GROWTH PLATFORMS
Premium Brands
2010 ANNUAL REPORT

Premium Brands

Premium Brands owns a broad range of leading branded specialty food businesses with manufacturing and distribution facilities located in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Washington State and Nevada. In addition, the Corporation owns proprietary food distribution and wholesale networks through which it sells both its own products and those of third parties to approximately 26,000 customers.

GROWTH PLATFORMS

EMERGING TRENDS
ACQUISITIONS
EXPANDING PLATFORMS
EXPLORING NEW MARKETS

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GROWTH

MISSION: To build a great food company through the acquisition and development of specialty branded food businesses and unique proprietary distribution networks.

Premium Brands owns a broad range of leading specialty food manufacturing and differentiated food distribution businesses with operations in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Washington State and Nevada. The Company services over 26,000 customers and its family of brands and businesses include Grimm's, Harvest, McSweeney's, Bread Garden Express, Hygaard, Hempler's, Quality Fast Foods, Gloria's Best of Fresh, Harlan's, Creekside Bakehouse, Centennial Foodservice, B&C Food Distributors, Duso's Fine Foods, Maximum Seafood, SK Food Group, Hub City Fisheries, Audrey's, Deli Chef and Hamish & Enzo.

REVENUE for 2010
INCREASED
by $72.5 million

EARNINGS
before taxes
$18.7 million

ADJUSTED EBITDA for 2010
INCREASED
by $1.3 million

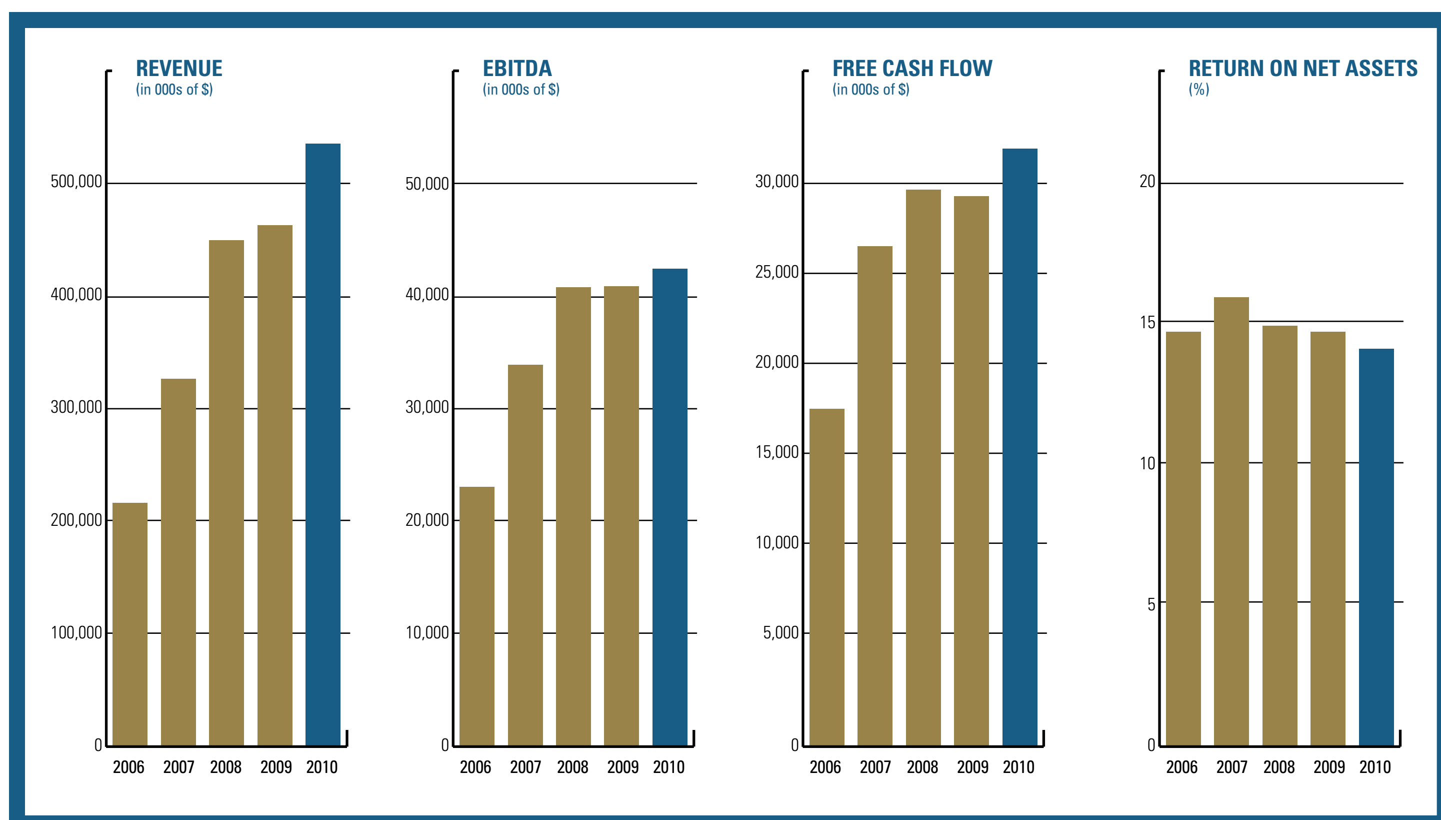
ACQUISITION
of Seattle, WA based
SK FOOD GROUP INC.

FREE CASH FLOW
of $32.2 million

BALANCE

2010 HIGHLIGHTS

(in 000s, except per share amounts)	2010	2009	2008	2007	2006
Revenue	$ 535,243	$ 462,764	$ 449,363	$ 326,441	$ 216,465
EBITDA	$ 42,009	$ 40,727	$ 40,626	$ 33,351	$ 22,682
Earnings	$ 16,250	$ 18,857	$ 21,383	$ 25,488	$ 12,836
Earnings per share	$ 0.91	$ 1.07	$ 1.22	$ 1.46	$ 0.83
Total assets	$ 433,158	$ 350,007	$ 307,194	$ 285,654	$ 174,199
Net funded debt	$ 177,277	$ 124,764	$ 117,338	$ 106,985	$ 16,295
Return on net assets	14.0%	14.6%	14.8%	15.8%	14.6%
Free cash flow	$ 32,315	$ 29,280	$ 29,631	$ 26,440	$ 17,247
Free cash flow per share	$ 1.81	$ 1.66	$ 1.69	$ 1.52	$ 1.11
Dividend declared per share	$ 1.176	$ 1.176	$ 1.176	$ 1.176	$ 1.176
Payout ratio	65.2%	72.6%	69.0%	77.2%	97.7%



VARIETY

2010 LETTER TO SHAREHOLDERS

GROWTH PLATFORMS

2010 was a pivotal year in moving Premium Brands toward our goal of being one of North America's premier specialty food companies. In addition to making significant progress in advancing the business plans of our legacy businesses, we added five new companies to our portfolio, all of which are in select strategic segments of the specialty food space.

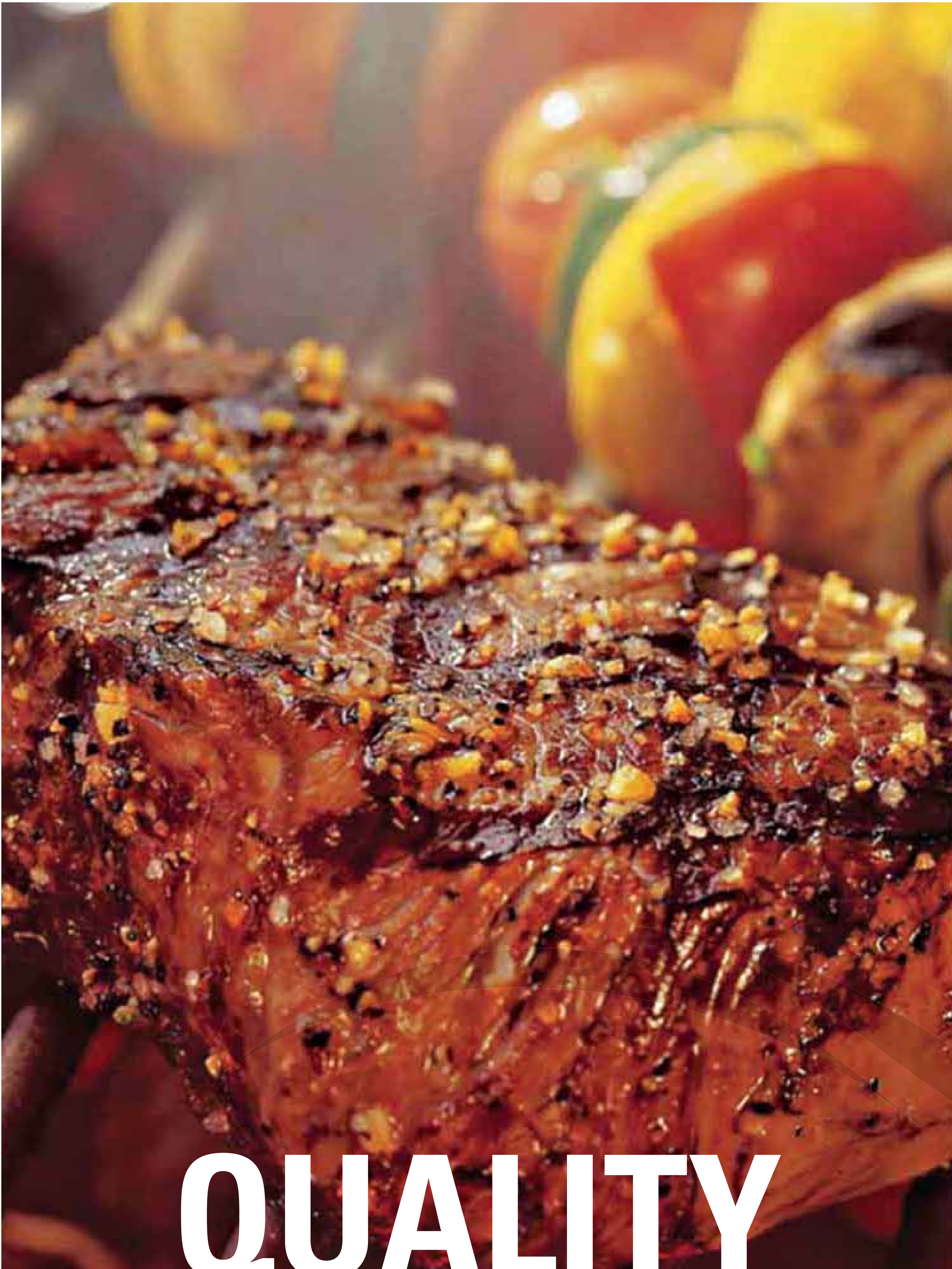
As we emerge from 2010, and the economic recession that has hung over us for the last two years, we are a much stronger and more diversified food company. Furthermore, we now have in place a diverse portfolio of platforms, all of which are focused on high growth niche specialty food markets that are benefiting from long-term and emerging consumer trends.

From an operational perspective, 2010 was another challenging year. The continued drag of a slow economic environment and its impact on consumers' out-of-home food spending challenged our restaurant and convenience store focused distribution businesses; while a rapid rise in the cost of certain protein commodities in the latter half of 2010 put significant pressure on the margins of our premium processed meats and deli businesses.

Despite these headwinds we were able to continue to generate organic growth, and to post record sales and EBITDA. Our sales for 2010 grew by 15.7% to $535.2 million with our current annualized run rate being close to $700 million. Similarly, our EBITDA grew to $42.0 million from $40.7 million in 2009 with our current annualized run rate being well over $50 million.

"…we now have… a diverse portfolio of growth platforms, all of which are focused on high growth niche specialty food markets…"

Our return on net assets for 2010 was 14% which is a bit short of our long-term target of 15%, but reasonable considering the circumstances. Our five year average return on net assets is 14.8%.


QUALITY

One of the key reasons for our steady performance, both in terms of 2010 and over the last six years through a full range of economic conditions, is the unique balance we have built into our business between managing risk and pursuing growth. This balance is based on three fundamental elements:

1. A strict adherence to disciplined capital allocation principles that make clear the scarce nature of capital and that we, as managers, are accountable to our shareholders for generating sufficient returns on the capital entrusted to us;
2. A culture of entrepreneurialism that empowers our people to make timely decisions as close to the front line as possible and avoids the bureaucracy and multiple management layers of many larger food companies; and
3. The development of growth platforms that are focused on sustainable growth in niche segments of the food industry that are benefiting from long-term and emerging consumer trends.

In past Annual Reports I have discussed the first two of these three elements. This year, with the economy improving and the success we had in 2010 in positioning our company for the future, our focus will be on the third element, namely our growth platforms.

"...our focus is on opportunities that have the potential to create sustainable growth in our free cash flow."

We have consistently stated that we do not pursue growth as a sole objective; rather our focus is on opportunities that have the potential to create sustainable growth in our free cash flow. To this end, our growth platforms focus on long-term and emerging consumer trends such as:

» Changing demographics resulting from immigration and an aging population, which are fueling the rapid growth of a variety of ethnic food categories as well as a shift to higher quality food choices;

» The changing nature of the family, such as dual working parents and single parent homes, and the busy lifestyles of many North Americans which is resulting in increased demand for convenience oriented foods and meal solutions;

» A desire for more sophisticated food experiences due to a wealthier and aging population and the success of food focused television shows; and

» Increasing consumer awareness about the impact of diet on health and about the ingredients used in the production of food. Both of these factors are resulting in increased demand for healthier, more wholesome foods.

FRESH

The following are some of the major growth platforms we have built in recent years to capitalize on these trends:

SEAFOOD PLATFORM

Seafood in general, and fresh seafood in particular, is a rapidly growing category that is benefiting from consumers' increasing awareness of the health benefits of a diet that includes seafood. In addition, changing demographics, both in terms of new immigrants with traditional seafood based diets and aging baby boomers who perceive seafood as a healthier protein source, are generating exciting growth opportunities in this category.

Our foray into seafood began at Centennial Foodservice when its core hotel, restaurant and institutional customers began expanding the seafood selections on their menus. In 2008 we improved our seafood offering with the acquisition of Vancouver Island based B&C Food Distributors, which added a variety of fresh local seasonal items such as halibut and salmon to our product offering.

In August of 2010 we made our first direct investment in seafood with the acquisition of Toronto based Maximum Seafood. This was also our first transaction in central Canada and a key step toward our goal of building a national seafood business as Maximum Seafood is the leading wholesaler and distributor of fresh and live specialty seafood in Ontario and Quebec.

"Seafood…is a rapidly growing category that is benefiting from consumers' increasing awareness of the health benefits of a diet that includes seafood."

In November of 2010 we added another component to this platform with the acquisition of Hub City Fisheries, a value-added fresh seafood processor operating out of a modern facility located on Vancouver Island.

Hub City Fisheries and Maximum Seafood now form the cornerstone of our Seafood Platform. Together they provide us with direct access to a variety of wild West Coast seafood, the capacity to produce a wide selection of value-added seafood items for our distribution networks and the ability to procure specialty fresh and live seafood from around the world.

Currently our Seafood Platform has annual sales of approximately $100 million from almost nothing four years ago, and, looking forward, is expected to grow at double digit rates for many years.

EMERGING TRENDS

"Our focus is on opportunities that have the potential to create sustainable growth in our free cash flow. To this end, our growth platforms focus on long-term and emerging consumer trends such as changing demographics, the changing nature of the family, a desire for more sophisticated food experiences and increasing consumer awareness"

SPECIALTY

SANDWICH PLATFORM

Sandwiches are the original, and still one of the most popular, convenience focused meal solutions. In 1999 we made our first investment in this category with the acquisition of Edmonton based Quality Fast Foods. Quality Fast Foods and its management team were pioneers in the production of modified atmosphere packaged (MAP) sandwiches for convenience stores and grocery retailers.

Following our investment in Quality Fast Foods we acquired its largest competitor, Edmonton based Hygaard Fine Foods. Similar to Quality Fast Foods, Hygaard was a very well-managed company that had created a variety of differentiated sandwich products that catered to various niches in this category.

In recent years the MAP sandwich category has come under pressure due to a combination of changing consumer demands, competition from quick service restaurant chains and the economic slowdown. Despite these challenges, our Sandwich Platform's management team was able to generate solid growth in 2010 through the development of new products that cater to consumers' desires for better-for-you convenience foods, such as its artisan sandwiches and wrap lines; geographical expansion into central Canada; and developing new customer bases in the institutional and catering segments.

"This transaction solidified our Sandwich Platform as Canada's leading manufacturer and distributor of pre-packaged sandwiches…"

Our acquisition of Seattle, WA based SK Food Group near the end of 2010 further enhanced our Sandwich Platform's growth opportunities by expanding its geographical reach to most of the U.S. and increasing its product offerings to include a variety of frozen "heat and serve" products such as breakfast sandwiches and paninis. In addition, the SK Food Group transaction provided our Sandwich Platform with a recently expanded 150,000 square foot state-of-the-art manufacturing facility that is centrally located in Reno, NV.

We made the most recent addition to this platform in February 2011 with the purchase of Canada Bread Company Limited's Ontario and Quebec based sandwich operations. This transaction solidified our Sandwich Platform as Canada's leading manufacturer and distributor of pre-packaged sandwiches and positioned it as the only business able to provide national pre-packaged sandwich solutions to Canadian retailers and foodservice operators.

Our Sandwich Platform currently has annual sales of approximately $110 million and, through a combination of acquisitions and organic growth, we are targeting it to reach annual sales of $300 million within the next five years.

ACQUISITIONS / CAPITAL ALLOCATION

"One of the key reasons for our steady performance, both in terms of 2010 and over the last six years through a full range of economic conditions, is the unique balance we have built into our business between managing risk and pursuing growth. This balance is based on three fundamental elements: disciplined capital allocation principles, a culture of entrepreneurialism and the development of growth platforms."

ARTISAN

BAKERY PLATFORM

Our Bakery Platform focuses on the manufacturing of hard-crusted artisan breads that cater to consumers looking for a more wholesome and sophisticated food experience; and on high quality grab-and-go fresh pastries and sandwiches that provide consumers with better-for-you convenience foods.

