



# HIGH LINER FOODS

## **UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the thirteen and thirty-nine weeks ended September 30, 2017  
With comparative figures as at and for the thirteen and thirty-nine weeks ended October 1, 2016**

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

	Notes	September 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 2,327	\$ 18,252
Accounts receivable		98,399	75,190
Income taxes receivable		10,891	4,809
Other financial assets	15	590	1,705
Inventories	12	313,144	252,059
Prepaid expenses		3,558	3,340
<b>Total current assets</b>		<b>428,909</b>	<b>355,355</b>
<b>Non-current assets</b>			
Property, plant and equipment		126,926	111,322
Deferred income taxes	11	3,929	2,290
Other receivables and miscellaneous assets	15	528	864
Intangible assets		150,348	97,176
Goodwill		157,887	118,101
<b>Total non-current assets</b>		<b>439,618</b>	<b>329,753</b>
<b>Total assets</b>	<b>6,7</b>	<b>\$ 868,527</b>	<b>\$ 685,108</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank loans	6	\$ 16,486	\$ 621
Accounts payable and accrued liabilities		201,580	139,378
Provisions		5,014	386
Other current financial liabilities	15	2,766	1,626
Other current liabilities		141	416
Income taxes payable		14	851
Current portion of finance lease obligations		692	721
<b>Total current liabilities</b>		<b>226,693</b>	<b>143,999</b>
<b>Non-current liabilities</b>			
Long-term debt	7	335,283	266,327
Other long-term financial liabilities	15	211	196
Other long-term liabilities		1,505	888
Long-term finance lease obligations		565	702
Deferred income taxes	11	35,860	44,602
Future employee benefits		11,585	8,190
<b>Total non-current liabilities</b>		<b>385,009</b>	<b>320,905</b>
<b>Total liabilities</b>		<b>611,702</b>	<b>464,904</b>
<b>Shareholders' equity</b>			
Common shares	9	112,037	86,094
Contributed surplus		15,111	14,654
Retained earnings		148,394	143,782
Accumulated other comprehensive loss		(18,717)	(24,326)
<b>Total shareholders' equity</b>		<b>256,825</b>	<b>220,204</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 868,527</b>	<b>\$ 685,108</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	
		September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<b>Revenues</b>		\$ 282,704	\$ 230,366	\$ 790,824	\$ 746,193
Cost of sales		234,444	184,331	649,249	588,018
<b>Gross profit</b>		<b>48,260</b>	46,035	<b>141,575</b>	158,175
Distribution expenses		13,240	10,410	36,499	33,588
Selling, general and administrative expenses		25,035	23,434	74,840	75,677
Impairment of property, plant and equipment		—	—	—	2,327
Business acquisition, integration and other expenses		747	1,954	1,648	4,301
<b>Results from operating activities</b>		<b>9,238</b>	10,237	<b>28,588</b>	42,282
Finance costs		4,576	3,472	11,785	10,747
<b>Income before income taxes</b>		<b>4,662</b>	6,765	<b>16,803</b>	31,535
Income taxes					
Current	11	(793)	1,761	1,436	7,579
Deferred	11	(585)	(1,313)	(2,059)	(1,670)
<b>Total income tax (recovery) expense</b>		<b>(1,378)</b>	448	<b>(623)</b>	5,909
<b>Net income</b>		<b>\$ 6,040</b>	\$ 6,317	<b>\$ 17,426</b>	\$ 25,626
<b>Earnings per common share</b>					
Basic		\$ 0.18	\$ 0.20	\$ 0.54	\$ 0.83
Diluted		\$ 0.18	\$ 0.20	\$ 0.54	\$ 0.82
<b>Weighted average number of shares outstanding</b>					
Basic		33,381,801	30,924,619	32,069,306	30,910,563
Diluted		33,439,153	31,289,440	32,221,554	31,138,035

