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. Wirthy & 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***[1] 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 and in the Investor Center section of the Company's website at 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.

[1] *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.

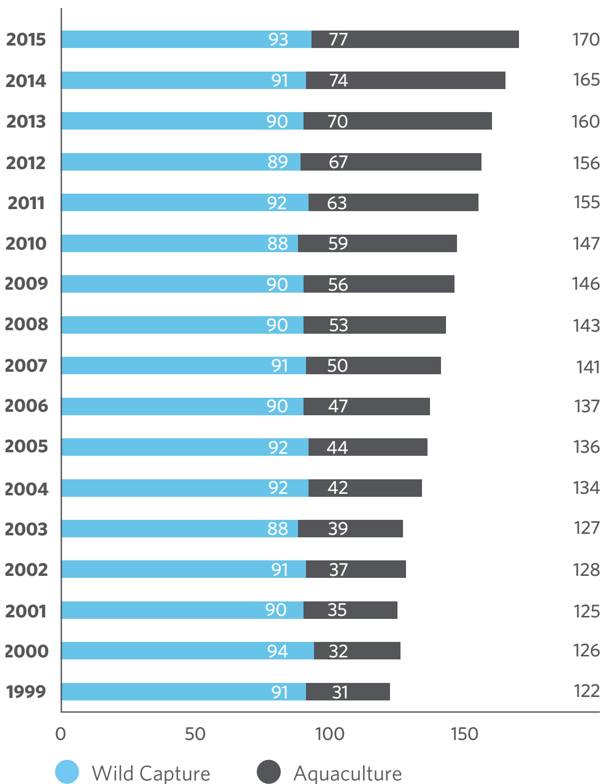
We have made six acquisitions since late 2007, all of which were aligned with the above criteria. These acquisitions positioned High Liner Foods as the North American leader in value-added frozen seafood, the clear market leader in both retail and foodservice channels in Canada, and a leading supplier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

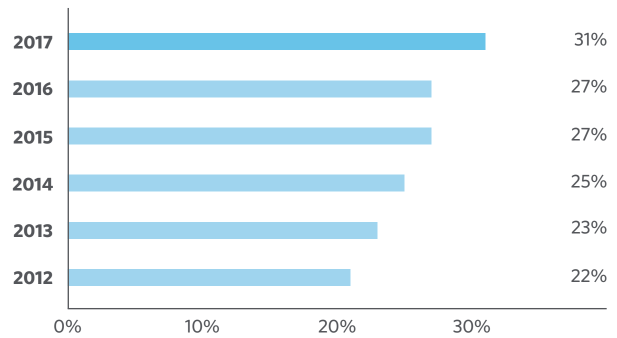
Share of Capture and Aquaculture (million MT)



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. Wirthy & 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. Wirthy & 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

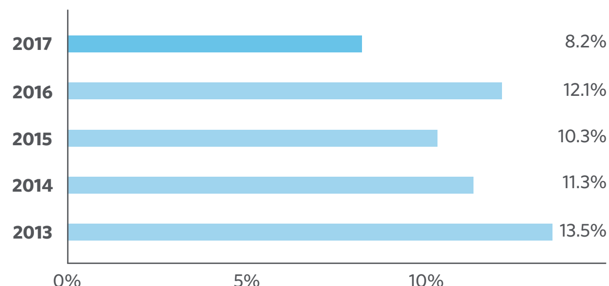
Our strategy was designed with the expectation to increase shareholder value. To help us focus on meeting investor expectations, we use three key financial measures to gauge our financial performance:

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

[1] *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.

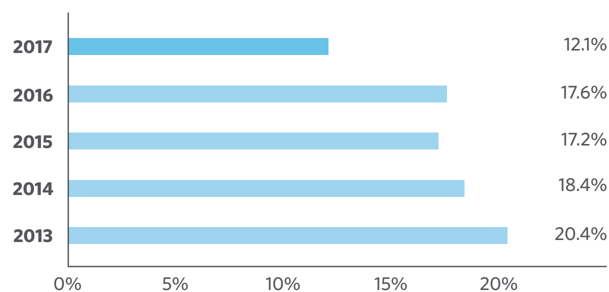
Return on Assets Managed ("ROAM")



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:

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

(1) *See the* Non-IFRS Financial Measures *section starting on page 37 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.*
(2) *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

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

[1] *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		
(Amounts in $000s)	**December 30, 2017 USD**	December 31, 2016 USD	**% Change USD**	**December 30, 2017 Domestic $**	December 31, 2016 Domestic $	**% Change Domestic $**
External Sales						
Canada	**$ 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%**
Adjusted EBITDA						
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)%**
Adjusted EBITDA as percentage of sales						
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		
(in $000s, except sales volume and percentage amounts)	**December 30, 2017**	December 31, 2016	**Change**
Sales volume (millions of lbs)	**68.9**	68.1	**0.8**
Sales	**$ 339,950**	$ 332,752	**$ 7,198**
Gross profit	**$ 59,358**	$ 73,925	**$ (14,567)**
Gross profit as a percentage of sales	**17.5%**	22.2%	**(4.7)%**
Adjusted EBITDA[(1)]	**$ 17,715**	$ 30,226	**$ (12,511)**
Adjusted EBITDA as a percentage of sales	**5.2%**	9.1%	**(3.9)%**

[(1)] *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 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.