Our initial entry into the bakery category occurred at the end of 2006 with the acquisition of Creekside Custom Foods and its iconic Bread Garden brand. In 2007 we significantly expanded our Bakery Platform with the acquisition of artisan bread manufacturer Stuyver's Bakestudio.

"…this new facility… will feature the latest technology available in the production of hard-crusted European-style artisan breads."

Since these initial two transactions our Bakery Division has generated consistent sustainable growth. This has resulted in Creekside Custom Foods moving into a new larger facility in 2008 and most recently, our announcement in March 2011 of a $15.5 million investment in a new and expanded state-of-the-art bakery for our Stuyver's Bakestudio operation. When this new facility is completed later this year, it will replace Stuyver's Bakestudio's existing facility in Burnaby, B.C. and will feature the latest technology available in the production of hard-crusted European-style artisan breads. In addition, it will have the capacity to supply our sandwich operations with unique bread solutions that will enable them to further tailor their products to consumers' changing needs.

Our Bakery Platform, which currently has annual sales of approximately $20 million, is expected to continue growing at double digit rates for at least the next four years.

EXPANDING PLATFORMS

"Seafood in general, and fresh seafood in particular, is a rapidly growing category that is benefiting from consumers' increasing awareness of the health benefits of a diet that includes seafood. In addition, changing demographics, both in terms of new immigrants with traditional seafood based diets and aging baby boomers who perceive seafood as a healthier protein source, are generating exciting growth opportunities in this category."

GOURMET

FOODSERVICE PLATFORM

Foodservice generally refers to the sales channel that caters to food products consumed away from home and that involve a certain amount of preparation prior to their sale to the consumer. Restaurants, hotels and institutions, such as hospitals, are the primary customers of our Foodservice Platform.

Canadian foodservice sales have grown significantly over the last number of years as a result of many of the trends that I discussed earlier including the demand for convenient meal solutions and changing demographics.

We made our initial investment in our Foodservice Platform with the acquisition of Centennial Foodservice in 2007. Prior to this our sales were mainly to a wide range of retailers, hence we viewed our investment in Centennial as critical to both diversifying our sales channels and to enabling us to capitalize on the trend of increased consumer spending in this channel.

Centennial, with its focus on high quality protein products and providing customers with differentiated product solutions, including custom processing, was the perfect fit to our specialty food focused business strategies. Today, Centennial and its very talented management team continue to anchor our Foodservice Platform.

In 2008 we completed two acquisitions that strengthened the Foodservice Platform. The first was the purchase of Centennial's key competitor on Vancouver Island, B&C Food Distributors. The second was the purchase of food broker Multi-National Foods, which provided Centennial with the sales and administration infrastructure needed to support the rapid growth of its initiative to sell certain products to food manufacturers and retailers.

In 2010 we further augmented this platform with the acquisition of Richmond, BC based South Seas. South Seas expanded the Foodservice Platform's share of sales to ethnic focused restaurants in Greater Vancouver and made it a leading distributor of Halal meats and other packaged goods to foodservice and retail customers across southern BC. Over the coming months we expect to capitalize on the success of South Seas' Halal initiatives with the launch of a number of new products into both the retail and foodservice channels.

> "…Centennial is using these **state-of-the-art** facilities to generate new **sales opportunities** with large multi-unit restaurant chains…"

During the last three years we have also invested considerable capital and resources in upgrading Centennial's custom processing facilities in Vancouver, Calgary and Edmonton. These state-of-the-art facilities, which form part of their distribution centres, feature the most modern steak, kabob and fresh burger processing technology in the industry and ideally position Centennial to offer its customers differentiated custom product solutions. Furthermore, Centennial is using these state-of-the-art facilities to generate new sales opportunities with large multi-unit restaurant chains, a segment of the foodservice industry that it had previously not focused on.

Over the last two years our Foodservice Platform has struggled with the impact of the economic slowdown on the Foodservice industry in general. However, with the economy starting to strengthen and with the strategic investments we have made in this platform over the last several years, we are extremely bullish on its growth opportunities. Furthermore, we see significant opportunities to expand the Foodservice Platform into central and eastern Canada through acquisitions and by leveraging its strength in western Canada.

EXPERIENCE

PREMIUM PROCESSED MEATS PLATFORM

Our Premium Processed Meats Platform is anchored by three well established brands that are all focused on providing consumers with best-in-the-class products and are all synonymous with quality, tradition and great taste. The Grimm's brand has been around for over fifty years and stands for old world family recipes and a relentless commitment to quality. Their allergen-free products contain no by-products, gluten or MSG; are cooked using natural wood smoke; and use only high quality real food ingredients like honey, herbs and spices.

Similar to Grimm's, our Harvest brand has enjoyed considerable success in western Canada by ensuring that whatever they make is best in the category. Its one-of-a-kind premium bacon, gourmet hot dogs and double smoked farmer sausage products enjoy cult-like followings with consumers often commenting that, "there is no going back after you have tried Harvest".

Both Grimm's and Harvest have a solid market share in western Canada and are now focused on expanding into central and eastern Canada where they are starting to make modest inroads.

The Premium Processed Meats Platform's third brand is Hempler's, which is produced in Ferndale, WA. The Hempler's brand dates back to 1934 and has been a standard product offering with smaller specialty retailers throughout the U.S. Pacific Northwest for many decades. Similar to Grimm's and Harvest, Hempler's focus has been on providing consumers with the highest quality products; however, more recently, it has expanded its product offering to include natural and organic items.

Our investment in Hempler's dates back to 2006 when they were seeking to expand their production capacity. Since then our partnership has been a resounding success as we first combined our resources to build a new 28,000 square foot production facility to replace their previous 13,000 square foot facility, and then worked together to expand their customer base to include larger U.S. food retailers. The result has been compounded annual sales growth of more than 14% over the last three years and the Hempler`s brand becoming firmly established in the U.S. Pacific Northwest as the premium regional brand.

Looking forward we continue to see significant opportunities to grow the Hempler's brand, both through the development of new relationships with national U.S. retailers and geographical expansion in the U.S.

EXPLORING NEW MARKETS

"The Deli Chef transaction in 2011 solidified our Sandwich Platform as Canada's leading manufacturer and distributor of pre-packaged sandwiches and positioned it as the only business able to provide national pre-packaged sandwich solutions to Canadian retailers and foodservice operators."

COMMUNITY

SUMMARY

All of our growth platforms share at least one thing in common: they focus on the consumer who understands value and quality. At Premium Brands we adhere to one simple rule: we will not sell any products that we are not prepared to serve to our own families and friends. Our commitment to this principle is why our products remain at the forefront of what discriminating consumers are looking for in their daily food choices and experiences.

"At Premium Brands we adhere to one simple rule: we will not sell any products that we are not prepared to serve to our own families and friends."

Whenever I have doubts on achieving our business objectives I just open my fridge at home. On any given day it includes a variety of our products including: Grimm's sliced meats and Harvest sausages made from the best possible ingredients, expertly aged Sterling Silver steaks from Centennial Foodservice, fresh whole grain pasta produced by our recently acquired Duso's business and ready-to-eat artisan sandwiches from Quality Fast Foods. I have no doubt that these products, like all of our products, are made with the greatest care and finest attention to detail by our dedicated managers, employees and partners. I know that my family and friends are in good hands.

DIVIDEND POLICY

We appreciate the importance of our quarterly dividend to many of our shareholders and are pleased to say that, barring unforeseen circumstances, our dividend is more likely to increase from the current quarterly rate of 29.4 cents per share than decrease. We make this statement knowing full well that the food space is not without its challenges. Issues like ingredient and input cost inflation, changing consumer tastes, customer concentration, a volatile economy, currency fluctuations and many other factors make it a very dynamic and exciting industry. However, our business plan, in general, and the potential of our various growth platforms, in particular, will, as they have done in the past, enable us to deal with these challenges and continue to build value for our shareholders.

Rest assured that any issues we face will be dealt with head-on in a thoughtful and decisive manner. Furthermore to the extent there is a potential silver lining resulting from a challenge, we will, as we have always done, look to capitalize on it.

CONCLUSION

I would like to once again thank our shareholders for their support and assure them that we fully understand our responsibilities as managers of their capital. We are proud of our track record of placing the interests of our shareholders first and are confident that our business plan, with its unique balance between managing risk and pursuing growth, will enable us to continue to generate above average returns for them.

I would also like to thank our 2,200 employees for their dedication and hard work. In an ever changing and challenging world they are our single most important competitive advantage.

George Paleologou
President and CEO

MANAGEMENT'S DISCUSSION & ANALYSIS

For the 52 Weeks Ended December 25, 2010

The following Management's Discussion and Analysis (MD&A) is a review of the financial performance and position of Premium Brands Holdings Corporation (the Company or Premium Brands), formerly known as Premium Brands Income Fund (the Fund), and is current to March 9, 2011. It should be read in conjunction with the Company's 2010 audited consolidated financial statements and the notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (GAAP). These documents, as well as additional information on the Company and the Fund, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

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

BUSINESS OVERVIEW

Premium Brands is a food focused holding company investing in:

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

  The Company's focus on this segment of the food industry is based on the ability of 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.** The Company's focus on this segment of the food industry is based on the ability of these companies, in general terms, to generate higher margins by offering customers unique service and product solutions that differentiate them from distributors who are primarily focused on logistics. Furthermore, these businesses enable the Company to generate and sustain additional margin by providing its specialty food manufacturing businesses with proprietary access to a diversified customer base.

  The Company's current distribution businesses service approximately 26,000 customers, including convenience stores, gas bars, restaurants, delicatessens, small specialty grocery chains, hotels and institutions, across most of Canada.

SELECT ANNUAL INFORMATION

The following is a summary of select annual consolidated financial information. All amounts, except Adjusted EBITDA and RONA, are derived from the Company's audited consolidated financial statements for each of the five most recently completed financial years and are prepared in accordance with GAAP. The calculation of RONA is shown below. See *Results of Operations* for the calculation of Adjusted EBITDA.

(in millions of dollars except per share amounts)	52 weeks ended Dec 25, 2010	52 weeks ended Dec 26, 2009	Year ended Dec 31, 2008	Year ended Dec 31, 2007	Year ended Dec 31, 2006
Revenue	**535.2**	462.8	449.4	326.4	216.5
Adjusted EBITDA	**42.0**	40.7	40.6	33.4	22.7
Earnings from continuing operations before income taxes and non-controlling interest	**18.7**	18.7	22.4	19.6	14.4
Earnings from continuing operations	**16.3**	18.9	21.4	25.5	14.2
Basic and diluted earnings per share from continuing operations	**0.91**	1.07	1.22	1.46	0.91
Loss from discontinued operations	**0.0**	0.0	0.0	0.0	(1.4)
Earnings	**16.3**	18.9	21.4	25.5	12.8
Basic and diluted earnings per share	**0.91**	1.07	1.22	1.46	0.83
Total assets	**433.2**	350.0	307.2	285.7	174.2
RONA	**14.0%**	14.6%	14.8%	15.8%	14.6%
Total long-term financial liabilities (1)	**149.8**	112.1	107.6	97.6	11.9
Dividends / distributions declared per share	**1.176**	1.176	1.176	1.176	1.176

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

Revenue and Earnings

The Company has consistently grown its revenue over the last five years through a combination of acquisitions and organic growth initiatives. The Company has also continued to grow its adjusted EBITDA over the last five years, however, at a lower rate in recent years due primarily to: (i) a significant slowdown in western Canada's economy in 2008, which continued to impact several of the Company's businesses through to 2010; and (ii) record high costs in 2010 for food commodities used in the production of certain finished goods.

Over the last five years the Company's earnings have been relatively volatile primarily due to the following:

- In 2009 a charge of $1.5 million for transaction costs associated with the Company's conversion from an income trust (see *Results of Operations – Income Taxes – Conversion*);
- Also in 2009 a charge of $0.8 million primarily due to the permanent shutdown of an older deli meats processing facility located in Edmonton, Alberta;
- Volatility associated with the valuation of the Company's foreign currency contracts that resulted in losses in 2010 and 2009 of $0.1 million and $0.8 million, respectively, a gain in 2008 of $1.2 million and a loss in 2007 of $0.5 million. The Company does not intend to liquidate these contracts, but rather uses them to help stabilize the cost of its U.S. dollar denominated purchases and, in turn, its selling margins;
- In 2008 a charge of $1.0 million associated with the write-off of an insurance receivable resulting from a recall of pre-packaged sandwiches. The Company is continuing to pursue legal action against the associated insurer for the collection of this amount. Any insurance recovery will be recognized when determinable;
- In 2007 a $6.4 million future income tax recovery due to changes in the tax status of publicly traded trusts (see *Results of Operations – Income Taxes – Conversion*); and
- In 2006 a charge of $1.4 million resulting from the shutdown of a discontinued operation and the subsequent liquidation of substantially all of its assets.

Total Assets

The five year trend of increasing total assets reflects both the Company's continuing investment in its existing businesses as well as the acquisition of new specialty food manufacturing and differentiated food distribution businesses. In addition, the Conversion resulted in the Company recording a $52.2 million future income tax asset in 2009 (see *Results of Operations – Income Taxes – Conversion*).

RONA

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

The Company believes RONA is a useful indicator of the performance of its operations relative to the assets employed. The following table provides the calculation of RONA:

(in thousands of dollars)	**52 weeks ended Dec 25, 2010**	**52 weeks ended Dec 26, 2009**
Return:		
Adjusted EBITDA	**42,009**	40,727
Maintenance capital expenditures	**(1,713)**	(2,026)
	40,296	38,701
Average adjusted net assets [1]:		
Opening net assets	**264,123**	264,637
Closing net assets excluding net assets of businesses acquired during the year	**257,658**	264,123
Average net assets before including businesses acquired during the year [2]	**260,891**	264,380
Weighted net assets of businesses acquired during the year [3]	**27,501**	—
	288,392	264,380
RONA [4]	**14.0%**	14.6%

(1) Net assets are calculated as total assets less future income tax assets, accounts payable and accrued liabilities.
(2) 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.
(3) 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.
(4) Calculated as return divided by average adjusted net assets.

The Company's RONA over the last five years has averaged 14.8% which is near to its long term targeted rate of 15%. In 2010 the Company's RONA fell to 14.0% primarily due to: (i) the continuing impact of the slowdown in western Canada's economy on its convenience store and foodservice focused businesses (see *Results of Operations – Revenue*); and (ii) the impact of record high costs for protein input commodities on the selling margins of its premium processed meats businesses (see *Results of Operations – Gross Profit - Retail*).

Long-term Financial Liabilities

The increase in the Company's long-term financial liabilities over the last four years is due to long-term debt being the primary funding source for its acquisitions strategy. In total, the Company has invested $193.5 million in new businesses from the beginning of 2006 to the end of 2010, $184.6 million of which was financed with debt.

RESULTS OF OPERATIONS

The Company reports on two reportable segments, Retail and Foodservice, as well as corporate costs (Corporate). The Retail segment includes the Company's specialty manufacturing businesses (such as Harvest, Grimm's, Hygaard, Quality Fast Foods, Hempler's, Creekside, Stuyver's, Duso's and SK Food Group) and its Direct Plus retail distribution business. 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, Eleven, South Seas, Maximum Seafood and Hub City Fisheries businesses. With the exception of Maximum Seafood, all of these businesses are primarily focused on foodservice customers such as restaurants, concessions, bars, caterers, hotels, recreation facilities, schools and hospitals. With respect to Maximum Seafood, it has been included in the Foodservice segment on the basis that (i) many of its customers are distributors who sell Maximum Seafood's products to foodservice customers; and (ii) Maximum Seafood will be working closely with Centennial Foodservice and B&C Food Distributors in the implementation of the Company's national seafood strategies.

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

Revenue

(in thousands of dollars except percentages)	13 weeks ended Dec 25, 2010	% (1)	13 weeks ended Dec 26, 2009	% (1)	52 weeks ended Dec 25, 2010	% (1)	52 weeks ended Dec 26, 2009	% (1)
Revenue by segment:								
Retail	**76,469**	**49.0%**	54,374	48.9%	**248,061**	**46.3%**	217,606	47.0%
Foodservice	**79,502**	**51.0%**	56,785	51.1%	**287,182**	**53.7%**	245,158	53.0%
Consolidated	**155,971**	**100.0%**	111,159	100.0%	**535,243**	**100.0%**	462,764	100.0%

(1) Expressed as a percentage of consolidated revenue

Retail's revenue for the fourth quarter of 2010 as compared to the fourth quarter of 2009 increased by $22.1 million or 40.6% primarily due to: (i) the acquisitions of Duso's and SK Food Group (see *Liquidity and Capital Resources – Corporate Investments*) which accounted for $18.7 million of the increase; and (ii) general growth of $3.4 million, representing an organic growth rate of approximately 6.3%, across a range of products including premium processed meats, deli products and pre-packaged sandwiches. Consistent with previous quarters, Retail's sales to the economically sensitive convenience store channel continued to stabilize resulting in only a slight decline of $0.2 million or approximately 1.3% for the quarter as compared to the fourth quarter of 2009.

Retail's revenue for 2010 as compared to 2009 increased by $30.5 million or 14.0% primarily due to: (i) the acquisitions of Duso's and SK Food Group which accounted for $22.0 million of the increase; (ii) general growth of $9.4 million, representing an organic growth rate of approximately 6.2%, in sales to retail grocery and other customers not focused on the convenience store sales channel; and (iii) the Company's involvement with the 2010 Vancouver Winter Olympics which resulted in approximately $1.9 million in incremental sales for Retail in the first quarter of 2010. These increases were partially offset by a $2.8 million decrease in sales to the convenience store channel which occurred mainly in the first half of 2010 and was primarily due to the impact of the slowdown in western Canada's economy on consumer spending and related competitive pressures.

Foodservice's revenue for the fourth quarter of 2010 as compared to the fourth quarter of 2009 increased by $22.7 million or 40.0% due to: (i) the acquisitions of South Seas, Maximum Seafood and Hub City Fisheries in 2010 (see *Liquidity and Capital Resources – Corporate Investments*) which resulted in $17.9 million in incremental sales; (ii) increased sales to Foodservice's core hotel, restaurant and institutional customers of $4.4 million representing an organic growth rate of approximately 8.4%; and (iii) increased sales in Foodservice's Worldsource food brokerage business of $0.4 million.

