



PREMIUM BRANDS HOLDINGS CORPORATION

Management's Discussion and Analysis

For the 13 and 26 Weeks Ended June 28, 2014

The following Management's Discussion and Analysis (MD&A) is a review of the financial performance and position of Premium Brands Holdings Corporation (the Company or Premium Brands) and is current to August 6, 2014. It should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and the notes thereto for the period ended June 28, 2014, its fiscal 2013 audited consolidated financial statements and the notes thereto, both of which are prepared in accordance with International Financial Reporting Standards (IFRS) and its MD&A for fiscal 2013. These documents, as well as additional information on the Company, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

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

BUSINESS OVERVIEW

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

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

Premium Brands defines specialty food products as those where consumers' purchasing decisions are based primarily on factors other than price, such as quality, convenience, product consistency, health and/or lifestyle. Examples of its specialty food products include: (i) fresh, pre-packaged and frozen sandwiches, wraps and other hand held foods; (ii) high end European deli meats; (iii) protein based snack foods such as pepperoni, beef jerky and kippered beef; (iv) premium quality processed meats and seafood, including natural and organic products; and (v) concessionary items such as popcorn, hot and frozen beverage supplies and ice cream accessories.

The Company's focus on this segment of the food industry is based on the ability of specialty food businesses, 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.**

Premium Brands defines differentiated food distribution businesses as distribution businesses that offer their customers premium and/or unique services and products in addition to basic logistical solutions. Examples of these differentiating factors include: (i) in the foodservice industry, chef specific menu solutions that utilize in-house custom meat cutting facilities; (ii) in the retail channel, in-store merchandising and inventory management services; and (iii) in the concessionary industry, complete equipment solutions including maintenance and leasing programs.

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 and more consistent selling margins and to avoid competing with large national and international distributors that are primarily focused on logistics. Furthermore, these businesses enable the Company to generate and sustain additional margin by providing its specialty food businesses with proprietary access to a broad and diversified customer base that includes restaurants, regional and specialty grocery chains, convenience stores, gas bars, delicatessens, hotels and institutions.

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, Freybe, Hygaard, Quality Fast Foods, Hempler's, Made-Rite Meat Products, Creekside, Stuyver's Bakestudio, Duso's, SK Food Group, Deli Chef, SJ Irvine and Piller's) and its Direct Plus Food Group and NDSD 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, wraps and pastries.

The Foodservice segment includes the Company's Centennial Foodservice, B&C Food Distributors, Harlan Fairbanks, Worldsource, E1even, Wescadia, Maximum Seafood and Hub City Fisheries businesses. With the exception of Worldsource, Maximum Seafood and Hub City Fisheries, all of these businesses focus primarily 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 work 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.

Revenue

(in thousands of dollars except percentages)

	13 weeks ended Jun 28, 2014	% (1)	13 weeks ended Jun 29, 2013	% (1)	26 weeks ended Jun 28, 2014	% (1)	26 weeks ended Jun 29, 2013	% (1)
Revenue by segment:								
Retail	203,511	63.2%	174,305	62.5%	375,716	63.8%	312,628	61.5%
Foodservice	118,744	36.8%	104,624	37.5%	213,414	36.2%	195,482	38.5%
<u>Consolidated</u>	<u>322,255</u>	<u>100.0%</u>	<u>278,929</u>	<u>100.0%</u>	<u>589,130</u>	<u>100%</u>	<u>508,110</u>	<u>100%</u>

(1) Expressed as a percentage of consolidated revenue

Retail's revenue for the second quarter of 2014 as compared to the second quarter of 2013 increased by \$29.2 million or 16.8% primarily due to organic growth across a range of products and customers. In particular, Retail's sandwich business generated significant growth in both Canada and the U.S. as a result of the introduction by one of its major customers of a variety of new products.

Retail's revenue for the first two quarters of 2014 increased by \$63.1 million or 20.2% as compared to the first two quarters of 2013 primarily due to: (i) organic growth of \$47.1 million, representing an average growth rate of 15.1%; and (ii) the acquisition of Freybe Gourmet Foods Ltd. at the end of the first quarter of 2013 which accounted for \$16.0 million of the increase.

Retail's organic growth rate for the first two quarters of 2014 was well above the Company's targeted range of 6% to 8% primarily due to: (i) selling price increases that were implemented by several of Retail's businesses in response to a record rise in the cost of a variety of input commodity proteins (see *Results of Operations – Gross Profit*); and (ii) an increase in the translated value of Retail's U.S. based businesses' sales resulting from a decline in the value of the Canadian dollar. Excluding these factors, Retail's organic growth for the first two quarters of 2014 was slightly above its targeted range.

Looking forward (see *Forward Looking Statements*), the Company is expecting Retail's organic growth to continue exceeding its targeted range for the next several quarters based on (i) the factors outlined above; and (ii) the expected completion of several production capacity expansion projects (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

Foodservice's revenue for the second quarter of 2014 as compared to the second quarter of 2013 increased by \$14.1 million or 13.5% primarily due to: (i) organic growth of \$10.3 million, representing an average growth rate of 10.5%; and (ii) the acquisition of Reddi Foods (see *Liquidity and Capital Resources – Corporate Investments – Reddi Foods Acquisition*) which accounted for \$1.8 million of the increase; and (iii) increased sales in its Worldsource food brokerage business of \$2.0 million resulting from improved trading opportunities and average higher selling prices for beef and pork products.

Foodservice's revenue for the first two quarters of 2014 increased by \$17.9 million or 9.2% as compared to the first two quarters of 2013 primarily due to: (i) organic growth of \$14.8 million, representing an average growth rate of 8.1%; (ii) the acquisition of Reddi Foods which accounted for \$1.8 million of the increase; and (iii) increased sales in its Worldsource food brokerage business of \$1.3 million resulting from improved trading opportunities and average higher selling prices for beef and pork products.

Foodservice's organic growth rate for the first two quarters of 2014 was at the top end of the Company's targeted range of 6% to 8% mainly due to selling price increases that were implemented by several of its businesses in response to a record rise in the cost of a variety of input commodity proteins (see *Results of Operations – Gross Profit*). These increases were partially offset by lower than expected growth in Foodservice's sales volume that was the result of a variety of factors including poor weather conditions across the Prairies and Ontario for most of the first half of 2014.

Looking forward (see *Forward Looking Statements*), the Company is expecting Foodservice's organic growth to remain within its targeted range of 6% to 8% for the last half of 2014 based on: (i) selling

price increases associated with the record rise in input commodity proteins; and (ii) a return to more normal weather conditions.

