



**PREMIUM BRANDS INCOME FUND**

**ANNUAL INFORMATION FORM**

**For the year ended December 31, 2007**

March 26, 2008

# Premium Brands Income Fund

## Annual Information Form

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# PREMIUM BRANDS INCOME FUND

## ANNUAL INFORMATION FORM

### ABOUT THIS ANNUAL INFORMATION FORM

This Annual Information Form ("AIF") contains important information that will help you make informed decisions about investing in Premium Brands Income Fund. It describes Premium Brands Income Fund and its operations, its prospects, risks and other factors that affect its business.

Premium Brands Income Fund carries on its business directly and through its subsidiaries and in this AIF "we", "us", "our", "Premium Brands", and the "Fund", refer collectively to Premium Brands Income Fund and its subsidiaries, unless the context specifies or implies otherwise.

This AIF is dated as of March 26, 2008.

Except as otherwise indicated, the information contained in this AIF is current as of December 31, 2007. For reporting purposes, the Fund prepares its financial statements in Canadian dollars and in conformity with Canadian generally accepted accounting principles ("GAAP"). Except as otherwise indicated, all dollar amounts in this AIF are expressed in Canadian dollars.

Words importing the singular number only include the plural and vice versa, and words importing any gender include all genders.

#### **Forward Looking Statements**

This AIF contains forward looking statements with respect to the Fund, including its business operations strategy and financial performance and condition. These statements generally can be identified by the use of forward-looking words such as "may", "could", "should", "would", "will", "expect", "intend", "plan", "estimate", "project", "anticipate", "believe" or "continue", or the negative thereof or similar variations. Although management believes that the expectations reflected in such forward-looking statements are reasonable and represent the Fund's internal expectations and belief at this time, such statements involve unknown risks and uncertainties which may cause the Fund's 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. Important factors that could cause actual results to differ materially from the Fund's expectations include, among other things: (i) seasonal and/or weather related fluctuations in the Fund's sales; (ii) changes in Canadian income tax laws; (iii) changes in the cost of raw materials used for the Fund's products; (iv) changes in the cost of products sourced from third party manufacturers and sold through the Fund's proprietary distribution networks; (v) changes in consumer discretionary spending resulting from changes in economic conditions and/or general consumer confidence levels; (vi) changes in consumer preferences for food products; (vii) competition from other food manufacturers and distributors; (viii) new government regulations affecting the Fund's business and operations; and (ix) other factors as discussed or referenced in the "*Risk Factors*" section.

The Fund disclaims any intention or obligations to revise forward-looking statements whether as a result of new information, future developments, or otherwise.

#### **Cash Distributions**

A return on an investment in units of the Fund (the "Units") is not comparable to the return on an investment in a fixed-income security. The recovery of an investment in Units is at risk, and any anticipated return on an investment in Units is based on many performance assumptions.

Although the Fund intends to make cash distributions to the holders of its Units (the "Unitholders"), these distributions are not assured and may be reduced or suspended. The ability of the Fund to make cash distributions and the actual amount distributed will be dependent upon, among other things, the financial performance of the Fund, its debt covenants and obligations, its working capital requirements and its future capital requirements. In addition, the market value of the Units may decline if the Fund is unable to meet its cash distribution targets in the future, and that decline may be significant.

It is important for a person making an investment in Units of the Fund to consider the particular risk factors that may affect both the Fund and the industry in which the Fund and its subsidiaries operates, and which may therefore affect the stability of the cash distributions on the Units of the Fund. See the "*Risk Factors*" section of this AIF which describes the Fund's assessment of those risk factors, including details of recent changes to Canadian income tax laws that will result in the taxation of distributions of income by publicly traded income trusts starting on or before January 1, 2011.

The after-tax return from an investment in Units to Unitholders that is subject to Canadian income tax can be made up of both a "return on" and a "return of" capital. That composition may change over time, thus affecting a Unitholder's after-tax return. Under the current Canadian income tax laws, returns on capital are generally taxed as ordinary income or as dividends in the hands of a Unitholder while returns of capital are generally tax-deferred (and reduce the Unitholder's cost base in the unit for tax purposes).

## **CORPORATE STRUCTURE**

Premium Brands Income Fund has its principal and head office located at 7720 Alderbridge Way, Richmond, British Columbia, V6X 2A2 and its Registered Office located at 2600 Manulife Place, 10180 – 101 Street, Edmonton, Alberta, T5J 3Y2.

Premium Brands Inc. (the "Company") began operations in British Columbia under the name Fletcher's Limited. In December, 1984 Fletcher's Limited was Continued under the Canada Business Corporations Act, and changed its name to Fletcher's Fine Foods Ltd. In June, 2000 the Company filed Articles of Amendment changing its name from "Fletcher's Fine Foods Ltd." to "Premium Brands Inc."

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated June 8, 2005, as amended and restated on July 27, 2005 (the "Fund Declaration of Trust").

The Fund was created to indirectly acquire the Company pursuant to a plan of arrangement (the "Arrangement"), which Arrangement was approved by the shareholders of the Company at an annual general and special meeting held on June 14, 2005. Pursuant to the Arrangement six new corporate entities were created: (i) the Fund; (ii) Premium Brands Holdings Trust (the "Trust"); (iii) Premium Brands Holdings Limited Partnership ("PB Holdings LP"); (iv) Premium Brands Operating Limited Partnership ("PB Operating LP"); (v) Premium Brands Holdings GP Inc. ("PB Holdings GP"); and (vi) Premium Brands Operating GP Inc. ("PB Operating GP"). The Fund holds all of the issued and outstanding units of the Trust (the "Trust Units"), as well as all outstanding Series 1 Trust Notes issued by the Trust. The Trust holds all of the Class A LP Units issued by PB Holdings LP, as well as all of the common shares issued by PB Holdings GP, the general partner of PB Holdings LP. In addition, certain former shareholders of the Company hold 600,000 Exchangeable LP Units in PB Holdings LP. PB Holdings LP holds all of the Class A LP Units of PB Operating LP, and all of the common shares and general partner notes issued by PB Operating GP. PB Operating GP holds the GP Unit, and all of the Class B LP Units of PB Operating LP, as well as all of the common shares of Premium Brands Holdings Inc. and any investment interests the Premium Brands group may have in any other corporate entities.

As set out above, the Fund currently owns all of the Trust Units and Series 1 Trust Notes. The Fund has no business other than the ownership of all of the Trust Units and Series 1 Trust Notes. As such, the Fund does not have any executive officers or employees itself.

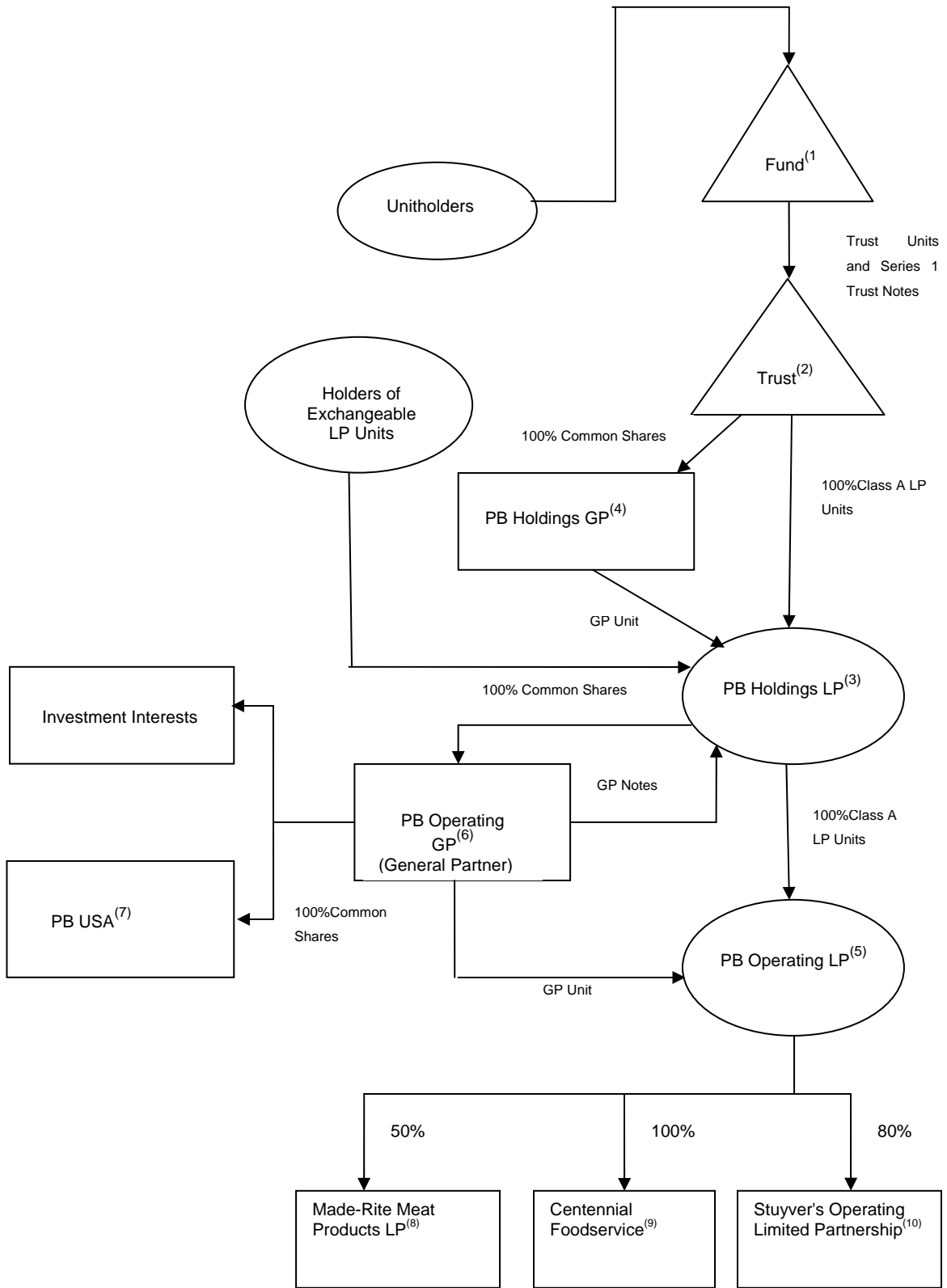
PB Operating GP is the general partner of PB Operating LP and the “Canadian operating arm” of the Premium Brands group, which consists of a broad range of branded specialty food manufacturing and distribution businesses. All executive officers involved in these businesses are executive officers of PB Operating GP.

PB Operating GP, as the general partner of PB Operating LP, is also responsible for administering the Fund and its business in accordance with the Administration Agreement made between the Fund, PB Holdings LP, the Trust, and PB Operating LP dated for reference July 27, 2005 (the "Administration Agreement"), a copy of which has been filed on SEDAR and is available on the SEDAR web site at [www.sedar.com](http://www.sedar.com), or free of charge upon written request to the Corporate Secretary of the Company at the address set out in "*Additional Information*". The board of directors of PB Operating GP, at all times, consists of the same individuals serving as Trustees of the Fund.

The Fund makes monthly cash distributions which represent the cash received from the Fund's interest in Premium Brands Holdings Trust (the "Trust"), less estimated amounts required for the payment of expenses, taxes, and cash redemptions of Units during the month.

### **Structure of the Fund**

The following diagram illustrates the organizational structure of the Fund and its principal subsidiaries.





Notes:

- (1) The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia.
- (2) The Trust is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia.
- (3) PB Holdings LP is a limited partnership established under the laws of the Province of Manitoba.
- (4) PB Holdings GP is a corporation existing under the laws of Canada.
- (5) PB Operating LP is a limited partnership established under the laws of the Province of Manitoba.
- (6) PB Operating GP is a corporation existing under the laws of Canada.
- (7) "PB USA" means Premium Brands Holdings Inc., a corporation formed under the laws of the State of Washington.
- (8) Made-Rite Meat Products LP is a limited partnership established under the laws of the Province of Alberta.
- (9) Centennial Foodservice is a limited partnership established under the laws of the Province of Saskatchewan. PB Operating LP owns 99% of the limited partnership directly, and the remaining 1% is held through its interest in Centennial General Partner Inc. (an Alberta corporation), which is owned 100% by PB Operating GP.
- (10) Stuyver's Operating Limited Partnership is a limited partnership established under the laws of the Province of Alberta.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

Since 2001 the Fund has been implementing a strategy focused on reallocating capital from non-core and/or lower margin commodity food businesses to specialty food and distribution businesses. As part of this process the Fund has divested itself of its fresh pork, salad, label printing and commodity processed meats operations and has invested capital in businesses such as Direct Plus, the leading refrigerated direct-to-store distributor to convenience stores, gas stations and other specialty retailers in Western Canada; Hygaard Fine Foods, a leading manufacturer of fresh and pre-packaged sandwiches and burgers; Harvest Meats, a premium smoked sausage and meat snack manufacturer; Harlan Fairbanks, the largest provider of concession products and equipment to independent foodservice operators in Western Canada; and, most recently, Centennial Foodservice, the largest specialty distributor of high quality "center-of-the-plate" protein products to the foodservice industry in Western Canada.

Over the past four years, the following significant events and transactions have taken place:

### **2004**

In March 2004 the Fund sold a mainstream processed meats production facility located in Vancouver, BC as part of a sale and leaseback transaction for net proceeds of \$8.5 million. As part of the transaction, the Fund entered into a ten year lease of the facility at \$810,000 per year.

In July 2004 the Fund completed the acquisition of Hygaard Fine Foods Ltd., a Western Canadian based manufacturer and distributor of fresh and pre-packaged sandwiches and burgers with annual sales of approximately \$13.0 million, for \$6.8 million.

Also in July 2004 the Fund completed the acquisition of an additional 10% interest in its subsidiary, Quality Fast Foods, for \$1.0 million. Quality Fast Foods is the largest manufacturer of pre-packaged sandwiches and burgers in Western Canada.

In October 2004 the Fund sold its Vancouver, B.C. and Algona, Washington mainstream processed meats operations (the "Mainstream Operation") for gross proceeds of approximately \$24.7 million. As part of the transaction, the lease resulting from the sale and leaseback of the Vancouver, BC plant in March 2004 was assigned to the purchaser of the Mainstream Operation.

In November 2004 the Fund completed the second major expansion of its Yorkton, Saskatchewan processing plant bringing the total size of this facility to 103,000 square feet. This expansion provided Premium Brands with additional state-of-the-art meat snack production capacity.

Also in November 2004 the Fund initiated a process to divest itself of its Goodlife Foods retail operation and, accordingly, classified it as a discontinued operation.

In December 2004 the Fund sold its 80% interest in Action West Marketing Inc., a small food brokerage firm located in Algona, Washington, for net proceeds of US\$274,000, consisting of US\$118,000 in cash and a note for US\$155,000.

### **2005**

In February 2005 label producer Tapp Technologies Inc. ("Tapp") completed a financial restructuring that resulted in the Fund's 20% interest in Tapp being converted to a \$3.0 million, non-interest bearing subordinated note due in December 2009.

In March 2005 the Fund completed a refinancing of its banking facilities in order to increase its available credit facilities. As part of the refinancing the Fund added \$10.7 million in term debt

which was used to reduce the amount advanced on its operating line by \$5.1 million, and the amount advanced on a \$14.7 million revolving term facility by \$5.6 million. In addition, the Fund extended the maturity dates on its term and revolving term loan to September 30, 2008.

Also in March 2005 the Fund announced that it had appointed a special committee to oversee a proposed conversion into a publicly traded income trust.

In May 2005, Premium Brands completed the acquisition of Harlan Fairbanks for approximately \$12.9 million in cash and 1,274,000 common shares. Harlan Fairbanks is the largest provider of products and equipment to independent foodservice concession operators in Western Canada, serving over 8,000 customers, including hotels, restaurants, recreation facilities and carnivals.

In June 2005, the Company completed the acquisition of the remaining 10% non-controlling interest in Quality Fast Foods for \$1.5 million in cash and 18,182 common shares.