Foodservice's revenue for 2010 as compared to 2009 increased by $42.0 million or 17.1% primarily due to: (i) the acquisitions of South Seas, Maximum Seafood and Hub City Fisheries in 2010 and the acquisition of Multi-National Foods late in the first quarter of 2009, which resulted in $38.6 million in incremental sales; (ii) increased sales to Foodservice's core hotel, restaurant and institutional customers of $3.2 million representing an organic growth rate of approximately 1.4%; and (iii) the Company's involvement in the 2010 Vancouver Winter Olympics which resulted in approximately $0.7 million in incremental sales for Foodservice in the first quarter of 2010. These increases were partially offset by a $0.5 million decrease in sales by its Worldsource food brokerage in the first three quarters of 2010 due to limited trading opportunities.

Overall for 2010 as compared to 2009, the Company's revenue increased by $72.5 million with acquisitions accounting for $60.6 million of the increase and general organic growth, at a rate of approximately 2.6%, for $11.9 million. The Company's organic growth rate of 2.6% was below its long-term targeted rate of 6% to 8% primarily due to the impact, particularly in the first half of the year, that the slowdown in western Canada's economy had on consumer spending at its economically sensitive convenience store, hotel and restaurant customers' locations. For the latter half of 2010, the Company's organic growth rate was 5.1% and, for the fourth quarter it was within its targeted growth range at 7.4%.

Gross Profit

(in thousands of dollars except percentages)	13 weeks ended Dec 25, 2010	% (1)	13 weeks ended Dec 26, 2009	% (1)	52 weeks ended Dec 25, 2010	% (1)	52 weeks ended Dec 26, 2009	% (1)
Gross profit by segment:								
Retail	**20,878**	**27.3%**	17,258	31.7%	**75,000**	**30.2%**	71,445	32.8%
Foodservice	**14,338**	**18.0%**	12,064	21.2%	**56,637**	**19.7%**	50,166	20.5%
Consolidated	**35,216**	**22.6%**	29,322	26.4%	**131,637**	**24.6%**	121,611	26.3%

(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 2010 as compared to the fourth quarter of 2009 decreased primarily due to:

- The acquisition of SK Food Group (see *Liquidity and Capital Resources – Corporate Investments*) as SK Food Group historically generates lower average gross margins as compared to Retail's other businesses. Excluding SK Food Group, Retail's gross margin for the fourth quarter was 29.1%;
- Its premium processed meats operations generating below average gross margins in 2010 as a result of record high costs for certain commodities, mainly fresh protein, used in the production of finished products. These record high commodity costs were, in turn, primarily due to a contraction in supply resulting from record low commodity prices in 2009; and
- Its premium processed meats operations generating higher than average gross margins in 2009 primarily due to historically low costs for the same commodities that were at record high levels in 2010.

Retail's gross margin for 2010 as compared to 2009 decreased primarily due to: (i) the same factors impacting Retail's gross margin in the fourth quarter of 2010; and (ii) Retail's gross margins in the third quarter of 2009 being further enhanced by Retail capitalizing on certain unique buying opportunities (see *Liquidity and Capital Resources – Net Working Capital Requirements – Net Working Capital Cash Flows*).

Looking forward (see *Forward Looking Statements*), Retail expects the cost of the input commodities impacting its gross margins to remain at historically high levels until at least the fourth quarter of 2011 due to slower than previously expected increases in supply. In the interim, Retail has initiated product price increases, which will start to take effect in the second quarter of 2011, and is assessing a variety of other alternatives to improve its margins including new product development, packaging changes, and improving plant efficiencies.

Foodservice's gross margin for the fourth quarter of 2010 as compared to the fourth quarter of 2009 decreased primarily due to: (i) a rapid rise during the quarter in the cost of certain commodity beef input materials; (ii) the write-off of approximately $0.4 million in new production line setup costs that had been deferred in prior quarters; and (iii) the acquisition of Maximum Seafood (see *Liquidity and Capital Resources – Corporate Investments*) as Maximum Seafood historically generates lower average gross margins as compared to Foodservice's other businesses. Excluding Maximum Seafood and the new production line setup costs, Foodservice's gross margin for the fourth quarter was 19.1%.

The rapid rise in certain commodity beef costs was largely the result of increasing global demand for certain commodity beef products at a time when overall beef supply was contracting. The impact of this rise in costs on Foodservice's margins was unusually large due to: (i) the speed of the increase which resulted in short term margin loss while certain price increases were implemented; and (ii) a continued challenging economic environment for hotels and restaurants that is resulting in increased pressure on Foodservice to absorb, at minimum on a temporary basis, a portion of the cost increases.

Foodservice's gross margin for 2010 as compared to 2009 decreased primarily due to: (i) the impact of the rapid rise in certain commodity beef costs in the fourth quarter as discussed above; (ii) the acquisition of Maximum Seafood (see *Liquidity and Capital Resources – Corporate Investments*) as Maximum Seafood historically generates lower average gross margins as compared to Foodservice's other businesses; and (iii) the write-off of approximately $0.4 million in new production line setup costs in the fourth quarter. Excluding Maximum Seafood and the new production line setup costs, Foodservice's gross margin for 2010 was 20.3%.

Looking forward (see *Forward Looking Statements*), Foodservice expects the cost of the input commodities impacting its gross margins to remain at historically high levels until at least the fourth quarter of 2011. It does, however, expect to see improvement in its margins starting in the second quarter of 2011 and running through to the end of the year due to: (i) the steady implementation of pricing strategies focused on recovering margin lost due to recent commodity input cost increases; (ii) improved operating efficiencies resulting from sales growth expected in 2011; and (iii) the introduction of a new hamburger patty program when its Calgary facility expansion is completed in April 2011 (see *Liquidity and Capital Resources – Capital Expenditures*).

Selling, General and Administrative Expenses (SG&A)

(in thousands of dollars except percentages)	**13 weeks ended Dec 25, 2010**	**% (1)**	**13 weeks ended Dec 26, 2009**	**% (1)**	**52 weeks ended Dec 25, 2010**	**% (1)**	**52 weeks ended Dec 26, 2009**	**% (1)**
SG&A by segment:								
Retail	**12,430**	**16.3%**	9,595	17.6%	**44,806**	**18.1%**	40,946	18.8%
Foodservice	**10,911**	**13.7%**	8,513	15.0%	**39,042**	**13.6%**	35,050	14.3%
Corporate	**1,303**		1,528		**5,780**		4,888	
Consolidated	**24,644**	**15.8%**	19,636	17.7%	**89,628**	**16.7%**	80,884	17.5%

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

Retail's SG&A in the fourth quarter of 2010 as compared to the fourth quarter of 2009 increased by $2.8 million primarily due to: (i) the acquisitions of Duso's and SK Food Group (see *Liquidity and Capital Resources – Corporate Investments*) which accounted for $1.8 million of the increase; (ii) increased compensation expense in certain businesses resulting from a combination of improved performance in 2010 relative to 2009 and the timing of certain accruals; and (iii) increased selling and marketing costs associated with its sales growth (see *Results of Operations – Revenue*). Excluding Duso's and SK Food Group, Retail's SG&A as a percentage of sales for the fourth quarter was 18.5%.

Retail's SG&A for 2010 as compared to 2009 increased by $3.9 million primarily due to: (i) the acquisitions of Duso's and SK Food Group, which accounted for $2.4 million of the increase; and (ii) increased selling and marketing costs associated with its sales growth. Excluding Duso's and SK Food Group, Retail's SG&A as a percentage of sales for 2010 was 18.8%.

Foodservice's SG&A in the fourth quarter of 2010 as compared to the fourth quarter of 2009 increased by $2.4 million primarily due to: (i) the acquisitions of South Seas, Maximum Seafood and Hub City Fisheries in 2010 (see *Liquidity and Capital Resources – Corporate Investments*) which accounted for $2.0 million of the increase; and (ii) increased costs associated with the ramp up of Foodservice's infrastructure in anticipation of improving economic conditions and the successful execution of a variety of sales initiatives focused on growing its multi-unit restaurant chain business. Excluding South Seas, Maximum Seafood and Hub City Fisheries, Foodservice's SG&A as a percentage of sales for the fourth quarter was 14.6%.

Foodservice's SG&A in 2010 as compared to 2009 increased by $4.0 million primarily due to: (i) the acquisitions of South Seas, Maximum Seafood and Hub City Fisheries in 2010 which accounted for $3.5 million of the increase; and (ii) increased costs associated with the ramp up of Foodservice's infrastructure in anticipation of improving economic conditions and the successful execution of a variety of sales initiatives focused on growing its multi-unit restaurant chain business. These increases were partially offset by a $0.5 million gain on the sale of its Centennial business' Victoria, BC distribution facility in the second quarter. The Victoria property sale was due to this facility being made redundant by the acquisition of B&C Food Distributors in 2008. Excluding South Seas, Maximum Seafood, Hub City Fisheries and the gain on the Victoria property, Foodservice's SG&A as a percentage of sales for 2010 was 14.4%.

Adjusted EBITDA

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

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

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

(in thousands of dollars)	**13 weeks ended Dec 25, 2010**	**13 weeks ended Dec 26, 2009**	**52 weeks ended Dec 25, 2010**	**52 weeks ended Dec 26, 2009**
Earnings before income taxes and non-controlling interest	**3,638**	3,549	**18,696**	18,705
Depreciation of capital assets (1)	**2,330**	1,869	**8,210**	8,301
Interest and other financing costs (2)	**2,702**	2,323	**9,994**	7,071
Amortization of intangible and other assets (1)	**814**	660	**2,762**	2,558
Amortization of financing costs (1)	**49**	88	**295**	244
Change in value of puttable interest in subsidiaries (3)	**700**	200	**1,450**	200
Unrealized loss (gain) on foreign currency contracts (4)	**193**	(66)	**125**	818
Equity loss in significantly influenced company (5)	**146**	115	**477**	492
Conversion costs (6)	**—**	108	**—**	1,498
Operation shutdown costs (6)	**—**	840	**—**	840
Adjusted EBITDA	**10,572**	9,686	**42,009**	40,727

(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 relates to the valuation of minority shareholder ownership in certain subsidiaries of the Company.
(4) Amount represents the change in fair value of the Company's U.S. dollar forward purchase contracts for the period and is adjusted for on the basis that the Company does not intend to liquidate these contracts but rather uses them to stabilize the cost of its U.S. dollar denominated purchases and, in turn, its selling margins.
(5) Amount relates to businesses that the Company does not control.
(6) Amount is an unusual item that is not part of the Company's normal operating costs.

(in thousands of dollars except percentages)	**13 weeks ended Dec 25, 2010**	**% (1)**	**13 weeks ended Dec 26, 2009**	**% (1)**	**52 weeks ended Dec 25, 2010**	**% (1)**	**52 weeks ended Dec 26, 2009**	**% (1)**
Adjusted EBITDA by segment:								
Retail	**8,448**	**11.0%**	7,663	14.1%	**30,194**	**12.2%**	30,503	14.0%
Foodservice	**3,427**	**4.3%**	3,551	6.3%	**17,595**	**6.1%**	15,116	6.2%
Corporate	**(1,303)**		(1,528)		**(5,780)**		(4,892)	
Consolidated	**10,572**	**6.8%**	9,686	8.7%	**42,009**	**7.8%**	40,727	8.8%

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

The Company's adjusted EBITDA for the fourth quarter of 2010 as compared to the fourth quarter of 2009 and for 2010 as compared to 2009 both increased primarily due to: (i) acquisitions; and (ii) net organic growth among its portfolio of businesses. The impact of these factors was partially offset by reduced selling margins in several businesses resulting from food inflation.

Depreciation and Amortization

(in thousands of dollars)	**13 weeks ended Dec 25, 2010**	**13 weeks ended Dec 26, 2009**	**52 weeks ended Dec 25, 2010**	**52 weeks ended Dec 26, 2009**
Depreciation and amortization of intangible and other assets (D&A) by segment:				
Retail	**2,010**	1,452	**6,708**	6,605
Foodservice	**983**	902	**3,661**	3,558
Corporate	**151**	175	**603**	696
Consolidated	**3,144**	2,529	**10,972**	10,859

The Company's D&A expense increased by $0.6 million in the fourth quarter of 2010 as compared to the fourth quarter of 2009 primarily due to: (i) acquisitions which resulted in a $0.7 million increase in D&A (see *Liquidity and Capital Resources – Corporate Investments*); and (ii) Retail's D&A in the fourth quarter of 2009 being unusually low due to the reversal of $0.4 million in excess depreciation recorded in the first three quarters of 2009. These increases were partially offset by lower D&A across a number of the Company's businesses resulting primarily from use of the declining balance method of depreciation.

The Company's D&A expense increased by $0.1 million in 2010 as compared to 2009 primarily due to acquisitions, which resulted in a $0.9 million increase in D&A, partially offset by lower D&A across a number of the Company's businesses resulting from use of the declining balance method of depreciation.

Interest

Interest and other financing costs for the fourth quarter of 2010 as compared to the fourth quarter of 2009 increased by $0.4 million primarily due to: (i) higher net funded debt in the fourth quarter of 2010 as compared to the fourth quarter of 2009 (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*); and (ii) higher interest rates on the Company's floating interest rate debt resulting from increases in 2010 in the Bank of Canada's targeted overnight lending rate. These increases were partially offset by a 50 basis points (0.5 percentage points) decrease in the Company's interest rates due to the renegotiation of the credit spread on its senior debt facilities in the quarter (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

Interest and other financing costs for 2010 as compared to 2009 increased by $2.9 million due to: (i) higher average net funded debt levels in 2010 as compared to 2009; (ii) the pay down of lower cost senior debt through the issuance of unsecured convertible debentures in the third quarter of 2009; (iii) higher interest rates on the Company's floating interest rate debt resulting from increases in 2010 in the Bank of Canada's targeted overnight lending rate; and (iv) a higher interest rate credit spread on its senior debt facilities in the first two quarters of 2010 as compared to the first two quarters of 2009 due to the renegotiation of the terms on its senior debt facilities in July 2009. These increases were partially offset by a lower credit spread on its senior debt facilities in the fourth quarter of 2010 as discussed above.

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 for the fourth quarter of 2010 as compared to the fourth quarter of 2009 increased by $0.5 million due to changes in the assumptions used to value the put options, namely when certain put options would be exercised and the projected earnings at the time they are exercised.

Change in value of puttable interest for 2010 as compared 2009 increased by $1.3 million primarily due to (i) changes in the assumptions used to value the put options, namely when certain put options would be exercised and the projected earnings at the time they are exercised; and (ii) incremental accretion relating to new put options resulting from business acquisitions made in 2010 (see *Liquidity and Capital Resources – Corporate Investments*).

Gains / Losses on Foreign Currency Contracts

In the fourth quarter of 2010 the Company recognized a $0.2 million loss on foreign currency contracts as a result of changes in the fair market valuation of its U.S. dollar forward purchase contracts as compared to a $0.1 million gain in the fourth quarter of 2009.

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

For 2010 the Company recognized a loss of $0.1 million on foreign currency contracts as compared to a loss of $0.8 million for 2009.

Conversion Costs

In 2009 the Company incurred $1.5 million in costs associated with its conversion from a publicly traded income trust to a publicly traded corporation (see *Results of Operations – Income Taxes – Conversion*).

Operation Shutdown Costs

In 2009 the Company incurred $0.8 million in operation shutdown costs due primarily to the permanent shutdown of its 25,000 square foot deli meats processing facility located in Edmonton, Alberta (the Edmonton plant). A portion of the Edmonton plant's production was transferred to the Company's Richmond, BC deli plant and the balance to a plant in Saskatoon, SK operated by a company in which Premium Brands holds a 25% interest.

Income Taxes

Conversion

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

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

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

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

Tax Attributes

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

Scientific research and experimental development tax credits	92,623
Un-depreciated capital costs	49,157
Non-capital losses carried forward	63,229
Capital losses carried forward	1,009
Cumulative eligible capital	36,392
Section 20(1)(e) financing fee	2,765
Investment tax credits	15,358
Total	260,533

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 generated a majority of its earnings in 2009 and 2010, 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.

The $1.1 million increase in the Company's current income tax provision in 2010 as compared to 2009 is primarily due to businesses acquired by the Company in 2010 (see *Liquidity and Capital Resources – Corporate Investments*).

Future Income Tax Provision

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

(in thousands of dollars)	**13 weeks ended Dec 25, 2010**	**13 weeks ended Dec 26, 2009**	**52 weeks ended Dec 25, 2010**	**52 weeks ended Dec 26, 2009**
Opening FIT asset (liability) [1]	**4,529**	7,475	**7,300**	(1,372)
Adjustments:				
Foreign currency translation adjustment [2]	**11**	(233)	**3**	(325)
Change in accounting policy [3]	**—**	314	**—**	—
Conversion [4]	**—**	—	**—**	8,850
Acquisitions [5]	**(1,218)**	—	**(3,231)**	—
Adjusted opening FIT asset	**3,322**	7,556	**4,072**	7,153
Closing FIT asset [1]	**2,996**	7,300	**2,996**	7,300
Provision for (recovery of) FIT	**326**	256	**1,076**	(147)

(1) Calculated as current FIT assets plus long term FIT assets less current deferred credits less long term FIT liabilities less long term deferred credits.
(2) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars.
(3) Adjustment is the result of changes in the Company's accounting policies. See the Company's 2009 *MD&A New Accounting Policies – New Accounting Pronouncements Effective 2009.*
(4) See *Results of Operations – Income Taxes – Conversion.*
(5) See *Liquidity and Capital Resources – Corporate Investments.*

FOURTH QUARTER FINANCIAL STATEMENTS

The Company's operating results for the fourth quarters of 2010 and 2009 were as follows:

(in thousands of dollars)	13 weeks ended Dec 25, 2010	13 weeks ended Dec 26, 2009
Revenue	**155,971**	111,159
Gross profit	**35,216**	29,322
Selling, general and administrative expenses	**24,644**	19,636
	10,572	9,686
Depreciation of capital assets	**2,330**	1,869
Interest and other financing costs	**2,702**	2,323
Amortization of intangible and other assets	**814**	660
Amortization of financing costs	**49**	88
Change in value of puttable interest in subsidiaries	**700**	200
Unrealized loss (gain) on foreign currency contracts	**193**	(66)
Equity in loss of significantly influenced company	**146**	115
Conversion costs	**—**	108
Plant closure costs	**—**	840
	3,638	3,549
Income tax provision (recovery) – current	**850**	(79)
Income tax provision – future	**326**	256
Earnings before non-controlling interest	**2,462**	3,372
Non-controlling interest – net of income taxes	**34**	112
Net earnings	**2,428**	3,260

See *Results of Operations* for a discussion of the Company's operating results for the fourth quarter of 2010.

