STAYING THE COURSE... GAINING TRACTION

2011 Annual Report

Premium Brands

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 **26,000 customers.**

STAYING THE COURSE... GAINING TRACTION

2011 Annual Report

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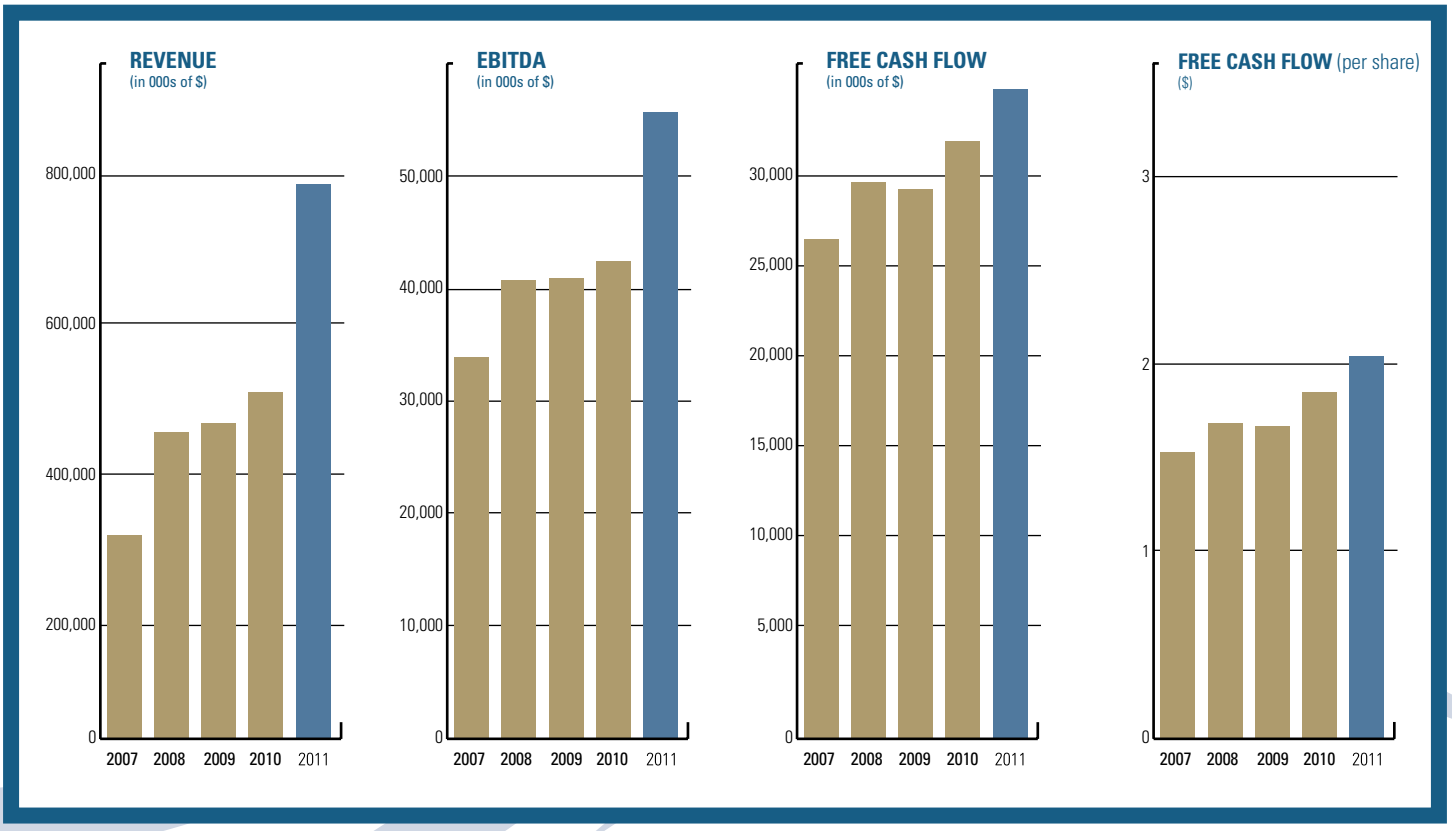
VARIETY

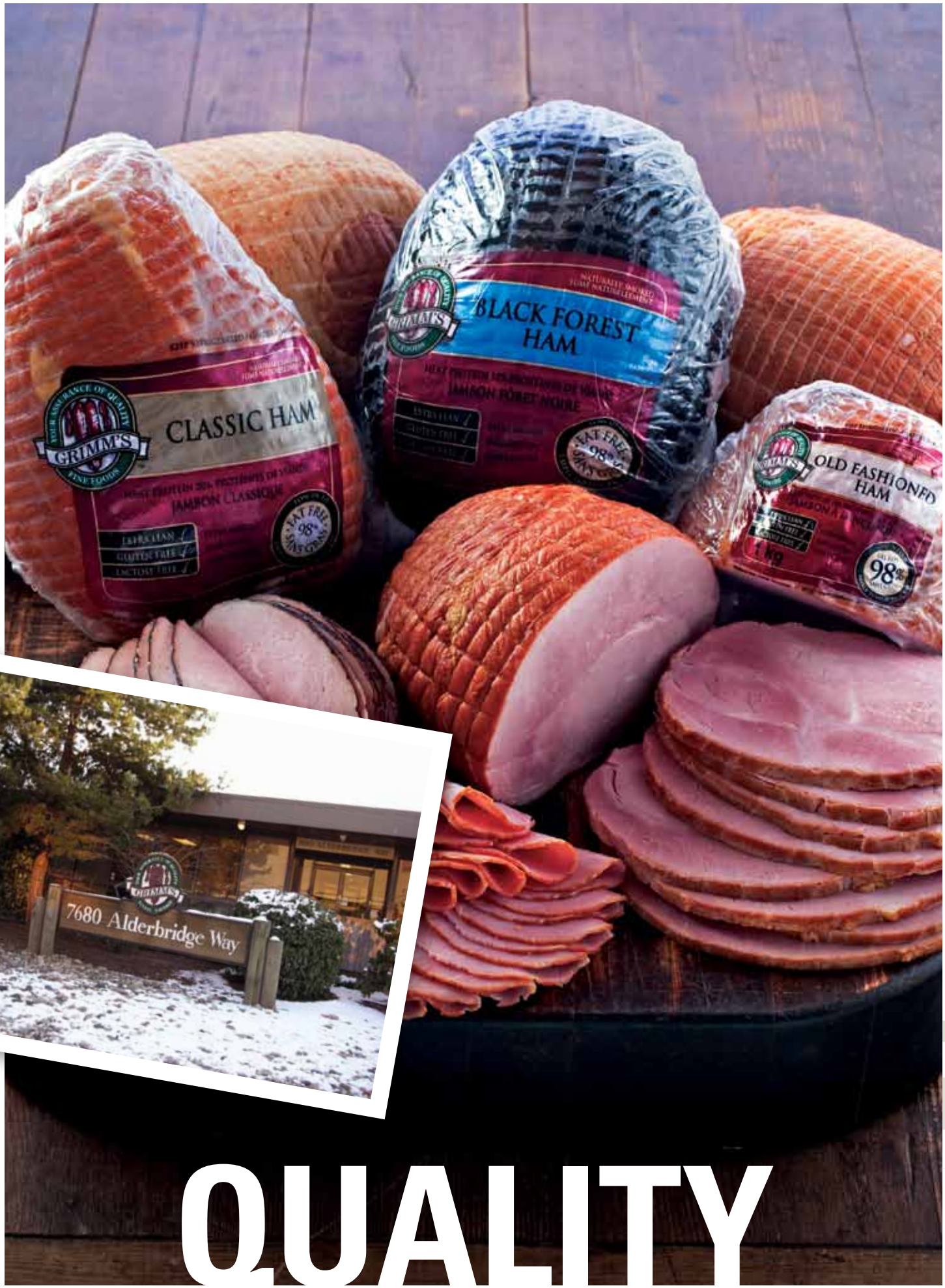
MISSION: To build a great food company through the acquisition and development of specialty branded food businesses and unique proprietary distribution networks.

EARNINGS
before taxes
$18.7 million
REVENUE for 2011
INCREASED
by $259 million
FREE CASH FLOW
of $38.2 million
SALES
INCREASED
BY 48%
EBITDA for 2011
INCREASED
by $12.9 million
ACQUISITION of
PILLER'S FINE FOODS
GROWTH

2011 HIGHLIGHTS

(in 000s, except per share amounts)	2011	2010	2009	2008	2007
Revenue	**$ 794, 292**	$ 535,243	$ 462,764	$ 449,363	$ 326,441
EBITDA	**$ 54,944**	$ 41,999	$ 40,727	$ 40,626	$ 33,351
Earnings	**$ 13,099**	$ 14,133	$ 18,857	$ 21,383	$ 25,488
Earnings per share	**$ 0.68**	$ 0.79	$ 1.07	$ 1.22	$ 1.46
Total assets	**$ 614,913**	$ 431,853	$ 349,622	$ 307,194	$ 285,654
Net funded debt	**$ 289,238**	$ 177,277	$ 124,764	$ 117,338	$ 106,985
Return on net assets	**13.1%**	14.0%	14.6%	14.8%	15.8%
Free cash flow	**$ 38,225**	$ 32,205	$ 29,280	$ 29,631	$ 26,440
Free cash flow per share	**$ 2.04**	$ 1.82	$ 1.66	$ 1.69	$ 1.52
Dividend declared per share	**$ 1.176**	$ 1.176	$ 1.176	$ 1.176	$ 1.176
Payout ratio	**59.3%**	65.3%	70.7%	69.5%	77.6%




CLASSIC HAM
BLACK FOREST HAM
OLD FASHIONED HAM
7680 Alderbridge Way

QUALITY

2011 LETTER TO SHAREHOLDERS

STAYING THE COURSE…GAINING TRACTION

2011 was another successful year in terms of moving us closer to our goal of being Canada's leading specialty food company. Not only were we able to once again deliver solid returns for our shareholders, we were also able to complete a number of strategic initiatives, which firmly positions us to continue to deliver superior returns in the future. These initiatives, which I will discuss in more detail later, included four very strategic acquisitions and solidifying national footprints for several of our businesses.

Between dividends and share price appreciation, our long-term shareholders earned a return on their Premium Brands shares of approximately 28% in 2011. This compares to a drop of approximately 9% in the S&P/TSX Composite Index over the same time period. Over the last five years, an investment in Premium Brands has generated a compounded annual return of over 20% through a combination of dividends and capital appreciation, while the S&P/TSX Composite Index has essentially been flat, generating an approximate compounded annual return of only 1%.

"Over the last five years, an investment in Premium Brands has generated a compounded annual return of over 20% …"

In 2011 Premium Brands also continued to distribute a significant amount of cash to its shareholders, paying out over $21 million in dividends, representing a dividend rate of 29.4 cents per share per quarter or $1.176 per share for the year. Since declaring its first shareholder distribution in July 2005, Premium Brands has paid out over $130 million to its shareholders, which is greater than our market capitalization when we started to implement our specialty foods focused business plan in 2001.

In terms of our financial performance in 2011, we are generally pleased with our businesses' results. As compared with 2010, our sales increased by 48% to $794 million, our EBITDA increased by 31% to $54.9 million, our free cash flow increased by 19% to $38 million, and our dividend to free cash flow ratio (payout ratio) fell to 59%. More important, however, are the strategic initiatives we completed in 2011, which have positioned us to generate an expected $75 million to $80 million in EBITDA in 2012, and correspondingly, higher free cash flow and a lower payout ratio.

The list of benefits and attributes on Grimm's Fine Foods products is long, and that's because Grimm's focuses on what their customers want. They bring the fine art of yesterday's European foods and preparation methods to the table, and mix it with new world ingredients, standards and principles. Many of Grimm's meat products are gluten and lactose free, and all are made without the addition of by-products.

Not only will customers find a great variety of Grimm's meat products offered at deli counters and grocery stores, they will also find the Grimm's name on fine cheeses, fresh pasta and sauces, salads, tortillas and wraps.

With ingredients that are selected for their taste and quality, Grimm's Fine Foods are easy to choose - and easy to enjoy.

ORGANIC
SPAGHETTI
Duso's
SINCE 1979
Fresh Pasta & Sauces
BUTTERNUT SQUAS
MEZZALUNA
MEZZALUNA DE COURGE DE BUTTERNI
Duso's
SINCE 1979
Fresh Pasta & Sauces
SAUCE À FROMAGE
7
CHEESE SAUCE
Duso's
SINCE 1979
Fresh Pasta & Sauces
IATO CREAM
SAUCE
SAUCE CRÈME À TOMATE
500ml

GOURMET

STAYING THE COURSE

Premium Brands' beginnings trace back to 2001 when the current management team began selling the Company's legacy commodity based food businesses and reinvesting the capital in the specialty food space. Since then we have completed in excess of 45 acquisitions and our sales and EBITDA run rates have increased six fold and seven fold, respectively. Furthermore, we have established a number of leading business platforms, all of which are capitalizing on emerging consumer trends.

On a national basis, our business platforms in the fresh and prepared sandwiches, deli meats and seafood categories are Canada's leaders. We also own Canada's only coast-to-coast refrigerated direct-to-store delivery (DSD) service to the convenience store industry. In terms of our legacy markets in western Canada and the U.S. Pacific Northwest, our businesses include western Canada's leading protein distributor to the foodservice industry, western Canada's leading artisan bakery, western Canada's leading distributor of products to the concessionary industry and the U.S. Pacific Northwest's fastest growing deli meats company. We also have investments in a number of smaller specialty food companies that are very well positioned to benefit from emerging consumer trends.

"...there is a tremendous amount of diversity in what consumers are looking for in their food choices relative to just 10 or 15 years ago."

In addition to acquisitions, we have also invested heavily in renewing our capital base and infrastructure. This investment has been focused on ensuring our operations are not only efficient, but also flexible enough to cater to the demands of our customers and the ever changing needs of today's consumers. As a result, our plants and operations tend to be smaller, but have lean overheads and feature state-of-the-art production lines and processes. The flexibility of our operations provides us with a distinct competitive advantage in the specialty food segment relative to larger food companies who typically have more rigidly designed production facilities focused on mass production.

Consumers today are much more knowledgeable and demanding about their food choices. They also tend to live hectic life styles that are not conducive to the traditional home cooked family meals of the past. As a result there is a tremendous amount of diversity in what consumers are looking for in their food choices relative to just 10 or 15 years ago. Correspondingly, the old paradigm of large scale, long production run plants is becoming increasingly challenged in our industry.

At Duso's, they care as much about the people as they do about the quality of food. The Duso Family has been working together for two generations to produce fresh pasta that they are proud to serve to their own families and offer to you. Duso's shares a responsibility to local markets, communities, and the environment. Duso's supports its community by buying local ingredients whenever possible, sponsoring little league teams, and contributing to the Food Bank.

Duso's practices social responsibility and actively looks for ways to reduce its environmental footprint. Many food manufacturers test their inbound water because it is used in production. Duso's takes it a step further—by testing outbound water as well, Duso's can ensure that it is not sending anything harmful back out into the environment. Duso's hopes to pass along its strong values of integrity to upcoming generations, who will continue the tradition of providing families with authentic, fresh, natural pasta and sauces.

FRESH

A similar shift is happening in the foodservice segment where restaurant operators are looking for ways to differentiate themselves from their competitors by demanding customized product solutions. Again, the old paradigm of one standard fits all is quickly disappearing.

We believe that our national network of smaller and more flexible manufacturing facilities, commissaries and custom portion cutting operations ideally positions us to provide relevant food solutions to our growing customer base. Combine these facilities with our differentiation based distribution networks, which access over 26,000 customers, and we are uniquely positioned to provide both food retailers and foodservice operators with complete product and service solutions that meet the demands of today's ever changing world.

Whether it's from our new state-of-the-art artisan bakery in Langley, BC; our modern premium burger production facility in Calgary, AB; our modern custom portion cutting operations in Richmond, BC, Calgary, AB and Edmonton, AB; our state-of-the-art sandwich assembly plant in Reno, Nevada; or one of the state-of-the-art deli plants of our newly acquired Piller's business in Ontario, we are positioning Premium Brands as the "go-to" custom solution food provider for the specialty foods industry across Canada and the western U.S.

"...we are positioning Premium Brands as the "go-to" custom solution food provider for the specialty foods industry across Canada and the western U.S."

We are now into our third five year plan since we began implementing our specialty food based strategies in 2001, and while our sales and cash flow targets have increased exponentially and our specific initiatives have continually evolved, the one constant has been our focus on nurturing a culture of entrepreneurship that promotes leadership, independent initiative, and accountability while rewarding performance. Similar to how we have built into our production related strategies the flexibility to adapt to a constantly changing consumer environment, our entrepreneurial based management strategies ensure our management teams are close to their markets, understand their customers, and can identify and react to new challenges and opportunities quickly and efficiently.