*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	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<b>Net income</b>	<b>\$ 6,040</b>	<b>\$ 6,317</b>	<b>\$ 17,426</b>	<b>\$ 25,626</b>
<b>Other comprehensive income (loss), net of income tax (Note 11)</b>				
Other comprehensive income (loss) to be reclassified to net income:				
Gain (loss) on hedge of net investment in foreign operations	11,217	(1,804)	21,773	11,490
(Loss) gain on translation of net investment in foreign operations	(16,232)	2,756	(31,137)	(16,866)
Translation impact on Canadian dollar denominated non-AOCI items	9,588	(1,793)	17,636	10,963
Translation impact on Canadian dollar denominated AOCI items	(707)	173	(1,283)	(804)
Total exchange gains (losses) on translation of foreign operations and Canadian dollar denominated items	3,866	(668)	6,989	4,783
Effective portion of changes in fair value of cash flow hedges	(938)	513	(2,335)	(3,482)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	149	(57)	(63)	(1,286)
Net change in fair value of cash flow hedges transferred to income	118	205	445	279
Translation impact on Canadian dollar denominated AOCI items	308	(52)	573	513
Total exchange (losses) gains on cash flow hedges	(363)	609	(1,380)	(3,976)
<b>Net other comprehensive gain (loss) to be reclassified to net income</b>	<b>3,503</b>	<b>(59)</b>	<b>5,609</b>	<b>807</b>
Other comprehensive loss not to be reclassified to net income:				
Defined benefit plan actuarial losses	(945)	(350)	(2,182)	(1,099)
<b>Other comprehensive income (loss), net of income tax</b>	<b>2,558</b>	<b>(409)</b>	<b>3,427</b>	<b>(292)</b>
<b>Total comprehensive income</b>	<b>\$ 8,598</b>	<b>\$ 5,908</b>	<b>\$ 20,853</b>	<b>\$ 25,334</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 December 31, 2016	\$ (24,887)	\$ 561	\$ (24,326)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	6,989	—	6,989
Total exchange losses on cash flow hedges	—	(1,380)	(1,380)
<b>Balance at September 30, 2017</b>	<b>\$ (17,898)</b>	<b>\$ (819)</b>	<b>\$ (18,717)</b>
Balance at January 2, 2016	\$ (27,582)	\$ 2,977	\$ (24,605)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	4,783	—	4,783
Total exchange losses on cash flow hedges	—	(3,976)	(3,976)
Balance at October 1, 2016	\$ (22,799)	\$ (999)	\$ (23,798)

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

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

	Common shares	Contributed surplus	Retained earnings	AOCI	Total
Balance at December 31, 2016	\$ 86,094	\$ 14,654	\$ 143,782	\$ (24,326)	\$ 220,204
Other comprehensive income	—	—	(2,182)	5,609	3,427
Net income	—	—	17,426	—	17,426
Common share dividends	—	—	(10,586)	—	(10,586)
Share-based compensation	185	457	—	—	642
Share issuance	25,758	—	(46)	—	25,712
<b>Balance at September 30, 2017</b>	<b>\$ 112,037</b>	<b>\$ 15,111</b>	<b>\$ 148,394</b>	<b>\$ (18,717)</b>	<b>\$ 256,825</b>
Balance at January 2, 2016	\$ 85,282	\$ 13,999	\$ 123,949	\$ (24,605)	\$ 198,625
Other comprehensive income	—	—	(1,099)	807	(292)
Net income	—	—	25,626	—	25,626
Common share dividends	—	—	(8,900)	—	(8,900)
Share-based compensation	909	1,017	—	—	1,926
Common shares repurchased for cancellation	(21)	—	(91)	—	(112)
Balance at October 1, 2016	\$ 86,170	\$ 15,016	\$ 139,485	\$ (23,798)	\$ 216,873

