Premium Brands

THE POWER of LOCAL

2012 ANNUAL REPORT

MISSION

To invest in specialty food businesses featuring: entrepreneurial cultures; great tasting foods made with wholesome ingredients; and a passion for both their local communities and what is best for our planet.

Premium Brands

Premium Brands owns a broad range of leading branded specialty food businesses with manufacturing and distribution facilities located in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Washington State and Nevada. In addition, the Corporation owns proprietary food distribution and wholesale networks through which it sells both its own products and those of third parties to over 22,000 customers.

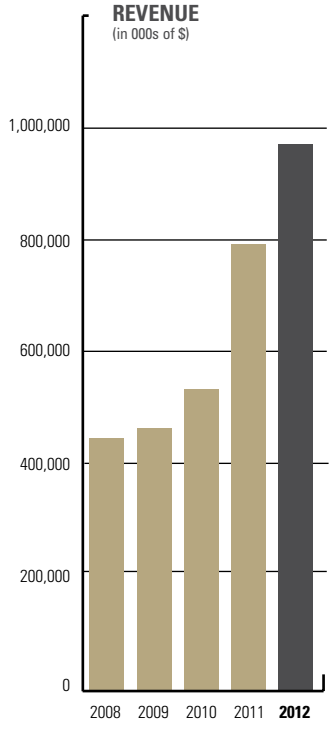
THE POWER of LOCAL

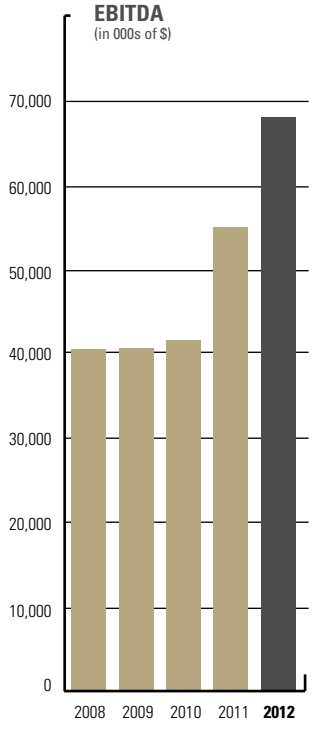
2012 ANNUAL REPORT

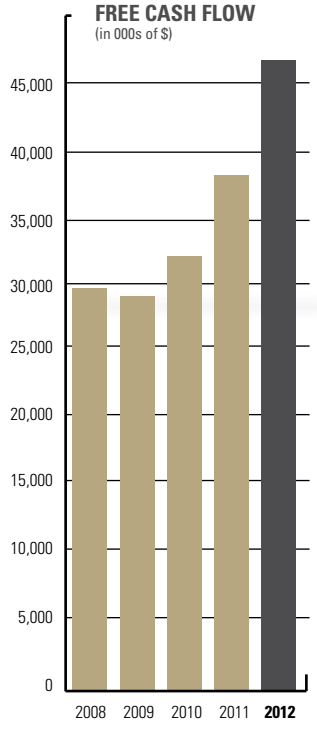
"The very foundations of many of our businesses are based on a local history and the legacy of a founding entrepreneur who laboured with his or her family for many years in order to build a successful business."

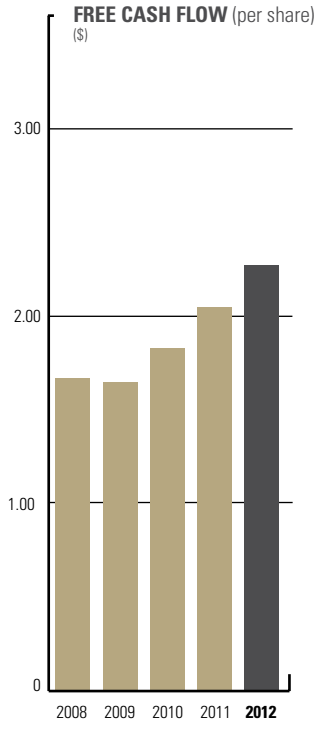
2012 HIGHLIGHTS

(in 000s, except per share amounts)	2012	2011	2010	2009	2008
Revenue	**$ 968,775**	$ 788,932	$ 535,243	$ 462,764	$ 449,363
EBITDA	**$ 68,256**	$ 54,944	$ 41,999	$ 40,727	$ 40,626
Earnings	**$ 15,274**	$ 13,099	$ 14,133	$ 18,857	$ 21,383
Earnings per share	**$ 0.73**	$ 0.68	$ 0.79	$ 1.07	$ 1.22
Total assets	**$ 607,722**	$ 614,913	$ 431,853	$ 349,622	$ 307,194
Net funded debt	**$ 285,582**	$ 289,238	$ 177,277	$ 124,764	$ 117,338
Return on net assets	**13.1%**	13.1%	14.0%	14.6%	14.8%
Free cash flow	**$ 46,851**	$ 38,225	$ 32,205	$ 29,280	$ 29,631
Free cash flow per share	**$ 2.28**	$ 2.04	$ 1.82	$ 1.66	$ 1.69
Dividend declared per share	**$ 1.176**	$ 1.176	$ 1.176	$ 1.176	$ 1.176
Payout ratio	**52.0%**	59.3%	65.3%	70.7%	69.5%









2012 LETTER TO SHAREHOLDERS

THE POWER of LOCAL

2012 was another pivotal year for our company and although we did not complete any acquisitions, we did execute on a number of key strategic and operational initiatives. As a result, we have further strengthened our ability to meet our long term organic growth objectives and have moved a step closer to our goal of becoming North America's leading specialty food company.

2012 was not without its challenges. We faced significant headwinds on a number of fronts including: volatile commodity prices resulting from catastrophic drought conditions in parts of Canada and across the US; a massive product recall by one of Canada's largest beef processors that dominated news headlines for over a month and resulted in a shortage of certain raw materials; a delayed NHL season that impacted consumer spending in the foodservice channel; and the continuing impact of an uncertain economic environment that is undermining consumer confidence.

Despite these headwinds, we are pleased to report another successful year. Our sales grew by 23% to $968.8 million, we had record EBITDA of $68.3 million and our dividend payout ratio fell to 52%, its lowest level yet. The key to our success has been, and continues to be, our unique business model and its resiliency to the variety of challenges that face food companies today.

From an operations perspective 2012 was an even more eventful year. We commissioned three new manufacturing facilities, brought a fourth facility that was completed in 2011 into full production and saw the successful turnaround of our S.J. Irvine business which we acquired control of in mid-2011.

Our fifth major initiative, namely the restructuring of NDSD, our convenience store distribution business, did not achieve the milestones we had set for it. NDSD not only continues to be challenged by the ongoing issues facing its convenience store customers, including growing competition from quick service restaurants, high fuel prices and changing consumer tastes, but in late 2012 it had to also deal with two corporate convenience store chains switching to no frills wholesale distribution from NDSD's full service direct-to-store delivery or DSD model. In response to these issues we have expanded the rationalization of NDSD's distribution network with the objective of seeing a significant turnaround in this business by mid-2013.

STRATEGIC VISION

The core principle of our company is entrepreneurialism. In general terms our business strategy consists of partnering with successful entrepreneurs who are looking for help to grow their business and then providing them with a number of strategic advantages including purchasing power, access to new distribution channels and, most critically, capital. The combination of the energy and innovation of these entrepreneurs with the advantages of being part of a larger group of companies creates a powerful business model that is perfectly suited to today's constantly changing food environment. As a result of this strategy, Premium Brands is now made up of a number of dynamic businesses that can react quickly and effectively to new trends hence ensuring our products and services remain relevant to both our customers and consumers.

There are numerous examples of consumer trends impacting the food industry in ways that were unimaginable just a short while ago. These include everything from specially labeled "gluten free" products, which were almost non-existent a mere five years ago and are now available in virtually every aisle of every food store; to a variety of specialty ethnic foods appealing not only to traditional ethnic customers but also to an increasing number of consumers looking for new food experiences; to health conscious food choices demanded by the aging baby boomer generation.

Our unique business strategy ideally positions us to take advantage of all of these trends; however the trend I would like to focus on, which is still in its relatively early stages and hence is generating significant growth opportunities, is the rapidly growing demand by consumers for locally sourced products. In addition to the general ability of our business model to adapt to and take advantage of new trends, it has three other key characteristics that position us to capitalize on this trend. Firstly, the successful entrepreneurs that we partner with generally operate smaller more versatile production and / or distribution facilities that are regionally focused. Correspondingly, these facilities have a significant competitive advantage in meeting the needs of retailers and foodservice operators catering to the buying local trend.

Secondly, our multi-brand approach, which focuses on a variety of strong regional brands instead of a single national brand, is resonating well with consumers. Many of our brands, including Hempler's, Grimm's, Harvest, Duso's, McSweeney's and Piller's are not only the leading local brand but, in many cases, define what are the best-in-class products within their respective categories. As a result, while large national food companies struggle with minimal growth and contracting market shares, the biggest issue facing many of our businesses is maintaining adequate capacity to support their growth.

The third key characteristic of our business model that positions us to benefit from consumers' demand for locally sourced products is the true local nature of our businesses. The local trend is not just about manufacturing locally or about being a regional rather than a national brand. Being local means being involved in the communities we live and operate in and participating in the grassroots events and charities that are at their core. On this point, I am very proud of how all of our businesses as well as our employees play a significant role in supporting great causes in their respective communities.

Furthermore, the very foundations of many of our businesses are based on a local history and the legacy of a founding entrepreneur who laboured with his or her family for many years in order to build a successful business. In a world too often dominated by large multinational corporations the story and the face of a founding entrepreneur, and his or her single minded passion for preparing good food using traditional methods and the best ingredients, is engaging consumers more than ever.

Over the next few paragraphs we will introduce you to some of the entrepreneurs who make up Premium Brands and their amazing stories of innovation and passion. These individuals demonstrate the ultimate triumph of the human spirit in a backdrop of fierce competition from much larger multinational corporations and an unpredictable and fast changing world.

DUSO'S

Perhaps no other Premium Brands business embodies the spirit of passion and entrepreneurship more than Duso's. This iconic Vancouver brand was founded in 1979 when brothers Mauro and George Duso opened an authentic Italian foods retail kiosk on Vancouver's Granville Island. The store featured many Italian favourites such as olive oils, antipasto salads, sauces and of course fresh pasta made right on the premises. As the store gained in popularity and word spread Duso's needed to expand and in 2000 Mauro and George opened a new 13,000 square foot pasta manufacturing plant. Today Duso's fresh filled and flat pastas as well as their authentic Italian sauces can be found at retailers and specialty markets across western Canada.

"At Duso's, only 100% Canadian Durum wheat Semolina is used to produce high grade pasta that is rich in flavour. Their premium sauces are Northern Italian style - thick and chunky. Their products contain no preservatives or added sugars. Duso's roots are strong in tradition and after more than three decades of running a local family business, they continue to provide customers with the true Italian experience of authentic, fresh, natural pasta and sauces."

"Through five generations of sausage makers, Piller's continues to be a family managed business that still uses the same natural aging, curing, and smoking processes it used when it was founded 50 years ago."

PILLER'S

The story of the founding family of Piller's is one of perseverance, humility and community. German immigrants Wilhelm, Heinrich and Edward Huber started the company in 1957 after moving to Canada as refugees from war-torn Europe. Through hard work and a dedication to quality the business grew rapidly and by the time the second generation of Hubers joined the business in the mid-1970's it was ready to undergo a major expansion.

Under the stewardship of Wilhelm's three sons, Willy, Conrad and Gerhart, the company expanded its original facility in Waterloo, Ontario, built two new facilities and invested in state-of-the-art production technology. Its high quality products are now sold not only throughout Ontario but also in national retailers across Canada. Today, Piller's has over 600 employees, four manufacturing facilities and is recognized as a leader in food safety standards and innovation.

Most recently, Piller's launched its new line of Simply Free meats. These top quality products, which contain no allergens and are made with only the best ingredients, are based on original family recipes and are prepared with European craftsmanship. The Simply Free line is a perfect complement to Piller's traditional offerings of European sausages, deli meats and its award winning Black Forest ham and air-dried salami products.

HARVEST MEATS

Harvest Meats occupies a very special place in prairie folklore. Managed by Kenn Propp, a grandson of Alexander Propp, the original founder, Harvest joined the Premium Brands family in 1998. At the time it operated from a 46,000 square foot facility in Yorkton, Saskatchewan and marketed its products mainly in its home province. Over the past fourteen years Kenn and his management team, with the backing of Premium Brands, have grown Harvest six-fold and made the brand a household name across western Canada. Its iconic, uniquely cured bacon defines the premium bacon category while its farmer's sausage, hot dogs and other smoked meat products all enjoy cult-like status.

"From its early beginnings, and through four generations of family management and growth, Harvest continues to make foods the traditional way. Harvest puts the highest quality of ingredients in their foods and uses only select cuts of pork and beef. No meat fillers or by-products are used. All of Harvest's smoked foods are made using natural hardwood smoke."

Today Harvest's Yorkton plant is over 140,000 square feet in size and growing as we work with Kenn and his team to position Harvest for the next phase of its growth.

HEMPLER'S

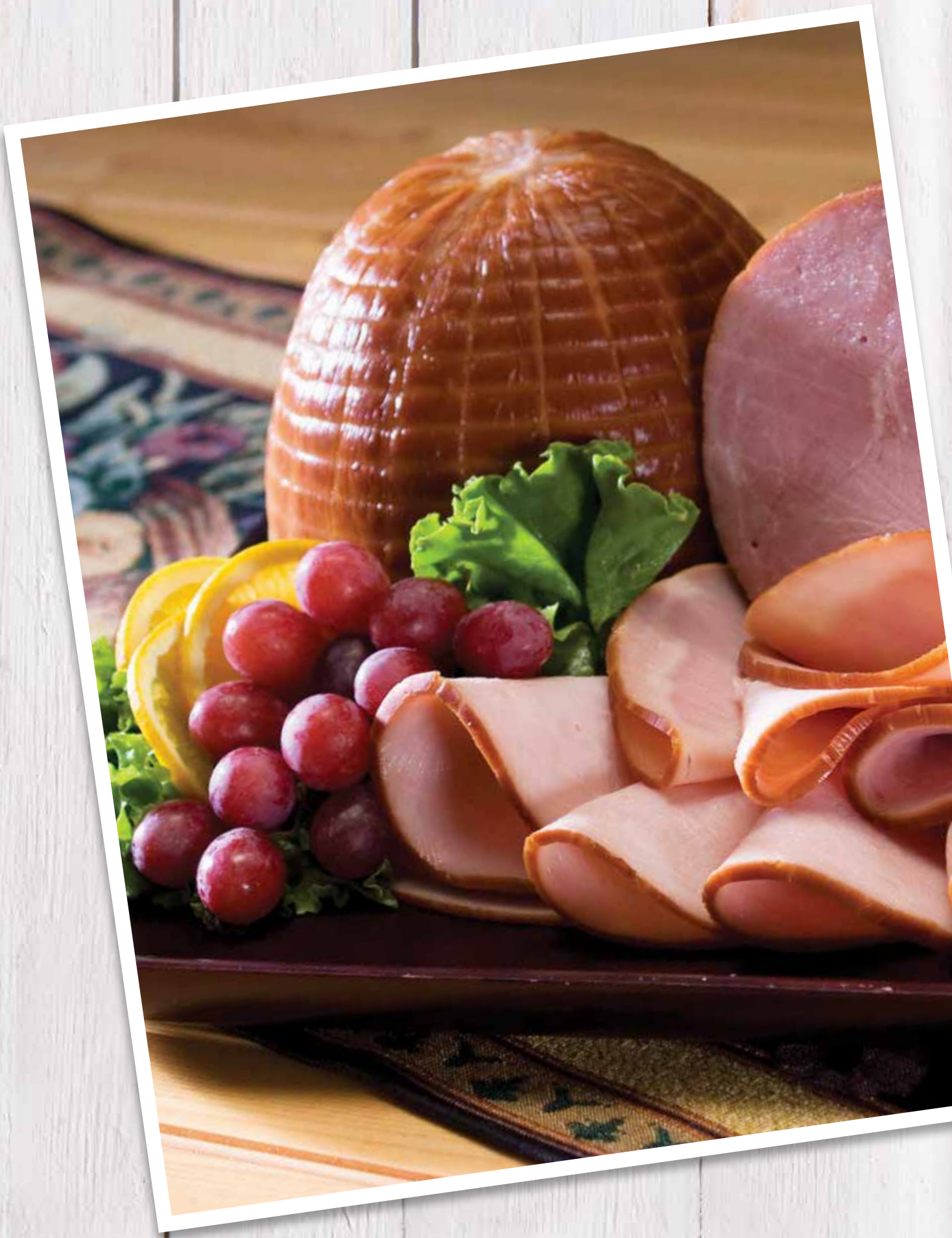
Hempler's is very much a Cinderella story of the impossible made possible. Hans Hempler purchased the company in 1934, a few years after immigrating from Germany. The company had a small retail store in Bellingham, Washington and delivered fresh meats and sausages to local restaurants and independent retail stores in the Seattle area.

In 1973 Hans' son Dick Hempler took over the company and began producing premium ham, bacon and smoked sausage products for local retail and foodservice customers.

"Today, award-winning Hempler's produces and distributes the highest quality of hams, bacon and sausage for the Pacific Northwest. Their expanding product lines also include snack foods and poultry products such as turkey breast and chicken sausage. True to its German roots and treasured family recipes, Hempler's continues its tradition of providing premium products for its growing customer base."

By 2005 Hempler's had outgrown its production facility and was looking for a partner to help expand its business. In 2006 Dick and Hempler's joined Premium Brands and together we immediately commenced the construction of a new 28,000 square foot state-of-the-art production facility in Ferndale, Washington. Over the next six years Dick and his management team not only grew Hempler's business almost three-fold but also established Hempler's as the U.S. Pacific Northwest's leading premium processed meats brand. Its lines of natural and uncured products, as well as its unique extra lean bacon, define the premium processed meats category and enjoy a very loyal following among consumers. Furthermore, its products are now prominently featured as the local brand by both national and regional retailers across the U.S. Pacific Northwest.

Today Hempler's has once again outgrown its production capacity and is working with Premium Brands on a two phase expansion of its plant which will begin later this year.



MAXIMUM SEAFOOD AND HUB CITY FISHERIES

Toronto, Ontario based Maximum Seafood was founded by Max D'Elia in 2002 and joined the Premium Brands family in 2010. Under Max's leadership, Maximum quickly became the industry leader in live and fresh seafood in Ontario. Maximum's innovative aquarium technology combined with its proprietary transportation systems allow it to source fresh and live seafood from across Canada and the U.S. and deliver it to customers within a 36 hour timeframe. Species such as striped and largemouth bass, tilapia, catfish and live eels as well as lobster, cod and blue and king crab can be bundled and delivered fresh to discriminating customers from coast to coast.

"Maximum supplies a wide selection of quality seafood including exotic species from all over the world as well as value-added products such as bacon wrapped scallops, crab cakes, and many more. Customers know that if you can't find what you want at Maximum, you probably can't find it anywhere."

Nanaimo, BC based Hub City Fisheries was founded by Roger Paquette in 1980 and also joined us in 2010. Hub's processing plant is strategically located to value add wild pacific salmon, halibut and other local species for sale both domestically and abroad. Hub anchors our recently launched C2C premium seafood brand which is synonymous with quality and freshness and features industry best practices such as sustainable harvesting methods and at-sea product processing and freezing.

Hub City Fisheries and Maximum Seafood, along with Max, Roger and their respective management teams, form the core of our very exciting new seafood platform. This platform, which features live, fresh and frozen seafood sourced both domestically and internationally, creates synergies by bringing together complementary businesses and ideally positions us to capitalize on a rapidly growing segment of the food industry.