In short, we are very well prepared for whatever direction the future takes.

Roger Paquette founded Hub City Fisheries, along with ten other investors (most of whom were fishermen themselves), in 1980 in Nanaimo, BC. Initially, Hub City Fisheries handled only one product—the prized herring roe—for a large Japanese trading company. Within a few years, the "Hub" brand became one of the premier names in the Japanese market.

By 1986, the Paquette family had become the sole owners of Hub City Fisheries, and had expanded their product line to include other fish species. At present, they are fully diversified in the west coast fishery: they lead the retail market in fresh hand-peeled shrimp meat for delis in B.C.; and also in troll caught sockeye salmon for the premier sushi market in Japan. Additionally, their halibut and cod markets continue to grow substantially each year, and they perform equally as well with many other fish species.

SPECIALTY

…GAINING TRACTION

Looking forward, there were a number of initiatives undertaken in 2011 that are not yet fully reflected in our 2011 results and, correspondingly, illustrate some of our untapped potential.

Piller's Fine Foods Acquisition

In September 2011 we completed our largest, and likely most accretive, acquisition yet with the purchase of Ontario based Piller's Fine Foods. In addition to featuring an iconic and leading Canadian brand and having an excellent management team, Piller's owns and operates some of the top deli meats production facilities in North America. We are not aware of any other specialty deli company in North America that has invested more energy and capital in its operations and facilities than Piller's.

"Piller's business, which is primarily based in eastern Canada, combined with our market leading Grimm's deli meats business in western Canada, provides us with a national deli meats platform."

Piller's business, which is primarily based in eastern Canada, combined with our market leading Grimm's deli meats business in western Canada, provides us with a national deli meats platform. This platform will feature two of Canada's top deli meats brands, modern and flexible production facilities located across Canada, and a talented and seasoned management team with tremendous depth.

For 2012 we expect this acquisition to generate significant incremental EBITDA and free cash flow through a combination of its legacy business and through synergies with other divisions in our deli meats platform. We have already seen the launch of Piller's branded products in western Canada by our Grimm's sales and distribution organization, while Piller's facilities are gearing up to produce Grimm's branded products to be sold across Canada.

In 1957, Wilhelm Huber opened a small butcher shop in Waterloo, ON using family recipes and traditional European meat processing methods. Two years later, his brothers, Edward and Heinrich, joined the company, which eventually became Piller's Sausages and Delicatessens Limited.

From those humble beginnings, Piller's grew to become one of North America's largest producers of European sausages and delicatessen meats, famous for award-winning products, such as Black Forest ham and air-dried salamis.

To this day, after five generations of sausage makers, Piller's continues to be a family operated business that still uses the same natural aging, curing, and smoking processes that had customers lining up outside Wilhelm Huber's butcher shop 50 years ago.

CONVENIENCE

Les Aliments Deli Chef Acquisition

In early 2011 we acquired Deli Chef from a large Canadian multinational food company. At the time of the purchase Deli Chef had two sandwich manufacturing facilities: one in Gatineau, QC and the other in Toronto, ON; a central distribution centre in Laval, QC; a 14 truck convenience store DSD network in southern Ontario; and a 44 truck convenience store DSD network in Quebec. Prior to the transaction, Deli Chef had fallen on hard times and was incurring significant losses.

During 2011 we made a number of changes to Deli Chef's business including merging its DSD networks with our Direct Plus DSD network, which resulted in the creation of a national DSD platform for the convenience store industry. We also closed its significantly underutilized Gatineau sandwich plant and transferred its production to our Toronto and Edmonton based sandwich facilities, thereby creating an efficient and effective national sandwich platform. By the latter part of 2011 Deli Chef was back on track and beginning to generate positive EBITDA.

"...the new Deli Chef facility...will feature the **most advanced** food safety and packaging technology **standards** in the industry."

For 2012 we still have a few enhancements to make to Deli Chef's business, including the recently announced construction of a new 20,000 square foot state-of-the-art sandwich production facility that will be adjacent to its central distribution facility in Laval, QC. This facility is due to be operational in the summer of 2012 and will feature the most advanced food safety and packaging technology standards in the industry. Overall, we remain very confident that Deli Chef will meet the objectives we set when it was acquired.

Les Aliments Deli Chef originated in Quebec in 1982 under the name "Les Aliments Mar-tel." In January 2008, Les Aliments Mar-tel was sold to a large Canadian corporation. In February 2011, it became "Les Aliments Deli Chef," a division of Premium Brands Holdings Corporation.

Known commonly as "Deli Chef," it manufactures sandwiches, subs, and pitas, and also distributes snacks: biscuits, muffins, strudels, Audrey pastries, buns, Danishes, donuts, cakes, tarts, brownies, cheese products and granola bars. The diversity of Deli Chef's products enables it to respond effectively to the demands of extensive markets in Ontario, Quebec and the Maritimes.

Deli Chef currently employs over 160 employees in four different facilities located in Ontario and Quebec. It serves over 5,400 clients, including large format stores, gas stations, and convenience stores. Deli Chef also supplies its products to the Canadian Army.

McSWEENEY'S
PROUDLY CANADIAN
FIÈREMENT CANADIEN
STEAK NUGGETS
ORIGINAL
PEP'N CHED
TERIYAK

EXPERIENCE

Pridcorp Acquisition

At the end of 2011 we acquired the business of Preferred Regional Independent Distributors Corporation (Pridcorp). At the time of the acquisition Pridcorp oversaw a network of 41 regional independent DSD distributors to the convenience store industry, which was the only DSD network of any significance competing with our Direct Plus DSD network.

"The Pridcorp transaction will play a major part in getting the Direct Plus business back on track in 2012."

In conjunction with this purchase, we entered into exclusive distribution agreements with 25 of the independent distributors that had been part of Pridcorp's DSD network and began integrating these distributors into our Direct Plus DSD network. We are well into this process, which once complete, will result in a number of benefits in 2012 including: access to new convenience store markets in eastern Canada that Direct Plus' DSD did not previously service; lower critical mass in a number of regions through route consolidation; and expanded product offerings on our corporate Direct Plus trucks of products previously distributed exclusively by the Pridcorp DSD network.

Our Direct Plus business has been struggling in recent years due to reduced consumer demand in the convenience store channel as a result of a range of issues including: a weak economic environment; rising fuel costs; pay at the pump legislation; and changing consumer needs. The Pridcorp transaction will play a major part in getting the Direct Plus business back on track in 2012.

Why McSweeney's?

- *Because McSweeney's offers meat snacks that are perfect on the go or at home.*
- *Because McSweeney's is Canadian and proud of it.*
- *Because McSweeney's meat snacks are naturally smoked and come in a variety of gluten free options.*
- *Because McSweeney's knows you work hard and play harder, and deserve a premium meat snack.*
- *Because you never know when your inner meatatarian will strike.*

ARTISAN

New Artisan Bakery

During 2011 our Stuyver's bakery group initiated the construction of a new state-of-the-art artisan bread and bun bakery. This facility, which is set to begin commercial production in April 2012, will be unique to Canada and will combine a craftsman's approach to baking with the scale and efficiencies needed to meet the demands of larger retail and foodservice customers.

"The bakery is engineered for flexibility and will enable Stuyver's to provide customized product solutions to its customers."

The bakery is engineered for flexibility and will enable Stuyver's to provide customized product solutions to its customers. Furthermore, its design incorporates the technology and freezing capacities needed to expand Stuyver's geographic reach into central Canada and the U.S.

New Premium Burger Facility

In mid-2011 our Centennial Foodservice group completed construction of a state-of-the-art premium burger production facility adjacent to its custom cutting operation in Calgary, AB. This facility has significantly improved Centennial's ability to provide its customers with unique product solutions in the rapidly growing gourmet burger product category.

These highlights are just a few of the many projects initiated by our various entrepreneurial management teams in 2011 that will drive growth in our top and bottom lines in future years and position us to continue to generate superior returns for our shareholders.

The story of Stuyver's is one of new beginnings. The company's original founder began the business in 1985, with a humble start in a small 1,200 square foot bakery in North Vancouver, BC. Stuyver's slowly started to develop a reputation for respecting old world baking traditions and using original Dutch recipes.

As of April 2012, Stuyver's brand new facility in Langley, BC enables it to take a craftsman's approach to baking bread, while harnessing state-of-the-art technology to create unique-looking products, keep pace with the demand of large-scale customers, and most importantly, ensure that it gets the same high-quality output from every batch it produces. The philosophy underlying Stuyver's new facility is that great bread is the result of carefully controlling every step of the baking process.

PEOPLE

SUMMARY

In conclusion, I would like to thank all of our employees for their dedication and hard work. As I have said many times, our biggest and most important competitive advantage is our talented and hardworking people.

I would also like to thank our long-term shareholders for their ongoing support. We fully understand that our primary objective as managers of your capital is the creation of shareholder value. Looking forward, we can't promise you a 28% return every year, but we do expect to continue to deliver above average returns by staying the course and by balancing the pursuit of profitable growth opportunities while diligently managing the risks inherent in our business.

Sincerely,

George Paleologou

President and CEO

JDRF
Juvenile Diabetes Research Foundation International
dedicated to finding a cure
CANUCKS FOR KIDS FUN
MOUSTACHE SEASON
MOVEMBER
BC CHILDREN'S HOSPITAL FOUNDATION
APRIL 26 2012
JEANS DAY™
BBQ!
WHITECAPS FOUNDATION
Food Banks Canada

COMMUNITY

COMMUNITY & SUSTAINABILITY

Community Involvement

As part of Premium Brands' 2011 strategy:

- 34% of donations went towards charities that focused on helping youth and family
- 66% of donations were geared towards charitable organizations that promote sports & entertainment
- Donated to over 50 local charities across Canada
- Supported two national charities: the Children's Miracle Network and the Prostate Cancer Society.

Global Resources Initiative (GRI)

The GRI reporting framework is a standardized version of sustainability reports that enables organizations to report on identical indicators. The eleven GRI's that have been chosen fall under the Economic, Environmental, and Labour Practices categories. Premium Brands will formulate dashboards to report these metrics to its stakeholders.

Energy Audits

Keystone Environmental has been conducting baseline energy audits at Premium Brands from which they will recommend energy reducing solutions, cost savings options, and a template to better track usage. They have found that divisions like Made-Rite have reduced energy consumption by unit of production by 51%, Hempler's by 38% and Noble House by 12%. Moving forward the focus of 2012 will be to see more reductions throughout all of the divisions of Premium Brands.

Fleet Management

With the newly added division, National DSD (Direct Service Distribution), Premium Brands has restructured the fleet to meet stricter emission standards. By summer 2012, 60% of the national DSD fleet will meet 2007 emission standards while 40% will meet 2010 emission standards. 2010 emission standards call for less emission coming out of exhaust tailpipes from engine idle than pollutants found in ambient air in most downtown cities.

Priorities for the Year 2012

- *Reduce energy usage and costs while maintaining efficiency by hiring an energy manager who will be available to all the divisions at Premium Brands.*
- *Reduce electricity/water/gas usage and lower costs by using the baseline analysis from the Premium Brands energy audits.*
- *Create a dashboard for measuring our strategy and attacking pending issues in all business aspects (Quality Assurance, Human Resources, Operations) through Global Resource Initiative (GRI) reporting.*
- *Implement a purchasing policy for Centennial Foodservice as requested by our customers and suppliers. The policy will be used to make sustainable purchasing decisions, and, in turn, reduce costs.*
- *Increase corporate giving initiatives by focusing on national organizations (Canadian Cancer Society, Children's Miracle Network) while continuing to support local communities and charities.*
- *40% of corporate giving will be directed towards youth & family.*
- *For every $1 that Premium Brands contributes, $2 will be raised by the charity through their event (a 2% increase from 2011).*
- *For every $1 that Premium Brands contributes, $1.04 will be raised by the employees of Premium Brands for the charity (a 2% increase from 2011).*

MANAGEMENT'S DISCUSSION & ANALYSIS

For the 14 and 53 Weeks Ended December 31, 2011

The following Management's Discussion and Analysis (MD&A) is a review of the financial performance and position of Premium Brands Holdings Corporation (the Company or Premium Brands), formerly known as Premium Brands Income Fund (the Fund), and is current to March 14, 2012. It should be read in conjunction with the Company's 2011 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 and the Fund, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

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

BUSINESS OVERVIEW

Premium Brands is a food focused holding company investing in:

- **Manufacturers and wholesalers of specialty food products with strong proprietary brands and leading niche market positions.** 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 26,000 customers, including convenience stores, gas bars, restaurants, delicatessens, small specialty grocery chains, 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 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 either IFRS for amounts relating to the fiscal years ended December 31, 2011 and December 25, 2010; or Canadian generally accepted accounting principles (GAAP) for amounts relating to the fiscal year ended December 26, 2009.

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

(in millions of dollars except per share amounts)	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010	52 weeks ended Dec 29, 2009
Revenue	794.3	535.2	462.8
EBITDA	54.9	42.0	40.7
Earnings before acquisition transaction costs, restructuring costs and income taxes	23.6	18.7	21.0
Earnings [1]	13.1	14.1	18.9
Basic earnings per share [1]	0.68	0.79	1.07
Diluted earnings per share [1]	0.68	0.78	1.07
Total assets	614.9	431.9	350.0
Long-term financial liabilities [2]	253.0	149.8	112.1
RONA	13.1%	14.0%	14.6%
Dividends / distributions declared per share / unit	1.176	1.176	1.176

(1) See note 3 of the Company's 2011 audited consolidated financial statements for a discussion on the differences between IFRS and GAAP.
(2) Excludes deferred financing costs and puttable interest in subsidiaries.

Revenue and Earnings

The Company has consistently grown its revenue over the last three years through a combination of acquisitions and organic growth initiatives (see *Results of Operations – Revenue*). The Company has also continued to grow its EBITDA over the last three years, however, at a lower rate due primarily to: (i) the impact of record high costs in 2010 and 2011 for food commodities used in the production of certain finished goods (see *Results of Operations – Gross Profit*); and (ii) the 2011 acquisitions of Deli Chef and SJ, both of which were generating negative EBITDA when the Company purchased them (see *Liquidity and Capital Resources – Corporate Investments*).

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) the Company's 2009 consolidated financial statements being prepared in accordance with GAAP while its 2010 and 2011 consolidated financial statements were prepared in accordance with IFRS (see note 3 of the Company's 2011 audited consolidated financial statements); (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 interests in subsidiaries, and acquired businesses; and (iv) an unusual income tax provision recovery in 2010 resulting from the recognition of certain deferred tax assets (see *Results of Operations – Income Taxes – Deferred Income Tax Provision*).

Total Assets

The Company's consistent trend of increasing total assets reflects both its continuing investment in existing businesses as well as the acquisition of new specialty food manufacturing and differentiated food distribution businesses.

Long-term Financial Liabilities

The Company's consistent trend of increasing long-term financial liabilities is 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 2010 and 2011, the Company invested $239.5 million in new businesses and project capital expenditures, $186.0 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)	**53 weeks ended Dec 31, 2011**	**52 weeks ended Dec 25, 2010**	**52 weeks ended Dec 29, 2009**
Return:			
EBITDA [1]	**54,944**	41,999	40,727
Maintenance capital expenditures	**(2,880)**	(1,713)	(2,026)
	52,064	40,286	38,701
Average adjusted net assets [2]:			
Opening net assets	**335,337**	264,952	264,637
Closing net assets excluding net assets of businesses acquired during the year	**360,191**	256,535	264,952
Average net assets before including businesses acquired during the year [3]	**347,764**	260,744	264,795
Weighted net assets of businesses acquired during the year [4]	**48,752**	27,501	–
	396,516	288,245	264,795
RONA [5]	**13.1%**	14.0%	14.6%

(1) See *Results of Operations – 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 14.5% which is near its long term targeted rate of 15%. 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 (see *Results of Operations – Gross Profit*); and (iii) below normal performance of the Company's distribution businesses operating in the convenience store and restaurant channels due to an overall weaker than average economic environment in western Canada (see *Results of Operations – Revenue*).

Excluding Deli Chef and SJ, the Company's RONA for 2011 was 13.7%.

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 Meats, Creekside, Stuyver's, Duso's, SK Food Group, Deli Chef, SJ Irvine and Piller's) and its Direct Plus Food Group's 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 (formerly South Seas), 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 are working 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 2010. The Company estimates the impact of the extra week of operations on its sales and EBITDA to be $15.6 million ($11.9 million if recent acquisitions are excluded) 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)	14 weeks ended Dec 31, 2011	% (1)	13 weeks ended Dec 25, 2010	% (1)	53 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 25, 2010	% (1)
Revenue by segment:								
Retail	**157,902**	**63.0%**	76,469	49.0%	**442,289**	**55.7%**	248,061	46.3%
Foodservice	**92,695**	**37.0%**	79,502	51.0%	**352,003**	**44.3%**	287,182	53.7%
Consolidated	**250,597**	**100.0%**	155,971	100.0%	**794,292**	**100.0%**	535,243	100.0%

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

Retail's revenue for the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by $81.4 million or 106.5% due to: (i) the acquisitions of SK Food Group in the fourth quarter of 2010, Deli Chef in the first quarter of 2011, SJ in the second quarter of 2011 and Piller's in the third quarter of 2011 (see *Liquidity and Capital Resources – Corporate Investments*) which resulted in $68.8 million in incremental sales for the quarter; (ii) organic growth of $9.1 million representing an organic growth rate of approximately 11.9%; and (iii) $5.0 million in incremental sales in Retail's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*). Partially offsetting these increases was the loss of approximately $1.5 million in sales of third party products sourced in the U.S. due to suppliers choosing to directly market these products to Canadian retailers.

