



PREMIUM BRANDS HOLDINGS CORPORATION

Management's Discussion and Analysis

For the 14 and 53 Weeks Ended December 31, 2011

The following Management's Discussion and Analysis (MD&A) is a review of the financial performance and position of Premium Brands Holdings Corporation (the Company or Premium Brands), formerly known as Premium Brands Income Fund (the Fund), and is current to March 14, 2012. It should be read in conjunction with the Company's 2011 audited consolidated financial statements and the notes thereto, which are prepared in accordance with International Financial Reporting Standards (IFRS). These documents, as well as additional information on the Company 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.** Specialty food products are food products that are purchased by consumers 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 specialty food 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.** Differentiated food distribution businesses are businesses that provide customers with unique services (such as in-store merchandising, product promotions, equipment leasing and equipment servicing) and product solutions (such as exclusive branded products and custom portion cutting) in addition to the normal logistical solutions provided by a distribution business. The Company's current distribution businesses service approximately 26,000 customers, including convenience stores, gas bars, restaurants, delicatessens, small specialty grocery chains, hotels and institutions, across most of Canada.

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 differentiating themselves from distributors who are primarily focused on logistics. In addition, by owning these differentiated distribution businesses the Company is able to generate and sustain additional margin by providing its specialty food manufacturing businesses with proprietary access to a diversified customer base.

SELECT ANNUAL INFORMATION

The following is a summary of select annual consolidated financial information. All amounts, except EBITDA and RONA, are derived from the Company's audited consolidated financial statements for each of the three most recently completed financial years and are prepared in accordance with either IFRS for amounts relating to the fiscal years ended December 31, 2011 and December 25, 2010; or Canadian generally accepted accounting principles (GAAP) for amounts relating to the fiscal year ended December 26, 2009.

The calculation of RONA is shown below. See *Results of Operations* for the calculation of EBITDA.

<i>(in millions of dollars except per share amounts)</i>	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010	52 weeks ended Dec 26, 2009
Revenue	794.3	535.2	462.8
EBITDA	54.9	42.0	40.7
Earnings before acquisition transaction costs, restructuring costs and income taxes	23.6	18.7	21.0
Earnings ⁽¹⁾	13.1	14.1	18.9
Basic earnings per share ⁽¹⁾	0.68	0.79	1.07
Diluted earnings per share ⁽¹⁾	0.68	0.78	1.07
Total assets	614.9	431.9	350.0
Long-term financial liabilities ⁽²⁾	253.0	149.8	112.1
RONA	13.1%	14.0%	14.6%
Dividends / distributions declared per share / unit	1.176	1.176	1.176

(1) See note 3 of the Company's 2011 audited consolidated financial statements for a discussion on the differences between IFRS and GAAP.

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

Revenue and Earnings

The Company has consistently grown its revenue over the last three years through a combination of acquisitions and organic growth initiatives (see *Results of Operations – Revenue*). The Company has also continued to grow its EBITDA over the last three years, however, at a lower rate due primarily to: (i) the impact of record high costs in 2010 and 2011 for food commodities used in the production of

certain finished goods (see *Results of Operations – Gross Profit*); and (ii) the 2011 acquisitions of Deli Chef and SJ, both of which were generating negative EBITDA when the Company purchased them (see *Liquidity and Capital Resources – Corporate Investments*).

The Company's earnings over the last three years have been relatively volatile due to a number of factors including: (i) fluctuations in acquisition transaction and restructuring costs as these are event driven (see *Liquidity and Capital Resources – Corporate Investments* and *Results of Operations – Restructuring Costs*); (ii) the Company's 2009 consolidated financial statements being prepared in accordance with GAAP while its 2010 and 2011 consolidated financial statements were prepared in accordance with IFRS (see note 3 of the Company's 2011 audited consolidated financial statements); (iii) volatility associated with the fair market valuation of a variety of the Company's assets such as foreign currency and interest rate swap contracts, puttable interests in subsidiaries, and acquired businesses; and (iv) an unusual income tax provision recovery in 2010 resulting from the recognition of certain deferred tax assets (see *Results of Operations – Income Taxes – Deferred Income Tax Provision*).

Total Assets

The Company's consistent trend of increasing total assets reflects both its continuing investment in existing businesses as well as the acquisition of new specialty food manufacturing and differentiated food distribution businesses.

Long-term Financial Liabilities

The Company's consistent trend of increasing long-term financial liabilities is due to long-term debt being the primary funding source for its business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) and project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*). In 2010 and 2011, the Company invested \$239.5 million in new businesses and project capital expenditures, \$186.0 million of which was financed with debt.

RONA

Return on adjusted net assets (RONA) is not defined under IFRS and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should it be construed as an alternative to other earnings measures determined in accordance with IFRS.

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

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

<i>(in thousands of dollars)</i>	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010	52 weeks ended Dec 26, 2009
Return:			
EBITDA ⁽¹⁾	54,944	41,999	40,727
Maintenance capital expenditures	(2,880)	(1,713)	(2,026)
	52,064	40,286	38,701
Average adjusted net assets ⁽²⁾ :			
Opening net assets	335,337	264,952	264,637
Closing net assets excluding net assets of businesses acquired during the year	360,191	256,535	264,952
Average net assets before including businesses acquired in the year ⁽³⁾	347,764	260,744	264,795
Weighted net assets of businesses acquired in the year ⁽⁴⁾	48,752	27,501	-
	396,516	288,245	264,795
RONA ⁽⁵⁾	13.1%	14.0%	14.6%

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

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

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

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

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

The Company's RONA over the last five years has averaged 14.5% which is near its long term targeted rate of 15%. In 2011 the Company's RONA fell to 13.1% primarily due to: (i) the 2011 acquisitions of Deli Chef and SJ, both of which were generating negative cash flow when the Company purchased them; (ii) the impact of record high costs for a variety of input commodities on the selling margins of several of the Company's businesses (see *Results of Operations – Gross Profit*); and (iii) below normal performance of the Company's distribution businesses operating in the convenience store and restaurant channels due to an overall weaker than average economic environment in western Canada (see *Results of Operations – Revenue*).

Excluding Deli Chef and SJ, the Company's RONA for 2011 was 13.7%.

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 food manufacturing businesses (such as Harvest, Grimm's, Hygaard, Quality Fast Foods, Hempler's, Made-Rite Meats, Creekside, Stuyver's, Duso's, SK Food Group, Deli Chef, SJ Irvine and Piller's) and its Direct Plus Food Group's retail distribution businesses. The Retail segment's external sales are primarily to: (i) retailers, including delicatessens, small specialty grocery chains, convenience stores, gas bars, large national and regional grocery chains and warehouse clubs; and (ii) cafés selling convenience type grab-and-go foods such as fresh pre-made sandwiches and pastries.

The Foodservice segment includes the Company's Centennial Foodservice, B&C Food Distributors, Harlan Fairbanks, Worldsource, E1even, Wescadia (formerly South Seas), Maximum Seafood and Hub City Fisheries businesses. With the exception of Worldsource, Maximum Seafood and Hub City Fisheries, 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 and Hub City Fisheries, these businesses have been included in the Foodservice segment on the basis that (i) many of their customers are distributors who sell their products to foodservice customers; and (ii) these businesses are working closely with Centennial Foodservice and B&C Food Distributors in the implementation of the Company's national seafood strategies. With

respect to Worldsource, it has been included in the Foodservice segment on the basis that it is substantially integrated, particularly with respect to the procurement of raw materials, with Centennial Foodservice.

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

Extra Week of Operations

The Company's fiscal year ends on the last Saturday of the calendar year. As a result its fiscal year is generally 52 weeks, however, every five to six years the Company has a fiscal year that is 53 weeks due to the calendar year being slightly longer than 52 weeks.

In 2011 the Company's fiscal year was 53 weeks resulting in an extra week of operations as compared to 2010. The Company estimates the impact of the extra week of operations on its sales and EBITDA to be \$15.6 million (\$11.9 million if recent acquisitions are excluded) and \$0.1 million, respectively. The nominal impact on the Company's EBITDA relative to the higher sales impact is due to: (i) the year-end holiday season and generally poor weather in December resulting in the extra week being a relatively poor sales week; and (ii) despite the poor sales week the Company still incurred a full week of costs for items such as plant, sales, distribution and administrative overhead.

Revenue

(in thousands of dollars except percentages)

	14 weeks ended Dec 31, 2011	% (1)	13 weeks ended Dec 25, 2010	% (1)	53 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 25, 2010	% (1)
Revenue by segment:								
Retail	157,902	63.0%	76,469	49.0%	442,289	55.7%	248,061	46.3%
Foodservice	92,695	37.0%	79,502	51.0%	352,003	44.3%	287,182	53.7%
Consolidated	250,597	100.0%	155,971	100.0%	794,292	100.0%	535,243	100.0%

(1) Expressed as a percentage of consolidated revenue

Retail's revenue for the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by \$81.4 million or 106.5% due to: (i) the acquisitions of SK Food Group in the fourth quarter of 2010, Deli Chef in the first quarter of 2011, SJ in the second quarter of 2011 and Piller's in the third quarter of 2011 (see *Liquidity and Capital Resources – Corporate Investments*) which resulted in \$68.8 million in incremental sales for the quarter; (ii) organic growth of \$9.1 million representing an organic growth rate of approximately 11.9%; and (iii) \$5.0 million in incremental sales in Retail's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*). Partially offsetting these increases was the loss of approximately \$1.5 million in sales of third party products sourced in the U.S. due to suppliers choosing to directly market these products to Canadian retailers.

