



**Third Quarter Report to Shareholders**

Thirteen and thirty-nine weeks ended October 1, 2016



**HIGH LINER FOODS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the thirteen and thirty-nine weeks ended October 1, 2016**

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

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## INTRODUCTION

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This Management's Discussion and Analysis ("MD&A"), dated November 9, 2016, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and thirty-nine weeks ended October 1, 2016, compared to the thirteen and thirty-nine weeks ended October 3, 2015. Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2015 Annual Report along with our Unaudited Condensed Interim Consolidated Financial Statements ("Consolidated Financial Statements") as at and for the thirteen and thirty-nine weeks ended October 1, 2016, prepared in accordance with International Financial Reporting Standards ("IFRS"). The information contained in this document, including forward-looking statements, is based on information available to Management as of November 9, 2016, except as otherwise noted.

### Non-IFRS Financial Measures

This document also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes. These non-IFRS measures do not have any standardized meaning as prescribed by IFRS, and therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures in the *Non-IFRS Financial Measures* section starting on page 20 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

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This MD&A contains forward-looking statements within the meaning of securities laws. In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. In addition, these statements and expectations concerning the performance of our business in general are based on a number of factors and assumptions including, but not limited to: availability, demand and prices of raw materials,

energy and supplies; the condition of the Canadian and American economies; product pricing; foreign exchange rates, especially the rate of exchange of the CAD to the USD; our ability to attract and retain customers; our operating costs and improvement to operating efficiencies; interest rates; continued access to capital; the competitive environment and related market conditions; and the general assumption that none of the risks identified below or elsewhere in this document will materialize.

Specific forward-looking statements in this document include, but are not limited to: statements with respect to: future growth strategies and their impact on the Company's market share and shareholder value; achievement, and timing of achievement, of strategic goals and publicly stated financial targets, including to increase our market share, acquire and integrate other businesses and reduce our operating and supply chain costs; and our ability to develop new and innovative products that result in increased sales and market share; increased demand for our products whether due to the recognition of the health benefits of seafood or otherwise; changes in costs for seafood and other raw materials; proposed disposal of assets and/or operations; increases or decreases in processing costs; the USD/CAD exchange rate; percentage of sales from our brands; expectations with regards to sales volume, earnings, product margins, product innovations, brand development and anticipated financial performance; competitor reaction to Company strategies and actions; impact of price increases or decreases on future profitability; sufficiency of working capital facilities; future income tax rates; the expected amount and timing of cost savings related to supply chain optimization initiatives, including, without limitation, related to the cessation of value-added fish processing operations at our New Bedford facility and the accounting implications of same; the expected amount and timing of integration activities and synergies related to acquisitions; decreased leverage in the future; estimated capital spending; future inventory trends and seasonality; market forces and the maintenance of existing customer and supplier relationships; availability of credit facilities; our projection of excess cash flow and minimum repayments under the Company's long-term loan facility; expected decreases in debt-to-capitalization ratio; dividend payments; and amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants.

Forward-looking statements can generally be identified by the use of the conditional tense, the words “may”, “should”, “would”, “could”, “believe”, “plan”, “expect”, “intend”, “anticipate”, “estimate”, “foresee”, “objective”, “goal”, “remain” or “continue” or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company’s materials filed with the Canadian securities regulatory authorities from time to time, including the *Risk Management* section of our 2015 Annual Report and the *Risk Factors* section of our 2015 Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods’ business include, but are not limited to, the following factors: volatility in the CAD/USD exchange rate; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of geopolitical events (and related economic sanctions) on same; costs of commodity products and other production inputs, and the ability to pass cost increases on to customers; successful integration of acquired operations; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the market place; changes in laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods’ ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development.

Forward-looking information is based on management’s current estimates, expectations and assumptions, which we believe are reasonable as of the current date. You should not place undue importance on forward-looking information

and should not rely upon this information as of any other date. Except as required under applicable securities laws, we do not undertake to update these forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf, whether as a result of new information, future events or otherwise.

## COMPANY OVERVIEW

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

We own and operate three food-processing plants located in: Lunenburg, Nova Scotia ("NS"); Portsmouth, New Hampshire ("NH"); and Newport News, Virginia ("VA"). The Company ceased value-added fish operations at its plant in New Bedford, Massachusetts ("MA") on July 15, 2016 and sold the facility and the New Bedford scallop business on September 7, 2016 (as explained in the *Recent Developments* section of this MD&A on page 3).

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

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

## RECENT DEVELOPMENTS

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

The Company previously announced on February 17, 2016, that it would cease value-added fish operations at its New Bedford facility to reduce excess capacity across its North American production network, thereby improving

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

manufacturing efficiencies and helping the Company achieve its supply chain optimization objectives. The annual ongoing pre-tax reduction in operating costs (which represents an increase in earnings before interest, taxes, depreciation and amortization, or "EBITDA") resulting from the consolidation is estimated to be approximately \$7.0 million, with a nominal amount of this reduction to be realized in the last half of 2016. The impact on annual EBITDA related to discontinuing scallop processing operations at the New Bedford facility is expected to be nominal. As of October 1, 2016, the Company has incurred \$9.2 million in pre-tax one-time costs relating to the transfer of assets, termination of employment at the New Bedford plant, write-down of inventories, accelerated depreciation, impairment of assets, and other costs.

## PERFORMANCE

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The discussion and analysis of the Company's financial results focuses on the performance of the consolidated operations, and the performance of the two reportable segments described in *Note 10 "Operating 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 expense, and business acquisition, integration and other non-routine costs.

### Seasonality

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

In our retail business, we spend significant dollars on consumer advertising and listing allowances for new product launches. Although the related activities benefit more than one period, the 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 table below summarizes key consolidated financial information for the relevant periods.

(in \$000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	Thirteen weeks ended			Thirty-nine weeks ended		
	October 1, 2016	October 3, 2015	Change	October 1, 2016	October 3, 2015	Change
<b>Sales volume (millions of lbs)</b>	<b>64.4</b>	67.4	<b>(3.0)</b>	<b>214.9</b>	218.2	<b>(3.3)</b>
<b>Average foreign exchange rate (USD/CAD)</b>	<b>\$ 1.3050</b>	\$ 1.3110	<b>\$ (0.0060)</b>	<b>\$ 1.3218</b>	\$ 1.2612	<b>\$ 0.0606</b>
<b>Sales</b>						
Sales in domestic currency	<b>\$ 251,034</b>	\$ 260,278	<b>\$ (9,244)</b>	<b>\$ 806,426</b>	\$ 828,945	<b>\$ (22,519)</b>
Foreign exchange impact	<b>(20,279)</b>	(20,197)	<b>(82)</b>	<b>(60,456)</b>	(52,303)	<b>(8,153)</b>
<b>Sales in USD</b>	<b>\$ 230,755</b>	\$ 240,081	<b>\$ (9,326)</b>	<b>\$ 745,970</b>	\$ 776,642	<b>\$ (30,672)</b>
<b>Gross profit</b>	<b>\$ 46,424</b>	\$ 43,862	<b>\$ 2,562</b>	<b>\$ 157,952</b>	\$ 155,593	<b>\$ 2,359</b>
<b>Gross profit as a percentage of sales</b>	<b>20.1%</b>	18.3%	<b>1.8%</b>	<b>21.2%</b>	20.0%	<b>1.2%</b>
<b>Distribution expenses</b>	<b>\$ 10,410</b>	\$ 11,076	<b>\$ (666)</b>	<b>\$ 33,588</b>	\$ 36,528	<b>\$ (2,940)</b>
<b>Selling, general and administrative expenses</b>	<b>\$ 23,434</b>	\$ 19,238	<b>\$ 4,196</b>	<b>\$ 75,677</b>	\$ 71,749	<b>\$ 3,928</b>
<b>Adjusted EBITDA<sup>1</sup></b>						
Adjusted EBITDA in domestic currency	<b>\$ 19,531</b>	\$ 18,490	<b>\$ 1,041</b>	<b>\$ 70,143</b>	\$ 64,055	<b>\$ 6,088</b>
Foreign exchange impact	<b>(1,632)</b>	(1,435)	<b>(197)</b>	<b>(5,101)</b>	(3,595)	<b>(1,506)</b>
<b>Adjusted EBITDA in USD</b>	<b>\$ 17,899</b>	\$ 17,055	<b>\$ 844</b>	<b>\$ 65,042</b>	\$ 60,460	<b>\$ 4,582</b>
<b>Adjusted EBITDA as a percentage of sales</b>	<b>7.8%</b>	7.1%	<b>0.7%</b>	<b>8.7%</b>	7.8%	<b>0.9%</b>
<b>Net income</b>	<b>\$ 6,603</b>	\$ 6,073	<b>\$ 530</b>	<b>\$ 25,694</b>	\$ 22,562	<b>\$ 3,132</b>
Basic Earnings per Share ("EPS")	<b>\$ 0.21</b>	\$ 0.20	<b>\$ 0.01</b>	<b>\$ 0.82</b>	\$ 0.73	<b>\$ 0.09</b>
Diluted EPS	<b>\$ 0.21</b>	\$ 0.19	<b>\$ 0.02</b>	<b>\$ 0.82</b>	\$ 0.72	<b>\$ 0.10</b>
<b>Adjusted Net Income<sup>1</sup></b>	<b>\$ 9,246</b>	\$ 7,074	<b>\$ 2,172</b>	<b>\$ 33,383</b>	\$ 27,423	<b>\$ 5,960</b>
Adjusted Basic EPS	<b>\$ 0.30</b>	\$ 0.23	<b>\$ 0.07</b>	<b>\$ 1.08</b>	\$ 0.89	<b>\$ 0.19</b>
Adjusted Diluted EPS <sup>1,2</sup>	<b>\$ 0.30</b>	\$ 0.23	<b>\$ 0.07</b>	<b>\$ 1.07</b>	\$ 0.87	<b>\$ 0.20</b>
<b>Total assets</b>				<b>\$ 638,161</b>	\$ 681,065	<b>\$ (42,904)</b>
<b>Total long-term financial liabilities</b>				<b>\$ 279,751</b>	\$ 304,135	<b>\$ (24,384)</b>
<b>Dividends paid per common share (CAD)</b>	<b>\$ 0.130</b>	\$ 0.120	<b>\$ 0.010</b>	<b>\$ 0.380</b>	\$ 0.345	<b>\$ 0.035</b>

<sup>1</sup> See the *Non-IFRS Financial Measures* section starting on page 20 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.

<sup>2</sup> CAD-Equivalent Adjusted Diluted EPS was CAD\$0.39 and CAD\$0.30 for the thirteen weeks ended October 1, 2016 and October 3, 2015, respectively, and \$1.41 and \$1.10 for the thirty-nine weeks ended October 1, 2016 and October 3, 2015, respectively. See the *Non-IFRS Financial Measures* section starting on page 20 for further explanation of CAD-Equivalent Adjusted Diluted EPS.



## Sales

### *Thirteen weeks*

Consolidated sales volume for the third quarter of 2016 decreased by 3.0 million pounds, or 4.4%, to 64.4 million pounds compared to 67.4 million pounds in the same period in 2015 due to lower sales volume in our U.S. retail and foodservice businesses primarily reflecting the 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 that align with emerging consumer trends and preferences.

Sales in the third quarter of 2016 decreased by \$9.3 million, or 3.9%, to \$230.8 million compared to \$240.1 million in the same period last year. The stronger Canadian dollar in the third quarter of 2016 compared to the same quarter of 2015 increased the value of USD sales from our CAD-denominated operations by approximately \$0.3 million relative to the conversion impact last year.

