



PREMIUM BRANDS HOLDINGS CORPORATION

Management's Discussion and Analysis

For the 14 Weeks and 53 Weeks Ended December 31, 2016

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) and is current to March 15, 2017. It should be read in conjunction with the Company's fiscal 2016 audited consolidated financial statements and the notes thereto, which are prepared in accordance with International Financial Reporting Standards (IFRS). These documents, as well as additional information on the Company, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

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

BUSINESS OVERVIEW

Premium Brands is an investment platform focused on acquiring and building food businesses in partnership with talented entrepreneurial management teams. Its current holdings consist primarily of:

- **Manufacturers of specialty food products ("specialty food businesses") with strong proprietary brands and/or leading niche market positions.**

The Company considers the key characteristics of a specialty food business to be: (i) a consumer's decision to purchase the business' products is based primarily on factors other than price, such as quality, convenience, health and/or lifestyle; and / or (ii) the business caters to smaller more niche oriented markets. As a result of these characteristics, specialty food businesses generally earn higher and more consistent selling margins, relative to other types of food manufacturing companies, and avoid competing with large national and international food companies.

- **Differentiated food distribution and wholesale businesses ("premium food distribution businesses").**

The Company considers the key characteristic of a premium food distribution business to be that the business offers its customers specialized and/or unique products and services in

addition to logistical solutions. This enables it to generate higher and more consistent selling margins relative to the large national and international food distributors that are primarily focused on logistics.

The Company's premium food distribution businesses also enable it to generate and sustain additional margin by using these businesses to provide its specialty food businesses with proprietary access to a broad and diversified customer base that includes regional and specialty grocery retailers, restaurants, hotels and institutions.

EXTRA WEEK OF OPERATIONS

The Company's fiscal year is the fifty-two week or fifty-three week period ending on the nearest Saturday on or before December 31. For 2016 this was the 53 week period ended on December 31, 2016 and for 2015 and 2014 these were the 52 week periods ended on December 26, 2015 and December 27, 2014, respectively. Correspondingly, the Company's results for 2016 and for the fourth quarter of 2016 include an extra week of operations as compared to 2015 and 2014 (the "Extra Week").

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 three most recently completed financial years and are prepared in accordance with IFRS.

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>	53 weeks ended Dec 31, 2016	52 weeks ended Dec 26, 2015	52 weeks ended Dec 27, 2014
Revenue	1,857.5	1,484.5	1,221.8
Adjusted EBITDA	154.8	111.6	77.6
Earnings from continuing operations	68.8	16.5	12.7
Basic earnings per share from continuing operations	2.39	0.68	0.58
Diluted earnings per share from continuing operations	2.38	0.68	0.57
Earnings	68.8	11.6	11.4
Basic earnings per share	2.39	0.48	0.52
Diluted earnings per share	2.38	0.48	0.52
Total assets	1,121.1	856.2	739.1
Long-term financial liabilities ⁽¹⁾	410.7	329.5	389.6
RONA	17.2%	15.9%	13.4%
Dividends declared per share	1.5200	1.3800	1.2500
Free cash flow per share ⁽²⁾	4.22	3.32	2.60

(1) Excludes deferred financing costs and includes the current portion of long-term debt.

(2) See *Liquidity and Capital Resources – Dividends – Free Cash Flow* for the calculation of free cash flow. Free cash flow per share is calculated as free cash flow dividend by the weighted average shares outstanding for the applicable period.

Revenue and Earnings

The Company has grown its revenue, adjusted EBITDA and earnings from continuing operations for each of the last two years through a combination of acquisitions and organic growth initiatives. In addition, the Company's results over the last three years were impacted by: (i) unusual volatility in the cost of certain raw materials; (ii) in 2016 the Extra Week which resulted in incremental sales and adjusted EBITDA of \$29.2 million and \$3.4 million respectively; and (iii) in 2015 a deferred income tax provision of \$21.5 million relating to the CRA settlement (see *Results of Operations – Income Taxes – CRA Settlement*).

Total Assets

The increases in the Company's total assets over the last two years were primarily due to business acquisitions and project capital expenditures.

Long-term Financial Liabilities

The decrease in the Company's long-term financial liabilities in 2015 as compared to 2014 was primarily due to the conversion of convertible debentures, at the option of the debenture holders, into common shares. This was partially offset by the use of long-term financial liabilities to finance business acquisitions and project capital expenditures. The increase in the Company's long-term financial liabilities in 2016 as compared to 2015 was primarily due to the use of long-term financial liabilities to finance business acquisitions and project capital expenditures. This was partially offset by the use of cash generated from operating activities to reduce the Company's long-term financial liabilities (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

RONA

Return on adjusted net assets (RONA) is not defined under IFRS 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 IFRS.

The Company believes RONA is a useful indicator of the performance of its operations relative to the assets employed.

The following table provides the calculation of RONA for each of the last three fiscal years:

<i>(in millions of dollars)</i>	53 weeks ended Dec 31, 2016	52 weeks ended Dec 26, 2015	52 weeks ended Dec 27, 2014
Return:			
Adjusted EBITDA ⁽¹⁾	154.8	111.6	77.6
Other income	-	-	4.7
Maintenance capital expenditures ⁽²⁾	(8.6)	(6.4)	(4.8)
	146.2	105.2	77.5
Average adjusted net assets ⁽³⁾ :			
Opening net assets	722.3	614.3	549.3
Closing net assets excluding net assets of businesses acquired during the year	721.4	670.5	606.8
Average net assets before including businesses acquired during the year ⁽⁴⁾	721.9	642.4	578.1
Weighted net assets of business acquired during the year ⁽⁵⁾	127.9	19.2	1.9
	849.8	661.6	580.0
RONA ⁽⁶⁾	17.2%	15.9%	13.4%

(1) See *Results of Operations – Adjusted EBITDA*.

(2) See *Liquidity and Capital Resources – Capital Expenditures*.

(3) Net assets are calculated as total assets less deferred income tax assets, accounts payable and accrued liabilities.

(4) Calculated as the sum of the opening net assets and the closing net assets (excluding net assets of businesses acquired during the year) divided by two.

(5) Based on weighting the net assets of each business acquired during the current fiscal year by a factor based on the number of days in the fiscal year that the Company owned the applicable business in relation to the total number of days in the fiscal year.

(6) Calculated as return divided by average adjusted net assets.

The Company's long-term targeted average RONA is 15.0%. For 2014 the Company's RONA was below this target primarily due to investments made in a number of capital projects and business acquisitions with long-term investment horizons. Correspondingly, the growth in the Company's cash flow lagged in comparison with the growth in its asset base. Furthermore, in 2014 the Company's RONA was also negatively impacted by significant increases in the cost of certain commodity raw materials that had a temporary negative effect on its gross margins.

In 2016 and 2015 the Company's RONA exceeded its long-term target primarily due to improved cash flows in a number of its businesses that were the result of: (i) returns generated on investments made in capital projects and business acquisitions in prior years; (ii) a variety of continuous improvement initiatives; and (iii) an overall relatively stable raw material cost environment.

Looking forward (see *Forward Looking Statements*), the Company is maintaining its target and outlook for a long-term average RONA of 15.0%.

FOURTH QUARTER FINANCIAL STATEMENTS

The Company's operating results for the fourth quarters of 2016 and 2015 and for the fiscal years of 2016 and 2015 were as follows:

<i>(in millions of dollars)</i>	14 weeks ended Dec 31, 2016	13 weeks ended Dec 26, 2015	53 weeks ended Dec 31, 2016	52 weeks ended Dec 26, 2015
Revenue	532.6	400.3	1,857.5	1,484.5
Gross profit	104.6	76.5	350.8	284.7
Selling, general and administrative expenses	59.0	45.0	196.0	173.1
	45.6	31.5	154.8	111.6
Plant start-up costs	-	-	-	2.9
	45.6	31.5	154.8	108.7
Depreciation of capital assets	7.3	6.4	27.4	25.3
Amortization of intangible assets	2.4	1.2	7.6	4.5
Interest and other financing costs	4.8	3.9	17.9	17.9
Acquisition transaction costs	1.1	-	1.6	0.2
Change in value of puttable interest in subsidiaries	1.6	0.7	4.1	5.9
Accretion of provisions for contingent consideration	0.3	0.1	1.0	0.5
Unrealized loss (gain) on foreign currency contracts	-	(0.2)	0.7	(0.1)
Equity income in associates	-	(0.3)	(0.4)	(0.1)
Earnings before income taxes	28.1	19.7	94.9	54.6
Income tax provision – current	4.0	1.5	10.2	3.3
Income tax provision – deferred	4.1	4.6	15.9	13.3
Deferred tax provision resulting from CRA settlement	-	-	-	21.5
Income tax provision	8.1	6.1	26.1	38.1
Earnings from continuing operations	20.0	13.6	68.8	16.5
Loss from discontinued operations, net of income taxes	-	(5.0)	-	(4.9)
Earnings	20.0	8.6	68.8	11.6

RESULTS OF OPERATIONS

The Company reports on two reportable segments, Specialty Foods and Premium Food Distribution, as well as corporate costs (Corporate). The Specialty Foods segment consists of the Company's specialty food manufacturing businesses and includes Harvest, Grimm's, Freybe, Hygaard, Quality Fast Foods, Hempler's, Made-Rite Meat Products, Creekside, Stuyver's, Island City Bakery, Duso's, Conte Foods, Larosa Foods, SK Food Group, Deli Chef, SJ Fine Foods, Piller's, Isernio's, Expresco and Belmont Meats.

The Premium Food Distribution segment consists of the Company's differentiated distribution and wholesale businesses and Centennial Foodservice, B&C Food Distributors, Harlan Fairbanks, Worldsource, E1 even, Wescadia, C&C Packing, Premier Meats, Maximum Seafood, Ocean Miracle and Diana's Seafood. In addition, the Premium Foods Distribution segment includes Hub City Fisheries, a specialty seafood processor, on the basis that it is an integral part of the Company's national seafood distribution strategy.

