

# The Fundamentals of Growth

Annual Report 2017



  
HIGH LINER FOODS



## Who We Are

High Liner Foods is the leading North American processor and marketer of value-added frozen seafood. Our retail branded products are sold throughout the United States, Canada and Mexico under the **High Liner**, **Fisher Boy**, **Sea Cuisine** and **C. Worthy** labels, and are available in most grocery and club stores. We also sell branded products under the **High Liner**, **Icelandic Seafood** and **FPI** labels to restaurants and institutions, and are a major supplier of private-label, value-added frozen seafood products to North American food retailers and foodservice distributors.

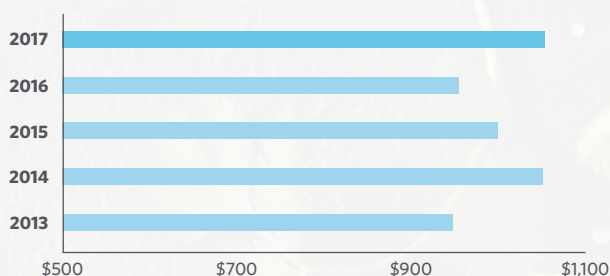
High Liner Foods is a publicly traded Canadian company, trading under the symbol HLF on the Toronto Stock Exchange.

## 2017 Financial Highlights (UNAUDITED)

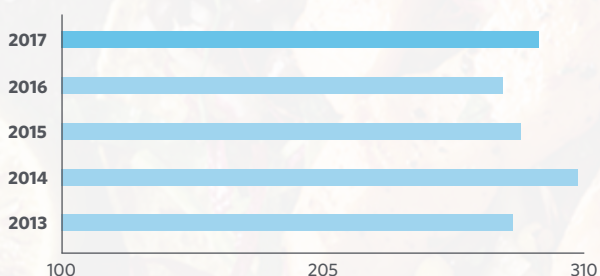
<b>(in thousands of United States Dollars ("USD"), except per share amounts, unless otherwise noted)</b>	<b>2017</b>	<b>2016</b>	<b>% Change</b>
Revenues	1,053,846	954,986	10.4%
Adjusted EBITDA <sup>(1)</sup>	66,112	81,383	(18.8)%
Net income	31,653	32,284	(2.0)%
Basic earnings per common share	0.98	1.04	(5.8)%
Diluted earnings per common share	0.97	1.04	(6.7)%
Adjusted net income <sup>(1)</sup>	30,142	40,284	(25.2)%
Basic earnings per common share	0.93	1.30	(28.5)%
Diluted earnings per common share	0.93	1.29	(27.9)%
Total assets	907,969	685,108	32.5%
Gross capital expenditures	27,775	17,686	57.0%
Shareholders' equity	268,867	220,204	22.1%
Book value per share	8.05	7.13	12.9%
Dividends paid per share (CAD)	0.565	0.520	8.7%
<b>Operating Highlights</b>			
Sales volumes (000s of pounds)	291,826	277,298	5.2%
Number of employees	1,362	1,293	5.3%

<sup>(1)</sup> See the Non-IFRS Financial Measures section starting on page 37 of this Annual Report for further explanation of Adjusted EBITDA and Adjusted Net Income.

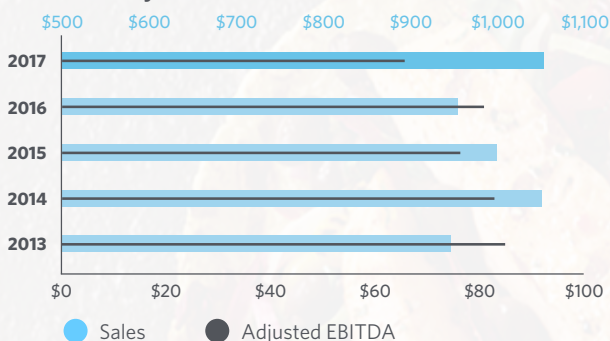
**Sales** (in millions of USD)



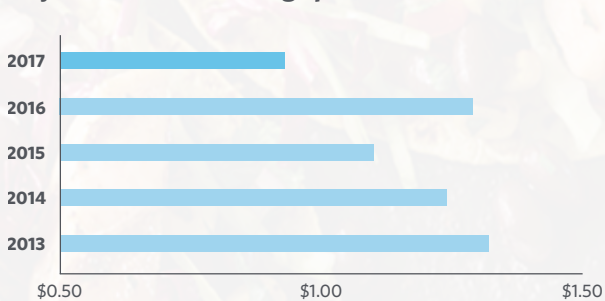
**Product Sales Volume** (in millions of pounds)



**Sales vs. Adjusted EBITDA<sup>(1)</sup>** (in millions of USD)



**Adjusted Diluted Earnings per Share<sup>(1)</sup>** (in USD)



<sup>(1)</sup> See the Non-IFRS Financial Measures section starting on page 37 of this Annual Report for further explanation of Adjusted EBITDA and Adjusted Diluted Earnings per Share.



*Our customer-focused products are innovative and responsibly sourced.*

North Americans are increasingly looking for protein alternatives and seafood they can trust. By emphasizing the fundamentals of growth, High Liner Foods is poised to capitalize on those shifting consumer trends.

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### Our Top Species

We have the scale and global reach to deliver the seafood products our customers and consumers want. Our top species by percentage of sales:



**24.9%** Cod



**19.6%** Shrimp



**14.6%** Salmon



**14.2%** Alaskan Pollock



**9.0%** Haddock



**5.8%** Tilapia

- 
- Top sourcing countries
  - Manufacturing
  - Offices
  - Distribution

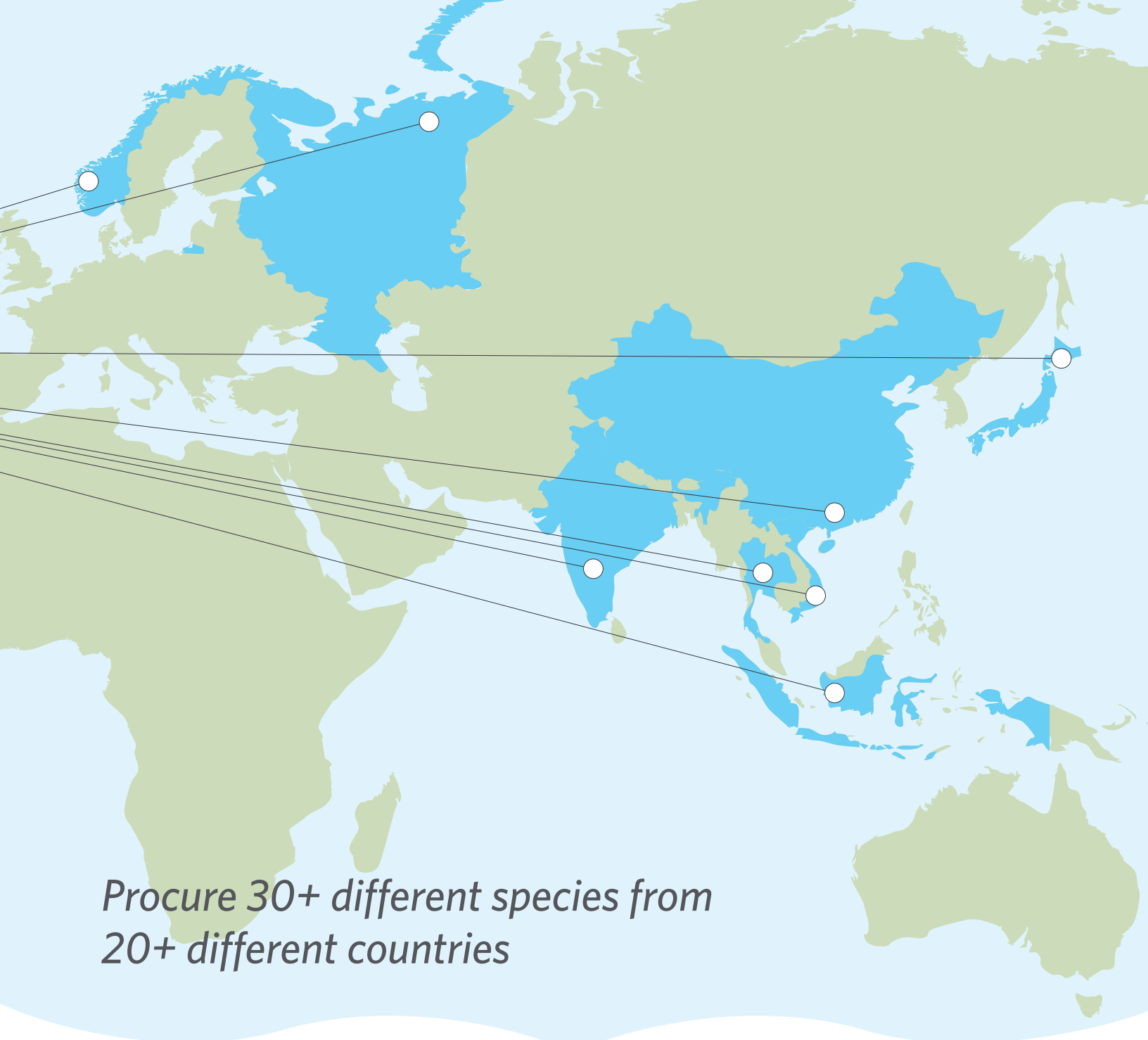
PRESENT

## At a Glance

High Liner Foods is the leading North American processor and marketer of value-added frozen seafood to the foodservice and retail trade. Our core brands give us the unique ability to serve our customers with a variety of value-added seafood that meets their diverse needs.

To help us deliver what our customers want, when they want it, we source seafood from around the world. No matter where we source, our requirements are the same: suppliers must strive to catch or farm seafood responsibly, protect against overfishing and limit impacts on the natural environment. They're also expected to treat their employees well and uphold high worker safety and social standards.





*Procure 30+ different species from  
20+ different countries*

### Key Retail Brands



### Key Foodservice Brands



# The Fundamentals of Growth

Unfortunately, High Liner Foods underperformed in 2017. A number of factors were at play — organic growth challenges, production difficulties following the 2016 closure of our New Bedford plant, a product recall outside of our control, as well as a leadership change. As a company, we're committed to learning from the past, and I am confidently looking ahead to future growth.

While our sales of \$1.05 billion and Adjusted EBITDA of \$66.1 million were below targets, our second-quarter acquisition of Rubicon Resources, a leading U.S. shrimp importer, helped drive our overall revenue up 10% compared to 2016. By growing our aquaculture business, consistently satisfying our customers, managing fixed costs, operating our plants at optimized run rates and protecting our margins from increases in raw material costs, I believe our revenues will continue to grow and our margins will improve in 2018. That's because High Liner remains uniquely positioned to make great tasting seafood easier for our customers and consumers to buy, and easier for them to prepare and enjoy. It's who we are.

I've long said that seafood has countless advantages for our customers, our consumers and our planet. Sustainably caught seafood is better for the environment than just about any other protein, and its health benefits have been well documented and widely reported. But unlike other sources of proteins that come from farms or facilities down the road, seafood remains a complex category in North America. With over 100 species to choose from, and those species coming from all around the world, consumers can find the diversity of seafood choices overwhelming, as

**\$1.05**

**billion  
in sales**

**\$66.1**

**million  
of Adjusted  
EBITDA**



well as intimidating to prepare. As it's been for years, our number one job is to make the complex simple — to make it easier for our customers to procure and prepare our products, and for consumers to buy and enjoy seafood with confidence. And that's what we're going to continue doing.

Our strategy for success is not complicated. Strengthening our business in 2018 means getting back to the fundamentals of growth — a focus on customers, on innovative products and on responsible, efficient execution in all that we do. I returned as CEO in August to help emphasize those fundamentals, so that all of our 1,360 employees can work together to deliver more great tasting seafood to our customers and consumers, and more return on investment for our shareholders.

In the near term, this approach will help High Liner tap into a track record of reinvention and renewal — one perhaps demonstrated by our transformation from a regional fishing and processing operation at the turn of the 21st century to a global procurer and leading supplier of white fish. Today, we source over 30 seafood species from 20 countries, which gives us a competitive edge over businesses that focus on a single species or country of origin. We



need to capitalize on that advantage, while leveraging our growing aquaculture capabilities. As we more fully integrate Rubicon into our aquaculture program this year, we will further diversify the opportunities we offer our retail and foodservice partners, specifically around consumer demand for shrimp and Atlantic salmon, two aquaculture species experiencing the greatest growth in the marketplace.

Of course, a growing appetite for seafood means little unless we optimize our operations and consistently fulfill the orders our customers place. That is how we will consistently satisfy customer expectations in 2018 and make it easier for them to share our existing core products, as well as our innovative new ones, with consumers.

I am proud that High Liner sells a wide range of great tasting products that are healthy and convenient to prepare. That is equally true for a family at home or a foodservice operator in a commercial kitchen. Whether in the grocery store, a restaurant or a cafeteria, consumers are looking for protein alternatives. We offer just that — delicious, responsibly sourced protein in the form of seafood they can

trust. By developing even more innovative, easy-to-prepare products and by implementing simplified processes to ensure we meet or exceed customer expectations, we will continue to build confidence in the convenience High Liner represents — confidence that will fuel our growth well into the future.

No, we did not make the progress we'd planned in 2017, but we remain committed to the fundamentals that define us as a company. We continue to believe that seafood is a protein that's good for people and good for our planet. We know how to run our plants more efficiently, and that our business will deliver on its potential. I am grateful for the hard work and dedication of our employees — especially everyone who worked tirelessly through this past year's recall — and I thank our customers and shareholders for their patience and continued support. Together, we will enjoy even more great tasting seafood in 2018.

**Henry Demone,**  
Chairman and Chief Executive Officer  
March 9, 2018



*Seafood has countless benefits for customers, consumers and the planet.*





NEAR TERM

# Diversified Opportunities

High Liner Foods traces its roots to the Atlantic Canadian fishery of the late 19th century. From our early days in Lunenburg, Nova Scotia, to going public on the Toronto Stock Exchange in 1967, we have looked for opportunities to grow and strengthen our business, and with it our ability to deliver a variety of sustainably sourced seafood. With our two most recent acquisitions, we have positioned ourselves to offer an even wider range.

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*Our purchase of Rubicon Resources brings us competitive, flexible access to an increasingly in-demand species.*



In 2014, we purchased Atlantic Trading Company, one of the largest importers of frozen Atlantic salmon in the U.S. This past May, we acquired Rubicon Resources, a specialized importer and distributor of frozen shrimp in the private-label U.S. retail market. Through them we are diversifying our product line while growing our aquaculture business — a business we believe positions us for continued growth.

A key component of our success with white fish species has been “virtual vertical integration.” When we could no longer fish our own cod and haddock in the late 1980s and early 1990s, we set out to reinvent ourselves by focusing on relationships with suppliers and partners — not on boats and nets. The shift freed us of heavy capital requirements and the challenges of managing quotas and licences. We maintained our access to white fish — which we continue to sell to our customers and consumers — but with increased flexibility to respond nimbly to industry disruptions and shifting trends.

Through Atlantic Trading and Rubicon, we are applying that proven virtual vertical integration model to salmon and shrimp. Rubicon, for example, brings High Liner as a whole closer to shrimp producers and processors in Southeast Asia, particularly Thailand. Though we do not own shrimp ponds or shrimp processing plants, we are positioned to benefit from the region’s supply chain, world-class facilities, competitive labour costs and know-how in value-added frozen shrimp products. Such integration brings us access to an increasingly in-demand species that has traditionally represented a small percentage of our value-added and commodity businesses. It also lets us build additional aquaculture expertise, along with profitable relationships with suppliers and plants, without the fixed overhead.

Rubicon and Atlantic Trading fit with our approach to species diversification through aquaculture — as well as our public commitments to responsible sourcing. And together, they represent opportunities to apply our proven sourcing and distribution model with white fish to species that more and more consumers want.



*Through our unique virtual vertical integration, we respond nimbly to industry disruptions and shifting trends. The model lets us sell fish — like cod and haddock — without having to maintain boats or manage quotas.*



### Shrimp Demand

*Dietary guidelines recommend two to three servings of seafood each week.\* And while the average North American is not yet reaping the health benefits of those suggested servings, they are consuming more and more shrimp — eating 4.1 pounds (1.9 kilograms) of it annually, according to the National Fisheries Institute. That’s twice as much shrimp as canned tuna and significantly more than high-price species like crab.*

*As demand for shrimp grows, both in North America and globally, aquaculture is helping supply the product. Shrimp farms have been around since the 1970s, and with the acquisition of Rubicon, High Liner is better positioned to satisfy consumers who look for sustainable, convenient, nutritious and competitively priced seafood.*

\* “Eating Well with Canada’s Food Guide” (2011) and “Dietary Guidelines for Americans, 2015-2020” (2015)

**30+**

**total species**

procured from 20+ countries.

**2**

**high-demand aquaculture species**

in our virtual vertically integrated supply chain.



LONG TERM

# Confidence in Convenience

Whether in our Lunenburg plant or our Newport News distribution and manufacturing facilities, the 1,360 employees of High Liner Foods share a proud heritage and unrivalled global seafood expertise. But that means little unless we successfully translate it every day into nutritious, innovative products that our customers and consumers want to buy and can prepare — with confidence and convenience.

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*The nutritional, environmental and financial case for customer-focused, innovative seafood solutions is clear.*



Long-term success requires new ways to drive seafood consumption and to increase demand for High Liner products. That means breathing new life into core products and creating new ones that reflect food trends and shifting demographics. We know consumers, and especially millennials, are migrating from the supermarket's centre aisles to its perimeter. They want healthier options and more convenience. With innovative, foolproof solutions, that's what we increasingly offer.

In addition to driving demand for and awareness of our products, we must ensure they are available in retail and foodservice environments when our customers and consumers want them. Having simplified our supply chain and operations, we can work more effectively with our customers on competitive pricing, promotional activities and product mixes that meet their needs. And by increasing the efficiency of our three plants — in Lunenburg, Newport News and Portsmouth — we will strive to always deliver orders on time and in full.

As the largest foodservice supplier of value-added frozen seafood in North America and the leading retail frozen seafood brand in Canada, we have the scale and reach to deliver the value-added and unprocessed seafood products our customers and consumers want. In effect, we're a trusted one-stop shop. The diversity of our species and sourcing countries also means we can respond to inevitable shifts in consumer trends better than other seafood companies focused on a single species or source country.

The case for seafood's nutritional and environmental benefits is clear. Our job is to connect with nutrition and environment conscious consumers through our distribution partners, as well as through digital and social media marketing. We need to make High Liner and the convenience of our products top-of-mind as they consider delicious, planet-friendly and trustworthy alternatives to beef, pork and poultry. Looking for great tasting seafood should — and can — be synonymous with High Liner and our brands.

# 10+

## brands

synonymous with great tasting seafood.

# 1,360

## dedicated employees

and unrivalled global seafood expertise.

*Through product innovation, we're focused on connecting with consumers in a meaningful way — especially millennials who may believe seafood is difficult to prepare.*



## KeepFresh™

*Marinating and flash freezing seafood at its peak helps preserve its great taste and nutritional value. Our unique KeepFresh™ technique locks in that fresh taste without adding chemicals. The result? Frozen seafood that can compete with fresh fish — especially when it comes to high-price species.*

*We first introduced KeepFresh™ entrees such as Sea Cuisine Wild Pacific Cod Loins in 2016, and we will launch even more items in the U.S. and Canada this coming year — expanding our menu of innovative solutions for our foodservice partners and consumers alike.*



# Sustainability at High Liner

In 2018, we plan to grow as we fully leverage our capabilities, improve the efficiency of our supply chain and operations, and consistently deliver quality, great tasting seafood to our customers and consumers.

*Since 2010, we have been publicly committed to sourcing from responsible fisheries and aquaculture farms.*

We also know that in the very long term, High Liner is only as resilient and healthy as the world's oceans and seafood farms. That's why we have taken a leading role in embedding sustainable practices in both our business and our industry at large. It's good for our customers and consumers, good for our shareholders and good for our planet.

Read more about High Liner's efforts, as well as our annual Corporate Social Responsibility Report, at [highlinerfoods.com](http://highlinerfoods.com) under the Sustainability section.





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# Management's Discussion and Analysis

## Introduction

This Management's Discussion and Analysis ("MD&A"), dated February 21, 2018, relates to the financial condition and results of operations of High Liner Foods Incorporated for the fifty-two weeks ended December 30, 2017 ("Fiscal 2017") compared to the fifty-two weeks ended December 31, 2016 ("Fiscal 2016"). Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2017 Annual Report along with our Annual Audited Consolidated Financial Statements ("Consolidated Financial Statements") as at and for the fifty-two weeks ended December 30, 2017, prepared in accordance with International Financial Reporting Standards ("IFRS"). The information contained in this document, including forward-looking statements, is based on information available to management as of February 21, 2018, except as otherwise noted.

### COMPARABILITY OF PERIODS

The Company's fiscal year-end floats, and ends on the Saturday closest to December 31. The Company follows a fifty-two week reporting cycle, which periodically necessitates a fiscal year of fifty-three weeks. Fiscal years 2017, 2016 and 2015 were fifty-two weeks. When a fiscal year contains fifty-three weeks, the reporting cycle is divided into four quarters of thirteen weeks each except for the fourth quarter, which is fourteen weeks in duration. Therefore, amounts presented may not be entirely comparable.

### NON-IFRS FINANCIAL MEASURES

This document also includes certain non-IFRS financial measures, which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes. These non-IFRS measures do not have any standardized meaning as prescribed by IFRS, and therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures in the *Non-IFRS Financial Measures* section starting on page 37 of this MD&A.

### CURRENCY

All amounts in this MD&A are in United States dollars ("USD"), unless otherwise noted. Although the functional currency of High Liner Foods' Canadian company (the "Parent") is the Canadian dollar ("CAD"), management believes the USD presentation better reflects the Company's overall business activities and improves investors' ability to compare the Company's consolidated financial results with other publicly traded businesses in the packaged foods industry (most of which are based in the United States ("U.S.") and report in USD) and should result in less volatility in reported sales and income on the conversion into the presentation currency.

For the purpose of presenting the Consolidated Financial Statements in USD, CAD-denominated assets and liabilities in the Parent's operations are converted using the exchange rate at the reporting date, and revenue and expenses are converted at the average exchange rate of the month in which the transaction occurs. As such, foreign currency fluctuations affect the reported values of individual lines on our balance sheet and income statement. When the USD strengthens (weakening CAD), the reported USD values of the Parent's CAD-denominated items decrease in the Consolidated Financial Statements, and the opposite occurs when the USD weakens (strengthening CAD).

In some parts of this document, balance sheet and operating items of the Parent are discussed in the CAD functional currency (the "domestic currency" of the Parent) to eliminate the effect of fluctuating foreign exchange rates used to translate the Parent's operations to the USD presentation currency.

### FORWARD-LOOKING STATEMENTS

This MD&A includes statements that are forward looking. Our actual results may be substantially different because of the risks and uncertainties associated with our business and the general economic environment. We discuss the principal risks of our business in the *Risk Factors* section on page 45 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved, and if it is achieved, we cannot provide assurance that it will result in an increase in the Company's share price. See the *Forward-Looking Information* section on page 52 of this MD&A.



## 1. Company Overview

High Liner Foods, through its predecessor companies, has been in business since 1899 and has been a publicly traded Canadian company since 1967, trading under the symbol 'HLF' on the Toronto Stock Exchange ("TSX"). We are the leading North American processor and marketer of value-added (i.e. processed) frozen seafood, producing a wide range of products from breaded and battered items to seafood entrées, that are sold to North American food retailers and foodservice distributors. The retail channel includes grocery and club stores and our products are sold throughout the U.S., Canada and Mexico under the **High Liner**, **Fisher Boy**, **Mirabel**, **Sea Cuisine** and **C. Worthy & Co.** labels. The foodservice channel includes sales of seafood that are usually eaten outside the home and our branded products are sold through distributors to restaurants and institutions under the **High Liner**, **Icelandic Seafood**<sup>(1)</sup> and **FPI** labels. The Company is also a major supplier of private-label value-added frozen premium seafood products to North American food retailers and foodservice distributors.

We own and operate three food-processing plants located in Lunenburg, Nova Scotia ("NS"), Portsmouth, New Hampshire ("NH"), and Newport News, Virginia ("VA"). The Company ceased value-added fish operations at its plant in New Bedford, Massachusetts ("MA") on July 15, 2016 and sold the facility and the New Bedford scallop business on September 7, 2016.

Although our roots are in the Atlantic Canadian fishery, we purchase all our seafood raw material and some finished goods from around the world. From our headquarters in Lunenburg, NS, we have transformed our long and proud heritage into global seafood expertise. We deliver on the expectations of consumers by selling seafood products that respond to their demands for sustainable, convenient, tasty and nutritious seafood, at good value.

Additional information relating to High Liner Foods, including our most recent Annual Information Form ("AIF"), is available on SEDAR at [www.sedar.com](http://www.sedar.com) and in the Investor Center section of the Company's website at [www.highlinerfoods.com](http://www.highlinerfoods.com).

### Corporate Strategy and Values

Our business strategy is focused on selling frozen seafood in North America. We focus on frozen seafood because we are experts in this category, and on the North American market because we continue to see opportunities for growth by building on our position as a leader in frozen seafood in both the U.S. and Canada.

<sup>(1)</sup> In December 2011, as part of our acquisition of the U.S. subsidiary of Icelandic Group h.f., we acquired several brands and agreed to a seven year royalty-free licensing agreement with Icelandic Group for the use of the Icelandic Seafood brand in the U.S., Canada and Mexico.

Our business strategy is supported by our corporate vision, mission and values. Our vision sets our overall direction:

***"Great tasting seafood for a better life."***

Our mission describes why we exist as a company:

***"With the customer at the centre of all we do, we are on a mission to drive seafood consumption by providing innovative solutions to a world looking for healthy, easy to prepare, delicious seafood options."***

Seafood is a nutritious protein choice which North Americans, on average, are not consuming enough of to meet the recommended two servings per week in the U.S. Dietary Guidelines for Americans (Eighth Edition) 2015-2020 and Canada's Food Guide (2011). We see this as an opportunity to drive seafood consumption in North America through introducing new and innovative frozen seafood products to the market that not only make it easy for health-conscious consumers to incorporate more seafood into their diets, but which appeal to consumers as a convenient and delicious option when making a choice among proteins. Ultimately, we are focused on developing and marketing frozen seafood products that will result in North Americans choosing to eat more seafood than they do today.

Seafood is a complex category for our retail and foodservice customers. Buying seafood is complex due to a global supply chain and the existence of more than one hundred commercial species, and in addition, many people believe that preparing seafood is time consuming and difficult. We are committed to simplifying the seafood category for our customers, from procurement through to preparation, and leveraging the full extent of our seafood expertise so they can be confident in serving quality, delicious seafood products.

The Company and its employees are committed to conducting business in a manner that always reflects the following values:

- **Customer focused:** We are focused on meeting the current and future needs of our customers and believe that our success depends on understanding our customers, building strong relationships and delivering quality products on time.
- **Innovative:** We are committed to providing differentiated and innovative products and services to grow our business and meet the needs of a changing marketplace. We are also committed to innovation in how we work, to make the business more efficient.
- **Responsible:** We take responsibility for our actions. In a competitive industry, we operate with integrity with our customers, suppliers and each other. We respect our environment and are committed to sustainability in all our operations.

In combination with our growth strategy described below, we believe our business strategy will help to achieve our vision and increase shareholder value in the long term.

## **Growth Strategy**

Our growth strategy is focused on sustainable organic sales volume growth and the acquisition of frozen seafood businesses.

### **SUSTAINABLE ORGANIC SALES VOLUME GROWTH**

Internal growth has become increasingly challenging over the last several years as demand for traditional breaded and battered frozen seafood products, which makes up a significant portion of our product portfolio today, has been declining. This trend has had a negative impact on our year-over-year sales volume trends and the efficiency of our manufacturing facilities. We are primarily focused on product innovation to return the Company to volume growth, but cannot achieve this until sales from new products are sufficient to offset the decline being experienced in the breaded and battered category and/or this category stabilizes.

Our product innovation efforts aimed at increasing sales volume are focused on two areas. The first is our core offerings, where we are focused on innovating and improving the types of products that already exist in our portfolio today. This is about breathing new life into and expanding our core product offerings, ensuring they reflect what we know consumers want when they are selecting seafood products. In some instances, these efforts may include activities aimed at changing customer and consumer perception regarding what our core products offer in terms of quality and value.

The second area product innovation efforts are focused is on creating and delivering new products to the market that align with emerging consumer trends and preferences. This is about growing sales from products that do not currently exist in our portfolio or the marketplace, but that we believe will appeal to today's seafood consumer. Ideally, the types of new products we introduce to the market will also expand and diversify our portfolio to include more of the species, such as Atlantic salmon and warm water shrimp, which are experiencing the greatest growth rates in the marketplace, yet represent only a relatively small percentage of our current business.

Given the increasing importance our ability to innovate has on achieving sustainable organic sales volume growth, we adopted a new approach to product innovation in 2016 based on the principles of an innovation methodology called Innovation Engineering. This new approach allows us to speed up innovation efforts, while simultaneously reducing risk in the process.

Commercial excellence is also a key part of our growth strategy. This means building effective relationships with our customers and leveraging the full extent of our seafood expertise to help them succeed in seafood. Part of this is ensuring our sales and marketing teams are structured and equipped with the information and market intelligence needed to provide customers with products that meet their needs and to make effective pricing and promotional decisions.

### **ACQUISITION OF FROZEN SEAFOOD BUSINESSES**

Although organic growth is our primary focus, our strength in the value-added frozen seafood business in North America creates a strategic opportunity for us to acquire businesses operating in the same markets. We are interested in acquisition opportunities to support sales and earnings growth and further species diversification. Target businesses must be principally selling frozen seafood in North America and we must be able to leverage some combination of the following to increase shareholder returns: our existing brands, customer or supplier relationships, manufacturing facilities, business systems, or our expertise in marketing frozen seafood, frozen food logistics and product development.

We have made six acquisitions since late 2007, all of which were aligned with the above criteria. These acquisitions positioned High Liner Foods as the North American leader in value-added frozen seafood, the clear market leader in both retail and foodservice channels in Canada, and a leading supplier of value-added (including private-label) frozen seafood products in retail and foodservice channels in the U.S.

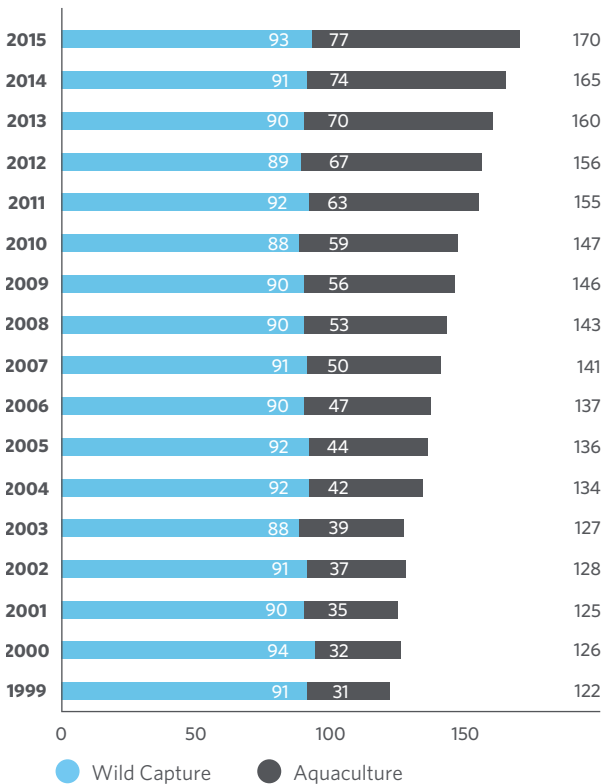


## Global Seafood Supply and Demand

As a consumer-driven sales and marketing company, we focus on matching supply to demand. Procuring seafood on global markets allows us to provide products based on consumer preferences. The global supply of seafood is expanding, and global consumer demand is increasing due to the recognized health benefits and taste of seafood and increased demand from emerging economies. The catch of wild fish has stabilized at around 90 million tonnes annually, which represents between 55% and 60% of the total supply, while aquaculture production continues to increase as illustrated in the following chart reported by the Food & Agriculture Organization of the United Nations (“FAO”) in 2017:

### Global Fisheries Production

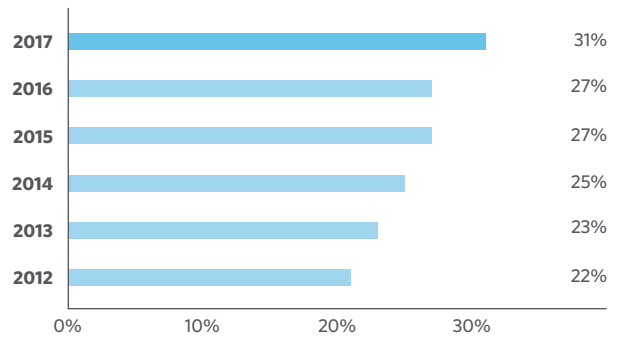
Share of Capture and Aquaculture (million MT)



Source: FAO Fishery Statistics

Globally, there has been considerable development in the aquaculture industry both in finfish and shellfish species. This trend is expected to continue. We currently procure aquaculture products, including warm water shrimp, tilapia, pangasius (basa), mussels, scallops and Atlantic salmon. Our strategy is to increase the procurement of aquaculture products in the future as we continue to align with this trend. As illustrated in the following chart, aquaculture accounted for 31% of our sales in 2017, with wild-caught seafood comprising the remaining 69%.

### Percentage of Invoiced Sales from Aquaculture Species



Globally, demand over time is expected to increase faster than supply, resulting in increases in seafood costs. These increases in demand come about as a result of increasing disposable incomes in the countries of Brazil, Russia, India and China (“BRIC”), and increased demand in Southeast Asia. The trend of increasing demand was affected, at least temporarily, as a result of the global financial crisis and the changed relationship between currencies of producing and consuming countries. Demand from Europe, especially Southern European countries, decreased significantly due to the financial uncertainty surrounding the European Union. However, in the longer term, we expect demand to continue to increase, resulting in increases in seafood costs.

### Core Businesses

High Liner Foods is the leading North American processor and marketer of value-added frozen seafood. We own strong brands, and are also an important supplier of private-label frozen seafood products for many North American food retailers, club stores and foodservice distributors.

High Liner Foods consists of two main geographically-based business units – the United States and Canada:

#### UNITED STATES OPERATIONS

##### Retail

Our U.S. subsidiary produces and sells value-added frozen seafood products under the **Fisher Boy**, **High Liner**, **Sea Cuisine** and **C. Wirthly & Co.** brands. The business distributes products throughout the U.S. and in Mexico through traditional grocery stores and club stores, among others. The club store channel is important to our growth strategy for the U.S. retail business, and we sell to all major U.S. club store chains. We have built business in this channel by introducing innovative premium products under the **High Liner** and **Sea Cuisine** brands. Our U.S. subsidiary is also one of the leading suppliers in the U.S. of retail private-label value-added frozen seafood. We produce more than 45 different labels for U.S. grocery retailers, primarily breaded and battered fish sticks and portions.

### Foodservice

Customer channels in this business include foodservice operators in multiple restaurant segments, broad line foodservice distributors, and specialty seafood distributors. High Liner Foods is one of the largest seafood suppliers to this market especially in value-added products. We are recognized particularly for our innovative product development expertise. In recent years, acquisitions have added new products and brands to our foodservice offerings and have substantially increased High Liner Foods' share of the market for value-added seafood products in the U.S. foodservice industry. This division also sells a full line of raw (unprocessed) and cooked uncoated seafood to the foodservice channel. Products in this channel are sold under the **High Liner Foodservice**, **Icelandic Seafood** and **FPI** brands.

### CANADIAN OPERATIONS

#### Retail

From our sales and marketing headquarters in the Greater Toronto Area ("GTA"), the flagship brand of our business, **High Liner**, is sold to every major Canadian grocery retailer and club store. It is Canada's leading seafood name. The brand includes more than 100 individual products, from our traditional battered and breaded fish portions to innovative and highly popular premium products that offer a variety of seafood species responding to modern tastes as well as raw uncoated seafood products for consumers to prepare themselves at home. We also supply a significant portion of the value-added products that our customers resell under their own private labels.

#### Foodservice

Our Canadian foodservice business, also headquartered in the GTA, is growing due to our ability, through worldwide procurement, to provide foodservice customers with innovative products and new species. Foodservice specializes in delivering seafood and menu expertise to restaurant chains and Canada's leading foodservice distributors. Foodservice products are sold under the **High Liner Culinary**, **FPI** and **Mirabel** brands and include both value-added and raw products. High Liner Foods is the largest frozen seafood supplier in the Canadian foodservice channel. Private labels are also produced for some of our larger customers.

### Core Competencies

Our core operational competencies are:

#### BROAD MARKET REACH

We have been supplying food products to major grocery retailers and foodservice distributors for decades. We have developed strong relationships with our customers through excellent customer service and brand recognition. We sell to most of the retail chains, the major club stores, and foodservice distributors in North America. We have

ensured that our infrastructure is capable of meeting the exacting demands of these customers, for both excellent products and delivery service as well as meeting their ever-increasing technological requirements.

All Commodity Volume ("ACV") is an important measure of product availability in the retail channel. This is a measure of the volume of the traditional grocery stores as a percentage of total stores in a market (Canada or the U.S.) in which our products are sold. An increase in ACV generally means that our products are in more stores and, therefore, available to more consumers in more markets, which should translate into increased sales.