Sales in domestic currency decreased by \$9.3 million, or 3.6%, to \$251.0 million in the third quarter of 2016 compared to \$260.3 million in the third quarter of 2015, reflecting the lower U.S. sales volume and the impact of the change in product mix mentioned above.

### *Thirty-nine weeks*

Sales volume in the first three quarters of 2016 decreased by 3.3 million pounds, or 1.5%, to 214.9 million pounds compared to 218.2 million pounds in the same period last year due to lower sales volume primarily due to a shorter Lenten promotional period in the first quarter of 2016 as compared to the first quarter of 2015 and a lower demand for traditional breaded and battered seafood products.

Sales in the first three quarters of 2016 were \$746.0 million, representing a \$30.6 million, or 3.9%, decrease compared to \$776.6 million in the same period last year. The weaker Canadian dollar in the first three quarters of 2016 compared to the first three quarters of 2015 decreased the value of reported USD sales from our CAD-denominated operations by approximately \$8.7 million relative to the conversion impact last year.

Sales in domestic currency decreased by \$22.5 million, or 2.7%, to \$806.4 million in the first three quarters of 2016 compared to \$828.9 million in the same period last year reflecting lower sales volume mentioned previously, the impact of sales price decreases, and a change in product mix.

Sales by reportable segment are discussed in more detail in the *Performance by Segment* section on page 11 below.

## Gross Profit

### *Thirteen weeks*

Gross profit for the third quarter of 2016 was \$46.4 million compared to \$43.9 million in the same period in 2015 and gross profit as a percentage of sales was 20.1% compared to 18.3%.

Gross profit increased by \$2.5 million in 2016 relative to 2015 reflecting an increase in gross profit as a percentage of sales, partially offset by lower sales volumes. Gross profit as a percentage of sales was higher in the third quarter of 2016 primarily due to lower raw material costs and higher supply chain optimization savings realized in the period despite some loss in efficiency associated with the transfer of production from the New Bedford facility to our other facilities.

### *Thirty-nine weeks*

Gross profit in the first three quarters of 2016 was \$158.0 million compared to \$155.6 million in the same period last year and gross profit as a percentage of sales was 21.2% compared to 20.0%.

Gross profit increased by \$2.4 million in the first three quarters of 2016 relative to the same period last year reflecting the improvement in gross profit as a percentage of sales resulting from lower raw material costs and higher supply chain optimization savings realized in 2016, partially offset by lower sales volume and an unfavourable change in the USD/CAD exchange rate used to translate our CAD-denominated operations to USD. The weaker Canadian dollar had the effect of decreasing the value of reported USD gross profit from our Canadian operations in 2016 by approximately \$1.8 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 11 below.

### Distribution Expenses

Distribution expenses consist of freight and storage.

#### *Thirteen weeks*

Distribution expenses decreased in the third quarter of 2016 by \$0.7 million to \$10.4 million compared to \$11.1 million in the same period in 2015 due to lower volumes and fuel costs, and higher supply chain optimization savings, primarily in our U.S. operations. As a percentage of sales, these expenses decreased to 4.5% in the third quarter of 2016, compared to 4.6% in the same period in 2015.

#### *Thirty-nine weeks*

Distribution expenses decreased in the first three quarters of 2016 by \$2.9 million to \$33.6 million compared to \$36.5 million in the same period last year due to lower volumes and fuel costs, and higher supply chain optimization savings, primarily in our U.S. operations. As a percentage of sales, distribution expenses decreased to 4.5% in the first three quarters of 2016 compared to 4.7% in the same period in 2015.

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
SG&A expenses, as reported	\$ 23,434	\$ 19,238	\$ 75,677	\$ 71,749
Less:				
Share-based compensation expense (recovery) <sup>1</sup>	1,780	(588)	3,222	435
Depreciation and amortization expense <sup>1</sup>	1,775	1,680	6,497	5,438
<b>SG&amp;A expenses, net</b>	<b>\$ 19,879</b>	<b>\$ 18,146</b>	<b>\$ 65,958</b>	<b>\$ 65,876</b>
<b>SG&amp;A expenses, net as a percentage of sales</b>	<b>8.6%</b>	<b>7.6%</b>	<b>8.8%</b>	<b>8.5%</b>

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

#### *Thirteen weeks*

SG&A expenses increased in the third quarter of 2016 by \$4.2 million to \$23.4 million compared to \$19.2 million in the same period last year. SG&A expenses included share-based compensation expense of \$1.8 million for the third quarter of 2016 compared to a recovery of \$0.6 million for the same period in 2015, reflecting an increase in share-based compensation units outstanding, an improved share price, and improved results for performance-based awards. SG&A expenses also included depreciation and amortization expense of \$1.8 million and \$1.7 million for the third quarter of 2016 and 2015, respectively.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses increased in the third quarter of 2016 by \$1.8 million to \$19.9 million compared to \$18.1 million in the same period last year primarily as a result of higher incentives, partially offset by a reduction in marketing expenses in the U.S. and higher supply chain optimization savings. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense increased to 8.6% in 2016 compared to 7.6% in the same period last year, due to the impact of lower sales in the quarter.

#### ***Thirty-nine weeks***

SG&A expenses were \$75.7 million and \$71.7 million in the first three quarters of 2016 and 2015, respectively. SG&A expenses included share-based compensation expense of \$3.2 million in the first three quarters of 2016 compared to \$0.4 million in the same period last year, primarily reflecting an increase in share-based compensation units outstanding, an improved share price, and improved results for performance-based awards. SG&A expenses also included depreciation and amortization expense of \$6.5 million and \$5.4 million in the first three quarters of 2016 and 2015, respectively. The increase in depreciation and amortization expense in 2016 relates to the accelerated depreciation charge relating to the cessation of value-added fish operations at the New Bedford facility.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses remained constant in the first three quarters of 2016 compared to the same period last year at \$66.0 million. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expenses increased to 8.8% in the first three quarters of 2016 compared to 8.5% in the same period last year, due to the impact of lower sales in the first three quarters of 2016.

#### **Adjusted EBITDA**

We refer to Adjusted EBITDA throughout this MD&A, including in the *Performance by Segment* section on page 11, where Adjusted EBITDA is discussed for both our Canadian and U.S. operations. See the *Non-IFRS Financial Measures* section starting on page 20 for further explanation of this non-IFRS measure.

#### ***Thirteen weeks***

Consolidated Adjusted EBITDA increased in the third quarter of 2016 by \$0.8 million, or 4.9%, to \$17.9 million compared to \$17.1 million in 2015. The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by \$1.6 million in the third quarter of 2016 compared to \$1.4 million in 2015.

In domestic currency, Adjusted EBITDA increased in the third quarter of 2016 by \$1.0 million, or 5.6%, to \$19.5 million (7.8% of sales) compared to \$18.5 million (7.1% of sales) in 2015. The increase in Adjusted EBITDA reflects the higher gross profit and reduction in distribution expenses, partially offset by the higher SG&A expenses, as previously mentioned.

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

(Amounts in \$000s)	Thirteen weeks ended			Thirteen weeks ended		
	October 1, 2016 USD	October 3, 2015 USD	% Change USD	October 1, 2016 Domestic \$	October 3, 2015 Domestic \$	% Change Domestic \$
<b>External Sales</b>						
Canada	\$ 66,476	\$ 64,918	2.4 %	\$ 86,755	\$ 85,115	1.9 %
USA	164,279	175,163	(6.2)%	164,279	175,163	(6.2)%
	230,755	240,081	(3.9)%	251,034	260,278	(3.6)%
Conversion	—	—		(20,279)	(20,197)	
	\$ 230,755	\$ 240,081	(3.9)%	\$ 230,755	\$ 240,081	(3.9)%
<b>Adjusted EBITDA</b>						
Canada	\$ 6,004	\$ 5,852	2.6 %	\$ 7,837	\$ 7,666	2.2 %
USA	12,008	10,718	12.0 %	12,008	10,718	12.0 %
Corporate	(113)	485	(123.3)%	(314)	106	(396.2)%
	17,899	17,055	4.9 %	19,531	18,490	5.6 %
Conversion	—	—		(1,632)	(1,435)	
	\$ 17,899	\$ 17,055	4.9 %	\$ 17,899	\$ 17,055	4.9 %
<b>Adjusted EBITDA as % of sales</b>						
In USD	7.8%	7.1%				
In Domestic \$				7.8%	7.1%	

### **Thirty-nine weeks**

Consolidated Adjusted EBITDA increased in the first three quarters of 2016 by \$4.5 million, or 7.6%, to \$65.0 million compared to \$60.5 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 \$5.1 million in the first three quarters of 2016 compared to \$3.6 million in the same period last year reflecting in part, the weaker Canadian dollar in 2016.

In domestic currency, Adjusted EBITDA increased in the first three quarters of 2016 by \$6.1 million, or 9.5%, to \$70.1 million (8.7% of sales) compared to \$64.1 million (7.7% of sales) in the same period last year. The increase in Adjusted EBITDA reflects the higher gross profit and reduction in distribution expenses, partially offset by the increase in SG&A expenses, as previously mentioned.

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

	Thirty-nine weeks ended			Thirty-nine weeks ended		
	October 1, 2016	October 3, 2015	% Change	October 1, 2016	October 3, 2015	% Change
(Amounts in \$000s)	USD	USD	USD	Domestic \$	Domestic \$	Domestic \$
<b>External Sales</b>						
Canada	\$ 189,300	\$ 200,187	(5.4)%	\$ 249,756	\$ 252,490	(1.1)%
USA	556,670	576,455	(3.4)%	556,670	576,455	(3.4)%
	745,970	776,642	(3.9)%	806,426	828,945	(2.7)%
Conversion	—	—		(60,456)	(52,303)	
	\$ 745,970	\$ 776,642	(3.9)%	\$ 745,970	\$ 776,642	(3.9)%
<b>Adjusted EBITDA</b>						
Canada	\$ 17,162	\$ 16,400	4.6 %	\$ 22,712	\$ 20,752	9.4 %
USA	48,635	43,135	12.8 %	48,635	43,135	12.8 %
Corporate	(755)	925	(181.6)%	(1,204)	168	(816.7)%
	65,042	60,460	7.6 %	70,143	64,055	9.5 %
Conversion	—	—		(5,101)	(3,595)	
	\$ 65,042	\$ 60,460	7.6 %	\$ 65,042	\$ 60,460	7.6 %
<b>Adjusted EBITDA as % of sales</b>						
In USD	8.7%	7.8%				
In Domestic \$				8.7%	7.7%	

## 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 20 for further explanation of these non-IFRS measures.

### Thirteen weeks

Net income increased in the third quarter of 2016 by \$0.5 million, or 8.7%, to \$6.6 million (\$0.21 per diluted share) compared to \$6.1 million (\$0.19 per diluted share) in the third quarter of last year.

Net income included "Business acquisition, integration and other expenses" (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 13 of this MD&A), and other non-cash expenses related to: accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of plant operations; share-based compensation expense; and marking-to-market an interest rate swap not designated for hedge accounting. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income for the third quarter of 2016 increased by \$2.1 million, or 30.7%, to \$9.2 million compared to \$7.1 million in the same period last year. Correspondingly, Adjusted Diluted EPS increased by \$0.07 to \$0.30 compared to \$0.23 in the third quarter of the same period last year, and when converted to CAD using the average USD/CAD exchange rate for the period of 1.305 (2015: 1.3110), CAD-Equivalent Adjusted Diluted EPS increased by CAD\$0.09 to CAD\$0.39 compared to CAD\$0.30 in the third quarter of 2015.