Retail's strong organic growth for the quarter, which was well above the Company's targeted range of 6% to 8%, was partly due to a \$6.4 million increase in frozen wrap and breakfast sandwich sales driven in part by a very successful fall promotion with a major café chain.

Retail's sales to convenience stores, which have been contracting on a year over year comparative basis for the last couple of years, were flat for the quarter as an improved economic environment, particularly in western Canada, helped to offset the negative impact that several factors, including record high gas prices, are having on consumer spending in this channel.

Retail's revenue for 2011 increased by \$194.2 million or 78.3% as compared to 2010 primarily due to: (i) the acquisitions of Duso's and SK Food Group in 2010 and Deli Chef, SJ and Piller's in 2011, which resulted in incremental sales of \$184.9 million; (ii) organic growth across a range of products and customers of \$9.3 million representing an organic growth rate of approximately 3.7%; and (iii) \$5.0 million in incremental sales in Retail's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*). Partially offsetting these increases was: (i) a \$1.9 million decrease in revenue in the first quarter of 2011 due to one-time sales in 2010 resulting from the Company's involvement with the 2010 Vancouver Winter Olympics; and (ii) the loss of approximately \$3.1 million in sales of third party products sourced in the U.S. due to suppliers choosing to directly market these products to Canadian retailers.

Retail's low organic growth rate for 2011, which was below the Company's targeted range of 6% to 8%, was primarily due to: (i) lower sales of barbeque focused products during the first two quarters of 2011 due to extremely poor weather across western Canada; and (ii) a \$3.0 million decrease in sales to convenience stores in the first three quarters of 2011 due to reduced consumer spending in this channel that was the result of a variety of factors including continued consumer concerns about the uncertainty of the economic environment and record high gas prices.

Looking forward (see *Forward Looking Statements*), the Company expects Retail's organic growth rate for 2012 to be within its targeted range of 6% to 8%. This is based on a number of assumptions including: (i) the successful implementation of a variety of new product and new customer based initiatives; (ii) the continuation of the positive trends the Company is seeing with respect to consumer spending in the convenience store channel; (iii) the successful integration of independent distributors from the Pridcorp Network (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*) into Retail's convenience store DSD network; and (iv) limited price inflation based on the cost of most of the food commodities used by Retail, many of which rose to record levels in 2011, stabilizing in 2012.

Foodservice's revenue for the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by \$13.2 million or 16.6% due to: (i) \$6.3 million in incremental sales in Foodservice's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); (ii) organic growth of \$5.2 million representing an organic growth rate of 7.0%; and (iii) the acquisition of Hub City Fisheries in the fourth quarter of 2010 which resulted in \$1.9 million in incremental sales. These increases were partially offset by a \$0.2 million decrease in Worldsource's food brokerage sales due to reduced trading opportunities.

Foodservice's organic growth, which was within the Company's targeted range of 6% to 8%, was driven by a combination of: (i) higher sales to its core hotel, restaurant and institutional customers as a result of several factors including improved consumer spending in this channel; and (ii) increased wholesale seafood sales resulting partially from a competitor in the Greater Toronto Area shutting down its business.

Foodservice's revenue for 2011 as compared to 2010 increased by \$64.8 million or 22.6% due to: (i) the acquisitions of Maximum Seafood and Hub City Fisheries in 2010 which resulted in \$41.9 million in incremental sales; (ii) organic growth of \$17.2 million representing an organic growth rate of 6.4%; (iii) \$6.3 million in incremental sales in Foodservice's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); and (iv) increased Worldsource sales of \$0.1 million. These increases were partially offset by a \$0.7 million decrease in revenue due to one-time sales in the first quarter of 2010 resulting from the Company's involvement with the 2010 Vancouver Winter Olympics.

Looking forward (see *Forward Looking Statements*) the Company expects Foodservice's organic growth rate for 2012 to be within its targeted range of 6% to 8%. This is based on a number of assumptions including: (i) a continuation of the positive trends the Company is seeing with respect to consumer spending in the foodservice channel; (ii) western Canada's economy continuing to improve; and (iii) some price inflation based on continuing increases in certain beef commodity inputs.

Gross Profit

(in thousands of dollars except percentages)

	14 weeks ended Dec 31, 2011	% (1)	13 weeks ended Dec 25, 2010	% (1)	53 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 25, 2010	% (1)
Gross profit by segment:								
Retail	37,366	23.7%	20,878	27.3%	113,354	25.6%	75,000	30.2%
Foodservice	16,408	17.7%	14,338	18.0%	66,307	18.8%	56,637	19.7%
<u>Consolidated</u>	<u>53,774</u>	<u>21.5%</u>	<u>35,216</u>	<u>22.6%</u>	<u>179,661</u>	<u>22.6%</u>	<u>131,637</u>	<u>24.6%</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 fourth quarter of 2011 as compared to the fourth quarter of 2010 decreased primarily due to the acquisitions of SK Food Group in 2010 and SJ and Piller's in 2011 (see *Liquidity and Capital Resources – Corporate Investments*) as these businesses generate lower average gross margins as compared to Retail's other businesses.

Excluding SK Food Group, SJ and Piller's, Retail's gross margin (legacy gross margin) for the fourth quarter of 2011 improved slightly to 29.5% as compared to 29.1% in the fourth quarter of 2010. While Retail's legacy gross margin did show some improvement during the quarter on a year over year basis, it is still below the Company's targeted range of 32% to 33% due to record high costs for a variety of input commodities including poultry, pork, beef, and flour.

Retail's gross margin for 2011 as compared to 2010 decreased primarily due to: (i) the acquisitions of SK Food Group, SJ and Piller's; and (ii) a number of Retail's businesses being impacted for much of 2011 by rising costs for a variety of input commodities. Throughout 2011 the Company implemented a number of initiatives, including selling price increases and product packaging changes, to address the impact of higher costs on its margins. Excluding SK Food Group, SJ and Piller's, Retail's gross margin for 2011 was 30.6% as compared to 30.9% for 2010.

Looking forward (see *Forward Looking Statements*), for 2012 Retail expects its gross margin, after accounting for the impact of recent acquisitions, to trend towards its targeted range of 25% to 26% based on: (i) Retail's continuing implementation of a variety of margin enhancement initiatives, including targeted selling price increases, new product development, packaging changes and improving plant efficiencies; and (ii) the costs of some of the input commodities that have impacted its margins over the last year stabilizing, albeit at historically high levels.

Foodservice's gross margin for the fourth quarter of 2011 as compared to the fourth quarter of 2010 was down slightly due to: (i) sales mix changes, namely increased sales of lower margin frozen seafood products; and (ii) continued record high costs for certain input commodities.

Foodservice's gross margin for 2011 as compared to 2010 decreased primarily due to: (i) the acquisitions of Maximum Seafood and Hub City Fisheries part way through 2010 as these businesses generate lower average gross margins as compared to Foodservice's other businesses; and (ii) rising input costs for a variety of input commodities, in general, and for beef based products, in particular. Excluding Maximum Seafood and Hub City Fisheries, Foodservice's gross margin for 2011 was 18.7% as compared to 18.4% in 2010.

Looking forward (see *Forward Looking Statements*), Foodservice expects its gross margin to remain stable to slightly up for 2012 as compared to 2011 based on the benefits of its various margin improvement initiatives, which include selling price increases, improved operating efficiencies resulting from higher sales volumes and the introduction of a new hamburger patty program (see *Liquidity and Capital Resources – Capital Expenditures*), being largely offset by increases in the cost of certain beef input commodities.

Selling, General and Administrative Expenses (SG&A)

(in thousands of dollars except percentages)

	14 weeks ended Dec 31, 2011	% (1)	13 weeks ended Dec 25, 2010	% (1)	53 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 25, 2010	% (1)
SG&A by segment:								
Retail	25,981	16.5%	12,430	16.3%	72,777	16.5%	44,806	18.1%
Foodservice	11,794	12.7%	10,911	13.7%	45,740	13.0%	39,042	13.6%
Corporate	1,619		1,392		6,200		5,790	
<u>Consolidated</u>	<u>39,394</u>	<u>15.7%</u>	<u>24,733</u>	<u>15.9%</u>	<u>124,717</u>	<u>15.7%</u>	<u>89,638</u>	<u>16.7%</u>

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

Retail's SG&A in the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by \$13.6 million primarily due to: (i) the acquisitions of SK Food Group in 2010 and Deli Chef, SJ and Piller's in 2011 (see *Liquidity and Capital Resources – Corporate Investments*) which resulted in an increase of \$12.4 million; (ii) incremental SG&A in Retail's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); and (iii) higher freight and fuel costs resulting from fuel price increases. These increases were partially offset by lower distribution costs resulting from the rationalization of certain areas of Retail's direct-to-store delivery network.

Retail's SG&A for 2011 as compared to 2010 increased by \$28.0 million primarily due to: (i) the acquisitions of Duso's and SK Food Group in 2010 and the acquisitions of Deli Chef, SJ and Piller's in 2011 which resulted in an increase in Retail's SG&A of \$27.4 million; (ii) incremental SG&A in Retail's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); and (iii) higher freight and fuel costs resulting from fuel price increases. These increases were partially offset by: (i) a decrease in one-time costs associated with the Company's involvement in the 2010 Vancouver Winter Olympics in 2010; and (ii) lower distribution costs resulting from the rationalization of certain areas of Retail's direct-to-store delivery network.

Excluding acquisitions, Retail's SG&A as a percentage of revenue for 2011 was approximately 19.0% as compared to 18.8% for 2010.