"From its original days when Hub City Fisheries handled only one product – the prized herring roe - for a large Japanese trading company, founder Roger Paquette has fully diversified Hub City in the west coast fishery. Today, Hub City leads the retail market in fresh hand-peeled shrimp meat for delis in B.C. and also in troll caught sockeye salmon for the premium sushi market in Japan. Their halibut and cod markets also continue to grow substantially each year."

FINAL NOTE

The above stories give you a sense of the unique nature of our company. The food space today can be very confusing with constantly changing consumer trends and a plethora of business risks. Our entrepreneurial culture ensures that we remain close to consumers and that our decisions are not burdened by many layers of decision makers and bureaucratic processes. This enables us to quickly recognize and capitalize on emerging trends. Similarly, this culture enables us to quickly identify and respond to new business risks and industry related issues.

In summary, I would like to once again pay a special tribute to our employees for their dedication and hard work. As I have said many times, our biggest and most competitive advantage is our team of talented and dedicated people.

I would also like to thank our long-term shareholders for their ongoing support. We are confident that we are on the right path and that our unique business model will continue to deliver above average shareholder returns.

Sincerely,

George Paleologou
President and CEO


Piller's
Piller's
Piller's


Duso's
Fresh Pasta & Sauces


COASTAL FC
Duso's


Hotdog
Donation
GRIMM'S
GRIMM'S


17

COMMUNITY

The focus of our 2013 charitable initiatives will continue to be on children, families, promoting healthy eating initiatives and personal wellness programs. We believe that by donating our time, money, and effort to a select group of causes we will have more of an impact on the communities that we are a part of.

The following is a list of causes we have supported in recent years:

- Canucks for Kids Fund
- Whitecaps Foundation
- The Children's Hospital
- Ronald McDonald House
- Eating Together Campaign
- Steveston Salmon Festival
- Canadian Cancer Society
- MS Walk for Cancer
- RCMP Ride for Cancer
- CIBC Run for the Cure
- Hero to Hero (organization to help deployed Canadian troops)
- The Salvation Army
- Welcome Hall Mission (Mission Bon Accueil)
- Local Food Banks

SUSTAINABILITY

As part of our commitment to the communities we live and work in, Premium Brands is dedicated to sustainable business practices. Every year we evaluate the operating efficiencies and effectiveness of our facilities and look for ways in which we can enhance the sustainability of their operations.

During 2012 we built three new production facilities:

- Coast 2 Coast (C2C) Seafood's new seafood processing and distribution facility in Richmond, BC;
- Stuyver's new artisan bakery in Langley, BC; and
- Deli Chef's new sandwich production plant in Laval, QC.

In commissioning these facilities we made sure that they were industry leaders in energy efficiency, waste disposal and minimizing water usage.

PRIORITIES FOR 2013

Going forward, we have no intention of slowing down. Our commitment to constant improvement will result in continued positive changes for Premium Brands in 2013.

Our goals for the next year include the following:

- Increase the use of recyclable materials in our packaging;
- Continue to reduce our energy usage through improved production processes;
- Continue to build on our Sustainable Purchasing Policies and in turn reduce costs;
- Implement our sustainability practices in newly acquired facilities; and
- Review and update our Sustainability Strategy document.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the 13 and 52 Weeks Ended December 29, 2012

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 13, 2013. It should be read in conjunction with the Company's 2012 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.

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

BUSINESS OVERVIEW

Premium Brands is a food focused holding company investing in:

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

  The Company's focus on this segment of the food industry is based on the ability of specialty food companies, in general terms, to earn higher and more consistent selling margins and to avoid competing with major food manufacturers that produce and distribute mainstream food products on a larger scale.

- **Differentiated food distribution businesses.** Differentiated food distribution businesses are businesses that provide customers with unique services (such as in-store merchandising, product promotions, equipment leasing and equipment servicing) and product solutions (such as exclusive branded products and custom portion cutting) in addition to the normal logistical solutions provided by a distribution business. The Company's current distribution businesses service approximately 22,000 customers, including restaurants, delicatessens, small specialty grocery chains, convenience stores, gas bars, hotels and institutions, across most of Canada.

  The Company's focus on this segment of the food industry is based on the ability of these companies, in general terms, to generate higher margins by differentiating themselves from distributors who are primarily focused on logistics. In addition, by owning these differentiated distribution businesses the Company is able to generate and sustain additional margin by providing its specialty food manufacturing businesses with proprietary access to a diversified customer base.

SELECT ANNUAL INFORMATION

The following is a summary of select annual consolidated financial information. All amounts, except adjusted EBITDA and RONA, are derived from the Company's audited consolidated financial statements for each of the three most recently completed financial years and are prepared in accordance with IFRS.

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

(in millions of dollars except per share amounts)	52 weeks ended Dec 29, 2012	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Revenue	968.8	788.9	535.2
Adjusted EBITDA	68.3	54.9	42.0
Earnings before acquisition transaction costs, restructuring costs and income taxes	28.1	23.6	18.7
Earnings	15.3	13.1	14.1
Basic earnings per share	0.73	0.68	0.79
Diluted earnings per share	0.73	0.68	0.78
Total assets	607.7	614.9	431.9
Long-term financial liabilities (1) (2)	255.4	253.0	149.8
RONA	13.1%	13.1%	14.0%
Dividends declared per share	1.176	1.176	1.176

(1) Excludes deferred financing costs.

(2) The balance at December 29, 2012 includes $117.3 million of senior term debt that was temporarily classified as current (*see Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*).

Revenue and Earnings

The Company has consistently grown its revenue and adjusted EBITDA over the last three years through a combination of acquisitions and organic growth initiatives (see *Results of Operations*).

The Company's earnings over the last three years have been relatively volatile due to a number of factors including: (i) fluctuations in acquisition transaction and restructuring costs as these are event driven (see *Liquidity and Capital Resources – Corporate Investments and Results of Operations – Restructuring Costs*); (ii) volatility associated with the fair market valuation of a variety of the Company's assets such as foreign currency and interest rate swap contracts, puttable interest in subsidiaries, and acquired businesses; and (iii) a $2.6 million unusual income tax provision recovery in 2010 resulting from the recognition of certain deferred tax assets.

Total Assets

The increase in the Company's total assets in 2011 as compared to 2010 was due to business acquisitions and, to a lesser extent, continuing investment in existing businesses. The Company made no acquisitions in 2012.

Long-term Financial Liabilities

The increase in the Company's long-term financial liabilities in 2011 as compared to 2010 was due to long-term debt being the primary funding source for its business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) and project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*). In 2011, the Company invested $142.4 million in new businesses and project capital expenditures, $97.9 million of which was financed with debt.

RONA

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

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

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

(in thousands of dollars)	**52 weeks ended Dec 29, 2012**	**53 weeks ended Dec 31, 2011**	**52 weeks ended Dec 25, 2010**
Return:			
Adjusted EBITDA [1]	**68,256**	54,944	41,999
Maintenance capital expenditures	**(3,413)**	(2,880)	(1,713)
	64,843	52,064	40,286
Average adjusted net assets [2]:			
Opening net assets	**494,799**	335,337	264,952
Closing net assets excluding net assets of businesses acquired during the year	**493,196**	360,191	256,535
Average net assets before including businesses acquired during the year [3]	**493,998**	347,764	260,744
Weighted net assets of businesses acquired during the year [4]	**–**	48,752	27,501
	493,998	396,516	288,245
RONA [5]	**13.1%**	13.1%	14.0%

(1) See *Results of Operations – Adjusted EBITDA.*
(2) Net assets are calculated as total assets less deferred income tax assets, accounts payable and accrued liabilities.
(3) Calculated as the sum of the opening net assets and the closing net assets (excluding net assets of businesses acquired during the year) divided by two.
(4) Based on weighting the net assets of each business acquired during the current fiscal year by a factor based on the number of days in the fiscal year that the Company owned the applicable business in relation to the total number of days in the fiscal year.
(5) Calculated as return divided by average adjusted net assets.

The Company's RONA over the last five years has averaged 13.9%.

In 2011 the Company's RONA fell to 13.1% primarily due to: (i) the 2011 acquisitions of Deli Chef and SJ, both of which were generating negative cash flow when the Company purchased them; (ii) the impact of record high costs for a variety of input commodities on the selling margins of several of the Company's businesses; and (iii) the below normal performance of two of the Company's distribution businesses, namely National Direct-to-Store Distribution (NDSD), which services convenience stores across Canada, and Centennial Foodservice, which services restaurants across western Canada. NDSD's performance was impacted by a general decline in consumer spending on food products in the convenience store channel that is the result of a variety of factors including changing consumer eating habits, the proliferation of quick serve restaurants, high gas prices, and pay-at-the-pump legislation. Centennial's performance was impacted by an overall weaker than average economic environment in western Canada.

In 2012 the Company's RONA remained below its five year average due to: (i) the continued below normal performance of NDSD, which is undergoing a substantial restructuring of its operations in response to changes occurring in the convenience store industry (see *Results of Operations – Restructuring Costs*); (ii) the completion in 2012 of a new state-of-the-art artisan bakery by the Company's Stuyver's business at a cost of approximately $19.0 million. This new facility, which significantly expanded Stuyver's capacity, is not expected to start meeting the Company's long-term asset return rates until mid-2013; and (iii) a temporary shortage of reasonably priced turkey raw materials in Ontario that resulted in record high turkey input costs for the Company's Ontario based Piller's business. This shortage, which had a negative impact on Piller's Adjusted EBITDA of approximately $1.5 million, was the result of short term structural issues with Canada's poultry supply management system's policies and procedures.

RESULTS OF OPERATIONS

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

The Foodservice segment includes the Company's Centennial Foodservice, B&C Food Distributors, Harlan Fairbanks, Worldsource, E1even, Wescadia, Maximum Seafood and Hub City Fisheries businesses. With the exception of Worldsource, Maximum Seafood and Hub City Fisheries, all of these businesses are primarily focused on foodservice customers such as restaurants, concessions, bars, caterers, hotels, recreation facilities, schools and hospitals. With respect to Maximum Seafood and Hub City Fisheries, these businesses have been included in the Foodservice segment on the basis that (i) many of their customers are distributors who sell their products to foodservice customers; and (ii) these businesses work closely with Centennial Foodservice and B&C Food Distributors in the implementation of the Company's national seafood strategies. With respect to Worldsource, it has been included in the Foodservice segment on the basis that it is substantially integrated, particularly with respect to the procurement of raw materials, with Centennial Foodservice.

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

Extra Week of Operations

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

In 2011 the Company's fiscal year was 53 weeks resulting in an extra week of operations as compared to 2012. The Company estimates the impact of the extra week of operations on its sales and EBITDA to be $15.6 million and $0.1 million, respectively. The nominal impact on the Company's EBITDA relative to the higher sales impact is due to: (i) the year-end holiday season and generally poor weather in December resulting in the extra week being a relatively poor sales week; and (ii) despite the poor sales week the Company still incurred a full week of costs for items such as plant, sales, distribution and administrative overhead.

Revenue

(in thousands of dollars except percentages)	13 weeks ended Dec 29, 2012	% (1)	14 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 29, 2012	% (1)	53 weeks ended Dec 31, 2011	% (1)
Revenue by segment:								
Retail	**151,404**	**62.0%**	152,542	62.2%	**597,013**	**61.6%**	436,929	55.4%
Foodservice	**92,645**	**38.0%**	92,695	37.8%	**371,762**	**38.4%**	352,003	44.6%
Consolidated	**244,049**	**100.0%**	245,237	100.0%	**968,775**	**100.0%**	788,932	100.0%

(1) Expressed as a percentage of consolidated revenue

Normalizing for the extra week in the fourth quarter of 2011 (see *Results of Operations – Extra Week of Operations*) Retail's revenue for the fourth quarter of 2012 as compared to the fourth quarter of 2011 increased by $8.2 million or 5.7%.

Retail's organic growth for the quarter was slightly below the Company's targeted range of 6% to 8% due to a $3.2 million decrease in sales resulting from the following factors:

The restructuring of Retail's NDSD business' distribution network (see *Results of Operations – Restructuring Costs*). This initiative involves the conversion of NDSD's customers in certain defined territories from being serviced by NDSD's direct-to-store delivery (DSD) trucks to being serviced by exclusive third party distributors that form part of NDSD's distribution network. As a result, in territories that have been converted the Company now sells its products at a discounted price to an exclusive third party distributor who in turn sells and distributes the Company's products to convenience store retailers.

i. The decision by two large convenience store chains to use basic service wholesale distributors (see *Results of Operations – Restructuring Costs*) instead of NDSD's full service DSD network to deliver the Company's products to their stores. Similar to the impact of transitioning certain business to third party distributors, this resulted in the Company selling its products at a discounted price to wholesale distributors who in turn sell and distribute the products to the applicable convenience store chain's retail locations.

ii. The sale of Retail's fresh sandwich operation in Etobicoke, Ontario as part of the consolidation of its sandwich operations (see *Results of Operations – Restructuring Costs*).

iii. The continued decline in consumer demand for food products sold through the convenience store channel. This trend is being driven by a variety of factors (including changing consumer eating habits, the proliferation of quick serve restaurants, high gas prices and pay-at-the-pump legislation) that are impacting consumer discretionary spending in this retail channel.

Excluding the sales decrease associated with the above four factors, Retail's organic growth rate for the quarter was approximately 8%.

Retail's revenue for 2012 increased by $160.1 million or 36.6% as compared to 2011 primarily due to: (i) the acquisitions of Piller's, SJ and Deli Chef in 2011 (see *Liquidity and Capital Resources – Corporate Investments*), which resulted in incremental sales of $136.0 million; and (ii) net organic growth, i.e. after the impact of the four factors outlined above, across a range of products and customers of $33.4 million representing an organic growth rate of approximately 7.8%. These increases were partially offset by approximately $9.3 million in additional sales in 2011 due to the extra week of operations.

Looking forward (see *Forward Looking Statements*), for 2013 the Company expects Retail's organic sales growth to be at or slightly below its long-term targeted range of 6% to 8%.

Foodservice's revenue for the fourth quarter of 2012 as compared to the fourth quarter of 2011 was flat due to: (i) general organic growth of $5.6 million representing an organic growth rate of 6.6%; (ii) increased sales in its Worldsource food brokerage business of $0.7 million resulting from improved trading opportunities; and (iii) these increases being offset by $6.3 million in additional sales in 2011 that were the result of the extra week of operations.

Foodservice's organic growth rate for the quarter was in line with the Company's long-term target of 6% to 8% and above its expectations as the impacts of a delay in the start of the 2012/13 National Hockey League season and of product supply issues resulting from the shutdown at the end of the third quarter of one of Canada's largest beef processors were more temporary than initially estimated.

Foodservice's revenue for 2012 as compared to 2011 increased by $19.8 million or 5.6% due to: (i) general organic growth of $20.8 million representing a growth rate of 6.4%; (ii) increased sales in its Worldsource food brokerage business of $4.2 million; and (iii) $1.1 million in unusual trading volume in its Hub City Fisheries business resulting from the sale of excess inventory relating to a very successful salmon fishery in 2011. These increases were partially offset by approximately $6.3 million in additional sales in 2011 due the extra week of operations.

Looking forward (see *Forward Looking Statements*), for 2013 the Company expects Foodservice's organic sales growth to be within its long-term targeted range of 6% to 8%.

Gross Profit

(in thousands of dollars except percentages)	**13 weeks ended Dec 29, 2012**	**% (1)**	**14 weeks ended Dec 31, 2011**	**% (1)**	**52 weeks ended Dec 29, 2012**	**% (1)**	**53 weeks ended Dec 31, 2011**	**% (1)**
Gross profit by segment:								
Retail	**31,615**	**20.9%**	32,006	21.0%	**132,677**	**22.2%**	107,994	24.7%
Foodservice	**16,733**	**18.1%**	16,408	17.7%	**69,674**	**18.7%**	66,307	18.8%
Consolidated	**48,348**	**19.8%**	48,414	19.7%	**202,351**	**20.9%**	174,301	22.1%

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

Retail's gross profit as a percentage of its revenue (gross margin) for the fourth quarter of 2012 as compared to the fourth quarter of 2011 was relatively flat due to higher margins in its deli meats businesses, which were the result of lower average costs for a variety of beef and pork raw materials, being offset by: (i) lower margins in its NDSD business resulting from the transition of certain product sales to third party distributors and wholesale distributors (see *Results of Operations – Revenue*); (ii) increased plant overheads associated with Stuyver's new artisan bakery, which was completed in the third quarter of 2012 (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*); (iii) a temporary shortage of reasonably priced turkey raw materials in Ontario that resulted in record high turkey input costs for Piller's. This shortage, which had a negative impact on Piller's gross profit of approximately $1.5 million, was the result of short term structural issues with Canada's poultry supply management system's policies and procedures; and (iv) production inefficiencies attributable to SK Food Group's launch of new sandwich wraps for two large international customers.

Retail's gross margin for 2012 as compared to 2011 decreased from 24.7% to 22.2% due primarily to: (i) the factors impacting Retail's fourth quarter margins as outlined above; (ii) the acquisitions of Piller's and SJ part way through 2011 as both of these businesses generally have lower gross margins as compared to Retail's other businesses (see *Liquidity and Capital Resources – Corporate Investments*); and (iii) a change in selling terms whereby in the third quarter of 2011 certain customers began receiving their products FOB the Company's plant instead of FOB the customers' warehouses. This resulted in the elimination of freight being billed to these customers and corresponding decreases in gross profit and selling expenses (see *Results of Operations – SG&A*).

Foodservice's gross margin for the fourth quarter of 2012 as compared to the fourth quarter of 2011 and for 2012 as compared to 2011 remained relatively stable.

Selling, General and Administrative Expenses (SG&A)

(in thousands of dollars except percentages)	**13 weeks ended Dec 29, 2012**	**% (1)**	**14 weeks ended Dec 31, 2011**	**% (1)**	**52 weeks ended Dec 29, 2012**	**% (1)**	**53 weeks ended Dec 31, 2011**	**% (1)**
SG&A by segment:								
Retail	**20,171**	**13.3%**	20,621	13.5%	**79,870**	**13.4%**	67,417	15.4%
Foodservice	**12,047**	**13.0%**	11,794	12.7%	**48,530**	**13.1%**	45,740	13.0%
Corporate	**1,119**		1,619		**5,695**		6,200	
Consolidated	**33,337**	**13.7%**	34,034	13.9%	**134,095**	**13.8%**	119,357	15.1%

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

Retail's SG&A in the fourth quarter of 2012 as compared to the fourth quarter of 2011 decreased slightly due to: (i) an extra week of operations in 2011; and (ii) the rationalization of NDSD's distribution network (see *Results of Operations – Restructuring Costs*). These decreases were mostly offset by: (i) increased marketing costs associated with the promotion of Piller's new "*Simply Free*" line of deli meats; and (ii) increases in a variety of variable selling costs associated with Retail's organic sales growth (see *Results of Operations – Revenue*).

Retail's SG&A for 2012 as compared to 2011 increased by $12.5 million primarily due to: (i) the acquisitions of Piller's, SJ and Deli Chef in 2011 (see *Liquidity and Capital Resources – Corporate Investments*) which resulted in an increase in Retail's SG&A of $13.5 million; and (ii) the factors impacting Retail's fourth quarter SG&A as outlined above. These items were partially offset by a decrease in freight costs due to the change in selling terms whereby in the third quarter of 2011 certain customers started receiving their products FOB the Company's plant instead of FOB the customers' warehouses (see *Results of Operations – Gross Profit*).

Foodservice's SG&A in the fourth quarter of 2012 as compared to the fourth quarter of 2011 increased by $0.3 million while its SG&A for 2012 as compared to 2011 increased by $2.8 million. Both increases were due to: (i) increased costs associated with the development of the infrastructure needed to accelerate the growth of its seafood based initiatives; and (ii) a variety of items including higher variable selling costs associated with Foodservice's organic sales growth (see *Results of Operations – Revenue*).

