



PREMIUM BRANDS HOLDINGS CORPORATION

Management's Discussion and Analysis

For the 13 and 39 Weeks Ended September 29, 2018

The following Management's Discussion and Analysis (MD&A) is a review of the financial performance and position of Premium Brands Holdings Corporation (the Company or Premium Brands) and is current to November 12, 2018. It should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the period ended September 29, 2018, and its fiscal 2017 audited consolidated financial statements and the notes thereto, both of which are prepared in accordance with International Financial Reporting Standards (IFRS). These documents, as well as additional information on the Company, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

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

BUSINESS OVERVIEW

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

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

The Company considers the key characteristics of a specialty food business to be: (i) a consumer's decision to purchase its products is based primarily on factors other than price, such as quality, convenience, health or lifestyle; and / or (ii) it caters to smaller more niche oriented markets. As a result of these characteristics, specialty food businesses generally earn higher and more consistent selling margins, relative to other types of food manufacturing companies, and avoid competing with large national and international food companies.

- **Differentiated food distribution and wholesale businesses ("premium food distribution businesses").**

The Company considers the key characteristic of a premium food distribution business to be that it offers its customers specialized and/or unique products and services in addition to logistical solutions. This enables it to generate higher and more consistent selling margins relative to the large national and international food distributors that are primarily focused on logistics.

The Company's premium food distribution businesses also enable it to generate and sustain additional margin by using these businesses to provide its specialty food businesses with proprietary access to a broad and diversified customer base that includes regional and specialty grocery retailers, restaurants, hotels and institutions.

RESULTS OF OPERATIONS

The Company reports on two reportable segments, Specialty Foods and Premium Food Distribution, as well as corporate costs (**Corporate**). The Specialty Foods segment consists of the Company's specialty food manufacturing businesses while the Premium Food Distribution segment consists of the Company's differentiated distribution and wholesale businesses.

Revenue

(in millions of dollars except percentages)								
	13 weeks ended Sep 29, 2018	% (1)	13 weeks ended Sep 30, 2017	% (1)	39 weeks ended Sep 29, 2018	% (1)	39 weeks ended Sep 30, 2017	% (1)
Revenue by segment:								
Specialty Foods	579.7	69.4%	329.7	59.1%	1,479.7	67.8%	961.9	59.6%
Premium Food Distribution	255.8	30.6%	227.9	40.9%	702.2	32.2%	651.3	40.4%
Consolidated	835.5	100.0%	557.6	100.0%	2,181.9	100.0%	1,613.2	100.0%

(1) Expressed as a percentage of consolidated revenue

Specialty Foods' (**SF**) revenue for the third quarter of 2018 as compared to the third quarter of 2017 increased by \$250.0 million or 75.8% primarily due to: (i) business acquisitions, which accounted for \$220.4 million of the increase (see *Liquidity and Capital Resources – Corporate Investments*); (ii) organic volume growth of \$22.1 million, representing a growth rate of 6.7%, which was driven primarily by sandwiches, meat snacks and cooked protein products. SF also made significant progress in growing its sales in the U.S., which now account for approximately 32% of its total sales; (iii) a \$7.0 million increase in the translated value of its U.S. based businesses' sales resulting from a weaker Canadian dollar; and (iv) selling price inflation of \$0.5 million.

SF's organic volume growth of 6.7% was below the Company's expectation for the quarter primarily due to: (i) delays in the launch of a number of sandwich, meat snack, deli meats and burger growth initiatives. Some of these are now projected to commence in the fourth quarter of 2018, however, as a result of seasonal factors and customer listing cycles the majority of them have been rescheduled to launch in the first and second quarters of 2019; and (ii) temporary production issues at one of SF's raw material suppliers that resulted in product shortages and approximately \$4.8 million in lost sales.

For the first three quarters of 2018 as compared to the first three quarters of 2017, SF's revenue increased by \$517.8 million or 53.8% primarily due to the same factors outlined above with business acquisitions accounting for \$220.4 million of the increase and its organic volume growth rate being 10.1%.

Premium Food Distribution's (**PFD**) revenue for the third quarter of 2018 as compared to the third quarter of 2017 increased by \$27.9 million or 12.3% primarily due to: (i) business acquisitions, which generated \$18.3 million in growth; (ii) organic volume growth of \$8.3 million, representing a growth rate of 3.6%; and (iii) selling price inflation of \$1.3 million.

PFD's organic volume growth rate for the quarter of 3.6% was primarily driven by: (i) a significant increase in wholesale business with retailers in eastern Canada as a result of better weather conditions and additional product promotions; and (ii) improved seafood sales due in part to a stronger Johnstone

Strait sockeye salmon fishery. These factors were partially offset by: (i) slower foodservice sales in western Canada that were the result of a variety of factors including less activity in the Alberta oil industry and generally softer market conditions in certain geographic regions; and (ii) labor related supply disruptions in Brazil that impacted PFD's trading business' ability to procure certain products.

For the first three quarters of 2018 as compared to the first three quarters of 2017, PFD's revenue increased by \$50.9 million or 7.8% primarily due to: (i) business acquisitions, which accounted for \$31.7 million of the growth; (ii) organic volume growth of \$16.1 million representing a growth rate of 2.5%; and (iii) selling price inflation of \$3.1 million.

Gross Profit

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Sep 29, 2018	% (1)	13 weeks ended Sep 30, 2017	% (1)	39 weeks ended Sep 29, 2018	% (1)	39 weeks ended Sep 30, 2017	% (1)
Gross profit by segment:								
Specialty Foods	127.4	22.0%	66.2	20.1%	325.5	22.0%	206.1	21.4%
Premium Food Distribution	39.1	15.3%	36.3	15.9%	110.6	15.8%	104.4	16.0%
Consolidated	166.5	19.9%	102.5	18.4%	436.1	20.0%	310.5	19.2%

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

SF's gross profit as a percentage of its revenue (gross margin) for the third quarter of 2018 as compared to the third quarter of 2017 increased by 190 basis points primarily due to: (i) decreases in the cost of certain raw material commodities including various pork and chicken products, many of which are now trading at close to five year averages; (ii) incremental contribution margin associated with SF's organic volume growth; (iii) recently acquired businesses having higher gross margins relative to SF's average gross margin; (iv) the reclassification of approximately \$1.9 million of freight costs to selling, general and administrative expense; and (v) a one-time operating tax cost recovery of \$1.6 million. Partially offsetting these factors were transitory lower gross margins resulting from a variety of new sales growth initiatives. In particular, SF's margins were impacted by: (i) the use of introductory and/or temporary promotional pricing to generate incremental consumer demand for new products or in new markets; and (ii) operating inefficiencies associated with initial production runs for new products. In general terms, the Company views this lost margin as an investment in future growth.

SF's gross margin for the quarter was also impacted by: (i) sales mix changes as a portion of its organic growth was driven by products that have lower gross margins relative to its average gross margins – correspondingly these products have lower SG&A ratios relative to SF's average SG&A ratios; and (ii) albeit to a much lesser extent, rising labor and freight costs.

SF's gross margin for the first three quarters of 2018 as compared to the first three quarters of 2017 increased by 60 basis points primarily due to the factors outlined.