**Thirty-nine weeks**

Net income increased in the first three quarters of 2016 by \$3.1 million, or 13.9%, to \$25.7 million (\$0.82 per diluted share) compared to \$22.6 million (\$0.72 per diluted share) in the same period last year.

As previously mentioned under the discussion on Net Income for the third quarter, Net Income included "Business acquisition, integration and other expenses" and other certain non-cash expenses. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income in the first three quarters of 2016 increased by \$6.0 million, or 21.7%, to \$33.4 million compared to \$27.4 million in the same period last year. Correspondingly, Adjusted Diluted EPS increased by \$0.20 to \$1.07 in the first three quarters of 2016 compared to \$0.87 in the same period last year and when converted to CAD using the average USD/CAD exchange rate for the first three quarters of 2016 of 1.3218 (first three quarters of 2015: 1.2612), CAD-Equivalent Adjusted Diluted EPS increased by CAD\$0.31 to CAD\$1.41 in the first three quarters of 2016 compared to CAD\$1.10 in the same period last year.

**Performance by Segment****Canadian Operations**

(All currency amounts in this section are in CAD)

(in \$000s, except sales volume and percentage amounts)	Thirteen weeks ended			Thirty-nine weeks ended		
	October 1, 2016	October 3, 2015	Change	October 1, 2016	October 3, 2015	Change
<b>Sales volume (millions of lbs)</b>	<b>17.2</b>	17.2	—	<b>51.5</b>	51.7	<b>(0.2)</b>
<b>Sales</b>	<b>\$ 86,755</b>	\$ 85,115	\$ 1,640	<b>\$ 249,756</b>	\$ 252,490	\$ (2,734)
<b>Gross profit</b>	<b>\$ 18,756</b>	\$ 17,504	\$ 1,252	<b>\$ 56,158</b>	\$ 53,000	\$ 3,158
<b>Gross profit as a percentage of sales</b>	<b>21.6%</b>	20.6%	1.0%	<b>22.5%</b>	21.0%	1.5%
<b>Adjusted EBITDA<sup>1</sup></b>	<b>\$ 7,837</b>	\$ 7,666	\$ 171	<b>\$ 22,712</b>	\$ 20,752	\$ 1,960
<b>Adjusted EBITDA as a percentage of sales</b>	<b>9.0%</b>	9.0%	—%	<b>9.1%</b>	8.2%	0.9%

<sup>1</sup> See the *Non-IFRS Financial Measures* section starting on page 20 for further explanation of Adjusted EBITDA.

**Thirteen weeks**

Sales volume for our Canadian operations remained consistent during the third quarter of 2016 as compared to the same period last year at 17.2 million pounds. Sales in the third quarter increased by \$1.7 million, or 1.9%, to \$86.8 million compared to \$85.1 million in the same period of 2015, reflecting increased sales prices.

Gross profit increased by \$1.3 million in the third quarter of 2016 to \$18.8 million (21.6% of sales) compared to \$17.5 million (20.6% of sales) in 2015 due to the impact of lower costs.

Adjusted EBITDA for our Canadian operations increased during the third quarter of 2016 by \$0.1 million, or 1.3%, to \$7.8 million compared to \$7.7 million in 2015 (9.0% of sales in both 2016 and 2015), as the improvement in gross profit was offset by increased SG&A expenses related to higher incentive and marketing expenses.

**Thirty-nine weeks**

Sales volume for our Canadian operations decreased by 0.2 million pounds, or 0.3%, during the the first three quarters of 2016 to 51.5 million pounds compared to 51.7 million pounds in the same period of 2015. Sales in the first three quarters of 2016 decreased by \$2.7 million, or 1.1%, to \$249.8 million, as compared to \$252.5 million in the same period last year, reflecting the decline in sales volume, lower sales prices and a change in product mix.

Gross profit increased in the first three quarters of 2016 by \$3.2 million to \$56.2 million (22.5% of sales) compared to \$53.0 million (21.0% of sales) in the same period last year reflecting lower raw material costs and the change in product mix mentioned previously.

Adjusted EBITDA for our Canadian operations increased in the first three quarters of 2016 by \$1.9 million, or 9.2%, to \$22.7 million (9.1% of sales) compared to \$20.8 million (8.2% of sales) in the same period last year. This increase was primarily due to the higher gross profit mentioned previously, partially offset by increased SG&A expenses related to higher incentive expense.

### ***U.S. Operations***

*(All currency amounts in this section are in USD)*

<b>(in \$000s, except sales volume and percentage amounts)</b>	<b>Thirteen weeks ended</b>			<b>Thirty-nine weeks ended</b>		
	<b>October 1, 2016</b>	<b>October 3, 2015</b>	<b>Change</b>	<b>October 1, 2016</b>	<b>October 3, 2015</b>	<b>Change</b>
<b>Sales volume (millions of lbs)</b>	<b>47.2</b>	<b>50.2</b>	<b>(3.0)</b>	<b>163.4</b>	<b>166.5</b>	<b>(3.1)</b>
<b>Sales</b>	<b>\$ 164,279</b>	<b>\$ 175,163</b>	<b>\$ (10,884)</b>	<b>\$ 556,670</b>	<b>\$ 576,455</b>	<b>\$ (19,785)</b>
<b>Gross profit</b>	<b>\$ 31,655</b>	<b>\$ 30,550</b>	<b>\$ 1,105</b>	<b>\$ 113,649</b>	<b>\$ 111,450</b>	<b>\$ 2,199</b>
<b>Gross profit as a percentage of sales</b>	<b>19.3%</b>	<b>17.4%</b>	<b>1.9%</b>	<b>20.4%</b>	<b>19.3%</b>	<b>1.1%</b>
<b>Adjusted EBITDA<sup>1</sup></b>	<b>\$ 12,008</b>	<b>\$ 10,718</b>	<b>\$ 1,290</b>	<b>\$ 48,635</b>	<b>\$ 43,135</b>	<b>\$ 5,500</b>
<b>Adjusted EBITDA as a percentage of sales</b>	<b>7.3%</b>	<b>6.1%</b>	<b>1.2%</b>	<b>8.7%</b>	<b>7.5%</b>	<b>1.2%</b>

#### ***Thirteen weeks***

Sales volume for our U.S. operations decreased by 3.0 million pounds, or 6.0%, during the third quarter of 2016 to 47.2 million pounds compared to 50.2 million pounds in 2015 primarily reflecting lower sales volume in the foodservice and retail businesses primarily due to the 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 that align with emerging consumer trends and preferences.

Sales during the third quarter decreased by \$10.9 million, or 6.2%, to \$164.3 million compared to \$175.2 million in 2015 reflecting lower sales volume and a change in product mix.

Gross profit increased in the third quarter of 2016 by \$1.1 million to \$31.7 million (19.3% of sales) compared to \$30.6 million (17.4% of sales) in the same period last year reflecting lower raw material costs, and higher supply chain optimization savings despite some loss in efficiency associated with the transfer of production from the New Bedford facility to our other facilities. This was partially offset by lower sales volume and the unfavorable change in product mix mentioned previously.

Adjusted EBITDA for our U.S. operations increased during the third quarter of 2016 by \$1.3 million, or 12.0%, to \$12.0 million (7.3% of sales) compared to \$10.7 million (6.1% of sales) in 2015. This increase was due primarily to the improved gross profit noted previously, in addition to lower distribution costs related to lower volumes, a reduction in fuel costs, and supply chain optimization activities.

#### ***Thirty-nine weeks***

Sales volume for our U.S. operations decreased by 3.1 million pounds, or 1.9%, in the first three quarters of 2016 to 163.4 million pounds compared to 166.5 million pounds in the same period last year due to lower sales volume primarily

due to a shorter Lenten promotional period in the first quarter of 2016 as compared to the first quarter of 2015 and a lower demand for traditional breaded and battered seafood products.

Sales in the first three quarters of 2016 decreased by \$19.8 million, or 3.4%, to \$556.7 million compared to \$576.5 million in the same period last year reflecting lower sales volume, the impact of sales price decreases, and an unfavorable change in the product mix.

Gross profit increased in the first three quarters of 2016 by \$2.2 million to \$113.6 million (20.4% of sales) compared to \$111.4 million (19.3% of sales) in the same period last year reflecting higher supply chain optimization savings and the impact of raw material cost decreases, partially offset by lower volumes and an unfavourable change in the product mix.

Adjusted EBITDA for our U.S. operations increased in the first three quarters of 2016 by \$5.5 million, or 12.8%, to \$48.6 million (8.7% of sales) compared to \$43.1 million (7.5% of sales) in the same period last year. This increase was primarily due to the higher gross profit mentioned previously, lower distribution costs related to lower volumes, a reduction in fuel costs, and supply chain optimization activities, and lower SG&A expenses related to a reduction in marketing costs.

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
<b>Pre-tax basis:</b>				
Business acquisition, integration and other expenses	\$ 1,954	\$ 2,372	\$ 4,301	\$ 6,995
Impairment of property, plant and equipment	—	—	2,327	—
	\$ 1,954	\$ 2,372	\$ 6,628	\$ 6,995
<b>After-tax basis:</b>				
Business acquisition, integration and other expenses	\$ 1,184	\$ 1,889	\$ 2,697	\$ 4,617
Impairment of property, plant and equipment	—	—	1,598	—
	\$ 1,184	\$ 1,889	\$ 4,295	\$ 4,617

In the the first three quarters of 2016, business acquisition, integration and other expenses primarily included costs related to the cessation of operations and the sale of the New Bedford facility (as explained in the *Recent Developments* section on page 3 of this MD&A), partially offset by proceeds on the settlement of the insurance claim related to the partial roof collapse at the New Bedford facility in 2015. The impairment of property, plant and equipment recorded in the first three quarters of 2016 is also related to the New Bedford facility.

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



## Finance Costs

Finance costs were \$0.5 million lower in the third quarter of 2016 and \$1.6 million lower in the first three quarters of 2016 compared to the same periods last year, due to lower average debt levels in 2016 as compared to 2015.

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Interest paid in cash during period	\$ 3,331	\$ 3,770	\$ 10,878	\$ 12,206
Change in cash interest accrued during the period	8	230	(405)	46
<b>Total interest to be paid in cash</b>	<b>3,339</b>	<b>4,000</b>	<b>10,473</b>	<b>12,252</b>
Mark-to-market gain on interest rate swap not designated for hedge accounting	—	(123)	(126)	(348)
Deferred financing cost amortization	133	135	400	429
<b>Total finance costs</b>	<b>\$ 3,472</b>	<b>\$ 4,012</b>	<b>\$ 10,747</b>	<b>\$ 12,333</b>

Marking-to-market interest rate swaps not designated in a formal hedging relationship had no impact on diluted EPS in the first three quarters of 2016 and 2015 (see the discussion on Adjusted Net Income and Adjusted Diluted EPS in the *Non-IFRS Financial Measures* section, starting on page 20 of this MD&A).

## Income Taxes

The Company's statutory tax rate was 29.2% for the third quarter and the first three quarters of 2016 (2015: 28.9%). The effective income tax rate in the third quarter of 2016 was an expense of 7.7% compared to an expense of 15.2% in the same period last year. The change in the effective income tax rate for the third quarter of 2016 compared to same period last year was attributable to an increase in future tax deductions for which the benefit is recognized in the current year. The effective income tax rate was an expense of 17.9% in the the first three quarters of 2016 as compared to the effective tax rate of 19.4% in the first three quarters of 2015.

