



PREMIUM BRANDS HOLDINGS CORPORATION

Management's Discussion and Analysis

Third Quarter 2010

The following Management's Discussion and Analysis (MD&A) is a review of the financial performance and position of Premium Brands Holdings Corporation (the Company or Premium Brands), formerly known as Premium Brands Income Fund (the Fund), and is current to November 2, 2010. It should be read in conjunction with the Company's unaudited consolidated financial statements and the notes thereto for the period ended September 25, 2010, its fiscal 2009 audited consolidated financial statements and the notes thereto, both of which are prepared in accordance with Canadian generally accepted accounting principles (GAAP), and its MD&A for fiscal 2009. These documents, as well as additional information on the Company and the Fund, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

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

BUSINESS OVERVIEW

Premium Brands is a food focused holding company investing in:

- **Manufacturers and wholesalers of specialty food products with strong proprietary brands and leading niche market positions.** The Company defines specialty food products as those where the consumer's purchasing decision is based primarily on factors other than price, such as quality, convenience, product consistency, health and/or lifestyle. Examples of its specialty food products include meat snacks such as pepperoni, beef jerky and kippered beef; snack foods such as fresh and individually wrapped pastries and cookies; concession products such as popcorn, hot and frozen beverage supplies and ice cream accessories; fresh and pre-packaged sandwiches; delicatessen items such as European-style deli meats; cheeses, fresh salads, wraps and specialty crackers; and premium smoked sausages.

The Company's focus on this segment of the food industry is based on the ability of these companies, in general terms, to earn higher and more consistent selling margins and to avoid competing with major food manufacturers that produce and distribute mainstream food products on a larger scale.

- **Differentiated food distribution businesses.** The Company's focus on this segment of the food industry is based on the ability of these companies, in general terms, to generate higher margins by offering customers unique service and product solutions that differentiate them

from distributors who are primarily focused on logistics. Furthermore, these businesses enable the Company to generate and sustain additional margin by providing its specialty food manufacturing businesses with proprietary access to a diversified customer base.

The Company's current distribution businesses service approximately 25,000 customers, including convenience stores, gas bars, restaurants, delicatessens, small specialty grocery chains, hotels and institutions, across mainly western Canada.

RESULTS OF OPERATIONS

The Company reports on two reportable segments, Retail and Foodservice, as well as corporate costs (Corporate). The Retail segment includes the Company's specialty manufacturing businesses (such as Harvest, Grimm's, Hygaard, Quality Fast Foods, Hempler's, Creekside, Stuyver's and Duso's) and its Direct Plus retail distribution business. Substantially all of the Retail segment's external sales are to retailers, including delicatessens, small specialty grocery chains, convenience stores, gas bars, large national and regional grocery chains and warehouse clubs.

The Foodservice segment includes the Company's Centennial Foodservice, B&C Food Distributors, Harlan Fairbanks, Eleven, South Seas and Maximum Seafood businesses. With the exception of Maximum Seafood, all of these businesses are primarily focused on foodservice customers such as restaurants, concessions, bars, caterers, hotels, recreation facilities, schools and hospitals. With respect to Maximum Seafood, it has been included in the Foodservice segment on the basis that (i) many of its customers are distributors who sell Maximum Seafood's products to foodservice customers; and (ii) Maximum Seafood will be working closely with Centennial Foodservice and B&C Food Distributors in the implementation of the Company's national seafood strategies.

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

Revenue

(in thousands of dollars except percentages)

	13 weeks ended Sep 25, 2010	% (1)	13 weeks ended Sep 26, 2009	% (1)	39 weeks ended Sep 25, 2010	% (1)	39 weeks ended Sep 26, 2009	% (1)
Revenue by segment:								
Retail	61,787	43.0%	58,310	47.3%	171,592	45.2%	163,232	46.4%
Foodservice	81,879	57.0%	65,094	52.7%	207,680	54.8%	188,373	53.6%
<u>Consolidated</u>	<u>143,666</u>	<u>100.0%</u>	<u>123,404</u>	<u>100.0%</u>	<u>379,272</u>	<u>100.0%</u>	<u>351,605</u>	<u>100.0%</u>

(1) Expressed as a percentage of consolidated revenue

Retail's revenue for the third quarter of 2010 as compared to the third quarter of 2009 increased by \$3.5 million or 6.0% primarily due to: (i) increased sales of \$2.3 million, representing organic growth of approximately 5.8%, to retail grocery and other customers not focused on the convenience store sales channel; and (ii) the acquisition of Duso's (see *Liquidity and Capital Resources – Corporate Investments*) which resulted in \$1.5 million in incremental sales.

These increases were partially offset by a \$0.3 million decrease in sales to the convenience store channel primarily due to the continuing impact of the slowdown in western Canada's economy on consumer spending in this channel and related competitive pressures. The Company's year over year decreases in the convenience store channel have been consistently decreasing over the last several quarters with the 2010 third quarter decrease being the lowest yet.

Retail's revenue for the three quarters of 2010 as compared to the first three quarters of 2009 increased by \$8.4 million or 5.1% primarily due to: (i) increased sales of \$5.4 million, representing

organic growth of approximately 6.7%, to retail grocery and other customers not focused on the convenience store sales channel; (ii) the acquisition of Duso's which resulted in \$3.3 million in incremental sales; and (iii) the Company's involvement with the 2010 Vancouver Winter Olympics which resulted in approximately \$1.9 million in incremental sales in the first quarter of 2010. These increases were partially offset by a \$2.2 million decrease in sales to the convenience store channel primarily due to the continuing impact of the slowdown in western Canada's economy on consumer spending in this channel and related competitive pressures.

Foodservice's revenue for the third quarter of 2010 as compared to the third quarter of 2009 increased by \$16.8 million or 25.8% due to: (i) the acquisitions of South Seas and Maximum Seafood in 2010 (see *Liquidity and Capital Resources – Corporate Investments*) which resulted in \$15.1 million in incremental sales; and (ii) increased sales to Foodservice's core hotel, restaurant and institutional customers of \$2.4 million representing an organic growth rate of approximately 3.1%. These increases were partially offset by a \$0.7 million decrease in sales by its Worldsource food brokerage business due to reduced international trading opportunities resulting primarily from a weaker U.S. dollar.

Foodservice's revenue for the three quarters of 2010 as compared to the first three quarters of 2009 increased by \$19.3 million or 10.2% primarily due to: (i) the acquisitions of South Seas and Maximum Seafood in 2010 (see *Liquidity and Capital Resources – Corporate Investments*) and the acquisition of Multi-National Foods late in the first quarter of 2009, which resulted in \$20.7 million in incremental sales; and (ii) the Company's involvement in the 2010 Vancouver Winter Olympics which resulted in approximately \$0.7 million in incremental sales in the first quarter of 2010. These increases were partially offset by: (i) a \$1.2 million decrease in sales to Foodservice's core hotel, restaurant and institutional customers due to the impact of the slowdown in western Canada's economy on consumer spending in this channel earlier in the year; and (ii) a \$0.9 million decrease in sales by its Worldsource food brokerage business due to reduced international trading opportunities resulting primarily from a weaker U.S. dollar.

