



PREMIUM BRANDS HOLDINGS CORPORATION

Management's Discussion and Analysis

For the 13 and 26 Weeks Ended July 1, 2017

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 August 11, 2017. It should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the period ended July 1, 2017, and its fiscal 2016 audited consolidated financial statements and the notes thereto, both of 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 its products is based primarily on factors other than price, such as quality, convenience, health and/or lifestyle; and / or (ii) it 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 it 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.

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 Baking, Duso's, Conte Foods, Larosa Fine 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 includes Centennial Foodservice, B&C Food Distributors, Harlan Fairbanks, Worldsource, E1even, Wescadia, C&C Packing, Premier Meats, Interprovincial Meat Sales, 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 Premium Food Distribution segment's national seafood distribution strategy.

Revenue

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Jul 1, 2017	% (1)	13 weeks ended Jun 25, 2016	% (1)	26 weeks ended Jul 1, 2017	% (1)	26 weeks ended Jun 25, 2016	% (1)
Revenue by segment:								
Specialty Foods	347.7	60.2%	273.0	59.0%	632.2	59.9%	535.2	63.4%
Premium Food Distribution	229.7	39.8%	189.9	41.0%	423.4	40.1%	308.7	36.6%
Consolidated	577.4	100.0%	462.9	100.0%	1,055.6	100.0%	843.9	100.0%

(1) Expressed as a percentage of consolidated revenue

Specialty Foods' (SF) revenue for the second quarter of 2017 as compared to the second quarter of 2016 increased by \$74.7 million or 27.4% primarily due to: (i) business acquisitions, which accounted for \$53.3 million of the increase (see *Liquidity and Capital Resources – Corporate Investments*); (ii) \$26.0 million of organic volume growth representing a growth rate of 9.5%; and (iii) a \$4.1 million increase in the translated value of its U.S. based businesses' sales resulting from, on average, a weaker Canadian dollar. These increases were partially offset by: (i) SF's exit from approximately \$5.6 million of lower margin sales as part of a process to reallocate its production capacity to more sustainable and higher margin sales opportunities; and (ii) \$3.1 million in selling price reductions relating primarily to products sold on a cost plus basis.

For the first two quarters of 2017 as compared to the first two quarters of 2016 SF's revenue increased by \$97.0 million or 18.1% primarily due to: (i) business acquisitions, which accounted for \$82.4 million of the increase; and (ii) \$35.7 million of organic volume growth representing a growth rate of 6.7%. These increases were partially offset by: (i) \$9.3 million in selling price reductions relating primarily to products sold on a cost plus basis; (ii) a \$1.2 million decrease in the translated value of its U.S. based businesses resulting from, on average, a stronger Canadian dollar; and (iii) SF's exit from approximately \$10.6 million of lower margin sales in order to allocate its production capacity to more sustainable and higher margin sales opportunities.

Meat snacks, premium processed meats and artisan sandwiches were the main drivers of SF's 6.7% organic volume growth for the first two quarters of 2017. Looking forward (see *Forward Looking Statements*) the Company is maintaining its guidance for SF's 2017 organic volume growth to exceed its long-term targeted range of 4% to 6% based on a variety of factors, including investments that SF has made in a number of longer term initiatives that are expected to begin contributing to its growth in the latter half of 2017. Among these is its new 212,000 square foot sandwich facility in Phoenix, AZ which commenced operations at the end of the quarter (see *Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures*).

Premium Food Distribution's (**PFD**) revenue for the second quarter of 2017 as compared to the second quarter of 2016 increased by \$39.8 million or 21.0% primarily due to: (i) business acquisitions, which accounted for \$24.9 million of the increase (see *Liquidity and Capital Resources – Corporate Investments*); (ii) \$10.6 million of organic volume growth representing a growth rate of 5.6%; and (iii) \$4.3 million in selling price increases that were implemented in response to higher input costs for a variety of seafood and other protein commodities.

For the first two quarters of 2017 as compared to the first two quarters of 2016 PFD's revenue increased by \$114.7 million or 37.2% primarily due to: (i) business acquisitions, which accounted for \$91.0 million of the increase; (ii) \$17.8 million of organic volume growth representing a growth rate of 5.8%; and (iii) \$5.9 million in selling price increases that were implemented in response to higher input costs for a variety of seafood and other protein commodities.

