations or that it will be able to comply with all applicable laws and regulations which may be enacted in the future. Failure by the Company to comply with applicable laws and regulations could subject it to civil remedies, including fines, injunctions, recalls or seizures as well as potential criminal sanctions, any of which could have a material adverse effect on the Company's results of operations and financial condition.

Environmental, Health and Safety Regulation Risks

The Company's operations have been and are subject to extensive and increasingly stringent federal, state, provincial, regional and local laws and regulations pertaining to environmental, health and safety matters, including the discharge of materials into the environment and the handling and disposition of waste material resulting from the production, processing and preparation of foods (including solid and hazardous wastes) or otherwise relating to the protection of the environment. Compliance with these laws and regulations (including any future amendments thereto) or more stringent enforcement of such laws and regulations could have a material adverse effect on the Company's financial condition and results of operations.

No assurance can be given that additional environmental, health and safety issues relating to presently known matters or identified sites, or to other matters or sites, will not require currently unanticipated investigation, assessment or expenditures. Future discovery of previously unknown contamination of property underlying, or in the vicinity of, the Company's present or former properties or manufacturing facilities could require the Company to incur material unforeseen expenses. The occurrence of any such events could have a material adverse effect on its financial condition and results of operations.

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.

Goodwill and intangible assets. 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 judgments 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 judgment is required in estimating the future cash flows to be used under this valuation method.

Convertible unsecured subordinate debentures. The valuation of the debt and equity components of the convertible unsecured subordinate debentures requires a significant amount of judgment including the determination of a reasonable fair market rate for the debt component.

NEW ACCOUNTING POLICIES

New Accounting Pronouncements Effective 2009

Effective January 1, 2009 the Company adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064 "Goodwill and Intangible Assets" which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, Emerging Issues Committee (EIC) Abstract 27 "Revenues and Expenditures During the Pre-operating Period" was withdrawn. Accordingly, effective January 1, 2009 all pre-production and start-up costs are expensed as incurred.

This change in accounting policy was adopted with retroactive restatement of prior periods. See Note 2 of the Company's audited Consolidated Financial Statements for the 52 weeks ended December 26, 2009 for details on the impact that this change in accounting policy had on the Company's historic financial statement disclosures and results of operations.

Recent Accounting Pronouncements

In January 2009, the CICA issued Handbook Section 1582 “Business Combinations”, Section 1601 “Consolidations” and Section 1602 “Non-controlling Interests”. These sections replace Section 1581 “Business Combinations” and Section 1600 “Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary.

Section 1582 which provides the Canadian equivalent to IFRS 3 “Business Combinations” establishes standards for the accounting for a business combination and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 which provides the Canadian equivalent to IFRS International Accounting Standard 27 “Consolidated and Separate Financial Statements” establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination.

Sections 1582, 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and must all be adopted concurrently.

The Company is currently evaluating the impact of the adoption of these sections.

International Financial Reporting Standards (IFRS)

In February 2008 the Canadian Accounting Standards Board confirmed that IFRS and International Accounting Standards (IAS) will replace Canada’s current GAAP for publicly accountable profit-oriented enterprises. The effective date of transition (the transition) is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and will require the restatement, for comparative purposes, of its prior fiscal year.

The Company’s IFRS implementation project consists of two elements. The first, which the Company has substantially completed, consisted of determining the differences between the Company’s current accounting policies and the requirements under IFRS, identifying the impact of the options, if any, under IFRS on the Company’s accounting and business processes, selecting the appropriate policy and disclosure options, if any, under IFRS and preparing a detailed implementation plan.

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

Quantification of the potential IFRS differences is currently being undertaken as well as a drafting of the pro-forma financial statement formats and notes thereto that will be required under IFRS. Work completed so far indicates that adjustments will likely occur in the areas outlined below, however, since all potential changes to IFRS effective before December 31, 2011 are not yet known, this list should be considered as preliminary.

First Time Adoption of IFRS (IFRS 1)

IFRS 1 provides a framework to first time adoption of IFRS and details how entities should apply IFRS retrospectively. In addition IFRS 1 lists a number of optional exemptions from the historical application of IFRS as well as mandatory exemptions for historical application of certain requirements. The Company has elected to apply the following optional exemptions:

- To not restate past business combinations;

- To reset its foreign currency translation account to nil;
- To recognize all unamortized actuarial gains and losses relating to defined benefit plans in retained earnings;
- To apply IFRS 2 only to grants made after November 7, 2002 and not vested by the transition date; and
- To use historic fair value under Canadian GAAP as the deemed cost on transition for certain items including property, plant and equipment.

Further optional exemptions provided under IFRS 1 do not appear to be applicable to the Company at this time.

Share Based Payments (IFRS 2)

The Company's Restricted Share Plan (RSP) and Employee Benefit Plan (EBP) fall within the scope of IFRS 2. The Company currently recognizes the expense associated with the RSP using the intrinsic value method and the expense associated with the EBP using the straight line method over the vesting period of the particular grant. Under IFRS 2 the Company will be required to recognize the expense associated with the RSP using the fair value method and expense associated with the EBP using the graded attribution method.

