HIGH LINER FOODS

Second Quarter Report to Shareholders

Twenty-six weeks ended July 1, 2017

HIGH LINER FOODS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the thirteen and twenty-six weeks ended July 1, 2017

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

TABLE OF CONTENTS

Introduction **1**

Forward-Looking Statements **2**

Company Overview **3**

Recent Developments **4**

Performance **5**

- **Consolidated Performance** **6**
- **Performance by Segment** **13**

Business Acquisition, Integration and Other Expenses **17**

Finance Costs **17**

Income Taxes **18**

Results by Quarter **18**

Contingencies **18**

Liquidity and Capital Resources **19**

Related Party Transactions **24**

Outlook **24**

Non-IFRS Financial Measures **24**

Governance **28**

Accounting Estimates and Standards **28**

Risk Factors **29**

INTRODUCTION

This Management's Discussion and Analysis (“MD&A”), dated August 14, 2017, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and twenty-six weeks ended July 1, 2017, compared to the thirteen and twenty-six weeks ended July 2, 2016. Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2016 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 1, 2017, prepared in accordance with International Financial Reporting Standards ("IFRS"). The information contained in this document, including forward-looking statements, is based on information available to Management as of August 14, 2017, 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 starting on page 23 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") 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; anticipated financial performance, including earnings trends and growth; achievement, and timing of achievement, of strategic goals and publicly stated financial targets, including to increase our market share, acquire and integrate other businesses and reduce our operating and supply chain costs; 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 timing and amount of costs associated with product recalls and the expected recovery thereof; our ability to successfully integrate the proposed acquisition of Rubicon Resources, LLC; levels of accretion and synergy and earnings growth relating to Rubicon; the expected amount and timing of integration activities related to acquisitions; expected leverage levels and expected net interest-bearing debt to Adjusted EBITDA; statements under the "outlook" heading including expected demand, sales of new product, and plant production; decreased leverage in the future; estimated capital spending; future inventory trends and seasonality; market forces and the maintenance of existing customer and supplier relationships; availability of credit facilities; our projection of excess cash flow and minimum repayments under the Company's long-term loan facility; expected decreases in debt-to-capitalization ratio; dividend payments; and amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants.

Forward-looking statements can generally be identified by the use of the conditional tense, the words “may”, “should”, “would”, “could”, “believe”, “plan”, “expect”, “intend”, “anticipate”, “estimate”, “foresee”, “objective”, “goal”, “remain” or “continue” or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company’s materials filed with the Canadian securities regulatory authorities from time to time, including the *Risk Factors* section of our 2016 Annual Report and the *Risk Factors* section of our 2016 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

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

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

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

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

---

[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.*

RECENT DEVELOPMENTS

Acquisition of Rubicon Resources, LLC

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

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

For further information on the acquisition of Rubicon, please refer to Note 3 "*Business combinations*", to the Consolidated Financial Statements.

Product Recall

Subsequent to the first quarter of 2017, the Company announced a voluntary recall of certain brands of value-added seafood products sold in Canada that may contain a milk allergen that was not declared on the ingredient label and allergen statement ("the product recall" or "the recall"). The Company identified that the allergen had originated from ingredients supplied by one of the Company's U.S.-based ingredient suppliers ("the ingredient supplier"). During the thirteen weeks ended April 1, 2017, the Company recognized $0.7 million in estimated losses associated with the product recall related to the return and destruction or rework of product, consumer refunds and customer fines.

Subsequently, during the second quarter of 2017, the Company was notified by the ingredient supplier that several additional ingredients were being recalled due to the potential presence of undeclared milk, which necessitated an expansion of the Company's initial product recall to include additional value-added seafood products sold in the U.S. and Canada. As a result, during the thirteen weeks ended July 1, 2017, the Company recognized $8.6 million in further estimated losses associated with the product recall, comprised of $1.9 million related to the return of product to be reworked and $6.7 million related to the return of destroyed product and direct incremental costs incurred by the Company related to the rework of product, consumer refunds and customer fines.

In total, $9.3 million in estimated losses associated with the product recall have been recognized during the first half of 2017. These estimated losses do not include any estimate of the reduction in earnings associated with the product recall as a result of lost sales opportunities due to limited product availability and customer shortages, or increased production costs related to the interruption of production at the Company’s facilities. The majority of the disruption to the Company's business associated with the product recall has subsided. We are receiving regular ingredient shipments from the ingredient supplier, rebuilding inventory of recalled products and have resumed shipment of these products to customers.

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

The Company’s estimates related to the recall are provisional and were determined based on an assessment of the information available up to the date of filing of the Consolidated Financial Statements, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company’s estimates reflect the losses determined as at July 1, 2017 to be both probable and reasonably estimable, and therefore the Company may need to revise these estimates in subsequent periods as the Company continues to

work with its customers to substantiate the claims received to date and any additional claims that may be received. These revisions may occur at any time and may be material.

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 14 *"Operating segment information"* to the Consolidated Financial Statements: Canada Operations and U.S. Operations. Information is also provided for the "Corporate" category, which includes expenses for corporate functions, share-based compensation costs and business acquisition, integration and other expenses.

Seasonality

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

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

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

Consolidated Performance

The following analysis of our operating results contain certain corrections of errors identified in previously reported amounts (see Note 4 *"Revision of previously reported consolidated financial statements"* to the Consolidated Financial Statements for further discussion).

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

	Thirteen weeks ended			Twenty-six weeks ended		
(in $000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	**July 1, 2017**	**July 2, 2016**	**Change**	**July 1, 2017**	**July 2, 2016**	**Change**
Sales volume (millions of lbs)	**63.4**	62.3	**1.1**	**146.6**	150.5	**(3.9)**
Average foreign exchange rate (USD/CAD)	**$ 1.3448**	$ 1.2883	**$ 0.0565**	**$ 1.3343**	$ 1.3302	**$ 0.0041**
Sales						
Sales in domestic currency	**$254,890**	$242,701	**$ 12,189**	**$550,997**	$556,004	**$ (5,007)**
Foreign exchange impact	**(22,505)**	(18,313)	**(4,192)**	**(42,877)**	(40,177)	**(2,700)**
Sales in USD	**$232,385**	$224,388	**$ 7,997**	**$508,120**	$515,827	**$ (7,707)**
Gross profit	**$ 37,807**	$ 46,711	**$ (8,904)**	**$ 93,315**	$112,140	**$(18,825)**
Gross profit as a percentage of sales	**16.3%**	20.8%	**(4.5)%**	**18.4%**	21.7%	**(3.3)%**
Distribution expenses	**$ 11,234**	$ 10,651	**$ 583**	**$ 23,259**	$ 23,178	**$ 81**
Selling, general and administrative expenses	**$ 24,815**	$ 24,352	**$ 463**	**$ 49,805**	$ 52,243	**$ (2,438)**
Adjusted EBITDA[(1)]						
Adjusted EBITDA in domestic currency	**$ 14,440**	$ 18,873	**$ (4,433)**	**$ 37,500**	$ 51,224	**$(13,724)**
Foreign exchange impact	**(1,023)**	(1,425)	**402**	**(1,747)**	(3,469)	**1,722**
Adjusted EBITDA in USD	**$ 13,417**	$ 17,448	**$ (4,031)**	**$ 35,753**	$ 47,755	**$(12,002)**
Adjusted EBITDA as a percentage of sales	**5.8%**	7.8%	**(2.0)%**	**7.0%**	9.3%	**(2.3)%**
Net income	**$ 644**	$ 5,129	**$ (4,485)**	**$ 11,386**	$ 19,309	**$ (7,923)**
Basic Earnings per Share ("EPS")	**$ 0.02**	$ 0.17	**$ (0.15)**	**$ 0.37**	$ 0.62	**$ (0.25)**
Diluted EPS	**$ 0.02**	$ 0.16	**$ (0.14)**	**$ 0.36**	$ 0.62	**$ (0.26)**
Adjusted Net Income[(1)]	**$ 6,054**	$ 8,524	**$ (2,470)**	**$ 16,869**	$ 24,355	**$ (7,486)**
Adjusted Basic EPS	**$ 0.19**	$ 0.28	**$ (0.09)**	**$ 0.54**	$ 0.28	**$ 0.26**
Adjusted Diluted EPS[(1),(2)]	**$ 0.19**	$ 0.27	**$ (0.08)**	**$ 0.53**	$ 0.27	**$ 0.26**
Total assets				**$829,957**	$642,892	**$187,065**
Total long-term financial liabilities				**$347,938**	$278,793	**$ 69,145**
Dividends paid per common share (CAD)	**$ 0.140**	$ 0.130	**$ 0.010**	**$ 0.280**	$ 0.250	**$ 0.030**

(1) See the *Non-IFRS Financial Measures* section starting on page 23 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.
(2) CAD-Equivalent Adjusted Diluted EPS was $0.26 and $0.35 for the thirteen weeks ended July 1, 2017 and July 2, 2016, respectively, and $0.71 and $1.04 for the twenty-six weeks ended July 1, 2017 and July 2, 2016, respectively. See the *Non-IFRS Financial Measures* section on page 26 for further explanation of CAD-Equivalent Adjusted Diluted EPS.

The sale of our New Bedford scallop business on September 7, 2016 had the impact of lowering sales volume by 0.8 million pounds, sales by $10.7 million, and a nominal impact on Adjusted EBITDA in the second quarter of 2017 compared to the second quarter of 2016. The sale had the impact of lowering sales volume by 1.5 million pounds,

sales by $19.8 million, and a nominal impact on Adjusted EBITDA during the first half of 2017 compared to the same period last year.

The acquisition of Rubicon on May 30, 2017 had the impact of increasing sales volume by 3.3 million pounds, sales by $17.7 million, and Adjusted EBITDA by $0.5 million in the second quarter of 2017 compared to the second quarter of 2016 and in the first half of 2017 compared to the same period last year.

Sales

Thirteen weeks

Consolidated sales volume for the second quarter of 2017 increased by 1.1 million pounds, or 1.7%, to 63.4 million pounds compared to 62.3 million pounds in the same period in 2016 due to higher sales volume, in both our Canadian and U.S. businesses, reflecting the following:

- Addition of sales volume from Rubicon since the date of acquisition (3.3 million lbs); offset by
- Reduced sales volume related to the actual or anticipated return of various products associated with the product recall (2.5 million pounds) (see the *Recent Developments* section on page 4); and
- Lower scallop sales as a result of the sale of the New Bedford facility in the third quarter of 2016 (0.8 million pounds).

Excluding the impact of these items, sales volume for the second quarter of 2017 increased by 1.1 million pounds, reflecting higher sales volume in our Canadian retail and foodservice businesses, and in our U.S. foodservice business. A later Easter in 2017 (April 16, 2017) compared to 2016 (March 27, 2016) shifted a portion of the benefit associated with Lent into the second quarter of this year compared to the full benefit being realized in the first quarter of 2016, however, this benefit was offset by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales in the second quarter of 2017 increased by $8.0 million, or 3.6%, to $232.4 million compared to $224.4 million in the same period last year. The slightly weaker Canadian dollar in the second quarter of 2017 compared to the same quarter of 2016 decreased the value of USD sales from our CAD-denominated operations by approximately $2.9 million relative to the conversion impact last year.

Sales in domestic currency increased by $12.2 million, or 5.0%, to $254.9 million in the second quarter of 2017 compared to $242.7 million in the second quarter of 2016. Excluding the addition of sales from Rubicon ($17.7 million), the decrease in sales due to the product recall returns ($9.1 million), and reduced sales due to the sale of New Bedford ($10.7 million), sales increased by $14.3 million or 6.2%, mainly due to the increased volume mentioned previously.

Twenty-six weeks

Sales volume in the first half of 2017 decreased by 3.9 million pounds, or 2.6%, to 146.6 million pounds compared to 150.5 million pounds in the same period last year, due to lower sales volume in our U.S. businesses reflecting the following:

- The addition of sales volume from Rubicon since the date of acquisition (3.3 million pounds); offset by
- Reduced sales volume related to the actual or anticipated return of various products associated with the product recall (2.5 million pounds) (see the *Recent Developments* section on page 4); and
- Lower scallop sales as a result of the sale of the New Bedford facility in the third quarter of 2016 (1.5 million pounds).