PFD's gross margins for the third quarter of 2018 as compared to the third quarter of 2017 decreased by 60 basis points primarily due to: (i) changes in sales mix as lower margin wholesale business with retailers was the major driver of its organic growth; and (ii) recently acquired businesses having lower gross margins relative to PFD's average gross margin due to a combination of a variety of transitory issues and structurally having lower gross margins relative to PFD's average gross margins – correspondingly these businesses have lower SG&A ratios relative to PFD's average SG&A ratios.

PFD's gross margin for the first three quarters of 2018 as compared to the first three quarters of 2017 decreased by 20 basis points primarily due to the factors outlined above.

Selling, General and Administrative Expenses (SG&A)

(in millions of dollars except percentages)								
	13 weeks ended Sep 29, 2018	% (1)	13 weeks ended Sep 30, 2017	% (1)	39 weeks ended Sep 29, 2018	% (1)	39 weeks ended Sep 30, 2017	% (1)
SG&A by segment:								
Specialty Foods	67.8	11.7%	29.7	9.0%	167.3	11.3%	95.6	9.9%
Premium Food Distribution	23.8	9.3%	20.5	9.0%	69.3	9.9%	62.0	9.5%
Corporate	3.6		2.8		10.9		10.0	
Consolidated	95.2	11.4%	53.0	9.5%	247.5	11.3%	167.6	10.4%

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

SF's SG&A for the third quarter of 2018 as compared to the third quarter of 2017 and for the first three quarters of 2018 as compared to the first three quarters of 2017 increased by \$38.1 million and \$71.7 million, respectively primarily due to: (i) business acquisitions; (ii) the reclassification of \$1.9 million in freight expenses from cost of sales; (iii) incremental freight costs resulting from a combination of higher sales volumes and increased freight rates; (iv) investments in additional selling and administration infrastructure needed to support SF's continued growth; (v) higher variable compensation associated with the growth in SF's free cash flow; and (vi) increased discretionary promotional spending.

SF's SG&A as a percentage of sales (SG&A ratio) for the third quarter of 2018 as compared to the third quarter of 2017 increased by 270 basis points primarily due to the factors outlined above with the impact of acquisitions representing a significant majority of the increase. These were partially offset by: (i) changes in SF's sales mix as a portion of its growth was driven by products with lower variable SG&A costs; and (ii) its organic revenue growth in relation to the relatively fixed nature of some of its SG&A costs.

PFD's SG&A for the third quarter of 2018 as compared to the third quarter of 2017 and for the first three quarters of 2018 as compared to the first three quarters of 2017 increased by \$3.3 million and \$7.3 million, respectively primarily due to: (i) business acquisitions; (ii) investments in additional fleet and sales infrastructure needed to support future growth; and (iii) incremental freight costs resulting from a combination of increased freight rates and higher sales volumes.

PFD's SG&A ratio for the third quarter of 2018 as compared to the third quarter of 2017 increased by 30 basis points primarily due to investments in additional fleet and sales infrastructure needed to support future growth partially offset by: (i) business acquisitions due to the purchased businesses having lower SG&A ratios relative to PFD's average SG&A ratio; and (ii) its organic revenue growth in relation to the relatively fixed nature of some of its SG&A costs.

Adjusted EBITDA

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

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

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

<i>(in millions of dollars)</i>	13 weeks ended Sep 29, 2018	13 weeks ended Sep 30, 2017	39 weeks ended Sep 29, 2018	39 weeks ended Sep 30, 2017
Earnings before income taxes	35.8	29.4	95.4	87.4
Plant start-up costs ⁽¹⁾	1.4	2.6	2.5	3.9
Depreciation of capital assets ⁽²⁾	13.2	8.0	32.8	22.3
Amortization of intangible assets ⁽²⁾	4.0	2.5	10.8	7.4
Interest and other financing costs ⁽³⁾	12.3	5.4	32.8	15.9
Acquisition transaction costs ⁽¹⁾	2.3	0.1	7.3	0.5
Change in value of puttable interest in subsidiaries ⁽⁴⁾	1.9	1.2	5.2	4.4
Accretion of provisions ⁽³⁾	-	0.3	0.3	0.8
Equity loss in associates ⁽⁵⁾	0.4	-	1.5	0.3
Consolidated adjusted EBITDA	71.3	49.5	188.6	142.9

(1) Amount is not part of the Company's normal operating costs.

(2) Amount relates to the consumption of the Company's capital assets, intangible assets or other assets.

(3) Amount relates to the Company's financing strategies.

(4) Amount relates to the valuation of minority shareholders' interest in certain subsidiaries of the Company.

(5) Amount relates to businesses that the Company does not control.

<i>(in millions of dollars except percentages)</i>	13 weeks ended Sep 29, 2018	% (1)	13 weeks ended Sep 30, 2017	% (1)	39 weeks ended Sep 29, 2018	% (1)	39 weeks ended Sep 30, 2017	% (1)
Adjusted EBITDA by segment:								
Specialty Foods	59.6	10.3%	36.5	11.1%	158.2	10.7%	110.5	11.5%
Premium Food Distribution	15.3	6.0%	15.8	6.9%	41.2	5.9%	42.4	6.5%
Corporate	(3.6)		(2.8)		(10.9)		(10.0)	
Consolidated	71.3	8.5%	49.5	8.9%	188.6	8.6%	142.9	8.9%

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

Adjusted EBITDA for the third quarter of 2018 as compared to the third quarter of 2017 increased by \$21.8 million or 44.0% to \$71.3 million. This result was below the Company's expectations for the quarter primarily due to:

- Delays in the launch of a number of new sales initiatives that impacted its expected sandwich, meat snack, deli meats and burger sales. Some of these initiatives are now projected to commence in the fourth quarter of 2018, however, as a result of seasonal factors and customer listing cycles the majority of them have been re-scheduled to be launched in the first and second quarters of 2019.
- Temporary production issues at one of the Company's raw material suppliers that resulted in product shortages and approximately \$4.8 million in lost sales.
- Transitory lower gross margins in its SF segment resulting from a variety of new growth initiatives. In particular, the Company's margins were impacted by: (i) the use of introductory and/or temporary promotional pricing to generate incremental consumer demand for new products or in new markets; and (ii) operating inefficiencies associated with initial production runs for new products. In general terms, the Company views this lost margin as an investment in future growth.

- Lower than anticipated gross margins due to projected deflation in the cost of certain raw material commodities not occurring.

Plant Start-up and Restructuring Costs

Plant start-up and restructuring costs consist of expenses associated with the start-up of new production capacity or the reconfiguration of existing capacity to gain efficiencies and/or additional capacity. The Company expects (see *Forward Looking Statements*) these projects to result in significant improvements in its future earnings and cash flows.

