PREMIUM BRANDS HOLDINGS CORPORATION

Interim Condensed Consolidated Financial Statements

Second Quarter 2017

Thirteen and Twenty-six Weeks Ended July 1, 2017 and June 25, 2016
(Unaudited)

Premium Brands Holdings Corporation

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligations”, if an auditor has not performed a review of the interim financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity’s auditor.

August 11, 2017

Premium Brands Holdings Corporation

Consolidated Balance Sheets

(in millions of Canadian dollars)

	July 1, 2017	December 31, 2016	June 25, 2016
Current assets:			
Cash and cash equivalents	30.1	19.4	4.3
Accounts receivable	201.5	180.9	175.5
Inventories	194.9	170.4	162.3
Prepaid expenses	8.7	7.5	6.7
Other assets (note 3)	0.5	0.5	0.6
	435.7	378.7	349.4
Capital assets	276.5	251.7	228.1
Intangible assets	147.8	149.8	122.8
Goodwill	321.4	320.3	276.1
Investment in associates	9.1	9.5	9.5
Other assets (note 3)	10.9	11.1	9.5
	1,201.4	1,121.1	995.4
Current liabilities:			
Cheques outstanding	10.7	12.4	10.6
Bank indebtedness	3.0	0.2	6.0
Dividends payable (note 7)	12.6	11.4	11.0
Accounts payable and accrued liabilities	178.8	155.8	151.2
Current portion of long-term debt (note 4)	2.0	2.2	1.2
Current portion of provisions	20.2	2.1	2.0
Current portion of puttable interest in subsidiaries	6.0	4.8	-
	233.3	188.9	182.0
Long-term debt (note 4)	195.9	152.2	194.1
Puttable interest in subsidiaries	29.2	27.4	26.7
Provisions	1.8	20.8	20.3
Deferred revenue	6.7	4.3	4.3
Pension obligation	1.5	1.5	1.6
Deferred income taxes	49.4	44.8	26.7
	517.8	439.9	455.7
Convertible unsecured subordinated debentures (note 5)	256.0	254.8	168.2
Equity attributable to shareholders:			
Deficit	(16.4)	(33.3)	(52.1)
Share capital (note 6)	426.4	429.9	402.5
Reserves	17.6	29.3	20.5
Non-controlling interest	-	0.5	0.6
	427.6	426.4	371.5
	1,201.4	1,121.1	995.4

Subsequent events (note 13)

Approved by the Board of Directors

(signed) George Paleologou Director

(signed) Johnny Ciampi Director

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

Premium Brands Holdings Corporation

Consolidated Statements of Operations

(in millions of Canadian dollars except per share amounts)

	13 weeks ended July 1, 2017	13 weeks ended June 25, 2016	26 weeks ended July 1, 2017	26 weeks ended June 25, 2016
Revenue	577.4	462.9	1,055.6	843.9
Cost of goods sold	462.0	374.6	847.6	689.0
Gross profit before depreciation and amortization	115.4	88.3	208.0	154.9
Selling, general and administrative expenses before depreciation and amortization	60.4	48.2	114.6	89.7
	55.0	40.1	93.4	65.2
Plant start-up costs (note 8)	1.3	-	1.3	-
	53.7	40.1	92.1	65.2
Depreciation of capital assets	7.1	6.5	14.3	13.2
Amortization of intangible assets	2.5	2.1	4.9	3.3
Interest and other financing costs (note 9)	5.4	4.3	10.5	7.7
Acquisition transaction costs	0.2	0.3	0.4	0.5
Change in value of puttable interest in subsidiaries	1.7	1.0	3.2	1.7
Accretion of provisions	0.2	0.3	0.5	0.4
Unrealized loss on foreign currency contracts	-	-	-	0.7
Equity loss (income) in associates	0.2	-	0.3	(0.3)
Earnings before income taxes	36.4	25.6	58.0	38.0
Provision for income taxes				
Current	8.2	2.5	11.7	3.6
Deferred	1.5	4.7	4.3	6.8
	9.7	7.2	16.0	10.4
Earnings	26.7	18.4	42.0	27.6
Earnings per share:				
Basic	0.90	0.64	1.41	0.99
Diluted	0.89	0.64	1.40	0.98
Weighted average shares outstanding (in millions)				
Basic	29.7	28.8	29.7	28.0
Diluted	29.9	28.9	29.9	28.2

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

Premium Brands Holdings Corporation

Consolidated Statements of Comprehensive Earnings

(in millions of Canadian dollars)

	13 weeks ended July 1, 2017	13 weeks ended June 25, 2016	26 weeks ended July 1, 2017	26 weeks ended June 25, 2016
Earnings	26.7	18.4	42.0	27.6
Unrealized foreign exchange loss on investment in foreign operations	(4.6)	(3.4)	(6.0)	(9.9)
Comprehensive earnings	22.1	15.0	36.0	17.7

Unrealized foreign exchange gains and losses on investment in foreign operations are adjusted through earnings in the event of a disposal of the investment in the foreign operations.