Excluding the impact of these items, sales volume for the the first half of 2017 decreased by 3.2 million pounds, reflecting residual manufacturing challenges associated with production transferred from our previously-owned New

Bedford facility, which resulted in an inability to meet heightened demand in March related to a late Lent, and the continued impact of lower demand for traditional breaded and battered frozen seafood products which we were unable to offset with sales from our new frozen seafood products. In addition to the reduction in volume associated with the product recall returns mentioned above, sales volume was also negatively impacted during the quarter by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales in the first half of 2017 were $508.1 million, representing a $7.7 million or 1.5% decrease, compared to $515.8 million in the same period last year. The weaker Canadian dollar in the first half of 2017 compared to the first half of 2016 decreased the value of reported USD sales from our CAD-denominated operations by approximately $0.8 million relative to the conversion impact last year.

Sales in domestic currency decreased by $5.0 million, or 0.9%, to $551.0 million in the first half of 2017 compared to $556.0 million in the same period last year. Excluding the addition of sales from Rubicon ($17.7 million), the decrease in sales due to the product recall returns ($9.1 million), and reduced sales due to the sale of New Bedford ($19.8 million), sales increased by $6.2 million or 1.2%, reflecting increased sales in our Canadian operations, despite the lower sales volume mentioned previously.

Sales by reportable segment are discussed in more detail in the *Performance by Segment* section on page 12 below.

Gross Profit

Thirteen weeks

Gross profit decreased in the second quarter of 2017 by $8.9 million, or 19.1%, to $37.8 million compared to $46.7 million in the same period in 2016, reflecting higher sales volumes and a decrease in gross profit as a percentage of sales to 16.3% compared to 20.8%. This decrease reflects the $8.6 million in estimated losses associated with the product recall recognized in the second quarter of 2017 (see the *Recent Developments* section on page 4), partially offset by gross profit from Rubicon since the date of acquisition ($2.1 million).

Excluding the impact of the recall and the acquisition of Rubicon, gross profit decreased by $2.4 million to $44.3 million (19.8% as a percentage of sales) due to the impact of product mix changes and continued plant inefficiencies that were worsened by production interruptions at the Company's facilities as a result of the product recall. In addition, the weaker Canadian dollar had the effect of decreasing the value of reported USD gross profit from our Canadian operations in 2017 by approximately $0.5 million relative to the conversion impact last year.

Twenty-six weeks

Gross profit decreased in the first half of 2017 by $18.8 million, or 16.8%, to $93.3 million compared to $112.1 million the same period last year, reflecting a decrease in gross profit as a percentage of sales to 18.4% compared to 21.7%, and decreased sales volumes. This decrease reflects the $9.3 million in estimated losses associated with the product recall recognized in first half of 2017 associated with the product recall (see the *Recent Developments* section on page 4), partially offset by gross profit from Rubicon since the date of acquisition ($2.1 million).

Excluding the impact of the recall and the acquisition of Rubicon, gross profit decreased by $11.6 million to $100.5 million, or 20.1% as a percentage of sales, due to the impact of product mix changes and plant inefficiencies mentioned above. In addition, gross profit decreased compared to the prior year due to the recognition of foreign exchange gains in 2016, partially related to favourable hedging activities in our Canadian operations, that did not reoccur in 2017. In addition, the weaker Canadian dollar had the effect of decreasing the value of reported USD gross profit from our Canadian operations in 2017 by approximately $0.1 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 12 below.

Distribution Expenses

Thirteen weeks

Distribution expenses, consisting of freight and storage, increased in the second quarter of 2017 by $0.5 million to $11.2 million compared to $10.7 million in the same period in 2016, due to higher volumes associated with the acquisition of Rubicon. As a percentage of sales, these expenses increased slightly to 4.8% in the second quarter of 2017, compared to 4.7% in the same period in 2016.

Twenty-six weeks

Distribution expenses increased in the first half of 2017 by $0.1 million to $23.3 million compared to $23.2 million in the same period last year due to increased volumes associated with the acquisition of Rubicon, offset by reduced storage costs in our U.S. operations. As a percentage of sales, distribution expenses increased to 4.6% in the first half of 2017 compared to 4.5% in the same period in 2016.

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

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 1, 2017**	**July 2, 2016**	**July 1, 2017**	**July 2, 2016**
SG&A expenses, as reported	**$ 24,815**	$ 24,352	**$ 49,805**	$ 52,243
Less:				
Share-based compensation expense[1]	**951**	861	**1,148**	1,442
Depreciation and amortization expense[1]	**1,928**	2,557	**3,596**	4,721
SG&A expenses, net	**$ 21,936**	$ 20,934	**$ 45,061**	$ 46,080
SG&A expenses, net as a percentage of sales	**9.4%**	9.3%	**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 2017 by $0.4 million to $24.8 million compared to $24.4 million in the same period last year. SG&A expenses included share-based compensation expense of $1.0 million for the second quarter of 2017 compared to $0.9 million for the same period in 2016. SG&A expenses also included depreciation and amortization expense of $1.9 million in the second quarter of 2017 and $2.6 million in the same period of 2016. The decrease in depreciation and amortization expense relates to an accelerated depreciation charge associated with the cessation of value-added fish operations at the New Bedford facility that occurred in 2016.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses increased in the second quarter of 2017 by $1.0 million to $21.9 million compared to $20.9 million in the same period last year, primarily due to increased expense associated with the acquisition of Rubicon, along with slightly higher administrative and marketing expenses across the Company. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense increased slightly to 9.4% in 2017 compared to 9.3% in the same period last year.

Twenty-six weeks

SG&A expenses decreased by $2.4 million to $49.8 million in the first half of 2017 as compared to $52.2 million in the same period last year. SG&A expenses included share-based compensation expense of $1.1 million in the first half of 2017 compared to $1.4 million in the same period last year. SG&A expenses also included depreciation and amortization expense of $3.6 million and $4.7 million in the first half of 2017 and 2016, respectively. As previously mentioned, the decrease in depreciation and amortization expense relates to an accelerated depreciation charge that occurred in 2016.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the first half of 2017 by $1.0 million to $45.1 million compared to $46.1 million in the same period last year, primarily as a result of lower U.S. marketing expenses and administrative expenses, partially offset by increased expenses associated with the acquisition of Rubicon. 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 2017 compared to the same period last year.

Adjusted EBITDA

We refer to Adjusted EBITDA throughout this MD&A, including in the *Performance by Segment* section on page 12, where Adjusted EBITDA is discussed for both our Canadian and U.S. operations. See the *Non-IFRS Financial Measures* section on page 23 for further explanation of this non-IFRS measure.

Thirteen weeks

Consolidated Adjusted EBITDA decreased in the second quarter of 2017 by $4.0 million, or 23.1%, to $13.4 million compared to $17.4 million in 2016. The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by $1.0 million in the second quarter of 2017 compared to $1.4 million in 2016.

In domestic currency, Adjusted EBITDA decreased in the second quarter of 2017 by $4.5 million, or 23.5%, to $14.4 million (5.7% of sales) compared to $18.9 million (7.8% of sales) in 2016. The decrease in Adjusted EBITDA reflects the lower gross profit mentioned previously, with the exception of $6.7 million in estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA as they relate to destroyed product and direct incremental costs incurred by the Company related to reworking product, consumer refunds and customer fines. The remaining $1.9 million of the total $8.6 million in estimated losses recognized in the second quarter has not been added back for the purpose of Adjusted EBITDA as it relates to returned product that is expected to be reworked and resold. The decrease in Adjusted EBITDA also reflects the increases in distribution and SG&A expenses discussed previously, offset by the acquisition of Rubicon, which contributed $0.5 million to Adjusted EBITDA since the date of acquisition.

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

	Thirteen weeks ended			Thirteen weeks ended		
(Amounts in $000s)	July 1, 2017 USD	July 2, 2016 USD	% Change USD	July 1, 2017 Domestic $	July 2, 2016 Domestic $	% Change Domestic $
External Sales						
Canada	**$ 65,124**	$ 63,440	**2.7 %**	**$ 87,629**	$ 81,753	**7.2 %**
USA	**167,261**	160,948	**3.9 %**	**167,261**	160,948	**3.9 %**
	232,385	224,388	**3.6 %**	**254,890**	242,701	**5.0 %**
Conversion	**—**	—		**(22,505)**	(18,313)	
	$ 232,385	$ 224,388	**3.6 %**	**$ 232,385**	$ 224,388	**3.6 %**
Adjusted EBITDA						
Canada	**$ 3,306**	$ 4,969	**(33.5)%**	**$ 4,476**	$ 6,404	**(30.1)%**
USA	**11,102**	13,428	**(17.3)%**	**11,102**	13,428	**(17.3)%**
Corporate	**(991)**	(949)	**4.4 %**	**(1,138)**	(959)	**18.7 %**
	13,417	17,448	**(23.1)%**	**14,440**	18,873	**(23.5)%**
Conversion	**—**	—		**(1,023)**	(1,425)	
	$ 13,417	$ 17,448	**(23.1)%**	**$ 13,417**	$ 17,448	**(23.1)%**
Adjusted EBITDA as percentage of sales						
In USD	**5.8%**	7.8%				
In Domestic $				**5.7%**	7.8%	

Twenty-six weeks

Consolidated Adjusted EBITDA decreased in the first half of 2017 by $12.0 million or 25.1%, to $35.8 million compared to $47.8 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 $1.7 million in the first half of 2017 compared to $3.5 million in the same period last year.

In domestic currency, Adjusted EBITDA decreased in the first half of 2017 by $13.7 million, or 26.8%, to $37.5 million (6.8% of sales) compared to $51.2 million (9.2% of sales) in the same period last year. The decrease in Adjusted EBITDA reflects the lower gross profit mentioned previously, with the exception of $6.7 million in estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA as explained above, partially offset by the decrease in SG&A expenses and the acquisition of Rubicon, as discussed previously.

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

	Twenty-six weeks ended			Twenty-six weeks ended		
(Amounts in $000s)	July 1, 2017 USD	July 2, 2016 USD	% Change USD	July 1, 2017 Domestic $	July 2, 2016 Domestic $	% Change Domestic $
External Sales						
Canada	**$ 128,007**	$ 122,824	**4.2 %**	**$ 170,884**	$ 163,001	**4.8 %**
USA	**380,113**	393,003	**(3.3)%**	**380,113**	393,003	**(3.3)%**
	508,120	515,827	**(1.5)%**	**550,997**	556,004	**(0.9)%**
Conversion	**—**	—		**(42,877)**	(40,177)	
	$ 508,120	$ 515,827	**(1.5)%**	**$ 508,120**	$ 515,827	**(1.5)%**
Adjusted EBITDA						
Canada	**$ 6,800**	$ 11,156	**(39.0)%**	**$ 9,098**	$ 14,876	**(38.8)%**
USA	**30,534**	37,239	**(18.0)%**	**30,534**	37,239	**(18.0)%**
Corporate	**(1,581)**	(640)	**147.0 %**	**(2,132)**	(891)	**139.3 %**
	35,753	47,755	**(25.1)%**	**37,500**	51,224	**(26.8)%**
Conversion	**—**	—		**(1,747)**	(3,469)	
	$ 35,753	$ 47,755	**(25.1)%**	**$ 35,753**	$ 47,755	**(25.1)%**
Adjusted EBITDA as percentage of sales						
In USD	**7.0%**	9.3%				
In Domestic $				**6.8%**	9.2%	

Net Income

We refer to Adjusted Net Income, Adjusted Diluted EPS and CAD-Equivalent Adjusted Diluted EPS throughout this MD&A. See the *Non-IFRS Financial Measures* section starting on page 23 for further explanation of these non-IFRS measures.

Thirteen weeks

Net income decreased in the second quarter of 2017 by $4.5 million, or 87.4%, to $0.6 million ($0.02 per diluted share) compared to $5.1 million ($0.16 per diluted share) in the second quarter of the prior year. The decrease in net income reflects the decrease in Adjusted EBITDA mentioned previously, a decrease in income tax expense and a decrease in depreciation.

In 2017, net income included "business acquisition, integration and other expenses" (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 16 of this MD&A) related to the acquisition of Rubicon. In addition, net income included a reduction in sales related to destroyed product and direct incremental costs related to reworking product, consumer refunds and customer fines associated with the product recall, and other non-cash expenses. In 2016, net income included "business acquisition, integration and other expenses" related to accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of New Bedford plant operations, and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income for the second quarter of 2017 decreased by $2.4 million, or 29.0%, to $6.1 million compared to $8.5 million in the same period last year.

Correspondingly, Adjusted Diluted EPS decreased by $0.08 to $0.19 compared to $0.27 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 1.3448 (2016: 1.2883), CAD-Equivalent Adjusted Diluted EPS decreased by CAD$0.09 to CAD$0.26 compared to CAD $0.35 in the second quarter of 2016.