The primary drivers of PFD's 5.8% organic volume growth for the first two quarters of 2017 were: (i) the expansion of its western Canada foodservice distribution network into niche segments of the retail channel; (ii) increased penetration into the Quebec retail market through its C&C and Premier Meats businesses; (iii) expansion of its non-distributive sales to national and regional restaurant chains; and (iv) capturing additional market share in the Greater Toronto Area foodservice market, primarily in the seafood product category. Its growth was also helped by some stabilization in the Alberta economy.

Looking forward (see *Forward Looking Statements*) the Company is maintaining its guidance for PFD's 2017 organic volume growth to exceed its long-term targeted range of 4% to 6% based primarily on the continued execution of its current growth strategies. Longer term the Company is expecting PFD to further accelerate its growth when it completes the construction of a new distribution and processing facility in Toronto at the end of 2017 (see *Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures*).

Gross Profit

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Jul 1, 2017	% (1)	13 weeks ended Jun 25, 2016	% (1)	26 weeks ended Jul 1, 2017	% (1)	26 weeks ended Jun 25, 2016	% (1)
Gross profit by segment:								
Specialty Foods	78.2	22.5%	56.6	20.7%	139.9	22.1%	104.7	19.6%
Premium Food Distribution	37.2	16.2%	31.7	16.7%	68.1	16.1%	50.2	16.3%
Consolidated	115.4	20.0%	88.3	19.1%	208.0	19.7%	154.9	18.4%

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

SF's gross profit as a percentage of its revenue (gross margin) for the second quarter of 2017 as compared to the second quarter of 2016 increased by 180 basis points to 22.5% primarily due to improved operating efficiencies at a number of its plants, in general, and at its new Columbus sandwich plant, in particular. These improvements were the result of a variety of continuous improvement initiatives as well as higher production volumes associated from SF's organic volume growth and an improved sales mix resulting from a combination of SF's exit from certain lower margin product sales and its growth coming from higher margin branded products.

For the first two quarters of 2017 as compared to the first two quarters of 2016 SF's gross margin increased by 250 basis points to 22.1% primarily due to the same factors that resulted in the increase in its gross margin in the second quarter of 2017. However, on a year to date basis these factors were partially offset by the acquisition of Belmont Meats in late 2016, which for seasonal reasons, has very low gross margins in the first quarter of the year. Excluding the impact of recent acquisitions, SF's gross margin for the first two quarters of 2017 was 22.6%.

PFD's gross margins for the second quarter of 2017 as compared to the second quarter of 2016 and for the first two quarters of 2017 as compared to the first two quarters of 2016 were relatively stable as a variety of factors across PFD's businesses, including selling price increases, sales mix changes and volatility in the cost of certain raw material commodities, offset one another.

Selling, General and Administrative Expenses (SG&A)

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Jul 1, 2017	% (1)	13 weeks ended Jun 25, 2016	% (1)	26 weeks ended Jul 1, 2017	% (1)	26 weeks ended Jun 25, 2016	% (1)
SG&A by segment:								
Specialty Foods	35.3	10.2%	27.3	10.0%	65.9	10.4%	52.2	9.8%
Premium Food Distribution	21.5	9.4%	17.9	9.4%	41.5	9.8%	32.6	10.6%
Corporate	3.6		3.0		7.2		4.9	
Consolidated	60.4	10.5%	48.2	10.4%	114.6	10.9%	89.7	10.6%

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

SF's SG&A as a percentage of sales (SG&A ratio) for the second quarter of 2017 as compared to the second quarter of 2016 rose due to: (i) increased discretionary marketing costs associated with the promotion of higher margin branded products; and (ii) additional investment in the sales and management infrastructure needed to support SF's future growth. These increases were, however, largely offset by the impacts of: (i) acquisitions made in the latter half of 2016; and (ii) the fixed nature

of a variety of costs relative to SF's organic revenue growth. Excluding the impact of acquisitions, SF's SG&A ratio for the quarter was 10.5%.