In July 2005, the Company announced the completion of a plan of arrangement pursuant to which it was converted from a corporate entity to an income trust. All outstanding common shares of the Company were exchanged for Units of the Fund and Exchangeable Units (which are exchangeable into Fund Units on a one-for-one basis) issued by a subsidiary of the Fund. Immediately following the income trust conversion the Fund's Units began trading on The Toronto Stock Exchange under the symbol "PBI.UN". A copy of the Arrangement Agreement dated June 13, 2005 and the Arrangement Amendment Agreement dated July 14, 2005 have been filed on the System for Electronic Data Analysis and Disclosure ("SEDAR"), and are available at [www.sedar.com](http://www.sedar.com).

Concurrent with the plan of arrangement the Fund issued 3,275,000 Fund units in an initial public offering at a price of \$10.70 per unit for gross proceeds of \$35.0 million and incurred issuance costs of \$3.9 million. Concurrent with the initial public offering, a significant unitholder of the Fund undertook a secondary offering of 639,307 Fund units. The Fund received no proceeds on the sale of these units. A copy of the Fund's Prospectus with respect to this initial public offering dated July 15, 2005 has been filed on SEDAR, and is available at [www.sedar.com](http://www.sedar.com).

Also, concurrent with the plan of arrangement the Fund restructured its bank debt resulting in its previous debt facilities being replaced by: (i) a \$25.0 million revolving facility to be used for general business purposes including minor capital expenditures and acquisitions; (ii) a \$22.0 million non-revolving facility to be used to replace existing term debt; and (iii) a \$7.0 million non-revolving facility to be used to fund project capital expenditures and acquisitions (jointly the "new credit facilities"). The new credit facilities mature in July 2008 and have no interim principal payments. A copy of the Loan Agreement dated July 27, 2005 between Premium Brands Operating Limited Partnership, the various lenders, and the Bank of Montreal has been filed on SEDAR, and is available at [www.sedar.com](http://www.sedar.com).

## **2006**

In February 2006, the Fund merged its U.S. based meat snack operation with Hempler Enterprises, Inc., a specialty sausage and premium processed meats manufacturer based in Bellingham, Washington, resulting in a new entity Hempler Foods Group LLC ("Hempler's"). Under the terms of the merger, both the Fund and Hempler Enterprises, Inc. each moved their respective U.S. production facilities into a new 28,000 square foot facility located in Ferndale, Washington in exchange for a 50% interest in Hempler's.

In April 2006, the Fund acquired an additional 10% interest in Hempler's for US\$580,000, increasing its total interest to 60%.

Also in April 2006 the Fund completed the acquisition of a 50% interest in Made-Rite Meat Products LP (Made-Rite) for \$0.9 million in cash. Made-Rite is a supplier to the Fund of meat snack products.

In May 2006 the Fund completed the acquisition of Gloria's Catering for \$0.8 million in cash and a \$0.2 million note payable in May 2009.

In June 2006 the Fund completed the acquisition of Pop's E-Z Popcorn & Supply (Pop's E-Z) for \$0.6 million in cash and a \$0.4 million note payable in four equal annual instalments. Pop's E-Z is a distributor of concessionary equipment and related products to customers in Western Washington.

In July 2006 the Fund issued a US\$6.1 million industrial revenue bond ("IRB"), the proceeds of which were used as long term financing for Hempler's new 28,000 square foot production facility located in Ferndale, Washington. The IRB is a low cost financing instrument available in the U.S. for U.S. based capital projects that meet certain conditions.

Also in July 2006 the Fund shut down its Goodlife Foods discontinued operation and by the end of 2006 had liquidated primarily all of Goodlife Food's assets.

In October 2006 the Fund issued 2,444,280 Units in a public offering at a price of \$11.60 per unit for gross proceeds of \$28.4 million and incurred issuance costs of \$1.8 million.

In November 2006 the Fund implemented a normal course issuer bid to purchase for cancellation up to 5% or 842,195 of its publicly traded units.

In December 2006 the Fund completed the acquisition of Creekside Custom Foods (Creekside) for \$4.0 million in cash. Creekside is a manufacturer and distributor of a variety of "grab-and-go" fresh food items in Southern B.C. and owns the Bread Garden brand name.

## **2007**

In July 2007 the Fund completed the acquisition of Centennial Foodservice for \$84.7 million. Centennial is Western Canada's leading specialty distributor of high quality "center-of-the-plate" protein products to the foodservice industry. A Business Acquisition Report Form 51-102F4 has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) with respect to this acquisition and is available online at [www.sedar.com](http://www.sedar.com).

Concurrent with the Centennial acquisition, the Fund restructured a portion of its debt resulting in its main syndicated debt facilities being replaced by: (i) a \$22.0 million revolving facility to be used to fund working capital needs and general business purposes; (ii) a \$64.0 million non-revolving facility to be used to fund the Centennial acquisition; and (iii) a \$40.0 million revolving facility to be used to fund the Centennial acquisition (\$20.0 million) and future project capital expenditures and acquisitions.

In August 2007 the Fund completed the acquisition of an 80% interest in Stuyver's Bakestudio for \$7.1 million. Stuyver's is a Western Canada based specialty bakery focusing on artisan breads and other baked goods.

## **2008**

There have been no significant developments to date in 2008.

## DESCRIPTION OF THE BUSINESS

### Transformation to a Branded Specialty Food and Distribution Company

The Company was founded in 1917 in Vancouver, British Columbia and initially carried on business under the name "Fletcher's" and later "Fletcher's Fine Foods Ltd.". Fletcher's Fine Foods Ltd. completed an initial public offering in November 1996 and began trading on the Toronto Stock Exchange ("TSX") under the symbol FFF. In 2000, the then controlling shareholder, a large vertically integrated grain company, made a strategic decision to divest its controlling interest in the Company, which had until that time been considered an important vehicle for vertical integration with its grain and livestock businesses. Coincident with this decision, the Company's name was changed to Premium Brands Inc.

The sale by the former controlling shareholder of its interest in the Company in 2001 allowed management the opportunity to pursue a new strategic vision: the transformation from an integrated, commodity-based meat company into a branded specialty food manufacturing and distribution business. Over the past six years, Premium Brands has created a unique food business platform by exiting non-core and lower margin commodity food businesses and re-investing the capital in:

- **Specialty food businesses with strong brands and leading niche market positions.** In general terms, the differentiated nature of these businesses' products, combined with their strong brand names and niche market focus, enable them to earn higher and more consistent selling margins; and avoid competing with major food manufacturers that produce and distribute mainstream food products on a larger scale. The Fund defines specialty food products as those where the consumer's purchasing decision is based primarily on factors other than price, such as quality, convenience, product consistency, health and/or lifestyle.
- **Differentiated food distribution networks that compliment the Fund's specialty food businesses.** These networks generate higher margins by offering their customers unique service and product solutions that differentiate them from distributors who are primarily focused on logistics. Furthermore, they enable the Fund to generate and sustain additional margin by providing its specialty food businesses with direct proprietary access to a diversified customer base. The Fund's current distribution networks service approximately 25,000 customers, including convenience stores, gas bars, restaurants, delicatessens, small specialty grocery chains, hotels and institutions, across primarily Western Canada.

Through this transition Premium Brands has sold approximately \$170 million of non-core assets and investments, invested considerable capital in new and existing specialty food and distribution businesses and significantly improved its margins and overall profitability. Corresponding with these changes on July 27, 2005, pursuant to a plan of arrangement, Premium Brands converted to an income trust through the acquisition by the Fund of 100% of the shares of the Company in exchange for units of the Fund and exchangeable units (which are exchangeable into Fund units on a one for one basis) issued by a subsidiary of the Fund.

Immediately following the income trust conversion the Fund's units commenced trading on the TSX under the symbol PBI.UN.

## **Competitive Advantages**

Premium Brands has developed a number of competitive advantages that management believes will enable it to continue to generate stable revenue and cash flows, including the following:

### *Focus on Branded Specialty Food Products*

There are three key elements to this competitive advantage:

- i. The Fund is able to avoid competing directly with large, multi-national, mainstream food product-focused companies as it believes that the business models and organizational competencies required to compete effectively in the specialty food segment are more consistent with those of smaller, regionally focused companies.
- ii. As an owner of a number of specialty food businesses, each operated on a semi autonomous basis, Premium Brands is able to maintain a regional specialty focus while at the same time gaining competitive advantages over other smaller specialty food businesses by using its overall size to generate economies of scale for purchasing and distribution, as well as additional resources for marketing and promotion.
- iii. The specialty food segment is benefiting from a number of prevailing consumer trends, including the trend to convenience and snacking; increased demand for specialty, premium and gourmet products; increased consumer awareness of the health attributes of food products; and increased consumer demand for foods that are both fresh and convenient.

### *Leading Brands*

The Fund's specialty food businesses sell their products under a variety of proprietary brands, many of which are recognized as the leading, high-quality brand within a specialty food segment (see “– *Proprietary Brands and Trademarks*”). These brands provide a significant competitive advantage as consumer brand recognition is a critical component in the successful marketing of specialty food products.

### *Proprietary Distribution Networks*

The Fund has three proprietary distribution networks that provide its specialty food businesses with direct access to a diverse customer base of approximately 12,000 retailers and 13,000 foodservice customers. As a result no single customer of the Fund accounts for more than 5% of its sales, and the Fund's top 10 customers as a group accounts for less than 24% of the Fund's sales. Management believes this level of customer diversification is unique among North American food manufacturers.

In addition, as shown below, each of the Fund's proprietary networks, which sell both the Fund's products as well as those of third party manufacturers, provide customers with differentiated product / service solutions that further enhance the size and sustainability of the Fund's margins.

### Direct Plus Food Group

The Fund's Direct Plus business operates the largest refrigerated direct-to-store distribution (“DSD”) network of its type in Western Canada, servicing approximately 12,000 delicatessens, small specialty grocery chains, convenience stores and gas bars on a weekly or bi-weekly basis. This network not only provides a logistical solution to its customers but also a variety of valuable support services, including product promotion and development programs, in-store merchandising and inventory management.

Direct Plus' DSD network includes 251 trucks consisting of its own fleet of 122 trucks and 129 trucks owned and operated by regional third-party DSD service providers that Direct Plus sells to in order to maximize its market penetration and provide better service to its large multi-unit customers.

As a result of the scale and market position of Direct Plus' DSD network, access to its full customer base is difficult and creates a significant barrier to entry for competing specialty food manufacturers. Accordingly, in many cases, Direct Plus is in the unique position of controlling both the content and the pipeline in a number of segments of the retail specialty foods market.

### Centennial Foodservice

The Fund's Centennial business is Western Canada's largest specialty distributor of high quality "center-of-the-plate" protein products to restaurants, hotels, schools and hospitals. By focusing on a niche product segment of the foodservice market, namely protein, with unique, quality focused, branded product programs, Centennial is able to differentiate itself from broadline foodservice distributors who are more focused on providing customers with logistics solutions.

Centennial further differentiates itself by providing fresh portion cutting and other value added services to its customers at each of its eight distribution facilities located across western Canada.

Centennial's distribution network includes eight distribution centres and its own fleet of 33 trucks.

### Harlan Fairbanks

Harlan operates the largest distribution network supplying western Canada independent concession operators with a full line of concession equipment, supplies and service. By offering vendors all three elements, Harlan not only improves the economics of selling to smaller concession operators but is also able to create unique selling programs.

Harlan's distribution network includes eight distribution centres and its own fleet of 15 trucks.

### **Growth Strategy**

Management believes that the Fund is well-positioned to benefit from the numerous positive trends impacting the North American food industry and intends to grow its business and cash flows by building on its leading market positions in both its specialty food manufacturing and marketing operations and its proprietary food distribution networks. Specific growth strategies include:

#### *Expand Product Offering and Brand Portfolio*

Premium Brands' specialty food businesses will continue to develop new products and invest further in their portfolios of leading brands. They have consistently been able to bring new and innovative food products to market in response to emerging market trends and unsatisfied market demand.

Furthermore, the Fund is able to utilize its proprietary distribution networks to generate customer feedback that can be used to identify market trends and product development opportunities; and for testing new products without incurring significant listing or other fees often associated with selling a new product through a large format retailer.

### *Leverage Proprietary Distribution Networks*

Over the past five years, Premium Brands has expended considerable financial capital and management effort in developing proprietary distribution networks that provide access to a diverse base of retail and foodservice customers. Having developed this infrastructure, the Fund is now in a position to leverage its capacity and scaleable systems to generate additional sales from sources that include: (i) products manufactured by the Fund's specialty food businesses; (ii) products produced under co-packing arrangements and sold under the Fund's brands; (iii) products sold under third-party manufacturers' brands; and (iv) products of any companies that are acquired by Premium Brands. As a result, Premium Brands is positioned to grow sales without the need for significant capital expenditures on distribution infrastructure.

### *Expand into New Geographic Markets*

The Fund intends to generate growth over the next several years from initiatives aimed at growing its market share in Central Canada and the Western United States. A key driver for this growth will be the extension of the Fund's existing brands and distribution capabilities into these geographic markets.

### *Pursue Strategic Acquisitions*

As it has successfully done in the past, the Fund intends to continue to actively pursue opportunities to acquire businesses that expand its portfolio of specialty food products, customer base, distribution capabilities and/or geographic reach. As in the past, management will utilize a disciplined approach to acquisitions, looking for businesses with strong brands, leading market positions, excellent management teams and the potential for synergies.

The Canadian specialty food segment, as well as the distribution segments that the Fund competes in, are highly fragmented and management believes there to be numerous attractive acquisition candidates.

### **Products**

Premium Brands' broad range of businesses offer a wide selection of specialty food products with approximately 64% of its sales coming from products sold under one of the proprietary brands owned and controlled by the Fund, 24% of its sales coming from products sold under a third-party brand and the balance of its sales coming from products sold on an unbranded basis.



The following is a summary of the Fund's sales, by product category and by reporting segment (see "Reporting Segments") for 2007 and 2006:

**Sales by Product Category**  
(in millions of dollars)

Product Category	2007	% of Sales	2006	% of Sales
<b>Retail segment:</b>				
Meat snacks	53.9	16.5%	48.2	22.2
Smoked sausage and deli meats	41.5	12.7%	38.7	17.9
Sandwiches	36.5	11.2%	32.4	15.0
Premium processed meats	27.9	8.5%	24.7	11.4
Mainstream processed meats	17.0	5.2%	15.4	7.1
Baked goods	15.4	4.7%	10.1	4.7
Other	12.3	3.8%	10.5	4.8
<b>Foodservice segment:</b>				
Beef	38.1	11.7%	0.0	0.0
Concession products and equipment	28.1	8.6%	26.6	12.3
Pork	22.2	6.8%	9.5	4.4
Poultry	14.4	4.4%	0.0	0.0
Seafood	9.3	2.9%	0.0	0.0
Other	9.8	3.0%	0.4	0.2
<b>Net sales</b>	<b>326.4</b>	<b>100.0%</b>	<b>216.5</b>	<b>100.0</b>

## Customers

Premium Brands' customers can be grouped into three basic categories:

- Chains and Large Format Stores.** This category includes large national and regional grocery chains (e.g. Loblaws, Sobeys, Safeway, Overwaitea) and warehouse clubs (e.g. Costco) that predominantly receive deliveries from the Fund's specialty food businesses at centralized warehouses and take responsibility for all activities from that point forward, including delivery to individual stores, inventory management, store display and promotional activities. The relationships with these retailers tend to be centralized (i.e., at the corporate level, not the store level) and include formal marketing arrangements such as listing fees, rebate programs, in-store promotional costs and co-op advertising fees. The supply of products to these retailing formats tends to be dominated by large, multi-national, mainstream-focused food manufacturers.
- Independent and Specialty Retailers.** This category includes direct and indirect sales to retailers such as independent grocery and general stores, convenience stores (e.g. 7-Eleven, Mac's), gas bars (e.g. Shell, Petro-Canada, Esso), drug stores (e.g. Shopper's Drug Mart, Pharma Plus), and a variety of specialty food retailers (e.g. Whole Foods Market, Choices). A significant portion of these sales are through the Fund's Direct Plus proprietary distribution network as these customers often rely on Direct Plus for a variety of support services, including product promotion and development programs, in-store merchandising and inventory management.