Twenty-six weeks

Net income decreased in the first half of 2017 by $7.9 million, or 41.0%, to $11.4 million ($0.36 per diluted share) compared to $19.3 million ($0.62 per diluted share) in the same period last year. The decrease in net income reflects the decrease in Adjusted EBITDA mentioned previously, a decrease in income tax expense and a decrease in depreciation.

As noted above, net income in the first half of 2017 included "business acquisition, integration and other expenses" related to the acquisition of Rubicon, the reduction of sales and direct costs associated with the product recall, and other non-cash expenses. Net income in the first half of 2016 included "business acquisition, integration and other expenses" related to accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of New Bedford plant operations, and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income in the first half of 2017 decreased by $7.5 million, or 30.7%, to $16.9 million compared to $24.4 million in the same period last year.

Correspondingly, Adjusted Diluted EPS decreased by $0.25 to $0.53 in the first half of 2017 compared to $0.78 in the same period last year and when converted to CAD using the average USD/CAD exchange rate for the first half of 2017 of 1.3343 (the first half of 2016: 1.3302), CAD-Equivalent Adjusted Diluted EPS decreased by CAD$0.33 to CAD $0.71 in the first half of 2017 compared to CAD$1.04 in the same period last year.

Performance by Segment

Canadian Operations

(All currency amounts in this section are in CAD)

	Thirteen weeks ended			Twenty-six weeks ended		
(in $000s, except sales volume and percentage amounts)	**July 1, 2017**	**July 2, 2016**	**Change**	**July 1, 2017**	**July 2, 2016**	**Change**
Sales volume (millions of lbs)	**17.3**	16.3	**1.0**	**35.0**	34.3	**0.7**
Sales	**$ 87,629**	$ 81,753	**$ 5,876**	**$170,884**	$163,001	**$ 7,883**
Gross profit	**$ 13,965**	$ 17,294	**$ (3,329)**	**$ 30,549**	$ 37,402	**$ (6,853)**
Gross profit as a percentage of sales	**15.9%**	21.2%	**(5.3)%**	**17.9%**	22.9%	**(5.0)%**
Adjusted EBITDA[1]	**$ 4,476**	$ 6,404	**$ (1,928)**	**$ 9,098**	$ 14,876	**$ (5,778)**
Adjusted EBITDA as a percentage of sales	**5.1%**	7.8%	**(2.7)%**	**5.3%**	9.1%	**(3.8)%**

[1] See the *Non-IFRS Financial Measures* section on page 23 for further explanation of Adjusted EBITDA.

Thirteen weeks

Sales volume for our Canadian operations increased during the second quarter of 2017 by 1.0 million pounds to 17.3 million pounds as compared to 16.3 million pounds in 2016. Excluding the reduced sales volume related to the actual or anticipated return of various products associated with the product recall (0.3 million pounds), sales volume for the second quarter of 2017 increased by 1.3 million pounds, reflecting higher sales volume in both the retail and foodservice businesses. In addition to the reduction in volume associated with product recall returns, sales volume was also negatively impacted during the quarter by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales in the second quarter increased by $5.8 million, or 7.2%, to $87.6 million compared to $81.8 million in the same period of 2016, largely reflecting the increased sales volume, partially offset by the reduced sales on actual or anticipated product returns associated with the product recall ($2.2 million). Excluding the impact of the returns associated the product recall, sales in the second quarter increased by $8.0 million to $89.8 million due to increased sales volumes and favorable changes in product mix.

Gross profit decreased by $3.3 million in the second quarter of 2017 to $14.0 million (15.9% of sales) compared to $17.3 million (21.2% of sales) in 2016, reflecting $2.8 million in estimated losses associated with the product recall recognized in the second quarter. Excluding these losses, gross profit decreased by $0.5 million to $16.8 million, or 18.7% as a percentage of sales, primarily as a result of unfavourable changes in product mix, raw material cost increases, and continued plant inefficiencies that were worsened by production interruptions at the Company's facilities as a result of the product recall.

Adjusted EBITDA for our Canadian operations decreased during the second quarter of 2017 by $1.9 million, or 30.1%, to $4.5 million as compared to $6.4 million in 2016 (2017: 5.1% of sales, 2016: 7.8%), primarily reflecting the lower gross profit explained above, with the exception of $2.5 million in estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA (related to destroyed product and direct incremental costs related to reworking product, consumer refunds and customer fines) and higher SG&A expenses. $0.3 million in estimated losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA as the product is expected to be reworked and resold.

Twenty-six weeks

Sales volume for our Canadian operations increased by 0.7 million pounds during the first half of 2017 to 35.0 million pounds compared to 34.3 million pounds in the same period of 2016. Excluding the reduced sales volume related to the actual or anticipated return of various products associated with the product recall (0.3 million pounds), sales volume in the first half of 2017 increased by 1.0 million pounds, primarily reflecting higher sales volume in the foodservice business. In addition to the reduction in volume associated with product recall returns, sales volume was also negatively impacted by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales in the first half of 2017 increased by $7.9 million, or 4.8%, to $170.9 million, as compared to $163.0 million in the same period last year, due to the increase in sales volume, price increases and favourable change in sales mix, partially offset by the reduced sales on product returns associated with the product recall ($2.1 million). Excluding the impact of the returns associated the product recall, sales in the the first half of 2017 increased by $10.0 million to $173.0 million.

Gross profit decreased in the first half of 2017 by $6.9 million to $30.5 million (17.9% of sales) compared to $37.4 million (22.9% of sales) in the same period last year, reflecting $3.7 million in estimated losses associated with the product recall. Excluding these losses, gross profit decreased by $3.1 million to $34.3 million or 19.8% as a percentage of sales, primarily as a result of unfavourable changes in the product mix, raw material cost increases, and continued plant inefficiencies as previously mentioned. In addition, gross profit decreased due to the recognition of foreign exchange gains related to favourable hedging activities in 2016 that did not reoccur in 2017.

Adjusted EBITDA for our Canadian operations decreased in the first half of 2017 by $5.8 million, or 38.8%, to $9.1 million compared to $14.9 million (2017: 5.3% of sales, 2016: 9.1%) in the same period last year, primarily reflecting the lower gross profit explained above, with the exception of $2.5 million in estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA as explained above, and higher distribution and SG&A expenses. $0.3 million in estimated losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA as the product is expected to be reworked and resold.

U.S. Operations

(All currency amounts in this section are in USD)

	Thirteen weeks ended			Twenty-six weeks ended		
(in $000s, except sales volume and percentage amounts)	**July 1, 2017**	**July 2, 2016**	**Change**	**July 1, 2017**	**July 2, 2016**	**Change**
Sales volume (millions of lbs)	**46.0**	46.0	—	**111.6**	116.2	**(4.6)**
Sales	**$167,261**	$160,948	**$ 6,313**	**$380,113**	$393,003	**$(12,890)**
Gross profit	**$ 27,352**	$ 33,298	**$ (5,946)**	**$ 70,002**	$ 82,606	**$(12,604)**
Gross profit as a percentage of sales	**16.4%**	20.7%	**(4.3)%**	**18.4%**	21.0%	**(2.6)%**
Adjusted EBITDA[(1)]	**$ 11,102**	$ 13,428	**$ (2,326)**	**$ 30,534**	$ 37,239	**$ (6,705)**
Adjusted EBITDA as a percentage of sales	**6.6%**	8.3%	**(1.7)%**	**8.0%**	9.5%	**(1.5)%**

[(1)] See the *Non-IFRS Financial Measures* section on page 23 for further explanation of Adjusted EBITDA.

Thirteen weeks

Sales volume for our U.S. operations were consistent during the second quarter of 2017 at 46.0 million pounds compared to 2016, reflecting the following:

- Addition of sales volume from Rubicon since the date of acquisition (3.3 million pounds); offset by
- Reduced sales volume related to the actual or anticipated return of various products associated with the product recall (2.2 million pounds); and
- Lower scallop sales as a result of the sale of the New Bedford facility in the third quarter of 2016 (0.8 million pounds).

Excluding the impact of these items, sales volume for the second quarter of 2017 decreased by 0.3 million pounds primarily reflecting lower sales volume in the retail business. A later Easter in 2017 (April 16, 2017) compared to 2016 (March 27, 2016) shifted a portion of the benefit associated with Lent into the second quarter of this year compared to the full benefit being realized in the first quarter of 2016, however, this benefit was offset by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales during the second quarter increased by $6.3 million, or 3.9%, to $167.3 million compared to $161.0 million in 2016 primarily reflecting the acquisition of Rubicon ($17.7 million), offset by the reduced sales on actual or anticipated product returns associated with the product recall ($6.9 million) and lower scallop sales as a result of the sale of the New Bedford facility in the third quarter of 2016 ($10.7 million). Excluding the impact of these items, sales increased by $6.2 million or 4.2% mainly due to favorable changes in product mix.

Gross profit decreased in the second quarter of 2017 by $5.9 million to $27.4 million (16.4% of sales) compared to $33.3 million (20.7% of sales) in the same period last year, reflecting $6.5 million in estimated losses associated with the product recall, offset by the gross profit from Rubicon since the date of acquisition ($2.1 million). Excluding the impact of the recall and the acquisition of Rubicon, gross profit decreased by $1.5 million to $31.8 million, or 20.3% as a percentage of sales, due to product mix changes and higher raw material costs.

Adjusted EBITDA for our U.S. operations decreased during the second quarter of 2017 by $2.3 million, or 17.3%, to $11.1 million, compared to $13.4 million in 2016 (2017: 6.6% of sales, 2016: 8.3% of sales) reflecting the lower gross profit explained above, with the exception of $4.8 million in estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA (related to destroyed product and direct incremental costs related to reworking product, consumer refunds and customer fines), partially offset by a reduction in distribution expenses and the acquisition of Rubicon, which contributed $0.5 million to Adjusted EBITDA since the date of acquisition. $1.7 million in estimated losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA as the product is expected to be reworked and resold.

Twenty-six weeks

Sales volume for our U.S. operations decreased by 4.6 million pounds, or 4.0%, in the first half of 2017 to 111.6 million pounds compared to 116.2 million pounds in the same period last year, reflecting the following:

- Addition of sales volume from Rubicon since the date of acquisition (3.3 million pounds); offset by
- Reduced sales volume related to the actual or anticipated return of various products associated with the product recall (2.2 million pounds); and
- Lower scallop sales as a result of the sale of the New Bedford facility in the third quarter of 2016 (1.5 million pounds).

Excluding the impact of these items, sales volume for the the first half of 2017 decreased by 4.2 million pounds primarily reflecting residual manufacturing challenges associated with production transferred from our previously-owned New Bedford facility, which resulted in an inability to meet heightened demand in March related to a late Lent and which was worsened by production interruptions at the Company's facilities as a result of the product recall, and the continued impact of lower demand for traditional breaded and battered frozen seafood products which we were unable to offset with sales from our new frozen seafood products. In addition to the reduction in volume associated with product recall returns, sales volume was also negatively impacted by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales in the first half of 2017 decreased by $12.9 million, or 3.3%, to $380.1 million compared to $393.0 million in the same period last year largely reflecting the reduced sales on actual or anticipated product returns associated with the product recall ($6.9 million), and lower scallop sales as a result of the sale of the New Bedford facility in the third quarter of 2016 ($19.8 million), partially offset by the acquisition of Rubicon ($17.7 million). Excluding the impact of these items, sales decreased by $3.9 million or 1.0% mainly due to the lower sales volume mentioned previously.

Gross profit decreased in the first half of 2017 by $12.6 million to $70.0 million (18.4% of sales) compared to $82.6 million (21.0% of sales) in the same period last year, reflecting $6.5 million in estimated losses associated with the product recall, offset by the gross profit from Rubicon since the date of acquisition ($2.1 million). Excluding the impact of the recall and the acquisition of Rubicon, gross profit decreased by $8.2 million to $74.4 million, or 20.1% as a percentage of sales, due to the lower sales volume, continued plant inefficiencies, higher raw material costs, and product mix changes mentioned previously.

Adjusted EBITDA for our U.S. operations decreased in the first half of 2017 by $6.7 million, or 18.0%, to $30.5 million compared to $37.2 million (2017: 8.0% of sales, 2016: 9.5%) in the same period last year reflecting the lower gross profit explained above, with the exception of $4.8 million in estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA as explained above, partially offset by lower SG&A and distribution expenses, and the acquisition of Rubicon, which contributed $0.5 million to Adjusted EBITDA since the date of acquisition. $1.7 million in estimated losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA as the product is expected to be reworked and resold.