U.S. OPERATIONS

(All currency amounts in this section are in USD)

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

[1] *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 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 $000s, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Sales	**$ 275,735**	**$ 232,385**	**$ 282,704**	**$ 263,022**	**$ 1,053,846**
Adjusted EBITDA(1)	**$ 22,337**	**$ 13,417**	**$ 17,298**	**$ 13,060**	**$ 66,112**
Net Income	**$ 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**
Adjusted Net Income(1)	**$ 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(1)	**$ 0.34**	**$ 0.19**	**$ 0.25**	**$ 0.15**	**$ 0.93**
Dividends paid per common share (in CAD)	**$ 0.140**	**$ 0.140**	**$ 0.140**	**$ 0.145**	**$ 0.565**
Net non-cash working capital(2)	**$ 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
Sales	$ 291,439	$ 224,388	$ 230,366	$ 208,793	$ 954,986
Adjusted EBITDA(1)	$ 30,308	$ 17,448	$ 17,510	$ 16,117	$ 81,383
Net Income	$ 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
Adjusted Net Income(1)	$ 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(1)	$ 0.51	$ 0.27	$ 0.29	$ 0.22	$ 1.29
Dividends paid per common share (in CAD)	$ 0.120	$ 0.130	$ 0.130	$ 0.140	$ 0.520
Net non-cash working capital(2)	$ 214,415	$ 202,170	$ 193,385	$ 190,825	$ 190,825

(1) *See the* Non-IFRS Financial Measures *section starting on page 37 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.*
(2) *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 $000s, except sales volume, per share amounts, percentage amounts and exchange rates)	Thirteen weeks ended December 30, 2017	December 31, 2016	Change	Thirteen weeks ended January 2, 2016
Sales volume (millions of lbs)	**71.6**	62.4	**9.2**	66.2
Average foreign exchange rate (USD/CAD)	**$ 1.2715**	$ 1.3341	**$ (0.0626)**	$ 1.3358
Sales				
Sales in domestic currency	**$ 280,917**	$ 229,580	**$ 51,337**	$ 244,305
Foreign exchange impact	**(17,895)**	(20,787)	**2,892**	(20,024)
Sales in USD	**$ 263,022**	$ 208,793	**$ 54,229**	$ 224,281
Gross profit	**$ 44,504**	$ 43,632	**$ 872**	$ 45,486
Gross profit as a percentage of sales	**16.9%**	20.9%	**(4.0)%**	20.3%
Distribution expenses	**$ 13,328**	$ 10,023	**$ 3,305**	$ 11,508
Selling, general and administrative expenses	**$ 24,609**	$ 21,300	**$ 3,309**	$ 21,848
Adjusted EBITDA[(1)]				
Adjusted EBITDA in domestic currency	**$ 13,355**	$ 17,986	**$ (4,631)**	$ 20,452
Foreign exchange impact	**(295)**	(1,869)	**1,574**	(3,278)
Adjusted EBITDA in USD	**$ 13,060**	$ 16,117	**$ (3,057)**	$ 17,174
Adjusted EBITDA as a percentage of sales	**5.0%**	7.7%	**(2.7)%**	7.7%
Net income	**$ 14,227**	$ 6,658	**$ 7,569**	$ 6,667
Basic EPS	**$ 0.43**	$ 0.22	**$ 0.21**	$ 0.22
Diluted EPS	**$ 0.43**	$ 0.21	**$ 0.22**	$ 0.21
Adjusted Net Income[(1)]	**$ 4,849**	$ 6,969	**$ (2,120)**	$ 7,789
Adjusted EPS	**$ 0.15**	$ 0.22	**$ (0.07)**	$ 0.25
Adjusted Diluted EPS[(1)]	**$ 0.15**	$ 0.22	**$ (0.07)**	$ 0.25

(1) *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.

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

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

(1) *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:

	Thirteen weeks ended		Fifty-two weeks ended	
(Amounts in $000s)	**December 30, 2017**	December 31, 2016	**December 30, 2017**	December 31, 2016
Business acquisition, integration and other expenses	**$ 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:

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

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.

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.

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 (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 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.