*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	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<b>Cash flows provided by (used in):</b>					
<b>Operating activities</b>					
Net income		\$ 6,040	\$ 6,317	\$ 17,426	\$ 25,626
Adjustments to net income not involving cash from operations:					
Depreciation and amortization	14	4,370	3,783	11,893	13,302
Share-based compensation (recovery) expense	10	(380)	1,730	797	3,312
Loss on asset disposals and impairment		74	177	239	2,593
Future employee benefits contribution, net of expense		25	104	171	40
Finance costs		4,576	3,472	11,785	10,747
Income tax (recovery) expense	11	(1,378)	448	(623)	5,909
Unrealized foreign exchange gain		(727)	(120)	(1,134)	(503)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		12,600	15,911	40,554	61,026
Changes in non-cash working capital balances:					
Accounts receivable		(9,832)	330	(7,327)	(2,618)
Inventories		(17,017)	5,298	3,035	53,367
Prepaid expenses		444	351	221	(163)
Accounts payable and accrued liabilities		21,699	1,349	(20,030)	(36,689)
Provisions		436	500	4,531	7,964
Net change in non-cash working capital balances		(4,270)	7,828	(19,570)	21,861
Interest paid		(2,808)	(3,331)	(10,196)	(10,878)
Income taxes paid		(1,120)	(2,993)	(8,965)	(6,719)
<b>Net cash flows provided by operating activities</b>		<b>4,402</b>	<b>17,415</b>	<b>1,823</b>	<b>65,290</b>
<b>Financing activities</b>					
Increase (decrease) in bank loans		4,527	(7,705)	15,833	(17,853)
Repayment of finance lease obligations		(175)	(238)	(592)	(696)
Proceeds of long-term debt	7	—	—	70,000	—
Repayment of long-term debt	7	—	—	—	(26,824)
Deferred finance costs		(3)	—	(1,247)	—
Common share dividends paid		(3,839)	(3,047)	(10,586)	(8,900)
Common share repurchase for cancellation		—	—	—	(112)
Options exercised for shares		—	51	—	94
Share issuance		—	—	(73)	—
<b>Net cash flows provided by (used in) financing activities</b>		<b>510</b>	<b>(10,939)</b>	<b>73,335</b>	<b>(54,291)</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment, net of investment tax credits		(8,157)	(5,671)	(20,390)	(10,098)
Net proceeds on disposal of assets		96	15,255	254	15,389
Acquisition of business, net of cash acquired	3	—	—	(74,911)	—
<b>Net cash flows (used in) provided by investing activities</b>		<b>(8,061)</b>	<b>9,584</b>	<b>(95,047)</b>	<b>5,291</b>
Foreign exchange increase (decrease) on cash		3,846	(183)	3,964	35
Net change in cash during the period		697	15,877	(15,925)	16,325
Cash, beginning of period		1,630	1,491	18,252	1,043
<b>Cash, end of period</b>		<b>\$ 2,327</b>	<b>\$ 17,368</b>	<b>\$ 2,327</b>	<b>\$ 17,368</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**  
**In United States dollars, unless otherwise noted**

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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 September 30, 2017, comprise High Liner Foods' Canadian company (the "Parent") and its subsidiaries (herein together referred to as the "Company" or "High Liner Foods"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on November 9, 2017.

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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 year ended December 31, 2016, as set out in the 2016 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 December 31, 2016, and there have been no new standards or interpretations adopted which have had an impact on the accounting policies, financial position or performance of the Company.

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

The standards, amendments and interpretations that have been issued but that are not yet effective, up to the date of issuance of these Consolidated Financial Statements, are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2016.

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

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

**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**In United States dollars, unless otherwise noted**

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The Company has made significant progress toward completing the assessment of the potential changes from adopting IFRS 15 and does not anticipate that the impact on the consolidated financial statements will be material. An area of continued focus is the application of the requirements relating to the determination of the transaction price. Under IFRS 15, the Company will include variable consideration in the transaction price at contract inception, estimated using either the most likely amount or expected value method, to the extent it is highly probable that a subsequent significant reversal of cumulative revenue will not occur. The Company is evaluating whether this will require any refinements to current estimation methodologies or the timing of recognition of the estimates. During the quarter, the Company began evaluating the application of the new disclosure requirements, and assessing the costs and benefits of the two permitted transition methods.