The reduction in Corporate's SG&A for the fourth quarter of 2012 as compared to the fourth quarter of 2011 and for 2012 as compared to 2011 was due to decreases in a variety of items including discretionary bonuses, corporate marketing costs, consulting fees and external accounting fees.

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. Adjusted EBITDA is also used in the calculation of certain financial debt covenants associated with the Company's senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities*).

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

(in thousands of dollars)	**13 weeks ended Dec 29, 2012**	**14 weeks ended Dec 31, 2011**	**52 weeks ended Dec 29, 2012**	**53 weeks ended Dec 31, 2011**
Earnings before income taxes	**3,714**	3,226	**22,247**	19,187
Depreciation of capital assets (1)	**4,007**	3,916	**15,490**	12,091
Amortization of intangible assets (1)	**1,135**	1,201	**4,836**	3,573
Amortization of other assets (1)	**1**	1	**5**	5
Interest and other financing costs (2)	**4,479**	4,194	**17,579**	14,496
Amortization of financing costs (2)	**74**	212	**380**	405
Acquisition transaction costs (3)	**4**	702	**197**	1,594
Change in value of puttable interest in subsidiaries (4)	**450**	150	**1,655**	1,828
Accretion of provisions (2)	**2**	209	**631**	244
Unrealized (gain) loss on foreign currency contracts (5)	**(400)**	495	**(100)**	(220)
Unrealized (gain) loss on interest rate swap contracts (6)	**(100)**	100	**(300)**	100
Restructuring costs (3)	**1,714**	74	**5,705**	2,819
Acquisition bargain purchase gain (3)	**–**	(100)	**–**	(1,455)
Equity loss in associate (7)	**–**	–	**–**	277
Other	**(69)**	–	**(69)**	–
Adjusted EBITDA	**15,011**	14,380	**68,256**	54,944

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

(in thousands of dollars except percentages)	13 weeks ended Dec 29, 2012	% (1)	14 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 29, 2012	% (1)	53 weeks ended Dec 31, 2011	% (1)
Adjusted EBITDA by segment:								
Retail	**11,444**	**7.6%**	11,385	7.5%	**52,807**	**8.8%**	40,577	9.3%
Foodservice	**4,686**	**5.1%**	4,614	5.0%	**21,144**	**5.7%**	20,567	5.8%
Corporate	**(1,119)**		(1,619)		**(5,695)**		(6,200)	
Consolidated	**15,011**	**6.2%**	14,380	5.9%	**68,256**	**7.0%**	54,944	7.0%

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

The Company's Adjusted EBITDA for the fourth quarter of 2012 as compared to the fourth quarter of 2011 increased by $0.6 million or 4.4% to $15.0 million primarily due to:

i. The improved performance of Centennial Foodservice which was driven by a combination of the success of the new fresh burger production facility it completed in 2011 and a general improvement in consumer demand in the segment of the foodservice channel serviced by Centennial;

ii. The improved performance of the Company's deli and processed meats businesses due to a combination of lower average costs for a variety of beef and pork raw materials and market share increases;

iii. Lower corporate costs resulting from decreases in a variety of items including discretionary bonuses, corporate marketing costs, consulting fees and external accounting fees; and

iv. General organic growth across a variety of businesses.

These increases were partially offset by:

i. A significant decrease in the earnings of NDSD due to: (a) the decision by two large convenience store chains to use wholesale distributors (see *Results of Operations – Revenue*); (b) delays in fully implementing the SG&A savings associated with its restructuring (see *Results of Operations – Restructuring Costs*). As a result, the Company lost the margin associated with sales that were transitioned to exclusive third party distributors but did not fully realize the cost savings projected to result from these changes; and (c) the continued decline in consumer demand for food products purchased through the convenience store channel (see *Results of Operations – Revenue*). The Company expects (see *Forward Looking Statements*) to see a significant improvement in NDSD's earnings once it completes its restructuring late in the second quarter of 2013 (see *Results of Operations – Restructuring Costs*);

ii. A decrease in the contribution margin generated by Stuyver's due to increased overhead costs associated with its new state-of-the-art bakery (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*). This issue is expected (see *Forward Looking Statements*) to be resolved in the coming months as Stuyver's leverages the new plant's capacity to grow its business;

iii. A temporary shortage of reasonably priced turkey raw materials in Ontario that resulted in record high turkey input costs for Piller's. This shortage, which had a negative impact on Piller's Adjusted EBITDA of approximately $1.5 million, was the result of short term structural issues with Canada's poultry supply management system's policies and procedures;

iv. Increased marketing costs associated with the launch of Piller's new "*Simply Free*" line of deli meats;

v. Temporary production inefficiencies resulting from SK Food Group's launch of new sandwich wraps for two large international customers; and

vi. Increased selling, marketing and administration costs associated with the development of the infrastructure needed to accelerate the growth of Foodservice's seafood based initiatives.

The Company's Adjusted EBITDA for 2012 as compared to 2011 increased by $13.3 million or 24.2% to $68.3 million primarily due to: (i) acquisitions made part way through 2011 (see *Liquidity and Capital Resources – Corporate Investments*); and (ii) the factors impacting the Company's fourth quarter Adjusted EBITDA as outlined above.

The Company is not at this time providing guidance on its projected Adjusted EBITDA for 2013 due to uncertainty around the timing of several of its strategic priorities, including: (i) sales initiatives associated with bringing Stuyver's, Deli Chef's and Centennial's new plants into full production (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*); and (ii) the restructuring of NDSD's DSD network (see *Results of Operations – Restructuring Costs*). Looking forward (see *Forward Looking Statements*) the Company expects to provide guidance on its projected Adjusted EBITDA for 2013 with the release of its 2013 first quarter results.

Depreciation and Amortization (D&A)

(in thousands of dollars)	**13 weeks ended Dec 29, 2012**	**14 weeks ended Dec 31, 2011**	**52 weeks ended Dec 29, 2012**	**53 weeks ended Dec 31, 2011**
Depreciation and amortization of intangible and other assets (D&A) by segment:				
Retail	**3,983**	3,830	**15,761**	10,883
Foodservice	**1,035**	1,144	**4,073**	4,243
Corporate	**125**	144	**497**	543
Consolidated	**5,143**	5,118	**20,331**	15,669

The Company's D&A expense for the fourth quarter of 2012 was consistent with the fourth quarter of 2011.

The increase in the Company's D&A expense for 2012 as compared to 2011 was primarily due to business acquisitions made in 2011 (see *Liquidity and Capital Resources – Corporate Investments*) by its Retail segment.

Interest

The Company's interest and other financing costs for the fourth quarter of 2012 as compared to the fourth quarter of 2011 increased by $0.3 million to $4.5 million primarily due to the issuance of $57.5 million of convertible debentures in June 2012, the proceeds of which were used to repay lower cost senior debt (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

The Company's interest and other financing costs for 2012 as compared to 2011 increased by $3.1 million to $17.6 million primarily due to: (i) an increase in the Company's average outstanding net funded debt (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*); and (ii) the issuance of $57.5 million of convertible debentures in June 2012, the proceeds of which were used to repay lower cost senior debt.

Change in Value of Puttable Interest in Subsidiaries

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

Change in value of puttable interest in subsidiaries for the fourth quarter of 2012 as compared to the fourth quarter of 2011 increased by $0.3 million primarily due to changes in the assumptions used to value the put options.

Change in value of puttable interest in subsidiaries for 2012 as compared to 2011 decreased by $0.2 million primarily due to the Company purchasing the minority interest in its Stuyver's business in 2011. This increase was partially offset by the impact of changes made in the assumptions used to value the remaining put options.

Gains / Losses on Foreign Currency Contracts

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

Gains / Losses on Interest Rate Swap Contracts

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

Restructuring Costs

Restructuring costs consist of costs associated with the significant restructuring of one or more of the Company's businesses. For 2012, the Company incurred $5.7 million in restructuring costs consisting of:

- $2.5 million in costs relating to the reconfiguration of the Company's sandwich production facilities (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*). This initiative consists of the following three parts: (i) the construction of a new 20,000 square foot sandwich plant in Laval, Quebec, which was completed at the end of the second

quarter of 2012 and commenced operations in July 2012; (ii) the transfer of the operations of the Company's leased sandwich production facility in Edmonton, Alberta to its owned sandwich production facility in Edmonton and the subsequent shutdown of the leased facility. This was completed in August 2012; and (iii) the transfer of the production of certain products from the Company's sandwich plant in Etobicoke, Ontario to its new plant in Laval and the subsequent sale of the Etobicoke plant's remaining operations, which consisted primarily of fresh sandwich production. This was completed at the end of September 2012.

The project, which was effectively completed at the end of 2012, is expected (see *Forward Looking Statements*) to generate the following benefits: (i) a new state-of-the-art facility in Laval which will be used to grow the Company's sandwich business in central and eastern Canada; (ii) reduced plant operating overhead costs through the shutdown of the Company's leased facility in Edmonton; (iii) improved production efficiencies by transferring production from the less efficient Etobicoke plant to the new Laval plant; and (iv) freight savings associated with reconfiguring production so that sandwiches for the central and eastern Canadian markets are made in the Laval facility while sandwiches for the western Canadian market are produced in the Edmonton facility.

- $1.7 million in charges relating to the restructuring of the Company's NDSD business' DSD networks for the convenience store channel (the DSD Restructuring Initiative). The DSD Restructuring Initiative involves the merging and rationalization of the following three DSD networks:

  a. The Company's Direct Plus DSD network, which operates primarily in western Canada;

  b. The DSD network acquired as part of the Deli Chef acquisition (see *Liquidity and Capital Resources – Corporate Investments*) in 2011. This network operates in Ontario and Quebec; and

  c. A network of independent distributors controlled by Pridcorp. The Company acquired Pridcorp at the end of 2011 (see *Liquidity and Capital Resources – Corporate Investments*). This network operates in various markets across Canada, including the Maritimes.

  At the end of the third quarter of 2012 the Company anticipated that the DSD Restructuring Initiative would be completed in the first quarter of 2013 at a total cost of approximately $1.3 million. Since then the following events have taken place:

  a. Several of NDSD's large corporate chain customers have, for cost savings purposes, chosen to switch to wholesale distributors to deliver products, including those of the Company's various businesses, to their stores. Wholesale distribution is a discounted distribution service that does not provide the value added services offered by DSD networks, namely: (i) in-store merchandising; (ii) inventory management; and (iii) part case sales. In general terms, the additional services provided by DSD distribution result in improved same store sales due to better management of a store's shelf space; and

  b. NDSD has been unable to find suitable local independent DSD distributors for several regions in which its trucks are not able to operate profitably due to insufficient sales volumes.

  As a result of these factors NDSD is expanding the rationalization of its DSD network. This is expected to push out the restructuring to the second quarter of 2013 and to result in approximately $3.1 million in additional severance and other restructuring related costs.

The Company firmly believes that there is an important and profitable role for DSD distribution in Canada, particularly in remote areas and among independent and small chain convenience store retailers. Furthermore, given the history of larger convenience store chains switching back to DSD distribution due to lower sales under a wholesale distribution model, there is significant potential for NDSD to win back the distribution business lost in 2012.

Looking forward (see *Forward Looking Statements*), the restructuring of NDSD is expected to: (i) result in a significant improvement in NDSD's earnings starting in the third quarter of 2013, regardless of whether or not NDSD is successful in winning back some of the large convenience store chain distribution business lost in 2012; and (ii) position NDSD as Canada's leading distributor for large convenience store retailers who choose DSD distribution.

- $1.2 million in startup, redundant lease and severance costs associated with Stuyver's new artisan bread facility, which commenced commercial operations in the second quarter of 2012 (see *Liquidity and Capital Resources – Capital Expenditures*).

  This initiative, which was also effectively completed at the end of 2012, is expected to (see *Forward Looking Statements*): (i) substantially increase Stuyver's production capacity as its previous bakery, which was shut down in July 2012, was operating at near to capacity; and (ii) generate significant production efficiencies once the plant is operating at a reasonable level of capacity utilization (see *Results of Operations – Adjusted EBITDA*).

- $0.3 million in restructuring costs associated with a variety of initiatives including the start-up of Centennial Foodservice's new seafood processing facility (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets)* and the transitioning of production from the Company's Richmond, BC deli meats processing facility, which is scheduled to be shutdown in July 2013, to some of its other deli meats processing plants.

Other

Other income of $0.1 million in 2012 consists of the following unusual items: (i) a $7.2 million gain resulting from the partial reversal of contingent consideration associated with the acquisition of Piller's (see *Liquidity and Capital Resources – Corporate Investments – Provisions*); (ii) a $6.9 million loss resulting from the write-down of redundant real estate assets to their fair market value; and (iii) a $0.2 million loss resulting from the settlement of a legal claim dating back to 2001.

Income Taxes

Tax Attributes

An estimate of the Company's tax attributes as at the end of 2012 is as follows:

(in millions of dollars)	
Scientific research and experimental development tax credits	92.4
Un-depreciated capital costs	121.7
Non-capital losses carried forward	42.0
Capital losses carried forward	0.7
Cumulative eligible capital	50.6
Section 20(1)(e) financing fee	5.1
Investment tax credits	15.3
Total	327.8

In 2009 the Company completed a plan of arrangement that resulted in the conversion (the Conversion) of Premium Brands Income Fund (the Fund), a publicly traded income trust, into the Company, a publicly traded corporation. As a result of the Conversion, the Company was deemed to acquire certain tax attributes consisting primarily of scientific research and experimental development tax credits, non-capital losses carried forward and un-depreciated capital costs. At the time of the Conversion the Company estimated the value of these tax attributes to be approximately $167.0 million and correspondingly recognized a deferred tax asset of $52.3 million.

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

Current Income Tax Provision

As a result of the Company's tax attributes and its internal corporate structure, it does not expect its wholly owned Canadian operations, which on an annual basis generate the majority of its earnings, to incur any substantial current income tax expense in the near future (see *Forward Looking Statements*). Correspondingly, the Company's current income tax provision relates primarily to its U.S. subsidiaries and its non-wholly owned Canadian subsidiaries.

Deferred Income Tax (DIT) Provision

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

(in thousands of dollars)	**13 weeks ended Dec 29, 2012**	14 weeks ended Dec 31, 2011	**52 weeks ended Dec 29, 2012**	53 weeks ended Dec 31, 2011
Opening DIT asset	**31,923**	41,729	**39,952**	42,817
Adjustments:				
Foreign currency translation adjustment [1]	**112**	(143)	**169**	142
Reallocation of acquisition purchase price (to) from goodwill [2]	**–**	–	**(4,377)**	1,560
DIT resulting from acquisitions	**–**	(54)	–	327
Convertible unsecured subordinated debenture issuance and other	**299**	–	**299**	(332)
Adjusted opening DIT asset	**32,334**	41,532	**36,043**	44,514
Closing DIT asset	**31,286**	39,952	**31,286**	39,952
Provision for DIT	**1,048**	1,580	**4,757**	4,562

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

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

FOURTH QUARTER FINANCIAL STATEMENTS

The Company's operating results for the fourth quarters of 2012 and 2011 were as follows:

(in thousands of dollars)	**13 weeks ended Dec 29, 2012**	**14 weeks ended Dec 31, 2011**
Revenue	**244,049**	245,237
Gross profit	**48,348**	48,414
Selling, general and administrative expenses	**33,337**	34,034
	15,011	14,380
Depreciation of capital assets	**4,007**	3,916
Amortization of intangible assets	**1,135**	1,201
Amortization of other assets	**1**	1
Interest and other financing costs	**4,479**	4,194
Amortization of financing costs	**74**	212
Acquisition transaction costs	**4**	702
Change in value of puttable interest in subsidiaries	**450**	150
Accretion of provision for contingent consideration	**2**	209
Unrealized (gain) loss on foreign currency contracts	**(400)**	495
Unrealized (gain) loss on interest rate swap contracts	**(100)**	100
Restructuring costs	**1,714**	74
Acquisition bargain purchase gain	**–**	(100)
Other	**(69)**	–
Earnings before income taxes	**3,714**	3,226
Income tax provision – current	**165**	121
Income tax provision – deferred	**1,048**	1,580
Income tax provision	**1,213**	1,701
Earnings	**2,501**	1,525
Earnings attributable to:		
Shareholders	**2,447**	1,464
Non-controlling interest – net of income taxes	**54**	61
Earnings	**2,501**	1,525

See *Results of Operations* for a discussion of the Company's operating results for the fourth quarter of 2012.

SUMMARY OF QUARTERLY RESULTS

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

(in millions of dollars except per share amounts)	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Revenue	154.1	183.8	205.7	245.2	**218.7**	**251.0**	**255.0**	**244.0**
Adjusted EBITDA	9.2	13.7	17.6	14.4	**12.0**	**21.1**	**20.2**	**15.0**
Earnings	1.0	4.5	6.1	1.5	**1.2**	**7.0**	**4.6**	**2.5**
Earnings per share – basic	0.05	0.24	0.32	0.07	**0.06**	**0.34**	**0.22**	**0.12**
Earnings per share – diluted	0.05	0.24	0.32	0.07	**0.05**	**0.34**	**0.21**	**0.12**

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

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

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

Over the last eight quarters the seasonal nature of the Company's business has been impacted by business acquisitions made in 2011 that have resulted in general growth in the Company's revenue and earnings (see *Liquidity and Capital Resources – Corporate Investments*).

The Company's earnings over the last eight quarters have been relatively volatile due to a number of factors including: (i) fluctuations in acquisition transaction and restructuring costs as these are event driven; (ii) volatile commodity input costs for a number of the Company's businesses; and (iii) volatility associated with the fair market valuation of a variety of the Company's assets such as foreign currency and interest rate swap contracts, puttable interest in subsidiaries, and acquired businesses.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position and liquidity for the 13 and 52 week periods ended December 29, 2012 was impacted by the following:

Funds from Operations

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

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

(in thousands of dollars)	13 weeks ended Dec 29, 2012	14 weeks ended Dec 31, 2011	52 weeks ended Dec 29, 2012	53 weeks ended Dec 31, 2011
Cash flow from operating activities	**10,614**	12,510	**50,830**	29,524
Changes in non-cash working capital	**(1,673)**	(3,542)	**(6,368)**	6,050
Funds from operations	**8,941**	8,968	**44,462**	35,574

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

Net Working Capital Requirements

Net Working Capital

Net working capital and adjusted net working capital 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 net working capital and adjusted net working capital are useful indicators of the cash needed to fund the Company's working capital requirements.

The following table provides the calculation of net working capital and adjusted net working capital:

(in thousands of dollars)	As at Dec 29, 2012	As at Dec 31, 2011
Accounts receivable	**80,599**	78,830
Inventories	**81,186**	79,977
Prepaid expenses	**6,657**	13,455
Accounts payable and accrued liabilities	**(83,240)**	(80,162)
Net working capital	**85,202**	92,100
Less: deposits on Stuyver's new artisan bakery equipment [1]	**—**	(9,001)
Adjusted net working capital	**85,202**	83,099

(1) See *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets.* Amounts are included in prepaid expenses.

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

(in days)	As at Dec 29, 2012	As at Dec 31, 2011
Days sales in accounts receivable [1]	**30.1**	31.5
Days cost of sales in inventory [2]	**37.8**	39.8

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

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

Adjusted net working capital at the end of 2012 as compared to the end of 2011 increased by $2.1 million primarily due to: (i) additional net working capital, particularly accounts receivable, associated with the Company's organic growth (see *Results of Operations – Revenue*); and (ii) increased deposits on equipment purchases not relating to Stuyver's new artisan bakery. These increases were partially offset by the impact of higher turnover rates on the Company's accounts receivable and inventories, as shown in the decreases in the Company's days sales in accounts receivable and days cost of sales in inventory ratios. These improvements were due to: (i) the implementation of several initiatives designed to improve the utilization of the Company's working capital assets; and (ii) normal fluctuations in net working capital.