Gross Profit

(in thousands of dollars except percentages)

	13 weeks ended Sep 25, 2010	% (1)	13 weeks ended Sep 26, 2009	% (1)	39 weeks ended Sep 25, 2010	% (1)	39 weeks ended Sep 26, 2009	% (1)
Gross profit by segment:								
Retail	19,611	31.7%	20,404	35.0%	54,123	31.5%	54,186	33.2%
Foodservice	16,269	19.9%	13,625	20.9%	42,298	20.4%	38,103	20.2%
<u>Consolidated</u>	<u>35,880</u>	<u>25.0%</u>	<u>34,029</u>	<u>27.6%</u>	<u>96,421</u>	<u>25.4%</u>	<u>92,289</u>	<u>26.2%</u>

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

Retail's gross profit as a percentage of its revenue (gross margin) for the third quarter of 2010 as compared to the third quarter of 2009, and for the three quarters of 2010 as compared to the first three quarters of 2009, decreased primarily due to:

- Its premium processed meats operations generating lower than average gross margins in the second and third quarters of 2010 as a result of record high costs for certain commodities, mainly fresh protein, used in the production of finished products. These record high commodity costs were, in turn, primarily due to a contraction in supply resulting from record low prices in 2009; and
- Its premium processed meats operations generating higher than average gross margins in the second and third quarters of 2009 primarily due to: (i) historically low costs for the same commodities that were at record high levels in 2010; and (ii) the Company capitalizing on certain unique buying opportunities (see *Liquidity and Capital Resources – Net Working Capital Requirements – Net Working Capital Cash Flows*).

Late in the second quarter of 2010 and in the earlier part of the third quarter of 2010 Retail increased the selling prices on a number of premium processed meats products to counter the impact of higher commodity input costs; however, the benefits of these increases were offset by continued appreciation in the cost of these commodities.

Looking forward (see *Forward Looking Statements*), the Company expects the cost of the input commodities impacting its gross margins to level off in the fourth quarter of 2010 and begin to decrease in early to mid-2011 as incremental supply resulting from the current record high prices starts to come to market. In the interim, the Retail segment is assessing a variety of alternatives to address its lower than average gross margins including improving plant efficiencies, new product development and product innovation.

Foodservice's gross margin for the third quarter of 2010 as compared to the third quarter of 2009 decreased primarily due to changes in its sales mix resulting from its acquisition of Maximum Seafood at the beginning of the quarter (see *Liquidity and Capital Resources – Corporate Investments*). Excluding Maximum Seafood, which historically has generated lower gross margins than Foodservice's other businesses, Foodservice's gross margin for the third quarter of 2010 was 20.5%.

Foodservice's gross margin for the three quarters of 2010 was relatively stable as compared to its gross margin for the first three quarters of 2009. Excluding Maximum Seafood, Foodservice's gross margin for the three quarters of 2010 was 20.6%.

Selling, General and Administrative Expenses (SG&A)

(in thousands of dollars except percentages)

	13 weeks ended Sep 25, 2010	% (1)	13 weeks ended Sep 26, 2009	% (1)	39 weeks ended Sep 25, 2010	% (1)	39 weeks ended Sep 26, 2009	% (1)
SG&A by segment:								
Retail	11,172	18.1%	10,618	18.2%	32,376	18.9%	31,350	19.2%
Foodservice	10,146	12.4%	8,990	13.8%	28,131	13.5%	26,538	14.1%
Corporate	1,542		1,241		4,477		3,360	
<u>Consolidated</u>	<u>22,860</u>	<u>15.9%</u>	<u>20,849</u>	<u>16.9%</u>	<u>64,984</u>	<u>17.1%</u>	<u>61,248</u>	<u>17.4%</u>

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

Retail's SG&A in the third quarter of 2010 as compared to the third quarter of 2009, and for the three quarters of 2010 as compared to the first three quarters of 2009, increased primarily due to: (i) the acquisition of Duso's (see *Liquidity and Capital Resources – Corporate Investments*); and (ii) increased selling and marketing costs associated with its sales growth in certain channels (see *Results of Operations – Revenue*).

Foodservice's SG&A in the third quarter of 2010 as compared to the third quarter of 2009 and for the three quarters of 2010 as compared to the first three quarters of 2009 increased primarily due to: (i) the acquisitions of South Seas and Maximum Seafood in 2010 (see *Liquidity and Capital Resources – Corporate Investments*) and the acquisition of Multi-National Foods late in the first quarter of 2009; and (ii) increased costs associated with the ramp up of Foodservice's infrastructure in anticipation of improving economic conditions and the successful execution of a variety of sales initiatives focused on growing its multi-unit restaurant chain business.

The increases during the three quarters of 2010 were partially offset by a \$0.5 million gain on the sale of the segment's Centennial business' Victoria, BC distribution facility in the second quarter. The Victoria property sale was due to this facility being made redundant by the acquisition of B&C Food Distributors in 2008.

Adjusted EBITDA

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

The Company believes that adjusted EBITDA is a useful indicator of the amount of normalized income generated by operating businesses controlled by the Company before taking into account its financing strategies, consumption of tangible and intangible capital assets, taxable position and the ownership structure of non-wholly owned businesses. Adjusted EBITDA is also used in the calculation of certain financial debt covenants associated with the Company's senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*).

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

<i>(in thousands of dollars)</i>	13 weeks ended Sep 25, 2010	13 weeks ended Sep 26, 2009	39 weeks ended Sep 25, 2010	39 weeks ended Sep 26, 2009
Earnings before non-controlling interest	5,997	6,873	14,018	15,469
Depreciation of capital assets (1)	2,029	2,142	5,880	6,432
Interest and other financing costs (2)	2,574	1,928	7,292	4,748
Amortization of intangible and other assets (1)	707	621	1,948	1,898
Amortization of financing costs (1)	38	48	246	156
Accretion of puttable interest in subsidiaries	750	-	750	-
Unrealized (gain) loss on foreign currency contracts (3)	217	429	(68)	884
Equity loss in significantly influenced company (4)	119	132	331	377
Conversion costs (5)	-	1,390	-	1,390
Income tax provision (recovery) (6)	589	(383)	1,040	(313)
Adjusted EBITDA	13,020	13,180	31,437	31,041

- (1) Amount relates to the consumption of the Company's capital assets or intangible assets.
- (2) Amount relates to the Company's financing strategies.
- (3) Amount represents the change in fair value of the Company's U.S. dollar forward purchase contracts for the period and is adjusted for on the basis that the Company does not intend to liquidate these contracts but rather uses them to stabilize the cost of its U.S. dollar denominated purchases and, in turn, its selling margins.
- (4) Amount relates to businesses that the Company does not control.
- (5) Amount is an unusual item that is not part of the Company's normal operating costs.
- (6) Amount relates to the Company's taxable position.