Gross Profit

<i>(in thousands of dollars except percentages)</i>								
	13 weeks ended Jun 28, 2014	% (1)	13 weeks ended Jun 29, 2013	% (1)	26 weeks ended Jun 28, 2014	% (1)	26 weeks ended Jun 29, 2013	% (1)
Gross profit by segment:								
Retail	39,966	19.6%	39,706	22.8%	71,194	18.9%	67,688	21.7%
Foodservice	20,822	17.2%	19,454	18.6%	37,122	17.4%	36,011	18.4%
<u>Consolidated</u>	<u>60,788</u>	<u>18.9%</u>	<u>59,160</u>	<u>21.2%</u>	<u>108,316</u>	<u>18.4%</u>	<u>103,699</u>	<u>20.4%</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 second quarter of 2014 as compared to the second quarter of 2013 decreased primarily due to: (i) an extremely rapid rise in the cost of a variety of input commodity proteins, which in some cases exceeded 75%, during the first quarter of 2014. Retail's businesses initiated a series of selling price increases designed to return its gross margin to normal levels, however, due to factors such as customer notice periods, the full benefit of these increases was not realized in the quarter. Had the implemented selling price increases been in place at the start of the second quarter, Retail's gross margin would have been approximately 21.2%; (ii) lower percentage margins on products sold on a cost plus basis due to a combination of factors including the significant increases in the cost of input commodity proteins; and (iii) further increases in the cost of certain input commodity proteins during the second quarter for which Retail's businesses are implementing additional selling price increases that will take effect in the third quarter of 2014.

Retail's gross margin for the first two quarters of 2014 as compared to the first two quarters of 2013 decreased primarily due to the factors discussed above. Overall, the impact on Retail's gross profit of higher input commodity protein costs, net of realized selling price increases, was approximately \$6.3 million for the first two quarters of 2014.

Looking forward (see *Forward Looking Statements*), the Company expects Retail's margins to improve in the latter half of 2014 based on: (i) selling price increases that were implemented in the first and second quarters of 2014 which took effect in the second quarter; (ii) selling price increases that are currently being implemented which will take effect in August and September; and (iii) reduced volatility in the cost of input commodity proteins. Longer term the Company anticipates that commodity protein prices will return to more normal levels as: (i) higher commodity prices and current favourable feed prices result in the expansion of livestock herds; and (ii) North American hog herds recover from a recent outbreak of Porcine Epidemic Diarrhea Virus.

Foodservice's gross margin for the second quarter of 2014 as compared to the second quarter of 2013 and for the first two quarters of 2014 as compared to the first two quarters of 2013 decreased primarily due to continued increases in the cost of a variety of input commodity proteins, in general, and certain premium beef commodities, in particular. Excluding the impact of this issue, which is estimated at approximately \$0.7 million for the second quarter of 2014 and \$1.6 million for the first two quarters of 2014, Foodservice's gross margin for the second quarter and for the first two quarters of 2014 was 18.1%.

Looking forward (see *Forward Looking Statements*), the Company expects Foodservice's margins to remain at lower than normal levels for the next several quarters due to continued volatility and supply issues for premium beef products sold to the restaurant industry. As discussed above, longer term the Company anticipates that commodity protein prices will return to more normal levels as higher commodity prices and current favourable feed prices result in the expansion of livestock herds.

Selling, General and Administrative Expenses (SG&A)

(in thousands of dollars except percentages)

	13 weeks ended Jun 28, 2014	% (1)	13 weeks ended Jun 29, 2013	% (1)	26 weeks ended Jun 28, 2014	% (1)	26 weeks ended Jun 29, 2013	% (1)
SG&A by segment:								
Retail	23,388	11.5%	23,700	13.6%	45,260	12.0%	41,854	13.4%
Foodservice	13,734	11.6%	12,774	12.2%	26,500	12.4%	24,835	12.7%
Corporate	2,011		1,671		3,685		3,237	
Consolidated	39,133	12.1%	38,145	13.7%	75,445	12.8%	69,926	13.8%

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

Retail's SG&A for the second quarter of 2014 as compared to the second quarter of 2013 decreased by \$0.3 million due to a variety of factors including a reduction in discretionary marketing and advertising programs during the period in which certain selling price increases, designed to address higher commodity input protein costs, were being implemented (see *Results of Operations – Gross Profit*). These decreases were partially offset by increased variable selling costs associated with Retail's organic sales growth (see *Results of Operations – Revenue*).

Retail's SG&A for the first two quarters of 2014 as compared to the first two quarters of 2013 increased primarily due to: (i) additional SG&A associated with the acquisition of Freybe Gourmet Foods Ltd. at the end of the first quarter of 2013; and (ii) increased variable selling costs associated with Retail's organic sales growth (see *Results of Operations – Revenue*). These increases were partially offset by a variety of factors including a reduction in discretionary marketing and advertising programs during the period in which certain selling price increases, designed to address higher commodity input protein costs, were being implemented.

Retail's SG&A as a percentage of its revenue for the first two quarters of 2014 as compared to the first two quarters of 2013 decreased mainly due to: (i) the fixed nature of certain costs relative to the growth in its revenue (see *Results of Operations – Revenue*); and (ii) a decrease in a variety of SG&A costs as discussed above.

Foodservice's SG&A for the second quarter of 2014 as compared to the second quarter of 2013 and for the first two quarters of 2014 as compared to the first two quarters of 2013 increased primarily due to: (i) additional sales and administrative infrastructure needed to support a variety of growth initiatives; and (ii) increased variable selling costs associated with its organic sales growth (see *Results of Operations – Revenue*).

Foodservice's SG&A as a percentage of its revenue, for the second quarter of 2014 as compared to the second quarter of 2013 and for the first two quarters of 2014 as compared to the first two quarters of 2013 decreased primarily due the fixed nature of certain costs relative to the growth in its revenue (see *Results of Operations – Revenue*).

Other Income

Other income for the first two quarters of 2014 consists of a \$4.7 million gain resulting from the sale and leaseback of a distribution centre in Surrey, BC (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

Adjusted EBITDA

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

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

The following table provides a reconciliation of adjusted EBITDA to earnings before income taxes:

(in thousands of dollars except percentages)				
	13 weeks ended Jun 28, 2014	13 weeks ended Jun 29, 2013	26 weeks ended Jun 28, 2014	26 weeks ended Jun 29, 2013
Earnings before income taxes	5,264	7,115	6,832	8,887
Depreciation of capital assets (1)	4,617	4,485	9,196	8,428
Amortization of intangible assets (1)	1,110	1,092	2,227	2,180
Amortization of other assets (1)	2	2	3	3
Interest and other financing costs (2)	5,083	4,674	10,059	8,839
Amortization of financing costs (2)	74	80	147	154
Acquisition transaction costs (3)	144	439	144	472
Change in value of puttable interest in subsidiaries (4)	583	282	799	482
Accretion of provisions (2)	80	101	182	104
Unrealized loss (gain) on foreign currency contracts (5)	300	(200)	200	(300)
Unrealized gain on interest rate swap contracts (6)	-	(100)	-	-
Restructuring costs (3)	4,479	3,222	7,844	4,519
Equity loss (income) in associates (7)	(81)	(177)	(59)	5
Adjusted EBITDA	21,655	21,015	37,574	33,773

- (1) Amount relates to the consumption of the Company's capital assets, intangible assets or other assets.
(2) Amount relates to the Company's financing strategies.
(3) Amount 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 forward purchase contracts for the period and is adjusted for on the basis that the Company does not intend to liquidate these contracts but rather uses them to stabilize the cost of its U.S. dollar denominated purchases and, in turn, its profit margins.
(6) Amount represents the change in fair value of the Company's interest rate swap contracts 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 certain portions of its long-term debt.
(7) Amount relates to businesses that the Company does not control.