Non-Cash Working Capital Cash Flows

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

(in thousands of dollars)	13 weeks ended Dec 29, 2012	14 weeks ended Dec 31, 2011	52 weeks ended Dec 29, 2012	53 weeks ended Dec 31, 2011
Change in non-cash working capital	**1,673**	3,542	**6,368**	(6,050)
Change relating to deposits on Stuyver's new artisan bakery equipment [1]	**—**	2,862	**(9,001)**	9,001
	1,673	6,404	**(2,633)**	2,951

(1) See *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets.*

Due to the seasonal nature of the Company's business, changes in the Company's non-cash working capital generally result in a net cash inflow in the fourth quarter of the year as its sales levels decline after the busy summer months (see *Summary of Quarterly Results*). In 2011 the Company generated additional cash in the fourth quarter from the liquidation of excess net working capital relating to businesses acquired earlier in the year.

For 2012 the Company used $2.6 million for non-cash working capital primarily due to additional net working capital associated with its organic growth (see *Results of Operations – Revenue*).

Debt Financing Activities

Credit Facilities

As at December 29, 2012 the Company's credit facilities and the unutilized portion of those facilities were as follows:

(in thousands of dollars)	Credit Facilities	Amount Drawn on Facility	Unutilized Credit Capacity
Facility A – revolving senior credit (1)	50,000	10,735	39,265
Facility B – revolving senior credit (2)	55,000	17,250	37,750
Facility C – non-revolving senior credit (3)	100,000	100,000	–
7.00% debentures (4)	24,149	24,149	–
5.75% debentures (5)	54,789	54,789	–
5.70% debentures (6)	54,904	54,904	–
Vendor take-back notes resulting from business acquisitions	7,146	7,146	–
Capital leases	3,567	3,567	–
Farm Credit Canada loans (7)	6,853	6,853	–
Industrial Development Revenue Bond (8)	6,096	6,096	–
Other revolving loans	3,250	444	2,806
Other term loans	1,735	1,735	–
Cheques outstanding	–	1,934	(1,934)
Cash and cash equivalents	–	(4,020)	4,020
	367,489	285,582	81,907

(1) Amount represents the total amount available under the facility of $60.0 million less approximately $10.0 million in outstanding letters of credit. Facility matures in September 2014, can be used to fund the Company's working capital and general operating needs and has no principal payments due prior to its maturity date.

(2) Facility matures in September 2014, can be used to fund capital projects and acquisitions, and has quarterly principal payments of $2.75 million. Repaid amounts can be redrawn to fund new capital projects and acquisitions.

(3) Facility matures in September 2014 and has no principal payments prior to its maturity date unless Facility B is fully paid in which case the facility would have quarterly principal payments of $2.75 million.

(4) Represents the present value of the outstanding portion of the $40.3 million in convertible unsecured subordinated debentures issued by the Company in 2009. The face value of the 7.00% debentures outstanding as at December 29, 2012 was $25.7 million (December 31, 2011 – $37.6 million). These debentures mature in December 2014 and have no principal payments prior to that date.

(5) Represents the present value of the outstanding portion of the $57.5 million in convertible unsecured subordinated debentures issued by the Company in 2011. The face value of the 5.75% debentures outstanding as at December 29, 2012 was $57.5 million (December 31, 2011 – $57.5 million). These debentures mature in December 2015 and have no principal payments prior to that date.

(6) Represents the present value of the outstanding portion of the $57.5 million in convertible unsecured subordinated debentures issued by the Company in 2012 plus the value attributed to the cash conversion option associated with the debentures. The face value of the 5.70% debentures outstanding as at December 29, 2012 was $57.5 million (December 31, 2011 – nil). These debentures mature in June 2017 and have no principal payments prior to that date.

(7) Loans relate to SJ (see *Liquidity and Capital Resources – Corporate Investments*), mature between March 2014 and July 2020, and have quarterly principal payments of approximately $0.3 million.

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

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

Funded Debt

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

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

(in thousands of dollars)	**As at Dec 29, 2012**	**As at Dec 31, 2011**
Cheques outstanding	**1,934**	2,504
Bank indebtedness	**11,179**	18,061
Current portion of long-term debt	**127,310**	20,536
Deferred financing costs (1)	**569**	940
Long-term debt	**14,768**	162,661
	155,760	204,702
Less: cash and cash equivalents	**4,020**	4,860
Senior funded debt	**151,740**	199,842
7.00% debentures	**24,149**	35,393
5.75% debentures	**54,789**	54,003
5.70% debentures	**54,904**	–
Total funded debt	**285,582**	289,238

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

Current Portion of Long-Term Debt

As a result of the Company's write-down of certain redundant property (see *Results of Operations - Other*) the Company's senior lenders (the Lenders) could potentially require the early payment of approximately $117.3 million of the Company's long-term debt (the Debt). The Lenders have provided a written waiver to the Company that they have no intention of doing this, however, because this confirmation occurred after December 29, 2012 the Company must under IFRS classify the Debt in its December 29, 2012 consolidated financial statements as being current. This is despite there being no change in: (i) the quarterly principal payments associated with the Debt; and (ii) the Debt's maturity date of September 9, 2014.

Debt Activities

During 2012 the Company's significant debt activities consisted of the following:

(in thousands of dollars)	**52 weeks ended Dec 29, 2012**
Opening total funded debt at December 31, 2011	289,238
Issuance of 5.70% convertible debentures	54,600
Draws on operating lines and cash used to fund the Company's general cash requirements	12,990
Draws on Facility B used to fund capital expenditures made in 2011 and 2012 (1)	8,300
Principal accretion on long-term debt and debentures	2,417
Purchase and cancellation of 7.00% debentures	(589)
Foreign currency translation adjustment (2)	(265)
Scheduled principal payments (3)	(15,172)
7.00% debenture conversions (4)	(11,337)
Application of proceeds from 5.70% debenture issuance to Facility A	(19,600)
Application of proceeds from 5.70% debenture issuance to Facility B	(35,000)
Closing total funded debt	285,582

(1) 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. dollar denominated debt into Canadian dollars.
(3) See *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*.
(4) Debentures are convertible into common shares at a conversion price of $14.50 per common share.

Debenture Offering

In June 2012, the Company issued $57.5 million of convertible unsecured subordinated debentures resulting in net proceeds of $54.6 million after commissions of $2.3 million and transaction costs of approximately $0.6 million. The debentures bear interest at an annual rate of 5.70% payable semi-annually, have a maturity date of June 30, 2017 and are convertible into common shares of the Company at a price of $28.30 per share. Upon conversion of the 5.70% debentures, in lieu of delivering common shares, the Company may, at its option, elect to pay the holder a cash amount which is calculated based on the daily volume weighted average price of the Company's common shares as measured over a period of ten consecutive trading days commencing on the third day following the date of the conversion.

$35.0 million of the proceeds of the debenture offering was used to reduce the amount outstanding under the Company's Facility B loan, which is a revolving facility that can be drawn on to fund acquisitions and capital expenditures (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*). The balance of the net proceeds was used to reduce the amount outstanding under the Company's Facility A loan, which is a revolving facility that can be drawn on for general corporate purposes.

See note 11 in the Company's audited consolidated financial statements for 2012 for a detailed description of the accounting treatment of the 5.70% debentures.

Issuer Bid

In the third quarter of 2012 the Company announced a normal course issuer bid through the facilities of the TSX for the purchase and cancellation of up to 5% of its issued and outstanding common shares and up to 10% of each of its issued and outstanding convertible debentures. During 2012 the Company purchased and cancelled $0.6 million of its 7.00% debentures, having a book value of $0.6 million, at a total cost, including commissions, of $0.7 million.

Banking Covenants

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

	Covenant Requirement	Dec 29, 2012 Ratio
Senior funded debt to Adjusted EBITDA ratio (1) (2)	**=< 3.00 : 1.0**	2.19: 1.0
Current ratio (3)	**> 1.30 : 1.0**	1.48: 1.0
Interest coverage ratio (3)	**> 4.00 : 1.0**	7.93: 1.0

(1) Covenant is increased by 0.25:1 to a maximum of 3.25:1.0 for a period of two consecutive quarters in the event of a business acquisition.
(2) Adjusted EBITDA is calculated as the Company's rolling four quarters Adjusted EBITDA plus the trailing Adjusted EBITDA of new acquisitions so that the total Adjusted EBITDA amount includes four quarters of Adjusted EBITDA for new acquisitions. For covenant calculation purposes, senior funded debt excludes cheques outstanding.
(3) Ratio is calculated based on the combined balance sheets and/or statements of operations of certain subsidiaries of the Company and therefore will not necessarily equal the ratio calculated based on the Company's consolidated balance sheet and/or statement of operations. Furthermore, the ratio excludes principal payments on the maturity of Facilities A, B and C (see *Liquidity and Capital Resources – Debt Financing Activities – Credit Facilities*).

As a result of the Company's write-down of certain redundant property (see *Results of Operations - Other*) the Company's senior lenders (the Lenders) could potentially require the early payment of approximately $117.3 million of the Company's long-term debt (the Debt) (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt – Current Portion of Long-Term Debt*). The Lenders have provided a written waiver to the Company that they have no intention of doing this, correspondingly there has been no change in: (i) the quarterly principal payments associated with the Debt; and (ii) the Debt's maturity date of September 9, 2014.

Financial Leverage

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

- The risks associated with the consistency and sustainability of the Company's cash flows (see *Risks and Uncertainties*);
- The financial covenants associated with the Company's senior credit facilities;
- The Company's dividend policy (see *Liquidity and Capital Resources – Dividends*); and
- The tax efficiency associated with financing the Company's operations with debt since interest is generally deductible in the calculation of taxable income.

At the end of 2012 the Company's senior funded debt to Adjusted EBITDA ratio of 2.19:1 was below its long-term targeted range primarily due to its recent debenture offering (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

The Company's total funded debt to Adjusted EBITDA ratio at the end of 2012 was 4.2:1, which is above its long-term targeted levels, however, looking forward (see *Forward Looking Statements*) the Company expects this ratio to decrease over the next several quarters due to: (i) growth in its Adjusted EBITDA (see *Results of Operations – Adjusted EBITDA*); and (ii) lower levels of funded debt based on using excess cash flow from its operations to reduce the amounts outstanding on its revolving credit facilities (see *Liquidity and Capital Resources – Dividends – Dividend Policy*).

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 and investment in project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*) and business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*).

Furthermore, one of the key considerations the Company uses in determining its dividend policy is the ratio of its dividends to its free cash flow on a rolling four quarters basis. The Company uses a rolling four quarter measurement period on the basis of: (i) the seasonality of its business (see *Summary of Quarterly Results*), which results in significant fluctuations in its free cash flow on a quarter by quarter basis; and (ii) its objective to maintain a stable quarterly per share dividend. Correspondingly, due to the seasonal nature of the Company's business, it is possible that in some quarters its dividends to shareholders may exceed its free cash flow.

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

(in thousands of dollars)	**52 weeks ended Dec 29, 2012**	**53 weeks ended Dec 31, 2011**
Cash flow from operating activities	**50,830**	29,524
Changes in non-cash working capital (1)	**(6,368)**	6,050
Deferred revenue (2)	**–**	1,118
Acquisition transaction costs (3)	**197**	1,594
Restructuring costs (3)	**5,705**	2,819
Capital maintenance expenditures (4)	**(3,513)**	(2,880)
Free cash flow	**46,851**	38,225

(1) Cash used for increases in the Company's non-cash working capital is funded primarily through draws on its Facility A revolving credit facility (see *Liquidity and Capital Resources – Debt Financing Activities – Credit facilities*), while cash resulting from decreases in its non-cash working capital is used primarily to pay down its Facility A revolving credit facility.

(2) Amount represents free cash flow generated from deferred revenue (see *Liquidity and Capital Resources – Capital Expenditures – Deferred Revenue*).

(3) Amount relates to the Company's business acquisition activities (see Liquidity and Capital Resources – Corporate Investments) and/or capital expenditure activities (see *Liquidity and Capital Resources – Capital Expenditures*).

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

Dividend Policy

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

- The ratio of its dividends to its free cash flow on a rolling four quarter basis;
- Debt principal repayment obligations (see *Liquidity and Capital Resources – Debt Financing Activities*);
- Financing requirements for capital project expenditures (see *Liquidity and Capital Resources – Capital Expenditures*) and business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*);
- Ability to access reasonably priced debt and equity financing;
- The ratio of its annual dividend per share to the trading price of its shares on the Toronto Stock Exchange, i.e. dividend yield; and
- Significant changes in the status of one or more of the risk factors facing the Company (see *Forward Looking Statements and Risks and Uncertainties*).

The Company currently has a targeted quarterly dividend of $0.294 per share, or on an annualized basis, $1.176 per share. During 2012 the Company declared dividends of $1.176 per share totaling $24.4 million.

Looking forward (see *Forward Looking Statements*), the Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors that may become relevant in the future and, correspondingly, there can be no assurance that its current quarterly dividend of $0.294 per share will be maintained.

Dividend History

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

(in thousands of dollars except per share amounts and ratios)	**Declared Shareholder Dividends / Distributions**	**Nature of Distribution**	**Free Cash Flow**	**Ratio (1)**	**Average Annualized Dividend/ Distribution Per Share**
Rolling four quarters ended:					
December 29, 2012	24,381	Dividend	46,851	52.0%	$1.176
December 31, 2011	22,672	Dividend	38,225	59.3%	$1.176
December 25, 2010	21,019	Dividend	32,202	65.3%	$1.176
December 26, 2009	20,687	(2)	29,280	70.7%	$1.176
December 31, 2008	20,593	Trust distribution	29,631	69.5%	$1.176
December 31, 2007	20,514	Trust distribution	26,440	77.6%	$1.176
December 31, 2006	18,357	Trust distribution	17,247	106.4%	$1.176

(1) Ratio of dividends / distributions declared to free cash flow for the corresponding rolling four quarter period.
(2) Consisted of trust distributions for the first two quarters of the period and dividends for the last two quarters of the period.

Capital Expenditures

Expenditure Classification

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

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

Changes in Capital Assets

The following table shows the changes in the Company's capital assets during 2012:

(in thousands of dollars)	**52 weeks ended Dec 29, 2012**
Opening capital assets at December 31, 2011	167,982
Depreciation	(15,490)
Write down of redundant real estate (1)	(6,900)
Asset sales and other	(594)
Foreign currency translation adjustment (2)	(363)
Capital expenditures:	
Project	26,922
Maintenance	3,513
Closing capital assets	175,070

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

(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.

During 2012 the Company capitalized $26.9 million in project capital expenditures, which included:

- $16.8 million for the construction of a new artisan bakery in Langley, BC that replaced the Company's Stuyver's business' artisan bakery in Burnaby, BC (see *Results of Operations – Restructuring Costs*). $9.0 million of the amount capitalized in 2012 relates to equipment deposits that had been included in prepaid expenses in 2011 (see *Liquidity and Capital Resources – Net Working Capital Requirements*).

- $0.5 million for the present value of estimated future site restoration costs associated with the leased facility housing the Stuyver's new artisan bakery. These costs will not, however, be incurred until the expiry of the lease, which runs through to December 31, 2025 and has two five-year renewal options thereafter. Corresponding to this capitalized amount, the Company has set up a long-term liability for $0.5 million (see *Corporate Investments – Provisions*).

- $3.5 million for the reconfiguration of the Company's sandwich production facilities (see *Results of Operations – Restructuring Costs*).

- $1.2 million for the construction of a new 8,100 square foot seafood processing and distribution facility which is adjacent to the Company's Centennial Foodservice business' Richmond facility. This project, which is expected to cost $2.3 million and was completed in January 2013, will enable Centennial Foodservice to: (i) provide its customers across most of western Canada with unique fresh seafood product solutions; and (ii) capitalize on a rapidly growing segment of the food industry.

The balance of the Company's project capital expenditures for 2012 was for a variety of smaller projects consisting mainly of capacity related equipment purchases.

Maintenance capital expenditures for 2012 increased to $3.5 million as compared to $2.9 million for 2011 primarily due to business acquisitions made in the latter part of 2011 (see *Liquidity and Capital Resources – Corporate Investments*).

Historic Capital Maintenance Expenditures

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

(in thousands of dollars)	**Total**
Rolling four quarters ended:	
December 29, 2012	3,513
December 31, 2011	2,880
December 25, 2010	1,713
December 26, 2009	2,026
December 31, 2008	2,600
December 31, 2007	1,780
December 31, 2006	1,887

Looking forward, for 2013 the Company expects (see *Forward Looking Statements*) its capital maintenance expenditures to be approximately $5.0 million.

Deferred Revenue

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

In 2010 the Company successfully obtained $1.2 million in government grants relating to capital projects completed over the previous several years. $0.3 million of these grants were recognized in 2010 with the balance being recorded on the Company's consolidated balance sheet as deferred revenue. The deferred grant revenue is being amortized into earnings over the average life of the corresponding capital assets, which is estimated at 15 years.

Corporate Investments

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

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

During 2012 the Company made no corporate investments.

During 2011 the company completed four business acquisitions: (i) in the first quarter Les Aliments Deli Chef (Deli Chef) was purchased for $7.8 million; (ii) in the second quarter an additional 25.7% interest in SJ Irvine Fine Foods Ltd. (SJ) was acquired through the purchase of $3.9 million in treasury shares. This increased the Company's interest in SJ to 50.7% and resulted in it acquiring control; (iii) in the third quarter Piller's Fine Foods (Piller's) was purchased for $64.9 million in cash, the issuance of 1,968,750 common shares valued at $31.5 million and the assumption of $9.4 million in funded debt. In addition, the purchase price will be increased by up to $10.0 million if Piller's achieves certain profitability targets over the two-year period ending September 9, 2013 (see *Liquidity and Capital Resources – Corporate Investments – Provisions*); and (iv) in the fourth quarter the business of Preferred Regional Independent Distributors Corporation (Pridcorp) was acquired for $0.6 million.

Goodwill and Intangible Assets

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

The following table shows the changes in the combined total of the Company's net intangible assets and goodwill during 2012:

(in thousands of dollars)	**52 weeks ended Dec 29, 2012**
Opening intangible assets and goodwill at December 31, 2011	227,504
Amortization of intangible assets	(4,836)
Foreign currency translation adjustment [(1)]	(600)
Reallocation of 2011 acquisition purchase price (goodwill) from deferred income taxes [(2)]	4,377
Closing intangible assets and goodwill	226,445

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

(2) See *Results of Operations – Deferred Income Tax Provision.*

Puttable Interest in Subsidiaries

Puttable interest represents the fair value estimate of options (put options) held by non-controlling shareholders of certain subsidiaries of the Company that entitle such shareholders to require the Company to purchase their 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 2012:

(in thousands of dollars)	52 weeks ended Dec 29, 2012
Opening puttable interest at December 31, 2011 (1)	15,210
Change in value (2)	1,655
Foreign currency translation adjustment (3)	(6)
Cash distributions to non-controlling shareholders with puttable interests	(1,210)
Closing puttable interest (1)	15,649

(1) Includes both the current and long term portions.
(2) See *Results of Operations – Change in Value of Puttable Interest in Subsidiaries.*
(3) Adjustment is the result of changes in the currency exchange rate used to translate the Company's U.S. based operations, which are denominated in U.S. dollars, into Canadian dollars.

Provisions

Provisions consist of the following amounts:

(in thousands of dollars)	As at Dec 29, 2012
Contingent consideration – Piller's acquisition	1,762
Contingent consideration – Pridcorp distributor indemnities	2,086
Lease restoration costs	503
Provisions (1)	4,351

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

Contingent Consideration – Piller's Acquisition

In 2011, the Company recorded a provision for contingent consideration of $8.1 million as a result of the acquisition of Piller's (see *Liquidity and Capital Resources – Corporate Investments*). This amount represents the discounted present value of the $10.0 million contingent consideration that is payable to the previous owners of Piller's if Piller's achieves certain profitability targets over the two years ended September 9, 2013.