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

Premium Brands Holdings Corporation

Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

	13 weeks ended July 1, 2017	13 weeks ended June 25, 2016	26 weeks ended July 1, 2017	26 weeks ended June 25, 2016
Cash flows from (used in) operating activities:				
Earnings	26.7	18.4	42.0	27.6
Items not involving cash:				
Depreciation of capital assets	7.1	6.5	14.3	13.2
Amortization of intangible assets	2.5	2.1	4.9	3.3
Change in value of puttable interest in subsidiaries	1.7	1.0	3.2	1.7
Gain on disposal of assets	(0.1)	-	(0.1)	-
Unrealized loss on foreign currency contracts	-	-	-	0.7
Equity loss (income) in associates	0.2	-	0.3	(0.3)
Deferred revenue	2.0	-	1.9	(0.1)
Non-cash financing costs	0.7	0.5	1.4	0.9
Accretion of provisions	0.2	0.3	0.5	0.4
Deferred income taxes	1.5	4.7	4.3	6.8
	42.5	33.5	72.7	54.2
Change in non-cash working capital	(29.6)	1.1	(27.8)	13.1
	12.9	34.6	44.9	67.3
Cash flows from (used in) financing activities:				
Long-term debt – net	42.2	12.5	43.6	(9.4)
Bank indebtedness and cheques outstanding	(6.1)	6.1	(2.0)	5.5
Convertible debentures – net of issuance costs	-	82.3	-	82.3
Dividends paid to shareholders	(12.5)	(10.8)	(23.9)	(20.2)
Other	-	(0.6)	-	(0.6)
	23.6	89.5	17.7	57.6
Cash flows from (used in) investing activities:				
Capital asset additions	(23.0)	(9.6)	(37.1)	(17.1)
Business acquisitions (note11)	-	(111.8)	(11.8)	(111.8)
Payments to shareholders of non-wholly owned subsidiaries	(1.2)	(1.0)	(1.8)	(1.4)
Payment of provisions	(1.7)	(1.7)	(1.7)	(1.7)
Net change in share purchase loans and notes receivable	0.1	0.2	0.2	0.3
Distribution from associates	-	0.1	0.1	0.1
Net proceeds from disposal of assets	0.1	0.2	0.2	0.2
Other	-	(0.4)	-	(0.4)
	(25.7)	(124.0)	(51.9)	(131.8)
Change in cash and cash equivalents	10.8	0.1	10.7	(6.9)
Effect of exchange on cash and cash equivalents	-	-	-	(0.1)
Cash and cash equivalents – beginning of period	19.3	4.2	19.4	11.3
Cash and cash equivalents – end of period	30.1	4.3	30.1	4.3
Interest and other financing costs paid	8.1	3.4	9.3	6.5
Income taxes paid	13.3	0.3	15.9	0.7

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

Premium Brands Holdings Corporation

Consolidated Statements of Changes in Shareholders' Equity

(in millions of Canadian dollars)

	Deficit	Share capital	Reserves	Non-controlling interest	Share-holders' equity
Balance as at December 26, 2015	(57.9)	345.2	32.4	0.6	320.3
Common shares issued	-	60.7	-	-	60.7
Earnings for the period attributable to shareholders	27.6	-	-	-	27.6
Dividends declared	(21.8)	-	-	-	(21.8)
Effect of share based compensation plans	-	(3.4)	(2.0)	-	(5.4)
Foreign currency translation adjustment	-	-	(9.9)	-	(9.9)
Balance as at June 25, 2016	(52.1)	402.5	20.5	0.6	371.5
Balance as at December 31, 2016	(33.3)	429.9	29.3	0.5	426.4
Common shares issued (note 6)	-	0.5	-	-	0.5
Earnings for the period attributable to shareholders	42.0	-	-	-	42.0
Dividends declared (note 7)	(25.1)	-	-	-	(25.1)
Acquisition of additional interest in subsidiary (note 11)	-	-	(2.8)	(0.5)	(3.3)
Effect of share based compensation plans	-	(4.0)	(2.9)	-	(6.9)
Foreign currency translation adjustment	-	-	(6.0)	-	(6.0)
Balance as at July 1, 2017	(16.4)	426.4	17.6	-	427.6