During the first three quarters of 2018, the Company incurred \$2.5 million in plant start-up costs relating primarily to the following projects:

Bakery Reconfiguration Project	The Company incurred \$0.5 million in plant start-up costs associated with the reconfiguration of production between its two legacy artisan bakeries (one in Langley, B.C. and the other in Delta, B.C.) and its newest artisan bakery (in Richmond, B.C.), which it acquired at the end of 2016 as part of the purchase of Island City Baking. This project was completed in the third quarter.
GTA Facility Project	The Company incurred \$1.4 million in plant start-up costs associated with the construction of a state-of-the-art distribution and custom cutting facility in the Greater Toronto Area (GTA Facility) (see <i>Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures</i>). Looking forward (see <i>Forward Looking Statements</i>), the Company expects to complete construction of the GTA Facility in the fourth quarter of 2018 and to have it operating at normal production efficiencies in early 2019. The projected total plant start-up costs for this initiative is \$2.5 million.
New Culinary Facility	The Company incurred \$0.5 million in plant start-up costs associated with the construction of a new 22,300 square foot culinary plant in Surrey, BC capable of producing fresh salads, soups and sauces. This facility will replace an existing culinary plant in Langley, BC, which is operating at capacity (see <i>Liquidity and Capital Resources – Capital Expenditures – Project Capital Expenditures</i>). Looking forward (see <i>Forward Looking Statements</i>), the Company expects this to be completed in the first quarter of 2019 and to result in approximately \$1.1 million in plant start-up costs.

Depreciation and Amortization (D&A)

(in millions of dollars)	13 weeks ended Sep 29, 2018	13 weeks ended Sep 30, 2017	39 weeks ended Sep 29, 2018	39 weeks ended Sep 30, 2017
Depreciation and amortization of intangible assets (D&A) by segment:				
Specialty Foods	14.4	7.7	35.8	22.6
Premium Food Distribution	2.4	2.6	6.8	6.6
Corporate	0.4	0.2	1.0	0.5
Consolidated	17.2	10.5	43.6	29.7

The Company's D&A expense for the third quarter of 2018 as compared to the third quarter of 2017 and for the first three quarters of 2018 as compared to the first three quarters of 2017 increased by \$6.7 million and \$13.9 million, respectively primarily due to: (i) business acquisitions completed in 2018 and late 2017; and (ii) the completion of a variety of capital projects over the past year.

Interest and Other Financing Costs

The Company's interest and other financing costs for the third quarter of 2018 as compared to the third quarter of 2017 and for the first three quarters of 2018 as compared to the first three quarters of 2017 increased by \$6.9 million and \$16.9 million, respectively primarily due to: (i) increases in its net funded debt (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*); and (ii) a higher weighted average interest rate resulting from a combination of rising short term interest rates and increased interest rate premiums associated with the Company's higher senior debt to adjusted EBITDA ratio.

Change in Value of Puttable Interest in Subsidiaries

Change in value of puttable interest in subsidiaries (put expense) represents an estimate of the change in the value of options (the put options) held by non-controlling shareholders of certain subsidiaries of the Company that entitle such shareholders to require the Company to purchase their interest in the applicable subsidiary (see *Liquidity and Capital Resources – Corporate Investments – Puttable Interest in Subsidiaries*).

Income Taxes

The Company's expected range (see *Forward Looking Statements*) for its provision for income taxes as a percentage of earnings before income taxes (income tax rate) for 2018 is 25% to 27%. This is based on: (i) an effective income tax rate range within the main tax jurisdictions that it operates in (the Tax Jurisdictions) of 21% to 28%; (ii) the expected allocation of its taxable income among the Tax Jurisdictions; and (iii) the deductibility of certain costs for income tax purposes.

For the first three quarters of 2018, the Company's income tax rate was 16.2%, which is below its expected range primarily due to the recognition of \$10.3 million in tax attributes that became useable after a reorganization of certain legal entities within the Company's corporate structure. The impact of this was partially offset by the Company's acquisition costs as most of these are not deductible for income tax purposes. Normalizing for these factors, the Company's income tax rate for the first three quarters of 2018 is 25.2%.

Outlook for 2018 and 2019

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

Except as noted below, the Company's outlooks for 2018 and 2019 do not incorporate any provisions for possible future acquisitions even though the Company continues to pursue a variety of opportunities and expects to complete several more transactions in the coming quarters.

2018 Outlook

(in millions of dollars)	Bottom of Range	Top of Range
Revenue:		
Prior guidance	3,010.0	3,070.0
Revised guidance	3,000.0	3,060.0
Adjusted EBITDA:		
Prior guidance	278.0	287.0
Revised guidance	255.0	265.0

The Company is reducing its expected revenue and adjusted EBITDA for 2018 based on the factors that resulted in the variance from its expectations in the third quarter (see *Results of Operations – Adjusted EBITDA*) continuing into the fourth quarter but being partially offset by the impact of the acquisition of Ready Seafood late in the third quarter.

The Company's adjusted EBITDA margin for 2018 is expected to be in the 8.3% to 8.7% range which is below its expectations from earlier in the year despite the relatively small change in its revenue guidance primarily due to: (i) the margins of its recently acquired Ready Seafood business being lower than the contribution margins associated with the organic growth initiatives that have been delayed to 2019; (ii) transitory lower gross margins being generated on several new growth initiatives; and (iii) lower than originally expected deflation in the cost of certain raw material commodities.

2019 Outlook

(in millions of dollars)	Bottom of Range	Top of Range
Revenue	3,660.0	3,720.0
Adjusted EBITDA:	320.0	340.0

The Company is providing revenue and adjusted EBITDA guidance for its next fiscal year earlier than has been its past practice based on the significant number of acquisitions completed over the last several quarters.

The single largest factor resulting in the expected growth in the Company's revenue and adjusted EBITDA in 2019 is a full year of results from recent acquisitions. Some of the other key drivers of the Company's expected top and bottom line growth are as follows:

- Leveraging the very unique capabilities of its recently expanded sandwich capacity to grow its presence in the U.S. grocery and convenience store channels as well as develop new foodservice opportunities;
- Leveraging the strengths of the Company's recently acquired Oberto's business, including its 100-year-old brand and a national sales and distribution infrastructure, to launch a variety of the Company's very successful meat snack and charcuterie products into the U.S.;

- Expanding the Company's highly successful foodservice model from western Canada into Ontario;
- Launching a variety of new fully cooked protein products into both the Canadian and U.S. markets in response to significant demand by grocery, convenience store and foodservice customers for simple to prepare home meal replacement solutions and on-the-go protein snacks;
- Expanding the Company's very successful seafood model from western Canada and Ontario into the U.S. and eastern Canada;
- Improving margins based on: (i) reduced introductory pricing and promotion costs in the back half of 2019; and (ii) better capacity utilization and operating efficiencies in the first and fourth quarters as a result of general sales growth and growing sales of counter cyclical products in new markets in the U.S.

Based on its current portfolio of businesses, the Company expects its adjusted EBITDA margin for 2019 to be in the 8.7% to 9.2% range with the single most significant determining factor being the extent of its organic sales growth. Longer term, the Company is targeting a 10% adjusted EBITDA margin based on a range of factors including continued organic sales growth and production efficiency improvements.

SUMMARY OF QUARTERLY RESULTS

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

(in millions of dollars except per share amounts)								
	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18
Revenue	532.6	478.2	577.4	557.6	585.4	584.9	761.5	835.5
Adjusted EBITDA	45.6	38.4	55.0	49.5	47.3	43.1	74.2	71.3
Earnings	20.0	15.3	26.7	21.3	17.2	13.2	30.6	36.1
Earnings per share – basic	0.67	0.52	0.90	0.72	0.57	0.43	0.96	1.09
Earnings per share – diluted	0.67	0.51	0.89	0.71	0.57	0.43	0.96	1.08

The financial performance of many of the Company's businesses is subject to fluctuations associated with the impact on consumer demand of seasonal changes in weather. As a result, the Company's performance varies with the seasons.

