



## PREMIUM BRANDS HOLDINGS CORPORATION

### Management's Discussion and Analysis

#### For the 13 and 52 Weeks Ended December 25, 2021

*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 March 9, 2022. It should be read in conjunction with the Company's fiscal 2021 audited consolidated financial statements and the notes thereto, which are prepared in accordance with International Financial Reporting Standards (IFRS). These documents, as well as additional information on the Company, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at [www.sedar.com](http://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:

**Specialty food businesses.** The Company considers the key characteristic of a specialty food business to be that a consumer's and/or customer's decision to purchase its products is based primarily on factors other than price, such as quality, convenience, health and/or lifestyle. As a result, specialty food businesses generally earn higher and more consistent selling margins relative to food companies that focus on less differentiated products. Furthermore, due to a variety of consumer trends impacting the food industry, these businesses tend to generate higher sales growth rates as compared to 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.

## SELECT ANNUAL INFORMATION

The following is a summary of select annual consolidated financial information. Adjusted EBITDA, free cash flow per share and RONA are non-GAAP measures, and all other amounts are derived from the Company's audited consolidated financial statements for each of the three most recently completed financial years prepared in accordance with IFRS.

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

<i>(in millions of dollars except per share amounts)</i>	52 weeks ended Dec 25, 2021	52 weeks ended Dec 26, 2020	52 weeks ended Dec 28, 2019
Revenue	4,931.7	4,068.9	3,649.4
Adjusted EBITDA <sup>(1)</sup>	430.7	312.6	307.7
Earnings	132.7	83.7	84.2
Basic earnings per share	3.05	2.16	2.35
Diluted earnings per share	3.04	2.15	2.34
Total assets	4,408.9	3,540.3	2,937.1
Net senior debt <sup>(2)</sup>	1,102.6	194.1	637.0
Long-term financial liabilities <sup>(3)</sup>	1,409.6	960.8	975.9
RONA <sup>(4)</sup>	10.6%	10.2%	10.7%
Dividends declared per share	2.54	2.31	2.10
Free cash flow per share <sup>(5) (6)</sup>	6.05	4.87	4.97

- (1) Adjusted EBITDA is not defined under IFRS. See *Results of Operations – Adjusted EBITDA* for the description and calculation of Adjusted EBITDA.
- (2) Excludes cash and includes the current and long-term portion of long-term debt, bank indebtedness and outstanding cheques
- (3) Excludes deferred financing costs and includes the current and long-term portions of long-term debt, pension obligations and convertible unsecured subordinated debentures.
- (4) RONA is not defined under IFRS. See *Business Overview – RONA* for the description and calculation of RONA.
- (5) Free cash flow is not defined under IFRS. See *Liquidity and Capital Resources – Dividends – Free Cash Flow* for the description and calculation of free cash flow.
- (6) Free cash flow per share is calculated as free cash flow divided by the weighted average shares outstanding for the applicable period.

### **Revenue and Earnings**

The Company has grown its revenue and adjusted EBITDA for each of the last two years through a combination of business acquisitions and organic growth initiatives, partially offset by a variety of transitory challenges associated with the COVID-19 pandemic, including labor shortages and global supply chain disruptions (see *Risks and Uncertainties – Public Health Threat*), which had a particularly significant impact on its 2020 results. The Company's earnings in 2021 were further impacted by a significant charge relating to the revaluation of the conversion options attached to its outstanding convertible debentures.

The Company's basic earnings per share in 2020 and 2021 were also impacted by two large share issuances completed in the latter half of 2020.

## Total Assets

The increases in the Company's total assets over the last two years were primarily due to investments in business acquisitions, project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*) and working capital assets, primarily all of which were based on: (i) pursuing growth opportunities; and (ii) in the case of working capital, mitigating the Company's exposure to supply chain disruptions and the impacts of cost inflation.

## Net Senior Debt and Long-term Financial Liabilities

The Company's net senior debt and long-term financial liabilities can fluctuate significantly based on where it is in its financing cycle. The Company uses its excess credit capacity (see *Liquidity and Capital Resources – Debt Financing Activities*) to fund business acquisitions, project capital expenditures and general corporate purposes, all of which generally result in an increase in its net senior debt and long-term financial liabilities. The Company then uses its excess free cash flow as well as accesses the public capital markets at opportunistic times or when additional funding is needed for larger transactions to reduce its long-term financial liabilities and correspondingly replenish its credit capacity. Furthermore, a key component of the Company's equity financing strategy is the issuance of convertible debentures, which are initially classified as a long-term financial liability but are ultimately expected to be converted into shares (see *Forward Looking Statements*).

## RONA

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

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

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

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021	52 weeks ended Dec 26, 2020	52 weeks ended Dec 28, 2019
Return:			
Adjusted EBITDA <sup>(1)</sup>	430.7	312.6	307.7
Impact of the adoption of IFRS-16 on Adjusted EBITDA	(50.4)	(40.8)	(35.8)
Maintenance capital expenditures <sup>(2)</sup>	(29.3)	(27.1)	(26.5)
	351.0	244.7	245.4
Average adjusted net assets <sup>(3)</sup> :			
Opening net assets	2,844.2	2,351.7	2,203.9
Closing net assets excluding net assets of businesses acquired during the year and unusual excess cash <sup>(4)</sup>	2,735.0	2,345.3	2,235.7
Average net assets <sup>(5)</sup>	2,789.6	2,348.5	2,219.8
Weighted net assets of businesses acquired during the year <sup>(6)</sup>	534.4	55.3	67.0
	3,324.0	2,403.8	2,286.8
RONA <sup>(7)</sup>	10.6%	10.2%	10.7%

(1) Adjusted EBITDA is not defined under IFRS. See *Results of Operations – Adjusted EBITDA* for the description and calculation of Adjusted EBITDA.

(2) See *Liquidity and Capital Resources – Capital Expenditures*

(3) Net assets are calculated as total assets less right-of-use assets, deferred income tax assets, accounts payable and accrued liabilities.

(4) Excludes temporary excess cash balance held at the end of 2020.

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

(6) 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.

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

The Company's RONA for each of the last three years has been below its long-term target of 15% primarily due to: (i) business acquisitions and major capital project investments that are in the early stages of development and correspondingly are not yet generating the returns expected over the long term – the Company's investment horizons are generally ten years or longer; and (ii) the transitory COVID-19 pandemic related factors impacting the Company's adjusted EBITDA (see *Select Annual Information – Revenue and Earnings*).

#### FOURTH QUARTER OPERATING RESULTS

The Company's operating results for the fourth quarters of 2021 and 2020 and for the fiscal years of 2021 and 2020 were as follows:

<i>(in millions of dollars)</i>	13 weeks ended Dec 25, 2021	13 weeks ended Dec 26, 2020	52 weeks ended Dec 25, 2021	52 weeks ended Dec 26, 2020
Revenue	1,345.4	1,056.2	4,931.7	4,068.9
Gross profit before depreciation, amortization and plant start-up and restructuring costs	234.1	202.1	901.9	780.2
Interest income from investment in associates	14.7	0.2	53.7	2.3
Selling, general and administrative expenses	135.4	114.6	524.9	469.9
Operating profit before depreciation, amortization and plant start-up and restructuring costs	113.4	87.7	430.7	312.6
Plant start-up and restructuring costs	1.1	2.0	2.1	8.2
	112.3	85.7	428.6	304.4
Depreciation of capital assets	16.8	17.9	70.0	67.2
Amortization of intangible assets	7.1	6.9	27.3	26.2
Amortization of right of use assets	10.7	8.1	37.5	31.6
Accretion of lease obligations	5.3	3.9	19.2	15.0
Interest and other financing costs	8.3	10.6	41.3	43.0
Change in fair value of option liabilities	3.1	-	30.0	-
Acquisition transaction costs	1.9	1.3	7.7	5.6
Accretion of provisions	1.9	2.5	7.3	8.5
Equity loss (earnings) in investment in associates	2.1	(0.1)	7.8	2.0
Change in value of puttable interest in subsidiaries	-	0.5	0.5	(3.3)
Clearwater closing risk fee	-	-	(2.4)	-
Acquisition bargain purchase gain	-	-	(1.8)	-
Provisions not earned	-	-	-	(2.0)
Earnings before income taxes	55.1	34.1	184.2	110.6
Income tax provision – current	11.2	4.2	66.3	18.3
Income tax provision – deferred	5.9	6.6	(14.8)	8.6
Income tax provision	17.1	10.8	51.5	26.9
Earnings	38.0	23.3	132.7	83.7

## RESULTS OF OPERATIONS

The Company reports on two reportable segments, Specialty Foods and Premium Food Distribution, as well as non-segmented investment income and 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. Investment income includes interest and management fees generated from the Company's businesses that are accounted for using the equity method.

### Revenue

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Dec 25, 2021	% (1)	13 weeks ended Dec 26, 2020	% (1)	52 weeks ended Dec 25, 2021	% (1)	52 weeks ended Dec 26, 2020	% (1)
Revenue by segment:								
Specialty Foods	779.4	57.9%	678.1	64.2%	2,987.1	60.6%	2,667.3	65.6%
Premium Food Distribution	566.0	42.1%	378.1	35.8%	1,944.6	39.4%	1,401.6	34.4%
<b>Consolidated</b>	<b>1,345.4</b>	<b>100.0%</b>	<b>1,056.2</b>	<b>100.0%</b>	<b>4,931.7</b>	<b>100.0%</b>	<b>4,068.9</b>	<b>100.0%</b>

(1) Expressed as a percentage of consolidated revenue.

Specialty Foods' (SF) revenue for the quarter increased by \$101.3 million or 14.9% primarily due to: (i) selling price inflation of \$41.6 million, which was driven by increases implemented in reaction to inflationary pressures across a broad range of raw materials; (ii) organic volume growth of \$41.2 million representing an organic volume growth rate (OVGR) of 6.1% – after adjusting for transitory pandemic related impacts of approximately \$1.9 million, SF's normalized OVGR is 5.8%; (iii) business acquisitions, which accounted for \$29.8 million of SF's growth; and (iv) the reclassification of \$2.6 million of promotion costs to selling, general and administrative expense. These factors were partially offset by a \$13.9 million reduction in the translated value of sales generated by SF's U.S. based businesses due to a stronger Canadian dollar – approximately 52.3% of SF's revenue for the quarter was generated by these businesses.