<i>(in thousands of dollars except percentages)</i>								
	13 weeks ended Sep 25, 2010	% (1)	13 weeks ended Sep 26, 2009	% (1)	39 weeks ended Sep 25, 2010	% (1)	39 weeks ended Sep 26, 2009	% (1)
Adjusted EBITDA by segment:								
Retail	8,439	13.7%	9,786	16.8%	21,747	12.7%	22,836	14.0%
Foodservice	6,123	7.5%	4,635	7.1%	14,167	6.8%	11,565	6.1%
Corporate	(1,542)		(1,241)		(4,477)		(3,360)	
Consolidated	13,020	9.1%	13,180	10.7%	31,437	8.3%	31,041	8.8%

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

The Company's adjusted EBITDA for the third quarter of 2010 as compared to the third quarter of 2009 decreased slightly primarily due to: (i) lower selling margins in the Retail segment's premium processed meats operations that were, in turn, the result of record high input commodity costs; and (ii) lower sales to the convenience store channel primarily due to the continuing impact of the slowdown in western Canada's economy on consumer spending in this channel and related competitive pressures. These factors were, however, largely mitigated by the Company's overall sales growth.

For the three quarters of 2010 as compared to the first three quarters of 2009 the Company's adjusted EBITDA increased primarily due to its sales growth which, in turn, was the result of a variety of factors including: (i) acquisitions; (ii) organic growth in its foodservice and retail grocery focused businesses; and (iii) the Company's involvement with the 2010 Vancouver Winter Olympics. These factors were partially offset by: (i) lower selling margins in its premium processed meats businesses due to record high input commodity costs; and (ii) lower sales to the convenience store channel primarily due to the continuing impact of the slowdown in western Canada's economy on consumer spending in this channel and related competitive pressures.

Depreciation and Amortization

(in thousands of dollars except percentages)

	13 weeks ended Sep 25, 2010	13 weeks ended Sep 26, 2009	39 weeks ended Sep 25, 2010	39 weeks ended Sep 26, 2009
Depreciation and amortization of intangible and other assets by segment:				
Retail	1,614	1,682	4,698	5,153
Foodservice	970	908	2,678	2,656
Corporate	152	173	452	521
Consolidated	2,736	2,763	7,828	8,330

Combined depreciation and amortization expense for the Company's segments remained relatively constant in the third quarter of 2010 and for the three quarters of 2010 as compared to the third quarter of 2009 and the first three quarters of 2009, respectively.

Interest

Interest and other financing costs for the third quarter of 2010 as compared to the third quarter of 2009 increased by \$0.6 million primarily due to: (i) an increase in the Company's borrowing spread resulting from the renegotiation of its credit facilities in July 2009, combined with relatively similar base borrowing rates (i.e. the bank prime and bankers acceptance rates) in both quarters; (ii) the pay down of lower cost senior debt through the issuance of unsecured convertible debentures in the third quarter of 2009; and (iii) higher net funded debt in the third quarter of 2010 as compared to the third quarter of 2009 (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*).

The Company's interest and other financing costs for the third quarter of 2010 was slightly higher than the amounts incurred in the first and second quarters of 2010 and the fourth quarter of 2009 due to the increase in the Company's funded debt in the third quarter of 2010.

Interest and other financing costs for the three quarters of 2010 as compared to the first three quarters of 2009 increased by \$2.5 million due to the same factors that resulted in the increase in the Company's interest and other financing costs for the third quarter of 2010 as compared to the third quarter of 2009.

Accretion of Puttable Interest in Subsidiaries

Accretion of puttable interest represents an estimate of the value accretion on 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*).

Accretion of puttable interest for the third quarter of 2010 as compared to the third quarter of 2009 increased by \$0.8 million due to: (i) changes in the assumptions on when certain put options would be exercised; (ii) incremental accretion resulting from additional put options associated with the Duso's

and Maximum Seafood acquisitions (see *Liquidity and Capital Resources – Corporate Investments*); and (iii) the normal accretion associated with the valuation of the put options in 2009 being offset by changes in the estimated value of the put options at that time.

Gains / Losses on Foreign Currency Contracts

In the third quarter of 2010 the Company recognized a \$0.2 million loss on foreign currency contracts as a result of changes in the fair market valuation of its U.S. dollar forward purchase contracts as compared to a \$0.4 million loss in the third quarter of 2009.

The Company does not hold these contracts for speculative purposes nor does it intend to liquidate them, but rather uses the contracts to stabilize the cost of its U.S. dollar denominated purchases and, in turn, its selling margins.

For the three quarters of 2010 the Company recognized a gain of \$0.1 million on foreign currency contracts as compared to a loss of \$0.9 million for the first three quarters of 2009.

Conversion Costs

In the third quarter of 2009 the Company incurred \$1.4 million in costs associated with its conversion from a publicly traded income trust to a publicly traded corporation.

Income Taxes

Conversion

As a result of the conversion of the Fund, a publicly traded income trust, into the Company, a publicly traded corporation, on July 22, 2009 (the Conversion), the Company was deemed to have acquired certain tax attributes, which at that time were estimated to be approximately \$160.0 million. The Company recognized these tax attributes in the third quarter of 2009 in accordance with EIC Abstract 110 "Accounting for Acquired Future Tax Benefits in Certain Purchase Transactions that are not Business Combinations" resulting in the following assets and liabilities:

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

The future income tax asset is being expensed as part of the Company's future income tax provision in correlation with the expected use of the corresponding tax attributes while the deferred credit is being amortized as a credit to the Company's future income tax provision in proportion to the utilization of the corresponding future income tax asset.

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

Tax Attributes

An estimate of Company's tax attributes as at the end of the third quarter of 2010 (in thousands of dollars) is as follows:

Scientific research and experimental development tax credits	107,981
Un-depreciated capital costs	48,984
Non-capital losses carried forward	80,249
Cumulative eligible capital	38,780
Investment tax credits	15,342
Total	291,336

The Company's tax attributes at the end of the third quarter of 2010 as compared to the end of the fourth quarter of 2009 increased by approximately \$34.6 million due primarily to finalization of the Company's 2009 tax filings and, more specifically, the tax assets resulting from the Conversion being finalized at approximately \$199.5 million versus the \$160.0 million originally estimated. The \$39.5 million increase in the Company's tax attributes associated with the Conversion was partially offset by the utilization of certain tax attributes in its 2009 tax filings.

Based upon the risks associated with realizing the tax attributes resulting from the Conversion the Company did not adjust its future income tax asset and deferred credit balances for the \$39.5 million increase in its tax attributes but instead recorded an offsetting valuation allowance.

Future Income Tax Provision

As a result of the Company's tax attributes and its internal corporate structure, it does not expect its wholly owned Canadian operations to incur any substantial current income tax expense in the near future (see *Forward Looking Statements*). Correspondingly, since these operations generated a significant majority of the Company's earnings for the first three quarters of 2009 and 2010, most of its provision for (recovery of) income taxes relates to changes in the value of its future income tax (FIT) assets and liabilities as shown below:

<i>(in thousands of dollars)</i>	13 weeks ended Sep 25, 2010	13 weeks ended Sep 26, 2009	39 weeks ended Sep 25, 2010	39 weeks ended Sep 26, 2009
Opening FIT asset (liability) (1)	6,629	(1,801)	7,300	(1,372)
Adjustments:				
Foreign currency translation adjustment (2)	(4)	(47)	(8)	(92)
Change in accounting policy (3)	-	-	-	(314)
Conversion (4)	-	8,850	-	8,850
Acquisitions (5)	(1,783)	-	(2,013)	-
Adjusted opening FIT asset (liability)	4,842	7,002	5,279	7,072
Closing FIT asset (liability) (1)	4,529	7,475	4,529	7,475
Provision for (recovery of) FIT	313	(473)	750	(403)

(1) Calculated as current FIT assets plus long term FIT assets less current deferred credits less long term FIT liabilities less long term deferred credits.