In general terms, its results are weakest in the first quarter of the year due to winter weather conditions which result in: (i) less consumer travelling and outdoor activities and, in turn, reduced consumer traffic through many of the Company's convenience oriented customers' stores such as restaurants, corner stores, gas stations and concessionary venues; and (ii) reduced consumer demand for its outdoor oriented products such as barbeque and on-the-go convenience foods.

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

In addition to seasonal factors, over the last eight quarters, the Company's sales and adjusted EBITDA have been impacted by business acquisitions and a variety of organic growth initiatives that have resulted in consistent year over year increases. The Company's earnings and earnings per share were further impacted by: (i) plant start-up costs associated with certain long term investment initiatives; (ii) business acquisition expenses which are expensed as incurred; (iii) the recognition of certain tax attributes in the third quarter of 2018; and (iv) the heightened seasonality of certain businesses acquired late in 2017 and early in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Net Working Capital Requirements

Net Working Capital

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

The following table provides the calculation of net working capital:

(in millions of dollars)	As at Sep 29, 2018	As at Sep 30, 2017
Accounts receivable	311.7	194.8
Inventories	324.5	207.8
Prepaid expenses	12.8	9.1
Accounts payable and accrued liabilities	(242.4)	(176.3)
Net working capital	406.6	235.4

The Company's net working capital needs are seasonal in nature and generally peak in the spring and summer months and around festive holiday seasons (e.g. Easter, Thanksgiving and Christmas) as inventories are built up in anticipation of and accounts receivable grow as a result of increased consumer demand (see *Summary of Quarterly Results*). The cash requirements resulting from seasonal fluctuations in the Company's net working capital are managed primarily through draws and repayments on its revolving senior credit facility. The cash requirements for increases in the Company's net working capital resulting from its growth initiatives are, over the longer term, financed from the associated growth in the Company's free cash flow (see *Liquidity and Capital Resources*).

Net working capital at the end of the third quarter of 2018 as compared to the end of the third quarter of 2017 increased by \$171.2 million primarily due to: (i) business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*), which accounted for \$133.1 million of the increase; (ii) the Company's organic growth; (iii) higher days cost of sales in inventory as discussed below; and (iv) normal fluctuations in the timing of accounts payable payments.

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

(in days)	As at Sep 29, 2018	As at Sep 30, 2017
Days sales in accounts receivable ⁽¹⁾	33.9	31.8
Days cost of sales in inventory ⁽²⁾	44.1	41.6

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

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

The Company's days sales in accounts receivable and days cost of sales in inventory at the end of the third quarter of 2018 as compared to the end of the third quarter of 2017 increased by 2.1 days and 2.5 days, respectively, primarily due to: (i) acquisitions, in general, and, in particular, the acquisition of Ready Seafood, which was completed at the end of the quarter and as a result only a portion of its quarterly operating results were included in the calculation of the ratios; and (ii) normal fluctuations in the timing of sales, account collections and inventory purchases.

Debt Financing Activities

Credit Facilities

As at September 29, 2018, the Company's credit facilities and the unutilized portion of those facilities were as follows:

(in millions of dollars)	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Revolving senior credit facility ⁽¹⁾	885.2	669.3	215.9
4.65% debentures (2018) ⁽²⁾	165.5	165.5	-
4.60% debentures ⁽³⁾	109.5	109.5	-
4.65% debentures (2016) ⁽⁴⁾	84.3	84.3	-
Industrial Development Revenue Bond ⁽⁵⁾	7.9	7.9	-
Vendor take-back notes	29.1	29.1	-
Capital leases and other term loans	31.7	31.7	-
Other revolving credit facilities	21.6	7.5	14.1
Cheques outstanding	-	10.3	(10.3)
Cash and cash equivalents	-	(18.0)	18.0
	1,334.8	1,097.1	237.7

(1) The credit facility amount represents the Company's current revolving senior credit facility, consisting of a \$700.0 million Canadian dollar denominated line of credit and a US\$150.0 million U.S. dollar denominated line of credit, less approximately \$9.0 million in outstanding letters of credit. The facility matures in September 2022, can be used to fund the Company's working capital and general operating needs, capital projects and acquisitions, and has no principal payments prior to its maturity date.

(2) Represents the present value of the outstanding portion of the \$172.5 million in 4.65% convertible unsecured subordinated debentures issued by the Company in April 2018 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on April 30, 2025 and have no principal payments prior to that date, was \$172.5 million as at September 29, 2018. The 4.65% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.G.

(3) Represents the present value of the outstanding portion of the \$113.0 million in 4.60% convertible unsecured subordinated debentures issued by the Company in December 2016 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on December 31, 2023 and have no principal payments prior to that date, was \$113.0 million as at September 29, 2018. The 4.60% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.F.

(4) Represents the present value of the outstanding portion of the \$86.3 million in 4.65% convertible unsecured subordinated debentures issued by the Company in April 2016 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on April 30, 2021 and have no principal payments prior to that date, was \$86.1 million as at September 29, 2018. The 4.65% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.E.

(5) The bond, which was issued by one of the Company's U.S. subsidiaries, is denominated in U.S. dollars (US\$6.1 million), matures in 2036 and has no principal payments due prior to its maturity date.

Funded Debt

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

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

<i>(in millions of dollars)</i>	As at Sep 29, 2018	As at Dec 30, 2017	As at Sep 30, 2017
Cheques outstanding	10.3	13.9	8.6
Bank indebtedness	0.5	6.2	4.8
Current portion of long-term debt	11.1	1.8	1.9
Long-term debt	730.1	417.9	209.4
Deferred financing costs ⁽¹⁾	3.8	2.2	1.2
	755.8	442.0	225.9
Less: cash and cash equivalents	18.0	15.1	14.0
Senior funded debt	737.8	426.9	211.9
4.65% Debentures (2018)	84.3	-	-
5.00% Debentures	-	21.9	64.5
4.65% Debentures (2016)	109.5	83.7	83.5
4.60% Debentures	165.5	108.7	108.5
Total funded debt	1,097.1	641.2	468.4

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

Debt Activities

During the first three quarters of 2018, the Company's significant debt activities consisted of the following:

<i>(in millions of dollars)</i>	39 weeks ended Sep 29, 2018
Opening total funded debt at December 30, 2017	641.2
Funding for business acquisitions including issued promissory notes and assumed funded debt	611.9
Issuance of 4.65% Debentures (2018)	164.7
Application of net proceeds from 4.65% Debentures (2018) to senior credit facility	(164.7)
Funding for capital expenditures	45.2
Foreign currency translation adjustment ⁽¹⁾	6.7
Funding for investments in and advances to associate companies	5.9
Accretion of debentures	3.7
Repayment of 5.00% Debentures at redemption	(0.5)
Scheduled repayments	(2.2)
Net repayment on revolving senior credit facility	(27.0)
Conversions of debentures to common shares	(22.9)
Application of net proceeds from common share issuance to senior credit facility	(164.9)
	1,097.1

(1) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. dollar denominated debt into Canadian dollars.