SF's normalized OVGR of 5.8% was driven primarily by its artisan sandwich, meat snack, cooked meat and charcuterie growth initiatives, including the ramping up of its U.S. expansion and the launch of several new product lines. While this rate is at the top end of the long-term targeted range of 4% to 6%, it was lower than potential due to: (i) approximately \$29.4 million in lost sales opportunities caused by supply chain disruptions and labor shortages that resulted in lower than normal customer order fill rates by the segment's U.S. meat snack and sandwich businesses – adjusting for these, SF's normalized OVGR is 10.1%; and (ii) less featuring of branded products in the retail channel by the SF's Canadian protein businesses, which was done on a temporary basis to mitigate the margin impact of record increases in the cost of a variety of raw materials while selling price increases were being implemented.

SF's revenue for 2021 increased by \$319.8 million or 12.0% primarily due to: (i) organic volume growth of 9.6% or approximately 8.3% after normalizing for the estimated impacts of the pandemic; (ii) net selling price inflation of \$103.2 million; and (iii) business acquisitions, which accounted for \$62.4 million of the increase; partially offset by a \$103.6 million reduction in the translated value of sales generated by the Company's U.S. based businesses.

Premium Food Distribution's (PFD) revenue for the quarter increased by \$187.9 million or 49.7% due to: (i) business acquisitions, which accounted for \$89.5 million of PFD's growth; (ii) selling price inflation of \$69.7 million, which was driven by increases implemented in reaction to inflationary pressures across a broad range of procured products and raw materials; and (iii) organic volume growth of \$33.9 million representing an OVGR of 9.0% – after adjusting for transitory pandemic related impacts of approximately \$29.4 million, PFD's normalized OVGR is 1.2%. These factors were partially offset by a

\$5.2 million reduction in the translated value of sales generated by PFD's U.S. based businesses due to a stronger Canadian dollar.

PFD's normalized OVGR of 1.2% is below its long-term target of 4.0% to 6.0% primarily due to: (i) approximately \$10.1 million in lost sales opportunities caused by supply chain disruptions that resulted in reduced lobster exports to Asia and lower than normal customer order fill rates – adjusting for these, PFD's normalized OVGR is 3.9%, which was driven by a variety of factors including the continued development of new supply and product solutions for the retail channel; and (ii) continuing impacts of pandemic related restrictions on the foodservice channel – as a result PFD's foodservice businesses are still in recovery mode and are not yet generating organic growth in this channel relative to their 2019 sales levels.

PFD's revenue for 2021 increased by \$543.0 million or 38.7% primarily due to: (i) business acquisitions, which accounted for \$295.4 million of the increase; (ii) net selling price inflation of \$203.9 million; and (iii) organic volume growth of 5.1% or approximately 2.4% after normalizing for the estimated impacts of the pandemic; partially offset by a \$27.1 million reduction in the translated value of sales generated by the Company's U.S. based businesses.

## Gross Profit

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Dec 25, 2021	% (1)	13 weeks ended Dec 26, 2020	% (1)	52 weeks ended Dec 25, 2021	% (1)	52 weeks ended Dec 26, 2020	% (1)
Gross profit by segment:								
Specialty Foods	150.3	19.3%	144.3	21.3%	606.5	20.3%	567.9	21.3%
Premium Food Distribution	83.8	14.8%	57.8	15.3%	295.4	15.2%	212.3	15.1%
Consolidated	234.1	17.4%	202.1	19.1%	901.9	18.3%	780.2	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 quarter decreased by 200 basis points primarily due to: (i) significantly higher costs for a broad range of raw materials, which exceeded SF's selling price increases due mainly to many of these taking effect part way through the quarter – adjusting for a full quarter's impact of price increases implemented during the quarter, SF's normalized gross margin is approximately 21.1%; (ii) wage, freight and general cost inflation; and (iii) additional outside storage costs associated with inventory strategies used to help mitigate the impact of rising production input costs and industry wide supply chain disruptions. These factors were partially offset by: (i) sales leveraging associated with SF's organic growth; and (ii) the reclassification of \$3.1 million in costs to selling, general and administrative expenses.

SF's gross margin for 2021 decreased by 100 basis points primarily due to the factors outlined above partially offset by: (i) unusually low margins in the second quarter of 2020 as a result of lost sales leveraging caused by pandemic related shutdowns of large portions of the U.S. and Canadian economies; and (ii) plant production efficiency improvements in the first three quarters of 2021, driven by automation and improved throughputs.

PFD's gross margin for the quarter decreased by 50 basis points primarily due to: (i) significantly higher costs for a broad range of procured products and raw materials. PFD was able to more than offset these increased costs with selling price increases (in general, PFD's businesses have much more dynamic pricing structures relative to SF's businesses) but did not maintain the same margin percentage due to a variety of factors including providing its customers with time to adapt to the higher price environment and a portion of its business being structured on a cost-plus basis; (ii) wage, freight and general cost inflation; and (iii) additional outside storage costs associated with inventory strategies used to help mitigate the impact of rising production input costs and industry wide supply chain disruptions. These

factors were partially offset by: (i) sales leveraging associated with its organic growth; and (ii) higher margins generated by recently acquired businesses.

PFD's gross margin for 2021 increased by 10 basis points primarily due to unusually low margins on certain live seafood products in the first quarter of 2020 because of pandemic related demand destruction in Asia partially offset by the net impact of the factors outlined above.

## Selling, General and Administrative Expenses (SG&A)

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Dec 25, 2021	% (1)	13 weeks ended Dec 26, 2020	% (1)	52 weeks ended Dec 25, 2021	% (1)	52 weeks ended Dec 26, 2020	% (1)
SG&A by segment:								
Specialty Foods	87.1	11.2%	77.3	11.4%	342.0	11.4%	320.2	12.0%
Premium Food Distribution	43.3	7.7%	31.2	8.3%	161.8	8.3%	128.6	9.2%
Corporate	5.0		6.1		21.1		21.1	
Consolidated	135.4	10.1%	114.6	10.9%	524.9	10.6%	469.9	11.5%
Interest Income from Investments	(14.7)		(0.2)		(53.7)		(2.3)	

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

SF's SG&A for the quarter increased by \$9.8 million primarily due to: (i) freight and wage inflation; (ii) business acquisitions; (iii) additional variable selling costs associated with SF's organic growth; and (iv) the reclassification of \$3.1 million in costs from cost of sales. These factors were partially offset by: (i) lower incentive-based compensation; and (ii) a lower translated value of the SG&A associated with the Company's U.S. based businesses due to a stronger Canadian dollar.

SF's SG&A for 2021 increased by \$21.8 million primarily due to the factors outlined above, partially offset by lower discretionary marketing costs as a result of unusually high marketing costs in the third quarter of 2020 and some of SF's businesses using reduced promotion earlier in 2021 as a transitory measure to manage the margin impact of record high cost inflation across a broad range of raw materials.

SF's SG&A as a percentage of sales (SG&A ratio) for the quarter and for 2021 decreased by 20 basis points and 60 basis points, respectively, primarily due to: (i) sales leveraging; (ii) lower incentive-based compensation; and (iii) reduced discretionary marketing costs. These factors were partially offset by: (i) freight and wage inflation; and (ii) the reclassification of \$3.1 million in costs from cost of sales.

PFD's SG&A for the quarter increased by \$12.1 million primarily due to: (i) business acquisitions; (ii) additional variable and infrastructure costs associated with PFD's organic growth; and (iii) higher incentive-based compensation.

PFD's SG&A for 2021 increased by \$33.2 million primarily due to the factors outlined above partially offset by pandemic related travel cost savings and government wage subsidies earlier in 2021.

PFD's SG&A ratios for the quarter and for 2021 decreased by 60 basis points and 90 basis points, respectively, primarily due to: (i) sales leveraging; and (ii) PFD's recently acquired businesses having lower SG&A ratios relative to its average.

Interest income from investments in associates for the quarter and for 2021 increased by \$14.5 million and \$51.4 million, respectively, primarily due to interest and management fees relating to the acquisition of a 50% interest in Clearwater (see *Liquidity and Capital Resources – Corporate Investments – Investments in Associates*).

## 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 Dec 25, 2021	13 weeks ended Dec 26, 2020	52 weeks ended Dec 25, 2021	52 weeks ended Dec 26, 2020
Earnings before income taxes	55.1	34.1	184.2	110.6
Plant start-up and restructuring costs <sup>(1)</sup>	1.1	2.0	2.1	8.2
Depreciation of capital assets <sup>(2)</sup>	16.8	17.9	70.0	67.2
Amortization of intangible assets <sup>(2)</sup>	7.1	6.9	27.3	26.2
Amortization of right of use assets <sup>(2)</sup>	10.7	8.1	37.5	31.6
Accretion of lease obligations <sup>(3)</sup>	5.3	3.9	19.2	15.0
Interest and other financing costs <sup>(3)</sup>	8.3	10.6	41.3	43.0
Change in fair value of option liabilities <sup>(1)(3)</sup>	3.1	-	30.0	-
Acquisition transaction costs <sup>(1)</sup>	1.9	1.3	7.7	5.6
Accretion of provisions <sup>(3)</sup>	1.9	2.5	7.3	8.5
Equity loss (earnings) in investments in associates <sup>(5)</sup>	2.1	(0.1)	7.8	2.0
Change in value of puttable interest in subsidiaries <sup>(4)</sup>	-	0.5	0.5	(3.3)
Clearwater closing risk fee <sup>(1)</sup>	-	-	(2.4)	-
Acquisition bargain purchase gain <sup>(1)</sup>	-	-	(1.8)	-
Provisions not earned <sup>(3)</sup>	-	-	-	(2.0)
<b>Adjusted EBITDA</b>	<b>113.4</b>	<b>87.7</b>	<b>430.7</b>	<b>312.6</b>

(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 consolidate as it does not own a controlling interest.