Retail's strong organic growth for the quarter, which was well above the Company's targeted range of 6% to 8%, was partly due to a $6.4 million increase in frozen wrap and breakfast sandwich sales driven in part by a very successful fall promotion with a major café chain.

Retail's sales to convenience stores, which have been contracting on a year over year comparative basis for the last couple of years, were flat for the quarter as an improved economic environment, particularly in western Canada, helped to offset the negative impact that several factors, including record high gas prices, are having on consumer spending in this channel.

Retail's revenue for 2011 increased by $194.2 million or 78.3% as compared to 2010 primarily due to: (i) the acquisitions of Duso's and SK Food Group in 2010 and Deli Chef, SJ and Piller's in 2011, which resulted in incremental sales of $184.9 million; (ii) organic growth across a range of products and customers of $9.3 million representing an organic growth rate of approximately 3.7%; and (iii) $5.0 million in incremental sales in Retail's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*). Partially offsetting these increases was: (i) a $1.9 million decrease in revenue in the first quarter of 2011 due to one-time sales in 2010 resulting from the Company's involvement with the 2010 Vancouver Winter Olympics; and (ii) the loss of approximately $3.1 million in sales of third party products sourced in the U.S. due to suppliers choosing to directly market these products to Canadian retailers.

Retail's low organic growth rate for 2011, which was below the Company's targeted range of 6% to 8%, was primarily due to: (i) lower sales of barbeque focused products during the first two quarters of 2011 due to extremely poor weather across western Canada; and (ii) a $3.0 million decrease in sales to convenience stores in the first three quarters of 2011 due to reduced consumer spending in this channel that was the result of a variety of factors including continued consumer concerns about the uncertainty of the economic environment and record high gas prices.

Looking forward (see *Forward Looking Statements*), the Company expects Retail's organic growth rate for 2012 to be within its targeted range of 6% to 8%. This is based on a number of assumptions including: (i) the successful implementation of a variety of new product and new customer based initiatives; (ii) the continuation of the positive trends the Company is seeing with respect to consumer spending in the convenience store channel; (iii) the successful integration of independent distributors from the Pridcorp Network (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*) into Retail's convenience store DSD network; and (iv) limited price inflation based on the cost of most of the food commodities used by Retail, many of which rose to record levels in 2011, stabilizing in 2012.

Foodservice's revenue for the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by $13.2 million or 16.6% due to: (i) $6.3 million in incremental sales in Foodservice's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); (ii) organic growth of $5.2 million representing an organic growth rate of 7.0%; and (iii) the acquisition of Hub City Fisheries in the fourth quarter of 2010 which resulted in $1.9 million in incremental sales. These increases were partially offset by a $0.2 million decrease in Worldsource's food brokerage sales due to reduced trading opportunities.

Foodservice's organic growth, which was within the Company's targeted range of 6% to 8%, was driven by a combination of: (i) higher sales to its core hotel, restaurant and institutional customers as a result of several factors including improved consumer spending in this channel; and (ii) increased wholesale seafood sales resulting partially from a competitor in the Greater Toronto Area shutting down its business.

Foodservice's revenue for 2011 as compared to 2010 increased by $64.8 million or 22.6% due to: (i) the acquisitions of Maximum Seafood and Hub City Fisheries in 2010 which resulted in $41.9 million in incremental sales; (ii) organic growth of $17.2 million representing an organic growth rate of 6.4%; (iii) $6.3 million in incremental sales in Foodservice's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); and (iv) increased Worldsource sales of $0.1 million. These increases were partially offset by a $0.7 million decrease in revenue due to one-time sales in the first quarter of 2010 resulting from the Company's involvement with the 2010 Vancouver Winter Olympics.

Looking forward (see *Forward Looking Statements*) the Company expects Foodservice's organic growth rate for 2012 to be within its targeted range of 6% to 8%. This is based on a number of assumptions including: (i) a continuation of the positive trends the Company is seeing with respect to consumer spending in the foodservice channel; (ii) western Canada's economy continuing to improve; and (iii) some price inflation based on continuing increases in certain beef commodity inputs.

Gross Profit

(in thousands of dollars except percentages)	14 weeks ended Dec 31, 2011	% (1)	13 weeks ended Dec 25, 2010	% (1)	53 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 25, 2010	% (1)
Gross profit by segment:								
Retail	**37,366**	**23.7%**	20,878	27.3%	**113,354**	**25.6%**	75,000	30.2%
Foodservice	**16,408**	**17.7%**	14,388	18.0%	**66,307**	**18.8%**	56,637	19.7%
Consolidated	**53,774**	**21.5%**	35,216	22.6%	**179,661**	**22.6%**	131,637	24.6%

(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 2011 as compared to the fourth quarter of 2010 decreased primarily due to the acquisitions of SK Food Group in 2010 and SJ and Piller's in 2011 (see *Liquidity and Capital Resources – Corporate Investments*) as these businesses generate lower average gross margins as compared to Retail's other businesses.

Excluding SK Food Group, SJ and Piller's, Retail's gross margin (legacy gross margin) for the fourth quarter of 2011 improved slightly to 29.5% as compared to 29.1% in the fourth quarter of 2010. While Retail's legacy gross margin did show some improvement during the quarter on a year over year basis, it is still below the Company's targeted range of 32% to 33% due to record high costs for a variety of input commodities including poultry, pork, beef, and flour.

Retail's gross margin for 2011 as compared to 2010 decreased primarily due to: (i) the acquisitions of SK Food Group, SJ and Piller's; and (ii) a number of Retail's businesses being impacted for much of 2011 by rising costs for a variety of input commodities. Throughout 2011 the Company implemented a number of initiatives, including selling price increases and product packaging changes, to address the impact of higher costs on its margins. Excluding SK Food Group, SJ and Piller's, Retail's gross margin for 2011 was 30.6% as compared to 30.9% for 2010.

Looking forward (see *Forward Looking Statements*), for 2012 Retail expects its gross margin, after accounting for the impact of recent acquisitions, to trend towards its targeted range of 25% to 26% based on: (i) Retail's continuing implementation of a variety of margin enhancement initiatives, including targeted selling price increases, new product development, packaging changes and improving plant efficiencies; and (ii) the costs of some of the input commodities that have impacted its margins over the last year stabilizing, albeit at historically high levels.

Foodservice's gross margin for the fourth quarter of 2011 as compared to the fourth quarter of 2010 was down slightly due to: (i) sales mix changes, namely increased sales of lower margin frozen seafood products; and (ii) continued record high costs for certain input commodities.

Foodservice's gross margin for 2011 as compared to 2010 decreased primarily due to: (i) the acquisitions of Maximum Seafood and Hub City Fisheries part way through 2010 as these businesses generate lower average gross margins as compared to Foodservice's other businesses; and (ii) rising input costs for a variety of input commodities, in general, and for beef based products, in particular. Excluding Maximum Seafood and Hub City Fisheries, Foodservice's gross margin for 2011 was 18.7% as compared to 18.4% in 2010.

Looking forward (see *Forward Looking Statements*), Foodservice expects its gross margin to remain stable to slightly up for 2012 as compared to 2011 based on the benefits of its various margin improvement initiatives, which include selling price increases, improved operating efficiencies resulting from higher sales volumes and the introduction of a new hamburger patty program (see *Liquidity and Capital Resources – Capital Expenditures*), being largely offset by increases in the cost of certain beef input commodities.

Selling, General and Administrative Expenses (SG&A)

(in thousands of dollars except percentages)	14 weeks ended Dec 31, 2011	% (1)	13 weeks ended Dec 25, 2010	% (1)	53 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 25, 2010	% (1)
SG&A by segment:								
Retail	**25,981**	**16.5%**	12,430	16.3%	**72,777**	**16.5%**	44,806	18.1%
Foodservice	**11,794**	**12.7%**	10,911	13.7%	**45,740**	**13.0%**	39,042	13.6%
Corporate	**1,619**		1,392		**6,200**		5,790	
Consolidated	**39,394**	**15.7%**	24,733	15.9%	**124,717**	**15.7%**	89,638	16.7%

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

Retail's SG&A in the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by $13.6 million primarily due to: (i) the acquisitions of SK Food Group in 2010 and Deli Chef, SJ and Piller's in 2011 (see *Liquidity and Capital Resources – Corporate Investments*) which resulted in an increase of $12.4 million; (ii) incremental SG&A in Retail's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); and (iii) higher freight and fuel costs resulting from fuel price increases. These increases were partially offset by lower distribution costs resulting from the rationalization of certain areas of Retail's direct-to-store delivery network.

Retail's SG&A for 2011 as compared to 2010 increased by $28.0 million primarily due to: (i) the acquisitions of Duso's and SK Food Group in 2010 and the acquisitions of Deli Chef, SJ and Piller's in 2011 which resulted in an increase in Retail's SG&A of $27.4 million; (ii) incremental SG&A in Retail's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); and (iii) higher freight and fuel costs resulting from fuel price increases. These increases were partially offset by: (i) a decrease in one-time costs associated with the Company's involvement in the 2010 Vancouver Winter Olympics in 2010; and (ii) lower distribution costs resulting from the rationalization of certain areas of Retail's direct-to-store delivery network.

Excluding acquisitions, Retail's SG&A as a percentage of revenue for 2011 was approximately 19.0% as compared to 18.8% for 2010.

Foodservice's SG&A in the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by $0.9 million primarily due to: (i) incremental SG&A in Foodservice's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); (ii) the acquisition of Hub City Fisheries in the fourth quarter of 2010 which accounted for $0.1 million of the increase; and (iii) higher freight and fuel costs resulting from fuel price increases.

Foodservice's SG&A for 2011 as compared to 2010 increased by $6.7 million primarily due to: (i) the acquisitions of Maximum Seafood and Hub City Fisheries in 2010 which accounted for $4.6 million of the increase; (i) incremental SG&A in Foodservice's legacy businesses resulting from an extra week of operations in 2011 (see *Results of Operations – Extra Week of Operations*); (ii) the recognition in the second quarter of 2010 of a $0.5 million gain on the sale of a redundant property; and (iii) higher freight and fuel costs resulting from fuel price increases.

Excluding acquisitions and the $0.5 million gain on the sale of a redundant property in the second quarter of 2010, Foodservice's SG&A as a percentage of revenue for 2011 was approximately 13.9% as compared to 14.1% for 2010.

EBITDA

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 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. 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 EBITDA to earnings before income taxes:

(in thousands of dollars)	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Earnings before income taxes	**3,226**	2,995	**19,187**	17,668
Depreciation of capital assets [1]	**3,916**	2,330	**12,091**	8,210
Amortization of intangible assets [1]	**1,201**	813	**3,573**	2,757
Amortization of other assets [1]	**1**	1	**5**	5
Interest and other financing costs [2]	**4,194**	2,702	**14,496**	9,994
Amortization of financing costs [1]	**212**	49	**405**	295
Acquisition transaction costs [3]	**702**	554	**1,594**	1,018
Change in value of puttable interest in subsidiaries [4]	**150**	700	**1,828**	1,450
Accretion of provision for contingent consideration [2]	**209**	–	**244**	–
Unrealized loss (gain) on foreign currency contracts [5]	**495**	193	**(220)**	125
Unrealized loss on interest rate swap contracts [6]	**100**	–	**100**	–
Restructuring costs [3]	**74**	–	**2,819**	–
Acquisition bargain purchase gain [3]	**(100)**	–	**(1,455)**	–
Equity loss in associate [7]	–	146	**277**	477
EBITDA	**14,380**	10,483	**54,944**	41,999

(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 an unusual item that 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 swaps 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 its Facility C.

(7) Amount relates to businesses that the Company did not control.

(in thousands of dollars except percentages)	14 weeks ended Dec 31, 2011	% (1)	13 weeks ended Dec 25, 2010	% (1)	53 weeks ended Dec 31, 2011	% (1)	52 weeks ended Dec 25, 2010	% (1)
EBITDA by segment:								
Retail	**11,385**	**7.2%**	8,448	11.0%	**40,577**	**9.2%**	30,194	12.2%
Foodservice	**4,614**	**4.9%**	3,427	4.3%	**20,567**	**5.8%**	17,595	6.1%
Corporate	**(1,619)**		(1,392)		**(6,200)**		(5,790)	
Consolidated	**14,380**	**5.7%**	10,483	6.7%	**54,944**	**6.9%**	41,999	7.8%

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

The Company's EBITDA for the fourth quarter of 2011 as compared to the fourth quarter of 2010 increased by $3.9 million or 37.2% primarily due to: (i) acquisitions (see *Liquidity and Capital Resources – Corporate Investments*); (ii) organic growth in a number of the Company's legacy businesses; and (iii) estimated additional EBITDA of approximately $0.1 million due to an extra week of operations in the fourth quarter of 2011 (see *Results of Operations – Extra Week of Operations*).

These increases were partially offset by: (i) the continuing impact of high commodity costs on the selling margins of several of the Company's businesses; and (ii) higher freight and fuel costs resulting from fuel price increases.

The Company's EBITDA for 2011 increased by $12.9 million or 30.8% as compared to 2010 primarily due to the same factors that impacted its fourth quarter EBITDA, however, this increase was also partially offset by (i) one-time benefits in the first quarter of 2010 associated with the Company's involvement with the 2010 Vancouver Winter Olympics; and (ii) the recognition in the second quarter of 2010 of a $0.5 million gain on the sale of a redundant property.

Looking forward (see *Forward Looking Statements*), the Company expects its EBITDA for 2012 to increase significantly based on: (i) a full year of EBITDA from businesses acquired part way through 2011 (see *Liquidity and Capital Resources – Corporate Investments*); (ii) improved EBITDA resulting from the turnaround of its recently acquired Deli Chef and SJ businesses (see *Results of Operations – Restructuring Costs*); (iii) improved stability, albeit at historically high levels, in the cost of many of the input commodities that have been negatively impacting its margins for the last two years (see *Results of Operations – Gross Profit*); and (iv) continued improvement in consumer spending in the convenience store and restaurant channels. Based on these factors the Company is projecting its 2012 EBITDA to be in the range of $75.0 million to $80.0 million.

Depreciation and Amortization (D&A)

(in thousands of dollars)	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Depreciation and amortization of intangible and other assets (D&A) by segment:				
Retail	**3,830**	2,010	**10,883**	6,708
Foodservice	**1,144**	983	**4,243**	3,661
Corporate	**144**	151	**543**	603
Consolidated	**5,118**	3,144	**15,669**	10,972

The increases in the Company's D&A expense for both the fourth quarter of 2011 as compared to the fourth quarter of 2010, and 2011 as compared to 2010, were primarily due to business acquisitions made in 2010 and 2011 by both its Retail and Foodservice segments.

Interest

The increases in the Company's interest and other financing costs for both the fourth quarter of 2011 as compared to the fourth quarter of 2010, and 2011 as compared to 2010, were primarily due to: (i) an increase in the Company's net funded debt (see *Liquidity and Capital Resources – Debt Financing Activities – Funded Debt*); and (ii) the repayment of lower cost senior debt through the issuance of convertible unsecured subordinated debentures at the beginning of 2011 (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

These increases were partially offset by lower interest rates on the Company's senior credit facilities due to: (i) a lower interest rate environment in general; and (ii) the Company negotiating a lower credit spread on its senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

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 2011 as compared to 2010 increased by $0.4 million primarily due to: (i) increased accretion resulting from changes made in the latter half of 2010 to the assumptions used to value the put options; and (ii) incremental accretion relating to new put options resulting from business acquisitions made part way through 2010 and in 2011 (see *Liquidity and Capital Resources – Corporate Investments*). These increases were partially offset by a $0.2 million decrease resulting from the purchase by the Company in the second quarter of 2011 of the minority interest in its Stuyver's artisan bakery business (see *Liquidity and Capital Resources – Corporate Investments – Puttable Interest in Subsidiaries*).

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 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 stabilize it interest cost.