In 2012, the Company reversed a portion of the provision for contingent consideration associated with the Piller's acquisition based on the profitability targets it expects (see *Forward Looking Statements*) Piller's to achieve for the two years ended September 9, 2013. This reversal resulted in a gain of $7.2 million (see *Results of Operations – Other*).

Contingent Consideration – Pridcorp Distributor Indemnities

Also in 2011, the Company recorded a provision for contingent consideration of $2.9 million as a result of indemnifying independent distributors that joined NDSD's DSD network (see *Results of Operations – Restructuring Costs*) as part of the acquisition of Pridcorp (see *Liquidity and Capital Resources – Corporate Investments*) against certain defined losses. This contingent consideration is for up to a maximum amount of $2.9 million in losses over a 24 month period ending in December 2013 and is payable if: (i) a defined key supplier (the Key Supplier) terminates its relationship with the distributor as a result of the distributor joining the Company's DSD network; and (ii) the distributor is unable to replace the resulting lost sales with sales of other products including any new listings of the Company's products.

In the first quarter of 2012 the Key Supplier terminated its arrangement with the distributors and, as a result, during 2012 the Company reimbursed the distributors a total of $0.8 million for qualified losses.

Lease Restoration Costs

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

The following table shows the changes in the provisions during 2012:

(in thousands of dollars)	**52 weeks ended Dec 29, 2012**
Opening provisions at December 31, 2011 (1)	11,284
Lease restoration costs	500
Accretion of provisions	631
Payments – Pridcorp distributor indemnities	(838)
Partial reversal of Piller's contingent consideration provision	(7,226)
Closing provisions (1)	4,351

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

OUTLOOK

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

See *Results of Operations* for details on the Company's revenue and Adjusted EBITDA expectations for 2013. See *Liquidity and Capital Resources – Capital Expenditures – Historic Capital Maintenance Expenditures* for details on the Company's capital maintenance expenditure expectations for 2013.

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

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

Contractual Obligations

The payments due on the Company's significant contractual obligations at December 29, 2012 are as follows:

(in thousands of dollars)	Total	1 year out	2 years out	3 years out	4 years out	5 years out	There-after
Term debt and notes payable	**137,344**	19,294	107,073	766	803	3,312	6,096
Capital leases and other	**5,303**	1,766	1,130	867	410	374	756
7.00% debentures	**25,682**	–	25,682	–	–	–	–
5.75% debentures	**57,500**	–	–	57,500	–	–	–
5.70% debentures	**57,500**	–	–	–	–	57,500	–
Operating leases	**57,575**	9,737	8,262	7,276	6,475	4,925	20,900
Total	**340,904**	30,797	142,147	66,409	7,688	66,111	27,752

TRANSACTIONS WITH RELATED PARTIES

During 2012 the Company entered into the following transactions with related parties:

- Pursuant to a ten-year real property lease ending in August 2018, the Company made $0.4 million in lease payments to a company in which the Company's Chairman, Bruce Hodge, has a minority interest.
- Pursuant to the Company's employee loan program, the Company received principal payments totaling approximately $0.2 million from participating employees, including its President and Chief Executive Officer, George Paleologou, and its Chief Financial Officer, Will Kalutycz.

SUBSEQUENT TRANSACTIONS

Subsequent to 2012 the Company purchased certain segments of the business of Harbour Marine Products Inc., namely its salmon and high grade tuna sushi processing businesses, for $1.35 million. Harbour Marine is a Vancouver based seafood processor currently in receivership.

The purchased Harbour Marine businesses, which are expected (see *Forward Looking Statements*) to generate annual sales of approximately $10.0 million, and the associated assets and skilled employees will be moved to Centennial Foodservice's new seafood processing facility (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*). This will not only provide the new facility with immediate critical mass but will also position the Company as one of the leading processors of sushi grade tuna on the west coast of Canada and the U.S.

Also subsequent to 2012 the Company increased its interest in Made-Rite Meat Products LP from 50% to 70% by purchasing a portion of the other partner's interest in the business for $0.9 million.

FORWARD LOOKING STATEMENTS

This discussion and analysis contains forward looking statements with respect to the Company, including its business operations, strategy and financial performance and condition. While management believes that the expectations reflected in such forward looking statements are reasonable and represent the Company's internal expectations and belief as of March 13, 2013, such statements involve unknown risks and uncertainties beyond the Company's control which may cause its actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements.

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

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

- Current economic conditions in Canada and the United States will continue to show modest improvement in the near to medium term.
- The average cost of the basket of commodities the Company purchases will continue to fluctuate in line with historic levels.
- The Company's capital projects (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*) and restructuring initiatives (see *Results of Operations – Restructuring Costs*) will progress in line with the Company's expectations.
- The Company will be able to continue to access sufficient goods and services for its manufacturing and distribution operations.
- There will be no material changes in the competitive environment or consumer food consumption trends in the markets in which the Company's various businesses compete.
- There will be no significant changes to Canada's historic weather patterns.
- There will be no material changes in the Company's relationships with its larger customers.
- The Company will be able to negotiate new collective agreements with no labour disruptions.
- The Company will be able to continue to access sufficient qualified staff.
- The Company will be able to continue to access reasonably priced debt and equity capital.
- The Company's average interest cost on floating rate debt will remain relatively stable in the near to medium future.
- Contractual counterparties will continue to fulfill their obligations to the Company.
- There will be no material changes to the tax and other regulatory requirements governing the Company.

Unless otherwise indicated, the forward looking information in this document is made as of March 13, 2013 and, except as required by applicable law, will not be publicly updated or revised. This cautionary statement expressly qualifies the forward looking information in this document.

RISKS AND UNCERTAINTIES

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

Seasonality and Weather Risk

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

Consumer Discretionary Spending Risk

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

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

Commodity Risk

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

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

Conversion Risk

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

- *Third Party Credit/Contractual Risks.* The Company is or may be exposed to third party credit/contractual risk relating to obligations of Thallion and Thallion's successor, New Thallion. The Company has, through the conditions of an arrangement agreement and certain agreements entered into pursuant to such agreement, attempted to ensure that the liabilities and obligations relating to the business of Thallion were transferred to and assumed by New Thallion, and that the Company was released from any such obligations. However, where such transfers or releases were not effective or were not obtained, the Company is subject to third party credit/contractual risk relating to the obligations of Thallion and New Thallion. Such third party liabilities for which the Company may become liable could have a material adverse effect on the business, financial conditions and results of operations of the Company.

- *Due Diligence Risks.* Although the Company conducted investigations of, and engaged legal and accounting advisors to review the corporate, legal, financial, tax and business records of Thallion to identify third party credit/contractual risk and to structure the transaction to protect against such risks, there may be liabilities or risks that the Company may not have uncovered in its due diligence investigations, or that may have an unanticipated material adverse effect on the Company. These liabilities and risks could have, individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of the Company.

- *Thallion Operational Risks*. The Company is or may be exposed to operational risk relating to obligations of Thallion and New Thallion, including with respect to intellectual property matters, product liability, clinical trial liability or environmental damage. The Company has, through the conditions of an arrangement agreement and certain agreements entered into pursuant to such arrangement agreement, attempted to ensure that the liabilities and obligations relating to the business of Thallion were transferred to and assumed by New Thallion, and that the Company was released from any such obligations. However, where such transfers or releases were not effective or were not obtained, the Company is subject to operational risks of Thallion and New Thallion. Should the Company become liable for such matters, it could have a material adverse effect on the business, financial conditions and results of operations of the Company.

- *Reliance on the Indemnity, Insurance and the Letter of Credit*. The Company attempted to reduce the third party credit/contractual risk, due diligence risk and Thallion operational risk by obtaining, for the benefit of the Company: (i) the covenants under an indemnity agreement delivered by New Thallion pursuant to an arrangement agreement; and (ii) certain insurance coverage. The Company believes that the protection afforded by the terms of the indemnity agreement and the insurance coverage reduces these risks to an acceptable level. However, this presumes that New Thallion has the financial resources to meet its obligations under the indemnity agreement and that the insurance coverage is available.

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

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

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

Sales and Margin Risk

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

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

Customer Risk

The Company's sales to large format retail customers account for approximately 35% of its total sales. As is customary in the food industry, the Company does not have long-term contracts with any of these customers. The Company also has sales to a number of distributors who, in turn, sell the Company's products primarily to one customer (the Core Customer), that account for approximately 12% of its total sales. The balance of the Company's sales is to a broad base of approximately 22,000 customers.

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

The Company's customer diversification strategies in general, and its differentiated distribution strategies in particular, help to mitigate its exposure to this risk. Furthermore, the risk associated with losing sales associated with the Core Customer is mitigated by a variety of factors including a three-year supply agreement (which expires in September 2014) with the Core Customer, the Company's strong past performance as a strategic supplier to the Core Customer, and the strength of the Company's relationship with this customer.

Product Defect Risk

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

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

Consumer Preference Risk

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

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

Competition Risk

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

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

Currency Exchange Risk

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

- The Company's Canadian operations currently make annual product purchases of approximately US$50 million that are denominated in U.S. dollars. An increase in the U.S. dollar relative to the Canadian dollar could result in an increase, in Canadian dollar terms, in the cost of these products which, if the Company was unable to pass onto its customers through increased selling prices, could have a material adverse effect on its margins and in turn its results of operations and financial condition. This risk is mitigated by: (i) the majority of these purchases are for finished products sold through Company's distribution networks, hence if a supplier becomes uncompetitive due to changes in the value of the Canadian dollar then the Company could, in many cases, shift its purchasing to a more competitive supplier; and (ii) the Company's use of forward buy foreign currency contracts (see *Financial Instruments – Foreign Currency Contracts*).
- The valuation of the cash flows transferred from the Company's U.S. based operations. A decrease in the U.S. dollar relative to the Canadian dollar would reduce the value of this cash flow and hence could have a material adverse effect on its consolidated cash flow and, in turn, its financial condition. This risk is partially mitigated by the Company financing a portion of its investment in its U.S. operations with U.S. dollar denominated debt.
- The translation of the Company's U.S. based operations' earnings and financial position. A decrease in the U.S. dollar relative to the Canadian dollar would reduce the translated earnings and net asset values of the Company's U.S. based operations, for purposes of its consolidated financial statements, and hence could have a material adverse effect on the Company's results of operations and financial condition. This risk is also partially mitigated by the Company financing a portion of its investment in its U.S. operations with U.S. dollar denominated debt.
- The Company's U.S. based operations export approximately $12 million in product annually to Canada. An increase in the U.S. dollar relative to the Canadian dollar could reduce the selling margins on these products if the Company's U.S. based operations were unable to increase their selling prices, in Canadian dollar terms, to compensate for the stronger U.S. dollar. This in turn could have a material adverse effect on the Company's results of operations and financial condition.

Growth Risk

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

Acquisition Risk

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

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

Availability of Capital Risk

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

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

Potential Labour Risks

Approximately 21% of the Company's non-management employees are represented by labour unions or employee associations. Furthermore, the Company cannot predict with certainty which, if any, groups of employees that are not currently represented by a trade union or employee association may seek such representation in the future.

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

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

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

Dependence on Key Personnel

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

Interest Rate Risks

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

Credit Risks

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

Manufacturing Risks

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

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

Livestock Risk

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

International Trade Risks

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

Governmental Regulation Risks

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

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

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

Environmental, Health and Safety Regulation Risks

The Company's operations have been and are subject to extensive and increasingly stringent federal, state, provincial, regional and local laws and regulations pertaining to environmental, health and safety matters, including the discharge of materials into the environment and the handling and disposition of waste material resulting from the production, processing and preparation of foods

(including solid and hazardous wastes) or otherwise relating to the protection of the environment. Compliance with these laws and regulations (including any future amendments thereto) or more stringent enforcement of such laws and regulations could have a material adverse effect on the Company's financial condition and results of operations.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Goodwill and intangible assets. The Company assesses the impairment of goodwill and intangible assets with indefinite lives on an annual basis and finite life intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include significant underperformance relative to plan, a change in the Company's business strategy, or significant negative industry or economic trends.

Capital assets. Capital assets are recorded at cost then depreciated over their estimated useful life. A significant amount of judgement is required to estimate the useful life of an asset. Changes in the life of an asset are reflected prospectively through changes in future depreciation rates.

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

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

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

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

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

NEW ACCOUNTING POLICIES

New Accounting Pronouncements

There are a number of revised standards and amendments under IFRS that are effective for annual periods beginning on or after January 1, 2013. The Company has assessed the impact of these standards and amendments. See note 2 to the Company's 2012 audited consolidated financial statements for details on the revised standards and amendments.

FINANCIAL INSTRUMENTS

Foreign Currency Contracts

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

As at December 29, 2012, the Company had outstanding foreign currency contracts for the purchase of US$16.9 million over the next twelve months at a blended rate of C$0.9900 and for the purchase of €1.7 million over the next nine months at a blended rate of C$1.2976.

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

Interest Rate Swap Contracts

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

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

As at December 29, 2012, a change of 0.25 percentage points in the effective interest rate for the remaining term of the swaps would result in a gain (if interest rates increase) or loss (if interest rates decrease) of approximately $0.4 million in the Company's consolidated statement of operations.

OTHER

Outstanding Shares

The shares outstanding in the Company as of March 13, 2013 were 21,062,735. 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 13, 2013 were 20,967,818.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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

Management has evaluated the Company's DCP as of December 29, 2012 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 29, 2012 and has concluded that the Company's ICFR is adequately designed and effective for providing reasonable assurance that the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with IFRS.

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

The Company's Management has also concluded that there have been no changes to the Company's ICFR during the interim period ending December 29, 2012 that has materially affected, or are reasonably likely to affect, its ICFR.

Responsibilities of Management and Board of Directors

Management is responsible for the reliability and timeliness of content disclosed in this management's discussion & analysis (MD&A), which is current as of March 13, 2013. 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 13, 2013, 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.

March 13, 2013

Independent Auditor's Report

To the Shareholders of
Premium Brands Holdings Corporation

We have audited the accompanying consolidated financial statements of Premium Brands Holdings Corporation, which comprise the consolidated balance sheets as at December 29, 2012 and December 31, 2011 and the consolidated statements of operations, comprehensive earnings, cash flows and changes in shareholders' equity for the 52 week period ended December 29, 2012 and the 53 week period ended December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Premium Brands Holdings Corporation as at December 29, 2012 and December 31, 2011 and its financial performance and its cash flows for the 52 week period ended December 29, 2012 and the 53 week period ended December 31, 2011 in accordance with International Financial Reporting Standards.

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CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	December 29, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	**4,020**	4,860
Accounts receivable (note 28)	**80,599**	78,830
Other assets (note 7)	**193**	103
Inventories (note 3)	**81,186**	79,977
Prepaid expenses	**6,657**	13,455
	172,655	177,225
Capital assets (note 4)	**175,070**	167,982
Intangible assets (note 5)	**71,994**	77,087
Goodwill (note 6)	**154,451**	150,417
Other assets (note 7)	**2,266**	2,250
Deferred income taxes (note 25)	**31,286**	39,952
	607,722	614,913
Current liabilities:		
Cheques outstanding	**1,934**	2,504
Bank indebtedness (note 9)	**11,179**	18,061
Dividend payable (note 15)	**6,188**	5,958
Accounts payable and accrued liabilities	**83,240**	80,162
Current portion of long-term debt (note 10)	**127,310**	20,536
Current portion of provisions (note 13)	**3,848**	2,924
	233,699	130,145
Long-term debt (note 10)	**14,768**	162,661
Convertible unsecured subordinated debentures (note 11)	**133,842**	89,396
Puttable interest in subsidiaries (note 12)	**15,649**	15,210
Deferred revenue	**1,443**	1,943
Provisions (note 13)	**503**	8,360
Pension obligation (note 14)	**1,873**	1,345
Other	**–**	100
	401,777	409,160
Equity attributable to shareholders:		
Accumulated earnings	**147,916**	133,370
Accumulated dividends declared (note 15)	**(154,878)**	(130,497)
Retained earnings (deficit)	**(6,962)**	2,873
Share capital (note 16)	**209,093**	198,057
Equity component of convertible debentures (note 11)	**1,785**	1,916
Reserves (note 19)	**448**	1,442
Non-controlling interest	**1,581**	1,465
	205,945	205,753
	607,722	614,913

Approved by the Board of Directors

George Paleologou, Director

Johnny Ciampi, Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Canadian dollars except per share amounts)	52 weeks ended December 29, 2012	53 weeks ended December 31, 2011
Revenue	**968,775**	788,932
Cost of goods sold (note 33)	**766,424**	614,631
Gross profit before depreciation and amortization	**202,351**	174,301
Selling, general and administrative expenses before depreciation and amortization (note 33)	**134,095**	119,357
	68,256	54,944
Depreciation of capital assets (note 4)	**15,490**	12,091
Amortization of intangible assets (note 5)	**4,836**	3,573
Amortization of other assets	**5**	5
Interest and other financing costs (note 21)	**17,579**	14,496
Amortization of financing costs	**380**	405
Acquisition transaction costs	**197**	1,594
Change in value of puttable interest in subsidiaries (note 12)	**1,655**	1,828
Accretion of provisions (note 13)	**631**	244
Unrealized gain on foreign currency contracts (note 28)	**(100)**	(220)
Unrealized (gain) loss on interest rate swap contracts (note 28)	**(300)**	100
Restructuring costs (note 22)	**5,705**	2,819
Acquisition bargain purchase gain (note 20)	**–**	(1,455)
Equity loss in associate (note 8)	**–**	277
Other (note 23)	**(69)**	–
Earnings before income taxes	**22,247**	19,187
Provision for income taxes (note 25)		
Current	**2,216**	1,526
Deferred	**4,757**	4,562
	6,973	6,088
Earnings	**15,274**	13,099
Earnings for the period attributable to:		
Shareholders	**15,058**	12,803
Non-controlling interest	**216**	296
	15,274	13,099
Earnings per share (note 17)		
Basic and diluted	**0.73**	0.68

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(in thousands of Canadian dollars)	**52 weeks ended December 29, 2012**	**53 weeks ended December 31, 2011**
Earnings	**15,274**	13,099
Actuarial loss on pension obligation	**(512)**	(685)
Unrealized foreign exchange (loss) gain on investment in foreign operations	**(1,079)**	776
Comprehensive earnings	**13,683**	13,190
Comprehensive earnings attributable to:		
Shareholders	**13,467**	12,894
Non-controlling interest	**216**	296
	13,683	13,190