<i>(in millions of dollars except percentages)</i>								
	13 weeks ended Dec 25, 2021	% (1)	13 weeks ended Dec 26, 2020	% (1)	52 weeks ended Dec 25, 2021	% (1)	52 weeks ended Dec 26, 2020	% (1)
Adjusted EBITDA by segment:								
Specialty Foods	63.2	8.1%	67.0	9.9%	264.5	8.9%	247.7	9.3%
Premium Food Distribution	40.5	7.2%	26.6	7.0%	133.6	6.9%	83.7	6.0%
Corporate	(5.0)		(6.1)		(21.1)		(21.1)	
Interest Income from Investments	14.7		0.2		53.7		2.3	
<b>Consolidated</b>	<b>113.4</b>	<b>8.4%</b>	<b>87.7</b>	<b>8.3%</b>	<b>430.7</b>	<b>8.7%</b>	<b>312.6</b>	<b>7.7%</b>

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

The Company's adjusted EBITDA for the quarter of \$113.4 million, while being up \$25.7 million or 29.3% as compared to the fourth quarter of 2020, was significantly below what it would have been in a normal operating environment. The three primary challenges impacting the Company's fourth quarter adjusted EBITDA were: (i) lost sales opportunities caused by supply chain disruptions and labor shortages; (ii) delays in the timing of selling price increases implemented to address significant cost inflation; and (iii) the ongoing impacts of the pandemic. Correspondingly, the Company's adjusted EBITDA margin for the quarter of 8.4% was below its long-term target of 10%. Adjusting for the three challenges outlined above, the Company's normalized EBITDA margin is in line with its long-term target.

The Company's adjusted EBITDA for 2021 of \$430.7 million is in line with its previously provided guidance range of \$423.0 million to \$436.5 million. Its adjusted EBITDA margin for 2021 of 8.7% was, however, lower than expected due to: (i) higher than planned selling price inflation – correspondingly the Company's sales for 2021 of \$4.93 billion were above its guidance range of \$4.70 billion to \$4.85 billion; and (ii) lower than expected margins in its SF segment as a result of significant raw materials cost inflation.

## Sales and Adjusted EBITDA Outlook

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

### 2022

For 2022, the Company expects its sales to be between \$5.60 billion and \$5.85 billion and its adjusted EBITDA to be between \$510.0 million and \$530.0 million. These estimates are based on a range of assumptions (see *Forward Looking Statements*) including: (i) continued easing of pandemic related restrictions in Canada and the U.S. and corresponding demand increases in the foodservice, airline, and cruise line channels; (ii) stabilization of raw material costs with some mild deflation in certain commodities in the latter half of 2022; and (iii) stabilization of the Canadian dollar relative to the U.S. dollar at current levels.

The Company's sales and adjusted EBITDA outlooks for 2022 do not incorporate any provisions for potential future acquisitions but do include acquisitions outlined under *Subsequent Events*.

### 5 Year Plan

The Company continues to make solid progress on the execution of its growth and value creation strategies and is confident (see *Forward Looking Statements*) that it will exceed its five-year targets set in 2018 of \$6 billion in sales and \$600 million in adjusted EBITDA by 2023.

## Plant Start-up and Restructuring Costs

Plant start-up and restructuring costs consist of expenses associated with: (i) the start-up of new production capacity; (ii) the reconfiguration of existing capacity to gain efficiencies and/or additional capacity; and/or (iii) the restructuring of a business to improve its profitability. The Company expects (see *Forward Looking Statements*) these investments to result in improvements in its future earnings and cash flows.

During 2021, the Company incurred \$2.1 million in plant start-up and restructuring costs relating to a variety of projects, including a 42,000 square foot expansion of the Company's artisan bakery in British Columbia.

## Depreciation and Amortization (D&A)

<i>(in millions of dollars)</i>	13 weeks ended Dec 25, 2021	13 weeks ended Dec 26, 2020	52 weeks ended Dec 25, 2021	52 weeks ended Dec 26, 2020
Depreciation and amortization of intangible assets (D&A) by segment:				
Specialty Foods	17.2	19.4	73.2	72.9
Premium Food Distribution	6.4	5.0	22.7	19.3
Corporate	0.3	0.4	1.4	1.2
Consolidated	23.9	24.8	97.3	93.4

The Company's D&A expense for the quarter decreased by \$0.9 million primarily due to: (i) certain capital assets in the SF segment now being fully depreciated; and (ii) decreases in the translated value of its U.S. based businesses' D&A expense due to a stronger Canadian dollar; partially offset by: (i) business acquisitions; and (ii) the recent completion of a variety of capital projects.

The Company's D&A expense for 2021 as compared to 2020 increased by \$3.9 million primarily due to: (i) business acquisitions; and (ii) the recent completion of a variety of capital projects; partially offset by: (i) certain capital assets in the SF segment now being fully depreciated; and (ii) decreases in the translated value of its U.S. based businesses' D&A expense due to a stronger Canadian dollar.

## Interest and Other Financing Costs

The Company's interest and other financing costs for the fourth quarter of 2021 as compared to the fourth quarter of 2020 and for 2021 as compared to 2020 decreased by \$2.3 million and \$1.7 million, respectively, primarily due to: (i) the early conversion of certain convertible debentures (see *Liquidity and Capital Resources – Debt Financing Activities*); and (ii) lower average interest rates resulting from general market rate decreases, and lower, cash flow ratio based, credit spreads on the Company's revolving senior credit facility. These factors were partially offset by fluctuations in the Company's total funded debt (see *Liquidity and Capital Resources – Debt Financing Activities*).

## 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*).

## Equity Earnings (Loss) in Investment in Associates

Equity earnings (loss) in investment in associates includes the Company's proportionate share of the earnings and losses of its investments in associates (see *Liquidity and Capital Resources – Corporate Investments – Investments in Associates*).

<i>(in millions of dollars)</i>	13 weeks ended Dec 31, 2021	13 weeks ended Dec 31, 2020	52 weeks ended Dec 31, 2021	52 weeks ended Dec 31, 2020
Clearwater:				
Sales	141.7	128.6	532.9	468.6
Gross profit	42.1	40.4	165.9	123.4
SG&A	15.2	17.7	50.9	48.6
	26.9	22.7	115.0	74.8
Depreciation	13.7	11.1	40.4	38.0
Amortization	(0.3)	0.4	4.0	1.6
Interest – senior debt	2.8	7.3	12.9	29.7
Income from investments	1.5	0.5	3.4	5.6
Unrealized foreign exchange (gain) loss	9.8	(9.8)	7.0	(4.4)
Other	-	-	-	1.2
	(0.6)	13.2	47.3	3.1
Interest – shareholder debt	11.6	-	44.0	-
Payments to shareholders	5.3	-	28.8	-
Acquisition related costs	1.3	2.4	13.9	3.4
Closing risk fee paid to Premium Brands	-	-	2.4	-
Income tax recoveries	(3.8)	(2.1)	(8.7)	(1.7)
Earnings (loss)	(15.0)	12.9	(33.1)	1.4
Pre-close earnings (loss) <sup>(1)</sup>	(9.0)	12.9	(13.3)	1.4
	(6.0)	-	(19.8)	-
Ownership	50.0%	-	50.0%	-
Clearwater net equity earnings (loss) <sup>(2)</sup>	(3.0)	-	(9.9)	-
Other net equity earnings (loss)	0.9	0.1	2.1	(2.0)
<b>Equity earnings (loss) in investment in associates</b>	<b>(2.1)</b>	<b>0.1</b>	<b>(7.8)</b>	<b>(2.0)</b>

(1) Amount relates to Clearwater earnings prior to acquisition on January 25, 2021 and acquisition-related adjustments not included in Company's equity loss in investments in associates.

(2) Amount relates to Company's equity loss in Clearwater from January 25, 2021.

### *Clearwater Seafoods Incorporated (Clearwater)*

Clearwater's sales for the fourth quarter and 2021 increased by \$13.1 million and \$64.3 million, respectively primarily due to the easing of pandemic related restrictions and a corresponding reopening of economies in North America and Asia, which resulted in stronger demand and higher pricing for most of the species sold by Clearwater. This was partially offset by a stronger Canadian dollar relative to the U.S. dollar and the Euro as a significant portion of Clearwater's sales are denominated in these currencies.

Clearwater's gross margin for the quarter decreased by 170 basis points to 29.7% primarily due to: (i) the impact on sales from a stronger Canadian dollar; (ii) higher shore prices for procured products; (iii) the elimination of pandemic related subsidies received in 2020; and (iv) freight inflation. These factors were partially offset by: (i) the stronger pricing environment as discussed above; and (ii) a more disciplined selling strategy based on leveraging Clearwater's stronger financial position.

Clearwater's gross margin for 2021 increased by 480 basis points to 31.1% primarily due: (i) the positive factors impacting the fourth quarter being much more pronounced in earlier quarters; (ii) operational efficiencies in the first and second quarters, driven by larger and higher quality catches, continuous

improvement initiatives; and the reversal of pandemic related inefficiencies experienced in 2020; and (iii) leveraging the market intelligence and insights of the Company's other seafood businesses. These factors were partially offset by the negative factors outlined above.

Clearwater's SG&A for the quarter decreased by \$2.5 million primarily due to a change in timing of when incentive-based compensation is expensed; partially offset by: (i) increased R&D expenses associated with a variety of harvesting, production and product development projects; (ii) wage inflation; and (iii) elimination of pandemic related subsidies.

Clearwater SG&A for 2021 increased by \$2.3 million primarily due to: (i) higher annual incentive-based compensation associated with its improved performance; (ii) the reversal of pandemic related government subsidies; and (iii) a variety of cost increases mainly relating to wage inflation, R&D spending and additional staff.

## **Income Taxes**

The Company's provision for income taxes as a percentage of earnings (tax rate) can be impacted by a variety of factors including: (i) changes in enacted tax laws, in general, and tax rates, in particular, in the tax jurisdictions in which the Company operates; (ii) the proportionate mix of the Company's taxable income by tax jurisdiction; (iii) differences in the treatment of certain income and expense items for income tax and accounting purposes; and (iv) the Company's equity loss or earnings in investments in associates not held in an income flow through structure (which recently became a more material factor as a result of the acquisition of Clearwater) as this amount is excluded in the calculation of the Company's tax provision.

Based on current enacted tax rates in the tax jurisdictions the Company operates, the expected mix of its taxable income by tax jurisdiction, the Company's general structuring of its tax affairs, there being no unusual revenues and/or expenses that are treated differently for income tax and accounting purposes, and excluding the Company's equity earnings or loss in investments in associates from the calculation, the expected range for the Company's tax rate is 24% to 27% (see *Forward Looking Statements*).

For 2021, the Company's tax rate is 25.0% after adjusting for: (i) \$16.0 million of the change in fair value of option liabilities expense, which is the portion of the expense relating to the convertible debentures that were redeemed in 2021 (see *Liquidity and Capital Resources – Debt Financing Activities*) and correspondingly is not included in the calculation of the Company's income tax provision; (ii) the \$7.8 million equity loss in investments in associates; and (iii) a one-time \$2.4 million non-taxable dividend received from Clearwater as part of the acquisition.