During the first three quarters of 2018, the Company completed the following financing activities:

- The issuance of \$172.5 million of convertible unsecured subordinated debentures (4.65% Debentures (2018)) resulting in net proceeds of \$164.7 million after underwriting fees of \$6.9 million and transaction costs of approximately \$0.9 million. The 4.65% Debentures (2018) bear interest at an annual rate of 4.65% payable semi-annually, have a maturity date of April 30, 2025 and are convertible into common shares of the Company at a price of \$182.51 per share.
- The issuance of \$172.7 million of subscription receipts (the sub receipts) at a price of \$117.35 per sub receipt, which upon the closing of the Company's acquisition of Oberto (see *Liquidity and Capital Resources – Corporate Investments*), resulted in the Company issuing 1.5 million common shares (each sub receipt entitled the holder to receive, upon closing of the Oberto acquisition, without payment of additional consideration, one common share of the Company). Net proceeds from the transaction were \$164.9 million after underwriting fees of \$6.9 million and transaction costs of \$0.9 million.
- The issuance of a notice of intention to redeem its 5.00% convertible unsecured subordinated debentures, which resulted in: (i) \$22.8 million of the 5.00% debentures being converted at the option of the debenture holders into common shares of the Company at a conversion price of \$44.65 per share; and (ii) \$0.5 million of the 5.00% debentures being redeemed through a cash payment.

Banking Covenants

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

	Covenant Requirement	Sep 29, 2018 Ratio
Senior funded debt to adjusted EBITDA ratio ⁽¹⁾	=< 4.0 : 1.0	2.4 : 1.0
Interest coverage ratio ⁽²⁾	>= 4.0 : 1.0	14.1 : 1.0

(1) Adjusted EBITDA includes a full year's adjusted EBITDA for new acquisitions and senior funded debt excludes cheques outstanding.

(2) Ratio is calculated based on the combined statements of operations of certain defined subsidiaries of the Company.

Financial Leverage

Two of the key indicators that the Company uses to assess the appropriateness of its financial leverage are its senior funded debt to adjusted EBITDA and total funded debt to adjusted EBITDA ratios. The Company has set 2.5 : 1 to 3.0 : 1 as the long-term targeted range for its senior funded debt to adjusted EBITDA ratio and 4.0 : 1 to 4.5 : 1 as the long-term targeted range for its total funded debt to adjusted EBITDA ratio. These ranges are based on a number of considerations including:

- The risks associated with the consistency and sustainability of the Company's cash flows;
- The financial covenants associated with the Company's senior credit facilities;
- The Company's dividend policy;
- The tax benefits associated with financing the Company's operations with debt; and
- The terms and risk characteristics of the convertible debentures issued by the Company.

At the end of the third quarter of 2018, the Company's senior funded debt to adjusted EBITDA ratio of 2.4 : 1 and its total funded debt to adjusted EBITDA ratio of 3.7 : 1 were both below the Company's respective long-term targeted ranges for these ratios.

Looking forward (see *Forward Looking Statements*) the Company intends to use its excess senior debt capacity to fund project capital expenditures and business acquisitions.

Dividends

Free Cash Flow

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

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

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

<i>(in millions of dollars)</i>	52 weeks ended Dec 30, 2017	39 weeks ended Sep 29, 2018	39 weeks ended Sep 30, 2017	Rolling Four Quarters
Cash flow from operating activities	85.9	104.9	72.9	117.8
Changes in non-cash working capital ⁽¹⁾	45.9	22.6	31.9	36.7
Acquisition transaction costs ⁽²⁾	4.2	7.3	0.5	11.0
Plant start-up costs ⁽³⁾	7.3	2.5	3.9	5.9
Maintenance capital expenditures ⁽⁴⁾	(12.0)	(13.4)	(7.9)	(17.5)
Free cash flow	131.3	123.9	101.3	153.9

(1) Cash used for increases in the Company's non-cash working capital is funded primarily through draws on its revolving credit facilities, while cash resulting from decreases in its non-cash working capital is used primarily to pay down these facilities.

(2) Amount relates to the Company's business acquisition activities.

(3) Amount relates to the Company's plant start-up and business restructuring initiatives.

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

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, i.e. payout ratio;
- Debt principal repayment obligations;
- Financing requirements for project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*), plant start-up and business restructuring initiatives and business acquisitions;
- Ability to access reasonably priced debt and equity financing;
- The ratio of its annual dividend per share to the trading price of its shares on the Toronto Stock Exchange, i.e. dividend yield;
- Maintaining a stable quarterly dividend per share, despite the seasonal nature of many of the Company's businesses;
- Maintaining regular annual increases in its dividend per share; and
- Significant changes, if any, in the status of one or more of the risk factors facing the Company.

In the first quarter of 2018 the Company increased its quarterly dividend by 13.1% to \$0.475 per share, or \$1.90 per share on an annual basis.

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. Currently, based on its outlooks for the balance of 2018 and for 2019, the Company expects to continue increasing its dividend on a basis consistent with its recent past practice. However, due to the general risks and uncertainties inherent in its business (see *Risks and Uncertainties*), there can be no assurance that it will be able to do so or that its current quarterly dividend will be maintained.

Dividend History

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

<i>(in millions of dollars except per share amounts and ratios)</i>					
	Declared Shareholder Dividends / Distributions	Nature of Distribution	Free Cash Flow	Payout Ratio (1)	Annualized Dividend / Distribution Per Share / Unit
Trailing four quarters ended:					
September 29, 2018	59.5	Dividend	153.9	38.7%	\$1.8450
December 30, 2017	50.6	Dividend	131.3	38.5%	\$1.6800
December 31, 2016	44.5	Dividend	121.5	36.6%	\$1.5200
December 26, 2015	35.0	Dividend	81.1	43.2%	\$1.3800
December 27, 2014	27.8	Dividend	57.4	48.4%	\$1.2500
December 28, 2013	26.5	Dividend	49.2	53.9%	\$1.2315
December 29, 2012	24.4	Dividend	46.0	53.0%	\$1.1760
December 31, 2011	22.7	Dividend	38.2	59.4%	\$1.1760
December 25, 2010	21.0	Dividend	32.2	65.2%	\$1.1760
December 26, 2009	20.7	(2)	29.3	70.6%	\$1.1760
December 31, 2008	20.6	Trust distribution	29.6	69.6%	\$1.1760
December 31, 2007	20.5	Trust distribution	26.4	77.7%	\$1.1760
December 31, 2006	18.4	Trust distribution	17.3	106.4%	\$1.1760

(1) Ratio of dividends / distributions declared to free cash flow for the corresponding trailing four quarter period.

(2) Consisted of trust distributions for the first two quarters of the period and dividends for the last two quarters of the period.

Capital Expenditures

Expenditure Classification

The Company categorizes its capital expenditures into project capital expenditures and maintenance capital expenditures. Project capital expenditures are capital expenditures that are expected to generate a minimum internal rate of return of 15% on an after tax, unlevered basis. Maintenance capital expenditures include all capital expenditures that do not qualify as a project capital expenditure, and consist mainly of expenditures necessary for maintaining the Company's existing level of production capacity and operating efficiency.