Revenue

(in millions of dollars except percentages)								
	14 weeks ended Dec 31, 2016	% (1)	13 weeks ended Dec 26, 2015	% (1)	53 weeks ended Dec 31, 2016	% (1)	52 weeks ended Dec 26, 2015	% (1)
Revenue by segment:								
Specialty Foods	326.9	61.4%	274.5	68.6%	1,136.6	61.2%	979.1	66.0%
Premium Food Distribution	205.7	38.6%	125.8	31.4%	720.9	38.8%	505.4	34.0%
Consolidated	532.6	100.0%	400.3	100.0%	1,857.5	100.0%	1,484.5	100.0%

(1) Expressed as a percentage of consolidated revenue

Specialty Foods' revenue for the fourth quarter of 2016 as compared to the fourth quarter of 2015 increased by \$52.4 million or 19.1% primarily due to: (i) business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) which accounted for \$22.6 million of the increase; (ii) the Extra Week which accounted for \$16.7 million of the increase; and (iii) \$14.1 million of organic growth across a range of products, representing a growth rate of 5.2%. These increases were partially offset by the loss of approximately \$1.1 million of revenue due to the shutdown of Noble House, a northern Alberta based distribution business, at the end of 2015.

For 2016 as compared to 2015 Specialty Foods' revenue increased by \$157.5 million or 16.1% primarily due to: (i) business acquisitions which accounted for \$73.6 million of the increase; (ii) organic growth of \$54.1 million, representing a growth rate of 5.5%; (iii) a \$17.4 million increase in the translated value of its U.S. based businesses' sales; and (iv) the Extra Week which accounted for \$16.7 million of the increase. These increases were partially offset by the loss of approximately \$4.3 million of revenue due to the shutdown of Noble House.

After adjusting for the shutdown of Noble House, Specialty Foods organic volume growth rate for 2016 was 5.6% which was at the upper end of the Company's targeted range of 4% to 6%. For the fourth quarter of 2016 Specialty Foods' organic volume growth rate was 5.1%, which was within the Company's annual targeted range but below its 2016 annual rate due to several of its businesses choosing to exit certain lower margin sales in order to allocate their capacities to more sustainable and higher margin opportunities.

Looking forward (see *Forward Looking Statements*) Specialty Foods expects its organic volume growth in 2017 to exceed the Company's long term targeted range of 4% to 6% based on a variety of new sales and product development initiatives as well leveraging several major capacity expansion investments. These include:

- A new 212,000 square foot sandwich facility in Phoenix, AZ, which is expected to commence production early in the third quarter of 2017 (see *Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures*);
- New meat snack capacity at its Yorkton, SK facility, which commenced production in mid-2016; and
- New dry cured salami capacity at its Langley, BC facility, which also commenced production in mid-2016.

In terms of timing, Specialty Foods expects the majority of its organic volume growth in 2017 to be in the latter half of the year. This is primarily based on: (i) the projected start-up date for its new sandwich production facility being in the third quarter; and (ii) the planned launched dates for many of its new sales and product development initiatives being later in the year.

Premium Food Distribution's revenue for the fourth quarter of 2016 as compared to the fourth quarter of 2015 increased by \$79.9 million or 63.5% primarily due to: (i) business acquisitions which accounted for

\$59.5 million of the increase (see *Liquidity and Capital Resources – Corporate Investments*); (ii) the Extra Week which accounted for \$12.5 million of the increase; (iii) organic volume growth of \$10.7 million representing a growth rate of 8.4%; and (iv) \$3.0 million in inflation resulting from higher selling prices for certain seafood products that were in tight supply globally partially offset by a deflationary environment for beef products. These increases were partially offset by a decrease of \$5.8 million in Premium Food Distribution's Worldsource food trading business due to reduced trading opportunities.

For 2016 as compared to 2015 Premium Food Distribution's revenue increased by \$215.5 million or 42.6% primarily due to: (i) business acquisitions which accounted for \$179.6 million of the increase; (ii) \$13.8 million in inflation; (iii) the Extra Week which accounted for \$12.5 million of the increase; and (iv) net organic volume growth of \$14.7 million representing an organic volume growth rate of 3.2%. These increases were partially offset by a decrease of \$5.2 million in Premium Food Distribution's Worldsource food trading business due to reduced trading opportunities

Excluding Worldsource, Premium Food Distribution's organic volume growth for 2016 of 3.2% was below the Company's long term targeted range of 4% to 6% primarily due to the impact on its foodservice operations of the economic slowdowns in Alberta and Saskatchewan. Excluding this factor as well as the impact of an unusually strong Chum salmon west coast fishery in the fourth quarter of 2016, Premium Food Distribution's organic volume growth rate was approximately 4.7%.

Premium Food Distribution's organic volume growth for the fourth quarter of 2016 of 8.4% exceeded its growth rate for the full year and the Company's long term targeted range primarily due to: (i) the success of its traditionally foodservice focused distribution network in selling its products into the retail channel; and (ii) an exceptionally strong Chum salmon west coast fishery. Weaker foodservice sales in Alberta and Saskatchewan that were primarily the result of the general economic slowdown in these provinces were offset by stronger foodservice sales in British Columbia. Excluding the growth associated with the Chum salmon fishery, Premium Food Distribution's organic volume growth for the quarter was 5.8%.

Looking forward (see *Forward Looking Statements*) Premium Food Distribution expects its organic volume growth in 2017 to be within or above the Company's long term targeted range of 4% to 6% based on:

- The continuation of its various seafood, premium meats and retail distribution growth initiatives;
- The start-up of its new facility in Toronto, ON in the third quarter of 2017 (see *Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures*); and
- The stabilization of the Alberta and Saskatchewan economies.

Similar to the Specialty Foods segment, Premium Food Distribution expects the majority of its organic volume growth in 2017 to be in the latter half of the year. This is primarily based on: (i) the expected start-up date for its new Toronto facility being late in the third quarter; and (ii) the projected stabilization of the Alberta and Saskatchewan economies unfolding as a slow and steady process over the course of the year.

Gross Profit

<i>(in millions of dollars except percentages)</i>								
	14 weeks ended Dec 31, 2016	% (1)	13 weeks ended Dec 26, 2015	% (1)	53 weeks ended Dec 31, 2016	% (1)	52 weeks ended Dec 26, 2015	% (1)
Gross profit by segment:								
Specialty Foods	71.5	21.9%	56.7	20.7%	234.4	20.6%	203.6	20.8%
Premium Food Distribution	33.1	16.1%	19.8	15.7%	116.4	16.1%	81.1	16.0%
Consolidated	104.6	19.6%	76.5	19.1%	350.8	18.9%	284.7	19.2%

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

Specialty Foods' gross profit as a percentage of its revenue (gross margin) for the fourth quarter of 2016 as compared to the fourth quarter of 2015 increased by 120 basis points primarily due to improved operating efficiencies at a number of its plants including its new sandwich plant in Columbus, OH which achieved expected operating efficiency levels by the end of the quarter. These efficiencies were the result of a variety of continuous improvement initiatives, some opportunistic raw material purchases and higher production volumes associated from Specialty Foods' organic volume growth. Partially offsetting these benefits were lower than average gross margins in Specialty Foods' recently acquired Belmont Meats business which, due to seasonal factors, has very low gross margins in the fourth and first quarters of the year. Excluding Belmont Meats, Specialty Foods' gross margin for the quarter was 22.6%.

For 2016 as compared to 2015 Specialty Foods' gross margin decreased slightly due to a variety of factors including: (i) changes in its sales mix, namely higher sandwich sales which usually generate lower margins but correspondingly have lower variable selling costs associated with them (see *Results of Operations – Selling, General and Administrative Expenses*); (ii) higher turkey and chicken raw material costs earlier in the year; and (iii) operating inefficiencies at its new Columbus sandwich plant for most of 2016. These factors were mostly offset by the items that drove Specialty Foods' gross margin improvement in the fourth quarter of 2016.

Premium Food Distribution's gross margins for the fourth quarter of 2016 as compared to the fourth quarter of 2015 and for 2016 as compared to 2015 were relatively stable as improved margins on beef based products, resulting from a decline in raw material costs from record highs earlier in the year, were largely offset by the lower average gross margins, on a relative basis, of its recently acquired C&C Foods business. Excluding C&C Foods, Premium Food Distribution's gross margins for the quarter and for 2016 were 16.6% and 17.0%, respectively.

Selling, General and Administrative Expenses (SG&A)

(in millions of dollars except percentages)								
	14 weeks ended Dec 31, 2016	% (1)	13 weeks ended Dec 26, 2015	% (1)	53 weeks ended Dec 31, 2016	% (1)	52 weeks ended Dec 26, 2015	% (1)
SG&A by segment:								
Specialty Foods	30.8	9.4%	27.1	9.9%	109.5	9.6%	101.4	10.4%
Premium Food Distribution	20.3	9.9%	14.8	11.8%	71.3	9.9%	59.2	11.7%
Corporate	7.9		3.1		15.2		12.5	
Consolidated	59.0	11.1%	45.0	11.2%	196.0	10.6%	173.1	11.7%

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

Specialty Foods' SG&A as a percentage of sales (SG&A ratio) for the fourth quarter of 2016 as compared to the fourth quarter of 2015 and for 2016 as compared to 2015 decreased primarily due to: (i) changes in its sales mix, namely higher sandwich sales which generally have lower selling costs associated with them; and (ii) the fixed nature of a variety of costs relative to its organic revenue growth.

Premium Food Distribution's SG&A ratio for the fourth quarter of 2016 as compared to the fourth quarter of 2015 and for 2016 as compared to 2015 decreased primarily due to: (i) the acquisition of C&C Foods, which has a lower SG&A ratio relative to Premium Food Distribution's other businesses; and (ii) the fixed nature of a variety of costs relative to its organic revenue growth. Excluding C&C Foods, Premium Food Distribution's SG&A ratios for the quarter and for 2016 were 11.1% and 11.3%, respectively

Corporate SG&A for the fourth quarter of 2016 as compared to the fourth quarter of 2015 and for 2016 as compared to 2015 increased by \$4.8 million and \$2.7 million, respectively primarily due to increased discretionary variable compensation associated with: (i) the Company's improved performance including a 27.1% increase in its free cash flow per share to \$4.22 per share from \$3.32 per share in 2015; and (ii) the significant value realized by the Company's long-term shareholders both in 2016 and over the last three years through dividends and share price appreciation.