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

(Tabular amounts in millions of Canadian dollars except per share amounts and percentages)

1. Corporate information

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

Due to the seasonal nature of the Company's business, the results of operations for any interim period are not necessarily indicative of the results to be expected for other interim periods or the full year. In general, the first quarter is the Company's weakest, and the second and third quarters are its strongest.

The Company's Board of Directors approved these interim condensed consolidated financial statements on August 11, 2017.

2. Significant accounting policies

Basis of presentation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB). Accordingly, these interim condensed consolidated financial statements do not include all of the financial statement disclosures required by International Financial Reporting Standards (IFRS) for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements and notes for the fiscal year ended December 31, 2016, which were prepared in accordance with IFRS, are filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available at www.sedar.com. These interim condensed consolidated financial statements follow the same accounting policies and methods of computation as used in the Company's 2016 annual consolidated financial statements.

Accounting standards issued but not yet adopted

(i) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 11, Construction Contracts and a number of revenue-related interpretations. This standard addresses revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to control its use and obtain the benefits from the good or service. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company has analyzed the potential impact of IFRS 15 and does not believe it will have a material impact on its 2018 consolidated financial statements.

(ii) IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, Leases, which replaces the existing lease accounting guidance. IFRS 16 requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. IFRS 16 is effective for annual periods ending on December 31, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time. The Company has started the process of analyzing the impact of implementing IFRS 16, but has not yet determined the impact it will have on its consolidated financial statements.

3. Other assets

	July 1, 2017	December 31, 2016	June 25, 2016
Employee loan program loans	8.8	9.0	7.5
Promissory note from associate	2.1	2.1	2.1
Notes receivable	0.5	0.5	0.5
	11.4	11.6	10.1
Less: current portion	0.5	0.5	0.6
	10.9	11.1	9.5

(Tabular amounts in millions of Canadian dollars except per share amounts and percentages)

4. Long-term debt

	July 1, 2017	December 31, 2016	June 25, 2016
Revolving term loan maturing in September 2020 with no principal payments until maturity. The loan bears interest at a rate that is calculated quarterly based on the Company's ratio of senior debt to cash flow and can fluctuate from 0.25% to 1.25% percentage points over the bank prime rate or 1.25% to 2.25% percentage points over the banker's acceptance rate	185.3	140.3	183.2
US$6.1 million secured Industrial Development Revenue Bond (IRB) with no principal payments until maturity in July 2036. The bond bears interest at the weekly variable rate for such bonds, which averaged 1.8882% for the first two quarters of 2017, plus a factor that is calculated quarterly based on the Company's ratio of debt to cash flow and can fluctuate from 0.5% to 1.5%	7.9	8.2	7.9
US$2.8 million unsecured note payable, bearing interest at 6.0%, payable in quarterly instalments of US$0.1 million with maturity in September 2025 but redeemable at the option of the noteholder in July 2020 or anytime thereafter	3.6	4.0	4.0
Unsecured note payable, bearing interest at 4.0% and payable in quarterly instalments of $0.2 million until maturity in November 2018	1.5	1.9	-
Capital leases and other term loans	0.9	1.5	1.8
	199.2	155.9	196.9
Deferred financing costs	(1.3)	(1.5)	(1.6)
Current portion	(2.0)	(2.2)	(1.2)
	195.9	152.2	194.1

5. Convertible unsecured subordinated debentures

Debt component	4.60% Debentures	4.65% Debentures	5.00% Debentures	Total
Balance as at December 31, 2016	107.8	82.9	64.1	254.8
Accretion	0.5	0.4	0.3	1.2
Balance as at July 1, 2017	108.3	83.3	64.4	256.0
Face value as at July 1, 2017	113.0	86.3	66.2	265.5

(Tabular amounts in millions of Canadian dollars except per share amounts and percentages)

6. Share capital

	Common shares (millions)	Share capital
Balance as at December 31, 2016	29.7	429.9
Common shares issued resulting from business acquisitions	-	0.5
Effect of share based compensation plans	-	(4.0)
Balance as at July 1, 2017	29.7	426.4

7. Dividends

During the twenty-six weeks ended July 1, 2017, the Company declared dividends to shareholders of $25.1 million or $0.84 per share. The record dates of these dividends were as follows:

Record date	Amount	Per share
March 31, 2017	12.5	0.42
June 30, 2017	12.6	0.42
	25.1	0.84

8. Plant start-up costs

Plant start-up costs consist of expenses associated with the start-up of new production capacity at one or more of the Company's businesses.

