HIGH LINER FOODS

Second Quarter Report to Shareholders

Thirteen and twenty-six weeks ended July 2, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the thirteen and twenty-six weeks ended July 2, 2016

(All amounts are in United States dollars unless otherwise stated)

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A"), dated August 16, 2016, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and twenty-six weeks ended July 2, 2016, compared to the thirteen and twenty-six weeks ended July 4, 2015. 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 2015 Annual Report along with our Unaudited Condensed Interim Consolidated Financial Statements ("Consolidated Financial Statements") as at and for the thirteen and twenty-six weeks ended July 2, 2016, 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 August 16, 2016, except as otherwise noted.

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 on page 21 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 Canadian dollars ("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"). We do this 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 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; 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; and 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 amount and timing of cost savings related to supply chain optimization initiatives, including, without limitation, related to the cessation of value-added fish processing operations at our New Bedford facility and the accounting implications of same; the expected amount and timing of integration activities and synergies related to acquisitions; 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 Management* section of our 2015 Annual Report and the *Risk Factors* section of our 2015 Annual Information Form. 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; 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 acquired operations; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the market place; 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.

COMPANY OVERVIEW, VISION AND STRATEGY

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. 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 four food-processing plants located in: Lunenburg, Nova Scotia ("NS"); Portsmouth, New Hampshire ("NH"); New Bedford, Massachusetts ("MA"), and Newport News, Virginia ("VA"). The Company ceased value-added fish operations at its plant in New Bedford, Massachusetts on July 15, 2016 (as explained in the *Recent Developments* section of this MD&A on page 5) but has maintained the scallop operations at this facility.

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.

Vision and Strategy

Vision and Business Strategy

Our overall business strategy is a simple one: we satisfy the seafood preferences of North American consumers. We need to be, and are, seafood experts. Our focus is on creating and marketing top quality frozen seafood, and our reputation for delivering outstanding seafood products is an advantage in the competitive North American market.

The corporate vision, mission statement and values support the business strategy. The vision sets our overall direction and is:

"To be the leading supplier of frozen seafood in North America."

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[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.*

We are focused on frozen seafood because we are experts in this category and on North American markets 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.

The seafood category is complex for both businesses and customers. Procuring seafood is complex due to the global supply chain and the existence of more than one hundred commercial species, and many people believe preparing seafood is difficult. Our corporate mission statement focuses on removing this complexity for our customers and is:

"To radically simplify selecting, preparing and enjoying seafood at its best."

We are committed to simplifying the seafood category for our customers, from procurement through to preparation, enabling them to leverage our seafood expertise so they can be confident in serving quality seafood products, with superior taste and at good value.

The Company and its employees are committed to conducting business in a manner that 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 of our operations.

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

Growth Strategy

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

Organic Sales Growth

Internal growth has become increasingly challenging over the last several years and growing our base business is the Company's primary focus in 2016. This means not only growing our market share in traditional retail, club and foodservice channels, but increasing the overall demand for frozen seafood products in North America. New product introductions, as well as the introduction of new species, are an integral part of this strategy, as is gaining additional sales volume with existing customers by providing them with a wider range of seafood products.

A focus on commercial excellence is also part of how we will grow internally, which includes 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. Our acquisition criteria

include: target businesses must be principally selling frozen seafood in North America; and we must be able to achieve synergies upon integrating these businesses as a result of the acquisitions leveraging some combination of our existing leading brands, customer relationships, procurement relationships, robust business systems and our expertise in marketing, frozen food logistics and product development.

We have made five 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.

Please refer to the MD&A in our 2015 Annual Report for more information on our vision, core businesses, and strategy, along with a thorough discussion of our operational resources and core competencies.

RECENT DEVELOPMENTS

On August 16, 2016, High Liner Foods entered into a purchase and sales agreement (the "Agreement") with Blue Harvest Fisheries, whereby Blue Harvest will acquire the assets of High Liner's scallop business, along with its facility in New Bedford, Massachusetts. Under the Agreement, High Liner will receive cash proceeds of $8 million for the business and facility, plus additional amounts for High Liner scallop inventories. Following completion of the transaction, High Liner will continue to offer scallops to its customers through an ongoing supply agreement with Blue Harvest. The transaction is expected to close within the next several weeks. The scallop processing facility was fully operational at the time the Agreement was entered into, but value-added fish operations had ceased at this facility in mid-July 2016, following the transfer of this production to the Company's other manufacturing facilities.

The Company 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. The annual ongoing pre-tax reduction in operating costs (which represents an increase in earnings before interest, taxes, depreciation and amortization, or EBITDA) resulting from the consolidation is estimated to be approximately $7.0 million, with a nominal amount of this amount to be realized in the last half of 2016. The impact on annual EBITDA related to discontinuing scallop processing operations at the New Bedford facility is expected to be nominal. As of July 2, 2016, the Company has incurred approximately $7.3 million in pre-tax one-time costs relating to the transfer of assets, cessation of employment at the New Bedford plant, write-down of inventories, accelerated depreciation, impairment of assets, and other costs.

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 10 "Operating segments 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 expense and business acquisition, integration and other non-routine costs.

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 related 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. Promotional expenditures such as trade spending, listing allowances and couponing are deducted from "Revenues" and consumer marketing expenditures are included in selling, general and administrative expenses.

Inventory levels fluctuate throughout the year, being higher to support strong sales periods such as for 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 table below summarizes key consolidated financial information for the relevant periods.

	Thirteen weeks ended			Twenty-six weeks ended		
(in $000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	July 2, 2016	July 4, 2015	Change	July 2, 2016	July 4, 2015	Change
Sales volume (millions of lbs)	**62.3**	61.3	**1.0**	**150.5**	150.8	**(0.3)**
Average foreign exchange rate (USD/CAD)	**$ 1.2883**	$ 1.2296	**$ 0.0587**	**$ 1.3302**	$ 1.2362	**$ 0.0940**
Sales						
Sales in domestic currency	**$ 242,980**	$ 241,804	**$ 1,176**	**$ 555,392**	$ 568,667	**$ (13,275)**
Foreign exchange impact	**(18,313)**	(15,465)	**(2,848)**	**(40,177)**	(32,106)	**(8,071)**
Sales in USD	**$ 224,667**	$ 226,339	**$ (1,672)**	**$ 515,215**	$ 536,561	**$ (21,346)**
Gross profit	**$ 46,990**	$ 43,204	**$ 3,786**	**$ 111,528**	$ 111,731	**$ (203)**
Gross profit as a percentage of sales	**20.9%**	19.1%	**1.8%**	**21.6%**	20.8%	**0.8%**
Distribution expenses	**$ 10,651**	$ 11,268	**$ (617)**	**$ 23,178**	$ 25,452	**$ (2,274)**
Selling, general and administrative expenses	**$ 24,352**	$ 23,964	**$ 388**	**$ 52,243**	$ 52,511	**$ (268)**
Adjusted EBITDA[1]						
Adjusted EBITDA in domestic currency	**$ 19,152**	$ 13,932	**$ 5,220**	**$ 50,612**	$ 45,562	**$ 5,050**
Foreign exchange impact	**(1,425)**	(1,198)	**(227)**	**(3,469)**	(2,158)	**(1,311)**
Adjusted EBITDA in USD	**$ 17,727**	$ 12,734	**$ 4,993**	**$ 47,143**	$ 43,404	**$ 3,739**
Adjusted EBITDA as a percentage of sales	**7.9%**	5.6%	**2.3%**	**9.2%**	8.1%	**1.1%**
Net income	**$ 5,374**	$ 3,956	**$ 1,418**	**$ 19,091**	$ 16,489	**$ 2,602**
Basic Earnings per Share ("EPS")	**$ 0.17**	$ 0.13	**$ 0.04**	**$ 0.61**	$ 0.54	**$ 0.07**
Diluted EPS	**$ 0.17**	$ 0.13	**$ 0.04**	**$ 0.61**	$ 0.53	**$ 0.08**
Adjusted Net Income[1]	**$ 8,769**	$ 4,721	**$ 4,048**	**$ 24,137**	$ 20,349	**$ 3,788**
Adjusted Basic EPS	**$ 0.28**	$ 0.15	**$ 0.13**	**$ 0.78**	$ 0.66	**$ 0.12**
Adjusted Diluted EPS[1,2]	**$ 0.28**	$ 0.15	**$ 0.13**	**$ 0.77**	$ 0.65	**$ 0.12**
Total assets				**$ 643,189**	$ 693,220	**$ (50,031)**
Total long-term financial liabilities				**$ 278,793**	$ 305,526	**$ (26,733)**
Dividends paid per common share (CAD)	**$ 0.130**	$ 0.120	**$ 0.010**	**$ 0.250**	$ 0.225	**$ 0.025**

[1] See the *Non-IFRS Financial Measures* section on page 21 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.

[2] CAD-Equivalent Adjusted Diluted EPS was CAD$0.36 and CAD$0.18 for the thirteen weeks ended July 2, 2016 and July 4, 2015, respectively, and $1.04 and $0.80 for the twenty-six weeks ended July 2, 2016 and July 4, 2015, respectively. See the *Non-IFRS Financial Measures* section on page 21 for further explanation of CAD-Equivalent Adjusted Diluted EPS.

Sales

Thirteen weeks

Consolidated sales volume for the second quarter of 2016 increased by 1.0 million pounds, or 1.6%, to 62.3 million pounds compared to 61.3 million pounds in the same period in 2015 primarily reflecting higher sales volume in our U.S. foodservice business.

Sales for the second quarter of 2016 were $224.7 million, representing a $1.6 million or 0.7% decline compared to sales of $226.3 million in the same period last year. The weaker Canadian dollar in the second quarter of 2016 compared to the same quarter of 2015 decreased the value of USD sales from our CAD-denominated operations by approximately $3.0 million relative to the conversion impact last year.

Sales in domestic currency increased by $1.2 million to $243.0 million in the second quarter of 2016 compared to $241.8 million in the second quarter of 2015, reflecting the higher sales volume mentioned previously, partially offset by the impact of sales price decreases and a change in product mix.

Twenty-six weeks

Sales volume in the first half of 2016 decreased by 0.3 million pounds, or 0.2%, to 150.5 million pounds compared to 150.8 million pounds in the same period last year due to lower first quarter sales volume in the U.S. foodservice business resulting from a shorter Lenten promotional period and the impact of lower demand for traditional breaded and battered frozen seafood products, offset by the improvement in the U.S. foodservice business volume in the second quarter.

Sales in the first half of 2016 were $515.2 million, representing a $21.4 million, or 4.0%, decrease compared to $536.6 million in the same period last year. The weaker Canadian dollar in the first half of 2016 compared to the first half of 2015 decreased the value of reported USD sales from our CAD-denominated operations by approximately $8.9 million relative to the conversion impact last year.

Sales in domestic currency decreased by $13.3 million to $555.4 million in the first half of 2016, compared to $568.7 million in the same period last year reflecting lower sales volume, sales price decreases and a change in product mix.