BUSINESS ACQUISITION, INTEGRATION AND OTHER EXPENSES

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

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 1, 2017**	**July 2, 2016**	**July 1, 2017**	**July 2, 2016**
Business acquisition, integration and other expenses	**$ 625**	$ 903	**$ 901**	$ 2,347
Impairment of property, plant and equipment	**—**	2,327	**—**	2,327
	$ 625	$ 3,230	**$ 901**	$ 4,674

In the first half of 2017, business acquisition, integration and other expenses primarily included costs related to the acquisition of Rubicon Resources, LLC. See the *Recent Developments* section on page 4 for further discussion.

In 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, 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.

FINANCE COSTS

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

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 1, 2017**	**July 2, 2016**	**July 1, 2017**	**July 2, 2016**
Interest paid in cash during the period	**$ 3,995**	$ 3,828	**$ 7,388**	$ 7,547
Change in cash interest accrued during the period	**(480)**	(306)	**(455)**	(414)
Total interest to be paid in cash	**3,515**	3,522	**6,933**	7,133
Mark-to-market gain on interest rate swap not designated for hedge accounting	**—**	(3)	**—**	(126)
Deferred financing cost amortization	**146**	136	**276**	268
Total finance costs	**$ 3,661**	$ 3,655	**$ 7,209**	$ 7,275

Finance costs were consistent in the second quarter of 2017 and $0.1 million lower in the first half of 2017 compared to the same period last year.

Marking-to-market interest rate swaps not designated in a formal hedging relationship had no impact on diluted EPS in the first half of 2017 and 2016 (see the discussion on Adjusted Net Income and Adjusted Diluted EPS in the *Non-IFRS Financial Measures* section, starting on page 25 of this MD&A).

INCOME TAXES

The Company's statutory tax rate was 29.2% for the second quarter and the first half of 2017 (2016: 29.2%). The effective income tax rate in the second quarter of 2017 was a recovery of 125.5% compared to a recovery of 6.3% in the same period last year. The change in the effective income tax rate for the second quarter of 2017 compared to same period last year was attributable to the impact of acquisition financing deductions on lower pre–tax income. The effective income tax rate was an expense of 6.2% in the the first half of 2017 as compared to the effective tax rate of an expense of 22.0% in the first half of 2016.

RESULTS BY QUARTER

The following contains certain corrections of errors identified in previously reported amounts (see Note 4 *"Revision of previously reported consolidated financial statements"* to the Consolidated Financial Statements for further discussion).

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

(Amounts in 000s, except per share amounts)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Sales	**$232,385**	$275,735	$208,794	$230,366	$224,388	$291,439	$224,282	$239,857	$225,922
Adjusted EBITDA[1]	**$ 13,417**	$ 22,337	$ 16,118	$ 17,510	$ 17,448	$ 30,308	$ 17,174	$ 16,831	$ 12,317
Net Income	**$ 644**	$ 10,742	$ 6,660	$ 6,316	$ 5,129	$ 14,180	$ 6,667	$ 5,938	$ 3,704
Adjusted Net Income[1]	**$ 6,054**	$ 10,815	$ 6,969	$ 8,959	$ 8,524	$ 15,831	$ 7,788	$ 6,939	$ 4,469
EPS, based on Net Income									
Basic	**$ 0.02**	$ 0.35	$ 0.22	$ 0.20	$ 0.17	$ 0.46	$ 0.22	$ 0.19	$ 0.12
Diluted	**$ 0.02**	$ 0.34	$ 0.21	$ 0.20	$ 0.16	$ 0.45	$ 0.21	$ 0.19	$ 0.12
EPS, based on Adjusted Net Income[1]									
Basic	**$ 0.19**	$ 0.35	$ 0.23	$ 0.29	$ 0.28	$ 0.51	$ 0.25	$ 0.22	$ 0.14
Diluted[1]	**$ 0.19**	$ 0.35	$ 0.22	$ 0.29	$ 0.27	$ 0.51	$ 0.25	$ 0.22	$ 0.14
Dividends paid per common share (CAD)									
	$ 0.140	$ 0.140	$ 0.140	$ 0.130	$ 0.130	$ 0.120	$ 0.120	$ 0.120	$ 0.120
Net non-cash working capital[2]									
	$206,094	$218,832	$190,825	$192,879	$202,031	$214,327	$216,422	$224,681	$254,699

[1] See the *Non-IFRS Financial Measures* section starting on page 23 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.
[2] Net non-cash working capital is comprised of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions.

CONTINGENCIES

The Company has no material outstanding contingencies.

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 1 of this MD&A (under the heading *"Currency"*) and in the Foreign Currency risk discussion on page 29 (in the *Risk Factors* section).

Our capital management practices are described in our 2016 Consolidated Financial Statements in Note 23 *"Capital management"*.

Working Capital Credit Facility

The Company entered into an asset-based working capital credit facility in November 2010 with the Royal Bank of Canada as 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, and increased from $120.0 million to $180.0 million. The working capital credit facility provides for the rates noted in the following table, based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement. The rates at which the Company is currently borrowing are also noted in the following table.

Per Credit Agreement		As at July 1, 2017
Canadian Prime Rate loans denominated in CAD, 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%	plus 0.00%
Bankers' Acceptances ("BA") loans at BA rates	plus 1.25% to 1.75%	plus 1.25%
LIBOR advances at LIBOR	plus 1.25% to 1.75%	plus 1.25%
Letters of credit with fees of	1.25% to 1.75%	1.25%
Standby fees of	0.25% to 0.375%	0.375%

Average short-term borrowings were $13.0 million in the first half of 2017 compared to $18.8 million in the same period last year. This $5.7 million decrease primarily reflects the repayment of debt with cash flow provided by operating activities, partially offset by increased borrowings due to the acquisition of Rubicon.

At the end of the second quarter of 2017, the Company had $138.4 million (July 2, 2016: $142.5 million) of unused borrowing capacity taking into account both margin calculations and the total line availability. On July 1, 2017, letters of credit and standby letters of credit were outstanding in the amount of $17.9 million (July 2, 2016: $15.5 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 $138.4 million of unused borrowing capacity noted above.

Additional details regarding the Company's working capital facility are provided in Note 6 *"Bank Loans"* to the Consolidated Financial Statements.

We expect average short-term borrowings at the end of 2017 to be higher than the first half of 2017, and we believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

Term Loan Facility

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. In June 2017 the term loan facility was increased from $300.0 million to $370.0 million to facilitate the Rubicon acquisition (see the *Recent Developments* section on page 4 for further discussion). The $70.0 million addition to the term loan was made in accordance with the term loan credit agreement, which provides for incremental increases that meet stated provisions, at consistent terms.

Minimum repayments on the term loan are required on an annual basis, plus, based on a leverage test, additional payments could be required of up to 50% of the previous year's defined excess cash flow. There were excess cash flows in 2015, due largely to decreased working capital and capital expenditures in 2015 as compared to 2014, and as a result, an excess cash flow payment of $11.8 million was made in March 2016. In addition, the Company made a voluntary repayment of $15.0 million during the second quarter of 2016 to reduce excess cash balances. Quarterly principal repayments of $0.93 million are required on the term loan, however, as per the loan agreement, the mandatory excess cash flow payment and the voluntary repayment will be applied to future regularly scheduled principal repayments. As such, no regularly scheduled principal repayments are required in 2017.

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

During the twenty-six weeks ended July 1, 2017, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility:

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

As of July 1, 2017, the combined impact of the interest rate swaps listed above effectively fix the interest rate on $120.0 million of the $370.0 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 when LIBOR is higher than the embedded floor of 1.0%.

Additional details regarding the Company's term loan are provided in Note 7 *"Long-term debt and finance lease obligations"* to the Consolidated Financial Statements.

Net Interest-Bearing Debt

The Company's net interest-bearing debt (as calculated in the *Non-IFRS Financial Measures* section on page 26 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs) and finance leases, less cash. Net interest-bearing debt increased by $73.7 million to $349.8 million at July 1, 2017 compared to $276.1 million at July 2, 2016, reflecting the acquisition of Rubicon.

Including trailing twelve month Adjusted EBITDA for Rubicon, net interest-bearing debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 23 of this MD&A for further discussion of Adjusted EBITDA) was 4.3x at July 1, 2017 compared to 3.1x at the end of Fiscal 2016. Excluding trailing twelve month Adjusted EBITDA for Rubicon, net interest-bearing debt to Adjusted EBITDA was as shown in the table below. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2017, we expect this ratio to approximate 4.0x by the end of 2017.

(Amounts in $000s, except as otherwise noted)		Twelve months ended July 1, 2017		December 31, 2016
Net interest-bearing debt	**$**	**349,821**	$	252,056
Adjusted EBITDA	**$**	**69,382**	$	81,384
Net interest-bearing debt to Adjusted EBITDA ratio (times)		**5.0x**		3.1x

Capital Structure

At July 1, 2017, net interest-bearing debt was 58.1% of total capitalization, as compared to 56.3% at July 2, 2016.

(Amounts in $000s)	July 1, 2017	July 2, 2016	December 31, 2016
Net interest-bearing debt	**$ 349,821**	$ 276,111	$ 252,056
Shareholders' equity	**251,849**	212,931	220,204
Unrealized losses (gains) on derivative financial instruments included in AOCI	**456**	1,610	(561)
Total capitalization	**$ 602,126**	$ 490,652	$ 471,699
Net interest-bearing debt as percentage of total capitalization	**58.1%**	56.3%	53.4%

Using our July 1, 2017 market capitalization of $449.0 million, based on a share price of CAD$17.49 (USD$13.47 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization decreased to 43.8%.

Cash Flow

	Thirteen weeks ended			Twenty-six weeks ended		
(Amounts in $000s)	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid	**$ 6,039**	$ 17,335	**$ (11,296)**	**$ 27,954**	$ 45,116	**$ (17,162)**
Interest paid	**(3,995)**	(3,828)	**(167)**	**(7,388)**	(7,547)	**159**
Income taxes (paid) refunded	**(5,421)**	8	**(5,429)**	**(7,845)**	(3,726)	**(4,119)**
Cash flows provided by operations, including interest and income taxes, and before change in non-cash working capital balances	**(3,377)**	13,515	**(16,892)**	**12,721**	33,843	**(21,122)**
Net change in non-cash working capital balances	**13,083**	4,594	**8,489**	**(15,300)**	14,033	**(29,333)**
Net cash flows provided by (used in) operating activities	**9,706**	18,109	**(8,403)**	**(2,579)**	47,876	**(50,455)**
Net cash flows provided by (used in) financing activities	**68,785**	(20,722)	**89,507**	**72,825**	(43,352)	**116,177**
Net cash flows used in investing activities	**(81,591)**	(3,360)	**(78,231)**	**(86,986)**	(4,293)	**(82,693)**
Foreign exchange (decrease) increase on cash	**(376)**	1,080	**(1,456)**	**118**	217	**(99)**
Net change in cash during the period	**$ (3,476)**	$ (4,893)	**$ 1,417**	**$ (16,622)**	$ 448	**$ (17,070)**

Net cash flows provided by (used in) operating activities decreased by $8.4 million in the second quarter of 2017 to $9.7 million compared to $18.1 million in the second quarter of 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, decreased $16.9 million in the second quarter of 2017 to an outflow of $3.4 million compared to an inflow of $13.5 million in the same period last year. This decrease reflects less favourable results from operations and higher income tax payments.
- Cash flows from changes in net non-cash working capital increased by $8.5 million in the second quarter of 2017 to $13.1 million compared to $4.6 million in the same period last year. This increase primarily reflects more favourable changes in accounts receivable, partially offset by less favourable changes in inventories during the second quarter of 2017 compared to the same period last year.

Net cash flows provided by (used in) operating activities decreased by $50.5 million in the first half of 2017 to $2.6 million compared to $47.9 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, decreased $21.1 million in the first half of 2017 to $12.7 million compared to $33.8 million in the same period last year. This decrease reflects less favourable results from operations and higher income tax payments.
- Cash flows from changes in net non-cash working capital decreased by $29.3 million in 2017 to $15.3 million compared to $14.0 million in the same period last year. This decrease primarily reflects less favourable changes in inventories and provisions, partially offset by more favourable changes in accounts receivable during the first half of 2017 compared to the same period last year.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 26 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended July 1, 2017 decreased by $81.3 million to $5.0 million compared to $86.3 million for the twelve months ended July 2, 2016. This decrease reflects a less favourable change in working capital, lower cash flow from operating activities, including interest and income taxes, and higher capital expenditures during the twelve months ended July 1, 2017 as compared to the twelve months ended July 2, 2016.