The Fund's relationships with these retailers are at both the store and, where applicable, corporate levels. Both smaller and regional food manufacturers and distributors can compete more effectively in this customer category.

- Foodservice.** This category includes direct and indirect sales to commercial foodservice operators whose primary business is food and beverage service, such as restaurants, bars, concessions and caterers, and non-commercial foodservice operators whose

primary business is something other than food and beverage, but includes some component of foodservice, such as hotels, recreation facilities, schools and hospitals.

Direct sales, which account for the vast majority of the Fund's foodservice sales, are made through the Fund's Harlan and Centennial proprietary distribution networks. Direct sales foodservice customers often rely on the Fund's distribution networks for differentiated product solutions as well as a variety of support services, including menu planning, portion cutting, equipment purchase/lease options, and equipment service programs. Relationships with these customers is at both the store and, where applicable, the corporate levels.

The Fund's indirect sales are through large broadline distributors who purchase a very wide variety of products from a variety of food and non-food manufacturers and then warehouse, market, sell and deliver them to foodservice customers. In general terms the Fund's relationship with respect to these sales tends to be with the broadline distributor and not the end foodservice customer.

The following is a summary of the Fund's 2007 sales, by reporting segment (see "Reporting Segments"), to each of the different customer categories:

**Sales by Customer Category**  
(in millions of dollars)

<b>Product Category</b>	<b>2007</b>	<b>% of Total Sales</b>
<b>Retail segment:</b>		
Independent and Specialty Retailers	128.8	39.5%
Chains and Large Format Stores	67.4	20.6%
Other	8.3	2.6%
	<u>204.5</u>	<u>62.7%</u>
<b>Foodservice segment:</b>		
Foodservice – Direct	112.1	34.3%
Foodservice – Indirect	8.6	2.6%
Other	1.2	0.4%
	<u>121.9</u>	<u>37.3%</u>
<b>Net sales</b>	<u>326.4</u>	<u>100%</u>

### Sales and Marketing Activities

Premium Brands has a variety of sales and marketing structures, each of which is designed for the specific type of customers that it services.

#### *Independent and Specialty Retailers*

The majority of the Fund's sales to independent and specialty retailers are through its Direct Plus proprietary DSD network. This network includes a proprietary fleet of 122 trucks with commission-based drivers and sales representatives who are responsible for selling, delivering and merchandising products directly to these customers. In addition, the network includes regional third-party DSD service providers with a combined fleet of 129 trucks that Direct Plus sells to in order to maximize its market penetration.

#### *Chains and Large Format Stores*

Sales to chains and large format stores are managed by account representatives who generally represent only one of the Fund's specialty food businesses or brands. This creates additional

points of contact with the customer and helps to avoid margin pressure associated with consolidated buying. Furthermore, it ensures that sales representatives fully understand the points of differentiation for the products they represent.

#### *Foodservice - Direct*

Direct foodservice sales are primarily conducted through the Fund's Centennial and Harlan distribution networks.

Sales through the Centennial network are managed primarily through commission based sales representatives who call on customers both at the store and, where applicable, the corporate level.

Sales through the Harlan network are mainly managed by a combination of telemarketers, who accept and solicit orders from existing customers, and sales representatives, who focus mostly on new selling opportunities.

#### *Foodservice - Indirect*

Indirect foodservice sales to large broadline distributors are primarily conducted through the Fund's corporate foodservice group, "E1even", which represents all of the Fund's brands. E1even is also focused on developing direct-selling relationships with large regional and national restaurant chains that rely on broadline foodservice distributors for logistics.

Sales to broadline distributors and restaurant chains are managed by account representatives and the products generally delivered to a broadline distributor's central warehouse, from which they are then distributed to end user locations.

### **Suppliers and Raw Materials**

Approximately 45% of the Fund's sales are from products manufactured by its specialty foods businesses, with the balance from products sourced from a variety of third-party manufacturers.

#### *Internally Manufactured Products*

Of the 45% of the Fund's sales from products produced internally, approximately 90% are sold under one of the Fund's brand names, 7% under one of the Fund's customer's brand names and 3% as unbranded products. The production of these products requires a variety of raw materials, all of which are readily available through brokers and directly from other manufacturers.

The following table outlines the Fund's most significant raw material / commodity purchases for 2007:

**Raw Material / Commodity Purchases**  
(in millions of dollars)

Product Category	Purchases	% of Sales
Manufacturing:		
Pork	25.2	7.8%
Beef	13.3	4.1%
Corrugated packaging	10.8	3.3%
Bread	5.7	1.7%
Poultry	5.5	1.7%
Cheese	3.8	1.1%
Energy costs	2.5	0.8%
Distribution:		
Beef	58.7	18.0%
Pork	14.4	4.4%
Poultry	17.8	5.5%
Cheese	3.0	0.9%
Fuel	2.2	0.7%

The Fund's margins are subject to cyclical trends in the above commodities. However, in general terms, the Fund is able to mitigate the impact of increases in the price of a commodity due to its limited exposure to any single commodity and its ability to pass on increased costs to its customers by raising selling prices.

*Products Sourced From Third-Party Manufacturers*

Approximately 55% of the Fund's sales consist of products sourced from a variety of third-party manufacturers with about 44% of these products being sold under one of the Fund's brand names, 38% being sold under one of the Fund's customer's brand names and 18% being sold as unbranded products.

In general terms, the third party sourced products that are sold under one of the Fund's brand names are differentiated, value-added items and, as a result, have limited commodity risk associated with them. The remaining third party sourced products are generally sold based on a targeted percentage mark-up to the cost of the product, which results in relatively stable margins.

**Research and Product Development**

A core part of the Fund's strategy is the development and introduction of new products. New product development is not the responsibility of a specific department but is, instead, a function that is undertaken by each of the Fund's specialty food and distribution businesses.

Most new products are developed as a direct response to consumer demand for a particular product. The Fund's businesses identify these opportunities as well as other emerging trends through frequent and consistent interaction with the Fund's 25,000 customers in the retail and foodservice segments and by attending various food show events across North America and Europe.

To minimize the risks associated with the introduction of new products, the Fund has often been able to successfully use its proprietary distribution networks to generate consumer demand prior to incurring the promotion and listing fees associated with selling new products to chains and large format stores.

## Manufacturing and Production Facilities

Approximately 45% of the Fund's products are manufactured by its own specialty food businesses. In addition, the Fund's proprietary distribution networks have 17 distribution centres through which they handle products manufactured by the Fund's specialty foods businesses as well as products of third-party manufacturers. The following table describes the Fund's significant production facilities and distribution centres:

Facility	Lease Expiry	Operations	Size (sq. ft.)
Richmond, BC	January 31, 2011	European deli meats and meat snacks	70,000
Surrey, BC	Owned	Direct Plus distribution centre	66,000
Burnaby, BC	December 31, 2010	Artisan breads and baked goods	29,200
Richmond, BC	July 31, 2021	Centennial distribution centre <sup>(1)</sup>	28,600
Delta, BC	June 30, 2011	Harlan distribution centre	13,200
Vancouver, BC	July 31, 2008	Fresh sandwiches and pastries	11,400
Victoria, BC	Owned	Centennial distribution centre <sup>(1)</sup>	10,200
Kelowna, BC	May 20, 2010	Centennial distribution centre <sup>(1)</sup>	8,500
Prince George, BC	Owned	Centennial distribution centre <sup>(1)</sup>	7,800
Nanaimo, BC	February 28, 2012	Harlan distribution centre	7,500
Edmonton, AB	July 29, 2012	Fresh and pre-packaged sandwiches and burgers	40,000
Edmonton, AB	December 31, 2022	Centennial distribution centre <sup>(1)</sup>	32,100
Edmonton, AB	Owned	European deli meats	25,000
Edmonton, AB	Owned	Pre-packaged sandwiches and burgers	22,000
Calgary, AB	December 31, 2016	Harlan / Direct Plus distribution centre	20,000
Calgary, AB	January 31, 2012	Centennial distribution centre <sup>(1)</sup>	19,900
Edmonton, AB	August 31, 2010	Harlan distribution centre	13,100
Yorkton, SK	Owned	Premium processed meats and meat snacks	103,000
Regina, SK	July 31, 2009	Harlan distribution centre	8,000
Saskatoon, SK	April 30, 2010	Harlan distribution centre	7,900
Regina, SK	Owned	Centennial distribution centre <sup>(1)</sup>	7,800
Saskatoon, SK	June 30, 2012	Centennial distribution centre <sup>(1)</sup>	6,600
Winnipeg, MB	January 21, 2011	Harlan / Direct Plus distribution centre	20,000
Seattle, Washington	January 31, 2010	Harlan distribution centre	10,000
Ferndale, Washington	Owned	Meat snacks and premium processed meats	28,000

(1) Facility also has a custom cutting operation that provides portion cutting services and produces a variety of value added fresh protein products.

## Human Resources

The Fund currently employs approximately 1,584 employees, including both union and non-union hourly and salaried employees. The following table provides a breakdown of the number of employees, by reporting segment (see "Reporting Segments"), involved in the various parts of its business:

Category	Number of Employees		
	Retail Segment	Foodservice Segment	Corporate
Production	804	139	0
Sales and distribution	202	182	0
Administration	98	88	18
Management	30	19	4
Total	1,134	428	22

The Fund has in place the following labour contracts for non-management employees:

Number of Employees	Operation	Employee Organization	Contract Expiry Date
179	Deli meats – Richmond, BC	Union	May 31, 2008
181	Processed meats – Yorkton, SK	Association	May 31, 2008 <sup>(1)</sup>
27	Centennial – Calgary, AB	Union	November 30, 2008
14	Centennial – Kelowna, BC	Union	December 8, 2008
78	Centennial – Richmond, BC	Union	August 31, 2009
32	Direct Plus – Surrey, BC	Union	March 31, 2010
51	Deli meats – Edmonton, AB	Association	July 31, 2010

- (1) The Fund has negotiated a new labour contract with the Yorkton plant's employee association that expires on December 31, 2012. This contract is, however, subject to ratification by the members of the Yorkton plant's employee association.

To date, there have not been any major labour disruptions at any of the Fund's specialty foods businesses or distribution networks. Management believes that current labour relations are excellent and does not anticipate labour disruptions in the foreseeable future.

## Proprietary Brands and Trade Marks

Premium Brands markets products under a number of proprietary brands. In the retail channel, these include:

McSweeney's	#1 shelf stable meat snack brand in Canada in the convenience store channel
Grimm's	#1 pepperoni brand in Western Canada in the retail channel
Harvest	#1 specialty smoked sausage brand in Western Canada in the retail channel
Quality Fast Foods	#1 pre-packaged sandwich brand in Western Canada
Hygaard	#1 fresh sandwich brand in Alberta in the convenience store channel and #2 pre-packaged sandwich brand in Western Canada
Bread Garden	#1 brand in the fresh "grab-and-go" category in the Greater Vancouver Region
Hempler's	#1 specialty smoked sausage brand for niche food retailers in the State of Washington

In the foodservice channel, the Fund's proprietary brands include: Gourmet Ground (coffee), Glacial Ground (iced cappuccino), Centennial (a variety of high quality protein products), Canterbury Beef (a line of differentiated beef products), Wild Dave's (burger patties), Arctic Mist (ice cream accessories) and Nonna's Secreto (pasta and sauces).

The Fund also has exclusive use in certain defined markets of several leading third party brands including: Slush Puppy (slush drinks) and Sterling Silver (high end steak and other beef products).

### **Regulatory Environment and Food Safety**

A number of government agencies in Canada and in other markets where the Fund sells its products regulate the processing, packaging, distribution, advertising and storage of food products. The Canadian Food Inspection Agency ("CFIA") requires facilities that ship meat products outside of their home jurisdiction to meet specific food handling procedures, including temperature-controlled rooms and segregation of products.

The Fund's pre-packaged sandwich, meat snack, deli meat and premium processed meat plants are all accredited under the Hazard Analysis Critical Control Point ("HACCP") program and comply with CFIA requirements. In addition, the Fund's Vancouver, BC fresh sandwich and pastry plant is HACCP compliant and has applied for HACCP certification; and its Burnaby, BC artisan bakery is HACCP compliant and GFTC (Guelph Food Technology Centre) certified.

HACCP is the operational component of broader programs like Total Quality Management and ISO 9000 and sets standards for quality control throughout the production process.

Each of the Fund's specialty food businesses have designated employees who specialize in food testing and other regulatory compliance matters. The Fund's policy is to ensure that all of its products meet or exceed the regulatory safety standards.

### **Competition**

The number of competitors and the degree of competition within the North American food industry varies greatly by product segment and region.

Competitors to the Fund's specialty food businesses tend to be smaller, often regionally focused companies. Furthermore the specialized knowledge and expertise required in the production of specialty foods, along with the important role that brand recognition plays in the marketing of them, generally creates a significant barrier to entry for new competitors.

In certain product categories, such as premium processed meats, the Fund's specialty food businesses also compete indirectly with larger national and international manufacturers selling generally lower priced mainstream products.

Competitors to the Fund's proprietary distribution networks also tend to be smaller, more regionally focused companies. Furthermore, the large geographical area of Western Canada relative to its small population base creates certain logistical challenges that act as a significant barrier to entry for new competitors. In some cases, regional operators are loosely affiliated through larger buying groups, which somewhat enhance their buying power and competitive positions.

The Fund's distribution networks also indirectly compete with larger distribution businesses, such as retail wholesale distributors and broadline foodservice distributors, who are more focused on providing low cost logistics than differentiated products and services.

## **Seasonality**

The Fund's operations are based primarily in western Canada and its quarterly results are subject to fluctuations associated with seasonal changes in consumer demand in this region. In general terms, results are weaker in the first quarter due to poor weather conditions and reduced consumer spending in general, peak in the spring and summer months due to favourable weather conditions that result in increased outdoor activities and travelling and in turn higher consumer demand for the Fund's products, and decline in the fourth quarter due to poor weather conditions.

## **Reporting Segments**

The Fund has the following two reporting segments as defined under GAAP:

### *Retail*

The Retail segment includes the Fund's specialty manufacturing businesses (such as Harvest, Grimm's, Hygaard and Quality Fast Foods) and its Direct Plus retail proprietary distribution network. Substantially of the Retail segment's external sales are to retailers, including delicatessens, small specialty grocery chains, convenience stores, gas bars, large national and regional grocery chains and warehouse clubs.

### *Foodservice*

The Foodservice segment includes the Fund's Centennial, Harlan Fairbanks and E1even businesses, all of which are primarily focused on foodservice customers such as restaurants, concessions, bars caterers, hotels, recreation facilities, schools and hospitals.



## DESCRIPTION OF THE FUND

### General

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to the Fund Declaration of Trust. It is intended that the Fund will qualify as a "mutual fund trust" for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Fund Declaration of Trust, but does not purport to be complete. Reference is made to the Fund Declaration of Trust which has been filed on SEDAR at [www.sedar.com](http://www.sedar.com) for a complete description of the Units and the full text of its provisions.