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)
Designated in a formal hedging relationship:				
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 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)
Total capitalization	**$ 656,516**	$ 471,699
Net interest-bearing debt as percentage of total capitalization	**59.1%**	53.4%

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

	Thirteen weeks ended			Fifty-two weeks ended		
(Amounts in $000s)	**December 30, 2017**	December 31, 2016	Change	**December 30, 2017**	December 31, 2016	Change
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid	**$ 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**
Net change in cash during the period	**$ 2,411**	$ 885	**$ 1,526**	**$ (13,514)**	$ 17,209	**$ (30,723)**

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
Net non-cash working capital	$ 239,102	$ 190,825	$ 48,277

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:

			Payments due by period	
(Amounts in $000s)	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	—
Total contractual obligations	$ 553,811	$ 177,046	$ 372,784	$ 3,981

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*".

	Thirteen weeks ended December 30, 2017				Thirteen weeks ended December 31, 2016			
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Net income (loss)	**$ 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
Standardized EBITDA	**3,395**	**9,734**	**(3,135)**	**9,994**	5,481	11,624	(1,468)	15,637
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[1]	**81**	**1,443**	**—**	**1,524**	—	—	—	—
Share-based compensation recovery	**—**	**—**	**(26)**	**(26)**	—	—	(85)	(85)
Adjusted EBITDA	**$ 3,476**	**$ 11,231**	**$ (1,647)**	**$ 13,060**	$ 5,511	$ 11,707	$ (1,101)	$ 16,117

(Amounts in $000s)	Fifty-two weeks ended December 30, 2017 Canada	U.S.	Corporate	Total	Fifty-two weeks ended December 31, 2016 Canada	U.S.	Corporate	Total
Net income (loss)	**$ 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
Standardized EBITDA	**10,814**	**48,117**	**(8,456)**	**50,475**	22,748	60,439	(11,968)	71,219
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[1]	**2,787**	**8,706**	**—**	**11,493**	—	—	—	—
Share-based compensation expense	**—**	**—**	**771**	**771**	—	—	3,229	3,229
Adjusted EBITDA	**$ 13,657**	**$ 56,991**	**$ (4,536)**	**$ 66,112**	$ 22,673	$ 60,564	$ (1,854)	$ 81,383

[1] *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 $000s)	Thirteen weeks ended December 30, 2017 Canada	U.S.	Corporate	Total	Thirteen weeks ended December 31, 2016 Canada	U.S.	Corporate	Total
Adjusted EBITDA	**$ 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
Adjusted EBIT	**$ 2,964**	**$ 7,670**	**$ (1,992)**	**$ 8,642**	$ 5,002	$ 8,692	$ (1,390)	$ 12,304

(Amounts in $000s)	Fifty-two weeks ended December 30, 2017 Canada	U.S.	Corporate	Total	Fifty-two weeks ended December 31, 2016 Canada	U.S.	Corporate	Total
Adjusted EBITDA	**$ 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
Adjusted EBIT	**$ 11,696**	**$ 43,871**	**$ (5,766)**	**$ 49,801**	$ 20,813	$ 47,870	$ (4,414)	$ 64,269

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**	$000s	Diluted EPS
Net income	**$ 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[1]	**1,524**	**0.05**	—	—
Share-based compensation recovery	**(26)**	**—**	(85)	—
U.S. Tax Reform[2]	**(11,186)**	**(0.34)**	—	—
Tax impact of reconciling items	**(681)**	**(0.02)**	(113)	—
Adjusted Net Income	**$ 4,849**	**$ 0.15**	$ 6,969	$ 0.22
Average shares for the period (000s)		**33,423**		31,251

	Fifty-two weeks ended December 30, 2017		Fifty-two weeks ended December 31, 2016	
	$000s	**Diluted EPS**	$000s	Diluted EPS
Net income	**$ 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[1]	**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[2]	**(11,186)**	**(0.34)**	—	—
Tax impact of reconciling items	**(5,227)**	**(0.16)**	(3,670)	(0.12)
Adjusted Net Income	**$ 30,142**	**$ 0.93**	$ 40,284	$ 1.29
Average shares for the period (000s)		**32,527**		31,175

(1) *Associated with the product recall (see the* Recent Developments *section on page 19).*

(2) *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
Adjusted Diluted EPS	**$ 0.15**	$ 0.22	**$ 0.93**	$ 1.29
Average foreign exchange rate for the period	**1.2715**	1.3341	**1.2983**	1.3248
CAD-Equivalent Adjusted Diluted EPS	**$ 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.

	Twelve months ended		
(Amounts in $000s)	**December 30, 2017**	December 31, 2016	**Change**
Net change in non-cash working capital items	**$ (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)**
Standardized Free Cash Flow	**$ (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)
Net interest-bearing debt	**$ 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
ROAM	**8.2%**	12.1%

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[(1)]	**658**	2,792
	29,484	37,492
Thirteen-month rolling average common equity	**244,012**	213,396
ROE	**12.1%**	17.6%

(1) *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 or at 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.