SF's SG&A ratio for the first two quarters of 2017 as compared to the first two quarters of 2016 increased by 60 basis points primarily due to the same factors impacting the second quarter as well as increased accruals in the first quarter of 2017 for variable employee compensation that is tied to the growth in certain components of the Company's free cash flow. Excluding the impact of acquisitions, SF's SG&A ratio for first two quarters of 2017 was 10.7%.

PFD's SG&A ratio for the second quarter of 2017 as compared to the second quarter of 2016 was unchanged as increased costs associated with the expansion of its distribution network's capacity were offset by the impact of the fixed nature of a variety of costs relative to PFD's organic revenue growth.

PFD's SG&A ratio for the first two quarters of 2017 as compared to the first two quarters of 2016 decreased by 80 basis points primarily due to the impacts of: (i) the acquisition of C&C Foods, which occurred at the beginning of the second quarter of 2016; and (ii) the fixed nature of a variety of costs relative to its organic revenue growth. These were partially offset by increased costs associated with the expansion of PFD's distribution network's capacity. Excluding the impact of the acquisition of C&C Foods, PFD's SG&A ratio for the quarter was 10.4%.

Corporate SG&A for the second quarter of 2017 as compared to the second quarter of 2016 increased by \$0.6 million due to a variety of items, the most significant of which was increased staffing levels needed to support the Company's acquisition and information technology strategies. These increases were partially offset by a higher exchange translation gain on U.S. dollar denominated liabilities.

Corporate SG&A for the first two quarters of 2017 as compared to the first two quarters of 2016 increased by \$2.3 million mainly due to: (i) increased staffing levels to support the Company's acquisition and information technology strategies; and (ii) increased accruals in the first quarter of 2017 for variable employee compensation that is tied to the growth in the Company's free cash flow.

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>	13 weeks ended Jul 1, 2017	13 weeks ended Jun 25, 2016	26 weeks ended Jul 1, 2017	26 weeks ended Jun 25, 2016
Earnings before income taxes	36.4	25.6	58.0	38.0
Plant start-up costs ⁽¹⁾	1.3	-	1.3	-
Depreciation of capital assets ⁽²⁾	7.1	6.5	14.3	13.2
Amortization of intangible assets ⁽²⁾	2.5	2.1	4.9	3.3
Interest and other financing costs ⁽³⁾	5.4	4.3	10.5	7.7
Acquisition transaction costs ⁽¹⁾	0.2	0.3	0.4	0.5
Change in value of puttable interest in subsidiaries ⁽⁴⁾	1.7	1.0	3.2	1.7
Accretion of provisions ⁽³⁾	0.2	0.3	0.5	0.4
Unrealized loss on foreign currency contracts ⁽⁵⁾	-	-	-	0.7
Equity loss (income) in associates ⁽⁶⁾	0.2	-	0.3	(0.3)
Consolidated adjusted EBITDA	55.0	40.1	93.4	65.2

(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>	13 weeks ended Jul 1, 2017	% (1)	13 weeks ended Jun 25, 2016	% (1)	26 weeks ended Jul 1, 2017	% (1)	26 weeks ended Jun 25, 2016	% (1)
Adjusted EBITDA by segment:								
Specialty Foods	42.9	12.3%	29.3	10.7%	74.0	11.7%	52.5	9.8%
Premium Food Distribution	15.7	6.8%	13.8	7.3%	26.6	6.3%	17.6	5.7%
Corporate	(3.6)		(3.0)		(7.2)		(4.9)	
Consolidated	55.0	9.5%	40.1	8.7%	93.4	8.8%	65.2	7.7%

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

The Company's adjusted EBITDA for the first two quarters of 2017 as compared to the first two quarters of 2016 increased by \$28.2 million or 43.3% resulting in a trailing four quarters (TFQ) adjusted EBITDA of \$183.0 million. The Company's adjusted EBITDA as a percentage of sales (EBITDA margin) for the TFQ was 8.8% as compared to 8.3% for 2016 and a targeted range for 2017 of 8.5% to 9.0%.

Looking forward (see *Forward Looking Statements*) the Company is maintaining its guidance for its 2017 adjusted EBITDA margin to be in the 8.5% to 9.0% range.

Plant Start-up Costs

Plant start-up costs consist of expenses associated with the start-up of new production capacity at one or more of the Company's businesses.