### Activities of the Fund

The Fund Declaration of Trust provides that the Fund is restricted to:

- acquiring, investing in, holding, transferring, disposing of and otherwise dealing with investments in debt and/or equity securities and/or assets of the Trust and other corporations, partnerships, trusts or other persons engaged, directly or indirectly, in the business of food manufacturing and distribution, as well as activities ancillary thereto, and such other investments as the Trustees may determine;
- acquiring, investing in, holding, transferring, disposing of and otherwise dealing, directly or indirectly, with securities of any of the Trust, PB Holdings LP or their respective subsidiaries in connection with the Fund's obligations under the Exchange Agreement;
- temporarily holding cash in interest bearing accounts, short term government debt or short term investment grade corporate debt for the purposes of the Fund's activities, paying amounts payable by the Fund in connection with the redemption of any Units, Special Voting Units or other securities of the Fund, and making distributions to Unitholders;
- issuing Units, Special Voting Units and other securities of the Fund (including securities convertible into or exchangeable for Units or other securities of the Fund, or warrants, options or other rights to acquire Units or other securities of the Fund) for the purposes of (i) obtaining funds to conduct the activities of the Fund, including raising funds for acquisitions and development, (ii) satisfying any non-cash distribution, (iii) implementing any distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund, the Trust, PB Holdings LP, PB Operating LP, PB Holdings GP, PB Operating GP or their respective subsidiaries, (iv) satisfying any obligations, liabilities or indebtedness of the Fund or its subsidiaries, or (v) giving effect to the Exchange Agreement;
- issuing debt securities (including debt securities convertible into, or exchangeable for, Units, Special Voting Units or other securities of the Fund) or otherwise borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;
- guaranteeing the payment of any indebtedness, liability or obligation of the Trust, PB Holdings LP, PB Operating LP, PB Holdings GP, PB Operating GP or any of their respective subsidiaries or the performance of any obligation of any of them, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of its assets as security for such guarantee, and subordinating its rights under the Trust Notes to other indebtedness;

- disposing of all or any part of the assets of the Fund;
- issuing or redeeming rights and Units pursuant to any Unitholder rights plan adopted by the Fund;
- repurchasing securities issued by the Fund, including Units and Special Voting Units, subject to the provisions of the Fund Declaration of Trust and applicable laws;
- satisfying the obligations, liabilities or indebtedness of the Fund;
- entering into and performing its obligations under the Arrangement Agreement, the Exchange Agreement, the Administration Agreement, certain credit agreements, and such other agreements as are contemplated in the Prospectus or ancillary thereto; and
- undertaking such other activities or taking such actions as are approved by the Trustees from time to time, or as are contemplated by the Fund Declaration of Trust,

provided that the Fund will not, at any time, undertake any activity, take any action, omit to take any action, or make or retain any investment that would result in the Fund not being a "mutual fund trust" for purposes of the Tax Act.

### **Units and Special Voting Units**

The beneficial interests in the Fund are divided into interests of two classes, described and designated as "Units" and "Special Voting Units", respectively. An unlimited number of Units and Special Voting Units are issuable pursuant to the Fund Declaration of Trust. The holders of Units and Special Voting Units are collectively referred to in this AIF as "Voting Unitholders".

Each Unit is transferable and represents an equal, undivided, beneficial interest in any distributions from the Fund whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. The Units are not subject to future calls or assessments and entitle the holder thereof to one vote for each whole Unit held at all meetings of Voting Unitholders. Except as set out under " – *Redemption at the Option of Unitholders*" below, the Units have no conversion, retraction, redemption or pre-emptive rights.

The Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund whether of net income, net realized capital gains or other amounts, or in the net assets of the Fund in the event of a termination or winding up of the Fund. The Special Voting Units may be redeemed by the holder at any time for no consideration.

Special Voting Units are issued in series and are only issued in connection with or in relation to the Exchangeable LP Units and, if the Trustees so determine, other securities exchangeable, directly or indirectly, for Units (collectively, "Exchangeable Securities"), in each case for the sole purpose of providing voting rights with respect to the Fund to the holders of such securities. Special Voting Units are issued in conjunction with, and are attached to the Exchangeable LP Units (or other Exchangeable Securities) to which they relate, and are evidenced only by an entry in the Fund's register. Special Voting Units are not transferable separately from the Exchangeable LP Units (or other Exchangeable Securities) to which they are attached. Each Special Voting Unit entitles the holder thereof to one vote at any meeting of Voting Unitholders. Upon the exchange of the Exchangeable LP Units (or other Exchangeable Security) for a Unit, the Special Voting Unit that is attached to such Exchangeable LP Unit (or other Exchangeable Security) immediately is deemed to have been redeemed by the holder and is immediately cancelled without any further action of the holder or the Trustees, and the former holder of such Special Voting Unit ceases to have rights with respect thereto.

Issued and outstanding Units and Special Voting Units may be subdivided or consolidated from time to time by the Trustees without the approval of Voting Unitholders.

### **Issuance of Units**

The Fund Declaration of Trust provides that Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any unitholder rights plan or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis to the extent that the Fund does not have available cash to fund such distributions. The Fund Declaration of Trust also provides, unless the Trustees determine otherwise, that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld in respect of the Unitholder's share of the distribution. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident Unitholders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificates, if any, representing their original Units in exchange for a certificate representing their post-consolidation Units. Non-residents should consult their own tax advisors regarding the consequences of investing in Units.

The Trustees may refuse to allow the issue or register the transfer of any Units where such issuance or transfer would, in their opinion, adversely affect the treatment of the Fund or the entities in which it directly or indirectly invests under applicable Canadian tax legislation or their qualification to carry on any relevant business. See "*Limitation on Non-Resident Ownership*".

### **Trustees**

The Fund will have a minimum of three Trustees and a maximum of ten Trustees, the majority of whom must be residents of Canada at all times (within the meaning of the Tax Act). The Fund's board of Trustees currently is made up of six members (see "*Trustees and Officers*"). The Trustees are to supervise the activities and manage the affairs of the Fund.

The Fund Declaration of Trust provides that, subject to its terms and conditions, the Trustees will have full, absolute and exclusive power, control, authority and discretion over the trust assets and management of the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the trust assets. Subject only to express limitations in the Fund Declaration of Trust, the Trustees' powers and authorities include:

- acting for, voting on behalf of and representing the Fund as a holder of the Trust Units, Trust Notes and other securities of the Trust;
- maintaining records and providing reports to Voting Unitholders;
- supervising the activities and managing the investments and affairs of the Fund;
- effecting payments of distributions from the Fund to Unitholders; and
- voting for the Fund's nominees to serve as trustees of the Trust.

Any one or more of the Trustees may resign upon 30 days' written notice to the Fund and may be removed by an ordinary resolution, and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the affirmative vote of a quorum of the Trustees.

Trustees will be appointed at each annual meeting of Voting Unitholders to hold office for a term expiring at the close of the next annual meeting. A quorum of the Trustees will be a majority of the Trustees then holding office. A majority of the Trustees may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Voting Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Voting Unitholders to elect the required number of Trustees, the Trustees will promptly call a special meeting of the Voting Unitholders to fill the vacancy. If the Trustees fail to call that meeting or if there are not Trustees then in office, any Voting Unitholder may call the meeting. Except as otherwise provided in the Fund Declaration of Trust, the Trustees may, between annual meetings of Voting Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Voting Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Voting Unitholders.

The Fund Declaration of Trust provides that the Trustees must act honestly and in good faith with a view to the best interests of the Fund and will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration of Trust provides that each Trustee will be entitled to indemnification from the Fund in respect of the exercise of the Trustee's power and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of the Fund or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his or her conduct was lawful.

### **Cash Distributions**

The Fund intends to make equal monthly cash distributions to Unitholders of record on the last business day of the month. The distributions will be paid on or about the 15th day of the month following the end of each month to which such distribution relates and within 30 days of December 31 in the case of the year end distribution. The amount of cash available for distribution will equal the interest and any principal repayments on the Trust Notes and distributions on or in respect of the Trust Units received by the Fund, together with all amounts, if any, received by the Fund from any other permitted investments, less amounts the Fund estimates will be required for expenses of the Fund and other obligations of the Fund, cash redemptions or repurchases of Units, any income tax liabilities (see "*Risk Factors – Income Tax Matters*") and any reasonable reserves established by the Trustees. The initial cash distribution for the period from July 27, 2005 to August 31, 2005, in the amount of \$0.1138 per Unit, was paid on September 15, 2005. Subsequent regular distributions have been paid each month thereafter commencing on October 14, 2005.

The Fund may make additional distributions in excess of monthly distributions during the year, as the Trustees may determine in their sole discretion.

The Fund Declaration of Trust provides that there will be payable to Unitholders in respect of the month ending December 31 in each year not less than such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such year as is necessary to ensure that the Fund will not be liable for ordinary income taxes under the Tax Act in such year. Any income of the Fund which is applied to any repurchase or cash redemptions of Units or is otherwise unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have an income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Those additional Units will be issued under exemptions provided for

by applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. Unless the Trustees determine otherwise, immediately after any pro rata distribution of these additional Units, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld in respect of the Unitholder's share of the distribution. See "*Risk Factors – Income Tax Matters*".

Unitholders who are non-residents will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether those distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in Units.

### **Redemption at the Option of Unitholders**

Units are redeemable at any time on demand by the holders thereof. A Unitholder who wishes to exercise the redemption right must provide written notice thereof to the Fund, together with the original unit certificate representing the Units to be redeemed. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption will be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of:

- 90% of the "market price" of a Unit calculated as of the date on which the Units were surrendered for redemption (the "Redemption Date"); and
- 100% of the "closing market price" on the Redemption Date.

For purposes of this calculation, the "market price" of a Unit as at a specified date will be:

- an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date;
- an amount equal to the weighted average of the closing prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a weighted average trading price; or
- if there was trading on the applicable exchange or market for fewer than five of the ten trading days ending on such date, an amount equal to the simple average of the following prices established for each of the ten consecutive trading days ending on the such date: the simple average of the last bid and last asking prices of the Units for each day there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the simple average of the highest and lowest prices of the Units for each day that there was trading if the market provides only the highest and lowest prices of Units traded on a particular day.

The "closing market price" of a Unit for the purpose of the foregoing calculations, as at any date, will be an amount equal to:

- the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading on the specified date, if the

principal exchange or market provides information necessary to compute a weighted average trading price of the Units on the specified date;

- the closing price of a Unit on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date;
- the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or
- the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date.

The aggregate Redemption Price payable by the Fund in respect of all Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment no later than the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is not available if:

- the total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month exceeds \$50,000, provided that the Trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;
- at the time the Units are tendered for redemption, the outstanding Units are not listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; or
- on the Redemption Date, or if for more than five trading days during the ten trading day period commencing immediately after the Redemption Date, the normal trading of Units is suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading).

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of one or more of the foregoing limitations, then each Unit tendered for redemption will, subject to any applicable regulatory approvals, be redeemed by way of a distribution in specie. In such circumstances, Trust Units and Series 1 Trust Notes having a value equal to the Redemption Price will be redeemed by the Trust in consideration for the issuance to the Fund of Series 2 Trust Notes and Series 3 Trust Notes, respectively. The Series 2 Trust Notes and Series 3 Trust Notes will then be distributed to the redeeming Unitholder in satisfaction of the Redemption Price. No Series 2 Trust Notes or Series 3 Trust Notes in integral multiples of less than \$100 will be distributed and, where the Series 2 Trust Notes or Series 3 Trust Notes to be received by a Unitholder includes a multiple of less than \$100, that number shall be rounded to the next lowest integral multiple of \$100. The Fund will be entitled to all interest paid on the Trust Notes and the distributions paid on the Trust Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of a pro rata number of securities of the Trust on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any income or capital gain realized by the Fund as a result of the redemption of Trust Units and Series 1 Trust Notes in exchange for Series 2 Trust Notes and Series 3 Trust Notes, respectively, or as a result of the distribution of Series 2 Trust Notes or Series 3 Trust Notes to the Unitholder on the redemption of such Units.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Series 2 Trust Notes and Series 3 Trust Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in Series 2 Trust Notes or Series 3 Trust Notes and they may be subject to resale restrictions under applicable securities laws. Series 2 Trust Notes and Series 3 Trust Notes so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans ("Plans") depending upon the circumstances at the time.

### **Repurchase of Units**

The Fund is allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase will constitute an "issuer bid" under applicable Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

### **Meetings of Voting Unitholders**

The Fund Declaration of Trust provides that meetings of Voting Unitholders will be called and held annually for the election of Trustees and the appointment of auditors of the Fund. The Fund Declaration of Trust provides that the Voting Unitholders will be entitled to pass resolutions that will bind the Fund only with respect to:

- (a) the election or removal of Trustees;
- (b) the election or removal of nominees of the Fund to serve as trustees of the Trust;
- (c) the appointment or removal of the auditors of the Fund;
- (d) the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- (e) the approval of amendments to the Fund Declaration of Trust (but only in the manner described below under "*– Amendments to the Fund Declaration of Trust*");
- (f) the termination of the Fund;
- (g) the sale of all or substantially all of the assets of the Fund;
- (h) the exercise of certain voting rights attached to the securities of the Trust, PB Holdings GP, PB Operating GP, PB Holdings LP and PB Operating LP or any of their respective subsidiaries (see "*– Exercise of Certain Voting Rights Attached to Securities of the Trust and Certain Other Entities*");
- (i) the ratification of any Unitholder rights plan, distribution reinvestment and Unit purchase plan, Unit option plan or other compensation plan contemplated by the Fund Declaration of Trust requiring Voting Unitholder approval;
- (j) the dissolution of the Fund prior to the end of its term; and
- (k) such other business as the Trustees may determine or as may be properly brought before the Voting Unitholders, including, without limitation, any other

matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Voting Unitholders for their approval,

provided that the Voting Unitholders shall not pass any resolution that would cause the Fund, the Trust, PB Holdings LP, PB Operating LP, PB Holdings GP, PB Operating GP or their respective subsidiaries to breach the terms of the Exchange Agreement, the PB Holdings LP Agreement or the PB Operating LP Agreement. No other action taken by Voting Unitholders or any other resolution of the Voting Unitholders at any meeting will in any way bind the Trustees.

The resolutions referred to in (a), (b), (c), (h), (i) and (k) above must be passed by a simple majority of the votes cast by Voting Unitholders. The balance of the foregoing matters must be passed by a special resolution.

A meeting of Voting Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Voting Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Voting Unitholders may attend and vote at all meetings of the Voting Unitholders either in person or by proxy and a proxyholder need not be a Voting Unitholder. One person present in person or represented by proxy and holding in total at least 10% of the votes attached to all outstanding Voting Units will constitute a quorum for the transaction of business at all meetings.

The Fund Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Voting Unitholders.

#### **Limitation on Non-Resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Fund Declaration of Trust provides that at no time may non-residents be the beneficial owners of more than 49.9% of the Units. This 49.9% limitation will be applied with respect to the issued and outstanding Units on both (i) a non-diluted basis and (ii) a fully diluted basis calculated on the assumption that any Units issuable at the time of calculation to a holder of Exchangeable LP Units pursuant to the Exchange Agreement have been issued and are held by such holder. The Trustees, in their sole discretion, may require declarations as to the jurisdictions in which beneficial owners of Units are resident.

If the Trustees become aware, as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of at least 40% of the Units then outstanding are, or may be, non-residents or that such a situation is imminent, the Trustees or Transfer Agent may make a public announcement thereof and will not accept a subscription for Units from, or issue or register a transfer of Units to, a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the Trustees, in their sole discretion, determine that 49.9% or more of the Units are held by non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the persons receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents within such period, the Trustees may, on behalf of such persons, sell such Units and, in the interim, the voting and distribution rights attached to such Units will be suspended. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.



## **Changes in Income Tax Status**

In 2007 amendments were made to the manner in which publicly traded income trusts such as the Fund are taxed. Under the new tax provisions starting on or before January 1, 2011 the Fund will be subject to entity level taxation that will reduce the amount of cash available for distribution to its Unitholders. See *"Risks Related to the Fund – Income Tax Matters"*.

## **Amendments to the Fund Declaration of Trust**

The Fund Declaration of Trust contains provisions that allow it to be amended or altered from time to time by the Trustees with the consent of the Voting Unitholders by a Special Resolution.

The Trustees, at their discretion and without the approval of the Voting Unitholders, are entitled to make certain amendments to the Fund Declaration of Trust, including amendments:

- which are required for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund, including ensuring that the Fund continues to qualify as a "mutual fund trust" within the meaning of the Tax Act;
- which provide additional protection or added benefits for the Voting Unitholders (including a change in the governing law of the Fund), provided that the Trustees receive a legal opinion from counsel to this effect; or
- to remove any conflicts or inconsistencies in the Fund Declaration of Trust or to make minor corrections which are necessary or desirable and not prejudicial to the Voting Unitholders and which are necessary or desirable as a result of changes in taxation laws or policies of any governmental authority having jurisdiction over the Trustees.