SUMMARY OF QUARTERLY RESULTS

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

(millions of dollars except per share amounts)	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Revenue	103.9	124.3	123.4	111.2	**109.7**	**125.9**	**143.7**	**156.0**
Adjusted EBITDA	6.3	11.6	13.1	9.7	**7.3**	**11.1**	**13.0**	**10.6**
Earnings:								
Total	2.1	6.6	6.9	3.3	**1.8**	**6.1**	**5.9**	**2.4**
Per share – basic and diluted	0.12	0.38	0.39	0.19	**0.10**	**0.35**	**0.33**	**0.13**

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

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

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

Looking forward, the Company expects (see *Forward Looking Statements*) its results to continue to be impacted by seasonal factors; however, due to the acquisition of less seasonal businesses in 2010, namely Duso's, Maximum Seafood and SK Food Group (see *Liquidity and Capital Resources – Corporate Investments*), it expects this impact to be reduced as compared to prior years.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position and liquidity for the 13 and 52 week periods ended December 25, 2010 were impacted by the following:

Funds from Operations

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

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

(in thousands of dollars)	13 weeks ended Dec 25, 2010	13 weeks ended Dec 26, 2009	52 weeks ended Dec 25, 2010	52 weeks ended Dec 26, 2009
Cash flow from operating activities	**7,711**	(1,758)	**33,811**	26,634
Changes in non-cash working capital	**(380)**	8,325	**(2,837)**	4,672
Funds from operations	**7,331**	6,567	**30,974**	31,306

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 adjusted EBITDA, interest and other financing costs, and current tax provision.

Net Working Capital Requirements

Net Working Capital

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

The following table provides the calculation of net working capital:

(in thousands of dollars)	As at Dec 25, 2010	As at Dec 26, 2009
Accounts receivable	**52,807**	34,380
Inventories	**57,366**	45,991
Prepaid expenses	**3,421**	2,116
Accounts payable and accrued liabilities	**(53,912)**	(37,429)
Net Working Capital	**59,682**	45,058

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

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

At the end of 2010 the Company's net working capital increased by $14.6 million as compared to its level at the end of 2009 primarily due to: (i) business acquisitions which accounted for approximately $14.2 million of the increase (see *Liquidity and Capital Resources – Corporate Investments*); (ii) $1.1 million in receivables from two suppliers that relate to product recall costs incurred by the Company as a result of defective raw materials supplied by these suppliers; and (iii) additional net working capital associated with the Company's organic growth (see *Results of Operations – Revenue*). These increases were partially offset by: (i) an increase in accounts payable and accrued liabilities at the end of 2010 as compared to the end of 2009 due to unusually low accounts payable and accrued liabilities levels at the end of 2009 that were, in turn, the result of the timing of payments on a variety of trade payable accounts, which can fluctuate significantly based on the timing of inventory purchases and the date on which payment is processed; and (ii) the payment, totalling approximately $1.0 million, in the fourth quarter for most of the benefits that had been accrued for over the last three years for the Company's restricted share plan (see *Liquidity and Capital Resources – Net Working Capital Requirements – Non-Cash Working Capital Cash Flows*).

Non-Cash Working Capital Cash Flows

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

(in thousands of dollars)	13 weeks ended Dec 25, 2010	13 weeks ended Dec 26, 2009	52 weeks ended Dec 25, 2010	52 weeks ended Dec 26, 2009
Changes in non-cash working capital	**380**	(8,325)	**2,837**	(4,672)

Normally, due to the seasonal nature of the Company's business (see *Summary of Quarterly Results*), the Company generates a positive cash flow from its net working capital in the fourth quarter of the year. In the fourth quarter of 2010, the positive cash flow generated from non-cash working capital was partially offset by a $1.0 million payout for most of the benefits that had been accrued for over the last three years for the Company's restricted share plan.

In the fourth quarter of 2009 the Company's non-cash working capital resulted in a significant negative cash flow primarily due to a large decrease in the Company's accounts payable and accrued liabilities (see *Liquidity and Capital Resources – Net Working Capital Requirements – Net Working Capital*).

Debt Financing Activities

Credit Facilities

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

(in thousands of dollars)	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Facility A – revolving senior credit (1)	32,000	6,827	25,173
Facility B – revolving senior credit (2)	45,000	40,320	4,680
Facility C – non-revolving senior credit (3)	64,000	64,000	—
7% convertible debentures (4)	37,306	37,306	—
Industrial Development Revenue Bond (5)	6,163	6,163	—
Vendor take-back notes resulting from business acquisitions	21,615	21,615	—
Cheques outstanding	—	1,670	(1,670)
Cash and cash equivalents	—	(868)	868
Other long-term debt including capital leases	244	244	—
	206,328	177,277	29,051

(1) Facility matures in October 2013, 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 October 2013, can be used to fund capital projects and acquisitions, and has quarterly principal payments of $2.0 million. Repaid amounts can be redrawn to fund new capital projects and acquisitions. Outstanding balance includes a U.S. dollar denominated draw of US$18.7 million.

(3) Facility matures in October 2013 and has no principal payments prior to its maturity date unless Facility B is fully paid in which case the facility would have quarterly principal payments of $2.0 million.

(4) Consists of the debt component of the $40.3 million in convertible unsecured subordinated debentures issued by the Company in 2009. The debentures mature in December 2014 and have no principal payments prior to that date.

(5) Credit facility relates to the Company's U.S. subsidiary, Hempler Foods Group LLC, is denominated in U.S. dollars (US$6.1 million), matures in 2036 and has no principal payments due prior to its maturity date.

Subsequent to December 25, 2010 the Company issued $57.5 million of convertible unsecured subordinated debentures (the Series A debentures) resulting in net proceeds of $54.6 million after commissions of $2.3 million and transaction costs of approximately $0.6 million. The Series A 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. The net proceeds of the offering were used to eliminate the balances drawn on the Company's Facility A and Facility B revolving credit facilities (see table above).

The Series A debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.A.

Funded Debt

Senior funded debt and total funded debt are not defined under GAAP and, as a result, may not be comparable to similarly titled measures presented by other publicly traded entities. The Company believes that senior funded debt and total funded debt, used in conjunction with its EBITDA, are useful indicators of its financial strength and ability to access additional debt financing. Senior funded debt is also used in the calculation of the debt covenants associated with the Company's senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities – Banking Covenants*).

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

(in thousands of dollars)	Dec 25, 2010	Dec 26, 2009
Cheques outstanding	**1,670**	2,470
Bank indebtedness	**6,827**	2,411
Current portion of long-term debt	**19,822**	8,212
Deferred financing costs [(1)]	**516**	666
Long-term debt	**112,004**	74,705
	140,839	88,464
Less cash and cash equivalents	**868**	469
Senior funded debt	**139,971**	87,995
Subordinated debt	**37,306**	36,769
Total funded debt	**177,277**	124,764

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

Debt Activities

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

- $9.0 million principal payments on Facility B consisting of $8.0 million in scheduled principal payments and a $1.0 million principal payment resulting from the sale of a redundant property for $1.7 million (see *Results of Operations – Selling, General and Administrative Expenses*). Principal payments made on this facility be redrawn to fund future business acquisitions and capital projects;

- Draws of $5.0 million, $13.5 million and US$18.7 million on Facility B to fund the acquisitions of Duso's, Maximum Seafood and SK Food Group, respectively (see *Liquidity and Capital Resources – Corporate Investments*);

- The issuance of $4.9 million in vendor take-back notes payable relating to the South Seas, Duso's, Maximum Seafood and Hub City Fisheries acquisitions and the issuance of US$17.3 million in vendor take-back notes relating to the SK Food Group acquisition (see *Liquidity and Capital Resources – Corporate Investments*). These notes were discounted and translated to a fair value of CAD$20.6 million at December 25, 2010;

- A $3.6 million increase in the Company's bank indebtedness (i.e. Facility A) and outstanding cheques. Facility A, combined with available cash and cash equivalents, can fluctuate significantly as it is used to manage the Company's daily cash requirements;

- $0.5 million in accretion in the book value of the convertible subordinate debentures issued in November 2009; and

- In conjunction with the acquisition of SK Food Group (see *Liquidity and Capital Resources – Corporate Investments*), the Company negotiated the following changes to its senior credit facilities (i.e. Facility A, Facility B and Facility C as shown above): (i) the available credit under Facility B was increased to $45.0 million from $40 million; (ii) the maturity date of the facilities was extended to October 2013 from July 2012; (iii) the senior funded debt to EBITDA ratio covenant requirement was increased to a maximum of 3.5:1 for the next four quarters after which it will return to the previously required levels (see *Liquidity and Capital Resources – Debt Financing Activities – Banking Covenants*); and (iv) the interest rate credit spread on Facilities A, B and C was decreased by 50 basis points.

Banking Covenants

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

	Covenant Requirement	Dec 25, 2010 Ratio
Senior funded debt to EBITDA ratio (1)	=< 3.50 : 1.0	**2.71: 1.0**
Current ratio (2)	> 1.30 : 1.0	**1.35: 1.0**
Interest coverage ratio (2)	> 4.00 : 1.0	**7.71: 1.0**

(1) In conjunction with the Company's issuance of $57.5 million in convertible unsecured subordinated debentures in January 2011 (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*) this covenant decreases to 3.00:1, subject to being increased by 0.25:1 for a period of two consecutive quarters in the event of an acquisition to a maximum of 3.25:1. EBITDA is calculated as the Company's rolling four quarters EBITDA adjusted for the trailing EBITDA of new acquisitions so that the total EBITDA amount includes four quarters of EBITDA for new acquisitions. For covenant calculation purposes, senior funded debt excludes cheques outstanding.

(2) Ratio is calculated based on the consolidated balance sheet and/or income statement of the Company's subsidiary Premium Brands Holdings Limited Partnership and therefore will not necessarily equal the ratio calculated based on the Company's consolidated balance sheet or income statement.

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.

During 2010 the Company's senior funded debt to EBITDA ratio increased from 2.10:1 to 2.71:1 primarily due to financing the majority of its business acquisitions with debt (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*). In order to reduce its senior funded debt to EBITDA ratio and to provide additional capacity for future business acquisitions and capital projects, in January 2011 the Company issued $57.5 million of convertible unsecured subordinated debentures, the net proceeds of which were used to reduce its senior funded debt (see *Liquidity and Capital Resources – Credit Facilities*).

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

Dividends

Free Cash Flow

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

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

Furthermore, one of the key considerations the Company uses in determining its dividend policy is the ratio of its dividends to its free cash flow on a rolling four quarter basis. The Company uses 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:

(in thousands of dollars)	**52 weeks ended Dec 25, 2010**	**52 weeks ended Dec 26, 2009**
Cash flow from operating activities	**33,811**	26,634
Changes in non-cash working capital (1)	**(2,837)**	4,672
Sale of redundant property (2)	**1,747**	—
Government grant income (3)	**1,207**	—
Capital maintenance expenditures (4)	**(1,713)**	(2,026)
Free cash flow	**32,215**	29,280

(1) Cash used for increases in the Company's non-cash working capital is funded through draws on its Facility A revolving credit facility (see *Liquidity and Capital Resources – Debt Financing Activities*), while cash resulting from decreases in its non-cash working capital is used to pay down its Facility A revolving credit facility. As a result, changes in the Company's non-cash working capital are excluded from the calculation of free cash flow.

(2) Amount represents free cash flow generated from the sale of a redundant distribution facility (see *Results of Operations – Selling, General and Administrative Expenses*).

(3) Amount represents free cash flow generated from government grants associated with certain capital projects (see *Liquidity and Capital Resources – Capital Expenditures – Government Grants*).

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

Dividend Policy

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

- 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.

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 25, 2010	21,019	Dividend	32,215	65.2%	$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 2010:

(in thousands of dollars)	52 weeks ended Dec 25, 2010
Opening capital assets at December 26, 2009	66,029
Depreciation	(8,210)
Asset sales	(1,583)
Foreign currency translation adjustment [1]	(303)
Acquisitions [2]	15,144
Capital expenditures:	
Project	3,394
Maintenance	1,713
Closing capital assets	76,184

(1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars.
(2) See *Liquidity and Capital Resources – Corporate Investments.*

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

During the third quarter of 2010 the Company initiated a $2.9 million expansion of the custom cutting operation at its Centennial Foodservice's Calgary facility, on which $0.8 million was spent in 2010. This project is expected to be completed in the second quarter of 2011. The balance of the Company's 2010 project capital expenditures was for a variety of smaller projects consisting mainly of capacity related equipment purchases.

Subsequent to the fourth quarter of 2010 the Company finalized certain agreements relating to the construction of a new artisan bakery that will replace its existing facility in Burnaby, BC. The total budget for this project, which is scheduled to be completed in late 2011, is $15.5 million and it is expected to: (i) substantially increase the Company's artisan bread capacity; and (ii) result in significant production efficiencies while maintaining the integrity of its artisan bread products (see *Forward Looking Statements*).

Maintenance capital expenditures for 2010 decreased by $0.3 million to $1.7 million from $2.0 million for 2009 due primarily to timing related issues. Looking forward, for 2011 the Company expects (see *Forward Looking Statements*) its capital maintenance expenditures to increase to the $3.0 million to $3.5 million range due to: (i) recent business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*); and (ii) projects deferred from 2010 to 2011.

Historic Capital Maintenance Expenditures

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

(in thousands of dollars)	**Total**
Rolling four quarters ended:	
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

Government Grants

In the second quarter of 2010 the Company was successful in obtaining $1.2 million in government grants relating to several capital projects completed over a number of 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.

During 2010 the Company used $38.9 million in cash for corporate investments consisting of:

- In January 2010, the Company completed the acquisition of Vancouver, BC based South Seas Meats Ltd. (South Seas) for approximately $2.2 million. In addition, the Company incurred transaction costs of approximately $0.1 million. The purchase price consisted of $1.5 million in cash, a non-interest bearing promissory note for $0.4 million due three years after closing, the issuance of 14,618 of the Company's common shares from treasury valued at $0.2 million, and the assumption of $0.1 million in capital leases.

  South Seas is a distributor of specialty meats, including a wide range of Halal and other ethnic foods, to restaurants, hotels and specialty butcher shops in the Greater Vancouver area. Its annual sales are approximately $10 million.

- In March 2010, the Company completed the acquisition of an 80% interest in Vancouver, BC based Duso's Enterprises Ltd. (Duso's) for approximately $5.6 million plus $0.3 million for excess working capital and project capital expenditures made just prior to closing of the transaction. In addition, the Company incurred transaction costs of approximately $0.1 million. The purchase price consisted of $4.3 million in cash, the issuance of 69,252 common shares from treasury valued at $1.0 million and a $0.6 million promissory note bearing interest at 4% and due three years after closing.

  Duso's is a specialty manufacturer of high quality branded and private label fresh pastas and sauces and has annual sales of approximately $7 million.

- In June 2010, the Company completed the acquisition of a 76% interest in Toronto, Ontario based Maximum Seafood for approximately $16.7 million plus $0.1 million for excess net working capital. In addition, the Company incurred transaction costs of approximately $0.3 million. The purchase price consisted of $12.4 million in cash, the issuance of 64,907 common shares from treasury valued at $0.8 million and $3.5 million in promissory notes due one to three years after closing.

  Maximum Seafood is a leading distributor of a variety of fresh and live seafood products and has annual sales of approximately $56 million.

- In October 2010, the Company completed the acquisition of Seattle, Washington based SK Food Group Inc. for approximately US$42.5 million less a US$0.3 million working capital adjustment. In addition, the Company incurred transaction costs of approximately $0.5 million. The purchase price consisted of: (i) US$18.1 million in cash; (ii) the issuance of 491,898 common shares from treasury valued at US$6.8 million; and (iii) US$17.3 million in vendor take-back notes, US$6.5 million of which is due on March 31, 2011 with the balance payable over the next three years in equal annual installments. All of the vendor take-back notes are contingent upon SK Food Group achieving certain sales and profitability targets.

  SK Food Group is a leading manufacturer of artisan breakfast sandwiches and wraps and has annual sales of approximately $90 million. It services customers across the U.S. and Canada from its production facility in Reno, Nevada.

- In November 2010, the Company completed the acquisition of a 60% interest in Hub City Fisheries for $1.1 million plus $0.7 million for excess working capital and project capital expenditures made prior to closing of the transaction. In addition, the Company incurred transaction costs of approximately $0.1 million. The purchase price consisted of $1.4 million in cash and a $0.4 million vendor take-back note.

  Hub is a value-added fresh seafood processor operating out of a modern facility located in Nanaimo, BC and has annual sales of approximately $10 million.

Subsequent to 2010 the Company completed the acquisition of Canada Bread Company Limited's (Toronto Stock Exchange: CBY) pre-packaged sandwich operations and related direct-to-store delivery (DSD) networks for approximately $8.0 million. The purchase price, which is subject to certain post-closing adjustments, consisted of $7.0 million in cash and a $1.0 million note due approximately three months after closing of the transaction.

The acquired business, which will operate under the name Les Aliments Deli Chef (Deli Chef), has 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.

Deli Chef's 2011 sales are projected to be approximately $30 million and it is expected that it will have a small negative impact on the Company's adjusted EBITDA in 2011 as the Company repositions Deli Chef for future sustainable growth. As part of this repositioning, the Company expects to incur an additional $6 million to $7 million in capital and restructuring related costs / charges (see *Forward Looking Statements*).

Longer term, the Company's five year financial targets for Deli Chef are annual sales and adjusted EBITDA of $50 million and $5 million, respectively.