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	52 weeks ended December 29, 2012	53 weeks ended December 31, 2011
Cash flows from operating activities:		
Earnings	**15,274**	13,099
Items not involving cash:		
Depreciation of capital assets	**15,490**	12,091
Amortization of intangible and other assets	**4,841**	3,578
Amortization of financing costs	**380**	405
Change in value of puttable interest in subsidiaries	**1,655**	1,828
Loss on sales of capital assets	**264**	23
Gain on disposal of goodwill	**–**	(521)
Accrued interest income	**(29)**	(51)
Net unrealized gain on foreign currency contracts and interest rate swaps	**(400)**	(120)
Equity loss in associate	**–**	277
Deferred revenue	**(492)**	(544)
Accretion of convertible debentures, long-term debt and provisions	**3,048**	2,402
Writedown of capital assets	**6,900**	–
Reversal of provision for contingent consideration (note 13)	**(7,226)**	–
Acquisition bargain purchase gain	**–**	(1,455)
Deferred income taxes	**4,757**	4,562
	44,462	35,574
Change in non-cash working capital (note 32)	**6,368**	(6,050)
	50,830	29,524
Cash flows from financing activities:		
Long-term debt – net	**(41,872)**	33,553
Bank indebtedness and cheques outstanding	**(7,451)**	12,068
Convertible debentures – net of issuance costs (note 11)	**54,600**	54,600
Deferred revenue	**–**	1,118
Purchase of 7.00% debentures under normal course issuer bid	**(720)**	–
Dividends paid to shareholders, net of dividends received from cancelled shares	**(24,151)**	(21,149)
Share issuance and financing costs	**(2)**	(703)
	(19,596)	79,487
Cash flows from investing activities:		
Capital asset additions (note 4)	**(30,435)**	(23,493)
Business acquisitions (note 20)	**–**	(76,848)
Repayment of share purchase loans and notes receivable	**228**	118
Promissory note from associate	**–**	(300)
Payment for customer supply agreement (note 5)	**–**	(2,187)
Purchase of trade name (note 5)	**–**	(355)
Net proceeds from sales of assets	**315**	1,018
Payments to shareholders of non-wholly owned subsidiaries	**(1,310)**	(672)
Purchase of shares of non-wholly owned subsidiary pursuant to puttable interest (note 12)	**–**	(2,286)
Payment of provisions (note 13)	**(838)**	–
	(32,040)	(105,005)
(Decrease) increase in cash and cash equivalents	**(806)**	4,006
Effects of exchange on cash and cash equivalents	**(34)**	(14)
Cash and cash equivalents – beginning of year	**4,860**	868
Cash and cash equivalents – end of year	**4,020**	4,860

Supplemental cash flow information (note 32)

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	Retained earnings (deficit)	Share capital	Equity component of convertible debentures	Reserves	Non-controlling interest	Share-holders' equity
Balance as at December 25, 2010	12,494	163,754	919	1,653	1,269	180,089
Common shares issued (note 16)	–	34,103	–	–	–	34,103
Share issuance costs (note 16)	–	(18)	–	–	–	(18)
Earnings for the year attributable to:						
Shareholders	12,803	–	–	–	–	12,803
Non-controlling interest	–	–	–	–	296	296
Payments to non-controlling interest	–	–	–	–	(100)	(100)
Dividends declared	(22,672)	–	–	–	–	(22,672)
Return of dividends for cancelled shares	933	–	–	–	–	933
Convertible debentures issued (note 11)	–	–	997	–	–	997
Actuarial loss on pension obligation (note 14)	(685)	–	–	–	–	(685)
Effect of share based compensation plans (note 16 and 19)	–	218	–	(987)	–	(769)
Foreign currency translation adjustment (note 19)	–	–	–	776	–	776
Balance as at December 31, 2011	2,873	198,057	1,916	1,442	1,465	205,753
Common shares issued (note 16)	–	11,337	–	–	–	11,337
Share issuance costs (note 16)	–	(2)	–	–	–	(2)
Earnings for the year attributable to:						
Shareholders	15,058	–	–	–	–	15,058
Non-controlling interest	–	–	–	–	216	216
Payments to non-controlling interest	–	–	–	–	(100)	(100)
Dividends declared (note 15)	(24,381)	–	–	–	–	(24,381)
Purchase and cancellation of debentures under normal course issuer bid (note 11)	–	–	(131)	–	–	(131)
Actuarial loss on pension obligation (note 14)	(512)	–	–	–	–	(512)
Effect of share based compensation plans (note 16 and 19)	–	(299)	–	85	–	(214)
Foreign currency translation adjustment (note 19)	–	–	–	(1,079)	–	(1,079)
Balance as at December 29, 2012	**(6,962)**	**209,093**	**1,785**	**448**	**1,581**	**205,945**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Fiscal Years Ended December 29, 2012 and December 31, 2011
(Tabular amounts in thousands of dollars except per share amounts and percentages)

1. CORPORATE INFORMATION

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

The Company's Board of Directors approved these consolidated financial statements on March 13, 2013.

2. SIGNIFICANT ACOUNTING POLICIES

Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for puttable interests in subsidiaries, provisions for contingent consideration, foreign exchange forward contracts and interest rate swaps, which are measured at fair value.

Principles of consolidation

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

The Company has a 60% interest in Hempler Foods Group LLC (Hempler's), an 80% interest in Duso's Enterprises Ltd. (Duso's), a 76% interest in Medex Fish Importing & Exporting Co. Ltd. (Maximum), a 60% interest in Hub City Fisheries Ltd. (Hub), and a 50.7% interest in SJ Irvine Fine Foods Ltd. (SJ). The Company holds options to purchase the third party interests in these businesses (calls), and in all cases, the third party stakeholders hold options that entitle them to require the Company to purchase their respective interests (puts).

The Hempler's put has vested and can be exercised at any time, while the Duso's, Maximum, Hub and SJ puts can be exercised at any time after April 2013, July 2013, November 2013 and May 2014, respectively, with the purchase prices being based on a formula tied to the profitability of the businesses. For accounting purposes, the Company has consolidated 100% of Hempler's, Duso's, Maximum, Hub and SJ, and has recognized the estimated purchase price of the third party interests as a liability at fair value on the consolidated balance sheet using the effective interest rate method (puttable interest in subsidiaries). Accordingly, non-controlling interest has not been recognized in respect of these subsidiaries.

The fair value of the puttable interest in subsidiaries is dependent on the Company's best estimates of the future profitability and cash flows of these subsidiaries, which are based on management's projections related to revenues, expenses and planned capital expenditures. Changes in the value of the puts as a result of changes in the assumptions used to estimate future put exercise prices are recorded in earnings as determined.

The Company has a 50% interest in Made-Rite Meat Products LP (Made-Rite). However, the third party stakeholder does not hold an option that requires the Company to purchase their interest. Accordingly, a non-controlling interest has been recognized in respect of Made-Rite.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The cost of the business combination is measured as the sum of the fair values of assets given and equity instruments issued, less liabilities incurred or assumed, in exchange for control of the businesses acquired. Acquisition related costs are expensed as incurred.

The excess of the cost of a business combination over the fair value of the underlying net identifiable assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized in the current period as a gain (acquisition bargain purchase gain) in the consolidated statement of operations.

Fiscal year

The fiscal year of the Company is the fifty-two week or fifty-three week period ending the nearest Saturday on or before December 31. Fiscal year 2012 was the fifty-two week period ending December 29, 2012 and fiscal year 2011 was the fifty-three week period ending December 31, 2011.

Cash and cash equivalents

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

Inventories

Raw materials, finished goods and equipment inventories are stated at the lower of cost and net realizable value. Cost includes raw materials, manufacturing labour and direct and indirect overhead, and is determined using the first-in first-out or weighted average cost methods. Net realizable value is the estimated selling price less applicable selling expenses.

Capital assets

Capital assets are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition or construction of the capital assets. Capital assets are depreciated once they are complete and available for use. Depreciation is provided on a straight-line or declining balance basis over the period in use at the following annual rates, which are based on the expected useful life of the assets:

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

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

Intangible assets

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

The Company sells many of its specialty food products under proprietary brand names, which are able to earn higher and more consistent selling margins than mainstream food products. Brand names have been determined to have an indefinite useful life, as they are not expected to decline in value over time, and thus are not amortized but are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that they might be impaired. Under the requirements of the impairment test, the carrying values of the brand names are compared with their fair values and any excess is charged to earnings.

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

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

Goodwill and bargain purchase gain

Goodwill represents the excess of the cost of an acquired business over the fair value of its underlying net identifiable assets at the time of acquisition. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a cash generating unit (CGU) to the underlying carrying amount of the CGU's net assets, including goodwill. When the carrying amount of the CGU exceeds its fair value, the difference is charged to earnings.

When the cost of an acquired business is less than the fair value of its underlying net identifiable assets at the time of acquisition, a bargain purchase gain is recognized in earnings.

Impairment of non-financial assets

Capital assets and definite life intangible assets are reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying value of a capital asset or an intangible asset exceeds its recoverable amount, which is the lower of the value in use of the asset or the fair value less the cost to sell the asset. Any impairment recognized is measured as the amount by which the carrying value of the asset exceeds its recoverable amount.

Investment in associate

Associates are entities over which the Company has significant influence, but not control. Investment in associate is accounted for using the equity method, under which the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro-rata share of post-investment earnings or loss of the associate.

Joint venture

Joint ventures are entities in which the Company has a contractual arrangement that establishes joint control over the economic activities of the entity by the Company and another party. Joint ventures are accounted for using the proportionate consolidation method, whereby the proportionate share of each joint venture's assets, liabilities, income and expenses are included with the same items, line by line, in its consolidated financial statements. The financial statements of the Company's joint ventures are prepared for the same reporting period and under the same accounting policies as those of the Company.

Long-term debt

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

Provisions

Provisions are recognized when there is a probable outflow of economic resources from the Company and the amount of that outflow can be estimated reliably, although the timing or amount of the outflow may be uncertain. Provisions are measured at the fair value of the estimated expenditure required to settle the obligation, based on the most reliable evidence available at the reporting date. Changes in the value of provisions resulting from changes in the assumptions used to estimate the future outflows are recorded in earnings.

Convertible debentures

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

When the Company purchases and cancels its convertible debentures under a normal course issuer bid, the difference between the book value and fair value of the cancelled convertible debentures is recorded as interest and other financing costs, and the remaining difference between the cost to purchase the convertible debentures and the fair value of the convertible debentures is recorded as a reduction of the equity component of convertible debentures.

Revenue recognition

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

Revenue is reported net of rebates, allowances and returns.

Cost of goods sold

Cost of goods sold includes raw materials, manufacturing labour costs and plant overhead costs.

Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as an expense over the lease term.

Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as capital leases, and are recorded as a component of long-term debt.

Income taxes

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

Foreign currency translation

The Company's United States based operations have a functional currency of U.S. dollars and accordingly have been translated to Canadian dollars using the year end exchange rate for the consolidated balance sheet and the average exchange rate for the year for the consolidated statement of operations. Gains or losses resulting from translation adjustments are recorded as a component of reserves in shareholders' equity until there is a realized reduction in the net investment in the U.S. operation.

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

Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments.

Financial instruments

The Company recognizes a financial asset or financial liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities, with certain exceptions, are initially measured at fair value. After initial recognition, the measurement of each financial instrument will vary depending on its classification: financial assets and financial liabilities fair valued through profit and loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables, or other financial liabilities.

Foreign currency contracts, interest rate swap contracts and puttable interest in subsidiaries are classified as fair valued through profit and loss, and are measured at fair value at each balance sheet date with changes reflected in the consolidated statement of operations.

Cash and cash equivalents, accounts receivable and notes and loans receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.

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

Impairment of financial assets

Financial assets are assessed for indications of impairment at the balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been negatively impacted. The factors used to determine whether objective evidence of impairment exists include the financial condition of the obligor and delinquencies in payments of interest or principal.

If objective evidence exists that financial assets are impaired, the carrying amount of the financial assets are reduced to their fair value, either directly or indirectly through the use of an allowance account.

Hedging instruments

The Company uses interest rate swap contracts to manage risks associated with fluctuations in interest rates. All such instruments are used only for risk management purposes. For the interest rate swap contracts entered into in 2011 (note 28), the Company is not applying hedge accounting, and as a result, changes in their fair value are recognized in earnings. The Company may choose to apply hedge accounting to its interest rate swap contracts in the future.

The Company uses foreign currency contracts to manage exchange risks associated with its U.S. dollar inventory purchases. All such contracts are used only for risk management purposes. The Company has not applied hedge accounting to its foreign currency contracts during 2012 and 2011, and accordingly, changes in the fair value of these contracts are recognized in earnings. The Company may choose to apply hedge accounting to its foreign currency contracts in the future.

Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of management estimates relate to:

i. Inventories

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

ii. Goodwill and intangible assets

   The Company assesses the impairment of goodwill and intangible assets with indefinite lives on an annual basis and finite life intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include significant underperformance relative to plan, a change in the Company's business strategy, or significant negative industry or economic trends.

iii. Capital assets

Capital assets are recorded at cost and then depreciated over their estimated useful life. A significant amount of judgment is required to estimate the useful life of an asset. Changes in the life of an asset are reflected prospectively through changes in future depreciation rates.

iv. Income tax provision

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

v. Puttable interest in subsidiaries

Puttable interest in subsidiaries is calculated using the effective interest rate method based on projections of future profitability of certain subsidiaries and, correspondingly, a significant amount of judgment is required in estimating the future cash flows and discount rates used under this valuation method.

vi. Convertible unsecured subordinated debentures

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

vii. Business acquisitions / contingent consideration

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

viii. Provisions

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

Share based compensation plans

The Company has a restricted share plan and an employee benefit plan, both of which provide awards to eligible directors, executives, consultants and employees of the Company and its subsidiaries.

The restricted share plan is treated as a cash-settled share based payment. Based on the restricted shares granted, a liability equal to the current fair value is determined at each balance sheet date, and changes in the fair value are recognized in earnings over the vesting period.

The employee benefit plan is treated as an equity-settled share based payment. The shares granted are measured at their fair value on the grant date. This fair value is then expensed based on a graded vesting pattern over the associated vesting period, with the deferred portion recognized as a component of reserves in shareholders' equity.

The Company's unvested shares acquired pursuant to the employee benefit plan are recorded as a reduction to the Company's outstanding share capital, and are recognized as outstanding share capital as they legally vest and ownership is transferred to the beneficiary.

Employee future benefit plan

The Company has a defined benefit pension plan covering certain employees. Benefits under this plan are based on years of service and the employee's compensation level. The Company accrues its obligations under the defined benefit pension plan and the related costs, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected rate of return on plan assets, the fair value method is used.

Any net actuarial gain or loss of the benefit obligation and the fair value of plan assets is recognized as a component of comprehensive earnings for the current period, and immediately recognized as an adjustment to retained earnings.

Non-controlling interest

Non-controlling interest is presented in the consolidated balance sheet as a component of shareholders' equity.

Earnings per share

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

Accounting standards and amendments issued but not yet adopted

The IASB periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those that management consider most significant. They are not intended to be a complete list of new pronouncements that may affect the consolidated financial statements.

i. IFRS 9 – Financial Instruments

In November 2009, IFRS 9 was issued and in October 2010 was further amended. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in International Accounting Standards ("IAS") 39 – Financial Instruments: Recognition and Measurement for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive earnings. In December 2009 IFRS 9 was deferred and is now effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. This standard is not expected to have a significant effect on the Company's consolidated financial statements.

ii. IFRS 10 – Consolidated Financial Statements

In May 2011, IFRS 10 was issued which provides a single model to be applied in the control analysis for all investees and supersedes IAS 27 – Consolidated and Separate Financial Statements and Standing Interpretations Committee – 12 Consolidation – Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. This standard is not expected to have a significant effect on the Company's consolidated financial statements.

iii. IFRS 11 – Joint Arrangements

In May 2011, IFRS 11 was issued which provides guidance for determining if a joint arrangement is a joint venture or joint operation. The standard requires that joint ventures be accounted for by the equity method as opposed to the choice presently available under IAS 31 – Interests in Joint Ventures, of applying the equity method or proportionate consolidation. Joint operations are required to be accounted for using the proportionate consolidation method. This standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company has an investment in a joint arrangement for which it currently uses the proportionate consolidation method, and has determined that this joint arrangement is a joint venture under IFRS 11. Consequently, the Company will account for its investment in the joint arrangement using the equity method, beginning in the first quarter of 2013. Under the transition rules under IFRS 11, the change from proportionate consolidation to the equity method will be applied retrospectively and comparative prior periods will be adjusted. However, the change from the proportionate consolidation method to the equity method is not expected to have an impact on the Company's shareholders' equity or its net earnings for prior or future periods.

iv. IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, IFRS 12 was issued which sets out the required disclosures for companies that have adopted IFRS 10 and 11 described above. It requires disclosure of information that helps users to evaluate the nature, risks and financial effects associated with a company's interests in subsidiaries, associates and joint arrangements. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. This standard is not expected to have a significant effect on the disclosures in the Company's consolidated financial statements.

v. IFRS 13 – Fair Value Measurement

In May 2011, IFRS 13 was issued which defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. Prior to the introduction of the standard there was no single source of guidance on fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. This standard is not expected to have a significant effect on the Company's consolidated financial statements.

vi. IAS 16 – Property, Plant and Equipment

In May 2012, IAS 16 was amended to provide more specific guidance on the classification of servicing equipment. This amendment to IAS 16 is effective for annual periods beginning on or after January 1, 2013. This standard is not expected to have a significant effect on the Company's consolidated financial statements.

vii. IAS 19 – Employee Benefits

In June 2011, IAS 19 was amended. The amendment will result in significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, the most significant being the replacement of finance cost and expected plan return on plan assets with a net finance amount that is calculated by applying the discount rate to the net liability (asset). Under the standard, the net finance amount can be classified as finance expense or pension and benefit expense. The amendment is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. This standard is not expected to have a significant effect on the Company's consolidated financial statements.

3. INVENTORIES

	December 29, 2012	December 31, 2011
Raw materials	**19,386**	19,917
Finished goods	**52,791**	50,994
Equipment for sale	**9,009**	9,066
	81,186	79,977

4. CAPITAL ASSETS

	Land	Buildings	Machinery and equipment	Total
December 31, 2011				
Cost	18,961	100,531	156,252	275,744
Accumulated depreciation	–	(23,997)	(83,765)	(107,762)
Net book value	18,961	76,534	72,487	167,982
December 29, 2012				
Cost	**18,813**	**101,735**	**176,480**	**297,028**
Accumulated depreciation	**–**	**(27,934)**	**(94,024)**	**(121,958)**
Net book value	**18,813**	**73,801**	**82,456**	**175,070**
Net book value as at December 25, 2010	3,889	38,123	34,172	76,184
Acquired through business acquisitions	15,239	26,468	39,600	81,307
Additions	–	15,726	7,767	23,493
Disposals	(171)	(625)	(245)	(1,041)
Depreciation	–	(3,279)	(8,812)	(12,091)
Foreign currency exchange adjustment	4	121	5	130
Net book value as at December 31, 2011	18,961	76,534	72,487	167,982
Additions	–	8,799	21,636	30,435
Disposals	–	(4)	(590)	(594)
Depreciation	–	(4,495)	(10,995)	(15,490)
Write-down of redundant real estate (note 23)	–	(6,900)	–	(6,900)
Foreign currency exchange adjustment	(148)	(133)	(82)	(363)
Net book value as at December 29, 2012	**18,813**	**73,801**	**82,456**	**175,070**

5. INTANGIBLE ASSETS

	Brand names	Customer relationships	Customer supply agreements	Trade secrets	Total
December 31, 2011					
Cost	27,012	56,539	6,684	1,593	91,828
Accumulated amortization	–	(8,696)	(4,680)	(1,365)	(14,741)
Net book value	27,012	47,843	2,004	228	77,087
December 29, 2012					
Cost	**26,994**	**56,318**	**6,637**	**1,593**	**91,542**
Accumulated amortization	**–**	**(12,572)**	**(5,387)**	**(1,589)**	**(19,548)**
Net book value	**26,994**	**43,746**	**1,250**	**4**	**71,994**
Net book value as at December 25, 2010	16,711	36,754	–	521	53,986
Additions resulting from business acquisitions	9,937	14,074	–	29	24,040
Payment for customer supply agreement	–	–	2,187	–	2,187
Purchase of trade name	355	–	–	–	355
Amortization	–	(3,074)	(177)	(322)	(3,573)
Foreign currency exchange adjustment	9	89	(6)	–	92
Net book value as at December 31, 2011	27,012	47,843	2,004	228	77,087
Amortization	–	(3,895)	(717)	(224)	(4,836)
Foreign currency exchange adjustment	(18)	(202)	(37)	–	(257)
Net book value as at December 29, 2012	**26,994**	**43,746**	**1,250**	**4**	**71,994**

6. GOODWILL

	December 29, 2012	December 31, 2011
Balance – beginning of year	**150,417**	141,091
Additions resulting from business acquisitions	**–**	11,498
Reallocation of acquisition purchase price from (to) deferred income taxes	**4,377**	(1,560)
Disposals	**–**	(694)
Foreign currency exchange adjustment	**(343)**	82
Balance – end of year	**154,451**	150,417

Goodwill has been allocated to the following business segments:

	December 29, 2012	December 31, 2011
Retail	**87,144**	83,000
Foodservice	**67,307**	67,417
	154,451	150,417

In assessing goodwill for impairment at October 1, 2012, the Company compared the recoverable amounts, using the value in use method, of the carrying amounts of each cash generating unit within the specific business segment. The recoverable amounts have been based on expected future cash flows discounted at a rate of 11.4%.