Notwithstanding the foregoing, the Trustees may not (without the approval of the Voting Unitholders by special resolution) amend the Fund Declaration of Trust in a manner which would result in the Fund failing to qualify as a "mutual fund trust" under the Tax Act.

## **Term of the Fund**

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on June 8, 2005. On a date selected by the Trustees which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiration of the term. At any time prior to the expiry of the term of the Fund, the Voting Unitholders may by special resolution require the Trustees to commence the termination, liquidation or winding-up of the affairs of the Fund.

The Fund Declaration of Trust provides that, upon being required to terminate the affairs of the Fund, the Trustees will give notice thereof to the Voting Unitholders, which notice shall designate the time or times at which Voting Unitholders may surrender their Voting Units for cancellation and the date at which the register of Voting Units will be closed. After the date the register is closed, the Trustees will proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose may, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Voting Unitholders, sell and convert into money the Trust Units, the Trust Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying retiring, discharging or making provision for the

payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees may distribute the remaining part of the proceeds of the sale of the Trust Units, the Trust Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their pro rata interests. If the Trustees are unable to sell all or any of the Trust Units, the Trust Notes or other assets of the Fund by the date set for termination, the Trustees may distribute the remaining Trust Units, the Trust Notes or other assets in specie directly to the Unitholders in accordance with their pro rata interests subject to obtaining all required regulatory approvals.

### **Take-over Bids**

The Fund Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units on a fully diluted basis (including Units issuable upon the exchange of all Exchangeable LP Units pursuant to the Exchange Agreement and other Exchangeable Securities, but not including Units or Exchangeable Securities held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units, the Exchangeable LP Units and other Exchangeable Securities held by holders who did not accept the take-over bid on the terms on which the offeror acquired Units from holders who accepted the take-over bid.

### **Exercise of Certain Voting Rights Attached to Securities of the Trust and Certain Other Entities**

The Fund Declaration of Trust provides that the Fund will not vote any securities of the Trust, nor permit the Trust to vote any securities of PB Holdings LP, PB Operating LP, PB Holdings GP or PB Operating GP, to authorize, among other things:

- any sale, lease or other disposition of all or substantially all of the assets of the Trust, PB Holdings LP, PB Operating LP, PB Holdings GP or PB Operating GP, except in conjunction with an internal reorganization;
- any amalgamation, arrangement, merger or capital reorganization of the Trust, PB Holdings LP, PB Operating LP, PB Holdings GP or PB Operating GP with any other entity, except in conjunction with an internal reorganization;
- any material amendment to the Note Indenture other than in contemplation of a further issuance of Trust Notes to the Fund that are identical in all respects to the Trust Notes issued in connection with the Offering or in conjunction with an internal reorganization;
- the winding-up or dissolution of the Trust, PB Holdings LP, PB Operating LP, PB Holdings GP or PB Operating GP prior to the end of the term of the Fund;
- any material amendment to the constating documents of the Trust, PB Holdings LP, PB Operating LP, PB Holdings GP or PB Operating GP, to change the authorized units, share capital or partnership interests, as applicable, which may be prejudicial to the Fund; or
- any action by an affiliate of the Fund that would result in the Units constituting "foreign property" for the purposes of the Tax Act (unless at the time of such action the provisions of the Tax Act relating to foreign property have been repealed) or in the Fund becoming subject to tax under Part XI of the Tax Act, without the authorization of the Voting Unitholders by a special resolution.

## **Fiscal Year End**

The fiscal year end of the Fund is December 31.

## **Information and Reports**

The Fund will furnish to Voting Unitholders, in accordance with applicable securities laws, all financial statements of the Fund (including quarterly and annual financial statements and certifications) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Voting Unitholders, the Trustees will provide to the Voting Unitholders (along with notice of the meeting) all information, together with such certifications, as is required by applicable law and by the Fund Declaration of Trust to be provided to Voting Unitholders.

Trustees will be required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Units.

In addition, PB Operating GP has undertaken to the Fund that, following Closing and for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- require each of its existing directors and senior officers, as applicable, and, promptly upon his or her assumption of office, each of its future directors and senior officers, to provide the securities commissions or other securities regulatory authorities in each of the provinces of Canada with an undertaking agreeing that he or she will file in respect of the Fund pursuant to applicable insider reporting requirements as if he or she were an insider of the Fund, reporting transactions in Units and Exchangeable LP Units; and
- require each present and each future principal holder of Exchangeable LP Units (other than the Fund and its subsidiaries) and each director or officer of each present or future principal holder of Exchangeable LP Units to provide the securities commissions or other securities regulatory authorities in each of the provinces of Canada with an undertaking agreeing that he, she or it will file in respect of the Fund pursuant to applicable insider reporting requirements as if he, she or it were an insider of the Fund, reporting transactions in Units and Exchangeable LP Units.

## **Conflict of Interest Restrictions and Provisions**

The Fund Declaration of Trust contains "conflict of interest" provisions that serve to protect Unitholders without creating undue limitations on the Fund. The Fund Declaration of Trust contains provisions, similar to those contained in the CBCA, that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his or her remuneration as a Trustee or officer of the Fund, as applicable, (ii) insurance or indemnity, or (iii) a contract or transaction with an affiliate.

## Rights of Unitholders

The rights of Unitholders, as investors in the Fund, will be governed by the Fund Declaration of Trust. Although the Fund Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies that an investor would have as a shareholder of a corporation governed by the CBCA, significant differences do exist.

The Fund Declaration of Trust includes provisions intended to limit the liability of a Unitholder for liabilities and other obligations of the Fund. However, no statutory provisions have been adopted in British Columbia which confirm the limited liability status of Unitholders in a manner comparable to shareholders of a CBCA corporation.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Fund Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect the Trustees and the auditors. The Fund Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Trustees, the quorum for and procedures at such meetings and the right of investors to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which Unitholder approval is required under the Fund Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund's subsidiary entities, as described under "*Meetings of Voting Unitholders*" and "*Exercise of Certain Voting Rights Attached to Securities of the Trust and Certain Other Entities*". These Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are "reporting issuers" or the equivalent or listed on the TSX. Unlike shareholders of a CBCA corporation, Unitholders do not have a comparable right to make a Unitholder proposal at a general meeting of the Fund.

The Fund Declaration of Trust contains conflict of interest provisions, similar to those contained in the CBCA, that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such individual is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee, director or officer who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his or her remuneration as a Trustee or officer of the Fund, as applicable, (ii) insurance or indemnity, or (iii) a contract or transaction with an affiliate of the Fund.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on, or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to receive, subject to certain conditions and limitations, their pro rata share of the Fund's net assets through the exercise of the redemption rights provided by the Fund Declaration of Trust, as described under "*Description of the Fund – Redemption at the Option of Unitholders*". Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregard the interests of security holders and certain other parties. Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on

the general provisions of the Fund Declaration of Trust, which permit the dissolution of the Fund with the approval of a special resolution of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Fund Declaration of Trust allows Unitholders to pass resolutions appointing an inspector to investigate the Trustees' performance of their responsibilities and duties, but this process would not be subject to court oversight to assure the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Fund Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

Each Voting Unitholder has the right to obtain, on demand and without payment of any fee, from the head office of the Fund, a copy of the Fund Declaration of Trust and any amendments thereto relating to Units held by that Voting Unitholder and is entitled to inspect a list of Voting Unitholders. In addition, each Voting Unitholder has the right to obtain a list of Voting Unitholders on payment of a reasonable fee therefor and after delivering to the Trustees a statutory declaration stating the name and address of the person requiring the Trustees to furnish the list of Voting Unitholders and, if the person is a body corporate, the address for service thereof, and confirming that the list will not be used except in connection with: (a) an effort to influence the voting of the holders of Voting Units; (b) an offer to acquire Units; or (c) any other matter relating to the Voting Units or the affairs of the Fund.

## **DESCRIPTION OF THE TRUST**

### **General**

The Trust is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to the Trust Declaration of Trust and its activities are restricted essentially to holding investments in PB Holdings LP and PB Holdings GP and such other investments as the trustees of the Trust may determine, including all activities ancillary or incidental thereto.

The Trust Declaration of Trust dated June 10, 2005, as amended and restated on July 27, 2005 (the "Trust Declaration of Trust") contains provisions substantially similar to those of the Fund Declaration of Trust relating to the Fund, a copy of which has been filed on SEDAR, and is available at [www.sedar.com](http://www.sedar.com). The principal difference between the Trust Declaration of Trust and the Fund Declaration of Trust are set out on pages 70 to 74 of the Fund's prospectus dated July 15, 2005, a copy of which has also been filed on SEDAR and is available at [www.sedar.com](http://www.sedar.com)

### **Units**

The Trust is authorized to issue an unlimited number of units.

### **Trustees**

Two Trustees of the Fund, namely George Paleologou and Fred Knoedler, currently serve as trustees of the Trust (see "*Trustees and Officers*") and as such are responsible for supervising the activities and managing the affairs of the Trust.

## DESCRIPTION OF PB HOLDINGS LP

### General

PB Holdings LP is a limited partnership that was established under the laws of the Province of Manitoba to directly or indirectly acquire certain of the assets of the Company in accordance with the terms of the Arrangement Agreement. The general partner of PB Holdings LP is PB Holdings GP. A copy of the limited partnership agreement governing the affairs of PB Holdings LP dated June 13, 2005, as amended and restated on July 25, 2005 (the "PB Holdings LP Agreement") has been filed on SEDAR, and is available at [www.sedar.com](http://www.sedar.com). A summary of the material attributes and characteristics of the PB Holdings LP and Partnership Units that will be issued under the PB Holdings LP Agreement can be found on pages 75 to 79 of the Fund's prospectus dated July 15, 2005.

### Capitalization

PB Holdings LP may issue an unlimited number of GP Units, Class A LP Units and Exchangeable LP Units to any person, other than a person who: (i) is a non-resident; (ii) is a person that is generally exempt from tax under Part I of the Tax Act (a "tax exempt person"); (iii) is a partnership other than a Canadian partnership (i.e. - no member of the partnership is a non-resident of Canada); (iv) would acquire Exchangeable LP Units as a "tax shelter investment" for the purposes of the Tax Act; or (v) is an individual, partnership, association, body corporate, trust, trustee, executive, administrator, legal representative, government, regulatory authority or other entity (a "Person"), an interest in which is a "tax shelter investment" for the purposes of the Tax Act (an "Excluded Person"). The PB Holdings LP Agreement authorizes PB Holdings GP to cause PB Holdings LP to issue additional Class A LP Units or Exchangeable LP Units for any consideration and on any terms and conditions as are established by PB Holdings GP. Exchangeable LP Units are indirectly exchangeable into Units in accordance with the terms of the Exchange Agreement. Additionally, Exchangeable LP Units are accompanied by Special Voting Units which entitle the holder to receive notice of, attend and to vote at all meetings of Voting Unitholders (except in respect of Exchangeable LP Units previously exchanged pursuant to the Exchange Agreement). See "*Description of the Fund – Units and Special Voting Units*".

## DESCRIPTION OF PB HOLDINGS GP INC.

### General

PB Holdings GP is a corporation existing under the laws of Canada which acts as the general partner of PB Holdings LP. The Trust owns all of the outstanding common shares of PB Holdings GP.

### Functions and Powers of PB Holdings GP

PB Holdings GP has exclusive authority to manage the business and affairs of PB Holdings LP, to make all decisions regarding the business of PB Holdings LP and to bind PB Holdings LP. PB Holdings GP is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of PB Holdings LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in PB Holdings GP to manage the business and affairs of PB Holdings LP includes all authority necessary or incidental to carry out the objects, purposes and business of PB Holdings LP, including without limitation, the ability to engage agents to assist PB Holdings GP to carry out its management obligations or substantially administrative functions. PB Holdings GP cannot dissolve PB Holdings LP or wind up PB Holdings LP's affairs except in accordance with the provisions of the PB Holdings LP Agreement.

## **Common Shares**

PB Holdings GP is authorized to issue an unlimited number of common shares.

## **Withdrawal or Removal of PB Holdings GP**

PB Holdings GP may resign on not less than 30 days written notice to the limited partners of PB Holdings LP provided that PB Holdings GP will not resign if the effect would be to dissolve PB Holdings LP.

PB Holdings GP may not be removed as general partner of PB Holdings LP unless: (i) PB Holdings GP has committed a material breach of the PB Holdings LP Agreement, which breach has continued for 30 days after notice, and that removal is also approved by a PB Holdings LP Special Resolution; or (ii) the shareholders or directors of PB Holdings GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of PB Holdings GP, or PB Holdings GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the PB Holdings LP Agreement.

## **Directors**

One Trustee of the Fund, namely Fred Knoedler, and one officer of the Company, namely Will Kalutycz, currently serve as directors of PB Holdings GP (see "*Trustees and Officers*") and as such are responsible for supervising the activities and managing the affairs of PB Holdings GP.

## **DESCRIPTION OF PB OPERATING LP**

### **General**

PB Operating LP is a limited partnership that was established under the laws of the Province of Manitoba to directly or indirectly acquire certain of the assets the Company in accordance with the terms of the Arrangement Agreement and to carry on the Company's business as a going concern. The general partner of PB Operating LP is PB Operating GP.

A copy of the limited partnership agreement governing the affairs of PB Operating LP dated June 13, 2005, as amended and restated on July 27, 2005 (the "PB Operating LP Agreement") has been filed on SEDAR, and is available at [www.sedar.com](http://www.sedar.com). A summary of the material attributes and characteristics of the PB Operating LP and Partnership Units that will be issued under the PB Operating LP Agreement can be found on pages 80 to 82 of the Fund's prospectus dated July 15, 2005, and are incorporated by reference herein.

### **Capitalization**

PB Operating LP may issue an unlimited number of GP Units, Class A LP Units and Class B LP Units to any Person. The PB Operating LP Agreement authorizes the general partner to cause PB Operating LP to issue additional Class A LP Units and Class B LP Units for any consideration and on any terms and conditions as are established by PB Operating GP. The Class B LP Units are redeemable by PB Operating LP and retractable by PB Operating GP, in each case for the amount of the invested capital and accrued and unpaid preferential distribution.

## DESCRIPTION OF PB OPERATING GP

### General

PB Operating GP is a corporation existing under the laws of Canada which acts as the general partner of PB Operating LP, and holds the Fund's outside investment interests, if any, as well as the shares of PB USA. PB Holdings LP holds all of the outstanding common shares of PB Operating GP.

### Functions and Powers of PB Operating GP

PB Operating GP has the exclusive authority to manage the business and affairs of PB Operating LP, to make all decisions regarding the business of PB Operating LP, and to bind PB Operating LP. PB Operating GP is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of PB Operating LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in PB Operating GP to manage the business and affairs of PB Operating LP includes all authority necessary or incidental to carry out the objects, purposes and business of PB Operating LP, including, without limitation, the ability to engage agents to assist PB Operating GP to carry out its management obligations or substantially administrative functions. PB Operating GP cannot dissolve PB Operating LP or wind up PB Operating LP's affairs except in accordance with the provisions of the PB Operating LP Agreement.

### Common Shares

PB Operating GP is authorized to issue an unlimited number of common shares.

### Withdrawal or Removal of PB Operating GP

PB Operating GP may resign on not less than 30 days written notice to the limited partners of PB Operating LP, provided that PB Operating GP will not resign if the effect would be to dissolve PB Operating LP.

PB Operating GP may not be removed as general partner of PB Operating LP unless: (i) PB Operating GP has committed a material breach of the PB Operating LP Agreement, which breach has continued for 30 days after notice, and that removal is also approved by a PB Operating LP Special Resolution; or (ii) the shareholders or directors of PB Operating GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of PB Operating GP, or PB Operating GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the PB Operating LP Agreement.