During the second quarter of 2017 the Company incurred \$1.3 million in plant start-up costs due to the commissioning of its new 212,000 square foot sandwich production facility in Phoenix, AZ (the Phoenix Plant) (see *Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures*). \$1.1 million of these costs related to pre-start-up expenses including plant overhead, recruiting and employee training with the balance consisting of normal inefficiencies associated with running new production lines.

Looking forward (see *Forward Looking Statements*), the Company expects to continue to incur start-up costs at the Phoenix Plant until the middle of the fourth quarter of 2017 and is projecting \$5.0 million in total plant start-up costs for 2017.

Depreciation and Amortization (D&A)

(in millions of dollars)	13 weeks ended Jul 1, 2017	13 weeks Ended Jun 25, 2016	26 weeks ended Jul 1, 2017	26 weeks ended Jun 25, 2016
Depreciation and amortization of intangible assets (D&A) by segment:				
Specialty Foods	7.7	6.6	14.9	13.2
Premium Food Distribution	1.8	1.9	4.0	3.1
Corporate	0.1	0.1	0.3	0.2
Consolidated	9.6	8.6	19.2	16.5

The Company's D&A expense for the second quarter of 2017 as compared to the second quarter of 2016 and for the first two quarters of 2017 as compared to the first two quarters of 2016 increased by \$1.0 million and \$2.7 million, respectively, primarily due to acquisitions completed in 2016 and 2017.

Interest and other financing costs

The Company's interest and other financing costs for the second quarter of 2017 as compared to the second quarter of 2016 and for the first two quarters of 2017 as compared to the first two quarters of 2016 increased by \$1.1 million and \$2.8 million, respectively, primarily due to: (i) higher net funded debt levels (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*); and (ii) a higher blended average cost of debt resulting from convertible debentures making up a larger portion of the Company's total net funded debt.

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 second quarter of 2017 as compared to the second quarter of 2016 and for the first two quarters of 2017 as compared to the first two quarters of 2016 increased by \$0.7 million and \$1.5 million, respectively, primarily due to increased valuations resulting from improved projected financial performances of certain non-wholly owned subsidiaries.

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 2017 is 28% to 30%. This is based on: (i) an effective income tax rate range within the main 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 first two quarters of 2017 the Company's income tax rate was 27.6% which was slightly below its expected range for 2017 due to fluctuations in the relative proportions of its taxable income being generated within the various provinces and states that it operates in. Looking forward (see *Forward Looking Statements*) the Company is, based on currently implemented income tax rates, maintaining its guidance for its 2017 income tax rate to be in the 28.0% to 30.0% range.

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.

(in millions of dollars except per share amounts)								
	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17
Revenue	392.7	400.3	381.0	462.9	481.0	532.6	478.2	577.4
Adjusted EBITDA	32.8	31.5	25.1	40.1	44.0	45.6	38.4	55.0
Earnings from continuing operations	10.1	13.6	9.2	18.4	21.2	20.0	15.3	26.7
Earnings per share – basic – continuing operations	0.40	0.53	0.34	0.64	0.72	0.67	0.52	0.90
Earnings per share – diluted – continuing operations	0.40	0.53	0.34	0.64	0.72	0.67	0.51	0.89

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.

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 business acquisitions and a variety of organic growth initiatives that have resulted in consistent year over year improvement in its quarterly revenue, adjusted EBITDA and earnings.

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:

(in millions of dollars)	As at Jul 1, 2017	As at Dec 31, 2016	As at Jun 25, 2016
Accounts receivable	201.5	180.9	175.5
Inventories	194.9	170.4	162.3
Prepaid expenses	8.7	7.5	6.7
Accounts payable and accrued liabilities	(178.8)	(155.8)	(151.2)
Net working capital	226.3	203.0	193.3

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 the second quarter of 2017 as compared to the end of the second quarter of 2016 increased by \$33.0 million primarily due to: (i) business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*), which resulted in \$30.3 million of additional net working capital; and (ii) the Company's organic growth. These increases were partially offset by: (i) improved accounts receivable collection times; (ii) higher income taxes payable resulting from the Company's improved financial performance and the utilization of most of its loss carry-forward tax attributes in 2016; and (iii) normal fluctuations in the Company's various working capital accounts.