Restructuring Costs

Restructuring costs consist of costs associated with a significant restructuring of one or more of the Company's businesses. In 2011, the Company incurred $2.8 million in restructuring costs consisting of:

- $2.1 million in charges relating to the Company's recently acquired Deli Chef business (see *Liquidity and Capital Resources – Corporate Investments – Deli Chef Acquisition*). Included in this amount is approximately $1.8 million for severance and other costs associated with the shutdown on April 29, 2011 of Deli Chef's sandwich plant in Gatineau, Quebec. As previously announced the Company expects to incur $6 million to $7 million in capital and restructuring costs relating to the changes being made to Deli Chef's business. As at the end of 2011 these costs totaled $2.5 million consisting of the $2.1 million in restructuring costs outlined above and $0.4 million in capital expenditures.

  Looking forward (see *Forward Looking Statements*), as part of the restructuring of Deli Chef the Company is projecting to invest $3.4 million in 2012 on the construction of a new 20,000 square foot sandwich plant (see *Subsequent Transactions*).

- $0.5 million in redundant lease costs associated with the expansion of the Company's artisan bread capacity (see *Liquidity and Capital Resources – Capital Expenditures*).

- $0.5 million in charges associated with the rationalization of the Company's direct-to-store delivery networks (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*).
- $0.2 million in severance and other costs relating to changes being made to SJ Irvine's business subsequent to the Company acquiring control of it in the second quarter of 2011 (see *Liquidity and Capital Resources – Corporate Investments*).

The above costs were partially offset by a gain of $0.5 million resulting from sales to independent distributors forming part of the Company's Direct Plus convenience store direct-to-store distribution network (the Direct Plus DSD network) of the exclusive right to sell certain of the Company's products to convenience stores in defined territories. These sales of distribution territories were completed in conjunction with the restructuring of the Direct Plus DSD network (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*)

Acquisition Bargain Purchase Gains

During the second quarter of 2011, the Company completed an initial fair value assessment for the acquisition of Deli Chef (see *Liquidity and Capital Resources – Corporate Investments*). In doing so, it determined that the fair value of the net identifiable assets acquired was $1.4 million greater than the consideration paid. Under IFRS this difference is recognized immediately as a bargain purchase gain.

In the fourth quarter of 2011 the Company finalized its fair value assessment for the acquisition of Deli Chef resulting in an additional bargain purchase gain of $0.1 million.

Income Taxes

Tax Attributes

An estimate of the Company's tax attributes as at the end of 2011 is as follows:

(in millions of dollars)	
Scientific research and experimental development tax credits	92.4
Un-depreciated capital costs	119.6
Non-capital losses carried forward	60.3
Capital losses carried forward	0.9
Cumulative eligible capital	58.4
Section 20(1)(e) financing fee	4.3
Investment tax credits	15.3
Total	351.2

In 2009 the Company completed a plan of arrangement that resulted in the conversion (the Conversion) of 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 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 income.

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 (recovery) relates to changes in the value of its deferred income tax assets and liabilities as shown below:

(in thousands of dollars)	**14 weeks ended Dec 31, 2011**	**13 weeks ended Dec 25, 2010**	**53 weeks ended Dec 31, 2011**	**52 weeks ended Dec 25, 2010**
Opening DIT asset	**41,729**	42,129	**42,817**	48,468
Adjustments:				
Foreign currency translation adjustment [1]	**(143)**	(16)	**142**	(25)
Convertible unsecured subordinated debenture issuance [2]	–	–	**(332)**	–
Reallocation of 2010 acquisition purchase price from goodwill [3]	–	–	**1,560**	–
DIT resulting from 2011 acquisitions [4]	**(54)**	(1,218)	**327**	(3,231)
Adjusted opening DIT asset	**41,532**	40,895	**44,514**	45,212
Closing DIT asset	**39,952**	42,817	**39,952**	42,817
Provision for (recovery of) DIT	**1,580**	(1,922)	**4,562**	2,395

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

(2) See *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities.*

(3) See *Liquidity and Capital Resources – Corporate Investments – Goodwill and Intangible Assets.*

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

The Company's low deferred income tax provision in 2010 and deferred income tax recovery in the fourth quarter of 2010 was due to the Company recognizing a deferred tax asset of $2.6 million in the fourth quarter of 2010. This asset was the result of the Company determining that the final tax attributes associated with the Conversion were higher than estimated at the time of the Conversion.

Note that in the Company's 2010 consolidated financial statements prepared in accordance with GAAP the $2.6 million income tax provision recovery resulting from the recognition of the additional tax attributes was largely offset by an income tax provision expense resulting from the recognition of a corresponding deferred credit of $2.2 million. Under IFRS the full deferred credit associated with the Conversion, including the $2.2 million recognized in 2010 under GAAP, was recognized in 2009 (see note 3 to the Company's 2011 audited consolidated financial statements).

FOURTH QUARTER FINANCIAL STATEMENTS

The Company's operating results for the fourth quarters of 2011 and 2010 were as follows:

(in thousands of dollars)	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010
Revenue	**250,597**	155,971
Gross profit	**53,774**	35,216
Selling, general and administrative expenses	**39,394**	24,733
	14,380	10,483
Depreciation of capital assets	**3,916**	2,330
Amortization of intangible assets	**1,201**	813
Amortization of other assets	**1**	1
Interest and other financing costs	**4,194**	2,702
Amortization of financing costs	**212**	49
Acquisition transaction costs	**702**	554
Change in value of puttable interest in subsidiaries	**150**	700
Accretion of provision for contingent consideration	**209**	–
Unrealized loss on foreign currency contracts	**495**	193
Unrealized loss on interest rate swap contracts	**100**	–
Restructuring costs	**74**	–
Acquisition bargain purchase gain	**(100)**	–
Equity loss in associate	**–**	146
Earnings before income taxes	**3,226**	2,995
Income tax provision – current	**121**	850
Income tax provision (recovery) – deferred	**1,580**	(1,922)
Income tax provision (recovery)	**1,701**	(1,072)
Earnings	**1,525**	4,067
Earnings attributable to:		
Shareholders	**1,464**	4,033
Non-controlling interest – net of income taxes	**61**	34
Earnings	**1,525**	4,067

See *Results of Operations* for a discussion of the Company's operating results for the fourth quarter of 2011.

SUMMARY OF QUARTERLY RESULTS

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

(millions of dollars except per share amounts)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Revenue	109.7	125.9	143.7	156.0	**154.1**	**183.8**	**205.7**	**250.6**
EBITDA	7.2	11.0	13.2	10.6	**9.2**	**13.7**	**17.6**	**14.4**
Earnings	0.9	5.3	3.8	4.0	**1.0**	**4.5**	**6.1**	**1.5**
Earnings per share – basic	0.05	0.30	0.21	0.23	**0.05**	**0.24**	**0.32**	**0.07**
Earnings per share –diluted	0.05	0.30	0.21	0.22	**0.05**	**0.24**	**0.32**	**0.07**

Many of the Company's businesses are subject to fluctuations associated with the impact on consumer demand of seasonal changes in weather. As a result, its results are weaker in the first quarter due to a combination of:

- 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 generally peak in the spring and summer months due to favourable weather conditions and the resulting impact on consumer demand, then decline in the fourth quarter due to poorer weather conditions.

Over the last eight quarters the seasonal nature of the Company's business has been impacted by business acquisitions made part way through 2010 and 2011 (see *Liquidity and Capital Resources – Corporate Investments*). This is due to: (i) the general growth in revenue and earnings associated with the acquired businesses; and (ii) some of the acquired businesses, namely Duso's Fine Foods, Maximum Seafood and SK Food Group, being less impacted by seasonal factors.

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 (see *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) an unusual income tax provision recovery in 2010 resulting from the recognition of certain deferred tax assets (see *Results of Operations – Income Taxes – Deferred Income Tax Provision*).

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position and liquidity for the 14 and 53 week periods ended December 31, 2011 were 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)	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Cash flow from operating activities	**12,510**	6,693	**29,524**	32,793
Changes in non-cash working capital	**(3,542)**	(5)	**6,050**	(2,817)
Funds from operations	**8,968**	6,688	**35,574**	29,946

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

Net Working Capital Requirements

Net Working Capital

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

The following table provides the calculation of net working capital:

(in thousands of dollars)	As at Dec 31, 2011	As at Dec 25, 2010
Accounts receivable	**78,830**	52,807
Inventories	**79,977**	57,366
Prepaid expenses	**13,455**	3,421
Accounts payable and accrued liabilities	**(80,162)**	(53,699)
Net working capital	**92,100**	59,895

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

Net working capital at the end of 2011 increased by $32.2 million as compared to the end of 2010 due primarily to: (i) acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) which accounted for $16.5 million of the increase; (ii) $9.0 million in deposits on equipment purchased for the expansion of the Company's bakery operations (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*); and (iii) higher net working capital levels resulting from the Company's organic sales growth (see *Results of Operations – Revenue*).

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

(in days)	As at Dec 31, 2011	As at Dec 25, 2010
Days sales in accounts receivable [1]	**30.8**	30.8
Days cost of sales in inventory [2]	**39.8**	43.2

(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.

Non-Cash Working Capital Cash Flows

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

(in thousands of dollars)	14 weeks ended Dec 31, 2011	13 weeks ended Dec 25, 2010	53 weeks ended Dec 31, 2011	52 weeks ended Dec 25, 2010
Changes in non-cash working capital	**3,542**	5	**(6,050)**	2,847

Due to the seasonal nature of the Company's business, changes in the Company's non-cash working capital generally results in a net cash inflow in the fourth quarter as its sales levels decline after the busy summer months (see *Summary of Quarterly Results*).

For 2011 the Company used $6.1 million in cash for non-cash working capital primarily due to: (i) $9.0 million in deposits on equipment purchased for the expansion of the Company's bakery operations (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*); and (ii) higher net working capital levels resulting from the Company's organic sales growth (see Results of Operations – Revenue). These increases were partially offset by cash generated from excess net working capital at the time of acquisition in businesses acquired in 2011 (see *Liquidity and Capital Resources – Corporate Investments*).

Debt Financing Activities

Credit Facilities

As at December 31, 2011 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	17,049	32,951
Facility B – revolving senior credit [2]	55,000	49,450	5,550
Facility C – non-revolving senior credit [3]	100,000	100,000	–
5.75% convertible debentures [5]	54,003	54,003	–
7.00% convertible debentures [4]	35,393	35,393	–
Vendor take-back notes resulting from business acquisitions	10,724	10,724	–
Capital leases	8,242	8,242	–
Farm Credit Canada loans [7]	7,808	7,808	–
Industrial Development Revenue Bond [6]	6,229	6,229	–
Other revolving loans	3,275	1,012	2,263
Other term loans	1,684	1,684	–
Cheques outstanding	–	2,504	(2,504)
Cash and cash equivalents	–	(4,860)	4,860
	332,358	289,238	43,120

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

(5) Represents the debt allocated component of the $57.5 million in convertible unsecured subordinated debentures issued by the Company on January 6, 2011. The debentures mature in December 2015 and have no principal payments prior to that date.

(6) 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.

(7) Loans relate to SJ (see *Liquidity and Capital Resources – Corporate Investments*), mature between March 2014 to July 2020, and have quarterly principal payments of approximately $0.3 million beginning in March 2012.

The 7% and 5.75% debentures trade on the Toronto Stock exchange under the symbols PBH.DB and PBH.DB.A, 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 EBITDA, are useful indicators of its financial strength and ability to access additional debt financing. Senior funded debt is also used in the calculation of the debt covenants associated with the Company's senior credit facilities (see *Liquidity and Capital Resources – Debt Financing Activities – Banking Covenants*).

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

(in thousands of dollars)	As at Dec 31, 2011	As at Dec 25, 2010
Cheques outstanding	**2,504**	1,670
Bank indebtedness	**18,061**	6,827
Current portion of long-term debt	**20,536**	19,822
Deferred financing costs [1]	**940**	516
Long-term debt	**162,661**	112,004
	204,702	140,839
Less cash and cash equivalents	**4,860**	868
Senior funded debt	**199,842**	139,971
7.00% debentures [2]	**35,393**	37,306
5.75% debentures [3]	**54,003**	–
Total funded debt	**289,238**	177,277

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

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

(3) Represents the debt allocated component of the $57.5 million in convertible unsecured subordinated debentures issued by the Company on January 6, 2011. The debentures mature in December 2015 and have no principal payments prior to that date.

Debt Activities

During 2011 the Company's significant debt activities consisted of the following:

- On January 6, 2011 the Company issued $57.5 million of convertible unsecured subordinated debentures (the 5.75% debentures) resulting in net proceeds of $54.6 million after commissions of $2.3 million and transaction costs of approximately $0.6 million. These debentures bear interest at an annual rate of 5.75% payable semi-annually, have a maturity date of December 31, 2015 and are convertible into common shares of the Company at a price of $22.40 per share.

  $38.3 million of the net proceeds of the offering were used to reduce the amount outstanding under Facility B, which is a revolving facility and hence these funds can be accessed for future business acquisitions and capital projects. The balance of the net proceeds of the offering was used to fund the Company's general operations.

- During 2011 the Company negotiated the following amendments to its senior credit facilities: (i) the credit available under Facilities A, B and C increased by $20.0 million, $10.0 million and $36.0 million, respectively; (ii) the Company's quarterly principal payments increased to $2.75 million from $2.0 million; (iii) the banker's acceptances rate based interest pricing grid add-on reduced to a range of 1.50% to 2.50% from a range of 2.0% to 3.0%; and (iv) the Company's senior funded debt to EBITDA ratio covenant requirement was increased to 3.5:1 returning to the previous covenant requirement of 3.0:1 at the earlier of the issuance of new equity and/or subordinate debt or June 30, 2012.

- $59.8 million in draws on Facility B consisting of: (i) $40.0 million for the acquisitions of Deli Chef, SJ and Piller's (see *Liquidity and Capital Resources – Corporate Investments*); (ii) $10.0 million to fund the purchase of the Cloverdale plant (see *Liquidity and Capital Resources – Capital Expenditures – Changes in Capital Assets*); (iii) $6.0 million to fund a portion of a US$6.5 million vendor take-back promissory note that came due in the second quarter of 2011; and (iv) a general draw for project capital expenditures of $3.8 million.

- $11.2 million in net draws on Facility A to fund the Company's general operations including increases in net working capital and capital expenditures.

- The assumption of $9.4 million ($9.7 million gross value before discounting to fair market value) of Piller's funded debt consisting of $7.7 million in capital leases and $1.7 million in term loans.

- The consolidation in the Company's financial statements of $7.8 million in term loans payable by recently acquired SJ (see *Liquidity and Capital Resources – Corporate Investments*).

- A $1.1 million increase in vendor take-back promissory notes consisting of: (i) a new $0.4 million promissory note relating to the acquisition of Pridcorp (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*); and (ii) $0.7 million in interest accretion.

- A $0.9 million capital lease relating to jerky packaging equipment purchased by the Company's 50% owned subsidiary Made-Rite Meat Products LP (see *Liquidity and Capital Resources – Capital Expenditures*).

- $12.3 million in principal payments on Facility B consisting of: (i) $11.5 million for scheduled quarterly principal payments, which includes an additional payment (i.e. five quarterly principal payments were made in 2011) due to the Company's extra week of operations (see *Results of Operations – Extra Week of Operations*); and (ii) $0.8 million representing the proceeds from the sale of a redundant property. As noted above, principal payments made on this facility can be redrawn to fund future business acquisitions and capital projects.

- $12.0 million in principal payments on vendor take-back promissory notes relating to acquisitions made in prior years.

- The conversion of $2.6 million of 7.00% debentures to common shares at the option of the debenture holders resulting in the issuance of 179,510 common shares.

- $0.6 million in principal payments on capital leases.

The Company's cash balance at the end of 2011 as compared to the end of 2010 increased by $4.0 million to $4.9 million primarily due to: (i) the acquisition of a controlling interest in SJ (see *Liquidity and Capital Resources – Corporate Investments*) through a treasury share issuance which resulted in SJ having approximately $1.7 million of cash on hand at the end of 2011; and (ii) the timing of cash transfers from non-wholly owned subsidiaries.

The Company's outstanding cheques balance at the end of 2011 as compared to the end of 2010 increased by $0.8 million to $2.5 million primarily due to business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*).

Banking Covenants

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

	Covenant Requirement	Dec 31, 2011 Ratio
Senior funded debt to EBITDA ratio [1] [2]	**=< 3.50 : 1.0**	3.03: 1.0
Current ratio [3]	**> 1.30 : 1.0**	1.43: 1.0
Interest coverage ratio [3]	**> 4.00 : 1.0**	9.06: 1.0

(1) Covenant decreases to 3:00:1 at the earlier of: (i) the Company completing a public offering of common shares or subordinate debt; and (ii) the third quarter of 2012. This reduction would, however, be subject to a 0.25:1 add-on for a period of two consecutive quarters in the event of a business acquisition.
(2) EBITDA is calculated as the Company's rolling four quarters EBITDA adjusted for the trailing EBITDA of new acquisitions so that the total EBITDA amount includes four quarters of EBITDA for new acquisitions. For covenant calculation purposes, senior funded debt excludes cheques outstanding.
(3) Ratio is calculated based on the combined balance sheets and/or income statements 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 income statement.