### Directors

Each Trustee of the Fund also serves as a director of PB Operating GP (see "*Trustees and Officers*") and as such is responsible for supervising the activities and managing the affairs of PB Operating GP.



## RISK FACTORS

The Fund is subject to a number of risks and uncertainties related to its businesses that may have adverse effects on the Fund's results of operations and financial position. Some of these risks and uncertainties are outlined below. Prospective investors should carefully review and evaluate the following risk factors together with all of the other information contained in this report. The risk factors described below are not the only risk factors facing the Fund. The Fund may be subject to risks and uncertainties not described below that the Fund is not presently aware of or that the Fund may currently deem insignificant.

### Risks Relating to the Fund

Risk factors specific to an investment in the Units include, but are not limited to the following:

#### *Dependence on PB Operating LP*

The Fund is an open-ended, limited purpose trust which is entirely dependent on the Premium Brands Business through the Fund's indirect ownership of PB Operating LP and its affiliates. Although the Fund intends to make monthly cash distributions, there can be no assurance regarding the Fund's ability to make cash distributions as it is dependent upon the ability of PB Operating LP and its affiliates to make distributions to PB Holdings LP. The actual amount paid or distributed to the Fund, and distributed by the Fund to Unitholders, will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins and capital expenditures.

#### *Unpredictability and Volatility of Unit Price*

A publicly-traded income trust will not necessarily trade at values determined by reference to the underlying value of its business. As such, the prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units.

#### *Nature of Units*

The Units are hybrid securities in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in PB Operating LP and should not be viewed by investors as a direct interest in PB Operating LP. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. In addition, although the Fund qualifies as a "mutual fund trust" as defined by the Tax Act, the Fund is not a "mutual fund" as defined by applicable securities legislation. See "*Description of the Fund — Rights of Unitholders*".

### *Cash Distributions*

Although the Fund intends to distribute the income earned by the Fund less expenses, including any income taxes payable by the Fund, and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by PB Operating LP and its affiliates and, ultimately, paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, the availability and cost of acquisitions, fluctuations in working capital expenditures, obligations under its credit facilities, applicable law and other factors beyond the control of the Fund and PB Operating LP. Cash distributions are not guaranteed and will fluctuate with PB Operating LP's performance. PB Operating LP has the discretion to establish cash reserves for the proper conduct of its business. Adding to these reserves in any year would reduce the amount of cash available for distribution in that year. There can be no assurance regarding the actual levels of cash distributions by the Fund. The market value of the Units may deteriorate if the Fund is unable to meet its cash distribution targets in the future, and such deterioration may be material.

### *Income Tax Matters*

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Fund's Unitholders. If the Fund ceases to qualify as a "mutual fund trust" under the Income Tax Act, the income tax considerations would be materially and adversely different in certain respects. In addition, there can be no assurance that the Fund's Units will continue to be qualified investments for registered retirement plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments in such plans.

In 2007 amendments were made to the manner in which publicly traded income trusts such as the Fund are taxed. Under the new tax provisions starting on or before January 1, 2011 the Fund will be subject to entity level taxation that will reduce the amount of cash available for distribution to its Unitholders. More specifically, the Fund will be taxed on income (other than taxable dividends) distributed by the Fund to its Unitholders at a rate that approximates the tax rate applicable to income earned by Canadian public corporations. The applicable rate in 2011 will be based on tax rates at that time, which, based on information released by the Department of Finance, will be 29.5% but is subject to change.

Corresponding with the above changes, distributions received by the Fund's Unitholders beginning January 1, 2011 will be characterized as eligible dividends received from a Canadian public corporation. Generally, individual Unitholders resident in Canada will be subject to tax based on the enhanced gross-up and dividend tax credit applicable to eligible dividends and, assuming such Unitholders are subject to the highest marginal rate of tax, will receive an after-tax return from their now reduced distribution of income approximately equal to the after-tax return if the pre-tax income of the Fund had been distributed directly to and taxed in the hands of the Unitholders. However, reduced distributions will be an absolute cost to other types of Unitholders including pension funds, registered retirement savings plans and non-residents who will not benefit from characterization of the distributions as dividends.

The ability of the Fund to defer the new tax provisions outlined above to 2011 ("the grandfathered period") is subject to it not exceeding certain growth guidelines as set out by the Department of Finance. Under these guidelines a trust is only able to defer the new tax provisions to 2011 as long as it limits its issuance of new equity prior to 2011 to the greater of \$50 million per year and the "safe harbour" amount, where the safe harbour amount for a particular trust is 40% of its market capitalization on October 31, 2006 for 2007 and 20% of its market capitalization on October 31, 2006 for each of 2008, 2009 and 2010.

The Fund's market capitalization on October 31, 2006 was approximately \$188.0 million resulting in a safe harbour amount of approximately \$75 million in 2007 and \$50 million in each of 2008, 2009 and 2010. Presently the Fund does not expect to exceed the normal growth guidelines during the grandfathered period, however, there is always the possibility that a change in circumstances may result in the Fund losing its grandfathered status and as a result no assurance can be given that the Fund will be able to maintain its grandfathered status through to January 1, 2011. Loss of this status may result in material adverse tax consequences for the Fund and/or its Unitholders.

The normal growth guidelines also provide for an exception for certain exchange rights pursuant to which the issue of new equity during the grandfathered period will not be considered growth to the extent that the issuance is made in satisfaction of the exercise of a right in place on October 31, 2006 to exchange an interest in a partnership or a share of a corporation into that new equity. As a result, the issuance of the Fund's units in exchange for 600,000 exchangeable units issued by the Fund's subsidiary, Premium Brands Holdings Limited Partnership, will not be considered growth under the proposed tax changes.

#### *Structural Subordination of the Units and Exchangeable LP Units*

In the event of a bankruptcy, liquidation or reorganization of PB Operating LP or any of its affiliates, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of PB Operating LP and those affiliates before any assets are made available for distribution to the Fund. None of PB Operating LP nor any of its affiliates are limited in their ability to incur secured or unsecured indebtedness.

#### *Leverage and Restrictive Covenants*

PB Operating LP has third-party debt service obligations under its credit facilities, which obligations will rank in priority to PB Operating LP's obligations under the PB Operating LP Agreement to distribute cash. In addition, PB Operating LP may borrow additional funds from other third parties. The degree to which PB Operating LP is leveraged could significantly impact the amount of income to be generated by PB Operating LP and therefore cash available to the Fund. The consequences of PB Operating LP's borrowing activities to the Fund and to the holders of the Units and Exchangeable LP Units include: (i) the fact that PB Operating LP's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited, (ii) the fact that a portion of PB Operating LP's cash flow from operations will be dedicated to the payment of the interest on its indebtedness thereby reducing funds available for payment, ultimately, to the Fund, and (iii) the fact that certain of PB Operating LP's borrowings will be at variable rates of interest, which exposes it to the risk of increased interest rates. PB Operating LP's ability to make scheduled payments of interest on, or to refinance, its indebtedness will depend on its future cash flow, which is subject to the operations of its business, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit PB Operating LP from refinancing the indebtedness on favourable terms, or at all.

#### *Capital Investment*

The timing and amount of capital expenditures by PB Operating LP will directly affect the amount of cash available for distribution to the Fund. Distributions may be reduced, or even eliminated, at times when the board of directors of PB Operating GP deems it necessary to make significant capital or other expenditures.

### *Restrictions on Potential Growth*

The payout by PB Operating LP of a significant portion of the cash generated by its operations could make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of PB Operating LP and its cash flow.

### *Redemption Right*

It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investment. Upon a redemption of Units or termination of the Fund, the Trustees may distribute Series 2 Trust Notes and Series 3 Trust Notes directly to the Unitholders, subject to obtaining any required regulatory approvals and complying with the requisite terms and conditions of such approvals. Series 2 Trust Notes and Series 3 Trust Notes so distributed may not be qualified investments for trusts governed by Plans depending upon the circumstances at the time. Additionally, such notes will not be listed on any stock exchange and no established market is expected to develop in such notes and they may be subject to resale restrictions under applicable securities laws.

### *Dilution and Sale of Units*

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for the consideration and on those terms and conditions as are established by the Trustees without the approval of any Unitholders. Additional Units will be issued by the Fund in connection with the exchange of Exchangeable LP Units for Units. Any further issuance of Units will dilute the interests of existing Unitholders.

### *Loss of Limited Liability*

The Fund Declaration of Trust includes provisions intended to limit the liability of Unitholders for liabilities and other obligations of the Fund. Notwithstanding these provisions, there is no certainty that such provisions will provide limited liability status to Unitholders in a manner comparable to shareholders of a CBCA corporation.

### *Distribution of Trust Notes and Trust Units on Termination of the Fund*

Upon termination of the Fund, the Trustees may distribute the Trust Notes and Trust Units directly to the Unitholders subject to obtaining all required regulatory approvals. There is currently no market for the Trust Units and Trust Notes. In addition, the Trust Units and Trust Notes are not freely tradeable, are not listed on any stock exchange and are not qualified investments for Plans.

### *Statutory Remedies*

Unitholders are cautioned that, although the Fund is a legal entity, it is not generally regulated by established corporate law and Unitholders' rights are governed primarily by the specific provisions of the Fund Declaration of Trust, which addresses such items as the nature of the Units, the entitlement of Unitholders to cash distributions, restrictions respecting the holdings of non-residents, meetings of Unitholders, delegation of authority, administration, Fund governance and liabilities and duties of the Trustees to Unitholders. As well, under certain existing legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada), the Fund is not a legally recognized entity within the definitions of these statutes. In the event of an insolvency or restructuring of the Fund, the rights of Unitholders will be different from those of shareholders of an insolvent or restructuring corporation. See "*Description of the Fund — Rights of Unitholders*".

## **Risks Related to the Premium Brands Business and Industry**

Risk factors specific to the Premium Brands' business include, but are not limited to, the following:

### *Seasonality and Weather Risk*

The Fund's business is seasonal and weather dependent due to poor weather generally resulting in: (i) reduced consumer travel, which often results in decreased consumer demand for the Fund's products (including meat snacks, sandwiches and pastries) sold through retailers such as convenience stores and gas bars; and (ii) reduced consumer outdoor activities, such as barbecuing and visiting outdoor attractions, which also often results in decreased consumer demand for the Fund's products, including premium processed meats and concession products. As a result, poor weather conditions could have a material adverse effect on the Fund's sales and in turn its results of operations and financial condition.

### *Commodity Risk*

The Fund's results of operations and financial condition are dependent upon the cost and supply of various commodity inputs, including fresh pork, beef, poultry, corrugated packing materials, dairy products and fuel, all of which are determined by relatively volatile market forces of supply and demand over which the Fund has limited or no control. The market cost of many of these commodities is highly cyclical, being characterized by periods of supply and demand imbalance and sensitivity to changes in industry capacity. If there is a sudden or severe increase in the price of such raw materials and the Fund 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.

### *Sales and Margin Risk*

The Fund's profitability depends on its ability to maintain and increase sales to its customers and to sustain its profit margins. If the Fund's cost of products sold increases, including through increased prices from suppliers for products distributed by the Fund or increases in commodity prices for products produced by the Fund, or through operating cost increases, its sales and/or margins, or both, could be adversely affected.

In addition, the competitive market in which the Fund 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 Fund may be required to lower its prices or offer other favourable terms to compete successfully. Any such changes could reduce the Fund's sales and/or margins and in turn have a material adverse effect on its results of operations and financial condition.

### *Consumer Preference Risk*

The Fund's business is dependent, in part, upon stable, continued consumer interest in its products. While the Fund 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 Fund may not be able to maintain or increase present price levels. In addition, part of the Fund's growth strategy is to add new products. There can be no assurance that consumers will accept any such new products or that the Fund will be able to attain sufficient market share for those products. Any such failure on the Fund's part to sustain demand for its products or to attain sufficient market share for new products could have a material adverse effect on its results of operations and financial condition.

### *Consumer Discretionary Spending Risk*

The Fund's business can be impacted by changes in consumer discretionary spending resulting from actual or consumers' perceived changes in the condition of regional and/or the national economy. The Fund's foodservice 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. As a result, actual or consumers' perceived changes in regional and/or the national economy could negatively impact the Fund's sales and/or margins and in turn have a material adverse effect on its results of operations and financial condition.

### *Growth and Acquisition Risk*

A key component of the Fund'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 Fund will be successful in growing its business or in managing its growth. Expansion may place a significant strain on the Fund's senior management team and other key personnel as well as its business processes, operations and other resources. The Fund's ability to manage growth will also depend in part on its ability to continue to enhance its management information systems in a timely fashion, particularly if customer demands change in ways that the Fund does not anticipate. Any inability to manage growth could result in delivery delays and cancellation of customer orders.

Acquisitions and business combinations involve inherent risks relating to such matters as assumption of transaction costs, risk of non-completion, undisclosed liabilities, integration and successful management of growth. While the Fund conducts due diligence and takes steps to ensure successful integration, factors beyond the Fund's control could influence the results of acquisitions. Furthermore, the process of integrating an acquired business into the Fund's operations may result in operating difficulties and expenditures, may absorb significant management attention that would otherwise be available for the ongoing development of the Fund's business or may cause disruptions to the ongoing business and result in unanticipated expenses, events or circumstances and possibly changes to operating results.

In addition, the Fund regularly considers acquisition candidates in selected markets and from time to time engages in exploratory discussions with suitable candidates. The Fund may be unable to identify, acquire and integrate appropriate businesses.

Finally, it is possible that the Fund may need to raise additional funds to pursue its acquisition strategy. If it is unable to raise additional funds when needed, its ability to execute its acquisition strategy could be impaired. Management does not currently know whether the Fund will be able to secure additional funding or funding on terms acceptable to the Fund. The Fund's ability to obtain additional funding will be subject to a number of factors, including market conditions, investor sentiment and the Fund's operating performance. These factors may make the timing, amount, terms and conditions of additional funding unattractive to the Fund, and prevent the Fund from completing acquisitions.

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

### *Competition Risks*

The Fund competes with many local, regional and national food manufacturers and distributors. The Fund's competition varies by distribution channel, product category and geographic market.

Certain of the Fund's competitors have greater financial and other resources than those of the Fund or may have access to labour or products that are not available to the Fund. In addition, the Fund's competitors may be able to withstand market volatility better than the Fund. There can be no assurance that the Fund's principal competitors will not be successful in capturing, or that new competitors will not emerge and capture, a share of the Fund's present or potential customer base.

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

#### *Customer Risk*

Although the Fund distributes food products to approximately 25,000 customers, its large format retail customers, including Costco, Federated Coop, Safeway, Sobey's and Overwaitea Food Group currently account for approximately 20% of the Fund's sales. Furthermore, as is customary in the food industry, the Fund does not have long-term contracts with any of its major customers. The loss of any of the Fund's major customers could have a material adverse effect upon the Fund's results of operations and financial condition.

#### *Potential Labour Risks*

Approximately 35% of the Fund's non-management employees are represented by labour unions or employee associations. In addition, the Fund cannot predict with certainty which, if any, groups of employees that are not currently represented by a trade union or employee association may seek such representation in the future. Any labour disruption could result in a material adverse effect on the Fund's results of operations and financial condition.

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

Furthermore, the continued efficient operation and growth of the Fund's business is dependent on hiring and retaining sufficient skilled and unskilled production and distribution labour, which has become increasingly difficult in Western Canada due to historically low unemployment rates. The Fund may be unable to hire and retain adequate staffing levels, which could have a material adverse effect on its results of operations and financial condition.

#### *Dependence on Key Personnel*

The Fund is dependent on the continued services of its senior management team and its ability to retain other key personnel. The loss of such key personnel could have a material adverse effect on the Fund's financial condition and results of operations.

Furthermore, as part of the Fund's growth strategy, it must continue to hire highly qualified individuals, including finance, sales and marketing personnel. The Fund may be unable to attract, assimilate or retain qualified personnel in the future, which could have a material adverse effect on its ability to distribute new product lines and increase sales, and in turn a material adverse effect on its results of operations and financial condition.