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

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

(4) See *Results of Operations – Income Taxes – Conversion*.

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

For the third quarter and the first three quarters of 2010 the Company recognized provisions for FIT of \$0.3 million and \$0.8 million, respectively. These provisions related primarily to the anticipated utilization of the Company's tax attributes partially offset by the recognition of a pro-rata portion of the corresponding deferred credit.

Current Income Tax Provision

The Company booked a current income tax provision for the third quarter of 2010 of \$0.2 million relating to non-wholly owned Canadian subsidiaries acquired in the first and second quarters of 2010 (see *Liquidity and Capital Resources – Corporate Investments*).

SUMMARY OF QUARTERLY RESULTS

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

<i>(millions of dollars except per share amounts)</i>	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Revenue	116.7	103.9	124.3	123.4	111.2	109.7	125.9	143.7
Adjusted EBITDA	9.6	6.3	11.6	13.1	9.7	7.3	11.1	13.0
Earnings:								
Total	3.2	2.1	6.6	6.9	3.3	1.8	6.1	5.9
Per share – basic and diluted	0.18	0.12	0.38	0.39	0.19	0.10	0.35	0.33

The Company's operations are based primarily in western Canada and its quarterly results are subject to fluctuations associated with the impact on consumer demand of seasonal changes in weather. In general terms, results are weaker in the first quarter due to a combination of:

- Winter weather conditions, which result in less consumer travelling and outdoor activities and, in turn, reduced consumer traffic through many of the Company's convenience oriented customers' stores (such as convenience stores, gas stations, restaurants and concessionary venues) and reduced demand for its outdoor oriented products (such as barbeque and on-the-go convenience foods).
- A general decline in consumer activity at the beginning of each calendar year.

The Company's results then generally peak in the spring and summer months due to favourable weather conditions and decline in the fourth quarter due to a return to poorer weather conditions.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position and liquidity for the 13 and 39 week periods ended September 25, 2010 were impacted by the following:

Funds from Operations

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

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

<i>(in thousands of dollars)</i>	13 weeks ended Sep 25, 2010	13 weeks ended Sep 26, 2009	39 weeks ended Sep 25, 2010	39 weeks ended Sep 26, 2009
Cash flow from operating activities	11,644	18,409	26,100	28,392
Changes in non-cash working capital	(1,209)	(8,395)	(3,645)	(4,683)
Funds from operations	10,435	10,014	22,455	23,709

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

Net Working Capital Requirements

Net Working Capital

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

The following table provides the calculation of net working capital:

<i>(in thousands of dollars)</i>	As at Sep 25, 2010	As at Dec 26, 2009	As at Sep 26, 2009
Accounts receivable	42,914	34,380	34,343
Inventories	49,243	45,991	47,637
Prepaid expenses	3,103	2,116	2,580
Accounts payable and accrued liabilities	(46,461)	(37,429)	(44,487)
Net Working Capital	48,799	45,058	40,073

The Company's net working capital needs are seasonal in nature and generally peak in the spring and summer months and around festive holiday seasons (e.g. Easter, Thanksgiving and Christmas) as inventories and accounts receivable are built up in anticipation of increased consumer demand (see *Summary of Quarterly Results*). The cash requirements associated with fluctuations in the Company's net working capital are managed through draws and repayments on its Facility A revolving credit facility (see *Liquidity and Capital Resources – Debt Financing Activities*).

The Company's net working capital at the end of the third quarter is generally lower than average levels due to the summer seasonal peak in the Company's business ending in early September (see *Summary of Quarterly Results*).

For the third quarter of 2010 as compared to the third quarter of 2009 the Company's net working capital increased by \$8.7 million primarily due to: (i) approximately \$6.3 million in additional net working capital resulting from business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*); (ii) additional net working capital associated with the Company's organic growth (see *Results of Operations – Revenue*); and (iii) general fluctuations in the Company's day-to-day net working capital.

Despite the significant increase in the Company's net working capital in the third quarter of 2010, its net working capital was up only \$3.7 million from the end of 2009, which is historically also a low point in the Company's net working capital needs, due to its net working capital at the end of the fourth quarter of 2009 being high because of unusually low accounts payable and accrued liabilities levels.

Net Working Capital Cash Flows

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

<i>(in thousands of dollars)</i>	13 weeks ended Sep 25, 2010	13 weeks ended Sep 26, 2009	39 weeks ended Sep 25, 2010	39 weeks ended Sep 26, 2009
Changes in non-cash working capital	1,209	8,395	3,645	4,683

The change in the cash flow generated from changes in non-cash working capital in the third quarter of 2010 as compared to the third quarter of 2009 was primarily due to the cash flow in 2009 being unusually large because of: (i) an increase in the Company's dividend payable resulting from a change in its dividend policy in the third quarter of 2009 to quarterly payments from monthly payments; and (ii) the liquidation in the third quarter of 2009 of large inventory positions that were taken earlier in the year in order to capitalize on favourable buying opportunities for certain commodities used by its premium processed meats operations.

For the three quarters of 2010 as compared to the first three quarters of 2009, the Company's cash flow from changes in non-cash working capital remained relatively stable.

Debt Financing Activities

Credit Facilities

As at September 25, 2010 the Company's credit facilities and the unutilized portion of those facilities were as follows:

<i>(in thousands of dollars)</i>	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Facility A – revolving senior credit (1)	32,000	778	31,222
Facility B – revolving senior credit (2)	40,000	23,500	16,500
Facility C – non-revolving senior credit (3)	64,000	64,000	-
Convertible debentures (4)	37,164	37,164	-
Industrial Development Revenue Bond (5)	6,286	6,286	-
Vendor take-back notes resulting from business acquisitions	4,710	4,710	-
Cheques outstanding	-	1,908	(1,908)
Cash and cash equivalents	-	(404)	404
Other long-term debt including capital leases	253	253	-
	184,413	138,195	46,218

- (1) Facility matures in July 2012, can be used to fund the Company's working capital and general operating needs and has no principal payments due prior to its maturity date.
- (2) Facility matures in July 2012, can be used to fund capital projects and acquisitions, and has quarterly principal payments of \$2.0 million. Repaid amounts can be redrawn to fund new capital projects and acquisitions.
- (3) Facility matures in July 2012 and has no principal payments prior to its maturity date unless Facility B is fully paid in which case the facility would have quarterly principal payments of \$2.0 million.
- (4) Consists of the debt component of the \$40.3 million in convertible unsecured subordinated debentures issued by the Company in 2009. The debentures mature in December 2014 and have no principal payments prior to that date.
- (5) Credit facility relates to the Company's U.S. subsidiary, Hempler Foods Group LLC, is denominated in U.S. dollars (US\$6.1 million), matures in 2036 and has no principal payments due prior to its maturity date.