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

(in days)	As at Jul 1, 2017	As at Dec 31, 2016	As at Jun 25, 2016
Days sales in accounts receivable ⁽¹⁾	31.8	33.3	34.5
Days cost of sales in inventory ⁽²⁾	38.4	39.0	39.4

(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 the second quarter of 2017 as compared to the end of the second quarter of 2016 decreased by 2.7 days due to: (i) business acquisitions which accounted for 0.6 days of the decrease; and (ii) general improvements in receivable collection times.

The Company's days cost of sales in inventory at the end of the second quarter of 2017 as compared to the end of the second quarter of 2016 decreased by 1.0 day primarily due to acquisitions. Excluding acquisitions, the Company's days cost of sales in inventory at the end of the second quarter of 2017 was 39.4 days.

Debt Financing Activities

Credit Facilities

As at July 1, 2017, the Company's credit facilities and the unutilized portion of those facilities were as follows:

(in millions of dollars)	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Revolving senior credit facility ⁽¹⁾	339.5	185.3	154.2
5.00% debentures ⁽²⁾	64.4	64.4	-
4.65% debentures ⁽³⁾	83.3	83.3	-
4.60% debentures ⁽⁴⁾	108.3	108.3	-
Industrial Development Revenue Bond ⁽⁵⁾	7.9	7.9	-
Vendor take-back notes ⁽⁶⁾	5.1	5.1	-
Capital leases and other term loans	0.9	0.9	-
Other revolving credit facilities	17.0	3.0	14.0
Cheques outstanding	-	10.7	(10.7)
Cash and cash equivalents	-	(30.1)	30.1
	626.4	438.8	187.6

- (1) The credit facility amount of \$339.5 million represents the total available under this facility of \$350.0 million less approximately \$10.5 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 July 1, 2017. The 5.00% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.D.
- (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 July 1, 2017. The 4.65% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.E.
- (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 July 1, 2017. The 4.60% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.F.
- (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. \$3.6 million of the notes is denominated in U.S. dollars (US\$2.8 million) and is redeemable by the noteholder beginning in 2020.

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 Jul 1, 2017	As at Dec 31, 2016	As at Jun 25, 2016
Cheques outstanding	10.7	12.4	10.6
Bank indebtedness	3.0	0.2	6.0
Current portion of long-term debt	2.0	2.2	1.2
Long-term debt	195.9	152.2	194.1
Deferred financing costs ⁽¹⁾	1.3	1.5	1.6
	212.9	168.5	213.5
Less: cash and cash equivalents	30.1	19.4	4.3
Senior funded debt	182.8	149.1	209.2
5.50% Debentures	-	-	21.8
5.00% Debentures	64.4	64.1	63.9
4.65% Debentures	83.3	82.9	82.5
4.60% Debentures	108.3	107.8	-
Total funded debt	438.8	403.9	377.4

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

Debt Activities

During the first two quarters of 2017, the Company's significant debt activities consisted of the following:

<i>(in millions of dollars)</i>	26 weeks ended Jul 1, 2017
Opening total funded debt at December 31, 2016	403.9
Net draws on revolving senior credit facility for operating activities including capital expenditures	20.8
Draws on revolving senior credit facility for business acquisitions	11.8
Funded debt consolidated as part of business acquisitions ⁽¹⁾	2.8
Accretion of debentures	1.2
Foreign currency translation adjustment ⁽²⁾	(0.3)
Scheduled repayments	(1.4)
	438.8

(1) Due to the consolidation of IMS amount includes 100% of its funded debt at the time of the acquisition (see *Liquidity and Capital Resources – Corporate Investment*).

(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.

Banking Covenants

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

	Covenant Requirement	Jul 1, 2017 Ratio
Senior funded debt to adjusted EBITDA ratio ⁽¹⁾	=< 4.0 : 1.0	0.9 : 1.0
Interest coverage ratio ⁽²⁾	>= 4.0 : 1.0	27.3 : 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 characteristics of the convertible debentures issued by the Company.