### *Livestock Risk*

The Fund 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 Fund's production facilities as well as consumer confidence in the Fund's products. As a result, any outbreak of animal disease could have a material adverse effect on the Fund's results of operations and financial condition.

### *Credit Risks*

Like most businesses in the food industry, the Fund extends credit to its customers, which is generally unsecured. Although the Fund 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 Fund'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 Fund's results of operations and financial condition.

### *Financial Risks*

The Fund is exposed to interest rate fluctuations under its bank operating and term debt facilities. The Fund is also exposed to foreign exchange fluctuations on revenues earned in U.S. dollars or products purchased in U.S. dollars. Where appropriate, these exposures are managed through interest rate swaps and foreign exchange contracts. There can be no assurance that the Fund will be able, in the future, to adequately manage these exposures and, if the Fund is unable to do so, any change in interest rates or exchange rates could have a material adverse effect on the Fund's results of operations and financial condition.

### *Product Liability Risks*

The Fund, like other food manufacturers, is subject to potential liabilities and expenses associated with product defects. The Fund's products require a high degree of quality control to ensure their safety for consumption by consumers. Furthermore, a significant portion of the Fund's products must be kept refrigerated prior to consumption. Improper production, handling or storage of these products could result in the development of bacteria in the product that may cause food-borne illness. The Fund maintains product liability and other insurance coverage that it believes to be in accordance with industry practices. Nevertheless, such insurance coverage may not be adequate to fully protect the Fund against substantial damage claims which may arise from product defects. In addition, even if a claim is unsuccessful, the negative publicity associated with the claim could be harmful to the Fund's reputation. A recall or claim against the Fund due to product defects caused by contamination, product tampering, mislabeling or damage to the Fund's products could have a material adverse effect on its results of operations and financial condition.

### *Food Manufacturing Risks*

The Fund's food manufacturing operations are subject to federal, state, provincial and local manufacturing controls and may be impacted by consumer product liability claims, product tampering, and the possible unavailability and/or expense of liability and/or product recall insurance. A determination by applicable regulatory authorities that any of the Fund's plants are not in compliance with any such controls in any material respect may have a material adverse effect on the Fund's financial condition and results of operations. In addition, negative publicity, significant decreases in demand or increased costs associated with any of these circumstances may have a material adverse effect on the Fund's results of operations and financial condition.



The operation of the Fund'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 Fund 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.

#### *International Trade Risks*

The Fund imports products to and, to a lesser extent, exports products from the United States 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 Fund 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 Fund 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 Fund's financial condition and results of operations.

#### *Governmental Regulation Risks*

The Fund 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. There can be no assurance that the Fund 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 Fund to comply with applicable laws and regulations could subject the Fund 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 Fund's results of operations and financial condition.

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

The Fund'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 Fund'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 Fund's present or former properties or manufacturing facilities could require the Fund to incur material unforeseen expenses. The occurrence of any such events could have a material adverse effect on the Fund's financial condition and results of operations.

## DISTRIBUTIONS

### Distribution Record

The particulars of distributions declared by the Fund since it acquired certain assets of the Company on July 27, 2005 to March 26, 2008 are as follows:

Distribution Period	Record Date	Amount per Unit	Taxable Portion of Distribution per Unit
<u>2005:</u>			
July 27 to August 31	August 31, 2005	\$0.1138	\$0.0683
September	September 30, 2005	\$0.0980	\$0.0588
October	October 31, 2005	\$0.0980	\$0.0588
November	November 30, 2005	\$0.0980	\$0.0588
December	December 30, 2005	\$0.0980	\$0.0588
<u>2006:</u>			
January	January 31, 2006	\$0.0980	\$0.0588
February	February 28, 2006	\$0.0980	\$0.0588
March	March 31, 2006	\$0.0980	\$0.0588
April	April 28, 2006	\$0.0980	\$0.0588
May	May 31, 2006	\$0.0980	\$0.0588
June	June 30, 2006	\$0.0980	\$0.0588
July	July 31, 2006	\$0.0980	\$0.0588
August	August 31, 2006	\$0.0980	\$0.0588
September	September 29, 2006	\$0.0980	\$0.0588
October	October 31, 2006	\$0.0980	\$0.0588
November	November 30, 2006	\$0.0980	\$0.0588
December	December 29, 2006	\$0.0980	\$0.0588
<u>2007:</u>			
January	January 31, 2007	\$0.0980	\$0.8330
February	February 28, 2007	\$0.0980	\$0.8330
March	March 30, 2007	\$0.0980	\$0.8330
April	April 30, 2007	\$0.0980	\$0.8330
May	May 31, 2007	\$0.0980	\$0.8330
June	June 29, 2007	\$0.0980	\$0.8330
July	July 31, 2007	\$0.0980	\$0.8330
August	August 31, 2007	\$0.0980	\$0.8330
September	September 28, 2007	\$0.0980	\$0.8330
October	October 31, 2007	\$0.0980	\$0.8330
November	November 30, 2007	\$0.0980	\$0.8330
December	December 31, 2007	\$0.0980	\$0.8330
<u>2008:</u>			
January	January 31, 2008	\$0.0980	(1)
February	February 29, 2008	\$0.0980	(1)
March	March 31, 2008	\$0.0980	(1)

(1) The taxable portion of the distributions for 2008 will be determined early in 2009.

### Distribution Policy

The Fund has a policy of distributing cash to the holders of its Units on a monthly basis. The Trustees intend to continue to make monthly cash distributions.

A cash distribution for the period from July 27, 2005 to August 31, 2005 to Unitholders of record on August 31, 2005 was made on September 15, 2005. Thereafter, cash distributions have been made monthly to the Unitholders of record on the last day of each month (unless such day is not a business day, in which case the date of record has been the last business day of the month) and have been paid on the 15th day of the following month or, if such day is not a business day, the immediately preceding business day or such other date as determined from time to time by the Trustees. The Trustees expect to continue to make monthly cash distributions on the same

basis. Full particulars of the distribution policy are set forth under the heading "*Description of the Fund - Cash Distributions*".

Although the Fund intends to distribute the interest and dividend income earned by the Fund and any returns of capital on the Units, less expenses, income taxes and amounts, if any, paid by the Fund, there can be no assurance regarding the amounts of income to be generated by the Fund and therefore funds available to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins and capital expenditures. See "*Risk Factors*".

## MARKETS FOR SECURITIES

The Company's Common Shares traded on The Toronto Stock Exchange (TSX) under the trading symbol FFF until July 27, 2005. Immediately following the income trust conversion the Fund's Units commenced trading on the TSX under the trading symbol PBI.UN. The following table sets forth the closing price range and trading volume of the Units as recorded by the TSX for each month in which the Units traded in fiscal 2007.

### TSX Activity Summary

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
January 2007	10.55	9.90	332,824
February 2007	11.40	10.39	324,896
March 2007	11.95	10.65	1,439,130
April 2007	11.75	11.10	315,762
May 2007	12.21	11.50	923,797
June 2007	12.35	11.90	194,540
July 2007	13.80	12.00	847,399
August 2007	13.75	12.50	940,649
September 2007	13.24	12.00	302,135
October 2007	14.74	12.25	987,048
November 2007	15.53	13.80	422,393
December 2007	14.90	13.49	696,718

## ESCROWED SECURITIES

Not applicable.

## TRUSTEES AND OFFICERS

### Trustees

The following table sets forth certain information with respect to the Trustees of the Fund as at March 26, 2008.

Name and Position or Office with the Fund	Principal Occupation at Present	Period of Service as a Trustee	Number of Units Owned and/or Controlled
Johnny Ciampi <sup>(1)</sup> Vancouver, BC Trustee	Executive Vice President and Chief Financial Officer, Gibralt Capital Corporation and Partner, Second City Capital Corporation, both private equity firms	July 2004 to present	3,500 <sup>(4)</sup>
Bruce Hodge <sup>(1)(2)</sup> West Vancouver, BC Trustee and Chairman of the Board	Managing Director, Pender West Capital Partners Inc., a private equity firm	July 2005 to present	215,128 <sup>(5)</sup>
Fred Knoedler Surrey, BC Trustee and Chief Executive Officer	Chief Executive Officer, PB Operating GP; since July 2005. Formerly Chief Executive Officer of Premium Brands Inc. from 2001 to July 2005, and President and Chief Executive Officer of Premium Brands Inc., from 1990 to 2001	June 1990 to present	116,800
Hugh McKinnon <sup>(2)(3)</sup> Surrey, BC Trustee	Director and shareholder of Norscot Investments Ltd., a privately held company with extensive interests in media and residential/commercial developments in Washington, Alaska, British Columbia and Alberta.	January 2007 To present	20,000
George Paleologou Surrey, BC Trustee and President	President, PB Operating GP, since July 2005. Formerly President of Premium Brands Inc. from July, 2001 to present; and Chief Executive Officer, Direct Plus Food Group Ltd. from 2000 to July, 2001; and Chief Financial Officer of Premium Brands Inc. from 1989 to 2000	July 2001 to present	89,576
John Zaplatynsky <sup>(1)(2)(3)</sup> North Vancouver, BC Trustee	President and Chief Executive Officer, Canada GardenWorks Ltd. an independently owned and operated retail garden centre company with ten locations in British Columbia	May 2007 to present	263,530 <sup>(6)</sup>

#### Notes:

- (1) This individual is a member of the Audit Committee.
- (2) This individual is a member of the Compensation and Human Resources Committee.
- (3) This individual is a member of the Corporate Governance and Nominating Committee.
- (4) Mr. Ciampi is the Chief Financial Officer of Gibralt Capital Corporation, which holds or controls indirectly 1,118,500 Units of the Fund.
- (5) These Units are beneficially owned by J B Hodge Consulting Ltd, which forms part of the holdings of Pender West Investors Inc. which in total holds 2,072,342 Units of the Fund. Mr. Hodge is Managing Director of Pender West Investors Inc.
- (6) These Units are beneficially owned by Sadler Farms Ltd., which forms part of the holdings of Pender West Investors Inc. which in total holds 2,072,342 Units of the Fund. Mr. Zaplatynsky is a Director of Pender West Investors Inc.

Each Trustee will hold office until the Fund's next Annual Meeting or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the Fund's Declaration of Trust, or unless he becomes disqualified to act as a director.

Fred Knoedler was a director of Community Pork Ventures Inc., a company which sought protection from its creditors in December, 2004. Mr. Knoedler resigned as a director when the Saskatchewan Court of Queen's Bench appointed an Interim Receiver of the assets of that company and its affiliates in June of 2005.

Bruce Hodge and John Zaplatynsky are directors of Pender West Investors Inc. (formerly Comptec, Inc.), a privately-owned company formerly engaged in the manufacturing of telephone, automotive and sporting goods components that filed a proposal to creditors under the Bankruptcy and Insolvency Act (Canada) in July 2003. The business of Comptec, Inc. has been discontinued and the proposal to creditors was approved in September 2003. Pender West Investors Inc. has other business operations which still continue.

Hugh McKinnon was also a director of Comptec, Inc. until June of 2004.

Johnny Ciampi was a director of Greening Donald Company Ltd. until November of 2006. Subsequent to the resignation of Mr. Ciampi, this company sought protection from its creditors on November 17, 2006 pursuant to the *Companies' Creditors Arrangement Act* (Canada).

#### Officers

The following table sets forth certain information with respect to the officers of PB Operating GP as at March 26, 2008:

Name and Municipality of Residence	Principal Occupation	Number of Units Owned and/or Controlled
Fred Knoedler Surrey, BC	Chief Executive Officer, PB Operating GP; since July 2005. Formerly Chief Executive Officer of Premium Brands Inc. from 2001 to July 2005, and President and Chief Executive Officer of Premium Brands Inc., from 1990 to 2001	116,800
George Paleologou Surrey, BC	President, PB Operating GP, since July 2005. Formerly President of Premium Brands Inc. from July, 2001 to present; and Chief Executive Officer, Direct Plus Food Group Ltd. from 2000 to July, 2001; and Chief Financial Officer of Premium Brands Inc. from 1989 to 2000	89,576
Will Kalutycz Surrey, BC	Chief Financial Officer, PB Operating GP, since July 2005. Formerly Chief Financial Officer of Premium Brands Inc. from 2000 to July 2005.	27,605
Douglas Goss, Q.C. Edmonton, Alberta	General Counsel and Corporate Secretary, PB operating GP, since July 2005. Formerly General Counsel and Corporate Secretary of Premium Brands Inc. from 1999 to July 2005. Mr. Goss was a partner with the law firm of Bryan & Company from 1988 to 1997 and has served as Counsel to Bryan & Company LLP since 1997.	7,166

As a group, the Trustees and officers of the Fund beneficially own, directly or indirectly, or exercise control or direction over 743,305 or 4.3% of the issued and outstanding voting units of the Fund.

## **Audit Committee**

The Audit Committee of the Fund consists of three independent members: Johnny Ciampi (Chairman), Bruce Hodge and John Zaplatynsky all of whom are financially literate.

Johnny Ciampi is the Executive Vice President and Chief Financial Officer of Gibralt Capital Corporation, a private equity corporation, and for the past nine years has managed the finance function at Gibralt Capital, including responsibility for taxation, acquisitions, dispositions and legal. He is also a partner of Second City Capital Corporation, a private equity corporation. Mr. Ciampi holds a B.Comm. from the University of British Columbia, and received his Chartered Accountant designation from the Canadian Institute of Chartered Accountants in 1996.

Bruce Hodge is a founder and principal of Pender West Capital Partners Inc. and a partner in CWC Acquisitions Inc. He has over 20 years experience in investment and merchant banking, including financial reorganizations, capital raising and mergers and acquisitions. Mr. Hodge holds an MBA from the University of Western Ontario and a M.A. (Economics) degree from Queen's University.

John Zaplatynsky is the President and Chief Executive Officer, and one of the founding partners, of Canada GardenWorks Ltd., an independently owned and operated retail garden centre company with ten locations in British Columbia. Mr. Zaplatynsky is also a director of SunGro Horticulture which is the largest producer of peat moss in North America, and the largest distributor of peat moss-based media growing products to the North American professional plantgrowers' market.

## **Audit Committee Charter**

The Fund has adopted an Audit Committee Charter, the text of which is attached hereto as Schedule "A".

## **Pre-Approval Policies and Procedures**

The members of the Audit Committee pre-approve all audit services provided to the Fund by its independent auditors.

The Audit Committee's policy regarding the pre-approval of non-audit services is that all such services are to be pre-approved by the Audit Committee, or by a designated member (or members) of the Audit Committee, who must advise the Audit Committee of any such pre-approvals at the next Audit Committee Meeting. The Audit Committee, or its designate(s) (as the case may be), must be satisfied, prior to the granting of such pre-approval(s), that any non-audit services requested will not compromise the independence of the Fund's independent auditors.

## Audit Fees

The following summarizes fees paid or owing to the Fund's independent auditors, PricewaterhouseCoopers LLP for the fiscal years ended December 31, 2007 December 31, 2006.

	2007 \$	2006 \$
Audit Fees		
- Audit of the Fund's annual consolidated financial statements	283,000	215,600
Audit-Related Fees		
- Discussions on interim consolidated financial statements	6,691	2,800
Tax Fees		
- Tax compliance and consulting	20,460	5,800
All Other Fees		
- 2006 public offering	-	99,543
	310,151	323,743

## PROMOTERS

Not applicable.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Fund is not aware of, as of March 26, 2008, any legal proceedings against it that would involve a claim for damages that exceed ten per cent of the current assets of the Fund.