Net Non-Cash Working Capital

(Amounts in $000s)	July 1, 2017	December 31, 2016	Change
Accounts receivable	**$ 87,616**	$ 75,190	**$ 12,426**
Inventories	**293,327**	252,059	**41,268**
Prepaid expenses	**3,933**	3,340	**593**
Accounts payables and accrued liabilities	**(174,268)**	(139,378)	**(34,890)**
Provisions	**(4,514)**	(386)	**(4,128)**
Net non-cash working capital	**$ 206,094**	$ 190,825	**$ 15,269**

Net non-cash working capital consists of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions. Net non-cash working capital increased by $15.3 million to $206.1 million at the end of the second quarter of 2017, primarily reflecting increased accounts receivable and inventory, partially offset by higher accounts payable and accrued liabilities, all largely due to the acquisition of Rubicon and the timing of working capital requirements.

Our working capital requirements fluctuate during the year, usually peaking between December and April as our inventory is the highest at that time. Going forward, we expect the trend of inventory peaking between December and April to continue, and believe we have enough availability on our working capital credit facility to finance our working capital requirements throughout 2017.

Capital Expenditures

Gross capital expenditures (including finance leases) were $6.9 million and $12.6 million for the second quarter and the first half of 2017 respectively, as compared to capital expenditures of $3.7 million and $5.1 million the for second quarter and the first half of 2016, respectively, due to the timing of expenditures.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2017 will be between $18.0 million and $20.0 million and funded by cash generated from operations and short-term borrowings.

Dividends

The Company paid a CAD per share quarterly dividend on June 15, 2017 to common shareholders of record on June 1, 2017.

On August 14, 2017, the Company's Board of Directors approved a quarterly dividend of CAD$0.14 per share on the Company's common shares, payable on September 15, 2017 to holders of record on September 1, 2017.

These dividends are "eligible dividends" for Canadian income tax purposes.

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 $127.5 million on July 1, 2017, and NCIBs are subject to an annual limit of $10.0 million; and
- Under the term loan facility, dividends cannot exceed $17.5 million per year. This amount increases to the greater of $25.0 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan when the defined total leverage ratio is below 4.50x and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 4.3x on July 1, 2017. NCIBs are subject to an annual limit of $10.0 million under the term loan facility.

Contractual Obligations

Contractual obligations relating to our long-term debt, finance lease obligations, operating leases, purchase obligations and other long-term liabilities are as follows:

	Payments Due by Period			
(Amounts in $000s)	Total	Less than 1 year	1 - 5 Years	Thereafter
Long-term debt	$ 337,926	$ —	$ 337,926	$ —
Finance lease obligations	1,343	695	648	—
Other current and long-term liabilities	2,169	509	1,660	—
Operating leases	19,836	4,619	14,495	722
Purchase obligations	178,701	168,699	10,002	—
Total contractual obligations	$ 539,975	$ 174,522	$ 364,731	$ 722

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* section on page 30 and the *Foreign Currency* section on page 29 of this MD&A for further details.

Financial Instruments and Risk Management

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

Readers are directed to Note 15 "*Fair value measurement*" of the Consolidated Financial Statements for a complete description of the Company's use of derivative financial instruments and their impact on the financial results, and to Note 24, *Financial risk management objectives and policies* of the Company's annual consolidated financial statements for further discussion of the Company's financial risks and policies.

Disclosure of Outstanding Share Data

On August 14, 2017, 33,332,387 common shares and 1,692,014 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

RELATED PARTY TRANSACTIONS

As a result of the Rubicon acquisition, the Company has right of first refusal on certain commodity seafood sales from a company controlled by Brian Wynn, who is now part of the Company's management. Total purchases from this company for the thirteen and twenty-six weeks ended July 1, 2017 were $1.2 million (thirteen and twenty-six weeks ended July 2, 2016: $nil), and as at July 1, 2017 there was $1.5 million (July 2, 2016: $nil) due to the related parties.

Refer to Note 20 *"Related party disclosures"* to the 2016 annual consolidated financial statements in our 2016 Annual Report for a further description of the Company's related party transactions which are substantially unchanged in 2017.

OUTLOOK

Having returned to year-over-year organic sales volume growth in the second quarter of 2017, the Company believes continued improvement in its manufacturing operations will return it to year-over-year earnings growth in the third and fourth quarter of 2017. A full recovery from the product recall and the acquisition of Rubicon are expected to further strengthen financial performance in the back half of 2017.

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 following table reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, including the operating segment information disclosed in Note 14 *"Operating segment information"*.

			Thirteen weeks ended July 1, 2017				Thirteen weeks ended July 2, 2016	
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	**Canada**	**U.S.**	**Corporate**	**Total**
Net income (loss)	**$ 903**	**$ 3,103**	**$ (3,362)**	**$ 644**	$ 4,559	$ 10,178	$ (9,608)	$ 5,129
Add back:								
Depreciation and amortization	**478**	**3,137**	**293**	**3,908**	456	3,218	1,152	4,826
Financing costs	**—**	**—**	**3,661**	**3,661**	—	—	3,655	3,655
Income tax expense	**—**	**—**	**(3,172)**	**(3,172)**	—	—	(306)	(306)
Standardized EBITDA	**1,381**	**6,240**	**(2,580)**	**5,041**	5,015	13,396	(5,107)	13,304
Add back (deduct):								
Business acquisition, integration and other expenses	**—**	**—**	**625**	**625**	—	—	903	903
Loss (gain) on disposal of assets	**43**	**30**	**(1)**	**72**	(46)	32	(29)	(43)
Direct costs and returned destroyed product[(1)]	**1,882**	**4,832**	**—**	**6,714**	—	—	—	—
Share-based compensation expense	**—**	**—**	**965**	**965**	—	—	957	957
Adjusted EBITDA	**$ 3,306**	**$ 11,102**	**$ (991)**	**$ 13,417**	$ 4,969	$ 13,428	$ (949)	$ 17,448

			Twenty-six weeks ended July 1, 2017				Twenty-six weeks ended July 2, 2016	
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	**Canada**	**U.S.**	**Corporate**	**Total**
Net income (loss)	**$ 3,965**	**$ 19,615**	**$ (12,194)**	**$ 11,386**	$ 10,324	$ 30,489	$ (21,504)	$ 19,309
Add back:								
Depreciation and amortization	**923**	**6,028**	**572**	**7,523**	912	6,713	1,894	9,519
Financing costs	**—**	**—**	**7,209**	**7,209**	—	—	7,275	7,275
Income tax expense	**—**	**—**	**755**	**755**	—	—	5,461	5,461
Standardized EBITDA	**4,888**	**25,643**	**(3,658)**	**26,873**	11,236	37,202	(6,874)	41,564
Add back (deduct):								
Business acquisition, integration and other expenses	**—**	**—**	**901**	**901**	—	—	2,347	2,347
Impairment of property, plant and equipment	**—**	**—**	**—**	**—**	—	—	2,327	2,327
Loss (gain) on disposal of assets	**30**	**59**	**(1)**	**88**	(80)	37	(22)	(65)
Direct costs and returned destroyed product[(1)]	**1,882**	**4,832**	**—**	**6,714**	—	—	—	—
Share-based compensation expense	**—**	**—**	**1,177**	**1,177**	—	—	1,582	1,582
Adjusted EBITDA	**$ 6,800**	**$ 30,534**	**$ (1,581)**	**$ 35,753**	$ 11,156	$ 37,239	$ (640)	$ 47,755

(1) Associated with the product recall (see the *Recent Developments* section on page 4).

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 1, 2017		Thirteen weeks ended July 2, 2016	
	$000s	**Diluted EPS**	**$000s**	**Diluted EPS**
Net income	**$ 644**	**$ 0.02**	$ 5,129	$ 0.16
Add back:				
Business acquisition, integration and other expenses	**625**	**0.02**	903	0.03
Impairment of property, plant and equipment	—	—	2,327	0.07
Accelerated depreciation on equipment as part of the cessation of operations	—	—	871	0.03
Direct costs and returned destroyed product[1]	**6,714**	**0.21**	—	—
Mark-to-market gain on interest rate swaps not designated for hedge accounting	—	—	(3)	—
Share-based compensation expense	**965**	**0.03**	958	0.03
Tax impact of reconciling items	**$ (2,894)**	**$ (0.09)**	$ (1,661)	$ (0.05)
Adjusted Net Income	**$ 6,054**	**$ 0.19**	$ 8,524	$ 0.27
Average shares for the period (000s)		**32,017**		31,105

	Twenty-six weeks ended July 1, 2017		Twenty-six weeks ended July 2, 2016	
	$000s	**Diluted EPS**	**$000s**	**Diluted EPS**
Net income	**$ 11,386**	**$ 0.36**	$ 19,309	$ 0.62
Add back:				
Business acquisition, integration and other expenses	**901**	**0.03**	2,347	0.08
Impairment of property, plant and equipment	—	—	2,327	0.07
Accelerated depreciation on equipment as part of the cessation of operations	—	—	1,358	0.04
Direct costs and returned destroyed product[1]	**6,714**	**0.21**	—	—
Mark-to-market gain on interest rate swaps not designated for hedge accounting	—	—	(127)	—
Share-based compensation expense	**1,177**	**0.04**	1,582	0.05
Tax impact of reconciling items	**$ (3,309)**	**$ (0.11)**	$ (2,441)	$ (0.08)
Adjusted Net Income	**$ 16,869**	**$ 0.53**	$ 24,355	$ 0.78
Average shares for the period (000s)		**31,594**		31,068

[1] Associated with the product recall (see the *Recent Developments* section on page 4).

CAD-Equivalent Adjusted Diluted EPS

CAD-Equivalent Adjusted Diluted EPS is Adjusted Diluted EPS, as defined above, converted to CAD using the average USD/CAD exchange rate for the period. High Liner Foods' common shares trade on the TSX and are quoted in CAD. The CAD-Equivalent Adjusted Diluted EPS is provided for the purpose of calculating financial ratios, like share price-to-earnings ratio, where investors should take into consideration that the Company's share price and dividend rate are reported in CAD and its earnings and financial position are reported in USD. This measure is included for illustrative purposes only, and would not equal the Adjusted Diluted EPS in CAD that would result if the Company's Consolidated Financial Statements were presented in CAD.

	Thirteen weeks ended		Twenty-six weeks ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Adjusted Diluted EPS	**$ 0.19**	$ 0.27	**$ 0.53**	$ 0.78
Average foreign exchange rate for the period	**1.3448**	1.2883	**1.3343**	1.3302
CAD-Equivalent Adjusted Diluted EPS	**$ 0.26**	$ 0.35	**$ 0.71**	$ 1.04

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 1, 2017	July 2, 2016	$ Change
Net change in non-cash working capital items	**$ (3,386)**	$ 47,140	$ (50,526)
Cash flow from operating activities, including interest and income taxes	**32,947**	56,060	(23,113)
Cash flow from operating activities	**29,561**	103,200	(73,639)
Less: total capital expenditures, net of investment tax credits	**(24,540)**	(16,853)	(7,687)
Standardized Free Cash Flow	**$ 5,021**	$ 86,347	$ (81,326)

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 $000s)		July 1, 2017		July 2, 2016
Current bank loans	**$**	**11,906**	$	7,471
Add-back: deferred finance costs on current bank loans		**276**		424
Total current bank loans		**12,182**		7,895
Long-term debt		**335,205**		266,084
Add-back: deferred finance costs on long-term debt		**2,721**		1,842
Total term loan debt		**337,926**		267,926
Long-term portion of finance lease obligations		**648**		851
Current portion of finance lease obligations		**695**		930
Total finance lease obligation		**1,343**		1,781
Less: cash		**(1,630)**		(1,491)
Net interest-bearing debt	**$**	**349,821**	$	276,111

GOVERNANCE

In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, our certifying officers have limited the scope of their design of disclosure controls and procedures, and our Company's internal control over financial reporting ("ICFR") to exclude controls, policies and procedures relating to the acquisition of Rubicon (see the *Recent Developments* section on page 4) and they have not performed sufficient procedures to include Rubicon in the Company's certifications. National Instrument 52-109 permits a business that an issuer acquires not more than 365 days before the issuer's financial year-end be excluded from the scope of the certifications to allow for sufficient time to perform adequate procedures to ensure controls, policies and procedures are effective. Rubicon contributed $17.7 million to sales and $2.1 million to gross profit in the second quarter of 2017. Information concerning assets and liabilities acquired as part of the acquisition of Rubicon is provided in Note 3 *Business combinations* to the Consolidated Financial Statements.

There has been no change in the Company's ICFR, during the period beginning on January 1, 2017 and ending July 1, 2017 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 Consolidated Financial Statements are described in the Company's 2016 annual MD&A and annual consolidated financial statements for the year ended December 31, 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 thirteen and twenty-six weeks ended July 1, 2017.