Adjusted EBITDA

Adjusted EBITDA is not defined under IFRS 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 IFRS.

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 capital and intangible assets, taxable position and the ownership structure of non-wholly owned businesses. This measure is widely used by investors in the valuation and comparison of companies. In addition, it is 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:

<i>(in millions of dollars)</i>	14 weeks ended Dec 31, 2016	13 weeks ended Dec 26, 2015	53 weeks ended Dec 31, 2016	52 weeks ended Dec 26, 2015
Earnings before income taxes	28.1	19.7	94.9	54.6
Plant start-up costs ⁽¹⁾	-	-	-	2.9
Depreciation of capital assets ⁽²⁾	7.3	6.4	27.4	25.3
Amortization of intangible assets ⁽²⁾	2.4	1.2	7.6	4.5
Interest and other financing costs ⁽³⁾	4.8	3.9	17.9	17.9
Acquisition transaction costs ⁽¹⁾	1.1	-	1.6	0.2
Change in value of puttable interest in subsidiaries ⁽⁴⁾	1.6	0.7	4.1	5.9
Accretion of provisions ⁽³⁾	0.3	0.1	1.0	0.5
Unrealized loss (gain) on foreign currency contracts ⁽⁵⁾	-	(0.2)	0.7	(0.1)
Equity income in associates ⁽⁶⁾	-	(0.3)	(0.4)	(0.1)
Consolidated adjusted EBITDA	45.6	31.5	154.8	111.6

(1) Amount is not part of the Company's normal operating costs.

(2) Amount relates to the consumption of the Company's capital assets, intangible assets or other assets.

(3) Amount relates to the Company's financing strategies.

(4) Amount relates to the valuation of minority shareholders' interest in certain subsidiaries of the Company.

(5) 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 profit margins.

(6) Amount relates to businesses that the Company does not control.

<i>(in millions of dollars except percentages)</i>	14 weeks ended Dec 31, 2016	% (1)	13 weeks ended Dec 26, 2015	% (1)	53 weeks ended Dec 31, 2016	% (1)	52 weeks ended Dec 26, 2015	% (1)
Adjusted EBITDA by segment:								
Specialty Foods	40.7	12.5%	29.6	10.8%	124.9	11.0%	102.2	10.4%
Premium Food Distribution	12.8	6.2%	5.0	4.0%	45.1	6.3%	21.9	4.3%
Corporate	(7.9)		(3.1)		(15.2)		(12.5)	
Consolidated	45.6	8.6%	31.5	7.9%	154.8	8.3%	111.6	7.5%

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

For 2016 the Company's adjusted EBITDA as a percentage of sales (EBITDA margin) was 8.3% which was within the targeted range for the year of 8.0% to 8.5% that was set by the Company several years ago when its EBITDA margin was approximately 6.5%.

Looking forward (see *Forward Looking Statements*) for 2017 the Company is projecting its EBITDA margin, assuming its current mix of businesses, to be in the 8.5% to 9.0% range. The expected improvement in its EBITDA margin as compared to 2016 is based on a variety of assumptions, including:

- a full year of normal operating efficiencies at the Company's new Columbus sandwich plant, which for most of 2016 operated at well below standard efficiency levels;
- A general improvement in operating efficiencies in many of the Company's businesses resulting from projected organic sales volume growth; and
- For the first two quarters of 2017, continued year over year improvement in the gross margins on certain beef and poultry based products due to lower raw material costs.

These positive factors are expected to be partially offset by:

- Some short term margin compression in the Company's Premium Food Distribution segment due to the expansion of its foodservice distribution business model into Ontario (see *Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures*); and
- Some short term margin compression in the Company's Specialty Food segment due to the start-up of its new sandwich production facility in Phoenix, AZ (see *Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures*).

Depreciation and Amortization (D&A)

<i>(in millions of dollars)</i>	14 weeks ended Dec 31, 2016	13 weeks ended Dec 26, 2015	53 weeks ended Dec 31, 2016	52 weeks ended Dec 26, 2015
Depreciation and amortization of intangible assets (D&A) by segment:				
Specialty Foods	7.2	6.3	27.1	24.6
Premium Food Distribution	2.4	1.2	7.5	4.8
Corporate	0.1	0.1	0.4	0.4
Consolidated	9.7	7.6	35.0	29.8

The Company's D&A expense for the fourth quarter of 2016 as compared to the fourth quarter of 2015 and for 2016 as compared to 2015 increased primarily due to the acquisition of new businesses and, to a lesser extent, increased depreciation associated with capital projects completed in late 2015 and 2016.

Interest and other financing costs

The Company's interest and other financing costs for the fourth quarter of 2016 as compared to the fourth quarter of 2015 increased by \$0.9 million primarily due to the higher funded debt levels (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*) partially offset by lower blended average interest costs that were mainly the result of reduced average interest rates on its outstanding convertible debentures.

The Company's interest and other financing costs for 2016 as compared to 2015 were flat primarily due to the impact of higher funded debt levels towards the end of the year being offset by: (i) by lower blended average interest costs that were mainly the result of reduced average interest rates on its outstanding convertible debentures; and (ii) lower funded debt levels earlier in 2016 relative to the comparable periods in 2015.

Change in Value of Puttable Interest in Subsidiaries

Change in value of puttable interest in subsidiaries (put expense) represents an estimate of the change in the value of options (the put options) held by non-controlling shareholders of certain subsidiaries of the Company that entitle such shareholders to require the Company to purchase their interest in the applicable subsidiary (see *Liquidity and Capital Resources – Corporate Investments – Puttable Interest in Subsidiaries*).

The Company's put expense for the fourth quarter of 2016 as compared to the fourth quarter of 2015 increased by \$0.9 million primarily due to the impact of increased valuations of several of the Company's businesses resulting from improved performance and future expectations.

The Company's put expense for 2016 as compared to 2015 decreased by \$1.8 million primarily due to a premium (the Premium), relative to the expected put option price, paid in the third quarter of 2015 on

the acquisition of a group of minority shareholders' interest in one of the Company's subsidiaries. The Company paid the Premium in order to facilitate the early exit of the minority shareholders so it could dedicate substantially all of the subsidiary's manufacturing capacity to the production of its proprietary branded products. The decrease resulting from the Premium was partially offset by the impact of increased valuations of several of the Company's businesses resulting from improved performance and future expectations.

Income Taxes

The Company's expected range for its provision for income taxes as a percentage of earnings before income taxes (income tax rate) for 2016 was 26% to 28% based on: (i) an effective income tax rate range within the tax jurisdictions that it operates (the tax jurisdictions) of 26% to 35%; (ii) the expected allocation of its taxable income among the tax jurisdictions; and (iii) the deductibility of certain costs for income tax purposes.

For the fourth quarter of 2016 and for 2016 the Company's income tax rates were 28.8% and 27.5%, respectively. The Company's income tax rate for the quarter was above its expected range due to: (i) a higher than expected portion of its taxable earnings being generated by its US based operations, which generally are taxed at a rate of approximately 35%; and (ii) higher than normal put expense (see *Results of Operations – Change in Value of Puttable Interest in Subsidiaries*) which is not deductible for income tax purposes.

Looking forward (see *Forward Looking Statements*) the Company is, based on currently implemented income tax rates, expecting its income tax rate for 2017 to be in the range of 28% to 30%. This is based on the general considerations outlined above but with an increased portion of its taxable earnings being generated from its US based operations.

The Company's income tax rate for 2015 was 69.5% which was significantly higher than normal due to an unusual \$21.5 million non-cash tax charge in the second quarter of 2015. This charge was the result of a settlement with the Canada Revenue Agency ("CRA") on the deductibility of certain tax attributes that the Company was deemed to have acquired as part of its conversion from a publicly traded income trust in 2009.

Discontinued Operation

In the fourth quarter of 2015 the Company shut down the last of its older deli meats manufacturing facilities, namely a 70,000 square foot plant located in Toronto, ON which focused primarily on the production of private label products for the retail industry (the private label business). In conjunction with the plant shutdown, the Company exited primarily all of the private label business and, correspondingly, has accounted for this initiative as a discontinued operation.

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 unaudited interim condensed consolidated financial statements for each of the eight most recently completed quarters and are prepared in accordance with IFRS.

<i>(in millions of dollars except per share amounts)</i>								
	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16
Revenue	328.2	363.3	392.7	400.3	381.0	462.9	481.0	532.6
Adjusted EBITDA	18.8	28.5	32.8	31.5	25.1	40.1	44.0	45.6
Earnings (loss) from continuing operations	3.5	(10.6)	10.1	13.6	9.2	18.4	21.2	20.0
Earnings (loss) per share – basic – continuing operations	0.15	(0.44)	0.40	0.53	0.34	0.64	0.72	0.67
Earnings (loss) per share – diluted – continuing operations	0.15	(0.43)	0.40	0.53	0.34	0.64	0.72	0.67

The financial performance of many of the Company's businesses is subject to fluctuations associated with the impact on consumer demand of seasonal changes in weather. As a result, the Company's performance varies with the seasons. In general terms, its results are weakest in the first quarter of the year due to:

- Winter weather conditions which result in: (i) less consumer travelling and outdoor activities and, in turn, reduced consumer traffic through many of the Company's convenience oriented customers' stores such as restaurants, corner stores, gas stations and concessionary venues; and (ii) reduced consumer 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 generally peak in the spring and summer months due to favorable weather conditions and decline in the fourth quarter due to a return to poorer weather conditions.

In addition to seasonal factors, over the last eight quarters the Company's performance has been impacted by: (i) business acquisitions; (ii) organic growth initiatives; (iii) unusual volatility in the cost of certain raw materials; (iv) the write-off in the second quarter of 2015 of certain deferred tax assets as a result of a settlement agreement with the CRA; (v) plant start-up and restructuring costs in the first quarter of 2015; and (vi) a variety of costs associated with the Company's business acquisition initiatives, including the resulting impacts on change in value of puttable interest in subsidiaries expense and acquisition transaction costs.