Subsequent to September 25, 2010 the Company completed the acquisition of SK Food Group Inc. (see *Subsequent Transactions*). In conjunction with the transaction the Company negotiated the following changes to its senior credit facilities (i.e. Facility A, Facility B and Facility C as shown above):

- The available credit under Facility B was increased to \$45.0 million;
- The Company drew US\$18.4 million on Facility B to fund the cash portion of the SK Food Group purchase price;

- The maturity date of the facilities was extended to October 2013;
- The senior funded debt to EBITDA ratio covenant requirement was increased to a maximum of 3.5:1 for the next four quarters after which it will return to the previously required levels (see *Liquidity and Capital Resources – Debt Financing Activities – Banking Covenants*); and
- The interest cost associated with the three facilities was decreased by 50 basis points.

Funded Debt

Senior funded debt and total funded debt are not defined under GAAP and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that senior funded debt and total funded debt, used in conjunction with its EBITDA, are useful indicators of its financial strength and ability to access additional debt financing. Senior funded debt is also used in the calculation of the debt covenants associated with the Company's senior credit facilities (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 thousands of dollars)</i>	Sep 25, 2010	Dec 26, 2009	Sep 26, 2009
Cheques outstanding	1,908	2,470	1,389
Bank indebtedness	778	2,411	1,753
Current portion of long-term debt	9,573	8,212	10,216
Deferred financing costs ⁽¹⁾	421	666	762
Long-term debt	88,755	74,705	108,402
	101,435	88,464	122,522
Less cash and cash equivalents	404	469	386
Senior funded debt	101,031	87,995	122,136
Subordinated debt	37,164	36,769	-
Total funded debt	138,195	124,764	122,136

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

Debt Activities

During the first three quarters of 2010 the Company's significant debt activities consisted of the following:

- \$7.0 million principal payments on Facility B consisting of \$6.0 million in scheduled principal payments and a \$1.0 million principal payment resulting from the sale of a redundant property for \$1.7 million (see *Results of Operations – Selling, General and Administrative Expenses*). Principal payments made on this facility be redrawn to fund future business acquisitions and capital projects;
- \$5.0 million and \$13.5 million draws on Facility B to fund the acquisitions of Duso's and Maximum Seafood, respectively (see *Liquidity and Capital Resources – Corporate Investments*);
- The issuance of \$4.5 million in vendor take-back notes payable relating to the South Seas, Duso's and Maximum Seafood acquisitions (see *Liquidity and Capital Resources – Corporate Investments*). These notes were discounted to a fair value of \$3.8 million;
- A \$2.2 million reduction in the Company's bank indebtedness (i.e. Facility A) and outstanding cheques. Facility A, combined with available cash and cash equivalents, can fluctuate significantly as they are used to manage the Company's daily cash requirements; and
- \$0.3 million in accretion in the book value of the convertible subordinate debentures.

Banking Covenants

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

	Covenant Requirement	Sep 25, 2010 Ratio
Senior funded debt to EBITDA ratio (1)	=< 3.25 : 1.0	2.23: 1.0
Current ratio (2)	> 1.30 : 1.0	1.58: 1.0
Interest coverage ratio (2)	> 4.00 : 1.0	5.94: 1.0

- (1) Covenant is increased by 0.25:1 to a maximum of 3.25:1 for a period of two consecutive quarters in the event of an acquisition. For the second and third quarters of 2010 the covenant has been increased by 0.25:1 as a result of the acquisition of Duso's in the second quarter of 2010 (see *Liquidity and Capital Resources – Corporate Investments*). EBITDA is calculated as the Company's rolling four quarters EBITDA adjusted for the trailing EBITDA of new acquisitions so that the total EBITDA amount includes four quarters of EBITDA for new acquisitions. For covenant calculation purposes, senior funded debt excludes cheques outstanding.
- (2) Ratio is calculated based on the consolidated balance sheet or income statement of the Company's subsidiary Premium Brands Holdings Limited Partnership and therefore will not necessarily equal the ratio calculated based on the Company's consolidated balance sheet or income statement.

Subsequent to the third quarter of 2010 the Company's senior funded debt to EBITDA ratio covenant requirement was increased to 3.5:1 until the fourth quarter of 2011 (see *Liquidity and Capital Resources – Debt Activities – Credit Facilities*).

Financial Leverage

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

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

As at September 25, 2010 both the Company's senior funded debt to EBITDA ratio of 2.23:1, and its total funded debt to EBITDA ratio of 3.06:1, were below the respective long term targeted ranges for these ratios.

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

Dividends

Free Cash Flow

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

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

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

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

(in thousands of dollars)	52 weeks ended Dec 26, 2009	39 weeks ended Sep 26, 2009	39 weeks ended Sep 25, 2010	Rolling Four Quarters
Cash flow from operating activities	26,634	28,392	26,100	24,342
Changes in non-cash working capital (1)	3,867	(4,683)	(3,645)	4,905
Sale of redundant property (2)	-	-	1,747	1,747
Government grant income (3)	-	-	1,199	1,199
Capital maintenance expenditures (4)	(2,026)	(1,685)	(1,217)	(1,558)
Free cash flow	28,475	22,024	24,184	30,635

- (1) Cash used for increases in the Company's non-cash working capital is funded through draws on its Facility A revolving credit facility (see *Liquidity and Capital Resources – Debt Financing Activities*), while cash resulting from decreases in its non-cash working capital is used to pay down its Facility A revolving credit facility. As a result, changes in the Company's non-cash working capital are excluded from the calculation of free cash flow.
- (2) Amount represents free cash flow generated from the sale of a redundant distribution facility (see *Results of Operations – Selling, General and Administrative Expenses*).
- (3) Amount represents free cash flow generated from government grants (see *Liquidity and Capital Resources – Capital Expenditures – Government Grants*).
- (4) Amount represents the portion of the Company's capital expenditures that relate to maintaining its existing capital asset base (see *Liquidity and Capital Resources – Capital Expenditures*).

Dividend Policy

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

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

The Company currently has a targeted quarterly dividend at \$0.294 per share, or on an annualized basis, \$1.176 per share.

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

focus on reducing the ratio of its dividends paid to its free cash flow and using the additional cash to pay down debt and fund business acquisitions and capital projects.

Dividend History

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

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

	Declared Shareholder Distributions/ Dividends	Nature of Distribution	Free Cash Flow	Ratio (1)	Average Annualized Distribution/ Dividend Per Share
Rolling four quarters ended:					
Sep 25, 2010	20,831	Dividend	30,635	68.0%	\$1.176
Dec 26, 2009	20,687	(2)	28,475	72.6%	\$1.176
Dec 31, 2008	20,593	Trust distribution	29,848	69.0%	\$1.176
Dec 31, 2007	20,514	Trust distribution	27,047	75.8%	\$1.176
Dec 31, 2006	18,357	Trust distribution	17,247	106.4%	\$1.176

(1) Ratio of dividends declared to free cash flow for the corresponding rolling 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's capital expenditures can be categorized into two types: project capital expenditures and maintenance capital expenditures. Project capital expenditures are capital expenditures that are expected to generate a minimum return on investment of 15% through increased production capacity and/or improved operating efficiencies. Maintenance capital expenditures include all capital expenditures that do not qualify as a project capital expenditure, and consist mainly of expenditures necessary for maintaining the Company's existing level of production capacity and operating efficiency.