Sales by reportable segment are discussed in more detail in the *Performance by Segment* section on page 13 below.

Gross Profit

Thirteen weeks

Gross profit for the second quarter of 2016 was $47.0 million compared to $43.2 million in the same period in 2015 and gross profit as a percentage of sales was 20.9% compared to 19.1%.

Gross profit increased by $3.8 million in 2016 relative to 2015 reflecting higher sales volume and an increase in gross profit as a percentage of sales, partially offset by an unfavourable change in the USD/CAD exchange rate used to translate our CAD-denominated operations to USD. The weaker Canadian dollar had the effect of decreasing the value of reported USD gross profit from our Canadian operations in 2016 by approximately $0.6 million relative to the conversion impact last year. Gross profit as a percentage of sales was higher in the second quarter of 2016 primarily due to lower raw material costs and higher supply chain optimization savings realized in the period.

Twenty-six weeks

Gross profit in the first half of 2016 was $111.5 million compared to $111.7 million in the same period last year and gross profit as a percentage of sales was 21.6% compared to 20.8%.

Gross profit decreased by $0.2 million in the first half of 2016 relative to the same period last year reflecting lower sales volume and an unfavourable change in the USD/CAD exchange rate used to translate our CAD-denominated operations to USD, offset by the improvement in gross profit as a percentage of sales resulting from lower raw material costs and higher supply chain optimization savings realized in 2016. The weaker Canadian dollar had the effect of decreasing the value of reported USD gross profit from our Canadian operations in 2016 by approximately $2.1 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 13 below.

Distribution Expenses

Distribution expenses consist of freight and storage.

Thirteen weeks

Distribution expenses decreased in the second quarter of 2016 by $0.6 million to $10.7 million compared to $11.3 million in the same period in 2015 primarily due to lower fuel costs and higher supply chain optimization savings, primarily in our U.S. operations. As a percentage of sales, these expenses decreased to 4.7% in the second quarter of 2016, compared to 5.0% in the same period in 2015.

Twenty-six weeks

Distribution expenses decreased in the first half of 2016 by $2.3 million to $23.2 million compared to $25.5 million in the same period last year due to lower fuel costs and higher supply chain optimization savings, primarily in our U.S. operations. As a percentage of sales, distribution expenses decreased to 4.5% in the first half of 2016 compared to 4.7% in the same period in 2015.

Selling, General and Administrative ("SG&A") Expenses

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 2, 2016**	**July 4, 2015**	**July 2, 2016**	**July 4, 2015**
SG&A expenses, as reported	**$ 24,352**	$ 23,964	**$ 52,243**	$ 52,511
Less:				
Share-based compensation expense[1]	**861**	546	**1,442**	1,023
Depreciation and amortization expense[1]	**2,557**	1,741	**4,721**	3,760
SG&A expenses, net	**$ 20,934**	$ 21,677	**$ 46,080**	$ 47,728
SG&A expenses, net as a percentage of sales	**9.3%**	9.6%	**8.9%**	8.9%

[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.

Thirteen weeks

SG&A expenses increased in the second quarter of 2016 by $0.4 million to $24.4 million compared to $24.0 million in the same period last year. SG&A expenses included share-based compensation expense of $0.9 million for the second quarter of 2016 compared to an expense of $0.5 million for the same period in 2015, primarily reflecting an increase in share-based compensation units outstanding. SG&A expenses also included depreciation and amortization expense of $2.6 million and $1.7 million for the second quarter of 2016 and 2015, respectively. The increase in depreciation and amortization expense in 2016 relates to an accelerated depreciation charge 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 decreased in the second quarter of 2016 by $0.8 million to $20.9 million compared to $21.7 million in the same period last year primarily as a result of a reduction in marketing costs in our U.S. operations, higher supply chain optimization savings, and the weakening of the Canadian dollar, partially offset by higher incentive expenses. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 9.3% in 2016 compared to 9.6% in the same period last year.

Twenty-six weeks

SG&A expenses were $52.2 million and $52.5 million in the first half of 2016 and 2015, respectively. SG&A expenses included share-based compensation expense of $1.4 million in the first half of 2016 compared to $1.0 million in the same period last year, primarily reflecting an increase in share-based compensation units outstanding. SG&A expenses also included depreciation and amortization expense of $4.7 million and $3.8 million in the first half of 2016 and 2015, respectively. The increase in depreciation and amortization expense in 2016 relates to the accelerated depreciation charge previously mentioned.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the first half of 2016 by $1.6 million to $46.1 million compared to $47.7 million in the same period last year as a result of a reduction in marketing costs and the weakening of the Canadian dollar, offset by higher incentive expenses. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expenses remained consistent at 8.9% in the first half of 2016 compared the same period last year, as the impact of lower SG&A expenses was offset by the impact of lower sales in the first half of 2016 as compared to the first half of 2015.

Adjusted EBITDA

We refer to Adjusted EBITDA throughout this MD&A, including in the *Performance by Segment* section on page 13, where Adjusted EBITDA is discussed for both our Canadian and U.S. operations. See the *Non-IFRS Financial Measures* section on page 21 for further explanation of this non-IFRS measure.

Thirteen weeks

Consolidated Adjusted EBITDA increased in the second quarter of 2016 by $5.0 million, or 39.4%, to $17.7 million compared to $12.7 million in 2015. 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 $1.4 million in the second quarter of 2016 compared to $1.2 million in 2015, reflecting in part, the weaker Canadian dollar in 2016.

In domestic currency, Adjusted EBITDA increased in the second quarter of 2016 by $5.3 million, or 38.1%, to $19.2 million (7.9% of sales) compared to $13.9 million (5.8% of sales) in 2015. The increase in Adjusted EBITDA reflects the higher gross profit, and the reduction in distribution and SG&A expenses mentioned previously.

The following table shows the impact in the second quarter of 2016 and 2015 of converting our CAD-denominated operations and corporate activities to our USD presentation currency.

	Thirteen weeks ended			Thirteen weeks ended		
(Amounts in $000s)	July 2, 2016 USD	July 4, 2015 USD	% Change USD	July 2, 2016 Domestic $	July 4, 2015 Domestic $	% Change Domestic $
External Sales						
Canada	**$ 63,440**	$ 67,360	**(5.8)%**	**$ 81,753**	$ 82,825	**(1.3)%**
USA	**161,227**	158,979	**1.4 %**	**161,227**	158,979	**1.4 %**
	224,667	226,339	**(0.7)%**	**242,980**	241,804	**0.5 %**
Conversion	**—**	—		**(18,313)**	(15,465)	
	$ 224,667	$ 226,339	**(0.7)%**	**$ 224,667**	$ 226,339	**(0.7)%**
Adjusted EBITDA						
Canada	**$ 4,969**	$ 5,198	**(4.4)%**	**$ 6,404**	$ 6,392	**0.2 %**
USA	**13,707**	6,733	**103.6 %**	**13,707**	6,733	**103.6 %**
Corporate	**(949)**	803	**(218.2)%**	**(959)**	807	**(218.8)%**
	17,727	12,734	**39.2 %**	**19,152**	13,932	**37.5 %**
Conversion	**—**	—		**(1,425)**	(1,198)	
	$ 17,727	$ 12,734	**39.2 %**	**$ 17,727**	$ 12,734	**39.2 %**
Adjusted EBITDA as % of sales						
In USD	**7.9%**	5.6%				
In Domestic $				**7.9%**	5.8%	

Twenty-six weeks

Consolidated Adjusted EBITDA increased in the first half of 2016 by $3.7 million, or 8.5%, to $47.1 million compared to $43.4 million in the same period last year. 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 $3.5 million in the first half of 2016 compared to $2.2 million in the same period last year reflecting in part, the weaker Canadian dollar in 2016.

In domestic currency, Adjusted EBITDA increased in the first half of 2016 by $5.0 million, or 11.0%, to $50.6 million (9.1% of sales) compared to $45.6 million in (8.0% of sales) the same period last year. The increase in Adjusted EBITDA reflects the higher gross profit, and the reduction in distribution and SG&A expenses mentioned previously.

The following table shows the impact in the first half of 2016 and 2015 of converting our CAD-denominated operations and corporate activities to our USD presentation currency.

	Twenty-six weeks ended			Twenty-six weeks ended		
	July 2, 2016	**July 4, 2015**	**% Change**	**July 2, 2016**	**July 4, 2015**	**% Change**
(Amounts in $000s)	**USD**	**USD**	**USD**	**Domestic $**	**Domestic $**	**Domestic $**
External Sales						
Canada	**$ 122,824**	$ 135,269	**(9.2)%**	**$ 163,001**	$ 167,375	**(2.6)%**
USA	**392,391**	401,292	**(2.2)%**	**392,391**	401,292	**(2.2)%**
	515,215	536,561	**(4.0)%**	**555,392**	568,667	**(2.3)%**
Conversion	**—**	—		**(40,177)**	(32,106)	
	$ 515,215	$ 536,561	**(4.0)%**	**$ 515,215**	$ 536,561	**(4.0)%**
Adjusted EBITDA						
Canada	**$ 11,156**	$ 10,548	**5.8 %**	**$ 14,876**	$ 13,085	**13.7 %**
USA	**36,627**	32,415	**13.0 %**	**36,627**	32,415	**13.0 %**
Corporate	**(640)**	441	**(245.1)%**	**(891)**	62	**(1,537.1)%**
	47,143	43,404	**8.6 %**	**50,612**	45,562	**11.1 %**
Conversion	**—**	—		**(3,469)**	(2,158)	
	$ 47,143	$ 43,404	**8.6 %**	**$ 47,143**	$ 43,404	**8.6 %**
Adjusted EBITDA as % of sales						
In USD	**9.2%**	8.1%				
In Domestic $				**9.1%**	8.0%	

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 on page 21 for further explanation of these non-IFRS measures.

Thirteen weeks

Net income increased in the second quarter of 2016 by $1.4 million, or 35.0%, to $5.4 million ($0.17 per diluted share) compared to $4.0 million ($0.13 per diluted share) in the second quarter of last year.

Net income included "Business acquisition, integration and other expenses" (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 14 of this MD&A) and other non-cash expenses related to: accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of plant operations; share-based compensation expense; and marking-to-market an interest rate swap not designated for hedge accounting. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income for the second quarter of 2016 increased by $4.1 million, or 87.2%, to $8.8 million compared to $4.7 million in the same period last year. Correspondingly, Adjusted Diluted EPS increased by $0.13 to $0.28 compared to $0.15 in the second quarter of the same period last year, and when converted to CAD using the average USD/CAD exchange rate for the period of 1.2883 (2015: 1.2296), the CAD-Equivalent Adjusted Diluted EPS increased by CAD$0.18 to CAD$0.36 compared to CAD $0.18 in the second quarter of 2015.

Twenty-six weeks

Net income increased in the first half of 2016 by $2.6 million, or 15.8%, to $19.1 million ($0.61 per diluted share) compared to $16.5 million ($0.53 per diluted share) in the same period last year.