- In Canada, our ACV approaches 100% as our branded products can be found in virtually all stores where frozen seafood is sold.
- In the U.S., our brands, which include **Fisher Boy**, **High Liner**, **C. Wirthly & Co.** and **Sea Cuisine**, have a smaller share of the "total frozen seafood" category than in Canada. ACV for all our branded products increased to 89% at the end of 2017, compared to an ACV of 87% at the end of 2016. The increase of ACV during 2017 is mainly attributable to the national launch of a new skin pack product line. In some regions in the U.S., the ACV is substantially higher than 89%.
- In Mexico, although we do not track ACV, we are confident in our position as a leading breaded and battered seafood supplier in major centres.

In Canada, we use Nielsen® to track market share and ACV of our retail brands in grocery, mass merchandising, general merchandising, club stores and distributors. In the U.S., we use IRI to track market share and ACV of our retail brands, where it tracks all grocery stores, supercentres (including Walmart) and club stores (excluding Costco). Since we are well represented at Costco, we believe our actual ACV is higher than that presented by IRI.

### MARKET LEADING BRANDS

We consider our brands to be one of our greatest assets and in 2017, approximately 72% of our sales were from branded products.

Market share is an important performance indicator. The market shares of our retail brands are significant, particularly in Canada. We track retail market share information by purchasing syndicated data. We measure market share on a rolling four-week, twelve- or thirteen-week, and fifty-two week basis, and have good insight as to whether consumers are responding to our new product ideas and promotions. Foodservice market shares are hard to measure, as there is no independent source that tracks foodservice sales in a manner comparable to the retail channel and instead, we estimate our market share based on our information and knowledge of the market.



In Canada, **High Liner** is the leading frozen seafood brand, with market share more than twice the size of our nearest competitor in retail and foodservice channels. In Canada, the strength of our brand reputation can be leveraged into growth with new species, in new channels and to new customers. The brand also has a positive impact on our foodservice business where we are well known for our innovative, quality products and superior service.

**High Liner** is currently building brand awareness in the U.S., particularly in the retail sector. Known in U.S. club stores for the launch of premium products under the **High Liner** brand, the umbrella branding of **Fisher Boy** and **Sea Cuisine** brands further strengthens our market position in traditional grocery outlets. Our **Fisher Boy** brand, a value brand, has a strong presence in certain regions and **Sea Cuisine**, a more premium brand, has a growing importance in the “prepared seafood” category. In the U.S. foodservice market, the **FPI** and **Icelandic** brands are the most recognizable brands and, like the **High Liner** brand, are also well known for product innovation and quality, and we are a leading supplier of value-added frozen seafood products to the U.S. foodservice market. Including private-label products, we believe we are the largest value-added frozen seafood supplier in the U.S.

#### **DIVERSIFIED GLOBAL PROCUREMENT AND LOGISTICS EXPERTISE**

We are seafood experts, and procure seafood on world markets from a position of strength. We have no harvesting or farming operations, so we procure many species from around the world, accessing product from various fisheries in different parts of the globe. This provides us with a continuity of supply, without the investment in capital necessary for fishing or farming operations, and allows us to focus on what the customer wants rather than trying to sell what is caught. Our procurement group’s proprietary Internet-based procurement and inventory management system enables the purchase of approximately 30 species of seafood from geographically diverse suppliers in approximately 20 different countries. The results are lower raw material costs, better predictability of raw material supply and pricing, higher quality product, reduced risk and better inventory management.

#### **DIFFERENTIATED INNOVATIVE PRODUCTS**

Innovation is one of our core values and we strive to develop and launch new products that are differentiated from others in the market. Our **Pan-Sear Selects**, **Fire Roasters**, **Flame Savours**, **Upper Crust** and **Icelandic Seafood Beer-Battered** product lines are among the most differentiated in the industry and are experiencing continued success across both retail and foodservice product lines, as is our successful **Sea Cuisine** line in the U.S.

## **Operational Resources**

Our existing operational resources include:

#### **PLANT CAPACITY**

As explained in the *Recent Developments* section on page 20 of this MD&A, the Company reduced excess capacity across its manufacturing facilities by ceasing value-added fish operations at its production facility in New Bedford, MA in the third quarter of 2016. This was the last significant planned activity associated with the supply chain optimization project that was first launched in the third quarter of 2014. Following this closure, the Company’s manufacturing footprint in North America consists of three owned and operated plants: Portsmouth and Newport News in the U.S., and Lunenburg in Canada. Combined, these facilities provide sufficient capacity to meet growth objectives. We also have plans that could be implemented with minimal additional capital expenditures to increase the capacity of our plants through shift changes should further production capacity be required. Our ability to source new products is not limited to our own production. We purchase significant quantities of frozen fillets as finished goods, and some of our value-added products are purchased as finished goods.

#### **DISTRIBUTION CENTRES**

Our Lunenburg, Portsmouth and Newport News facilities include large distribution centres. In March 2014, we purchased a previously leased distribution centre in Peabody, MA. We also utilize third-party cold storage/distribution centres to supplement our facilities when needed. We have Directors of Logistics in Canada and the U.S. to ensure that the warehousing and transportation of our products are handled in a cost-effective and customer service-oriented manner.

#### **TECHNOLOGY**

Technology supports our growth strategy and our centralized computer systems enable us to make timely decisions. Our business is simplified through an enterprise-wide business management system and specifications management system, both by Oracle. We have also developed a proprietary Internet-enabled procurement system that allows us to manage worldwide procurement in real time. Business intelligence software allows us to manage our information on a real-time basis to help us make business decisions quickly, manage inventory and accounts receivable and provide more informative financial disclosure. We are equipped to respond to customer demands for electronic transmission of business documents, including invoices, purchase orders and payment confirmations. Our video and collaboration systems allow our geographically diverse business team to interact in real time, thereby supporting timely decision making. We

continue to budget significant capital to ensure we have state-of-the-art systems to manage our Company, respond to customer requests and support growth into the future.

## 2. Financial Objectives

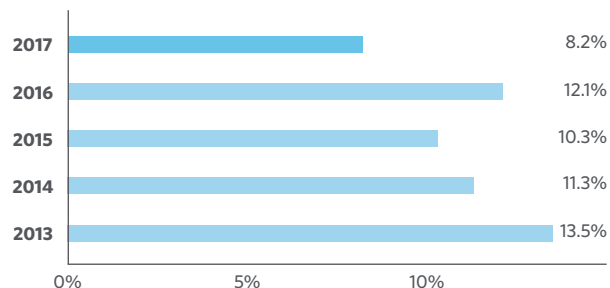
Our strategy was designed with the expectation to increase shareholder value. To help us focus on meeting investor expectations, we use three key financial measures to gauge our financial performance:

	Fiscal 2017	Fiscal 2016
<b>Return</b>		
On assets managed	8.2%	12.1%
On equity	12.1%	17.6%
<b>Profitability</b>		
Adjusted EBITDA as a percentage of sales	6.3%	8.5%
<b>Financial strength</b>		
Net interest-bearing debt to Adjusted EBITDA ratio (times) <sup>(1)</sup>	5.9x	3.1x

<sup>(1)</sup> Including trailing twelve-month Adjusted EBITDA for Rubicon, net interest-bearing debt to Adjusted EBITDA (see the Non-IFRS Financial Measures section on page 38 of this MD&A for further discussion of Adjusted EBITDA) was 5.6x at December 30, 2017.

Each of these financial measures is further discussed below. See the *Non-IFRS Financial Measures* section starting on page 37 for further explanation of these measures.

### Return on Assets Managed ("ROAM")

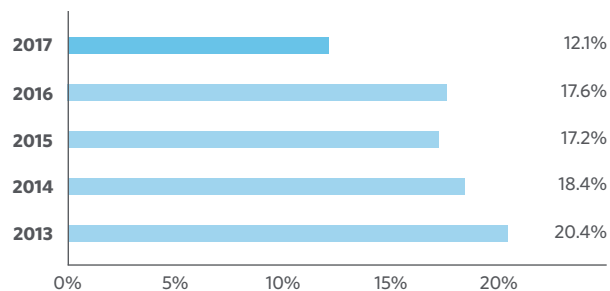


In 2017, Adjusted EBIT decreased by \$14.5 million, or 22.5%, compared to 2016 and the thirteen-month rolling average net assets managed increased by \$66.1 million, or 12.1%. The combined impact of these changes was a decrease in ROAM from 12.1% at the end of Fiscal 2016 to 8.2% at the end of Fiscal 2017.

The decrease in Adjusted EBIT in 2017 is a result of the same factors causing the \$15.3 million decrease in Adjusted EBITDA in 2017 as compared to 2016, as discussed in the *Consolidated Performance* section on page 23 of this MD&A. The increase in the net assets managed in 2017 compared to 2016 is primarily due to the acquisition of Rubicon Resources, LLC, as discussed in the *Recent Developments* section on page 19 of this MD&A, which resulted in an increase in

the average inventory held, intangibles, and goodwill, and partially offset by an increase in average accounts payable and accrued liabilities over the comparable period.

### Return on Equity ("ROE")



In 2017, Adjusted Net Income less share-based compensation expense decreased by \$8.0 million, or 21.4%, compared to 2016, and the thirteen-month rolling average common equity increased by \$30.6 million, or 14.3%. The combined impact of these changes resulted in a decrease in ROE from 17.6% at the end of Fiscal 2016 to 12.1% at the end of Fiscal 2017. The decrease in Adjusted Net Income in 2017 compared to 2016 is discussed in the *Consolidated Performance* section on page 24 of this MD&A.

#### ADJUSTED EBITDA AS A PERCENTAGE OF SALES

Adjusted EBITDA as a percentage of sales is calculated as follows:

- **Adjusted EBITDA** as defined in the *Non-IFRS Financial Measures* section on page 38 of this MD&A, divided by:
- **Sales** as disclosed on the consolidated statements of income.

In 2017, Adjusted EBITDA decreased by \$15.3 million, or 18.8%, compared to 2016 and sales increased by \$98.9 million, or 10.4%. The combined impact of these changes resulted in a decrease in Adjusted EBITDA as a percentage of sales from 8.5% in 2016 compared to 6.3% in 2017. The decrease in Adjusted EBITDA as a percentage of sales for 2017 compared to 2016 reflects the lower gross profit as a percentage of sales and higher distribution and SG&A expenses in 2017 as discussed in the *Consolidated Performance* section on page 23 of this MD&A.

#### NET INTEREST-BEARING DEBT TO ADJUSTED EBITDA

Net interest-bearing debt to Adjusted EBITDA is calculated as follows:

- **Net interest-bearing debt** as defined in the *Non-IFRS Financial Measures* section on page 41 of this MD&A, divided by:
- **Adjusted EBITDA** as defined in the *Non-IFRS Financial Measures* section on page 38 of this MD&A.



Net interest-bearing debt to Adjusted EBITDA was 5.9x at the end of Fiscal 2017 compared to 3.1x at the end of Fiscal 2016, as shown in the following table:

(Amounts in \$000s, except as otherwise noted)	Twelve months ended	
	December 30, 2017	December 31, 2016
Net interest-bearing debt	\$ 387,869	\$ 252,056
Adjusted EBITDA	\$ 66,112	\$ 81,383
Net interest-bearing debt to Adjusted EBITDA ratio (times)	5.9x	3.1x

During 2017, net interest-bearing debt increased by \$135.8 million and Adjusted EBITDA decreased by \$15.3 million. The combined impact of these changes was an increase in net interest-bearing debt to Adjusted EBITDA for 2017 as compared to 2016. The change in net interest-bearing debt is discussed on page 33 of this MD&A, and the change in Adjusted EBITDA is discussed on page 23 of this MD&A. Including trailing twelve month Adjusted EBITDA for Rubicon, net interest-bearing debt to Adjusted EBITDA was 5.6x at December 30, 2017. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2018, we expect this ratio to be below 4.5x by the end of 2018.

### 3. Outlook

Rubicon's contribution to Adjusted EBITDA in 2017 is significantly below the annual pro forma Adjusted EBITDA expected from this business when it was purchased due to raw material cost increases that have not been fully passed on to customers, along with lower than expected volumes, particularly in the fourth quarter of 2017. While the Company expects Rubicon's product margins to improve in 2018, it anticipates sales volume declines will continue, as one of its major customers continues to procure certain products directly from shrimp producers. High Liner is focused on replacing this lost volume and leveraging Rubicon's capabilities in shrimp to grow shrimp sales across the rest of the Company's business; however, similar Adjusted EBITDA performance is expected from Rubicon in 2018 as was experienced in 2017, except that 2018 will reflect a full year of contribution from this business compared to only seven months in 2017.

Areas of increased focus in 2018 to improve financial performance continue to include improving pricing methodologies, lowering fixed costs, further increasing the effectiveness of our supply chain and product innovation, and simplifying our business. The Company believes these actions will contribute to year-over-year improvements in Adjusted EBITDA in 2018, and combined with debt repayment, and in the absence of any acquisitions or

strategic initiatives requiring capital expenditure, its net interest-bearing debt to rolling twelve-month Adjusted EBITDA ratio is expected to improve to below 4.5x by the end of 2018.

## 4. Recent Developments

### Acquisition of Rubicon Resources, LLC

On May 30, 2017, the Company acquired 100% of the outstanding equity of Rubicon Resources, LLC ("Rubicon"), a privately held U.S.-based corporation engaged principally in the import and distribution of sustainably sourced frozen shrimp products in the private-label U.S. retail market. The Company believes this acquisition will provide a strong platform for growth in this key species. The results of Rubicon have been consolidated with the results of the Company commencing on May 30, 2017.

After working capital adjustments and cash acquired as part of the acquisition, the purchase price was \$100.6 million. The purchase consideration was settled in cash (\$75.0 million) and in common shares (\$25.8 million or 2.43 million shares). The share consideration is subject to a three-year standstill agreement during which time the sellers are not permitted to sell the shares (except in limited circumstances). The acquisition was financed using the Company's existing asset-based revolving credit facility ("ABL"), however on June 6, 2017, the Company refinanced a portion of this additional ABL debt to a fixed term by replacing it with a \$70.0 million addition to the senior secured term loan.

For further information on the acquisition of Rubicon, please refer to Note 5 "Business combinations" to the Consolidated Financial Statements.

### Product Recall

In April of 2017, the Company announced a voluntary recall of certain brands of breaded fish and seafood products sold in Canada that may contain a milk allergen that was not declared on the ingredient label and allergen statement. The Company identified that the allergen had originated from ingredients supplied by one of the Company's U.S.-based ingredient suppliers. Subsequently, the Company was notified by the ingredient supplier that several additional ingredients were being recalled due to the potential presence of undeclared milk, which necessitated the expansion of the Company's initial recall to include additional value-added seafood products sold in the U.S. and Canada.

As a result, during the fifty-two weeks ended December 30, 2017, the Company recognized \$13.5 million in net losses associated with the product recall related to consumer

refunds, customer fines, the return of product to be re-worked or destroyed, and direct incremental costs. These losses do not include any reduction in earnings as a result of lost sales opportunities due to limited product availability and customer shortages, or increased production costs related to the interruption of production at the Company's facilities.

The Company expects to recover substantially all of the losses associated with the recall from the ingredient supplier, and will record these recoveries in the period in which they occur or are virtually certain to occur, in accordance with IFRS.

The Company's remaining estimate related to the recall was determined based on an assessment of the information available up to the date of filing of these Consolidated Financial Statements, including the extent of potential additional claims that have yet to be received. The Company's estimate reflects the losses determined as at December 30, 2017 to be both probable and reasonably estimable. The Company may need to revise this estimate in subsequent periods for any additional claims that may be received, and these revisions may be material.

### **Sale of New Bedford Facility**

On August 16, 2016, High Liner Foods entered into a purchase and sale agreement with Blue Harvest Fisheries to sell the principal assets related to the Company's scallop business, along with the New Bedford facility. On September 7, 2016, the sale was completed and the Company received cash proceeds of \$15.1 million. High Liner continued to offer scallops to its customers through an ongoing supply agreement with Blue Harvest. Value-added fish operations ceased at the New Bedford facility in mid-July 2016, following the transfer of production to the Company's other manufacturing facilities.

The Company had previously announced on February 17, 2016 that it would cease value-added fish operations at its New Bedford facility to reduce excess capacity across its North American production network, thereby improving manufacturing efficiencies and helping the Company achieve its supply chain optimization objectives.

During the fifty-two weeks ended December 31, 2016, the Company incurred \$9.9 million in pre-tax one-time costs relating to the transfer of assets, termination of employment at the New Bedford plant, write-down of inventories, accelerated depreciation, impairment of assets, and other costs.

## **5. Performance**

The discussion and analysis of the Company's financial results focuses on the performance of the consolidated operations, and the performance of the two reportable segments described in Note 25 "Operating segment information" to the Consolidated Financial Statements: Canada Operations and U.S. Operations. Information is also provided for the "Corporate" category, which includes expenses for corporate functions, share-based compensation costs and business acquisition, integration and other expenses.

### **SEASONALITY**

Overall, the first quarter of the year is historically the strongest for both sales and profit, and the second quarter is the weakest. Both our retail and foodservice businesses traditionally experience a strong first quarter due to retailers and restaurants promoting seafood during the Lenten period. As such, the timing of Lent can impact our quarterly results.

In our retail business, we spend significant dollars on consumer advertising and listing allowances for new product launches. Although the related activities benefit more than one period, the costs must be expensed in the period when the initial promotional activity takes place or when new products are first shipped. A significant percentage of advertising is typically done in either the first or fourth quarter; however, the accounting periods during which we incur these expenditures may vary from year to year and, therefore, there may be fluctuations in income relating to these activities. Customer-specific promotional expenditures such as trade spending, listing allowances and couponing are deducted from "Revenues" and non-customer-specific consumer marketing expenditures are included in selling, general and administrative expenses.

Inventory levels fluctuate throughout the year, most notably increasing to support strong sales periods such as the Lenten period. In addition, the timing of ordering raw materials is earlier than typically required in order to have adequate quantities available during the seasonal closure of plants in Asia during the Lunar New Year period. These events typically result in significantly higher inventories in December, January, February and March than during the rest of the year.



## Consolidated Performance

The following analysis of our operating results contains certain corrections of errors identified in previously reported amounts (see Note 6 "Revision of previously reported consolidated financial statements" to the Consolidated Financial Statements for further discussion).

The table below summarizes key consolidated financial information for the relevant periods.

(in \$000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	Fifty-two weeks ended		Fifty-two weeks ended	
	December 30, 2017	December 31, 2016	Change	January 2, 2016
<b>Sales volume (millions of lbs)</b>	<b>291.8</b>	277.3	<b>14.5</b>	284.4
<b>Average foreign exchange rate (USD/CAD)</b>	<b>\$ 1.2983</b>	\$ 1.3248	<b>\$ (0.0265)</b>	\$ 1.2791
<b>Sales</b>				
Sales in domestic currency	<b>\$ 1,131,733</b>	\$ 1,036,229	<b>\$ 95,504</b>	\$ 1,071,797
Foreign exchange impact	<b>(77,887)</b>	(81,243)	<b>3,356</b>	(72,326)
<b>Sales in USD</b>	<b>\$ 1,053,846</b>	\$ 954,986	<b>\$ 98,860</b>	\$ 999,471
<b>Gross profit</b>	<b>\$ 186,079</b>	\$ 201,807	<b>\$ (15,728)</b>	\$ 199,627
<b>Gross profit as a percentage of sales</b>	<b>17.7%</b>	21.1%	<b>(3.4)%</b>	20.0%
<b>Distribution expenses</b>	<b>\$ 49,827</b>	\$ 43,610	<b>\$ 6,217</b>	\$ 48,037
<b>Selling, general and administrative expenses</b>	<b>\$ 99,449</b>	\$ 96,978	<b>\$ 2,471</b>	\$ 93,597
<b>Adjusted EBITDA<sup>(1)</sup></b>				
Adjusted EBITDA in domestic currency	<b>\$ 68,780</b>	\$ 88,352	<b>\$ (19,572)</b>	\$ 87,377
Foreign exchange impact	<b>(2,668)</b>	(6,969)	<b>4,301</b>	(11,195)
<b>Adjusted EBITDA in USD</b>	<b>\$ 66,112</b>	\$ 81,383	<b>\$ (15,271)</b>	\$ 76,182
<b>Adjusted EBITDA as a percentage of sales</b>	<b>6.3%</b>	8.5%	<b>(2.2)%</b>	7.6%
<b>Net income</b>	<b>\$ 31,653</b>	\$ 32,284	<b>\$ (631)</b>	\$ 28,351
Basic Earnings per Share ("EPS")	<b>\$ 0.98</b>	\$ 1.04	<b>\$ (0.06)</b>	\$ 0.92
Diluted EPS	<b>\$ 0.97</b>	\$ 1.04	<b>\$ (0.07)</b>	\$ 0.90
<b>Adjusted Net Income<sup>(1)</sup></b>	<b>\$ 30,142</b>	\$ 40,284	<b>\$ (10,142)</b>	\$ 34,333
Adjusted Basic EPS	<b>\$ 0.93</b>	\$ 1.30	<b>\$ (0.37)</b>	\$ 1.10
Adjusted Diluted EPS <sup>(1),(2)</sup>	<b>\$ 0.93</b>	\$ 1.29	<b>\$ (0.36)</b>	\$ 1.09
<b>Total assets</b>	<b>\$ 907,969</b>	\$ 685,108	<b>\$ 222,861</b>	\$ 693,067
<b>Total long-term financial liabilities</b>	<b>\$ 348,774</b>	\$ 276,303	<b>\$ 72,471</b>	\$ 291,935
<b>Dividends paid per common share (CAD)</b>	<b>\$ 0.57</b>	\$ 0.52	<b>\$ 0.05</b>	\$ 0.465

<sup>(1)</sup> See the Non-IFRS Financial Measures section starting on page 37 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.

<sup>(2)</sup> CAD-Equivalent Adjusted Diluted EPS was \$1.21, \$1.71, and \$1.46 for the fifty-two weeks ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively. See the Non-IFRS Financial Measures section on page 40 for further explanation of CAD-Equivalent Adjusted Diluted EPS.

The sale of our New Bedford scallop business on September 7, 2016 (as discussed in the *Recent Developments* section on page 20 of this MD&A) had the impact of lowering sales volume by 2.4 million pounds, sales by \$33.2 million, gross profit by \$1.3 million and Adjusted EBITDA by \$0.3 million during 2017 compared to 2016.

The acquisition of Rubicon on May 30, 2017 (as discussed in the *Recent Developments* section on page 19 of this MD&A) had the impact of increasing sales volume by

21.7 million pounds, sales by \$117.1 million, gross profit by \$14.0 million and Adjusted EBITDA by \$3.8 million in 2017 compared to 2016.

The product recall announced in April of 2017 (as discussed in the *Recent Developments* section on page 19 of this MD&A), had the impact of decreasing sales volume by 2.4 million pounds, sales by \$8.1 million, gross profit by \$13.5 million and Adjusted EBITDA by \$2.0 million in 2017 compared to 2016.

**SALES**

Sales volume in 2017 increased by 14.5 million pounds, or 5.2%, to 291.8 million pounds compared to 277.3 million pounds in 2016, due to higher sales volume in both our Canadian and U.S. businesses reflecting the following:

- The addition of sales volume from Rubicon since the date of acquisition (21.7 million pounds); offset by
- Reduced sales volume related to the return of various products associated with the product recall (2.4 million pounds); and
- Lower scallop sales as a result of the sale of the New Bedford scallop business in the third quarter of 2016 (2.4 million pounds).

Excluding the impact of these items, sales volume for 2017 decreased by 2.4 million pounds, or 0.9%, reflecting residual manufacturing challenges associated with production transferred from our previously owned New Bedford facility, which resulted in an inability to meet heightened demand in March related to a late Lent and which was worsened by production interruptions at the Company's facilities as a result of the product recall, and the continued impact of lower demand for traditional breaded and battered frozen seafood products, which we were unable to offset with sales from our new frozen seafood products. In addition to the reduction in volume associated with the product recall returns mentioned above, sales volume was also negatively impacted in the second and third quarters by lost sales opportunities associated with limited product availability, reduced promotional activity in Canada, and customer shortages as a result of the recall.

Sales in 2017 were \$1,053.8 million, representing a \$98.8 million, or 10.3%, increase compared to \$955.0 million in 2016. The stronger Canadian dollar in 2017 compared to 2016 increased the value of reported USD sales from our CAD-denominated operations by approximately \$5.1 million relative to the conversion impact last year.

Sales in domestic currency increased by \$95.5 million, or 9.2%, to \$1,131.7 million in 2017 compared to \$1,036.2 million in 2016. Excluding the addition of sales from Rubicon (\$117.1 million), the decrease in sales due to the product recall returns (\$8.8 million), and reduced sales due to the sale of New Bedford (\$31.4 million), sales increased by \$18.6 million or 1.9%, reflecting increased sales in both our Canadian and U.S. businesses as a result of changes in product mix and higher sales prices, despite the lower sales volume mentioned previously.

Sales by reportable segment are discussed in more detail in the *Performance by Segment* section on page 24.

**GROSS PROFIT**

Gross profit decreased in 2017 by \$15.7 million, or 7.8%, to \$186.1 million compared to \$201.8 million in 2016, reflecting a decrease in gross profit as a percentage of sales to 17.7% compared to 21.1%. This decrease reflects the \$13.5 million in losses associated with the product recall recognized in 2017 and lower gross profit due to the sale of New Bedford (\$1.3 million), partially offset by gross profit from Rubicon since the date of acquisition (\$14.0 million).

Excluding the impact of the recall, the acquisition of Rubicon and the sale of New Bedford, gross profit decreased by \$14.9 million to \$185.6 million (19.6% as a percentage of sales) compared to \$200.4 million (21.7% as a percentage of sales), due to the decrease in sales volume previously mentioned, the impact of product mix changes, raw material cost increases and the plant inefficiencies mentioned above. In addition, gross profit decreased compared to the prior year due to the recognition of foreign exchange gains in 2016, partially related to favourable hedging activities in our Canadian operations, that did not reoccur in 2017. In addition, the stronger Canadian dollar had the effect of increasing the value of reported USD gross profit from our Canadian operations in 2017 by approximately \$0.9 million relative to the conversion impact last year.

Gross profit by reportable segment is discussed in more detail in the *Performance by Segment* section on page 24.

**DISTRIBUTION EXPENSES**

Distribution expenses, consisting of freight and storage, increased in 2017 by \$6.2 million to \$49.8 million compared to \$43.6 million in the same period last year, primarily due to increased volumes associated with the acquisition of Rubicon and increased fuel costs, partially offset by a decrease in storage costs. As a percentage of sales, distribution expenses increased slightly to 4.7% in 2017 compared to 4.6% in the same period in 2016.

**SELLING, GENERAL AND ADMINISTRATIVE ("SG&A") EXPENSES**

(Amounts in \$000s)	Fifty-two weeks ended	
	December 30, 2017	December 31, 2016
SG&A expenses, as reported	\$ 99,449	\$ 96,978
Less:		
Share-based compensation expense <sup>(1)</sup>	712	3,113
Depreciation and amortization expense <sup>(1)</sup>	8,296	8,246
<b>SG&amp;A expenses, net</b>	<b>\$ 90,441</b>	<b>\$ 85,619</b>
<b>SG&amp;A expenses, net as a percentage of sales</b>	<b>8.6%</b>	<b>9.0%</b>

<sup>(1)</sup> Represents share-based compensation expense and depreciation and amortization expense that is allocated to SG&A only. The remaining expense is allocated to cost of sales and distribution expenses.



SG&A expenses increased by \$2.4 million to \$99.4 million in 2017 as compared to \$97.0 million in 2016. SG&A expenses included share-based compensation expense of \$0.7 million in 2017 compared to \$3.1 million in 2016, primarily reflecting a lower share price and a lower percentage achievement for performance-based awards. SG&A expenses also included depreciation and amortization expense of \$8.3 million and \$8.2 million in 2017 and 2016, respectively. The increase in depreciation and amortization expense primarily related to the amortization of intangible assets acquired as part of the Rubicon acquisition, largely offset by the accelerated depreciation charge that occurred in 2016 relating to the cessation of value-added fish operations at the New Bedford facility.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses increased in 2017 by \$4.7 million to \$90.4 million compared to \$85.7 million in the same period last year, due to increased expenses associated with the acquisition of Rubicon and higher termination benefits. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expenses decreased to 8.6% in 2017 compared to 9.0% in the same period last year.

#### ADJUSTED EBITDA

We refer to Adjusted EBITDA throughout this MD&A, including in the *Performance by Segment* section on page 24, where Adjusted EBITDA is discussed for both our

Canadian and U.S. operations. See the *Non-IFRS Financial Measures* section on page 38 for further explanation of this non-IFRS measure.

Consolidated Adjusted EBITDA decreased in 2017 by \$15.3 million, or 18.8%, to \$66.1 million compared to \$81.4 million in 2016. The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by \$2.7 million in 2017 compared to \$7.0 million in 2016.

In domestic currency, Adjusted EBITDA decreased in 2017 by \$19.6 million, or 22.2%, to \$68.8 million (6.1% of sales) compared to \$88.4 million (8.5% of sales) in 2016. The decrease in Adjusted EBITDA reflects the lower gross profit mentioned previously, with the exception of \$12.3 million (\$11.5 million USD) in losses related to the product recall which have been added back for the purpose of Adjusted EBITDA. The \$14.6 million (\$13.5 million USD) in net losses mentioned previously in the gross profit section included \$2.3 million (\$2.0 million USD) in losses related to product recall returns that have not been added back for the purpose of Adjusted EBITDA, consistent with the treatment during the second and third quarters. In addition, Adjusted EBITDA decreased due to the higher distribution and SG&A expenses as explained above, partially offset by the acquisition of Rubicon which contributed \$3.8 million to Adjusted EBITDA since the date of acquisition.

The following table shows the impact in 2017 and 2016 of converting our CAD-denominated operations and corporate activities to our USD presentation currency.

	Fifty-two weeks ended			Fifty-two weeks ended		
	December 30, 2017 USD	December 31, 2016 USD	% Change USD	December 30, 2017 Domestic \$	December 31, 2016 Domestic \$	% Change Domestic \$
<b>External Sales</b>						
Canada	\$ 262,063	\$ 251,509	4.2%	\$ 339,950	\$ 332,752	2.2%
USA	791,783	703,477	12.6%	791,783	703,477	12.6%
	1,053,846	954,986	10.4%	1,131,733	1,036,229	9.2%
Conversion	—	—		(77,887)	(81,243)	
	\$ 1,053,846	\$ 954,986	10.4%	\$ 1,053,846	\$ 954,986	10.4%
<b>Adjusted EBITDA</b>						
Canada	\$ 13,657	\$ 22,673	(39.8)%	\$ 17,715	\$ 30,226	(41.4)%
USA	56,991	60,564	(5.9)%	56,991	60,564	(5.9)%
Corporate	(4,536)	(1,854)	144.7%	(5,926)	(2,438)	143.1%
	66,112	81,383	(18.8)%	68,780	88,352	(22.2)%
Conversion	—	—		(2,668)	(6,969)	
	\$ 66,112	\$ 81,383	(18.8)%	\$ 66,112	\$ 81,383	(18.8)%
<b>Adjusted EBITDA as percentage of sales</b>						
In USD	6.3%	8.5%				
In Domestic \$				6.1%	8.5%	

**NET INCOME**

We refer to Adjusted Net Income, Adjusted Diluted EPS and CAD-Equivalent Adjusted Diluted EPS throughout this MD&A. See the *Non-IFRS Financial Measures* section starting on page 39 for further explanation of these non-IFRS measures.

Net income decreased in 2017 by \$0.6 million, or 2.0%, to \$31.7 million (\$0.97 per diluted share) compared to \$32.3 million (\$1.04 per diluted share) in 2016. The decrease in net income reflects the decrease in Adjusted EBITDA mentioned previously and an increase in finance costs, partially offset by a recovery in income taxes related to the reduction in the federal corporate income tax rate in the U.S. and a decrease in depreciation expense.

In 2017, net income included “business acquisition, integration and other expenses” (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 31 of this MD&A) related to the acquisition of

Rubicon, the losses related to the product recall previously mentioned, and other non-cash expenses. Net income in 2016 included “business acquisition, integration and other expenses” related to accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of New Bedford plant operations, and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses and the impact of the U.S. Tax Reform (see the *Income Taxes* section on page 32), Adjusted Net Income in 2017 decreased by \$10.2 million, or 25.3%, to \$30.1 million compared to \$40.3 million in 2016.

Correspondingly, Adjusted Diluted EPS decreased by \$0.36 to \$0.93 in 2017 compared to \$1.29 in 2016 and when converted to CAD using the average USD/CAD exchange rate for 2017 of 1.2983 (2016: 1.3248), CAD-Equivalent Adjusted Diluted EPS decreased by CAD\$0.50 to CAD\$1.21 in 2017 compared to CAD\$1.71 in 2016.

**Performance by Segment****CANADIAN OPERATIONS**

(All currency amounts in this section are in CAD)

	Fifty-two weeks ended		
	December 30, 2017	December 31, 2016	Change
(in \$000s, except sales volume and percentage amounts)			
<b>Sales volume (millions of lbs)</b>	<b>68.9</b>	68.1	<b>0.8</b>
<b>Sales</b>	<b>\$ 339,950</b>	\$ 332,752	<b>\$ 7,198</b>
<b>Gross profit</b>	<b>\$ 59,358</b>	\$ 73,925	<b>\$ (14,567)</b>
<b>Gross profit as a percentage of sales</b>	<b>17.5%</b>	22.2%	<b>(4.7)%</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 17,715</b>	\$ 30,226	<b>\$ (12,511)</b>
<b>Adjusted EBITDA as a percentage of sales</b>	<b>5.2%</b>	9.1%	<b>(3.9)%</b>

<sup>(1)</sup> See the *Non-IFRS Financial Measures* section on page 38 for further explanation of Adjusted EBITDA.

Sales volume for our Canadian operations increased by 0.8 million pounds during 2017 to 68.9 million pounds compared to 68.1 million pounds in 2016. Excluding the reduced sales volume related to the return of various products associated with the product recall (0.4 million pounds), sales volume in 2017 increased by 1.2 million pounds, or 1.8%, reflecting higher sales volume in the foodservice business. In addition to the reduction in volume associated with product recall returns, sales volume was also negatively impacted in the second and third quarters by lost sales opportunities associated with limited product availability, reduced promotional activity, and customer shortages as a result of the recall.

Sales in 2017 increased by \$7.2 million, or 2.2%, to \$340.0 million, as compared to \$332.8 million in 2016, due to the increased sales volume, price increases and changes in product mix, partially offset by the reduced sales on product returns associated with the product

recall (\$2.8 million). Excluding the impact of the returns associated with the product recall, sales in 2017 increased by \$10.0 million to \$342.8 million.

Gross profit decreased in 2017 by \$14.5 million to \$59.4 million (17.5% of sales) compared to \$73.9 million (22.2% of sales) in 2016, reflecting \$5.0 million in losses associated with the product recall. Excluding these losses, gross profit decreased by \$9.5 million to \$64.4 million or 18.8% as a percentage of sales, primarily as a result of unfavourable changes in the product mix, raw material cost increases, and continued plant inefficiencies as previously mentioned. In addition, gross profit decreased due to the recognition of foreign exchange gains related to favourable hedging activities in 2016 that did not reoccur in 2017.

Adjusted EBITDA for our Canadian operations decreased in 2017 by \$12.5 million, or 41.4%, to \$17.7 million (5.2% of sales) compared to \$30.2 million (9.1% of sales) in

2016, primarily reflecting the lower gross profit explained above, with the exception of \$3.6 million in losses related to the product recall, which have been added back for the purpose of Adjusted EBITDA as explained above, and

## U.S. OPERATIONS

(All currency amounts in this section are in USD)

(in \$000s, except sales volume and percentage amounts)	Fifty-two weeks ended		
	December 30, 2017	December 31, 2016	Change
<b>Sales volume (millions of lbs)</b>	<b>222.9</b>	209.2	<b>13.7</b>
<b>Sales</b>	<b>\$ 791,783</b>	\$ 703,477	<b>\$ 88,306</b>
<b>Gross profit</b>	<b>\$ 140,372</b>	\$ 143,642	<b>\$ (3,270)</b>
<b>Gross profit as a percentage of sales</b>	<b>17.7%</b>	20.4%	<b>(2.7)%</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 56,991</b>	\$ 60,564	<b>\$ (3,573)</b>
<b>Adjusted EBITDA as a percentage of sales</b>	<b>7.2%</b>	8.6%	<b>(1.4)%</b>

<sup>(1)</sup> See the Non-IFRS Financial Measures section on page 38 for further explanation of Adjusted EBITDA.

Sales volume for our U.S. operations increased by 13.7 million pounds, or 6.6%, in 2017 to 222.9 million pounds compared to 209.2 million pounds in 2016, reflecting the following:

- The addition of sales volume from Rubicon since the date of acquisition (21.7 million pounds); offset by
- Reduced sales volume related to the return of various products associated with the product recall (1.9 million pounds); and
- Lower scallop sales as a result of the sale of the New Bedford scallop business in the third quarter of 2016 (2.4 million pounds).

Excluding the impact of these items, sales volume for 2017 decreased by 3.7 million pounds, or 1.8%, primarily reflecting residual manufacturing challenges associated with production transferred from our previously owned New Bedford facility, which resulted in an inability to meet heightened demand in March related to a late Lent and which was worsened by production interruptions at the Company's facilities as a result of the product recall, and the continued impact of lower demand for traditional breaded and battered frozen seafood products, which we were unable to offset with sales from our new frozen seafood products. In addition to the reduction in volume associated with product recall returns, sales volume was also negatively impacted in the second and third quarters by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales in 2017 increased by \$88.3 million, or 12.6%, to \$791.8 million compared to \$703.5 million in 2016 largely reflecting the acquisition of Rubicon (\$117.1 million), partially offset by reduced sales on product returns

higher distribution expenses. \$1.4 million in losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA consistent with the treatment in the second and third quarters.

associated with the product recall (\$6.0 million), and lower scallop sales as a result of the sale of New Bedford in the third quarter of 2016 (\$31.4 million). Excluding the impact of these items, sales increased by \$8.6 million, or 1.3%, mainly due to changes in product mix and higher sales prices to recover raw material cost increases.