## RESULTS BY QUARTER

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

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

(Amounts in 000s, except per share amounts)	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014 <sup>1</sup>	Q3 2014
<b>Sales</b>	<b>\$ 230,755</b>	\$ 224,667	\$ 290,548	\$ 224,865	\$ 240,081	\$ 226,339	\$ 310,222	\$ 266,895	\$ 246,553
<b>Adjusted EBITDA<sup>2</sup></b>	<b>\$ 17,899</b>	\$ 17,727	\$ 29,417	\$ 17,757	\$ 17,055	\$ 12,734	\$ 30,672	\$ 20,437	\$ 18,978
<b>Net Income</b>	<b>\$ 6,603</b>	\$ 5,374	\$ 13,717	\$ 7,019	\$ 6,073	\$ 3,956	\$ 12,533	\$ 5,639	\$ 7,572
<b>Adjusted Net Income<sup>2</sup></b>	<b>\$ 9,246</b>	\$ 8,769	\$ 15,368	\$ 8,140	\$ 7,074	\$ 4,721	\$ 15,628	\$ 9,073	\$ 8,386
<b>EPS, based on Net Income</b>									
Basic	\$ 0.21	\$ 0.17	\$ 0.44	\$ 0.23	\$ 0.20	\$ 0.13	\$ 0.41	\$ 0.18	\$ 0.25
Diluted	\$ 0.21	\$ 0.17	\$ 0.44	\$ 0.23	\$ 0.19	\$ 0.13	\$ 0.40	\$ 0.18	\$ 0.24
<b>EPS, based on Adjusted Net Income<sup>2</sup></b>									
Basic	\$ 0.30	\$ 0.28	\$ 0.50	\$ 0.26	\$ 0.23	\$ 0.15	\$ 0.51	\$ 0.29	\$ 0.27
Diluted <sup>2</sup>	\$ 0.30	\$ 0.28	\$ 0.49	\$ 0.26	\$ 0.23	\$ 0.15	\$ 0.50	\$ 0.29	\$ 0.27
<b>Dividends paid per common share (CAD)</b>									
	\$ 0.130	\$ 0.130	\$ 0.120	\$ 0.120	\$ 0.120	\$ 0.120	\$ 0.105	\$ 0.105	\$ 0.105
<b>Net non-cash working capital<sup>3</sup></b>									
	\$ 195,792	\$ 204,555	\$ 216,572	\$ 219,558	\$ 227,234	\$ 257,028	\$ 258,892	\$ 259,949	\$ 257,482

<sup>1</sup> This was the first quarter to include the results of Atlantic Trading which was acquired on October 7, 2014.

<sup>2</sup> See the Non-IFRS Financial Measures section starting on page 20 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

<sup>3</sup> Net non-cash working capital is comprised of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions.

## OUTLOOK

The Company expects the trend of year-over-year improvement in gross profit and Adjusted EBITDA to continue in the fourth quarter of 2016, and while the sales volume trend is expected to improve, the Company does not expect to return to volume growth until new product sales can offset the decline that the traditional breaded and battered category is experiencing. Completing outstanding supply chain optimization activities also remains a priority to achieve the full benefit associated with these activities, which the Company continues to believe will be a minimum of \$20 million in annual costs savings on a run-rate basis, to be achieved by the end of 2016.

## LIQUIDITY AND CAPITAL RESOURCES

Our balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 1 of this MD&A (under the heading "*Currency*") and the *Risk Factors* section on page 26 (under the heading "*Foreign Currency*").

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

### Working Capital Credit Facility

The Company entered into an asset-based working capital credit facility in November 2010 with the Royal Bank of Canada as the collateral and administrative agent. There have been several amendments made to this facility with the most recent being in April 2014, when it was amended concurrently with the term loan. As part of these amendments, the working capital credit facility was increased from \$120 million to \$180 million, and provides for the following based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement:

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

As at October 1, 2016, we were borrowing at the following rates:

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

Average short-term borrowings were \$14.6 million in the first three quarters of 2016 compared to \$58.3 million in the same period last year. This \$43.7 million decrease primarily reflects the repayment of debt with cash flow provided by operating activities.

At the end of the third quarter of 2016, the Company had \$143.3 million (October 3, 2015: \$123.0 million) of unused borrowing capacity taking into account both margin calculations and the total line availability. On October 1, 2016, letters of credit and standby letters of credit were outstanding in the amount of \$14.8 million (October 3, 2015: \$11.1 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 \$143.3 million of unused borrowing capacity noted above.

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

In the absence of any major acquisitions or capital expenditures in the last quarter of 2016, we expect average short-term borrowings will continue to be lower than in 2015 due to the repayment of debt from free cash flow. We believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

### Term Loan Facility

High Liner Foods entered into a term loan in December 2011. There have been several amendments made to the term loan with the most recent being in April 2014, when it was amended concurrently with the working capital credit facility. As part of the April 2014 amendments, the term loan was increased from \$250.0 million to \$300.0 million.

Minimum repayments on the term loan are required on an annual basis, plus, based on a leverage test, additional payments could be required of up to 50% of the previous year's defined cash flow. There were excess cash flows in 2015, due largely to decreased working capital and capital expenditures in 2015 as compared to 2014, and as a result, an excess cash flow payment of \$11.8 million was made in March 2016. Quarterly principal repayments of \$750,000 are required on the term loan, however, as per the loan agreement, the mandatory excess cash flow payment will be applied to future regularly scheduled principal repayments. As such, no regularly scheduled principal repayments are required for the remainder of 2016, however, a voluntary repayment of \$15.0 million was made during the second quarter of 2016 to reduce excess cash balances.

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

During the thirty-nine weeks ended October 1, 2016, we had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility:

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
<b>Designated in a formal hedging relationship:</b>				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700% \$	20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150% \$	25.0
April 4, 2016	April 4, 2018	3-month LIBOR (floor 1.0%)	1.2325% \$	35.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700% \$	40.0
<b>Not designated in a formal hedging relationship:</b>				
April 4, 2014	April 4, 2016	3-month LIBOR (floor 1.5%)	1.9970% \$	100.0

As of October 1, 2016, the combined impact of the interest rate swaps listed above effectively fix the interest rate on \$120.0 million of the \$300.0 million face value of the term loan and the other portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates if LIBOR is higher than the embedded floor of 1.0%. The implication of marking-to-market the interest rate swap not designated for hedge accounting on our financial results is discussed in the *Finance Costs* section on page 14 of this MD&A.

Additional details regarding the Company's term loan is provided in *Note 6 "Long-Term Debt"* to the Consolidated Financial Statements.

### Net Interest-Bearing Debt

The Company's net interest-bearing debt (as calculated in the *Non-IFRS Financial Measures* section starting on page 20 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 decreased by \$66.7 million to \$252.4 million at October 1, 2016 compared to \$319.1 million at October 3, 2015, reflecting the repayment of debt with cash flow provided by operating activities and the receipt of proceeds on the sale of New Bedford in September which increased the Company's cash balances.

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

Net interest-bearing debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section starting on page 20 of this MD&A for further discussion of Adjusted EBITDA) was 3.0x at October 1, 2016 compared

to 4.0x at the end of Fiscal 2015 as shown in the table below. We expect this ratio to remain consistent in the last quarter of 2016 as increased working capital requirements related to the seasonality in our business will reduce free cash flow available to reduce our debt.

(Amounts in \$000s, except as otherwise noted)	Twelve months ended	
	October 1, 2016	January 2, 2016
Net interest-bearing debt	\$ 252,372	\$ 313,065
Rolling twelve-month Adjusted EBITDA	\$ 82,800	\$ 78,218
Net interest-bearing debt to Adjusted EBITDA ratio (times)	3.0x	4.0x

### Capital Structure

At October 1, 2016, net interest-bearing debt was 53.4% of total capitalization compared to 61.8% and 61.3% at October 3, 2015 and January 2, 2016, respectively.

(Amounts in \$000s)	October 1, 2016	October 3, 2015	January 2, 2016
Net interest-bearing debt	\$ 252,372	\$ 319,093	\$ 313,065
Shareholders' equity	218,835	199,273	200,519
Unrealized losses (gains) on derivative financial instruments included in AOCI	999	(2,429)	(2,977)
<b>Total capitalization</b>	<b>\$ 472,206</b>	<b>\$ 515,937</b>	<b>\$ 510,607</b>
<b>Net interest-bearing debt as % of total capitalization</b>	<b>53.4%</b>	<b>61.8%</b>	<b>61.3%</b>

Using our October 1, 2016 market capitalization of \$614.0 million, based on a share price of CAD\$26.03 (USD\$19.85 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization decreased to 29.1%.

### Net Non-Cash Working Capital

Net non-cash working capital consists of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions. Net non-cash working capital decreased by \$31.4 million to \$195.8 million at the end of the third quarter of 2016 compared to \$227.2 million at the end of the third quarter of 2015, reflecting improved inventory management, the sale of New Bedford scallop inventory, and increased provisions, partially offset by decreased payables.

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 the remainder of 2016.

### Cash Flow

Net cash flows provided by operating activities decreased by \$22.1 million in the third quarter of 2016 to \$17.4 million compared to \$39.5 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 \$2.2 million in the third quarter of 2016 to \$10.0 million compared to

\$12.2 million in the same period last year. This decrease reflects higher tax payments, offset by more favorable results from operations.

- Cash flows from changes in net non-cash working capital decreased by \$19.9 million in the third quarter of 2016 to \$7.4 million compared to \$27.3 million in the same period last year. This decrease primarily reflects less favourable changes in accounts payable and accrued liabilities partially offset by more favourable changes in inventories during the third quarter of 2016 compared to the same period last year.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section starting on page 20 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended October 1, 2016 increased by \$15.7 million to \$65.4 million compared to \$49.7 million for the twelve months ended October 3, 2015. This increase reflects a favourable change in working capital and lower capital expenditures during the twelve months ended October 1, 2016 as compared to the twelve months ended October 3, 2015.

### **Capital Expenditures**

Gross capital expenditures (including finance leases) were \$5.7 million for the third quarter of 2016 (\$10.8 million for the first three quarters of 2016), or \$1.2 million lower than capital expenditures of \$6.9 million during the same quarter last year (\$12.7 million for the first three quarters of 2015) due to the timing of expenditures.

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

### **Dividends**

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

On November 9, 2016, the Board of Directors of the Company approved a quarterly dividend of CAD\$0.14 per share on the Company's common shares, payable on December 15, 2016 to holders of record on December 1, 2016. The quarterly dividend of CAD\$0.14 per share represents a 7.7% increase from the CAD\$0.13 per share quarterly dividend paid on September 15, 2016 to common shareholders of record on September 1, 2016.

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

- Under the working capital credit facility, Average Adjusted Aggregate Availability, as defined in the credit agreement, needs to be \$22.5 million or higher and was \$140.4 million on October 1, 2016; and
- Under the term loan facility, dividends cannot exceed \$17.5 million per year. This amount increases to the greater of \$25.0 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan when the defined total leverage ratio is below 4.50x and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 3.09x on October 1, 2016. NCIBs are subject to an annual limit of \$10.0 million under the term loan facility with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum.