As previously mentioned under the discussion on Net Income for the second quarter, Net Income included "Business acquisition, integration and other expenses" and other certain non-cash expenses. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income in the first half of 2016 increased by $3.8 million, or 18.7%, to $24.1 million compared to $20.3 million in the same period last year. Correspondingly, Adjusted Diluted EPS increased by $0.13 to $0.77 in the first half of 2016 compared to $0.65 in the same period last year and when converted to CAD using the average USD/CAD exchange rate for the first half of 2016 of 1.3302 (first half of 2015: 1.2362), the CAD-Equivalent Adjusted Diluted EPS increased by CAD$0.24 to CAD$1.04 in the first half of 2016 compared to CAD $0.80 in the same period last year.

Performance by Segment

Canadian Operations

(All currency amounts in this section are in CAD)

Thirteen weeks

Sales volume for our Canadian operations decreased by 0.6% during the second quarter of 2016 to 16.3 million pounds, as compared to 16.4 million pounds in 2015. Sales in the second quarter decreased by $1.0 million, or 1.2%, to $81.8 million compared to $82.8 million in the same period of 2015, reflecting the decline in sales volume and a change in product mix.

Gross profit increased by $0.5 million in the second quarter of 2016 to $17.3 million (21.2% of sales) compared to $16.8 million (20.3% of sales) in 2015 due to lower raw material costs and trade spending.

Adjusted EBITDA for our Canadian operations remained unchanged at $6.4 million during the second quarter of 2016 and 2015 (7.8% and 7.7% as a percentage of sales in 2016 and 2015, respectively), as the improvement in gross profit was offset by increased SG&A expenses related to higher incentive expenses.

Twenty-six weeks

Sales volume for our Canadian operations decreased by 0.1 million pounds, or 0.3%, during the the first half of 2016 to 34.3 million pounds compared to 34.4 million pounds in the same period of 2015. Sales in the first half of 2016 decreased by $4.4 million, or 2.6%, to $163.0 million, as compared to $167.4 million in the same period last year, reflecting the decline in sales volume and a change in product mix.

Gross profit increased in the first half of 2016 by $2.2 million to $37.4 million (22.9% of sales) compared to $35.2 million (21.0% of sales) in the same period last year reflecting lower raw material costs and a change in product mix.

Adjusted EBITDA for our Canadian operations increased in the first half of 2016 by $1.8 million, or 13.7%, to $14.9 million (9.1% of sales) compared to $13.1 million (7.8% of sales) in the same period last year. This increase was primarily due to the higher gross profit mentioned previously, partially offset by increased SG&A expenses.

U.S. Operations
(All currency amounts in this section are in USD)

Thirteen weeks
Sales volume for our U.S. operations increased 1.2 million pounds, or 2.7%, during the second quarter of 2016 to 46.0 million pounds compared to 44.8 million pounds in 2015 primarily reflecting higher sales volume in the U.S. foodservice business. Sales during the second quarter increased by $2.2 million, or 1.4%, to $161.2 million compared to $159.0 million in 2015 reflecting higher sales volume, partially offset by the impact of sales price decreases and a change in product mix.

Gross profit increased in the second quarter of 2016 by $6.0 million to $33.6 million (20.8% of sales) compared to $27.6 million (17.3% of sales) in the same period last year reflecting the higher sales volume, change in product mix, lower raw material costs, and higher supply chain optimization savings.

Adjusted EBITDA for our U.S. operations increased during the second quarter of 2016 by $7.0 million, or 104.5%, to $13.7 million (8.5% of sales) compared to $6.7 million (4.2% of sales) in 2015. This increase was due primarily to the improved gross profit noted previously, in addition to lower distribution costs related to a reduction in fuel costs and supply chain optimization activities, and lower SG&A expenses related to a reduction in marketing costs and higher supply chain optimization savings, partially offset by higher incentive expenses.

Twenty-six weeks
Sales volume for our U.S. operations decreased 0.2 million pounds (or 0.2%) in the first half of 2016 to 116.2 million pounds compared to 116.4 million pounds in the same period last year due to lower sales volume in the U.S. retail business primarily due to a shorter Lenten promotional period in the first quarter of 2016 as compared to the first quarter of 2015 and a lower demand for traditional breaded and battered seafood products, partially offset by an improvement in the foodservice business volume. Sales in the first half of 2016 decreased by $8.9 million, or 2.2%, to $392.4 million compared to $401.3 million in the same period last year reflecting lower sales volume, the impact of price decreases and an unfavourable change in foodservice product sales mix.

Gross profit increased in the first half of 2016 by $1.1 million to $82.0 million (20.9% of sales) compared to $80.9 million (20.2% of sales) in the same period last year reflecting higher supply chain optimization savings and the impact of raw material cost decreases, partially offset by the unfavourable change in foodservice product sales mix.

Adjusted EBITDA for our U.S. operations increased in the first half of 2016 by $4.2 million, or 13.0%, to $36.6 million (9.3% of sales) compared to $32.4 million (8.1% of sales) in the same period last year. This increase was primarily due to the higher gross profit mentioned previously, lower distribution costs related to a reduction in fuel costs and supply chain optimization activities, and lower SG&A expenses related to a reduction in marketing costs and higher supply chain optimization expenses, partially offset by higher incentive expenses.

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 statement of income. The impact of these items on net income is shown in the following table:

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 2, 2016**	**July 4, 2015**	**July 2, 2016**	**July 4, 2015**
Pre-tax basis:				
Business acquisition, integration and other expenses	**$ 903**	$ 587	**$ 2,347**	$ 4,623
Impairment of property, plant and equipment	**2,327**	—	**2,327**	—
	$ 3,230	$ 587	**$ 4,674**	$ 4,623
After-tax basis:				
Business acquisition, integration and other expenses	**$ 629**	$ 364	**$ 1,512**	$ 2,727
Impairment of property, plant and equipment	**1,598**	—	**1,598**	—
	$ 2,227	$ 364	**$ 3,110**	$ 2,727

In the the first half of 2016, business acquisition, integration and other expenses primarily included costs related to the cessation of value-added fish operations at the New Bedford facility (as explained in the *Recent Developments* section on page 5 of this MD&A), 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 the first half of 2016 is also related to the New Bedford facility.

In the first half of 2015, business acquisition, integration and other expenses included consulting fees related to supply chain optimization activities, costs related to plant closures including the cessation of operations at the previously leased Malden facility in April 2015, and insurance deductible costs relating to the partial roof collapse at the New Bedford facility mentioned above.

Finance Costs

Finance costs were $0.4 million lower in the second quarter of 2016 and $1.0 million lower in the first half of 2016 compared to the same periods last year, due to lower average debt levels in 2016 as compared to 2015.

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

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 2, 2016**	**July 4, 2015**	**July 2, 2016**	**July 4, 2015**
Interest paid in cash during period	**$ 3,828**	$ 4,117	**$ 7,547**	$ 8,436
Change in cash interest accrued during the period	**(306)**	(95)	**(414)**	(184)
Total interest to be paid in cash	**3,522**	4,022	**7,133**	8,252
Mark-to-market gain on interest rate swap not designated for hedge accounting	**(3)**	(126)	**(126)**	(225)
Deferred financing cost amortization	**136**	149	**268**	294
Total finance costs	**$ 3,655**	$ 4,045	**$ 7,275**	$ 8,321

Marking-to-market interest rate swaps not designated in a formal hedging relationship had no impact on diluted EPS in the first half of 2016 and 2015 (see the discussion on Adjusted Net Income and Adjusted Diluted EPS in the *Non-IFRS Financial Measures* section on page 21 of this MD&A).

Income Taxes

The Company's statutory tax rate was 29.2% for the second quarter and the first half of 2016 (2015: 28.9%). The effective income tax rate in the second quarter of 2016 was a recovery of 5.3% compared to a recovery of 18.4% in the same period last year. The change in the effective income tax rate for the second quarter of 2016 compared to same period last year was attributable to an increase in income subject to higher foreign tax rates. The effective income tax rate was an expense of 21.0% in the the first half of 2016 consistent with the effective tax rate of 20.8% in the first half of 2015.

RESULTS BY QUARTER

The Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. Fiscal year 2016 and 2015 were 52 weeks, and fiscal year 2014 was 53 weeks. When a fiscal year such as 2014 contains 53 weeks, the fourth quarter is 14 weeks in duration. The 53-week reporting cycle is divided into four quarters of 13 weeks each except for the fourth quarter, which is 14 weeks in duration.

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

(Amounts in 000s, except per share amounts)	**Q2 2016**	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014[1]	Q3 2014	Q2 2014
Sales	**$224,667**	$290,548	$224,865	$240,081	$226,339	$310,222	$266,895	$246,553	$235,520
Adjusted EBITDA[2]	**$ 17,727**	$ 29,417	$ 17,757	$ 17,055	$ 12,734	$ 30,672	$ 20,437	$ 18,978	$ 16,692
Net Income	**$ 5,374**	$ 13,717	$ 7,019	$ 6,073	$ 3,956	$ 12,533	$ 5,639	$ 7,572	$ 5,188
Adjusted Net Income[2]	**$ 8,769**	$ 15,368	$ 8,140	$ 7,074	$ 4,721	$ 15,628	$ 9,073	$ 8,386	$ 7,538
EPS, based on Net Income									
Basic	**$ 0.17**	$ 0.44	$ 0.23	$ 0.19	$ 0.13	$ 0.41	$ 0.18	$ 0.25	$ 0.17
Diluted	**$ 0.17**	$ 0.44	$ 0.23	$ 0.19	$ 0.13	$ 0.40	$ 0.18	$ 0.24	$ 0.17
EPS, based on Adjusted Net Income[2]									
Basic	**$ 0.28**	$ 0.50	$ 0.26	$ 0.23	$ 0.15	$ 0.51	$ 0.29	$ 0.27	$ 0.25
Diluted[2]	**$ 0.28**	$ 0.49	$ 0.26	$ 0.23	$ 0.15	$ 0.50	$ 0.29	$ 0.27	$ 0.24
Dividends paid per common share (CAD)									
	$ 0.130	$ 0.120	$ 0.120	$ 0.120	$ 0.120	$ 0.105	$ 0.105	$ 0.105	$ 0.105
Net non-cash working capital[3]									
	$204,555	$216,572	$219,558	$227,234	$257,028	$258,892	$259,949	$257,482	$243,552

[1] This was the first quarter to include the results of Atlantic Trading which was acquired on October 7, 2014.

[2] See the Non-IFRS Financial Measures section on page 21 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

[3] Net non-cash working capital is comprised of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions.

OUTLOOK

The Company remains focused on growing sales volume and earnings in the back half of 2016, in what is expected to remain a relatively stable raw material cost environment. Completing outstanding supply chain optimization activities also remains a priority, which the Company continues to believe will be a minimum of $20 million in annual costs savings on a run-rate basis, to be achieved by the end of 2016.

LIQUIDITY AND CAPITAL RESOURCES

Our balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 1 of this MD&A (under the heading *"Currency"*) and the *Risk Factors* section on page 27 (under the heading "*Foreign Currency"*).