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

Changes in Capital Assets

The following table shows the changes in the Company's capital assets during the first three quarters of 2018:

(in millions of dollars)	39 weeks ended Sep 29, 2018
Opening capital assets at December 31, 2017	319.0
Depreciation	(32.8)
Foreign currency translation adjustment ⁽¹⁾	3.9
Disposals	(1.7)
Acquisitions	121.4
Capital expenditures:	
Project	31.8
Maintenance	13.4
Closing capital assets	455.0

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

Project Capital Expenditures

During the first three quarters of 2018, the Company invested \$31.8 million in project capital expenditures consisting of the following:

- \$6.2 million for the construction the GTA Facility (see *Results of Operations – Plant Start-up and Restructuring Costs*). This facility will: (i) provide much needed capacity to the Company's Ocean Miracle and Diana's Seafood foodservice distribution businesses, both of which will move their operations into it; and (ii) allow Ocean Miracle and Diana's Seafood to offer hotels, restaurants and institutions a full line of high quality customized protein solutions, thereby expanding the Company's very successful Centennial Foodservice (Centennial) business model into Ontario. Currently Centennial operates only in western Canada.

The projected cost of this project, which includes equipment and leasehold improvements, is \$16.5 million, \$8.5 million of which had been spent in prior years. The Company expects to complete this project in the fourth quarter of 2018 (see *Forward Looking Statements*).

- \$2.8 million (US\$2.2 million) for fresh-snack tray packaging capacity at the Company's plant in Reno, NV. This project, which was completed at the end of the second quarter of 2018, provides the capacity needed to support a variety of new branded and co-packing initiatives that had previously been on hold due to capacity limitations.
- \$3.0 million (US\$2.3 million) for additional production lines at the Company's Phoenix sandwich plant. These lines will increase the plant's capacity as well as improve its efficiency through the use of automation. The projected cost of the project, which is expected to be completed in the second quarter of 2019, is US\$6.0 million (see *Forward Looking Statements*).
- \$2.3 million for a new enterprise resource planning system that the Company intends to implement in a number of its businesses over the next several years.
- \$1.6 million for the construction of a new 22,300 square foot culinary plant in Surrey, BC capable of producing fresh salads, soups and sauces. This facility will replace the Company's Gourmet Chef business' culinary plant in Langley, BC, which is operating at capacity. The projected cost of the project, which includes equipment and leasehold improvements, is \$4.5 million and it is expected to be completed in the fourth quarter of 2018 (see *Forward Looking Statements*).
- \$1.3 million for the expansion of the Company's Expresco business' Montreal cooked protein plant, which is operating at near to capacity. The projected cost of the project, which includes equipment and leasehold improvements, is \$5.0 million and it is expected to be completed in the third quarter of 2019 (see *Forward Looking Statements*).
- \$14.6 million for a variety of smaller projects consisting mainly of capacity related equipment purchases.

Historic Maintenance Capital Expenditures

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

<i>(in millions of dollars)</i>	
Trailing four quarters ended:	
September 29, 2018	13.4
December 30, 2017	12.0
December 31, 2016	8.6
December 26, 2015	6.4
December 27, 2014	4.8
December 28, 2013	4.3
December 29, 2012	2.9
December 31, 2011	2.9
December 25, 2010	1.7
December 26, 2009	2.0
December 31, 2008	2.6
December 31, 2007	1.8
December 31, 2006	1.9

Looking forward, for 2018 the Company expects its maintenance capital expenditures to be between \$15.0 million and \$20.0 million (see *Forward Looking Statements*).

Corporate Investments

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

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

Business Acquisitions

During the first three quarters of 2018, the Company invested \$740.1 million in the acquisition of the following businesses:

	Business Description	Annual Sales (in millions of \$)	Investment	Purchase Date
The Meat Factory Limited	A manufacturer of branded cooked protein products, including back ribs, for retail and foodservice customers across Canada	52.0	100% interest	Mar 23, 2018
Frandon Seafoods Inc.	A distributor of fresh and frozen seafood to retail and foodservice customers in the greater Montreal area	15.0	100% interest	Mar 23, 2018
Country Prime Meats Ltd.	A manufacturer of shelf stable meat snacks for primarily businesses owned by the Company	(1)	100% interest	Mar 29, 2018
McLean Meats Inc.	A marketer and distributor of premium and organic deli meats to retail customers across Canada and parts of the U.S.	13.0	Increased interest by 30% to 66.2%	Apr 6, 2018
Penguin Meats Supply Ltd.	A distributor of a range of protein products to retail and foodservice customers in B.C.	30.0	100% interest	Apr 22, 2018
Concord Premium Meats Ltd.	A manufacturer of branded and customized protein solutions for retail and foodservice customers across Canada	235.0	100% interest	May 28, 2018
Oberto Sausage Company	A manufacturer of beef jerky and other protein based snack foods for retail customers across the U.S. and Canada	US217.0	100% interest	May 31, 2018
Select Food LLC	A manufacturer of sandwiches for retail and distributor customers in the U.S. Midwest. Select Foods' operations will be merged into one of the Company's other sandwich operations	US18.0	100% interest	Jul 6, 2018
Yorkshire Valley Farms Ltd.	A processor of organic chicken for retail customers across Canada	65.0	62.6% interest	Jul 27, 2018
Ready Seafood Co.	A processor and distributor of lobsters for retail and foodservice customers in the U.S., Canada, Europe and Asia	US129.0	100% interest	Sep 18, 2018

(1) Primarily all of Country Prime Meats' sales are to businesses owned by the Company.

Investments in Associates

Investment in associates consists of the Company's investments in businesses which it does not control, including a 35% interest in PB Real Estate Limited Partnership, formerly Pender West LP, a Vancouver, B.C. based real estate investment fund which owns and leases to the Company three industrial real estate properties. Other than PB Real Estate Limited Partnership, all of the businesses included in investment in associates are specialty food companies.

The following table shows the changes in investment in associates during the first three quarters of 2018:

<i>(in millions of dollars)</i>	39 weeks ended Sep 29, 2018
Opening investment in associates at December 30, 2017	25.5
Investments in and advances to associates	5.9
Equity loss in associates	(1.5)
Acquisition of control of associates – McLean ⁽¹⁾	(1.6)
Cash distribution from associates	(0.3)
Closing investment in associates at September 29, 2018	28.0

(1) The Company previously accounted for its investment in McLean Meats Ltd. (McLean) using the equity method. On April 6, 2018, it acquired a controlling interest in Mclean and, accordingly, changed to accounting for McLean on a consolidated basis.

Goodwill and Intangible Assets

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

The following table shows the changes in the combined total of the Company's goodwill and intangible assets during the first three quarters of 2018:

<i>(in millions of dollars)</i>	39 weeks ended Sep 29, 2018
Opening goodwill and intangible assets at December 30, 2017	640.3
Amortization of intangible assets	(10.8)
Business acquisitions	568.4
Foreign currency translation adjustment ⁽¹⁾	6.2
Other	1.0
Closing goodwill and intangible assets	1,205.1

(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.

Puttable Interest in Subsidiaries

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

The following table shows the changes in puttable interest during the first three quarters of 2018:

<i>(in millions of dollars)</i>	39 weeks ended Sep 29, 2018
Opening puttable interest at December 30, 2017	36.7
Change in value	5.2
Cash distributions to non-controlling shareholders with puttable interests	(2.0)
Acquisitions	28.3
Additions arising from issuance of shares of subsidiary ⁽¹⁾	0.5
Foreign currency translation adjustment ⁽²⁾	0.3
Closing puttable interest ⁽³⁾	69.0

(1) Contingent consideration related to a previous acquisition was partially settled through the issuance of shares of one of the Company's subsidiaries (see *Liquidity and Capital Resources – Corporate Investments – Provisions*). The holders of these shares have put options which entitle them to require the Company to purchase the shares from them.