Maintenance capital expenditures are financed primarily through free cash flow (see *Liquidity and Capital Resources – Dividends*) while project capital expenditures are generally funded through the Company's credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*), however, larger expenditures, such as the building of a new plant or a major expansion of an existing plant, may also be funded through the issuance of new debt and/or equity.

Changes in Capital Assets

The following table shows the changes in the Company's capital assets during the first three quarters of 2010:

<i>(in thousands of dollars)</i>	39 weeks ended Sep 25, 2010
Opening capital assets at December 26, 2009	66,029
Depreciation	(5,880)
Asset sales	(1,575)
Foreign currency translation adjustment ⁽¹⁾	(141)
Acquisitions ⁽²⁾	1,714
Capital expenditures:	
Project	2,240
Maintenance	1,217
Closing capital assets	63,604

(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.

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

Asset sales in 2010 consisted of (i) the sale of a redundant distribution facility in Victoria, BC (see *Results of Operations – Selling, General and Administrative Expenses*) with a book value of approximately \$1.3 million for \$1.7 million; and (ii) the sale of a variety of equipment nearing the end of its economic life.

During the third quarter of 2010 the Company initiated a \$2.9 million expansion of the custom cutting operation at its Centennial Foodservice's Calgary facility, on which \$0.3 million was spent in the quarter. The balance of the Company's project capital expenditures for 2010 was for a variety of smaller projects consisting mainly of capacity related equipment purchases.

Maintenance capital expenditures for the three quarters of 2010 decreased by \$0.5 million to \$1.2 million from \$1.7 million for the first three quarters of 2009 due primarily to timing related issues. For the year ended December 25, 2010 the Company expects (see *Forward Looking Statements*) its capital maintenance expenditures to be consistent with the \$2.0 million spent in 2009.

Historic Capital Maintenance Expenditures

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

<i>(in thousands of dollars)</i>	Total
Rolling four quarters ended:	
September 25, 2010	1,558
December 26, 2009	2,026
December 31, 2008	2,600
December 31, 2007	1,780
December 31, 2006	1,887

Government Grants

In the second quarter of 2010 the Company was successful in obtaining \$1.2 million in government grants relating to several capital projects completed over the last several years. \$0.2 million of these grants were recognized in the second quarter of 2010 as other income under SG&A with the balance being recorded on the Company's consolidated balance sheet as deferred grant revenue. The deferred grant revenue will be amortized into income over the average life of the corresponding capital assets, which is estimated at 15 years.

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 three quarters of 2010 the Company used \$18.7 million for corporate investments consisting of:

- In January 2010, the Company completed the acquisition of Vancouver, BC based South Seas Meats Ltd. (South Seas) for approximately \$2.2 million. The purchase price consisted of cash of \$1.5 million, a non-interest bearing promissory note for \$0.4 million due three years after closing and the issuance of 14,618 of the Company's common shares from treasury. In addition, the Company incurred transaction costs of approximately \$0.1 million. South Seas is a distributor of specialty meats, including a wide range of Halal and other ethnic foods, to restaurants, hotels and specialty butcher shops in the Greater Vancouver area. Its annual sales are approximately \$10.0 million.
- In March 2010, the Company completed the acquisition of an 80% interest in Vancouver, BC based Duso's Enterprises Ltd. (Duso's) for approximately \$5.6 million plus \$0.3 million for excess working capital and project capital expenditures made just prior to closing of the transaction. The purchase price consisted of \$4.3 million in cash, the issuance of 69,252 common shares from treasury and a \$0.6 million promissory note bearing interest at 4% and due three years after closing. In addition, the Company incurred transaction costs of approximately \$0.1 million. Duso's is a specialty manufacturer of high quality branded and private label fresh pastas and sauces with annual sales of approximately \$7.0 million.
- In June 2010, the Company completed the acquisition of a 76% interest in Toronto, Ontario based Maximum Seafood for approximately \$16.7 million. The purchase price, which is subject to certain post closing adjustments, consisted of \$12.4 million in cash, the issuance of 64,907 common shares from treasury and \$3.5 million in promissory notes due one to three years after closing. In addition, the Company incurred transaction costs of approximately \$0.3 million. Maximum Seafood is a leading distributor of a variety of fresh and live seafood products with annual sales of approximately \$56 million.

Goodwill and Intangible Assets

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

The following table shows the changes in the combined total of the Company's intangible assets and goodwill during the first three quarters of 2010:

<i>(in thousands of dollars)</i>	39 weeks ended Sep 25, 2010
Opening intangible assets and goodwill at December 26, 2009	148,833
Amortization of intangible assets	(1,948)
Foreign currency translation adjustment ⁽¹⁾	(69)
Additions:	
Goodwill and intangible assets resulting from 2010 acquisitions ⁽²⁾	26,892
Closing intangible assets and goodwill	173,708

(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.

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

Puttable Interest in Subsidiaries

Puttable interest represents the fair value estimate of 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.

The following table shows the changes in puttable interest during the first three quarters of 2010:

<i>(in thousands of dollars)</i>	39 weeks ended Sep 25, 2010
Opening puttable interest at December 26, 2009 ⁽¹⁾	3,993
Value accretion ⁽²⁾	750
Foreign currency translation adjustment ⁽³⁾	(22)
Cash distributions to non-controlling shareholders with puttable interests	(676)
Puttable interest resulting from 2010 acquisitions ⁽⁴⁾	7,123
Closing puttable interest ⁽¹⁾	11,168

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

(2) See *Results of Operations – Accretion of Puttable Interest in Subsidiaries*.

(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.

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

OUTLOOK

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

Although there remains a great deal of uncertainty about the short to medium term outlook for western Canada's economy, the Company is continuing to see improving sales trends for its economically sensitive foodservice and convenience store focused businesses. Its foodservice focused businesses, in particular, are showing solid signs of progress and have generated organic growth from their core hotel, restaurant and institutional customers for the last two quarters. The sales trend in the Company's convenience store focused businesses continues to improve and is expected to return to positive growth in the second quarter of 2011.

Assuming the current sales trends in its foodservice and convenience store focused businesses continue, the Company expects to return to its long-term targeted organic growth rate range of six to eight percent annually in mid-2011.

The Company also expects to see improvement in its pre-acquisitions adjusted EBITDA (i.e. before incorporating incremental EBITDA resulting from acquisitions) but at a lower growth rate than its sales improvement as it anticipates continued lower than average gross profit margins in its Retail segment over the next one to two quarters (see *Results of Operations – Gross Profit*).