7. OTHER ASSETS

	December 29, 2012	December 31, 2011
Notes receivable	**1,437**	1,368
Employee share purchase loans	**683**	831
Fair value of interest rate swaps	**200**	–
Fair value of foreign currency forward contracts	**100**	–
Other	**39**	154
	2,459	2,353
Less: current portion	**193**	103
	2,266	2,250

Notes receivable

The notes receivable bear interest at rates ranging from 0.0% to 9.0% (2011 – 0.0% to 9.0%).

Employee share purchase loans

As part of the Company's strategies to align the interests of management with those of the Company's shareholders, it has provided certain members of management with non-interest bearing loans (share purchase loans), the proceeds of which were used to purchase the Company's shares in the open market (the purchased shares) on behalf of the individuals. The share purchase loans bear no interest, have quarterly principal repayments equal to 55% of the quarterly dividend received on the purchased shares, are collateralized by the purchased shares and a promissory note, and are due upon the termination of the individuals' employment or if the individuals sell the shares. The amount of share purchase loans issued in 2012 was $nil (2011 – $nil).

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

	Notes receivable	Share purchase loans	Total
2013	11	82	93
2014	119	82	201
2015	119	82	201
2016	203	81	284
2017 and thereafter	985	496	1,481
	1,437	823	2,260
Future interest using the effective interest rate method	–	(140)	(140)
	1,437	683	2,120

8. INVESTMENT IN ASSOCIATE

Prior to May 20, 2011, the Company held a 25% interest in SJ, a processed meats manufacturer located in Saskatoon, SK. On May 20, 2011, the Company acquired an additional 25.7% interest in SJ (note 20), bringing its total interest to 50.7% and giving it control over SJ's operations. Correspondingly, on May 20, 2011, the Company began consolidating SJ and ceased to account for it using the equity method.

	December 29, 2012	December 31, 2011
Balance – beginning of year	**–**	414
Equity loss in associate	**–**	(277)
Change in accounting to consolidation method upon acquisition of control	**–**	(137)
Balance – end of year	**–**	–

9. BANK INDEBTEDNESS

Bank indebtedness consists of borrowings on bank lines of credit. The Company has bank lines of credit totaling $63.3 million (2011 – $63.3 million); $60.0 million of these lines of credit are due in September 2014, bear interest at prime plus 0.25% to 1.50% (2011 – 0.25% to 1.50%), depending on the Company's ratio of debt to cash flow calculated quarterly, and are secured by an assignment of inventories, accounts receivable, insurance policies, and a general lien on all other assets of the Company. The remainder of the Company's lines of credit are due in December 2013.

Interest on bank indebtedness in 2012 was $1.3 million (2011 – $0.8 million).

10. LONG-TERM DEBT

	December 29, 2012	December 31, 2011
Facility B - revolving term loan maturing in September 2014 with quarterly principal payments of $2.75 million. The loan bears interest at the bank prime rate plus 0.5% to 1.5% or at the banker's acceptance rate plus 1.5% to 2.5% based on the Company's ratio of debt to cash flow calculated quarterly	**17,250**	49,450
Facility C - non-revolving term loan maturing in September 2014 with no quarterly principal payments until the Company's Facility B is repaid at which time it will have quarterly principal payments of $2.75 million. The loan bears interest at the bank prime rate plus 0.5% to 1.5% or at the banker's acceptance rate plus 1.5% to 2.5% based on the Company's ratio of debt to cash flow calculated quarterly	**100,000**	100,000
US$6.1 million secured Industrial Development Revenue Bond (IRB) with no principal payments until maturity in July 2036. The bond bears interest at the weekly variable rate for such bonds, which averaged 0.2488% (2011 – 0.3165%), plus 0.5% to 1.5% based on the Company's ratio of debt to cash flow calculated quarterly	**6,096**	6,229
Non-revolving term loan maturing in March 2014 with monthly principal payments, bearing interest at 10%	**607**	1,000
Non-revolving term loans maturing in July 2020 with monthly principal payments, bearing interest at the lender's variable mortgage rate, which averaged 4.0% (2011 – 4.0%), plus 0.7%	**6,246**	6,808
Unsecured notes payable, bearing interest at a rate of 0.0% to 6.5% and due in 2013	**7,146**	10,724
Capital leases	**3,567**	8,243
Other term loans	**1,735**	1,683
	142,647	184,137
Financing costs	**(569)**	(940)
Current portion	**(127,310)**	(20,536)
	14,768	162,661

The Company's term loans and IRB are collateralized by an assignment of inventories, accounts receivable and insurance policies, fixed charges on capital assets and a general lien on all other assets of the Company. In addition, they contain financial covenants that require the maintenance of certain ratios regarding working capital, fixed charge coverage and debt to cash flow. At December 29, 2012, the Company was in compliance with all such covenants.

During 2012, the Company incurred interest expense of $6.3 million (2011 – $5.3 million) on its long-term debt. The Company's blended average effective cost of borrowing for 2012 was 3.9% (2011 – 4.2%) after taking into account the impact of its interest rate swap contracts (note 28).

As a result of the Company's write-down of certain redundant property (note 23), its senior lenders (the Lenders) could potentially require the early payment of approximately $117.3 million of the Company's long-term debt (the Debt). The Lenders have provided a written waiver to the Company stating that they have no intention of doing this, however, because this confirmation occurred after December 29, 2012, the Company must under IFRS classify the Debt in its December 29, 2012 consolidated financial statements as being current. This is despite there being no change in: (i) the quarterly principal payments associated the Debt; and (ii) the Debt's maturity date of September 9, 2014.

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

2013	21,060
2014	108,203
2015	1,633
2016	1,213
2017	3,686
Thereafter	6,852
	142,647

11. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

Issuance of 5.75% Debentures

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

The 5.75% Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion rate of approximately 44.643 shares per debenture, which is equal to a conversion price of $22.40 per share. On or after December 31, 2013 and prior to December 31, 2014, the Company will have the right to redeem all or a portion of the 5.75% Debentures at a price equal to their principal amount plus accrued and unpaid interest, provided that the market price of the Company's common shares on the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after December 31, 2014, the Company will have the right to redeem all or a portion of the 5.75% Debentures at a price equal to their principal amount plus accrued and unpaid interest.

The Company allocated the proceeds of the 5.75% Debentures between debt and equity based on the estimated fair values of the debt and conversion option, as determined by the residual valuation of the equity component. Under this approach, the debt component was valued first and the difference between the proceeds of the debentures and the fair values of the debt components was assigned to the conversion option (equity component). The present value of the debt component was calculated using a discount rate of 7.6%, which was the estimated market interest rate for similar debentures having no conversion rights.

The allocation of the proceeds of the 5.75% Debentures was as follows:

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

Issuance of 5.70% Debentures

On June 18, 2012, the Company issued $57.5 million of convertible unsecured subordinated debentures (5.70% Debentures) at a price of $1,000 per debenture. The 5.70% Debentures have a maturity date of June 30, 2017 and bear interest at an annual rate of 5.70% payable semi-annually in arrears on June 30 and December 31 in each year commencing on December 31, 2012.

The 5.70% Debentures are convertible at any time at the option of the holders into common shares of the Company at a conversion rate of approximately 35.3357 shares per debenture, which is equal to a conversion price of $28.30 per share. Upon conversion of the 5.70% Debentures, the Company may elect to pay the holder cash, in lieu of delivering common shares, to settle the conversion obligation (the Cash Conversion Option). If the Company elects to utilize the Cash Conversion Option, it will pay the holder an amount based on the daily volume weighted average price of its common shares on the Toronto Stock Exchange as measured over a period of ten consecutive trading days commencing on the third day following the conversion date.

On or after June 30, 2015 and prior to June 30, 2016, the Company will have the right to redeem all or a portion of the 5.70% Debentures at a price equal to their principal amount plus accrued and unpaid interest, provided that the market price of the Company's common shares on the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after June 30, 2016, the Company will have the right to redeem all or a portion of the 5.70% Debentures at a price equal to their principal amount plus accrued and unpaid interest.

As a result of having the Cash Conversion Option, the 5.70% Debentures are deemed to have no equity component, rather, the fair value of the Cash Conversion Option is considered to be a financial liability and is included in the balance of the 5.70% Debentures on the Company's consolidated balance sheet. Changes in the fair value of the Cash Conversion Option are recorded each period in the Company's consolidated statement of operations.

The allocation of the proceeds of the 5.70% Debentures was as follows:

	Debt component	Cash conversion option liability	Total
Allocation of the proceeds	57,000	500	57,500
Transaction costs	(2,875)	(25)	(2,900)
	54,125	475	54,600

7.00% Debentures

The Company also has outstanding $25.7 million of convertible unsecured subordinated debentures which were issued in 2009 (the 7.00% Debentures) which bear interest at an annual rate of 7.00% and have a maturity date of December 31, 2014.

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

Changes in the allocated debt components of the 7.00% Debentures, 5.75% Debentures and 5.70% Debentures for 2011 and 2012 were as follows:

Debt Component	7.00% Debentures	5.75% Debentures	5.70% Debentures	Total
Balance as at December 25, 2010	37,306	–	–	37,306
Issuance of 5.75% Debentures	–	53,271	–	53,271
Conversions of Debentures to common shares	(2,603)	–	–	(2,603)
Accretion	690	732	–	1,422
Balance as at December 31, 2011	35,393	54,003	–	89,396
Issuance of 5.70% Debentures	–	–	54,600	54,600
Conversions of Debentures to common shares	(11,337)	–	–	(11,337)
Purchase and cancellation of Debentures under normal course issuer bid	(589)	–	–	(589)
Accretion	682	786	304	1,772
Balance as at December 29, 2012	**24,149**	**54,789**	**54,904**	**133,842**

Changes in the allocated equity components of the 7.00% Debentures and 5.75% Debentures for 2011 and 2012 were as follows:

Equity Component	7.00% Debentures	5.75% Debentures	Total
Balance as at December 25, 2010	919	–	919
Issuance of 5.75% Debentures	–	997	997
Balance as at December 31, 2011	919	997	1,916
Purchase and cancellation of Debentures under normal course issuer bid	(131)	–	(131)
Balance as at December 29, 2012	**788**	**997**	**1,785**

12. PUTTABLE INTEREST IN SUBSIDIARIES

	Total
Balance as at December 25, 2010	12,652
Puttable interest resulting from business acquisitions	3,582
Change in value of puttable interest in subsidiaries	1,828
Cash distributions to non-controlling shareholders with puttable interests	(572)
Purchase of shares of non-wholly owned subsidiary pursuant to exercise of puttable interest	(2,286)
Foreign currency exchange adjustment	6
Balance as at December 31, 2011	15,210
Change in value of puttable interest in subsidiaries	1,655
Cash distributions to non-controlling shareholders with puttable interests	(1,210)
Foreign currency exchange adjustment	(6)
Balance as at December 29, 2012	**15,649**

	December 29, 2012	December 31, 2011
Current portion	–	–
Non-current	**15,649**	15,210
	15,649	15,210

13. PROVISIONS

Provisions consist of:

Contingent Consideration – Piller's Acquisition

In 2011, the Company recorded a provision for contingent consideration of $8.1 million as a result of the acquisition of Piller's (note 20). This amount represented the discounted present value of the $10.0 million contingent consideration that would have been payable to the previous owners of Piller's if Piller's achieved certain profitability targets over the two years ended September 9, 2013.

During 2012, the Company determined that Piller's was unlikely to reach the top range of the profitability targets. As a result, the Company recorded a partial reversal of $7.2 million to this provision, based on Piller's historical profitability to date and projected future profitability up to September 2013.

Contingent Consideration – Pridcorp Distributor Indemnities

Also in 2011, the Company recorded a provision for contingent consideration of $2.9 million as a result of indemnifying independent distributors that joined its convenience store direct-to-store delivery network as part of the acquisition of Pridcorp (note 20). This provision covers certain defined losses incurred by the distributors up to a maximum amount of $2.9 million.

Lease Restoration Costs

In 2012, the Company recorded a $0.5 million provision for the present value of estimated future site restoration costs associated with a leased facility. This liability will not, however, be payable until the expiry of the lease, which runs through to December 31, 2025 and has two five-year renewal options thereafter, and thus the timing of the eventual settlement requires the Company to make assumptions to determine the value of the provision.

	Provisions for contingent consideration	Provision for lease restoration	Total
Balance as at December 25, 2010	–	–	–
Provisions for contingent consideration resulting from business acquisition	11,040	–	11,040
Accretion	244	–	244
Balance as at December 31, 2011	11,284	–	11,284
Provision for leasehold restoration	–	500	500
Payments	(838)	–	(838)
Partial reversal of provision for contingent consideration (note 23)	(7,226)	–	(7,226)
Accretion	628	3	631
Balance as at December 29, 2012	**3,848**	**503**	**4,351**

	December 29, 2012	December 31, 2011
Current portion	**3,848**	2,924
Non-current	**503**	8,360
	4,351	11,284

14. PENSION OBLIGATION

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

Additional information on the Pension Plan is as follows:

	December 29, 2012	December 31, 2011
Funded status		
Defined benefit obligation	**7,140**	6,036
Fair value of plan assets	**(5,267)**	(4,691)
Pension obligation	**1,873**	1,345

	December 29, 2012	December 31, 2011
Defined benefit obligation		
Balance – beginning of year	**6,036**	5,134
Current service costs – net of employee contributions	**419**	348
Employee contributions	**75**	71
Interest cost	**297**	276
Benefits paid	**(189)**	(217)
Actuarial losses	**502**	424
Balance – end of year	**7,140**	6,036
Fair value of plan assets		
Fair value – beginning of year	**4,691**	4,307
Expected return on plan assets	**290**	291
Variance on return on plan assets	**(10)**	(261)
Employer contributions	**410**	500
Employee contributions	**75**	71
Benefits paid	**(189)**	(217)
Fair value – end of year	**5,267**	4,691
Recognition of actuarial losses and variance on returns		
Actuarial loss on defined benefit obligation	**502**	424
Variance on return on plan assets	**10**	261
	512	685

The plan assets for the Pension Plan consisted of the following:

	December 29, 2012 %	December 31, 2011 %
Asset category		
Equity securities	**59**	79
Cash and debt securities	**41**	21
	100	100

The elements of the defined benefit costs recognized for 2012 and 2011 are as follows:

	52 weeks ended December 29, 2012	53 weeks ended December 31, 2011
Current service costs – net of employee contributions	**419**	348
Interest cost	**297**	276
Expected return on plan assets	**(290)**	(291)
Defined benefit costs recognized	**426**	333

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

	December 29, 2012 %	December 31, 2011 %
Discount rate	**4.50**	5.00
Expected long-term rate of return on plan assets	**6.00**	6.00
Rate of compensation increase	**2.50**	2.50

For 2013, the Company's contributions to the Pension Plan are expected to be approximately $0.4 million.

15. DIVIDENDS

During 2012, the Company declared dividends to shareholders of $24.4 million or $1.176 per share. The record dates of these dividends were as follows:

Record date	Amount	Per share
March 30, 2012	6,001	0.294
June 29, 2012	6,005	0.294
September 28, 2012	6,187	0.294
December 31, 2012	6,188	0.294
2012 dividends	24,381	**1.176**
Accumulated dividends declared – beginning of year	130,497	
Accumulated dividends declared – end of year	**154,878**	

In December 2012, the company declared a dividend of $6.2 million to shareholders of record on December 31, 2012, which was paid subsequent to the year end, and was reported as a current liability as at December 29, 2012.

16. SHARE CAPITAL

	Common shares ('000s)	Share capital
Balance as at December 25, 2010	18,101	163,754
Common shares issued resulting from conversions of 7.00% Debentures	180	2,603
Common shares issued resulting from business acquisitions	1,969	31,500
Common shares cancelled	(141)	–
Effect of share based compensation plans	60	218
Share issuance costs	–	(18)
Balance as at December 31, 2011	20,169	198,057
Common shares issued resulting from conversions of 7.00% Debentures	782	11,337
Effect of share based compensation plans	2	(299)
Share issuance costs	–	(2)
Balance as at December 29, 2012	**20,953**	**209,093**

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

During 2012, the Company issued 781,846 common shares resulting from the conversion of $11.3 million of 7.00% Debentures at the conversion price of $14.50 per share (note 11).

During 2011, 140,872 outstanding common shares in the name of one of the Company's predecessor entities were cancelled and returned to treasury. The holders of the predecessor entity shares were given five years with a deadline of July 27, 2011 to submit their predecessor entity shares to the Company's transfer agent for conversion to the Company's shares. As of the July 27, 2011 deadline 140,872 shares had not been converted and as a result were cancelled.

After taking into account the 94,917 shares held in the Company's employee benefit plan (note 18) that had not yet vested with the beneficiaries, the Company actually had 21,047,495 shares outstanding at December 29, 2012.

17. EARNINGS PER SHARE

	December 29, 2012	December 31, 2011
Net earnings attributable to shareholders	**15,058**	12,803
Weighted average number of shares outstanding (in thousands)	**20,581**	18,782
Adjustment for shares held pursuant to the employee benefit plan (in thousands)	**95**	97
Diluted weighted average number of shares outstanding (in thousands)	**20,676**	18,879
Basic earnings per share	**$ 0.73**	$ 0.68
Diluted earnings per share	**$ 0.73**	$ 0.68

The Company has two sources of potentially dilutive shares: convertible debentures which are convertible into shares, and unvested shares acquired pursuant to the employee benefit plan which are recorded as a reduction to the Company's outstanding share capital. The convertible debentures were determined to be anti-dilutive and are thus excluded from the calculation of diluted weighted average number of shares outstanding.

18. SHARE BASED COMPENSATION

Restricted Share Plan

In 2007, the Company adopted an employee tracking shares plan (the Restricted Share Plan). Under the terms of the Restricted Share Plan, tracking shares may be granted to directors, executives and consultants (the Participants) of the Company in lieu of cash consideration. Each tracking share awarded is equivalent to a publicly traded common share (Share) of the Company at the time of the grant, mirrors the value of a Share over time, including the issuance of additional tracking shares in lieu of dividends paid on a Share, and is redeemable by the Participant for cash based on the market price of the Shares after a three year vesting period. Vesting can be accelerated at the discretion of the Company's directors or on the occurrence of certain events such as a change of control. Participants continuing to be employed by the Company after redeeming tracking shares are required to invest a portion, as determined by the Company's Board of Directors, but not more than 40% of the proceeds received upon redemption in Shares, which will be held in trust by the Company. As at December 29, 2012, there were no tracking shares outstanding.

Employee Benefit Plan

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

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

The common shares issued under the EBP generally vest as follows: (a) one third (1/3) on the grant date; (b) one third (1/3) on the first anniversary of the grant date; and (c) one third (1/3) on the second anniversary of the grant date. Vesting can be accelerated at the discretion of the Company's Board of Directors or on the occurrence of certain events such as a change of control. Vested EBP common shares are held by the Company until the end of the third calendar year following the date of grant unless an earlier distribution is requested by a participant.