## 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.

<i>(in millions of dollars except per share amounts)</i>								
	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21
Revenue	935.0	976.6	1,101.1	1,056.2	1,009.8	1,234.7	1,341.8	1,345.4
Adjusted EBITDA	64.3	67.1	93.5	87.7	82.5	112.2	122.6	113.4
Earnings	12.2	13.5	34.7	23.3	19.8	28.0	46.9	38.0
Earnings per share – basic	0.33	0.36	0.88	0.57	0.45	0.65	1.08	0.87
Earnings per share – diluted	0.33	0.36	0.88	0.57	0.45	0.64	1.07	0.87

The financial performance of many of the Company's businesses is subject to fluctuations associated with the impact on consumer demand from 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, convenience 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 trends in the Company's sales, adjusted EBITDA, earnings and earnings per share have been impacted by: (i) business acquisitions and a variety of organic growth initiatives that have generally resulted in year over year increases; and (ii) the impacts of the pandemic, which began in the first quarter of 2020 and was most severe in the second quarter of 2020.

The trends in the Company's earnings and earnings per share were also impacted by: (i) a \$4.3 million recovery recognized in the second quarter of 2020 on its puttable interest in subsidiaries; (ii) an unusual tax recovery in the third quarter of 2020; (iii) the Company's investment in Clearwater in the first quarter of 2021, which is accounted for using the equity method; and (iv) a significant revaluation of the conversion options associated with the Company's outstanding convertible debentures in the second quarter of 2021.

The trend in the Company's earnings per share was further impacted by common share issuances in the third and fourth quarters of 2020.

## 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:

<i>(in millions of dollars)</i>	As at Dec 25, 2021	As at Dec 26, 2020
Accounts receivable	521.7	387.0
Inventories	645.2	448.8
Prepaid expenses	27.8	21.2
Accounts payable and accrued liabilities	(445.5)	(369.3)
Net working capital	749.2	487.7

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 through the associated growth in the Company's free cash flow.

Net working capital at the end of 2021 as compared to the end of 2020 increased by \$261.5 million primarily due to: (i) the Company's organic growth; (ii) business acquisitions; (iii) higher inventory levels associated with the Company's hedging strategies, which are being used to mitigate the risks of rising raw material costs and supply chain disruptions; and (iv) general fluctuations in the timing of sales, accounts receivable collections, accounts payable payments and inventory purchases. These factors were partially offset by a reduction in the translated value of the Company's U.S. based businesses' net working capital due to a stronger Canadian dollar.

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

<i>(in days)</i>	As at Dec 25, 2021	As at Dec 26, 2020
Days sales in accounts receivable <sup>(1)</sup>	35.3	33.3
Days cost of sales in inventory <sup>(2)</sup>	52.8	47.8

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

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

The Company's days sales in accounts receivable at the end of 2021 as compared to the end of 2020 increased by 2.0 days primarily due to: (i) the normalization of temporary early payments made by certain customers in 2020 and during the first three quarters of 2021 to support their supply networks through the pandemic; and (ii) general fluctuations in the timing of sales and accounts receivable collections.

The Company's days cost of sales in inventory at the end of 2021 as compared to the end of 2020 increased by 5.0 days primarily due to: (i) higher inventory levels associated with the risk mitigation strategies outlined above; (ii) business acquisitions, and in particular Westmorland due to the normal seasonal build-up of its inventory in the fourth quarter; and (iii) general fluctuations in inventory levels.

## ***Debt Financing Activities***

### Credit Facilities

As at December 25, 2021, the Company's credit facilities and the unutilized portion of those facilities were as follows:

<i>(in millions of dollars)</i>	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Revolving senior credit facility <sup>(1)</sup>	1,499.4	1,069.7	429.7
4.65% debentures (2018) <sup>(2)</sup>	169.9	169.9	-
4.20% debentures <sup>(3)</sup>	161.1	161.1	-
Industrial Development Revenue Bond <sup>(4)</sup>	7.9	7.9	-
Vendor take-back notes	13.4	13.4	-
Other term loans	0.7	0.7	-
Other revolving credit facilities	65.7	8.7	57.0
Cheques outstanding	-	18.7	(18.7)
Cash and cash equivalents	-	(16.5)	16.5
	1,918.1	1,433.6	484.5

- (1) Represents the Company's main revolving senior credit facility, consisting of an \$1.0 billion Canadian dollar denominated line of credit and a US\$400.0 million U.S. dollar denominated line of credit, less approximately \$13.1 million in outstanding letters of credit. The facility matures in November 2026, 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 December 25, 2021. 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 \$150.0 million in 4.20% convertible unsecured subordinated debentures issued by the Company in July 2020 plus the value attributed to the cash conversion option associated with the debentures. The outstanding face value of these debentures, which mature on September 30, 2027 and have no principal payments prior to that date, was \$150.0 million as at December 25, 2021. The 4.20% debentures trade on the Toronto Stock Exchange under the symbol PBH.DB.H.
- (4) 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 Dec 25, 2021	As at Dec 26, 2020
Cheques outstanding	18.7	19.1
Bank indebtedness	16.3	-
Current portion of long-term debt	4.6	9.5
Long-term debt	1,074.0	525.6
Deferred financing costs <sup>(1)</sup>	5.5	2.9
	1,119.1	557.1
Less: cash and cash equivalents	(16.5)	(363.0)
Senior funded debt	1,102.6	194.1
4.60% Debentures	-	111.8
4.65% Debentures (2018)	169.9	169.8
4.20% Debentures	161.1	144.1
<b>Total funded debt</b>	<b>1,433.6</b>	<b>619.8</b>

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

### Debt Activities

During 2021, the Company's significant debt activities consisted of the following:

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021
Opening total funded debt at December 26, 2020	619.8
Funding for investments in and advances to associate companies – net of distributions	441.0
Funding for business acquisitions including issued promissory notes and assumed funded debt	359.7
Funding for changes in net working capital	253.8
Funding for capital expenditures	143.2
Payment of dividends	108.2
Payment of provisions	14.7
Revaluation of options on convertible debentures net of impact of redemptions	13.6
Accretion of debentures net of impact of redemptions	4.7
Payment for the settlement of puttable interests in non-wholly owned subsidiaries	0.9
Payments to shareholders of non-wholly owned subsidiaries	0.6
Foreign currency translation adjustment <sup>(1)</sup>	(0.6)
Scheduled principal payments	(9.2)
Repayment of 4.60% debentures	(8.0)
Conversion of 4.60% debentures to common shares	(105.0)
Application of net proceeds from sale-leaseback <sup>(2)</sup>	(150.0)
<b>Net cash flow applied to revolving senior credit facility and other term loans</b>	<b>(253.8)</b>
	<b>1,433.6</b>

(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.

(2) Proceeds related to the sale and leaseback transactions involving three of the Company's facilities in Ontario, Canada (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

During 2021, the Company completed the following financing activities:

- In the first quarter, it increased its revolving credit facility by \$200.0 million to approximately \$1.2 billion in anticipation of the acquisition of a 50% interest in Clearwater Seafood (*see Corporate Investments*).
- In the fourth quarter, it further increased its revolving credit facility by US\$250.0 million to approximately \$1.5 billion, extended the facility's maturity date to November 1, 2026, and linked the interest rates associated with the facility to the Company's performance relative to certain environmental and social objectives set by the Company.
- Also, in the fourth quarter, the Company issued a notice of intention to redeem its 4.60% Debentures, which resulted in: (i) \$105.0 million of the debentures being converted at the option of the debenture holders into common shares of the Company at a conversion price of \$107.25 per share; and (ii) \$8.0 million of the 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	Dec 25, 2021 Ratio
Senior funded debt to adjusted EBITDA ratio <sup>(1) (3)</sup>	=< 4.0 : 1.0	2.7 : 1.0
Interest coverage ratio <sup>(2) (3)</sup>	>= 4.0 : 1.0	20.4 : 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 subsidiaries of the Company and therefore will not necessarily equal the ratio calculated based on the Company's consolidated statement of operations.

(3) Ratio excludes the impact of adopting IFRS-16 accounting standard, which is the basis on which its banking covenants are calculated.

### Financial Leverage

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

- The risks associated with the consistency and sustainability of the Company's cash flows;
- The financial covenants associated with the Company's senior credit facilities;
- The Company's dividend policy;
- Obtaining an investment grade credit rating;
- 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 2021, the Company's senior funded debt to adjusted EBITDA ratio of 2.7 : 1 and its total funded debt to adjusted EBITDA ratio of 3.5 : 1 were within its long-term targeted ranges for these ratios.

## 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 25, 2021	52 weeks ended Dec 26, 2020
Cash flow from operating activities	66.3	227.3
Changes in non-cash working capital <sup>(1)</sup>	253.8	15.6
Lease obligation payments <sup>(2)</sup>	(50.4)	(40.8)
Business acquisition transaction costs <sup>(3)</sup>	7.7	5.6
Clearwater closing risk fee <sup>(3)</sup>	(2.4)	-
Plant start-up and restructuring costs <sup>(4)</sup>	2.1	8.2
Income taxes on sale and leaseback transaction <sup>(5)</sup>	15.5	-
Maintenance capital expenditures <sup>(6)</sup>	(29.3)	(27.1)
<b>Free cash flow</b>	<b>263.3</b>	<b>188.8</b>

- (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 normalizes for the Company's adoption of IFRS-16 accounting standard.
- (3) Amount relates to the Company's business acquisition activities.
- (4) Amount relates to the Company's plant start-up and restructuring initiatives.
- (5) Amount relates to the Company's financing activities (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).
- (6) 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;
- Its financial leverage ratios relative to targeted ranges (see *Liquidity and Capital Resources – Debt Financing Activities – Financial Leverage*);
- Debt principal repayment and senior lender loan covenant 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;
- 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 2021, the Company increased its quarterly dividend by 10.0% to \$0.635 per share, or \$2.54 per share on an annual basis.

Subsequent to 2021, in March 2022 the Company increased its quarterly dividend by 10.2% to \$0.70 per share, or \$2.80 per share on an annual basis.

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. Looking forward (see *Forward Looking Statements*), it intends to continue increasing its dividend, 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.