LIQUIDITY AND CAPITAL RESOURCES

Net Working Capital Requirements

Net Working Capital

Net working capital is not defined under IFRS 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 millions of dollars)</i>	As at Dec 31, 2016	As at Dec 26, 2015
Accounts receivable	180.9	159.9
Inventories	170.4	141.6
Prepaid expenses	7.5	6.4
Accounts payable and accrued liabilities	(155.8)	(133.9)
Net working capital	203.0	174.0

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 are built up in anticipation of and accounts receivable grow as a result of increased consumer demand (see *Summary of Quarterly Results*). The cash requirements associated with fluctuations in the Company's net working capital are managed primarily through draws and repayments on its revolving senior credit facility (see *Liquidity and Capital Resources – Debt Financing Activities*).

Net working capital at the end of 2016 as compared to the end of 2015 increased by \$29.0 million primarily due to: (i) business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*), which resulted in \$54.4 million of additional net working capital; and (ii) the Company's organic growth. These increases were partially offset by: (i) improved collection times on certain larger customers; (ii) lower sandwich inventories due to a ramp up in inventory at the end of 2015 in anticipation of a new product launch; (iii) higher product sales during the Extra Week relative to production levels; (iv) higher discretionary bonus accruals due to the Company's improved financial performance (see *Results of Operations – Selling, General and Administrative Expenses*); and (v) normal fluctuations in the timing of payments to suppliers which impacts the Company's accounts payable.

The following table shows certain ratios relating to the Company's accounts receivable and inventory balances:

<i>(in days)</i>	As at Dec 31, 2016	As at Dec 26, 2015
Days sales in accounts receivable ⁽¹⁾	33.3	36.3
Days cost of sales in inventory ⁽²⁾	39.0	39.8

(1) Calculated as accounts receivable divided by sales for the applicable quarter times the number of days in the quarter.

(2) Calculated as inventory divided by cost of sales for the applicable quarter times the number of days in the quarter.

The Company's days sales in accounts receivable at the end of 2016 as compared to the end of 2015 decreased by 3.0 days primarily due to: (i) improved collection times on certain larger customers; and (ii) normal fluctuations in the timing of customer payments.

The Company's days cost of sales in inventory at the end of 2016 as compared to the end of 2015 was relatively stable as the impact of lower inventory turnover rates for certain recently acquired businesses was more than offset by the benefits of: (i) lower sandwich inventories due to a ramp up in inventory at

the end of 2015 in anticipation of a new product launch; and (ii) higher product sales during the Extra Week relative to production levels.

Debt Financing Activities

Credit Facilities

As at December 31, 2016, the Company's credit facilities and the unutilized portion of those facilities were as follows:

<i>(in millions of dollars)</i>	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Revolving senior credit facility ⁽¹⁾	338.7	140.3	198.4
5.00% debentures ⁽²⁾	64.1	64.1	-
4.65% debentures ⁽³⁾	82.9	82.9	-
4.60% debentures ⁽⁴⁾	107.8	107.8	-
Industrial Development Revenue Bond ⁽⁵⁾	8.2	8.2	-
Vendor take-back notes ⁽⁶⁾	5.9	5.9	-
Capital leases and other term loans	1.5	1.5	-
Other revolving credit facilities	8.3	0.2	8.1
Cheques outstanding	-	12.4	(12.4)
Cash and cash equivalents	-	(19.4)	19.4
	617.4	403.9	213.5

- (1) The credit facility amount of \$338.7 million represents the total available under this facility of \$350.0 million less approximately \$11.3 million in outstanding letters of credit. The facility matures in September 2020, can be used to fund the Company's working capital and general operating needs, capital projects and acquisitions, and has no principal payments prior to its maturity date.
- (2) Represents the present value of the outstanding portion of the \$69.0 million in 5.00% convertible unsecured subordinated debentures issued by the Company in April 2015 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on April 30, 2020 and have no principal payments prior to that date, was \$66.2 million as at December 31, 2016.
- (3) Represents the present value of the outstanding portion of the \$86.3 million in 4.65% convertible unsecured subordinated debentures issued by the Company in April 2016 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on April 30, 2021 and have no principal payments prior to that date, was \$86.3 million as at December 31, 2016.
- (4) Represents the present value of the outstanding portion of the \$113.0 million in 4.60% convertible unsecured subordinated debentures issued by the Company in December 2016 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on December 31, 2023 and have no principal payments prior to that date, was \$113.0 million as at December 31, 2016.
- (5) The bond, which was issued by one of the Company's U.S. subsidiaries, is denominated in U.S. dollars (US\$6.1 million), matures in 2036 and has no principal payments due prior to its maturity date.
- (6) The vendor take-back notes are unsecured, have combined quarterly principal payments of approximately \$0.3 million and mature 2018 to 2025. \$4.0 million of the notes is denominated in U.S. dollars (US\$3.0 million) and redeemable by the noteholder beginning in 2020

The Company's 5.00%, 4.65% and 4.60% debentures trade on the Toronto Stock Exchange under the symbols PBH.DB.D, PBH.DB.E and PBH.DB.F, respectively.

Funded Debt

Senior funded debt and total funded debt are not defined under IFRS 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 adjusted 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 certain debt covenants associated with the Company's revolving senior credit facility (see *Liquidity and Capital Resources – Debt Financing Activities – Banking Covenants*).

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

<i>(in millions of dollars)</i>	As at Dec 31, 2016	As at Dec 26, 2015
Cheques outstanding	12.4	6.8
Bank indebtedness	0.2	3.9
Current portion of long-term debt	2.2	3.7
Long-term debt	152.2	202.8
Deferred financing costs ⁽¹⁾	1.5	1.2
	168.5	218.4
Less: cash and cash equivalents	19.4	11.3
Senior funded debt	149.1	207.1
5.50% Debentures	-	55.6
5.00% Debentures	64.1	66.2
4.65% Debentures	82.9	-
4.60% Debentures	107.8	-
Total funded debt	403.9	328.9

(1) Deferred financing costs are included as an offsetting amount in long-term debt in the Company's consolidated financial statements.

Debt Activities

During 2016, the Company's significant debt activities consisted of the following:

<i>(in millions of dollars)</i>	53 weeks ended Dec 31, 2016
Opening total funded debt at December 26, 2015	328.9
Issuance of 4.65% Debentures and 4.60% Debentures	190.1
Draws on revolving senior credit facility for acquisitions (net of cash acquired) ⁽¹⁾	106.9
Accretion of debentures	3.1
Funded debt assumed as part of business acquisitions ⁽¹⁾	1.9
Foreign currency translation adjustment ⁽²⁾	(0.3)
Repayment of 5.50% Debentures at redemption	(0.7)
Scheduled repayments	(3.7)
Net cash generated from operating activities and used to pay down revolving credit facilities	(55.0)
5.50% Debenture and 5.00% Debenture conversions ⁽³⁾	(59.5)
Application of proceeds from 4.60% Debentures to revolving senior credit facility	(107.8)
	403.9

(1) See *Liquidity and Capital Resources – Corporate Investments*.

(2) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. dollar denominated debt into Canadian dollars.

(3) The 5.50% Debentures and 5.00% Debentures were convertible into common shares at a conversion prices of \$29.25 and \$44.65 per common share, respectively.

During the second quarter of 2016, the Company issued \$86.3 million of convertible unsecured subordinated debentures (4.65% Debentures) resulting in net proceeds of \$82.3 million after underwriting fees of \$3.5 million and transaction costs of approximately \$0.5 million. The 4.65% Debentures bear interest at an annual rate of 4.65% payable semi-annually, have a maturity date of April 30, 2021 and are convertible into common shares of the Company at a price of \$85.90 per share.

The net proceeds from the 4.65% Debenture issuance, combined with a draw on the Company's revolving senior credit facility, were used to fund the acquisition of C&C Foods (see *Liquidity and Capital Resources – Corporate Investments – C&C Foods*).

Also during the second quarter of 2016, the Company renegotiated the terms of its revolving senior credit facility including increasing the size of the facility to \$350.0 million and extending its maturity to September 2020.

During the third quarter of 2016, the Company issued a notice of intention to redeem on August 3, 2016, all of its outstanding 5.50% Debentures. \$0.7 million of the 5.50% Debentures were redeemed through a cash payment of principal and accrued interest, and the balance were converted at the option of the debenture holders into common shares of the Company at the conversion price of \$29.25.

During the fourth quarter of 2016, the Company issued \$113.0 million of convertible unsecured subordinated debentures (4.60% Debentures) resulting in net proceeds of \$107.8 million after underwriting fees of \$4.5 million and transaction costs of approximately \$0.7 million. The 4.60% Debentures bear interest at an annual rate of 4.60% payable semi-annually, have a maturity date of December 31, 2023 and are convertible into common shares of the Company at a price of \$107.25 per share. The net proceeds from the 4.60% Debenture issuance were used to reduce the amount outstanding on the Company's revolving senior credit facility.

Banking Covenants

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

	Covenant Requirement	Dec 31, 2016 Ratio
Senior funded debt to adjusted EBITDA ratio ⁽¹⁾	=< 4.0 : 1.0	0.8 : 1.0
Interest coverage ratio ⁽²⁾	>= 4.0 : 1.0	23.5 : 1.0

(1) Adjusted EBITDA is calculated as the Company's rolling four quarters adjusted EBITDA plus the trailing four quarters adjusted EBITDA of new acquisitions. For covenant calculation purposes, senior funded debt excludes cheques outstanding.

(2) Ratio is calculated based on the combined statements of operations of certain subsidiaries of the Company and therefore will not necessarily equal the ratio calculated based on the Company's consolidated statement of operations.

Financial Leverage

Two of the key indicators that the Company uses to assess the appropriateness of its financial leverage are its senior funded debt to adjusted EBITDA and total funded debt to adjusted 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 adjusted EBITDA ratio and 4.0 : 1 to 4.5 : 1 as the long-term targeted range for its total funded debt to adjusted 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;
- The financial covenants associated with the Company's senior credit facilities;
- The Company's dividend policy;
- The tax benefits associated with financing the Company's operations with debt; and
- The terms and risk profile of the convertible debentures issued by the Company.