Accounting Standards

The accounting policies adopted in preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts* and various revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard will be applicable to all contracts the Company has with customers. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new revenue standard is effective for annual periods beginning on or after January 1, 2018.

The Company is progressing through its assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements. The Company currently does not anticipate the new revenue standard to materially impact its consolidated financial statements. The Company is focusing its analysis on determining the transaction price in a contract with a customer. Under IFRS 15, the Company will include estimates of variable consideration, such as sales incentives, in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue will not occur when the uncertainty is resolved. As the Company progresses in its assessment, it continues to evaluate the impact of the new standard on its consolidated financial statements.

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 2016 annual consolidated financial statements for the year ended December 31, 2016.

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 2016 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 included new risk factors and updated certain risk factors below for the first half of 2017.

Acquisition and Integration Risk

A component of the Company's strategy is to pursue acquisition opportunities to support sales and earnings growth and further species diversification. While management intends to be careful in selecting businesses to acquire, acquisitions inherently involve a number of risks, including, but not limited to, the possibility that the Company pays more than the acquired assets are worth; the additional expense associated with completing an acquisition; the difficulty of assimilating the operations and personnel of the acquired business; the challenge of implementing uniform standards, controls procedures and policies throughout the acquired business; the inability to integrate, train, retain and motivate

key personnel of the acquired business; the potential disruption to the Company's ongoing business and the distraction of management from the Company's day-to-day operations; the inability to incorporate acquired businesses successfully into the Company's existing operations; and the potential impairment of relationships with the Company's employees, suppliers and customers. If any one or more of such risks materialize, they could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

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

Product Recall

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

As discussed in the *Recent Developments* section on page 4, the Company initiated a product recall during the second quarter of 2017, and has estimated the costs associated with this recall. Our estimates are provisional and were determined based on an assessment of the information available up to the date of filing of this report, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company expects to recover substantially all of the estimated losses from the ingredient supplier, and will record these recoveries in the period in which they occur or are virtually certain to occur, however there can be no assurance that amounts will be recovered.

Foreign Currency

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 strengthened relative to the U.S. dollar approximately 0.2% as of July 1, 2017 compared to July 2, 2016. On our balance sheet, this increases the USD carrying value of both CAD-denominated assets and liabilities and decreases 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 2017, our hedging activities resulted in an effective USD/CAD exchange rate of 1.3371 for inventory purchased in USD by our Canadian Operations, compared to 1.3255 for the second quarter of 2016.

Our risk management strategy with respect to exposure to the Canadian dollar is fully explained in the MD&A in our 2016 Annual Report.

Procurement

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2016, the Company purchased approximately 198 million pounds of seafood, with an approximate value of $518 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 and Non-Seafood Goods

Historically, North American markets have consumed less seafood per capita than certain Asian and European markets. If increased global seafood demand results in materially higher prices, North American consumers may be less likely to consume amounts historically consistent with their share of the global seafood market, which may adversely affect the financial results of High Liner Foods due to 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 25% 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.

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

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the thirteen and twenty-six weeks ended July 1, 2017
With comparative figures as at and for the thirteen and twenty-six weeks ended July 2, 2016

HIGH LINER FOODS INCORPORATED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(unaudited, in thousands of United States dollars)

	Notes	July 1, 2017	December 31, 2016
ASSETS			
Current			
Cash		$ **1,630**	$ 18,252
Accounts receivable		**87,616**	75,190
Income taxes receivable		**9,309**	4,809
Other financial assets	**15**	**490**	1,705
Inventories		**293,327**	252,059
Prepaid expenses		**3,933**	3,340
Total current assets		**396,305**	355,355
Non-current			
Property, plant and equipment		**120,129**	111,322
Deferred income taxes	**11**	**3,305**	2,290
Other receivables and miscellaneous assets	**15**	**495**	864
Intangible assets		**152,198**	97,176
Goodwill		**157,525**	118,101
Total non-current assets		**433,652**	329,753
Total assets	**6,7**	$ **829,957**	$ 685,108
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank loans	**6**	$ **11,906**	$ 621
Accounts payable and accrued liabilities		**174,268**	139,378
Provisions		**4,514**	386
Other current financial liabilities	**15**	**1,835**	1,626
Other current liabilities		**509**	416
Income taxes payable		**—**	851
Current portion of finance lease obligations		**695**	721
Total current liabilities		**193,727**	143,999
Non-current liabilities			
Long-term debt	**7**	**335,205**	266,327
Other long-term financial liabilities	**15**	**277**	196
Other long-term liabilities		**1,660**	888
Long-term finance lease obligations		**648**	702
Deferred income taxes	**11**	**36,443**	44,602
Future employee benefits		**10,148**	8,190
Total non-current liabilities		**384,381**	320,905
Total liabilities		**578,108**	464,904
Shareholders' equity			
Common shares	**9**	**112,037**	86,094
Contributed surplus		**14,894**	14,654
Retained earnings		**147,138**	143,782
Accumulated other comprehensive loss		**(22,220)**	(24,326)
Total shareholders' equity		**251,849**	220,204
Total liabilities and shareholders' equity		$ **829,957**	$ 685,108

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 1, 2017	July 2, 2016	**July 1, 2017**	July 2, 2016
Revenues		**$ 232,385**	$ 224,388	**$ 508,120**	$ 515,827
Cost of sales		**194,578**	177,677	**414,805**	403,687
Gross profit		**37,807**	46,711	**93,315**	112,140
Distribution expenses		**11,234**	10,651	**23,259**	23,178
Selling, general and administrative expenses		**24,815**	24,352	**49,805**	52,243
Impairment of property, plant and equipment		**—**	2,327	**—**	2,327
Business acquisition, integration and other expenses		**625**	903	**901**	2,347
Results from operating activities		**1,133**	8,478	**19,350**	32,045
Finance costs		**3,661**	3,655	**7,209**	7,275
(Loss) income before income taxes		**(2,528)**	4,823	**12,141**	24,770
Income taxes					
Current	**11**	**(679)**	625	**2,229**	5,818
Deferred	**11**	**(2,493)**	(931)	**(1,474)**	(357)
Total income tax (recovery) expense		**(3,172)**	(306)	**755**	5,461
Net income		**$ 644**	$ 5,129	**$ 11,386**	$ 19,309
Earnings per common share					
Basic		**$ 0.02**	$ 0.17	**$ 0.37**	$ 0.62
Diluted		**$ 0.02**	$ 0.16	**$ 0.36**	$ 0.62
Weighted average number of shares outstanding					
Basic		**31,824,125**	30,910,000	**31,395,833**	30,924,872
Diluted		**32,016,708**	31,104,824	**31,593,857**	31,068,306

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 1, 2017	July 2, 2016	**July 1, 2017**	July 2, 2016
Net income	**$ 644**	$ 5,129	**$ 11,386**	$ 19,309
Other comprehensive income (loss), net of income tax (Note 11)				
Other comprehensive income (loss) to be reclassified to net income:				
Gain on hedge of net investment in foreign operations	**8,754**	722	**10,556**	13,295
Loss on translation of net investment in foreign operations	**(12,240)**	(991)	**(14,905)**	(19,622)
Translation impact on Canadian dollar denominated non-AOCI items	**6,563**	597	**8,048**	12,755
Translation impact on Canadian dollar denominated AOCI items	**(476)**	(20)	**(576)**	(974)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	**2,601**	308	**3,123**	5,454
Effective portion of changes in fair value of cash flow hedges	**(1,212)**	(879)	**(1,397)**	(3,996)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	**(95)**	(45)	**(212)**	(1,230)
Net change in fair value of cash flow hedges transferred to income	**152**	164	**327**	74
Translation impact on Canadian dollar denominated AOCI items	**198**	25	**265**	565
Total exchange losses on cash flow hedges	**(957)**	(735)	**(1,017)**	(4,587)
Net other comprehensive gain (loss) to be reclassified to net income	**1,644**	(427)	**2,106**	867
Other comprehensive loss not to be reclassified to net income:				
Defined benefit plan actuarial losses	**(969)**	(84)	**(1,237)**	(747)
Other comprehensive income (loss), net of income tax	**675**	(511)	**869**	120
Total comprehensive income	**$ 1,319**	$ 4,618	**$ 12,255**	$ 19,429

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 December 31, 2016	**$ (24,887)**	**$ 561**	**$ (24,326)**
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	**3,123**	**—**	**3,123**
Total exchange losses on cash flow hedges	**—**	**(1,017)**	**(1,017)**
Balance at July 1, 2017	**$ (21,764)**	**$ (456)**	**$ (22,220)**
Balance at January 2, 2016	$ (27,582)	$ 2,977	$ (24,605)
Total exchange losses 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)

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 December 31, 2016	**$ 86,094**	**$ 14,654**	**$ 143,782**	**$ (24,326)**	**$ 220,204**
Other comprehensive income	**—**	**—**	**(1,237)**	**2,106**	**869**
Net income	**—**	**—**	**11,386**	**—**	**11,386**
Common share dividends	**—**	**—**	**(6,747)**	**—**	**(6,747)**
Share-based compensation	**185**	**240**	**—**	**—**	**425**
Share issuance	**25,758**	**—**	**(46)**	**—**	**25,712**
Balance at July 1, 2017	**$ 112,037**	**$ 14,894**	**$ 147,138**	**$ (22,220)**	**$ 251,849**
Balance at January 2, 2016	$ 85,282	$ 13,999	$ 123,949	$ (24,605)	$ 198,625
Other comprehensive income	—	—	(747)	867	120
Net income	—	—	19,309	—	19,309
Common share dividends	—	—	(5,853)	—	(5,853)
Share-based compensation	338	504	—	—	842
Common shares repurchased for cancellation	(21)	—	(91)	—	(112)
Balance at July 2, 2016	$ 85,599	$ 14,503	$ 136,567	$ (23,738)	$ 212,931

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 1, 2017	Thirteen weeks ended July 2, 2016	Twenty-six weeks ended July 1, 2017	Twenty-six weeks ended July 2, 2016
Cash flows provided by (used in):					
Operating activities					
Net income		**$ 644**	$ 5,129	**$ 11,386**	$ 19,309
Adjustments to net income not involving cash from operations:					
Depreciation and amortization	**14**	**3,908**	4,826	**7,523**	9,519
Share-based compensation expense	**10**	**965**	957	**1,177**	1,582
Loss on asset disposals and impairment		**118**	2,403	**165**	2,416
Future employee benefits contribution, net of expense		**50**	40	**146**	(64)
Finance costs		**3,661**	3,655	**7,209**	7,275
Income tax (recovery) expense	**11**	**(3,172)**	(305)	**755**	5,461
Unrealized foreign exchange (gain) loss		**(135)**	630	**(407)**	(382)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		**6,039**	17,335	**27,954**	45,116
Changes in non-cash working capital balances:					
Accounts receivable		**30,221**	5,089	**2,505**	(2,948)
Inventories		**(14,587)**	(5,781)	**20,052**	48,069
Prepaid expenses		**(1,401)**	(407)	**(223)**	(514)
Accounts payable and accrued liabilities		**(2,690)**	1,996	**(41,729)**	(38,038)
Provisions		**1,540**	3,697	**4,095**	7,464
Net change in non-cash working capital balances		**13,083**	4,594	**(15,300)**	14,033
Interest paid		**(3,995)**	(3,828)	**(7,388)**	(7,547)
Income taxes paid		**(5,421)**	8	**(7,845)**	(3,726)
Net cash flows provided by (used in) operating activities		**9,706**	18,109	**(2,579)**	47,876
Financing activities					
Increase (decrease) in bank loans		**3,811**	(2,290)	**11,306**	(10,148)
Repayment of finance lease obligations		**(174)**	(241)	**(417)**	(458)
Proceeds of long-term debt	**7**	**70,000**	—	**70,000**	—
Repayment of long-term debt	**7**	**—**	(15,000)	**—**	(26,824)
Deferred finance costs		**(1,244)**	—	**(1,244)**	—
Common share dividends paid		**(3,535)**	(3,079)	**(6,747)**	(5,853)
Common share repurchase for cancellation		**—**	(112)	**—**	(112)
Options exercised for shares		**—**	—	**—**	43
Share issuance		**(73)**	—	**(73)**	—
Net cash flows provided by (used in) financing activities		**68,785**	(20,722)	**72,825**	(43,352)
Investing activities					
Purchase of property, plant and equipment, net of investment tax credits		**(6,748)**	(3,389)	**(12,233)**	(4,427)
Net proceeds on disposal of assets		**68**	29	**158**	134
Acquisition of business, net of cash acquired	**3**	**(74,911)**	—	**(74,911)**	—
Net cash flows used in investing activities		**(81,591)**	(3,360)	**(86,986)**	(4,293)
Foreign exchange (decrease) increase on cash		**(376)**	1,080	**118**	217
Net change in cash during the period		**(3,476)**	(4,893)	**(16,622)**	448
Cash, beginning of period		**5,106**	6,384	**18,252**	1,043
Cash, end of period		**$ 1,630**	$ 1,491	**$ 1,630**	$ 1,491

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 1, 2017, comprise High Liner Foods' Canadian company (the "Parent") and its subsidiaries (herein together referred to as the "Company" or "High Liner Foods"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on August 14, 2017.