Gross profit decreased in 2017 by \$3.2 million to \$140.4 million (17.7% of sales) compared to \$143.6 million (20.4% of sales) in 2016, reflecting \$9.6 million in losses associated with the product recall, offset by the gross profit from Rubicon since the date of acquisition (\$14.0 million) and lower gross profit due to the sale of New Bedford (\$1.3 million). Excluding the impact of the recall, the acquisition of Rubicon and the sale of New Bedford, gross profit decreased by \$6.3 million to \$136.0 million (20.0% as a percentage of sales) compared to \$142.2 million (21.2% as a percentage of sales) in 2016, due to the lower sales volume, continued plant inefficiencies, higher raw material costs, and unfavourable product mix changes.

Adjusted EBITDA for our U.S. operations decreased in 2017 by \$3.6 million, or 5.9%, to \$57.0 million (7.2% of sales) compared to \$60.6 million (8.6% of sales) in 2016, reflecting the lower gross profit explained above, with the exception of \$8.7 million in losses related to the product recall, which have been added back for the purpose of Adjusted EBITDA as explained above, partially offset by the acquisition of Rubicon, which contributed \$3.8 million to Adjusted EBITDA since the date of acquisition. \$0.9 million in losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA, consistent with the treatment in the second and third quarters.



## 6. Results by Quarter

The following table provides summarized financial information for the last eight quarters:

### FISCAL 2017

(Amounts in \$000s, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
<b>Sales</b>	\$ 275,735	\$ 232,385	\$ 282,704	\$ 263,022	\$ 1,053,846
<b>Adjusted EBITDA<sup>(1)</sup></b>	\$ 22,337	\$ 13,417	\$ 17,298	\$ 13,060	\$ 66,112
<b>Net Income</b>	\$ 10,742	\$ 644	\$ 6,040	\$ 14,227	\$ 31,653
Basic EPS	\$ 0.35	\$ 0.02	\$ 0.18	\$ 0.43	\$ 0.98
Diluted EPS	\$ 0.34	\$ 0.02	\$ 0.18	\$ 0.43	\$ 0.97
<b>Adjusted Net Income<sup>(1)</sup></b>	\$ 10,815	\$ 6,054	\$ 8,424	\$ 4,849	\$ 30,142
Adjusted Basic EPS	\$ 0.34	\$ 0.19	\$ 0.25	\$ 0.15	\$ 0.93
Adjusted Diluted EPS <sup>(1)</sup>	\$ 0.34	\$ 0.19	\$ 0.25	\$ 0.15	\$ 0.93
<b>Dividends paid per common share (in CAD)</b>	\$ 0.140	\$ 0.140	\$ 0.140	\$ 0.145	\$ 0.565
<b>Net non-cash working capital<sup>(2)</sup></b>	\$ 218,832	\$ 206,094	\$ 208,507	\$ 239,102	\$ 239,102

### FISCAL 2016

(Amounts in \$000s, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
<b>Sales</b>	\$ 291,439	\$ 224,388	\$ 230,366	\$ 208,793	\$ 954,986
<b>Adjusted EBITDA<sup>(1)</sup></b>	\$ 30,308	\$ 17,448	\$ 17,510	\$ 16,117	\$ 81,383
<b>Net Income</b>	\$ 14,180	\$ 5,129	\$ 6,317	\$ 6,658	\$ 32,284
Basic	\$ 0.46	\$ 0.17	\$ 0.20	\$ 0.21	\$ 1.04
Diluted	\$ 0.45	\$ 0.17	\$ 0.20	\$ 0.22	\$ 1.04
<b>Adjusted Net Income<sup>(1)</sup></b>	\$ 15,831	\$ 8,524	\$ 8,960	\$ 6,969	\$ 40,284
Adjusted Basic EPS	\$ 0.51	\$ 0.28	\$ 0.29	\$ 0.22	\$ 1.30
Adjusted Diluted EPS <sup>(1)</sup>	\$ 0.51	\$ 0.27	\$ 0.29	\$ 0.22	\$ 1.29
<b>Dividends paid per common share (in CAD)</b>	\$ 0.120	\$ 0.130	\$ 0.130	\$ 0.140	\$ 0.520
<b>Net non-cash working capital<sup>(2)</sup></b>	\$ 214,415	\$ 202,170	\$ 193,385	\$ 190,825	\$ 190,825

<sup>(1)</sup> See the Non-IFRS Financial Measures section starting on page 37 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

<sup>(2)</sup> Net non-cash working capital comprises accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions.

## 7. Fourth Quarter

### Consolidated Performance

(in \$000s, except sales volume, per share amounts, percentage amounts and exchange rates)	Thirteen weeks ended		Thirteen weeks ended	
	December 30, 2017	December 31, 2016	Change	January 2, 2016
<b>Sales volume (millions of lbs)</b>	<b>71.6</b>	62.4	<b>9.2</b>	66.2
<b>Average foreign exchange rate (USD/CAD)</b>	<b>\$ 1.2715</b>	\$ 1.3341	<b>\$ (0.0626)</b>	\$ 1.3358
<b>Sales</b>				
Sales in domestic currency	\$ 280,917	\$ 229,580	\$ 51,337	\$ 244,305
Foreign exchange impact	(17,895)	(20,787)	2,892	(20,024)
<b>Sales in USD</b>	<b>\$ 263,022</b>	\$ 208,793	<b>\$ 54,229</b>	\$ 224,281
<b>Gross profit</b>	<b>\$ 44,504</b>	\$ 43,632	<b>\$ 872</b>	\$ 45,486
<b>Gross profit as a percentage of sales</b>	<b>16.9%</b>	20.9%	<b>(4.0)%</b>	20.3%
<b>Distribution expenses</b>	<b>\$ 13,328</b>	\$ 10,023	<b>\$ 3,305</b>	\$ 11,508
<b>Selling, general and administrative expenses</b>	<b>\$ 24,609</b>	\$ 21,300	<b>\$ 3,309</b>	\$ 21,848
<b>Adjusted EBITDA<sup>(1)</sup></b>				
Adjusted EBITDA in domestic currency	\$ 13,355	\$ 17,986	\$ (4,631)	\$ 20,452
Foreign exchange impact	(295)	(1,869)	1,574	(3,278)
<b>Adjusted EBITDA in USD</b>	<b>\$ 13,060</b>	\$ 16,117	<b>\$ (3,057)</b>	\$ 17,174
<b>Adjusted EBITDA as a percentage of sales</b>	<b>5.0%</b>	7.7%	<b>(2.7)%</b>	7.7%
<b>Net income</b>	<b>\$ 14,227</b>	\$ 6,658	<b>\$ 7,569</b>	\$ 6,667
Basic EPS	\$ 0.43	\$ 0.22	\$ 0.21	\$ 0.22
Diluted EPS	\$ 0.43	\$ 0.21	\$ 0.22	\$ 0.21
<b>Adjusted Net Income<sup>(1)</sup></b>	<b>\$ 4,849</b>	\$ 6,969	<b>\$ (2,120)</b>	\$ 7,789
Adjusted EPS	\$ 0.15	\$ 0.22	\$ (0.07)	\$ 0.25
Adjusted Diluted EPS <sup>(1)</sup>	\$ 0.15	\$ 0.22	\$ (0.07)	\$ 0.25

<sup>(1)</sup> See the Non-IFRS Financial Measures section starting on page 37 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

The acquisition of Rubicon on May 30, 2017 had the impact of increasing sales volume by 9.1 million pounds, sales by \$50.1 million, gross profit by \$6.1 million and Adjusted EBITDA by \$1.9 million in the fourth quarter of 2017 compared to the fourth quarter of 2016.

The product recall announced in April of 2017 had the impact of decreasing sales by \$0.4 million, and gross profit by \$1.5 million in the fourth quarter of 2017 compared to the fourth quarter of 2016.

#### SALES

Consolidated sales volume for the fourth quarter of 2017 increased by 9.2 million pounds, or 14.8%, to 71.6 million pounds compared to 62.4 million pounds in the same period in 2016 primarily due to higher sales volume in our U.S. business driven by the acquisition of Rubicon, which contributed 9.1 million pounds in the fourth quarter of 2017.

Excluding the impact of the acquisition of Rubicon, sales volume for the fourth quarter of 2017 increased by 0.1 million pounds, or 0.2%, reflecting increases in our Canadian and U.S. foodservice businesses, partially offset by a decrease in our U.S. retail business.

Sales in the fourth quarter of 2017 increased by \$54.2 million, or 26.0%, to \$263.0 million compared to \$208.8 million in the same period last year. The stronger Canadian dollar in the fourth quarter of 2017 compared to the same quarter of 2016 increased the value of USD sales from our CAD-denominated operations by approximately \$3.1 million relative to the conversion impact last year.

Sales in domestic currency increased by \$51.3 million, or 22.3%, to \$280.9 million in the fourth quarter of 2017 compared to \$229.6 million in the fourth quarter of 2016. Excluding the addition of sales from Rubicon (\$50.1 million), and the decrease in sales due to product recall returns (\$0.4 million), sales increased by \$1.6 million, or 0.8%, mainly due to price increases and a favourable change in product mix.

#### GROSS PROFIT

Gross profit increased in the fourth quarter of 2017 by \$0.9 million, or 2.1%, to \$44.5 million compared to \$43.6 million in the same period in 2016, reflecting higher sales volumes, partially offset by a decrease in gross profit as a percentage of sales to 16.9% compared to 20.9%.

The increase in gross profit reflects the gross profit from Rubicon for the fourth quarter of 2017 (\$6.1 million), partially offset by \$1.5 million in further losses associated with the product recall recognized in the fourth quarter of 2017.

Excluding the impact of the recall and the acquisition of Rubicon, gross profit decreased by \$3.7 million to \$39.9 million (18.7% as a percentage of sales) compared to \$43.6 million in the same period of 2016 (20.9% as a percentage of sales), reflecting the decrease in gross profit as a percentage of sales due to the impact of unfavourable product mix changes and raw material cost increases, partially offset by some improvement in the efficiency of our plants. In addition, the stronger Canadian dollar had the effect of increasing the value of reported USD gross profit from our Canadian operations in 2017 by approximately \$0.6 million relative to the conversion impact last year.

#### **DISTRIBUTION EXPENSES**

Distribution expenses, consisting of freight and storage, increased in the fourth quarter of 2017 by \$3.3 million to \$13.3 million compared to \$10.0 million in the same period in 2016, primarily due to higher volumes associated with the acquisition of Rubicon and higher fuel costs. As a percentage of sales, these expenses increased to 5.1% in the fourth quarter of 2017, compared to 4.8% in the same period in 2016.

#### **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

SG&A expenses increased in the fourth quarter of 2017 by \$3.3 million to \$24.6 million compared to \$21.3 million in the same period last year. SG&A expenses included a nominal share-based compensation recovery for the fourth quarter of 2017 compared to a \$0.1 million recovery for the same period in 2016. SG&A expenses also included depreciation and amortization expense of \$2.3 million in the fourth quarter of 2017 and \$1.8 million in the same period of 2016. The increase in depreciation and amortization expense primarily relates to the amortization

of intangible assets acquired as part of the Rubicon acquisition.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses increased in the fourth quarter of 2017 by \$2.7 million to \$22.3 million compared to \$19.6 million in the same period last year, primarily due to increased expenses associated with the acquisition of Rubicon, increased termination benefits and higher administrative expenses across the Company. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 8.5% in the fourth quarter of 2017 compared to 9.4% in the same period last year.

#### **ADJUSTED EBITDA**

Consolidated Adjusted EBITDA decreased in the fourth quarter of 2017 by \$3.0 million, or 19.0%, to \$13.1 million compared to \$16.1 million in 2016. The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by \$0.3 million in the fourth quarter of 2017 compared to \$1.9 million in 2016.

In domestic currency, Adjusted EBITDA decreased in the fourth quarter of 2017 by \$4.6 million, or 25.6%, to \$13.4 million (4.8% of sales) compared to \$18.0 million (7.8% of sales) in 2016. The decrease in Adjusted EBITDA reflects the increases in distribution and SG&A expenses mentioned previously, offset by the higher gross profit mentioned previously that is further increased by the \$1.5 million (\$1.5 million USD) in losses related to the product recall, which have been added back for the purpose of Adjusted EBITDA, as they relate to destroyed product and direct incremental costs incurred by the Company related to consumer refunds and customer fines. Adjusted EBITDA was positively affected by the acquisition of Rubicon, which contributed \$1.9 million to Adjusted EBITDA in the fourth quarter of 2017.



The following table shows the impact in the fourth quarter of 2017 and 2016 of converting our CAD-denominated operations and corporate activities to our USD presentation currency.

(Amounts in \$000s)	Thirteen weeks ended			Thirteen weeks ended		
	December 30, 2017 USD	December 31, 2016 USD	% Change USD	December 30, 2017 Domestic \$	December 31, 2016 Domestic \$	% Change Domestic \$
<b>External Sales</b>						
Canada	\$ 65,928	\$ 62,209	6.0%	\$ 83,823	\$ 82,996	1.0%
USA	197,094	146,584	34.5%	197,094	146,584	34.5%
	263,022	208,793	26.0%	280,917	229,580	22.4%
Conversion	—	—		(17,895)	(20,787)	
	\$ 263,022	\$ 208,793	26.0%	\$ 263,022	\$ 208,793	26.0%
<b>Adjusted EBITDA</b>						
Canada	\$ 3,476	\$ 5,511	(36.9)%	\$ 4,418	\$ 7,513	(41.2)%
USA	11,231	11,707	(4.1)%	11,231	11,707	(4.1)%
Corporate	(1,647)	(1,101)	49.6%	(2,294)	(1,234)	85.9%
	13,060	16,117	(19.0)%	13,355	17,986	(25.7)%
Conversion	—	—		(295)	(1,869)	
	\$ 13,060	\$ 16,117	(19.0)%	\$ 13,060	\$ 16,117	(19.0)%
<b>Adjusted EBITDA as percentage of sales</b>						
In USD	5.0%	7.7%				
In Domestic \$				4.8%	7.8%	

#### NET INCOME

Net income increased in the fourth quarter of 2017 by \$7.5 million, or 111.9%, to \$14.2 million (\$0.43 per diluted share) compared to \$6.7 million (\$0.21 per diluted share) in 2016. The increase in net income reflects the income tax recovery related to the reduction in the federal corporate income tax rate in the U.S., offset by the decrease in Adjusted EBITDA mentioned previously and an increase in depreciation and finance costs.

In 2017, net income included “business acquisition, integration and other expenses” (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 31 of this MD&A) related to business development activities, termination benefits associated with restructuring activities, losses related to the product recall previously mentioned, and other non-cash expenses. In 2016, net income included “business acquisition,

integration and other expenses” related to accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of New Bedford plant operations, and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses and the impact of the U.S. Tax Reform (see the *Income Taxes* section on page 32), Adjusted Net Income in the fourth quarter of 2017 decreased by \$2.2 million, or 31.4%, to \$4.8 million compared to \$7.0 million in 2016.

Correspondingly, Adjusted Diluted EPS decreased by \$0.07 to \$0.15 compared to \$0.22 in the fourth quarter of 2016, and when converted to CAD using the average USD/CAD exchange rate for the period of 1.2715 (2016: 1.3341), CAD-Equivalent Adjusted Diluted EPS decreased by CAD\$0.10 to CAD\$0.19 compared to CAD\$0.29 in the fourth quarter of 2016.

## Performance by Segment

### CANADIAN OPERATIONS

(All currency amounts in this section are in CAD)

(in \$000s, except sales volume and percentage amounts)	Thirteen weeks ended		
	December 30, 2017	December 31, 2016	Change
<b>Sales volume (millions of lbs)</b>	<b>17.0</b>	16.6	<b>0.4</b>
<b>Sales</b>	<b>\$ 83,823</b>	\$ 82,996	<b>\$ 827</b>
<b>Gross profit</b>	<b>\$ 14,784</b>	\$ 17,774	<b>\$ (2,990)</b>
<b>Gross profit as a percentage of sales</b>	<b>17.6%</b>	21.4%	<b>(3.8)%</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 4,418</b>	\$ 7,513	<b>\$ (3,095)</b>
<b>Adjusted EBITDA as a percentage of sales</b>	<b>5.3%</b>	9.1%	<b>(3.8)%</b>

<sup>(1)</sup> See the Non-IFRS Financial Measures section on page 38 for further explanation of Adjusted EBITDA.

Sales volume for our Canadian operations increased during the fourth quarter of 2017 by 0.4 million pounds to 17.0 million pounds as compared to 16.6 million pounds in 2016, primarily reflecting higher sales volume in the foodservice business.

Sales in the fourth quarter increased by \$0.8 million, or 1.0%, to \$83.8 million compared to \$83.0 million in the same period of 2016, reflecting the increased sales volume and a recovery associated with revising estimates related to product recall returns (\$0.1 million).

Gross profit decreased by \$3.0 million in the fourth quarter of 2017 to \$14.8 million (17.6% of sales) compared to

\$17.8 million (21.4% of sales) in 2016, reflecting \$0.1 million in losses associated with the product recall. Excluding these losses, gross profit decreased by \$2.9 million to \$14.9 million (16.2% of sales) reflecting raw material cost increases and unfavourable changes in product mix.

Adjusted EBITDA for our Canadian operations decreased during the fourth quarter of 2017 by \$3.1 million, or 41.3%, to \$4.4 million (5.3% of sales) as compared to \$7.5 million (9.1% of sales) in 2016, primarily reflecting the lower gross profit explained above and increased distribution expenses, partially offset by decreased SG&A expenses related to lower marketing and administrative expenses.

### U.S. OPERATIONS

(All currency amounts in this section are in USD)

(in \$000s, except sales volume and percentage amounts)	Thirteen weeks ended		
	December 30, 2017	December 31, 2016	Change
<b>Sales volume (millions of lbs)</b>	<b>54.6</b>	45.7	<b>8.9</b>
<b>Sales</b>	<b>\$ 197,094</b>	\$ 146,584	<b>\$ 50,510</b>
<b>Gross profit</b>	<b>\$ 33,115</b>	\$ 29,771	<b>\$ 3,344</b>
<b>Gross profit as a percentage of sales</b>	<b>16.8%</b>	20.3%	<b>(3.5)%</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 11,231</b>	\$ 11,707	<b>\$ (476)</b>
<b>Adjusted EBITDA as a percentage of sales</b>	<b>5.7%</b>	8.0%	<b>(2.3)%</b>

<sup>(1)</sup> See the Non-IFRS Financial Measures section on page 38 for further explanation of Adjusted EBITDA.

Sales volume for our U.S. operations increased by 8.9 million pounds, or 19.5%, in the fourth quarter of 2017 to 54.6 million pounds compared to 45.7 million pounds in 2016, reflecting the acquisition of Rubicon which contributed 9.1 million pounds in the fourth quarter of 2017. Excluding the impact of the acquisition of Rubicon, sales volume for the fourth quarter of 2017 decreased by 0.1 million pounds, or 0.2%, reflecting lower sales volume in the retail business, partially offset by higher volume in the foodservice business.

Sales during the fourth quarter increased by \$50.5 million, or 34.5%, to \$197.1 million compared to \$146.6 million in 2016, primarily reflecting the acquisition of Rubicon (\$50.1 million), partially offset by reduced sales associated with revising estimates related to the product recall (\$0.5 million). Excluding the impact of these items, sales increased by \$0.9 million, or 0.5%, mainly due to favourable changes in product mix and higher sales prices to recover raw material cost increases.

Gross profit increased in the fourth quarter of 2017 by \$3.3 million to \$33.1 million (16.8% of sales) compared to \$29.8 million (20.3% of sales) in the same period last year, reflecting the gross profit from Rubicon for the fourth quarter of 2017 (\$6.1 million), offset by \$1.4 million in losses associated with the product recall. Excluding the impact of the recall and the acquisition of Rubicon, gross profit decreased by \$1.4 million to \$28.4 million (19.3% as a percentage of sales) compared to \$29.8 million (20.3% as a percentage of sales) in the same period of 2016, due to unfavourable product mix changes, and the decreased sales volume mentioned previously.

Adjusted EBITDA for our U.S. operations decreased during the fourth quarter of 2017 by \$0.5 million, or 4.3%, to \$11.2 million (5.7% of sales), compared to \$11.7 million (8.0% of sales) in 2016 reflecting the higher gross profit explained above, with the exception of \$1.4 million in losses related to the product recall which have been added back for the purpose of Adjusted EBITDA (related to destroyed product and direct incremental costs related to consumer refunds and customer fines), and the acquisition of Rubicon, which contributed \$1.9 million to Adjusted EBITDA, partially offset by increases in distribution and SG&A expenses.

## 8. Business Acquisition, Integration and Other Expenses

The Company reports expenses associated with business acquisition and integration activities, and certain other non-routine costs separately in its consolidated statements of income as follows:

(Amounts in \$000s)	Thirteen weeks ended		Fifty-two weeks ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Business acquisition, integration and other expenses	\$ 991	\$ 485	\$ 2,639	\$ 4,787
Impairment of property, plant and equipment	—	—	—	2,327
	\$ 991	\$ 485	\$ 2,639	\$ 7,114

In 2017, business acquisition, integration and other expenses included costs related to the acquisition of Rubicon Resources, LLC, termination benefits related to restructuring activities, and other strategic business development activities. See the *Recent Developments* section on page 19 for further discussion.

In 2016, business acquisition, integration and other expenses primarily included costs related to the cessation of value-added fish operations at the New Bedford facility, partially offset by proceeds on the settlement of the insurance claim related to the partial roof collapse at the New Bedford facility in 2015. The impairment of property, plant and equipment recorded in 2016 was also related to the New Bedford facility.

## 9. Finance Costs

The following table shows the various components of the Company's finance costs:

(Amounts in \$000s)	Thirteen weeks ended		Fifty-two weeks ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Interest paid in cash during the period	\$ 4,549	\$ 3,483	\$ 14,745	\$ 14,361
Change in cash interest accrued during the period	71	(64)	1,160	(469)
<b>Total interest to be paid in cash</b>	<b>4,620</b>	<b>3,419</b>	<b>15,905</b>	<b>13,892</b>
Mark-to-market gain on interest rate swap not designated for hedge accounting	—	—	—	(126)
Deferred financing cost amortization	221	130	721	530
<b>Total finance costs</b>	<b>\$ 4,841</b>	<b>\$ 3,549</b>	<b>\$ 16,626</b>	<b>\$ 14,296</b>

Finance costs were \$1.3 million higher in the fourth quarter of 2017 and \$2.3 million higher in 2017 compared to the same periods last year due to increased net interest-bearing debt, primarily reflecting the acquisition of Rubicon.

Marking-to-market interest rate swaps not designated in a formal hedging relationship had no impact on diluted EPS in 2017 and 2016 (see the discussion on Adjusted Net Income and Adjusted Diluted EPS in the *Non-IFRS Financial Measures* section on page 39 of this MD&A).



## 10. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act ("U.S. Tax Reform") was signed into law, which reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the U.S. Tax Reform, the Company's net deferred tax liability at December 30, 2017 decreased by \$11.2 million.

The U.S. Tax Reform introduces other important changes in the U.S. corporate income tax laws that may significantly affect the Company in future years, including the creation of a new Base Erosion Anti-Abuse Tax that subjects certain payments from U.S. corporations to foreign related parties to additional taxes, and limitations to certain deductions for net interest expense incurred by U.S. corporations. The U.S. Tax Reform also includes an increase in bonus depreciation from 50% to 100% for qualified property placed in service after September 27, 2017 and before 2023. Future regulations and interpretations to be issued by U.S. authorities may also impact the Company's estimates and assumptions used in calculating its income tax provisions.

High Liner Foods' effective income tax rate for the year ended December 30, 2017 was a recovery of 80.5% compared to an expense of 18.9% in 2016. In the fourth quarter of 2017, the effective tax rate was a recovery of 1,835.6% compared to an expense of 19.5% in the fourth quarter of 2016. The lower effective tax rate for the year and quarter ended December 30, 2017 compared to the same period in the prior year is attributable to the U.S. Tax Reform and the recognition of tax benefits that were not previously recognized. The applicable statutory rates in Canada and the U.S. were 29.3% and 39.6%, respectively.

Per credit agreement	As at December 30, 2017	
Canadian Prime Rate revolving loans, Canadian Base Rate revolving and U.S. Prime Rate revolving loans, at their respective rates	plus 0.00% to 0.25%	plus 0.00%
Bankers' Acceptances ("BA") revolving loans, at BA rates	plus 1.25% to 1.75%	plus 1.25%
LIBOR revolving loans at LIBOR, at their respective rates	plus 1.25% to 1.75%	plus 1.25%
Letters of credit, with fees of	1.25% to 1.75%	1.25%
Standby fees, required to be paid on the unutilized facility, of	0.25% to 0.375%	0.375%

Average short-term borrowings were \$24.1 million in 2017 compared to \$11.7 million in 2016. This \$12.4 million increase primarily reflects the reduced cash flow provided by operating activities, increased borrowings due to the acquisition of Rubicon, and increased capital expenditures.

At the end of the fourth quarter of 2017, the Company had \$111.8 million (December 31, 2016: \$151.6 million) of unused borrowing capacity taking into account both margin calculations and the total line availability. On December 30, 2017, letters of credit and standby letters of credit were outstanding in the amount of \$14.7 million

See Note 20 "Income tax" to the Consolidated Financial Statements for full information with respect to income taxes.

## 11. Contingencies

The Company has no material outstanding contingencies.

## 12. Liquidity and Capital Resources

The Company's balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 12 of this MD&A (under the heading "Currency") and in the Foreign Currency risk discussion on page 47 (in the *Risk Factors* section).

Our capital management practices are described in our 2017 Consolidated Financial Statements in Note 27 "Capital management".

### Working Capital Credit Facility

The Company entered into an asset-based working capital credit facility in November 2010 with the Royal Bank of Canada as Administrative and Collateral agent, which expires in April 2019. There have been several amendments made to this facility, with the most substantial amendment occurring in April 2014 when it was amended concurrently with the term loan, and increased from \$120.0 million to \$180.0 million. The working capital credit facility provides for the rates noted in the following table, based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement. The rates at which the Company is currently borrowing are also noted in the following table.

(December 31, 2016: \$16.9 million) to support raw material purchases and to secure certain contractual obligations, including those related to the Company's Supplemental Executive Retirement Plan ("SERP"). Letters of credit reduce the availability under our working capital credit facility and are accounted for in the \$111.8 million of unused borrowing capacity noted above.

The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles

under the Company's term loan facility, and excluding the assets acquired as part of the Rubicon acquisition. A second charge over the Company's property, plant and equipment is also in place. Additional details regarding the Company's working capital facility are provided in Note 13 "Bank loans" to the Consolidated Financial Statements.

In the absence of any major acquisitions or capital expenditures, we expect short-term borrowings by the end of 2018 to be lower than 2017, and we believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

### Term Loan Facility

The Company entered into a term loan in December 2011. There have been several amendments made to the term loan with the most recent being in April 2014, when it was amended concurrently with the working capital facility and increased to \$300.0 million. In June 2017, the term loan facility was increased from \$300.0 million to \$370.0 million to facilitate the Rubicon acquisition (see the *Recent Developments* section on page 19 for further discussion). The \$70.0 million addition to the term loan was made in accordance with the term loan credit

During the fifty-two weeks ended December 30, 2017, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility:

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
<b>Designated in a formal hedging relationship:</b>				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700%	\$ 20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150%	\$ 25.0
April 4, 2016	April 4, 2018	3-month LIBOR (floor 1.0%)	1.2325%	\$ 35.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700%	\$ 40.0
December 28, 2017	April 24, 2021	3-month LIBOR (floor 1.0%)	2.2200%	\$ 80.0

As of December 30, 2017, the combined impact of the interest rate swaps listed above effectively fix the interest rate on \$200.0 million of the \$370.0 million face value of the term loan and the remaining portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates when LIBOR is higher than the embedded floor of 1.0%.

Additional details regarding the Company's term loan are provided in Note 16 "Long-term debt and finance lease obligations" to the Consolidated Financial Statements.

### Net Interest-Bearing Debt

The Company's net interest-bearing debt (as calculated in the *Non-IFRS Financial Measures* section on page 41 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs) and finance

agreement, which provides for incremental increases that meet stated provisions, at consistent terms.

Minimum repayments on the term loan are required on an annual basis, plus, based on a leverage test, additional payments could be required of up to 50% of the previous year's defined excess cash flow. There were excess cash flows in 2015, due largely to decreased working capital and capital expenditures in 2015 as compared to 2014, and as a result, an excess cash flow payment of \$11.8 million was made in March 2016. In addition, the Company made a voluntary repayment of \$15.0 million during the second quarter of 2016 to reduce excess cash balances. Quarterly principal repayments of \$0.9 million are required on the term loan; however, as per the loan agreement, the mandatory excess cash flow payment and the voluntary repayment will be applied to future regularly scheduled principal repayments. As such, no regularly scheduled principal repayments were paid in 2017 and no additional repayments are required for 2018.

Substantially all tangible and intangible assets (excluding working capital) of the Company are pledged as collateral for the term loan.

leases, less cash. Net interest-bearing debt increased by \$135.8 million to \$387.9 million at December 30, 2017 compared to \$252.1 million at December 31, 2016, primarily reflecting the acquisition of Rubicon, lower cash flow from operating activities and higher capital expenditures.

Including trailing twelve-month Adjusted EBITDA for Rubicon, net interest-bearing debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 38 of this MD&A for further discussion of Adjusted EBITDA) was 5.6x at December 30, 2017 compared to 3.1x at the end of Fiscal 2016. Excluding trailing twelve-month Adjusted EBITDA for Rubicon, net interest-bearing debt to Adjusted EBITDA was 5.9x as shown in the table in the *Financial Objectives* section on page 18. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2018, we expect this ratio will be below 4.5x by the end of 2018.

## Capital Structure

At December 30, 2017, net interest-bearing debt was 59.1% of total capitalization, as compared to 53.4% at December 31, 2016.

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Net interest-bearing debt	\$ 387,869	\$ 252,056
Shareholders' equity	268,867	220,204
Unrealized gains on derivative financial instruments included in AOCI	(220)	(561)
<b>Total capitalization</b>	<b>\$ 656,516</b>	<b>\$ 471,699</b>
<b>Net interest-bearing debt as percentage of total capitalization</b>	<b>59.1%</b>	<b>53.4%</b>

Using our December 30, 2017 market capitalization of \$395.6 million, based on a share price of CAD\$14.83 (USD\$11.85 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization decreases to 49.5%.

### Normal Course Issuer Bid

In January 2016, we filed a new Normal Course Issuer Bid ("2016 NCIB") to purchase up to 150,000 common shares. When the 2016 NCIB expired on January 30, 2017, the Company had purchased 50,000 common shares for aggregate consideration of CAD\$1.0 million, at an average price of CAD\$19.38 per share. The shares that were repurchased were cancelled.

In January 2017, we filed a new NCIB ("2017 NCIB") to purchase up to 150,000 common shares. The 2017 NCIB terminates on February 8, 2018. During the fifty-two weeks ended December 30, 2017 there were no purchases under this plan.

In January 2018, we filed a new NCIB ("2018 NCIB") to purchase up to 150,000 common shares. The 2018 NCIB terminates on February 1, 2019.

The Company has established an automatic securities purchase plan for the common shares of the Company for all the bids listed above with a termination date coinciding with the NCIB termination date. The preceding plans also constitute an "automatic plan" for purposes of applicable Canadian Securities Legislation and have been approved by the TSX.

### Dividends

As shown in the following table, the quarterly dividend on the Company's common shares increased three times during the last two fiscal years, reflecting the Company's confidence in its growth strategy. The quarterly dividends paid in the last two years were as follows:

Dividend record date	Quarterly dividend CAD
December 1, 2017	\$ 0.145
September 1, 2017	\$ 0.140
June 1, 2017	\$ 0.140
March 1, 2017	\$ 0.140
December 1, 2016	\$ 0.140
September 1, 2016	\$ 0.130
June 1, 2016	\$ 0.130
March 1, 2016	\$ 0.120

Dividends and NCIBs are subject to restrictions as follows:

- Under the working capital credit facility, Average Adjusted Aggregate Availability, as defined in the credit agreement, must be \$22.5 million or higher, and was \$121.1 million on December 30, 2017, and NCIBs are subject to an annual limit of \$10.0 million; and
- Under the term loan facility, dividends cannot exceed \$17.5 million per year. This amount increases to the greater of \$25.0 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan when the defined total leverage ratio is below 4.5x, and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 5.6x on December 30, 2017. NCIBs are subject to an annual limit of \$10.0 million under the term loan facility.

On February 21, 2018, the Directors approved a quarterly dividend of CAD\$0.145 per share on the Company's common shares payable on March 15, 2018 to holders of record on March 1, 2018. These dividends are "eligible dividends" for Canadian income tax purposes.



## Disclosure of Outstanding Share Data

On February 21, 2018, 33,379,815 common shares and 1,340,449 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

## Cash Flow

(Amounts in \$000s)	Thirteen weeks ended			Fifty-two weeks ended		
	December 30, 2017	December 31, 2016	Change	December 30, 2017	December 31, 2016	Change
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid	\$ 10,777	\$ 15,593	\$ (4,816)	\$ 51,331	\$ 76,619	\$ (25,288)
Interest paid	(4,549)	(3,483)	(1,066)	(14,745)	(14,361)	(384)
Income taxes paid	(202)	(1,471)	1,269	(9,166)	(8,190)	(976)
Cash flows provided by operations, including interest and income taxes, and before change in non-cash working capital balances	6,026	10,639	(4,613)	27,420	54,068	(26,648)
Net change in non-cash working capital balances	(29,339)	4,087	(33,426)	(48,909)	25,948	(74,857)
Net cash flows (used in) provided by operating activities	(23,313)	14,726	(38,039)	(21,489)	80,016	(101,505)
Net cash flows provided by (used in) financing activities	32,995	(3,440)	36,435	106,329	(57,731)	164,060
Net cash flows used in investing activities	(6,021)	(9,380)	3,359	(101,068)	(4,089)	(96,979)
Foreign exchange (decrease) increase on cash	(1,250)	(1,021)	(229)	2,714	(987)	3,701
<b>Net change in cash during the period</b>	<b>\$ 2,411</b>	<b>\$ 885</b>	<b>\$ 1,526</b>	<b>\$ (13,514)</b>	<b>\$ 17,209</b>	<b>\$ (30,723)</b>

Net cash flows (used in) provided by operating activities decreased by \$38.0 million in the fourth quarter of 2017 to an outflow of \$23.3 million compared to an inflow of \$14.7 million in the fourth quarter of 2016 reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, decreased \$4.6 million in the fourth quarter of 2017 to \$6.0 million compared to \$10.6 million in 2016. This decrease reflects less favourable results from operations and higher interest payments, partially offset by lower income tax payments.
- Cash flows from changes in net non-cash working capital decreased by \$33.4 million in the fourth quarter of 2017 to an outflow of \$29.3 million compared to an inflow of \$4.1 million in 2016. This decrease primarily reflects less favourable changes in accounts payable and accrued liabilities, partially offset by more favourable changes in accounts receivable, inventories and provisions during the fourth quarter of 2017 compared to 2016.

Net cash flows (used in) provided by operating activities decreased by \$101.5 million in 2017 to an outflow of \$21.5 million compared to an inflow of \$80.0 million in 2016, reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, decreased by \$26.7 million in 2017 to \$27.4 million compared to \$54.1 million in 2016. This decrease reflects less favourable results from operations and slightly higher interest and income tax payments.
- Cash flows from changes in net non-cash working capital decreased by \$74.8 million in 2017 to an outflow of \$48.9 million compared to an inflow of \$25.9 million in 2016. This decrease primarily reflects less favourable changes in inventories and accounts payable and accrued liabilities during 2017 compared to 2016.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 41 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended December 30, 2017 decreased by \$111.3 million to an outflow of \$48.0 million compared to an inflow of \$63.3 million for the twelve months ended December 31, 2016. This decrease reflects a less favourable change in working capital, lower cash flow from operating activities,

and higher capital expenditures during the twelve months ended December 30, 2017 as compared to the twelve months ended December 31, 2016.

### Net Non-Cash Working Capital

(Amounts in \$000s)	December 30, 2017	December 31, 2016	Change
Accounts receivable	\$ 92,395	\$ 75,190	\$ 17,205
Inventories	353,433	252,059	101,374
Prepaid expenses	3,462	3,340	122
Accounts payables and accrued liabilities	(209,910)	(139,378)	(70,532)
Provisions	(278)	(386)	108
<b>Net non-cash working capital</b>	<b>\$ 239,102</b>	<b>\$ 190,825</b>	<b>\$ 48,277</b>

Net non-cash working capital consists of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions. Net non-cash working capital increased by \$48.3 million to \$239.1 million at the end of December 30, 2017 as compared to \$190.8 million at the end of December 31, 2016, primarily reflecting increased accounts receivable and inventory, partially offset by higher accounts payable and accrued liabilities, largely due to the acquisition of Rubicon and the timing of working capital requirements.

Our working capital requirements fluctuate during the year, usually peaking between December and April as our inventory is the highest at that time. Going forward, we expect the trend of inventory peaking between December and April to continue, and believe we have enough availability on our working capital credit facility to finance our working capital requirements throughout 2018.

### Capital Expenditures

Gross capital expenditures (including finance leases and computer software) were \$6.5 million and \$27.8 million during the fourth quarter and fifty-two weeks ended 2017 respectively, as compared to capital expenditures of \$7.0 million and \$17.7 million during the fourth quarter and fifty-two weeks ended 2016, respectively, due to capital expenditures related to efficiency improvements in manufacturing facilities, leasehold improvements, and investments in the Company's enterprise-wide business management system.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2018 will be approximately \$21.0 million and funded by cash generated from operations and short-term borrowings.