At the end of 2016, the Company's senior funded debt to adjusted EBITDA ratio of 0.8 : 1 and its total funded debt to adjusted EBITDA ratio of 2.4 : 1 were both below the Company's respective long-term targeted ranges for these ratios.

Looking forward (see *Forward Looking Statements*) the Company intends to use its excess senior debt capacity to fund project capital expenditures and business acquisitions.

Dividends

Free Cash Flow

Free cash flow is not defined under IFRS 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 IFRS.

The Company believes that free cash flow is a useful indicator of the amount of cash it generates that is available for the payment of dividends to shareholders, debt repayment, project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*), plant start-up and business restructuring initiatives and business acquisitions.

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

<i>(in millions of dollars)</i>	53 weeks ended Dec 31, 2016	52 weeks ended Dec 26, 2015
Cash flow from operating activities	149.9	67.3
Changes in non-cash working capital ⁽¹⁾	(21.4)	17.1
Acquisition transaction costs ⁽²⁾	1.6	0.2
Plant start-up costs ⁽³⁾	-	2.9
Maintenance capital expenditures ⁽⁴⁾	(8.6)	(6.4)
Free cash flow	121.5	81.1

(1) Cash used for increases in the Company's non-cash working capital is funded primarily through draws on its revolving credit facilities, while cash resulting from decreases in its non-cash working capital is used primarily to pay down these facilities.

(2) Amount relates to the Company's business acquisition activities.

(3) Amount relates to the Company's plant start-up and restructuring initiatives.

(4) Amount represents the portion of the Company's capital expenditures necessary for maintaining its existing capital asset base (see *Liquidity and Capital Resources – Capital Expenditures*).

The Company's free cash flow for 2016 as compared to 2015 increased by \$40.4 million primarily due to its increased adjusted EBITDA partially offset by higher cash taxes and maintenance capital expenditures.

Dividend Policy

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

- The ratio of its dividends to its free cash flow on a rolling four quarter basis;
- Debt principal repayment obligations;
- Financing requirements for project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*), plant start-up and business restructuring initiatives and business acquisitions;
- Ability to access reasonably priced debt and equity financing;
- The ratio of its annual dividend per share to the trading price of its shares on the Toronto Stock Exchange, i.e. dividend yield;

- Maintaining a stable quarterly per share dividend, despite the seasonal nature of many of the Company's businesses; and
- Significant changes, if any, in the status of one or more of the risk factors facing the Company.

In the first quarter of 2016, the Company increased its quarterly dividend by 10.1% to \$0.38 per share, or \$1.52 per share on an annualized basis. Subsequent to 2016 the Company increased its quarterly dividend by 10.5% to \$0.42 per share, or \$1.68 per share on an annual basis.

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 \$0.42 per share will be maintained.

Dividend History

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

<i>(in millions of dollars except per share amounts and ratios)</i>					
	Declared Shareholder Dividends / Distributions	Nature of Distribution	Free Cash Flow	Ratio ⁽¹⁾	Average Annualized Dividend / Distribution Per Share / Unit
Trailing four quarters ended:					
December 31, 2016	44.5	Dividend	121.5	36.6%	\$1.5200
December 26, 2015	35.0	Dividend	81.1	43.2%	\$1.3800
December 27, 2014	27.8	Dividend	57.4	48.4%	\$1.2500
December 28, 2013	26.5	Dividend	49.2	53.9%	\$1.2315
December 29, 2012	24.4	Dividend	46.0	53.0%	\$1.1760
December 31, 2011	22.7	Dividend	38.2	59.4%	\$1.1760
December 25, 2010	21.0	Dividend	32.2	65.2%	\$1.1760
December 26, 2009	20.7	(2)	29.3	70.6%	\$1.1760
December 31, 2008	20.6	Trust distribution	29.6	69.6%	\$1.1760
December 31, 2007	20.5	Trust distribution	26.4	77.7%	\$1.1760
December 31, 2006	18.4	Trust distribution	17.3	106.4%	\$1.1760

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

(2) Consisted of trust distributions for the first two quarters of the period and dividends for the last two quarters of the period.

Capital Expenditures

Expenditure Classification

The Company categorizes its capital expenditures into project capital expenditures and maintenance capital expenditures. Project capital expenditures are capital expenditures that are expected to generate a minimum internal rate of return 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, 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.

Changes in Capital Assets

The following table shows the changes in the Company's capital assets during 2016:

(in millions of dollars)	53 weeks ended Dec 31, 2016
Opening capital assets at December 26, 2015	227.3
Depreciation	(27.4)
Foreign currency translation adjustment ⁽¹⁾	(2.0)
Disposals	(0.3)
Acquisitions	11.3
Capital expenditures:	
Project	34.2
Maintenance	8.6
Closing capital assets	251.7

(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.

Project Capital Expenditures

During 2016, the Company invested \$34.2 million in project capital expenditures consisting of the following:

- US\$8.6 million for the construction of a 212,000 square foot, state-of-the-art sandwich assembly facility in Phoenix, AZ. The facility, which is scheduled to open early in the third quarter of 2017, will complement the Company's sandwich production facilities in Reno, NV, Columbus, OH, Edmonton, AB and Montreal, QC. In total, once the Phoenix plant is complete, the Company will have approximately 610,000 square feet of state-of-the-art sandwich production capacity.

The projected cost of this project, which consists of modifying a newly constructed leased building to allow for the installation of up to 16 high speed sandwich assembly lines and includes an initial six production lines, is US\$29.0 million. Additional lines will be added as needed to support the Company's growth.

- \$4.5 million for a new enterprise resource planning system that the Company intends to implement in most of its businesses over the next several years.

- \$4.3 million for capacity expansion projects at its deli and premium processed meats production facilities. The Company expects (see *Forward Looking Statements*) to spend an additional \$2.0 million in 2017 to complete these projects.
- US\$2.7 million for production lines and other equipment needed to expand the capacity and improve the efficiency of its new sandwich plant in Columbus, OH. The projected cost of this project, which is expected to be completed in 2017, is US\$5.7 million (see *Forward Looking Statements*).
- \$3.1 million for an additional production line at the Company's Expresco business' Montreal, QC plant. This project was completed in the third quarter of 2016.
- \$2.2 million for the expansion of the Company's Centennial foodservice business' Calgary distribution and custom cutting facility. In addition to providing Centennial with incremental distribution capacity for the southern Alberta market, this project, which was completed in the third quarter of 2016, includes specialized dry aging rooms that enable Centennial to now provide its customers across western Canada with a premium dry aged beef program.
- \$0.9 million for the expansion of the Company's Centennial foodservice distribution business model into Ontario. This project, which is expected to be completed late in the third quarter of 2017, consists of building a state-of-the-art distribution and custom cutting facility in the Greater Toronto Area. The new facility will: (i) provide much needed capacity for its Ocean Miracle and Diana's Seafood businesses, both of which will move their distribution into the new facility; and (ii) allow the Ocean Miracle and Diana's Seafood businesses to offer hotels, restaurants and institutions Centennial's full line of high quality customized protein solutions, thereby effectively expanding Centennial's highly successful business model into Ontario. Currently Centennial operates only in western Canada.

The projected cost of this project, which includes equipment and leasehold improvements, is \$14.0 million (see *Forward Looking Statements*).

- \$4.5 million for a variety of smaller projects consisting mainly of capacity related equipment purchases.

Historic Maintenance Capital Expenditures

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

<i>(in millions of dollars)</i>	
Trailing four quarters ended:	
December 31, 2016	8.6
December 26, 2015	6.4
December 27, 2014	4.8
December 28, 2013	4.3
December 29, 2012	2.9
December 31, 2011	2.9
December 25, 2010	1.7
December 26, 2009	2.0
December 31, 2008	2.6
December 31, 2007	1.8
December 31, 2006	1.9

Looking forward, for 2017 the Company expects its maintenance capital expenditures to be between \$12.0 million and \$14.0 million (see *Forward Looking Statements*).

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 transactions can be financed through a variety of sources including existing credit facilities and the issuance of new debt and/or equity.

During 2016 the Company made the following corporate investments:

C&C Packing / Premier Meats

In April 2016, the Company acquired substantially all of the assets and business undertakings of Quebec based C&C Packing Inc. (C&C) and its affiliate, Premier Meat Packers (2009) Inc. (Premier) for \$153.9 million including net working capital closing adjustments and after adjusting for the present value of certain contingent consideration. C&C is a leading supplier of protein products to retailers and foodservice customers in Ontario, Quebec and the Maritimes while Premier operates a modern production facility in Montreal, QC that produces value added protein products for retail and foodservice customers across Canada. On a combined basis C&C and Premier have annual sales of approximately \$250 million.

The acquisition purchase price, which is subject to customary closing adjustments, consisted of \$111.8 million in cash, the issuance of 514,579 of the Company's common shares valued at \$24.0 million and contingent consideration of up to \$20.0 million (recorded at \$18.1 million on a present value basis) that is payable if C&C Foods achieves certain profitability targets over the next two years.

Fletcher's US

In September 2016, the Company completed the purchase of the business and certain assets of Washington based Fletcher's Fine Foods (Fletcher's US) for US\$4.4 million in cash including net working capital closing adjustments. Fletcher's US, which has sales of approximately US\$17.0 million, is a marketer and distributor of branded premium bacon and fresh sausage products to retail customers across the US Pacific Northwest.

Belmont Meats

In October 2016 the Company completed the acquisition of Ontario based Belmont Meat Products Ltd. (Belmont Meats) for \$47.9 million including net working capital closing adjustments. Belmont Meats, which has annual sales of approximately \$120 million, is one of the leading manufacturers of burger patties in Canada and produces a wide variety of customized premium burgers for retail and foodservice customers across the country.

The acquisition purchase price consisted of \$47.1 million in cash and 12,461 of the Company's common shares valued at \$0.8 million.

Larosa Foods

In October 2016, the Company completed the acquisition of the business and assets of Larosa Foods for \$0.8 million in cash. Larosa is a manufacturer and distributor of specialty Italian products which it sells to retail and foodservice customers across western Canada. Subsequent to 2016, the Company transferred Larosa's operations into Conte Foods' facility in Burnaby, BC.