(in thousands of dollars except percentages)								
	13 weeks ended Jun 28, 2014	% (1)	13 weeks ended Jun 29, 2013	% (1)	26 weeks ended Jun 28, 2014	% (1)	26 weeks ended Jun 29, 2013	% (1)
Adjusted EBITDA by segment:								
Retail	16,578	8.1%	16,006	9.2%	30,637	8.2%	25,834	8.3%
Foodservice	7,088	6.0%	6,680	6.4%	10,622	5.0%	11,176	5.7%
Corporate	(2,011)		(1,671)		(3,685)		(3,237)	
Consolidated	21,655	6.7%	21,015	7.5%	37,574	6.4%	33,773	6.6%

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

The Company's adjusted EBITDA for the second quarter of 2014 as compared to the second quarter of 2013 increased by \$0.7 million or 3.0% to \$21.7 million primarily due to: (i) the Company's sales growth (see *Results of Operations – Revenue*); and (ii) improved operating efficiencies associated with

the reconfiguration of the Company's deli meats production capacity (see *Results of Operations – Restructuring Charges*). These increases were partially offset by a decrease of approximately \$3.5 million in the Company's gross profit that was the result of higher input commodity protein costs (see *Results of Operations – Gross Profit*).

The Company's adjusted EBITDA for the first two quarters of 2014 as compared to the first two quarters of 2013 increased by \$3.8 million or 11.3% to \$37.6 million primarily due to: (i) a \$4.7 million gain resulting from the sale and leaseback of a distribution centre in Surrey, BC (see *Results of Operations – Other Income*); (ii) the Company's sales growth (see *Results of Operations – Revenue*); and (iii) improved operating efficiencies associated with the reconfiguration of the Company's deli meats production capacity (see *Results of Operations – Restructuring Charges*). These increases were partially offset by a decrease of approximately \$6.3 million in the Company's gross profit that was the result of higher input commodity protein costs (see *Results of Operations – Gross Profit*).

Looking forward (see *Forward Looking Statements*) the Company expects its adjusted EBITDA for the last half of 2014 as compared to the last half of 2013 to show significant improvement based on:

- Implementation of selling price increases designed to address the first and second quarter gross margin issues that resulted from record high costs for a variety of input commodity proteins (see *Results of Operations – Gross Profit*);
- Stabilization of commodity pork markets and continued volatility in commodity premium beef markets but to a lesser degree as compared to the first half of 2014;
- Improved performance by its Freybe Gourmet Foods business as the major initiatives associated with the restructuring of its Langley production facility were completed in the second quarter of 2014 (see *Results of Operations – Restructuring Costs*); and
- Steady growth in a number of the Company's businesses that is expected to result from capital projects completed in 2012, 2013 and 2014. These include Stuyver's new artisan bakery, Deli Chef's new sandwich plant, Centennial Foodservice's new seafood processing facility and SK Food Group's new sandwich plant (see *Liquidity and Capital Resources – Capital Expenditures*).

Depreciation and Amortization (D&A)

(in thousands of dollars except percentages)

	13 weeks ended Jun 28, 2014	13 weeks ended Jun 29, 2013	26 weeks ended Jun 28, 2014	26 weeks ended Jun 29, 2013
Depreciation and amortization of intangible and other assets (D&A) by segment:				
Retail	4,472	4,408	8,953	8,295
Foodservice	1,152	1,058	2,264	2,094
Corporate	105	113	209	222
Consolidated	5,729	5,579	11,426	10,611

The Company's D&A expense for the second quarter of 2014 as compared to the second quarter of 2013 and for the first two quarters of 2014 as compared to the first two quarters of 2013 increased due to additional depreciation associated with several major capital projects completed in 2013.

Interest and other financing costs

The Company's interest and other financing costs for the second quarter of 2014 as compared to the second quarter of 2013 and for the first two quarters of 2014 as compared to the first two quarters of 2013 increased by \$0.4 million and \$1.2 million, respectively, primarily due to an increase in the

Company's funded debt resulting from the Company's project capital expenditure initiatives (see *Liquidity and Capital resources – Debt Financing Activities – Debt Activities*).

Change in Value of Puttable Interest in Subsidiaries

Change in value of puttable interest in subsidiaries 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 the second quarter of 2014 as compared to the second quarter of 2013 increased by \$0.3 million primarily due to changes in valuation assumptions.

Restructuring Costs

Restructuring costs consist of costs associated with the significant restructuring of one or more of the Company's businesses. During the first two quarters of 2014, the Company incurred \$7.8 million in restructuring costs consisting of:

- \$3.4 million for the reconfiguration of the Company's deli meats production capacity including a major realignment and expansion of the capacity of Freybe Gourmet Foods' plant in Langley, BC. This project, which was completed in the second quarter of 2014, provided the Company's deli meats businesses with much needed incremental production capacity.
- \$3.0 million for the reconfiguration of the Company's sandwich production capacity including the construction of a new 180,000 square foot production facility in Columbus, OH (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*). This project, which commenced in the fourth quarter of 2013 and is scheduled to be completed early in the third quarter of 2014, will provide the Company's sandwich businesses with much needed incremental production capacity as well as improved efficiencies at its existing plants.
- \$1.4 million in costs relating to the restructuring and rationalization of NDSD, the Company's direct-to-store distribution (“**DSD**”) business for the convenience store industry, in order to address changes occurring in this industry. The major elements of this initiative were completed in 2013 with the costs in 2014 consisting mainly of employee severance payments and the write-down of inventory made obsolete by the restructuring. No further costs are expected to be incurred on this project.

Subsequent to the quarter, the Company sold its NDSD business' Quebec operations to a well-established Quebec based distributor (“**Martel**”) as part of a new strategic alliance. Under this alliance:

- o Martel will combine some of its existing operations with NDSD's Quebec operations to create a strong and efficient direct-to-store distribution network for the Quebec convenience store market;
- o Martel will be the exclusive distributor of the Company's sandwiches and meat snacks to direct-to-store distribution customers in Quebec; and
- o Martel will source primarily all of its sandwiches and meats snacks sold to the convenience store industry from the Company.

The transaction is expected to result in an immediate increase in the Company's annual adjusted EBITDA of at least \$0.8 million due to the Quebec region of NDSD's business not being profitable.