Our capital management practices are described in our 2015 Annual Report in *Note 22 "Capital Management"* to the Consolidated Financial Statements.

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 the collateral and administrative agent. There have been several amendments made to this facility with the most recent being in April 2014, when it was amended concurrently with the term loan. As part of these amendments, the working capital credit facility was increased from $120 million to $180 million, and provides for the following based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement:

- Canadian Prime Rate revolving loans denominated in CAD, and Canadian Base Rate revolving and U.S. Prime Rate revolving loans denominated in USD, at Prime or Base Rate, plus 0.00% to 0.25%;
- Bankers' Acceptances ("BA") loans at BA rates plus 1.25% to 1.75%;
- LIBOR advances at LIBOR plus 1.25% to 1.75%;
- Letters of credit with fees of 1.25% to 1.75%; and
- Standby fees of 0.25% to 0.375%.

As at July 2, 2016, we were borrowing at the following rates:

- Canadian Prime Rate revolving loans denominated in CAD, and Canadian Base Rate revolving and U.S. Prime Rate revolving loans denominated in USD, at Prime or Base Rate, plus 0.00%;
- BA loans at BA rates plus 1.25%;
- LIBOR advances at LIBOR plus 1.25%;
- Letters of credit with fees of 1.25%; and
- Standby fees of 0.375%.

Average short-term borrowings were $18.8 million in the first half of 2016 compared to $65.6 million in the same period last year. This $46.8 million decrease primarily reflects the repayment of debt with cash flow provided by operating activities.

At the end of the second quarter of 2016, the Company had $142.5 million (July 4, 2015: $100.3 million) of unused borrowing capacity taking into account both margin calculations and the total line availability. On July 2, 2016, letters of credit and standby letters of credit were outstanding in the amount of $15.5 million (July 4, 2015: $11.5 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 $142.5 million of unused borrowing capacity noted above.

Additional details regarding the Company's working capital facility is provided in *Note 5 "Bank Loans"* to the Consolidated Financial Statements.

In the absence of any major acquisitions or capital expenditures in 2016, we expect average short-term borrowings will be lower than in 2015 due to the repayment of debt from free cash flow 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

High Liner Foods 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 credit facility. As part of the April 2014 amendments, the term loan was increased from $250.0 million to $300.0 million.

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 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. Quarterly principal repayments of $750,000 are required on the term loan, however, as per the loan agreement, the mandatory excess cash flow payment will be applied to future regularly scheduled principal repayments. As such, no regularly scheduled principal repayments are required for the remainder of 2016, however, a voluntary repayment of $15.0 million was made during the second quarter of 2016 to reduce excess cash balances.

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

As at July 2, 2016, we 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

As of July 2, 2016, the combined impact of the interest rate swaps listed above effectively fix the interest rate on $120.0 million of the $300.0 million face value of the term loan and the other 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 if LIBOR is higher than the embedded floor of 1.0%. The implication of marking-to-market the interest rate swap not designated for hedge accounting on our financial results is discussed in the *Finance Costs* section on page 15 of this MD&A.

Additional details regarding the Company's term loan is provided in *Note 6 "Long-Term Debt"* 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 21 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs) and the finance leases, less cash. Net interest-bearing debt decreased by $72.1 million to $276.1 million at July 2, 2016 compared to $348.2 million at July 4, 2015, reflecting the repayment of debt with cash flow provided by operating activities.

Net interest-bearing debt to rolling twelve-month Adjusted EBITDA

Net interest-bearing debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 21 of this MD&A for further discussion of Adjusted EBITDA) was 3.4x at July 2, 2016 compared to 4.0x at the end of Fiscal 2015 as shown in the table below. We expect this ratio to continue to improve in 2016 as Adjusted EBITDA is expected to increase and free cash flow will be used to reduce debt.

	Twelve months ended	
(Amounts in $000s, except as otherwise noted)	**July 2, 2016**	**January 2, 2016**
Net interest-bearing debt	**$ 276,111**	$ 313,065
Rolling twelve-month Adjusted EBITDA	**$ 81,956**	$ 78,218
Net interest-bearing debt to Adjusted EBITDA ratio (times)	**3.4x**	4.0x

Capital Structure

At July 2, 2016, net interest-bearing debt was 56.1% of total capitalization compared to 63.7% and 61.3% at July 4, 2015 and January 2, 2016, respectively.

(Amounts in $000s)	**July 2, 2016**	**July 4, 2015**	**January 2, 2016**
Net interest-bearing debt	**$ 276,111**	$ 348,170	$ 313,065
Shareholders' equity	**214,607**	201,173	200,519
Unrealized losses (gains) on derivative financial instruments included in AOCI	**1,610**	(2,419)	(2,977)
Total capitalization	**$ 492,328**	$ 546,924	$ 510,607
Net interest-bearing debt as % of total capitalization	**56.1%**	63.7%	61.3%

Using our July 2, 2016 market capitalization of $447.6 million, based on a share price of CAD$18.85 (USD$14.49 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization decreased to 38.2%.

Net Non-Cash Working Capital

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 decreased by $52.4 million to $204.6 million at

the end of the second quarter of 2016 compared to $257.0 million at the end of the second quarter of 2015, reflecting improved inventory management and increased payables and provisions.

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 2016.

Cash Flow

Net cash flows provided by operating activities increased by $9.0 million in the second quarter of 2016 to $18.1 million compared to $9.1 million in the same period last year reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, increased $6.7 million in the second quarter of 2016 to $13.8 million compared to $7.1 million in the same period last year. This improvement reflects more favorable results from our operations and lower tax payments.

- Cash flows from changes in net non-cash working capital increased by $2.3 million in the second quarter of 2016 to $4.3 million compared to $2.0 million in the same period last year. This improvement reflects more favourable changes in inventories, provisions, and accounts payable and accrued liabilities during the second quarter of 2016 compared to the same period last year, partially offset by less favourable change in accounts receivable during the second quarter of 2016 compared to the same period last year.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 21 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended July 2, 2016 increased by $77.5 million to $86.3 million compared to $8.9 million for the twelve months ended July 4, 2015. This increase reflects a favourable change in working capital driven primarily by inventories during the twelve months ended July 2, 2016 compared to an unfavourable change during the twelve months ended July 4, 2015.

Capital Expenditures

Gross capital expenditures (including finance leases) were $3.1 million for the second quarter of 2016 ($3.8 million for the first half of 2016) compared with $3.8 million for the same quarter last year ($5.6 million for the first half of 2015). Capital expenditures were lower in the first half of 2016 compared to the same period last year due to the timing of expenditures.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2016 will be between $15.0 million and $20.0 million and funded by cash generated from operations and short-term borrowings.

Dividends

The Company paid a CAD$0.13 per share quarterly dividend on June 15, 2016 to common shareholders of record on June 1, 2016.

On August 16, 2016, the Board of Directors of the Company approved a quarterly dividend of CAD$0.13 per share on the Company’s common shares payable on September 15, 2016 to holders of record on September 1, 2016.

Dividends and Normal Course Issuer Bids ("NCIB") are subject to the following restrictions in our credit agreements:

- Under the working capital credit facility, Average Adjusted Aggregate Availability, as defined in the credit agreement, needs to be $22.5 million or higher and was $136.9 million on July 2, 2016; 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 4.50x and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 3.36x on July 2, 2016. NCIBs are subject to an annual limit of $10.0 million under the term loan facility with a provision to carry forward unused amounts subject to a maximum of $20.0 million per annum.

Disclosure of Outstanding Share Data

On August 16, 2016, 30,887,444 common shares and 1,795,911 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

RELATED PARTY TRANSACTIONS

Refer to *Note 20 "Related Party Transactions"* to the 2015 Annual Audited Consolidated Financial Statements in our 2015 Annual Report for a description of the Company's related party transactions. These transactions are substantially unchanged in 2016.

EVENTS AFTER THE REPORTING PERIOD

As described in the *Recent Developments* section on page 5 of this MD&A, on August 16, 2016, the Company entered into a purchase and sales agreement (the "Agreement") with Blue Harvest Fisheries, whereby Blue Harvest will acquire the assets of High Liner's scallop business, along with its facility in New Bedford, Massachusetts. Under the Agreement, High Liner will receive cash proceeds of $8 million for the business and facility, plus additional amounts for High Liner scallop inventories. Following completion of the transaction, High Liner will continue to offer scallops to its customers through an ongoing supply agreement with Blue Harvest. The transaction is expected to close within the next several weeks.

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 Net Income; Adjusted Diluted Earnings per Share (“Adjusted Diluted EPS”); CAD-Equivalent Adjusted Diluted EPS; Standardized Free Cash Flow, and Net Interest-Bearing Debt.

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; 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 Statement 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 EBTIDA is "Results from operating activities" on the Consolidated Statement 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 table below reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, including the operating segment information disclosed in *Note 10 "Operating segment information."*

				Thirteen weeks ended July 2, 2016				Thirteen weeks ended July 4, 2015
(Amounts in $000s)	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Net income (loss)	**$ 4,559**	**$ 10,457**	**$ (9,642)**	**$ 5,374**	$ 4,675	$ 3,295	$ (4,014)	$ 3,956
Add back:								
Depreciation and amortization	**456**	**3,218**	**1,152**	**4,826**	526	3,357	252	4,135
Financing costs	**—**	**—**	**3,655**	**3,655**	—	—	4,045	4,045
Income tax recovery	**—**	**—**	**(272)**	**(272)**	—	—	(616)	(616)
Standardized EBITDA	**5,015**	**13,675**	**(5,107)**	**13,583**	5,201	6,652	(333)	11,520
Add back (deduct):								
Business acquisition, integration and other expenses	**—**	**—**	**903**	**903**	—	—	587	587
Impairment of property, plant and equipment	**—**	**—**	**2,327**	**2,327**	—	—	—	—
(Gain) loss on disposal of assets	**(46)**	**32**	**(29)**	**(43)**	(3)	81	—	78
Share-based compensation expense	**—**	**—**	**957**	**957**	—	—	549	549
Adjusted EBITDA	**$ 4,969**	**$ 13,707**	**$ (949)**	**$ 17,727**	$ 5,198	$ 6,733	$ 803	$ 12,734

	Twenty-six weeks ended July 2, 2016				Twenty-six weeks ended July 4, 2015			
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	**Canada**	**U.S.**	**Corporate**	**Total**
Net income (loss)	**$ 10,324**	**$ 29,877**	**$ (21,110)**	**$ 19,091**	$ 9,608	$ 25,631	$ (18,750)	$ 16,489
Add back:								
Depreciation and amortization	**912**	**6,713**	**1,894**	**9,519**	1,007	6,663	839	8,509
Financing costs	**—**	**—**	**7,275**	**7,275**	—	—	8,321	8,321
Income tax expense	**—**	**—**	**5,067**	**5,067**	—	—	4,335	4,335
Standardized EBITDA	**11,236**	**36,590**	**(6,874)**	**40,952**	10,615	32,294	(5,255)	37,654
Add back (deduct):								
Business acquisition, integration and other expenses	**—**	**—**	**2,347**	**2,347**	—	—	4,623	4,623
Impairment of property, plant and equipment	**—**	**—**	**2,327**	**2,327**	—	—	—	—
(Gain) loss on disposal of assets	**(80)**	**37**	**(22)**	**(65)**	(67)	121	(45)	9
Share-based compensation expense	**—**	**—**	**1,582**	**1,582**	—	—	1,118	1,118
Adjusted EBITDA	**$ 11,156**	**$ 36,627**	**$ (640)**	**$ 47,143**	$ 10,548	$ 32,415	$ 441	$ 43,404