Financial Leverage

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

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

At the end of 2011 the Company's senior funded debt to EBITDA ratio increased to 3.03:1 as compared to 2.71:1 at the end of 2010 primarily due to senior funded debt being used to fund a significant portion of the Company's 2011 project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*) and business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*). The impact of these factors was partially offset by a reduction in senior funded debt resulting from the Company's convertible debenture offering in January 2011 (see *Liquidity and Capital Resources – Debt Financing Activities – Debt Activities*).

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 generated by it that is available for the payment of dividends to shareholders, debt repayment and for investing in project capital expenditures (see *Liquidity and Capital Resources – Capital Expenditures*) and business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*).

Furthermore, one of the key considerations the Company uses in determining its dividend policy is the ratio of its dividends to its free cash flow on a rolling four quarters basis. The Company uses this ratio on the basis of: (i) the seasonality of its business (see *Summary of Quarterly Results*), which results in significant fluctuations in its free cash flow on a quarter by quarter basis; and (ii) its objective to maintain a stable quarterly per share dividend.

Note that, due to the seasonal nature of the Company's business, it is possible that in some quarters its dividends to shareholders may exceed its free cash flow.

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

(in thousands of dollars)	**53 weeks ended Dec 31, 2011**	**52 weeks ended Dec 25, 2010**
Cash flow from operating activities	**29,524**	32,793
Changes in non-cash working capital [(1)]	**6,050**	(2,847)
Sale of redundant property [(2)]	**–**	1,747
Deferred revenue [(3)]	**1,118**	1,207
Acquisition transaction costs [(4)]	**1,594**	1,018
Restructuring costs [(4)]	**2,819**	–
Capital maintenance expenditures [(5)]	**(2,880)**	(1,713)
Free cash flow	**38,225**	32,205

(1) Cash used for increases in the Company's non-cash working capital is funded through draws on its Facility A revolving credit facility (see *Liquidity and Capital Resources – Debt Financing Activities – Credit facilities*), while cash resulting from decreases in its non-cash working capital is used to pay down its Facility A revolving credit facility. As a result, changes in the Company's non-cash working capital are excluded from the calculation of free cash flow.
(2) Amount represents free cash flow generated from the sale of a redundant distribution facility (see *Results of Operations – Selling, General and Administrative Expenses*).
(3) Amount represents free cash flow generated from deferred revenue (see *Liquidity and Capital Resources – Capital Expenditures – Deferred Revenue*).
(4) 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*).
(5) Amount represents the portion of the Company's capital expenditures that relate to maintaining its existing capital asset base (see *Liquidity and Capital Resources – Capital Expenditures*).

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 2011 the Company declared total dividends of $1.176 per share totaling $22.7 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. Furthermore, the Company does not intend to use any future growth in its free cash flow to increase its dividend in the near or medium term but rather will focus on reducing the ratio of its dividends paid to its free cash flow and using the additional cash to pay down debt and fund business acquisitions and capital projects.

Dividend History

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

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

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

Capital Expenditures

Expenditure Classification

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

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

Changes in Capital Assets

The following table shows the changes in the Company's capital assets during 2011:

(in thousands of dollars)	**53 weeks ended Dec 31, 2011**
Opening capital assets at December 25, 2010	76,184
Depreciation	(12,091)
Asset sales and other	(1,041)
Foreign currency translation adjustment [1]	130
Acquisitions [2]	81,307
Capital expenditures:	
Project	20,613
Maintenance	2,880
Closing capital assets	167,982

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

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

During 2011 the Company spent $20.6 million on project expenditures, which included:

- $10.8 million on a 96,000 square foot meat processing facility located in Surrey, BC (the Cloverdale plant). This facility was purchased pursuant to an option that was exercised just prior to its expiry on August 4, 2011.

  At the time of the purchase the Company had intended to move a portion of the production at its 57,000 square foot Richmond, BC deli meats plant, an older facility that is scheduled to be shut down when its lease expires in July 2013 (the Richmond plant), into the Cloverdale plant. Subsequently, in September 2011, the Company acquired Piller's (see *Liquidity and Capital Resources – Corporate Investments*) and after completing a comprehensive analysis of the capacities of its facilities, which included examining alternative production configurations, determined that production of the products that were to be transferred from the Richmond plant to the Cloverdale plant could, instead, be produced at Piller's with minimal incremental investment. Correspondingly, the Company is re-evaluating its long term plan for the Cloverdale plant.

- $2.4 million for the expansion of Centennial Foodservice's custom cutting operation at its distribution facility in Calgary, AB. This project, which was completed in the second quarter, enables Centennial to further differentiate itself by providing its customers with customized fresh and frozen burger patty programs.

- $2.3 million on the construction of a new artisan bakery that will replace the Company's Stuyver's facility in Burnaby, BC. This project, which commenced in the first quarter of 2011, was essentially completed in January 2012 and the new facility is scheduled to be in full commercial production in early April 2012.

  The projected total cost of the project is approximately $18.3 million, and expected benefits (see *Forward Looking Statements)* associated with it include: (i) a substantial increase in production capacity as Stuyver's Burnaby bakery is currently operating at near to capacity; and (ii) significant production efficiencies based on the automation of a number of production processes.

  In addition to the $2.3 million spent on capital assets associated with this project, as at the end of 2011 the Company had paid $9.0 million for equipment deposits which are included in its prepaid expenses (see *Liquidity and Capital Resources – Net Working Capital Requirements – Net Working Capital*).

- $1.0 million for a new jerky packaging line at Made-Rite's facility in Langley, BC. This project, which was completed in the first quarter of 2011, reduces the plant's per unit packaging costs while increasing its production capacity.
- $0.3 million for production equipment that will improve the operating efficiency of Harvest's Yorkton, SK meat processing plant through improved handling of raw materials. This project, which commenced in the third quarter of 2011, is expected to cost approximately $1.1 million and is scheduled to be completed in the second quarter of 2012.

The balance of the Company's project capital expenditures for 2011 was for a variety of smaller projects consisting mainly of capacity related equipment purchases.

Maintenance capital expenditures for 2011 increased to $2.9 million as compared to $1.7 million in 2010 due primarily to: (i) business acquisitions (see *Liquidity and Capital Resources – Corporate Investments*) which accounted for $0.7 million of the increase; and (ii) a variety of smaller projects that had been deferred in 2010 and completed in 2011.

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 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 2012 the Company expects (see *Forward Looking Statements*) its capital maintenance expenditures to be between $4.5 million and $5.0 million. This is higher than its historic levels due to: (i) business acquisitions made in 2011 (see *Liquidity and Capital Resources – Corporate Investments*); and (ii) and some catch-up in maintenance capital expenditures deferred from prior years due to the uncertain economic environment.

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 the second quarter of 2010 the Company successfully obtained $1.2 million in government grants relating to several capital projects completed over the last several years. $0.3 million of these grants were recognized in 2010 as other income under SG&A with the balance being recorded on the Company's consolidated balance sheet as deferred revenue. The deferred grant revenue will be amortized into income over the average life of the corresponding capital assets, which is estimated at 15 years.

Corporate Investments

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

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

Deli Chef Acquisition

In the first quarter of 2011 the Company completed the acquisition of Les Aliments Deli Chef (Deli Chef) for $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. In April 2011, as part of the restructuring of Deli Chef's business, the Company shut down Deli Chef's Gatineau plant (see *Results of Operations – Restructuring Costs*).

At the time of the acquisition, Deli Chef had an annual sales run rate of approximately $30 million and was generating a negative cash flow. The Company is restructuring Deli Chef's business (see *Results of Operations – Restructuring Costs*) and is targeting for it to have annual sales and EBITDA of $50 million and $5 million, respectively, within the next five years (see *Forward Looking Statements).*

SJ Acquisition

In the second quarter of 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 of SJ. SJ, which started operations in January 2008, manufactures high quality processed meats for the foodservice and retail industries out of a modern 40,000 square foot facility in Saskatoon, SK and currently produces a variety of products for the Company under the Grimm's brand name.

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 a result of acquiring control of SJ, the Company began including SJ in its consolidated financial statements, and correspondingly ceased to use equity accounting for its investment in SJ, in the second quarter of 2011.

Piller's Acquisition

In the third quarter of 2011 the Company purchased substantially all of the assets and business operations (Piller's) of Waterloo, Ontario based Piller Sausages & Delicatessens Limited. Piller's is one of Canada's leading manufacturers of specialty European deli meats with annual sales and EBITDA run rates of approximately $180.0 million and $15.0 million, respectively.

The purchase price consisted of $64.9 million in cash, the issuance of 1,968,750 common shares valued at $31.5 million or $16.00 per share, and the assumption of $9.4 million in funded debt. In addition, it will be increased by up to $10.0 million ($8.1 million on a present value basis) if Piller's achieves certain profitability targets over the next two years. This contingent consideration, if payable, will be due in November 2013.

Pridcorp Acquisition

In the fourth quarter of 2011 the Company acquired the business of Preferred Regional Independent Distributors Corporation (Pridcorp) for $0.6 million consisting of $0.2 million in cash and a $0.4 million non-interest bearing promissory note due in March 2012. Prior to the transaction Pridcorp oversaw a network (the Pridcorp Network) of 41 regional independent direct-to-store (DSD) distributors to the convenience store industry.

In conjunction with the acquisition the Company entered into exclusive distribution agreements with 25 distributors (the New Distributors) from the Pridcorp network. Under the terms of these agreements the Company agreed to indemnify the New Distributors for up to a combined total of $2.9 million in lost profits in the event that: (i) a certain defined key supplier terminates its relationship with the New Distributor as a result of the New Distributor entering into an exclusive distribution agreement with the Company; and (ii) the New Distributor is unable to replace the resulting lost sales with sales of other products including any new listings of the Company's products.

Subsequent to the transaction, the Company initiated a process of merging and rationalizing its Direct Plus DSD network's delivery routes with those of the New Distributors in order to: (i) create Canada's only national convenience store DSD network in the sandwich, meat snack and pastry categories; (ii) gain efficiencies by eliminating overlaps where both the Company's DSD network and a New Distributor are servicing the same customer sites; and (iii) further improve the profitability of its DSD delivery routes by adding certain products that were previously distributed exclusively by the Pridcorp Network.

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 2011:

(in thousands of dollars)	**53 weeks ended Dec 31, 2011**
Opening intangible assets and goodwill at December 25, 2010	195,077
Amortization of intangible assets	(3,573)
Foreign currency translation adjustment [1]	174
Reallocation of 2010 acquisition purchase price (goodwill) to deferred income taxes [2]	(1,560)
Additions:	
Goodwill and intangible assets resulting from 2011 acquisitions	35,538
Purchase of trade-mark license	355
Customer supply agreement	2,187
Goodwill disposal	(694)
Closing intangible assets and goodwill	227,504

(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.*

See *Liquidity and Capital Resources* for details on business acquisitions made in 2011.

During the first quarter of 2011 the Company repurchased the rights that had been granted to a third party to use its Bread Garden brand name in conjunction with café styled restaurants for $0.4 million.

During the fourth quarter of 2011 the Company entered into a three year exclusive supply agreement with a major café chain for the supply of breakfast sandwiches and other grab-and-go food items to stores across Canada and the western and southern U.S. Under the terms of the agreement, which is structured as a "cost plus" agreement, the Company paid the retailer an upfront fee of $2.2 million. This fee was recorded as an intangible asset and is being expensed over the term of the contract.

Also during the fourth quarter, the Company reduced the goodwill associated with its Direct Plus DSD network by $0.7 million as a result of selling exclusive access to certain territories within this network to certain independent distributors. These sales were completed in conjunction with the restructuring of Direct Plus' DSD network (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*) and resulted in a gain of $0.5 million (see *Results of Operations – Restructuring Costs*).

Puttable Interest in Subsidiaries

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

The following table shows the changes in puttable interest during 2011:

(in thousands of dollars)	**53 weeks ended Dec 31, 2011**
Opening puttable interest at December 25, 2010 (1)	12,652
Change in value (2)	1,828
Foreign currency translation adjustment (3)	6
Exercise of put option	(2,286)
Cash distributions to non-controlling shareholders with puttable interests	(572)
Puttable interest resulting from acquisitions	3,582
Closing puttable interest (1)	15,210

(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.

In the second quarter of 2011 the non-controlling shareholder of the Company's Stuyver's artisan bakery business exercised his option to sell his 40% interest in Stuyver's to the Company for $2.3 million resulting in the Company owning 100% of this business.

Provision for Contingent Consideration

The following table shows the changes in the provision for contingent consideration during 2011:

(in thousands of dollars)	**53 weeks ended Dec 31, 2011**
Opening provision for contingent consideration at December 25, 2010 (1)	–
Acquisitions (2)	11,040
Accretion of provision for contingent consideration	244
Closing provision for contingent consideration (1)	11,284

(1) Includes both the current and long term portions.
(2) See *Liquidity and Capital Resources – Corporate Investments.*

During the third quarter of 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 – Piller's Acquisition*). This contingent consideration represents the discounted present value of the full amount of the contingent consideration of $10.0 million.

During the fourth quarter of 2011, the Company recorded a provision for contingent consideration of $2.9 million as a result of indemnifying certain independent distributors for up to a combined total of $2.9 million in lost profits in the event that certain conditions are met (see *Liquidity and Capital Resources – Corporate Investments – Pridcorp Acquisition*).

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, gross margin and EBITDA expectations for 2012. See *Liquidity and Capital Resources – Capital Expenditures – Historic Capital Maintenance Expenditures* for details on the Company's capital maintenance expenditure expectations for 2012.

In terms of business acquisitions, the Company continues to evaluate a number of promising opportunities but does not, at this time, expect (see *Forward Looking Statements*) to complete any material acquisitions of specialty food manufacturing and/or differentiated food distribution businesses in the near future.

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 31, 2011 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	174,211	15,676	19,202	128,268	760	797	9,508
Capital leases	9,926	4,860	1,647	1,088	852	395	1,084
7.00% debentures	37,647	-	-	37,647	-	-	-
5.75% debentures	57,500	-	-	-	57,500	-	-
Operating leases	61,827	11,357	9,243	7,070	5,877	5,179	23,101
Total	341,111	31,893	30,092	174,073	64,989	6,371	33,693

TRANSACTIONS WITH RELATED PARTIES

During 2011 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 $0.1 million from various employees, including its President and Chief Executive Officer, George Paleologou, and its Chief Financial Officer, Will Kalutycz.

SUBSEQUENT TRANSACTIONS

Sandwich Production Restructuring

In February 2012, the Company entered into an agreement for the construction of a new 20,000 square foot sandwich production plant (the Laval plant) in a leased facility adjacent to its distribution centre in Laval, Quebec. The projected cost of the new plant is $3.4 million consisting of $3.2 million for leasehold improvements and $0.2 million for miscellaneous equipment.

Conversions of Convertible Debentures

Subsequent to December 31, 2011, the Company has issued 105,583 common shares as a result of the conversion of $1.5 million of its 7.00% Debentures (see *Debt Financing Activities – Credit Facilities*).

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 14, 2012, 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 will continue to show modest improvement in the near to medium term and, corresponding with such improvement, consumers will return to pre-2009 buying patterns in the convenience store, hotel and restaurant food channels.
- The average cost of the basket of commodities the Company purchases will continue to fluctuate in line with historic levels.
- 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 increase modestly 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 14, 2012 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 are not obtained, the Company is subject to third party credit/contractual risk relating to the obligations of Thallion and New Thallion. Such third party liabilities for which the Company may become liable could have a material adverse effect on the business, financial conditions and results of operations of the Company.

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

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

- *Reliance on the Indemnity, Insurance and the Letter of Credit*. The Company attempted to reduce the third party credit/contractual risk, due diligence risk and Thallion operational risk by obtaining, for the benefit of the Company: (i) the covenants under an indemnity agreement delivered by New Thallion pursuant to an arrangement agreement; (ii) certain insurance coverage; and (iii) a letter of credit delivered by New Thallion pursuant to an arrangement agreement. The Company believes that the protection afforded by the terms of the indemnity agreement, the insurance coverage and the letter of credit reduces these risks to an acceptable level. However, this presumes that: New Thallion has the financial resources to meet its obligations under the indemnity agreement, the insurance coverage is available, and the letter of credit has not expired or the losses sustained are not in excess of the value of the letter of credit.

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

- *Income Taxes.* The Company will file all required income tax returns and believes that it will be in full compliance with the provisions of the Canadian Income Tax Act and all applicable provincial legislation. It is expected that the Company's tax horizon will be deferred for several years due in large part to 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 26% 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 13% of its total sales.

The balance of the Company's sales is to a broad base of approximately 26,000 customers.

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

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

Product Defect Risk

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

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

Consumer Preference Risk

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

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

Competition Risk

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

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

Currency Exchange Risk

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

- The Company's Canadian operations currently make annual product purchases of approximately US$48 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 to acquire.