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

	Declared Shareholder Dividends / Distributions	Nature of Distribution	Free Cash Flow	Ratio <sup>(1)</sup>	Average Dividend / Distribution Per Share / Unit
Trailing four quarters ended:					
December 25, 2021	111.5	Dividend	263.3	42.3%	\$2.5400
December 26, 2020	92.0	Dividend	188.8	48.7%	\$2.3100
December 28, 2019	76.7	Dividend	177.8	43.1%	\$2.1000
December 29, 2018	62.7	Dividend	164.6	38.1%	\$1.9000
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 (see *Forward Looking Statements*). 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 2021:

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021
Opening capital assets at December 26, 2020	524.9
Depreciation	(70.0)
Foreign currency translation adjustment <sup>(1)</sup>	0.5
Disposals	(169.3)
Acquisitions	188.0
Capital expenditures:	
Project	113.9
Maintenance	29.3
Closing capital assets	617.3

(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.

During the first quarter of 2021, the Company completed a sale and leaseback transaction with a REILP (see *Liquidity and Capital Resources – Corporate Investments – Investments in Associates*) for three facilities in Ontario, Canada that were acquired as part of the acquisition of Confederation Freezers Inc. (Confederation Freezers). The sale prices for the properties were at fair market value and resulted in net proceeds of \$150.0 million.

## Project Capital Expenditures

During 2021, the Company invested \$113.9 million in project capital expenditures consisting of: (i) \$73.1 million for larger projects as outlined below; and (ii) \$40.8 million for a variety of smaller projects.

<i>(in millions of dollars)</i>			
Project	2021 Expenditures	Future Expenditures <sup>(1)</sup>	Expected Completion Date <sup>(1)</sup>
Equipment purchases and a 15,000 square foot expansion to increase the meat snack capacity of a production facility in Yorkton, SK	0.5	-	Complete
An additional cooking line at a cooked protein facility in Montreal, QC	4.4	-	Complete
Purchase of 91,600 leased square foot sandwich and ready-to-eat meals production facility in Lakeville, MN	US7.1	-	Complete
A 41,000 square foot capacity expansion of a 66,000 square foot leased artisan bakery in Langley, BC	8.8	5.3	Q1-2022
A 26,000 square foot expansion of an 80,000 square foot meat snack production facility in Brantford, ON	12.3	5.3	Q1-2022
Two third generation automated sandwich lines for installation at the Company's Phoenix, AZ and Reno, NV sandwich production facilities	US13.6	US9.3	Q1-2022
A 42,600 square foot expansion of a 91,600 square foot sandwich and ready-to-eat meals production facility in Lakeville, MN	US1.8	US10.1	Q2-2022
Automation of case packing at the Company's Phoenix, AZ sandwich production facility	US2.9	US2.5	Q2-2022
A 56,500 square foot expansion of a 32,000 square foot value-added protein facility in Vaudreuil, QC including the addition of cooking capacity	-	9.5	Q3-2022
Equipment purchases and building modifications to gain processing efficiencies and increase the capacity of its 170,000 square foot meat snack production facility in Kent, WA	US5.2	US11.2	Q4-2022
A new 144,000 square foot sandwich production facility in Hilliard, OH	US0.8	US34.3	Q1-2023
A new 67,000 square foot sandwich production facility in Edmonton, AB, which will replace the Company's existing 23,000 square foot sandwich production facility in Edmonton, AB	1.3	16.2	Q1-2023
A 107,000 square foot expansion of a 52,000 square foot meat snack and processed meats production facility in Ferndale, WA	US2.9	US81.2	Q2-2023
Reconfiguration of kettle cooking facility in Richmond, BC in order to expand capacity and improve operating efficiencies	2.7	9.1	Q4-2023

(1) See *Forward Looking Statements*.

## Historical Maintenance Capital Expenditures

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

<i>(in millions of dollars)</i>	
Trailing four quarters ended:	
December 25, 2021	29.3
December 26, 2020	27.1
December 28, 2019	26.5
December 29, 2018	19.8
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 2022 the Company expects its maintenance capital expenditures to be between \$35.0 million and \$40.0 million (see *Forward Looking Statements*).

## Right of Use Assets and Lease Obligations

The following table shows the changes in the Company's right of use assets during 2021:

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021
Opening right of use assets at December 26, 2020	328.5
Acquired through business and asset acquisitions	22.7
Additions <sup>(1)</sup>	157.4
Disposals	(6.5)
Amortization	(37.5)
Foreign currency translation adjustment <sup>(2)</sup>	(0.1)
<b>Closing right of use assets</b>	<b>464.5</b>

(1) Includes properties involved in a sale and leaseback transaction (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

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

The following table shows the changes in the Company's lease obligations during 2021:

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021
Opening lease obligation at December 26, 2020 <sup>(1)</sup>	368.9
Acquired through business and asset acquisitions	22.7
Additions <sup>(2)</sup>	157.4
Payments	(50.4)
Disposals	(7.4)
Accretion	19.2
Foreign currency translation adjustment <sup>(3)</sup>	(0.1)
<b>Closing lease obligations <sup>(1)</sup></b>	<b>510.3</b>

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

(2) Includes properties involved in a sale and leaseback transaction (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

(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.

Minimum lease payments in respect of lease obligations and the effect of discounting cash flows are as follows:

<i>(in millions of dollars)</i>	As at Dec 25, 2021
Undiscounted minimum lease payments	707.6
Effect of discounting	(197.3)
<b>Present value of minimum lease payments <sup>(1)</sup></b>	<b>510.3</b>

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

### **Corporate Investments**

Corporate investments consist primarily of three activities: (i) business acquisitions; (ii) equity investments in non-controlled businesses; and (iii) 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 2021, the Company invested \$408.0 million, consisting of \$359.7 million in cash, \$29.9 million in shares, \$9.3 million in notes payable and \$9.1 million in contingent consideration, in the following business acquisitions:

*(in millions of dollars except percentages)*

Business	Primary Business Activity	Annual Sales	Investment Interest	Segment	Purchase Date
Distribution Côte-Nord Inc.	Foodservice distribution	18	100%	PFD	Jan 29, 2021
Starboard Seafood Inc.	Seafood distribution	76	100%	PFD	Feb 19, 2021
Confederation Freezers Inc.	Cold storage and logistics	37	100%	PFD	Mar 11, 2021
C.H. Rich LLC	Seafood distribution	(1)	100%	PFD	Apr 16, 2021
Mermax Inc.	Foodservice distribution	13	100%	PFD	Jun 30, 2021
Maid-Rite Specialty Foods Inc.	Cooked protein production	US104	100%	SF	Oct 01, 2021
Westmorland Fisheries Ltd.	Seafood processing	140	100%	PFD	Oct 30, 2021

(1) The incremental sales impact of this transaction is nominal since sales are primarily to one of the Company's businesses.

Subsequent to 2021, the Company invested \$44.3 million, including \$6.9 million of contingent consideration, in the acquisition of the following businesses:

*(millions of dollars)*

Business	Primary Business Activity	Annual Sales	Investment Interest	Segment	Purchase Date
Shaw Bakers LLC	Artisan bread production	US25	From 50% to 73.72%	SF	Dec 31, 2021
Leonetti Food Distributors, Inc.	Sandwich production	US5	100%	SF	Feb 28, 2022
Rocky Mountain Flatbread	Artisan pizza production	(1)	100%	SF	Feb 28, 2022
Beechgrove Country Foods Inc.	Cooked protein production	16	100%	SF	Mar 4, 2022

(1) The initial incremental sales impact is nominal as the transaction relates to the acquisition of intellectual property and intangible assets.

## Investments in Associates

Investments in associates consists of the Company's investments in businesses which it does not control, including 35% to 40% interests in real estate investment limited partnerships (REILPs) which, on a combined basis, own and lease to the Company seven industrial real estate properties. Other than REILPs, all the businesses included in investment in associates are specialty food or premium food distribution companies, many of which are in the early stages of their business plan.

The following table shows the changes in investment in associates during 2021:

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021
Opening investment in associates at December 26, 2020	74.2
Initial advance to Clearwater	450.0
Investment in real estate investment limited partnership	16.5
Investments in and interest-bearing advances to associates	37.1
Equity loss in associates	(7.8)
Cash distribution from associates	(0.4)
Foreign currency translation adjustment <sup>(1)</sup>	(0.8)
<b>Closing investment in associates</b>	<b>568.8</b>

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

During the first quarter of 2021, the Company acquired a 50% interest in Clearwater, a harvester, value-added processor and distributor of seafood, for a nominal equity value. As part of the transaction, the Company advanced Clearwater \$450.0 million as an unsecured subordinated note that matures in 2030 and bears interest at a rate of 10.0%.

Also during the first quarter of 2021, the Company invested \$16.5 million in a REILP for its pro-rata contribution on a sale and leaseback transaction involving three of the Company's properties (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*).

### 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 and asset acquisitions.

The following table shows the changes in the combined total of the Company's goodwill and intangible assets during 2021:

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021
Opening goodwill and intangible assets at December 26, 2020	1,371.3
Business and asset acquisitions	183.2
Change in preliminary purchase price allocation of prior year acquisitions	1.4
Amortization of intangible assets	(27.3)
Foreign currency translation adjustment <sup>(1)</sup>	(1.1)
<b>Closing goodwill and intangible assets</b>	<b>1,527.5</b>

(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 2021:

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021
Opening puttable interest at December 26, 2020	28.1
Change in value	0.5
Purchase of remaining interest in non-wholly owned subsidiary pursuant to put option	(0.9)
Cash distributions to non-controlling shareholders with puttable interests	(0.6)
<b>Closing puttable interest</b>	<b>27.1</b>

### Provisions

Provisions consist of: (i) contingent consideration relating to business acquisitions and calculated as the discounted present value of amounts expected (see *Forward Looking Statements*) to be paid to the vendors based on the associated businesses achieving defined performance targets; and (ii) lease restoration obligations, which are calculated as the present value of estimated (see *Forward Looking Statements*) future site restoration costs associated with certain leased facilities.

The following table shows the changes in the provisions during 2021:

<i>(in millions of dollars)</i>	52 weeks ended Dec 25, 2021
Opening provisions at December 26, 2020 <sup>(1)</sup>	73.6
Business and asset acquisitions	9.1
Accretion of provisions	7.3
Cash payments	(14.7)
Settlement of provisions	(4.0)
Foreign currency translation adjustment <sup>(2)</sup>	(0.2)
<b>Closing provisions <sup>(1)</sup></b>	<b>71.1</b>

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

(2) Amount relates to changes in the currency exchange rate used to translate the Company's U.S dollars denominated provisions into Canadian dollars.

## **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 outlooks on its revenue, adjusted EBITDA and income tax rate.

See *Liquidity and Capital Resources – Debt Financing Activities* for details on the Company's liquidity outlook.

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.

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.