Goodwill and Intangible Assets

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

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

(in thousands of dollars)	**52 weeks ended Dec 25, 2010**
Opening intangible assets and goodwill at December 26, 2009	**148,833**
Amortization of intangible assets	**(2,757)**
Foreign currency translation adjustment (1)	**(204)**
Additions:	
Goodwill and intangible assets resulting from 2010 acquisitions (2)	**50,223**
Closing intangible assets and goodwill	**196,095**

(1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars.
(2) See *Liquidity and Capital Resources – Corporate Investments*.

Puttable Interest in Subsidiaries

Puttable interest represents the fair value estimate of options (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 earnings before interest, taxes, amortization and depreciation for a defined period.

The following table shows the changes in puttable interest during 2010:

(in thousands of dollars)	**52 weeks ended Dec 25, 2010**
Opening puttable interest at December 26, 2009 (1)	**3,993**
Change in value (2)	**1,450**
Foreign currency translation adjustment (3)	**(38)**
Cash distributions to non-controlling shareholders with puttable interests	**(776)**
Puttable interest resulting from 2010 acquisitions (4)	**8,023**
Closing puttable interest (1)	**12,652**

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

Subsequent to 2010 the non-controlling shareholder in the Company's Stuyver's Bakestudio business exercised their put option thereby requiring the Company to purchase such shareholder's 20% interest in Stuyver's Bakestudio. The Company expects (see *Forward Looking Statements*) to complete the transaction in the second quarter of 2011, which will result in it owning 100% of Stuyver's Bakestudio. The purchase price is estimated at $2.3 million and will consist only of cash.

OUTLOOK

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

The Company is continuing to see improving sales trends in its economically sensitive foodservice and convenience store focused businesses. Its foodservice focused businesses, in particular, are showing solid signs of progress having generated organic growth from their core hotel, restaurant and institutional customers for the last three quarters, including a growth rate of over 8% in the fourth quarter of 2010.

The sales trend in the Company's convenience store focused businesses continues to improve and is expected to return to positive growth in mid 2011.

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

The Company also expects to see improvement in its pre-acquisitions adjusted EBITDA (i.e. before incorporating incremental EBITDA resulting from acquisitions) but at a lower growth rate than its sales improvement as it anticipates continued lower than average gross profit margins for at least the first half of 2011 and possibly also the third quarter due to food inflation (see *Results of Operations – Gross Profit*).

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

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

Contractual Obligations

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

(in thousands of dollars)	Total	1 year out	2 years out	3 years out	4 years out	5 years out	There-after
Long-term debt	132,098	19,707	11,301	94,927	—	—	6,163
Capital leases	244	115	91	26	6	6	—
Convertible debentures	40,250	—	—	—	—	40,250	—
Operating leases	53,184	7,535	6,391	5,442	5,111	4,655	24,050
Total	225,776	27,357	17,783	100,395	5,117	44,911	30,213

TRANSACTIONS WITH RELATED PARTIES

During 2010 the Company entered into the following transactions with related parties:

- Pursuant to a ten year real property lease ending in August, 2018, the Company made $0.4 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 share purchase 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

Convertible Debenture Issue

In January 2011 the Company issued $57.5 million of convertible unsecured subordinated debentures resulting in net proceeds of $54.6 million after commissions of $2.3 million and transaction costs of approximately $0.6 million (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*).

Exercise of Put Option

Also in January 2011 the non-controlling shareholder in the Company's Stuyver's business exercised their put option thereby requiring the Company to purchase such shareholder's 20% interest in Stuyver's Bakestudio (see *Liquidity and Capital Resources – Corporate Investments – Puttable Interest in Subsidiaries*).

Acquisition

In February 2011 the Company completed the acquisition of Canada Bread Company Limited's (Toronto Stock Exchange: CBY) pre-packaged sandwich operations and related direct-to-store delivery (DSD) networks for approximately $8.0 million (see *Liquidity and Capital Resources – Corporate Investments*).

New Artisan Bakery

Subsequent to the fourth quarter of 2010 the Company finalized certain agreements relating to the construction of a new artisan bakery to replace its existing facility in Burnaby, BC (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

FORWARD LOOKING STATEMENTS

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

Although management believes that the expectations reflected in such forward looking statements are reasonable and represent the Company's internal expectations and belief as of March 9, 2011, such statements involve unknown risks and uncertainties beyond the Company's control which may cause its actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements. Some of the factors that could cause actual results to differ materially from the Company's expectations are outlined below under *Risks and Uncertainties*.

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

- Current economic conditions in Canada will continue to show modest improvement in the near to medium future and, corresponding with such improvement, consumers will return to pre-2009 buying patterns in the convenience store, hotel and restaurant food channels;

- The average cost of the basket of commodities the Company purchases on a regular basis will continue to fluctuate in line with historic trends;
- The Company will be able to continue to access sufficient goods and services for its manufacturing and distribution operations;
- There will be no 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 accessing sufficient qualified staff;
- The Company will be able to continue to access reasonably priced debt and equity capital;
- The Company's average interest cost on floating rate debt will increase modestly in the near to medium future;
- Contractual counterparties will continue to fulfill their obligations to the Company; and
- There will be no material changes to the tax and other regulatory requirements governing the Company.

Unless otherwise indicated, the forward looking information in this document is made as of March 9, 2011 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 due to poor weather generally resulting in: (i) reduced consumer travel and a corresponding decrease in 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 often results in decreased consumer demand for 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, certain seafood products, poultry, flour, corrugated packing materials, dairy products and fuel, 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 raw materials 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 raw material 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 – Conversion*), 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 approximately $184.2 million in tax attributes, including scientific research and experimental development expenditures, non-capital loss-carryforwards and investment tax credits, associated with the Conversion. 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, which include Costco, Wal-Mart, Federated Coop, Sobey's, Loblaws, Safeway, and Overwaitea Food Group, account for approximately 20% 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 small group of distributors, who in turn sell the Company's products primarily to one customer (the Core Customer), that account for approximately 10% 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 an annual 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$45 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 annually approximately $12 million in product 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 not able 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 and Acquisition 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. 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, particularly if customer demands change in ways that the Company does not anticipate. Any inability to manage growth could result in delivery delays and cancellation of customer orders.

Acquisitions and business combinations involve inherent risks relating to such matters as assumption of transaction costs, risk of non-completion, undisclosed liabilities, integration and successful management of growth. While the Company conducts due diligence and takes steps to ensure successful integration, factors beyond the Company's control could influence the results of acquisitions. Furthermore, the process of integrating an acquired business into the Company's operations may result in operating difficulties and expenditures, 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 and result in unanticipated expenses, events or circumstances and possibly changes to operating results. In addition, the Company may be unable to identify and acquire appropriate businesses.

Any of the above factors could have a material adverse effect on the Company's results of operations and financial condition.

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 25% of the Company's non-management employees are represented by labour unions or employee associations. In addition, 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. Any labour disruption could result in a material adverse effect on the Company's results of operations and financial condition.

In addition, several of the Company's significant customers and suppliers employ workers who are represented by labour unions which, from time to time, may engage in labour disruptions. Any such labour disruptions could have a material adverse effect on the Company's results of operations and financial condition.

Furthermore, the continued efficient operation and growth of the Company's business is dependent on hiring and retaining sufficient skilled and unskilled production and distribution labour, which if the Company is unable to do 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, 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.

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

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

Convertible unsecured 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. The allocation of the purchase price associated with the acquisition of a business requires a significant amount of judgement in terms of identifying and determining: (i) the fair market values of the intangible and 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)

In February 2008 the Canadian Accounting Standards Board confirmed that IFRS will replace Canada's current GAAP for publicly accountable profit-oriented enterprises. The Company's transition date, which is the date on which the Company begins capturing the information necessary for reporting its consolidated financial statements in accordance with IFRS, is December 27, 2009. The Company will begin reporting its interim and annual consolidated financial statements, along with the prior year's comparatives, in accordance with IFRS starting in fiscal 2011. Accordingly, for the first quarter of 2011, the Company will prepare unaudited interim consolidated financial statements in accordance with IFRS, which will include comparative information for 2010 and an unaudited opening consolidated balance sheet as at December 27, 2009.

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

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

Quantification of the IFRS differences identified by management has been undertaken as well as a drafting of the pro-forma financial statement formats and notes thereto that will be required under IFRS. Work completed so far indicates that adjustments will likely occur in the areas outlined below, however, since all potential changes to IFRS effective before December 31, 2011 are not yet known, this list should be considered as preliminary.

First Time Adoption of IFRS (IFRS 1)

IFRS 1 provides a framework to first time adoption of IFRS and details how entities should apply IFRS retrospectively. In addition IFRS 1 lists a number of optional exemptions from the historical application of IFRS as well as mandatory exemptions for historical application of certain requirements. The Company has elected to apply the following optional exemptions:

- To not restate past business combinations;
- To reset its foreign currency translation account to nil;
- To recognize all unamortized actuarial gains and losses relating to defined benefit plans in retained earnings;
- To apply IFRS 2 only to grants made after November 7, 2002 and not vested by the transition date; and
- To use historic fair value under Canadian GAAP as the deemed cost on transition for certain items including property, plant and equipment.

Further optional exemptions provided under IFRS 1 do not appear to be applicable to the Company at this time.

Share Based Payments (IFRS 2)

The Company's Restricted Share Plan (RSP) and Employee Benefit Plan (EBP) fall within the scope of IFRS 2. The Company currently recognizes the expense associated with the RSP using the intrinsic value method and the expense associated with the EBP using the straight line method over the vesting period of the particular grant. Under IFRS 2 the Company will be required to recognize the expense associated with the RSP using the fair value method and expense associated with the EBP using the graded attribution method.

Business Combinations (IFRS 3)

The Company has elected to apply an IFRS 1 exemption that allows it to not restate business combinations that occurred prior to the date of adoption of IFRS. Correspondingly, the Company does not anticipate IFRS 3 to have an impact on its transition to IFRS.

Following transition, the Company will be required to apply IFRS 3 to any business combination that occurs subsequent to the

transition or, on a retroactive basis, during the comparative period. A number of differences exist between IFRS 3 and Canadian GAAP and any future business combination may be affected by these differences. Such differences include the expensing of acquisition related costs under IFRS, the option to measure any non-controlling interest at fair value, treating changes in shareholdings that do not change control as equity transactions and recording contingent consideration at fair value with changes in its value being recognized in the income statement rather than as an adjustment to goodwill.

At this stage, the Company has determined that the acquisition-related transaction costs incurred during the 2010 fiscal year will be expensed in the consolidated statement of operations, and there will be a corresponding decrease in the balance of goodwill on the consolidated balance sheet for the year ended December 25, 2010. The Company cannot prospectively determine which of the other differences may be applicable or what their impact will be on its financial statements.

Income Taxes (IAS 12)

Under Canadian GAAP, at the time of the Conversion, the Company acquired various tax attributes and consequently recognized a future income tax asset of $52.1 million and a corresponding deferred credit of $43.3 million. Since the Conversion, the Company has amortized this deferred credit in proportion to the utilization of the corresponding tax attributes.

Under IAS 12, the recognition of the future income tax asset would have been recognized as a gain in the Company's consolidated financial statements during the 2009 fiscal year, and no deferred credit would have been recognized. As IFRS 1 does not provide an exemption for income taxes, the result is that the deferred credit would be derecognized with a corresponding increase to the opening retained earnings on the Company's opening consolidated IFRS balance sheet.

Employee Benefits (IAS 19)

Under Canadian GAAP past service costs associated with defined benefit plans are generally amortized on a straight line basis over the expected average remaining service period of active employees in the plan. Canadian GAAP also allows actuarial gains and losses to be amortized over the life of the plan in accordance with the corridor method.

IAS 19 requires past service costs associated with defined benefit plans to be expensed on an accelerated basis with vested past service costs to be expensed immediately and unvested past service costs to be expensed on a straight line basis until the benefits become vested. In addition, IAS 19 allows for actuarial gains and losses to be recognized immediately within equity rather than the income statement.

The Company anticipates that it will apply the immediate recognition of actuarial gains and losses approach allowed under IAS 19.

Impairment of Assets (IAS 36)

Under Canadian GAAP impairment testing involves two steps, the first of which compares the asset carrying values with undiscounted future cash flows to determine whether an impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying values are written down to fair value.

IAS 36, uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may result in more frequent write-downs where carrying values of assets were previously accepted under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. IAS 36 also allows, if warranted, for the carrying value of assets that have previously been written down to be increased up to a maximum of their originally recorded value.

The Company has analyzed its operations and determined the cash generating units to be used for the purpose of impairment testing. In addition, it has developed the models that will be used for impairment testing as required at the date of transition to IFRS.

Other Considerations

In general terms, the disclosure requirements of IFRS are more extensive and detailed than those under Canadian GAAP. As a result, the Company anticipates additional disclosure requirements under IFRS as compared to what has been required under Canadian GAAP.

The disclosure requirements under IFRS include the use of additional, separate balance sheet line items which are not required under Canadian GAAP. The Company has determined that IFRS may require additional balance sheet items, but that these requirements will require certain balance sheet reclassifications which will not have an impact on overall assets, liabilities and equity.

The Company has an executive bonus incentive plan that is largely based on growth in its free cash flow. Base thresholds used in this plan, which are determined on an annual basis, will be amended for the year commencing 2011 when the full impact of IFRS is known.

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

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 25, 2010, the Company had outstanding foreign currency contracts for the purchase of US$13.8 million at a blended rate of CA$1.0152. Based on these outstanding contracts, a change of $0.01 in the value of the Canadian dollar relative to the U.S. dollar would result in an unrealized gain (if the Canadian dollar weakens) or an unrealized loss (if the Canadian dollar strengthens) of approximately $0.1 million in the Company's consolidated statement of operations.

As at December 25, 2010, the Company also had outstanding foreign currency contracts for the purchase of US$2.5 million in January 2011.

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.

As at December 25, 2010 the Company did not have in place any interest rate swap contracts.

OTHER

Outstanding Shares

The shares outstanding in the Company as of March 9, 2011 were 18,259,269.

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

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

In assessing the design of the Company's DCP and ICFR as at December 25, 2010, the Company has excluded the controls, policies and procedures of Maximum Seafood, an acquisition that it completed on June 30, 2010, (see *Liquidity and Capital Resources – Corporate Investments*). Maximum Seafood accounted for approximately $15.2 million of the Company's consolidated sales for the fourth quarter of 2010 and approximately $7.9 million, $0.8 million, $3.8 million and nil of its current assets, non-current assets, current liabilities and non-current liabilities, respectively, in its December 25, 2010 consolidated balance sheet. Documentation and assessment of Maximum Seafood's impact on the overall design of the Company's DCP and ICFR has been initiated and is expected to be completed in 2011.

Additionally, the Company has excluded the controls, policies and procedures of SK Food Group, an acquisition that it completed on October 18, 2010, and accounted for approximately $17.5 million of the Company's consolidated sales for the fourth quarter of 2010 and approximately $16.0 million, $19.5 million, $7.8 million and $0.4 million of its current assets, non-current assets, current liabilities and non-current liabilities, respectively, in its December 25, 2010 consolidated balance sheet. Documentation and assessment of SK Food Group's impact on the overall design of the Company's DCP and ICFR is expected to commence and be completed in 2011.

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

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

Responsibilities of Management and Board of Directors

Management is responsible for the reliability and timeliness of content disclosed in this management's discussion & analysis (MD&A), which is current as of March 9, 2011. 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 9, 2011, 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.

INDEPENDENT AUDITORS' REPORT

March 10, 2011

To the Shareholders of Premium Brands Holdings Corporation

We have audited the accompanying consolidated financial statements of Premium Brands Holdings Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 25, 2010 and December 26, 2009 and the consolidated statements of operations, cash flows, deficit, accumulated other comprehensive loss, and comprehensive earnings for the 52 week periods ended December 25, 2010 and December 26, 2009, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Premium Brands Holdings Corporation and its subsidiaries as at December 25, 2010 and December 26, 2009 and its results of operations and cash flows for the 52 week periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, BC

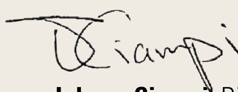
CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	December 25, 2010	December 26, 2009
ASSETS		
Current assets		
Cash and cash equivalents	**$ 868**	$ 469
Accounts receivable (note 21)	**52,807**	34,380
Current portion of other assets (note 7)	**194**	180
Inventories (note 3)	**57,366**	45,991
Prepaid expenses	**3,421**	2,116
Future income taxes (note 19)	**6,546**	4,926
	121,202	88,062
Capital assets (note 4)	**76,184**	66,029
Investment in significantly influenced company (note 5)	**414**	891
Future income taxes (note 19)	**36,240**	43,529
Intangible assets (note 6)	**53,986**	38,298
Goodwill	**142,109**	110,535
Other assets (note 7)	**3,023**	2,663
	433,158	350,007
LIABILITIES		
Current liabilities		
Cheques outstanding	**1,670**	2,470
Bank indebtedness (note 8)	**6,827**	2,411
Dividend payable (note 10)	**5,368**	5,180
Accounts payable and accrued liabilities	**53,912**	37,429
Puttable interest in subsidiaries (note 2)	**2,086**	1,992
Deferred credit (note 19)	**5,417**	4,068
Current portion of long-term debt (note 9)	**19,822**	8,212
	95,102	61,762
Puttable interest in subsidiaries (note 2)	**10,566**	2,001
Deferred revenue	**1,369**	—
Deferred credit (note 19)	**34,373**	37,087
Long-term debt (note 9)	**112,004**	74,705
Convertible unsecured subordinated debentures (note 11)	**37,306**	36,769
	290,720	212,324
Non-controlling interest	**1,269**	1,099
SHAREHOLDERS' EQUITY		
Accumulated earnings	**88,018**	71,768
Accumulated distributions and dividends declared (note 10)	**(108,758)**	(87,739)
Deficit	**(20,740)**	(15,971)
Share capital (note 12)	**165,365**	156,483
Equity component of convertible debentures (note 11)	**1,225**	1,225
Accumulated other comprehensive loss	**(4,681)**	(5,153)
	141,169	136,584
	$ 433,158	$ 350,007

Commitments and contingencies (note 16)

Subsequent events (note 25)