During the thirteen and twenty-six weeks ended July 1, 2017, the Company incurred $1.3 million in plant start-up costs due to the commissioning of its new 212,000 square foot sandwich production facility in Phoenix, AZ. $1.1 million of these costs related to pre-start-up expenses including plant overhead, recruiting and employee training with the balance consisting of normal inefficiencies associated with running new production lines.

9. Interest and other financing costs

	13 weeks ended July 1, 2017	13 weeks ended June 25, 2016	26 weeks ended July 1, 2017	26 weeks ended June 25, 2016
Interest on convertible debentures	3.1	2.1	6.2	3.4
Interest on long-term debt	1.3	1.5	2.4	2.9
Interest on bank indebtedness	0.2	0.2	0.3	0.4
Accretion of convertible debentures	0.6	0.5	1.2	0.8
Amortization of deferred financing costs	0.1	-	0.2	0.1
Other	0.1	-	0.2	0.1
	5.4	4.3	10.5	7.7

(Tabular amounts in millions of Canadian dollars except per share amounts and percentages)

10. Segmented information

	13 weeks ended July 1, 2017	13 weeks ended June 25, 2016	26 weeks ended July 1, 2017	26 weeks ended June 25, 2016
Revenue:				
Specialty Foods	347.7	273.0	632.2	535.2
Premium Food Distribution	229.7	189.9	423.4	308.7
	577.4	462.9	1,055.6	843.9
Gross profit before depreciation and amortization:				
Specialty Foods	78.2	56.6	139.9	104.7
Premium Food Distribution	37.2	31.7	68.1	50.2
	115.4	88.3	208.0	154.9
Selling, general and administrative expenses before depreciation, amortization, and plant start-up costs:				
Specialty Foods	35.3	27.3	65.9	52.2
Premium Food Distribution	21.5	17.9	41.5	32.6
Corporate	3.6	3.0	7.2	4.9
	60.4	48.2	114.6	89.7
Segment earnings (loss) before depreciation, amortization, and plant start-up costs:				
Specialty Foods	42.9	29.3	74.0	52.5
Premium Food Distribution	15.7	13.8	26.6	17.6
Corporate	(3.6)	(3.0)	(7.2)	(4.9)
	55.0	40.1	93.4	65.2
Plant start-up costs:				
Specialty Foods	1.3	-	1.3	-
Depreciation and amortization:				
Specialty Foods	7.7	6.6	14.9	13.2
Premium Food Distribution	1.8	1.9	4.0	3.1
Corporate	0.1	0.1	0.3	0.2
	9.6	8.6	19.2	16.5
Segment operating earnings (loss):				
Specialty Foods	33.9	22.7	57.8	39.3
Premium Food Distribution	13.9	11.9	22.6	14.5
Corporate	(3.7)	(3.1)	(7.5)	(5.1)
	44.1	31.5	72.9	48.7
Interest and other financing costs	5.4	4.3	10.5	7.7
Acquisition transaction costs	0.2	0.3	0.4	0.5
Change in value of puttable interest in subsidiaries	1.7	1.0	3.2	1.7
Accretion of provisions	0.2	0.3	0.5	0.4
Unrealized loss on foreign currency contracts	-	-	-	0.7
Equity loss (income) in associates	0.2	-	0.3	(0.3)
Provision for income taxes	9.7	7.2	16.0	10.4
Earnings	26.7	18.4	42.0	27.6

(Tabular amounts in millions of Canadian dollars except per share amounts and percentages)

	26 weeks ended July 1, 2017	26 weeks ended June 25, 2016
Capital asset additions:		
Specialty Foods	32.0	12.2
Premium Food Distribution	4.0	3.0
Corporate	1.1	1.9
	37.1	17.1
Revenue:		
Canada	792.8	586.2
United States	262.8	257.7
	1,055.6	843.9

	July 1, 2017	December 31, 2016	June 25, 2016
Total assets:			
Specialty Foods	728.1	679.6	582.1
Premium Food Distribution	422.0	396.0	385.1
Corporate	51.3	45.5	28.2
	1,201.4	1,121.1	995.4

11. Business acquisitions

Acquisition of minority shareholder's interest in Made-Rite

On January 12, 2017, the Company acquired the minority shareholder's interest in Made-Rite Meat Products LP (Made-Rite) and the land and building leased by Made-Rite for $8.9 million in cash. Made-Rite, which is based in Langley, BC, is a manufacturer of beef jerky and other meat snacks.