## **SUBSEQUENT EVENTS**

Subsequent to December 25, 2021 the following events occurred:

### Acquisitions

The Company invested \$44.3 million, including \$6.9 million of contingent consideration, in the acquisition of businesses (see *Liquidity and Capital Resources – Corporate Investments – Business Acquisitions*).

### Dividend Rate

The Company increased its quarterly dividend by 10.2% to \$0.70 per share, or \$2.80 per share on an annual basis (see *Liquidity and Capital Resources – Dividends – Dividend Policy*).

## **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 as at December 25, 2021 are as follows:

<i>(in millions of dollars)</i>	Total	1 year out	2 years out	3 years out	4 years out	5 years out	There-after
Long-term debt	1,084.1	4.6	4.3	2.8	1.6	1,062.3	8.5
4.65% Debentures (2018)	172.5	-	-	-	172.5	-	-
4.20% Debentures	150.0	-	-	-	-	-	150.0
Lease obligations <sup>(1)</sup>	707.6	53.7	51.6	48.3	44.8	43.4	465.8
<b>Total</b>	<b>2,114.2</b>	<b>58.3</b>	<b>55.9</b>	<b>51.1</b>	<b>218.9</b>	<b>1,105.7</b>	<b>624.3</b>

(1) Includes the impact of lease renewal options based on the likelihood of renewal.

## 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 March 9, 2022, 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) dividends and dividend policy; (vi) capital expenditures and business acquisitions; (vii) senior debt capacity utilization; (viii) convertible debentures; (ix) impacts of the pandemic; (x) liquidity outlook; (xi) equity earnings or loss in investment in associates; and (xii) 5 year plan.

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 statements 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 general economic conditions in Canada and the United States will return to pre-pandemic levels in the medium term and will continue to show steady improvement in the short term as pandemic related restrictions are eased.
- The Company's businesses impacted by the pandemic will recover from the resulting disruptions in the medium term and, to the extent there are ongoing changes in their operating costs resulting from the crisis, will be able to recover these through increased selling prices.
- The Company's organic growth initiatives will progress in line with previous expectations post the pandemic.

- The average cost of the basket of procured products and raw materials purchased by the Company will stabilize and start to moderate in the short to medium term relative to recent increased volatility and inflationary trends.
- The Company will be able to access sufficient skilled and unskilled labor at reasonable wage levels.
- The Company will be able to access sufficient goods and services for its manufacturing and distribution operations.
- The Russian Conflict (see *Risks and Uncertainties – International Conflict*) will not: (i) materially impact the cost of raw materials purchased by the Company or its ability to procure them; or (ii) result in other retaliatory actions that adversely impact the Company's operations or the operations of its customers and suppliers.
- The value of the Canadian dollar relative to the U.S. dollar will continue to fluctuate in line with the levels seen over the last several months.
- The Company's major capital projects, plant start-up and restructuring, and business acquisition initiatives will progress in line with its expectations.
- The Company will be able to achieve its projected 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 long-term food trends that have been driving growth in many of the Company's businesses. These 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 and seafood; (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.
- Weather conditions in the Company's core markets will not have a significant impact on any of its businesses.
- 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.
- The Company will be able to negotiate new collective agreements with no labor disruptions.
- The Company will be able 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 statements included in this discussion and analysis in order to provide a more complete perspective on the Company's future operations. Readers are cautioned that these statements may not be appropriate for other purposes.

Unless otherwise indicated, the forward looking statements in this discussion and analysis are made as of March 9, 2022 and, except as required by applicable law, will not be publicly updated or revised. This cautionary statement expressly qualifies the forward looking statements in this discussion and analysis.

## **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 discussion and analysis. 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 therein or that it is not presently aware of or that it may currently deem insignificant (see *Forward Looking Statements*).

### **Public Health Threat**

In March 2020, the World Health Organization declared a global pandemic related to a novel strain of coronavirus (COVID-19). As at March 9, 2022, the extent and continuing impacts of the pandemic on the Company remains highly uncertain and will depend on future developments, including, but not limited to: (i) the duration, severity and spread of the outbreak; (ii) the efficacy, scope and duration of actions required or taken to contain the pandemic or treat its impact, including the effectiveness of available vaccines; (iii) the development and spread of variants; and (iv) how quickly the global economy, in general, and Canada's and the U.S.'s economies, in particular, are able to recover from the related impacts. In 2021, vaccines for combatting COVID-19 were approved and began to be administered by health agencies in Canada and the U.S.; however, despite widespread adoption of these vaccines as well as new developments for the treatment of people infected by the COVID-19 virus, and the resulting relaxation of certain restrictions implemented by governments in response to the pandemic, there remains considerable uncertainty about: (i) the emergence of new COVID-19 variants and any corresponding impacts; and (ii) what will be the lingering impacts of previous waves of the pandemic.

An outbreak of disease, epidemic or pandemic, or similar public threat, or fear of such an event, could materially impact the Company in a variety of ways including: (i) reduced consumer demand for certain products, particularly those associated with out-of-home dining, air travel, cruise ship travel or those that require extra in-store handling by staff; (ii) general decreased consumer spending resulting from lower confidence levels; (iii) supply chain disruptions, resulting in sudden and severe increases in costs and/or shortages in raw materials, equipment, parts, supplies and/or logistics services; (iv) internal production disruptions and/or inefficiencies resulting from a range of factors including employee absenteeism and new operating processes; (v) extra costs associated with mitigating the risk of employees contracting the disease and maintaining their safety and well-being; (vi) increased financial pressure on the Company's customers; (vii) delays in the completion of capital projects; and (viii) disruptions in international trade and access to markets. In addition, further outbreaks of disease could impact the Company's ability to raise capital as a result of disruptions in capital and financial markets as well as potentially increase the effects of other risks and uncertainties described below (see *Forward Looking Statements*).

The Company has taken significant actions to mitigate the effects of the pandemic and continues to monitor the evolving situation very closely. As is needed, the Company will take further actions that are in its best interest as well as those of its employees, customers, suppliers and other stakeholders.

### **Commodity Risk**

The Company purchases a variety of commodity raw materials, including beef, pork, seafood, poultry, lamb, flour, corrugated packing materials, dairy products and energy, all of which are determined by relatively volatile market forces of supply and demand over which the Company has limited or no control. In addition, the cost of many of these commodity raw materials is highly cyclical, being characterized by periods of supply and demand imbalance, and sensitive to changes in industry capacity. If there is a sudden or severe increase in the cost of such commodity raw materials and the Company is unable to

pass the additional costs onto its customers through increased selling prices, this could have a material adverse effect on its selling margins.

Furthermore, even if the Company is able to pass the additional costs onto its customers, there is a risk that this could result in higher selling prices for end consumers which, in turn, could negatively impact consumer demand for the Company's products.

The Company's product diversification strategies, which reduce its exposure to any single commodity, combined with its focus on differentiated products and niche markets that are less price sensitive, help mitigate this risk. See the Company's Annual Information Form, which is filed electronically through SEDAR and is available online at [www.sedar.com](http://www.sedar.com), for a summary of the types and amounts of commodities purchased by the Company.

### **Consumer Discretionary Spending Risk**

The Company's sales could be adversely affected by reduced consumer discretionary spending resulting from actual or perceived changes in the condition of the economy. The Company's foodservice and convenience related businesses are particularly sensitive to this risk 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.

The Company's business diversification strategies, which include the development of sales in both the retail and foodservice segments of the food industry, help to mitigate this risk as a decline in sales in the foodservice segment resulting from poor economic conditions is often partially offset by an increase in sales in the retail segment.

### **Sales and Margin Risk**

The Company's profitability depends on its ability to maintain its sales and profit margins. If the cost of the products sold by the Company increases, including through: (i) increased prices from suppliers for products distributed by the Company; (ii) increased costs for raw materials used by the Company in the manufacturing of its products; and/or (iii) increased operating costs, its sales and/or selling margins could be adversely affected.

In addition, competition in the markets in which the Company competes may require it to reduce the prices it charges adversely affecting the Company's sales and/or selling margins. 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 favorable terms to compete successfully.

### **Customer Risk**

The Company's sales to a relatively small group of large format retail customers accounted for approximately 44.6% of its total revenue for 2021 with one such retailer (Customer A) accounting for approximately 13.8% of its total revenue for 2021. As is customary in the food industry, the Company does not have long-term contracts with any of these customers. The Company also sells, directly or indirectly, to a foodservice operator (Customer B) who represents approximately 12.7% of its total revenue in 2021. The balance of the Company's sales is to a broad and diversified base of customers. The loss of sales to a large format retail customer, Customer A or Customer B could have a material adverse effect on the Company.

The Company mitigates its exposure to any single large format retail customer, including Customer A, by ensuring each of its individual businesses: (i) maintains a distinct and separate relationship with the customer; and (ii) provides the customer with a differentiated and unique product offering. The Company's exposure to Customer B is mitigated by a variety of factors including a long-term supply agreement, the Company's strong past performance as a strategic supplier, and a solid long-term relationship.

## **Product Defect Risk**

Many of 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 occurrence of a product defect could have a material adverse effect on the Company's: (i) sales due to reduced consumer demand and/or product availability; and /or (ii) expenses due to a variety of potential items including product recall costs, disposal costs and lawsuits.

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 other 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 harm the Company's reputation and result in a material adverse effect on it.

## **Weather Risk**

Many of the Company's businesses are seasonal as their revenues depend partly on favorable weather conditions. Correspondingly the Company's strongest financial performance is during the spring and summer seasons (see *Summary of Quarterly Results*). Poor weather conditions during these periods could have a material adverse effect on the Company's sales.

## **Access to Raw Material Supply Risk**

Most of the raw materials purchased by the Company are generally readily available from a variety of suppliers and brokers, however, there are risks associated with the Company being able to adequately source adequate quantities of raw materials at reasonable prices. These include the potential impact of: (i) climate change in general, and droughts in particular, on livestock production; (ii) unusual weather conditions on the availability of certain species of wild seafood, both in terms of preventing fishing fleets from accessing wild seafood stocks during extreme storms and a general lack of availability of certain species of seafood during times of abnormal water temperatures; (iii) Canada's supply management system for certain agricultural commodities which, in the past, has created supply / demand imbalances that have resulted in the Company not being able to source adequate amounts of reasonably priced turkey and chicken raw materials; (iv) an outbreak of a health epidemic or pandemic, including COVID-19, which could result in material disruptions in the Company's supply chain logistics and/or its suppliers' production capacities; (v) livestock related risks (see *Risk and Uncertainties – Livestock Risk*); (vi) international trade related risks (see *Risk and Uncertainties – International Trade Risk*); and (v) international conflicts (see *Risk and Uncertainties – International Conflict Risk*).