Approved by the Board of Directors



George Paleologou, Director

Johnny Ciampi, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Canadian dollars except per share amounts)	52 weeks ended December 25, 2010	52 weeks ended December 26, 2009
Revenue	**$ 535,243**	$ 462,764
Gross profit	**131,637**	121,611
Selling, general and administrative expenses	**89,628**	80,884
	42,009	40,727
Depreciation of capital assets	**8,210**	8,301
Interest and other financing costs	**9,994**	7,071
Amortization of intangible and other assets	**2,762**	2,558
Amortization of financing costs	**295**	244
Change in value of puttable interest in subsidiaries	**1,450**	200
Unrealized loss on foreign currency contracts (note 21)	**125**	818
Equity loss in significantly influenced company (note 5)	**477**	492
Conversion costs (note 2)	**—**	1,498
Operation shutdown costs (note 20)	**—**	840
Earnings before income taxes and non-controlling interest	**18,696**	18,705
Provision for (recovery of) income taxes (note 19)		
Current	**1,140**	11
Future	**1,076**	(147)
	2,216	(136)
Earnings before non-controlling interest	**16,480**	18,841
Non-controlling interest – net of income taxes	**230**	(16)
Earnings	**$ 16,250**	$ 18,857
Earnings per share		
Basic and diluted (note 15)	**$ 0.91**	$ 1.07

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	52 weeks ended December 25, 2010	52 weeks ended December 26, 2009
Cash flows from operating activities		
Earnings before non-controlling interest	**16,480**	18,841
Items not involving cash:		
Depreciation of capital assets	**8,210**	8,301
Amortization of intangible assets	**2,757**	2,509
Amortization of other assets	**5**	49
Amortization of financing costs	**295**	244
Change in value of puttable interest in subsidiaries	**1,450**	200
Gain on sale of assets	**(407)**	(15)
Accrued interest income	**(33)**	(57)
Unrealized loss on foreign currency contracts	**125**	818
Equity loss in significantly influenced company	**477**	492
Deferred revenue	**(299)**	—
Accretion on convertible debentures	**537**	71
Accretion on notes payable	**301**	—
Future income taxes	**1,076**	(147)
	30,974	31,306
Changes in non-cash working capital (note 24)	**2,837**	(4,672)
	33,811	26,634
Cash flows from financing activities		
Long-term debt – net	**28,022**	(23,370)
Bank indebtedness and cheques outstanding	**991**	(6,149)
Convertible debentures – net of issuance costs (note 11)	**—**	37,923
Financing costs	**(145)**	(410)
Share issuance costs (note 12)	**(26)**	(17)
Purchase of shares under normal course issuer bid (note 12)	**—**	(116)
Shares issued under dividend reinvestment plan – net of issuance costs (note 12)	**—**	378
Dividends paid to shareholders	**(20,831)**	(17,232)
	8,011	(8,993)
Cash flows from investing activities		
Collection of notes receivable	**17**	85
Net proceeds from sales of assets	**1,993**	217
Capital asset additions	**(5,107)**	(5,742)
Business acquisitions (note 14)	**(38,895)**	(1,681)
Conversion to corporation (note 2)	**—**	(8,850)
Repayment of share purchase loans	**84**	170
Investment in significantly influenced company	**—**	(1,383)
Promissory note from significantly influenced company (note 7)	**(100)**	(1,423)
Deferred revenue	**1,207**	—
Payments to shareholders of non-wholly owned subsidiaries	**(835)**	(335)
Other	**175**	18
	(41,461)	(18,924)
Increase (decrease) in cash and cash equivalents	**361**	(1,283)
Effects of exchange on cash and cash equivalents	**38**	73
Cash and cash equivalents – beginning of period	**469**	1,679
Cash and cash equivalents – end of period	**868**	469
Supplemental cash flow information (note 24)		

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT

(in thousands of Canadian dollars)	52 weeks ended December 25, 2010	52 weeks ended December 26, 2009
Deficit – beginning of period	**(15,971)**	(14,141)
Earnings for the period	**16,250**	18,857
	279	4,716
Dividends (note 10)	**(21,019)**	(20,687)
Deficit– end of period	**(20,740)**	(15,971)

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

(in thousands of Canadian dollars)	52 weeks ended December 25, 2010	52 weeks ended December 26, 2009
Accumulated other comprehensive loss – beginning of period	**(5,153)**	(4,419)
Other comprehensive income (loss)		
Unrealized gain on interest rate swap (note 21)	**1,091**	943
Unrealized foreign exchange translation loss on investment in self-sustaining foreign operations	**(619)**	(1,677)
Accumulated other comprehensive loss – end of period	**(4,681)**	(5,153)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(in thousands of Canadian dollars)	52 weeks ended December 25, 2010	52 weeks ended December 26, 2009
Earnings for the period	**16,250**	18,857
Other comprehensive income (loss)		
Unrealized gain on interest rate swap (note 21)	**1,091**	943
Unrealized foreign exchange translation loss on investment in self-sustaining foreign operations	**(619)**	(1,677)
Comprehensive earnings	**16,722**	18,123

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the 52 Weeks Ended December 25, 2010 and December 26, 2009

1. NATURE OF BUSINESS

Premium Brands Holdings Corporation (the Company) is incorporated under the Canada Business Corporations Act. Through its subsidiaries, the Company owns a broad range of leading specialty food manufacturing and differentiated food distribution businesses with operations in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Washington State and Nevada.

On July 22, 2009, Premium Brands Income Fund (the Fund) completed a transaction (the Conversion) by way of a plan of arrangement with Thallion Pharmaceuticals Inc. (Thallion) which resulted in the Fund converting from a publicly traded income trust to a publicly traded corporation and the unitholders of the Fund becoming shareholders of the Company. The Conversion did not result in any changes to the underlying business operations of the Fund.

Under the continuity of interests method of accounting, the transfer of the Fund's assets, liabilities and equity to the Company were recorded at their net book values as at July 22, 2009 (the Conversion Date). Accordingly, these consolidated financial statements for the period ended December 25, 2010 reflect Premium Brands as a corporation subsequent to the Conversion Date and as an income trust prior thereto. All references to "shares" refer collectively to the Company's common shares on and subsequent to the Conversion Date and to the Fund's units prior to the Conversion Date. Similarly, all references to "shareholders" refer collectively to holders of the Company's shares on and subsequent to the Conversion Date and to holders of the Fund's units prior to the Conversion Date. All references to "dividends" refer collectively to dividends declared by the Company on and subsequent to the Conversion Date and to distributions declared by the Fund prior to the Conversion Date.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and take into account the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries after elimination of intercompany transactions and balances.

The Company has a 60% interest in Hempler Foods Group LLC (Hempler's), an 80% interest in Stuyver's Operating Limited Partnership (Stuyver's), an 80% interest in Duso's Enterprises Ltd. (Duso's), a 76% interest in Medex Fish Importing & Exporting Co. Ltd. (Maximum), and a 60% interest in Hub City Fisheries Ltd. (Hub). The Company holds options to purchase the third party interests in Hempler's, Stuyver's, Duso's, Maximum and Hub (calls), and in all cases, the third party stakeholders hold options that entitle them to require the Company to purchase their interest (puts). The Hempler's and Stuyver's puts have vested and can be exercised at any time, while the Duso's, Maximum and Hub puts can be exercised at any time after April 2013, July 2013 and November 2013 respectively, with the purchase prices being based on a formula tied to the future EBITDA of the businesses. For accounting purposes, the Company has consolidated 100% of Hempler's, Stuyver's, Duso's, Maximum and Hub, and has recognized the estimated purchase price of the third party interests as a liability on the consolidated balance sheet using the effective interest rate method (puttable interest in subsidiaries). Accordingly, non-controlling interest has not been recognized in respect of these subsidiaries.

Changes in the value of the puts as a result of changes in the estimated future put exercise prices are recorded in earnings as determined.

Fiscal year

The fiscal year end of the Company is a 52-week or 53-week period ending the nearest Saturday on or before December 31. Fiscal years 2010 and 2009 were 52-week periods ended on December 25 and December 26, respectively.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

Inventories

Inventories of raw materials and finished goods are valued at the lower of cost and net realizable value. Cost includes raw materials, manufacturing labour and direct and indirect overhead.

Equipment inventories are carried at the lower of cost and net realizable value.

Capital assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line or declining balance basis over the period in use at the following annual rates, which are based on the expected useful life of the assets:

Buildings	2.5% to 5%
Machinery and equipment	10% to 20%
Automotive equipment	10% to 30%

For significant capital projects, the Company capitalizes interest as a component of the cost.

The Company reviews capital assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and/or eventual disposition. The impairment recognized is measured as the amount by which the carrying value of the asset exceeds its fair value.

Investment in significantly influenced company

Investment in significantly influenced company is accounted for by the equity method. Under this method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro-rata share of post-acquisition income or loss relating to the investee company.

Intangible assets

Intangible assets consist of acquired brand names, customer relationships, customer supply agreements and trade secrets.

Brand names have been determined to have an indefinite useful life and are not amortized but are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Under the requirements of the impairment test, the carrying value of the intangible asset is compared with its fair value and any excess is expensed.

Definite life intangible assets include customer relationships, customer supply agreements and trade secrets which are amortized on a straight-line basis over their estimated useful life as follows:

Customer relationships	15 to 20 years
Customer supply agreements	Term of agreement
Trade secrets	5 years

The Company reviews intangible assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying value of a customer relationship or trade secret exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized is measured as the amount by which the carrying value of the asset exceeds its fair value.

Goodwill

Goodwill represents the difference between the cost of an acquired business and the fair value of its underlying net identifiable assets at the time of acquisition. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying amount of the reporting unit's net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss.

Long-term debt

The Company's long-term debt is initially recognized at fair value, net of financing costs. Any difference between the proceeds, net of financing costs, and the redemption value is recognized in the consolidated statement of operations over the term of the debt using the effective interest rate method.

Convertible debentures

The Company accounts for convertible debentures by allocating the proceeds of the debentures, net of financing costs, between debt and equity based on estimated fair values of the debt and conversion option, as determined by the residual valuation of the equity component. Under this approach, the debt component is valued first and the difference between the proceeds of the debentures and the fair value of the debt component is assigned to the equity component. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component is equal to the face value of the then outstanding convertible debentures.

Revenue recognition

For products sold and delivered to customers by third party carriers, revenue is recognized at the time the goods leave the Company's possession, can be reasonably measured and collection is reasonably assured. For products sold through the Company's proprietary distribution networks, revenue is recognized when the product is delivered to the customer.

Revenue from foodservice equipment rentals is recognized on a straight-line basis over the term of the rental contract.

Revenue is reported net of rebates, allowances and returns.

Income taxes

The Company follows the asset and liability method of accounting for income taxes whereby future income tax assets and liabilities are recognized for differences between the bases of assets and liabilities used for financial statement and income tax purposes. Future income tax assets and liabilities are calculated using substantively enacted tax rates for the period in which the differences are expected to reverse. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Foreign currency translation

The Company's United States based operations are considered to be self-sustaining foreign operations and accordingly have been translated to Canadian dollars using the year end exchange rate for the consolidated balance sheet and the average exchange rate for the period for the consolidated statement of operations. Gains or losses resulting from translation adjustments are recorded in other comprehensive earnings (loss) until there is a realized reduction in the net investment in the foreign operation.

Foreign currency accounts of Canadian operations have been translated to Canadian dollars using the year end exchange rate for monetary assets and liabilities and the prevailing exchange rate at the time for income and expense transactions. Gains and losses resulting from this translation are included in the consolidated statement of operations.

Financial instruments

The Company recognizes a financial asset or financial liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and liabilities, with certain exceptions, are initially measured at fair value. After initial recognition, the measurement of each financial instrument will vary depending on its classification: financial assets and financial liabilities held for trading, available-for-sale financial assets, held-to-maturity investments, loans and receivables, or other financial liabilities.

Cash and cash equivalents and foreign currency contracts are classified as held for trading and are measured at fair value at each balance sheet date with changes reflected in the consolidated statement of operations.

Accounts receivable and notes and loans receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.

Cheques outstanding, bank indebtedness, dividends payable, accounts payable and accrued liabilities, long-term debt, convertible debentures and puttable interest in subsidiaries are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Interest rate swap agreements are designated as hedging instruments.

Hedging instruments

The Company uses interest rate swap agreements to manage risks associated with fluctuations in interest rates. All such instruments are used only for risk management purposes. These agreements are considered to be cash flow hedges; as a result, changes in the fair value, to the extent they are effective, are recorded in other comprehensive earnings (loss) and are only recognized in earnings when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in earnings immediately.

The Company uses foreign currency contracts to manage exchange risks associated with its U.S. dollar inventory purchases. All such contracts are used only for risk management purposes. The Company has not applied hedge accounting to its foreign currency contracts during 2010 and 2009, and accordingly, fluctuations in the fair value of these contracts are recognized in the consolidated statement of operations. The Company may choose to apply hedge accounting to its foreign currency contracts in the future.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to: the valuation of inventory, goodwill and long-lived assets; calculation of future income taxes, deferred credit and puttable interest in subsidiaries; the purchase price allocation of acquired businesses; allocation of the proceeds received from the issuance of convertible debentures between debt and equity; and the useful lives of assets used in the calculation of amortization and depreciation. Actual results could differ from these estimates.

Share based compensation plans

The Company has a restricted share plan, an employee benefit plan and an employee share ownership plan (note 13) which provide awards to eligible directors, executives, consultants and employees of the Company and its subsidiaries. The Company recognizes the compensation expense associated with these plans over the vesting period of the awards using the fair value method.

Employee future benefit plan

The Company has a defined benefit pension plan covering certain employees. Benefits under this plan are based on years of service and the employee's compensation level. The cost of the plan is funded on a current basis. The Company accrues its obligations under the defined benefit pension plan and the related costs, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected rate of return on plan assets, the fair value method is used. The excess of any net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the basic weighted average number of shares outstanding during the period is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. The dilutive effect of convertible debentures is determined using the if-converted method.

New accounting pronouncements

In 2008, the Canadian Accounting Standards Board confirmed that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) by 2011 to replace Canadian GAAP for fiscal periods beginning on or after January 1, 2011.

The Company has planned to adopt IFRS for the year ending December 31, 2011. Accordingly, the Company's consolidated financial statements for the fiscal year ending December 31, 2011 will be the first annual financial statements presented in accordance with IFRS. Furthermore, for the first quarter of 2011, the Company will prepare unaudited interim consolidated financial statements in accordance with IFRS, which will include comparative information for 2010 using IFRS, and an opening consolidated balance sheet as at December 27, 2009, which will effectively be the Company's date of transition to IFRS under the IFRS transition rules prescribed by the Canadian Accounting Standards Board.

Conversion to a corporation and income taxes

On July 22, 2009, the Fund, which until that date had been a publicly traded income fund, became a publicly traded corporation as a result of the Conversion (note 1). The Company calculated current and future income taxes for the 2009 fiscal year on the basis

of its conversion to a corporation as of the Conversion Date, whereas it had calculated current and future income taxes for the year ended December 31, 2008 as a publicly traded income fund.

The cost of the Conversion was approximately $10.4 million consisting of $8.9 million paid to Thallion and $1.5 million for transaction costs. All transaction costs were expensed in 2009.

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

	Current	Long-term	Total
Future income tax asset	$ 1,889	$ 50,295	$ 52,184
Deferred credit	(1,568)	(41,766)	(43,334)
			8,850

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

There is uncertainty about whether the tax authorities will accept the deduction of some or any of these 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 future income tax assets, net of the proportionate amount of the deferred credit, as a charge to income in the relevant period.

3. INVENTORIES

	December 25, 2010	**December 26, 2009**
Raw materials	**$ 9,515**	$ 4,357
Finished goods	**39,208**	34,801
Equipment for sale	**8,643**	6,833
	$ 57,366	$ 45,991

During 2010, $345.6 million (2009 – $286.7 million) of inventories were expensed as cost of goods sold.

4. CAPITAL ASSETS

		December 25, 2010	
	Cost	**Accumulated depreciation**	**Net**
Land	**$ 3,889**	**$ —**	**$ 3,889**
Buildings	**52,450**	**18,632**	**33,818**
Machinery and equipment	**102,519**	**64,968**	**37,551**
Automotive equipment	**2,568**	**1,642**	**926**
	$ 161,426	**$ 85,242**	**$ 76,184**

	December 26, 2009		
	Cost	Accumulated depreciation	Net
Land	$ 4,091	$ —	$ 4,091
Buildings	40,792	13,854	26,938
Machinery and equipment	87,985	53,962	34,023
Automotive equipment	2,205	1,228	977
	$ 135,073	$ 69,044	$ 66,029

Assets under capital lease with a net book value of $0.2 million (2009 - $0.1 million) are included within machinery and equipment.

5. INVESTMENT IN SIGNIFICANTLY INFLUENCED COMPANY

On February 20, 2009 the Company acquired an interest in S.J. Irvine Fine Foods Ltd. (Irvine) for $2.6 million consisting of $1.4 million for a 25% equity interest and $1.2 million for a promissory note. As part of the transaction the Company negotiated certain call options that enable it to increase its ownership in Irvine to 100% over time. As at December 25, 2010 the call options have a value of $nil (2009 - $nil). Irvine, which started operations in January 2008, manufactures processed meats for the foodservice and retail industries out of a 40,000 square foot facility located in Saskatoon, SK.

	December 25, 2010	December 26, 2009
25% equity interest	**$ 891**	$ 1,383
Equity loss	**(477)**	(492)
	$ 414	$ 891

6. INTANGIBLE ASSETS

	December 25, 2010		
	Cost	Accumulated amortization	Net
Brand names	**$ 16,711**	**$ —**	**$ 16,711**
Customer relationships	**42,357**	**5,603**	**36,754**
Trade secrets	**1,564**	**1,043**	**521**
	$ 60,632	**$ 6,646**	**$ 53,986**

	December 26, 2009		
	Cost	Accumulated amortization	Net
Brand names	$ 16,149	$ —	$ 16,149
Customer relationships	24,468	3,690	20,778
Customer supply agreement	4,687	4,150	537
Trade secrets	1,564	730	834
	$ 46,868	$ 8,570	$ 38,298

7. OTHER ASSETS

	December 25, 2010	December 26, 2009
Promissory notes from Irvine (note 5)	**$ 1,523**	$ 1,423
Employee share purchase loans	**863**	914
Miscellaneous notes receivable	**345**	53
	2,731	2,390
Less: current portion	**194**	180
	2,537	2,210
Pension benefit asset (note 17)	**318**	398
Other	**168**	55
	$ 3,023	$ 2,663

Notes receivable

The notes receivable bear interest at rates ranging from 0% to 9% (2009 – 0% to 8.5%).