Income Taxes

Tax Attributes

An estimate of the Company's tax attributes as at the end of the second quarter of 2014 is as follows:

(in millions of dollars)

Scientific research and experimental development tax credits	88.3
Un-depreciated capital costs	126.5
Non-capital losses carried forward	23.5
Capital losses carried forward	0.9
Cumulative eligible capital	52.7
Section 20(1)(e) financing fee	4.6
<u>Investment tax credits</u>	<u>15.6</u>
Total	312.1

In 2009 the Company completed a plan of arrangement that resulted in the conversion (the Conversion) of Premium Brands Income Fund (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 undepreciated capital costs (the Tax Attributes). At the time of the Conversion the Company estimated the value of the Tax Attributes to be approximately \$167.0 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. 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 earnings.

Current Income Tax Provision

As a result of the Company's tax attributes and its internal corporate structure, it does not expect a number of 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 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>	13 weeks ended Jun 28, 2014	13 weeks ended Jun 29, 2013	26 weeks ended Jun 28, 2014	26 weeks ended Jun 29, 2013
Opening DIT asset	27,416	26,196	26,697	32,575
Adjustments:				
DIT resulting from acquisitions	-	-	65	-
Reallocation of acquisition purchase price to goodwill ⁽¹⁾	-	547	-	(5,563)
Foreign currency translation adjustment ⁽²⁾	61	(34)	(130)	(55)
Convertible unsecured subordinated debenture Issuance and other	132	100	282	100
Adjusted opening DIT asset	27,609	26,809	26,914	27,057
Closing DIT asset	26,342	25,865	26,342	25,865
Provision for DIT	1,267	944	572	1,192

(1) Adjustment is the result of the finalization of purchase price allocations relating to business acquisitions (see *Liquidity and Capital Resources – Corporate Investments – Goodwill and Intangible Assets*).

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

SUMMARY OF QUARTERLY RESULTS

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

<i>(in millions of dollars except per share amounts)</i>	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Revenue	252.9	241.8	229.2	278.9	287.0	277.7	266.9	322.3
Adjusted EBITDA	19.7	14.8	12.8	21.0	21.8	15.4	15.9	21.7
Earnings	4.6	2.5	1.2	5.3	5.2	0.9	1.9	3.7
Earnings per share – basic	0.22	0.12	0.06	0.25	0.25	0.04	0.09	0.17
Earnings per share – diluted	0.21	0.12	0.06	0.25	0.25	0.04	0.09	0.17

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

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

Over the last eight quarters the seasonal nature of the Company's business has been impacted by business acquisitions that have resulted in general growth in the Company's revenue and adjusted EBITDA.

The Company's earnings over the last eight quarters have been relatively volatile due to a number of factors including: (i) restructuring costs, which are event driven (see *Results of Operations – Restructuring Costs*); (ii) the Company's business acquisition initiatives, including fluctuations in acquisition transaction costs; (iii) the rise and fall in the cost of a variety of input commodities; (iv) gains on the sale of assets (see *Results of Operations – Other Income*) and (v) volatility resulting from the valuation of a variety of the Company's assets and liabilities, including provisions for contingent consideration, foreign currency and interest rate swap contracts and puttable interest in subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position and liquidity for the 13 and 26 week periods ended June 28, 2014 were impacted by the following:

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 Jun 28, 2014	As at Dec 28, 2013	As at Jun 29, 2013
Accounts receivable	102,892	92,880	90,327
Inventories	119,926	108,729	100,367
Prepaid expenses	6,820	7,746	7,349
Accounts payable and accrued liabilities	(113,104)	(94,288)	(98,227)
Net working capital	116,534	115,067	99,816

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

<i>(in days)</i>	As at Jun 28, 2014	As at Dec 28, 2013	As at Jun 29, 2013
Days sales in accounts receivable ⁽¹⁾	29.1	30.4	29.5
Days cost of sales in inventory ⁽²⁾	41.7	43.7	41.6

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

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

The Company's net working capital needs are seasonal in nature and generally peak in the spring and summer months and around festive holiday seasons (e.g. Easter, Thanksgiving and Christmas) as inventories are built up in anticipation of and accounts receivable grow as a result of increased consumer demand (see *Summary of Quarterly Results*). The cash requirements associated with fluctuations in the Company's net working capital are managed primarily through draws and

repayments on its Facility A revolving credit facility (see *Liquidity and Capital Resources – Debt Financing Activities*).

Net working capital at the end of the second quarter of 2014 as compared to the end of 2013 increased by \$1.5 million due to the seasonal build-up of working capital associated with the Company's increased sales in the spring and summer (see *Summary of Quarterly Results*). These increases were partially offset by: (i) higher than normal payables resulting from the Company's capital project initiatives (see *Capital Expenditures – Changes in Capital Assets – Project Capital Expenditures*) and general fluctuations in the timing of payments to suppliers; and (ii) the liquidation of larger than normal inventory positions held at the end of 2013 in the first quarter of 2014.

Net working capital at the end of the second quarter of 2014 as compared to the end of the second quarter of 2013 increased by \$16.7 million primarily due to: (i) the seasonal buildup of inventory by a seafood business acquired in 2013; and (ii) additional working capital associated with the Company's organic growth (see *Results of Operations – Revenue*). These increases were partially offset by higher than normal payables resulting from the Company's capital project initiatives and general fluctuations in the timing of payments to suppliers.

Non-Cash Working Capital Cash Flows

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

<i>(in thousands of dollars)</i>				
	13 weeks ended Jun 28, 2014	13 weeks ended Jun 29, 2013	26 weeks ended Jun 28, 2014	26 weeks ended Jun 29, 2013
Change in non-cash working capital	(10,025)	4,952	(2,826)	(7,491)

Due to the seasonal nature of the Company's business, changes in the Company's non-cash working capital generally result in a net usage of cash in the first two quarters of the year as it builds working capital for its busier summer months, and net cash inflows in the third and fourth quarters as its working capital decreases in conjunction with the seasonal slowdown in its business (see *Summary of Quarterly Results*).

For the first two quarters of 2014 this trend was altered primarily due to: (i) the liquidation of larger than normal inventory positions held at the end of 2013; and (ii) higher than normal payables resulting from the Company's capital project initiatives (see *Capital Expenditures – Changes in Capital Assets – Project Capital Expenditures*) and general fluctuations in the timing of payments to suppliers

Debt Financing Activities

Credit Facilities

As at June 28, 2014 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)	52,000	26,797	25,203
Facility B – revolving senior credit (2)	70,000	45,000	25,000
Facility C – non-revolving senior credit (3)	100,000	100,000	-
7.00% debentures (4)	9,057	9,057	-
5.75% debentures (5)	56,082	56,082	-
5.70% debentures (6)	55,661	55,661	-
5.50% debentures (7)	54,937	54,937	-
Capital leases	2,417	2,417	-
SJ Irvine term loan (8)	3,400	3,400	-
Industrial Development Revenue Bond (9)	6,539	6,539	-
Other revolving loans	3,500	-	3,500
Other term loans	680	680	-
Cheques outstanding	-	3,966	(3,966)
Cash and cash equivalents	-	(3,252)	3,252
	414,273	361,284	52,989