### Other Liquidity Items

#### SHARE-BASED COMPENSATION AWARDS

Share-based compensation expense of \$0.8 million was recorded in 2017 compared to \$3.2 million in 2016,

based on: the change in the Company's share price for outstanding awards accounted for as a liability, expense over the vesting period for outstanding awards accounted for as equity-settled transactions, and the issuance of options during the year valued using a Black-Scholes model. Share-based compensation expense is non-cash until unit holders exercise, and was lower in 2017 compared to 2016 primarily due to the decrease in the Company's stock price during 2017 and an increase in the number of forfeited stock options.

During 2017, holders exercised share appreciation rights ("SAR") and Performance Share Units ("PSUs") and received cash in the amount of \$0.5 million (2016: \$0.5 million). The liability for share-based compensation awards at the end of Fiscal 2017 was \$1.8 million compared to \$1.9 million at the end of Fiscal 2016.

Any options exercised in shares are cash positive or cash neutral if the holder elects to use the cashless exercise method under the plan. Cash received from options exercised for shares during 2017 was \$0.1 million (2016: \$0.1 million).

#### DEFINED BENEFIT PENSION PLANS

The Company's defined benefit pension plans can impact the Company's cash flow requirements and affect its liquidity. In 2017, the defined benefit pension expense for accounting purposes was \$1.3 million (2016: \$1.2 million) and the annual cash contributions were \$0.2 million lower than the 2017 accounting expense (2016: \$0.1 million lower). For 2018, we expect cash contributions to be approximately CAD\$1.5 million and the defined benefit pension expense to be approximately CAD\$1.9 million. We have more than adequate availability under our working capital credit facility to make the required future cash contributions for our defined benefit pension plans. As well, we have a SERP liability for accounting purposes of \$7.0 million that is secured by a letter of credit in the amount of \$9.7 million.

## Contractual Obligations

Contractual obligations relating to our long-term debt, finance lease obligations, operating leases, purchase obligations and other long-term liabilities as at December 30, 2017 were as follows:

(Amounts in \$000s)	Payments due by period			
	Total	Less than 1 year	1-5 Years	Thereafter
Long-term debt	\$ 337,926	\$ —	\$ 337,926	\$ —
Finance lease obligations	1,121	714	407	—
Other current and long-term liabilities	1,807	166	1,641	—
Operating leases	29,008	5,082	19,945	3,981
Purchase obligations	183,949	171,084	12,865	—
<b>Total contractual obligations</b>	<b>\$ 553,811</b>	<b>\$ 177,046</b>	<b>\$ 372,784</b>	<b>\$ 3,981</b>

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* section on page 46 and the *Foreign Currency* section on page 47 of this MD&A for further details.

## Financial Instruments and Risk Management

The Company has exposure to the following risks as a result of its use of financial instruments: foreign currency risk, interest rate risk, credit risk and liquidity risk. The Company enters into interest rate swaps, foreign currency contracts, and insurance contracts to manage these risks that arise from the Company's operations and its sources of financing, in accordance with a written policy that is reviewed and approved by the Audit Committee of the Board of Directors. The policy prohibits the use of derivative financial instruments for trading or speculative purposes.

Readers are directed to Note 26 "*Fair value measurement*" to the Consolidated Financial Statements for a complete description of the Company's use of derivative financial instruments and their impact on the financial results, and to Note 28 "*Financial risk management objectives and policies*" to the Company's annual Consolidated Financial Statements for further discussion of the Company's financial risks and policies.

## 13. Related Party Transactions

The Company's business is carried on through the Parent company, High Liner Foods Incorporated, and wholly owned operating subsidiaries, Sjovik, h.f. and High Liner Foods (USA) Incorporated. Sjovik, h.f. has a subsidiary in Thailand. High Liner Foods (USA) Incorporated's wholly owned subsidiaries include: ISF (USA), LLC; APS, LLC; Atlantic Trading Company, LLC; and the recently acquired Rubicon Resources, LLC. These companies purchase and/or sell inventory between them, and do so in the normal course of operations. The companies lend and borrow money between them, and periodically, capital assets

are transferred between companies. High Liner Foods Incorporated buys the seafood for all of the subsidiaries, and also provides management, procurement and IT services to the subsidiaries. On consolidation, revenue, costs, information technology services, gains or losses, and all inter-company balances are eliminated.

In addition to transactions between the Parent and subsidiaries, High Liner Foods may enter into certain transactions and agreements in the normal course of business with certain other related parties (see Note 24 "*Related party disclosures*" to the Consolidated Financial Statements). Transactions with these parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As a result of the Rubicon acquisition during Fiscal 2017, the Company has right of first refusal on certain commodity seafood sales from a company controlled by Brian Wynn, who is now part of the Company's management. Total purchases from related parties for the fifty-two weeks ended December 30, 2017 were \$1.7 million (fifty-two weeks ended December 31, 2016: \$nil), and as at December 30, 2017 there was \$nil (December 31, 2016: \$nil) due to the related parties. Total sales to related parties for the fifty-two weeks ended December 30, 2017 were \$0.2 million (fifty-two weeks ended December 31, 2016: \$nil), and as at December 30, 2017 there was \$0.2 million (December 31, 2016: \$nil) due from the related parties.

## 14. Non-IFRS Financial Measures

The Company uses the following non-IFRS financial measures in this MD&A to explain the following financial results: Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("*Adjusted EBITDA*"); Adjusted Earnings before Interest and Taxes ("*Adjusted EBIT*"); Adjusted Net Income; Adjusted Diluted Earnings per Share ("*Adjusted Diluted EPS*"); CAD-Equivalent Adjusted Diluted EPS; Standardized Free Cash Flow; Net Interest-Bearing Debt; Return on Assets Managed; and Return on Equity.

## Adjusted EBITDA

Adjusted EBITDA follows the October 2008 “General Principles and Guidance for Reporting EBITDA and Free Cash Flow” issued by the Chartered Professional Accountants of Canada (“CPA Canada”) and is earnings before interest, taxes, depreciation and amortization, excluding: business acquisition, integration and other expenses including those related to the cessation of plant operations; gains or losses on disposal of assets; termination benefits; and share-based compensation expense. The related margin is defined as Adjusted EBITDA divided by net sales (“Adjusted EBITDA as a percentage of sales”), where net sales is defined as “Revenues” on the consolidated statements of income.

We use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) as a performance measure as it

approximates cash generated from operations before capital expenditures and changes in working capital, and it excludes the impact of expenses associated with business acquisition, integration activities, certain non-routine costs and share-based compensation expense related to the Company’s share price. We believe investors and analysts also use Adjusted EBITDA and Adjusted EBITDA as a percentage of sales to evaluate performance of our business. The most directly comparable IFRS measure to Adjusted EBITDA is “Results from operating activities” on the consolidated statements of income. Adjusted EBITDA is also useful when comparing companies, as it eliminates the differences in earnings that are due to how a company is financed. Also, for the purpose of certain covenants on our credit facilities, “EBITDA” is based on Adjusted EBITDA, with further adjustments as defined in the Company’s credit agreements.

The following table reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, including the operating segment information disclosed in Note 25 “Operating segment information”.

(Amounts in \$000s)	Thirteen weeks ended December 30, 2017				Thirteen weeks ended December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Net income (loss)</b>	\$ 2,883	\$ 6,173	\$ 5,171	\$ 14,227	\$ 4,972	\$ 8,609	\$ (6,923)	\$ 6,658
Add back (deduct):								
Depreciation and amortization expense	512	3,561	345	4,418	509	3,015	289	3,813
Financing costs	—	—	4,841	4,841	—	—	3,549	3,549
Income tax (recovery) expense	—	—	(13,492)	(13,492)	—	—	1,617	1,617
<b>Standardized EBITDA</b>	<b>3,395</b>	<b>9,734</b>	<b>(3,135)</b>	<b>9,994</b>	<b>5,481</b>	<b>11,624</b>	<b>(1,468)</b>	<b>15,637</b>
Add back (deduct):								
Business acquisition, integration and other expenses	—	—	991	991	—	—	485	485
Loss (gain) on disposal of assets	—	54	523	577	30	83	(33)	80
Direct costs and returned destroyed product <sup>(1)</sup>	81	1,443	—	1,524	—	—	—	—
Share-based compensation recovery	—	—	(26)	(26)	—	—	(85)	(85)
<b>Adjusted EBITDA</b>	<b>\$ 3,476</b>	<b>\$ 11,231</b>	<b>\$ (1,647)</b>	<b>\$ 13,060</b>	<b>\$ 5,511</b>	<b>\$ 11,707</b>	<b>\$ (1,101)</b>	<b>\$ 16,117</b>



(Amounts in \$000s)	Fifty-two weeks ended December 30, 2017				Fifty-two weeks ended December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Net income (loss)</b>	\$ 8,853	\$ 34,997	\$ (12,197)	\$ 31,653	\$ 20,888	\$ 47,745	\$ (36,349)	\$ 32,284
Add back (deduct):								
Depreciation and amortization expense	1,961	13,120	1,230	16,311	1,860	12,694	2,560	17,114
Financing costs	—	—	16,626	16,626	—	—	14,296	14,296
Income tax (recovery) expense	—	—	(14,115)	(14,115)	—	—	7,525	7,525
<b>Standardized EBITDA</b>	<b>10,814</b>	<b>48,117</b>	<b>(8,456)</b>	<b>50,475</b>	<b>22,748</b>	<b>60,439</b>	<b>(11,968)</b>	<b>71,219</b>
Add back (deduct):								
Business acquisition, integration and other expenses	—	—	2,639	2,639	—	—	4,787	4,787
Impairment of property, plant and equipment	—	—	—	—	—	—	2,327	2,327
Loss (gain) on disposal of assets	56	168	510	734	(75)	125	(229)	(179)
Direct costs and returned destroyed product <sup>(1)</sup>	2,787	8,706	—	11,493	—	—	—	—
Share-based compensation expense	—	—	771	771	—	—	3,229	3,229
<b>Adjusted EBITDA</b>	<b>\$ 13,657</b>	<b>\$ 56,991</b>	<b>\$ (4,536)</b>	<b>\$ 66,112</b>	<b>\$ 22,673</b>	<b>\$ 60,564</b>	<b>\$ (1,854)</b>	<b>\$ 81,383</b>

<sup>(1)</sup> Associated with the product recall (see the Recent Developments section on page 19).

## Adjusted EBIT

Adjusted EBIT is Adjusted EBITDA less depreciation and amortization expense. Corporate incentives and management analysis of the business are based on Adjusted EBIT. The following tables reconcile Adjusted EBITDA to Adjusted EBIT.

(Amounts in \$000s)	Thirteen weeks ended December 30, 2017				Thirteen weeks ended December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Adjusted EBITDA</b>	\$ 3,476	\$ 11,231	\$ (1,647)	\$ 13,060	\$ 5,511	\$ 11,707	\$ (1,101)	\$ 16,117
Less:								
Depreciation and amortization expense	512	3,561	345	4,418	509	3,015	289	3,813
<b>Adjusted EBIT</b>	<b>\$ 2,964</b>	<b>\$ 7,670</b>	<b>\$ (1,992)</b>	<b>\$ 8,642</b>	<b>\$ 5,002</b>	<b>\$ 8,692</b>	<b>\$ (1,390)</b>	<b>\$ 12,304</b>

(Amounts in \$000s)	Fifty-two weeks ended December 30, 2017				Fifty-two weeks ended December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Adjusted EBITDA</b>	\$ 13,657	\$ 56,991	\$ (4,536)	\$ 66,112	\$ 22,673	\$ 60,564	\$ (1,854)	\$ 81,383
Less:								
Depreciation and amortization expense	1,961	13,120	1,230	16,311	1,860	12,694	2,560	17,114
<b>Adjusted EBIT</b>	<b>\$ 11,696</b>	<b>\$ 43,871</b>	<b>\$ (5,766)</b>	<b>\$ 49,801</b>	<b>\$ 20,813</b>	<b>\$ 47,870</b>	<b>\$ (4,414)</b>	<b>\$ 64,269</b>

## Adjusted Net Income and Adjusted Diluted EPS

Adjusted Net Income is net income excluding the after-tax impact of: business acquisition, integration and certain other non-routine costs including those related to the cessation of plant operations; the non-cash expense or income related to marking-to-market an interest rate swap not designated for hedge accounting; termination benefits;

and share-based compensation expense. Adjusted Net Income also excludes the impact of the U.S. Tax Reform described in the *Income Taxes* section on page 32 as it resulted in a non-cash income tax recovery due to the provisional revaluation of the existing U.S. deferred income tax liability, which was not the result of any operational or market-driven event.

Adjusted Diluted EPS is Adjusted Net Income divided by the average diluted number of shares outstanding.

We use Adjusted Net Income and Adjusted Diluted EPS to assess the performance of our business without the effects of the aforementioned items, and we believe our investors

and analysts also use these measures. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. The most comparable IFRS financial measures are net income and EPS.

The table below reconciles our Adjusted Net Income with measures that are found in our Consolidated Financial Statements:

	Thirteen weeks ended December 30, 2017		Thirteen weeks ended December 31, 2016	
	\$000s	Diluted EPS	\$000s	Diluted EPS
<b>Net income</b>	\$ 14,227	\$ 0.43	\$ 6,658	\$ 0.21
Add back (deduct):				
Business acquisition, integration and other expenses	991	0.03	485	0.01
Accelerated depreciation on equipment as part of the cessation of operations	—	—	24	—
Direct costs and returned destroyed product <sup>(1)</sup>	1,524	0.05	—	—
Share-based compensation recovery	(26)	—	(85)	—
U.S. Tax Reform <sup>(2)</sup>	(11,186)	(0.34)	—	—
Tax impact of reconciling items	(681)	(0.02)	(113)	—
<b>Adjusted Net Income</b>	\$ 4,849	\$ 0.15	\$ 6,969	\$ 0.22
<b>Average shares for the period (000s)</b>		<b>33,423</b>		31,251

	Fifty-two weeks ended December 30, 2017		Fifty-two weeks ended December 31, 2016	
	\$000s	Diluted EPS	\$000s	Diluted EPS
<b>Net income</b>	\$ 31,653	\$ 0.97	\$ 32,284	\$ 1.04
Add back (deduct):				
Business acquisition, integration and other expenses	2,639	0.08	4,787	0.15
Impairment of property, plant and equipment	—	—	2,327	0.07
Accelerated depreciation on equipment as part of the cessation of operations	—	—	1,453	0.05
Direct costs and returned destroyed product <sup>(1)</sup>	11,493	0.35	—	—
Mark-to-market gain on interest rate swaps not designated for hedge accounting	—	—	(126)	—
Share-based compensation expense	770	0.03	3,229	0.10
U.S. Tax Reform <sup>(2)</sup>	(11,186)	(0.34)	—	—
Tax impact of reconciling items	(5,227)	(0.16)	(3,670)	(0.12)
<b>Adjusted Net Income</b>	\$ 30,142	\$ 0.93	\$ 40,284	\$ 1.29
<b>Average shares for the period (000s)</b>		<b>32,527</b>		31,175

<sup>(1)</sup> Associated with the product recall (see the Recent Developments section on page 19).

<sup>(2)</sup> Associated with the U.S. Tax Reform enacted on December 22, 2017 (see the Income Taxes section on page 32).

### CAD-Equivalent Adjusted Diluted EPS

CAD-Equivalent Adjusted Diluted EPS is Adjusted Diluted EPS, as defined above, converted to CAD using the average USD/CAD exchange rate for the period. High Liner Foods' common shares trade on the TSX and are quoted in CAD. The CAD-Equivalent Adjusted Diluted EPS is provided for the purpose of calculating financial ratios,

like share price-to-earnings ratio, where investors should take into consideration that the Company's share price and dividend rate are reported in CAD and its earnings and financial position are reported in USD. This measure is included for illustrative purposes only, and would not equal the Adjusted Diluted EPS in CAD that would result if the Company's Consolidated Financial Statements were presented in CAD.

	Thirteen weeks ended		Fifty-two weeks ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
<b>Adjusted Diluted EPS</b>	\$ 0.15	\$ 0.22	\$ 0.93	\$ 1.29
Average foreign exchange rate for the period	1.2715	1.3341	1.2983	1.3248
<b>CAD-Equivalent Adjusted Diluted EPS</b>	\$ 0.19	\$ 0.29	\$ 1.21	\$ 1.71

### Standardized Free Cash Flow

Standardized Free Cash Flow follows the October 2008 “General Principles and Guidance for Reporting EBITDA and Free Cash Flow” issued by CPA Canada and is cash flow from operating activities less capital expenditures (net of investment tax credits) as reported in the consolidated statements of cash flows. The capital expenditures related to business acquisitions are not deducted from Standardized Free Cash Flow.

We believe Standardized Free Cash Flow is an important indicator of financial strength and performance of our business because it shows how much cash is available to pay dividends, repay debt and reinvest in the Company. We believe investors and analysts use Standardized Free Cash Flow to value our business and its underlying assets. The most comparable IFRS financial measure is “cash flows from operating activities” in the consolidated statements of cash flows.

The table below reconciles our Standardized Free Cash Flow (“FCF”) calculated on a rolling twelve-month basis, with measures that are in accordance with IFRS and as reported in the consolidated statements of cash flows.

(Amounts in \$000s)	Twelve months ended		
	December 30, 2017	December 31, 2016	Change
Net change in non-cash working capital items	\$ (48,909)	\$ 25,948	\$ (74,857)
Cash flow from operating activities, including interest and income taxes	27,420	54,066	(26,646)
Cash flow from operating activities	(21,489)	80,014	(101,503)
Less: total capital expenditures, net of investment tax credits	(26,488)	(16,734)	(9,754)
<b>Standardized Free Cash Flow</b>	\$ (47,977)	\$ 63,280	\$ (111,257)

### Net Interest-Bearing Debt

Net Interest-Bearing Debt is calculated as the sum of bank loans, long-term debt, and finance lease obligations, less cash.

We consider Net Interest-Bearing Debt to be an important indicator of our Company’s financial leverage because it represents the amount of debt that is not covered by available cash. We believe investors and analysts use Net Interest-Bearing Debt to determine the Company’s financial leverage. Net Interest-Bearing Debt has no comparable IFRS financial measure, but rather is calculated using several asset and liability items in the consolidated statements of financial position.

The following table reconciles Net Interest-Bearing Debt to IFRS measures reported as at the end of the indicated periods.

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Current bank loans	\$ 53,352	\$ 621
Add-back: deferred finance costs on current bank loans	208	338
Total current bank loans	53,560	959
Long-term debt	335,441	266,327
Add-back: deferred finance costs on long-term debt	2,485	1,599
Total term loan debt	337,926	267,926
Long-term portion of finance lease obligations	407	702
Current portion of finance lease obligations	714	721
Total finance lease obligation	1,121	1,423
Less: cash	(4,738)	(18,252)
<b>Net interest-bearing debt</b>	\$ 387,869	\$ 252,056

## Return on Assets Managed

ROAM is Adjusted EBIT divided by average assets managed (calculated using the average net assets month-end balance for each of the preceding thirteen months, where “net assets managed” includes all assets, except for future employee benefits, deferred income taxes and other certain financial assets, less accounts payable and accrued liabilities, and provisions).

We believe investors and analysts use ROAM as an indicator of how efficiently the Company is using its assets to generate earnings. ROAM has no comparable IFRS financial measure, but rather is calculated using several asset items in the consolidated statements of financial position.

The table below reconciles our average net assets, calculated on a rolling thirteen-month basis, with Adjusted EBIT (which is reconciled to IFRS measures on page 39 of this MD&A).

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Adjusted EBIT	\$ 49,801	\$ 65,724
Thirteen-month rolling average net assets	610,891	544,770
<b>ROAM</b>	<b>8.2%</b>	<b>12.1%</b>

## Return on Equity

ROE is calculated as Adjusted Net Income, less share-based compensation expense, divided by average common equity (calculated using the common equity month-end balance for each of the preceding thirteen months, comprised of common shares, contributed surplus, retained earnings, and accumulated other comprehensive income).

We believe investors and analysts use ROE as an indicator of how efficiently the Company is managing the equity provided by shareholders. ROE has no comparable IFRS financial measure, but rather is calculated using average equity from the consolidated statements of financial position.

The table below reconciles our average common equity calculated on a rolling thirteen-month basis, with Adjusted Net Income (which is reconciled to IFRS measures on page 39 of this MD&A).

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Adjusted Net Income	\$ 30,142	\$ 40,284
Less: Share-based compensation expense, net of tax <sup>(1)</sup>	658	2,792
	<b>29,484</b>	<b>37,492</b>
Thirteen-month rolling average common equity	244,012	213,396
<b>ROE</b>	<b>12.1%</b>	<b>17.6%</b>

<sup>(1)</sup> Net of tax expense of \$0.1 million during the fifty-two weeks ended December 30, 2017 and net of tax expense of \$0.4 million during the fifty-two weeks ended December 31, 2016.

## 15. Governance

Our 2017 Management Information Circular, to be filed in connection with our Annual and General Meeting of Shareholders on May 9, 2018, includes full details of our governance structures and processes.

We maintain a set of disclosure controls and procedures (“DC&P”) designed to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings*, is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators’ rules and forms.

In accordance with National Instrument 52-109, our certifying officers have limited the scope of their design of disclosure controls and procedures, and our Company’s internal control over financial reporting (“ICFR”) to exclude controls, policies and procedures relating to the acquisition of Rubicon (see the *Recent Developments* section on page 19) and they have not performed sufficient procedures to include Rubicon in the Company’s certifications.

National Instrument 52-109 permits a business that an issuer acquires not more than 365 days before the issuer’s financial year-end to be excluded from the scope of the certifications to allow for sufficient time to perform adequate procedures to ensure controls, policies and procedures are effective. Rubicon contributed \$117.1 million to sales and \$14.0 million to gross profit for the fifty-two weeks ended December 30, 2017. Information concerning assets and liabilities acquired as part of the acquisition of Rubicon is provided in Note 5 “*Business combinations*” to the Consolidated Financial Statements.

Our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have evaluated the design and effectiveness of our DC&P as of December 30, 2017. They have concluded that our current DC&P are designed to provide, and do operate to provide, reasonable assurance that: (a) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods; and (b) material information regarding the Company is accumulated and communicated to the Company’s management, including its CEO and CFO to allow timely decisions regarding required disclosure.

In addition, our CEO and CFO have designed or caused to be designed under their supervision internal control over financial reporting (“ICFR”), as defined in National Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Furthermore, our CEO and CFO have evaluated, or caused



to be evaluated under their supervision, the effectiveness of the design and operation of ICFR at the fiscal year-end and have concluded that our current ICFR was effective at the fiscal year-end based on that evaluation.

There has been no change in the Company's ICFR during 2017 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

## 16. Accounting Estimates and Standards

### Critical Accounting Estimates

The preparation of the Company's Consolidated Financial Statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. Actual outcomes may differ from these estimates under different assumptions and conditions that could require a material adjustment to the reported carrying amounts in the future.

The most significant estimates made by management include the following:

#### IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding future cash flows before taxes. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results or budgets, and a terminal value calculated by discounting the final year in perpetuity. The future cash flows are then discounted to their present value using a suitable discount rate that incorporates a risk premium specific to each business. Further details, including the manner in which the Company identifies its cash-generating units, and the key assumptions used in determining the recoverable amounts, are disclosed in Note 12 "Goodwill and intangible assets" to the Consolidated Financial Statements.

#### FUTURE EMPLOYEE BENEFITS

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rate, future salary increases, mortality rates and future pension increases. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating

the terms of the related pension liability. Interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate. See Note 17 "Future employee benefits" to the Consolidated Financial Statements for certain assumptions made with respect to future employee benefits.

#### INCOME TAXES

The Company is subject to income tax in various jurisdictions. Significant judgment is required to determine the consolidated tax provision. The tax rates and tax laws used to compute income tax are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

On December 22, 2017, the Tax Cuts and Jobs Act ("U.S. Tax Reform") was signed into law. The U.S. Tax Reform introduces other important changes in the U.S. corporate income tax laws that may significantly affect the Company in future years, including the creation of a new Base Erosion Anti-Abuse Tax that subjects certain payments from U.S. corporations to foreign related parties to additional taxes, and limitations to the deduction for net interest expense incurred by U.S. corporations. Future regulations and interpretations to be issued by U.S. authorities may also impact the Company's estimates and assumptions used in calculating its income tax provisions.

There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that are believed to appropriately reflect the risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each reporting date; however, it is possible that at some future date, an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimates include considerations of inputs such as liquidity

risk, credit risk and volatility. Changes in these inputs could affect the reported fair value of financial instruments.

#### **SALES AND MARKETING ACCRUALS**

The Company makes estimates to determine the costs associated with the sale of product to be allocated to certain variable sales and marketing expenses, including volume rebates and other sales volume discounts, coupon redemption costs and costs incurred related to damages. The Company's estimates include consideration of empirical data and trends combined with future expectations of sales volume, with estimates being reviewed on a monthly basis for reasonability.

#### **Accounting Standards**

High Liner Foods reports its financial results using IFRS. Our detailed accounting policies are included in the Notes to the Consolidated Financial Statements.

As disclosed in Note 3 "*Significant accounting policies*" to the Consolidated Financial Statements for the period ended December 30, 2017, no new accounting standards have been adopted in Fiscal 2017, but the Company applied the following amendment, which was effective for annual periods beginning on or after January 1, 2017:

##### *IAS 7, Statement of Cash Flows*

In January 2016, as part of their disclosure initiative, the IASB issued amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"), requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Company. The Company has adopted the amendments to IAS 7; however, they did not have a material impact on the Consolidated Financial Statements.

#### **NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

In addition to the existing IFRS standards adopted by the Company, the International Accounting Standards Board and the IFRS Interpretations Committee have issued additional standards and interpretations with an effective date subsequent to Fiscal 2017. The Company intends to adopt these standards when they become effective.

##### *IFRS 2, Share-Based Payment*

In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment* ("IFRS 2"), clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a

share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in the consolidated financial statements for the annual period beginning January 1, 2018. The Company is in the process of assessing the impact of this new standard and does not anticipate that the new standard will significantly affect the consolidated financial statements.

##### *IFRS 9, Financial Instruments: Classification and Measurement*

In 2015, the IASB issued the final version of the amendments to IFRS 9, *Financial Instruments* ("IFRS 9"), issued in 2010, which will ultimately replace IAS 39. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 9, and does not anticipate that the new standard will significantly affect the consolidated financial statements.

##### *IFRS 15, Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and various revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard is applicable to all contracts the Company has with customers. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The new revenue standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Two methods of adoption are available: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (cumulative effect method). The Company has decided to adopt the standard on December 31, 2017 using the full retrospective method with the completed contract practical expedients available under this method.

The Company has substantially completed the assessment of the impact of the application of the new standard and reached conclusions on key accounting policies upon transitioning to IFRS 15. The Company has not identified

any material impacts on the consolidated statements of financial position or net income upon initial application. Specifically, the Company has concluded that the adoption of IFRS 15 will not result in any material refinements to the current estimation methodologies or the timing of the recognition of estimates in relation to the Company's sales incentive programs. However, the following two presentation differences on the consolidated statements of income have been identified going forward:

- The Company receives donated product at no cost from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies. Upon adoption of IFRS 15, the Company will be required to include the fair value of the donated product in the transaction price recognized on the sale of the finished products. This will increase the revenue and costs of sales recorded upon distribution to the eligible agencies by an equivalent amount, as compared to the Company's current accounting treatment.
- The Company has identified payments made to a customer that will be accounted for as a reduction of revenue under IFRS 15. This will decrease revenue and cost of sales recorded by an equivalent amount, as compared to the Company's current accounting treatment.

If the Company were not to elect to use the completed contract practical expedients, revenue and cost of sales in the comparative period would require adjustments with no resulting impact on net income.

#### *IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases*, and its associated interpretive guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if entities have also applied IFRS 15, *Revenue from Contracts with Customers*. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

## 17. Risk Factors

High Liner Foods is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company takes a strategic approach to risk management. To achieve a superior return on investment, we have designed an enterprise-wide approach, overseen by the senior management of the Company and reported to the Board, to identify, prioritize

and manage risk effectively and consistently across the organization. We have included new risk factors and updated certain risk factors below for 2017.

### Food Safety

At High Liner Foods, food safety is our top priority. Our brand equity and reputation are inextricably linked to the quality and safety of our food products. We must be vigilant in ensuring our products are safe and comply with all applicable laws and regulations. Consumers are also increasingly better informed about conscientious food choices.

All of our processing plants have the required State or Provincial and Federal licenses to operate. The U.S. requires its seafood processing plants to adopt a quality management food safety system based on Hazard Analysis Critical Control Points ("HACCP") principles. Our plants in Portsmouth and Newport News are regularly inspected and meet or exceed all HACCP requirements.

In Canada, all seafood-processing plants are required to adopt a Quality Management Plan ("QMP") covering the regulatory and safety aspects of food processing. High Liner Foods' QMP has been approved by the Canadian Food Inspection Agency ("CFIA") and has been in good standing since inception of this requirement. Canada's QMP is an accepted standard under the U.S. HACCP system. Our Lunenburg facility falls under this regulation and meets or exceeds the related regulations.

Plants outside of North America must also pass HACCP audits to be able to export products to the U.S. All of the Company's non-North American suppliers operate HACCP approved plants and are required to adhere to newly strengthened U.S. Food and Drug Administration ("FDA") and CFIA importation requirements focusing on food safety and traceability. In addition, all purchases are subject to quality inspection by the Company's own quality inspectors. We have strict specifications for suppliers of both raw material and finished goods to ensure that procured goods are of the same quality as products made in our own plants, as indicated in our "*Supplier Standards and Audit Manual*."

In addition, we require all of our suppliers to obtain an annual third party food safety audit based on the Global Food Safety Initiative ("GFSI") standards, and we are recommending our global suppliers work to achieve this standard as well. The Lunenburg and Portsmouth plants have Safe Quality Foods ("SQF") certifications and the Newport News plant is certified to British Retail Consortium ("BRC") standards.

We employ several experts in this area, including food scientists, quality technicians, raw material inspectors, and labelling and nutritional consultants. We also have a supplier code of conduct and retain independent auditors to monitor compliance.

The Company has a Quality Steering Council comprised of all senior quality and regulatory personnel in the Company. Their mission is to ensure that High Liner Foods has the best policies, consistently applied throughout the Company, that audit processes are implemented and that all personnel are adequately trained. Quality and food safety activities also include state-of-the-art product specification and traceability systems.

### Procurement

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2017, the Company purchased approximately 224 million pounds of seafood, with an approximate value of \$661.0 million. Seafood and other food input markets are global with values expressed in USD. We buy approximately 30 species of seafood from 20 countries around the world. There are no formal hedging mechanisms in the seafood market. Prices can fluctuate due to changes in the balance between supply and demand. Weather, quota changes, geopolitical issues including economic sanctions, disease and other environmental impacts can affect supply. Changes in the relative values of currency can change the demand from a particular country whose currency has risen or fallen as compared to the U.S. dollar. The increasing middle class and government policies in emerging economies, as well as demand from health-conscious consumers, affect demand as well. Costs in Canada are also affected by the Canadian and U.S. dollar exchange rates. A strong Canadian dollar offsets increases in the U.S. dollar cost of raw materials for our Canadian operations, and conversely, when the Canadian dollar weakens, it increases our costs. We hedge exposures to currency changes and enter into annual supply contracts when possible. All foreign currency hedging activities are carried out in accordance with the Company's formal *Price Risk Management Policy*, under the oversight of the Audit Committee.

Our broad product line and customer base, along with geographically diverse procurement operations, help us mitigate changes in the cost of our raw materials. In addition, species substitution, product formulation changes, long-term relationships with suppliers, and price changes to customers are all important factors in our ability to manage margins to target.

As we purchase all the seafood that we sell, we have developed close relationships with key suppliers. We currently purchase significant quantities of frozen raw material and finished goods originating from many different areas of the world. Our supplier base is diverse to ensure no over-reliance on any source. Our strategy is to always have at least two suppliers of seafood products when we can. A very small percentage of our supply is single sourced. We also maintain strict *Supplier Approval and Audit Standards*.

Through audit procedures, all food suppliers are required to meet our quality control and safety standards, which, in many instances, are higher than regulatory standards. All product is inspected, to assure consumers that High Liner Foods quality is consistent, regardless of source or origin.

We sometimes pay for finished goods upon shipment from Asia or we acquire unprocessed seafood raw material and negotiate processing arrangements with suppliers to convert that raw material into our finished goods or raw material for our North American plants. We do this to ensure we receive the high-quality seafood we require and are receiving better prices from suppliers as a result. Although this increases inventory on our balance sheet, it results in higher income and profitability due to the negotiated lower cost product.

### Availability of Seafood and Non-Seafood Goods

Historically, North American markets have consumed less seafood per capita than certain Asian and European markets. If increased global seafood demand results in materially higher prices, North American consumers may be less likely to consume amounts historically consistent with their share of the global seafood market, which may adversely affect the financial results of High Liner Foods due to its North American focus.

The Company expects demand for seafood to grow from current levels as the global economy, and particularly the BRIC and Southeast Asian economies, improve. We expect the supply of wild-caught seafood to be stable over the long term, notwithstanding recent increases in quota in certain fisheries, in part due to sustainability efforts. We anticipate new demand will be supplied primarily from aquaculture. Currently, four of the top seven species consumed in the U.S. (shrimp, salmon, tilapia and pangasius) are partly or totally supplied by aquaculture and approximately 44% of the Company's procurement by value is related to aquaculture products. To the extent aquaculture is unable to supply future demand, prices may increase materially, which may have a negative impact on the Company's results.

The Company has made the strategic decision not to be vertically integrated for a number of reasons, including the large amount of capital that would be involved and expected returns on such capital. As well, the Company's current model results in only purchasing product to meet customer demand, thereby eliminating the risk in a vertically integrated company of holding caught product that has limited or no market demand. Instead, we remain committed to our strategy to develop the North American market by differentiating ourselves based on product offerings and service levels, building our brands and customer relationships, as well as being a low cost, large



scale manufacturer of seafood products, and leveraging such position to buy seafood at reasonable prices and be the supplier of choice for North American customers and consumers. However, in the event supply shortages of certain seafood, or trade barriers to acquiring seafood as a result of economic sanctions or otherwise, results in difficulty procuring species, the financial results of High Liner Foods may be adversely affected.

In addition, the Company purchases non-seafood goods from a limited number of suppliers as a result of consolidation within the industries in which these suppliers operate in North America and other major markets. Furthermore, issues with suppliers regarding pricing or performance of the goods they supply or the inability of suppliers to supply the required volumes of such goods and services in a timely manner could impact the Company's financial condition and performance. Any such impact will depend on the effectiveness of the Company's contingency plan.

### **Loss of Customer and Credit Risk**

We sell the vast majority of our products to large food retailers, including supercentres and club stores, and foodservice distributors in North America. The food distribution industry is consolidating. Our customers are getting larger and more sophisticated and prefer to conduct business with experienced, reliable suppliers. We are an important supplier to our customers because we can transact business on their terms and provide them with a significant portion of their seafood requirements. We must continue to grow and stay ahead of customer expectations in order to continue to be important to them. During the fifty-two weeks ended December 30, 2017, two of our customers comprised approximately 28.9% (2016: one customer, 16.0%) of total sales and our top ten customers represented approximately 66% (2016: 56%) of our total sales. Industry consolidation further emphasizes the importance we place on ensuring that our supply chain management and technology infrastructure keep pace with the service delivery expectations of our customers.

Although we insure our accounts receivable risk, our bad debt expense has historically been nominal. As of the filing of this report, we are not aware of any customer that is in financial trouble that would result in a material loss to the Company and our receivables are substantially current at year-end.

### **Product Recall**

The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage, accidental contamination, product tampering, consumer product liability, and the potential costs and disruptions

of a product recall. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems and by maintaining prudent levels of insurance. However, the Company cannot assure that such systems, even when working effectively, will eliminate the risks related to food safety. The Company could be required to recall certain of its products in the event of contamination or adverse test results or as precautionary measures. There is also a risk that not all of the product subject to the recall will be properly identified, or that the recall will not be successful or not be enacted in a timely manner. Any product contamination could subject the Company to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales. Many of these costs and losses are not covered by insurance. Any of these events could have a material adverse impact on the Company's financial condition and results of operations.

As discussed in the *Recent Developments* section on page 19, the Company initiated a product recall during the second quarter of 2017, and has estimated the remaining costs associated with this recall as of year-end. Our estimates are provisional and were determined based on an assessment of the information available up to the date of filing of this report, including the extent of potential additional claims that have yet to be received. The Company expects to recover substantially all of the estimated losses from the ingredient supplier, and will record these recoveries in the period in which they occur or are virtually certain to occur; however, there can be no assurance that amounts will be recovered.

### **Foreign Currency**

High Liner Foods reports its results in USD to reduce volatility caused by changes in the USD to CAD exchange rate. The Company's income statement and balance sheet are both affected by foreign currency fluctuations in a number of ways. As discussed below, a stronger CAD is generally beneficial to earnings and shareholders' equity and conversely, a weakening CAD can decrease earnings.

#### **INCOME STATEMENT EFFECTS OF FOREIGN CURRENCY**

The Parent has a CAD functional currency, meaning that all transactions are recorded in CAD. However, as we report in USD, the results of the Parent are converted into USD for external reporting purposes. Therefore, the CAD and USD exchange rate impacts the results we report. Also, other currencies have an indirect effect on High Liner Foods' operations.