At the end of the second quarter of 2017, the Company's senior funded debt to adjusted EBITDA ratio of 0.9 : 1 and its total funded debt to adjusted EBITDA ratio of 2.3 : 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	26 weeks Ended Jul 1, 2017	26 weeks ended Jun 25, 2016	Rolling Four Quarters
Cash flow from operating activities	149.9	44.9	67.3	127.5
Changes in non-cash working capital ⁽¹⁾	(21.4)	27.8	(13.1)	19.5
Acquisition transaction costs ⁽²⁾	1.6	0.4	0.5	1.5
Plant start-up costs ⁽³⁾	-	1.3	-	1.3
Maintenance capital expenditures ⁽⁴⁾	(8.6)	(4.2)	(4.1)	(8.7)
Free cash flow	121.5	70.2	50.6	141.1

(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 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 the first two quarters of 2017 as compared to the first two quarters of 2016 rose by \$19.6 million primarily due to its increased adjusted EBITDA partially offset by higher cash taxes and interest payments.

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

In the first quarter of 2017 the Company increased its quarterly dividend by 10.5% to \$0.42 per share, or \$1.68 per share on an annual basis. Over the last three years the Company's quarterly dividend rate has increased as follows:

<i>(in dollars per share except percentages)</i>			
	Revised Quarterly Dividend Rate	Previous Quarterly Dividend Rate	Percentage Increase
Q1-2015	0.3450	0.3125	10.4%
Q1-2016	0.3800	0.3450	10.1%
Q1-2017	0.4200	0.3800	10.5%

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:					
July 1, 2017	47.8	Dividend	141.1	33.9%	\$1.6000
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 the first two quarters of 2017:

<i>(in millions of dollars)</i>	26 weeks ended Jul 1, 2017
Opening capital assets at December 31, 2016	251.7
Depreciation	(14.3)
Foreign currency translation adjustment ⁽¹⁾	(3.3)
Disposals	(0.1)
Acquisitions	5.4
Capital expenditures:	
Project	32.9
Maintenance	4.2
Closing capital assets	276.5

(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 the first two quarters of 2017, the Company invested \$32.9 million in project capital expenditures consisting of:

- US\$18.1 million (CD\$23.9 million) for the construction of a 212,000 square foot, state-of-the-art sandwich assembly facility in Phoenix, AZ. The facility, which commenced operations at the end of the second quarter, provides the Company with much needed capacity and complements its other sandwich production facilities in Reno, NV, Columbus, OH, Edmonton, AB and Montreal, QC. In total, with the completion of the Phoenix plant, the Company now has approximately 610,000 square feet of state-of-the-art sandwich production capacity.

The projected cost of the project is US\$29.0 million, US\$26.7 million of which had been spent as at the end of the second quarter of 2017 (see *Forward Looking Statements*).

- \$2.9 million for the expansion of the Company's Centennial foodservice distribution business model into Ontario. This project, which is expected to be completed by the end 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 the Company's Ocean Miracle and Diana's Seafood foodservice distribution businesses, both of which will move their operations 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, \$3.8 million of which had been spent as at the end of the second quarter of 2017 (see *Forward Looking Statements*).

- \$1.3 million for a new enterprise resource planning system that the Company intends to implement in most of its businesses over the next several years. The Company expects to spend approximately \$3.0 million on this project in 2017 (see *Forward Looking Statements*).
- \$4.8 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:	
July 1, 2017	8.7
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 the first two quarters of 2017 the Company made the following corporate investments:

Made-Rite

On January 12, 2017, the Company purchased the minority shareholder's 30% interest in its Made-Rite Meat Products subsidiary and the production facility 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.

IMS

On January 27, 2017, the Company completed the acquisition of an 80% interest in Nova Scotia based Interprovincial Meat Sales Ltd. (IMS) for approximately \$5.8 million including post-closing net working capital adjustments. IMS, which has annual sales of approximately \$36 million, is a leading wholesaler of high quality protein products to retailers, foodservice distributors and manufacturers in the Maritimes.

The acquisition purchase price consisted of \$2.3 million in cash, the assumption of \$2.2 million of funded debt, 7,594 of the Company's common shares valued at \$0.5 and contingent consideration of up to \$0.8 million if IMS achieves certain profitability targets over the two years following the acquisition.