Employee Share Ownership Plan

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

19. RESERVES

	Foreign currency translation adjustment	Share based compensation reserve	Total
Balance as at December 25, 2010	(619)	2,272	1,653
Unrealized foreign exchange translation gain on foreign operations	776	–	776
Effect of share based compensation plans	–	(987)	(987)
Balance as at December 31, 2011	157	1,285	1,442
Unrealized foreign exchange translation gain on foreign operations	(1,079)	–	(1,079)
Effect of share based compensation plans	–	85	85
Balance as at December 29, 2012	**(922)**	**1,370**	**448**

20. ACQUISITIONS

The Company did not complete any acquisitions during the fiscal year ended December 29, 2012.

2011 Acquisitions

On February 18, 2011, the Company completed the acquisition of the net assets of Les Aliments Deli Chef (Deli Chef) for approximately $7.8 million. At the time of the acquisition, Deli Chef had two sandwich manufacturing facilities: one in Gatineau, Quebec and the other in Toronto, Ontario; as well as a central distribution facility in Laval, Quebec; a 14 truck convenience store DSD network in southern Ontario and a 44 truck convenience store DSD network in Quebec.

On May 20, 2011, the Company acquired an additional 25.7% interest in SJ Irvine Fine Foods Ltd. (SJ), bringing its total interest in SJ to 50.7% and resulting in it acquiring control. The acquisition was accounted for as a step acquisition, which required the Company to revalue its original 25% interest at fair value. The Company determined that the carrying value of its original 25% interest in SJ reflected its fair value, and accordingly no gain or loss was recorded in the consolidated statement of operations.

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

As part of the transaction, the non-controlling shareholders of SJ received an option to require the Company to purchase their interest (puttable interest in subsidiaries).

The Company previously accounted for its investment in SJ using the equity method as an investment in associate. Beginning May 20, 2011, the Company consolidated 100% of SJ, and estimated the purchase price of the non-controlling shareholders' interests as a liability on the consolidated balance sheet (puttable interest in subsidiaries).

On September 9, 2011, the Company completed the acquisition of the net assets of Piller Sausages & Delicatessens Ltd. (Piller's) for approximately $105.8 million. The purchase price consisted of $64.9 million in cash, the issuance of 1,968,750 common shares from treasury valued at $31.5 million and the assumption of $9.4 million in long-term debt and capital leases. In addition, the purchase price will be increased by up to $10.0 million if Piller's achieves certain profitability targets over the next two years. This additional contingent consideration, if applicable, would be payable in November 2013, and was included at its discounted present value of $8.1 million in provisions for contingent consideration on the consolidated balance sheet as at the acquisition date. Piller's is a manufacturer of European deli meats and meat snacks based in Waterloo, Ontario.

On November 21, 2011, the Company completed the acquisition of the assets and business of Preferred Regional Independent Distributors Corporation (Pridcorp) for $0.6 million, which consisted of $0.2 million in cash and a $0.4 million non-interest bearing promissory note due four months after closing. In addition, the purchase price will be increased by up to $2.9 million if certain performance criteria are met. This additional contingent consideration, if applicable, would be payable in November 2013, and was included at its face value in provisions for contingent consideration on the consolidated balance sheet as at the acquisition date. Prior to the acquisition, Pridcorp oversaw a network of independent direct-to-store distributors to the convenience store industry across Canada.

The Company has accounted for the acquisitions of Deli Chef, SJ, Piller's and Pridcorp using the acquisition method and the results of these acquisitions have been included in the Company's consolidated financial statements from the dates of acquisition.

The following table summarizes the fair values of the assets acquired, obligations assumed and bargain purchase gains recognized for these acquisitions:

Net assets acquired, liabilities assumed, and gains recognized:	
Net working capital	26,838
Capital assets	81,307
Intangible assets – brand names	9,937
Intangible assets – customer relationships and trade secrets	14,103
Goodwill	11,498
Long-term debt assumed	(17,175)
Puttable interest in subsidiaries	(3,582)
Deferred income taxes	327
Bargain purchase gain from Deli Chef acquisition	(1,455)
	121,798

Investment:	
Purchase consideration – cash	76,848
Purchase consideration – common shares	31,500
Purchase consideration – notes payable	400
Provisions for contingent consideration (gross value $12.9 million)	11,040
Conversion of note receivable from SJ	1,873
Carrying amount of investment in SJ prior to acquisition of control	137
	121,798

21. INTEREST AND OTHER FINANCING COSTS

	52 weeks ended December 29, 2012	**53 weeks ended December 31, 2011**
Interest on convertible debentures	**7,246**	5,882
Interest on long-term debt	**6,309**	5,278
Interest on bank indebtedness	**1,268**	813
Accretion of convertible debentures	**1,772**	1,422
Accretion of long-term debt	**645**	771
Other	**339**	330
	17,579	14,496

22. RESTRUCTURING COSTS

Restructuring costs consist of costs associated with a significant restructuring of one or more of the Company's businesses. During 2012 the Company incurred $5.7 million in restructuring costs consisting of: (i) $2.5 million in costs associated with the restructuring of the Company's pre-packaged sandwich operations; (ii) $1.7 million in costs associated with the restructuring of the Company's direct-to-store delivery networks; (iii) $1.2 million in costs associated with the start-up of the Company's new artisan bread facility; and (iv) $0.3 million in costs associated with a variety of initiatives, including the start-up costs of a new seafood facility and the planned shutdown of one of the Company's deli meats processing plants and the transitioning of its production to its other plants.

23. OTHER INCOME

Other income consists of: (i) a $7.2 million gain resulting from the partial reversal of the provision for contingent consideration related to the acquisition of Piller's, offset by; (ii) a $6.9 million loss resulting from the writedown of redundant real estate assets to their fair market value less costs to sell the assets; and (iii) a $0.2 million loss resulting from the settlement of a legal claim dating back to 2001.

24. SEGMENTED INFORMATION

The Company has two reportable segments, Retail and Foodservice as well as corporate costs (Corporate). The Retail segment consists of its specialty food manufacturing and retail distribution businesses. The Foodservice segment consists of its foodservice related businesses. Corporate consists of the Company's head office activities, including strategic leadership, finance and information systems. The operating segments within each reportable segment have been aggregated as they have similar economic characteristics.

	52 weeks ended December 29, 2012	**53 weeks ended December 31, 2011**
Revenue		
Retail	**597,013**	436,929
Foodservice	**371,762**	352,003
	968,775	788,932
Gross profit before depreciation and amortization		
Retail	**132,677**	107,994
Foodservice	**69,674**	66,307
	202,351	174,301
Selling, general and administrative expenses before depreciation and amortization		
Retail	**79,870**	67,417
Foodservice	**48,530**	45,740
Corporate	**5,695**	6,200
	134,095	119,357

For the Fiscal Years Ended December 29, 2012 and December 31, 2011
(Tabular amounts in thousands of dollars except per share amounts and percentages)

	52 weeks ended December 29, 2012	53 weeks ended December 31, 2011
Segment earnings (loss) before depreciation and amortization		
Retail	**52,807**	40,577
Foodservice	**21,144**	20,567
Corporate	**(5,695)**	(6,200)
	68,256	54,944
Depreciation of capital assets		
Retail	**12,856**	9,241
Foodservice	**2,137**	2,307
Corporate	**497**	543
	15,490	12,091
Amortization of intangible and other assets		
Retail	**2,905**	1,642
Foodservice	**1,936**	1,936
	4,841	3,578
Segment operating earnings (loss)		
Retail	**37,046**	29,694
Foodservice	**17,071**	16,324
Corporate	**(6,192)**	(6,743)
	47,925	39,275
Interest and other financing costs	**17,579**	14,496
Amortization of financing costs	**380**	405
Acquisition transaction costs	**197**	1,594
Change in value of puttable interest in subsidiaries	**1,655**	1,828
Accretion of provisions	**631**	244
Unrealized gain on foreign currency and interest rate swap contracts	**(400)**	(120)
Restructuring costs	**5,705**	2,819
Acquisition bargain purchase gain	**–**	(1,455)
Equity loss in associate	**–**	277
Other	**(69)**	–
Provision for income taxes	**6,973**	6,088
Earnings	**15,274**	13,099

For the Fiscal Years Ended December 29, 2012 and December 31, 2011
(Tabular amounts in thousands of dollars except per share amounts and percentages)

	52 weeks ended December 29, 2012	53 weeks ended December 31, 2011
Capital asset additions		
Retail	**27,721**	19,604
Foodservice	**2,636**	3,661
Corporate	**78**	228
	30,435	23,493
Goodwill additions		
Retail	**–**	11,498
Foodservice	**–**	–
	–	11,498

	December 29, 2012	December 31, 2011
Total assets		
Retail	**376,834**	384,723
Foodservice	**178,499**	178,997
Corporate	**52,389**	51,193
	607,722	614,913

	52 weeks ended December 29, 2012	53 weeks ended December 31, 2011
Revenue		
Canada	**810,847**	657,673
United States	**157,928**	131,259
	968,775	788,932
Segment earnings		
Canada	**36,732**	30,151
United States	**11,193**	9,124
	47,925	39,275

	December 29, 2012	December 31, 2011
Capital assets and goodwill		
Canada	**299,463**	287,491
United States	**30,058**	30,908
	329,521	318,399

25. INCOME TAXES

The components of provision for income taxes are as follows:

	52 weeks ended December 29, 2012	53 weeks ended December 31, 2011
Current tax:		
Current tax on earnings for the year	**2,376**	1,954
Adjustments in respect of prior years	**(160)**	(428)
Total current tax	**2,216**	1,526
Deferred tax:		
Origination and reversal of timing differences	**4,757**	4,562
Provision for income taxes	**6,973**	6,088

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

	52 weeks ended December 29, 2012	53 weeks ended December 31, 2011
Weighted average basic federal, provincial and state statutory income tax rate	**25.8%**	26.5%
Earnings before income taxes	**22,247**	19,187
Income tax based on statutory rate	**5,740**	5,085
Non-deductible expenses	**2,607**	1,185
Non-taxable income	**(766)**	(386)
(Decrease) increase in valuation allowance	**(449)**	229
Adjustment for changes in enacted tax laws and rates and other	**(159)**	(25)
Provision for income taxes	**6,973**	6,088

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	December 29, 2012	December 31, 2011
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	**46,601**	54,530
Deferred tax asset to be recovered within 12 months	**3,228**	3,004
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	**(17,018)**	(15,962)
Deferred tax liability to be recovered within 12 months	**(1,525)**	(1,620)
Deferred tax assets (net)	**31,286**	39,952

	December 29, 2012	December 31, 2011
Deferred tax assets (net) – beginning of year	**39,952**	42,817
Charged to the statement of operations	**(4,757)**	(4,562)
Charged to equity	**–**	(332)
Deferred tax resulting from business acquisition	**–**	327
Reallocation of acquisition purchase price (to) from goodwill	**(4,377)**	1,560
Foreign currency exchange adjustment	**169**	142
Other	**299**	–
Deferred tax assets (net) – end of year	**31,286**	39,952

As at December 29, 2012, the Company has $41.9 million (2011 – $60.4 million) of non-capital losses that may be available for deduction against taxable income in future years. These losses expire between 2014 and 2032 as follows:

2014	5
2015	972
2016	–
2017	–
2018 and thereafter	40,893
	41,870

26. JOINT VENTURES

As a result of the acquisition of Piller's (note 20), the Company has joint control over a poultry processing operation in which it owns a 50% interest. From the date of acquisition of Piller's, the Company has accounted for its interest in the joint venture using the proportionate consolidation method.

27. COMMITMENTS AND CONTINGENCIES

a. The Company leases land, warehouses, offices and equipment under operating leases that expire from 2013 to 2028. The aggregate future minimum annual rental payments under these leases are as follows:

2013	9,737
2014	8,262
2015	7,276
2016	6,475
2017	4,925
2018 and thereafter	20,900
	57,575

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

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

27. FINANCIAL INSTRUMENTS

Fair value

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

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

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

Assets and liabilities carried at fair value are classified using a hierarchy that reflects the significance of the inputs used in making the fair value measurements. The hierarchy includes three levels: Level 1 - quoted prices in active markets, Level 2 - measurements determined using valuation models that employ observable inputs and Level 3 - measurements determined using valuation models that employ unobservable inputs. The foreign currency contracts and interest rate swap contracts are considered to be Level 2 financial instruments, and puttable interest in subsidiaries is considered to be a Level 3 financial instrument.

Financial risk management

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

Foreign currency risk

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

As at December 29, 2012, the Company had outstanding foreign currency contracts for the purchase of US$16.9 million over the next twelve months at a blended rate of C$0.9900, and had outstanding foreign currency contracts for the purchase of €1.7 million over the next nine months at a blended rate of C$1.2976. As at December 29, 2012, these contracts had a fair value of $0.1 million favourable (2011 – $nil) and during 2012, the Company recorded in respect of these contracts an unrealized gain of $0.1 million (2011 – unrealized gain of $0.2 million) in the consolidated statements of operations.

Based on the outstanding contracts as at December 29, 2012 for the purchase of U.S. dollars, a change of $0.01 in the value of the Canadian dollar relative to the U.S. dollar would result in an unrealized gain (if the Canadian dollar weakens) or an unrealized loss (if the Canadian dollar strengthens) of approximately $0.2 million in its consolidated statements of operations.

Interest rate risk

All of the Company's bank indebtedness and approximately 90% (2011 - 88%) of its long-term debt bear interest at floating rates. The Company manages some of its interest rate exposure by entering into, from time to time, interest rate swap contracts.

During 2011, the Company entered into interest rate swap contracts (the swaps) fixing the rate of interest on $100.0 million of its long-term debt at an effective rate of 1.17% plus 1.5% to 2.5%, depending on its ratio of debt to cash flow. The Company has not designated these swaps as a cash flow hedge and correspondingly, changes in their fair market value are recognized in the consolidated statement of operations. As at December 29, 2012, the swaps had a fair value of $0.2 million favourable (2011 – $0.1 million unfavourable), and during 2012, the Company recorded in respect of the swaps an unrealized gain of $0.3 million (2011 – unrealized loss of $0.1 million) in the consolidated statements of operations.

As at December 29, 2012, a change of 0.25 percentage points in the effective interest rate for the remaining term of the swaps would result in a gain (if interest rates increase) or loss (if interest rates decrease) of approximately $0.4 million in the Company's consolidated statement of operations.

Commodity price risk

The Company's financial performance is dependent upon the cost of various commodity inputs, including beef, pork, poultry, certain seafood products, corrugated packing materials, dairy products, flour and energy, all of which are determined by relatively volatile market forces of supply and demand over which the Company has limited or no control. The Company manages its risk exposure to sudden or severe increases in the price of such inputs through a variety of methods including the diversification of its product offerings, differentiated marketing and selling strategies, taking long inventory positions when buying opportunities are presented, and in limited circumstances entering into fixed price supply contracts. The Company currently does not use any derivative financial contracts in the management of its commodity risk exposure.

Credit risk

The Company is subject to credit risk primarily through its accounts receivable. This risk is mitigated by the Company's diversified customer base, its customer credit evaluation procedures and the ongoing monitoring of the collectability of its trade accounts receivable. Bad debt expense of $0.4 million (2011 – $0.2 million) was recorded for the year.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 29, 2012:

	December 29, 2012	**December 31, 2011**
Trade accounts receivable		
Current (outstanding 1-30 days)	**63,905**	62,544
Outstanding 31-60 days	**8,043**	7,283
Outstanding 60+ days	**1,901**	975
	73,849	70,802
Allowance for doubtful accounts	**(1,583)**	(1,379)
Other receivables	**8,333**	9,407
	80,599	78,830

The change in the allowance for doubtful accounts provision for 2012 and 2011 is as follows:

	December 29, 2012	**December 31, 2011**
Balance – beginning of year	**1,379**	1,079
Net additions to allowance for doubtful accounts	**476**	681
Accounts receivable written off, net of recoveries	**(270)**	(382)
Foreign currency exchange adjustment	**(2)**	1
Balance – end of year	**1,583**	1,379

The maximum exposure to credit risk is the carrying amount of the Company's accounts receivable.

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

Liquidity risk

As part of its strategy to manage liquidity risk, the Company regularly monitors and reviews both actual and forecasted cash flows and maintains unutilized credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements. Such forecasting takes into consideration the Company's debt and other financing plans and compliance with debt covenant ratios.

29. CAPITAL DISCLOSURES

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

a. has the ability to absorb reasonably anticipated shocks to its business resulting from the various risks it is exposed to;

b. is able to maintain its quarterly dividend policy; and

c. has adequate capital to pursue its organic and acquisition based growth objectives.

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

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

a. the cash flows expected to be generated by its operations over the next twelve months;

b. anticipated business acquisitions and project capital expenditures over the next twelve months;

c. dividends to be paid to shareholders over the next twelve months;

d. the cost of adding incremental debt;

e. the cost of issuing new equity; and

f. the Company's banking covenant requirements.

The Company's unutilized debt capacity at December 29, 2012 was $81.9 million (2011 – $43.1 million).

30. RELATED PARTY TRANSACTIONS

During 2012, the Company leased various properties from companies affiliated with directors and officers of the Company. Rent expense recognized on these leases was $1.2 million (2011 – $1.2 million) and is included in the consolidated statement of operations. These transactions have been recorded at an amount agreed upon by the Company and the related parties.

31. KEY MANAGEMENT COMPENSATION

	52 weeks ended December 29, 2012	**52 weeks ended December 31, 2011**
Salaries and short-term benefits	**2,165**	2,094
Post-employment benefits	**71**	60
Share-based compensation	**1,026**	933
	3,262	3,087

Key management includes the Company's Board of Directors and Executive Committee.

32. SUPPLEMENTAL CASH FLOW INFORMATION

During 2011, the Company's consideration for its acquisitions (note 20) included notes payable of $0.4 million and shares issued of $31.5 million. These amounts are not considered to be cash transactions and do not appear in the consolidated statements of cash flows.

The Company paid interest of $10.5 million (2011 – $13.1 million) and income taxes of $2.9 million (2011 – $2.7 million) during 2012.

The change in non-cash working capital is made up of the following components:

	52 weeks ended December 29, 2012	**53 weeks ended December 31, 2011**
Accounts receivable	**(2,343)**	(2,821)
Inventories	**(1,460)**	(1,399)
Prepaid expenses	**6,763**	(8,858)
Accounts payable and accrued liabilities	**3,408**	7,028
	6,368	(6,050)

33. EXPENSES BY NATURE

Cost of goods sold

	52 weeks ended December 29, 2012	**53 weeks ended December 31, 2011**
Materials	**609,079**	507,264
Salaries and benefits	**84,262**	57,926
Overhead and other operating expenses	**73,083**	49,441
	766,424	614,631

Selling, general and administrative expenses before depreciation and amortization

	52 weeks ended December 29, 2012	**53 weeks ended December 31, 2011**
Salaries and benefits	**68,148**	55,439
Overhead and other operating expenses	**65,947**	63,918
	134,095	119,357

INVESTOR INFORMATION

EXECUTIVE OFFICERS

George Paleologou, CA
President & Chief Executive Officer

Will Kalutycz, CA
Chief Financial Officer

Douglas Goss, QC
General Counsel & Corporate Secretary

BOARD OF DIRECTORS

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

Johnny Ciampi, CA (1)
Director

Hugh McKinnon (2) (3)
Director

George Paleologou, CA
Director

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

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

LEGAL COUNSEL

Bryan & Company LLP
Edmonton, Alberta

Ryan, Swanson & Cleveland PLLC
Seattle, Washington

AUDITORS

PricewaterhouseCoopers LLP
Vancouver, British Columbia

TRANSFER AGENT & REGISTRAR

Valiant Trust Company
600 – 750 Cambie Street
Vancouver, BC V6B 0A2

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

TRADING SYMBOLS

Shares: **PBH**
Debentures: **PBH.DB, PBH.DB.A, PBH.DB.B**

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