Island City Baking / Conte Foods

In November 2016, the Company completed the acquisition of BC based Island City Baking and its affiliate, Conte Foods, for \$19.9 million including net working capital adjustments. Island City Baking, which has annual sales of approximately \$16 million, is a leading manufacturer of fresh and frozen artisan breads for retail and foodservice markets in BC. Conte Foods, which has annual sales of approximately \$4 million, is a distributor of a variety of specialty food products, including items imported from various parts of Europe and fresh pasta produced at its 16,000 square foot facility located in Burnaby, BC, to retail and foodservice customers in BC.

The acquisition purchase price consisted of \$13.6 million in cash, 45,262 of the Company's common shares valued at \$3.0 million and a minority equity stake in the Premium Brands' bakery group of companies valued at \$3.2 million.

Diana's Seafood

In December 2016, the Company completed the acquisition of Diana's Seafood for \$12.8 million including net working capital adjustments. Diana's Seafood, which has annual sales of approximately \$18.0 million and is an iconic brand in the Greater Toronto Area (GTA), is a wholesaler and distributor of a variety of high quality fresh and frozen seafood products to customers in the GTA. It also has a very successful retail outlet in the GTA.

The acquisition purchase price consisted of \$10.1 million in cash, a \$2.0 million promissory note payable over two years and bearing interest at 4%, and 10,930 of the Company's common shares valued at \$0.7 million.

IMS

Subsequent to 2016, the Company completed the acquisition of an 80% interest in Nova Scotia based Interprovincial Meat Sales Ltd. (IMS) for approximately \$6.2 million. IMS, which has annual sales of approximately \$36 million, is a leading wholesaler of protein products to retailers, foodservice distributors and manufacturers in the Maritimes.

The acquisition purchase price, which is subject to customary post-closing adjustments, consisted of \$2.7 million in cash, a \$0.8 million non-interest bearing promissory note due in 2019, 7,594 of the Company's common shares valued at \$0.5 and the assumption of \$2.2 million of funded debt.

Made-Rite

Subsequent to 2016, the Company purchased the remaining minority shareholders' 30% interest in its Made-Rite Meat Products subsidiary, as well as the production facility currently being leased by Made-Rite, for \$8.9 million in cash. Made-Rite, which is based in Langley, BC, is a manufacturer of beef jerky and other meat snack products.

Ravensbergen

Subsequent to 2016, the Company completed the acquisition of the assets and business of BC based Ravensbergen Bakery Supplies Ltd. (Ravensbergen) for approximately \$0.6 million in cash, subject to customary post-closing adjustments. Ravensbergen, which has annual sales of approximately \$1.2 million, supplies a full line of premium gelato making ingredients imported from Europe, for which it has exclusive distribution rights for western Canada, to foodservice customers across western Canada.

Goodwill and Intangible Assets

Primarily all of the Company's goodwill and intangible assets (consisting of brand names and customer relationships) are the result of business acquisitions.

The following table shows the changes in the combined total of the Company's goodwill and intangible assets during 2016:

<i>(in millions of dollars)</i>	53 weeks ended Dec 31, 2016
Opening goodwill and intangible assets at December 26, 2015	289.2
Amortization of intangible assets	(7.6)
Acquisitions	188.1
Adjustment to preliminary purchase price allocation of 2015 acquisition	1.5
Foreign currency translation adjustment ⁽¹⁾	(1.1)
Closing goodwill and intangible assets	470.1

(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.

Investment in Associates

Investment in associates consists of the Company's investments in businesses which it does not control, and consists of a 50% interest in Golden Valley Farms Inc., an Arthur, ON based poultry processor; a 35% interest in Pender West LP, a Vancouver, BC based real estate investment fund which owns and leases to the Company three industrial real estate properties; and a 25% interest in McLean Meats Inc., a Vancouver, BC based marketer and supplier of premium and organic processed meats.

The following table shows the changes in investment in associates during 2016:

<i>(in millions of dollars)</i>	53 weeks ended Dec 31, 2016
Opening investment in associates at December 26, 2015	9.3
Equity income in associates	0.4
Cash distribution from associates	(0.2)
Closing investment in associates	9.5

Puttable Interest in Subsidiaries

Puttable interest in subsidiaries (puttable interest) represents the fair value estimate of put options held by non-controlling shareholders of certain subsidiaries of the Company that entitle such shareholders to require the Company to purchase their remaining interest in the applicable subsidiary at a formula based price, which is generally a multiple of the applicable subsidiary's average adjusted EBITDA for a defined period.

The following table shows the changes in puttable interest during 2016:

<i>(in millions of dollars)</i>	53 weeks ended Dec 31, 2016
Opening puttable interest at December 26, 2015	26.3
Change in value ⁽¹⁾	4.1
Acquisitions	3.2
Addition arising from issuance of shares of subsidiary ⁽²⁾	0.5
Cash distributions to non-controlling shareholders with puttable interests	(1.7)
Foreign currency translation adjustment ⁽³⁾	(0.2)
Closing puttable interest	32.2

(1) See *Results of Operations – Change in Value of Puttable Interest in Subsidiaries*.

(2) Contingent consideration relating to the acquisition of Ocean Miracle (see *Liquidity and Capital Resources – Corporate Investments – Provisions*) was partially settled through the issuance of shares of one of the Company's subsidiaries. The holders of these shares have put options which entitle them to require the Company to purchase the shares from them.

(3) 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.

Provisions

Provisions consist of the following amounts:

<i>(in millions of dollars)</i>	As at Dec 31, 2016
Contingent consideration – Freybe acquisition ⁽¹⁾	1.2
Contingent consideration – Ocean Miracle acquisition ⁽²⁾	1.9
Contingent consideration – C&C Foods acquisition ⁽³⁾	18.8
Lease restoration costs ⁽⁴⁾	1.0
Provisions ⁽⁵⁾	22.9

(1) This represents the discounted present value of the contingent consideration that is payable to the previous owners of Freybe Gourmet Foods (acquired in 2013) if the business achieves certain performance targets over the 53 week period ending March 25, 2017.

(2) This represents the discounted present value of the contingent consideration that is payable to the previous owners of Ocean Miracle (acquired in 2014) if the business achieves certain performance targets over the 52 week period ending December 30, 2017 and the 52 week period ending December 29, 2018.

(3) This represents the discounted present value of the contingent consideration that is payable to the previous owners of C&C Foods (acquired during the second quarter of 2016) if the business achieves certain performance targets over the two year period ending April 17, 2018.

(4) This represents the discounted present value of estimated (see *Forward Looking Statements*) future site restoration costs associated with leased facilities. The final liabilities will be payable upon the expiry of the associated leases.

(5) Includes both the current and long-term portions.

The following table shows the changes in the provisions during 2016:

(in millions of dollars)	53 weeks ended Dec 31, 2016
Opening provisions at December 26, 2015	6.0
Acquisition	18.1
Accretion of provisions	1.0
Cash payments	(1.7)
Settlement through issuance of shares of subsidiary ⁽¹⁾	(0.5)
Closing provisions ⁽²⁾	22.9

(1) \$1.0 million of the contingent consideration relating to Ocean Miracle was settled during the second quarter of 2016 through a cash payment of \$0.5 million and the issuance of shares of one of the Company's subsidiaries valued at \$0.5 million.

(2) Includes both the current and long term portions.

OUTLOOK

See *Forward Looking Statements* for a discussion of the risks and assumptions associated with forward looking statements.

See *Results of Operations* for details on the Company's revenue organic growth rate, adjusted EBITDA margin and income tax rate expectations for 2017.

See *Liquidity and Capital Resources – Capital Expenditures* for details on the Company's project and maintenance capital expenditure expectations for 2017.

See *Liquidity and Capital Resources – Dividends – Dividend Policy* for details on the Company's dividend payment policy.

In terms of business acquisitions, the Company intends (see *Forward Looking Statements*) to continue to implement its business acquisition strategies and, correspondingly, is in the process of evaluating several potential transactions.

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 31, 2016 are as follows:

<i>(in millions of dollars)</i>	Total	1 year out	2 years out	3 years out	4 years out	5 years out	There-after
Long-term debt	155.9	2.2	1.8	0.5	140.7	2.5	8.2
5.00% Debentures	66.2	-	-	-	66.2	-	-
4.65% Debentures	86.3	-	-	-	-	86.3	-
4.60% Debentures	113.0	-	-	-	-	-	113.0
Operating leases	157.2	21.8	19.9	18.8	15.9	13.8	67.0
Total	578.6	24.0	21.7	19.3	222.8	102.6	188.2

TRANSACTIONS WITH RELATED PARTIES

During 2016, the Company entered into the following transactions with related parties:

Pender West LP

Pender West LP is a Vancouver, BC based real estate investment fund in which the Company owns a 35% interest (see *Corporate Investments – Investments in Associates*) and the Company's Chairman, Bruce Hodge, indirectly owns a 13% interest.

Pursuant to three twenty-year real property leases ending between April 2033 and January 2034, the Company made \$2.9 million in lease payments to Pender West LP in 2016.

Employee Loan Program (ELP)

In 2006 the Company put into place the ELP. Under the terms of the program the Company makes loans to certain employees, officers and directors of the Company (the participants) for the sole purpose of enabling them to purchase the Company's issued and outstanding common shares. The primary reasons for the ELP are: (i) facilitating ownership in the Company by the participants and thereby further aligning their interests with those of the Company's shareholders; and (ii) supporting employee retention.

The terms of a loan made under the ELP are as follows:

- Security: A first charge on the shares (the ELP shares) purchased with the proceeds of the loan and a personal guarantee from the participant
- Interest: None unless an event of default occurs
- Principal payments: Quarterly payments equal to 55% of the dividends paid on the ELP shares
- Maturity: Loan is immediately due and payable upon the termination of the participant's employment with the Company, otherwise, no fixed maturity date

During 2016 the Company issued \$1.6 million in loans under the ELP, the proceeds of which were used by the participants to purchase 26,604 of the Company's issued and outstanding common shares in the public market at an average price per share of \$61.08.

As at the end of 2016 \$9.0 million of ELP loans, which are included as part of *Other Assets* on the Company's consolidated balance sheet, were outstanding to 97 employees of the Company.