Share purchase loans

As part of the Company's strategies to fully align the interests of management with those of the Company's shareholders, it has provided certain members of management with non-interest bearing loans (share purchase loans), the proceeds of which were used to purchase the Company's shares in the open market (the Purchased Shares) on behalf of the individuals. The share purchase loans bear no interest, have quarterly principal payments equal to 55% of the quarterly dividend received on the Purchased Shares, are collateralized by the Purchased Shares and a promissory note, and are due upon the termination of the individual's employment or if the individual sells the shares. The amount of share purchase loans issued in 2010 was $nil (2009 – $nil).

The payments expected to be received from the collection of notes receivable and employee share purchase loans are as follows:

	Notes receivable	Share purchase loans	Total
2011	$ 20	$ 174	$ 194
2012	77	148	225
2013	77	126	203
2014	77	107	184
2015 and thereafter	94	450	544
	345	1,005	1,350
Future interest using the effective interest rate method	—	(142)	(142)
	$ 345	$ 863	$ 1,208

Promissory notes from Irvine

The promissory notes bear interest at 5% to 10%, mature in February 2012 and are secured on the personal property of Irvine.

8. BANK INDEBTEDNESS

Bank indebtedness consists of borrowings on bank lines of credit. The Company has bank lines of credit totalling $32.0 million (2009 – $32.0 million); these lines of credit are due on October 8, 2013, bear interest at prime plus 0.5% to prime plus 1.5% (2009 – prime plus 1.0% to prime plus 2.0%), depending on the Company's debt to cash flow ratio, and are secured by an assignment of inventories, accounts receivable, insurance policies and a general lien on all other assets of the Company.

Interest on bank indebtedness in 2010 was $0.6 million (2009 – $0.7 million).

9. LONG-TERM DEBT

	December 25, 2010	December 26, 2009
Facility B – revolving term facility maturing in October 2013 with quarterly principal payments of $2.0 million. The loan bears interest at prime plus 0.5% to prime plus 1.5% or at the banker's acceptance rate plus 2.0% to 3.0% based on the Company's ratio of debt to cash flow calculated quarterly.	**$ 40,320**	$ 12,000
Facility C – non-revolving term loan maturing in October 2013 with no quarterly principal payments until the Company's Facility B is repaid at which time it will have quarterly principal payments of $2.0 million. The loan bears interest at prime plus 0.5% to prime plus 1.5% or at the banker's acceptance rate plus 2.0% to 3.0% based on the Company's ratio of debt to cash flow calculated quarterly.	**64,000**	64,000
US$6.1 million secured Industrial Development Revenue Bond (IRB) with no principal payments until maturity in July 2036. The bond bears interest at the weekly variable rate for such bonds, which averaged 0.4507% (2009 – 0.7752%) for the year, plus 1.0% to 2.0% based on the Company's ratio of debt to cash flow calculated quarterly.	**6,163**	6,424
Unsecured notes payable bearing interest at a rate of 0% to 6.5% and due in 2011 to 2013	**21,615**	930
Other, including capital leases	**244**	229
	132,342	83,583
Financing costs	**(516)**	(666)
Current portion	**(19,822)**	(8,212)
	$ 112,004	$ 74,705

The Company's term loans and IRB are collateralized by an assignment of inventories, accounts receivable and insurance policies, fixed charges on capital assets, and a general lien on all other assets of the Company. In addition, they contain financial covenants that require the maintenance of certain ratios regarding working capital, fixed charge coverage and debt to cash flow. At December 25, 2010, the Company was in compliance with all such covenants.

During 2010, the Company incurred interest expense of $5.9 million (2009 – $5.2 million) on its long-term debt. The Company's blended average effective cost of borrowing for 2010 was 5.5% (2010 – 5.4%) after taking into account the impact of its interest rate swap contract (note 21).

Scheduled principal repayments on long-term debt are as follows:

2011	$	19,822
2012		11,392
2013		94,953
2014		6
2015 and thereafter		6,169
Total	$	132,342

10. DIVIDENDS

During the 52 weeks ended December 25, 2010, the Company declared dividends to shareholders totalling $21.0 million or $1.176 per share. The aggregate amounts and record dates of these dividends are as follows:

Record date		Amount		Per share
March 31, 2010	**$**	**5,204**	**$**	**0.294**
June 30, 2010		**5,224**		**0.294**
September 30, 2010		**5,223**		**0.294**
December 31, 2010		**5,368**		**0.294**
		21,019	**$**	**1.176**
Accumulated dividends declared – beginning of year		**87,739**		
Accumulated dividends declared – end of year	**$**	**108,758**		

In December 2010, the Company declared a dividend of $5.4 million to shareholders of record on December 31, 2010, which was paid subsequent to the year end and is reported as a current liability at December 25, 2010.

11. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

During 2009 the Company issued $40.3 million of convertible unsecured subordinated debentures at a price of $1,000 per debenture. The debentures bear interest at an annual rate of 7% payable semi-annually in arrears on June 30 and December 31 in each year and have a maturity date of December 31, 2014.

The debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion rate of approximately 68.966 shares per debenture, which is equal to a conversion price of $14.50 per share. On or after December 31, 2012 and prior to December 31, 2013, the Company will have the right to redeem all or a portion of the debentures at a price equal to their principal amount plus accrued and unpaid interest, provided that the market price of the Company's common shares on the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after December 31, 2013, the Company will have the right to redeem all or a portion of the debentures at a price equal to their principal amount plus accrued and unpaid interest.

The debentures trade on the Toronto Stock Exchange under the symbol PBH.DB. The closing price on December 23, 2010 (the last trading day of fiscal 2010) was $106.30 for a total fair value of $42.8 million.

The Company allocated the proceeds of the debentures between debt and equity based on estimated fair values of the debt and conversion option, as determined by the residual valuation of the equity component. Under this approach, the debt component was valued first and the difference between the proceeds of the debentures and the fair value of the debt component was assigned to

the conversion option (equity component). The present value of the debt component was calculated using a discount rate of 9.2%, which was the estimated market interest rate for similar debentures having no conversion rights.

The allocation of the proceeds was as follows:

	Liability component	Equity component
Allocation of the proceeds of the debentures	$ 38,950	$ 1,300
Transaction costs relating to the debentures	(2,252)	(75)
Balance – opening	36,698	1,225
Accretion of the liability component	71	—
Balance – December 26, 2009	36,769	1,225
Accretion of the liability component	537	—
Balance – December 25, 2010	$ 37,306	$ 1,225

Subsequent to the year ended December 25, 2010, the Company issued an additional $57.5 million of convertible unsecured debentures (note 25).

12. SHARE CAPITAL

The following is a summary of changes in shareholders' capital from December 31, 2008 to December 25, 2010:

	Common shares '000	Amounts	Fund units '000	Amounts	Exchangeable LP units '000	Amounts
Balance — December 31, 2008	—	$ —	16,996	$ 150,928	600	$ 5,310
Purchase of Fund units under normal course issuer bid	—	—	(16)	(116)	—	—
Exchange of Fund units into common shares	16,980	150,812	(16,980)	(150,812)	—	—
Exchange of Exchangeable LP units into common shares	600	5,310	—	—	(600)	(5,310)
Common shares issued under dividend reinvestment plan	37	378	—	—	—	—
Share issuance costs	—	(17)	—	—	—	—
Balance – December 26, 2009	17,617	156,483	—	—	—	—
Common shares issued	641	8,908	—	—	—	—
Share issuance costs	—	(26)	—	—	—	—
Balance – December 25, 2010	18,258	$ 165,365	—	$ —	—	$ —

During 2010, the Company issued 14,618, 69,252, 64,907, and 491,898 shares in conjunction with the acquisitions of South Seas Meats, Duso's, Maximum, and SK, respectively (note 14) at an average price of $13.90 per share for gross proceeds of $8.9 million and incurred issuance costs of $26,000.

Issuer bid

The Company had in place a normal course issuer bid which expired in November 2010 that allowed it to repurchase and cancel its publicly traded common shares. In 2010, no shares (2009 – 15,600) were repurchased under the normal course issuer bid.

Dividend reinvestment plan

During 2009 the Company put into place a dividend reinvestment plan (DRIP) that provides shareholders with the option to re-invest all or a portion of the dividends received by them in shares of the Company. In 2009, 37,266 shares were issued under the DRIP.

On December 16, 2009 the Company suspended indefinitely its DRIP.

Common shares

The Company is authorized to issue an unlimited number of common shares. The holders of common shares are entitled to: dividends, in proportion to the number of shares held by them, if, as and when declared by the Company's Board of Directors; one vote per share at meetings of the holders of common shares of the Company; and upon liquidation, dissolution or winding-up of the Company, to participate in the distribution of the remaining property and assets of the company.

13. SHARE BASED COMPENSATION

Restricted Share Plan

In 2007, the Company adopted an employee tracking shares plan (the restricted share plan). Under the terms of this plan, tracking shares may be granted to directors, executives and consultants (the Participants) of the Company in lieu of cash consideration. Each tracking share awarded is equivalent to a publicly traded common share (Share) of the Company at the time of the grant, mirrors the value of a Share over time, including the issuance of additional tracking shares in lieu of dividends paid on a Share, and is redeemable by the Participant for cash based on the market price of the Shares after a three year vesting period. Vesting can be accelerated at the discretion of the Company's directors or on the occurrence of certain events such as a change of control. Participants continuing to be employed by the Company after redeeming tracking shares are required to invest a portion, as determined by the Company's Board of Directors, but not more than 40% of the proceeds received upon redemption in Shares, which will be held in trust by the Company.

The Company recognizes compensation expense for granted tracking shares over the associated three year vesting period based on the redemption value of the tracking shares at the end of each reporting period.

In 2010, nil (2009 – nil) tracking shares were issued, and for 2010, the Company recorded compensation expense relating to the Restricted Share Plan of $0.4 million (2009 – $0.5 million).

Employee Benefit Plan

In 2006 the Company established an Employee Benefit Plan (EBP) in which officers and key employees of the Company, or a subsidiary of the Company, are eligible to participate.

Pursuant to the EBP, the Company, at the discretion of its Board of Directors, sets aside a pool of funds annually based upon a variety of considerations including growth in the Company's free cash flow per share. The Company then purchases common shares in the market with this pool of funds which are, in turn, allocated to the participants. The Company holds such common shares until ownership vests to each participant.

The common shares vest as follows: (a) one third (1/3) on the grant date; (b) one third (1/3) on the first anniversary of the grant date; and (c) one third (1/3) on the second anniversary of the grant date. Vesting can be accelerated at the discretion of the Company's Board of Directors or on the occurrence of certain events such as a change of control. Vested EBP common shares are held by

the Company until the end of the third calendar year following the date of grant unless an earlier distribution is requested by a participant.

The Company recognizes compensation expense for contributions to the EBP over the vesting period. For 2010 the Company recorded compensation expense of $1.4 million (2009 – $1.2 million) relating to the EBP.

Employee Share Ownership Plan

In 2008, the Company adopted an Employee Share Ownership Plan (ESOP) whereby employees may subscribe, through payroll withholdings, to purchase up to $1,500 per year of the Company's shares at a discounted price of 85% of their market price. All shares purchased under the ESOP are purchased on the open market.

For 2010, the Company recorded compensation expense of $0.1 million (2009 - $0.1 million) in respect of its employer's contribution to the ESOP.

14. ACQUISITIONS

2010 acquisitions

On January 18, 2010, the Company completed the acquisition of 100% of the shares of South Seas Meats Ltd. (South Seas) for approximately $2.2 million. In addition, the Company incurred transaction costs of approximately $0.1 million. The purchase price consisted of $1.5 million in cash, a non-interest bearing promissory note for $0.4 million due three years after closing, the issuance of 14,618 of the Company's common shares from treasury valued at $0.2 million, and the assumption of $0.1 million in capital leases. South Seas is a distributor of specialty meats, including a wide range of Halal and other ethnic foods, to restaurants, hotels and specialty butcher shops in the Greater Vancouver area.

On March 29, 2010, the Company completed the acquisition of 80% of the shares of Duso's Enterprises Ltd. (Duso's) for approximately $5.6 million plus $0.3 million for excess working capital and project capital expenditures made just prior to closing of the transaction. In addition, the Company incurred transaction costs of approximately $0.1 million. The purchase price consisted of $4.3 million in cash, the issuance of 69,252 common shares from treasury valued at $1.0 million and a $0.6 million promissory note bearing interest at 4% and due three years after closing. Duso's is a specialty manufacturer of branded and private label fresh pastas and sauces which it sells to a variety of retailers across western Canada.

On June 30, 2010, the Company completed the acquisition of 76% of the shares of Medex Fish Importing & Exporting Co. Ltd. (Maximum) for approximately $16.7 million plus $0.1 million for excess net working capital. In addition, the Company incurred transaction costs of approximately $0.3 million. The purchase price consisted of $12.5 million in cash, the issuance of 64,907 common shares from treasury valued at $0.8 million and $3.5 million in promissory notes due one to three years after closing. Maximum is a supplier of a variety of fresh and live seafood products to the Toronto, Ottawa and Montreal retail and foodservice markets.

On October 18, 2010, the Company completed the acquisition of 100% of the shares of SK Food Group Inc. (SK) for approximately US$42.5 million less a US$0.3 million working capital adjustment. In addition, the Company incurred transaction costs of approximately $0.5 million. The purchase price consisted of: (i) US$18.1 million in cash; (ii) the issuance of 491,898 common shares from treasury valued at US$6.8 million; and (iii) US$17.3 million in vendor take-back notes, US$6.5 million of which is due on March 31, 2011 with the balance payable over the next three years in equal annual instalments. All of the vendor take-back notes are contingent upon SK achieving certain sales and profitability targets. SK is a manufacturer of artisan breakfast sandwiches and wraps.

On November 18, 2010, the Company completed the acquisition of 60% of the shares of Hub City Fisheries (Hub) for $1.1 million plus $0.7 million for excess working capital and project capital expenditures made prior to closing of the transaction. In addition, the Company incurred transaction costs of approximately $0.1 million. The purchase price consisted of $1.4 million in cash and a $0.4 million vendor take-back note. Hub is a value-added seafood processor located in Nanaimo, BC.

The Company has accounted for these acquisitions using the purchase method and the results of acquisitions have been included in the Company's consolidated financial statements from the date of the acquisition.

The following table summarizes the preliminary estimates of the fair values of the assets acquired and obligations assumed for these acquisitions:

Net working capital	$	14,387
Capital assets		15,144
Goodwill		31,695
Intangible assets – customer relationship		17,932
Intangible assets – brand name		596
Long-term debt		(139)
Puttable interest in subsidiary		(8,023)
Future income taxes		(3,231)
Total assets acquired and obligations assumed		68,361
Purchase consideration – cash		37,877
Transaction costs		1,018
Total cash consideration		38,895
Purchase cost – notes payable (face value – $22.4 million)		20,558
Purchase cost – common shares		8,908
Total purchase cost	$	68,361

2009 acquisitions

On March 6, 2009 the Company acquired the business and working capital of Multi-National Foods (MNF) for approximately $1.7 million in cash consideration. MNF is a food brokerage business based in Calgary, AB.

The following table summarizes the estimates of the fair values of the assets acquired and obligations assumed for this acquisition:

Net working capital	$	1,641
Goodwill		40
Total assets acquired		1,681
Purchase consideration – cash		1,641
Transaction costs		40
Total purchase cost	$	1,681

15. EARNINGS PER SHARE

Earnings per share is calculated using the weighted average number of shares outstanding for the year, which was 17,807,282 for 2010 (2009 – 17,588,873). The dilutive effect of convertible debentures was nil.

16. COMMITMENTS AND CONTINGENCIES

a) The Company leases land, warehouses, offices and equipment under operating leases that expire from 2011 to 2028. The aggregate future minimum annual rental payments under these leases are as follows:

2011	$	7,535
2012		6,391
2013		5,442
2014		5,111
2015 and thereafter	$	28,705

b) As part of the sale of a discontinued operation in 2004, the Company assigned its interest in a plant operating lease (the Lease) to the purchaser of the discontinued operation. The Company has been fully indemnified by the purchaser for any future liabilities under the Lease; however, it continues to be obligated for any future defaults under the Lease. The Lease expires on March 31, 2014 and the annual rent payments due under the lease are $0.8 million.

c) In September 2008, one of the Company's plants issued a recall for pre-packaged sandwiches that had potentially been contaminated with Listeria monocytogenes. The recall was completed in an orderly manner with minimal customer complaints and no known instances of consumer illness associated with the consumption of these products.

As a result of the recall, the Company destroyed approximately $0.4 million in products, incurred $0.4 million in disposal costs and lost approximately $0.3 million in product contribution margin due to lost sales. The Company believes it should recover these costs, less $0.1 million for its deductible, under its product recall insurance policy. It has, however, expensed its insurance claim receivable due to its insurance provider attempting to deny coverage on the basis that none of the recalled products tested positive for Listeria monocytogenes.

The Company has been advised by legal counsel that its insurance provider's position is most likely not defensible in court and correspondingly, it is pursuing legal action against them. The amount of any insurance recovery will be recognized when determinable.

d) The Company has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

17. EMPLOYEE FUTURE BENEFITS

The Company maintains a defined benefit pension plan that covers certain salaried staff (the Pension Plan). Benefits under the Pension Plan are based on years of credited service and average compensation. The measurement date used to measure the plan assets and accrued benefit obligation is December 31 of each year. The most recent actuarial valuation of the Pension Plan for funding purposes was as of December 31, 2009 and was completed during 2010.