- (1) Amount represents the total amount available under the facility of \$60.0 million less approximately \$8.0 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 \$3.5 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 \$3.5 million.
- (4) Represents the present value of the outstanding portion of the \$40.3 million in convertible unsecured subordinated debentures issued by the Company in 2009. The face value of the 7.00% debentures outstanding as at June 28, 2014 was \$9.5 million. These debentures mature in December 2014 and have no principal payments prior to that date.
- (5) Represents the present value of the outstanding portion of the \$57.5 million in convertible unsecured subordinated debentures issued by the Company in 2011. The face value of the 5.75% debentures outstanding as at June 28, 2014 was \$57.5 million. These debentures mature in December 2015 and have no principal payments prior to that date.
- (6) Represents the present value of the outstanding portion of the \$57.5 million in convertible unsecured subordinated debentures issued by the Company in 2012 plus the value attributed to the cash conversion option associated with the debentures. The face value of the 5.70% debentures outstanding as at June 28, 2014 was \$57.5 million. The debentures mature in June 2017 and have no principal payments prior to that date.
- (7) Represents the present value of the outstanding portion of the \$57.5 million in convertible unsecured subordinated debentures issued by the Company in 2013 plus the value attributed to the cash conversion option associated with the debentures. The face value of the 5.50% debentures outstanding as at June 28, 2014 was \$57.5 million. The debentures mature in June 2019 and have no principal payments prior to that date.
- (8) Loan has quarterly principal payments of \$0.2 million and matures in June 2016.
- (9) 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.

The 7.00%, 5.75%, 5.70% and 5.50% debentures trade on the Toronto Stock Exchange under the symbols PBH.DB, PBH.DB.A, PBH.DB.B and PBH.DB.C, respectively.

Funded Debt

Senior funded debt and total funded debt are not defined under IFRS and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that senior funded debt and total funded debt, used in conjunction with its adjusted EBITDA, are useful indicators of its financial strength and ability to access additional debt financing. Senior funded debt is also used in the calculation of certain debt covenants associated with the Company's 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 Jun 28, 2014	As at Dec 28, 2013	As at Jun 29, 2013
Cheques outstanding	3,966	5,689	2,280
Bank indebtedness	26,797	29,466	22,559
Current portion of long-term debt	147,544	113,222	23,549
Deferred financing costs ⁽¹⁾	191	337	477
<u>Long-term debt</u>	<u>10,301</u>	<u>11,938</u>	<u>147,557</u>
	188,799	160,652	196,422
<u>Less: cash and cash equivalents</u>	<u>3,252</u>	<u>1,437</u>	<u>2,522</u>
Senior funded debt	185,547	159,215	193,900
7.00% debentures	9,057	11,390	23,472
5.75% debentures	56,082	55,626	55,213
5.70% debentures	55,661	55,333	55,041
5.50% debentures	54,937	54,708	-
<u>Total funded debt</u>	<u>361,284</u>	<u>336,272</u>	<u>327,626</u>

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

As required under IFRS, the Company has classified the amounts outstanding on its Facility A, Facility B and Facility C senior bank loans (the Existing Facilities) (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*) as current due to the September 9, 2014 maturity date on these facilities being less than twelve months from the date of the Company's current financial statements.

Subsequent to the quarter, the Company signed a commitment letter with its senior lenders for a new senior credit facility (the New Facility) that will replace the Existing Facilities. The New Facility will mature in five years and have the following benefits relative to the Existing Facilities:

- The New Facility will be structured as a single revolving facility instead of two revolving facilities and one non-revolving facility;
- The amount available under the New Facility will be \$250.0 million versus the \$230.0 million available under the Existing Facilities;
- The interest rates associated with the New Facility will be 25 basis points lower; and
- The financial covenants associated with the New Facility will be more flexible including the elimination of a working capital covenant and increasing the maximum senior debt to EBITDA ratio covenant to 4.0:1 from the current 3.0:1.

The Company expects (see *Forward Looking Statements*) to have the New Facility in place by the end of August.

Debt Activities

During 2014 the Company's significant debt activities consisted of the following:

<i>(in thousands of dollars)</i>	26 weeks ended Jun 28, 2014
Opening total funded debt at December 28, 2013	336,272
Draws on Facility B used to fund 2013 and 2014 capital expenditures and the acquisition of Reddi Foods (1)	41,500
Net draws on operating lines and cash used to fund the Company's general cash requirements	2,132
Investment in Pender West LP (2)	1,860
Principal accretion on long-term debt and debentures	1,446
Foreign currency translation adjustment (3)	(13)
Proceeds from asset sale and leaseback (4)	(10,200)
Scheduled principal payments (5)	(8,989)
7.00% debenture conversions (6)	(2,724)
Closing total funded debt	361,284

- (1) A portion of the 2013 and 2014 capital expenditures were initially financed through cash flows from operations and draws on the Company's Facility A (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*).
- (2) See *Liquidity and Capital Resources – Corporate Investments – Pender West LP*.
- (3) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. dollar denominated debt into Canadian dollars.
- (4) See *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*.
- (5) See *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*.
- (6) Debentures are convertible into common shares at a conversion price of \$14.50 per common share.

Issuer Bid

In the third quarter of 2013 the Company renewed its normal course issuer bid (previously put into place in the third quarter of 2012) through the facilities of the TSX for the purchase and cancellation of up to 5% of its issued and outstanding common shares and up to 10% of each of its issued and outstanding convertible debentures.

No purchases were made under the Company's issuer bid in the first two quarters of 2014.

Banking Covenants

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

	Covenant Requirement	Jun 28, 2014 Ratio
Senior funded debt to adjusted EBITDA ratio (1) (2)	$\leq 3.00 : 1.0$	2.43 : 1.0
Current ratio (3)	$> 1.30 : 1.0$	1.54 : 1.0
Interest coverage ratio (3)	$> 4.00 : 1.0$	10.01 : 1.0

- (1) Base covenant of 3.00:1.0 can be increased by 0.25:1.0 to a maximum of 3.25:1.0 for a period of two consecutive quarters in the event of a business acquisition.
- (2) Adjusted EBITDA is calculated as the Company's rolling four quarters adjusted EBITDA plus the trailing adjusted EBITDA of new acquisitions so that the total adjusted EBITDA amount includes four quarters of adjusted 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 statements of operations 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 statement of operations. Furthermore, the ratio excludes principal payments associated with the maturity of Facilities A, B and C (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*).

Financial Leverage

Two of the key indicators that the Company uses to assess the appropriateness of its financial leverage are its senior funded debt to adjusted EBITDA and total funded debt to adjusted EBITDA ratios. The Company has set 2.5:1 to 3.0:1 as the long-term targeted range for its senior funded debt

to adjusted EBITDA ratio and 3.5:1 to 4.0:1 as the long-term targeted range for its total funded debt to adjusted EBITDA ratio. These ranges are based on a number of considerations including:

- The risks associated with the consistency and sustainability of the Company's cash flows (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 the second quarter of 2014 the Company's senior funded debt to adjusted EBITDA ratio of 2.43:1.0 was slightly below its long-term targeted range.