The table below summarizes the effects of foreign exchange on our operations in their functional currency:

Currency	Strength	Impact on High Liner Foods
CAD	Strong	Results in a reduction in the cost of inputs for the Canadian operations in CAD. Competitive activity may result in some selling price declines on unprocessed product.
CAD	Weak	Results in an increase in the cost of inputs for the Canadian operations in CAD. Justified cost increases are usually accepted by customers. If prices rise too sharply there may be a volume decline until consumers become accustomed to the new level of pricing.
Euro	Strong	Results in increased demand from Europe for seafood supplies and may increase prices in USD.
Euro	Weak	Results in decreased demand from Europe for seafood supplies and may decrease prices in USD.
Asian currencies	Strong	Results in higher cost for seafood related to Asian-domestic inputs such as labour and overheads of primary producers. As well, increased demand may result from domestic Asian markets increasing USD prices. Justified cost increases are usually accepted by customers. If prices rise too sharply, there may be a volume decline until consumers become accustomed to the new level of pricing.
Asian currencies	Weak	Results in lower cost for seafood related to Asian-domestic inputs such as labour and overheads of primary producers. As well, decreased demand may result from domestic Asian markets, decreasing USD prices. Competitive activity may result in some selling price declines on unprocessed product.
USD	Strong	As in most commodities, a strong USD usually decreases input costs in USD, as suppliers in countries not using the USD need less USD to receive the same amount in domestic currency. In Canadian operations, it increases input costs in CAD.
USD	Weak	As in most commodities, a weak USD usually increases input costs in USD, as suppliers in countries not using the USD need more USD to receive the same amount in domestic currency. In Canadian operations, it decreases input costs in CAD.

The value of the USD compared to other world currencies has an impact on many commodities, including seafood, packaging, flour-based products, cooking oil and transportation costs that are either sold in USD or have USD-input costs. This is because many producing countries do not use the USD as their functional currency and, therefore, changes in the value of the USD means that producers in other countries need less or more USD to obtain the same amount in their domestic currency. Changes in the value of the CAD by itself against the USD simply result in an increase or decrease in the CAD cost of inputs.

For products sold in Canada, raw material is purchased in USD and flour-based ingredients, cooking oils and transportation costs all have significant commodity components that are traded in USD. However, labour, packaging and ingredient conversion costs, overheads and SG&A costs are incurred in CAD. A strengthening CAD decreases the cost of these inputs and vice versa in the Canadian operation's domestic currency. When the value of the CAD changes, competitive factors on commodity products, primarily raw frozen shellfish and groundfish, especially in our Canadian foodservice business, force us to react when competitors use a lower CAD cost of imported products to decrease prices and, therefore, pass on the cost decrease to customers. An increasing CAD cost usually results in higher selling prices to Canadian customers.

The operations of the Parent are translated to USD for external reporting. 24.9% of the Company's consolidated sales and a portion of its expenses are denominated in CAD. As such, fluctuations in exchange rates impact the

translated value of the Parent's sales, costs and expenses when translated to USD.

The average Canadian dollar in 2017 (at a USD/CAD exchange rate of 1.2983) strengthened approximately 2.0% over the average of 2016. Because we report our financial results in USD, a weakening CAD has the immediate effect of decreasing the USD value of CAD-denominated sales, costs and expenses. In 2017, CAD-denominated sales comprised approximately 30.0% of our total sales in domestic currency and we expect this to be relatively consistent in 2018.

For 2018, approximately CAD\$370.0–390.0 million of the Parent's external sales are expected to be in CAD. This exposure is estimated to decrease to CAD\$215.0–235.0 million after taking into account the CAD cost in labour, packaging, supplies and overheads. Holding all other factors constant, the net effect of a one-cent change in the USD/CAD, prior to hedging activities and price changes, is a change in after-tax income of approximately CAD\$1.3 million.

As mentioned, although High Liner Foods reports in USD, our Canadian operations continue to be managed in CAD, which is the functional currency of the Parent. Therefore, in accordance with the Company's "Price Risk Management Policy" (the "Policy"), we undertake hedging activities, buying USD forward and using various derivative products. To reduce our exposure to the USD on the more price inelastic items, the Policy allows us to hedge forward a maximum of 15 months of purchases; at 70–90% of exposure for the first three months, 55–85% for the next

three months, 30–75% for the next three months, 10–60% for the next three months, and 0–60% for the last three months. The lower end of these ranges is required to be hedged by the Policy, with the upper ranges allowed if management believes the situation warrants a higher level of purchases to be hedged. Variations from the Policy require the approval of the Audit Committee.

The Policy excludes certain products where the price in the marketplace moves up or down with changes in the CAD cost of the product. Approximately \$60.0–80.0 million of the USD purchases of the Parent are part of the hedging program annually and are usually hedged between 40.0% and 75.0% of the next twelve months of forecasted purchases. We are currently forecasting \$61.3 million in items to be hedged in 2018 and of this amount, 60.0% are currently hedged.

Details on the hedges in place as at December 30, 2017 are included in Note 26 “Fair value measurement” to the Consolidated Financial Statements.

#### **BALANCE SHEET EFFECTS OF FOREIGN CURRENCY**

As we have operations in Canada, and some monetary assets and liabilities in the U.S. that are denominated in CAD, assets and liabilities of the consolidated Company change as exchange rates fluctuate. At December 30, 2017, the CAD or USD/CAD exchange rate strengthened by approximately 6.8% from its value at December 31, 2016. As such, the CAD-denominated carrying value of items such as accounts receivable, inventory, fixed assets and accounts payable of the Parent have decreased in our USD balance sheet. The net offset of those changes flow through accumulated other comprehensive income (“AOCI”) in shareholders’ equity on the balance sheet. Changes in monetary assets and liabilities in the U.S. that are denominated in CAD flow through the income statement, unless they are hedged.

#### **Growth (Other than by Acquisition)**

A key component of High Liner Foods’ growth strategy is organic or internal growth by (a) increasing sales and earnings in existing markets with existing products; and (b) expanding into new markets and products. There can be no assurance that the Company will be successful in growing its business or in managing its growth in a manner consistent with this strategy. Furthermore, successful expansion may place a significant strain on key personnel of High Liner Foods, from a retention perspective, as well as on its operations, financial resources and other resources. The Company’s ability to manage growth will also depend in part on its ability to continue to grow and enhance its information systems in a timely fashion. It must also manage succession planning for personnel across the organization to support such growth. Any inability to

properly manage growth could result in cancellation of customer orders, as well as increased operating costs, and correspondingly, could have an adverse effect on High Liner Foods’ financial results.

#### **Acquisition and Integration Risk**

A component of the Company’s strategy is to pursue acquisition opportunities to support sales and earnings growth and further species diversification. While management intends to be careful in selecting businesses to acquire, acquisitions inherently involve a number of risks, including, but not limited to, the possibility that the Company pays more than the acquired assets are worth; the additional expense associated with completing an acquisition; the difficulty of assimilating the operations and personnel of the acquired business; the challenge of implementing uniform standards, controls procedures and policies throughout the acquired business; the inability to integrate, train, retain and motivate key personnel of the acquired business; the potential disruption to the Company’s ongoing business and the distraction of management from the Company’s day-to-day operations; the inability to incorporate acquired businesses successfully into the Company’s existing operations; and the potential impairment of relationships with the Company’s employees, suppliers and customers. If any one or more of such risks materialize, they could have a material adverse effect on the Company’s business, financial condition, liquidity and operating results.

In addition, the Company may not be able to maintain the levels of operating efficiency that the acquired company had achieved or might have achieved had it not been acquired by the Company. Successful integration of the acquired company’s operations would depend upon the Company’s ability to manage those operations and to eliminate redundant and excess costs. As a result of difficulties associated with combining operations, the Company may not be able to achieve the cost savings and other benefits that it would hope to achieve with the acquisition. Any difficulties in this process could disrupt the Company’s ongoing business, distract its management, result in the loss of key personnel or customers, increase its expenses and otherwise materially adversely affect the Company’s business, financial condition, liquidity and operating results. Further, inherent in any acquisition, there is risk of liabilities and contingencies that the Company may not discover in its due diligence prior to the consummation of a particular acquisition, and the Company may not be indemnified for some or all of these liabilities and contingencies. The discovery of any material liabilities or contingencies in any acquisition could also have a material adverse effect on the Company’s business, financial condition, liquidity and operating results.

## Liquidity Risk

Our primary sources of working capital are cash flows from operations and borrowings under our credit facilities. We actively manage our relationships with our lenders and have adequate credit facilities in place until December 2019, when the working capital credit facility is scheduled to be renewed.

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next twelve months as well as models that look out five years. Working capital and cash balances are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable and finance leases. The Company's objective is that not more than 50% of borrowings should mature in the next twelve-month period.

At December 30, 2017, less than 1% of our debt will mature in less than one year based on the carrying value of borrowings reflected in the Consolidated Financial Statements. Our long-term debt is described in Note 16 "*Long-term debt and finance lease obligations*" to the Consolidated Financial Statements. No principal repayments were paid in 2017 and no additional repayments are required for 2018 due to \$26.8 million in prepayments in 2016 that will be applied to future regularly scheduled principal repayments. The prepayments included a mandatory payment of \$11.8 million as a result of excess cash flows in 2015, and a voluntary repayment of \$15.0 million to reduce excess cash balances in 2016. At December 30, 2017 and at the date of this document, we are in compliance with all covenants and terms of our banking facilities.

The asset mix of our defined benefit pension plans was established with the objective of reducing the volatility of the plan's anticipated funded position. This has resulted in investing part of the portfolio in fixed income assets with a duration similar to that of the pension obligations. The change in the asset mix, additional Company contributions, and good investment returns have improved the financial position of our two largest defined benefit pension plans. The latest actuarial valuations of these two plans were performed during Fiscal 2014 and Fiscal 2017 and showed: combined going concern surpluses of CAD\$2.8 million; one plan had a solvency deficit of CAD\$1.4 million; and the other plan had a solvency deficit of CAD\$1.0 million.

## Sustainability, Corporate Responsibility and Public Opinion

The future success and growth of our business relies heavily upon our ability to protect and preserve the natural resources essential for our business and to make

sustainability part of how we operate in every facet of our business.

High Liner Foods made a public sustainability commitment in late 2010 to source all of its seafood from "certified sustainable or responsible" fisheries and aquaculture by the end of 2013. The Company was substantially successful in fulfilling the commitment it made in late 2010 and is now recognized as a global leader in driving best practice improvements in wild fisheries and aquaculture. Customers will continue to demand product solutions that are innovative, high quality and responsibly sourced. To the extent we fail to meet these customer expectations, operational results and brand equity may be adversely affected. Credible sustainability certifications have become a required tool to validate industry-driven wild fishery and aquaculture improvements. Environmental advocacy groups will continue to promote use of credible certification schemes to define sustainable wild fisheries and aquaculture.

In 2015, the Company implemented a social compliance program with seafood suppliers which outlines acceptable standards for the treatment of all suppliers' employees involved in the production of seafood product for our Company.

Corporate Social Responsibility ("CSR") is a term used to refer to the set of voluntary actions companies take to mitigate the social and environmental impacts of their operations on society. CSR is significant in the seafood industry as seen through the multiplication of private initiatives such as certification programs, sourcing commitments and improvement projects. Many of the issues addressed through CSR in seafood occur in the downstream end of seafood supply chains and include sustainable fish stocks, social aspects such as working conditions and fair wages, and transparency. High Liner Foods has continued its leadership position with the publication of its first CSR report in 2017, which discloses many of the improvement efforts it has underway.

In the long term, further enhancing policies related to sustainability, environmental and social compliance both within High Liner Foods and its supply chain may add to High Liner Foods' costs and reduce margins.

## Industry Consolidation

Grocery retailers, wholesalers, food processors and foodservice distributors in North America have consolidated and continue to consolidate. Grocery retailers typically charge suppliers listing or "slotting" fees for shelf space on a per product basis for new products, and also require money to support product advertising and promotions. Arising out of these consolidations, we have experienced demands from customers for increased listing and



promotional incentives and improved payment terms. However, as a supplier of Canada's leading frozen seafood brand and a leading supplier to the U.S. foodservice channel, we expect to remain an important supplier to grocery retailers and foodservice distributors, although such consolidation may adversely affect the Company's financial results.

Consolidation of customers is expected to result in some consolidation of suppliers in the U.S. seafood industry. The supply of seafood, especially in the U.S. foodservice market, is highly fragmented. Consolidation is needed to reduce costs and increase service levels to keep pace with the expectation of customers. We are always looking for acquisition opportunities to leverage our current strengths.

We are focusing efforts on brand strength, new products, procurement activities and superior customer service to ensure we outperform competitors. Consolidation makes it more important to achieve and maintain a brand leadership position, as consolidators move towards centralized buying and streamlined procurement. We are in a good position to meet these demands, since we offer quality, popular products under leading brands and have the ability to meet the customer service expectations of the major retailers. Given our brand strategy, customer consolidation is an opportunity for High Liner Foods to grow in step with customer growth.

### Seafood Production from Asia

For more than a decade, many seafood companies, including High Liner Foods, have diverted production of certain primary produced products to Asia, and China in particular. Asian processing plants are able to produce many seafood products at a lower cost than is possible in North America and in other more developed countries. These plants are also able to achieve a better yield on raw material due to the use of more manual processes and they produce excellent quality. Land-based seafood primary processing plants in developed countries, such as Norway, Iceland and Canada, have found it extremely difficult to compete with Asian processors, especially when they compete with them for the raw material on global markets. We anticipated this trend ahead of our many competitors. It was part of our rationale for exiting the primary-processing and fishing businesses, and the trend allowed us to develop opportunities that are now contributing to our growth strategy. We chose to work closely with selected Asian suppliers to become an important customer, especially for our major species. We have made it possible for these suppliers to meet our exacting quality and manufacturing standards and in turn, we have access to the variety and volume of seafood products, including a significant amount of wild-caught product from the

Atlantic and Pacific Oceans, that we need to fulfil our brand strategy. These suppliers are central to our supply chain operating efficiently, and thus, any adverse changes in the operations of such suppliers, or our commercial relationships with such suppliers, may adversely affect the Company's results.

### Competition Risk

High Liner Foods competes with a number of food manufacturers and distributors and its competition varies by distribution method, product category and geographic market. Some of High Liner Foods' competitors have greater financial and other resources than it does and/or may have access to labour or products that are not available to High Liner Foods. In addition, High Liner Foods' competitors may be able to better withstand market volatility. There can be no assurance that High Liner Foods' principal competitors will not be successful in capturing, or that new competitors will not emerge and capture, a share of the Company's present or potential customer base and/or market share.

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

### Non-Seafood Commodities

Our operating costs are affected by price changes in commodities such as crude oil, wheat, corn, paper products and frying oils. To minimize our risk, the Company's *Price Risk Management Policy* dictates the use of fixed pricing with suppliers whenever possible but allows the use of hedging with derivative instruments if deemed prudent. Throughout 2017 and 2016, the Company has managed this risk through contracts with suppliers.

Crude oil prices, which influence fuel surcharges from freight suppliers, increased in 2017 similarly to 2016. World commodity prices for flour, soy and canola oils, important ingredients in many of the Company's products, fluctuated throughout the year, but generally maintained the average price level of the prior year. The price of corrugated and folding carton, which is used in packaging,

increased in 2017. The Company currently has fixed price contracts with suppliers relating to our 2018 commodity purchase requirements and any additional amounts will be negotiated and fixed as necessary.

### Geopolitical Risk

The Company's operations are currently conducted in North America and, as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary for each country and include, but are not limited to: fluctuations in currency exchange rates; inflation rates; labour unrest; terrorism; civil commotion and unrest; changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions and social unrest; changes in trade agreements; economic sanctions and trade barriers.

Changes, if any, in trade agreements or policies, or shifts in political attitude, could adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations including, but not limited to, export controls, income taxes, foreign investment, and environmental legislation.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have a material adverse effect on the Company's operations or profitability.

The U.S. Tax Reform resulted in significant changes to tax legislation in the United States, and required a one-time remeasurement of the deferred income tax assets and liabilities of the Company's U.S. subsidiaries as described in the Income Taxes section on page 32. Certain aspects of the U.S. Tax Reform are still subject to interpretation and therefore, there may be further impacts on the results of operations, financial condition and cash flows of the Company.

### Information Technology and Cybersecurity Risk

High Liner Foods relies on information technology systems and network infrastructure in all areas of operations and is therefore exposed to an increasing number of sophisticated cybersecurity threats. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving. A cybersecurity attack and a breach of sensitive information could disrupt systems and services and compromise the Company's financial position or brands, and/or otherwise adversely affect the ability to achieve its strategic objectives.

The Company maintains policies, processes and procedures to address capabilities, performance, security and availability including resiliency and disaster recovery for systems, infrastructure and data. Security protocols,

along with corporate information security policies, address compliance with information security standards, including those relating to information belonging to the Company's customers and employees. The Company actively monitors, manages and continues to enhance its ability to mitigate cyber risk through its enterprise-wide programs.

The implementation of major information technology projects carries with it various risks, including the risk of realization of benefits, that must be mitigated by disciplined change management and governance processes. The Company has a business process optimization team staffed with knowledgeable internal resources (supplemented by external resources as needed) that is responsible for implementing the various initiatives.

### Board Accountability

The Board oversees risk management at High Liner Foods, and has delegated to the Audit Committee the task of providing reasonable assurance that we appropriately identify and manage risks. The Audit Committee reviews at least annually the Company's Business Risk Management policies, including the *Price Risk Management Policy*, and reviews and approves the disclosure of risk factors in this MD&A and in other public documents issued by High Liner Foods. Price and financial risks are reviewed at each Audit Committee meeting, including the Company's credit exposures. The Audit Committee also annually reviews the Company's insurance program.

We have identified the principal risks that could have a significant, adverse impact on our performance, reputation or ability to service our customers and have, in the absence of controls, a reasonable probability of occurring. Every principal risk is assigned to the Board and at least one member of our senior management team who has reporting, oversight and operational accountability for the risk. These risks are regularly reviewed by our senior management team, and by one or more internal committees or Board committees, which have governance and oversight accountability for the risk. This commentary is from a high-level perspective on the nature of each risk and describes the main practices in place to manage these risks. Additional discussion of some of these risks is included in our 2017 Annual Information Form, available at [www.highlinerfoods.com](http://www.highlinerfoods.com) or at [www.sedar.com](http://www.sedar.com).

## 18. Forward-Looking Information

This MD&A contains forward-looking statements within the meaning of securities laws. In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. In addition, these statements and expectations concerning the performance of our business in general are based on

a number of factors and assumptions including, but not limited to: availability, demand and prices of raw materials, energy and supplies; the condition of the Canadian and American economies; product pricing; foreign exchange rates, especially the rate of exchange of the CAD to the USD; our ability to attract and retain customers; our operating costs and improvement to operating efficiencies; interest rates; continued access to capital; the competitive environment and related market conditions; and the general assumption that none of the risks identified below or elsewhere in this document will materialize.

Specific forward-looking statements in this document include, but are not limited to: statements with respect to: future growth strategies and their impact on the Company's market share and shareholder value; anticipated financial performance, including earnings trends and growth; achievement, and timing of achievement, of strategic goals and publicly stated financial targets, including to increase our market share, acquire and integrate other businesses and reduce our operating and supply chain costs; our ability to develop new and innovative products that result in increased sales and market share; increased demand for our products whether due to the recognition of the health benefits of seafood or otherwise; changes in costs for seafood and other raw materials; proposed disposal of assets and/or operations; increases or decreases in processing costs; the USD/CAD exchange rate; percentage of sales from our brands; expectations with regards to sales volume, earnings, product margins, product innovations, brand development and anticipated financial performance; competitor reaction to Company strategies and actions; impact of price increases or decreases on future profitability; sufficiency of working capital facilities; future income tax rates; the expected timing and costs associated with product recalls and the expected recovery thereof; our ability to successfully integrate the proposed acquisition of Rubicon Resources, LLC; levels of accretion and synergy and earnings growth relating to Rubicon; the expected amount and timing of integration activities related to acquisitions; expected leverage levels and expected net interest-bearing debt to Adjusted EBITDA; statements under the *Outlook* heading including expected demand, sales of new product, and plant production; decreased leverage in the future; estimated capital spending; future inventory trends and seasonality; market forces and the maintenance of existing customer and supplier relationships; availability of credit facilities; our projection of excess cash flow and minimum repayments under the Company's long-term loan facility; expected decreases in debt-to-capitalization ratio; dividend payments; and amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants.

Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "could", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective", "goal", "remain" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the *Risk Factors* section of this MD&A and the *Risk Factors* section of our most recent AIF. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: volatility in the CAD/USD exchange rate; the interpretation of the U.S. Tax Reform by tax authorities; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of geopolitical events (and related economic sanctions) on same; costs of commodity products and other production inputs, and the ability to pass cost increases on to customers; successful integration of the operations of acquisitions; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the marketplace; changes in laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development.

Forward-looking information is based on management's current estimates, expectations and assumptions, which we believe are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Except as required under applicable securities laws, we do not undertake to update these forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf, whether as a result of new information, future events or otherwise.

# Management's Responsibility

## To the Shareholders of High Liner Foods Incorporated

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The management of High Liner Foods Incorporated includes corporate executives, operating and financial managers and other personnel working full-time on Company business. The statements have been prepared in accordance with generally accepted accounting principles consistently applied, using management's best estimates and judgments, where appropriate. The financial information elsewhere in this report is consistent with the statements.

Management has established a system of internal control that it believes provides a reasonable assurance that, in all material respects, assets are maintained and accounted for in accordance with management's authorization and transactions are recorded accurately on the Company's books and records. The Company's internal audit program is designed for constant evaluation of the adequacy and effectiveness of the internal controls. Audits measure adherence to established policies and procedures.

The Audit Committee of the Board of Directors is composed of five outside directors. The Committee meets periodically with management, the internal auditor and independent chartered professional accountants to review the work of each and to satisfy itself that the respective parties are properly discharging their responsibilities. The independent chartered professional accountants and the internal auditor have full and free access to the Audit Committee at any time. In addition, the Audit Committee reports its findings to the Board of Directors, which reviews and approves the consolidated financial statements.

Dated February 21, 2018

(Signed)

P.A. Jewer, FCA  
Executive Vice President and Chief Financial Officer



# Independent Auditors' Report

## To the Shareholders of High Liner Foods Incorporated

We have audited the accompanying consolidated financial statements of High Liner Foods Incorporated, which comprise the consolidated statements of financial position as at December 30, 2017 and December 31, 2016, and the consolidated statements of income, comprehensive income, accumulated other comprehensive income (loss), changes in shareholders' equity and cash flows for the fifty-two weeks ended December 30, 2017 and December 31, 2016, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITORS' RESPONSIBILITY

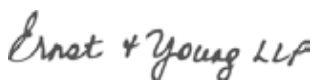
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **High Liner Foods Incorporated** as at December 30, 2017 and December 31, 2016, and its financial performance and its cash flows for the fifty-two week periods then ended in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP is written in a cursive, handwritten-style font.

Chartered Professional Accountants  
Licensed Public Accountants

Halifax, Canada  
February 21, 2018

# Consolidated Statements of Financial Position

(in thousands of United States dollars)	Notes	December 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 4,738	\$ 18,252
Accounts receivable	9	92,395	75,190
Income taxes receivable		13,533	4,809
Other financial assets	26	570	1,705
Inventories	10	353,433	252,059
Prepaid expenses		3,462	3,340
<b>Total current assets</b>		<b>468,131</b>	<b>355,355</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	120,289	109,626
Deferred income taxes	20	2,787	2,290
Other receivables and miscellaneous assets	26	837	864
Intangible assets	12	158,044	98,872
Goodwill	12	157,881	118,101
<b>Total non-current assets</b>		<b>439,838</b>	<b>329,753</b>
<b>Total assets</b>	13, 16	<b>\$ 907,969</b>	<b>\$ 685,108</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank loans	13	\$ 53,352	\$ 621
Accounts payable and accrued liabilities	14	209,910	139,378
Provisions	15	278	386
Other current financial liabilities	26	1,965	1,626
Other current liabilities		166	416
Income taxes payable		—	851
Current portion of finance lease obligations	16	714	721
<b>Total current liabilities</b>		<b>266,385</b>	<b>143,999</b>
<b>Non-current liabilities</b>			
Long-term debt	16	335,441	266,327
Other long-term financial liabilities	26	62	196
Other long-term liabilities		1,641	888
Long-term finance lease obligations	16	407	702
Deferred income taxes	20	23,943	44,602
Future employee benefits	17	11,223	8,190
<b>Total non-current liabilities</b>		<b>372,717</b>	<b>320,905</b>
<b>Total liabilities</b>		<b>639,102</b>	<b>464,904</b>
<b>Shareholders' equity</b>			
Common shares	18	112,835	86,094
Contributed surplus		14,354	14,654
Retained earnings		159,157	143,782
Accumulated other comprehensive loss		(17,479)	(24,326)
<b>Total shareholders' equity</b>		<b>268,867</b>	<b>220,204</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 907,969</b>	<b>\$ 685,108</b>

See accompanying notes to the Consolidated Financial Statements

# Consolidated Statements of Income

(in thousands of United States dollars, except per share amounts)	Notes	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
<b>Revenues</b>		<b>\$ 1,053,846</b>	\$ 954,986
Cost of sales		<b>867,767</b>	753,179
<b>Gross profit</b>		<b>186,079</b>	201,807
Distribution expenses		<b>49,827</b>	43,610
Selling, general and administrative expenses		<b>99,449</b>	96,978
Impairment of property, plant and equipment	11	<b>—</b>	2,327
Business acquisition, integration and other expenses		<b>2,639</b>	4,787
<b>Results from operating activities</b>		<b>34,164</b>	54,105
Finance costs	29	<b>16,626</b>	14,296
<b>Income before income taxes</b>		<b>17,538</b>	39,809
Income taxes			
Current	20	<b>(723)</b>	8,514
Deferred	20	<b>(13,392)</b>	(989)
Total income tax (recovery) expense		<b>(14,115)</b>	7,525
<b>Net income</b>		<b>\$ 31,653</b>	\$ 32,284
<b>Earnings per common share</b>			
Basic	21	<b>\$ 0.98</b>	\$ 1.04
Diluted	21	<b>\$ 0.97</b>	\$ 1.04
<b>Weighted average number of shares outstanding</b>			
Basic	21	<b>32,412,215</b>	30,917,412
Diluted	21	<b>32,527,296</b>	31,174,788

See accompanying notes to the Consolidated Financial Statements

# Consolidated Statements of Comprehensive Income

(in thousands of United States dollars)	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
<b>Net income</b>	<b>\$ 31,653</b>	<b>\$ 32,284</b>
<b>Other comprehensive income (loss), net of income tax (Note 20)</b>		
Other comprehensive income (loss) to be reclassified to net income:		
Gain on hedge of net investment in foreign operations	20,985	6,372
Loss on translation of net investment in foreign operations	(30,309)	(9,113)
Translation impact on Canadian dollar denominated non-AOCI items	17,803	5,808
Translation impact on Canadian dollar denominated AOCI items	(1,291)	(372)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	7,188	2,695
Effective portion of changes in fair value of cash flow hedges	(1,838)	(1,914)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	482	(1,345)
Net change in fair value of cash flow hedges transferred to income	436	502
Translation impact on Canadian dollar denominated AOCI items	579	341
Total exchange losses on cash flow hedges	(341)	(2,416)
<b>Net other comprehensive gain to be reclassified to net income</b>	<b>6,847</b>	<b>279</b>
Other comprehensive (loss) income not to be reclassified to net income:		
Defined benefit plan actuarial (losses) gains	(1,877)	323
<b>Other comprehensive income, net of income tax</b>	<b>4,970</b>	<b>602</b>
<b>Total comprehensive income</b>	<b>\$ 36,623</b>	<b>\$ 32,886</b>

# Consolidated Statements of Accumulated Other Comprehensive Income (Loss) ("AOCI")

(in thousands of United States dollars)	Foreign currency translation differences	Net exchange differences on cash flow hedges	Total AOCI
Balance at December 31, 2016	\$ (24,887)	\$ 561	\$ (24,326)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	7,188	—	7,188
Total exchange losses on cash flow hedges	—	(341)	(341)
<b>Balance at December 30, 2017</b>	<b>\$ (17,699)</b>	<b>\$ 220</b>	<b>\$ (17,479)</b>
Balance at January 2, 2016	\$ (27,582)	\$ 2,977	\$ (24,605)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	2,695	—	2,695
Total exchange losses on cash flow hedges	—	(2,416)	(2,416)
Balance at December 31, 2016	\$ (24,887)	\$ 561	\$ (24,326)

See accompanying notes to the Consolidated Financial Statements



# Consolidated Statements of Changes in Shareholders' Equity

(in thousands of United States dollars)	Common shares	Contributed surplus	Retained earnings	AOCI	Total
Balance at December 31, 2016	\$ 86,094	\$ 14,654	\$ 143,782	\$ (24,326)	\$ 220,204
Other comprehensive income	—	—	(1,877)	6,847	4,970
Net income	—	—	31,653	—	31,653
Common share dividends	—	—	(14,355)	—	(14,355)
Share-based compensation	983	(300)	—	—	683
Share issuance	25,758	—	(46)	—	25,712
<b>Balance at December 30, 2017</b>	<b>\$ 112,835</b>	<b>\$ 14,354</b>	<b>\$ 159,157</b>	<b>\$ (17,479)</b>	<b>\$ 268,867</b>
Balance at January 2, 2016	\$ 85,282	\$ 13,999	\$ 123,951	\$ (24,605)	\$ 198,627
Other comprehensive income	—	—	323	279	602
Net income	—	—	32,284	—	32,284
Common share dividends	—	—	(12,145)	—	(12,145)
Share-based compensation	909	655	—	—	1,564
Common shares repurchased for cancellation (Note 18)	(97)	—	(631)	—	(728)
Balance at December 31, 2016	\$ 86,094	\$ 14,654	\$ 143,782	\$ (24,326)	\$ 220,204

See accompanying notes to the Consolidated Financial Statements

# Consolidated Statements of Cash Flows

(in thousands of United States dollars)	Notes	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
<b>Cash flows provided by (used in):</b>			
<b>Operating activities</b>			
Net income		\$ 31,653	\$ 32,284
Adjustments to net income not involving cash from operations:			
Depreciation and amortization	25	16,311	17,114
Share-based compensation expense	19	771	3,229
Loss on asset disposals and impairment		789	2,645
Future employee benefits contribution, net of expense		233	97
Finance costs		16,626	14,296
Income tax (recovery) expense	20	(14,115)	7,525
Unrealized foreign exchange gain		(937)	(571)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		51,331	76,619
Changes in non-cash working capital balances:			
Accounts receivable		(1,612)	2,089
Inventories		(37,158)	5,942
Prepaid expenses		321	(633)
Accounts payable and accrued liabilities		(10,284)	18,411
Provisions		(176)	139
Net change in non-cash working capital balances		(48,909)	25,948
Interest paid		(14,745)	(14,361)
Income taxes paid		(9,166)	(8,190)
<b>Net cash flows (used in) provided by operating activities</b>		<b>(21,489)</b>	<b>80,016</b>
<b>Financing activities</b>			
Increase (decrease) in bank loans	22	52,618	(17,148)
Repayment of finance lease obligations	22	(725)	(980)
Proceeds of long-term debt	16, 22	70,000	—
Repayment of long-term debt	16, 22	—	(26,824)
Deferred finance costs		(1,276)	—
Common share dividends paid		(14,355)	(12,145)
Common shares repurchased for cancellation		—	(728)
Options exercised for shares		140	94
Share issuance		(73)	—
<b>Net cash flows provided by (used in) financing activities</b>		<b>106,329</b>	<b>(57,731)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment, net of investment tax credits, and intangible assets		(26,488)	(16,734)
Net proceeds on disposal of assets		331	15,461
Acquisition of business, net of cash acquired	5	(74,911)	—
Payment of contingent consideration		—	(2,816)
<b>Net cash flows used in investing activities</b>		<b>(101,068)</b>	<b>(4,089)</b>
Foreign exchange increase (decrease) on cash		2,714	(987)
Net change in cash during the period		(13,514)	17,209
Cash, beginning of period		18,252	1,043
<b>Cash, end of period</b>		<b>\$ 4,738</b>	<b>\$ 18,252</b>

See accompanying notes to the Consolidated Financial Statements

# Notes to the Consolidated Financial Statements

## 1. Corporate information

High Liner Foods Incorporated (the “Company” or “High Liner Foods”) is a company incorporated and domiciled in Canada. The address of the Company’s registered office is 100 Battery Point, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The Consolidated Financial Statements (“Consolidated Financial Statements”) of the Company as at and for the fifty-two weeks ended December 30, 2017, comprise High Liner Foods’ Canadian company (the “Parent”) and its subsidiaries (herein together referred to as the “Company” or “High Liner Foods”). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company’s Board of Directors on February 21, 2018.

## 2. Statement of compliance and basis for presentation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These Consolidated Financial Statements have been prepared on the historical-cost basis except for derivative financial instruments, financial instruments at fair value through profit or loss, and liabilities for cash-settled share-based compensation payment arrangements, which are measured at fair value, and the defined benefit employee future benefit liability which is recognized as the net total of the plan assets plus unrecognized past-service costs, and the present value of the defined benefit obligation.

## 3. Significant accounting policies

### (a) Basis of consolidation

These Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries as at December 30, 2017. Control is achieved when the Company is exposed, or has rights, to direct the activities that significantly affect the returns from its involvement with the investee. The Company reassesses whether or not it controls an investee on an ongoing basis.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company’s accounting policies. All intercompany balances, equity, income, expenses and cash flows are eliminated in full on consolidation.

### (b) Foreign currency

#### FUNCTIONAL AND PRESENTATION CURRENCY

The Company determines its functional currency based on the currency of the primary economic environment in which it operates. The Parent’s functional currency is the Canadian dollar (“CAD”), while the functional currencies of its subsidiaries are the CAD and the United States dollar (“USD”). The Company has chosen a USD presentation currency for its Consolidated Financial Statements because the USD better reflects the Company’s overall business activities and improves investors’ ability to compare the Company’s consolidated financial results with other publicly traded businesses in the packaged foods industry (most of which are based in the United States [“U.S.”] and report in USD) and should result in less volatility in reported sales and income on the conversion to the presentation currency.

The Company follows the requirements set out in IAS 21, *The Effects of Change in Foreign Exchange Rates* to translate to the presentation currency. The assets and liabilities of the Parent are translated to USD at the exchange rate as at the reporting date, and the income and expenses of the Parent are translated to USD at the monthly average exchange rates of the reporting period. Foreign currency differences are recognized in other comprehensive income (“OCI”).

**TRANSLATION OF TRANSACTIONS AND BALANCES INTO THE FUNCTIONAL CURRENCY**

Transactions in currencies other than the functional currency (“foreign currencies”) are translated to the respective functional currencies of the Parent and its subsidiaries at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at that date. Foreign currency non-monetary items that are measured in terms of historical cost are not retranslated. Foreign currency non-monetary items that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Differences arising on settlement or translation of monetary items are recognized in the consolidated statements of income with the exception of monetary items that are designated as part of the hedge of the Company’s net investment in a foreign operation. The latter exchange differences are recognized in OCI, to the extent the hedge is effective, until the net investment is disposed of or the hedge is ineffective, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

**(c) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets.

Any contingent consideration to be transferred by the Company will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”) is measured at fair value with changes in fair value recognized either in the consolidated statements of income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

When the Company acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Acquisition-related costs are expensed as incurred and included in business acquisition, integration and other expenses in the consolidated statements of income.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is not amortized, and is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company’s cash generating units (“CGUs”) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

**(d) Non-current assets held for sale and discontinued operations**

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell (“FVLCS”). For the asset to be classified as held for sale, the sale must be highly probable and the asset or disposal group must be available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

**(e) Cash**

Cash includes cash on hand and demand deposits with initial and remaining maturity of three months or less. Cash does not include any restricted cash.



**(f) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of manufactured inventories is based on the first-in first-out method. The cost of procured finished goods and unprocessed raw material inventory is based on weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing the inventories to their existing location and condition. In the case of manufactured inventories and semi-finished materials, cost includes an appropriate share of production overheads based on normal operating capacity. Cost may also include transfers from OCI of any gain or loss on qualifying cash flow hedges of foreign currency related to purchases of inventories.

**(g) Property, plant and equipment**

Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses, if any. The initial cost of an asset comprises its purchase price or construction cost, any expenditures directly attributable to bringing the asset into operation, and the present value of the expected cost for decommissioning the asset after its use, if the recognition criteria for a provision are met. The cost of self-constructed assets includes the cost of materials, direct labour, other costs directly attributable to bringing the assets to a working condition for their intended use, and costs of dismantling and removing the items and restoring the site on which they are located. Cost may also include transfers from OCI of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The capitalized value of a finance lease is also included in property, plant and equipment, and is measured at the lower of the present value of the minimum lease payments and the fair value of the leased asset.

Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the asset will flow to the Company, and the costs can be measured reliably. This would include costs related to the refurbishment or replacement of major components of the asset, when the refurbishment results in a significant extension in the physical life of the component, and in which case, the carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance of property, plant and equipment are expensed as incurred in the consolidated statements of income.

Gains or losses from the derecognition of an asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income when the asset is derecognized.

The cost of property, plant and equipment, less any residual value, is allocated over the estimated useful life of the asset on a straight-line basis. Depreciation is recognized on a straight-line basis as this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets and leasehold improvements are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives applicable to each category of property, plant and equipment, except for land, for the current and comparative periods are as follows:

Buildings	20–40 years
Furniture, fixtures and production equipment	10–25 years
Computer equipment and vehicles	4–10 years

When components of an item of property, plant and equipment have different useful lives than those noted above, they are accounted for as separate items of property, plant and equipment. The estimated useful lives, depreciation methods, and residual values are reviewed annually, with any changes in estimate being accounted for prospectively from the date of the change.

**(h) Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset(s) or the arrangement conveys a right to use the asset(s).

**COMPANY AS A LESSEE**

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statements of income.

Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term.

**(i) Intangible assets**

Intangible assets acquired separately are measured at cost on initial recognition. Intangible assets acquired in a business combination are recorded at fair value on the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if applicable.

The useful lives of intangible assets are assessed to be either finite or indefinite.

- Intangible assets with finite lives are amortized over their useful or economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.
- Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually at the CGU level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. Certain brands acquired through business combinations have no foreseeable limit to the period over which the assets are expected to generate net cash flows and are therefore determined to have indefinite useful lives.

The estimated useful lives applicable to each category of intangible assets for the current and comparative periods are as follows:

Brands	2-8 years
Customer and supplier relationships	10-25 years
Computer software	5-15 years
Indefinite lived brands	Indefinite, subject to impairment testing annually

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and accounted for prospectively from the date of the change.

The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset. Gains or losses from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income when the asset is derecognized.

**(j) Impairment****NON-FINANCIAL ASSETS**

The carrying amounts of non-financial assets, excluding inventories and deferred income tax assets, are reviewed for impairment at each reporting date, or whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. Reviews are undertaken on an asset-by-asset basis, except where the recoverable amount for an individual asset cannot be determined, in which case the review is undertaken at a CGU level.

On an annual basis, the Company evaluates the carrying amount of CGUs to which goodwill has been allocated, to determine whether such carrying amount may be impaired. To accomplish this, the Company compares the recoverable amount of a CGU to its carrying amount. This evaluation is performed more frequently if there is an indication that a CGU may be impaired.

The Company estimates the non-financial asset's recoverable amount for the purpose of impairment testing using the higher of its FVLCS and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. The excess of the carrying amount

over the recoverable amount is considered an impairment loss and is recognized in the consolidated statements of income. With respect to CGUs, impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

In determining FVLCS, an appropriate valuation model is used. These calculations are corroborated by the use of valuation multiples, quoted share prices and other available fair value indicators.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previous impairment losses may no longer exist or may have decreased. If such an indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The impairment loss to be reversed in the consolidated statements of income is limited to the recoverable amount, but not beyond the carrying amount, net of depreciation or amortization, that would have arisen if the prior impairment loss had not been recognized.

#### **FINANCIAL ASSETS**

The Company assesses at each financial reporting date whether a financial asset or group of assets is impaired. If there is objective evidence that an impairment loss on an asset or a group of assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's or group of assets' original effective interest rate ("EIR"), computed at initial recognition. The carrying amount of the asset or group of assets is reduced through use of an allowance account and the loss is recognized in the consolidated statements of income. Assets or groups of assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in the consolidated statements of income to the extent that the carrying value of the asset or group of assets does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are derecognized when they are assessed as uncollectible.

#### **(k) Provisions, contingent liabilities and contingent assets**

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

#### **(l) Future employee benefits**

##### **DEFINED BENEFIT PENSION PLANS ("DBPP")**

For DBPPs and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected-unit-credit method pro-rated on service and management's best estimate of expected salary escalation and retirement ages of employees.

The determination of benefit expense requires assumptions such as the discount rate to measure the obligation, the projected age of employees upon retirement, the expected rate of future compensation increases and the expected mortality rate of pensioners. The total past-service cost arising from plan amendments is recognized immediately in the consolidated statements of income. The present value of the defined benefit obligation ("DBO") is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the DBO and the fair value of plan assets are recognized immediately in the consolidated statements of comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Fair value is based on market price information, and in the case of quoted securities, is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

#### **DEFINED CONTRIBUTION PENSION PLANS (“DCPP”)**

A DCPP is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to DCPPs are recognized as an employee benefit expense in the consolidated statements of income in the periods during which services are rendered by employees.

#### **SHORT-TERM EMPLOYEE BENEFITS**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or incentive plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### **TERMINATION BENEFITS**

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits payable more than twelve months after the reporting period are discounted to their present value.

#### **(m) Revenue recognition**

Revenue from the sale of products is recognized when the risks and rewards of the underlying products have been substantially transferred to the customer (usually on delivery of the goods). The Company experiences very few product returns and collection of invoices is consistently high.

Marketing programs provided to customers and operators, including volume rebates, cooperative advertising and other trade marketing programs, are all customer-specific programs to promote the Company's products. Consequently, sales are recorded net of these estimated marketing costs at the time of sale. All other non-customer-specific marketing costs (general advertising, etc.) are expensed as incurred as selling, general and administrative expense.

#### **(n) Share-based compensation**

##### **EQUITY-SETTLED TRANSACTIONS**

The Company measures all equity-settled share-based awards made to employees and others providing similar services (collectively, “employees”) based on the fair value of the options or units on the date of grant. The grant date fair value of stock options is estimated using an option pricing model and is recognized as employee benefits expense over the vesting period, based on the number of options that are expected to vest, with a corresponding increase recognized in contributed surplus. The fair value estimate requires determination of the most appropriate inputs to the pricing model, including the expected life, volatility, and dividend yield, which are fully described in Note 19. The grant date fair value of equity-settled deferred share units, performance share units and restricted share units is determined based on the market value of the Company's shares on the date of grant, and is expensed over the vesting period based on the estimated number of units that are expected to vest.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based compensation payments or is otherwise beneficial to the employee as measured at the date of modification.

##### **CASH-SETTLED TRANSACTIONS**

The cost of cash-settled transactions is measured initially at fair value at the award grant date using the market value of the Company's shares on the date of grant.

The Company recognizes the fair value of the amount payable to employees as compensation expense as it is earned, based on the estimated number of units expected to vest with a corresponding increase in liabilities. The liability is remeasured at each reporting date by using the fair market value of a common share at the reporting date and the performance multiplier,



if applicable, with any changes in the fair value recognized as employee benefits expense in the consolidated statements of income. In the case of stock options issued with tandem share appreciation rights ("SARs"), if employees elect to exercise their options for shares, thereby cancelling the SARs, share capital is increased by the sum of the consideration paid by employees and the liability is reversed, with any difference being recorded in the consolidated statements of income.

### **(o) Income taxes**

Income tax expense comprises current and deferred income taxes, and is recognized in the consolidated statements of income, except to the extent that it relates to a business combination or to items recognized directly in equity or OCI.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates that are enacted or substantively enacted at the reporting date and any adjustment to taxes payable or receivable in respect of previous years. Current income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity or on different taxable entities but the entity intends to settle current income tax assets and liabilities on a net basis or their income tax assets and liabilities will be realized simultaneously.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: (i) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; (ii) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future and the timing of the reversal of the temporary differences can be controlled, and (iii) taxable temporary differences arising on the initial recognition of goodwill which is not deductible for tax purposes. Deferred income tax assets and liabilities are measured at the enacted or substantively enacted rate that is expected to apply when the related temporary differences reverse.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent it is probable future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable the related tax benefit will be realized.

### **(p) Earnings per share**

Basic earnings per share is calculated by dividing net income attributable to equity holders by the weighted average number of shares outstanding during the period, accounting for any changes to the number of shares outstanding, except those transactions affecting the number of shares outstanding without a corresponding change in resources.

Diluted earnings per share is calculated by dividing net income attributable to equity holders by the weighted average number of shares outstanding adjusted for the effects of all potentially dilutive shares. Potentially dilutive shares are only those shares that would result in a decrease to earnings per share or increase to loss per share. Dilutive shares are calculated using the treasury method for stock options, which assumes that outstanding units with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average market price of the common shares for the period. The if-converted method is used for other share-based units, and assumes that all units have been converted in determining diluted earnings per share if they are in-the-money, except where such conversion would be anti-dilutive.

### **(q) Financial instruments**

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as: (i) financial asset at fair value through profit or loss, (ii) available-for-sale financial assets, (iii) held-to-maturity investments, (iv) loans and receivables, (v) financial liabilities at fair value through profit or loss, or (vi) other financial liabilities.

#### **FINANCIAL ASSETS OR LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")**

Financial assets and liabilities at FVTPL include financial instruments which are held-for-trading ("HFT") or that are designated as FVTPL upon initial recognition. Financial instruments are classified as HFT if they are acquired for the purpose of selling or repurchasing in the near term. Financial instruments at FVTPL are carried in the consolidated statements of financial position at fair value with net changes in fair value presented as finance costs or finance income in the consolidated statements of income.

**LOANS AND RECEIVABLES**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

**OTHER FINANCIAL LIABILITIES**

Other financial liabilities generally include interest-bearing loans and borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the EIR amortization process.

The Company's financial instruments are classified and subsequently measured as follows:

Asset/liability	Classification	Subsequent measurement
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Foreign exchange contracts	Fair value through profit or loss	Fair value
Interest rate swaps	Fair value through profit or loss	Fair value
Bank loans	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Finance lease obligations	Other financial liabilities	Amortized cost

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Transaction costs, other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are combined with the fair value of the financial asset or financial liability on initial recognition and amortized using the EIR method. If modifications are made to a financial liability that are not considered to be substantial, the transaction costs related to this modification are combined with the carrying amount, and amortized over the life of the instrument using the EIR method. If modifications are made that are considered to be substantial, the transaction costs related to the modification are expensed.

A financial asset is derecognized when the Company transfers its contractual rights to receive cash flows without retaining control or substantially all the risks and rewards of ownership of the asset, or the Company enters into a pass-through arrangement. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

All assets and liabilities for which fair value is measured or disclosed in the Consolidated Financial Statements are categorized within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the Consolidated Financial Statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy as explained above.

### **(r) Derivative instruments and hedging**

All derivative instruments, including embedded derivatives that are not closely related to the host contract, are recorded in the consolidated statements of financial position at fair value on the date a contract is entered into and subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the hedge designation. The Company designates certain derivatives as one of the following:

- (i) **Embedded derivatives** are measured at fair value with changes in fair value recognized in the consolidated statements of income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset or financial liability out of FVTPL.
- (ii) **Fair value hedges** are hedges of the fair value of recognized assets, liabilities or a firm commitment. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the consolidated statements of income together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.
- (iii) **Cash flow hedges** are hedges of highly probable forecasted transactions. The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges are recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income. Additionally:
  - Amounts accumulated in OCI are recycled to the consolidated statements of income in the period when the hedged item affects profit and loss;
  - When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that was reported in OCI remains in AOCI and is recognized in the consolidated statements of income when the forecasted transaction ultimately affects profit and loss; and
  - When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately recognized in the consolidated statements of income.
- (iv) **Hedges of a net investment in a foreign operation** are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in OCI while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in AOCI is transferred to the consolidated statements of income.

#### **(v) Derivatives that do not qualify for hedge accounting**

Certain of the Company's derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized as finance costs in the consolidated statements of income consistent with the underlying nature and purpose of the derivative instruments.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedge instrument, the hedged item of the transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

### **(s) New standards, interpretations and amendments thereof, adopted by the Company**

The Company applied the following amendment, which was effective for annual periods beginning on or after January 1, 2017:

#### **IAS 7, STATEMENT OF CASH FLOWS**

In January 2016, as part of their disclosure initiative, the IASB issued amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"), requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Company. The Company has adopted the amendments to IAS 7; however, they did not have a material impact on the Consolidated Financial Statements.

### **(t) Accounting pronouncements issued but not yet effective**

The standards, amendments and interpretations that have been issued, but are not yet effective, up to the date of issuance of these financial statements are disclosed below. The Company intends to adopt these standards when they become effective.

#### **IFRS 2, SHARE-BASED PAYMENT**

In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment* ("IFRS 2"), clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in the consolidated financial statements for the annual period beginning January 1, 2018. The Company is in the process of assessing the impact of this new standard and does not anticipate that the new standard will significantly affect the consolidated financial statements.

#### **IFRS 9, FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT**

In 2015, the IASB issued the final version of the amendments to IFRS 9, *Financial Instruments* ("IFRS 9"), issued in 2010, which will ultimately replace IAS 39. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 9, and does not anticipate that the new standard will significantly affect the consolidated financial statements.

#### **IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS**

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and various revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard is applicable to all contracts the Company has with customers. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The new revenue standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Two methods of adoption are available: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (cumulative effect method). The Company has decided to adopt the standard on December 31, 2017 using the full retrospective method with the completed contract practical expedients available under this method.

The Company has substantially completed the assessment of the impact of the application of the new standard and reached conclusions on key accounting policies upon transitioning to IFRS 15. The Company has not identified any material impacts on the consolidated statements of financial position or net income upon initial application. Specifically, the Company has concluded that the adoption of IFRS 15 will not result in any material refinements to the current estimation methodologies or the timing of the recognition of estimates in relation to the Company's sales incentive programs. However, the following two presentation differences on the consolidated statements of income have been identified going forward:

- The Company receives donated product at no cost from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies. Upon adoption of IFRS 15, the Company will be



required to include the fair value of the donated product in the transaction price recognized on the sale of the finished products. This will increase the revenue and costs of sales recorded upon distribution to the eligible agencies by an equivalent amount, as compared to the Company's current accounting treatment.

- The Company has identified payments made to a customer that will be accounted for as a reduction of revenue under IFRS 15. This will decrease revenue and cost of sales recorded by an equivalent amount, as compared to the Company's current accounting treatment.

If the Company were not to elect to use the completed contract practical expedients, revenue and cost of sales in the comparative period would require adjustments with no resulting impact on net income.

#### **IFRS 16, LEASES**

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases*, and its associated interpretive guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if entities have also applied IFRS 15, *Revenue from Contracts with Customers*. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

## **4. Critical accounting estimates and judgments**

The preparation of the Company's Consolidated Financial Statements requires management to make critical judgments, estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. On an ongoing basis, management evaluates the judgments, estimates and assumptions using historical experience and various other factors believed to be reasonable under the given circumstances. Actual outcomes may differ from these estimates and could require a material adjustment to the reported carrying amounts in the future.

The most significant estimates made by management include the following:

#### **Impairment of non-financial assets**

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding future cash flows before taxes. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results or budgets, and a terminal value calculated by discounting the final year in perpetuity. The future cash flows are then discounted to their present value using a suitable discount rate that incorporates a risk premium specific to each business. Further details, including the manner in which the Company identifies its CGUs, and the key assumptions used in determining the recoverable amounts, are disclosed in Note 12.

#### **Future employee benefits**

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rate, future salary increases, mortality rates and future pension increases. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate. See Note 17 for certain assumptions made with respect to future employee benefits.

#### **Income taxes**

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that are believed to appropriately reflect the risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each reporting date; however, it is possible that at some future date, an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### **Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in these inputs could affect the reported fair value of financial instruments.

### **Sales and marketing accruals**

The Company makes estimates to determine the costs associated with the sale of product to be allocated to certain variable sales and marketing expenses, including volume rebates and other sales volume discounts, coupon redemption costs and costs incurred related to damages. The Company's estimates include consideration of empirical data and trends combined with future expectations of sales volume, with estimates being reviewed on a monthly basis for reasonability.

The most significant judgments made by management include the following:

### **Impairment of non-financial assets**

The Company uses judgment to determine the grouping of assets to include in its CGUs for the purpose of impairment testing for property, plant and equipment, intangible assets and goodwill. In addition, on a quarterly basis, management uses judgment to determine whether there have been any indicators of impairment, or any indicators of impairment reversal, which would require a quarterly impairment test.

### **Income taxes**

The Company is subject to income tax in various jurisdictions. Significant judgment is required to determine the consolidated tax provision. The tax rates and tax laws used to compute income tax are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

## **5. Business combinations**

### **Acquisition of Rubicon Resources, LLC**

On May 30, 2017, the Company acquired 100% of the outstanding interests in Rubicon Resources, LLC ("Rubicon"), a privately held U.S.-based company engaged principally in the import and distribution of sustainably sourced frozen shrimp products in the private-label U.S. retail market. The Company believes this acquisition will provide a strong platform for growth in this key species. The transaction also includes a five-year renewable supply agreement with Rubicon's supply partners based on mutually acceptable terms. The results of Rubicon have been consolidated with the results of the Company commencing on May 30, 2017.

After working capital adjustments and cash acquired as part of the acquisition, the Company paid \$100.6 million to acquire 100% of the outstanding interests in Rubicon. The purchase consideration was settled in cash (\$75.0 million), and in common shares (\$25.8 million or 2.43 million shares). The share consideration is subject to a three-year standstill agreement during which time the sellers are not permitted to sell the shares (except in limited circumstances).

The acquisition was financed using the Company's existing asset-based revolving credit facility ("ABL"; see Note 13); however, on June 6, 2017, the Company refinanced a portion of this additional ABL debt to a fixed term by replacing it with a \$70.0 million addition to the senior secured term loan (see Note 16).

The total consideration paid of \$100.6 million was calculated as follows:

(Amounts in \$000s)	
Cash	\$ 75,000
Common shares, net of discount	25,758
Post-closing working capital adjustments	(119)
<b>Net purchase consideration recorded</b>	<b>\$ 100,639</b>

For accounting purposes, the consideration transferred for the acquired business includes a discount on the value of the common shares reflecting the trading restrictions placed on the shares.

In accordance with the acquisition method of accounting, the purchase price was allocated to the underlying assets acquired and liabilities assumed based on their fair values at the date of acquisition. Fair values were determined based on discounted cash flows and quoted market prices.

The following sets forth the final allocation of the purchase price to assets and liabilities acquired, based on the final estimate of the fair value of the identifiable assets and liabilities recognized on the acquisition date.

(Amounts in \$000s)	Final fair value recognized on acquisition
<b>Assets</b>	
Cash	\$ 89
Accounts receivable	14,273
Prepaid expenses	293
Inventories	58,631
Property, plant and equipment	184
Deferred income taxes	6,683
Intangible assets	57,785
Goodwill	39,105
	<b>177,043</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	<b>(76,404)</b>
<b>Total identifiable net assets at fair value</b>	<b>\$ 100,639</b>

Receivables acquired were primarily comprised of receivables from Rubicon's customers and have been collected subsequent to the acquisition. Therefore, no allowance was recorded against these amounts.

Goodwill recorded on this transaction represents the value anticipated to be created from the Company's ability to grow sales of shrimp throughout its operations. The goodwill, with a tax basis of \$44.4 million, is deductible for income tax purposes. The goodwill has been allocated to the Canadian and U.S. CGUs during Fiscal 2017, based on synergies expected to be realized in each CGU (see Note 12).

In order to complete this acquisition, the Company incurred acquisition-related costs during the year in the form of advisory, legal and professional fees. Acquisition-related costs totaled \$0.7 million for the fifty-two weeks ended December 30, 2017 and have been included in business acquisition, integration and other expenses on the consolidated statements of income.

From the date of acquisition, Rubicon contributed \$117.1 million of revenue and \$3.0 million of earnings before income taxes, excluding one-time business acquisition costs. Had the acquisition occurred as of the beginning of the annual reporting period, January 1, 2017, the revenue for the combined entity, including Rubicon, would have been \$1.1 billion, and earnings before income taxes, excluding one-time business acquisition costs, for the combined entity would have been \$19.5 million for the fifty-two weeks ended December 30, 2017.

## 6. Revision of previously reported consolidated financial statements

During the first quarter of 2017, the Company identified an error related to the accounting for donated product received from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies. The Company has concluded that this error is immaterial to each of the prior periods. Therefore, comparative financial information has been adjusted, but previously filed reports have not been amended. For the year ended December 31, 2016, the adjustments decreased the Company's net income by \$0.7 million. Opening retained earnings at January 3, 2016 were decreased by \$1.9 million.

The effects of the adjustments on the consolidated statements of financial position, consolidated statements of income, and consolidated statements of comprehensive income are presented below. The adjustments had no effect on the previously reported amounts of net cash flows from operating activities, financing activities or investing activities. Only corrected line items have been disclosed.

(Amounts in \$000s)	As at December 31, 2016		
	Previously reported	Adjustments	As adjusted
<b>Consolidated Statements of Financial Position</b>			
Income taxes receivable	\$ 3,783	\$ 1,026	\$ 4,809
Inventories	252,118	(59)	252,059
Accounts payable and accrued liabilities	135,272	4,106	139,378
Deferred income taxes	45,183	(581)	44,602
Retained earnings	146,340	(2,558)	143,782
(Amounts in \$000s, except per share amounts)	Fifty-two weeks ended December 31, 2016		
	Previously reported	Adjustments	As adjusted
<b>Consolidated Statements of Income</b>			
Revenues	\$ 956,016	\$ (1,030)	\$ 954,986
Income taxes			
Current	8,737	(223)	8,514
Deferred	(848)	(141)	(989)
Total income tax expense	7,889	(364)	7,525
Net income	32,950	(666)	32,284
Earnings per common share			
Basic	1.07	(0.03)	1.04
Diluted	1.06	(0.02)	1.04
<b>Consolidated Statements of Comprehensive Income</b>			
Total comprehensive income	\$ 33,552	\$ (666)	\$ 32,886

## 7. Product recall

In April of 2017, the Company announced a voluntary recall of certain brands of breaded fish and seafood products sold in Canada that may contain a milk allergen that was not declared on the ingredient label and allergen statement. The Company identified that the allergen had originated from ingredients supplied by one of the Company's U.S.-based ingredient suppliers. Subsequently, the Company was notified by the ingredient supplier that several additional ingredients were being recalled due to the potential presence of undeclared milk, which necessitated the expansion of the Company's initial recall to include additional value-added seafood products sold in the U.S. and Canada.

As a result, during the fifty-two weeks ended December 30, 2017, the Company recognized \$13.5 million in estimated net losses associated with the product recall related to consumer refunds, customer fines, the return of product to be re-worked or destroyed, and direct incremental costs. These losses do not include any reduction in earnings as a result of lost sales opportunities due to limited product availability and customer shortages, or increased production costs related to the interruption of production at the Company's facilities.

The Company's remaining estimate related to the recall was determined based on an assessment of the information available up to the date of filing of these Consolidated Financial Statements, including the extent of potential additional claims that have yet to be received. The Company's estimate reflects the losses determined as at December 30, 2017 to be both probable and reasonably estimable. The Company may need to revise this estimate in subsequent periods for any additional claims that may be received.

## 8. Disposition of New Bedford

On February 17, 2016, the Company announced the cessation of value-added fish operations at its facility in New Bedford, Massachusetts to reduce excess capacity across its manufacturing network. In June 2016, the Company determined that the carrying value of assets associated with the New Bedford facility, including assets and semi-finished and raw material inventory related to the scallop division, formed a disposal group where the carrying value would not be recovered through continuing use. As a result of the requirement to recognize these assets at the lower of carrying value and fair value less costs to sell, the Company recognized an impairment loss of \$2.3 million on the property, plant and equipment during the fifty-two weeks ended December 31, 2016 in the consolidated statements of income. Value-added fish operations at the New Bedford facility ceased in mid-July 2016, following the transfer of production to the Company's other manufacturing facilities.

On August 16, 2016, the Company entered into a purchase and sale agreement with Blue Harvest Fisheries to sell the assets of the Company's scallop business and the New Bedford facility. On September 7, 2016, the sale was completed and the Company received cash proceeds of \$15.1 million. As a result, the Company recognized a loss on the sale of scallop and supplies inventory of \$0.2 million during the fifty-two weeks ended December 31, 2016, which is included in business acquisition, integration and other expenses in the consolidated statements of income.

## 9. Accounts receivable

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Trade accounts receivable	\$ 90,148	\$ 74,130
Other accounts receivable	2,247	1,060
	<b>\$ 92,395</b>	<b>\$ 75,190</b>

Accounts receivable bear normal commercial credit terms and are non-interest bearing. The entire accounts receivable balance is pledged as collateral for the Company's working capital facility (see Note 13), excluding the accounts receivable acquired as part of the acquisition of Rubicon (see Note 5). As part of the Rubicon acquisition, the Company has assumed financing arrangement guarantees for certain suppliers granting a security interest in substantially all of the inventory and proceeds thereon (see Note 23).

The following is a reconciliation of the changes in the impairment of receivables:

(Amounts in \$000s)		
At January 2, 2016		\$ 322
New impairment reserves charged		219
Impairment reserves utilized		(176)
Unused impairment reserves reversed		(125)
At December 31, 2016		\$ 240
New impairment reserves charged		287
Impairment reserves utilized		(22)
Unused impairment reserves reversed		(24)
<b>At December 30, 2017</b>		<b>\$ 481</b>

The aging analysis of trade accounts receivables, based on the invoice date is as follows:

	0-30 days	31-60 days	over 60 days
At December 31, 2016	90%	8%	2%
<b>At December 30, 2017</b>	<b>89%</b>	<b>10%</b>	<b>1%</b>



## 10. Inventories

Total inventories at the lower of cost and net realizable value on the consolidated statements of financial position comprise the following:

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Finished goods	\$ 246,460	\$ 159,244
Raw and semi-finished material	106,973	92,815
	<b>\$ 353,433</b>	<b>\$ 252,059</b>

During 2017, \$867.8 million (2016: \$753.2 million) was recognized as an expense for inventories in cost of sales on the consolidated statements of income. Of this, \$5.9 million (2016: \$4.4 million) was written-down during the year and a reversal for unused impairment reserves of \$1.2 million (2016: \$0.5 million) was recorded. As of December 30, 2017, the value of inventory pledged as collateral for the Company's working capital facility (see Note 13), which excludes inventory acquired as part of the Rubicon inventory acquisition (see Note 5), was \$230.9 million (December 31, 2016: \$184.6 million). As part of the Rubicon acquisition, the Company has assumed financing arrangement guarantees for certain suppliers granting a security interest in substantially all of the inventory and proceeds thereon (see Note 23).

## 11. Property, plant and equipment

(Amounts in \$000s)	Land and buildings	Furniture, fixtures, and production equipment	Computer equipment and vehicles <sup>(1)</sup>	Total
<b>Cost</b>				
At January 2, 2016	\$ 78,105	\$ 76,547	\$ 15,190	\$ 169,842
Additions	3,008	11,182	1,970	16,160
Disposals	(9,558)	(8,107)	(1,162)	(18,827)
Effect of exchange rates	398	385	247	1,030
At December 31, 2016	\$ 71,953	\$ 80,007	\$ 16,245	\$ 168,205
Additions	5,217	12,262	1,715	19,194
Acquisition	—	—	184	184
Disposals	(181)	(1,633)	(431)	(2,245)
Effect of exchange rates	1,197	1,452	795	3,444
<b>At December 30, 2017</b>	<b>\$ 78,186</b>	<b>\$ 92,088</b>	<b>\$ 18,508</b>	<b>\$ 188,782</b>
<b>Accumulated depreciation and impairment</b>				
At January 2, 2016	\$ (19,376)	\$ (28,435)	\$ (6,317)	\$ (54,128)
Depreciation and impairment	(4,144)	(5,789)	(2,013)	(11,946)
Disposals	3,154	4,132	703	7,989
Effect of exchange rates	(188)	(189)	(117)	(494)
At December 31, 2016	\$ (20,554)	\$ (30,281)	\$ (7,744)	\$ (58,579)
Depreciation and impairment	(2,700)	(5,043)	(2,010)	(9,753)
Disposals	75	1,442	(172)	1,345
Effect of exchange rates	(531)	(587)	(388)	(1,506)
<b>At December 30, 2017</b>	<b>\$ (23,710)</b>	<b>\$ (34,469)</b>	<b>\$ (10,314)</b>	<b>\$ (68,493)</b>
<b>Net carrying value</b>				
At December 31, 2016	\$ 51,399	\$ 49,726	\$ 8,501	\$ 109,626
<b>At December 30, 2017</b>	<b>\$ 54,476</b>	<b>\$ 57,619</b>	<b>\$ 8,194</b>	<b>\$ 120,289</b>

<sup>(1)</sup> The carrying value of vehicles and equipment held under finance leases at December 30, 2017 was \$1.6 million (December 31, 2016: \$3.6 million) and additions during the year were \$0.4 million (December 31, 2016: \$1.0 million).

In accordance with the announcement on February 17, 2016 to cease value-added fish operations at the production facility in New Bedford, Massachusetts, the Company determined that as of April 2, 2016, the criteria to re-evaluate the useful life and residual value of certain capital assets were met. Accordingly, \$1.5 million of accelerated depreciation was recorded during the fifty-two weeks ended December 31, 2016. These assets were disposed of as a result of the sale of the assets of the Company's scallop business and the New Bedford facility on September 7, 2016. See Note 8 for further information.

An impairment loss of \$nil (December 31, 2016: \$2.3 million) was recorded during the fifty-two weeks ended December 30, 2017.

The Company has a General Security Agreement that has pledged all of its property, plant and equipment as collateral for its bank loans and long-term debt. See Note 13 and Note 16 for further information.

## 12. Goodwill and intangible assets

The Company's intangible assets consist of brands and customer and supplier relationships that have been acquired through a business combination, and computer software.

(Amounts in \$000s)	Intangible assets					Goodwill	Total goodwill and intangible assets
	Brands	Customer and supplier relationships	Indefinite lived brands	Computer software	Total intangible assets		
<b>Cost</b>							
At January 2, 2016	\$ 6,938	\$ 106,956	\$ 14,488	\$ 165	\$ 128,547	\$ 117,824	\$ 246,371
Additions	—	—	—	1,531	1,531	—	1,531
Effect of exchange rates	—	32	13	—	45	277	322
At December 31, 2016	\$ 6,938	\$ 106,988	\$ 14,501	\$ 1,696	\$ 130,123	\$ 118,101	\$ 248,224
Additions	—	57,785	—	7,666	65,451	39,105	104,556
Effect of exchange rates	—	75	9	217	301	675	976
<b>At December 30, 2017</b>	<b>\$ 6,938</b>	<b>\$ 164,848</b>	<b>\$ 14,510</b>	<b>\$ 9,579</b>	<b>\$ 195,875</b>	<b>\$ 157,881</b>	<b>\$ 353,756</b>
<b>Accumulated amortization</b>							
At January 2, 2016	\$ (4,292)	\$ (21,334)	\$ (441)	\$ —	\$ (26,067)	\$ —	\$ (26,067)
Amortization	(1,045)	(4,130)	—	—	(5,175)	—	(5,175)
Effect of exchange rates	—	(9)	—	—	(9)	—	(9)
At December 31, 2016	\$ (5,337)	\$ (25,473)	\$ (441)	\$ —	\$ (31,251)	\$ —	\$ (31,251)
Amortization	(1,035)	(4,122)	—	—	(5,157)	—	(5,157)
Amortization on acquisition	—	(1,401)	—	—	(1,401)	—	(1,401)
Effect of exchange rates	—	(22)	—	—	(22)	—	(22)
<b>At December 30, 2017</b>	<b>\$ (6,372)</b>	<b>\$ (31,018)</b>	<b>\$ (441)</b>	<b>\$ —</b>	<b>\$ (37,831)</b>	<b>\$ —</b>	<b>\$ (37,831)</b>
<b>Net carrying value</b>							
At December 31, 2016	\$ 1,601	\$ 81,515	\$ 14,060	\$ 1,696	\$ 98,872	\$ 118,101	\$ 216,973
<b>At December 30, 2017</b>	<b>\$ 566</b>	<b>\$ 133,830</b>	<b>\$ 14,069</b>	<b>\$ 9,579</b>	<b>\$ 158,044</b>	<b>\$ 157,881</b>	<b>\$ 315,925</b>

The computer software is not ready for use as at December 30, 2017 and is not being amortized. Included in selling, general and administrative expenses for the fifty-two weeks ended December 30, 2017 are \$0.3 million (2016: \$nil) in costs related to the capitalized computer software.

Goodwill related to the Rubicon acquisition (see Note 5) has been allocated to the Canadian and U.S. CGUs during Fiscal 2017, based on synergies expected to be realized in each CGU.

The carrying amount of goodwill acquired through business combinations and brands with indefinite lives have been allocated to the Canadian and U.S. CGUs for impairment testing as follows:

(Amounts in \$000s)	Canada		U.S.	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Goodwill	\$ 20,270	\$ 9,290	\$ 137,611	\$ 108,811
Indefinite lived brands	\$ 463	\$ 454	\$ 13,606	\$ 13,606

### Impairment of goodwill and identifiable intangible assets

As described in Note 3, the carrying values of goodwill and intangible assets with indefinite lives are tested for impairment annually (as at the first day of the Company's fourth quarter). The Company's impairment test for goodwill and intangible assets with indefinite useful lives was based on FVLCS at October 1, 2017. The key assumptions used to determine the recoverable amount for the different CGUs for the most recently completed impairment calculations for Fiscal 2017 and Fiscal 2016 are discussed below. The Company has not identified any indicators of impairment at any other date and as such has not completed an additional impairment calculation.

The recoverable amount of the CGUs has been determined based on the FVLCS, determined using an income approach using the discounted cash flow methodology. The fair value of the CGU must be measured using the assumptions that market participants would use rather than those related specifically to the Company. In addition, the market approach was employed in assessing the reasonableness of the conclusions reached.

#### INCOME APPROACH

The discounted cash flow ("DCF") technique provides the best assessment of what each CGU could be exchanged for in an arm's length transaction as fair value is represented by the present value of expected future cash flows of the business together with the residual value of the business at the end of the forecast period. The DCF was applied on an enterprise-value basis, where the after-tax cash flows prior to interest expense are discounted using a weighted average cost of capital ("WACC"). This approach requires assumptions regarding revenue growth rates, gross margins, capital expenditures, tax rates and discount rates.

#### MARKET APPROACH

It is assumed under the market approach that the value of a company reflects the price at which comparable companies in the same industry are purchased under similar circumstances. A comparison of a CGU to similar companies in the same industry whose financial information is publicly available may provide a reasonable basis to estimate fair value. Fair value under this approach is calculated based on EBITDA multiples and revenue multiples compared to the average median multiples based on publicly available information for comparable companies and transaction prices.

### Key assumptions used in determining the FVLCS

#### CASH FLOW PROJECTIONS

The cash flow projections, covering a five-year period ("projection period"), were based on financial projections approved by management using assumptions that reflect the Company's most likely planned course of action, given management's judgment of the most probable set of economic conditions, adjusted to reflect the perspective of the expectations of a market participant. Gross margins are based on actual and estimated values in the first year of the projection period, budgeted values in the second year of the projection period, and these are increased over the projection period using an approximate growth rate for anticipated efficiency improvements. The projected gross margins are updated to reflect anticipated future changes, such as currency fluctuations, in the cost of inputs (primarily raw materials and commodity products used in processing), which are obtained from forward-looking data. Forecast figures are used where data is publicly available; otherwise, past actual raw material cost movements have been used combined with management's industry experience and analysis of the seafood and commodity markets.

**DISCOUNT RATE**

The discount rate (WACC) reflects the current market assessment of the risk specific to comparable companies. The discount rate was based on the weighted average cost of equity and cost of debt for comparable companies within the industry. The cost of equity was calculated using the capital asset pricing model. The debt component of the WACC was determined by using an after-tax cost of debt. The after-tax WACC applied to the Canadian CGU and U.S. CGU cash flow projections was 9.3% and 10.6%, respectively, at October 1, 2017.

**GROWTH RATE**

Growth rates used to extrapolate the Company's projection were determined using published industry growth rates in combination with inflation assumptions and the input of each CGU's management group based on historical trend analysis and future expectations of growth. The growth rate applied to the cash flow projections of both the Canadian and U.S. CGUs was 2.0% at October 1, 2017.

**COSTS TO SELL**

The costs to sell each CGU have been estimated at approximately 3.0% of the CGU's enterprise value. The costs to sell reflect the incremental costs, excluding finance costs and income taxes, that would be directly attributable to the disposal of the CGU, including legal costs, marketing costs, costs of removing assets and direct incremental costs incurred in preparing the CGU for sale.

**SENSITIVITY TO CHANGES IN ASSUMPTIONS**

With regard to the assessment of the FVLCS for each of the CGUs, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of either CGU to materially exceed its recoverable amount.

## 13. Bank loans

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Bank loans, denominated in CAD (average variable rate of 3.04%; December 31, 2016: 2.70%)	\$ 9,435	\$ 959
Bank loans, denominated in USD (average variable rate of 3.64%; December 31, 2016: 4.00%)	44,125	—
	<b>53,560</b>	959
Less: deferred finance costs	<b>(208)</b>	(338)
	<b>\$ 53,352</b>	\$ 621

The Company has a five-year \$180.0 million working capital facility (the "Facility"), with the Royal Bank of Canada as Administrative and Collateral Agent, which expires in April 2019. The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility (see Note 16), and excluding the assets acquired as part of the Rubicon acquisition (see Note 5). A second charge over the Company's property, plant and equipment is also in place. As at December 30, 2017, the Company had \$111.8 million of undrawn borrowing facility (December 31, 2016: \$151.6 million).

As at December 30, 2017 and December 31, 2016, the Facility allowed the Company to borrow:

Canadian Prime Rate revolving loans, Canadian Base Rate revolving and U.S. Prime Rate revolving loans, at their respective rates	plus 0.00% to 0.25%
Bankers' Acceptances ("BA") revolving loans, at BA rates	plus 1.25% to 1.75%
LIBOR revolving loans at LIBOR, at their respective rates	plus 1.25% to 1.75%
Letters of credit, with fees of	1.25% to 1.75%
Standby fees, required to be paid on the unutilized facility, of	0.25% to 0.375%

## 14. Accounts payable and accrued liabilities

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Trade accounts payable and accrued liabilities	\$ 198,329	\$ 124,084
Employee accruals, including incentives and vacation pay	11,546	14,682
Share-based compensation (Note 19)	35	612
	<b>\$ 209,910</b>	<b>\$ 139,378</b>

Trade accounts payable and accrued liabilities are non-interest bearing. Employee accruals, including incentives and vacation pay, are non-interest bearing and normally settle within fifty-two weeks. Share-based payments included in the above are settled within fifty-two weeks.