The Company mitigates these risks by maintaining a broad network of suppliers, contractual relationships with certain suppliers, developing global procurement relationships and through its general business and product diversification strategies. Any failure of the Company to source adequate quantities of raw materials at reasonable prices could have a material adverse effect on the Company.

## **Consumer Preference Risk**

The Company's business is dependent on continued consumer interest in its products. While the Company believes it is well positioned to benefit from several consumer trends (see *Forward Looking Statements*), there is no assurance that these trends will continue or that contrary trends will not emerge. If consumer preferences, purchasing behaviors and/or dietary habits change, the Company's success will depend on its ability to respond to these changes and its failure to anticipate, identify or react to them could result in declining demand and prices for the Company's products, which in turn could have a material adverse effect on the Company.

In addition, part of the Company's growth strategy, as well as its strategy for dealing with changes in consumer preferences, is based on the development of new and innovative products and product extensions. 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 such products.

The Company mitigates these risks by: (i) investing in a diverse base of food companies, most of which have their own proprietary and distinct marketing and product development teams; and (ii) dedicating resources to the study of both current and potential consumer food trends.

### **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. Some of the Company's competitors have greater financial and other resources than those of the Company or may have access to labor 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.

### **Growth Risk**

A key component of the Company's strategy is to continue to grow by increasing sales and earnings in existing markets with existing products; by expanding into new markets and products; and through business acquisitions. There can be no assurance that the Company will be successful in growing its business or in managing its growth. Furthermore, high growth rates may place a significant amount of strain on the Company's senior management team and other key personnel as well as its business processes, operations, information systems, availability of capital and other resources. Any inability to properly manage growth could result in cancellation of customer orders, increased operating costs and lower employee retention rates, and correspondingly, could have a material adverse effect on the Company.

### **Labor Risk**

Approximately 9.7% of the Company's non-management employees are represented by labor unions or employee associations and 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. A labor disruption, whether at one of the Company's businesses or involving one of the Company's significant suppliers, could impair the Company's ability to produce and/or source an adequate supply of finished products. Furthermore, labor disruptions involving one or more of the Company's significant customers could impair the Company's sales.

The Company is also dependent on having sufficient skilled and unskilled production and distribution labor for the continued efficient operation and growth of its business. In the event the Company is unable to hire and retain adequate labor resources, this could: (i) impair the Company's ability to produce an adequate supply of finished products; and/or (ii) have an adverse effect on its operating costs.

The Company mitigates this risk by devoting significant resources to employee training and retention programs in order to keep top performing employees. Labor shortages at one or more of the Company's suppliers could also impair the Company's ability to produce an adequate supply of finished products.

## **Acquisition Risk**

Business acquisitions and combinations are a key component of the Company's growth strategies, however, there can be no assurances that the Company will be able to identify and acquire appropriate businesses. Furthermore, there are inherent risks associated with acquiring a business including unanticipated transaction costs, costs associated with failed transactions, compliance issues in new jurisdictions, undisclosed liabilities, diversion of management's attention from existing core businesses, adverse effects on existing business relationships with suppliers and customers, integration issues, and potential disputes with the sellers.

There is also a risk that some or all of the expected benefits of acquisitions, many of which can be affected by factors outside of the control of the Company, may fail to materialize or may not occur within the time periods anticipated by management. Furthermore, inherent in any acquisition, there is a risk of liabilities and contingencies that the Company may not discover in its due diligence for which it may not be indemnified by the vendor.

The occurrence of one or more of the above risks could have a material adverse effect on the Company. The Company manages these through extensive due diligence, transaction structuring, the use of third-party experts and working closely with its businesses after acquisition.

## **Customer Consolidation Risk**

As the retail grocery and foodservice trades continue to consolidate and customers grow larger and more sophisticated, the Company often must adjust to changes in its customers' purchasing practices including expected product price discounts and rebates. Failure to do so could result in a material adverse effect on the Company's sales.

The Company mitigates this risk through the implementation of a variety of selling strategies including its focus on providing its customers with unique and differentiated products and product solutions.

## **Business Restructuring Risk**

In order to maximize the profitability of one or more of the Company's businesses and/or address changes in the business environment in which one or more of its businesses operates, the Company will, from time to time, initiate major business restructuring projects. There can be no assurance that these projects will be successful in addressing the issues impacting the relevant business. Furthermore, a major restructuring project may involve significant costs and absorb significant management attention that would otherwise be available for the ongoing development of the Company's business.

## **Capital Project Risk**

As part of the Company's growth and continuing improvement initiatives, it often invests in a variety of capital projects including the construction of new facilities and enhancements to existing facilities. In estimating the cost of these projects, the Company must make a variety of assumptions which are based on its experience and understanding of current facts and circumstances. If the capital expenditures associated with a capital project are greater than projected, or if the expected benefits associated with larger capital projects are not achieved then the Company could be adversely affected.

## **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: (i) a significant portion of the Company's Canadian operations' raw material and finished product purchases are either denominated in U.S. dollars or are priced off of U.S. commodity markets. Correspondingly, an increase in the U.S. dollar relative to the Canadian dollar can result in an increase, in Canadian dollar terms, in the cost of these products. Where appropriate the Company partially mitigates this risk through the use of foreign currency forward contracts; (ii) a portion of the Company's U.S. based operations' sales consist of product exports to Canada. Correspondingly, an increase in the U.S. dollar relative to the Canadian dollar could reduce the selling margins on these products if the

Company's U.S. based operations were unable to increase their selling prices, in Canadian dollar terms, to compensate for the stronger U.S. dollar; (iii) the valuation of 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 (iv) 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.

The Company is also exposed to changes in the value of the Canadian dollar relative to the EUR as a portion of the Company's Canadian operations' raw material and finished product purchases are denominated in EUR. Correspondingly, an increase in the EUR relative to the Canadian dollar can result in an increase, in Canadian dollar terms, in the cost of these products. Where appropriate the Company partially mitigates this risk through the use of foreign currency forward contracts.

### **Indebtedness Risk**

The Company's indebtedness, including borrowings under its revolving senior credit facilities, may increase from time to time for various reasons, including fluctuations in operating results, working capital needs, capital expenditures acquisitions and/or other significant initiatives. At certain levels, the Company's consolidated indebtedness level could adversely affect its business due to: (i) limiting or impairing its ability to obtain financing in the future; (ii) reducing its flexibility to respond to changing business and economic conditions or to take advantage of new business opportunities; (iii) losing access to a portion or all of its free cash flow due to having to dedicate it to interest and/or principal payments; and (iv) restricting its ability to pay dividends. The Company's revolving senior credit facilities contain affirmative and negative covenants that, among other things, may limit or restrict its ability to create liens and encumbrances, incur debt, merge, dissolve, liquidate or consolidate, make acquisitions and investments, engage in certain transactions with affiliates and enter into hedging transactions, which could have a material adverse effect on the Company.

### **International Trade Risk**

The Company imports products from and, to a lesser extent, exports products to other countries and as such may be adversely affected by international events, disputes and/or conflicts, including, but not limited to, changes in trade agreements or policies, the implementation of export controls, tariffs and other trade barriers, or shifts in political attitude, that affect the price of commodities or the free flow of product between countries. The Company mitigates these risks by: (i) maintaining a broad network of suppliers and customers; and (ii) developing global procurement relationships. Its general business and product diversification strategies also help to mitigate these risks.

### **International Conflict**

In February 2021, Russia, a major exporter of oil, natural gas and wheat, undertook a military invasion of Ukraine (the Russia Conflict), and in response to these actions, many countries throughout the world began providing aid directly to Ukraine as well as imposed severe sanctions on Russia and certain Russian citizens. These sanctions include, but are not limited to, restrictions on trade, international financing, air traffic access and asset seizures. Any impacts of the Russia Conflict on the Company are highly uncertain and will depend on the outcome of current sanctions as well as future developments, including, but not limited to: (i) the duration of the conflict; (ii) further sanctions against Russia that may include directly targeting their oil and natural gas industries; and (iii) Russia's response to sanctions, which may include military aggression against countries in the North Atlantic Treaty Organization (NATO).

The onset of an international conflict such as the Russia Conflict, or the threat of such an event, could have a materially adverse effect on the Company in a variety of ways including: (i) disruptions in international trade which, in the case of the Russia Conflict, could have severe impacts on global energy, food (particularly wheat and corn), and metal markets that may result in further inflationary pressures on a variety of goods and services sourced by the Company; (ii) supply chain disruptions due to restrictions on trade lanes, resulting in sudden and severe increases in the cost and/or shortages of raw

materials, equipment, parts, supplies and/or logistics services; (iii) general decreases in consumer spending resulting from lower confidence levels and severe price inflation; (iv) increased financial pressure on the Company's customers; and (v) disruptions in capital and financial markets.

The Company continues to monitor the evolving situation very closely, and as is needed, will take further actions that are in its best interest as well as those of its employees, customers, suppliers and other stakeholders.

### **Cyber Security Risk**

The Company relies heavily on information technology systems for the efficient and effective operation of many aspects of its business, including: (i) managing business data; (ii) processing financial information; and (iii) complying with various regulatory, legal and tax requirements. The Company also stores confidential proprietary business information on its information technology network infrastructure, and uses its systems for electronic communications with its personnel, customers, business partners and suppliers.

The Company's information technology systems and networks are subject to potential threats such as: system failure; the requirement to upgrade or replace its software, databases, systems or key components thereof; natural disasters; unauthorized access; theft of information; malware; and viruses which could result in the theft, manipulation and/or the destruction of key information that the Company relies on for its operations.

The Company mitigates these risks by maintaining and testing systems of internal controls over its information technology systems and networks, education of its employees on potential sources of cyber risks, maintaining disaster recovery and response plans, and maintaining relevant insurance coverage. However, given the rapidly evolving nature of information technology, the increasing sophistication of groups and individuals with a wide range of motives and expertise, and the high rate of change in the threat landscape, the Company may not be able to mitigate all risks associated with its information technology systems and networks.

Any significant failure of the Company's systems, including failures that prevent its systems from functioning as intended, or the Company's failure to timely identify or appropriately respond to cyber-attacks or other cyber incidents, could result in a material adverse effect on the Company through processing inefficiencies, the loss of customers and sales, negative consequences on employees and business partners, negative impacts on operations or business reputation, litigation and/or regulatory enforcement actions. In addition, if the Company is unable to prevent security breaches, it may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to the Company or to its business partners, customers, consumers or suppliers.