### **Disclosure of Outstanding Share Data**

On November 9, 2016, 30,930,769 common shares and 1,623,857 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

## RELATED PARTY TRANSACTIONS

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

## NON-IFRS FINANCIAL MEASURES

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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 EBITDA is "Results from operating activities" on the Consolidated Statement of Income. Adjusted EBITDA is also useful when comparing companies as it eliminates the differences in earnings that are due to how a company is financed. Also, for the purpose of certain covenants on our credit facilities, "EBITDA" is based on Adjusted EBITDA, with further adjustments as defined in the Company's credit agreements.

The table below reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, including the operating segment information disclosed in *Note 10 "Operating segment information."*

(Amounts in \$000s)	Thirteen weeks ended October 1, 2016				Thirteen weeks ended October 3, 2015			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Net income (loss)</b>	\$ 5,590	\$ 9,037	\$ (8,024)	\$ 6,603	\$ 5,373	\$ 7,015	\$ (6,315)	\$ 6,073
Add back:								
Depreciation and amortization	439	2,966	378	3,783	472	3,381	232	4,085
Financing costs	—	—	3,472	3,472	—	—	4,012	4,012
Income tax expense	—	—	551	551	—	—	1,091	1,091
<b>Standardized EBITDA</b>	<b>6,029</b>	<b>12,003</b>	<b>(3,623)</b>	<b>14,409</b>	<b>5,845</b>	<b>10,396</b>	<b>(980)</b>	<b>15,261</b>
Add back (deduct):								
Business acquisition, integration and other expenses	—	—	1,954	1,954	—	—	2,372	2,372
Impairment of property, plant and equipment	—	—	—	—	—	—	—	—
(Gain) loss on disposal of assets	(25)	5	(174)	(194)	7	322	1	330
Share-based compensation expense	—	—	1,730	1,730	—	—	(908)	(908)
<b>Adjusted EBITDA</b>	<b>\$ 6,004</b>	<b>\$ 12,008</b>	<b>\$ (113)</b>	<b>\$ 17,899</b>	<b>\$ 5,852</b>	<b>\$ 10,718</b>	<b>\$ 485</b>	<b>\$ 17,055</b>

(Amounts in \$000s)	Thirty-nine weeks ended October 1, 2016				Thirty-nine weeks ended October 3, 2015			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Net income (loss)</b>	\$ 15,916	\$ 38,914	\$ (29,136)	\$ 25,694	\$ 14,981	\$ 32,647	\$ (25,066)	\$ 22,562
Add back:								
Depreciation and amortization	1,351	9,679	2,272	13,302	1,479	10,044	1,070	12,593
Financing costs	—	—	10,747	10,747	—	—	12,333	12,333
Income tax expense	—	—	5,618	5,618	—	—	5,426	5,426
<b>Standardized EBITDA</b>	<b>17,267</b>	<b>48,593</b>	<b>(10,499)</b>	<b>55,361</b>	<b>16,460</b>	<b>42,691</b>	<b>(6,237)</b>	<b>52,914</b>
Add back (deduct):								
Business acquisition, integration and other expenses	—	—	4,301	4,301	—	—	6,995	6,995
Impairment of property, plant and equipment	—	—	2,327	2,327	—	—	—	—
(Gain) loss on disposal of assets	(105)	42	(196)	(259)	(60)	444	(43)	341
Share-based compensation expense	—	—	3,312	3,312	—	—	210	210
<b>Adjusted EBITDA</b>	<b>\$ 17,162</b>	<b>\$ 48,635</b>	<b>\$ (755)</b>	<b>\$ 65,042</b>	<b>\$ 16,400</b>	<b>\$ 43,135</b>	<b>\$ 925</b>	<b>\$ 60,460</b>



**Adjusted Net Income and Adjusted Diluted EPS**

Adjusted Net Income is net income excluding the after-tax impact of: business acquisition, integration and certain other non-routine costs including those related to the cessation of plant operations; the non-cash expense or income related to marking-to-market an interest rate swap not designated for hedge accounting; 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 October 1, 2016		Thirteen weeks ended October 3, 2015	
	\$000s	Diluted EPS	\$000s	Diluted EPS
<b>Net income</b>	\$ 6,603	\$ 0.21	\$ 6,073	\$ 0.19
Add back, after-tax:				
Business acquisition, integration and other expenses	1,184	0.04	1,889	0.06
Impairment of property, plant and equipment	—	—	—	—
Accelerated depreciation on equipment as part of the cessation of operations	57	—	—	—
Mark-to-market gain on interest rate swaps not designated for hedge accounting	—	—	(88)	—
Share-based compensation expense (recovery)	1,402	0.05	(800)	(0.02)
<b>Adjusted Net Income</b>	\$ 9,246	\$ 0.30	\$ 7,074	\$ 0.23
<b>Average shares for the period (000s)</b>		31,289		31,242

	Thirty-nine weeks ended October 1, 2016		Thirty-nine weeks ended October 3, 2015	
	\$000s	Diluted EPS	\$000s	Diluted EPS
<b>Net income</b>	\$ 25,694	\$ 0.82	\$ 22,562	\$ 0.72
Add back, after-tax:				
Business acquisition, integration and other expenses	2,697	0.09	4,617	0.15
Impairment of property, plant and equipment	1,598	0.05	—	—
Accelerated depreciation on equipment as part of the cessation of operations	684	0.02	215	—
Mark-to-market gain on interest rate swaps not designated for hedge accounting	(90)	—	(248)	—
Share-based compensation expense	2,800	0.09	277	—
<b>Adjusted Net Income</b>	\$ 33,383	\$ 1.07	\$ 27,423	\$ 0.87
<b>Average shares for the period (000s)</b>		31,138		31,346

**CAD-Equivalent Adjusted Diluted EPS**

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
<b>Adjusted Diluted EPS</b>	\$ 0.30	\$ 0.23	\$ 1.07	\$ 0.87
Average foreign exchange rate for the period	1.3050	1.3110	1.3218	1.2612
<b>CAD-Equivalent Adjusted Diluted EPS</b>	\$ 0.39	\$ 0.30	\$ 1.41	\$ 1.10

**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.

(Amounts in \$000s)	Twelve months ended		
	October 1, 2016	October 3, 2015	\$ Change
Net change in non-cash working capital items	\$ 27,092	\$ 17,640	\$ 9,452
Cash flow from operating activities, including interest and income taxes	54,022	53,462	560
Cash flow from operating activities	81,114	71,102	10,012
Less: total capital expenditures, net of investment tax credits	(15,715)	(21,370)	5,655
<b>Standardized Free Cash Flow</b>	\$ 65,399	\$ 49,732	\$ 15,667

**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)	October 1, 2016	October 3, 2015	January 2, 2016
Current bank loans	\$ (109)	\$ 22,824	\$ 17,158
Add-back: deferred finance costs on current bank loans	384	529	470
<b>Total current bank loans</b>	<b>275</b>	<b>23,353</b>	<b>17,628</b>
Long-term debt	266,194	290,395	281,017
Current portion of long-term debt	—	3,000	11,816
Add-back: deferred finance costs on long-term debt	1,732	2,105	1,917
<b>Total term loan debt</b>	<b>267,926</b>	<b>295,500</b>	<b>294,750</b>
Long-term portion of finance lease obligations	748	709	715
Current portion of finance lease obligations	791	955	1,015
<b>Total finance lease obligation</b>	<b>1,539</b>	<b>1,664</b>	<b>1,730</b>
Less: cash	(17,368)	(1,424)	(1,043)
<b>Net interest-bearing debt</b>	<b>\$ 252,372</b>	<b>\$ 319,093</b>	<b>\$ 313,065</b>

## GOVERNANCE

There has been no change in the Company's internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, during the period beginning on January 3, 2016 and ending October 1, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

## ACCOUNTING ESTIMATES AND STANDARDS

### Critical Accounting Estimates

Critical accounting judgments and estimates used in preparing our unaudited condensed consolidated financial statements are described in the Company's 2015 annual MD&A and annual consolidated financial statements for the year ended January 2, 2016. The preparation of the Company's consolidated financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. Actual outcomes may differ from these estimates under different assumptions and conditions that could require a material adjustment to the reported carrying amounts in the future.

There have been no material changes to our critical accounting estimates and judgments during the thirty-nine weeks ended October 1, 2016.

### **Accounting Standards**

The accounting policies adopted in preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended January 2, 2016, except for the adoption of amendments and interpretations effective January 1, 2016. These amendments and interpretations had little or no impact on the 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 2015 Annual Audited Consolidated Financial Statements for the year ended January 2, 2016, in addition to the following:

#### **IFRS 16, *Leases***

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

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

In January 2016, as part of their disclosure initiative, the IASB issued amendments to IAS 7, *Statement of Cash Flows*, requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Company. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017.

#### **IFRS 2, *Share-based Payments***

In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018.

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

## RISK FACTORS

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

Readers should refer to the 2015 Annual Report and AIF for a more detailed description of risk factors applicable to the Company, which are available at [www.sedar.com](http://www.sedar.com) and at [www.highlinerfoods.com](http://www.highlinerfoods.com). We have updated certain risk factors below for the first three quarters of 2016.

### Foreign Currency

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

The Canadian dollar strengthened relative to the U.S. dollar approximately 0.7% as of October 1, 2016 compared to October 3, 2015. 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 third quarter of 2016, our hedging activities resulted in an effective USD/CAD exchange rate of 1.2946 for inventory purchased in USD by our Canadian Operations, compared to 1.2480 for the third quarter of 2015.

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

### Procurement

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2015, the Company purchased approximately 195 million pounds of seafood, with an approximate value of \$536 million. Seafood and other food inputs markets are global with values expressed in USD. We buy approximately 30 species of seafood from 20 countries around the world. There are no formal hedging mechanisms in the seafood market. Prices can change due to changes in the balance between supply and demand. Weather, quota changes, geopolitical issues including economic sanctions, disease and other social, sustainability and environmental matters can affect supply and related costs. Changes in the relative values of currency can change the demand from a particular country

whose currency has risen or fallen as compared to the USD. The increasing middle class and government policies in emerging economies, as well as demand from health conscious consumers, affect the demand side as well. The cost of products purchased in USD for our Canadian operations is also affected by USD/CAD exchange rate, as noted above.

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

### **Availability of Seafood**

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

The Company expects demand for seafood to grow from current levels as the global economy and Southeast Asia economies improve. We expect the supply of wild-caught seafood to be stable over the long term, notwithstanding recent increases in quota in certain fisheries, in part due to sustainability efforts. We anticipate new demand will be supplied primarily from aquaculture. Currently, four of the top seven species consumed in the U.S. (shrimp, salmon, tilapia and pangasius) are partly or totally supplied by aquaculture and approximately 30% of the Company's procurement by value is related to aquaculture products. To the extent aquaculture is unable to supply future demand, prices may increase materially which may have a negative impact on the Company's results.

The Company has made the strategic decision not to be vertically integrated for a number of reasons, including the large amount of capital that would be involved and expected returns on such capital. As well, as a vertically integrated company, overall reduced returns to shareholders would likely result from subsidizing our North American operations with output from fishing efforts that could be sold in global markets at higher prices. Instead, we remain committed to our strategy to develop the North American market by differentiating ourselves based on product offerings and service levels, building our brands and customer relationships, being the lowest cost, largest scale manufacturer of seafood products and leveraging such position to buy seafood at reasonable prices, and be the supplier of choice for North American customers and consumers. However, in the event that supply shortages of certain seafood, or trade barriers to acquiring seafood as a result of economic sanctions or otherwise, results in difficulty procuring species from preferred suppliers or at all, the financial results of the Company may be adversely affected.