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 December 31, 2016, as set out in the 2016 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 December 31, 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 December 31, 2016.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts* and various revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard will be applicable to all contracts the Company has with customers. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new revenue standard is effective for annual periods beginning on or after January 1, 2018.

The Company is progressing through its assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements. The Company currently does not anticipate the new revenue standard to materially impact its consolidated financial statements. The Company is focusing its analysis on determining the transaction price in a contract with a customer. Under IFRS 15, the Company will include estimates of variable consideration, such as sales incentives, in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue will not occur when the uncertainty is resolved. As the Company progresses in its assessment, it continues to evaluate the impact of the new standard on its consolidated financial statements.

3. Business combinations

Acquisition of Rubicon Resources, LLC

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

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

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

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

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

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

The following sets forth the preliminary allocation of the purchase price to assets and liabilities acquired, based on preliminary estimates of fair values. The final valuations of intangible assets, which may impact the amount allocated to goodwill and the deferred income tax liability, are not yet complete due to the timing of the acquisition and the inherent complexity associated with the valuations. This is a preliminary purchase price allocation and is therefore subject to adjustment over the period to completion of the valuation process and analysis of resulting tax effects.

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

Receivables acquired were primarily comprised of receivables from Rubicon's customers. There is a low risk that these amounts will be uncollectable, and therefore no allowance was recorded against these amounts.

Goodwill recorded on this transaction represents the value anticipated to be created from the Company's ability to grow sales of shrimp throughout its operations. The goodwill, with a tax basis of $56.0 million, is deductible for income tax purposes.

In order to complete this acquisition, the Company incurred acquisition-related costs during the year in the form of advisory, legal and professional fees. Acquisition-related costs totaled $0.3 million and $0.6 million for the thirteen and twenty-six weeks ended July 1, 2017, respectively, and have been included in business acquisition, integration and other expenses on the consolidated statement of income.

From the date of acquisition, Rubicon contributed $17.7 million of revenue and $0.2 million of earnings before taxes, excluding one-time business acquisition costs. Had the acquisition occurred as of the beginning of the annual reporting period, January 1, 2017, the revenue for the combined entity, including Rubicon, would have been $595.7 million, and earnings before tax, excluding one-time business acquisition costs, for the combined entity would have been $14.1 million.

4. Revision of previously reported consolidated financial statements

During the first quarter of 2017, the Company identified an error related to the accounting for donated product received from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies. The Company has concluded that this error is immaterial to each of the prior periods. Therefore, comparative financial information has been adjusted, but previously filed reports have not been amended. For the year ended December 31, 2016, the adjustments decreased the Company's net income by $0.7 million. Retained earnings at January 2, 2016 was decreased by $1.9 million.

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

As at December 31, 2016		Previously reported		Adjustments		As adjusted
(Amounts in $000s)						
Consolidated Statement of Financial Position						
Income taxes receivable	$	3,783	$	1,026	$	4,809
Inventories		252,118		(59)		252,059
Accounts payable and accrued liabilities		135,272		4,106		139,378
Deferred income taxes		45,183		(581)		44,602
Retained earnings		146,340		(2,558)		143,782

Thirteen weeks ended July 2, 2016		Previously reported		Adjustments		As adjusted
(Amounts in $000s, except per share amounts)						
Consolidated Statement of Income						
Revenues	$	224,667	$	(279)	$	224,388
Income taxes						
Current		309		316		625
Deferred		(581)		(350)		(931)
Total income tax (recovery) expense		(272)		(34)		(306)
Net income		5,374		(245)		5,129
Earnings per common share						
Basic		0.17		—		0.17
Diluted		0.17		(0.01)		0.16
Consolidated Statement of Comprehensive Income						
Total comprehensive income	$	4,863	$	(245)	$	4,618

Twenty-six weeks ended July 2, 2016		Previously reported		Adjustments		As adjusted
(Amounts in $000s, except per share amounts)						
Consolidated Statement of Income						
Revenues	$	515,215	$	612	$	515,827
Income taxes						
Current		5,511		307		5,818
Deferred		(444)		87		(357)
Total income tax recovery		5,067		394		5,461
Net income		19,091		218		19,309
Earnings per common share						
Basic		0.61		0.01		0.62
Diluted		0.61		0.01		0.62
Consolidated Statement of Comprehensive Income						
Total comprehensive income	$	19,211		218		19,429

5. Product recall

Subsequent to the first quarter of 2017, the Company announced a voluntary recall of certain brands of breaded fish and seafood products sold in Canada that may contain a milk allergen that was not declared on the ingredient label and allergen statement. The Company identified that the allergen had originated from ingredients supplied by one of the Company's U.S.-based ingredient suppliers. During the thirteen weeks ended April 1, 2017, the Company recognized $0.7 million in costs associated with the return and destruction or re-work of product, consumer refunds and customer fines.

Subsequently, during the second quarter of 2017, the Company was notified by the ingredient supplier that several additional ingredients were being recalled due to the potential presence of undeclared milk, which necessitated the expansion of the Company's initial recall to include additional value-added seafood products sold in the U.S. and Canada. As a result, during the thirteen weeks ended July 1, 2017, the Company recognized further estimated losses associated with the return of product and direct incremental costs incurred by the Company of $8.6 million. These estimated losses do not include any reduction in earnings as a result of lost sales opportunities due to limited product availability and customer shortages, or increased production costs related to the interruption of production at the Company's facilities.

The Company's estimates related to the recall are provisional and were determined based on an assessment of the information available up to the date of filing of these financial statements, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company's estimates reflect the losses determined as at July 1, 2017 to be both probable and reasonably estimable, and therefore the Company may need to revise these estimates in subsequent periods as the Company continues to work with its customers to substantiate the claims received to date and any additional claims that may be received. These revisions may occur at any time and may be material.

6. Bank loans

(Amounts in $000s)		**July 1, 2017**		December 31, 2016
Bank loans, denominated in CAD (average variable rate of 2.70%; December 31, 2016: 2.70%)	**$**	**1,011**	$	959
Bank loans, denominated in USD (average variable rate of 4.46%; December 31, 2016: 4.00%)		**11,171**		—
		12,182		959
Less: deferred finance costs		**(276)**		(338)
	$	**11,906**	$	621

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 7), and excluding the assets acquired as part of the Rubicon acquisition (see Note 3). A second charge over the Company's plant and equipment is also in place. As at July 1, 2017 and December 31, 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 1, 2017, the Company had $138.4 million of undrawn borrowing facility (December 31, 2016: $151.6 million).

7. Long-term debt

(Amounts in $000s)		**July 1, 2017**		December 31, 2016
Term loan	**$**	**337,926**	$	267,926
Less: current portion		**—**		—
		337,926		267,926
Less: deferred finance costs		**(2,721)**		(1,599)
	$	**335,205**	$	266,327

As at July 1, 2017, the Company had a $370.0 million term loan facility with an interest rate of 3.25% plus LIBOR (LIBOR floor of 1.00%), maturing on April 24, 2021. The term loan facility was increased from $300.0 million to $370.0 million on June 6, 2017 to facilitate the Rubicon acquisition (see Note 3). The $70.0 million addition to the term loan was made in accordance with the term loan credit agreement, which provides for incremental increases that meet stated provisions, at consistent terms.

The regularly scheduled principal repayment terms are $0.9 million, paid on a quarterly basis. However, during the fifty-two weeks ended December 31, 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 2017.

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

8. 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. Severance and retention benefits that are dependent upon the continuing provision of services through to certain predefined dates, are recognized as short-term employee benefits. Employee benefits are included on the following line items in the consolidated statement of income:

	Thirteen weeks ended				Twenty-six weeks ended			
(Amounts in $000s)		**July 1, 2017**		July 2, 2016		**July 1, 2017**		July 2, 2016
Termination benefits								
Cost of sales	**$**	**18**	$	32	**$**	**44**	$	32
Distribution expenses		**13**		—		**13**		—
Selling, general and administrative expenses		**148**		362		**598**		699
	$	**179**	$	394	**$**	**655**	$	731
Short-term benefits								
Business acquisition, integration and other expenses	**$**	**—**	$	1,856	**$**	**—**	$	1,856
Selling, general and administrative expenses		**—**		(549)		**27**		—
	$	**—**	$	1,307	**$**	**27**	$	1,856

9. Share capital

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

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

	Twenty-six weeks ended **July 1, 2017**		Twenty-six weeks ended July 2, 2016	
	Shares	**($000s)**	Shares	($000s)
Balance, beginning of period	**30,889,078**	**$ 86,094**	30,874,164	$ 85,282
Shares issued on acquisition of Rubicon (Note 3)	**2,429,014**	**25,758**	—	—
Options exercised for shares	—	—	12,555	43
Options exercised for shares via cashless exercise method	**14,295**	—	8,725	—
Fair value of share-based compensation on options exercised	—	**185**	—	295
Shares repurchased for cancellation	—	—	(8,000)	(21)
Balance, end of period	**33,332,387**	**$ 112,037**	30,887,444	$ 85,599

During the thirteen and twenty-six weeks ended July 1, 2017, the Company distributed dividends per share of CAD$0.140 and CAD$0.280, respectively (thirteen and twenty-six weeks ended July 2, 2016: CAD$0.130 and CAD$0.250, respectively).

On August 14, 2017, the Company's Board of Directors declared a quarterly dividend of CAD$0.140 per share, payable on September 15, 2017 to shareholders of record as of September 1, 2017.

10. 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 which includes the potential issuances of restricted share units ("RSU"), and a Deferred Share Unit ("DSU") Plan for directors of the Company.

Issuances of options, RSUs and PSUs may not result in the following limitations being exceeded: (a) the aggregate number of shares issuable to insiders pursuant to the PSU Plan, the Share Option Plan (the "Option Plan") or any other share-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares at any time; and (b) the issuance from treasury to insiders, within a 12-month period, of an aggregate number of shares under the PSU Plan, the Option Plan and any other share-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares.

The carrying amount of cash-settled share-based compensation arrangements recognized in accounts payable and accrued liabilities, other current liabilities and other long-term liabilities on the consolidated statement of financial position, was $0.2 million, $0.5 million and $1.7 million, respectively, as at July 1, 2017 (December 31, 2016: $0.6 million, $0.4 million and $0.9 million, respectively).

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

(Amounts in $000s)	Thirteen weeks ended **July 1, 2017**	Thirteen weeks ended July 2, 2016	Twenty-six weeks ended **July 1, 2017**	Twenty-six weeks ended July 2, 2016
Cost of sales resulting from:				
Cash-settled awards	**$ —**	$ 69	**$ —**	$ 76
Equity-settled awards	**14**	27	**29**	64
Selling, general and administrative expenses resulting from:				
Cash-settled awards	**763**	530	**756**	730
Equity-settled awards	**188**	331	**392**	712
Share-based compensation expense[(1)]	**$ 965**	$ 957	**$ 1,177**	$ 1,582

[(1)] Cash-settled awards may include options with stock appreciation rights ("SAR"), RSUs, PSUs, and DSUs. Equity-settled awards include options.