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 35% 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 than 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 and, correspondingly, a significant amount of judgement is required in estimating the future cash flows to be used under this valuation method.

Convertible unsecured subordinated debentures. The valuation of the debt and equity components of convertible unsecured subordinated debentures requires a significant amount of judgement in determining reasonable fair market values for the debt and equity components of this financial instrument.

Business acquisitions / 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 liabilities assumed. Furthermore, when an acquisition involves contingent consideration there is also significant judgement involved in determining the value, if any, of such consideration.

NEW ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

The Company has adopted International Financial Reporting Standards (IFRS) for its fiscal year ending December 31, 2011 as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants.

The assessments and impacts associated with the Company's transition to IFRS are detailed in note 3 to its 2011 audited consolidated financial statements. This disclosure includes reconciliations of the Company's: (i) shareholders' equity reported in accordance with GAAP to its shareholders' equity reported in accordance with IFRS as at December 25, 2010 and December 27, 2009; and (ii) net earnings and comprehensive earnings reported in accordance with GAAP to its net earnings and comprehensive earnings reported in accordance with IFRS for the 52 weeks ended December 25, 2010. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Company's elections under IFRS 1, First-time Adoption of International Financial Reporting Standards.

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 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them. See note 2 to the Company's 2011 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 (see *Risks and Uncertainties – Currency Exchange Risk*), the Company, from time to time, enters into foreign currency contracts. The Company does not hold foreign currency contracts for speculative purposes.

As at December 31, 2011, the Company had outstanding foreign currency contracts for the purchase of US$20.6 million over the next 12 months at a blended rate of C$1.0183 and for the purchase of €1.4 million over the next eight months at a blended rate of C$1.3473.

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 31, 2011, 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 $0.6 million in the Company's consolidated statement of operations.

OTHER

Outstanding Shares

The shares outstanding in the Company as of March 14, 2012 were 20,371,206. 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 14, 2012 were 20,274,622.

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 31, 2011 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 31, 2011 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.

In assessing the design of the Company's DCP and ICFR as at December 31, 2011, the Company has excluded the controls, policies and procedures of Piller's, an acquisition the company completed on September 9, 2011 (see *Liquidity and Capital Resources – Corporate Investments*). Piller's accounted for $52.8 million of the Company's consolidated sales in the fourth quarter, $0.8 million in profit for the fourth quarter, and approximately $32.2 million, $91.0 million, $12.7 million and $7.0 million of its current assets, non-current assets, current liabilities and non-current liabilities, respectively, in its December 31, 2011 consolidated balance sheet. Documentation and assessment of Piller's impact on the overall design of the Company's DCP and ICFR are expected to be completed in 2012.

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 31, 2011 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 14, 2012. 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 14, 2012, has been approved by the Company's Board of Directors.

Additional Information

Additional information, including the Company's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

INDEPENDENT AUDITOR'S REPORT

March 14, 2012

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 Decemeber 31, 2011 and December 25, 2010 and December 27, 2009 and the consolidated statements of operations, comprehensive earnings, cash flows and changes in shareholders' equity and for the 53 weeks ending December 31, 2011 and the 52 weeks ending December 25, 2010, 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 audits 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 31, 2011 and December 25, 2010 and December 27, 2009 and its financial performance and its cash flows for the 53 weeks ending December 31, 2011 and the 52 weeks ending December 25, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, BC

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	December 31, 2011	December 25, 2010	December 27, 2009
Current assets:			
Cash and cash equivalents	**4,860**	868	469
Accounts receivable (note 27)	**78,830**	52,807	34,380
Other assets (note 8)	**103**	194	180
Inventories (note 4)	**79,977**	57,366	45,991
Prepaid expenses	**13,455**	3,421	2,116
	177,225	114,656	83,136
Capital assets (note 5)	**167,982**	76,184	66,029
Intangible assets (note 6)	**77,087**	53,986	38,298
Goodwill (note 7)	**150,417**	141,091	110,535
Other assets (note 8)	**2,250**	2,705	2,265
Investment in associate (note 9)	**–**	414	891
Deferred income taxes (note 24)	**39,952**	42,817	48,468
	614,913	431,853	349,622
Current liabilities:			
Cheques outstanding	**2,504**	1,670	2,470
Bank indebtedness (note 10)	**18,061**	6,827	2,411
Dividend payable (note 16)	**5,958**	5,368	5,180
Accounts payable and accrued liabilities	**80,162**	53,699	36,202
Puttable interest in subsidiaries (note 13)	**–**	2,086	1,992
Current portion of long-term debt (note 11)	**20,536**	19,822	8,212
Provisions for contingent consideration (note 14)	**2,924**	–	–
Other	**–**	220	1,185
	130,145	89,692	57,652
Puttable interest in subsidiaries (note 13)	**15,210**	10,566	2,001
Deferred revenue	**1,943**	1,369	–
Pension obligation (note 15)	**1,345**	827	852
Provisions for contingent consideration (note 14)	**8,360**	–	–
Long-term debt (note 11)	**162,661**	112,004	74,705
Convertible unsecured subordinated debentures (note 12)	**89,396**	37,306	36,769
Other	**100**	–	–
	409,160	251,764	171,979
Equity attributable to shareholders			
Accumulated earnings	**133,370**	121,252	107,271
Accumulated dividends declared (note 16)	**(130,497)**	(108,758)	(87,739)
Retained earnings	**2,873**	12,494	19,532
Share capital (note 17)	**198,057**	163,754	155,859
Equity component of convertible debentures (note 12)	**1,916**	919	919
Reserves (note 20)	**1,442**	1,653	234
Non-controlling interest	**1,465**	1,269	1,099
	205,753	180,089	177,643
	614,913	431,853	349,622

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)	53 weeks ended December 31, 2011	53 weeks ended December 25, 2010
Revenue	**794,292**	535,243
Cost of goods sold (note 32)	**614,631**	403,606
Gross profit before depreciation and amortization	**179,661**	131,637
Selling, general and administrative expenses before depreciation and amortization (note 32)	**124,717**	89,638
	54,944	41,999
Depreciation of capital assets (note 5)	**12,091**	8,210
Amortization of intangible assets (note 6)	**3,573**	2,757
Amortization of other assets	**5**	5
Interest and other financing costs	**14,496**	9,994
Amortization of financing costs	**405**	295
Acquisition transaction costs	**1,594**	1,018
Change in value of puttable interest in subsidiaries (note 13)	**1,828**	1,450
Accretion of provisions for contingent consideration (note 14)	**244**	–
Unrealized (gain) loss on foreign currency contracts (note 27)	**(220)**	125
Unrealized loss on interest rate swap contracts (note 27)	**100**	–
Restructuring costs (note 22)	**2,819**	–
Acquisition bargain purchase gain (note 21)	**(1,455)**	–
Equity loss in associate (note 9)	**277**	477
Earnings before income taxes	**19,187**	17,668
Provision for income taxes (note 24)		
Current	**1,526**	1,140
Deferred	**4,562**	2,395
	6,088	3,535
Earnings	**13,099**	14,133
Earnings for the period attributable to:		
Shareholders	**12,803**	13,903
Non-controlling interest	**296**	230
	13,099	14,133
Earnings per share (note 18)		
Basic	**0.68**	0.79
Diluted	**0.68**	0.78

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(in thousands of Canadian dollars)	**53 weeks ended December 31, 2011**	**52 weeks ended December 25, 2010**
Earnings	**13,099**	14,133
Unrealized gain on interest rate swap contracts	**–**	1,091
Actuarial (loss) gain on pension obligation	**(685)**	78
Unrealized foreign exchange gain (loss) on investment in foreign operations	**776**	(619)
Comprehensive earnings	**13,190**	14,683
Comprehensive earnings attributable to:		
Shareholders	**12,894**	14,453
Non-controlling interest	**296**	230
	13,190	14,683

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	53 weeks ended December 31, 2011	52 weeks ended December 25, 2010
Cash flows from operating activities:		
Earnings	**13,099**	14,133
Items not involving cash:		
Depreciation of capital assets	**12,091**	8,210
Amortization of intangible assets	**3,573**	2,757
Amortization of other assets	**5**	5
Amortization of financing costs	**405**	295
Change in value of puttable interest in subsidiaries	**1,828**	1,450
Loss (gain) on sales of capital assets	**23**	(407)
Gain on disposal of goodwill (note 22)	**(521)**	–
Accrued interest income	**(51)**	(33)
Unrealized (gain) loss on foreign currency contracts and interest rate swaps	**(120)**	125
Equity loss in associate	**277**	477
Deferred revenue	**(544)**	(299)
Accretion of convertible debentures	**1,422**	537
Accretion of long-term debt	**736**	301
Accretion of provisions for contingent consideration	**244**	–
Acquisition bargain purchase gain	**(1,455)**	–
Deferred income taxes	**4,562**	2,395
	35,574	29,946
Change in non-cash working capital (note 30)	**(6,050)**	2,847
	29,524	32,793
Cash flows from financing activities:		
Long-term debt – net	**33,553**	28,022
Bank indebtedness and cheques outstanding	**12,068**	991
Convertible debentures – net of issuance costs (note 12)	**54,600**	–
Deferred revenue	**1,118**	1,207
Dividends paid to shareholders, net of dividends received from cancelled shares	**(21,149)**	(20,831)
Share issuance and financing costs	**(703)**	(171)
	79,487	9,218
Cash flows from investing activities:		
Capital asset additions (note 5)	**(23,493)**	(5,107)
Business acquisitions (note 21)	**(76,848)**	(37,877)
Repayment of share purchase loans and notes receivable	**118**	101
Promissory note from associate	**(300)**	(100)
Payment for customer supplier agreement	**(2,187)**	–
Purchase of trade name	**(355)**	–
Net proceeds from sales of assets	**1,018**	1,993
Payments to shareholders of non-wholly owned subsidiaries	**(672)**	(835)
Purchase of shares of non-wholly owned subsidiary pursuant to puttable interest (note 13)	**(2,286)**	–
Other	**–**	175
	(105,005)	(41,650)
Increase in cash and cash equivalents	**4,006**	361
Effects of exchange on cash and cash equivalents	**(14)**	38
Cash and cash equivalents – beginning of year	**868**	469
Cash and cash equivalents – end of year	**4,860**	868

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	Share capital	Retained earnings	Equity component of convertible debentures	Reserves	Non-controlling interest	Share-holders' equity
Balance as at December 27, 2009	155,859	19,532	919	234	1,099	177,643
Common shares issued (note 17)	8,908	–	–	–	–	8,908
Share issuance costs (note 17)	(26)	–	–	–	–	(26)
Earnings for the year attributable to:						
Shareholders	–	13,903	–	–	–	13,903
Non-controlling interest	–	–	–	–	230	230
Payments to non-controlling interest	–	–	–	–	(60)	(60)
Dividends declared	–	(21,019)	–	–	–	(21,019)
Actuarial gain on pension obligation	–	78	–	–	–	78
Unrealized gain on interest rate swap	–	–	–	1,091	–	1,091
Effect of share based compensation plans	(987)	–	–	947	–	(40)
Foreign currency translation adjustment	–	–	–	(619)	–	(619)
Balance as at December 25, 2010	163,754	12,494	919	1,653	1,269	180,089
Common shares issued (note 17)	34,103	–	–	–	–	34,103
Share issuance costs (note 17)	(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 (note 16)	–	(22,672)	–	–	–	(22,672)
Return of dividends for cancelled shares (note 16)	–	933	–	–	–	933
Convertible debentures issued (note 12)	–	–	997	–	–	997
Actuarial loss on pension obligation	–	(685)	–	–	–	(685)
Effect of share based compensation plans	218	–	–	(987)	–	(769)
Foreign currency translation adjustment	–	–	–	776	–	776
Balance as at December 31, 2011	**198,057**	**2,873**	**1,916**	**1,442**	**1,465**	**205,753**

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

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 14, 2012.

2. SIGNIFICANT ACOUNTING POLICIES

Basis of presentation and adoption of IFRS

The Company previously prepared its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as defined in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. These are the Company's first annual consolidated financial statements prepared in accordance with IFRS. In these consolidated financial statements "GAAP" refers to Canadian GAAP before the adoption of IFRS.

Subject to certain transition elections disclosed in note 3, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at December 27, 2009 and throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company's reported financial position and financial performance, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the fiscal year ended December 25, 2010 which were prepared in accordance with GAAP.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for foreign exchange forward contracts, puttable interests in subsidiaries 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 future 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.

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 2011 was the fifty-three week period ending December 31, 2011 and fiscal year 2010 was the fifty-two week period ending December 25, 2010.

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 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 20%
Automotive 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.

Brand names have been determined to have an indefinite useful life and are not amortized but are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that 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 as an impairment loss.

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 as an impairment loss.

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 the consolidated statement of 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-acquisition income 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.

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.

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 period end exchange rate for the consolidated balance sheet and the average exchange rate for the period for the consolidated statement of operations. Gains or losses resulting from translation adjustments are recorded as a component of reserves in shareholders' equity until there is a realized reduction in the net investment in the foreign operation.

Foreign currency accounts of Canadian operations have been translated to Canadian dollars using the period 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. The interest rate swap contracts entered into in 2007 were considered to be a cash flow hedge; as a result, changes in their fair value, to the extent they were effective, was recorded as a component of reserves in shareholders' equity and were only recognized in earnings when the hedged item was realized. Any ineffectiveness in the hedging relationship was recognized in earnings immediately. For the interest rate swap contracts entered into in 2011 (note 27), the Company is not applying hedge accounting, and as a result, changes in their fair value are recognized in the consolidated statement of operations.

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 2011 and 2010, and accordingly, changes in the fair value of these contracts are recognized in the consolidated statement of operations. The Company may choose to apply hedge accounting to its foreign currency contracts in the future.

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: the valuation of inventory, goodwill and long-lived assets; calculation of deferred income taxes, puttable interest in subsidiaries; provisions for contingent consideration; the purchase price allocation of acquired businesses; allocation of the proceeds received from the issuance of convertible debentures between debt and equity; the useful lives of assets used in the calculation of amortization and depreciation; and the fair value of foreign exchange and interest rate derivatives. Actual results could differ from these estimates.

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 cost of the plan is funded on a current basis. The Company accrues its obligations under the defined benefit pension plan and the related costs, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected benefit method 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

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

i. IFRS 9, Financial Instruments addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through gain or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through gain or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive earnings.

ii. IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation — Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

iii. IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities — Non-monetary Contributions by Venturers.

iv. IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

v. IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

vi. There have been amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13

vii. IAS 19, Employee Benefits, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes relating to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

viii. IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

ix. IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011.

Conversion to a corporation and income taxes

On July 22, 2009, the Company's predecessor entity, Premium Brands Income Fund (the Fund), which until that date had been a publicly traded income fund, converted to a publicly traded corporation (the Conversion) by way of a plan of arrangement with Thallion Pharmaceuticals Inc. (Thallion). The Conversion resulted in the unitholders of the Fund becoming the shareholders of the Company.

As a result of the Conversion, the Company was deemed to have acquired certain tax attributes, which it has recorded as a deferred tax asset. The deferred tax asset is being expensed as part of the Company's deferred income tax provision in correlation with the expected use of the tax attributes.

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 such tax attributes be disallowed, the Company would derecognize the appropriate portion of the deferred income tax assets as a charge to earnings in the relevant period.

3. TRANSITION TO IFRS

The Company adopted IFRS effective December 26, 2010 and correspondingly these consolidated financial statements have been prepared in accordance with IFRS 1, First Time Adoption of IFRS. Prior to the adoption of IFRS, the Company prepared its consolidated financial statements in accordance with GAAP.

IFRS 1 requires that comparative financial information be prepared retrospectively on the same basis as the current period subject to certain optional exemptions and mandatory exceptions for first time IFRS adopters. As a result, for the purposes of these financial statements the first date on which the Company has applied IFRS is December 27, 2009 (the Transition Date).

Initial elected exemptions upon adoption

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the following optional exemptions from full retrospective application of IFRS:

Business combinations

The Company elected to apply IFRS relating to business combinations prospectively from the Transition Date. As a result, GAAP balances relating to business combinations completed prior to the Transition Date have not been restated.

Foreign currency translation

The Company elected to reset the accumulated balance of the foreign currency translation adjustment on investment in self-sustaining foreign operations to zero at the Transition Date.

Accumulated pension actuarial losses

The Company elected to recognize the unamortized actuarial losses related to its employee future benefit pension plan as an adjustment to retained earnings as at the Transition Date.

Share based compensation

The Company elected to apply IFRS 2 Share Based Payments to equity instruments granted after November 7, 2002 and which had not vested by the Transition Date.