Ravensbergen

On February 8, 2017, 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. 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.

Partners

Subsequent to the second quarter of 2017, the Company acquired a 25% interest in Seattle, Washington based Partners, A Tasteful Choice Company (Partners) through the purchase of US\$2.0 million of treasury shares. Partners, which has annual sales of approximately US\$10 million, is a manufacturer of high end artisan crackers for retail markets across the U.S. and Canada. Its proprietary brands include *Partners*, *Mia Dolci*, *Wisecrackers* and *Free for All Kitchen*.

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 the first two quarters of 2017:

<i>(in millions of dollars)</i>	26 weeks ended Jul 1, 2017
Opening goodwill and intangible assets at December 31, 2016	470.1
Amortization of intangible assets	(4.9)
Acquisitions	5.5
Foreign currency translation adjustment ⁽¹⁾	(1.5)
Closing goodwill and intangible assets	469.2

(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 includes the Company's investments in businesses that it does not control. As at the end of the second quarter of 2017, it consisted 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. (McLean), a Vancouver, BC based marketer and supplier of premium and organic processed meats.

Subsequent to the second quarter of 2017, the Company purchased an additional 11.2% interest in McLean for \$0.2 million in cash.

The following table shows the changes in investment in associates during the first two quarters of 2017:

<i>(in millions of dollars)</i>	26 weeks ended Jul 1, 2017
Opening investment in associates at December 31, 2016	9.5
Equity loss in associates	(0.3)
Cash distribution from associates	(0.1)
Closing investment in associates	9.1

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 the first two quarters of 2017:

<i>(in millions of dollars)</i>	26 weeks ended Jul 1, 2017
Opening puttable interest at December 31, 2016	32.2
Change in value ⁽¹⁾	3.2
Acquisitions	1.1
Addition arising from issuance of shares of subsidiary ⁽²⁾	0.5
Cash distributions to non-controlling shareholders with puttable interests	(1.8)
Closing puttable interest ⁽³⁾	35.2

(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) Includes both the current and long-term portions

Provisions

Provisions consist of the following amounts:

<i>(in millions of dollars)</i>	As at Jul 1, 2017
Contingent consideration – Ocean Miracle acquisition ⁽¹⁾	0.9
Contingent consideration – C&C Foods acquisition ⁽²⁾	19.3
Contingent consideration – IMS acquisition ⁽³⁾	0.8
Lease restoration costs ⁽⁴⁾	1.0
Provisions ⁽⁵⁾	22.0

- (1) 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.
- (2) This represents the discounted present value of the contingent consideration that is payable to the previous owners of C&C Foods (acquired in 2016) if the business achieves certain performance targets over the two year period ending April 17, 2018.
- (3) This represents the discounted present value of the contingent consideration that is payable to the previous owners of IMS (acquired in 2017, see *Liquidity and Capital Resources – Corporate Investments - IMS*) if the business achieves certain performance targets over the two year period ending January 27, 2019.
- (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 the first two quarters of 2017:

<i>(in millions of dollars)</i>	26 weeks ended Jul 1, 2017
Opening provisions at December 31, 2016	22.9
Acquisition	0.8
Accretion of provisions	0.5
Cash payment - Freybe	(1.2)
Cash payment – Ocean Miracle ⁽¹⁾	(0.5)
Settlement through issuance of shares of subsidiary – Ocean Miracle ⁽¹⁾	(0.5)
Closing provisions ⁽²⁾	22.0

- (1) \$1.0 million of the contingent consideration relating to Ocean Miracle was settled during the second quarter of 2017 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, plant start-up costs 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 pursue opportunities 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 July 1, 2017 are as follows:

<i>(in millions of dollars)</i>		1 year out	2 years out	3 years out	4 years out	5 years out	There- after
Long-term debt	199.2	2.0	1.1	0.4	185.7	0.5	9.5
5.00% Debentures	66.2	-	-	66.2	-	-	-
4.65% Debentures	86.3	-	-	-	86.3	-	-
4.60% Debentures	113.0	-	-	-	-	-	113.0
Operating leases	145.1	20.9	19.1	17.7	14.3	12.6	60.5
Total	609.8	22.9	20.2	84.3	286.3	13.1	183.0

TRANSACTIONS WITH RELATED PARTIES

During the first two quarters of 2017 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 \$1.4 million in lease payments to Pender West LP in the first two quarters of 2017.