Foodservice's SG&A in the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by \$0.9 million primarily due to: (i) incremental SG&A in Foodservice's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); (ii) the acquisition of Hub City Fisheries in the fourth quarter of 2010 which accounted for \$0.1 million of the increase; and (iii) higher freight and fuel costs resulting from fuel price increases.

Foodservice's SG&A for 2011 as compared to 2010 increased by \$6.7 million primarily due to: (i) the acquisitions of Maximum Seafood and Hub City Fisheries in 2010 which accounted for \$4.6 million of the increase; (i) incremental SG&A in Foodservice's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); (ii) the recognition in the second quarter of 2010 of a \$0.5 million gain on the sale of a redundant property; and (iii) higher freight and fuel costs resulting from fuel price increases.

Excluding acquisitions and the \$0.5 million gain on the sale of a redundant property in the second quarter of 2010, Foodservice's SG&A as a percentage of revenue for 2011 was approximately 13.9% as compared to 14.1% for 2010.

EBITDA

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 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. 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 EBITDA to earnings before income taxes:

<i>(in thousands of dollars)</i>				
	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Earnings before income taxes	3,226	2,995	19,187	17,668
Depreciation of capital assets (1)	3,916	2,330	12,091	8,210
Amortization of intangible assets (1)	1,201	813	3,573	2,757
Amortization of other assets (1)	1	1	5	5
Interest and other financing costs (2)	4,194	2,702	14,496	9,994
Amortization of financing costs (1)	212	49	405	295
Acquisition transaction costs (3)	702	554	1,594	1,018
Change in value of puttable interest in subsidiaries (4)	150	700	1,828	1,450
Accretion of provision for contingent consideration (2)	209	-	244	-
Unrealized loss (gain) on foreign currency contracts (5)	495	193	(220)	125
Unrealized loss on interest rate swap contracts (6)	100	-	100	-
Restructuring costs (3)	74	-	2,819	-
Acquisition bargain purchase gain (3)	(100)	-	(1,455)	-
Equity loss in associate (7)	-	146	277	477
EBITDA	14,380	10,483	54,944	41,999

- (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 is an unusual item that is not part of the Company's normal operating costs.
- (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 and Euro 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 and Euro denominated purchases and, in turn, its selling margins.
- (6) Amount represents the change in fair value of the Company's interest rate swaps and is adjusted for on the basis that the Company does not intend to liquidate these contracts but rather uses them to fix the interest rate on its Facility C.
- (7) Amount relates to businesses that the Company did not control.

<i>(in thousands of dollars except percentages)</i>								
	14 weeks ended Dec 31, 2011	% (1)	13 weeks ended Dec 25, 2010	% (1)	53 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 25, 2010	% (1)
EBITDA by segment:								
Retail	11,385	7.2%	8,448	11.0%	40,577	9.2%	30,194	12.2%
Foodservice	4,614	4.9%	3,427	4.3%	20,567	5.8%	17,595	6.1%
Corporate	(1,619)		(1,392)		(6,200)		(5,790)	
Consolidated	14,380	5.7%	10,483	6.7%	54,944	6.9%	41,999	7.8%

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

The Company's EBITDA for the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by \$3.9 million or 37.2% primarily due to: (i) acquisitions (see *Liquidity and Capital Resources – Corporate Investments*); (ii) organic growth in a number of the Company's legacy

businesses; and (iii) estimated additional EBITDA of approximately \$0.1 million due to an extra week of operations in the fourth quarter of 2011 (see *Results of Operations – Extra Week of Operations*).

These increases were partially offset by: (i) the continuing impact of high commodity costs on the selling margins of several of the Company's businesses; and (ii) higher freight and fuel costs resulting from fuel price increases.

The Company's EBITDA for 2011 increased by \$12.9 million or 30.8% as compared to 2010 primarily due to the same factors that impacted its fourth quarter EBITDA, however, this increase was also partially offset by (i) one-time benefits in the first quarter of 2010 associated with the Company's involvement with the 2010 Vancouver Winter Olympics; and (ii) the recognition in the second quarter of 2010 of a \$0.5 million gain on the sale of a redundant property.

Looking forward (see *Forward Looking Statements*), the Company expects its EBITDA for 2012 to increase significantly based on: (i) a full year of EBITDA from businesses acquired part way through 2011 (see *Liquidity and Capital Resources – Corporate Investments*); (ii) improved EBITDA resulting from the turnaround of its recently acquired Deli Chef and SJ businesses (see *Results of Operations – Restructuring Costs*); (iii) improved stability, albeit at historically high levels, in the cost of many of the input commodities that have been negatively impacting its margins for the last two years (see *Results of Operations – Gross Profit*); and (iv) continued improvement in consumer spending in the convenience store and restaurant channels. Based on these factors the Company is projecting its 2012 EBITDA to be in the range of \$75.0 million to \$80.0 million.

Depreciation and Amortization (D&A)

(in thousands of dollars)

	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Depreciation and amortization of intangible and other assets (D&A) by segment:				
Retail	3,830	2,010	10,883	6,708
Foodservice	1,144	983	4,243	3,661
Corporate	144	151	543	603
Consolidated	5,118	3,144	15,669	10,972

The increases in the Company's D&A expense for both the fourth quarter of 2011 as compared to the fourth quarter of 2010, and 2011 as compared to 2010, were primarily due to business acquisitions made in 2010 and 2011 by both its Retail and Foodservice segments.

Interest

The increases in the Company's interest and other financing costs for both the fourth quarter of 2011 as compared to the fourth quarter of 2010, and 2011 as compared to 2010, were primarily due to: (i) an increase in the Company's net funded debt (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*); and (ii) the repayment of lower cost senior debt through the issuance of convertible unsecured subordinated debentures at the beginning of 2011 (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

These increases were partially offset by lower interest rates on the Company's senior credit facilities due to: (i) a lower interest rate environment in general; and (ii) the Company negotiating a lower credit spread on its senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

Change in Value of Puttable Interest in Subsidiaries

Change in value of puttable interest represents an estimate of the change in the value 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 (see *Liquidity and Capital Resources – Corporate Investments – Puttable Interest in Subsidiaries*).

Change in value of puttable interest in subsidiaries for 2011 as compared to 2010 increased by \$0.4 million primarily due to: (i) increased accretion resulting from changes made in the latter half of 2010 to the assumptions used to value the put options; and (ii) incremental accretion relating to new put options resulting from business acquisitions made part way through 2010 and in 2011 (see *Liquidity and Capital Resources – Corporate Investments*). These increases were partially offset by a \$0.2 million decrease resulting from the purchase by the Company in the second quarter of 2011 of the minority interest in its Stuyver's artisan bakery business (see *Liquidity and Capital Resources – Corporate Investments – Puttable Interest in Subsidiaries*).

Gains / Losses on Foreign Currency Contracts

Gains and losses on foreign currency contracts are the result of changes in the fair market valuation of the Company's U.S. dollar and Euro forward purchase contracts (see *Financial Instruments – Foreign Currency Contracts*). The Company does not hold these contracts for speculative purposes nor does it intend to liquidate them, but rather uses the contracts to stabilize the cost of its U.S. dollar and Euro denominated purchases and, in turn, its selling margins.

Gains / Losses on Interest Rate SWAP Contracts

Gains and losses on interest rate contracts are the result of changes in the fair market valuation of the Company's interest rate swap contracts (see *Financial Instruments – Interest Rate SWAP Contracts*). The Company does not hold these contracts for speculative purposes nor does it intend to liquidate them, but rather uses the contracts to stabilize its interest cost.

Restructuring Costs

Restructuring costs consist of costs associated with a significant restructuring of one or more of the Company's businesses. In 2011, the Company incurred \$2.8 million in restructuring costs consisting of:

- \$2.1 million in charges relating to the Company's recently acquired Deli Chef business (see *Liquidity and Capital Resources – Corporate Investments – Deli Chef Acquisition*). Included in this amount is approximately \$1.8 million for severance and other costs associated with the shutdown on April 29, 2011 of Deli Chef's sandwich plant in Gatineau, Quebec. As previously announced the Company expects to incur \$6 million to \$7 million in capital and restructuring costs relating to the changes being made to Deli Chef's business. As at the end of 2011 these costs totaled \$2.5 million consisting of the \$2.1 million in restructuring costs outlined above and \$0.4 million in capital expenditures.

Looking forward (see *Forward Looking Statements*), as part of the restructuring of Deli Chef the Company is projecting to invest \$3.4 million in 2012 on the construction of a new 20,000 square foot sandwich plant (see *Subsequent Transactions*).

- \$0.5 million in redundant lease costs associated with the expansion of the Company's artisan bread capacity (see *Liquidity and Capital Resources – Capital Expenditures*).

- \$0.5 million in charges associated with the rationalization of the Company's direct-to-store delivery networks (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*).
- \$0.2 million in severance and other costs relating to changes being made to SJ Irvine's business subsequent to the Company acquiring control of it in the second quarter of 2011 (see *Liquidity and Capital Resources – Corporate Investments*).

The above costs were partially offset by a gain of \$0.5 million resulting from sales to independent distributors forming part of the Company's Direct Plus convenience store direct-to-store distribution network (the Direct Plus DSD network) of the exclusive right to sell certain of the Company's products to convenience stores in defined territories. These sales of distribution territories were completed in conjunction with the restructuring of the Direct Plus DSD network (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*)

Acquisition Bargain Purchase Gains

During the second quarter of 2011, the Company completed an initial fair value assessment for the acquisition of Deli Chef (see *Liquidity and Capital Resources – Corporate Investments*). In doing so, it determined that the fair value of the net identifiable assets acquired was \$1.4 million greater than the consideration paid. Under IFRS this difference is recognized immediately as a bargain purchase gain.