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; and share-based compensation expense. 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 July 2, 2016		Thirteen weeks ended July 4, 2015	
	$000s	**Diluted EPS**	**$000s**	**Diluted EPS**
Net income	**$ 5,374**	**$ 0.17**	$ 3,956	$ 0.13
Add back, after-tax:				
Business acquisition, integration and other expenses	**629**	**0.02**	364	0.01
Impairment of property, plant and equipment	**1,598**	**0.05**	—	—
Accelerated depreciation on equipment as part of the cessation of operations	**334**	**0.01**	—	—
Mark-to-market gain on interest rate swaps not designated for hedge accounting	**(2)**	**—**	(89)	—
Share-based compensation expense	**836**	**0.03**	490	0.01
Adjusted Net Income	**$ 8,769**	**$ 0.28**	**$ 4,721**	$ 0.15
Average shares for the period (000s)		**31,105**		31,321

	Twenty-six weeks ended July 2, 2016		Twenty-six weeks ended July 4, 2015	
	$000s	**Diluted EPS**	**$000s**	**Diluted EPS**
Net income	**$ 19,091**	**$ 0.61**	$ 16,489	$ 0.53
Add back, after-tax:				
Business acquisition, integration and other expenses	**1,512**	**0.05**	2,727	0.08
Impairment of property, plant and equipment	**1,598**	**0.05**	—	—
Accelerated depreciation on equipment as part of the cessation of operations	**628**	**0.02**	216	0.01
Mark-to-market gain on interest rate swaps not designated for hedge accounting	**(90)**	**—**	(160)	—
Share-based compensation expense	**1,398**	**0.04**	1,077	0.03
Adjusted Net Income	**$ 24,137**	**$ 0.77**	$ 20,349	$ 0.65
Average shares for the period (000s)		**31,068**		31,347

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 Toronto Stock Exchange 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		Twenty-six weeks ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Adjusted Diluted EPS	**$ 0.28**	$ 0.15	**$ 0.78**	$ 0.65
Average foreign exchange rate for the period	**1.2883**	1.2296	**1.3302**	1.2362
CAD-Equivalent Adjusted Diluted EPS	**$ 0.36**	$ 0.18	**$ 1.04**	$ 0.80

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 Statement 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 Statement 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 Statement of Cash Flows.

	Twelve months ended		
(Amounts in $000s)	July 2, 2016	July 4, 2015	$ Change
Net change in non-cash working capital items	**$ 46,946**	$ (28,459)	$ 75,405
Cash flow from operating activities, including interest and income taxes	**56,256**	56,053	203
Cash flow from operating activities	**103,202**	27,594	75,608
Less: total capital expenditures, net of investment tax credits	**(16,853)**	(18,709)	1,856
Standardized Free Cash Flow	**$ 86,349**	$ 8,885	**$ 77,464**

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 Statement 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 $000s)	July 2, 2016	July 4, 2015	January 2, 2016
Current bank loans	**$ 7,471**	$ 50,865	$ 17,158
Add-back: deferred finance costs on current bank loans	**424**	595	470
Total current bank loans	**7,895**	51,460	17,628
Long-term debt	**266,084**	290,935	281,017
Current portion of long-term debt	**—**	3,000	11,816
Add-back: deferred finance costs on long-term debt	**1,842**	2,315	1,917
Total term loan debt	**267,926**	296,250	294,750
Long-term portion of finance lease obligations	**851**	895	715
Current portion of finance lease obligations	**930**	1,006	1,015
Total finance lease obligation	**1,781**	1,901	1,730
Less: cash	**(1,491)**	(1,441)	(1,043)
Net interest-bearing debt	**$ 276,111**	$ 348,170	$ 313,065

GOVERNANCE

There has been no change in the Company's internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, during the period beginning on January 3, 2016 and ending July 2, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

ACCOUNTING ESTIMATES AND STANDARDS

Critical Accounting Estimates

Critical accounting judgments and estimates used in preparing our unaudited condensed consolidated financial statements are described in the Company's 2015 annual MD&A and annual consolidated financial statements for the year ended January 2, 2016. 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. There have been no material changes to our critical accounting estimates and judgments during the twenty-six weeks ended July 2, 2016.

Accounting Standards

High Liner Foods reports its financial results using IFRS. The Consolidated Financial Statements were prepared using the same accounting policies as disclosed in *Note 3 "Significant Accounting Policies"* to the 2015 Annual Audited Consolidated Financial Statements. No new accounting standards have been adopted in Fiscal 2016.

Accounting Standards and Interpretations Issued but not yet Effective

The standards, amendments and interpretations that have been issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC"), but that are not yet effective, up to the date of issuance of this MD&A are consistent with those disclosed in the Company's 2015 Annual Audited Consolidated Financial Statements for the year ended January 2, 2016, in addition to the following:

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases,* which replaces IAS 17, *Leases,* and its associated interpretative 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*.

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,* 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 intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017.

IFRS 2, *Share-based Payments*

In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment*, 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 its consolidated financial statements for the annual period beginning January 1, 2018.

We are currently evaluating the effect, if any, that the new proposed standards and interpretations will have on our financial results.

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.

Readers should refer to the 2015 Annual Report and AIF for a more detailed description of risk factors applicable to the Company, which are available at www.sedar.com and at www.highlinerfoods.com. We have updated certain risk factors below for the first half of 2016.

Foreign Currency

Foreign currency values affect our operations in a number of ways. As we translate the results of the Parent to USD, a fluctuating exchange rate affects the individual line items on our balance sheet and income statement. The Company's shares are traded in CAD and its results are reported in USD, and therefore investors are reminded to take this into consideration for purposes of calculating financial ratios, including dividend payout and share price-to-earnings ratios. We have discussed the impact of foreign currency fluctuations on sales and earnings for the quarter in various sections of this document.

The Canadian dollar weakened relative to the U.S. dollar approximately 3.4% as of July 2, 2016 compared to July 4, 2015. On our balance sheet, this decreases the USD carrying value of both CAD-denominated assets and liabilities and increases the foreign exchange translation impact of our Canadian company included in accumulated other comprehensive income ("AOCI") in shareholders' equity. As our Canadian operations are a net importer of seafood and other products purchased in USD, a stronger CAD reduces its costs and a weaker CAD increases its costs in its CAD functional currency.

In order to minimize foreign exchange risk, we undertake hedging activities using various derivative products in accordance with an internal policy on managing derivative usage and risk that is approved and monitored by the Board of Directors' Audit Committee. We hedge the USD costs of a portion of our raw material requirements and retail commodity products as sales price increases on these products take more time to implement. We generally do not hedge certain commodity foodservice products as the sales prices to our customers change frequently enough to capture foreign exchange fluctuations, but may do so from time to time. During the second quarter of 2016, our hedging activities resulted in an effective USD/CAD exchange rate of 1.3255 for inventory purchased in USD by our Canadian Operations, compared to 1.2041 for the second quarter of 2015.

Our risk management strategy with respect to exposure to the Canadian dollar is fully explained in the MD&A in our 2015 Annual Report.

Procurement

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2015, the Company purchased approximately 195 million pounds of seafood, with an approximate value of $536 million. Seafood and other food inputs 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 change due to changes in the balance between supply and demand. Weather, quota changes, geopolitical issues including economic sanctions, disease and other social, sustainability and environmental matters can affect supply and related costs. 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 USD. The increasing middle class and government policies in emerging economies, as well as demand from health conscious consumers, affect the demand side as well. The cost of products purchased in USD for our Canadian operations is also affected by USD/CAD exchange rate, as noted above.

While higher raw material prices can adversely affect profitability, our broad product line and customer base and 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.

Availability of Seafood

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 the Company's North American focus.

The Company expects demand for seafood to grow from current levels as the global economy and Southeast Asia 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 30% 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, as a vertically integrated company, overall reduced returns to shareholders would likely result from subsidizing our North American operations with output from fishing efforts that could be sold in global markets at higher prices. 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, being the lowest cost, largest 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 that supply shortages of certain seafood, or trade barriers to acquiring seafood as a result of economic sanctions or otherwise, results in difficulty procuring species from preferred suppliers or at all, the financial results of the Company may be adversely affected.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the thirteen and twenty-six weeks ended July 2, 2016
With comparative figures as at and for the thirteen and twenty-six weeks ended July 4, 2015

HIGH LINER FOODS INCORPORATED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited, in thousands of United States dollars)

	Notes	**July 2, 2016**	July 4, 2015	January 2, 2016
ASSETS				
Current				
Cash		**$ 1,491**	$ 1,441	$ 1,043
Accounts receivable		**81,326**	82,509	76,335
Income taxes receivable		**1,710**	5,824	5,218
Other financial assets	**13**	**1,052**	4,481	6,453
Inventories		**214,165**	254,898	261,771
Prepaid expenses		**2,644**	3,528	2,051
Total current assets		**302,388**	352,681	352,871
Non-current				
Property, plant and equipment		**104,677**	112,464	115,879
Deferred income taxes		**3,125**	2,468	2,495
Other receivables and miscellaneous assets	**13**	**746**	1,905	1,683
Intangible assets		**99,787**	105,016	102,315
Goodwill		**118,400**	118,556	117,824
Total non-current assets		**326,735**	340,409	340,196
Assets classified as held for sale	**4**	**14,066**	130	—
Total assets		**$ 643,189**	$ 693,220	$ 693,067
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank loans	**5**	**$ 7,471**	$ 50,865	$ 17,158
Accounts payable and accrued liabilities		**85,807**	81,214	120,336
Provisions		**7,773**	2,693	263
Other current financial liabilities	**13**	**2,477**	1,216	817
Income taxes payable		**224**	8	2,242
Current portion of long-term debt	**6**	**—**	3,000	11,816
Current portion of finance lease obligations		**930**	1,006	1,015
Total current liabilities		**104,682**	140,002	153,647
Non-current liabilities				
Long-term debt	**6**	**266,084**	290,935	281,017
Other long-term financial liabilities	**13**	**1,395**	346	89
Other long-term liabilities		**979**	3,214	483
Long-term finance lease obligations		**851**	895	715
Deferred income taxes		**45,107**	46,519	46,966
Future employee benefits		**9,484**	10,136	9,631
Total non-current liabilities		**323,900**	352,045	338,901
Total liabilities		**428,582**	492,047	492,548
Shareholders' equity				
Common shares	**8**	**85,599**	84,914	85,282
Contributed surplus		**14,503**	13,141	13,999
Retained earnings		**138,243**	118,357	125,843
Accumulated other comprehensive loss		**(23,738)**	(15,239)	(24,605)
Total shareholders' equity		**214,607**	201,173	200,519
Total liabilities and shareholders' equity		**$ 643,189**	$ 693,220	$ 693,067