Acquisition of Interprovincial Meat Sales

On January 27, 2017, the Company acquired an 80% interest in Interprovincial Meat Sales Ltd. (IMS) for approximately $5.8 million, consisting of $2.3 million in cash, 7,594 of the Company's common shares valued at $0.5 million, the assumption of $2.2 million of funded debt, and contingent consideration of up to $0.8 million if IMS achieves certain profitability targets over the two years following the acquisition. IMS is based in Nova Scotia and is a supplier of high quality protein products to retailers, foodservice distributors and food manufacturers in the Maritimes.

Acquisition of Ravensbergen

On February 8, 2017, the Company acquired the business and certain assets of Ravensbergen Bakery Supplies Ltd. (Ravensbergen) for $0.6 million in cash. Ravensbergen is based in Vancouver, BC and is a supplier of specialty gelato making ingredients and equipment.

(Tabular amounts in millions of Canadian dollars except per share amounts and percentages)

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

Net assets acquired:	
Net working capital	3.1
Capital assets	5.4
Intangible assets – customer relationships	3.4
Goodwill	2.1
Reserves	2.8
Non-controlling interest	0.5
Deferred income taxes	(0.9)
Puttable interest	(1.1)
	15.3
Investment:	
Cash	11.8
Common shares issued	0.5
Funded debt assumed	2.2
Provision for contingent consideration	0.8
	15.3

12. Financial instruments

Foreign currency risk

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

As at July 1, 2017, the Company had outstanding foreign currency contracts for the purchase of US$15.3 million over the next six months at a blended rate of C$1.3301. As at July 1, 2017, these contracts had a fair value of $nil (2016 – $nil) and during the thirteen and twenty-six weeks ended July 1, 2017, the Company recorded in respect of these contracts no gain or loss (2016 – unrealized loss $nil and of $0.7 million, respectively) in the consolidated statement of operations.

Based on the outstanding contracts as at July 1, 2017, a change of $0.01 in the value of the U.S. dollar relative to the Canadian dollar would result in an unrealized gain (if the U.S. dollar strengthens) or an unrealized loss (if the U.S. dollar weakens) of approximately $0.2 million in its consolidated statement of operations.

Interest rate risk

All of the Company's bank indebtedness and approximately 97% (2016 – 97%) of its long-term debt bear interest at floating rates. The Company manages its interest rate exposure by using a variety of strategies, including entering into, from time to time, interest rate swap contracts.

In August 2015, the Company entered into interest rate swap contracts (the swaps) fixing the rate of interest on $75.0 million of its long-term debt at an effective rate of 0.8865% plus 1.25% to 2.25%, depending on its ratio of debt to cash flow, until September 2018. The Company designated these swaps as a cash flow hedge and determined that the swaps had no ineffectiveness, and correspondingly, changes in their fair market value are recognized in other comprehensive income. As at July 1, 2017, the swaps had a fair market value of $nil (2016 – $nil), and during the thirteen and twenty-six weeks ended July 1, 2017 the Company recorded no gain or loss (2016 – no gain or loss) in other comprehensive income for them.

As at July 1, 2017, a change of 0.25 percentage points in the effective interest rate for the remaining term of the swaps would results in an unrealized gain (if interest rates increase) or an unrealized loss (if interest rates decrease) of approximately $0.2 million in its consolidated statements of comprehensive earnings.

13. Subsequent events

Investment in Partners

Subsequent to July 1, 2017, the Company acquired a 25% interest in Seattle, WA based Partners, A Tasteful Choice Company (Partners) through the purchase of US$2.0 million of treasury shares. Partners, which has annual sales of approximately US$10 million, is a manufacturer of high-end artisanal crackers for retail markets across the U.S. and Canada.

Additional Investment in McLean

Subsequent to July 1, 2017, the Company acquired an additional 11.2% interest in McLean Meats Inc. (McLean) for $0.2 million in cash. McLean is a Vancouver, BC based marketer and supplier of premium and organic processed meats.