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

As at the end of the second quarter of 2017, \$8.8 million of ELP loans, which are included as part of *Other Assets* on the Company's consolidated balance sheet, were outstanding to 94 employees of the Company.

Principal payments on the ELP loans in the first two quarters of 2017 totaled \$0.1 million from officers and directors of the Company.

SUBSEQUENT EVENTS

Investment in Partners

On July 27, 2017, the Company acquired a 25% interest in Partners for \$2.0 million in cash (see *Liquidity and Capital Resources – Corporate Investments – Partners*).

Investment in McLean

On August 8, 2017, the Company increased its interest in McLean to 36.2% for \$0.2 million in cash (see *Liquidity and Capital Resources – Corporate Investments – Investment in Associates*).

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 August 11, 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 the Company's expectations and/or projections on: (i) its organic volume growth rates; (ii) its EBITDA margins; (iii) its income tax rates; (iv) its dividend policy; (v) its capital expenditures; and (vi) the utilization of its senior debt capacity.

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 those outline below. Readers are cautioned that this 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 including the loss of a major product listing and/or being forced to give significant product pricing concessions.
- There will not be any material changes in the trade relationship between Canada and the U.S., particularly with respect to certain protein commodities such as beef and pork products.
- 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.

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 August 11, 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*).

- Increases in the cost of raw materials used in the production of the Company's products;
- Increases in the cost of products sourced from third party manufacturers and sold through the Company's distribution networks
- Reductions in consumer discretionary spending resulting from changes in economic conditions and/or general consumer confidence levels;
- Deterioration of the Company's relationships with its larger customers;
- Liabilities, losses and expenses resulting from defects in the Company's products and/or product recalls
- Unseasonably poor weather conditions
- Inability to access adequate amounts of raw materials;
- Changes in consumer food product preferences;
- Increased competition from other food manufacturers and distributors;
- Being unable to continue to grow the Company's sales;
- Completing the Company's business restructuring initiatives and capital projects in line with cost estimates and achieving the associated expected benefits;
- Executing on the Company's business acquisition strategies;
- Changes in the value of the Canadian dollar relative to the U.S. dollar;
- Failure or breach of the Company's information systems;
- New government regulations;
- Not being able to source an adequate supply of labor;
- Potential disputes with employees represented by labor unions
- Not being able to raise the capital needed to fund the Company's growth initiatives;
- The loss and/or inability to attract key senior personnel;
- Increases in the interest rates associated with the Company's funded debt;
- Financial exposure resulting from credit extended to the Company's customers;
- The malfunction of critical equipment used in the Company's operations;
- Livestock health issues;
- International trade issues; and

- Changes in environmental, health and safety standards.

Details on the above risk factors as well as other factors that could potentially impact the Company's results of operations and financial position can be found in the Company's Management's Discussion and Analysis (**MD&A**) for the fiscal year ended December 31, 2016 under the heading "Risks and Uncertainties", which is incorporated by reference herein. The Company's MD&A has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

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 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. The Company has analyzed the potential impact of IFRS 15 and does not believe it will have a material impact on its 2018 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 started the process of analyzing the impact of implementing IFRS 16, but has not yet determined the impact it will 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 July 1, 2017, the Company had outstanding foreign currency contracts for the purchase of US\$15.3 million over the next six months at a blended rate of C\$1.3301. Based on these contracts a change of \$0.01 in the value of the Canadian dollar relative to the U.S. dollar would result in an unrealized gain (if the Canadian dollar weakens) or an unrealized loss (if the Canadian dollar strengthens) of approximately \$0.2 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 July 1, 2017, 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 \$0.2 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 August 11, 2017 were 29,861,728. 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 August, 2017 were 29,721,838.

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 July 1, 2017 and has concluded that such procedures are adequately designed 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 July 1, 2017 and has concluded that the Company's ICFR is adequately designed for providing reasonable assurance that the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with IFRS.

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 July 1, 2017 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 August 11, 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 August 11, 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.