In the fourth quarter of 2011 the Company finalized its fair value assessment for the acquisition of Deli Chef resulting in an additional bargain purchase gain of \$0.1 million.

Income Taxes

Tax Attributes

An estimate of the Company's tax attributes as at the end of 2011 is as follows:

(in millions of dollars)

Scientific research and experimental development tax credits	92.4
Un-depreciated capital costs	119.6
Non-capital losses carried forward	60.3
Capital losses carried forward	0.9
Cumulative eligible capital	58.4
Section 20(1)(e) financing fee	4.3
Investment tax credits	15.3
Total	351.2

In 2009 the Company completed a plan of arrangement that resulted in the conversion (the Conversion) of the Fund, a publicly traded income trust, into the Company, a publicly traded corporation. As a result of the Conversion the Company was deemed to acquire certain tax attributes consisting primarily of scientific research and experimental development tax credits, non-capital losses carried forward and un-depreciated capital costs. At the time of the Conversion the Company estimated the value of these tax attributes to be approximately \$167 million and correspondingly recognized a deferred tax asset of \$52.3 million.

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 deferred income tax asset as a charge to income.

Current 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, which on an annual basis generate the majority of its earnings, to incur any substantial current income tax expense in the near future (see *Forward Looking Statements*). Correspondingly, the Company's current income tax provision relates primarily to its U.S. subsidiaries and its non-wholly owned Canadian subsidiaries.

Deferred Income Tax (DIT) Provision

The Company's DIT provision (recovery) relates to changes in the value of its deferred income tax assets and liabilities as shown below:

<i>(in thousands of dollars)</i>	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Opening DIT asset	41,729	42,129	42,817	48,468
Adjustments:				
Foreign currency translation adjustment (1)	(143)	(16)	142	(25)
Convertible unsecured subordinated debenture issuance (2)	-	-	(332)	-
Reallocation of 2010 acquisition purchase price from goodwill (3)	-	-	1,560	-
DIT resulting from 2011 acquisitions (4)	(54)	(1,218)	327	(3,231)
Adjusted opening DIT asset	41,532	40,895	44,514	45,212
Closing DIT asset	39,952	42,817	39,952	42,817
Provision for (recovery of) DIT	1,580	(1,922)	4,562	2,395

(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 – Debt Financing Activities – Debt Activities*.

(3) See *Liquidity and Capital Resources – Corporate Investments – Goodwill and Intangible Assets*.

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

The Company's low deferred income tax provision in 2010 and deferred income tax recovery in the fourth quarter of 2010 was due to the Company recognizing a deferred tax asset of \$2.6 million in the fourth quarter of 2010. This asset was the result of the Company determining that the final tax attributes associated with the Conversion were higher than estimated at the time of the Conversion.

Note that in the Company's 2010 consolidated financial statements prepared in accordance with GAAP the \$2.6 million income tax provision recovery resulting from the recognition of the additional tax attributes was largely offset by an income tax provision expense resulting from the recognition of a corresponding deferred credit of \$2.2 million. Under IFRS the full deferred credit associated with the Conversion, including the \$2.2 million recognized in 2010 under GAAP, was recognized in 2009 (see note 3 to the Company's 2011 audited consolidated financial statements).

FOURTH QUARTER FINANCIAL STATEMENTS

The Company's operating results for the fourth quarters of 2011 and 2010 were as follows:

<i>(in thousands of dollars)</i>	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010
Revenue	250,597	155,971
Gross profit	53,774	35,216
Selling, general and administrative expenses	39,394	24,733
	14,380	10,483
Depreciation of capital assets	3,916	2,330
Amortization of intangible assets	1,201	813
Amortization of other assets	1	1
Interest and other financing costs	4,194	2,702
Amortization of financing costs	212	49
Acquisition transaction costs	702	554
Change in value of puttable interest in subsidiaries	150	700
Accretion of provision for contingent consideration	209	-
Unrealized loss on foreign currency contracts	495	193
Unrealized loss on interest rate swap contracts	100	-
Restructuring costs	74	-
Acquisition bargain purchase gain	(100)	-
Equity loss in associate	-	146
Earnings before income taxes	3,226	2,995
Income tax provision – current	121	850
Income tax provision (recovery) – deferred	1,580	(1,922)
Income tax provision (recovery)	1,701	(1,072)
Earnings	1,525	4,067
Earnings attributable to:		
Shareholders	1,464	4,033
Non-controlling interest – net of income taxes	61	34
Net earnings	1,525	4,067

See *Results of Operations* for a discussion of the Company's operating results for the fourth quarter of 2011.

SUMMARY OF QUARTERLY RESULTS

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

<i>(millions of dollars except per share amounts)</i>	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Revenue	109.7	125.9	143.7	156.0	154.1	183.8	205.7	250.6
EBITDA	7.2	11.0	13.2	10.6	9.2	13.7	17.6	14.4
Earnings	0.9	5.3	3.8	4.0	1.0	4.5	6.1	1.5
Earnings per share – basic	0.05	0.30	0.21	0.23	0.05	0.24	0.32	0.07
Earnings per share –diluted	0.05	0.30	0.21	0.22	0.05	0.24	0.32	0.07

Many of the Company's businesses are subject to fluctuations associated with the impact on consumer demand of seasonal changes in weather. As a result, its results are weaker in the first quarter due to a combination of:

- 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 convenience stores, gas stations, restaurants and concessionary venues); and (ii) reduced consumer demand for its outdoor oriented products (such as barbeque and on-the-go convenience foods).
- A general decline in consumer activity at the beginning of each calendar year.

The Company's results generally peak in the spring and summer months due to favourable weather conditions and the resulting impact on consumer demand, then decline in the fourth quarter due to poorer weather conditions.

Over the last eight quarters the seasonal nature of the Company's business has been impacted by business acquisitions made part way through 2010 and 2011 (see *Liquidity and Capital Resources – Corporate Investments*). This is due to: (i) the general growth in revenue and earnings associated with the acquired businesses; and (ii) some of the acquired businesses, namely Duso's Fine Foods, Maximum Seafood and SK Food Group, being less impacted by seasonal factors.

The Company's earnings over the last eight quarters have been relatively volatile due to a number of factors including: (i) fluctuations in acquisition transaction and restructuring costs as these are event driven (see *Results of Operations – Restructuring Costs*); (ii) volatility associated with the fair market valuation of a variety of the Company's assets such as foreign currency and interest rate swap contracts, puttable interest in subsidiaries, and acquired businesses; and (iii) an unusual income tax provision recovery in 2010 resulting from the recognition of certain deferred tax assets (see *Results of Operations – Income Taxes – Deferred Income Tax Provision*).

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position and liquidity for the 14 and 53 week periods ended December 31, 2011 were impacted by the following:

Funds from Operations

Funds from operations 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 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>	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Cash flow from operating activities	12,510	6,693	29,524	32,793
Changes in non-cash working capital	(3,542)	(5)	6,050	(2,817)
Funds from operations	8,968	6,688	35,574	29,946

See *Results of Operations* for an analysis of the significant factors impacting the Company's funds from operations, namely the changes in the Company's EBITDA, interest and other financing costs, and current tax provision.

Net Working Capital Requirements

Net Working Capital

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

The following table provides the calculation of net working capital:

<i>(in thousands of dollars)</i>	As at Dec 31, 2011	As at Dec 25, 2010
Accounts receivable	78,830	52,807
Inventories	79,977	57,366
Prepaid expenses	13,455	3,421
Accounts payable and accrued liabilities	(80,162)	(53,699)
Net Working Capital	92,100	59,895

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*).

Net working capital at the end of 2011 increased by \$32.2 million as compared to the end of 2010 due primarily to: (i) acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) which accounted for \$16.5 million of the increase; (ii) \$9.0 million in deposits on equipment purchased for the expansion of the Company's bakery operations (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*); and (iii) higher net working capital levels resulting from the Company's organic sales growth (see *Results of Operations – Revenue*).

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

<i>(in days)</i>	As at Dec 31, 2011	As at Dec 25, 2010
Days sales in accounts receivable ⁽¹⁾	30.8	30.8
Days cost of sales in inventory ⁽²⁾	39.8	43.2

(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.

Non-Cash Working Capital Cash Flows

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

<i>(in thousands of dollars)</i>	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Changes in non-cash working capital	3,542	5	(6,050)	2,847

Due to the seasonal nature of the Company's business, changes in the Company's non-cash working capital generally results in a net cash inflow in the fourth quarter as its sales levels decline after the busy summer months (see *Summary of Quarterly Results*).

For 2011 the Company used \$6.1 million in cash for non-cash working capital primarily due to: (i) \$9.0 million in deposits on equipment purchased for the expansion of the Company's bakery operations (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*); and (ii) higher net working capital levels resulting from the Company's organic sales growth (see *Results of Operations – Revenue*). These increases were partially offset by cash generated from excess net working capital at the time of acquisition in businesses acquired in 2011 (see *Liquidity and Capital Resources – Corporate Investments*).