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

Provisions

Provisions consist of the following amounts:

<i>(in millions of dollars)</i>	As at Sep 29, 2018
Contingent consideration – IMS acquisition ⁽¹⁾	0.8
Contingent consideration – Country Prime Meats acquisition ⁽²⁾	1.8
Contingent consideration – Ready Seafood Co. acquisition ⁽³⁾	40.8
Contingent consideration – Select Food LLC acquisition ⁽⁴⁾	0.6
Lease restoration costs ⁽⁵⁾	1.1
Provisions ⁽⁶⁾	45.1

(1) This represents the discounted present value of the contingent consideration that is payable to the previous owners of IMS (acquired in 2017) if the business achieves certain performance targets over the two-year period ending January 27, 2019.

(2) This represents the discounted present value of the contingent consideration that is payable to the previous owners of Country Prime Meats (acquired in 2018) if the business achieves certain performance targets over the two-year period ending March 29, 2020.

(3) This represents the discounted present value of the contingent consideration that is payable to the previous owners of Ready Seafood Co. (acquired in 2018) based on the business' performance for the two-year period ending March 31, 2024.

(4) This represents the discounted present value of the contingent consideration that is payable to the previous owners of Select Food LLC (acquired in 2018) if the business achieves certain performance targets over the one-year period ending July 06, 2029.

(5) This represents the discounted present value of estimated (see *Forward Looking Statements*) future site restoration costs associated with certain leased facilities. The final liabilities will be payable upon the expiry of the associated leases.

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

The following table shows the changes in the provisions during the first three quarters of 2018:

(in millions of dollars)	39 weeks ended Sep 29, 2018
Opening provisions at December 30, 2017	22.5
Acquisition	43.3
Cash payments	(20.5)
Settlement through issuance of shares of subsidiary	(0.5)
Accretion of provisions	0.3
Closing provisions ⁽¹⁾	45.1

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

OUTLOOK

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

See *Results of Operations* for details on the Company's revenue and adjusted EBITDA expectations for 2018 and 2019; and its plant start-up costs and income tax rate expectations for 2018.

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

See *Liquidity and Capital Resources – Capital Expenditures* for details on the Company's project and maintenance capital expenditure expectations for 2018.

In terms of business acquisitions, the Company intends (see *Forward Looking Statements*) to continue to pursue opportunities and, correspondingly, is in the process of evaluating several potential transactions.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

Contractual Obligations

The payments due on the Company's significant contractual obligations at September 29, 2018 are as follows:

(in millions of dollars)	Total	1 year out	2 years out	3 years out	4 years out	5 years out	There- after
Long-term debt	745.0	11.1	10.4	10.0	683.6	21.1	8.8
4.65% Debentures (2018)	172.5	-	-	-	-	-	172.5
4.60% Debentures	113.0	-	-	-	-	-	113.0
4.65% Debentures (2016)	86.1	-	-	86.1	-	-	-
Operating leases	228.2	33.7	31.8	29.3	25.7	19.3	88.4
Total	1,344.8	44.8	42.2	125.4	709.3	40.4	382.7

TRANSACTIONS WITH RELATED PARTIES

During the first three quarters of 2018, the Company entered into the following transactions with related parties:

PB Real Estate Limited Partnership, formerly Pender West LP

PB Real Estate Limited Partnership is a Vancouver, B.C. based real estate investment fund in which the Company owns a 35% interest (see *Corporate Investments – Investments in Associates*) and the Company's Chairman, Bruce Hodge, indirectly owned a 13% interest as at September 29, 2018.

Pursuant to three twenty-year real property leases ending between April 2033 and January 2034, the Company made \$2.1 million in lease payments to PB Real Estate Limited Partnership in the first three quarters of 2018.

As of November 1, 2018, the Company's Chairman, Bruce Hodge, no longer holds an interest in PB Real Estate Limited Partnership.

Employee Loan Program (ELP)

In 2006 the Company put into place the ELP. Under the terms of the program the Company makes loans to certain employees, officers and directors of the Company (the participants) for the sole purpose of enabling them to purchase the Company's issued and outstanding common shares. The primary reasons for the ELP are: (i) facilitating ownership in the Company by the participants and thereby further aligning their interests with those of the Company's shareholders; and (ii) supporting employee retention.

The terms of a loan made under the ELP are as follows:

- Security: A first charge on the shares (the ELP shares) purchased with the proceeds of the loan and a personal guarantee from the participant
- Interest: None unless an event of default occurs
- Principal payments: Quarterly payments equal to 55% of the dividends paid on the ELP shares
- Maturity: Loan is immediately due and payable upon the termination of the participant's employment with the Company, otherwise, no fixed maturity date

As at the end of the third quarter of 2018, \$19.3 million of ELP loans, which are included as part of *Other Assets* on the Company's consolidated balance sheet, were outstanding to 156 employees, officers and directors of the Company.

Principal payments on the ELP loans in the first three quarters of 2018 totaled \$0.5 million from employees, officers and directors of the Company.

SUBSEQUENT EVENTS

No material events occurred subsequent to the quarter.

FORWARD LOOKING STATEMENTS

This discussion and analysis contains forward looking statements with respect to the Company, including, without limitation, statements regarding its business operations, strategy and financial performance and condition, cash distributions, proposed acquisitions, budgets, projected costs and

plans and objectives of or involving the Company. While management believes that the expectations reflected in such forward looking statements are reasonable and represent the Company's internal expectations and belief as of November 12, 2018, there can be no assurance that such expectations will prove to be correct as such forward looking statements involve unknown risks and uncertainties beyond the Company's control which may cause its actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements.

Forward looking statements generally can be identified by the use of the words "may", "could", "should", "would", "will", "expect", "intend", "plan", "estimate", "project", "anticipate", "believe" or "continue", or the negative thereof or similar variations. Forward looking statements in this discussion and analysis include statements with respect to the Company's expectations and/or projections on its: (i) revenue; (ii) adjusted EBITDA; (iii) plant start-up and restructuring costs; (iv) income tax rates; (v) dividend policy; (vi) capital expenditures; and (vii) senior debt capacity utilization.

Some of the factors that could cause actual results to differ materially from the Company's expectations are outlined below under *Risks and Uncertainties*.

Assumptions used by the Company to develop forward looking information contained or incorporated by reference in this discussion and analysis are based on information currently available to it and include those outlined below as well as those outlined elsewhere in this document. Readers are cautioned that this information is not exhaustive.