Additional information on the Pension Plan is as follows:	December 25, 2010	December 26, 2009
Accrued benefit obligation		
Balance – beginning of year	**$ 5,179**	$ 3,942
Current service costs – net of employee contributions	**286**	186
Employee contributions	**68**	69
Interest cost	**298**	297
Benefits paid	**(334)**	(214)
Actuarial (gains) losses	**(363)**	899
Balance – end of year	**5,134**	5,179
Fair value of plan assets		
Fair value – beginning of year	**4,327**	4,112
Actual return on plan assets	**(28)**	93
Employer contributions	**274**	267
Employee contributions	**68**	69
Benefits paid	**(334)**	(214)
Fair value – end of year	**4,307**	4,327
Fund status – (deficit) surplus	**(827)**	(852)
Unamortized net actuarial loss	**1,100**	1,193
Unamortized transitional obligation	**45**	57
Pension benefit asset	**$ 318**	$ 398

The plan assets for the Pension Plan consist of the following:	December 25, 2010 %	December 26, 2009 %
Asset category		
Equity securities	**79**	69
Cash and debt securities	**21**	31
Total	**100**	100

The elements of the defined benefit costs recognized for the 52 weeks ended December 25, 2010 and December 26, 2009 are as follows:

	December 25, 2010	December 26, 2009
Current service costs – net of employee contributions	**$ 286**	$ 186
Interest cost	**298**	297
Actual return on plan assets	**28**	(93)
Differences between expected and actual return on plan assets for year	**(310)**	(178)
Actuarial losses (gains)	**363**	(899)
Differences between actuarial loss (gain) recognized for year and actual actuarial loss (gain) on accrued benefit obligation for year	**(323)**	899
Amortization of transition obligation	**12**	12
Defined benefit costs recognized	**$ 354**	$ 224

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations and in determining net cost were as follows:

	December 25, 2010 %	December 26, 2009 %
Discount rate	**5.50**	5.75
Expected long-term rate of return on plan assets	**6.50**	6.50
Rate of compensation increase	**2.50**	2.50

18. SEGMENTED INFORMATION

The Company has two reportable segments, Retail and Foodservice. The Retail segment includes three operating segments consisting of its specialty food manufacturing and retail distribution businesses. The Foodservice` segment includes three operating segments consisting of its three foodservice related businesses. The operating segments within each reportable segment have been aggregated as they have similar economic characteristics.

	Retail	Foodservice	Corporate	52 weeks ended December 25, 2010 Total
Revenue	$ 253,741	$ 291,463	$ —	$ 545,204
Elimination of inter-segment sales	(5,680)	(4,281)	—	(9,961)
Revenue from external parties	248,061	287,182	—	535,243
Earnings (loss) before the following	30,194	17,595	(5,780)	42,009
Depreciation of capital assets	5,685	1,922	603	8,210
Amortization of intangible and other assets	1,023	1,739	—	2,762
Segment earnings (loss)	23,486	13,934	(6,383)	31,037
Interest and other financing costs	—	—	9,994	9,994
Amortization of financing costs	—	—	295	295
Change in value of puttable interest in subsidiaries	—	—	1,450	1,450
Unrealized gain on foreign currency contracts	—	—	125	125
Equity loss in significantly influenced company	—	—	477	477
Provision for income taxes	—	—	2,216	2,216
Earnings (loss) before non controlling interest	23,486	13,934	(20,940)	16,480
Segment assets				
Capital asset additions	3,456	1,614	37	5,107
Goodwill additions	17,965	13,730	—	31,695
Total assets	$ 201,058	$ 172,137	$ 59,963	$ 433,158

	Retail	Foodservice	Corporate	52 weeks ended December 26, 2009 Total
Revenue	$ 222,842	$ 247,275	$ —	$ 470,117
Elimination of inter-segment sales	(5,236)	(2,117)	—	(7,353)
Revenue from external parties	217,606	245,158	—	462,764
Earnings (loss) before the following	30,503	15,116	(4,892)	40,727
Depreciation of capital assets	5,592	2,013	696	8,301
Amortization of intangible and other assets	1,013	1,545	—	2,558
Segment earnings (loss)	23,898	11,558	(5,588)	29,868
Interest and other financing costs	—	—	7,071	7,071
Amortization of financing costs	—	—	244	244
Change in value of puttable interest in subsidiaries	—	—	200	200
Unrealized loss on foreign currency contracts	—	—	818	818
Equity loss in significantly influenced company	—	—	492	492
Conversion costs	—	—	1,498	1,498
Operation shutdown costs	840	—	—	840
Provision for income taxes	—	—	(136)	(136)
Earnings (loss) before non controlling interest	23,058	11,558	(15,775)	18,841
Segment assets				
Capital asset additions	4,317	1,377	48	5,742
Goodwill additions	—	40	—	40
Total assets	$ 147,558	$ 139,377	$ 63,072	$ 350,007

Revenue, segment earnings (loss) and capital assets and goodwill for the years presented are geographically segmented as follows:

	Revenue	Segment earnings	Capital assets and goodwill
52 weeks ended December 25, 2010			
Canada	$ 498,539	$ 28,453	$ 184,102
United States	36,704	2,584	34,191
	535,243	31,037	218,293
52 weeks ended December 26, 2009			
Canada	445,121	28,960	166,846
United States	17,643	908	9,718
	$ 462,764	$ 29,868	$ 176,564

19. INCOME TAXES

The provision for (recovery of) income taxes varies from the basic combined federal, provincial, and state income taxes as a result of differing treatment of deductibility of certain amounts for accounting and taxation purposes. The variations for the fiscal years are explained as follows:

	52 weeks ended December 25, 2010	52 weeks ended December 26, 2009
Weighted average basic federal, provincial and state statutory income tax rate	**28.5%**	30.0%
Earnings before income taxes and non-controlling interest	**$ 18,696**	$ 18,705
Income tax based on statutory rate	**5,328**	5,612
Amortization of deferred credit	**(3,544)**	(2,179)
Increase (decrease) in valuation allowance	**47**	(71)
Deductible Fund distributions	**—**	(2,546)
Partnership income allocated to partners	**—**	(106)
Adjustments for changes in enacted tax laws and rates	**(444)**	(337)
Other	**829**	(509)
Provision for (recovery of) income taxes	**$ 2,216**	$ (136)

The future income tax assets and liabilities as at December 25, 2010 and December 26, 2009 comprise the following temporary differences:

	December 25, 2010	December 26, 2009
Current assets		
Non-capital loss carry-forwards	**$ 6,546**	$ 4,926
Long-term assets		
Non-capital loss carry-forwards	**43,050**	46,493
Capital assets	**(2,664)**	(1,089)
Employee share purchase loans	**28**	45
Goodwill and intangible assets	**(3,421)**	(1,441)
Reserves, provisions and other	**639**	866
	37,632	44,874
Valuation allowance	**(1,392)**	(1,345)
	$ 36,240	$ 43,529

At December 25, 2010, the Company has $64.0 million (2009 - $56.5 million) of non-capital losses that may be available for deduction against taxable income in future years. These losses expire between 2011 and 2029 as follows:

2011	$ 44
2012	965
2013	—
2014	5
2015 and thereafter	62,986

The deferred credit established following the conversion of the Fund into a Company, as presented in note 2, varied as follows:

	52 weeks ended December 25, 2010	52 weeks ended December 26, 2009
Balance, beginning of period	**$ 41,155**	$ —
Balance established during conversion	**—**	43,334
Prior year adjustment	**2,179**	—
Amortization of deferred credit	**(3,544)**	(2,179)
Balance, end of period	**39,790**	41,155
Less: current portion	**5,417**	4,068
Long-term portion	**$ 34,373**	$ 37,087

20. OPERATION SHUTDOWN COSTS

On October 26, 2009 the Company permanently shut down its 25,000 square foot deli meats processing facility located in Edmonton, Alberta (the Edmonton plant). A portion of the Edmonton plant's production was transferred to the Company's Richmond, BC deli plant and the balance to the Saskatoon, SK plant operated by Irvine (note 5). $0.7 million of costs associated with the shutdown of the Edmonton plant were expensed in 2009.

On November 30, 2009 the Company resolved the last remaining dispute relating to its shutdown of a retail franchise business in 2006. $0.1 million of costs associated with the settlement of this dispute were expensed in 2009.

21. FINANCIAL INSTRUMENTS

Fair value

The carrying values of cash and cash equivalents, accounts receivable, cheques outstanding, bank indebtedness, dividends payable and accounts payable and accrued liabilities approximate their fair values because of their short-term maturities.

The carrying values of puttable interest in subsidiaries approximate fair values due to the carrying value of these financial instruments being adjusted to fair value at the end of each fiscal year.

The carrying value of long-term debt approximates fair value, either because the instrument bears interest at floating rates or effective interest rates approximate current market rates for similar debt instruments.

Assets and liabilities carried at fair value must be classified using a hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs.

		December 25, 2010	December 26, 2009
Liabilities			
Interest rate swap	Level 2	**$ —**	$ 1,091
Foreign currency contracts	Level 2	**220**	94
		$ 220	$ 1,185

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks relating to foreign currency, interest rate and commodity price fluctuation, credit and liquidity.

Foreign currency risk

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

As at December 25, 2010, the Company had outstanding foreign currency contracts for the purchase of US$13.8 million at a blended rate of CA$1.0152. Based on these outstanding contracts, a change of $0.01 in the value of the Canadian dollar relative to the U.S. dollar would result in an unrealized gain (if the Canadian dollar weakens) or an unrealized loss (if the Canadian dollar strengthens) of approximately $0.1 million in the Company's consolidated statement of operations.

As at December 25, 2010, the Company also had outstanding foreign currency contracts for the purchase of US$2.5 million in January 2011.

Interest rate risk

All of the Company's bank indebtedness and approximately 83% (2009 - 99%) of its long-term debt bear interest at floating rates. The Company manages some of its interest rate exposure by entering into interest rate swap contracts.

During 2007, the Company entered into an interest rate swap contract fixing the rate of interest on $32.0 million of its long-term debt for the three-year period ending July 6, 2010 at an effective rate of 5.05% plus 1.0% to 2.75%, based on the Company's ratio of debt to cash flow calculated quarterly. The Company designated this contract as a cash flow hedge and, correspondingly, changes in its fair market value were recognized in the consolidated statement of accumulated other comprehensive loss and the consolidated statement of comprehensive earnings. The Company has not entered into a new interest swap contract since this interest swap contract expired on July 6, 2010.

As at December 26, 2009, the interest rate swap contract had a fair value of $1.1 million unfavourable and during 2010, the Company recorded an unrealized gain in respect of the swap of $1.1 million (2009 – gain of $0.9 million) in other comprehensive loss. The fair value as at December 26, 2009 was included in accounts payable and accrued liabilities.

The Company is monitoring the variable interest rates and may enter into new interest rate swap contracts in the future.

Commodity price risk

The Company's financial performance is dependent upon the cost of various commodity inputs, including beef, pork, poultry, certain seafood products, corrugated packing materials, dairy products, flour 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 Company manages its risk exposure to sudden or severe increases in the price of such inputs through a variety of methods including the diversification of its product offerings, differentiated marketing and selling strategies, taking long inventory positions when buying opportunities are presented, and in limited circumstances entering into fixed price supply contracts. The Company currently does not use any derivative financial contracts in the management of its commodity risk exposure.

Credit risk

The Company is subject to credit risk primarily through its accounts receivable. This risk is mitigated by the Company's diversified customer base, its customer credit evaluation procedures and the ongoing monitoring of the collectability of its trade accounts receivable. Bad debt expense of $0.5 million (2009 - $0.4 million) was recorded for the year.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 25, 2010:

Trade accounts receivable		
Current	$	39,980
Past due 1 to 30 days		7,265
Past due over 30 days		1,617
		48,862
Less allowance for doubtful accounts		(1,079)
Other receivables		5,024
Accounts receivable	$	52,807

The change in the allowance for doubtful accounts provision for the 52 weeks ended December 25, 2010 and December 26, 2009 is as follows:

		December 25, 2010		**December 26, 2009**
Balance – opening	**$**	**939**	$	890
Net additions to provision		**494**		398
Effect of foreign exchange rate differences		**(1)**		(5)
Accounts receivable written off, net of recoveries		**(353)**		(344)
Balance – ending	**$**	**1,079**	$	939

The Company is also exposed to credit risk on its cash (comprised primarily of deposits with Canadian chartered banks) and its foreign currency and interest rate swap contracts. This risk is mitigated by the Company only dealing with counterparties that are major international institutions with strong credit ratings.

Liquidity risk

As part of its strategy to manage liquidity risk, the Company regularly monitors and reviews both actual and forecasted cash flows and maintains unutilized credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

22. CAPITAL DISCLOSURES

The Company's objective in managing its capital, which currently consists of equity, raised through the issuance of shares and retained earnings not distributed to shareholders, debt and convertible debentures, is to minimize its overall cost of capital while ensuring it:

(a) has the ability to absorb reasonably anticipated shocks to its business resulting from the various risks it is exposed to;
(b) is able to maintain its quarterly dividend to shareholders of $0.294 per share; and
(c) has adequate capital to pursue its organic and acquisition based growth objectives.

The key indicators used by the Company to monitor its capital structure are its total funded debt to EBITDA ratio, senior funded debt to EBITDA ratio and its unutilized debt capacity. The total funded debt to EBITDA ratio is calculated as the Company's total funded debt less cash and cash equivalents divided by the trailing twelve months EBITDA. The senior funded debt to EBITDA ratio is calculated as the Company's senior funded debt less cash and cash equivalents divided by the trailing twelve months EBITDA. Unutilized debt capacity is calculated as the Company's total credit facilities plus cash and cash equivalents less amounts drawn on its credit facilities.

Factors that the Company considers in determining an appropriate senior and total funded debt to EBITDA levels and unutilized credit capacity include the following:

(a) the cash flows expected to be generated by its operations over the next twelve months;
(b) anticipated business acquisitions and project capital expenditures over the next twelve months;
(c) dividends to be paid to shareholders over the next twelve months;
(d) the cost of adding incremental debt;
(e) the cost of issuing new equity; and
(f) the Company's banking covenant requirements.

The Company's unutilized debt capacity at December 25, 2010 was $29.1 million. Subsequent to December 25, 2010, the Company issued $57.5 million of convertible debentures (note 25) for net proceeds of approximately $54.6 million, thereby increasing its unutilized debt by such amount.

23. RELATED PARTY TRANSACTIONS

During 2010, the Company leased various properties from companies affiliated with directors and officers of the Company. Rent expense recognized on these leases was $1.1 million (2009 – $1.1 million) and is included in the consolidated statement of operations. These transactions have been recorded at an amount agreed upon by the Company and the related parties.

24. SUPPLEMENTAL CASH FLOW INFORMATION

During 2010, the Company's consideration for its acquisitions (note 14) included notes payable of $20.6 million (2009 – $nil) and shares issued of $8.9 million (2009 – $nil). These amount are not considered to be cash transactions and do not appear in the consolidated statements of cash flows.

The Company paid interest of $5.6 million (2009 – $6.8 million) and income taxes of $0.2 million (2009 - $0.1 million) during 2010. The change in non-cash working capital is made up of the following components:

		December 25, 2010		**December 26, 2009**
Accounts receivable	**$**	**(1,744)**	$	1,250
Inventories		**(1,178)**		(1,440)
Prepaid expenses		**(664)**		118
Accounts payable and accrued liabilities		**6,423**		(4,600)
	$	**2,837**	$	(4,672)

25. SUBSEQUENT EVENTS

Acquisition of sandwich production and distribution facilities

On February 18, 2011, the Company completed the acquisition of two sandwich manufacturing facilities, a central distribution facility, and a proprietary direct-to-store distribution network operating in Ontario and Quebec. The purchase price, subject to post-closing adjustments, was $7.0 million in cash and a $1.0 million note due approximately three months after closing of the transaction.

Issuance of $57.5 million of 5.75% convertible debentures

On January 6, 2011 the Company issued $57.5 million of convertible unsecured subordinated debentures at a price of $1,000 per debenture. The debentures bear interest at an annual rate of 5.75% payable semi-annually in arrears on June 30 and December 31 in each year commencing on June 30, 2011; and have a maturity date of December 31, 2015.

The debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion rate of approximately 44.643 shares per debenture, which is equal to a conversion price of $22.40 per share. On or after December 31, 2013 and prior to December 31, 2014, the Company will have the right to redeem all or a portion of the debentures at a price equal to their principal amount plus accrued and unpaid interest, provided that the market price of the Company's common shares on the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after December 31, 2014, the Company will have the right to redeem all or a portion of the debentures at a price equal to their principal amount plus accrued and unpaid interest.

The debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.A.

The Company has allocated the proceeds of the debentures between debt and equity based on estimated fair values of the debt and conversion option, as determined by the residual valuation of the equity component. Under this approach, the debt component was valued first and the difference between the proceeds of the debentures and the fair value of the debt component was assigned to the conversion option (equity component). The present value of the debt component was calculated using a discount rate of 7.6%, which was the estimated market interest rate for similar debentures having no conversion rights.

The preliminary allocation of the proceeds will be as follows:

	Liability component	Equity component	Total
Allocation of the proceeds of the debentures	$ 56,100	$ 1,400	$ 57,500
Transaction costs relating to the debentures	(2,829)	(71)	(2,900)
	$ 53,271	$ 1,329	$ 54,600

Exercise of Stuyver's puttable interest

Subsequent to December 25, 2010, the non-controlling shareholder of Stuyver's exercised their right to require the Company to purchase their minority interest in Stuyver's. Correspondingly, the Company expects to pay the non-controlling shareholder approximately $2.3 million in 2011 for their 20% interest in Stuyver's.

New Artisan Bakery

Subsequent to December 25, 2010 the Company finalized certain agreements relating to the construction of a new artisan bakery to replace its existing facility in Burnaby, BC.

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in 2010.

INVESTOR INFORMATION

EXECUTIVE OFFICERS

George Paleologou, CA
President & Chief Executive Officer

Will Kalutycz, CA
Chief Financial Officer

Douglas Goss, QC
General Counsel & Corporate Secretary

BOARD OF DIRECTORS

Bruce Hodge (1) (2) (3)
Chairman of the Board

Johnny Ciampi (1)
Director

Hugh McKinnon (2) (3)
Director

George Paleologou
Director

John Zaplatynsky (1) (2) (3)
Director

(1) Audit Committee
(2) Human Resources and Compensation Committee
(3) Corporate Governance and Nominating Committee

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange

TRADING SYMBOLS

Shares: **PBH**
Debentures: **PBH.DB**

GROWTH

QUALITY

BALANCE

EXPERIENCE

FRESH

GOURMET

ARTISAN

SPECIALTY

VARIETY

COMMUNITY

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