## 15. Provisions

The amounts recognized in provisions include the Company's coupon redemption costs, termination benefits (see Note 17) and employee incentives. Employee incentives and termination benefits, when applicable, are included as other provisions in the first, second and third quarter of the year only, until the amounts can be estimated with certainty at the end of the fourth quarter, and at which time they are reclassified to accounts payable and accrued liabilities. The following is a reconciliation of the carrying amounts:

(Amounts in \$000s)	
At December 31, 2016	\$ 386
New provisions added	5,841
Provisions utilized	(1,382)
Reclassified to accounts payable and accrued liabilities	(4,567)
<b>At December 30, 2017</b>	<b>\$ 278</b>

The Company's provision amounts are usually settled within eleven months from initiation and are immaterial to the Company on an individual basis. Management does not expect the outcome of any of the recorded amounts will give rise to any significant expense beyond the amounts recognized at December 30, 2017. The Company is not eligible for any reimbursement by third parties for these amounts.

## 16. Long-term debt and finance lease obligations

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Term loan	\$ 337,926	\$ 267,926
Less: deferred finance costs	(2,485)	(1,599)
	<b>\$ 335,441</b>	<b>\$ 266,327</b>

As at December 30, 2017, the Company had a \$370.0 million term loan facility with an interest rate of 3.25% plus LIBOR (LIBOR floor of 1.00%), maturing on April 24, 2021. The term loan facility was increased from \$300.0 million to \$370.0 million on June 6, 2017 to facilitate the Rubicon acquisition (see Note 5). The \$70.0 million addition to the term loan was made in accordance with the term loan credit agreement, which provides for incremental increases that meet stated provisions, at consistent terms.

Quarterly principal repayments of \$0.9 million are required on the term loan. During the fifty-two weeks ended December 31, 2016, a mandatory prepayment of \$11.8 million was made due to excess cash flows in 2015, and a voluntary repayment of \$15.0 million was made to reduce excess cash balances. The prepayments are applied to future regularly scheduled principal repayments, and as such, no regularly scheduled principal repayments were paid in 2017 and no additional repayments are required for 2018.

Substantially all tangible and intangible assets (excluding working capital) of the Company are pledged as collateral for the term loan facility.



The Company has finance leases for various vehicles and other items of equipment. The principal payments required on finance leases are as follows:

Finance lease obligations (Amounts in \$000s)	Future minimum lease payments	Imputed interest	Finance lease liabilities
2018	\$ 756	\$ 42	\$ 714
2019	294	17	277
2020	123	3	120
2021	11	1	10
			1,121
Less: current portion			(714)
			<b>\$ 407</b>

Interest payable on the various obligations ranges from fixed rates of 0% to 8.84% for the fifty-two weeks ended December 30, 2017 (fifty-two weeks ended December 31, 2016: 0% to 8.18%).

## 17. Future employee benefits

### Non-pension benefit plan

In Canada, the Company sponsors a non-pension benefit plan for employees hired before May 19, 1993. This benefit is a paid-up life insurance policy or a lump sum payment based on the employee's final earnings at retirement. In both Canada and the U.S., the Company maintains a non-pension benefit plan for employees who retire after twenty-five years of service with the Company. At retirement, the benefit is a payment of \$1,000 to \$2,500 depending on the years of service.

### Defined contribution pension plans

In Canada, the Company maintains a DCPD for all salaried employees.

In the U.S., the Company maintains two DCPD under the provisions of the Employment Retirement Income Security Act of 1974 (a 401(k) Savings Plan), which covers substantially all employees of the Company's U.S. subsidiary. The Company also makes a safe harbor matching contribution equal to 100% of salary deferrals (contributions to the plan) that do not exceed 3% of compensation plus 50% of salary deferrals between 3% and 5% of salary compensation.

In both Canada and the U.S., the Company maintains defined contribution Supplemental Executive Retirement Plans ("SERP") to extend the same pension plan benefits to certain senior executives, as is provided to others in the DCPD who were not affected by income tax maximums.

Total expense and cash contributions for the Company's DCPD was \$2.0 million for the year ended December 30, 2017 (December 31, 2016: \$2.2 million).

### Defined benefit pension plans

In Canada, the Company also sponsors two actively funded DBPPs. None of the Company's pension plans provide indexation in retirement.

#### CANADIAN UNION EMPLOYEE PLAN

One of the actively funded DBPPs is for the Nova Scotia Union employees and provides a flat-dollar plan with negotiated increases.

#### CANADIAN MANAGEMENT PLAN

The Company sponsors a DBPP specifically for Canadian management employees (the "Management Plan"). On December 30, 2017, nine persons were enrolled as active members in the Management Plan, including one senior executive, who are Canadian residents and were employed prior to January 1, 2000. The objective of the Management Plan is to provide an annual pension (including Canada Pension Plan) of 2% of the average of a member's highest five years' regular earnings while a member of the Management Plan, multiplied by the number of years of credited service. Incentive payments are not eligible earnings for pension purposes. The Management Plan was grandfathered and no new entrants are permitted. All members contribute 3.25% of their earnings up to the Years Maximum Pensionable Earnings ("YMPE")

and 5% in excess of the YMPE to the maximum that a member can contribute based on income tax rules. The credited service under the Management Plan for the Canadian senior executive is twenty-seven years.

Upon retirement, the employees in the Management Plan are provided lifetime retirement income benefits based on their best five years of salary less Canada Pension Plan benefits. Full benefits are payable at age 65, or at age 60 if the executive has at least twenty-five years of service. The normal benefits are payable for life and 60% is payable to their spouse upon the employee's death, with a guarantee of sixty months. Members can retire at age 55 with a reduction. Other levels of survivor benefits are offered. Instead, members can elect to take their pension benefit in a lump-sum payment at retirement.

As at December 30, 2017, the Company also guarantees through its SERP to extend the same pension plan benefits to one Canadian senior executive that it provides to others in the Management Plan who were not affected by income tax maximums. The annual pension amounts derived from the aggregate of the Management Plan and SERP benefits represent 1.3% of the five-year average YMPE plus 2% of the salary remuneration above the five-year average YMPE. The combination of these amounts is multiplied by the years of service to determine the full annual pension entitlement from the two plans.

#### U.S. MANAGEMENT PLANS

The Company also has one DBPP in the U.S. that covers two former employees. These plans have ceased to accrue benefits to employees.

Information regarding the Company's DBPPs, in aggregate, is as follows:

<b>Funded status</b> (Amounts in \$000s)	<b>December 30, 2017</b>	December 31, 2016
Total present value of obligations <sup>(1)</sup>	\$ 43,066	\$ 37,073
Fair value of plan assets	31,843	28,883
<b>Net accrued defined benefit obligation</b>	<b>\$ 11,223</b>	<b>\$ 8,190</b>

<sup>(1)</sup> The Company has a letter of credit outstanding as at December 30, 2017 relating to the securitization of the Company's unfunded benefit plans under the SERP in the amount of \$9.7 million (December 31, 2016: \$9.8 million).

<b>Movement in the present value of the defined benefit obligations</b> (Amounts in \$000s)	<b>December 30, 2017</b>	December 31, 2016
DBO at the beginning of the year	\$ 37,073	\$ 35,463
Benefits paid by the plans	(1,695)	(1,688)
Effect of movements in exchange rates	2,762	1,064
Current service costs	842	701
Interest on obligations	1,466	1,491
Employee contributions	53	52
Effect of changes in financial assumptions	2,565	(10)
<b>DBO at the end of the year</b>	<b>\$ 43,066</b>	<b>\$ 37,073</b>

<b>Movement in the present value of plan assets</b> (Amounts in \$000s)	<b>December 30, 2017</b>	December 31, 2016
Fair value of plan assets at the beginning of the year	\$ 28,883	\$ 25,832
Reclass of other plan asset	—	526
Employee contributions paid into the plans	53	52
Employer contributions paid into the plans	979	1,051
Benefits paid by the plans	(1,695)	(1,688)
Effect of movements in exchange rates	2,116	785
	<b>\$ 30,336</b>	<b>\$ 26,558</b>
Actual return on plan assets:		
Return on plan assets	\$ 1,127	\$ 1,078
Actuarial gains in OCI	459	1,324
Fees and expenses	(79)	(77)
	<b>1,507</b>	<b>2,325</b>
<b>Fair value of plan assets at the end of the year</b>	<b>\$ 31,843</b>	<b>\$ 28,883</b>

<b>Expense recognized in the consolidated statements of income</b> (Amounts in \$000s)	<b>December 30, 2017</b>	December 31, 2016
Current service costs	\$ 842	\$ 701
Interest on obligation	1,466	1,491
Return on plan assets	(1,127)	(1,078)
Fees and expenses	79	77
	<b>\$ 1,260</b>	<b>\$ 1,191</b>

<b>Expense recognized in the following line items in the consolidated statements of income</b> (Amounts in \$000s)	<b>December 30, 2017</b>	December 31, 2016
Cost of sales	\$ 730	\$ 518
Selling, general and administrative expenses	530	673
	<b>\$ 1,260</b>	<b>\$ 1,191</b>

<b>Plan assets comprise:</b> (Amounts in \$000s)	<b>December 30, 2017</b>	December 31, 2016
Equity securities <sup>(1)</sup>	\$ 13,565	\$ 12,332
Debt securities	17,418	15,913
Cash and cash equivalents	860	638
	<b>\$ 31,843</b>	<b>\$ 28,883</b>

<sup>(1)</sup> The plan assets include CAD\$2.7 million of the Company's own common shares at market value at December 30, 2017 (December 31, 2016: CAD\$3.7 million).

<b>Actuarial (gains) losses recognized in OCI</b> (Amounts in \$000s)	<b>December 30, 2017</b>	December 31, 2016
Cumulative amount at the beginning of the year	\$ 5,596	\$ 6,189
Recognized during the period	2,182	(805)
Effect of exchange rates	456	212
<b>Cumulative amount at the end of the year</b>	<b>\$ 8,234</b>	<b>\$ 5,596</b>

<b>Principal actuarial assumptions</b> (Expressed as weighted averages)	<b>December 30, 2017</b>	December 31, 2016
	%	%
Discount rate for the benefit cost for the year ended	3.82	3.95
Discount rate for the accrued benefit obligation as at year-end	3.40	3.82
Expected long-term rate on plan assets as at year-end	3.82	3.95
Future compensation increases for the benefit cost for the year ended	3.00	4.00
Future compensation increases for the accrued benefit obligation as at year-end	3.00	3.00

A quantitative sensitivity analysis for significant assumptions as at December 30, 2017 is shown below:

(Amounts in \$000s)	Discount rate		Mortality rate	
	0.5% increase	0.5% decrease	One-year increase	One-year decrease
Sensitivity level				
(Decrease) increase on DBO	\$ (2,860)	\$ 3,169	\$ 1,216	\$ (1,256)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the net DBO as a result of reasonable changes in key assumptions occurring at the end of the reporting period. An analysis on salary increases and decreases is not material. The Company expects CAD\$1.5 million in contributions to be paid to its DBPP and CAD\$3.0 million to its DCP in Fiscal 2018.

### Short-term employee benefits

The Company has recognized severance and retention benefits that were dependent upon the continuing provision of services through to certain pre-defined dates, which for the fifty-two weeks ended December 30, 2017 was an expense of \$0.2 million (December 31, 2016: \$2.3 million expense) in the consolidated statements of income.

### Termination benefits

The Company has also expensed termination benefits during the period, which are recorded as of the date the committed plan is in place and communication is made. These termination benefits relate to severance, which is not based on a future service requirement, and are included on the following line items in the consolidated statements of income:

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Cost of sales	\$ 260	\$ 96
Distribution expenses	11	—
Business acquisition, integration and other expenses	897	83
Selling, general and administrative expenses	1,804	1,298
	<b>\$ 2,972</b>	<b>\$ 1,477</b>

## 18. Share capital

The share capital of the Company is as follows:

	December 30, 2017	December 31, 2016
<b>Authorized:</b>		
Preference shares, par value of CAD\$25 each, issuable in series	5,999,994	5,999,994
Subordinated redeemable preference shares, par value of CAD\$1 each, redeemable at par	1,025,542	1,025,542
Non-voting equity shares	Unlimited	Unlimited
Common shares, without par value	Unlimited	Unlimited

### Purchase of shares for cancellation

In January 2017, the Company announced that the Toronto Stock Exchange approved the renewal of the Company's Normal Course Issuer Bid ("NCIB") to repurchase for cancellation up to 150,000 common shares. The price the Company would pay for any common shares acquired would be the market price at the time of acquisition. Purchases would commence on February 2, 2017 and terminate no later than February 1, 2018. During the fifty-two weeks ended December 30, 2017 there were no purchases under this plan.

During the fifty-two weeks ended December 31, 2016, the Company purchased 50,000 common shares under the plan announced in January 2016 at an average price of CAD\$19.38 per share for total cash consideration of CAD\$1.0 million. The excess of the purchase price over the book value of the shares in the amount of \$0.6 million was charged to retained earnings.

A summary of the Company's common share transactions is as follows:

	Fifty-two weeks ended December 30, 2017		Fifty-two weeks ended December 31, 2016	
	Shares	(\$000s)	Shares	(\$000s)
Balance, beginning of period	30,889,078	\$ 86,094	30,874,164	\$ 85,282
Shares issued on acquisition of Rubicon (Note 5)	2,429,014	25,758	—	—
Options exercised for shares	19,187	140	17,923	94
Options exercised for shares via cashless exercise method (Note 19)	42,536	—	46,991	—
Fair value of share-based compensation on options exercised	—	843	—	815
Shares repurchased for cancellation	—	—	(50,000)	(97)
<b>Balance, end of period</b>	<b>33,379,815</b>	<b>\$ 112,835</b>	<b>30,889,078</b>	<b>\$ 86,094</b>

During the fifty-two weeks ended December 30, 2017, the Company distributed dividends per share of CAD\$0.565 (fifty-two weeks ended December 31, 2016: CAD\$0.520).

On February 21, 2018, the Company's Board of Directors declared a quarterly dividend of CAD\$0.145 per share, payable on March 15, 2018 to shareholders of record as of March 1, 2018.

## 19. Share-based compensation

The Company has a Share Option Plan (the "Option Plan") for designated Directors, officers and certain managers of the Company, a Performance Share Unit ("PSU") Plan for eligible employees which includes the potential issuances of restricted share units ("RSU"), and a Deferred Share Unit ("DSU") Plan for Directors of the Company.

Issuances of options, RSUs and PSUs may not result in the following limitations being exceeded: (a) the aggregate number of shares issuable to insiders pursuant to the PSU Plan, the Option Plan or any other share-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares at any time; and (b) the issuance from treasury to insiders, within a twelve-month period, of an aggregate number of shares under the PSU Plan, the Option Plan and any other share-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares.

The carrying amount of cash-settled share-based compensation arrangements recognized in accounts payable and accrued liabilities, other current liabilities and other long-term liabilities on the consolidated statements of financial position was \$nil, \$0.2 million and \$1.6 million, respectively, as at December 30, 2017 (December 31, 2016: \$0.6 million, \$0.4 million and \$0.9 million, respectively).

Share-based compensation expense is recognized in the consolidated statements of income as follows:

(Amounts in \$000s)	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
<b>Cost of sales resulting from:</b>		
Equity-settled awards	\$ 59	\$ 116
<b>Selling, general and administrative expenses resulting from:</b>		
Cash-settled awards	256	1,809
Equity-settled awards	456	1,304
<b>Share-based compensation expense<sup>(1)</sup></b>	<b>\$ 771</b>	<b>\$ 3,229</b>

<sup>(1)</sup> Cash-settled awards may include options with SARs, RSUs, PSUs, and DSUs. Equity-settled awards include options.

### Share Option Plan

Under the terms of the Company's Option Plan, the Company may grant options to eligible participants, including: Directors, members of the Company's Leadership Team, and senior managers of the Company. Shares to be optioned are not to exceed the aggregate number of 3,800,000 as of May 7, 2013 (adjusted for the two-for-one stock split that was effective May 30, 2014), representing 12.4% of the then issued and outstanding authorized shares. The option price for the shares cannot be less than the fair market value (as defined further in the Share Option Plan) of the optioned shares as of the date of grant. The term during which any option granted may be exercised may not exceed ten years from the date of grant. The purchase price is payable in full at the time the option is exercised. Options are not transferable or assignable.

The Option Plan permits, at the time of granting an option, granting the right to receive, at the time of exercise and in lieu of the right to purchase an optioned share, a cash amount equal to the difference between the option price and the fair market value of the share on the date of exercise (a SAR). Effective March 29, 2013, amendments were made to eliminate the SARs on certain options granted in early 2012 and prior for certain Directors and officers of the Company. On a voluntary basis, these Directors and officers relinquished the entitlement under the SARs, resulting in 409,649 options with SARs being extinguished, and then reinvested as options that do not have SARs. On the amendment date, the liability of \$7.6 million for these options with SARs was fixed, resulting in no future impact on profit or loss for the options that were vested at that time, and was reclassified to contributed surplus. Options with SARs are accounted for as cash-settled transactions and options without SARs are accounted for as equity-settled transactions.



Options issued may also be awarded a cashless exercise option at the discretion of the Board, where the holder may elect to receive, without payment of any additional consideration, optioned shares equal to the value of the option as computed by the Option Plan. When the holder elects to receive the cashless exercise option, the Company accounts for these options as equity-settled transactions.

The following table illustrates the number ("No.") and weighted average exercise prices ("WAEP") of, and movements in, options during the period:

	Fifty-two weeks ended December 30, 2017		Fifty-two weeks ended December 31, 2016	
	No.	WAEP (CAD)	No.	WAEP (CAD)
Outstanding, beginning of period	1,607,350	\$ 18.21	1,323,292	\$ 18.98
Granted	216,599	17.70	654,196	15.29
Exercised for shares				
Exercised for shares via cashless method <sup>(1)(2)</sup>	(116,384)	9.27	(150,786)	16.28
Exercised for shares <sup>(2)</sup>	(19,187)	9.37	(17,923)	7.31
	(135,571)	9.29	(168,709)	15.33
Exercised for cash <sup>(2)</sup>	(10,083)	10.02	(73,579)	7.33
Cancelled or forfeited	(190,997)	18.07	(121,850)	21.30
Expired	(146,849)	19.42	(6,000)	23.11
<b>Outstanding, end of period</b>	<b>1,340,449</b>	<b>\$ 18.99</b>	<b>1,607,350</b>	<b>\$ 18.21</b>
<b>Exercisable, end of period</b>	<b>825,375</b>	<b>\$ 20.34</b>	<b>756,610</b>	<b>\$ 19.30</b>

<sup>(1)</sup> For the fifty-two weeks ended December 30, 2017, 42,536 shares were issued via the cashless exercise method (fifty-two weeks ended December 31, 2016: 46,991 shares).

<sup>(2)</sup> The weighted average share price at the date of exercise for these options was CAD\$14.62 for the fifty-two weeks ended December 30, 2017 (fifty-two weeks ended December 31, 2016: CAD\$22.52).

Set forth below is a summary of the outstanding options to purchase common shares as at December 30, 2017:

Option price (CAD)	Options outstanding			Options exercisable	
	Number outstanding	Weighted average exercise price	Average life (years)	Number exercisable	Weighted average exercise price
8.25-10.00	14,332	\$ 8.25	0.85	14,332	\$ 8.25
10.01-15.00	87,850	13.71	8.87	13,000	13.87
15.01-20.00	572,199	15.61	2.63	271,591	15.96
20.01-25.00	666,068	22.81	1.50	526,452	23.09
	<b>1,340,449</b>			<b>825,375</b>	

The fair value of options granted during the fifty-two weeks ended December 30, 2017 and December 31, 2016 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average inputs and assumptions:

	December 30, 2017	December 31, 2016
Dividend yield (%)	3.15	3.14
Expected volatility (%)	34.71	33.33
Risk-free interest rate (%)	1.62	0.63
Expected life (years)	6.73	5.19
Weighted average share price (CAD)	\$ 17.70	\$ 15.29
<b>Weighted average fair value (CAD)</b>	<b>\$ 4.28</b>	<b>\$ 3.27</b>

The expected life of the options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

## Performance Share Unit Plan

The PSU Plan is intended to align the Company's senior management with the enhancement of shareholder returns and other operating measures of performance. Both PSUs and RSUs may be issued under the PSU Plan to any eligible employee of the Company, or its subsidiaries, who have rendered meritorious services that contributed to the success of the Company. Directors who are not full-time employees of the Company may not participate in the PSU Plan. The Company is permitted to issue up to 400,000 shares from treasury in settling entitlements under the PSU Plan.

The PSU plan is dilutive and units may be settled in cash or shares upon vesting. If settled in cash, the amount payable to the participant shall be determined by multiplying the number of PSUs or RSUs (which will be adjusted in connection with the payment of dividends by the Company as if such PSUs or RSUs were common shares held under a dividend reinvestment plan) by the fair market value of a common share at the vesting date, and in the case of PSUs, by a performance multiplier to be determined by the Company's Board of Directors. If settled in shares on the vesting date, each RSU is exchanged for a common share, and each PSU is multiplied by a performance multiplier and then exchanged for common shares.

The following table illustrates the movements in the number of PSUs during the period:

	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
Outstanding, beginning of period	216,070	139,184
Granted	95,096	82,017
Reinvested dividends	9,153	5,764
Released and paid in cash	(25,873)	—
Forfeited	(30,890)	(10,895)
<b>Outstanding, end of period</b>	<b>263,556</b>	<b>216,070</b>

The expected performance multiplier used in determining the fair value of the liability and related share-based compensation expense for PSUs for the fifty-two weeks ended December 30, 2017 was 34% (December 31, 2016: 63%).

The following table illustrates the movements in the number of RSUs during the period:

	Fifty-two weeks ended December 30, 2017
Outstanding, beginning of period	—
Granted	70,971
Reinvested dividends	2,283
Forfeited	(725)
<b>Outstanding, end of period</b>	<b>72,529</b>

The share price at the reporting date for the PSUs and the RSUs was CAD\$14.83 (December 31, 2016: CAD\$19.95). The PSUs and RSUs will vest at the end of a three-year period, if agreed-upon performance measures are met (if applicable).

## Deferred Share Unit Plan

The DSU Plan allows a director to receive all or any portion of their annual retainer, additional fees and equity value in DSUs in lieu of cash or options. DSUs cannot be redeemed for cash until the holder is no longer a Director of the Company. These units are considered cash-settled share-based payment awards and are non-dilutive. At December 30, 2017 there were 77,934 DSUs outstanding (December 31, 2016: 34,337 DSUs).

## 20. Income tax

The Company's statutory tax rate for the year ended December 30, 2017 is 29.3% (December 31, 2016: 29.2%). The Company's effective income tax rate was a recovery of 80.5% for the year ended December 30, 2017 (December 31, 2016: an expense of 18.9%). The lower effective income tax rate in Fiscal 2017 was attributable to the reduction in the U.S. federal corporate income tax rate which resulted in the revaluation of the deferred tax liability for changes in substantively enacted tax rates and the recognition of tax benefits that were not previously recognized.

On December 22, 2017, the Tax Cuts and Jobs Act ("U.S. Tax Reform") was signed into law, which reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the U.S. Tax Reform, the Company's net deferred tax liability at December 30, 2017 decreased by \$11.2 million.

The U.S. Tax Reform introduces other important changes in the U.S. corporate income tax laws that may significantly affect the Company in future years, including the creation of a new Base Erosion Anti-Abuse Tax that subjects certain payments from U.S. corporations to foreign related parties to additional taxes, and limitations to certain deductions for net interest expense incurred by U.S. corporations. The U.S. Tax Reform also includes an increase in bonus depreciation from 50% to 100% for qualified property placed in service after September 27, 2017 and before 2023. Future regulations and interpretations to be issued by U.S. authorities may also impact the Company's estimates and assumptions used in calculating its income tax provisions.

The major components of income tax (recovery) expense are as follows:

Consolidated statements of income (Amounts in \$000s)	December 30, 2017	December 31, 2016
<b>Current income tax expense</b>	<b>\$ (723)</b>	<b>\$ 8,514</b>
<b>Deferred income tax expense</b>		
Origination and reversal of temporary differences	(2,206)	(989)
Change in substantively enacted tax rates (U.S.)	(11,186)	—
	<b>(13,392)</b>	<b>(989)</b>
<b>Income tax (recovery) expense reported in the consolidated statements of income</b>	<b>\$ (14,115)</b>	<b>\$ 7,525</b>

Consolidated statements of comprehensive income (Amounts in \$000s)	December 30, 2017	December 31, 2016
<b>Income tax expense (recovery) related to items charged or credited directly to OCI during the period:</b>		
Gain on hedge of net investment in foreign operations	\$ 1,481	\$ 604
Loss on translation of net investment in foreign operations	(1,242)	(876)
Effective portion of changes in fair value of cash flow hedges	(756)	(618)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	199	(548)
Net change in fair value of cash flow hedges transferred to income	177	38
Defined benefit plan actuarial (loss) gain	(641)	381
<b>Income tax recovery directly to OCI</b>	<b>\$ (782)</b>	<b>\$ (1,019)</b>

The reconciliation between income tax (recovery) expense and the product of accounting profit multiplied by the Company's statutory tax rate is as follows:

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Accounting profit before tax at statutory income tax rate of 29.3% (2016: 29.2%)	\$ 5,139	\$ 11,617
Non-deductible expenses for tax purposes:		
Non-deductible share-based compensation	575	296
Tax benefits not previously recognized	(1,639)	—
Other non-deductible items	239	313
Effect of higher income tax rates of U.S. subsidiary	1,566	2,490
Acquisition financing deduction	(8,720)	(7,487)
Change in substantively enacted tax rates (U.S.)	(11,186)	—
Other	(89)	296
<b>Income tax (recovery) expense</b>	<b>\$ (14,115)</b>	<b>\$ 7,525</b>

Deferred income tax (Amounts in \$000s)	Consolidated statements of financial position as at		Consolidated statements of income for the years ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Accelerated depreciation for tax purposes on property, plant and equipment	\$ (10,378)	\$ (15,117)	\$ (2,621)	\$ (601)
Inventory	(93)	(1,296)	(1,203)	3,217
Intangible assets	(21,142)	(33,399)	(7,879)	(980)
Pension	3,499	2,639	(46)	(216)
Revaluation of cash flow hedges	302	(239)	(10)	(309)
Losses available for offset against future taxable income	4,179	3,295	(884)	(1,981)
Deferred charges and other	2,477	1,805	(749)	(119)
<b>Deferred income tax recovery</b>			\$ (13,392)	\$ (989)
<b>Net deferred income tax liability</b>	\$ (21,156)	\$ (42,312)		

**Reflected in the consolidated statements of financial position as follows:**

Deferred income tax assets	\$ 2,787	\$ 2,290
Deferred income tax liabilities	(23,943)	(44,602)
<b>Net deferred income tax liability</b>	\$ (21,156)	\$ (42,312)

Reconciliation of net deferred income tax liabilities (Amounts in \$000s)	December 30, 2017	December 31, 2016
Opening balance, beginning of year	\$ (42,312)	\$ (44,031)
Deferred income tax recovery during the period recognized in income	2,206	989
Deferred income tax recovery arising from a change in tax rate	11,186	—
Deferred income tax recovery arising from an acquisition (Note 5)	6,683	—
Deferred income tax recovery (expense) during the period recognized in retained earnings	641	(383)
Deferred income tax recovery during the period recognized in OCI	440	1,113
<b>Closing balance, end of year</b>	\$ (21,156)	\$ (42,312)

The Company has net operating losses in its U.S. subsidiaries of \$1.7 million at December 30, 2017 (December 31, 2016: \$1.8 million) that are available to use from 2018 to 2028. A deferred income tax asset has been recognized for the amount that is probable to be realized.

The Company had unused capital losses of \$18.4 million at December 30, 2017 (December 31, 2016: \$20.0 million), which have an indefinite carryforward period. A deferred tax asset has only been recognized to the extent of the benefit that is probable to be realized.

The Company can control the distribution of profits, and accordingly, no deferred income tax liability has been recorded on the undistributed profit of its subsidiaries that will not be distributed in the foreseeable future.

The temporary difference associated with investments in subsidiaries, for which a deferred tax liability has not been recognized, is \$nil at December 30, 2017 and December 31, 2016.

There are no income tax consequences attached to the payment of dividends in either 2017 or 2016 by the Company to its shareholders.

## 21. Earnings per share

Net income and basic weighted average shares outstanding are reconciled to diluted earnings and diluted weighted average shares outstanding, respectively, as follows:

	Fifty-two weeks ended December 30, 2017			Fifty-two weeks ended December 31, 2016		
	Net income (\$000s)	Weighted average shares (000s)	Per share (\$)	Net income (\$000s)	Weighted average shares (000s)	Per share (\$)
<b>Net income</b>	\$ 31,653	32,412	\$ 0.98	\$ 32,284	30,917	\$ 1.04
Dilutive options	—	115	—	—	258	—
<b>Diluted earnings</b>	\$ 31,653	32,527	\$ 0.97	\$ 32,284	31,175	\$ 1.04

Excluded from the diluted earnings per common share calculation for the fifty-two weeks ended December 30, 2017 were 752,152 options, as their effect would have been anti-dilutive (December 31, 2016: 695,436 options).

## 22. Changes in financial liabilities arising from financing activities

(Amounts in \$000s)	December 31, 2016	Cash flows	Reclassified between current and non-current	Change in fair values	New leases	Deferred finance costs	Other <sup>(1)</sup>	December 30, 2017
Bank loans	\$ 621	\$ 52,618	\$ —	\$ —	\$ —	\$ —	\$ 113	\$ 53,352
Other current financial liabilities	1,626	—	—	573	—	—	(234)	1,965
Current portion of finance lease obligations	721	(725)	603	—	90	—	25	714
Long-term debt	266,327	70,000	—	—	—	(1,276)	390	335,441
Other long-term financial liabilities	196	—	—	(80)	—	—	(54)	62
Long-term finance lease obligations	702	—	(603)	—	310	—	(2)	407
<b>Total liabilities from financing activities</b>	\$ 270,193	\$ 121,893	\$ —	\$ 493	\$ 400	\$ (1,276)	\$ 238	\$ 391,941

<sup>(1)</sup> 'Other' includes the effect of amortization of deferred financing charges and the impact of the foreign exchange movements. The Company classifies interest paid and income taxes paid as cash flows from operating activities.

## 23. Guarantees and commitments

### Guarantee of supplier financing arrangement

As part of the Rubicon acquisition (see Note 5), the Company assumed financing arrangement guarantees for certain suppliers that finance their exports of seafood products to Rubicon. As part of this financing arrangement, the Company has granted a security interest in substantially all of the inventory and proceeds thereon arising from purchases from these suppliers and has guaranteed the suppliers' borrowings, to the extent that such borrowings were used in connection with the exportation of seafood products to Rubicon. The Company has deemed the amount of the guarantee to be the open accounts payable to these suppliers and as of December 30, 2017, the open accounts payable was \$53.5 million.



## Commitments

Operating lease commitments for the next five years and thereafter are as follows:

(Amounts in \$000s)	Operating lease payments
2018	\$ 5,041
2019	4,825
2020	4,583
2021	3,869
2022	1,477
Thereafter	3,981

Operating lease commitments result principally from leases for cold storage facilities, office equipment, premises and production equipment. Operating lease payments recognized as an expense during the fifty-two weeks ended December 30, 2017 were \$5.1 million (December 31, 2016: \$5.0 million).

The Company's lease arrangements do not contain restrictions concerning dividends, additional debt, and further leasing imposed by the lessor, and on aggregate contain the option to renew the contract for at least one additional term.

The Company had letters of credit outstanding as at December 30, 2017 relating to the procurement of inventories and the security of certain contractual obligations of \$5.0 million (December 31, 2016: \$7.1 million). The Company also had a letter of credit outstanding as at December 30, 2017 relating to the securitization of the Company's SERP benefit plan (see Note 17) in the amount of \$9.7 million (December 31, 2016: \$9.8 million).

## 24. Related party disclosures

### Entity with significant influence over the Company

As at December 30, 2017, Thornridge Holdings Limited owns 34.5% of the Company's outstanding common shares (December 31, 2016: 37.3%).

### Other related parties

As a result of the Rubicon acquisition, the Company has new related party transactions with a company controlled by certain key management of Rubicon. Total purchases from related parties for the fifty-two weeks ended December 30, 2017 were \$1.7 million (fifty-two weeks ended December 31, 2016: nominal), and as at December 30, 2017, there was \$nil (December 31, 2016: \$nil) due to the related parties. Total sales to related parties for the fifty-two weeks ended December 30, 2017 were \$0.2 million (fifty-two weeks ended December 31, 2016: \$nil), and as at December 30, 2017 there was \$0.2 million (December 31, 2016: \$nil) due from the related parties.

The Company did not have any transactions during 2016 or 2017 with entities who had significant influence over the Company or with members of the Board of Directors and their related interests.

### Key management personnel compensation

In addition to their salaries, the Company also provides benefits to the Chief Executive Officer ("CEO"), and certain senior executive officers in the form of contributions to post-employment benefit plans, non-cash plans and various other short- and long-term incentive and benefit plans as described below.

The Company has entered into Change of Control Agreements (the "Agreements") with certain senior executive officers. The Agreements are automatically extended annually by one additional year unless the Company provides 90 days' notice of its unwillingness to extend the agreements. The Agreements provide that in the event of a termination by the Company following a change of control, other than for cause or by senior executive officers for good reason as defined in the Agreements, senior executive officers are entitled to: (a) cash compensation equal to their final annual compensation (including base salary and short-term incentives) multiplied by two for all senior executive officers; (b) the automatic vesting of any options or other entitlements for the purchase or acquisition of shares in the capital of the Company which are not then exercisable, which shall be exercisable following termination for two years for all senior executive officers; and (c) continue to participate in certain benefit programs for two years for all senior executive officers.

The following are the amounts recognized as an expense during the reporting period related to key management personnel compensation:

(Amounts in \$000s)	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
Salaries and short-term incentive plans <sup>(1)</sup>	\$ 2,586	\$ 3,558
Post-employment benefits <sup>(2)</sup>	163	151
Termination benefits <sup>(2)</sup>	1,534	—
Share-based compensation <sup>(3)</sup>	171	1,713
	<b>\$ 4,454</b>	<b>\$ 5,422</b>

<sup>(1)</sup> Short-term incentive amounts were for those earned in 2017 and 2016.

<sup>(2)</sup> Refer to Note 17 for details of each plan.

<sup>(3)</sup> Refer to Note 19 for details regarding the Company's Option and PSU Plans.

## 25. Operating segment information

The Company operates in one dominant industry segment, the manufacturing and marketing of prepared and packaged frozen seafood. The Company evaluates performance of the reportable segments on a geographical basis using net income before depreciation, amortization, finance costs and income taxes. The Company also reports a "Corporate" category, which does not qualify as a component of another reportable segment or as a separate reportable segment. Corporate includes expenses for corporate functions, share-based compensation costs and business acquisition, integration and other expenses. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No operating segments have been aggregated to form the reportable operating segments.

The operating results and identifiable assets and liabilities by reportable segment are as follows:

(Amounts in \$000s)	Fifty-two weeks ended December 30, 2017				Fifty-two weeks ended December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Revenue (excluding intercompany sales)</b>	\$ 262,063	\$ 791,783	\$ —	\$ 1,053,846	\$ 251,509	\$ 703,477	\$ —	\$ 954,986
Cost of sales (excluding intercompany sales)	216,329	651,411	27	867,767	195,722	559,835	(2,378)	753,179
<b>Gross profit</b>	\$ 45,734	\$ 140,372	\$ (27)	\$ 186,079	\$ 55,787	\$ 143,642	\$ 2,378	\$ 201,807
<b>Income (loss) before income taxes</b>	\$ 8,853	\$ 34,997	\$ (26,312)	\$ 17,538	\$ 20,888	\$ 47,745	\$ (28,824)	\$ 39,809
Add-back:								
Depreciation and amortization included in:								
Cost of sales	1,319	5,073	153	6,545	1,215	5,943	58	7,216
Distribution expenses	150	1,320	—	1,470	148	1,504	—	1,652
Selling, general and administrative expenses	492	6,727	1,077	8,296	497	5,247	2,502	8,246
<b>Total depreciation and amortization</b>	1,961	13,120	1,230	16,311	1,860	12,694	2,560	17,114
Finance costs	—	—	16,626	16,626	—	—	14,296	14,296
<b>Income (loss) before depreciation, amortization, finance costs and income taxes</b>	\$ 10,814	\$ 48,117	\$ (8,456)	\$ 50,475	\$ 22,748	\$ 60,439	\$ (11,968)	\$ 71,219

(Amounts in \$000s)	As at December 30, 2017				As at December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Total assets</b>	\$ 172,180	\$ 713,729	\$ 22,060	\$ 907,969	\$ 137,331	\$ 522,426	\$ 25,351	\$ 685,108
<b>Total liabilities</b>	\$ 51,894	\$ 156,821	\$ 430,387	\$ 639,102	\$ 109,910	\$ 73,573	\$ 281,421	\$ 464,904

For the fifty-two weeks ended December 30, 2017 and December 31, 2016 the Company recognized \$332.7 million and \$162.6 million of sales from two customers and one customer, respectively, that represent more than 10% of the Company's total consolidated sales, arising from sales in both the Canadian and U.S. reportable operating segments.

## 26. Fair value measurement

### Fair value of financial instruments

Fair value is a market-based measurement, not an entity-specific measurement. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. Management is responsible for valuation policies, processes and the measurement of fair value within the Company.

Financial liabilities carried at amortized cost are shown using the EIR method. Other financial assets and other financial liabilities represent the fair value of the Company's foreign exchange contracts as well as the fair value of interest rate swaps on debt.