Debt Financing Activities

Credit Facilities

As at December 31, 2011 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⁾	50,000	17,049	32,951
Facility B – revolving senior credit ⁽²⁾	55,000	49,450	5,550
Facility C – non-revolving senior credit ⁽³⁾	100,000	100,000	-
5.75% convertible debentures ⁽⁵⁾	54,003	54,003	-
7.00% convertible debentures ⁽⁴⁾	35,393	35,393	-
Vendor take-back notes resulting from business acquisitions	10,724	10,724	-
Capital leases	8,242	8,242	-
Farm Credit Canada loans ⁽⁷⁾	7,808	7,808	-
Industrial Development Revenue Bond ⁽⁶⁾	6,229	6,229	-
Other revolving loans	3,275	1,012	2,263
Other term loans	1,684	1,684	-
Cheques outstanding	-	2,504	(2,504)
Cash and cash equivalents	-	(4,860)	4,860
	332,358	289,238	43,120

- (1) Amount represents the total amount available under the facility of \$60.0 million less approximately \$10.0 million in outstanding letters of credit. Facility matures in September 2014, 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 September 2014, can be used to fund capital projects and acquisitions, and has quarterly principal payments of \$2.75 million. Repaid amounts can be redrawn to fund new capital projects and acquisitions.
- (3) Facility matures in September 2014 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 \$2.75 million.
- (4) Represents the outstanding portion of the debt allocated 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) Represents the debt allocated component of the \$57.5 million in convertible unsecured subordinated debentures issued by the Company on January 6, 2011. The debentures mature in December 2015 and have no principal payments prior to that date.
- (6) Credit facility is held by 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.
- (7) Loans relate to SJ (see *Liquidity and Capital Resources – Corporate Investments*), mature between March 2014 to July 2020, and have quarterly principal payments of approximately \$0.3 million beginning in March 2012.

The 7% and 5.75% debentures trade on the Toronto Stock exchange under the symbols PBH.DB and PBH.DB.A, respectively.

Funded Debt

Senior funded debt and total funded debt are not defined under IFRS and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that senior funded debt and total funded debt, used in conjunction with its 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>	As at Dec 31, 2011	As at Dec 25, 2010
Cheques outstanding	2,504	1,670
Bank indebtedness	18,061	6,827
Current portion of long-term debt	20,536	19,822
Deferred financing costs ⁽¹⁾	940	516
<u>Long-term debt</u>	<u>162,661</u>	<u>112,004</u>
	204,702	140,839
<u>Less cash and cash equivalents</u>	<u>4,860</u>	<u>868</u>
Senior funded debt	199,842	139,971
7.00% debentures ⁽²⁾	35,393	37,306
5.75% debentures ⁽³⁾	54,003	-
<u>Total funded debt</u>	<u>289,238</u>	<u>177,277</u>

(1) As required by IFRS, deferred financing costs are included as an offsetting amount in long-term debt.

(2) Represents the debt allocated 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.

(3) Represents the debt allocated component of the \$57.5 million in convertible unsecured subordinated debentures issued by the Company on January 6, 2011. The debentures mature in December 2015 and have no principal payments prior to that date.

Debt Activities

During 2011 the Company's significant debt activities consisted of the following:

- On January 6, 2011 the Company issued \$57.5 million of convertible unsecured subordinated debentures (the 5.75% debentures) resulting in net proceeds of \$54.6 million after commissions of \$2.3 million and transaction costs of approximately \$0.6 million. These debentures bear interest at an annual rate of 5.75% payable semi-annually, have a maturity date of December 31, 2015 and are convertible into common shares of the Company at a price of \$22.40 per share.

\$38.3 million of the net proceeds of the offering were used to reduce the amount outstanding under Facility B, which is a revolving facility and hence these funds can be accessed for future business acquisitions and capital projects. The balance of the net proceeds of the offering was used to fund the Company's general operations.

- During 2011 the Company negotiated the following amendments to its senior credit facilities: (i) the credit available under Facilities A, B and C increased by \$20.0 million, \$10.0 million and \$36.0 million, respectively; (ii) the Company's quarterly principal payments increased to \$2.75 million from \$2.0 million; (iii) the banker's acceptances rate based interest pricing grid add-on reduced to a range of 1.50% to 2.50% from a range of 2.0% to 3.0%; and (iv) the Company's senior funded debt to EBITDA ratio covenant requirement was increased to 3.5:1 returning to the previous covenant requirement of 3.0:1 at the earlier of the issuance of new equity and/or subordinate debt or June 30, 2012.
- \$59.8 million in draws on Facility B consisting of: (i) \$40.0 million for the acquisitions of Deli Chef, SJ and Piller's (see *Liquidity and Capital Resources – Corporate Investments*); (ii) \$10.0 million to fund the purchase of the Cloverdale plant (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*); (iii) \$6.0 million to fund a portion of a US\$6.5 million vendor take-back promissory note that came due in the second quarter of 2011; and (iv) a general draw for project capital expenditures of \$3.8 million.
- \$11.2 million in net draws on Facility A to fund the Company's general operations including increases in net working capital and capital expenditures.

- The assumption of \$9.4 million (\$9.7 million gross value before discounting to fair market value) of Piller's funded debt consisting of \$7.7 million in capital leases and \$1.7 million in term loans.
- The consolidation in the Company's financial statements of \$7.8 million in term loans payable by recently acquired SJ (see *Liquidity and Capital Resources – Corporate Investments*).
- A \$1.1 million increase in vendor take-back promissory notes consisting of: (i) a new \$0.4 million promissory note relating to the acquisition of Pridcorp (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*); and (ii) \$0.7 million in interest accretion.
- A \$0.9 million capital lease relating to jerky packaging equipment purchased by the Company's 50% owned subsidiary Made-Rite Meat Products LP (see *Liquidity and Capital Resources – Capital Expenditures*).
- \$12.3 million in principal payments on Facility B consisting of: (i) \$11.5 million for scheduled quarterly principal payments, which includes an additional payment (i.e. five quarterly principal payments were made in 2011) due to the Company's extra week of operations (see *Results of Operations – Extra Week of Operations*); and (ii) \$0.8 million representing the proceeds from the sale of a redundant property. As noted above, principal payments made on this facility can be redrawn to fund future business acquisitions and capital projects.
- \$12.0 million in principal payments on vendor take-back promissory notes relating to acquisitions made in prior years.
- The conversion of \$2.6 million of 7.00% debentures to common shares at the option of the debenture holders resulting in the issuance of 179,510 common shares.
- \$0.6 million in principal payments on capital leases.

The Company's cash balance at the end of 2011 as compared to the end of 2010 increased by \$4.0 million to \$4.9 million primarily due to: (i) the acquisition of a controlling interest in SJ (see *Liquidity and Capital Resources – Corporate Investments*) through a treasury share issuance which resulted in SJ having approximately \$1.7 million of cash on hand at the end of 2011; and (ii) the timing of cash transfers from non-wholly owned subsidiaries.

The Company's outstanding cheques balance at the end of 2011 as compared to the end of 2010 increased by \$0.8 million to \$2.5 million primarily due to business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*).

Banking Covenants

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

	Covenant Requirement	Dec 31, 2011 Ratio
Senior funded debt to EBITDA ratio ^{(1) (2)}	=< 3.50 : 1.0	3.03: 1.0
Current ratio ⁽³⁾	> 1.30 : 1.0	1.43: 1.0
Interest coverage ratio ⁽³⁾	> 4.00 : 1.0	9.06: 1.0

- (1) Covenant decreases to 3:00:1 at the earlier of: (i) the Company completing a public offering of common shares or subordinate debt; and (ii) the third quarter of 2012. This reduction would, however, be subject to a 0.25:1 add-on for a period of two consecutive quarters in the event of a business acquisition.
- (2) 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.
- (3) Ratio is calculated based on the combined balance sheets and/or income statements of certain subsidiaries of the Company and therefore will not necessarily equal the ratio calculated based on the Company's consolidated balance sheet and/or income statement.

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.

At the end of 2011 the Company's senior funded debt to EBITDA ratio increased to 3.03:1 as compared to 2.71:1 at the end of 2010 primarily due to senior funded debt being used to fund a significant portion of the Company's 2011 project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*) and business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*). The impact of these factors was partially offset by a reduction in senior funded debt resulting from the Company's convertible debenture offering in January 2011 (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

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 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 quarters basis. The Company uses this ratio on the basis of: (i) 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; and (ii) its objective to maintain 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.

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

<i>(in thousands of dollars)</i>	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Cash flow from operating activities	29,524	32,793
Changes in non-cash working capital (1)	6,050	(2,847)
Sale of redundant property (2)	-	1,747
Deferred revenue (3)	1,118	1,207
Acquisition transaction costs (4)	1,594	1,018
Restructuring costs (4)	2,819	-
Capital maintenance expenditures (5)	(2,880)	(1,713)
Free cash flow	38,225	32,205

- (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 – Credit facilities*), 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 deferred revenue (see *Liquidity and Capital Resources – Capital Expenditures – Deferred Revenue*).
- (4) Amount relates to the Company's business acquisition activities (see *Liquidity and Capital Resources – Corporate Investments*) and/or capital expenditure activities (see *Liquidity and Capital Resources – Capital Expenditures*).
- (5) 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:

- 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 requirements 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 risk factors facing the Company (see *Forward Looking Statements and Risks and Uncertainties*).

The Company currently has a targeted quarterly dividend of \$0.294 per share, or on an annualized basis, \$1.176 per share. During 2011 the Company declared total dividends of \$1.176 per share totaling \$22.7 million.

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:					
Dec 31, 2011	22,672	Dividend	38,225	59.3%	\$1.176
Dec 25, 2010	21,019	Dividend	32,202	65.3%	\$1.176
Dec 26, 2009	20,687	(2)	29,280	70.7%	\$1.176
Dec 31, 2008	20,593	Trust distribution	29,631	69.5%	\$1.176
Dec 31, 2007	20,514	Trust distribution	26,440	77.6%	\$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 2011:

(in thousands of dollars)		53 weeks ended Dec 31, 2011
Opening capital assets at December 25, 2010		76,184
Depreciation		(12,091)
Asset sales and other		(1,041)
Foreign currency translation adjustment (1)		130
Acquisitions (2)		81,307
Capital expenditures:		
Project		20,613
Maintenance		2,880
Closing capital assets		167,982

(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*.