**HIGH LINER FOODS**

**UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**As at and for the thirteen and thirty-nine weeks ended October 1, 2016  
With comparative figures as at and for the thirteen and thirty-nine weeks ended October 3, 2015**

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

	Notes	October 1, 2016	January 2, 2016
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 17,368	\$ 1,043
Accounts receivable		80,714	76,335
Income taxes receivable		2,993	5,218
Other financial assets	13	1,104	6,453
Inventories		205,386	261,771
Prepaid expenses		2,911	2,051
<b>Total current assets</b>		<b>310,476</b>	<b>352,871</b>
<b>Non-current</b>			
Property, plant and equipment		107,615	115,879
Deferred income taxes		3,162	2,495
Other receivables and miscellaneous assets	13	99	1,683
Intangible assets		98,488	102,315
Goodwill		118,321	117,824
<b>Total non-current assets</b>		<b>327,685</b>	<b>340,196</b>
<b>Total assets</b>		<b>\$ 638,161</b>	<b>\$ 693,067</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank loans	5	\$ (109)	\$ 17,158
Accounts payable and accrued liabilities		84,967	120,336
Provisions		8,252	263
Other current financial liabilities	13	1,962	817
Income taxes payable		471	2,242
Current portion of long-term debt	6	—	11,816
Current portion of finance lease obligations		791	1,015
<b>Total current liabilities</b>		<b>96,334</b>	<b>153,647</b>
<b>Non-current liabilities</b>			
Long-term debt	6	266,194	281,017
Other long-term financial liabilities	13	989	89
Other long-term liabilities		1,639	483
Long-term finance lease obligations		748	715
Deferred income taxes		43,241	46,966
Future employee benefits		10,181	9,631
<b>Total non-current liabilities</b>		<b>322,992</b>	<b>338,901</b>
<b>Total liabilities</b>		<b>419,326</b>	<b>492,548</b>
<b>Shareholders' equity</b>			
Common shares	8	86,170	85,282
Contributed surplus		15,016	13,999
Retained earnings		141,447	125,843
Accumulated other comprehensive loss		(23,798)	(24,605)
<b>Total shareholders' equity</b>		<b>218,835</b>	<b>200,519</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 638,161</b>	<b>\$ 693,067</b>

*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		Thirty-nine weeks ended	
		October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
<b>Revenues</b>		\$ 230,755	\$ 240,081	\$ 745,970	\$ 776,642
Cost of sales		184,331	196,219	588,018	621,049
<b>Gross profit</b>		46,424	43,862	157,952	155,593
Distribution expenses		10,410	11,076	33,588	36,528
Selling, general and administrative expenses		23,434	19,238	75,677	71,749
Impairment of property, plant and equipment	4	—	—	2,327	—
Business acquisition, integration and other expenses		1,954	2,372	4,301	6,995
<b>Results from operating activities</b>		10,626	11,176	42,059	40,321
Finance costs		3,472	4,012	10,747	12,333
<b>Income before income taxes</b>		7,154	7,164	31,312	27,988
Income taxes					
Current		1,808	1,439	7,319	5,031
Deferred		(1,257)	(348)	(1,701)	395
<b>Total income tax expense</b>		551	1,091	5,618	5,426
<b>Net income</b>		\$ 6,603	\$ 6,073	\$ 25,694	\$ 22,562
<b>Earnings per common share</b>					
Basic		\$ 0.21	\$ 0.20	\$ 0.82	\$ 0.73
Diluted	8	\$ 0.21	\$ 0.19	\$ 0.82	\$ 0.72
<b>Weighted average number of shares outstanding</b>					
Basic		30,924,619	30,857,668	30,910,563	30,803,953
Diluted		31,289,440	31,242,145	31,138,035	31,345,544

*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		Thirty-nine weeks ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
<b>Net income</b>	<b>\$ 6,603</b>	<b>\$ 6,073</b>	<b>\$ 25,694</b>	<b>\$ 22,562</b>
<b>Other comprehensive income (loss), net of income tax (Note 11)</b>				
Other comprehensive income (loss) to be reclassified to net income:				
(Loss) gain on hedge of net investment in foreign operations	(1,804)	(11,281)	11,490	(27,459)
Gain (loss) on translation of net investment in foreign operations	2,756	15,014	(16,866)	35,725
Translation impact on Canadian dollar denominated non-AOCI items	(1,793)	(9,752)	10,963	(22,716)
Translation impact on Canadian dollar denominated AOCI items	173	546	(804)	1,143
Total exchange (losses) gains on translation of foreign operations and Canadian dollar denominated items	(668)	(5,473)	4,783	(13,307)
Effective portion of changes in fair value of cash flow hedges	513	1,510	(3,482)	4,679
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	(57)	(1,223)	(1,286)	(3,884)
Net change in fair value of cash flow hedges transferred to income	205	(150)	279	(266)
Translation impact on Canadian dollar denominated AOCI items	(52)	(127)	513	(275)
Total exchange gains (losses) on cash flow hedges	609	10	(3,976)	254
<b>Net other comprehensive (loss) gain to be reclassified to net income</b>	<b>(59)</b>	<b>(5,463)</b>	<b>807</b>	<b>(13,053)</b>
Other comprehensive income (loss) not to be reclassified to net income:				
Defined benefit plan actuarial (losses) gains	(350)	269	(1,099)	(28)
<b>Other comprehensive loss, net of income tax</b>	<b>(409)</b>	<b>(5,194)</b>	<b>(292)</b>	<b>(13,081)</b>
<b>Total comprehensive income</b>	<b>\$ 6,194</b>	<b>\$ 879</b>	<b>\$ 25,402</b>	<b>\$ 9,481</b>

**CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ("AOCI")**  
*(unaudited, in thousands of United States dollars)*

	Foreign currency translation differences	Net exchange differences on cash flow hedges	Total AOCI
Balance at January 2, 2016	\$ (27,582)	\$ 2,977	\$ (24,605)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	4,783	—	4,783
Total exchange losses on cash flow hedges	—	(3,976)	(3,976)
<b>Balance at October 1, 2016</b>	<b>\$ (22,799)</b>	<b>\$ (999)</b>	<b>\$ (23,798)</b>
Balance at January 3, 2015	\$ (9,823)	\$ 2,175	\$ (7,648)
Total exchange losses on translation of foreign operations and Canadian dollar denominated items	(13,307)	—	(13,307)
Total exchange gains on cash flow hedges	—	254	254
Balance at October 3, 2015	\$ (23,130)	\$ 2,429	\$ (20,701)

*See accompanying notes to the unaudited condensed interim consolidated financial statements*

**HIGH LINER FOODS INCORPORATED**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(unaudited, in thousands of United States dollars)*

	Common shares	Contributed surplus	Retained earnings	AOCI	Total
Balance at January 2, 2016	\$ 85,282	\$ 13,999	\$ 125,843	\$ (24,605)	200,519
Other comprehensive (loss) income	—	—	(1,099)	807	(292)
Net income	—	—	25,694	—	25,694
Common share dividends	—	—	(8,900)	—	(8,900)
Share-based compensation	909	1,017	—	—	1,926
Common shares repurchased for cancellation ( <i>Note 8</i> )	(21)	—	(91)	—	(112)
<b>Balance at October 1, 2016</b>	<b>\$ 86,170</b>	<b>\$ 15,016</b>	<b>\$ 141,447</b>	<b>\$ (23,798)</b>	<b>218,835</b>
Balance at January 3, 2015	\$ 82,658	\$ 14,056	\$ 107,908	\$ (7,648)	196,974
Other comprehensive loss	—	—	(28)	(13,053)	(13,081)
Net income	—	—	22,562	—	22,562
Common share dividends	—	—	(8,328)	—	(8,328)
Share-based compensation	2,303	(520)	—	—	1,783
Common shares repurchased for cancellation	(89)	—	(548)	—	(637)
Balance at October 3, 2015	\$ 84,872	\$ 13,536	\$ 121,566	\$ (20,701)	199,273

*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)*

		Thirteen weeks ended		Thirty-nine weeks ended	
	Notes	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
<b>Cash flows provided by (used in):</b>					
<b>Operating activities</b>					
Net income		\$ 6,603	\$ 6,073	\$ 25,694	\$ 22,562
Adjustments to net income not involving cash from operations:					
Depreciation and amortization	10	3,783	4,085	13,302	12,593
Share-based compensation expense (recovery)	9	1,730	(908)	3,312	210
Loss on asset disposals and impairment		177	1,451	2,593	1,479
Future employee benefits contribution, net of expense		104	29	40	1,053
Finance costs		3,472	4,012	10,747	12,333
Income tax expense		551	1,091	5,618	5,426
Unrealized foreign exchange gain		(120)	(487)	(503)	(933)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		16,300	15,346	60,803	54,723
<b>Changes in non-cash working capital balances:</b>					
Accounts receivable		330	1,464	(2,618)	(863)
Inventories		7,024	2,481	53,025	2,848
Prepaid expenses		351	1,162	(163)	(51)
Accounts payable and accrued liabilities		(766)	22,659	(36,124)	21,497
Provisions		500	(474)	7,964	1,825
<b>Net change in non-cash working capital balances</b>		<b>7,439</b>	<b>27,292</b>	<b>22,084</b>	<b>25,256</b>
Interest paid		(3,331)	(3,770)	(10,878)	(12,206)
Income taxes (paid) refunded		(2,993)	634	(6,719)	(1,140)
<b>Net cash flows provided by operating activities</b>		<b>17,415</b>	<b>39,502</b>	<b>65,290</b>	<b>66,633</b>
<b>Financing activities</b>					
Decrease in bank loans		(7,705)	(28,042)	(17,853)	(42,083)
Repayment of finance lease obligations		(238)	(229)	(696)	(689)
Repayment of long-term debt	6	—	(757)	(26,824)	(2,257)
Common share dividends paid		(3,047)	(2,792)	(8,900)	(8,328)
Common share repurchase for cancellation		—	(400)	(112)	(637)
Options exercised for shares		51	—	94	479
<b>Net cash flows used in financing activities</b>		<b>(10,939)</b>	<b>(32,220)</b>	<b>(54,291)</b>	<b>(53,515)</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment, net of investment tax credits		(5,671)	(6,809)	(10,098)	(12,330)
Net proceeds on disposal of assets	4	15,255	—	15,389	79
Net proceeds on replacement of assets		—	—	—	560
Change in other receivables and miscellaneous assets		—	—	—	29
<b>Net cash flows provided by (used in) investing activities</b>		<b>9,584</b>	<b>(6,809)</b>	<b>5,291</b>	<b>(11,662)</b>
Foreign exchange (decrease) increase on cash		(183)	(490)	35	(1,076)
Net change in cash during the period		15,877	(17)	16,325	380
Cash, beginning of period		1,491	1,441	1,043	1,044
<b>Cash, end of period</b>		<b>\$ 17,368</b>	<b>\$ 1,424</b>	<b>\$ 17,368</b>	<b>\$ 1,424</b>

*See accompanying notes to the unaudited condensed interim consolidated financial statements*

**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

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**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 thirty-nine weeks ended October 1, 2016, comprise High Liner Foods’ Canadian company (the “Parent”) and its subsidiaries (herein together referred to as the “Company” or “High Liner Foods”). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company’s Board of Directors on November 9, 2016.