See accompanying notes to the unaudited condensed interim consolidated financial statements

HIGH LINER FOODS INCORPORATED

CONSOLIDATED STATEMENT OF INCOME

(unaudited, in thousands of United States dollars, except per share amounts)

	Notes	Thirteen weeks ended		Twenty-six weeks ended	
		July 2, 2016	July 4, 2015	**July 2, 2016**	July 4, 2015
Revenues		**$ 224,667**	$ 226,339	**$ 515,215**	$ 536,561
Cost of sales		**177,677**	183,135	**403,687**	424,830
Gross profit		**46,990**	43,204	**111,528**	111,731
Distribution expenses		**10,651**	11,268	**23,178**	25,452
Selling, general and administrative expenses		**24,352**	23,964	**52,243**	52,511
Impairment of property, plant and equipment	**4**	**2,327**	—	**2,327**	—
Business acquisition, integration and other expenses		**903**	587	**2,347**	4,623
Results from operating activities		**8,757**	7,385	**31,433**	29,145
Finance costs		**3,655**	4,045	**7,275**	8,321
Income before income taxes		**5,102**	3,340	**24,158**	20,824
Income taxes					
Current		**309**	551	**5,511**	3,592
Deferred		**(581)**	(1,167)	**(444)**	743
Total income tax (recovery) expense		**(272)**	(616)	**5,067**	4,335
Net income		**$ 5,374**	$ 3,956	**$ 19,091**	$ 16,489
Earnings per common share					
Basic		**$ 0.17**	$ 0.13	**$ 0.61**	$ 0.54
Diluted	**8**	**$ 0.17**	$ 0.13	**$ 0.61**	$ 0.53
Weighted average number of shares outstanding					
Basic		**30,910,000**	30,829,311	**30,924,872**	30,777,095
Diluted		**31,104,824**	31,321,407	**31,068,306**	31,347,070

See accompanying notes to the unaudited condensed interim consolidated financial statements

HIGH LINER FOODS INCORPORATED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited, in thousands of United States dollars)

	Thirteen weeks ended		Twenty-six weeks ended	
	July 2, 2016	July 4, 2015	**July 2, 2016**	July 4, 2015
Net income	**$ 5,374**	$ 3,956	**$ 19,091**	$ 16,489
Other comprehensive income (loss), net of income tax (Note 11)				
Other comprehensive income (loss) to be reclassified to net income:				
Gain (loss) on hedge of net investment in foreign operations	**722**	47	**13,295**	(16,178)
(Loss) gain on translation of net investment in foreign operations	**(991)**	(292)	**(19,622)**	20,711
Translation impact on Canadian dollar denominated non-AOCI items	**597**	(26)	**12,755**	(12,965)
Translation impact on Canadian dollar denominated AOCI items	**(20)**	5	**(974)**	597
Total exchange gains (losses) on translation of foreign operations and Canadian dollar denominated items	**308**	(266)	**5,454**	(7,835)
Effective portion of changes in fair value of cash flow hedges	**(879)**	773	**(3,996)**	3,169
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	**(45)**	(1,260)	**(1,230)**	(2,661)
Net change in fair value of cash flow hedges transferred to income	**164**	(81)	**74**	(116)
Translation impact on Canadian dollar denominated AOCI items	**25**	12	**565**	(148)
Total exchange (losses) gains on cash flow hedges	**(735)**	(556)	**(4,587)**	244
Net other comprehensive (loss) gain to be reclassified to net income	**(427)**	(822)	**867**	(7,591)
Other comprehensive income (loss) not to be reclassified to net income:				
Defined benefit plan actuarial (losses) gains	**(84)**	317	**(747)**	(297)
Other comprehensive (loss) income, net of income tax	**(511)**	(505)	**120**	(7,888)
Total comprehensive income	**$ 4,863**	$ 3,451	**$ 19,211**	$ 8,601

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ("AOCI")

(unaudited, in thousands of United States dollars)

	Foreign currency translation differences	**Net exchange differences on cash flow hedges**	**Total AOCI**
Balance at January 2, 2016	**$ (27,582)**	**$ 2,977**	**$ (24,605)**
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	**5,454**	**—**	**5,454**
Total exchange losses on cash flow hedges	**—**	**(4,587)**	**(4,587)**
Balance at July 2, 2016	**$ (22,128)**	**$ (1,610)**	**$ (23,738)**
Balance at January 3, 2015	$ (9,823)	$ 2,175	$ (7,648)
Total exchange losses on translation of foreign operations and Canadian dollar denominated items	(7,835)	—	(7,835)
Total exchange gains on cash flow hedges	—	244	244
Balance at July 4, 2015	$ (17,658)	$ 2,419	$ (15,239)

See accompanying notes to the unaudited condensed interim consolidated financial statements

HIGH LINER FOODS INCORPORATED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, in thousands of United States dollars)

	Common shares	Contributed surplus	Retained earnings	AOCI	Total
Balance at January 2, 2016	**$ 85,282**	**$ 13,999**	**$ 125,843**	**$ (24,605)**	**$ 200,519**
Other comprehensive (loss) income	**—**	**—**	**(747)**	**867**	**120**
Net income	**—**	**—**	**19,091**	**—**	**19,091**
Common share dividends	**—**	**—**	**(5,853)**	**—**	**(5,853)**
Share-based compensation	**338**	**504**	**—**	**—**	**842**
Common shares repurchased for cancellation *(Note 8)*	**(21)**	**—**	**(91)**	**—**	**(112)**
Balance at July 2, 2016	**$ 85,599**	**$ 14,503**	**$ 138,243**	**$ (23,738)**	**$ 214,607**
Balance at January 3, 2015	$ 82,658	$ 14,056	$ 107,908	$ (7,648)	$ 196,974
Other comprehensive loss	—	—	(297)	(7,591)	(7,888)
Net income	—	—	16,489	—	16,489
Common share dividends	—	—	(5,536)	—	(5,536)
Share-based compensation	2,286	(915)	—	—	1,371
Common shares repurchased for cancellation	(30)	—	(207)	—	(237)
Balance at July 4, 2015	$ 84,914	$ 13,141	$ 118,357	$ (15,239)	$ 201,173

See accompanying notes to the unaudited condensed interim consolidated financial statements

HIGH LINER FOODS INCORPORATED

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited, in thousands of United States dollars)

	Notes	Thirteen weeks ended July 2, 2016	Thirteen weeks ended July 4, 2015	Twenty-six weeks ended July 2, 2016	Twenty-six weeks ended July 4, 2015
Cash flows provided by (used in):					
Operating activities					
Net income		**$ 5,374**	$ 3,956	**$ 19,091**	$ 16,489
Adjustments to net income not involving cash from operations:					
Depreciation and amortization	**10**	**4,826**	4,135	**9,519**	8,509
Share-based compensation expense	**9**	**957**	549	**1,582**	1,118
Loss (gain) on asset disposals and impairment		**2,403**	(320)	**2,416**	28
Future employee benefits contribution, net of expense		**40**	829	**(64)**	1,024
Finance costs		**3,655**	4,045	**7,275**	8,321
Income tax (recovery) expense		**(272)**	(616)	**5,067**	4,335
Unrealized foreign exchange loss (gain)		**630**	(15)	**(382)**	(446)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		**17,613**	12,563	**44,504**	39,378
Changes in non-cash working capital balances:					
Accounts receivable		**5,089**	21,611	**(2,948)**	(2,327)
Inventories		**(6,321)**	(8,861)	**46,001**	367
Prepaid expenses		**(407)**	(1,859)	**(514)**	(1,213)
Accounts payable and accrued liabilities		**2,257**	(8,818)	**(35,358)**	(1,163)
Provisions		**3,697**	(113)	**7,464**	2,299
Net change in non-cash working capital balances		**4,315**	1,960	**14,645**	(2,037)
Interest paid		**(3,828)**	(4,117)	**(7,547)**	(8,436)
Income taxes paid		**8**	(1,324)	**(3,726)**	(1,774)
Net cash flows provided by operating activities		**18,108**	9,082	**47,876**	27,131
Financing activities					
Decrease in bank loans		**(2,290)**	(2,004)	**(10,148)**	(14,041)
Repayment of finance lease obligations		**(241)**	(239)	**(458)**	(460)
Repayment of long-term debt	**6**	**(15,000)**	(750)	**(26,824)**	(1,500)
Common share dividends paid		**(3,079)**	(3,010)	**(5,853)**	(5,536)
Common share repurchase for cancellation		**(112)**	—	**(112)**	(237)
Options exercised for shares		**—**	41	**43**	479
Net cash flows used in financing activities		**(20,722)**	(5,962)	**(43,352)**	(21,295)
Investing activities					
Purchase of property, plant and equipment, net of investment tax credits		**(3,389)**	(3,687)	**(4,427)**	(5,521)
Net proceeds on disposal of assets		**29**	35	**134**	79
Net proceeds on replacement of assets		**—**	560	**—**	560
Change in other receivables and miscellaneous assets		**—**	—	**—**	29
Net cash flows used in investing activities		**(3,360)**	(3,092)	**(4,293)**	(4,853)
Foreign exchange increase (decrease) on cash		**1,081**	169	**217**	(586)
Net change in cash during the period		**(4,893)**	197	**448**	397
Cash, beginning of period		**6,384**	1,244	**1,043**	1,044
Cash, end of period		**$ 1,491**	$ 1,441	**$ 1,491**	$ 1,441

See accompanying notes to the unaudited condensed interim consolidated financial statements

1. Corporate information

High Liner Foods Incorporated (the "Company" or "High Liner Foods") is a company incorporated and domiciled in Canada. The address of the Company's registered office is 100 Battery Point, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The Unaudited Condensed Interim Consolidated Financial Statements ("Consolidated Financial Statements") of the Company as at and for the thirteen and twenty-six weeks ended July 2, 2016, comprise High Liner Foods' Canadian company (the "Parent") and its subsidiaries (herein together referred to as the "Company" or "High Liner Foods"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on August 16, 2016.

2. Basis of preparation

(a) Statement of compliance
These Consolidated Financial Statements are in compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These Consolidated Financial Statements should be read in conjunction with the Company's Audited Consolidated Financial Statements for the fiscal year ended January 2, 2016, as set out in the 2015 Annual Report, available at www.highlinerfoods.com.

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

(c) Seasonality of operations
The Company's operating results are affected by the timing of holidays. Inventory levels fluctuate throughout the year, and are at their highest in the first quarter to support strong sales during 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.

(d) New standards, interpretations and amendments thereof, adopted by the Company
The accounting policies used in the preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Company's Audited Consolidated Financial Statements for the year ended January 2, 2016, and there have been no new standards or interpretations adopted which have had an impact on the accounting policies, financial position or performance of the Company.