During 2011 the Company spent \$20.6 million on project expenditures, which included:

- \$10.8 million on a 96,000 square foot meat processing facility located in Surrey, BC (the Cloverdale plant). This facility was purchased pursuant to an option that was exercised just prior to its expiry on August 4, 2011.

At the time of the purchase the Company had intended to move a portion of the production at its 57,000 square foot Richmond, BC deli meats plant, an older facility that is scheduled to be shut down when its lease expires in July 2013 (the Richmond plant), into the Cloverdale plant. Subsequently, in September 2011, the Company acquired Piller's (see *Liquidity and Capital Resources – Corporate Investments*) and after completing a comprehensive analysis of the capacities of its facilities, which included examining alternative production configurations, determined that production of the products that were to be transferred from the Richmond plant to the Cloverdale plant could, instead, be produced at Piller's with minimal incremental investment. Correspondingly, the Company is re-evaluating its long term plan for the Cloverdale plant.

- \$2.4 million for the expansion of Centennial Foodservice's custom cutting operation at its distribution facility in Calgary, AB. This project, which was completed in the second quarter, enables Centennial to further differentiate itself by providing its customers with customized fresh and frozen burger patty programs.
- \$2.3 million on the construction of a new artisan bakery that will replace the Company's Stuyver's facility in Burnaby, BC. This project, which commenced in the first quarter of 2011, was essentially completed in January 2012 and the new facility is scheduled to be in full commercial production in early April 2012.

The projected total cost of the project is approximately \$18.3 million, and expected benefits (see *Forward Looking Statements*) associated with it include: (i) a substantial increase in production capacity as Stuyver's Burnaby bakery is currently operating at near to capacity; and (ii) significant production efficiencies based on the automation of a number of production processes.

In addition to the \$2.3 million spent on capital assets associated with this project, as at the end of 2011 the Company had paid \$9.0 million for equipment deposits which are included in its prepaid expenses (see *Liquidity and Capital Resources – Net Working Capital Requirements – Net Working Capital*).

- \$1.0 million for a new jerky packaging line at Made-Rite's facility in Langley, BC. This project, which was completed in the first quarter of 2011, reduces the plant's per unit packaging costs while increasing its production capacity.
- \$0.3 million for production equipment that will improve the operating efficiency of Harvest's Yorkton, SK meat processing plant through improved handling of raw materials. This project, which commenced in the third quarter of 2011, is expected to cost approximately \$1.1 million and is scheduled to be completed in the second quarter of 2012.

The balance of the Company's project capital expenditures for 2011 was for a variety of smaller projects consisting mainly of capacity related equipment purchases.

Maintenance capital expenditures for 2011 increased to \$2.9 million as compared to \$1.7 million in 2010 due primarily to: (i) business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) which accounted for \$0.7 million of the increase; and (ii) a variety of smaller projects that had been deferred in 2010 and completed in 2011.

Historic Capital Maintenance Expenditures

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

<i>(in thousands of dollars)</i>		Total
Rolling four quarters ended:		
December 31, 2011		2,880
December 25, 2010		1,713
December 26, 2009		2,026
December 31, 2008		2,600
December 31, 2007		1,780
December 31, 2006		1,887

Looking forward, for 2012 the Company expects (see *Forward Looking Statements*) its capital maintenance expenditures to be between \$4.5 million and \$5.0 million. This is higher than its historic levels due to: (i) business acquisitions made in 2011 (see *Liquidity and Capital Resources – Corporate Investments*); and (ii) and some catch-up in maintenance capital expenditures deferred from prior years due to the uncertain economic environment.

Deferred Revenue

In the second quarter of 2011 the Company entered into a sale and leaseback transaction for a portion of the trucks purchased as part of the Deli Chef acquisition (see *Liquidity and Capital Resources – Corporate Investments*). The transaction resulted in \$1.1 million in deferred revenue that is being amortized into income over the three year term of the resulting leases.

In the second quarter of 2010 the Company successfully obtained \$1.2 million in government grants relating to several capital projects completed over the last several years. \$0.3 million of these grants were recognized in 2010 as other income under SG&A with the balance being recorded on the Company's consolidated balance sheet as deferred 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.

Deli Chef Acquisition

In the first quarter of 2011 the Company completed the acquisition of Les Aliments Deli Chef (Deli Chef) for \$7.8 million. At the time of the acquisition, Deli Chef had two sandwich manufacturing facilities: one in Gatineau, Quebec and the other in Toronto, Ontario; as well as a central distribution facility in Laval, Quebec; a 14 truck convenience store DSD network in southern Ontario and a 44 truck convenience store DSD network in Quebec. In April 2011, as part of the restructuring of Deli Chef's business, the Company shut down Deli Chef's Gatineau plant (see *Results of Operations – Restructuring Costs*).

At the time of the acquisition, Deli Chef had an annual sales run rate of approximately \$30 million and was generating a negative cash flow. The Company is restructuring Deli Chef's business (see *Results of Operations – Restructuring Costs*) and is targeting for it to have annual sales and EBITDA of \$50 million and \$5 million, respectively, within the next five years (see *Forward Looking Statements*).

SJ Acquisition

In the second quarter of 2011 the Company acquired an additional 25.7% interest in SJ Irvine Fine Foods Ltd. (SJ) bringing its total interest in SJ to 50.7% and resulting in it acquiring control of SJ. SJ, which started operations in January 2008, manufactures high quality processed meats for the foodservice and retail industries out of a modern 40,000 square foot facility in Saskatoon, SK and currently produces a variety of products for the Company under the Grimm's brand name.

The Company's acquisition of the additional interest in SJ was the result of a series of transactions that included: (i) the Company's purchase of treasury shares from SJ for \$3.9 million; (ii) the conversion of SJ's debt payable to its shareholders to equity, including the \$1.9 million owed by SJ to the Company; and (iii) the restructuring and extension by two years of the supply agreement under which SJ produces products for the Company.

As a result of acquiring control of SJ, the Company began including SJ in its consolidated financial statements, and correspondingly ceased to use equity accounting for its investment in SJ, in the second quarter of 2011.

Piller's Acquisition

In the third quarter of 2011 the Company purchased substantially all of the assets and business operations (Piller's) of Waterloo, Ontario based Piller Sausages & Delicatessens Limited. Piller's is one of Canada's leading manufacturers of specialty European deli meats with annual sales and EBITDA run rates of approximately \$180.0 million and \$15.0 million, respectively.

The purchase price consisted of \$64.9 million in cash, the issuance of 1,968,750 common shares valued at \$31.5 million or \$16.00 per share, and the assumption of \$9.4 million in funded debt. In addition, it will be increased by up to \$10.0 million (\$8.1 million on a present value basis) if Piller's achieves certain profitability targets over the next two years. This contingent consideration, if payable, will be due in November 2013.

Pridcorp Acquisition

In the fourth quarter of 2011 the Company acquired the business of Preferred Regional Independent Distributors Corporation (Pridcorp) for \$0.6 million consisting of \$0.2 million in cash and a \$0.4 million non-interest bearing promissory note due in March 2012. Prior to the transaction Pridcorp oversaw a network (the Pridcorp Network) of 41 regional independent direct-to-store (DSD) distributors to the convenience store industry.

In conjunction with the acquisition the Company entered into exclusive distribution agreements with 25 distributors (the New Distributors) from the Pridcorp network. Under the terms of these agreements the Company agreed to indemnify the New Distributors for up to a combined total of \$2.9 million in lost profits in the event that: (i) a certain defined key supplier terminates its relationship with the New Distributor as a result of the New Distributor entering into an exclusive distribution agreement with the Company; and (ii) the New Distributor is unable to replace the resulting lost sales with sales of other products including any new listings of the Company's products.

Subsequent to the transaction, the Company initiated a process of merging and rationalizing its Direct Plus DSD network's delivery routes with those of the New Distributors in order to: (i) create Canada's only national convenience store DSD network in the sandwich, meat snack and pastry categories; (ii)

gain efficiencies by eliminating overlaps where both the Company's DSD network and a New Distributor are servicing the same customer sites; and (iii) further improve the profitability of its DSD delivery routes by adding certain products that were previously distributed exclusively by the Pridcorp Network.

Goodwill and Intangible Assets

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

The following table shows the changes in the combined total of the Company's net intangible assets and goodwill during 2011:

<i>(in thousands of dollars)</i>	53 weeks ended Dec 31, 2011
Opening intangible assets and goodwill at December 25, 2010	195,077
Amortization of intangible assets	(3,573)
Foreign currency translation adjustment (1)	174
Reallocation of 2010 acquisition purchase price (goodwill) to deferred income taxes (2)	(1,560)
Additions:	
Goodwill and intangible assets resulting from 2011 acquisitions	35,538
Purchase of trade-mark license	355
Customer supply agreement	2,187
Goodwill disposal	(694)
<u>Closing intangible assets and goodwill</u>	<u>227,504</u>

(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 *Results of Operations – Deferred Income Tax Provision*.

See *Liquidity and Capital Resources* for details on business acquisitions made in 2011.

During the first quarter of 2011 the Company repurchased the rights that had been granted to a third party to use its Bread Garden brand name in conjunction with café styled restaurants for \$0.4 million.