- The overall economic conditions in Canada and the United States will be relatively stable with modest improvement in the near to medium term.
- The average cost of the basket of food commodities purchased by the Company will be relatively stable with some modest deflationary pressures in the short term.
- The Company's major capital projects, plant start-up and business acquisition initiatives will progress in line with its expectations.
- The Company will be able to continue to access sufficient skilled and unskilled labor at reasonable wage levels.
- The Company will be able to continue to access sufficient goods and services for its manufacturing and distribution operations.
- The value of the Canadian dollar relative to the U.S. dollar will continue to fluctuate in line with recent levels.
- The Company will be able to achieve continued operating efficiency improvements.
- There will not be any material changes in the competitive environment of the markets in which the Company's various businesses compete.
- There will not be any material changes in the key food trends that are driving growth in many of the Company's businesses. These trends include: (i) growing demand for higher quality foods made with simpler more wholesome ingredients and/or with differentiating attributes such as antibiotic free, no added hormones or use of organic ingredients; (ii) increased reliance on convenience oriented foods both for on-the-go snacking as well as easy home meal preparation; (iii) healthier eating including reduced sugar consumption and increased emphasis on protein; (iv) increased snacking in between and in place of meals; (v) increased interest in understanding the background and stories behind food products being consumed; and (vi) increased social awareness on issues such as sustainability, sourcing products locally, animal welfare and food waste.
- Overall North American weather patterns will be in line with historic patterns. To the extent that unusual and/or extreme weather occurs this can impact the Company in a variety of ways including: (i) changes in consumer demand patterns; (ii) changes in raw material costs; and (iii) raw material shortages.

- There will not be any material changes in the Company's relationships with its larger customers including the loss of a major product listing and/or being forced to give significant product pricing concessions.
- There will not be any material changes in the trade relationship between Canada and the U.S., particularly with respect to certain protein commodities such as beef, pork and chicken products.
- The Company will be able to negotiate new collective agreements with no labor disruptions.
- The Company will be able to continue to access reasonably priced debt and equity capital.
- The Company's average interest cost on floating rate debt will remain relatively stable in the near to medium future.
- Contractual counterparties will continue to fulfill their obligations to the Company.
- There will be no material changes to the tax and other regulatory requirements governing the Company.

Management has set out the above summary of assumptions related to forward looking information included in this discussion and analysis in order to provide a more complete perspective on the Company's future operations. Readers are cautioned that this information may not be appropriate for other purposes.

Unless otherwise indicated, the forward looking information in this document is made as of November 12, 2018 and, except as required by applicable law, will not be publicly updated or revised. This cautionary statement expressly qualifies the forward looking information in this document.

RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties related to its businesses that may have adverse effects on its results of operations and financial position. Some of these risks and uncertainties are outlined below. Prospective investors should carefully review and evaluate these risk factors together with all of the other information contained in this MD&A. Furthermore, it should be noted that the risk factors described below are not the only risk factors facing the Company and it may be subject to risks and uncertainties not described below that it is not presently aware of or that it may currently deem insignificant (see *Forward Looking Statements*).

- Increases in the cost of raw materials used in the production of the Company's products and/or the cost of products sourced from third party manufacturers and sold through the Company's distribution networks;
- Reductions in consumer discretionary spending resulting from changes in economic conditions and/or general consumer confidence levels;
- Deterioration of the Company's relationships with its larger customers;
- Liabilities, losses and expenses resulting from defects in the Company's products and/or product recalls;
- Unseasonably poor weather conditions;
- Inability to access adequate amounts of raw materials;
- Changes in consumer food product preferences;
- Increased competition from other food manufacturers and distributors;
- Being unable to continue to grow the Company's sales;
- Ability to execute on the Company's business acquisition strategies;
- Completing the Company's business restructuring initiatives and capital projects in line with cost estimates and being able to achieve the associated expected benefits;

- Changes in the value of the Canadian dollar relative to the U.S. dollar;
- Failure or breach of the Company's information systems;
- New government regulations;
- Not being able to source an adequate supply of labor;
- Potential disputes with employees represented by labor unions;
- Not being able to raise the capital needed to fund the Company's growth initiatives;
- The loss and/or inability to attract key senior personnel;
- Increases in the interest rates associated with the Company's funded debt;
- Financial exposure resulting from credit extended to the Company's customers;
- The malfunction of critical equipment used in the Company's operations;
- Livestock health issues;
- International trade issues;
- Changes in environmental, health and safety standards; and
- Completing the Company's enterprise resource planning system implementations in line with cost estimates and without negatively impacting its operations; and being able to achieve the associated expected benefits.

Details on the above risk factors as well as other factors that could potentially impact the Company's results of operations and financial position can be found in the Company's Management's Discussion and Analysis ("**MD&A**") for the fiscal year ended December 30, 2017 under the heading "Risks and Uncertainties", which is incorporated by reference herein. The Company's MD&A has been filed electronically through SEDAR and is available online at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

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

Significant areas requiring the use of management estimates include: inventories, goodwill and intangible assets, capital assets, income tax provisions, puttable interest in subsidiaries, convertible unsecured subordinated debentures, business acquisitions and contingent consideration, provisions and plant start-up costs. Details on these items can be found in the Company's 2017 consolidated financial statements, which are incorporated by reference herein, have been filed electronically through SEDAR and are available online at www.sedar.com.

NEW ACCOUNTING POLICIES

The International Accounting Standards Board (IASB) periodically issues new standards and amendments or interpretations to existing standards. The only current new pronouncement by the IASB that management considers to be material to the Company's financial reporting is IFRS 16 – Leases. Details on the expected impact (see *Forward Looking Statements*) of this pronouncement can be found in the Company's Interim Condensed Consolidated Financial Statements for the thirteen and thirty-nine week periods ended September 29, 2018, which are incorporated by reference herein and have been filed electronically through SEDAR and are available online at www.sedar.com

FINANCIAL INSTRUMENTS

Foreign Currency Contracts

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

Details on the Company's outstanding foreign currency contracts can be found in its Interim Condensed Consolidated Financial Statements for the thirteen and thirty-nine week periods ended September 29, 2018, which are incorporated by reference herein.

Interest Rate Swap Contracts

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

Details on the Company's outstanding interest rate swap contracts can be found in its Interim Condensed Consolidated Financial Statements for the thirteen and thirty-nine week periods ended September 29, 2018, which are incorporated by reference herein.

OTHER

Outstanding Shares

The shares outstanding in the Company as November 12, 2018 were 33,765,329. Under IFRS, which requires that shares issued under employee share benefit plans that have not yet vested be deducted from shares outstanding, the shares outstanding in the Company as of November 12, 2018 were 33,657,422.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

Management has evaluated the Company's DCP as of September 29, 2018 and has concluded that such procedures are adequately designed for providing reasonable assurance that (i) material information relating to the Company, including its consolidated subsidiaries, is made known to management on a timely basis to ensure adequate disclosure and (ii) information required to be disclosed by the Company in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time period.

Management has also evaluated the Company's ICFR as of September 29, 2018 and has concluded that the Company's ICFR is adequately designed for providing reasonable assurance that the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with IFRS.

Although the Company's assessment of DCP and ICFR are based on the integrated framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO), both DCP and ICFR, no matter how well designed, have inherent limitations. Therefore, DCP and ICFR can only provide reasonable assurance and thus may not prevent or detect all misstatements.

The Company's Management has also concluded that there have been no changes to the Company's ICFR during the interim period ending September 29, 2018 that has materially affected, or are reasonably likely to affect, its ICFR.

Responsibilities of Management and Board of Directors

Management is responsible for the reliability and timeliness of content disclosed in this management's discussion & analysis (MD&A), which is current as of November 12, 2018. It is the responsibility of the Company's Audit Committee to provide oversight in reviewing the MD&A and the Company's Board of Directors to approve the MD&A.

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

This MD&A, dated November 12, 2018, 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 SEDAR and is available online at www.sedar.com.