(e) Accounting pronouncements issued but not yet effective
The standards, amendments and interpretations that have been issued but that are not yet effective, up to the date of issuance of these Consolidated Financial Statements, are consistent with those disclosed in the Company's Audited Consolidated Financial Statements for the year ended January 2, 2016, in addition to the following:

IFRS 16, *Leases*
In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases*, and its associated interpretative 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*.

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,* 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 intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017.

IFRS 2, *Share-based Payments*

In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment*, 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 its consolidated financial statements for the annual period beginning January 1, 2018.

The Company is currently evaluating the impact of the new standards, interpretations and amendments on its Consolidated Financial Statements.

3. Property, plant & equipment

In accordance with the announcement on February 17, 2016 to cease value-added fish operations at the production facility in New Bedford, Massachusetts, the Company determined that as of April 2, 2016, the criteria to re-evaluate the useful life and residual value of certain capital assets were met. Accordingly, $1.0 million and $1.5 million of accelerated depreciation has been recorded during the thirteen and twenty-six weeks ended July 2, 2016, respectively.

4. Assets classified as held for sale

On February 17, 2016, the Company announced the cessation of value-added fish operations at its facility in New Bedford, Massachusetts to reduce excess capacity across its manufacturing network. In June 2016, the Company determined that the carrying value of assets associated with the New Bedford facility, including assets and semi-finished and raw material inventory related to the scallop division, formed a disposal group where the carrying value would not be recovered through continuing use. Accordingly, $6.1 million of inventory and $8.0 million of property, plant and equipment, which relates to the U.S. operating segment, has been presented separately on the Consolidated Statement of Financial Position as assets held for sale and the amortization of this property, plant and equipment has ceased. As a result of the requirement to recognize these assets at the lower of carrying value and fair value less costs to sell, the Company recognized an impairment loss of $2.3 million on the property, plant and equipment during the thirteen and twenty-six weeks ended July 2, 2016 in the consolidated statement of income. See Note 14 for discussion of a purchase and sale agreement entered into subsequent to period end related to the New Bedford facility and scallop business.

5. Bank loans

(Amounts in $000s)		**July 2, 2016**		January 2, 2016
Bank loans, denominated in CAD (average variable rate of 2.70%; January 2, 2016: 2.70%)	**$**	**4,749**	$	1,077
Bank loans, denominated in USD (average variable rate of 3.50%; January 2, 2016: 1.88%)		**3,146**		16,551
		7,895		17,628
Less: deferred finance costs		**(424)**		(470)
	$	**7,471**	$	17,158

The Company has a five year $180.0 million working capital facility (the "Facility"), with Royal Bank of Canada as Administrative and Collateral Agent, which expires in April 2019. The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility (see Note 6). A second charge over the Company's plant and equipment is also in place. As at July 2, 2016 and January 2, 2016, the Facility allowed the Company to borrow: Canadian Prime Rate revolving loans, Canadian Base Rate revolving loans and U.S. Prime Rate revolving loans at their respective rates plus 0.00% to 0.25%; BA Equivalent revolving loans and LIBOR revolving loans at their respective rates plus 1.25% to 1.75%; and letters of credit with fees of 1.25% to 1.75%. Standby fees are 0.25% to 0.375% and are required to be paid on the unutilized facility. As at July 2, 2016, the Company had $142.5 million of undrawn borrowing facility (January 2, 2016: $148.9 million).

6. Long-term debt

(Amounts in $000s)		**July 2, 2016**		January 2, 2016
Term loan	**$**	**267,926**	$	294,750
Less: current portion		**—**		(11,816)
		267,926		282,934
Less: deferred finance costs		**(1,842)**		(1,917)
	$	**266,084**	$	281,017

As at July 2, 2016, the Company had a $300.0 million term loan facility with an interest rate of 3.25% plus LIBOR (LIBOR floor of 1.00%), maturing on April 24, 2021. During the twenty-six weeks ended July 2, 2016, a payment of $11.8 million was made due to excess cash flows in 2015, and a voluntary repayment of $15.0 million was made to reduce excess cash balances. As such, no additional regularly scheduled principal repayments are required for the remainder of 2016.

7. Future employee benefits

Employee benefits relating to the termination of employees ("termination benefits") are expensed during the period and are recorded as of the date a committed plan is in place and communication to employees has occurred. Termination benefits relate to severance which is not based on a future service requirement and are included in the consolidated statement of income for the thirteen and twenty-six weeks ended July 2, 2016 as a net expense of $0.4 million and $0.7 million, respectively (July 4, 2015: a net expense of $0.6 million and $1.0 million, respectively). Severance and retention benefits which are dependent upon the continuing provision of services through to certain predefined dates are recognized as short-term employee benefits expense, and are also included in the consolidated statement of income for the thirteen and twenty-six weeks ended July 2, 2016 as a net expense of $1.3 million and $1.9 million, respectively (July 4, 2015: a nominal recovery and a net expense of $0.3 million, respectively).

8. Share capital

Purchase of shares for cancellation

In January 2016, the Company announced that the Toronto Stock Exchange approved the renewal of the Company's Normal Course Issuer Bid ("NCIB") to repurchase for cancellation up to 150,000 common shares. The price the Company will pay for any common shares acquired will be the market price at the time of acquisition. Purchases could commence on February 2, 2016 and will terminate no later than February 1, 2017.

For the twenty-six weeks ended July 2, 2016, the Company purchased 8,000 common shares under this plan at an average price of CAD$18.02 per share for total cash consideration of $0.1 million. The excess of the purchase price over the book value of the shares in the amount of $0.1 million was charged to retained earnings.

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

	Twenty-six weeks ended July 2, 2016		Fifty-two weeks ended January 2, 2016	
	Shares	**($000s)**	Shares	($000s)
Balance, beginning of period	**30,874,164**	**$ 85,282**	30,706,290	$ 82,658
Options exercised for shares	**12,555**	**43**	101,678	664
Options exercised for shares via cashless exercise method	**8,725**	**—**	109,496	—
Fair value of share-based compensation on options exercised	**—**	**295**	—	2,049
Shares repurchased for cancellation	**(8,000)**	**(21)**	(43,300)	(89)
Balance, end of period	**30,887,444**	**$ 85,599**	30,874,164	$ 85,282

During the thirteen and twenty-six weeks ended July 2, 2016, the Company distributed dividends per share of CAD$0.130 and CAD$0.250, respectively (thirteen and twenty-six weeks ended July 4, 2015: CAD$0.120 and CAD$0.225, respectively).

On August 16, 2016, the Company's Board of Directors declared a quarterly dividend of CAD$0.130 per share, payable on September 15, 2016 to shareholders of record as of September 1, 2016.

Excluded from the diluted earnings per common share calculation for the thirteen and twenty-six weeks ended July 2, 2016 were 715,816 and 937,662 options, respectively, as their effect would have been anti-dilutive (July 4, 2015: 15,500 and 3,000 options, respectively).

9. Share-based compensation

The Company has a Share Option Plan for designated directors, officers and certain managers of the Company, a Performance Share Unit ("PSU") Plan for eligible employees, and a Deferred Share Unit ("DSU") Plan for directors of the Company. The DSU plan had 31,546 DSUs outstanding at July 2, 2016 (July 4, 2015: 19,799).

The carrying amount of the share-based compensation arrangements including cash-settled options, PSUs and DSUs, recognized in accounts payable and other long-term liabilities on the consolidated balance sheet was $0.7 million and $0.9 million, respectively, as at July 2, 2016 (January 2, 2016: $0.6 million and $0.4 million, respectively).

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

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 2, 2016**	July 4, 2015	**July 2, 2016**	July 4, 2015
Cost of sales resulting from:				
Cash-settled awards	**$ 69**	$ (29)	**$ 76**	$ 23
Equity-settled awards	**27**	33	**64**	72
Selling, general and administrative expenses resulting from:				
Cash-settled awards	**530**	105	**730**	158
Equity-settled awards	**331**	440	**712**	865
Share-based compensation expense[1]	**$ 957**	$ 549	**$ 1,582**	$ 1,118

[1] Cash-settled awards may include options with Share Appreciation Rights ("SARs"), PSUs and DSUs. Equity-settled awards include options without SARs, and PSUs.

Share option plan

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

	Thirteen weeks ended				Twenty-six weeks ended			
	July 2, 2016		July 4, 2015		**July 2, 2016**		July 4, 2015	
	No.	**WAEP (CAD)**	No.	WAEP (CAD)	**No.**	**WAEP (CAD)**	No.	WAEP (CAD)
Outstanding, beginning of period	**1,893,283**	**$ 17.77**	1,475,618	$ 17.42	**1,323,292**	**$ 18.98**	1,252,172	$ 14.90
Granted	—	—	94,084	23.21	**654,196**	**15.29**	445,642	23.21
Exercised for shares via cashless method [1]	**(25,790)**	**12.18**	(158,116)	10.38	**(25,790)**	**12.18**	(191,620)	10.58
Exercised for shares	**(1,555)**	**5.17**	(5,270)	17.39	**(12,555)**	**5.17**	(71,878)	8.12
Exercised for shares	**(27,345)**	**11.78**	(163,386)	10.35	**(38,345)**	**9.88**	(263,498)	9.91
Exercised for cash	**(19,445)**	**5.65**	(11,270)	7.96	**(30,389)**	**6.58**	(36,270)	6.00
Cancelled or forfeited	**(38,582)**	**21.69**	(9,054)	17.39	**(100,843)**	**21.54**	(12,054)	18.78
Expired	**(6,000)**	**23.11**	—	—	**(6,000)**	**23.11**	—	—
Outstanding, end of period	**1,801,911**	**$ 17.89**	1,385,992	$ 18.73	**1,801,911**	**$ 17.89**	1,385,992	$ 18.73
Exercisable, end of period	**942,164**	**$ 18.50**	702,521	$ 14.96	**942,164**	**$ 18.50**	702,521	$ 14.96

[1] For the thirteen and twenty-six weeks ended July 2, 2016, 8,725 shares were received via the cashless exercise method (thirteen and twenty-six weeks ended July 4, 2015, 89,896 and 108,156 shares, respectively).

The range of exercise prices for options outstanding at July 2, 2016 was CAD$5.84 - CAD$24.80 (July 4, 2015: CAD$5.17 - CAD $23.21).

The fair value of options granted during the twenty-six weeks ended July 2, 2016 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted-average inputs and assumptions:

	July 2, 2016	July 4, 2015
Dividend yield (%)	**3.14**	1.85
Expected volatility (%)	**33.33**	30.62
Risk-free interest rate (%)	**0.63**	0.98
Expected life (years)	**5.20**	4.99
Weighted average share price (CAD$)	**15.29**	23.21
Weighted average fair value (CAD$)	**3.27**	5.10

PSU plan

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

	July 2, 2016	July 4, 2015	**July 2, 2016**	July 4, 2015
	No.	No.	**No.**	No.
Outstanding, beginning of period	**211,972**	165,596	**139,184**	102,991
Granted	**—**	15,919	**82,017**	77,823
Reinvested dividends	**1,464**	980	**3,130**	1,681
Forfeited	**—**	—	**(10,895)**	—
Outstanding, end of period	**213,436**	182,495	**213,436**	182,495

The expected performance multiplier used in determining the fair value of the liability and related share-based compensation expense for the PSUs granted during the twenty-six weeks ended July 2, 2016 was 83% (twenty-six weeks July 4, 2015: 70%) and the share price at the reporting date was CAD$18.85 (July 4, 2015: CAD$22.85). The PSUs will vest at the end of a three-year period if agreed upon performance measures are met.