During the fourth quarter of 2011 the Company entered into a three year exclusive supply agreement with a major café chain for the supply of breakfast sandwiches and other grab-and-go food items to stores across Canada and the western and southern U.S. Under the terms of the agreement, which is structured as a "cost plus" agreement, the Company paid the retailer an upfront fee of \$2.2 million. This fee was recorded as an intangible asset and is being expensed over the term of the contract.

Also during the fourth quarter, the Company reduced the goodwill associated with its Direct Plus DSD network by \$0.7 million as a result of selling exclusive access to certain territories within this network to certain independent distributors. These sales were completed in conjunction with the restructuring of Direct Plus' DSD network (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*) and resulted in a gain of \$0.5 million (see *Results of Operations – Restructuring Costs*).

Puttable Interest in Subsidiaries

Puttable interest represents the fair value estimate of options (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 at a formula based price, which is generally a multiple of the applicable subsidiary's average EBITDA for a defined period.

The following table shows the changes in puttable interest during 2011:

<i>(in thousands of dollars)</i>	53 weeks ended Dec 31, 2011
Opening puttable interest at December 25, 2010 ⁽¹⁾	12,652
Change in value ⁽²⁾	1,828
Foreign currency translation adjustment ⁽³⁾	6
Exercise of put option	(2,286)
Cash distributions to non-controlling shareholders with puttable interests	(572)
Puttable interest resulting from acquisitions	3,582
Closing puttable interest ⁽¹⁾	15,210

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

(2) See *Results of Operations – Change in Value 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.

In the second quarter of 2011 the non-controlling shareholder of the Company's Stuyver's artisan bakery business exercised his option to sell his 40% interest in Stuyver's to the Company for \$2.3 million resulting in the Company owning 100% of this business.

Provision for Contingent Consideration

The following table shows the changes in the provision for contingent consideration during 2011:

<i>(in thousands of dollars)</i>	53 weeks ended Dec 31, 2011
Opening provision for contingent consideration at December 25, 2010 ⁽¹⁾	-
Acquisitions ⁽²⁾	11,040
Accretion of provision for contingent consideration	244
Closing provision for contingent consideration ⁽¹⁾	11,284

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

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

During the third quarter of 2011, the Company recorded a provision for contingent consideration of \$8.1 million as a result of the acquisition of Piller's (see *Liquidity and Capital Resources – Corporate Investments – Piller's Acquisition*). This contingent consideration represents the discounted present value of the full amount of the contingent consideration of \$10.0 million.

During the fourth quarter of 2011, the Company recorded a provision for contingent consideration of \$2.9 million as a result of indemnifying certain independent distributors for up to a combined total of \$2.9 million in lost profits in the event that certain conditions are met (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*).

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, gross margin and EBITDA expectations for 2012. See *Liquidity and Capital Resources – Capital Expenditures – Historic Capital Maintenance Expenditures* for details on the Company's capital maintenance expenditure expectations for 2012.

In terms of business acquisitions, the Company continues to evaluate a number of promising opportunities but does not, at this time, expect (see *Forward Looking Statements*) to complete any

material acquisitions of specialty food manufacturing and/or differentiated food distribution businesses in the near future.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

Contractual Obligations

The payments due on the Company's significant contractual obligations at December 31, 2011 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
Term debt	174,211	15,676	19,202	128,268	760	797	9,508
Capital leases	9,926	4,860	1,647	1,088	852	395	1,084
7.00% debentures	37,647	-	-	37,647	-	-	-
5.75% debentures	57,500	-	-	-	57,500	-	-
Operating leases	61,827	11,357	9,243	7,070	5,877	5,179	23,101
Total	341,111	31,893	30,092	174,073	64,989	6,371	33,693

TRANSACTIONS WITH RELATED PARTIES

During 2011 the Company entered into the following transactions with related parties:

- Pursuant to a ten year real property lease ending in August, 2018, the Company made \$0.4 million in lease payments to a company in which the Company's Chairman, Bruce Hodge, has a minority interest.
- Pursuant to the Company's employee loan program, the Company received principal payments totaling approximately \$0.1 million from various employees, including its President and Chief Executive Officer, George Paleologou, and its Chief Financial Officer, Will Kalutycz.

SUBSEQUENT TRANSACTIONS

Sandwich Production Restructuring

In February 2012, the Company entered into an agreement for the construction of a new 20,000 square foot sandwich production plant (the Laval plant) in a leased facility adjacent to its distribution centre in Laval, Quebec. The projected cost of the new plant is \$3.4 million consisting of \$3.2 million for leasehold improvements and \$0.2 million for miscellaneous equipment.

Conversions of Convertible Debentures

Subsequent to December 31, 2011, the Company has issued 105,583 common shares as a result of the conversion of \$1.5 million of its 7.00% Debentures (see *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. While

management believes that the expectations reflected in such forward looking statements are reasonable and represent the Company's internal expectations and belief as of March 14, 2012, 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*.

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 outlined below. Readers are cautioned that this list is not exhaustive.

- Current economic conditions in Canada will continue to show modest improvement in the near to medium term 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 will continue to fluctuate in line with historic levels.
- The Company will be able to continue to access sufficient goods and services for its manufacturing and distribution operations.
- There will be no material 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 significant changes to Canada's historic weather patterns.
- There will be no material changes in the Company's relationships with its larger customers.
- The Company will be able to negotiate new collective agreements with no labour disruptions.
- The Company will be able to continue to access 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.
- There will be no material changes to the tax and other regulatory requirements governing the Company.

Unless otherwise indicated, the forward looking information in this document is made as of March 14, 2012 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 the Company may currently deem insignificant (see *Forward Looking Statements*).

Seasonality and Weather Risk

The Company's business is seasonal and weather dependent. Poor weather can impact the Company in many ways including: (i) reduced consumer travel which generally results in decreased consumer demand for the Company's products, including meat snacks, sandwiches and pastries, that are sold through retailers such as convenience stores and gas bars; and (ii) reduced consumer outdoor activities, such as barbequing and visiting outdoor attractions, which also generally results in decreased consumer demand for many of the Company's products, including premium processed meats and concession products. As a result, poor weather conditions, particularly in the spring and summer, could have a material adverse effect on the Company's sales and in turn its results of operations and financial condition.

Consumer Discretionary Spending Risk

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

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

Commodity Risk

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

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

Conversion Risk

The Company is subject to certain risks resulting from the Conversion (see *Results of Operations – Income Tax – Tax Attributes*), which involved a plan of arrangement with Thallion Pharmaceuticals Inc. (Thallion). These risks include the following:

- ***Third Party Credit/Contractual Risks.*** The Company is or may be exposed to third party credit/contractual risk relating to obligations of Thallion and Thallion's successor, New Thallion. The Company has, through the conditions of an arrangement agreement and certain agreements entered into pursuant to such agreement, attempted to ensure that the liabilities and obligations relating to the business of Thallion were transferred to and assumed by New Thallion, and that the Company was released from any such obligations. However, where such

transfers or releases were not effective or are not obtained, the Company is subject to third party credit/contractual risk relating to the obligations of Thallion and New Thallion. Such third party liabilities for which the Company may become liable could have a material adverse effect on the business, financial conditions and results of operations of the Company.

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

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

- **Income Taxes.** The Company will file all required income tax returns and believes that it will be in full compliance with the provisions of the Canadian Income Tax Act and all applicable provincial legislation. It is expected that the Company's tax horizon will be deferred for several years due in large part to tax attributes associated with the Conversion (see *Results of Operations – Income Taxes – Deferred Income Tax Provision*). These tax attributes are, however, subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Company, whether by re-characterization of certain expenditures, availability of the tax pools, including non-capital loss-carryforwards, scientific research and experimental development expenditures, investment tax credits or otherwise, such reassessment may have a material impact on current and future taxes payable by the Company and, in turn, on the Company's ability to maintain its current dividend rate (see *Liquidity and Capital Resources – Dividends*).

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

Sales and Margin Risk

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

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

Customer Risk

The Company's sales to large format retail customers account for approximately 26% of its total sales. As is customary in the food industry, the Company does not have long-term contracts with any of these customers.

The Company also has sales to a number of distributors who, in turn, sell the Company's products primarily to one customer (the Core Customer), that account for approximately 13% of its total sales.

The balance of the Company's sales is to a broad base of approximately 26,000 customers.

The loss of sales to the Core Customer, a large format retail customer, or a large number of other customers could have a material adverse effect upon the Company's results of operations and financial condition.

The Company's customer diversification strategies in general, and its differentiated distribution strategies in particular, help to mitigate its exposure to this risk. Furthermore, the risk associated with losing sales associated with the Core Customer is mitigated by a variety of factors including a three year supply agreement with the Core Customer, the Company's strong past performance as a strategic supplier to the Core Customer, and the strength of the Company's relationship with this customer.

Product Defect Risk

The Company, like other food manufacturers, is subject to potential liabilities and expenses associated with product defects. The Company's products require a high degree of quality control to ensure their safety for consumption by consumers. Furthermore, a significant portion of the Company's products must be kept refrigerated prior to consumption. Improper production, handling or storage of the Company's products could result in the development of bacteria in the product that may cause food-borne illness. Product defects may also be caused by other factors such as accidental contamination, product tampering, mislabeling and/or the unintentional use of defective raw materials received from third party suppliers.

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

against the Company and/or a recall of its products due to product defects could have a material adverse effect on its results of operations and financial condition.