Reconciliations of shareholders' equity as reported under GAAP to IFRS

The following reconciliation of the Company's shareholders' equity reported in accordance with GAAP to its shareholders' equity reported in accordance with IFRS at December 27, 2009, the Company's Transition Date, shows the impact of the elected optional exemptions as well as other adjustments resulting from the Company's adoption of IFRS:

	Note	Share capital	Retained earnings (deficit)	Equity component of convertible debentures	Reserves	Non-controlling interest	Share-holders' equity
As reported under GAAP as at December 27, 2009		156,483	(15,971)	1,225	(5,153)	–	136,584
Reset of foreign currency translation adjustment	(i)	–	(4,062)	–	4,062	–	
Recognition of accumulated pension actuarial losses	(ii)	–	(937)	–	–	–	(937)
Share based compensation adjustments	(iii)	(624)	(659)	–	1,325	–	42
Reclassification of non-controlling interest to shareholders' equity	(iv)	–	–	–	–	1,099	1,099
Derecognition of deferred credit	(v)	–	41,155	–	–	–	41,155
Deferred tax effect of convertible debentures	(vi)	–	6	(306)	–	–	(300)
As reported under IFRS as at December 27, 2009		**155,859**	**19,532**	**919**	**234**	**1,099**	**177,643**

The following reconciliation of the Company's shareholders' equity reported in accordance with GAAP to its shareholders' equity reported in accordance with IFRS at December 25, 2010, the end of the comparative period, shows the impact of the elected optional exemptions as well as other adjustments resulting from the Company's adoption of IFRS:

	Note	Share capital	Retained earnings (deficit)	Equity component of convertible debentures	Reserves	Non-controlling interest	Share-holders' equity
As reported under GAAP as at December 25, 2010		165,365	(20,740)	1,225	(4,681)	–	141,169
Reset of foreign currency translation adjustment	(i)	–	(4,062)	–	4,062	–	–
Recognition of accumulated pension actuarial losses	(ii)	–	(859)	–	–	–	(859)
Share based compensation adjustments	(iii)	(1,611)	(669)	–	2,272	–	(8)
Reclassification of non-controlling interest to shareholders' equity	(iv)	–	–	–	–	1,269	1,269
Derecognition of deferred credit	(v)	–	39,790	–	–	–	39,790
Deferred tax effect of convertible debentures	(vi)	–	52	(306)	–	–	(254)
Acquisitions transaction costs	(vii)	–	(1,018)	–	–	–	(1,018)
As reported under IFRS as at December 25, 2010		**163,754**	**12,494**	**919**	**1,653**	**1,269**	**180,089**

The following is a reconciliation of the Company's earnings and comprehensive earnings reported in accordance with GAAP to its earnings and comprehensive earnings reported in accordance with IFRS for the fiscal year ended December 25, 2010:

	Note	52 weeks ended December 25, 2010
Net earnings under GAAP		16,250
Reclassification of non-controlling interest	(iv)	230
Share based compensation	(iii)	(10)
Deferred income taxes – deferred credit	(v)	(1,365)
Deferred income taxes – convertible debentures	(vi)	46
Acquisitions transaction costs	(vii)	(1,018)
Earnings under IFRS		14,133
Unrealized gain on interest rate swap		1,091
Actuarial gain on pension obligation		78
Unrealized foreign exchange translation loss on investment in self-sustaining foreign operations		(619)
Comprehensive earnings under IFRS		**14,683**

i. *Foreign currency translation*: Utilizing the initial exemption available under IFRS 1, the Company elected to reset the accumulated balance of the unrealized foreign exchange translation loss on investment in self-sustaining foreign operations to zero at the Transition Date as an adjustment to retained earnings.

ii. *Pension actuarial losses*: Utilizing the initial exemption available under IFRS 1, the Company elected to recognize the unamortized actuarial losses related to its employee future benefit pension plan as an adjustment to retained earnings at the Transition Date. Subsequent to the Transition Date, actuarial gains and losses are recognized as a component of comprehensive earnings, and immediately recognized as an adjustment to retained earnings.

iii. *Share based compensation*: Under GAAP, the Company recognized the expense related to the restricted share plan using the intrinsic value method and the expense related to the employee benefit plan using the straight line method over the vesting period of the particular grant. Under IFRS 2, Share Based Payments, the Company recognizes the expense related to the restricted share plan using the fair value method and the expense related to the employee benefit plan using a graded vesting pattern.

   Furthermore, the Company uses the treasury stock method of accounting for the Company's shares which it acquires pursuant to the employee benefit plan and which have not vested with the plan beneficiaries, resulting in a reduction to the outstanding share capital. As the employee benefit plan shares vest to the employees, the share based compensation reserve is reduced and the vested shares are again presented as outstanding share capital.

iv. *Non-controlling interest*: Under GAAP non-controlling interest is shown as a liability and earnings and losses attributable to a non-controlling interest are included as a component of earnings. IAS 1, Presentation of Financial Statements, requires non-controlling interest to be presented as a component of shareholders' equity and excludes this item from the determination of earnings.

v. *Deferred credit*: As a result of the Conversion (note 2), under GAAP the Company recognized a deferred credit which represented the excess of the value of the deferred tax assets acquired over the amount paid to Thallion. The deferred credit was being amortized as a credit to the Company's income tax provision in proportion to the utilization of the deferred tax assets resulting from the Conversion. Under IAS 12, Income Taxes, the amount of the deferred credit would have been recognized at the time of the Conversion as a gain in the Company's consolidated statement of operations. The adjustment to derecognize the deferred credit related to the Conversion has been applied as an adjustment to retained earnings, as the Conversion occurred prior to the Transition Date.

vi. *Deferred tax effect of convertible debentures:* Under GAAP, it was deemed there were no temporary differences between the financial statement and tax bases of the convertible debentures, resulting in no deferred tax impact. Under IAS 12, Income Taxes, it is deemed there is a temporary difference between the financial statement and tax bases of the convertible debentures. Accordingly, the deferred tax impact of the convertible debentures at the date of issuance is initially recognized in the equity component of the convertible debentures, with subsequent adjustments to the temporary difference being recognized as part of the deferred income tax provision in the consolidated statements of operations.

vii. *Acquisitions transaction costs:* Under GAAP, direct and incremental costs related to business combinations were capitalized as part of the purchase price of the acquired businesses. Under IFRS 3, Business Combinations, acquisition related transaction costs are expensed as incurred.

There were no material differences between the consolidated statements of cash flows presented under IFRS and under GAAP for the fiscal year ended December 25, 2010, other than classification of certain items between operating, financing and investing activities.

4. INVENTORIES

	December 31, 2011	December 25, 2010	December 27, 2009
Raw materials	**19,917**	9,515	4,357
Finished goods	**50,994**	39,208	34,801
Equipment for sale	**9,066**	8,643	6,833
	79,977	57,366	45,991

5. CAPITAL ASSETS

	Land	Buildings	Machinery and equipment	Automotive equipment	Total
December 27, 2009					
Cost	4,091	40,792	87,985	2,205	135,073
Accumulated depreciation	–	(13,854)	(53,962)	(1,228)	(69,044)
Net book value	4,091	26,938	34,023	977	66,029
December 25, 2010					
Cost	3,889	52,450	102,519	2,568	161,426
Accumulated depreciation	–	(18,632)	(64,968)	(1,642)	(85,242)
Net book value	3,889	33,818	37,551	926	76,184
December 31, 2011					
Cost	**18,961**	**96,255**	**157,804**	**2,724**	**275,744**
Accumulated depreciation	**–**	**(23,997)**	**(81,878)**	**(1,887)**	**(107,762)**
Net book value	**18,961**	**72,258**	**75,926**	**837**	**167,982**

	Land	Buildings	Machinery and equipment	Automotive equipment	Total
Net book value as at December 27, 2009	4,091	26,938	34,023	977	66,029
Acquired through business acquisitions	–	9,584	5,345	215	15,144
Additions	25	762	4,221	99	5,107
Disposals	(210)	(1,008)	(344)	(21)	(1,583)
Depreciation	–	(2,236)	(5,632)	(342)	(8,210)
Foreign currency exchange adjustment	(17)	(222)	(62)	(2)	(303)
Net book value as at December 25, 2010	3,889	33,818	37,551	926	76,184
Acquired through business acquisitions	15,239	26,468	39,356	244	81,307
Additions	–	15,755	7,487	251	23,493
Disposals	(171)	(625)	(63)	(182)	(1,041)
Depreciation	–	(3,279)	(8,416)	(396)	(12,091)
Foreign currency exchange adjustment	4	121	11	(6)	130
Net book value as at December 31, 2011	**18,961**	**72,258**	**75,926**	**837**	**167,982**

6. INTANGIBLE ASSETS

	Brand names	Customer relationships	Customer supply agreements	Trade secrets	Total
December 27, 2009					
Cost	16,149	24,468	4,687	1,564	46,868
Accumulated amortization	–	(3,690)	(4,150)	(730)	(8,570)
Net book value	16,149	20,778	537	834	38,298
December 25, 2010					
Cost	16,711	42,357	–	1,564	60,632
Accumulated amortization	–	(5,603)	–	(1,043)	(6,646)
Net book value	16,711	36,754	–	521	53,986
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**

	Brand names	Customer relationships	Customer supply agreements	Trade secrets	Total
Net book value as at December 27, 2009	16,149	20,778	537	834	38,298
Additions resulting from business acquisitions	596	17,932	–	–	18,528
Amortization	–	(1,916)	(528)	(313)	(2,757)
Foreign currency exchange adjustment	(34)	(40)	(9)	–	(83)
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**

7. GOODWILL

	December 31, 2011	December 25, 2010
Balance – beginning of year	**141,091**	110,535
Additions resulting from business acquisitions	**11,498**	30,677
Reallocation of 2010 acquisition purchase price to deferred income taxes	**(1,560)**	–
Disposals	**(694)**	–
Foreign currency exchange adjustment	**82**	(121)
Balance – end of year	**150,417**	141,091

Goodwill has been allocated to the following business segments:

	December 31, 2011	December 25, 2010	December 27, 2009
Retail	**83,000**	73,689	56,380
Foodservice	**67,417**	67,402	54,155
	150,417	141,091	110,535

In assessing goodwill for impairment at October 1, 2011 and October 1, 2010, the Company compared the recoverable amounts, using the value in use method, of the aggregate amount of the assets included in each cash generating unit within the specific business segment to their respective carrying amounts. The recoverable amounts have been based on expected future cash flows discounted at a rate of 11%.

8. OTHER ASSETS

	December 31, 2011	December 25, 2010	December 27, 2009
Promissory note from associate	**–**	1,523	1,423
Notes receivable and employee share purchase loans	**2,199**	863	914
Other	**154**	513	108
	2,353	2,899	2,445
Less: current portion	**103**	194	180
	2,250	2,705	2,265

Notes receivable

The notes receivable bear interest at rates ranging from 0.0% to 9.0% (2010 – 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 2011 was $nil (2010 – $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
2012	11	92	103
2013	126	92	218
2014	126	92	218
2015	126	92	218
2016 and thereafter	979	640	1,619
	1,368	1,008	2,376
Future interest using the effective interest rate method	–	(177)	(177)
	1,368	831	2,199

9. 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 21), bringing its total interest to 50.7% and giving it control over SJ's operations. Correspondingly, on May 20, 2011, the Company commenced accounting for SJ using the consolidation method and ceased to account for it using the equity method.

	December 31, 2011	December 25, 2010
Balance – beginning of year	**414**	891
Equity loss in associate	**(277)**	(477)
Change in accounting to consolidation method upon acquisition of control	**(137)**	–
Balance – end of year	**–**	414

10. BANK INDEBTEDNESS

Bank indebtedness consists of borrowings on bank lines of credit. The Company has bank lines of credit totaling $63.3 million (2010 – $32.0 million); $60.0 million of these lines of credit are due in September 2014, bear interest at prime plus 0.25% to 1.5% (2010 – 0.5% to 1.5%), 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 2011 was $0.8 million (2010 – $0.6 million).

11. LONG-TERM DEBT

	December 31, 2011	December 25, 2010	December 27, 2009
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	**49,450**	40,320	12,000
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**	64,000	64,000
US$6.1 million secured Industrial Development Revenue Bond (IRB) with no principal payments until maturity in July 2036. The bond bears interest at the weekly variable rate for such bonds, which averaged 0.3165% (2010 – 0.4507%), plus 1.0% to 2.0% based on the Company's ratio of debt to cash flow calculated quarterly	**6,229**	6,163	6,424
Non-revolving term loan maturing in March 2014 with monthly principal payments starting in March 2012, bearing interest at 10%	**1,000**	–	–
Non-revolving term loans maturing in July 2020 with monthly principal payments starting in March 2012, bearing interest at the lender's variable mortgage rate, which averaged 4.0% in 2011, plus 0.5% to 1.5%	**6,808**	–	–
Unsecured notes payable, bearing interest at a rate of 0.0% to 6.5% and due in 2012 to 2013	**10,724**	21,615	930
Capital leases	**8,243**	244	229
Other	**1,683**	–	–
	184,137	132,342	83,583
Financing costs	**(940)**	(516)	(666)
Current portion	**(20,536)**	(19,822)	(8,212)
	162,661	112,004	74,705

The Company's term loans and IRB are collateralized by an assignment of inventories, accounts receivable and insurance policies, fixed charges on capital assets and a general lien on all other assets of the Company. In addition, they contain financial covenants that require the maintenance of certain ratios regarding working capital, fixed charge coverage and debt to cash flow. At December 31, 2011, the Company was in compliance with all such covenants.

During 2011, the Company incurred interest expense of $5.4 million (2010 – $5.9 million) on its long-term debt. The Company's blended average effective cost of borrowing for 2011 was 4.2% (2010 – 5.5%) after taking into account the impact of its interest rate swap contracts (note 27).

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

2012	20,536
2013	20,849
2014	129,356
2015	1,612
2016 and thereafter	11,784
	184,137

12. CONVERTIBLE UNSECURED SUBORDINATED 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

The Company also has outstanding $37.6 million of convertible unsecured debentures (7.00% Debentures) which were issued in 2009. The 7.00% Debentures are convertible into common shares of the Company at a conversion rate of approximately 68.966 shares per debenture, which is equal to a conversion price of $14.50 per share, and mature on December 31, 2014. The 5.75% Debentures and 7.00% Debentures trade on the Toronto Stock Exchange under the symbols PBH.DB.A and PBH.DB, respectively.

The change in the debt and equity components of the 5.75% Debentures and the 7.00% Debentures for 2010 and 2011 was as follows:

	5.75% Debentures		7.00% Debentures		Total	
	Debt	Equity	Debt	Equity	Debt	Equity
Balance as at December 27, 2009	–	–	36,769	919	36,769	919
Accretion of the debt component	–	–	537	–	537	–
Balance as at December 25, 2010	–	–	37,306	919	37,306	919
Issuance of the 5.75% Debentures	53,271	1,329	–	–	53,271	1,329
Deferred tax effect upon issuance of the 5.75% Debentures	–	(332)	–	–	–	(332)
Conversions of Debentures to common shares	–	–	(2,603)	–	(2,603)	–
Accretion of the debt component	732	–	690	–	1,422	–
Balance as at December 31, 2011	**54,003**	**997**	**35,393**	**919**	**89,396**	**1,916**

13. PUTTABLE INTEREST IN SUBSIDIARIES

	Current	Non-current	Total
Balance as at December 27, 2009	1,992	2,001	3,993
Puttable interest resulting from business acquisitions			8,023
Change in value of puttable interest in subsidiaries			1,450
Cash distributions to non-controlling shareholders with puttable interests			(775)
Foreign currency exchange adjustment			(39)
Balance as at December 25, 2010	**2,086**	**10,566**	**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-whollly owned subsidiary pursuant to exercise of puttable interest			(2,286)
Foreign currency exchange adjustment			6
Balance as at December 31, 2011	**–**	**15,210**	**15,210**

14. PROVISIONS FOR CONTINGENT CONSIDERATION

	Current	Non-current	Total
Balance as at December 25, 2010	–	–	–
Provisions resulting from business acquisitions			11,040
Accretion of provisions			244
Balance as at December 31, 2011	**2,924**	**8,360**	**11,284**

15. 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 31, 2011	December 25, 2010	December 27, 2009
Funded status			
Defined benefit obligation	**6,036**	5,134	5,179
Fair value of plan assets	**4,691**	4,307	4,327
Pension obligation	**1,345**	827	852

	December 31, 2011	December 25, 2010
Defined benefit obligation		
Balance – beginning of year	**5,134**	5,179
Current service costs – net of employee contributions	**348**	296
Employee contributions	**71**	68
Interest cost	**276**	288
Benefits paid	**(217)**	(334)
Actuarial losses (gains)	**424**	(363)
Balance – end of year	**6,036**	5,134
Fair value of plan assets		
Fair value – beginning of year	**4,307**	4,327
Expected return on plan assets	**291**	282
Variance on return on plan assets	**(261)**	(285)
Employer contributions	**500**	249
Employee contributions	**71**	68
Benefits paid	**(217)**	(334)
Fair value – end of year	**4,691**	4,307
Recognition of actuarial losses (gains) and variance on returns		
Actuarial loss (gain) on defined benefit obligation	**424**	(363)
Variance on return on plan assets	**261**	285
	685	(78)

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

	December 31, 2011 %	December 25, 2010 %	December 27, 2009 %
Asset category			
Equity securities	**79**	79	69
Cash and debt securities	**21**	21	31
	100	100	100

The elements of the defined benefit costs recognized for 2011 and 2010 are as follows:

	53 weeks ended December 31, 2011	52 weeks ended December 25, 2010
Current service costs – net of employee contributions	**348**	296
Interest cost	**276**	288
Expected return on plan assets	**(291)**	(282)
Defined benefit costs recognized	**333**	302

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

	December 31, 2011 %	December 25, 2010 %
Discount rate	**5.00**	5.50
Expected long-term rate of return on plan assets	**6.00**	6.50
Rate of compensation increase	**2.50**	2.50

For 2012, the Company's contributions to the Pension Plan are expected to be approximately $0.4 million.