Principal payments on the ELP loans in 2016 totaled \$0.4 million, \$0.1 million of which were made by the officers and directors of the Company.

SUBSEQUENT EVENTS

Acquisition of Made-Rite

Subsequent to 2016 the Company purchased the minority shareholders' 30% interest in its Made-Rite subsidiary (see *Liquidity and Capital Resources – Corporate Investments – Made-Rite*).

Acquisition of IMS

Subsequent to 2016 the Company acquired an 80% interest in IMS (see *Liquidity and Capital Resources – Corporate Investments – IMS*).

Acquisition of Ravensbergen

Subsequent to 2016 the Company acquired the assets of Ravensbergen (see *Liquidity and Capital Resources – Corporate Investments – Ravensbergen*).

Increase in Dividend Rate

Subsequent to 2016 the Company increased its quarterly dividend by 10.5% to \$0.42 per share, or \$1.68 per share on an annual basis (see *Liquidity and Capital Resources – Dividends – Dividend Policy*).

FORWARD LOOKING STATEMENTS

This discussion and analysis contains forward looking statements with respect to the Company, including, without limitation, statements regarding its business operations, strategy and financial performance and condition, cash distributions, proposed acquisitions, budgets, projected costs and plans and objectives of or involving the Company. While 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 15, 2017, there can be no assurance that such expectations will prove to be correct, and such forward looking 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.

Forward looking statements generally can be identified by the use of the words "may", "could", "should", "would", "will", "expect", "intend", "plan", "estimate", "project", "anticipate", "believe" or "continue", or the negative thereof or similar variations. Forward looking statements in this discussion and analysis include statements with respect to (i) the Company's expectations relating to organic volume growth, (ii) the Company's projections relating to EBITDA margin, (iii) expected income tax rates, (iv) projected expenditures relating to capital expansion projects and maintenance capital expenditures, (v) the Company's target and outlook for RONA, (vi) the availability of senior debt capacity to fund project capital expenditures and business acquisitions, and (vii) expected amounts relating to the Company's provisions.

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

Assumptions used by the Company to develop forward looking information contained or incorporated by reference in this discussion and analysis are based on information currently available to it and include the following list of assumptions. Readers are cautioned that the following list is not exhaustive:

- The overall economic conditions in Canada and the United States will be relatively stable with modest improvement in the near to medium term.
- The average cost of the basket of food commodities purchased by the Company will be relatively stable.
- The Company's major capital projects and business acquisition initiatives will progress in line with its expectations.
- The Company will be able to continue to access sufficient goods and services for its manufacturing and distribution operations. In particular, the Company's Canadian businesses will be able to access adequate supplies of certain supply managed commodities such as turkey.
- The value of the Canadian dollar relative to the U.S. dollar will continue to fluctuate in line with recent levels.
- The Company will be able to achieve continued operating efficiency improvements.
- There will not be any material changes in the competitive environment or consumer food trends in the markets in which the Company's various businesses compete. Some of the specific consumer trends that the Company's business strategies are focused on include: (i) growing demand for higher quality foods made with simpler more wholesome ingredients and/or with differentiating attributes such as antibiotic free, no added hormones or organic; (ii) increased reliance on convenience oriented foods both for on-the-go snacking as well as easy home meal preparation; (iii) healthier eating including reduced sugar consumption and increased emphasis on protein; (iv) increased snacking in between and in place of meals; (v) increased interest in understanding the background and stories behind food products being consumed; and (vi) increased social awareness on issues such as sustainability, sourcing products locally, animal welfare and food waste.
- Overall North American weather patterns will be in line with historic patterns. To the extent that unusual and/or extreme weather occurs this can impact the Company in a variety of ways including: (i) changes in consumer demand patterns; (ii) changes in raw material costs; and (iii) raw material shortages.
- There will not be any material changes in the Company's relationships with its larger customers. More specifically, the Company will not lose a major product listing with one of its larger customers or be forced to give significant product pricing concessions to a larger customer.
- The Company will be able to continue to access sufficient skilled and unskilled labor at current wage levels.
- The Company will be able to negotiate new collective agreements with no labor disruptions.
- 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 remain relatively stable in the near to medium future.
- Contractual counterparties will continue to fulfill their obligations to the Company.
- There will be no material changes to the tax and other regulatory requirements governing the Company.
- The Company will be able to complete its capital projects in line with cost estimates.

Management has set out the above summary of assumptions related to forward looking information included in this discussion and analysis in order to provide a more complete perspective on the Company's future operations. Readers are cautioned that this information may not be appropriate for other purposes.

Unless otherwise indicated, the forward looking information in this document is made as of March 15, 2017 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 these risk factors together with all of the other information contained in this MD&A. Furthermore, it should be noted that 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 it may currently deem insignificant (see *Forward Looking Statements*).

Commodity Risk

The Company purchases a variety of commodity raw materials, including beef, pork, seafood, poultry, lamb, flour, corrugated packing materials, dairy products and energy, all of which are determined by relatively volatile market forces of supply and demand over which the Company has limited or no control. In addition, the cost of many of these commodity raw materials is highly cyclical, being characterized by periods of supply and demand imbalance, and sensitive to changes in industry capacity. If there is a sudden or severe increase in the cost of such commodity raw materials and the Company is unable to pass the additional costs onto its customers through increased selling prices, this could have a material adverse effect on its selling margins.

Furthermore, even if the Company is able to pass the additional costs onto its customers, there is a risk that this could result in higher selling prices for end consumers which, in turn, could negatively impact consumer demand for the Company's products.

The Company's product diversification strategies, which reduce its exposure to any single commodity, combined with its focus on differentiated products and niche markets that are less price sensitive, help to mitigate this risk. 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 commodities purchased by the Company.

Consumer Discretionary Spending Risk

The Company's sales could be adversely effected by reduced consumer discretionary spending resulting from actual or perceived changes in the condition of the economy. The Company's foodservice and convenience related businesses, in particular, are sensitive to this risk 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.

The Company's business diversification strategies, which include the development of sales in both the retail and foodservice segments of the food industry, help to mitigate this risk as a decline in sales in the foodservice segment resulting from poor economic conditions is often partially offset by an increase in sales in the retail segment.

Sales and Margin Risk

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

In addition, competition in the markets in which the Company competes 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 favorable terms to compete successfully.

Customer Risk

The Company's sales to large format retail customers account for approximately 37.5% of its total revenue. As is customary in the food industry, the Company does not have long-term contracts with any of these customers. The Company also has sales, representing approximately 22.4% of its total revenue, to a group of distributors who sell the Company's products primarily to one customer (the Core Customer). The balance of the Company's sales is to a broad and diversified base of customers. The loss of sales to a large format retail customer or the Core Customer could have a material adverse effect on the Company's revenue.

The Company's customer diversification strategies, which include its individual businesses maintaining unique relationships with its customers, help to mitigate exposure to this risk. Furthermore, the risk associated with losing sales associated with the Core Customer is mitigated by a variety of factors including a long-term supply agreement, the Company's strong past performance as a strategic supplier, and a long time solid relationship.

Product Defect Risk

Many of 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 the Company's products could result in the development of bacteria in the product that may cause food-borne illness. Product defects may also be caused by other factors such as accidental contamination, product tampering, mislabeling and/or the unintentional use of defective raw materials received from third party suppliers. The occurrence of a product defect could have a material adverse effect on the Company's: (i) sales due to reduced consumer demand and/or product availability; and /or (ii) expenses due to a variety of potential items including product recall and disposal costs and lawsuits.

The Company mitigates this risk by maintaining strict and rigorous quality controls and processes in its manufacturing and distribution facilities and by maintaining product liability and other insurance coverage that it believes to be in accordance with industry practices. Its insurance coverage may not, however, be adequate to fully protect the Company against damage claims and recall costs resulting from product defects. In addition, even if a claim is unsuccessful, the negative publicity associated with a claim and/or a product recall could be harmful to the Company's reputation.

Weather Risk

Many of the Company's businesses are seasonal as their revenues depend partly on favorable weather conditions. Correspondingly the Company's strongest financial performance is during the spring and summer seasons (see *Summary of Quarterly Results*). Poor weather conditions during these periods could have a material adverse effect on the Company's sales.

Access to Raw Material Supply Risk

Most of the raw materials purchased by the Company are generally readily available from a variety of suppliers and brokers, however, there are risks associated with the Company being able to adequately source adequate quantities of raw materials at reasonable prices. These include:

- The potential impact of climate change in general, and droughts in particular, on livestock production;
- The potential impact of unusual weather conditions on the availability of certain species of wild seafood, both in terms of preventing fishing fleets from accessing wild seafood stocks during

extreme storms and a general lack of availability of certain species of seafood during times of abnormal water temperatures;

- Canada's supply management system for certain agricultural commodities which, in the past, has created supply / demand imbalances that have resulted in the Company not being able to source adequate amounts of reasonably priced turkey raw materials;
- Livestock risk (see *Risk and Uncertainties – Livestock Risk*); and
- International trade risk (see *Risk and Uncertainties – International Trade Risk*).

The Company mitigates these risks by maintaining a broad network of suppliers, contractual relationships with certain suppliers, developing global procurement relationships and through its general business and product diversification strategies.

Consumer Preference Risk

The Company's business is dependent, in part, upon stable and continued consumer interest in its products. While the Company believes it is well positioned to benefit from a number of consumer trends (see *Forward Looking Statements*), there is no assurance that these trends will continue 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.

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 such products.

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 labor 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.

Growth 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. Furthermore, significant growth may place a significant amount of strain on the Company's senior management team and other key personnel as well as its business processes, operations and other resources.

Business Restructuring Risk

In order to maximize the profitability of one or more of the Company's businesses and/or address changes in the business environment in which one or more of its businesses operates, the Company

will, from time to time, initiate major business restructuring projects. There can be no assurance that these projects will be successful in addressing the issues impacting the relevant business. Furthermore, a major restructuring project may absorb significant management attention that would otherwise be available for the ongoing development of the Company's business.