Consumer Preference Risk

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

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

Competition Risk

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

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

Currency Exchange Risk

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

- The Company's Canadian operations currently make annual product purchases of approximately US\$48 million that are denominated in U.S. dollars. An increase in the U.S. dollar relative to the Canadian dollar could result in an increase, in Canadian dollar terms, in the cost of these products which, if the Company was unable to pass onto its customers through increased selling prices, could have a material adverse effect on its margins and in turn its results of operations and financial condition. This risk is mitigated by: (i) the majority of these purchases are for finished products sold through Company's distribution networks, hence if a supplier becomes uncompetitive due to changes in the value of the Canadian dollar then the Company could, in many cases, shift its purchasing to a more competitive supplier; and (ii) the Company's use of forward buy foreign currency contracts (see *Financial Instruments – Foreign Currency Contracts*).

- The valuation of the cash flows transferred from the Company's U.S. based operations. A decrease in the U.S. dollar relative to the Canadian dollar would reduce the value of this cash flow and hence could have a material adverse effect on its consolidated cash flow and, in turn, its financial condition. This risk is partially mitigated by the Company financing a portion of its investment in its U.S. operations with U.S. dollar denominated debt.
- The translation of the Company's U.S. based operations' earnings and financial position. A decrease in the U.S. dollar relative to the Canadian dollar would reduce the translated earnings and net asset values of the Company's U.S. based operations, for purposes of its consolidated financial statements, and hence could have a material adverse effect on the Company's results of operations and financial condition. This risk is also partially mitigated by the Company financing a portion of its investment in its U.S. operations with U.S. dollar denominated debt.
- The Company's U.S. based operations export approximately \$12 million in product annually to Canada. An increase in the U.S. dollar relative to the Canadian dollar could reduce the selling margins on these products if the Company's U.S. based operations were unable to increase their selling prices, in Canadian dollar terms, to compensate for the stronger U.S. dollar. This in turn could have a material adverse effect on the Company's results of operations and financial condition.

Growth Risk

A key component of the Company's strategy is to continue to grow by increasing sales and earnings in existing markets with existing products; by expanding into new markets and products; and through accretive acquisitions. There can be no assurance that the Company will be successful in growing its business or in managing its growth. Furthermore, successful expansion may place a significant strain on the Company's senior management team and other key personnel as well as its business processes, operations and other resources. The Company's ability to manage growth will also depend in part on its ability to continue to enhance its management information systems in a timely fashion. Any inability to properly manage growth could result in cancellation of customer orders and correspondingly could have a material adverse effect on the Company's results of operations and financial condition.

Acquisition Risk

Another key component of the Company's growth strategies (see *Risks – Growth Risk*) is through business acquisitions and combinations. Such transactions involve inherent risks including unanticipated transaction costs, costs associated with failed transactions, undisclosed liabilities, and integration issues. Furthermore, the process of integrating an acquired business into the Company's operations may absorb significant management attention that would otherwise be available for the ongoing development of the Company's business or may cause disruptions to the ongoing business. While the Company conducts due diligence and takes steps to mitigate these risks, any of these factors could have a material adverse effect on the Company's results of operations and financial condition.

An additional risk associated with the Company's acquisition strategies is that it may be unable to identify and acquire appropriate businesses to acquire.

Availability of Capital Risk

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

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

Potential Labour Risks

Approximately 35% of the Company's non-management employees are represented by labour unions or employee associations. Furthermore, the Company cannot predict with certainty which, if any, groups of employees that are not currently represented by a trade union or employee association may seek such representation in the future.

Several of the Company's significant customers and suppliers also employ workers who are represented by labour unions.

Any labour disruption, whether at one of the Company's businesses or involving one of the Company's significant customers or suppliers could result in a material adverse effect on the Company's results of operations and financial condition.

The Company is also dependent on having sufficient skilled and unskilled production and distribution labour for the continued efficient operation and growth of its business. In the event the Company is unable to hire and retain adequate labour resources this could have a material adverse effect on its results of operations and financial condition.

Dependence on Key Personnel

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

Interest Rate Risks

The Company is exposed to interest rate fluctuations under its bank operating and term debt facilities. Where appropriate, these exposures are managed through interest rate swaps (see *Financial Instruments – Interest Rate Swap Contracts*), however, there can be no assurance that the Company will be able, in the future, to adequately manage these exposures and, if the Company is unable to do so, a significant change in interest rates could have a material adverse effect on the Company's results of operations and financial condition.

Credit Risks

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

Manufacturing Risks

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

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

Livestock Risk

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

International Trade Risks

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

Governmental Regulation Risks

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

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

In addition, negative publicity, or increased costs associated with complying with such standards and controls may have a material adverse effect on the Company's results of operations and financial condition.

Environmental, Health and Safety Regulation Risks

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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 life of an asset are reflected prospectively through changes in future depreciation rates.

Income tax provision. The Company's provision for (recovery of) deferred 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, deferred income tax assets are recognized only to the extent that management determines that it is more than likely than not that the deferred 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 subordinated debentures. The valuation of the debt and equity components of convertible unsecured subordinated 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 / contingent consideration. The allocation of the purchase price associated with the acquisition of a business requires a significant amount of judgement in terms of identifying and determining: (i) the fair market values of the tangible and intangible assets purchased; and (ii) the liabilities assumed. Furthermore, when an acquisition involves contingent consideration there is also significant judgement involved in determining the value, if any, of such consideration.

NEW ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

The Company has adopted International Financial Reporting Standards (IFRS) for its fiscal year ending December 31, 2011 as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants.

The assessments and impacts associated with the Company's transition to IFRS are detailed in note 3 to its 2011 audited consolidated financial statements. This disclosure includes reconciliations of the Company's: (i) shareholders' equity reported in accordance with GAAP to its shareholders' equity reported in accordance with IFRS as at December 25, 2010 and December 27, 2009; and (ii) net earnings and comprehensive earnings reported in accordance with GAAP to its net earnings and comprehensive earnings reported in accordance with IFRS for the 52 weeks ended December 25, 2010. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Company's elections under IFRS 1, First-time Adoption of International Financial Reporting Standards.

New Accounting Pronouncements

There are a number of revised standards and amendments under IFRS that are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them. See note 2 to the Company's 2011 audited consolidated financial statements for details on the revised standards and amendments.

FINANCIAL INSTRUMENTS

Foreign Currency Contracts

In order to reduce the risk associated with purchases denominated in currencies other than Canadian dollars (see *Risks and Uncertainties – Currency Exchange Risk*), the Company, from time to time, enters into foreign currency contracts. The Company does not hold foreign currency contracts for speculative purposes.

As at December 31, 2011, the Company had outstanding foreign currency contracts for the purchase of US\$20.6 million over the next 12 months at a blended rate of C\$1.0183 and for the purchase of €1.4 million over the next eight months at a blended rate of C\$1.3473.

Based on the outstanding contracts for the purchase of U.S. dollars, a change of \$0.01 in the value of the Canadian dollar relative to the U.S. dollar would result in an unrealized gain (if the Canadian dollar weakens) or an unrealized loss (if the Canadian dollar strengthens) of approximately \$0.2 million in the Company's consolidated statement of operations.

Interest Rate Swap Contracts

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

On October 6, 2011, the Company entered into interest rate swap contracts (the swaps) that fixed the rate of interest on \$100.0 million of its long-term debt for a three-year period at a rate of 1.17% plus 1.5% to 2.5% based on its ratio of debt to cash flow calculated quarterly.

As at December 31, 2011, a change of 0.25 percentage points in the effective interest rate for the remaining term of the swaps would result in a gain (if interest rates increase) or loss (if interest rates decrease) of approximately \$0.6 million in the Company's consolidated statement of operations.

OTHER

Outstanding Shares

The shares outstanding in the Company as of March 14, 2012 were 20,371,206. Under IFRS, which requires that shares issued under employee share benefit plans that have not yet vested be deducted from shares outstanding, the shares outstanding in the Company as of March 14, 2012 were 20,274,622.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Management has designed, or caused to be designed under their supervision, the Company's disclosure controls and procedures (DCP) and internal control over financial reporting (ICFR) as defined under National Instrument NI 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109).

Management has evaluated the Company's DCP as of December 31, 2011 and has concluded that such procedures are adequately designed and effective for providing reasonable assurance that (i) material information relating to the Company, including its consolidated subsidiaries, is made known to Management on a timely basis to ensure adequate disclosure and (ii) information required to be disclosed by the Company in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time period.

Management has also evaluated the Company's ICFR as of December 31, 2011 and has concluded that the Company's ICFR is adequately designed and effective for providing reasonable assurance that the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with IFRS.

In assessing the design of the Company's DCP and ICFR as at December 31, 2011, the Company has excluded the controls, policies and procedures of Piller's, an acquisition the company completed on September 9, 2011 (see *Liquidity and Capital Resources – Corporate Investments*). Piller's accounted for \$52.8 million of the Company's consolidated sales in the fourth quarter, \$0.8 million in profit for the fourth quarter, and approximately \$32.2 million, \$91.0 million, \$12.7 million and \$7.0 million of its current assets, non-current assets, current liabilities and non-current liabilities, respectively, in its December 31, 2011 consolidated balance sheet. Documentation and assessment of Piller's impact on the overall design of the Company's DCP and ICFR are expected to be completed in 2012.

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

The Company's Management has also concluded that there have been no changes to the Company's ICFR during the interim period ending December 31, 2011 that has materially affected, or are reasonably likely to affect, its ICFR.

Responsibilities of Management and Board of Directors

Management is responsible for the reliability and timeliness of content disclosed in this management's discussion & analysis (MD&A), which is current as of March 14, 2012. It is the responsibility of the

Company's Audit Committee to provide oversight in reviewing the MD&A and the Company's Board of Directors to approve the MD&A.

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

This MD&A, dated March 14, 2012, 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.