16. DIVIDENDS

During 2011, the Company declared dividends to shareholders of $22.7 million or $1.176 per share. The record dates of these dividends were as follows:

Record date	Amount	Per share
March 31, 2011	5,376	0.294
June 30, 2011	5,380	0.294
September 30, 2011	5,958	0.294
December 30, 2011	5,958	0.294
		1.176
Dividends for 2011	22,672	
Return of dividends for cancelled shares (note 17)	(933)	
Accumulated dividends declared – beginning of year	108,758	
Accumulated dividends declared – end of year	130,497	

In December 2011, the company declared a dividend of $6.0 million to shareholders of record on December 30, 2011, which was paid subsequent to the year end, and is reported as a current liability as at December 31, 2011.

17. SHARE CAPITAL

	Common shares ('000s)	Share capital
Balance as at December 27, 2009	17,547	155,859
Common shares issued resulting from business acquisitions	641	8,908
Effect of share based compensation plans	(87)	(987)
Share issuance costs	–	(26)
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

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

During 2011, the Company issued 179,510 common shares resulting from the conversion of $2.6 million of 7.00% Debentures at the conversion price of $14.50 per share (note 12) and 1,968,750 common shares as part of the acquisition of Piller's (note 21).

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 96,584 shares held in the Company's employee benefit plan (note 19) that had not yet vested with the beneficiaries, the Company actually had 20,265,623 shares outstanding at December 31, 2011.

18. EARNINGS PER SHARE

	December 31, 2011	December 25, 2010
Net earnings attributable to shareholders	12,803	13,903
Weighted average number of shares outstanding (in thousands)	18,782	17,670
Adjustment for shares held pursuant to the employee benefit plan (in thousands)	97	158
Diluted weighted average number of shares outstanding (in thousands)	18,879	17,828
Basic earnings per share	$ 0.68	$ 0.79
Diluted earnings per share	$ 0.68	$ 0.78

The Company has two categories 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.

19. 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.

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.

20. RESERVES

	Hedge designated interest rate swap	Foreign currency translation adjustment	Share based compensation reserve	Total
Balance as at December 27, 2009	(1,091)	–	1,325	234
Unrealized gain on interest rate swap	1,091	–	–	1,091
Unrealized foreign exchange translation loss on self-sustaining foreign operations	–	(619)	–	(619)
Effect of share based compensation plans	–	–	947	947
Balance as at December 25, 2010	–	(619)	2,272	1,653
Unrealized foreign exchange translation gain on self-sustaining foreign operations	–	776	–	776
Effect of share based compensation plans	–		(987)	(987)
Balance as at December 31, 2011	–	157	1,285	1,442

21. ACQUISITIONS

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. In April 2011 the Company shut down Deli Chef's Gatineau plant (note 22).

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 of SJ. 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 and 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 preliminary estimates of 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

2010 acquisitions

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

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

On June 30, 2010, the Company completed the acquisition of 76% of the shares of Medex Fish Importing & Exporting Co. Ltd. (Maximum) for approximately $16.7 million plus $0.1 million for excess net working capital. The purchase price consisted of $12.4 million in cash, the issuance of 64,907 common shares from treasury valued at $0.8 million and $3.5 million in promissory notes (fair valued at acquisition at $3.1 million) due one to three years after closing. Maximum is a supplier of a variety of fresh and live seafood products to the Toronto, Ottawa and Montreal retail and foodservice markets.

On October 18, 2010, the Company completed the acquisition of 100% of the shares of SK Food Group Inc. (SK) for approximately US$42.2 million. The purchase price consisted of US$18.1 million in cash, the issuance of 491,898 common shares from treasury valued at US$6.8 million and US$17.3 million in vendor take-back notes payable over the next three years in equal annual installments. All of the vendor take-back notes are contingent upon SK achieving certain sales and profitability targets. SK is a manufacturer of artisan breakfast sandwiches and wraps.

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

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

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

Net assets acquired and liabilities assumed:	
Net working capital	14,387
Capital assets	15,144
Intangible assets – brand names	596
Intangible assets – customer relationships	17,932
Goodwill	30,677
Long-term debt assumed	(139)
Puttable interest in subsidiaries	(8,023)
Deferred income taxes	(3,231)
	67,343
Investment:	
Purchase consideration – cash	37,877
Purchase consideration – notes payable (face value $22.4 million)	20,558
Purchase consideration – common shares	8,908
	67,343

22. RESTRUCTURING COSTS

Restructuring costs consist of costs associated with a significant restructuring of one or more of the Company's businesses. During 2011 the Company incurred $2.8 million in restructuring costs consisting of: (i) $2.1 million in charges relating to the Company's recently acquired Deli Chef business. Included in this amount is approximately $1.8 million for severance and other costs associated with the shutdown on April 29, 2011 of Deli Chef's sandwich plant in Gatineau, Quebec; (ii) $0.5 million in redundant lease costs associated with the expansion of the Company's artisan bread capacity; (iii) $0.5 million in charges associated with the rationalization of the Company's direct-to-store delivery networks; and (iv) $0.2 million in severance and other costs relating to changes being made to SJ's business subsequent to the Company acquiring control of it (note 9). These costs were partially offset by a gain of $0.5 million resulting from sales to independent distributors of the exclusive right to sell certain of the Company's products to convenience stores in defined territories.

23. SEGMENTED INFORMATION

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

	53 weeks ended December 31, 2011	52 weeks ended December 25, 2010
Revenue		
Retail	**442,289**	248,061
Foodservice	**352,003**	287,182
	794,292	535,243
Gross profit before depreciation and amortization		
Retail	**113,354**	75,000
Foodservice	**66,307**	56,637
	179,661	131,637
Selling, general and administrative expenses before depreciation and amortization		
Retail	**72,777**	44,806
Foodservice	**45,740**	39,042
Corporate	**6,200**	5,790
	124,717	89,638
Segment earnings (loss) before depreciation and amortization		
Retail	**40,577**	30,194
Foodservice	**20,567**	17,595
Corporate	**(6,200)**	(5,790)
	54,944	41,999
Depreciation of capital assets		
Retail	**9,241**	5,685
Foodservice	**2,307**	1,922
Corporate	**543**	603
	12,091	8,210
Amortization of intangible and other assets		
Retail	**1,642**	1,023
Foodservice	**1,936**	1,739
	3,578	2,762
Segment operating earnings (loss)		
Retail	**29,694**	23,486
Foodservice	**16,324**	13,934
Corporate	**(6,743)**	(6,393)
	39,275	31,027

	53 weeks ended December 31, 2011	52 weeks ended December 25, 2010
Interest and other financing costs	**14,496**	9,994
Amortization of financing costs	**405**	295
Acquisition transaction costs	**1,594**	1,018
Change in value of puttable interest in subsidiaries	**1,828**	1,450
Accretion of provisions for contingent consideration	**244**	–
Unrealized (gain) loss on foreign currency and interest rate swap contracts	**(120)**	125
Restructuring costs	**2,819**	–
Acquisition bargain purchase gain	**(1,455)**	–
Equity loss in associate	**277**	477
Provision for income taxes	**6,088**	3,535
Earnings	**13,099**	14,133

	53 weeks ended December 31, 2011	52 weeks ended December 25, 2010
Capital asset additions		
Retail	**19,604**	3,456
Foodservice	**3,661**	1,614
Corporate	**228**	37
	23,493	5,107
Goodwill additions		
Retail	**11,498**	17,370
Foodservice	**–**	13,307
	11,498	30,677

	December 31, 2011	December 25, 2010	December 27, 2009
Total assets			
Retail	**384,723**	200,393	147,558
Foodservice	**178,997**	171,784	139,377
Corporate	**51,193**	59,676	62,687
	614,913	431,853	349,622

	53 weeks ended December 31, 2011	52 weeks ended December 25, 2010
Revenue		
Canada	**663,033**	498,539
United States	**131,259**	36,704
	794,292	535,243
Segment earnings		
Canada	**30,151**	28,443
United States	**9,124**	2,584
	39,275	31,027

	December 31, 2011	December 25, 2010	December 27, 2009
Capital assets and goodwill			
Canada	**287,491**	183,566	166,846
United States	**30,908**	33,709	9,718
	318,399	217,275	176,564

24. INCOME TAXES

The components of income tax expense are as follows:

	December 31, 2011	December 25, 2010
Current tax:		
Current tax on earnings for the year	**1,954**	1,137
Adjustments in respect of prior years	**(428)**	3
Total current tax	**1,526**	1,140
Deferred tax:		
Origination and reversal of timing differences	**4,562**	2,395
Provision for income taxes	**6,088**	3,535

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:

	53 weeks ended December 31, 2011	52 weeks ended December 25, 2010
Weighted average basic federal, provincial and state statutory income tax rate	**26.5%**	28.5%
Earnings before income taxes	**19,187**	17,668
Income tax based on statutory rate	**5,085**	5,035
Recognition of deferred tax assets related to the Conversion	**–**	(2,580)
Non-deductible expenses	**1,185**	833
Non-taxable income	**(386)**	(36)
Increase in valuation allowance	**229**	47
Adjustment for changes in enacted tax laws and rates and other	**(25)**	236
Provision for income taxes	**6,088**	3,535

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

	December 31, 2011	December 25, 2010
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	**54,530**	50,911
Deferred tax asset to be recovered within 12 months	**3,004**	3,762
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	**(15,962)**	(10,613)
Deferred tax liability to be recovered within 12 months	**(1,620)**	(1,243)
Deferred tax assets (net)	**39,952**	42,817

	December 31, 2011	December 25, 2010
Deferred tax assets (net) – beginning of year	**42,817**	48,468
Charged to the statement of operations	**(4,562)**	(2,395)
Charged to equity	**(332)**	–
Deferred tax resulting from business acquisition	**327**	(3,231)
Reallocation of 2010 acquisition purchase price from goodwill	**1,560**	–
Foreign exchange	**142**	(25)
Deferred tax assets (net) – end of year	**39,952**	42,817

As at December 31, 2011, the Company has $60.4 million (2010 – $64.0 million) of non-capital losses that may be available for deduction against taxable income in future years. These losses expire between 2014 and 2031 as follows:

2014	5
2015	972
2016	–
2017	–
2018 and thereafter	59,405
	60,382

25. JOINT VENTURES

As a result of the acquisition of Piller's (note 21), at December 31, 2011 the Company had 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.

26. COMMITMENTS AND CONTINGENCIES

a. The Company leases land, warehouses, offices and equipment under operating leases that expire from 2012 to 2028. The aggregate future minimum annual rental payments under these leases are as follows:

2012	11,357
2013	9,243
2014	7,070
2015	5,877
2016 and thereafter	28,280
	61,827

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

As a result of the recall, the Company destroyed approximately $0.4 million in products, incurred $0.4 million in disposal costs and lost approximately $0.3 million in product contribution margin due to lost sales. The Company's previous insurance provider (the Insurance Company) had attempted to deny coverage on the basis that none of the recalled products tested positive for listeria monocytogenes.

In 2011, a court ruled that the costs of the recall should be covered by the the Insurance Company. The Insurance Company has accepted this ruling and is now negotiating with the Company on a final settlement.

The amount of any insurance recovery will be recognized when determinable.

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

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 31, 2011, the Company had outstanding foreign currency contracts for the purchase of US$20.6 million over the next 12 months at a blended rate of C$1.0183, and had outstanding foreign currency contracts for the purchase of €1.4 million over the next 8 months at a blended rate of C$1.3473. As at December 31, 2011, these contracts had a fair value of $nil (2010 – $0.2 million unfavourable) and during 2011, the Company recorded in respect of these contracts an unrealized gain of $0.2 million (2010 – unrealized loss of $0.1 million) in the consolidated statements of operations.

Based on the outstanding contracts as at December 31, 2011 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 statement of operations.

Interest rate risk

All of the Company's bank indebtedness and approximately 88% (2010 - 83%) 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 earnings. As at December 31, 2011, the swaps had a fair value of $0.1 million unfavourable, and during 2011, the Company recorded in respect of the swaps an unrealized loss of $0.1 million in the consolidated statement of operations.

As at December 31, 2011, 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 $0.6 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 $0.2 million (2010 – $0.5 million) was recorded for the year.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2011:

	December 31, 2011	**December 25, 2010**
Trade accounts receivable		
Current (outstanding 1-30 days)	**62,544**	39,980
Outstanding 31-60 days	**7,283**	7,265
Outstanding 60+ days	**975**	1,617
	70,802	48,862
Allowance for doubtful accounts	**(1,379)**	(1,079)
Other receivables	**9,407**	5,024
	78,830	52,807

The change in the allowance for doubtful accounts provision for 2011 and 2010 is as follows:

	December 31, 2011	December 25, 2010
Balance – beginning of year	**1,079**	939
Net additions to allowance for doubtful accounts	**681**	494
Accounts receivable written off, net of recoveries	**(382)**	(353)
Foreign currency exchange adjustment	**1**	(1)
Balance – end of year	**1,379**	1,079

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.

28. CAPITAL DISCLOSURES

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

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

b. is able to maintain its quarterly dividend to shareholders of $0.294 per share; and

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

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

Factors that the Company considers in determining 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 31, 2011 was $43.1 million.

29. RELATED PARTY TRANSACTIONS

During 2011, 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 (2010 – $1.1 million) and is included in the consolidated statement of operations. These transactions have been recorded at an amount agreed upon by the Company and the related parties.

30. KEY MANAGEMENT COMPENSATION

	December 31, 2011	December 25, 2010
Salaries and short-term benefits	**2,094**	1,809
Post-employment benefits	**60**	57
Share-based compensation	**933**	344
	3,087	2,210

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

31. SUPPLEMENTAL CASH FLOW INFORMATION

During 2011, the Company's consideration for its acquisitions (note 21) included notes payable of $0.4 million (2010 – $20.6 million) and shares issued of $31.5 million (2010 – $8.9 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 $13.1 million (2010 – $5.6 million) and income taxes of $2.7 million (2010 – $0.2 million) during 2011.

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

	December 31, 2011	December 25, 2010
Accounts receivable	**(2,821)**	(1,744)
Inventories	**(1,399)**	(1,178)
Prepaid expenses	**(8,858)**	(664)
Accounts payable and accrued liabilities	**7,028**	6,433
	(6,050)	2,847

32. EXPENSES BY NATURE

Cost of goods sold

	December 31, 2011	December 25, 2010
Materials	**507,264**	334,343
Salaries and benefits	**57,926**	40,575
Overhead and other operating expenses	**49,441**	28,688
	614,631	403,606

Selling, general and administrative

	December 31, 2011	December 25, 2010
Salaries and benefits	**55,439**	52,581
Overhead and other operating expenses	**69,278**	37,057
	124,717	89,638

33. SUBSEQUENT EVENTS

Sandwich production restructuring

In February 2012, the Company entered into an agreement for the construction of a new 20,000 square foot sandwich production plant (the Laval plant) in a leased facility adjacent to its distribution centre in Laval, Quebec. The projected cost of the new plant is $3.4 million consisting of $3.2 million for leasehold improvements and $0.2 million for miscellaneous equipment.

Conversions of convertible debentures

Subsequent to December 31, 2011, the Company has issued 105,583 common shares resulting from the conversion of $1.5 million of its 7.00% Debentures.

INVESTOR INFORMATION

EXECUTIVE OFFICERS

George Paleologou, CA
President & Chief Executive Officer

Will Kalutycz, CA
Chief Financial Officer

Douglas Goss, QC
General Counsel & Corporate Secretary

BOARD OF DIRECTORS

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

Johnny Ciampi (1)
Director

Hugh McKinnon (2) (3)
Director

George Paleologou
Director

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

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

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Seattle, Washington

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange

TRADING SYMBOLS

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

GROWTH

QUALITY

GOURMET

FRESH

PEOPLE

EXPERIENCE

ARTISAN

SPECIALTY

COMMUNITY

VARIETY

CONVENIENCE

SUSTAINABILITY

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