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### **3. Business combinations**

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

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

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

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

*(Amounts in \$000s)*

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

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

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

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

**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**In United States dollars, unless otherwise noted**

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

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

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

In order to complete this acquisition, the Company incurred acquisition-related costs during the year in the form of advisory, legal and professional fees. Acquisition-related costs totaled \$0.1 million and \$0.6 million for the thirteen and thirty-nine weeks ended September 30, 2017, respectively, and have been included in business acquisition, integration and other expenses on the consolidated statement of income.

From the date of acquisition, Rubicon contributed \$67.0 million of revenue and \$1.1 million of earnings before income taxes, excluding one-time business acquisition costs. Had the acquisition occurred as of the beginning of the annual reporting period, January 1, 2017, the revenue for the combined entity, including Rubicon, would have been \$878.4 million, and earnings before income taxes, excluding one-time business acquisition costs, for the combined entity would have been \$18.8 million for the thirty-nine weeks ended September 30, 2017.

#### **4. Revision of previously reported consolidated financial statements**

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

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

**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**In United States dollars, unless otherwise noted**

<b>As at December 31, 2016</b>	<b>Previously reported</b>	<b>Adjustments</b>	<b>As adjusted</b>
<i>(Amounts in \$000s)</i>			
<b>Consolidated Statement of Financial Position</b>			
Income taxes receivable	\$ 3,783	\$ 1,026	\$ 4,809
Inventories	252,118	(59)	252,059
Accounts payable and accrued liabilities	135,272	4,106	139,378
Deferred income taxes	45,183	(581)	44,602
Retained earnings	146,340	(2,558)	143,782
<b>Thirteen weeks ended October 1, 2016</b>	<b>Previously reported</b>	<b>Adjustments</b>	<b>As adjusted</b>
<i>(Amounts in \$000s, except per share amounts)</i>			
<b>Consolidated Statement of Income</b>			
Revenues	\$ 230,755	\$ (389)	\$ 230,366
Income taxes			
Current	1,808	(47)	1,761
Deferred	(1,257)	(56)	(1,313)
Total income tax expense	551	(103)	448
Net income	6,603	(286)	6,317
Earnings per common share			
Basic	0.21	(0.01)	0.20
Diluted	0.21	(0.01)	0.20
<b>Consolidated Statement of Comprehensive Income</b>			
Total comprehensive income	\$ 6,194	\$ (286)	\$ 5,908
<b>Thirty-nine weeks ended October 1, 2016</b>	<b>Previously reported</b>	<b>Adjustments</b>	<b>As adjusted</b>
<i>(Amounts in \$000s, except per share amounts)</i>			
<b>Consolidated Statement of Income</b>			
Revenues	\$ 745,970	\$ 223	\$ 746,193
Income taxes			
Current	7,319	260	7,579
Deferred	(1,701)	31	(1,670)
Total income tax expense	5,618	291	5,909
Net income	25,694	(68)	25,626
Earnings per common share			
Basic	0.82	0.01	0.83
Diluted	0.82	—	0.82
<b>Consolidated Statement of Comprehensive Income</b>			
Total comprehensive income	\$ 25,402	(68)	25,334

**HIGH LINER FOODS INCORPORATED**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**In United States dollars, unless otherwise noted**

**5. Product recall**

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

Subsequently, during the second quarter of 2017, the Company was notified by the ingredient supplier that several additional ingredients were being recalled due to the potential presence of undeclared milk, which necessitated the expansion of the Company's initial recall to include additional value-added seafood products sold in the U.S. and Canada. As a result, during the thirteen weeks ended July 1, 2017, the Company recognized further estimated losses associated with the return of product and direct incremental costs incurred by the Company of \$8.6 million. During the third quarter of 2017, the Company recognized \$2.7 million in further actual and estimated net losses associated with the product recall related to the return of destroyed product and direct incremental costs. These losses do not include any reduction in earnings as a result of lost sales opportunities due to limited product availability and customer shortages, or increased production costs related to the interruption of production at the Company's facilities.