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**2. Basis of preparation**

**(a) Statement of compliance**

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

**(b) Functional and presentation currency**

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

**(c) Seasonality of operations**

The Company’s operating results are affected by the timing of holidays. Inventory levels fluctuate throughout the year, and are at their highest in the first quarter to support strong sales during the Lenten period. In addition, the timing of ordering raw materials is earlier than typically required in order to have adequate quantities available during the seasonal closure of plants in Asia during the Lunar New Year period. These events typically result in significantly higher inventories in December, January, February and March than during the rest of the year.

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

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

**(e) Accounting pronouncements issued but not yet effective**

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

**IFRS 16, Leases**

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

**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

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

In January 2016, as part of their disclosure initiative, the IASB issued amendments to IAS 7, *Statement of Cash Flows*, requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Company. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017.

**IFRS 2, *Share-based Payments***

In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018.

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

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**3. Property, plant & equipment**

In accordance with the announcement on February 17, 2016 to cease value-added fish operations at the production facility in New Bedford, Massachusetts, the Company determined that as of April 2, 2016, the criteria to re-evaluate the useful life and residual value of certain capital assets were met. Accordingly, \$0.1 million and \$1.5 million of accelerated depreciation has been recorded during the thirteen and thirty-nine weeks ended October 1, 2016, respectively. These assets were disposed of as a result of the sale of the assets of the Company's scallop business and the New Bedford facility on September 7, 2016. See note 4 for further information.

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**4. Disposition of New Bedford**

On February 17, 2016, the Company announced the cessation of value-added fish operations at its facility in New Bedford, Massachusetts to reduce excess capacity across its manufacturing network. In June 2016, the Company determined that the carrying value of assets associated with the New Bedford facility, including assets and semi-finished and raw material inventory related to the scallop division, formed a disposal group where the carrying value would not be recovered through continuing use. Accordingly, this inventory and property, plant and equipment, which related to the U.S. operating segment, was presented separately on the Consolidated Statement of Financial Position as assets held for sale and the amortization of this property, plant and equipment ceased. As a result of the requirement to recognize these assets at the lower of carrying value and fair value less costs to sell, the Company recognized an impairment loss of \$2.3 million on the property, plant and equipment during the second quarter. Value-added fish operations at the New Bedford facility ceased in mid-July 2016, following the transfer of production to the Company's other manufacturing facilities.

On August 16, 2016, the Company entered into a purchase and sale agreement with Blue Harvest Fisheries to sell the assets of the Company's scallop business and the New Bedford facility. On September 7, 2016, the sale was completed and the Company received cash proceeds of \$15.1 million. As a result, the Company recognized a loss on the sale of scallop and supplies inventory of \$0.2 million during the thirteen and thirty-nine weeks ended October 1, 2016 which is included in business acquisition, integration and other expenses in the Consolidated Statement of Income.

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**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

**5. Bank loans**

<i>(Amounts in \$000s)</i>	<b>October 1, 2016</b>	January 2, 2016
Bank loans, denominated in CAD (average variable rate of 2.70%; January 2, 2016: 2.70%)	\$ —	\$ 1,077
Bank loans, denominated in USD (average variable rate of 4.00%; January 2, 2016: 1.88%)	275	16,551
	<b>275</b>	<b>17,628</b>
Less: deferred finance costs	<b>(384)</b>	<b>(470)</b>
	<b>\$ (109)</b>	<b>\$ 17,158</b>

The Company has a five year \$180.0 million working capital facility (the "Facility"), with Royal Bank of Canada as Administrative and Collateral Agent, which expires in April 2019. The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility (see Note 6). A second charge over the Company's plant and equipment is also in place. As at October 1, 2016 and January 2, 2016, the Facility allowed the Company to borrow: Canadian Prime Rate revolving loans, Canadian Base Rate revolving loans and U.S. Prime Rate revolving loans at their respective rates plus 0.00% to 0.25%; BA Equivalent revolving loans and LIBOR revolving loans at their respective rates plus 1.25% to 1.75%; and letters of credit with fees of 1.25% to 1.75%. Standby fees are 0.25% to 0.375% and are required to be paid on the unutilized facility. As at October 1, 2016, the Company had \$143.3 million of undrawn borrowing facility (January 2, 2016: \$148.9 million).

**6. Long-term debt**

<i>(Amounts in \$000s)</i>	<b>October 1, 2016</b>	January 2, 2016
Term loan	\$ 267,926	\$ 294,750
Less: current portion	—	(11,816)
	<b>267,926</b>	<b>282,934</b>
Less: deferred finance costs	<b>(1,732)</b>	<b>(1,917)</b>
	<b>\$ 266,194</b>	<b>\$ 281,017</b>

As at October 1, 2016, the Company had a \$300.0 million term loan facility with an interest rate of 3.25% plus LIBOR (LIBOR floor of 1.00%), maturing on April 24, 2021. During the thirty-nine weeks ended October 1, 2016, a payment of \$11.8 million was made due to excess cash flows in 2015, and a voluntary repayment of \$15.0 million was made to reduce excess cash balances. As such, no additional regularly scheduled principal repayments are required for the remainder of 2016.

**7. Future employee benefits**

Employee benefits relating to the termination of employees ("termination benefits") are expensed during the period and are recorded as of the date a committed plan is in place and communication to employees has occurred. Termination benefits relate to severance which is not based on a future service requirement. Severance and retention benefits, which are dependent upon the continuing provision of services through to certain predefined dates, are recognized as short-term employee benefits. Employee benefits are included on the following line items in the consolidated statement of income:

**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	<b>October 1, 2016</b>	October 3, 2015	<b>October 1, 2016</b>	October 3, 2015
<b>Termination benefits</b>				
Cost of sales	\$ —	\$ —	\$ 31	\$ 482
Business acquisition, integration and other expenses	—	1,033	28	1,033
Selling, general and administrative expenses	216	33	888	603
	<b>\$ 216</b>	<b>\$ 1,066</b>	<b>\$ 947</b>	<b>\$ 2,118</b>
<b>Short-term benefits</b>				
Business acquisition, integration and other expenses	\$ 314	\$ 36	\$ 2,103	\$ 275
Selling, general and administrative expenses	237	—	304	—
	<b>\$ 551</b>	<b>\$ 36</b>	<b>\$ 2,407</b>	<b>\$ 275</b>

## 8. Share capital

### Purchase of shares for cancellation

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

For the thirty-nine weeks ended October 1, 2016, the Company purchased 8,000 common shares under this plan at an average price of CAD\$18.02 per share for total cash consideration of \$0.1 million. The excess of the purchase price over the book value of the shares in the amount of \$0.1 million was charged to retained earnings.

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

	Thirty-nine weeks ended		Fifty-two weeks ended	
	October 1, 2016		January 2, 2016	
	Shares	(\$000s)	Shares	(\$000s)
Balance, beginning of period	30,874,164	\$ 85,282	30,706,290	\$ 82,658
Options exercised for shares	17,923	94	101,678	664
Options exercised for shares via cashless exercise method	46,682	—	109,496	—
Fair value of share-based compensation on options exercised	—	815	—	2,049
Shares repurchased for cancellation	(8,000)	(21)	(43,300)	(89)
<b>Balance, end of period</b>	<b>30,930,769</b>	<b>\$ 86,170</b>	<b>30,874,164</b>	<b>\$ 85,282</b>

During the thirteen and thirty-nine weeks ended October 1, 2016, the Company distributed dividends per share of CAD\$0.130 and CAD\$0.380, respectively (thirteen and thirty-nine weeks ended October 3, 2015: CAD\$0.120 and CAD\$0.345, respectively).

On November 9, 2016, the Company's Board of Directors declared a quarterly dividend of CAD\$0.140 per share, payable on December 15, 2016 to shareholders of record as of December 1, 2016.

Excluded from the diluted earnings per common share calculation for the thirteen and thirty-nine weeks ended October 1, 2016 were 683,464 and 701,436 options, respectively, as their effect would have been anti-dilutive (October 3, 2015: 805,553 and 805,553 options, respectively).



**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

**9. Share-based compensation**

The Company has a Share Option Plan for designated directors, officers and certain managers of the Company, a Performance Share Unit ("PSU") Plan for eligible employees, and a Deferred Share Unit ("DSU") Plan for directors of the Company. The DSU Plan had 32,714 units outstanding at October 1, 2016 (October 3, 2015: 21,608).

The carrying amount of the share-based compensation arrangements including cash-settled options, PSUs and DSUs, recognized in accounts payable and other long-term liabilities on the consolidated statement of financial position, was \$0.9 million and \$1.5 million, respectively, as at October 1, 2016 (January 2, 2016: \$0.6 million and \$0.4 million, respectively).

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

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	<b>October 1, 2016</b>	October 3, 2015	<b>October 1, 2016</b>	October 3, 2015
<b>Cost of sales resulting from:</b>				
Cash-settled awards	\$ (76)	\$ (351)	\$ —	\$ (328)
Equity-settled awards	26	31	90	103
<b>Selling, general and administrative expenses resulting from:</b>				
Cash-settled awards	1,473	(952)	2,203	(794)
Equity-settled awards	307	364	1,019	1,229
Share-based compensation expense (recovery) <sup>1</sup>	<b>\$ 1,730</b>	<b>\$ (908)</b>	<b>\$ 3,312</b>	<b>\$ 210</b>

<sup>1</sup> Cash-settled awards may include options with Share Appreciation Rights ("SARs"), PSUs and DSUs. Equity-settled awards include options without SARs, and PSUs.

**Share option plan**

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

	Thirteen weeks ended				Thirty-nine weeks ended			
	October 1, 2016		October 3, 2015		October 1, 2016		October 3, 2015	
	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)
Outstanding, beginning of period	1,801,911	\$ 17.89	1,385,992	\$ 18.73	1,323,292	\$ 18.98	1,252,172	\$ 14.90
Granted	—	—	—	—	654,196	15.29	445,642	23.21
Exercised for shares via cashless method <sup>1</sup>	(121,996)	17.13	(3,000)	9.39	(147,786)	16.26	(194,620)	10.57
Exercised for shares	(5,368)	12.31	—	—	(17,923)	7.31	(71,878)	8.12
Exercised for shares	(127,364)	16.92	(3,000)	9.39	(165,709)	15.29	(266,498)	9.91
Exercised for cash	(38,690)	7.73	(5,900)	7.52	(69,079)	7.22	(42,170)	6.42
Cancelled or forfeited	(12,000)	19.26	(12,000)	21.70	(112,843)	21.30	(24,054)	20.24
Expired	—	—	—	—	(6,000)	23.11	—	—
Outstanding, end of period	<b>1,623,857</b>	<b>\$ 18.20</b>	1,365,092	\$ 18.77	<b>1,623,857</b>	<b>\$ 18.20</b>	1,365,092	\$ 18.77
Exercisable, end of period	<b>770,110</b>	<b>\$ 19.27</b>	687,621	\$ 15.00	<b>770,110</b>	<b>\$ 19.27</b>	687,621	\$ 15.00

<sup>1</sup> For the thirteen and thirty-nine weeks ended October 1, 2016, 37,957 and 46,682 shares were received via the cashless exercise method, respectively (thirteen and thirty-nine weeks ended October 3, 2015, 1,340 and 109,496 shares, respectively).

**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

The range of exercise prices for options outstanding at October 1, 2016 was CAD\$8.25 - CAD\$24.80 (October 3, 2015: CAD \$5.17 - CAD\$24.80).