Business Combinations (IFRS 3R)

The Company has elected to apply an IFRS 1 exemption that allows it to not restate business combinations that occurred prior to the date of adoption of IFRS. Correspondingly, the Company does not anticipate IFRS 3R to have an impact on its transition to IFRS.

Following transition, the Company will be required to apply IFRS 3R to any business combination that occurs subsequent to the transition or, on a retroactive basis, during the comparative period. A number of differences exist between IFRS 3R and Canadian GAAP and any future business combination may be affected by these differences. Such differences include the expensing of acquisition related costs under IFRS, the option to measure any non-controlling interest at fair value, treating changes in shareholdings that do not change control as equity transactions and recording contingent consideration at fair value with changes in its value being recognized in the income statement rather than as an adjustment to goodwill.

At this stage the Company cannot prospectively determine which of these differences may be applicable or what their impact will be on its financial statements.

Employee Benefits (IAS 19)

Under Canadian GAAP past service costs associated with defined benefit plans are generally amortized on a straight line basis over the expected average remaining service period of active employees in the plan. Canadian GAAP also allows actuarial gains and losses to be amortized over the life of the plan in accordance with the corridor method.

IAS 19 requires past service costs associated with defined benefit plans to be expensed on an accelerated basis with vested past service costs to be expensed immediately and unvested past service costs to be expensed on a straight line basis until the benefits become vested. In addition, IAS 19 allows for actuarial gains and losses to be recognized immediately within equity rather than the income statement.

The Company anticipates that it will apply the immediate recognition of actuarial gains and losses approach allowed under IAS 19.

Impairment of Assets (IAS 36)

Under Canadian GAAP impairment testing involves two steps, the first of which compares the asset carrying values with undiscounted future cash flows to determine whether an impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying values are written down to fair value.

IAS 36, uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may result in more frequent write-downs where carrying values of assets were previously accepted under GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. IAS 36 also allows, if warranted, for the carrying value of assets that have previously been written down to be increased up to a maximum of their originally recorded value.

The Company has analyzed its operations and determined the cash generating units to be used for the purpose of impairment testing. In addition, it has developed the models that will be used for impairment testing as required at the date of transition to IFRS.

Other Considerations

In general terms, the disclosure requirements of IFRS are more extensive and detailed than those under Canadian GAAP. As a result, the Company anticipates additional disclosure requirements under IFRS as compared to what has been required under Canadian GAAP.

The Company has an executive bonus incentive plan that is largely based on growth in its free cash flow. Base thresholds used in this plan, which are determined on an annual basis, will be amended for the year commencing 2011 when the full impact of IFRS is known.

IFRS training for relevant financial staff is ongoing while targeted programs for operational staff will be developed once the transition to IFRS is underway. In addition, the Investor Relations section of the Company's website will be updated once the impacts of the transition to IFRS are better understood which will most likely be sometime in late 2010 or early 2011.

Based upon the work completed to date, and on the fact that all potential changes resulting from the adoption of IFRS that will be effective as at January 1, 2011 are not yet known, the Company cannot reasonably determine the full impact that the adoption of IFRS will have on its financial position and future results.

FINANCIAL INSTRUMENTS

Foreign Currency Contracts

The Company has exposure to U.S. dollar currency exchange risk due to annual net U.S. dollar inventory purchases of approximately US\$30.0 million. In order to help stabilize the cost of its U.S. dollar denominated purchases, the Company, from time to time, enters into foreign currency contracts.

The Company does not hold foreign currency contracts for speculative purposes.

As of December 26, 2009, the Company had outstanding foreign currency contracts for the purchase of US\$7.1 million over the next 12 months at a blended rate of CA\$1.0591. Based on these outstanding contracts, a change of \$0.01 in the value of the Canadian dollar relative to the U.S. dollar would result in an unrealized gain (if the Canadian dollar weakens) or an unrealized loss (if the Canadian dollar strengthens) of approximately \$0.1 million in the Company's consolidated statement of operations.

Interest Rate SWAP Contracts

The Company manages some of its interest rate exposure by entering into interest rate swap contracts.

During 2007, the Company entered into an interest swap contract fixing the rate of interest on \$32.0 million of its long-term debt for the three-year period ending July 6, 2010 at an effective rate of 5.05% plus 1.0% to 2.75%, based on the Company's ratio of debt to cash flow calculated quarterly. As at December 26, 2009, a change of 0.25 percentage points in the effective variable interest rate would result in a gain (if interest rates increase) or loss (if interest rates decrease) of approximately \$0.1 million in the Company's consolidated statement of comprehensive earnings.

OTHER

Outstanding Shares

The shares outstanding in Company as of March 17, 2010 were 17,632,178 after the issuance of 14,618 shares in January 2010 in conjunction with the Company's acquisition of South Seas (see *Proposed and Subsequent Transactions*).

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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 December 26, 2009 and has concluded that such procedures are adequately designed and effective 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 at December 26, 2009 and has concluded that the design of the Company's ICFR, and the effectiveness of such design, 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 December 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 March 17, 2010. 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 March 17, 2010, has been approved by the Company's Board of Directors.

Additional Information

Additional information, including the Company'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.