The Company uses a fair value hierarchy, based on the relative objectivity of the inputs used to measure the fair value of financial instruments, with Level 1 representing inputs with the highest level of objectivity and Level 3 representing inputs with the lowest level of objectivity. The following table sets out the Company's financial assets and liabilities by level within the fair value hierarchy:

(Amounts in \$000s)	December 30, 2017		December 31, 2016	
	Level 2	Level 3	Level 2	Level 3
<b>Fair value of financial assets</b>				
Foreign exchange contracts	\$ 501	\$ —	\$ 1,883	\$ —
Interest rate swaps	906	—	686	—
<b>Fair value of financial liabilities</b>				
Interest rate swaps	367	—	769	—
Foreign exchange contracts	1,660	—	1,053	—
Long-term debt	—	335,711	—	266,727
Finance lease obligations	—	1,129	—	1,434

The Company's Level 2 derivatives are valued using valuation techniques such as forward pricing and swap models. These models incorporate various market-observable inputs including foreign exchange spot and forward rates, and interest rate curves.

The fair values of long-term debt instruments, classified as Level 3 in the fair value hierarchy, are estimated based on unobservable inputs, including discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities, adjusted to reflect the Company's credit risk.

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the fifty-two weeks ended December 30, 2017, no such transfers occurred.

The financial liabilities that are not measured at fair value on the consolidated statements of financial position consist of long-term debt and finance lease obligations. The carrying amounts for these instruments are \$335.4 million and \$1.1 million, respectively, as at December 30, 2017 (December 31, 2016: \$266.3 million and \$1.4 million, respectively).

### Amortized cost impact on interest expense

During the fifty-two weeks ended December 30, 2017, the Company expensed \$0.2 million and \$0.6 million (December 31, 2016: \$0.1 million and \$0.4 million) of short-term and long-term interest, respectively, relating to interest that was calculated using the EIR method associated with transaction fees and borrowings.

The fair values of other financial assets and liabilities at December 30, 2017 and December 31, 2016 are shown below:

(Amounts in \$000s)	Other financial assets		Other financial liabilities	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
<b>Financial instruments at fair value through OCI:</b>				
Foreign exchange forward contracts	\$ 501	\$ 1,860	\$ 1,532	\$ 1,039
Interest rate swap	906	686	367	769
<b>Financial instruments at fair value through profit or loss:</b>				
Foreign exchange forward contracts not designated in hedge relationships	—	23	128	14
	<b>\$ 1,407</b>	<b>\$ 2,569</b>	<b>\$ 2,027</b>	<b>\$ 1,822</b>

## Hedging activities

### INTEREST RATE SWAPS

During the fifty-two weeks ended December 30, 2017, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (see Note 16):

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
<b>Designated in a formal hedging relationship:</b>				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700%	\$ 20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150%	\$ 25.0
April 4, 2016	April 4, 2018	3-month LIBOR (floor 1.0%)	1.2325%	\$ 35.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700%	\$ 40.0
December 28, 2017	April 24, 2021	3-month LIBOR (floor 1.0%)	2.2200%	\$ 80.0

The cash flow hedge of interest expense variability was assessed to be highly effective for the fifty-two weeks ended December 30, 2017 and December 31, 2016, and therefore, the change in fair value for those interest rate swaps designated in a hedging relationship was included in OCI as nominal and an after-tax net loss of \$0.4 million, respectively.

The Company did not hold any interest rate swaps that were not designated during the fifty-two weeks ended December 30, 2017; therefore, the change in fair value was \$nil. During the fifty-two weeks ended December 31, 2016, the change in fair value for an interest rate swap that was not designated in a formal hedging relationship was a net gain of \$0.1 million.

### FOREIGN CURRENCY CONTRACTS

Foreign currency forward contracts are used to hedge foreign currency risk resulting from expected future purchases denominated in USD, which the Company has qualified as highly probable forecasted transactions, and to hedge foreign currency risk resulting from USD monetary assets and liabilities, which are not covered by natural hedges.

As at December 30, 2017, the Company had outstanding notional amounts of \$38.1 million (December 31, 2016: \$50.2 million) in foreign currency average-rate forward contracts and \$6.0 million (December 31, 2016: \$5.4 million) in foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of \$1.5 million (December 31, 2016: \$3.9 million) average-rate forward contracts with maturities ranging from January 2019 to June 2019, all foreign currency forward contracts have maturities that are less than one year.

The cash flow hedges of the expected future purchases were assessed to be highly effective for the fifty-two weeks ended December 30, 2017 and December 31, 2016, and therefore, the change in fair value was recorded in OCI as an after-tax net loss of \$1.8 million and \$1.5 million, respectively. The amount recognized in the consolidated statements of income resulting from hedge ineffectiveness during the fifty-two weeks ended December 30, 2017 was nominal (fifty-two weeks ended December 31, 2016: net gain of \$0.1 million).

As at December 30, 2017, the Company had outstanding notional amounts of \$5.0 million (2016: \$8.0 million) of foreign currency single-rate forward contracts outstanding to hedge foreign currency exchange risk on USD monetary assets and liabilities that were not formally designated as a hedge. The change in fair value for the fifty-two weeks ended December 30, 2017 and December 31, 2016 was nominal and a net gain of \$0.2 million, respectively, which was recorded in the consolidated statements of income.

**HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS**

As at December 30, 2017, a total borrowing of \$312.3 million (\$5.0 million included in bank loans and \$307.3 million included in long-term debt) (December 31, 2016: \$15.0 million included in accounts payable and \$237.3 million included in long-term debt) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the retranslation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There was no hedge ineffectiveness recognized during the fifty-two weeks ended December 30, 2017 and December 31, 2016.

**27. Capital management**

The primary objective of the Company's capital management policy is to ensure a strong credit rating and healthy capital ratios in order to support the business and maximize shareholder value. The Company defines capital as funded debt and common shareholder equity, including AOCI, except for gains and losses on derivatives used to hedge interest and foreign exchange cash flow exposure.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, by adjusting the dividend payment to shareholders, returning capital to shareholders, purchasing capital stock under a NCIB, or issuing new shares.

Capital distributions, including purchases of capital stock, are subject to availability under the Company's working capital debt facility. The consolidated Average Adjusted Aggregate Availability under the working capital debt facility must be greater than \$22.5 million. As at December 30, 2017, the Company has Average Adjusted Aggregate Availability of \$121.1 million. The Company also has restrictions on capital distributions, where the aggregate amount for dividends are subject to an annual limit of \$17.5 million with a provision to increase this amount subject to leverage and excess cash flow tests. NCIBs are subject to an annual limit of \$10.0 million. For the fifty-two weeks ended December 30, 2017 and December 31, 2016, the Company paid \$14.4 million and \$12.1 million in dividends, respectively, and \$nil and \$0.7 million under the NCIB, respectively.

The Company monitors capital (excluding letters of credit) using the ratio of net interest-bearing debt to capitalization, which is net interest-bearing debt divided by total capital plus net interest-bearing debt. The Company's objective is to keep this ratio between 35% and 60%. Seasonal working capital debt may result in the Company exceeding the ratio at certain times throughout the fiscal year. The Directors of the Company have also decided that this range can be exceeded on a temporary basis as a result of acquisitions.

(Amounts in \$000s)	December 30, 2017	December 31, 2016
Total bank loans (Note 13)	\$ 53,560	\$ 959
Total term loan debt (Note 16)	337,926	267,926
Total finance lease obligation (Note 16)	1,121	1,423
Interest-bearing debt	392,607	270,308
Less: cash	(4,738)	(18,252)
<b>Net interest-bearing debt</b>	<b>387,869</b>	252,056
Shareholders' equity	268,867	220,204
Unrealized gains on derivative financial instruments included in AOCI	(220)	(561)
<b>Total capitalization</b>	<b>\$ 656,516</b>	\$ 471,699
<b>Net interest-bearing debt as percentage of total capitalization</b>	<b>59%</b>	53%

No changes were made in the objectives, policies or processes for managing capital for the fiscal year ended December 30, 2017. For the fiscal year ended December 31, 2016, the policy governing the net interest-bearing debt to capitalization ratio was changed to reflect an increase in the ratio limits from 35-50% to 35-60%.



## 28. Financial risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, term loans, letters of credit, notes payable, finance leases, and trade payables. The only purpose of these financial liabilities is to finance the Company's operations. The Company has various financial assets such as trade receivables, other accounts receivable, and cash, which arise directly from its operations.

The Company is exposed to interest rate risk, liquidity risk, foreign currency risk and credit risk. The Company enters into interest rate swaps, foreign currency contracts and insurance contracts to manage these types of risks from the Company's operations and its sources of financing. The Company's policy is that no speculative trading in derivatives shall be undertaken. The Audit Committee of the Board of Directors reviews and approves policies for managing each of these risks, which are summarized below.

### Interest rate risk

The Company's exposure to the risk of changes in market interest rates arises out of the Company's debt obligations with floating interest rates. The Company's policy is to manage interest cost using a mix of fixed and variable rate debt. The Company's objective is to keep between 35% and 55% of its borrowings at fixed rates of interest. To manage this, the Company enters into fixed rate debt facilities or interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional amount. These swaps are designated to hedge underlying debt obligations. Interest rate options that effectively fix the maximum rate of interest that the Company will pay may also be used to manage this exposure. At December 30, 2017, 51% of the Company's borrowings, including the long-term debt and the working capital facility, were either hedged or at a fixed rate of interest (December 31, 2016: 45%).

### INTEREST RATE SENSITIVITY

The Company's profit before tax is sensitive to the impact of a change in interest rates on that portion of debt obligations with floating interest rates, with all other variables held constant. As at December 30, 2017, the Company's current bank loans were \$53.6 million (December 31, 2016: \$1.0 million) and long-term debt was \$337.9 million (December 31, 2016: \$267.9 million). An increase of 25 basis points on the bank loans would have reduced earnings before tax by \$0.1 million (December 31, 2016: nominal). An increase of 25 basis points above the LIBOR floor on the long-term debt would have reduced earnings before tax by \$0.3 million (December 31, 2016: \$0.4 million). A corresponding decrease in respective interest rates would have an approximately equal and opposite effect. There is no impact on the Company's equity except through changes in income.

### Foreign currency risk

The Parent has a CAD functional currency, meaning that all transactions are recorded in CAD. However, as the Company's Consolidated Financial Statements are reported in USD, the results of the Parent are converted into USD for external reporting purposes. Therefore, the Canadian to U.S. exchange rates (USD/CAD) impact the results reported in the Company's Consolidated Financial Statements.

In looking at the effect on net income, the majority of sales in CAD, being those of the Parent, have USD-denominated input costs. For products sold in Canada, raw material is purchased in USD. However, labour, packaging and ingredient conversion costs, overheads and selling, general and administrative costs are incurred in CAD. A strengthening Canadian dollar has an overall effect of increasing net income in USD terms and conversely, a weakening Canadian dollar has the overall effect of decreasing net income in USD terms.

The Parent hedges forecasted cash flows for purchases of USD-denominated products for the Canadian operations where the purchase price is substantially known in advance. At December 30, 2017, the Parent hedged 49% (December 31, 2016: 61%) of these purchases identified for hedging, extending to March 2019. The Company's Price Risk Management Policy dictates that cash flows out fifteen months are hedged between a minimum and maximum percent that declines by quarter the further into the future the cash flows are. The Company does not hedge cash flows on certain USD-denominated seafood purchases in which the ultimate selling price charged to the Company's Canadian customers move with changes in the USD/CAD exchange rates. It is the Company's policy to set the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. The Company also has foreign exchange risk related to the USD-denominated input costs of commodities used in its Canadian operations related to freight surcharges on transportation costs, paper products in packaging, grain and corn products in its breeding and batters, and soya and canola bean-based

cooking oils. The Company hedges these USD-denominated input costs on a small scale, but relies where possible on three to thirty-six month, fixed price contracts in CAD with suppliers.

For the fifty-two weeks ended December 30, 2017, approximately 74% of the Parent's costs were denominated in USD, while approximately 91% of the Parent's sales were denominated in its CAD functional currency.

The Parent has some assets and liabilities that are denominated in CAD, and therefore, the assets and liabilities reported in the Consolidated Financial Statements change as USD/CAD exchange rates fluctuate. A stronger CAD has the effect of increasing the carrying value of assets and liabilities such as accounts receivable, inventory, property, plant and equipment, and accounts payable of the Parent when translated to USD. The net offset of those changes flow through OCI. Based on the equity of the Parent as of December 30, 2017, a one-cent increase/decrease in the USD/CAD exchange rate will decrease/increase equity by approximately \$0.4 million (December 31, 2016: \$0.4 million).

### Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Company holds credit insurance on its trade accounts receivable and all receivable balances are managed and monitored at the corporate level on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company's top ten customers account for 68% of the trade receivables at December 30, 2017 (December 31, 2016: 66%), with the largest customer accounting for 14% (December 31, 2016: 14%).

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty. The Company manages this risk by dealing with financially creditworthy counterparties, such as Chartered Canadian banks and U.S. banks with investment grade ratings.

The maximum exposure to credit risk is equal to the carrying value of accounts receivable and derivative instruments.

### Liquidity risk

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next twelve months as well as the models that look out five years. Working capital and cash balances are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable, and finance leases. The Company's objective is that not more than 50% of borrowings should mature in the next twelve-month period. At December 30, 2017, less than 1% of the Company's debt (December 31, 2016: less than 1%) will mature in less than one year based on the carrying value of borrowings reflected in the Consolidated Financial Statements. At December 30, 2017, the Company was in compliance with all covenants and terms of its debt facilities.

The table below shows the maturities of the Company's non-derivative financial liabilities:

(Amounts in \$000s)	Due within 1 year	Due in 1-5 years	Total
Bank loans	\$ —	\$ 53,560	\$ 53,560
Accounts payable and accrued liabilities	209,910	—	209,910
Other liabilities	166	1,641	1,807
Long-term debt	—	337,926	337,926
Finance lease obligations	714	407	1,121
<b>As at December 30, 2017</b>	<b>\$ 210,790</b>	<b>\$ 393,534</b>	<b>\$ 604,324</b>
Bank loans	\$ —	\$ 959	\$ 959
Accounts payable and accrued liabilities	139,378	—	139,378
Other liabilities	416	888	1,304
Long-term debt	—	267,926	267,926
Finance lease obligations	721	702	1,423
<b>As at December 31, 2016</b>	<b>\$ 140,515</b>	<b>\$ 270,475</b>	<b>\$ 410,990</b>

### Seafood price risk

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The Company is dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. The Company buys as much as \$661.0 million of this product annually. A 1% change in the price of frozen raw seafood materials would increase/decrease the Company's procurement costs by \$6.6 million. Prices can fluctuate and there is no formal commercial mechanism for hedging either sales or purchases. Purchases of seafood on global markets are principally in USD. The Company hedges exposures to a portion of its currency exposures and enters into longer-term supply contracts when possible.

The Company has multiple strategies to manage seafood costs. The Company purchases significant quantities of frozen raw material and finished goods originating from all over the world. The Company's supplier base is diverse to ensure no over-reliance on any one source or species. The Company maintains a strict policy of *Supplier Approval and Audit Standards*.

Over time, the Company strives to adjust selling prices to its customers as the world price of seafood changes or currency fluctuations occur.

### Commodity risk

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The Company is exposed to price changes in commodities such as crude oil, wheat, corn, paper products, and frying oils. The Company's *Price Risk Management Policy* dictates the use of fixed pricing with suppliers whenever possible, but allows the use of hedging with derivative instruments if deemed prudent. Throughout 2017 and 2016, the Company managed this risk through contracts with suppliers. The Company enters into fixed price contracts with suppliers on an annual basis and, therefore, a significant portion of the Company's 2018 commodity purchase requirements is covered. Should an increase in the price of commodities materialize, there could be a negative impact on earnings performance and alternatively, a decrease in the price of commodities could result in a benefit to earnings performance.

Crude oil prices, which influence fuel surcharges from freight suppliers, increased in 2017 similarly to 2016. World commodity prices for flour, soy and canola oils, important ingredients in many of the Company's products, fluctuated throughout the year, but generally maintained the average price level of the prior year. The price of corrugated and folding carton, which is used in packaging, increased in 2017.

## 29. Supplemental information

The components of income and expenses included in the consolidated statements of income are as follows:

(Amounts in \$000s)	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
<b>Included in finance costs:</b>		
Interest expense on bank loans	\$ 1,453	\$ 934
Interest expense on long-term debt	14,456	12,682
Interest rate hedge	—	(127)
Deferred financing charges	721	530
Interest on letter of credit for SERP	119	124
Fair market value accretion on acquisition	—	142
Foreign exchange (gain) loss	(123)	11
<b>Total finance costs</b>	<b>\$ 16,626</b>	<b>\$ 14,296</b>
<b>Foreign exchange (gain) loss included in:</b>		
Cost of sales	\$ (13)	\$ (1,015)
Finance costs	(122)	11
<b>Total foreign exchange gain</b>	<b>\$ (135)</b>	<b>\$ (1,004)</b>
<b>Loss (gain) on disposal of assets included in:</b>		
Cost of sales	\$ 179	\$ 181
Distribution expenses	59	19
Selling, general and administrative expenses	496	(379)
<b>Total losses (gains) on disposal of assets</b>	<b>\$ 734</b>	<b>\$ (179)</b>
<b>Employee compensation and benefit expense:</b>		
Wages and salaries (including payroll benefits)	\$ 102,198	\$ 100,007
Future employee benefit costs	3,088	2,915
Share-based compensation expense	771	3,229
Termination benefits	2,972	1,477
Short-term employee benefits	153	2,319
<b>Total employee compensation and benefit expense</b>	<b>\$ 109,182</b>	<b>\$ 109,947</b>

# Historical Consolidated Statement of Income (unaudited)

(in thousands of USD, except per share amounts, unless otherwise noted)	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014	2013 <sup>(2)</sup>	2012 <sup>(2)</sup>	2011 <sup>(2)</sup>	2010 <sup>(2)</sup>	2009 <small>(2) (3) (4)</small>	2008 <small>(2) (3) (4) (5)</small>
<b>Revenues</b>	<b>\$1,053,846</b>	\$ 954,986	\$ 999,471	\$1,051,613	\$ 947,301	\$ 942,631	\$ 675,539	\$ 567,572	\$ 549,922	\$ 578,844
Gross profit	<b>186,079</b>	201,807	199,627	220,405	215,335	206,661	153,530	133,169	117,953	124,282
Distribution expenses	<b>49,827</b>	43,610	48,037	52,558	53,368	44,511	35,382	29,149	28,383	34,816
Selling, general and administrative expenses	<b>99,449</b>	96,978	93,597	105,313	98,820	100,862	72,898	66,565	58,787	61,604
Impairment of property, plant and equipment	—	2,327	—	852	—	13,230	—	—	—	—
Business acquisition, integration and other expenses	<b>2,639</b>	4,787	7,473	6,582	3,256	10,741	11,049	870	403	4,585
Finance costs	<b>16,626</b>	14,296	16,247	17,569	16,329	36,585	6,019	5,025	4,895	6,061
(Income) loss from equity accounted investee, net of income tax	—	—	—	—	(86)	196	52	(16)	—	—
Non-operating items and gain on disposal of assets	—	—	—	—	—	—	—	—	808	79
Income before income taxes	<b>17,538</b>	39,809	34,273	37,531	43,648	536	28,130	31,576	24,677	17,137
Income taxes										
Current	<b>(723)</b>	8,514	5,184	3,906	12,378	5,442	5,762	6,220	2,234	2,822
Deferred	<b>(13,392)</b>	(989)	738	3,325	(86)	(7,109)	3,708	6,057	5,130	980
Total income tax (recovery) expense	<b>(14,115)</b>	7,525	5,922	7,231	12,292	(1,667)	9,470	12,277	7,364	3,802
<b>Net income</b>	<b>\$ 31,653</b>	\$ 32,284	\$ 28,351	\$ 30,300	\$ 31,356	\$ 2,203	\$ 18,660	\$ 19,299	\$ 17,313	\$ 13,335
<b>Reconciliation to EBITDA:</b>										
<b>Net income</b>	<b>\$ 31,653</b>	\$ 32,284	\$ 28,351	\$ 30,300	\$ 31,356	\$ 2,203	\$ 18,660	\$ 19,299	\$ 17,313	\$ 13,335
Add-back:										
Income tax (recovery) expense	<b>(14,115)</b>	7,525	5,922	7,231	12,292	(1,667)	9,470	12,277	7,364	3,802
Finance costs	<b>16,626</b>	14,296	16,247	17,569	16,329	36,585	6,019	5,025	4,895	6,061
Amortization of intangible assets	<b>6,558</b>	5,166	5,225	4,923	5,258	5,551	1,840	1,169	1,314	1,300
Depreciation	<b>9,753</b>	11,948	11,515	11,874	9,901	13,830	7,981	7,094	5,796	6,079
<b>Standardized EBITDA</b>	<b>\$ 50,475</b>	\$ 71,219	\$ 67,260	\$ 71,897	\$ 75,136	\$ 56,502	\$ 43,970	\$ 44,864	\$ 36,682	\$ 30,577
Add-back:										
Business acquisition, integration and other expenses	<b>2,639</b>	4,787	7,473	6,582	3,256	10,741	11,049	870	403	4,585
Impairment of property, plant and equipment	—	2,327	—	852	—	13,230	—	—	—	—
Increase in cost of sales due to purchase price allocation to inventory	—	—	—	—	—	1,149	510	55	—	927
Loss (gain) on disposal of assets	<b>734</b>	(179)	329	681	247	(190)	192	14	431	378
Share-based compensation expense (recovery)	<b>771</b>	3,229	1,119	3,329	6,704	10,255	737	3,653	320	(102)
Non-operating items	<b>11,493</b>	—	—	—	—	—	—	—	504	51
<b>Adjusted EBITDA</b>	<b>\$ 66,112</b>	\$ 81,383	\$ 76,181	\$ 83,341	\$ 85,343	\$ 91,687	\$ 56,458	\$ 49,456	\$ 38,340	\$ 36,416
<b>Reconciliation to Adjusted Net Income:</b>										
<b>Net income</b>	<b>\$ 31,653</b>	\$ 32,284	\$ 28,351	\$ 30,300	\$ 31,356	\$ 2,203	\$ 18,660	\$ 19,299	\$ 17,313	\$ 13,335
Add-back, after-tax:										
Share-based compensation expense (recovery)	<b>658</b>	2,794	1,207	2,958	6,366	10,025	703	3,653	219	(67)
Impairment of property, plant and equipment	—	1,614	—	520	—	8,635	—	—	—	—
Accelerated depreciation on equipment/property disposed as part of a discontinuation/acquisition	—	668	216	—	—	1,146	—	—	—	—
Business acquisition, integration and other expenses	<b>1,785</b>	3,014	4,985	4,290	2,068	6,895	8,397	541	497	3,853
Non-operating items	<b>7,232</b>	—	—	—	—	—	—	—	504	53
Increase in cost of sales due to purchase price allocation to inventory	—	—	—	—	—	761	312	34	—	575
Mark-to-market loss (gain) on embedded derivative and related accretion	—	—	—	188	(105)	1,899	—	—	—	—
Mark-to-market (gain) loss on interest rate swaps	—	(90)	(426)	(80)	76	529	—	—	—	—
Accelerated amortization of deferred financing costs and other items resulting from debt refinancing and amendment activities	—	—	—	605	776	6,380	—	—	—	—
Intercompany dividend withholding tax	—	—	—	—	744	(402)	782	996	—	—
<b>Adjusted Net Income</b>	<b>\$ 41,328</b>	\$ 40,284	\$ 34,333	\$ 38,781	\$ 41,281	\$ 38,071	\$ 28,854	\$ 24,523	\$ 18,533	\$ 17,749



# Historical Consolidated Statement of Income (unaudited)

(in thousands of USD, except per share amounts, unless otherwise noted)	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014	2013 <sup>(2)</sup>	2012 <sup>(2)</sup>	2011 <sup>(2)</sup>	2010 <sup>(2)</sup>	2009 <sup>(2) (3) (4)</sup>	2008 <sup>(2) (3) (4) (5)</sup>
<b>Book value per common share</b>	\$ <b>8.05</b>	\$ 7.13	\$ 6.43	\$ 6.41	\$ 6.04	\$ 5.07	\$ 5.27	\$ 4.89	\$ 3.76	\$ 3.97
Gross capital expenditures from continuing operations	<b>27,775</b>	17,686	18,587	28,075	15,419	13,447	7,675	5,134	11,107	6,051
<b>Per share information:</b>										
<b>Basic earnings per common share</b>										
Based on net income	\$ <b>0.98</b>	\$ 1.04	\$ 0.92	\$ 0.99	\$ 1.03	\$ 0.08	\$ 0.62	\$ 0.60	\$ 0.47	\$ 0.45
Based on adjusted net income	<b>0.93</b>	1.30	1.11	1.26	1.36	1.26	0.95	0.76	0.51	0.59
<b>Diluted earnings per common share</b>										
Based on net income	<b>0.97</b>	1.04	0.95	0.97	1.01	0.07	0.61	0.60	0.47	0.36
Based on adjusted net income	<b>0.93</b>	1.29	1.10	1.24	1.32	1.23	0.94	0.76	0.51	0.49
<b>Common shares</b>										
Outstanding at year-end	<b>33,380</b>	30,889	30,874	30,706	30,571	30,258	30,174	30,298	36,662	36,942
Weighted average outstanding										
Basic	<b>32,412</b>	30,917	30,819	30,665	30,367	30,238	30,218	32,192	36,770	30,118
Diluted	<b>32,527</b>	31,175	31,265	31,317	31,186	30,920	30,682	32,490	36,792	36,406
Dividends declared and paid	\$ <b>14,355</b>	\$ 12,145	\$ 11,023	\$ 11,285	\$ 10,305	\$ 6,379	\$ 5,891	\$ 5,238	\$ 4,959	\$ 3,244
Dividends per common share (CAD)	<b>0.565</b>	0.520	0.465	0.410	0.350	0.210	0.195	0.165	0.135	0.110

<sup>(1)</sup> For Fiscal 2017, 2016, and 2015 the operating results contain certain corrections of errors identified in previously reported amounts related to the accounting for donated products received from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies.

<sup>(2)</sup> Share and per share amounts for Fiscal 2013 and prior years have been restated to reflect the retrospective application of the May 30, 2014 2-for-1 stock split.

<sup>(3)</sup> In Fiscal 2012, the Company changed its presentation currency from CAD to USD. Results for Fiscal 2011 and 2010 have been fully restated to USD. Historical information for Fiscal 2009 and prior years has been converted to USD by translating the previously reported CAD results at the average annual exchange rate for that year.

<sup>(4)</sup> The Company adopted International Financial Reporting Standards effective January 2, 2011, with retrospective application to Fiscal 2010. In Fiscal 2009 and prior years, the Company's results were prepared in accordance with Canadian generally accepted accounting principles.

<sup>(5)</sup> In 2008, dividends declared and paid for second preferred shares were \$0.2 million (CAD \$0.83 per share) and for Series A preferred shares were \$0.7 million (CAD \$0.39 per share).

# Historical Consolidated Statement of Financial Position (unaudited)

(in thousands of USD, unless otherwise noted)	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014	2013	2012	2011	2010	2009 <small>(2) (3)</small>	2008 <small>(2) (3)</small>
Cash	\$ 4,738	\$ 18,252	\$ 1,043	\$ 1,044	\$ 1,206	\$ 65	\$ 3,205	\$ 601	\$ 1,866	\$ 5,808
Accounts receivable	92,395	75,190	76,335	81,772	90,113	73,947	83,590	50,724	56,901	52,758
Income taxes receivable	13,533	4,809	6,023	7,381	3,509	5,145	3,498	704	1,231	37
Other financial assets	570	1,705	6,453	4,139	1,524	533	1,323	895	—	—
Inventories	353,433	252,059	263,043	261,987	252,960	222,313	256,324	132,696	114,261	121,304
Prepaid expenses	3,462	3,340	2,051	2,481	2,361	2,991	2,969	1,899	1,934	1,472
Deferred income taxes	—	—	—	—	—	—	—	—	3,675	1,266
<b>Total current assets</b>	<b>468,131</b>	<b>355,355</b>	<b>354,948</b>	<b>358,804</b>	<b>351,673</b>	<b>304,994</b>	<b>350,909</b>	<b>187,519</b>	<b>179,868</b>	<b>182,645</b>
Property, plant and equipment	120,289	109,626	115,879	114,231	101,470	89,268	105,808	67,634	56,878	48,745
Deferred income taxes	2,787	2,290	2,495	3,372	4,656	7,207	1,667	2,416	333	688
Investment in equity accounted investee	—	—	—	—	—	96	271	154	—	—
Other receivables and miscellaneous assets	837	864	1,683	1,678	1,906	1,847	1,190	819	232	109
Future employee benefits	—	—	—	—	—	92	92	92	7,062	2,872
Intangible assets	158,044	98,872	102,315	107,704	105,253	110,631	116,594	31,409	18,904	19,877
Goodwill	157,881	118,101	117,824	119,270	111,999	112,873	110,816	40,036	27,423	25,413
Assets classified as held for sale	—	—	—	515	542	4,819	—	—	—	—
<b>Total assets</b>	<b>\$ 907,969</b>	<b>\$ 685,108</b>	<b>\$ 695,144</b>	<b>\$ 705,574</b>	<b>\$ 677,499</b>	<b>\$ 631,827</b>	<b>\$ 687,347</b>	<b>\$ 330,079</b>	<b>\$ 290,700</b>	<b>\$ 280,349</b>
Bank loans - actual amounts owing	\$ 53,560	\$ 959	\$ 17,628	\$ 65,851	\$ 97,899	\$ 60,530	\$ 119,936	\$ 43,261	\$ 22,084	\$ 33,500
Bank loans - deferred charges	(208)	(338)	(470)	(721)	(672)	(826)	(978)	(304)	(312)	(518)
Accounts payable and accrued liabilities	209,875	138,766	124,132	83,595	100,945	91,436	102,623	55,821	52,431	60,800
Share-based compensation payable - current	201	1,028	613	2,259	3,313	10,005	4,233	4,559	—	—
Provisions	278	386	263	437	240	1,614	1,013	553	—	—
Other current financial liabilities	1,965	1,626	817	580	459	550	780	2,347	—	—
Income taxes payable	—	851	2,242	20	2,543	1,165	2,024	3,248	28	2,018
Current portion of long-term debt	—	—	11,816	3,000	—	34,237	2,500	4,450	4,378	—
Current portion of finance lease obligations	714	721	1,015	994	979	1,039	1,046	978	826	378
<b>Total current liabilities</b>	<b>266,385</b>	<b>143,999</b>	<b>158,056</b>	<b>156,015</b>	<b>205,706</b>	<b>199,750</b>	<b>233,177</b>	<b>114,913</b>	<b>79,435</b>	<b>96,178</b>
Long-term debt - actual amounts owing	337,926	267,926	282,934	294,750	232,720	213,888	247,500	44,456	48,996	53,366
Long-term debt - deferred charges and market valuations	(2,485)	(1,599)	(1,917)	(2,717)	(5,791)	(529)	(20,254)	(305)	(412)	(554)
Other long-term financial liabilities	62	196	89	951	5,597	1,130	6,223	208	1,198	1,744
Other long-term liabilities	—	—	125	2,180	175	—	—	—	—	—
Share-based compensation payable - long-term	1,641	888	358	620	869	1,532	243	—	—	—
Long-term finance lease obligations	407	702	715	1,212	1,647	2,181	2,555	3,062	2,580	424
Deferred income taxes	23,943	44,602	46,529	46,722	43,998	45,126	47,991	9,949	4,479	—
Future employee benefits	11,223	8,190	9,631	8,867	7,929	13,791	11,085	9,682	4,338	465
Liabilities classified as held for sale	—	—	—	—	—	1,604	—	—	—	—
Shareholders' equity	268,867	220,204	198,624	196,974	184,649	153,354	158,827	148,114	150,086	128,726
<b>Total liabilities and shareholders' equity</b>	<b>\$ 907,969</b>	<b>\$ 685,108</b>	<b>\$ 695,144</b>	<b>\$ 705,574</b>	<b>\$ 677,499</b>	<b>\$ 631,827</b>	<b>\$ 687,347</b>	<b>\$ 330,079</b>	<b>\$ 290,700</b>	<b>\$ 280,349</b>

<sup>(1)</sup> For Fiscal 2017, 2016, and 2015 the operating results contain certain corrections of errors identified in previously reported amounts related to the accounting for donated products received from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies.

<sup>(2)</sup> In Fiscal 2012, the Company changed its presentation currency from CAD to USD. Results for Fiscal 2011 and 2010 have been fully restated to USD. Historical information for Fiscal 2009 and prior years has been converted to USD by translating the previously reported CAD results at the average annual exchange rate for that year.

<sup>(3)</sup> The Company adopted International Financial Reporting Standards effective January 2, 2011, with retrospective application to Fiscal 2010. In Fiscal 2009 and prior years, the Company's results were prepared in accordance with Canadian generally accepted accounting principles.

# Corporate information

## Honorary Director

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Donald Sobey

## Board of Directors

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Alan Bell<sup>3,4,5</sup>

Joan Chow<sup>3</sup>

Jim Covelluzzi<sup>2</sup>

Henry Demone (Chair)<sup>4</sup>

Rob Dexter, Q.C.<sup>3</sup>

Andrew Hennigar<sup>3</sup>

David Hennigar (Vice Chair & Lead Director)<sup>4,5</sup>

Shelly Jamieson<sup>3,4,5</sup>

Jolene Mahody<sup>2</sup>

Andy Miller<sup>2</sup>

Robert Pace<sup>2,4,5</sup>

Frank van Schaayk<sup>2</sup>

## Corporate Management

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Henry Demone<sup>1</sup>

Chief Executive Officer

Paul Jewer, FCA<sup>1</sup>

Executive Vice President & CFO

Peter Brown<sup>1</sup>

President & Chief Operating Officer

U.S. Operations

Tim Rorabeck<sup>1</sup>

Executive Vice President, Corporate Affairs

& General Counsel

Paul Snow<sup>1</sup>

Executive Vice President, Global Procurement

Brigid Pelino<sup>1</sup>

Chief Human Resources Officer

Chris Mulder<sup>1</sup>

Senior Vice President, Sales & Marketing

USA

Craig Murray<sup>1</sup>

Senior Vice President, Sales & Marketing

Canada

Brian Wynn<sup>1</sup>

President, Rubicon Resources

Bill DiMento

Vice President, Quality Assurance, Sustainability

& Government Affairs

Mike Sirois

Chief Innovation Officer

## Other Senior Management

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Charlene Milner

Vice President, Financial Reporting & Accounting

Heather Keeler-Hurshman

Vice President, Investor Relations & Corporate

Performance

Peter Burns

Chief Information Officer

Dale Martin

Vice President, Wild Seafood Procurement

Sharon Qi

General Manager, China Operations

Keith Blanks

Vice President, U.S. National Accounts

Chad Groves

Vice President, U.S. Field Sales Foodservice

Dana Johnson

Vice President, U.S. Retail Sales

Rick Barnhardt

Vice President, U.S. Supply Chain

Bill Mahoney

Vice President, U.S. Finance

Chad Stewart

Vice President, U.S. Plant Operations

Lee Obritsch

General Manager & Vice President, Lunenburg

Operations

Meggan Hodgson

Vice President, Quality Assurance & Food Safety

## Rubicon Resources

---

Saren Black

Chief Financial Officer, Rubicon

Paul Chamberlin

Senior Vice President, Foodservice Sales

Justin Kirby

Senior Vice President, Merchandising/Procurement

Mike Kocsis

Vice President, Aquaculture Procurement

Kevin Wynn

Senior Vice President, Replenishment

## Plants & Warehouse Facilities

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Massachusetts: Peabody

New Hampshire: Portsmouth

Virginia: Newport News

Nova Scotia: Lunenburg

## Operating Subsidiary Companies

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High Liner Foods (USA), Incorporated

Rubicon Resources, LLC

ISF (USA), LLC

High Liner Foods (Thailand) Co., Ltd.

Atlantic Trading Company, LLC

Sjovik. h.f.

## Auditors

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Ernst & Young LLP, Chartered Accountants

## Transfer Agent

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For help with:

- Changes of address
- Transfer of shares
- Loss of share certificates
- Consolidation of multiple mailings to one shareholder
- Estate settlements

## Contact:

AST Trust Company (Canada)

AnswerLine™:

1-800-387-0825 (toll-free in North America)

or (416) 682-3860

Fax: 1-888-249-6189

E-mail inquiries: [inquiries@astfinancial.com](mailto:inquiries@astfinancial.com)

[www.astfinancial.com/ca](http://www.astfinancial.com/ca)

## Mailing Address:

P.O. Box 2082, Station C

Halifax, NS B3J 3B7

## Banks

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The Royal Bank of Canada

JPMorgan Chase Bank, N.A.

Bank of Montreal

Canadian Imperial Bank of Commerce

Rabobank

## Investor Relations

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For:

- Additional financial information
- Industry and Company developments
- Additional copies of this report

Contact:

Heather Keeler-Hurshman

Vice President, Investor Relations & Corporate Performance

Tel.: (902) 421-7100

Fax: (902) 634-6228

E-mail: [investor@highlinerfoods.com](mailto:investor@highlinerfoods.com)

Investor relations website:

[www.highlinerfoods.com](http://www.highlinerfoods.com)

Mailing Address:

100 Battery Point

P.O. Box 910

Lunenburg, NS B0J 2C0

Common Shares listed on The Toronto

Stock Exchange

Trading Symbol – HLF

## Annual General Meeting of Shareholders

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Wednesday, May 9, 2018

11:30 a.m.

The Westin Nova Scotian,

Halifax, Nova Scotia

- 1 Leadership Team
- 2 Audit Committee (Robert Pace, Chair)
- 3 Human Resources & Governance Committee (Shelly Jamieson, Chair)
- 4 Executive Committee (Henry Demone, Chair)
- 5 Nominating Committee (Alan Bell, Chair)

Strengthening our business in 2018 means getting back to the **fundamentals of growth** — a focus on customers, on innovative products and on responsible, efficient execution in all that we do. By emphasizing those fundamentals, High Liner Foods can deliver great tasting seafood to customers and consumers, and return on investment for shareholders.