### **Governmental Regulation Risk**

The Company is subject to extensive laws, rules, regulations and policies with respect to the production, processing, preparation, testing, 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 licenses 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 significant civil remedies, including fines, injunctions, recalls, seizures, criminal sanctions, negative publicity, and/or increased costs associated with complying with such standards and controls. As well, changes in packaging and labelling requirements regarding product content could materially impact consumer demand for the Company's products.

## **Tax Risk**

Significant judgment is required in determining the Company's provision for income taxes. The Company's total income tax expense can be affected by changes in tax rates in various jurisdictions, changes in the valuation of deferred tax assets and liabilities or changes in tax laws or their interpretation. The Company is also subject to the examination of its tax returns and other tax matters by the Canada Revenue Agency, the U.S. Internal Revenue Service and other tax authorities. There can be no assurance as to the outcome of these examinations. If a taxing authority disagrees with the positions the Company has taken, the Company could face additional material tax liabilities, including interest and penalties.

The Company mitigates this risk through maintaining an internal tax department composed of professionals who stay current on domestic and foreign tax obligations, supplemented where appropriate with external tax advisors. In addition, as a matter of regular practice, large transactions are reviewed by the Company's external tax advisors to assess potential tax implications.

## **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. Many 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.

## **Dependence on Key Personnel Risk**

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 impact the Company's ability to execute its business plans. The Company aims to attract and retain key personnel through both monetary and non-monetary approaches. The Company's compensation and benefits program is both market-driven and performance-based. Where required, the Company implements targeted retention solutions for employees with critical skills or talents that are scarce in the marketplace, and the Company has a succession planning process to identify top talent for senior-level positions. In addition, the Company focuses on non-monetary factors, including training and professional development, career guidance, recognition, health and wellness, and programs related to diversity, inclusiveness and community engagement.

## **Interest Rate Risk**

The Company is exposed to interest rate fluctuations on most of its senior credit facilities and correspondingly a major increase in interest rates could have a material adverse effect on it. The Company mitigates this risk using interest rate swaps.

On a portion of the Company's U.S. denominated debt the interest rate benchmark LIBOR is used as the reference rate. LIBOR is expected to be phased out after June 30, 2023 and at this time, its preferred replacement as considered by the Alternative Reference Rates Committee, a steering committee convened by the U.S. Federal Reserve and comprised of several large U.S. financial institutions, is the Secured Overnight Financing Rate (SOFR). Given the inherent differences between LIBOR and SOFR or with any other alternative benchmark rate that may be established, there are many uncertainties regarding what impact a transition from LIBOR to another benchmark rate will have on the cost of the Company's U.S. dollar denominated variable rate debt and certain derivative financial instruments. While it does not believe that a change from LIBOR to an alternative rate will have a material adverse effect on it or its ability to access capital, no assurances relating to the potential impact can be provided at this time.

## **Credit Risk**

The Company extends credit to its customers which, like for most businesses in the food industry, is generally unsecured. There is a risk that some of the Company's customers may not be able to meet their obligations when they become due, which could have a materially adverse effect on the Company's financial position or operating results. The Company mitigates this risk through its credit management system which includes credit approval processes, credit limits and the close monitoring of payments and outstanding balances.

The Company also provides capital to related parties to fund capital expenditures and working capital requirements, primarily in the form of unsecured loans. There is a risk that some of the Company's related parties may not be able to meet their obligations when they become due, which could have a material adverse effect on the Company's financial position or operating results. The Company mitigates this risk through close monitoring and continuous review of its related parties' financial results and ongoing communications with management.

## **Manufacturing Risk**

The operation of the Company's facilities is dependent on the continued operation of certain critical equipment, such as refrigerators, freezers and processing equipment, which could incur downtime as a result of unanticipated failures, maintenance and repair time. The Company may experience plant shutdowns, periods of reduced production or unexpected interruptions in production capabilities as a result of such equipment failures and maintenance.

The Company mitigates its exposure to this risk 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. The outbreak of disease in Canada or elsewhere in the world could materially impact the Company in a variety of ways including: (i) raw material shortages; (ii) increased procurement costs; (iii) reduced consumer confidence about meat products associated with the particular disease; and (iv) adverse publicity on meat products in general. The Company mitigates these risks by: (i) maintaining a broad network of suppliers and customers; (ii) developing global procurement relationships; and (iii) developing business continuity plans for various disease scenarios that are continuously updated. Its general business and product diversification strategies also help to mitigate these risks.

## **Seafood Supply Risk**

The Company is susceptible to risks related to changes in the population and biomass of seafood stocks which are subject to natural fluctuations beyond the Company's control and may be exacerbated by factors such as water temperatures, food availability, the presence of predators, disease, disruption in the food chain, reproductive problems or other biological issues. Supply and quality of supply can also be influenced by man-made factors such as oil spills and pollution. The Company is unable to fully predict the timing and extent of fluctuations in the population and biomass of the seafood stocks and any material reduction in the population and biomass of the stocks from which the Company and/or its suppliers source seafood could have a material adverse effect on the Company's business. In addition, any material increase in the population and biomass of seafood stocks may dramatically reduce the market price of the Company's products. The Company mitigates the risk associated with resource supply through the diversification of its sales across a variety of species.

## **Environmental, Health and Safety Regulation Risk**

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 (including greenhouse gases) 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.

Furthermore, no assurances can be given that additional environmental, health and safety issues relating to presently known matters or identified sites, or to other matters or sites, whether presently or formerly owned by the Company or within the vicinity of one of the Company's present or formerly owned sites will not require currently unanticipated investigation, assessment or material expenditures. To mitigate this risk, the Company's policy, subject to limited exceptions, is to obtain a Phase I environmental site assessment and baseline property condition assessment, conducted by an independent and experienced environmental consultant, prior to acquiring any interest in a property, including a leasehold interest, and to have a Phase II environmental site assessment completed where recommended in a Phase I environmental site assessment. Although such assessments provide the Company with some level of assurance about the condition of the property, the Company may become subject to liabilities for undetected contamination or other environmental conditions at its properties against which the Company cannot insure, or against which the Company may elect not to insure, which could have a material adverse effect on it.

## **Climate Change Risk**

The potential effects of climate change, including the frequency and severity of weather-related events, changes in rainfall patterns, water shortages, wildfires, rising sea levels, changing storm patterns and intensities and more extreme temperature levels, may materially impact the Company in a wide variety of ways including: (i) increased commodity costs; (ii) changing consumer buying habits; (iii) higher compliance costs; (iv) increased operating costs; and (v) disruptions to operations and supply chains. Risks also arise from a wide variety of policy, regulatory, legal, technological and market responses to the challenges posed by climate change. The potential impact or financial costs associated with these risks is highly uncertain and may adversely impact the Company's strategy, business, reputation, and financial and share performance.

The Company mitigates these risks through a variety of strategies including diversification of its supply chains, implementing clear policies and objectives to minimize its impact on the environment and adopting business continuity and disaster recovery programs. Furthermore, the risks are assessed on an ongoing basis by management and reviewed by the Company's Board of Directors from a strategic and risk management perspective, as well as considered by the Company's Corporate Governance and Nominating Committee in its ongoing oversight of Environmental, Social and Governance matters. Due to the significant amount of uncertainty associated with these risks, there can be no assurance that any of the Company's mitigation efforts will be successful.

## **Enterprise Resource Planning System Risk**

The Company is engaged in or is planning the implementation of enterprise resource planning (ERP) systems at several of its businesses. Such implementations are a major undertaking from a financial, management, and personnel perspective and, in some cases, can take several years to complete. The implementation of an ERP system may prove to be more difficult, costly, or time consuming than expected, and there can be no assurance that the system will be beneficial to the extent anticipated. Any disruptions, delays or deficiencies in the design and implementation of a new ERP system could adversely affect the Company's ability to process orders, ship products, send invoices, track payments, fulfill contractual obligations, produce financial reports, and/or otherwise operate its business.

## **Uninsured and Underinsured Losses Risk**

The Company maintains property, equipment, business interruption and liabilities insurance coverage and uses the services of a national insurance broker to continuously review the adequacy of its coverage and the pricing of its insurance policies. The Company uses its discretion in determining the amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on its assets and operations at a commercially reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of its assets or cover the cost of a particular claim, which could have a material adverse effect on the Company.

## **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, right of use assets and lease obligations, income tax provisions, puttable interest in subsidiaries, convertible unsecured subordinated debentures, business acquisitions and contingent consideration, provisions and plant start-up and restructuring costs. Details on these items can be found in the Company's 2021 audited consolidated financial statements, which are incorporated by reference herein, have been filed electronically through SEDAR and are available online at [www.sedar.com](http://www.sedar.com).

## **NEW ACCOUNTING POLICIES**

The International Accounting Standards Board (IASB) periodically issues new standards and amendments or interpretations to existing standards. Details on the impact (see *Forward Looking Statements*) of any such changes can be found in the Company's 2021 consolidated financial statements, which are incorporated by reference herein and have been filed electronically through SEDAR and are available online at [www.sedar.com](http://www.sedar.com).

## **FINANCIAL INSTRUMENTS**

### ***Foreign Currency Contracts***

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 2021 audited consolidated financial statements, which are incorporated by reference herein.

### ***Interest Rate Swap Contracts***

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 swaps for speculative purposes.

Details on the Company's outstanding interest rate swap contracts can be found in its 2021 audited consolidated financial statements, which are incorporated by reference herein.

## **OTHER**

### ***Outstanding Shares***

The shares outstanding in the Company as of March 9, 2022 were 44,797,746. Under IFRS, which requires that shares issued under employee share benefit plans that have not yet vested be deducted from shares outstanding, the shares outstanding in the Company as of March 9, 2022 were 44,641,469.

### ***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 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, 2021 and has concluded that such procedures are adequately designed and effective for providing reasonable assurance that: (i) material information relating to the Company, including its consolidated subsidiaries, is made known to management on a timely basis to ensure adequate disclosure; and (ii) information required to be disclosed by the Company in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time period.

Management has also evaluated the Company's ICFR as of December 25, 2021 and has concluded that the Company's ICFR is adequately designed and effective for providing reasonable assurance that the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with IFRS.

Although the Company's assessment of DCP and ICFR are based on the integrated framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (2017 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 period ending December 25, 2021 that have 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 MD&A, which is current as of March 9, 2022. 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, 2022, 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](http://www.sedar.com).