In terms of business acquisitions, the Company continues to evaluate a number of promising opportunities and expects to continue to grow its business through the implementation of its core acquisition strategy, which focuses on specialty food manufacturing and differentiated food distribution businesses.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

Contractual Obligations

The payments due on the Company's significant contractual obligations at September 25, 2010 are as follows:

<i>(in thousands of dollars)</i>							
	Total	1 year out	2 years out	3 years out	4 years out	5 years out	There-after
Long-term debt	98,496	9,450	15,500	3,260	64,000	-	6,286
Capital leases	253	123	88	42	-	-	-
Convertible debentures	40,250	-	-	-	-	40,250	-
Operating leases	38,430	6,026	6,631	5,320	4,151	3,382	12,920
Total	177,429	15,599	22,219	8,622	68,151	43,632	19,206

TRANSACTIONS WITH RELATED PARTIES

During the first three quarters of 2010 the Company entered into the following transactions with related parties:

- Pursuant to a ten year real property lease ending in August, 2018, the Company made \$0.3 million in lease payments to a company in which the Company's Chairman, Bruce Hodge, has a minority interest.
- Pursuant to the Company's employee loan program, the Company received principal payments totaling approximately \$63,000 from various employees, including its President and Chief Executive Officer, George Paleologou, and its Chief Financial Officer, Will Kalutycz.

SUBSEQUENT TRANSACTIONS

Subsequent to the third quarter of 2010, the Company completed the acquisition of Seattle, Washington based SK Food Group Inc. for approximately US\$42.5 million. SK Food Group is a leading manufacturer of artisan breakfast sandwiches and wraps. It services customers across the U.S. and Canada from its production facility in Reno, NV.

The purchase price paid by the Company, which is subject to certain post closing adjustments, consisted of: (i) US\$18.4 million in cash; (ii) the issuance of 491,898 common shares from treasury valued at US\$6.8 million; (iii) US\$6.5 million in vendor take-back notes which are due on March 31, 2011 and are contingent upon SK Food Group achieving certain profitability targets for 2010; and (iv) US\$10.8 million in vendor take-back notes that payable over the next three years in equal annual installments and are contingent upon SK Food Group achieving certain sales and profitability targets over that time.

The cash portion of the purchase price was funded through a draw on the Company's senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*).

FORWARD LOOKING STATEMENTS

This discussion and analysis contains forward looking statements with respect to the Company, including its business operations, strategy and financial performance and condition. These statements generally can be identified by the use of forward looking words such as “may”, “could”, “should”, “would”, “will”, “expect”, “intend”, “plan”, “estimate”, “project”, “anticipate”, “believe” or “continue”, or the negative thereof or similar variations.

Although management believes that the expectations reflected in such forward looking statements are reasonable and represent the Company's internal expectations and belief as of November 2, 2010, such statements involve unknown risks and uncertainties beyond the Company's control which may cause its actual performance and results in future periods to differ materially from any estimates or

projections of future performance or results expressed or implied by such forward looking statements. Some of the factors that could cause actual results to differ materially from the Company's expectations are outlined below under *Risks and Uncertainties*.

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

- Current economic conditions in western Canada will continue to show modest improvement in the near to medium future and, corresponding with such improvement, consumers will return to pre-2009 buying patterns in the convenience store, hotel and restaurant food channels;
- The average cost of the basket of commodities the Company purchases on a regular basis will continue to fluctuate in line with historic trends;
- The Company will be able to continue to access sufficient goods and services for its manufacturing and distribution operations;
- There will be no major changes in the competitive environment or consumer food consumption trends in the markets in which the Company's various businesses compete;
- There will be no major changes to western Canada's historic weather patterns;
- The Company will be able to negotiate new collective agreements with no labour disruptions;
- The Company will be able to continue accessing sufficient qualified staff;
- The Company will be able to continue to access reasonably priced debt and equity capital;
- The Company's average interest cost on floating rate debt will increase modestly in the near to medium future;
- Contractual counterparties will continue to fulfill their obligations to the Company; and
- There will be no material changes to the regulatory requirements governing the Company;

Unless otherwise indicated, the forward looking information in this document is made as of November 2, 2010 and, except as required by applicable law, will not be publicly updated or revised. This cautionary statement expressly qualifies the forward looking information in this document.

RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties related to its businesses that may have adverse effects on its results of operations and financial position. These risks and uncertainties include: (i) seasonal and/or weather related fluctuations in the Company's sales; (ii) changes in consumer discretionary spending resulting from changes in economic conditions and/or general consumer confidence levels; (iii) changes in the cost of raw materials used in the production of the Company's products; (iv) changes in the cost of products sourced from third party manufacturers and sold through the Company's proprietary distribution networks; (v) the loss of a major customer; (vi) risks associated with the Company's conversion from a publicly traded income trust to a publicly traded corporation; (vii) changes in Canadian income tax laws; (viii) changes in consumer food product preferences; (ix) competition from other food manufacturers and distributors; and (x) new government regulations affecting the Company's business and operations. Details on these risk factors as well as other factors can be found in the Company's MD&A for fiscal 2009, which is filed electronically through SEDAR and is available online at www.sedar.com.

In addition to the risks outlined above, the Company's acquisition of SK Food Group (see *Liquidity and Capital Resources – Corporate Investments*) had the following impact on the risks and uncertainties related to its business:

- As a result of a significant majority of SK Food Group's sales, representing approximately 10% of the Company's current annual consolidated sales run rate of about \$650 million, being to a small group of distributors who in turn sell SK Food Group's products primarily to one customer (the core customer), the SK Food Group acquisition increased the customer concentration risk associated with the Company's business. This risk is mitigated by a variety of factors including an annual supply agreement with the core customer, SK Food Group's performance as a strategic supplier to the core customer, and the strength of SK Food Group's relationship with this customer. The loss of this business could have a material adverse effect on the Company's results of operations and financial condition; and
- As a result of all of SK Food Group's operations being in the U.S. and approximately \$12 million of its sales being to Canadian based customers, the SK Food Group acquisition increased the Company's exposure to fluctuations in the value of the U.S. dollar relative to the Canadian dollar in terms of (i) the valuation of the cash flows transferred from SK Food Group to the Company's Canadian operations. A decrease in the U.S. dollar relative to the Canadian dollar would reduce the value of this cash flow. This risk is partially mitigated by US\$35.7 million of the purchase price for SK Food Group being financed with U.S. dollar denominated debt; (ii) the translation of SK Food Group's results of operation and financial condition into Canadian dollars. A decrease in the U.S. dollar relative to the Canadian dollar would likely result in an unfavourable translation. This risk is also partially mitigated by US\$35.7 million of the purchase price for SK Food Group being financed with U.S. dollar denominated debt; and (iii) the competitiveness of SK Food Group's Canadian dollar denominated sales. An increase in the U.S. dollar relative to the Canadian dollar would make SK Food Group less competitive in Canada. This risk is partially mitigated by the low cost of SK Food Group's operations relative to any potential Canadian competitor.

A significant change in the value of the U.S. dollar relative to the Canadian dollar, and particularly a significant devaluation of the U.S. dollar relative to the Canadian dollar, could have a material adverse effect on the Company's results of operations and financial condition.

Prospective investors should carefully review and evaluate the risk factors facing the Company together with all of the other information contained in this MD&A and the Company's 2009 MD&A.

It should also be noted that the risk factors described above are not the only risk factors facing the Company and it may be subject to risks and uncertainties not described above that it is not presently aware of or that the Company may currently deem insignificant (see *Forward Looking Statements*).

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions, which are based on the Company's experience and management's understanding of current facts and circumstances. These estimates affect the reported amounts of assets, liabilities, contingencies, revenues and expenses included in the Company's consolidated financial statements and may differ materially from actual results. Significant areas requiring the use of management estimates include:

Inventories. Internally manufactured products are valued at the lower of cost and net realizable value, where cost includes raw materials, manufacturing labour and overhead. Inherent in the determination of the cost of such inventories are certain management judgments and estimates.