Capital Project Risk

As part of the Company's growth and continuing improvement initiatives, it often invests in a variety of capital projects including the construction of new facilities and enhancements to existing facilities. In estimating the cost of these projects, the Company must make a variety of assumptions which are based on its experience and understanding of current facts and circumstances. If the capital expenditures associated with the a capital project are greater than projected, or if the expected benefits associated with larger capital projects are not achieved then the Company's financial condition, results of operations and cash flows could be adversely affected.

Acquisition Risk

A key component of the Company's growth strategies is through business acquisitions and combinations, however, there can be no assurances that the Company will be able to identify and acquire appropriate businesses. Furthermore, there are inherent risks associated with acquiring a business including unanticipated transaction costs, costs associated with failed transactions, undisclosed liabilities, and integration issues. In addition, the process of integrating an acquired business into the Company's operations may cause disruptions to the ongoing business or may absorb significant management attention that would otherwise be available for the ongoing development of the Company's business.

Currency Exchange Risk

The Company is exposed to changes in the value of the Canadian dollar relative to the U.S. dollar in the following ways:

- A significant portion of the Company's Canadian operations' raw material and finished product purchases are either denominated in U.S. dollars or are priced off of U.S. commodity markets. Correspondingly, an increase in the U.S. dollar relative to the Canadian dollar can result in an increase, in Canadian dollar terms, in the cost of these products. Where appropriate the Company partially mitigates this risk exposure through the use of foreign currency forward contracts (see *Financial Instruments – Foreign Currency Contracts*).
- A portion of the Company's U.S. based operations' sales consist of product exports to Canada. Correspondingly, an increase in the U.S. dollar relative to the Canadian dollar could reduce the selling margins on these products if the Company's U.S. based operations were unable to increase their selling prices, in Canadian dollar terms, to compensate for the stronger U.S. dollar.
- The valuation of the cash flows transferred from the Company's U.S. based operations. A decrease in the U.S. dollar relative to the Canadian dollar would reduce the value of this cash flow.
- The translation of the Company's U.S. based operations' earnings and financial position. A decrease in the U.S. dollar relative to the Canadian dollar would reduce the translated earnings and net asset values of the Company's U.S. based operations, for purposes of its consolidated financial statements.

Cyber Security Risk

The Company relies heavily on information technology systems for the efficient and effective operation of many aspects of its business, and it stores confidential proprietary business information on its information technology network infrastructure. The Company's information technology systems and networks are subject to potential threats such as system failure, unauthorized access, theft of information, malware and viruses which could result in the theft, manipulation and/or the destruction of key information that the Company relies on for its operations, resulting in possible business interruption, reputational damage, competitive disadvantage and financial risk. The Company mitigates these risks by maintaining and testing systems of internal controls over its information technology systems and networks, education of its employees of potential sources of cyber risks, maintaining disaster recovery plans and developing response plans. However, given the rapidly evolving nature of information technology and the high rate of change in the threat landscape, the Company may not be able to mitigate all risks associated with its information technology systems and networks.

Governmental Regulation Risk

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 licenses 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, seizures, criminal sanctions, negative publicity, or increased costs associated with complying with such standards and controls.

Labor Risk

Approximately 29% of the Company's non-management employees are represented by labor unions or employee associations and 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. A labor disruption, whether at one of the Company's businesses or involving one of the Company's significant suppliers, could impair the Company's ability to produce and/or source an adequate supply of finished products. Furthermore, a labor disruption involving one of the Company's significant customers could impair the Company's sales.

The Company is also dependent on having sufficient skilled and unskilled production and distribution labor for the continued efficient operation and growth of its business. In the event the Company is unable to hire and retain adequate labor resources this could also impair the Company's ability to produce an adequate supply of finished products.

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.

Dependence on Key Personnel Risk

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 impact the Company's ability to execute its various business plans.

Interest Rate Risk

The Company is exposed to interest rate fluctuations on all of its revolving senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*). Where appropriate, these exposures are managed through interest rate swaps (see *Financial Instruments – Interest Rate Swap Contracts*), however, there can be no assurance that the Company will be able, in the future, to adequately manage these exposures.

Credit Risk

The Company extends credit to its customers which, like for most businesses in the food industry, 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.

Manufacturing Risk

The operation of the Company's facilities is dependent on the continued operation of certain critical equipment, such as refrigerators, freezers and processing equipment, which could incur downtime as a result of unanticipated failures. The Company may experience plant shutdowns, periods of reduced production or unexpected interruptions in production capabilities as a result of such equipment failures.

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

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.

International Trade Risk

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.

Environmental, Health and Safety Regulation Risk

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 operating costs.

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.

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 labor and overhead. Inherent in the determination of the cost of such inventories are certain management judgements 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 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. Assessing impairment of goodwill and intangible assets with indefinite lives requires significant judgement including making estimates with regards to the amounts and timing of future cash flows and the discount rates used to value such cash flows.

Capital assets. Capital assets are recorded at cost then depreciated over their estimated useful life. A significant amount of judgement is required to estimate the useful life of an asset. Changes in the estimated useful life of an asset are reflected prospectively through changes in future depreciation rates.

Income tax provision. The provision for deferred income taxes is based on changes in the estimated temporary differences between the value of the assets and liabilities used for tax purposes and those used for accounting purposes. In determining these temporary differences, certain management judgements and estimates are required. Furthermore, deferred income tax assets are recognized only to the extent that management determines that it is more likely than not that the deferred income tax assets will be realized.

Puttable interest in subsidiaries. Puttable interest in subsidiaries is calculated based on projections of future cash flows of certain subsidiaries. A significant amount of judgement is required in estimating the amounts and timing of these cash flows and in determining the appropriate discount rates to be used under this valuation method.

Convertible unsecured subordinated debentures. The determination of reasonable fair market values for the debt and equity components of convertible unsecured subordinated debentures is based on a variety of quantitative and qualitative factors, including comparative information for other similar financial instruments, and correspondingly requires a significant amount of judgement.

Business acquisitions / contingent consideration. The allocation of the purchase price associated with the acquisition of a business requires a significant amount of judgement in terms of identifying and determining: (i) the fair market values of the tangible and intangible assets purchased; and (ii) the fair value of liabilities assumed. Furthermore, when an acquisition involves contingent consideration, there is also significant judgement involved in determining the value, if any, of such consideration.

Provisions. Provisions represent management's best estimate of the fair value of future costs associated with contingent consideration and lease restoration costs. The final settlement of these

amounts depends upon future events and as a result a significant amount of judgement is required in estimating them.

Plant start-up and/or restructuring costs. Plant start-up and/or restructuring costs consist of costs associated with the start-up of new production capacity and/or the significant restructuring of one or more of the Company's businesses. The determination of plant start-up and restructuring costs requires a significant amount of judgement with regards to the allocation of certain costs to these projects.

NEW ACCOUNTING POLICIES

The IASB periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those that management consider most significant. They are not intended to be a complete list of new pronouncements that may affect the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which supersedes IAS 11, *Construction Contracts* and a number of revenue-related interpretations. This standard addresses revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to control its use and obtain the benefits from the good or service. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company has not yet determined the impact IFRS 15 may have on its consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces the existing lease accounting guidance. IFRS 16 requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. IFRS 16 is effective for the year ending December 31, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time. The Company has not yet determined the impact IFRS 16 may have on its consolidated financial statements.

FINANCIAL INSTRUMENTS

Foreign Currency Contracts

In order to reduce the risk associated with purchases denominated in currencies other than Canadian dollars, the Company, from time to time, enters into foreign currency contracts. The Company does not hold foreign currency contracts for speculative purposes.

As at December 31, 2016, the Company had outstanding foreign currency contracts for the purchase of US\$20.1 million over the next ten months at a blended rate of C\$1.3279.

Based on the outstanding contracts for the purchase of U.S. dollars, 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 \$0.2 million in the Company's consolidated statement of operations.

Interest Rate Swap Contracts

In order to reduce its exposure to rising interest rates, the Company, from time to time, enters into interest rate swap contracts (swaps). The Company does not hold swaps for speculative purposes.

In August 2015, the Company entered into swaps that fixed the rate of interest on \$75.0 million of its long-term debt for a three-year period at a rate of 0.8865% plus 1.25% to 2.25% depending on the Company's quarterly ratio of debt to cash flow.

As at December 31, 2016, a change of 0.25 percentage points in the effective interest rate for the remaining term of the swaps would result in an increase (if interest rates increase) or a decrease (if interest rates decrease) in the fair value of the swaps of approximately \$0.3 million. The Company has designated these swaps as a cash flow hedge and determined that the hedge had no ineffectiveness. Correspondingly, any changes in the fair value of the swaps are recognized in other comprehensive income.

OTHER

Outstanding Shares

The shares outstanding in the Company as of March 15, 2017 were 29,860,239. Under IFRS, which requires that shares issued under employee share benefit plans that have not yet vested be deducted from shares outstanding, the shares outstanding in the Company as of March 15, 2017 were 29,728,232.

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 31, 2016 and has concluded that such procedures are adequately designed and effective for providing reasonable assurance that (i) material information relating to the Company, including its consolidated subsidiaries, is made known to Management on a timely basis to ensure adequate disclosure and (ii) information required to be disclosed by the Company in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time period.

Management has also evaluated the Company's ICFR as of December 31, 2016 and has concluded that the Company's ICFR is adequately designed and effective for providing reasonable assurance that the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with IFRS.

In assessing the design of the Company's DCP and ICFR as at December 31, 2016, the Company has excluded the controls and procedures of Belmont Meats, which was acquired on October 6, 2016 (see *Liquidity and Capital Resources – Corporate Investments – Belmont Meats*). Belmont Meats accounted for \$15.0 million of the Company's revenue and \$0.5 million in losses in its consolidated statement of operations for the 53 weeks ended December 31, 2016, and approximately \$19.6 million, \$45.3 million, \$5.0 million and \$4.6 million of its current assets, non-current assets, current liabilities and non-current liabilities, respectively, in its December 31, 2016 consolidated balance sheet. Documentation and assessment of Belmont Meats' impact on the overall design of the Company's DCP and ICFR is expected to be completed in 2017.

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 (2013 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 31, 2016 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 15, 2017. 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 15, 2017, 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.