Looking forward (see *Forward Looking Statements*) the Company expects to use its excess senior debt capacity to fund project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*), business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) and purchases under its normal course issuer bid (see *Liquidity and Capital Resources – Debt Financing Activities – Issuer Bid*).

The Company's total funded debt to adjusted EBITDA ratio at the end of the second quarter of 2014 was 4.8:1.0 which is above its long-term targeted range. Looking forward (see *Forward Looking Statements*), while the Company expects this ratio to decrease over the next several quarters based on growth in its adjusted EBITDA (see *Results of Operations – Adjusted EBITDA*), it will likely remain above its targeted range for the balance of 2014 due to increased funded debt associated with its project capital expenditure initiatives (see *Liquidity and Capital Resources – Changes in Capital Assets – Project Capital Expenditures*).

Dividends

Free Cash Flow

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

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

Furthermore, one of the key considerations the Company uses in determining its dividend policy is the ratio of its dividends to its free cash flow on a rolling four quarter basis. The Company uses a rolling four quarter measurement period 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. Correspondingly, 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>	52 weeks ended Dec 28, 2013	26 weeks ended Jun 29, 2013	26 weeks ended Jun 28, 2014	Rolling Four Quarters
Cash flow from operating activities	15,156	12,073	12,603	15,686
Changes in non-cash working capital (1)	22,663	7,491	2,826	17,998
Sale of redundant property (2)	2,413	-	-	2,413
Acquisition transaction costs (3)	560	472	144	232
Restructuring costs (4)	12,749	4,519	7,844	16,074
Capital maintenance expenditures (5)	(4,294)	(1,664)	(2,434)	(5,064)
Free cash flow	49,247	22,891	20,983	47,339

- (1) Cash used for increases in the Company's non-cash working capital is funded primarily 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 primarily to pay down its Facility A revolving credit facility.
- (2) Amount represents free cash flow generated from the sale of redundant land.
- (3) Amount relates to the Company's business acquisition activities (see *Liquidity and Capital Resources – Corporate Investments*).
- (4) Amount relates to the Company's business restructuring initiatives (see *Results of Operations – Restructuring Costs*).
- (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*).

The Company's free cash flow for the rolling four quarters ended June 28, 2014 decreased by \$1.9 million as compared to the year ended December 28, 2013 primarily due to: (i) approximately \$6.3 million in lost gross profit resulting from record high input commodity protein costs (see *Results of Operations – Adjusted EBITDA*); and (ii) higher interest costs resulting primarily from the Company's project capital expenditure initiatives (see *Results of Operations – Interest and Other Financing Costs*). These decreases were partially offset by adjusted EBITDA generated with Company's revenue growth (see *Results of Operations – Adjusted EBITDA*).

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 project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*), business restructuring initiatives (see *Results of Operations – Restructuring Costs*) 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, if any, in the status of one or more of the risk factors facing the Company (see *Forward Looking Statements and Risks and Uncertainties*).

The Company's current dividend policy is for a quarterly dividend of \$0.3125 per share, or on an annualized basis, \$1.25 per share. During the first two quarters of 2014 the Company declared \$0.6250 per share of dividends totaling \$13.8 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 quarterly dividend of \$0.3125 per share will be maintained.

Dividend History

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

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

	Declared Shareholder Dividends/ Distributions	Nature of Distribution	Free Cash Flow	Ratio (1)	Average Annualized Dividend/ Distribution Per Share
Rolling four quarters ended:					
June 28, 2014	27,541	Dividend	47,339	58.2%	\$1.2500
December 28, 2013	26,498	Dividend	49,247	53.8%	\$1.2315
December 29, 2012	24,381	Dividend	45,984	53.0%	\$1.1760
December 31, 2011	22,672	Dividend	38,225	59.3%	\$1.1760
December 25, 2010	21,019	Dividend	32,202	65.3%	\$1.1760
December 26, 2009	20,687	(2)	29,280	70.7%	\$1.1760
December 31, 2008	20,593	Trust distribution	29,631	69.5%	\$1.1760
December 31, 2007	20,514	Trust distribution	26,440	77.6%	\$1.1760
December 31, 2006	18,357	Trust distribution	17,247	106.4%	\$1.1760

(1) Ratio of dividends / distributions 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.

The Company's ratio of dividends to free cash flow for the rolling four quarters ended June 28, 2014 as compared to the rolling four quarters ended December 28, 2013 increased primarily due to: (i) a decline in its free cash flow resulting from temporary factors (see *Liquidity and Capital Resources – Dividends – Free Cash Flow*); and (ii) a 6.3% increase in its quarterly dividend in the second quarter of 2013.

Capital Expenditures

Expenditure Classification

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

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

Changes in Capital Assets

The following table shows the changes in the Company's capital assets during the first two quarters of 2014:

<i>(in thousands of dollars)</i>	26 weeks ended Jun 28, 2014
Opening capital assets at December 28, 2013	177,275
Depreciation	(9,196)
Asset sale and leaseback – Surrey Distribution Facility	(2,965)
Asset sales – other	(192)
Foreign currency translation adjustment and other ⁽¹⁾	(1)
Acquisition ⁽²⁾	390
Capital expenditures:	
Project	26,749
Maintenance	2,434
Closing capital assets	194,494

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

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

Asset Sale and Leaseback – Surrey Distribution Facility

In the first quarter of 2014, Company completed a sale and leaseback transaction with Pender West LP (see *Liquidity and Capital Resources – Corporate Investments – Pender West LP Investment*) for its distribution facility in Surrey, BC. The sale was at fair market value and resulted in a total gain of approximately \$7.2 million. Based on the Company's interest in Pender West LP, 35% or approximately \$2.5 million of the gain was deferred and included in deferred revenue while the remainder of the gain of approximately \$4.7 million was recognized as other income in the quarter (see *Results of Operations – Other Income*).

The net proceeds from the transaction of \$10.2 million, less the Company's incremental investment in Pender West LP of \$1.9 million (see *Liquidity and Capital Resources – Corporate Investments – Pender West LP Investment*), were used to reduce the amount drawn on Facility A (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*).

The terms of the new lease for the Surrey distribution facility include: (i) annual minimum lease payments of \$0.7 million; (ii) an initial term of twenty years; and (iii) options to renew the lease for up to ten five-year periods at the greater of: (a) the lease payment at the time a specific renewal option is exercised; and (b) the lease rate at the end of the term just expiring adjusted in accordance with the annual percentage change in the Consumer Price Index, as published by Statistics Canada, compounded annually over the previous five years to a maximum increase of 15%.

Project Capital Expenditures

During the first two quarters of 2014 the Company capitalized \$26.7 million in project capital expenditures, which included:

- \$22.3 million for the construction of a new sandwich plant in Columbus, OH (the Columbus plant). This capital project, which commenced in the fourth quarter of 2013 and is scheduled to be completed early in the third quarter of 2014, is budgeted (see *Forward Looking Statements*) to cost US\$21.6 million and consists of modifying an 180,000 square foot leased facility to allow for the installation and support of up to 18 high speed sandwich assembly lines. Once complete, the Columbus plant will complement the Company's existing production facility in Reno, NV and will provide it with: (i) the capacity needed to continue growing its business as the Reno plant is operating at maximum capacity; and (ii) improve its ability to compete in

markets on the east coast of the U.S. and in eastern Canada by reducing the cost to ship its products to these markets.