The fair value of options granted during the thirty-nine weeks ended October 1, 2016 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted-average inputs and assumptions:

	<b>October 1, 2016</b>	October 3, 2015
Dividend yield (%)	<b>3.14</b>	1.84
Expected volatility (%)	<b>33.33</b>	30.69
Risk-free interest rate (%)	<b>0.63</b>	0.98
Expected life (years)	<b>5.20</b>	4.78
Weighted average share price (CAD)	<b>\$ 15.29</b>	\$ 23.21
<b>Weighted average fair value (CAD)</b>	<b>\$ 3.27</b>	\$ 5.23

**PSU plan**

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	<b>October 1, 2016</b>	October 3, 2015	<b>October 1, 2016</b>	October 3, 2015
	No.	No.	No.	No.
Outstanding, beginning of period	<b>213,436</b>	182,495	<b>139,184</b>	102,991
Granted	—	—	<b>82,017</b>	77,823
Reinvested dividends	<b>1,098</b>	1,263	<b>4,228</b>	2,944
Forfeited	—	—	<b>(10,895)</b>	—
Outstanding, end of period	<b>214,534</b>	183,758	<b>214,534</b>	183,758

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 thirty-nine weeks ended October 1, 2016 was 82% (thirty-nine weeks October 3, 2015: 60%) and the share price at the reporting date was CAD\$26.03 (October 3, 2015: CAD\$13.46). The PSUs will vest at the end of a three-year period if agreed upon performance measures are met.

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**10. Operating segment information**

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

<i>(Amounts in \$000s)</i>	Thirteen weeks ended October 1, 2016				Thirteen weeks ended October 3, 2015				
	Canada	U.S. Corporate	Total	Canada	U.S. Corporate	Total	Canada	U.S. Corporate	Total
<b>Revenue (excluding intercompany sales)</b>	\$ 66,476	\$ 164,279	\$ —	\$ 230,755	\$ 64,918	\$ 175,163	\$ —	\$ 240,081	
Cost of sales (excluding intercompany sales)	52,105	132,624	(398)	184,331	51,563	144,613	43	196,219	
<b>Gross profit</b>	<b>\$ 14,371</b>	<b>\$ 31,655</b>	<b>\$ 398</b>	<b>\$ 46,424</b>	<b>\$ 13,355</b>	<b>\$ 30,550</b>	<b>\$ (43)</b>	<b>\$ 43,862</b>	
<b>Income (loss) before income taxes</b>	<b>\$ 5,590</b>	<b>\$ 9,037</b>	<b>\$ (7,473)</b>	<b>\$ 7,154</b>	<b>\$ 5,373</b>	<b>\$ 7,015</b>	<b>\$ (5,224)</b>	<b>\$ 7,164</b>	
Add back:									
Depreciation and amortization included in:									
Cost of sales	296	1,329	19	1,644	308	1,723	—	2,031	
Distribution	38	326	—	364	32	342	—	374	
Selling, general and administrative expenses	105	1,311	359	1,775	132	1,316	232	1,680	
<b>Total depreciation and amortization</b>	<b>439</b>	<b>2,966</b>	<b>378</b>	<b>3,783</b>	<b>472</b>	<b>3,381</b>	<b>232</b>	<b>4,085</b>	
Finance costs	—	—	3,472	3,472	—	—	4,012	4,012	
<b>Income (loss) before depreciation, amortization, finance costs and income taxes</b>	<b>\$ 6,029</b>	<b>\$ 12,003</b>	<b>\$ (3,623)</b>	<b>\$ 14,409</b>	<b>\$ 5,845</b>	<b>\$ 10,396</b>	<b>\$ (980)</b>	<b>\$ 15,261</b>	

<i>(Amounts in \$000s)</i>	Thirty-nine weeks ended October 1, 2016				Thirty-nine weeks ended October 3, 2015				
	Canada	U.S. Corporate	Total	Canada	U.S. Corporate	Total	Canada	U.S. Corporate	Total
<b>Revenue (excluding intercompany sales)</b>	\$ 189,300	\$ 556,670	\$ —	\$ 745,970	\$ 200,187	\$ 576,455	\$ —	\$ 776,642	
Cost of sales (excluding intercompany sales)	146,829	443,021	(1,832)	588,018	158,410	465,005	(2,366)	621,049	
<b>Gross profit</b>	<b>\$ 42,471</b>	<b>\$ 113,649</b>	<b>\$ 1,832</b>	<b>\$ 157,952</b>	<b>\$ 41,777</b>	<b>\$ 111,450</b>	<b>\$ 2,366</b>	<b>\$ 155,593</b>	
<b>Income (loss) before income taxes</b>	<b>\$ 15,916</b>	<b>\$ 38,914</b>	<b>\$ (23,518)</b>	<b>\$ 31,312</b>	<b>\$ 14,981</b>	<b>\$ 32,647</b>	<b>\$ (19,640)</b>	<b>\$ 27,988</b>	
Add back:									
Depreciation and amortization included in:									
Cost of sales	915	4,581	42	5,538	949	5,223	—	6,172	
Distribution expenses	111	1,156	—	1,267	104	879	—	983	
Selling, general and administrative expenses	325	3,942	2,230	6,497	426	3,942	1,070	5,438	
<b>Total depreciation and amortization</b>	<b>1,351</b>	<b>9,679</b>	<b>2,272</b>	<b>13,302</b>	<b>1,479</b>	<b>10,044</b>	<b>1,070</b>	<b>12,593</b>	
Finance costs	—	—	10,747	10,747	—	—	12,333	12,333	
<b>Income (loss) before depreciation, amortization, finance costs and income taxes</b>	<b>\$ 17,267</b>	<b>\$ 48,593</b>	<b>\$ (10,499)</b>	<b>\$ 55,361</b>	<b>\$ 16,460</b>	<b>\$ 42,691</b>	<b>\$ (6,237)</b>	<b>\$ 52,914</b>	

<i>(Amounts in \$000s)</i>	As at October 1, 2016				As at January 2, 2016				
	Canada	U.S. Corporate	Total	Canada	U.S. Corporate	Total	Canada	U.S. Corporate	Total
<b>Total assets</b>	\$122,174	\$492,464	\$ 23,523	\$638,161	\$121,855	\$555,583	\$ 15,629	\$693,067	
<b>Total liabilities</b>	\$ 75,122	\$ 60,098	\$ 284,106	\$419,326	\$ 88,452	\$ 29,917	\$ 374,179	\$492,548	

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**11. Income tax expense**

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended October 1, 2016 was 29.2% (thirteen and thirty-nine weeks ended October 3, 2015: 28.9%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended October 1, 2016 was an expense of 7.7% and an expense of 17.9%, respectively (thirteen and thirty-nine weeks ended October 3, 2015: an expense of 15.2% and an expense of 19.4%, respectively).

The major components of income tax expense in the consolidated statement of comprehensive income for the thirteen and thirty-nine weeks ended October 1, 2016 and October 3, 2015 were as follows:

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	<b>October 1, 2016</b>	October 3, 2015	<b>October 1, 2016</b>	October 3, 2015
<b>Income tax expense (recovery) related to items recognized in other comprehensive income (loss):</b>				
Gain (loss) on hedge of net investment in foreign operations	\$ (269)	\$ (1,695)	\$ 1,362	\$ (4,030)
(Loss) gain on translation of net investment in foreign operations	233	1,389	(1,534)	3,343
Effective portion of changes in fair value of cash flow hedges	293	565	(1,358)	1,855
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	(23)	(500)	(524)	(1,588)
Net change in fair value of cash flow hedges transferred to income	—	(60)	31	(106)
Defined benefit plan actuarial (losses) gains	(274)	9	(174)	(220)
<b>Income tax recovery recognized in other comprehensive income (loss)</b>	<b>\$ (40)</b>	<b>\$ (292)</b>	<b>\$ (2,197)</b>	<b>\$ (746)</b>

**12. Related party transactions**

Total purchases from related parties for the thirteen and thirty-nine weeks ended October 1, 2016 were \$nil (thirteen and thirty-nine weeks ended October 3, 2015: \$0.1 million and \$0.3 million, respectively). As at October 1, 2016 and October 3, 2015 there were no amounts owing to related parties.

**13. Fair value measurement**

**Fair value of financial instruments**

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

<i>(Amounts in \$000s)</i>	October 1, 2016		January 2, 2016	
	Level 2	Level 3	Level 2	Level 3
<b>Fair value of financial assets</b>				
Foreign exchange contracts	\$ 1,203	\$ —	\$ 6,552	\$ —
<b>Fair value of financial liabilities</b>				
Interest rate swaps	1,712	—	755	—
Foreign exchange contracts	1,239	—	151	—
Long-term debt	—	261,954	—	287,783
Finance lease obligations	—	1,548	—	1,737

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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 thirty-nine weeks ended October 1, 2016 no such transfers have occurred.

The financial liabilities that are not measured at fair value on the consolidated statement of financial position consist of long-term debt (including current portion) and finance lease obligations. The carrying amount for these instruments are \$266.2 million and \$1.5 million, respectively, as at October 1, 2016 (January 2, 2016: \$292.8 million and \$1.7 million, respectively).

**Hedging activities**

***Interest rate swaps***

During the thirty-nine weeks ended October 1, 2016, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (Note 6):

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
<b>Designated in a formal hedging relationship:</b>				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700% \$	20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150% \$	25.0
April 4, 2016	April 4, 2018	3-month LIBOR (floor 1.0%)	1.2325% \$	35.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700% \$	40.0
<b>Not designated in a formal hedging relationship:</b>				
April 4, 2014	April 4, 2016	3-month LIBOR (floor 1.5%)	1.9970% \$	100.0

The cash flow hedge of interest expense variability was assessed to be highly effective for the thirteen and thirty-nine weeks ended October 1, 2016 and October 3, 2015, and therefore, the change in fair value for those interest rate swaps designated in a hedging relationship was included in OCI as nominal and after-tax net losses of \$1.3 million, respectively, and after-tax net losses of \$0.5 million and \$0.4 million, respectively.

For the thirteen and thirty-nine weeks ended October 1, 2016, the change in fair value for the interest rate swap that has not been designated in a formal hedging relationship was a nominal gain and a net gain of \$0.1 million, respectively, and was recorded in income (October 3, 2015: net gain of \$0.1 million and \$0.3 million, respectively).

***Foreign currency contracts***

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

As at October 1, 2016, the Company had outstanding notional amounts of \$45.0 million in foreign currency average-rate forward contracts and \$7.8 million in foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of \$2.1 million average-rate forward contracts with maturities ranging from October 2017 to March 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 thirty-nine weeks ended October 1, 2016 and October 3, 2015, and therefore, the change in fair value was recorded in OCI as after-tax net gains of

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\$0.5 million and net losses of \$2.2 million, respectively, and after-tax net gains of \$2.0 million and \$5.2 million, respectively. The amount recognized in income resulting from hedge ineffectiveness during the thirteen and thirty-nine weeks ended October 1, 2016 was \$nil and a net gain of \$0.2 million, respectively (October 3, 2015: net gain of \$0.2 million and \$0.4 million).

***Hedge of net investment in foreign operations***

As at October 1, 2016, a total borrowing of \$252.3 million (\$15.0 million included in accounts payable and \$237.3 million included in long-term debt) (January 2, 2016: \$237.3 million included in long-term debt) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the re-translation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There was no hedge ineffectiveness recognized in the thirty-nine weeks ended October 1, 2016 or October 3, 2015.

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