No penalties or sanctions have been imposed against the Fund by a court relating to securities legislation or any a securities regulatory authority during the financial year ended December 31, 2007, nor has the Fund entered into any settlement agreements with a court relating to securities legislation, or with a securities regulatory authority during such financial year ended December 31, 2007. No other penalties or sanctions have been imposed by a court or regulatory body against the Fund which would likely be considered important to a reasonable investor in making an investment decision respecting the Fund.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No person or company who is a Trustee of the Fund, a person or company that is the direct or indirect owner of, or who exercises control or direction over, more than 10% of the outstanding Units of the Fund, a director or executive officer of PB Operating GP, or an associate or affiliate of any of the aforementioned persons or companies, has had any material interest in any transaction with either the Fund, PB Operating GP or the Company within the three most recently completed financial years or during the current financial year, that has or will materially affect either the Fund, PB Operating GP or the Company other than as discussed elsewhere in this AIF or the Fund's prospectus dated July 15, 2005.

## TRANSFER AGENT AND REGISTRARS

The Fund's Registrar and Transfer Agent is Valiant Trust Company, 600 – 750 Cambie Street, Vancouver, BC, V6B 0A2.

## MATERIAL CONTRACTS

The following is a list of contracts, other than contracts entered into in the ordinary course of business, that are material to the Fund and that were entered into during the fiscal year ended December 31, 2007 or that were entered into before then but are still in effect:

1. the Declaration of Trust described under "*Corporate Structure*";
2. the Exchange Agreement described under "*PB Holdings LP - Capitalization*";
3. the Note Indenture made between the Trust and Computershare Trust Company of Canada dated July 27, 2005 described on page 73 of the Fund's prospectus dated July 15, 2005, a copy of which has been filed on SEDAR and is available at [www.sedar.com](http://www.sedar.com);
4. the Loan Agreement described under "*General Development of the Business - 2007*";
5. the Administration Agreement described below;
6. the Long-Term Incentive Plan described below; and
7. the Restricted Trust Unit Plan described below.

Copies of the foregoing documents have been filed with the Canadian securities regulatory authorities, and are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Administration Agreement

Under the Administration Agreement PB Operating GP has agreed to provide, or arrange for the provision of, certain administrative and support services to the Fund, including, without limitation, those necessary to: (a) assist the Trustees, as required, in the execution of their obligations under and pursuant to the Declaration of Trust; (b) ensure compliance by the Fund with its continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements; (c) provide investor relations services; (d) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Declaration of Trust, including relevant information with respect to financial reportings and income taxes; (e) convene meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (f) provide for the calculation of distributions to Unitholders; (g) attend to all administrative and other matters arising in connection with any redemption of Units; (h) use its best efforts to ensure compliance with the Fund's limitations on non-resident ownership and ownership of foreign property, if applicable; and (i) provide general accounting, bookkeeping and administrative services to the Fund as may be necessary or as may be requested by the Trustees.

The Administration Agreement has an initial term of ten (10) years, and is renewable for two additional three (3) year terms at the option of the Fund and PB Operating GP. The Administration Agreement may be terminated by either party in the event of the insolvency or receivership of the other party, or in the case of default by the other party in the performance of a material obligation under the Administration Agreement, with certain exceptions, which is not remedied within thirty (30) days after written notice has been delivered.



## Long-Term Incentive Plan

The Fund established a long-term incentive plan (the "**LTIP**") in which officers and key employees of the Fund, or a subsidiary of the Fund, were eligible to participate. This LTIP was filed with the Canadian securities regulatory authorities in July of 2005.

On March 26, 2008 the Fund adopted an extensive amendment to the Fund's original LTIP which, among other things, renamed the LTIP the "Employee Benefit Plan" (the "**EBP**").

The purpose of the EBP is to provide eligible participants with compensation opportunities that would enhance PB Operating LP's ability to attract, retain, and motivate key personnel, and reward officers and key employees for significant performance that results in the Fund exceeding its distributable cash targets. Pursuant to the EBP, the Fund will set aside a pool of funds based upon the amount, if any, by which the Fund's distributable cash exceeds certain defined per Unit distributable cash threshold amounts. The Fund, or a Trustee, will purchase Units in the market with this pool of funds and will hold such Units until such time as ownership vests to each participant. Generally, these Units will vest as follows: (a) one half (1/2) immediately; (b) one quarter (1/4) on the first anniversary of the acquisition of the Units; and (c) one quarter (1/4) on the second anniversary of the acquisition of the Units. EBP participants will be entitled to receive distributions on all Units held for their account prior to the applicable vesting date.

The Fund will administer the EBP. The Board will: (i) determine those individuals who will participate in the EBP; (ii) determine the level of participation of each participant; and (iii) determine the time or times when EBP awards will vest or be paid to each participant.

The EBP currently provides for awards that may be earned based on the amount by which distributable cash exceeds a distribution base threshold set by the Compensation Committee each year. The percentage amount of that excess, which forms the EBP incentive pool, is determined in accordance with the table below:

<u>Percentage by which Distributable Cash per Unit Exceeds Base Distribution Threshold</u>	<u>Awards Accrued (Percent Distributable Cash Above Target)</u>
5% or less	10%
Over 5% to 10%	15% of any excess over 5% to 10%
Greater than 10%	20% of any excess over 10%

For 2007, the Fund's distributable cash per unit exceeded the base distribution threshold and as a result \$0.4 million will be contributed to the EBP incentive pool in 2008.

## Restricted Trust Unit Plan

On October 30, 2007 the Fund established a restricted trust unit plan ("**RTUP**") in order to provide additional incentive bonus compensation to certain Trustees, directors, officers, employees and/or consultants of the Fund, or a subsidiary of the Fund. This incentive bonus compensation is calculated based on the granting of restricted units to participants in the plan, and the subsequent appreciation in value of such restricted units (including the distributions payable in respect thereof) from the date of grant until the redemption date of such units. The participants are thereby rewarded for their efforts in the year of the grant, and are provided with additional incentive for their continued efforts on behalf of the Fund.

The Compensation Committee administers the RTUP, and has the power to, among other things: (i) determine or designate which Trustee(s), director(s), officer(s), employee(s) and/or consultant(s) of the Fund, or a subsidiary of the Fund, shall be eligible to participate in the RTUP;

(ii) determine the level of participation of each participant; and (iii) the terms and conditions of each grant of restricted units.

Each participant in the RTUP receives a grant of restricted units pursuant to the terms of a grant agreement, which sets out the terms and conditions of each specific grant (i.e. – the date of grant, number of restricted units, vesting date, etc.). The vesting date of each grant of restricted units, unless otherwise determined by the Board and specifically set out in the grant agreement, will be on the third anniversary of the date of grant. Whenever cash distributions are paid on the Fund's Units, additional restricted units are credited to each participant's account. The number of such additional restricted units is calculated on a quarterly basis by dividing the cash distributions that would have been paid to such participant for the applicable quarter if the restricted units recorded in the participant's account as at the record date for each distribution had been Fund Units by the fair market value on the date on which the distributions are paid on the Fund Units.

Each RTUP participant has one year from the vesting date of each grant of restricted units within which to redeem such restricted units. Upon receipt of a redemption notice from a participant the Company will pay sixty (60%) percent of the fair market value of the vested restricted trust units to the participant in cash. The remaining forty (40%) percent of the fair market value of such restricted trust units will be used to purchase Fund Units in the name of the participant, on the open market, with such Fund Units to be held by the administrator of the plan until such time as the participant ceases to be a Trustee, director, officer, employee and/or consultant of the Fund, or a subsidiary of the Fund.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The information that appears in the Fund's 2007 Management's Discussion and Analysis ("MD&A"), dated for reference March 26, 2008, is incorporated herein by reference.

The information contained in the Fund's Consolidated Financial Statements for the years ended December 31, 2007 and December 31, 2006 is also incorporated herein by reference.

Copies of these documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **INTERESTS OF EXPERTS**

PricewaterhouseCoopers LLP are the auditors who prepared the auditors' report and the report on Canadian generally accepted audit standards for the Fund's consolidated financial statements for the years ended December 31, 2007 and December 31, 2006. PricewaterhouseCoopers LLP is "independent" from the Fund in accordance with the relevant professional standards.

### **ADDITIONAL INFORMATION**

Additional information, including trustees' and officers' remuneration and indebtedness, principal holders of the Fund's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Fund's information circular for its most recent annual meeting of unitholders that involved the election of trustees.

Additional financial information is contained in the Fund's consolidated financial statements and MD&A for its most recently completed financial year.

The Fund undertakes, upon request to the Corporate Secretary, Premium Brands Income Fund, 7720 Alderbridge Way, Richmond, British Columbia V6X 2A2, to provide to any person, when the securities of the Fund are in the course of a distribution pursuant to a short form prospectus or

when a preliminary short form prospectus has been filed in respect of a distribution of its securities:

- i) one copy of the Fund's AIF, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF;
- ii) one copy of the Fund's comparative financial statements for its most recently completed financial year, together with the accompanying report of the auditors, and one copy of the most recent interim financial statements that have been filed for any period after the end of its most recently completed financial year;
- iii) one copy of the Fund's information circular in respect of its most recent annual meeting of shareholders that involved the election of directors; and
- iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectuses and are not required to be provided under clauses (i) to (iii) above;

or at any other time, subject to payment of a reasonable charge if the request is made by a person who is not a security holder of the Fund, one copy of any document referred to in (i), (ii) and (iii) above.

Additional information with respect to the Fund may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## SCHEDULE "A"

### PREMIUM BRANDS INCOME FUND

#### AUDIT COMMITTEE CHARTER

The term "**Fund**" refers to the Premium Brands Income Fund, the term "**Board**" refers to the board of trustees of the Fund and the term "**Administrator**" refers to Premium Brands Operating GP Inc. (the "**Corporation**") in its capacity as General Partner of Premium Brands Operating Limited Partnership, the administrator of the Fund pursuant to the **Administration Agreement** between the Fund, Premium Brands Holdings Trust, Premium Brands Holdings Limited Partnership, and Premium Brands Operating Limited Partnership. The term "**Governance Agreements**" refers, collectively, to the declaration of trust of the Fund and the Administration Agreement between the Fund, Premium Brands Holdings Trust, Premium Brands Holdings Limited Partnership, and Premium Brands Operating Limited Partnership.

#### PURPOSE

The Audit Committee (the "**Committee**") is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to the Fund's financial reporting including responsibility to:

- oversee the integrity of the Fund's consolidated financial statements and financial reporting process, including the audit process and the Fund's internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Fund's external auditors;
- oversee the work of the Fund's financial management and external auditors in these areas; and
- provide an open avenue of communication between the external auditors, the Board, the board of directors of the Corporation, the Administrator and the officers (collectively, "**Management**") of the Fund.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

#### COMPOSITION AND PROCEDURES

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

##### 1. **Composition**

The Committee shall consist of no fewer than three members. None of the members of the Committee shall be an officer or employee of the Fund or the Corporation or any of their respective subsidiaries and each member of the Committee shall be an "independent trustee" (in accordance with the definition of "independent director" established from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Fund's units are listed for trading); provided that the fact that a trustee is also a director of the Corporation will not disqualify the trustee from being a member of the Committee provided that the trustee would otherwise be eligible to be a member of the Committee.

## **2. Appointment and Replacement of Committee Members**

Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a trustee. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three trustees. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of unitholders after his or her election or until his or her successor shall be duly elected and qualified.

## **3. Financial literacy**

All members of the Committee must be "financially literate" (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Fund's units are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

## **4. Separate Executive Meetings**

The Committee will endeavour to meet at least once every quarter, if required, and more often as warranted, with the Chief Financial Officer of the Administrator and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

## **5. Professional Assistance**

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Corporation's expense.

## **6. Reliance**

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Fund from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by the Administrator or the Corporation or their respective senior managements and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to the Fund and its subsidiaries.

## **7. Review of Charter**

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of the Fund.

## **8. Delegation**

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

## **9. Reporting to the Board**

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

### **SPECIFIC MANDATES OF THE COMMITTEE**

The Committee will:

#### **I. In Respect of the Fund's External Auditors**

- (a) review the performance of the external auditors of the Fund who are accountable to the Committee and the Board as the representatives of the unitholders of the Fund, including the lead partner of the independent auditor team and make recommendations to the Board as to the reappointment or appointment of the external auditors of the Fund to be proposed in the Fund's proxy circular for unitholder approval and shall have authority to terminate the external auditors;
- (b) review the reasons for any proposed change in the external auditors of the Fund which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;
- (c) approve the terms of engagement and the compensation to be paid by the Fund to the Fund's external auditors;
- (d) review the independence of the Fund's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;
- (e) approve in advance all permitted non-audit services to be provided to the Fund or any of its affiliates by the external auditors or any of their affiliates, subject to any de minimus exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;
- (f) review the disclosure with respect to its pre-approval of audit and non-audit services provided by the Fund's external auditors;
- (g) approve any hiring by the Fund or its subsidiaries of employees or former employees of the Fund's external auditors;
- (h) review a written or oral report describing:
  - (i) critical accounting policies and practices to be used in the Fund's annual audit,
  - (ii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Administrator or other Management and that are significant to the Fund's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and

- (iii) other material written communication between the Fund's external auditors and the Administrator or other Management, such as any management letter or schedule of unadjusted differences;
- (i) review with the external auditors and Management the general audit approach and scope of proposed audits of the consolidated financial statements of the Fund and the Corporation, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;
- (j) if a review engagement report is requested of the external auditors, review such report before the release of the Fund's interim consolidated financial statements;
- (k) discuss with the external auditors any difficulties or disputes that arose with the Administrator or other Management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of the Administrator's or other Management's responses in correcting audit-related deficiencies;

## **II. In Respect of the Fund's Financial Disclosure**

- (a) review with the external auditors and Management:
  - (i) the Fund's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of the Fund contained in any prospectus or information circular or other disclosure documents or regulatory filings, or any other disclosures relating to financial information of the Fund, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO, President, and CFO of the Corporation and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - (ii) the Fund's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements and any other disclosures relating to financial information, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, CEO, President, and CFO of the Corporation and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - (iii) the quality, appropriateness and acceptability of the Fund's accounting principles and practices used in its financial reporting, changes in the Fund's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;
  - (iv) all significant financial reporting issues and judgments made in connection with the preparation of the Fund's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within generally accepted accounting principles on the consolidated financial statements

and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;

- (v) the effect of regulatory and accounting initiatives on the Fund's consolidated financial statements and other financial disclosures;
  - (vi) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of the Fund;
  - (vii) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Fund and their impact on the reported financial results of the Fund;
  - (viii) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, the Fund's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Fund's consolidated financial statements;
  - (ix) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of the Fund's operations;
  - (x) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles;
- (b) review and resolve disagreements between Management and the Fund's external auditors regarding financial reporting or the application of any accounting principles or practices;
  - (c) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Fund gives earning guidance;
  - (d) review and discuss any significant complaints or concerns received by the Fund through the confidential [concerns@premiumbrandsgroup.com](mailto:concerns@premiumbrandsgroup.com) email address regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and review periodically with Management the procedures to receive such complaints or concerns;
  - (e) receive from the Chief Executive Officer and the Chief Financial Officer of the Administrator a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws;
  - (f) review and discuss the Fund's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities;



- (g) receive quarterly a report from the Fund's internal auditor.

### **III. In Respect of Insurance**

- (a) review periodically insurance programs relating to the Fund and its investments;

### **IV. In Respect of Internal Controls**

- (a) review the adequacy and effectiveness of the Fund's internal accounting and financial controls based on recommendations from Management and the external auditors for the improvement of accounting practices and internal controls;
- (b) oversee compliance with internal controls and the Joint Code of Business Conduct, particularly as it relates to financial reporting;

### **V. In respect of Other Items**

- (a) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;
- (b) on a quarterly basis review compliance with Governance Agreements;
- (c) on a quarterly basis review the prior quarter distributions;
- (d) on an annual basis review the dividend reinvestment plan;
- (e) on an annual basis review the performance of the Board under the Board's mandate;
- (f) on a quarterly basis review compliance with the Joint Disclosure Policy of the Fund; and
- (g) on a quarterly basis review any related-party transactions.

### **OVERSIGHT FUNCTION**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Fund's consolidated financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and the Fund's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Fund, and are specifically not accountable or responsible for the day to day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Fund's financial information or public disclosure.