The US\$21.6 million capital budget for the Columbus plant was based on initially installing four high speed sandwich assembly lines. During the second quarter of 2014 the Company approved the installation of an additional four high speed sandwich assembly lines at the Columbus plant, along with some ancillary equipment, on the basis of: (i) growth in its sandwich business (see *Results of Operations – Revenue*); and (ii) progress made in recent months securing new sales opportunities. The additional production equipment is budgeted to cost approximately US\$4.0 million.

- \$1.3 million to expand the Company's deli meats capacity. This project, which has a capital budget of approximately \$15.0 million, consists of expanding the production capacity of several facilities including Freybe Gourmet Foods' plant in Langley, BC, Hempler Foods Group's plant in Ferndale, WA and Harvest's plant in Yorkton, SK. The majority of the project is expected (see *Forward Looking Statements*) to be completed in 2014.

The balance of the Company's project capital expenditures for the first two quarters of 2014 was for a variety of smaller projects consisting mainly of capacity related equipment purchases.

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:		
June 28, 2014		5,064
December 28, 2013		4,294
December 29, 2012		2,917
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 2014 the Company expects (see *Forward Looking Statements*) its capital maintenance expenditures to be between \$5.0 million and \$6.0 million.

Corporate Investments

Corporate investments consist primarily of three activities: business acquisitions, equity investments in non-controlled businesses and loans to non-controlled businesses. Corporate investments, in general, and business acquisitions, in particular, are a core part of the Company's growth strategy.

The financing for corporate investments depends primarily on the size of the transaction. Smaller transactions are generally financed through the Company's credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*), while larger transactions can be financed through a variety of sources including existing credit facilities and the issuance of new debt and/or equity.

During the first two quarters of 2014 the Company made the following corporate investments:

Pender West LP Investment

Pender West LP is a limited partnership formed for the sole purpose of investing in industrial and commercial real estate. The Company holds a 35% interest in Pender West LP.

During the first quarter of 2014, the Company invested an additional \$1.9 million in Pender West LP as part of the following two transactions:

- The sale and leaseback of the Company's distribution centre in Surrey, BC (see *Liquidity and Capital Resources – Capital Expenditures – Change in Capital Assets*); and
- Pender West LP's purchase of a distribution and processing facility, leased by the Company's Centennial Foodservice business and located near Victoria, BC, for its estimated fair market value of \$6.7 million.

Reddi Foods Acquisition

During the second quarter of 2014, the Company's Centennial Foodservice business purchased certain assets, including inventory, production equipment, and customer lists, from Reddi Food Group Inc. (Reddi) for \$1.7 million. Reddi was a Calgary based protein focused foodservice distribution company that serviced a variety of customers in the Alberta market. Concurrent with the transaction, Reddi ceased operations.

The transaction is expected to result in approximately \$7.0 million in annual incremental sales and to be accretive to the Company's earnings in 2014.

Goodwill and Intangible Assets

Primarily all of the Company's intangible assets (consisting of brand names, customer relationships and customer supply agreements) 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 the first two quarters of 2014:

<i>(in thousands of dollars)</i>	26 weeks ended Jun 28, 2014
Opening intangible assets and goodwill at December 28, 2013	244,024
Amortization of intangible assets	(2,227)
Additions resulting from acquisitions	529
Foreign currency translation adjustment and other ⁽¹⁾	(43)
Closing intangible assets and goodwill	242,283

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

Investment in Associates

Investment in associates consists of the Company's investments in businesses which it does not control, and consists of a 50% interest in Golden Valley Farms Inc., an Arthur, ON based poultry processor; a 35% interest in Pender West LP, a Vancouver, BC based real estate investment fund (see *Liquidity and Capital Resources – Corporate Investments – Pender West LP Investment*); and a 25% interest in McLean Meats Inc., a Vancouver, BC based marketer and supplier of premium processed meats.

The following table shows the changes in investment in associates during the first two quarters of 2014:

<i>(in thousands of dollars)</i>	26 weeks ended Jun 28, 2014
Opening investment in associates at December 28, 2013	7,949
Investment in Pender West LP ⁽¹⁾	1,860
Equity income in associates	59
Cash distribution from associates	(146)
<u>Closing investment in associates</u>	<u>9,722</u>

(1) See *Liquidity and Capital Resources – Corporate Investments – Pender West LP Investment*.

Puttable Interest in Subsidiaries

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

The following table shows the changes in puttable interest during the first two quarters of 2014:

<i>(in thousands of dollars)</i>	26 weeks ended Jun 28, 2014
Opening puttable interest at December 28, 2013	14,498
Change in value ⁽¹⁾	799
Foreign currency translation adjustment ⁽²⁾	(63)
Cash distributions to non-controlling shareholders with puttable interests	(595)
<u>Closing puttable interest</u>	<u>14,639</u>

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

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

Provisions

Provisions consist of the following amounts:

<i>(in thousands of dollars)</i>	As at Jun 28, 2014
Contingent consideration – Freybe acquisition	3,186
Contingent consideration – other	189
Lease restoration costs	519
<u>Provisions ⁽¹⁾</u>	<u>3,894</u>

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

Contingent Consideration – Freybe Acquisition

In 2013, the Company recorded a provision for contingent consideration of \$4.0 million as a result of the acquisition of Freybe Gourmet Foods Ltd. This amount represents the discounted present value of the \$5.0 million in contingent consideration that is payable to the previous owners of Freybe if Freybe achieves certain performance targets over each of the next four years.

Lease Restoration Costs

In 2012 the Company recorded a \$0.5 million provision for the present value of estimated (see *Forward Looking Statements*) future site restoration costs associated with the leased facility in which Stuyver's new artisan bakery is located. The final liability will not, however, be payable until the expiry of the lease, which runs through to December 31, 2025 and has two five-year renewal options thereafter.

The following table shows the changes in the provisions during the first two quarters of 2014:

<i>(in thousands of dollars)</i>	26 weeks ended Jun 28, 2014
Opening provisions at December 28, 2013 ⁽¹⁾	6,039
Accretion of provisions	181
Payments	<u>(2,326)</u>
<u>Closing provisions ⁽¹⁾</u>	<u>3,894</u>

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

During the first two quarters of 2014 the Company made \$2.3 million in contingent consideration payments. These payments consisted primarily of: (i) \$1.3 million paid to the vendors associated with the Company's acquisition of Freybe Gourmet Foods in 2013; and (ii) \$1.0 million paid as the final payment to the vendors associated with the acquisition of Piller's Fine Foods in 2011.

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, adjusted EBITDA and restructuring costs expectations for 2014.