Goodwill and intangible assets. The Company assesses the impairment of goodwill and intangible assets with indefinite lives on an annual basis and finite life intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include significant underperformance relative to plan, a change in the Company's business strategy, or significant negative industry or economic trends.

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

Income tax provision. The Company's provision for (recovery of) future income taxes is based on changes in the estimated temporary differences between the value of its net assets for tax purposes and their value for accounting purposes. In determining these temporary differences certain management judgements and estimates are required. Furthermore, future income tax assets are recognized only to the extent that management determines that it is more than likely than not that the future income tax assets will be realized.

Puttable interest in subsidiaries. Puttable interest in subsidiaries is calculated using the effective interest rate method and, correspondingly, a significant amount of judgement is required in estimating the future cash flows to be used under this valuation method.

Convertible unsecured subordinate debentures. The valuation of the debt and equity components of convertible unsecured subordinate debentures requires a significant amount of judgement in determining reasonable fair market values for the debt and equity components of this financial instrument.

Business acquisitions. 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 intangible and tangible assets purchased; and (ii) the liabilities assumed. Furthermore, when an acquisition involves contingent consideration there is also considerable judgement involved in determining the value, if any, of such consideration.

NEW ACCOUNTING POLICIES

Recent Accounting Pronouncements

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

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

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

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

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

The Company is currently evaluating the impact of the adoption of these sections and therefore has chosen not to early adopt these sections.

International Financial Reporting Standards (IFRS)

In February 2008 the Canadian Accounting Standards Board confirmed that IFRS will replace Canada's current GAAP for publicly accountable profit-oriented enterprises. The Company's transition date, which is the date on which the Company begins capturing the information necessary for reporting its consolidated financial statements in accordance with IFRS, is December 27, 2009. The Company will begin reporting its interim and annual consolidated financial statements, along with the prior year's comparatives, in accordance with IFRS starting in fiscal 2011.

The Company's IFRS implementation project consists of two processes. The first, which has been substantially completed, consists of (i) determining the differences between the Company's current accounting policies and the requirements under IFRS, (ii) identifying the impact of the options, if any, under IFRS on the Company's accounting and business processes, (iii) selecting the appropriate policy and disclosure options, if any, under IFRS, and (iv) preparing a detailed implementation plan.

As a result of this process, the Company identified in its 2009 MD&A the following as those items in its financial statements that are expected to be impacted by the implementation of IFRS:

- Share based payments;
- Business combinations;
- Employee benefits
- Impairment of assets; and
- General disclosure requirements.

See the Company's 2009 MD&A for a detailed analysis on how each of these items will be impacted.

To date, the Company has not identified any additional items that will be significantly impacted by the implementation of IFRS.

The second process associated with the Company's IFRS implementation project consists of designing and implementing the accounting and business processes, reports and internal controls needed to facilitate collection of the data required for reporting under IFRS. The Company is well progressed through this process and has already implemented the majority of the required business procedures. In particular, the Company has determined that the implementation of IFRS will primarily impact the processes and internal controls at the corporate level and not the divisional level. Correspondingly, it has provided training for its corporate accounting staff, and has begun implementing new processes and procedures to maintain its financial statements under IFRS.

The Company is also in the process of restating its opening consolidated balance sheet and other comparative information and anticipates disclosing the impact of IFRS on its opening consolidated balance sheet in 2011.

Based on the work done so far, the Company is not expecting (see *Forward Looking Statements*) any significant issues in adopting IFRS within the required time frame, however, since all potential changes to IFRS that will be effective when the Company begins reporting its consolidated financial statements in accordance with IFRS are not yet known, the Company is not able at this time to determine the full impact that adopting IFRS will have on its consolidated financial statements.

FINANCIAL INSTRUMENTS

Foreign Currency Contracts

The Company's Canadian operations have exposure to U.S. dollar currency exchange risk due to annual net U.S. dollar inventory purchases of approximately US\$30.0 million. In order to help stabilize

the cost of these U.S. dollar denominated purchases, the Company, from time to time, enters into foreign currency contracts.

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

As at September 25, 2010, the Company had outstanding foreign currency contracts for the purchase of US\$9.8 million over the next 3 months at a blended rate of C\$1.0314. Based on these outstanding contracts, a change of \$0.01 in the value of the Canadian dollar relative to the U.S. dollar would result in an unrealized gain (if the Canadian dollar weakens) or an unrealized loss (if the Canadian dollar strengthens) of approximately \$0.1 million in its consolidated statement of operations.

Interest Rate SWAP Contracts

The Company manages some of its interest rate exposure by entering into interest rate swap contracts. As at September 25, 2010 the Company did not have in place any interest rate swap contracts.

OTHER

Outstanding Shares

The shares outstanding in the Company as of November 2, 2010 were 18,258,235.

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 September 25, 2010 and has concluded that such procedures are adequately designed to provide reasonable assurance that: (i) material information relating to the Company, including its consolidated subsidiaries, is made known to Management on a timely basis to ensure adequate disclosure; and (ii) information required to be disclosed by the Company in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time period.

Management has also evaluated the Company's ICFR as at September 25, 2010 and has concluded that the design of the Company's ICFR provides reasonable assurance that the reliability of its financial reporting and the preparation of its consolidated financial statements for external purposes are in accordance with Canadian GAAP.

In assessing the design of the Company's DCP and ICFR as at September 25, 2010, the Company has excluded the controls, policies and procedures of Maximum Seafood, an acquisition that it completed on June 30, 2010, (see *Liquidity and Capital Resources – Corporate Investments*). Maximum Seafood accounted for approximately \$12.9 million of the Company's 2010 consolidated sales and approximately \$7.1 million, \$0.4 million, \$3.0 million and nil of its current assets, non-current assets, current liabilities and non-current liabilities, respectively, in its September 25, 2010 consolidated balance sheet. Documentation and assessment of Maximum Seafood's impact on the overall design of the Company's DCP and ICFR has been initiated and is expected to be completed in 2011.

Although the Company's assessment of DCP and ICFR are based on the integrated framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), both DCP and ICFR, no matter how well designed, have inherent limitations. Therefore, DCP and ICFR can only provide reasonable assurance and thus may not prevent or detect all misstatements.

The Company's Management has also concluded that there have been no changes to the Company's ICFR during the interim period ending September 25, 2010 that has materially affected, or are reasonably likely to affect, its ICFR.

Responsibilities of Management and Board of Directors

Management is responsible for the reliability and timeliness of content disclosed in this management's discussion & analysis (MD&A), which is current as of November 2, 2010. It is the responsibility of the Company's Audit Committee to provide oversight in reviewing the MD&A and the Company's Board of Directors to approve the MD&A.

The Company's Board of Directors and its Audit Committee also review all material matters relating to the necessary systems, controls and procedures in place to ensure the appropriateness and timeliness of MD&A disclosures.

This MD&A, dated November 2, 2010, has been approved by the Company's Board of Directors.

Additional Information

Additional information, including the Company's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.