The Company's estimates related to the recall are provisional and were determined based on an assessment of the information available up to the date of filing of these Consolidated Financial Statements, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company's estimates reflect the losses determined as at September 30, 2017 to be both probable and reasonably estimable, and therefore the Company may need to revise these estimates in subsequent periods as the Company continues to work with its customers to substantiate the claims received to date and any additional claims that may be received. These revisions may occur at any time and may be material.

**6. Bank loans**

<i>(Amounts in \$000s)</i>	<b>September 30, 2017</b>	December 31, 2016
Bank loans, denominated in CAD (average variable rate of 3.20%; December 31, 2016: 2.70%)	<b>\$ 1,268</b>	\$ 959
Bank loans, denominated in USD (average variable rate of 3.05%; December 31, 2016: 4.00%)	<b>15,465</b>	—
	<b>16,733</b>	959
Less: deferred finance costs	<b>(247)</b>	(338)
	<b>\$ 16,486</b>	\$ 621

The Company has a five year \$180.0 million working capital facility (the "Facility"), with Royal Bank of Canada as Administrative and Collateral Agent, which expires in April 2019. The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility (see Note 7), and excluding the assets acquired as part of the Rubicon acquisition (see Note 3). A second charge over the Company's plant and equipment is also in place. As at September 30, 2017 and December 31, 2016, the Facility allowed the Company to borrow: Canadian Prime Rate revolving loans, Canadian Base Rate revolving loans and U.S. Prime Rate revolving loans at their respective rates plus 0.00% to 0.25%; BA Equivalent revolving loans and LIBOR revolving loans at their respective rates plus 1.25% to 1.75%; and letters of credit with fees of 1.25% to 1.75%. Standby fees are 0.25% to 0.375% and are required to be paid on the unutilized facility. As at September 30, 2017, the Company had \$147.9 million of undrawn borrowing facility (December 31, 2016: \$151.6 million).

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**7. Long-term debt**

<i>(Amounts in \$000s)</i>	<b>September 30, 2017</b>	December 31, 2016
Term loan	\$ 337,926	\$ 267,926
Less: current portion	—	—
	<b>337,926</b>	267,926
Less: deferred finance costs	<b>(2,643)</b>	(1,599)
	<b>\$ 335,283</b>	\$ 266,327

As at September 30, 2017, the Company had a \$370.0 million term loan facility with an interest rate of 3.25% plus LIBOR (LIBOR floor of 1.00%), maturing on April 24, 2021. The term loan facility was increased from \$300.0 million to \$370.0 million on June 6, 2017 to facilitate the Rubicon acquisition (see Note 3). The \$70.0 million addition to the term loan was made in accordance with the term loan credit agreement, which provides for incremental increases that meet stated provisions, at consistent terms.

The regularly scheduled principal repayment terms are \$0.9 million, paid on a quarterly basis. However, during the fifty-two weeks ended December 31, 2016, a payment of \$11.8 million was made due to excess cash flows in 2015, and a voluntary repayment of \$15.0 million was made to reduce excess cash balances. As such, no additional regularly scheduled principal repayments are required for 2017.