See *Liquidity and Capital Resources – Capital Expenditures* for details on the Company's project and maintenance capital expenditure expectations for 2014.

See *Liquidity and Capital Resources – Dividends – Dividend Policy* for details on the Company's dividend payment expectations for 2014.

In terms of business acquisitions, the Company intends (see *Forward Looking Statements*) to continue to implement its business acquisition strategies and, correspondingly, is in the process of evaluating several specialty food manufacturing and/or differentiated food distribution businesses.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

Contractual Obligations

The payments due on the Company's significant contractual obligations at June 28, 2014 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	154,939	145,800	800	1,800	-	-	6,539
Capital leases and other	3,097	1,744	776	305	234	38	-
7.00% debentures	9,462	9,462	-	-	-	-	-
5.75% debentures	57,500	-	57,500	-	-	-	-
5.70% debentures	57,500	-	-	-	57,500	-	-
5.50% debentures	57,500	-	-	-	-	-	57,500
Operating leases	122,597	12,638	11,430	10,360	9,188	8,073	70,908
Total	462,595	169,644	70,506	12,465	66,922	8,111	134,947

TRANSACTIONS WITH RELATED PARTIES

During the first two quarters of 2014 the Company entered into the following transactions with related parties:

- Pursuant to several twenty-year real property leases ending between April 2033 and January 2034, the Company made \$1.3 million in lease payments to Pender West LP (see *Corporate Investments*). The Company's Chairman, Bruce Hodge, indirectly owns a 13% interest in Pender West LP.

In addition, the Company sold its distribution facility in Surrey, BC to Pender West LP as part of a sale & leaseback transaction (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

- Pursuant to the Company's employee loan program, the Company received principal payments totaling approximately \$0.1 million from participating employees, including its President and Chief Executive Officer, George Paleologou, and its Chief Financial Officer, Will Kalutycz.

SUBSEQUENT TRANSACTIONS

Subsequent to the quarter, the Company entered into the following transactions:

Sale of NDSD's Quebec Operations

Subsequent to the quarter, the Company sold its NDSD business' Quebec operations to a long-term Quebec based distributor as part of forming a new strategic alliance (see *Results of Operations – Restructuring Costs*).

New Senior Credit Facilities

Subsequent to the quarter the Company signed a commitment letter with its senior lenders for a new senior credit facility that will replace its existing senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*).

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 August 6, 2014, 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 and the United States will continue to show modest improvement in the near to medium term.
- The average cost of the basket of commodities the Company purchases will, over time, return to average historic levels. In particular: (i) the volatility in the cost of pork commodities will stabilize in the latter half of 2014 then resume fluctuating in line with historic levels in 2015; and (ii) the volatility in the cost of premium beef commodities, relative to the last two quarters, will lessen over the next several quarters then resume fluctuating in line with historic levels in 2016.
- The Company's capital projects (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*) and restructuring initiatives (see *Results of Operations – Restructuring Costs*) will progress in line with its expectations.
- The Company will be able to continue to access sufficient goods and services for its manufacturing and distribution operations.
- 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 value of the Canadian dollar relative to the U.S. dollar will continue to fluctuate in line with recent historic levels.
- 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 remain relatively stable in the near to medium future.
- Contractual counterparties will continue to fulfill their obligations to the Company.
- There will be no material changes to the tax and other regulatory requirements governing the Company.

Unless otherwise indicated, the forward looking information in this document is made as of August 6, 2014 and, except as required by applicable law, will not be publicly updated or revised. This cautionary statement expressly qualifies the forward looking information in this document.

RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties related to its businesses that may have adverse effects on its results of operations and financial position. These risks and uncertainties include: (i) seasonal and/or weather related fluctuations in the Company's sales; (ii) changes in consumer discretionary spending resulting from changes in economic conditions and/or general consumer confidence levels; (iii) changes in the cost of raw materials used in the production of the Company's products; (iv) changes in the cost of products sourced from third party manufacturers and sold through the Company's proprietary distribution networks; (v) risks associated with the Company's conversion from a publicly traded income trust to a publicly traded corporation, including related changes in Canada's income tax laws; (vi) changes in the Company's relationships with its larger customers; (vii) potential liabilities and expenses resulting from defects in the Company's products; (viii) changes in consumer food product preferences; (ix) competition from other food manufacturers and distributors; (x) execution risk associated with the Company's growth and business restructuring initiatives; (xi) risks associated with the Company's business acquisition strategies; (xii) changes in the value of the Canadian dollar relative to the U.S. dollar; and (xiii) new government regulations affecting the Company's business and operations; (xiv) the Company's ability to raise the capital needed to fund its various growth initiatives; and (xv) labour related issues including potential labour disputes with employees represented by labour unions and labour shortages.

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 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 based on projections of future profitability of certain subsidiaries and, correspondingly, a significant amount of judgement is required in estimating the future cash flows and discount rates to be used under this valuation method.

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

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

Provisions. Provisions represent management's best estimate of the fair value of future costs associated with contingent consideration and lease restoration costs. The final settlement of these amounts depends upon future events and as a result a significant amount of judgement is required in estimating them.

NEW ACCOUNTING POLICIES

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, 2014. The Company has assessed the impact of these standards and amendments. See note 2 to the Company's 2013 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, the Company, from time to time, enters into foreign currency contracts. The Company does not hold foreign currency contracts for speculative purposes.

As at June 28, 2014, the Company had outstanding foreign currency contracts for the purchase of US\$6.8 million over the next six months at a blended rate of C\$1.0784.

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 \$0.1 million in the Company's consolidated statement of operations.

Interest Rate Swap Contracts

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

As at June 28, 2014, the Company had in place swaps relating to \$100.0 million of its long-term debt which expire in October 2014. A change of 0.25 percentage points in the effective interest rate for the remaining term of these swaps would result in a gain (if interest rates increase) or loss (if interest rates decrease) of approximately \$0.1 million in the Company's consolidated statement of operations.

OTHER

Outstanding Shares

The shares outstanding in the Company as of August 6, 2014 were 22,223,239. Under IFRS, which requires that shares issued under employee share benefit plans that have not yet vested be deducted from shares outstanding, the shares outstanding in the Company as of August 6, 2014 were 22,114,496.

Disclosure Controls and Procedures and Internal Controls 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 June 28, 2014 and has concluded that such procedures are adequately designed for providing reasonable assurance that (i) material information relating to the Company, including its consolidated subsidiaries, is made known to Management on a timely basis to ensure adequate disclosure and (ii) information required to be disclosed by the Company in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time period.

Management has also evaluated the Company's ICFR as of June 28, 2014 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.

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 June 28, 2014 that has materially affected, or are reasonably likely to affect, its ICFR.

Responsibilities of Management and Board of Directors

Management is responsible for the reliability and timeliness of content disclosed in this management's discussion & analysis (MD&A), which is current as of August 6, 2014. It is the responsibility of the Company's Audit Committee to provide oversight in reviewing the MD&A and the Company's Board of Directors to approve the MD&A.

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

This MD&A, dated August 6, 2014, 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.