10. Operating segment information

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

				Thirteen weeks ended July 2, 2016				Thirteen weeks ended July 4, 2015
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Revenue (excluding intercompany sales)	**$ 63,440**	**$ 161,227**	**$ —**	**$224,667**	$ 67,360	$ 158,979	$ —	$226,339
Cost of sales (excluding intercompany sales)	**50,018**	**127,650**	**9**	**177,677**	53,656	131,411	(1,932)	183,135
Gross profit	**$ 13,422**	**$ 33,577**	**$ (9)**	**$ 46,990**	$ 13,704	$ 27,568	$ 1,932	$ 43,204
Income (loss) before income taxes	**$ 4,559**	**$ 10,457**	**$ (9,914)**	**$ 5,102**	$ 4,675	$ 3,295	$ (4,630)	$ 3,340
Add back:								
Depreciation and amortization included in:								
Cost of sales	**313**	**1,491**	**15**	**1,819**	316	1,762	—	2,078
Distribution	**38**	**412**	**—**	**450**	35	281	—	316
Selling, general and administrative expenses	**105**	**1,315**	**1,137**	**2,557**	175	1,314	252	1,741
Total depreciation and amortization	**456**	**3,218**	**1,152**	**4,826**	526	3,357	252	4,135
Finance costs	**—**	**—**	**3,655**	**3,655**	—	—	4,045	4,045
Income (loss) before depreciation, amortization, finance costs and income taxes	**$ 5,015**	**$ 13,675**	**$ (5,107)**	**$ 13,583**	$ 5,201	$ 6,652	$ (333)	$ 11,520

				Twenty-six weeks ended July 2, 2016				Twenty-six weeks ended July 4, 2015
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Revenue (excluding intercompany sales)	**$122,824**	**$392,391**	**$ —**	**$515,215**	$135,269	$401,292	$ —	$536,561
Cost of sales (excluding intercompany sales)	**94,724**	**310,397**	**(1,434)**	**403,687**	106,847	320,393	(2,410)	424,830
Gross profit	**$ 28,100**	**$ 81,994**	**$ 1,434**	**$111,528**	$ 28,422	$ 80,899	$ 2,410	$111,731
Income (loss) before income taxes	**$ 10,324**	**$ 29,877**	**$ (16,043)**	**$ 24,158**	$ 9,608	$ 25,631	$ (14,415)	$ 20,824
Add back:								
Depreciation and amortization included in:								
Cost of sales	**619**	**3,252**	**23**	**3,894**	641	3,500	—	4,141
Distribution expenses	**74**	**830**	**—**	**904**	71	537	—	608
Selling, general and administrative expenses	**219**	**2,631**	**1,871**	**4,721**	295	2,626	839	3,760
Total depreciation and amortization	**912**	**6,713**	**1,894**	**9,519**	1,007	6,663	839	8,509
Finance costs	**—**	**—**	**7,275**	**7,275**	—	—	8,321	8,321
Income (loss) before depreciation, amortization, finance costs and income taxes	**$ 11,236**	**$ 36,590**	**$ (6,874)**	**$ 40,952**	$ 10,615	$ 32,294	$ (5,255)	$ 37,654

				As at July 2, 2016				As at January 2, 2016
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Total assets	**$121,794**	**$514,310**	**$ 7,085**	**$643,189**	$121,855	$555,583	$ 15,629	$693,067
Total liabilities	**$ 73,284**	**$ 64,797**	**$ 290,501**	**$428,582**	$ 88,452	$ 29,917	$ 374,179	$492,548

11. Income tax expense

The Company's statutory tax rate for the thirteen and twenty-six weeks ended July 2, 2016 was 29.2% (thirteen and twenty-six weeks ended July 4, 2015: 28.9%). The Company's effective income tax rate for the thirteen and twenty-six weeks ended July 2, 2016 was a recovery of 5.3% and an expense of 21.0%, respectively (thirteen and twenty-six weeks ended July 4, 2015: a recovery of 18.4% and an expense of 20.8%, respectively). The higher effective income tax rate for the thirteen and twenty-six weeks ended July 2, 2016 compared to the prior year is attributable to an increase in income subject to higher foreign tax rates.

The major components of income tax expense in the consolidated statement of comprehensive income for the thirteen and twenty-six weeks ended July 2, 2016 and July 4, 2015 were as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 2, 2016**	July 4, 2015	**July 2, 2016**	July 4, 2015
Income tax expense (recovery) related to items recognized in other comprehensive income (loss):				
Gain (loss) on hedge of net investment in foreign operations	**$ (108)**	$ 155	**$ 1,632**	$ (2,335)
(Loss) gain on translation of net investment in foreign operations	**(83)**	(28)	**(1,767)**	1,954
Effective portion of changes in fair value of cash flow hedges	**(362)**	315	**(1,652)**	1,290
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	**(18)**	(515)	**(500)**	(1,088)
Net change in fair value of cash flow hedges transferred to income	**68**	(32)	**31**	(46)
Defined benefit plan actuarial gains (losses)	**78**	134	**100**	(229)
Income tax (recovery) expense recognized in other comprehensive income	**$ (425)**	$ 29	**$ (2,156)**	$ (454)

12. Related party transactions

Total purchases from related parties for the thirteen and twenty-six weeks ended July 2, 2016 were $nil (thirteen and twenty-six weeks ended July 4, 2015: $0.1 million and $0.2 million, respectively). As at July 2, 2016 and July 4, 2015 there were no amounts owing to related parties.

13. Fair value measurement

Fair value of financial instruments

The Company uses a fair value hierarchy, based on the relative objectivity of the inputs used to measure the fair value of financial instruments, with Level 1 representing inputs with the highest level of objectivity and Level 3 representing inputs with the lowest level of objectivity. The following table sets out the Company's financial assets and liabilities by level within the fair value hierarchy:

	July 2, 2016		January 2, 2016	
(Amounts in $000s)	**Level 2**	**Level 3**	Level 2	Level 3
Assets measured at fair value				
Foreign exchange contracts	**$ 1,166**	**$ —**	$ 6,552	$ —
Assets held for sale (Note 4)	**14,066**	**—**	—	—
Liabilities measured at fair value				
Interest rate swaps	**1,991**	**—**	755	—
Foreign exchange contracts	**1,881**	**—**	151	—
Long-term debt	—	**261,990**	—	287,783
Finance lease obligations	—	**1,793**	—	1,737

The Company's Level 2 derivatives are valued using valuation techniques such as forward pricing and swap models. These models incorporate various market-observable inputs including foreign exchange spot and forward rates, and interest rate curves.

The fair values of long-term debt instruments, classified as Level 3 in the fair value hierarchy, are estimated based on unobservable inputs, including discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities, adjusted to reflect the Company's credit risk.

As described in Note 4, the Company has classified certain inventory and property, plant and equipment as held for sale on the Company's consolidated balance sheet as at July 2, 2016. These assets are classified as Level 2 in the fair value hierarchy and are valued at fair value less costs to sell of $14.1 million. The fair value was based on the sale which was announced subsequent to period end (see Note 14).

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the twenty-six weeks ended July 2, 2016 no such transfers have occurred.

The financial liabilities that are not measured at fair value on the consolidated statement of financial position consist of long-term debt (including current portion) and finance lease obligations. The carrying amount for these instruments are $266.1 million and $1.8 million, respectively, as at July 2, 2016 (January 2, 2016: $292.8 million and $1.7 million, respectively).

Hedging activities

Interest rate swaps

During the twenty-six weeks ended July 2, 2016, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (Note 5):

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
Not designated in a formal hedging relationship:				
April 4, 2014	April 4, 2016	3-month LIBOR (floor 1.5%)	1.9970%	$ 100.0

The cash flow hedge of interest expense variability was assessed to be highly effective for the thirteen and twenty-six weeks ended July 2, 2016 and July 4, 2015, and therefore, the change in fair value for those interest rate swaps designated in a hedging relationship

was included in OCI as after-tax net losses of $0.6 million and $1.3 million, respectively, and an after-tax net gain of $0.2 million and an after-tax net loss of $0.1 million, respectively.

For the thirteen and twenty-six weeks ended July 2, 2016, the change in fair value for the interest rate swap that has not been designated in a formal hedging relationship was a nominal gain and a net gain of $0.1 million, respectively, and was recorded in income (July 4, 2015: net gain of $0.1 million and $0.2 million, respectively).

Foreign currency contracts

Foreign currency forward contracts are used to hedge foreign currency risk resulting from expected future purchases in USD, which the Company has qualified as highly probable forecasted transactions, and to hedge foreign currency risk resulting from USD monetary assets and liabilities, which are not covered by natural hedges.

As at July 2, 2016, the Company had outstanding notional amounts of $48.7 million in foreign currency average-rate forward contracts and $6.5 million in foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of $3.0 million average-rate forward contracts with maturities ranging from July 2017 to December 2017, all foreign currency forward contracts have maturities that are less than one year.

The cash flow hedges of the expected future purchases were assessed to be highly effective for the thirteen and twenty-six weeks ended July 2, 2016 and July 4, 2015, and therefore, the change in fair value was recorded in OCI as an after-tax net losses of $0.2 million and $2.7 million, respectively, and an after-tax net gain of $0.6 million and $3.2 million, respectively. The amount recognized in income resulting from hedge ineffectiveness during the thirteen and twenty-six weeks ended July 2, 2016 was $nil and a net gain of $0.2 million, respectively (July 4, 2015: net gain of $0.1 million and $0.2 million).

Hedge of net investment in foreign operations

As at July 2, 2016, a total borrowing of $252.3 million ($15.0 million included in accounts payable and $237.3 million included in long-term debt) (January 2, 2016: $237.3 million included in long-term debt) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company’s exposure to foreign exchange risk on this net investment. Gains or losses on the re-translation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There was no hedge ineffectiveness recognized in the twenty-six weeks ended July 2, 2016 or July 4, 2015.

14. Events after the reporting period

On August 16, 2016, the Company entered into a purchase and sales agreement (the "Agreement") with Blue Harvest Fisheries, whereby Blue Harvest will acquire the assets of High Liner's scallop business, along with its facility in New Bedford, Massachusetts. Under the Agreement, High Liner will receive cash proceeds of $8 million for the business and facility, plus additional amounts for High Liner scallop inventories. Following completion of the transaction, the Company will continue to offer scallops to its customers through an ongoing supply agreement with Blue Harvest. The transaction is expected to close within the next several weeks.