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 1, 2017		July 2, 2016		**July 1, 2017**		July 2, 2016	
	No.	**WAEP (CAD)**	No.	WAEP (CAD)	**No.**	**WAEP (CAD)**	No.	WAEP (CAD)
Outstanding, beginning of period	**1,718,764**	**$ 18.40**	1,893,283	$ 17.77	**1,607,350**	**$ 18.21**	1,323,292	$ 18.98
Granted	**—**	**—**	—	—	**123,614**	**20.61**	654,196	15.29
Exercised for shares via cashless method [(1),(2)]	**(26,750)**	**8.92**	(25,790)	12.18	**(29,750)**	**9.56**	(25,790)	12.18
Exercised for shares [(2)]	**—**	**—**	(1,555)	5.17	**—**	**—**	(12,555)	5.17
Exercised for shares [(2)]	**(26,750)**	**8.92**	(27,345)	11.78	**(29,750)**	**9.56**	(38,345)	9.88
Exercised for cash [(2)]	**—**	**—**	(19,445)	5.65	**(3,000)**	**9.39**	(30,389)	6.58
Cancelled or forfeited	**—**	**—**	(38,582)	21.69	**(3,200)**	**15.30**	(100,843)	21.54
Expired	**—**	**—**	(6,000)	23.11	**(3,000)**	**23.21**	(6,000)	23.11
Outstanding, end of period	**1,692,014**	**$ 18.55**	1,801,911	$ 17.89	**1,692,014**	**$ 18.55**	1,801,911	$ 17.89
Exercisable, end of period	**1,094,112**	**$ 19.15**	942,164	$ 18.50	**1,094,112**	**$ 19.15**	942,164	$ 18.50

[(1)] For the thirteen and twenty-six weeks ended July 1, 2017, 13,836 and 14,295 shares were exercised via the cashless exercise method, respectively (thirteen and twenty-six weeks ended July 2, 2016: 8,752 shares).
[(2)] The weighted average share price at the date of exercise for these options was CAD$18.48 and CAD$18.40 for the thirteen and twenty-six weeks ended July 1, 2017 (thirteen and twenty-six weeks ended July 2, 2016: CAD$17.83 and CAD$17.12, respectively).

Set forth below is a summary of the outstanding options to purchase common shares as at July 1, 2017:

	Options outstanding			Options exercisable	
Option price (CAD)	**Number outstanding**	**Weighted average exercise price**	**Average life (years)**	**Number exercisable**	**Weighted average exercise price**
$8.25-$10.00	127,236	$ 9.1	0.39	127,236	$ 9.1
$10.01-$15.00	3,000	$ 14.03	3.75	3,000	$ 14.03
$15.01-$20.00	745,728	$ 15.62	3.16	350,831	$ 15.97
$20.01-$25.00	816,050	$ 22.72	2.16	613,045	$ 23.09
Total	1,692,014			1,094,112	

The fair value of options granted during the twenty-six weeks ended July 1, 2017 and 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 1, 2017	July 2, 2016
Dividend yield (%)	**2.72**	3.14
Expected volatility (%)	**33.87**	33.33
Risk-free interest rate (%)	**1.55**	0.63
Expected life (years)	**5.00**	5.20
Weighted average share price (CAD)	**$ 20.61**	$ 15.29
Weighted average fair value (CAD)	**$ 4.99**	$ 3.27

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 1, 2017	July 2, 2016	**July 1, 2017**	July 2, 2016
Outstanding, beginning of period	**248,213**	211,972	**216,070**	139,184
Granted	**1,277**	—	**87,471**	82,017
Reinvested dividends	**1,870**	1,464	**3,857**	3,130
Released and paid in cash	**—**	—	**(25,873)**	—
Forfeited	**—**	—	**(30,165)**	(10,895)
Outstanding, end of period	**251,360**	213,436	**251,360**	213,436

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 thirteen and twenty-six weeks ended July 1, 2017 was 62% (July 2, 2016: 66%) and the share price at the reporting date was CAD$17.49 (July 2, 2016: CAD$18.85). The PSUs will vest at the end of a three-year period, if agreed-upon performance measures are met (if applicable).

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

	Thirteen weeks ended **July 1, 2017**	Twenty-six weeks ended **July 1, 2017**
Outstanding, beginning of period	**56,718**	**—**
Granted	**4,520**	**60,784**
Reinvested dividends	**459**	**913**
Outstanding, end of period	**61,697**	**61,697**

The share price at the reporting date for the RSUs was CAD$17.49. The RSUs will vest at the end of a three-year period.

11. Income tax expense

The Company's statutory tax rate for the thirteen and twenty-six weeks ended July 1, 2017 was 29.2% (thirteen and twenty-six weeks ended July 2, 2016: 29.2%). The Company's effective income tax rate for the thirteen and twenty-six weeks ended July 1, 2017 was a recovery of 125.5% and an expense of 6.2%, respectively (thirteen and twenty-six weeks ended July 2, 2016: a recovery of 6.3% and an expense of 22.0%, respectively). The lower effective tax rate for the thirteen weeks ended July 1, 2017 compared to the prior year is attributable to the impact of acquisition financing deductions on lower pre–tax income.

The major components of income tax recovery in the consolidated statement of comprehensive income for the thirteen and twenty-six weeks ended July 1, 2017 and July 2, 2016 were as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**July 1, 2017**	July 2, 2016	**July 1, 2017**	July 2, 2016
Income tax expense (recovery) related to items recognized in other comprehensive income (loss):				
Gain on hedge of net investment in foreign operations	**$ 518**	$ (108)	**$ 774**	$ 1,632
Loss on translation of net investment in foreign operations	**(337)**	(83)	**(559)**	(1,767)
Effective portion of changes in fair value of cash flow hedges	**(434)**	(362)	**(510)**	(1,652)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	**(39)**	(18)	**(87)**	(500)
Net change in fair value of cash flow hedges transferred to income	**(2)**	68	**70**	31
Defined benefit plan actuarial (loss) gain	**(346)**	78	**(442)**	100
Income tax recovery recognized in other comprehensive income	**$ (640)**	$ (425)	**$ (754)**	$ (2,156)

12. Commitments

Guarantee of Supplier Financing Arrangement

As part of the Rubicon acquisition (see Note 3), the Company assumed financing arrangement guarantees for certain suppliers that finance their exports of seafood products to Rubicon. As part of this financing arrangement, the Company has granted a security interest in substantially all of the inventory and proceeds thereon arising from purchases from these suppliers and has guaranteed the suppliers' borrowings, to the extent that such borrowings were used in connection with the exportation of seafood products to Rubicon. The Company has deemed the amount of the guarantee to be the open accounts payable to these suppliers. As of July 1, 2017, the Company's open accounts payable to these suppliers was $48.1 million.

13. Related party transactions

As a result of the Rubicon acquisition, the Company has related party transactions with a company controlled by certain key management of Rubicon. Total purchases from related parties for the thirteen and twenty-six weeks ended July 1, 2017 were $1.2 million (thirteen and twenty-six weeks ended July 2, 2016: $nil), and as at July 1, 2017 there was $1.5 million (July 2, 2016: $nil) due to the related parties.

14. Operating segment information

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

				Thirteen weeks ended **July 1, 2017**				Thirteen weeks ended July 2, 2016
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Revenue (excluding intercompany sales)	**$ 65,124**	**$ 167,261**	**$ —**	**$232,385**	$ 63,440	$ 160,948	$ —	$224,388
Cost of sales (excluding intercompany sales)	**54,774**	**139,909**	**(105)**	**194,578**	50,018	127,650	9	177,677
Gross profit	**$ 10,350**	**$ 27,352**	**$ 105**	**$ 37,807**	$ 13,422	$ 33,298	$ (9)	$ 46,711
Income (loss) before income taxes	**$ 903**	**$ 3,103**	**$ (6,534)**	**$ (2,528)**	$ 4,559	$ 10,178	$ (9,914)	$ 4,823
Add back:								
Depreciation and amortization included in:								
Cost of sales	**312**	**1,258**	**40**	**1,610**	313	1,491	15	1,819
Distribution	**37**	**333**	**—**	**370**	38	412	—	450
Selling, general and administrative expenses	**129**	**1,546**	**253**	**1,928**	105	1,315	1,137	2,557
Total depreciation and amortization	**478**	**3,137**	**293**	**3,908**	456	3,218	1,152	4,826
Finance costs	**—**	**—**	**3,661**	**3,661**	—	—	3,655	3,655
Income (loss) before depreciation, amortization, finance costs and income taxes	**$ 1,381**	**$ 6,240**	**$ (2,580)**	**$ 5,041**	$ 5,015	$ 13,396	$ (5,107)	$ 13,304

				Twenty-six weeks ended **July 1, 2017**				Twenty-six weeks ended July 2, 2016
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Revenue (excluding intercompany sales)	**$128,007**	**$ 380,113**	**$ —**	**$508,120**	$ 122,824	$ 393,003	$ —	$515,827
Cost of sales (excluding intercompany sales)	**105,125**	**310,111**	**(431)**	**414,805**	94,724	310,397	(1,434)	403,687
Gross profit	**$ 22,882**	**$ 70,002**	**$ 431**	**$ 93,315**	$ 28,100	$ 82,606	$ 1,434	$112,140
Income (loss) before income taxes	**$ 3,965**	**$ 19,615**	**$ (11,439)**	**$ 12,141**	$ 10,324	$ 30,489	$ (16,043)	$ 24,770
Add back:								
Depreciation and amortization included in:								
Cost of sales	**631**	**2,508**	**54**	**3,193**	619	3,252	23	3,894
Distribution	**74**	**660**	**—**	**734**	74	830	—	904
Selling, general and administrative expenses	**218**	**2,860**	**518**	**3,596**	219	2,631	1,871	4,721
Total depreciation and amortization	**923**	**6,028**	**572**	**7,523**	912	6,713	1,894	9,519
Finance costs	**—**	**—**	**7,209**	**7,209**	—	—	7,275	7,275
Income (loss) before depreciation, amortization, finance costs and income taxes	**$ 4,888**	**$ 25,643**	**$ (3,658)**	**$ 26,873**	$ 11,236	$ 37,202	$ (6,874)	$ 41,564

	As at July 1, 2017				As at December 31, 2016			
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Total assets	**$136,437**	**$679,274**	**$ 14,246**	**$829,957**	$ 137,331	$ 522,426	$ 25,351	$ 685,108
Total liabilities	**$ 81,208**	**$ 97,590**	**$ 399,310**	**$578,108**	$ 109,910	$ 73,573	$ 281,421	$ 464,904

15. 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 1, 2017		December 31, 2016	
(Amounts in $000s)	**Level 2**	**Level 3**	Level 2	Level 3
Fair value of financial assets				
Foreign exchange contracts	**$ 611**	**$ —**	$ 1,883	$ —
Interest rate swaps	**374**	**—**	686	—
Fair value of financial liabilities				
Interest rate swaps	**525**	**—**	769	—
Foreign exchange contracts	**1,587**	**—**	1,053	—
Long-term debt	**—**	**335,142**	—	266,727
Finance lease obligations	**—**	**1,344**	—	1,434

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

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

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the twenty-six weeks ended July 1, 2017 no such transfers 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 $335.2 million and $1.3 million, respectively, as at July 1, 2017 (December 31, 2016: $266.3 million and $1.4 million, respectively).

Hedging activities

Interest rate swaps
During the twenty-six weeks ended July 1, 2017, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (see Note 7):

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

The cash flow hedge of interest expense variability was assessed to be highly effective for the thirteen and twenty-six weeks ended July 1, 2017 and July 2, 2016, 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 $0.4 million and $0.4 million, respectively and after-tax net losses of $0.6 million and $1.3 million, respectively.

During the thirteen and twenty-six weeks ended July 2, 2016, the change in fair value for an interest rate swap that was not designated in a formal hedging relationship was a net gain of $0.1 million.

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

As at July 1, 2017, the Company had outstanding notional amounts of $48.6 million in foreign currency average-rate forward contracts and $2.9 million in foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of $4.9 million average-rate forward contracts with maturities ranging from July 2018 to December 2018, 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 1, 2017 and July 2, 2016, and therefore, the change in fair value was recorded in OCI as after-tax net loss of $0.8 million and after-tax net loss of $1.0 million, respectively, and after-tax net losses of $0.2 million and $2.7 million, respectively. The amount recognized in the consolidated statement of income resulting from hedge ineffectiveness during the thirteen and twenty-six weeks ended July 1, 2017 was a net loss of $nominal and $nominal, respectively (July 2, 2016: $nil and net gain of $0.2 million).

As at July 1, 2017, the Company had outstanding notional amounts of $4.0 million foreign currency single-rate forward contracts outstanding to hedge foreign currency exchange risk on USD monetary assets and liabilities that were not formally designated as a hedge. The change in fair value for the thirteen and twenty-six weeks ended July 1, 2017 and July 2, 2016, was a net gain of $nominal and a net loss of $0.1 million, respectively and a net loss of $0.1 million and a net gain of $0.1 million, respectively, which was recorded in the consolidated statement of income.

Hedge of net investment in foreign operations
As at July 1, 2017, a total borrowing of $397.3 million ($20.0 million included in accounts payable and $377.3 million included in long-term debt) (December 31, 2016: $15.0 million included in accounts payable and $237.3 million included in long-term debt) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the 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 during the twenty-six weeks ended July 1, 2017 or July 2, 2016.