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

**8. Future employee benefits**

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

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	<b>September 30, 2017</b>	October 1, 2016	<b>September 30, 2017</b>	October 1, 2016
<b>Termination benefits</b>				
Cost of sales	\$ 64	\$ —	\$ 108	\$ 31
Distribution expenses	11	—	11	—
Selling, general and administrative expenses	1,205	216	1,803	916
	<b>\$ 1,280</b>	\$ 216	<b>\$ 1,922</b>	\$ 947
<b>Short-term benefits</b>				
Business acquisition, integration and other expenses	\$ —	\$ 247	\$ —	\$ 2,103
Selling, general and administrative expenses	—	305	27	305
	<b>\$ —</b>	<b>\$ 552</b>	<b>\$ 27</b>	<b>\$ 2,408</b>

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**9. Share capital**

**Purchase of shares for cancellation**

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

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

	Thirty-nine weeks ended		Thirty-nine weeks ended	
	September 30, 2017		October 1, 2016	
	Shares	(\$000s)	Shares	(\$000s)
Balance, beginning of period	30,889,078	\$ 86,094	30,874,164	\$ 85,282
Shares issued on acquisition of Rubicon (Note 3)	2,429,014	25,758	—	—
Options exercised for shares	—	—	17,923	94
Options exercised for shares via cashless exercise method (Note 10)	14,295	—	46,682	—
Fair value of share-based compensation on options exercised	—	185	—	815
Shares repurchased for cancellation	—	—	(8,000)	(21)
<b>Balance, end of period</b>	<b>33,332,387</b>	<b>\$ 112,037</b>	<b>30,930,769</b>	<b>\$ 86,170</b>

During the thirteen and thirty-nine weeks ended September 30, 2017, the Company distributed dividends per share of CAD\$0.140 and CAD\$0.420, respectively (thirteen and thirty-nine weeks ended October 1, 2016: CAD\$0.130 and CAD\$0.380, respectively).

On November 9, 2017, the Company's Board of Directors declared a quarterly dividend of CAD\$0.145 per share, payable on December 15, 2017 to shareholders of record as of December 1, 2017.

**10. Share-based compensation**

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

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

The carrying amount of cash-settled share-based compensation arrangements recognized in accounts payable and accrued liabilities, other current liabilities and other long-term liabilities on the consolidated statement of financial position, was \$0.1 million, \$0.1 million and \$1.5 million, respectively, as at September 30, 2017 (December 31, 2016: \$0.6 million, \$0.4 million and \$0.9 million, respectively).

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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	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<b>Cost of sales resulting from:</b>				
Cash-settled awards	\$ —	\$ (76)	\$ —	\$ —
Equity-settled awards	15	26	44	90
<b>Selling, general and administrative expenses resulting from:</b>				
Cash-settled awards	(597)	1,473	159	2,203
Equity-settled awards	202	307	594	1,019
<b>Share-based compensation (recovery) expense <sup>(1)</sup></b>	<b>\$ (380)</b>	<b>\$ 1,730</b>	<b>\$ 797</b>	<b>\$ 3,312</b>

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

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

	Thirteen weeks ended				Thirty-nine weeks ended			
	September 30, 2017		October 1, 2016		September 30, 2017		October 1, 2016	
	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)
Outstanding, beginning of period	1,692,014	\$ 18.55	1,801,911	\$ 17.89	1,607,350	\$ 18.21	1,323,292	\$ 18.98
Granted	82,985	13.84	—	—	206,599	17.89	654,196	15.29
Exercised for shares via cashless method <sup>(1),(2)</sup>	—	—	(121,996)	17.13	(29,750)	9.56	(147,786)	16.26
Exercised for shares <sup>(2)</sup>	—	—	(5,368)	12.31	—	—	(17,923)	7.31
Exercised for shares <sup>(2)</sup>	—	—	(127,364)	16.92	(29,750)	9.56	(165,709)	15.29
Exercised for cash <sup>(2)</sup>	—	—	(38,690)	7.73	(3,000)	9.39	(69,079)	7.22
Cancelled or forfeited	—	—	(12,000)	19.26	(3,200)	15.30	(112,843)	21.30
Expired	(17,380)	22.07	—	—	(20,380)	21.30	(6,000)	23.11
<b>Outstanding, end of period</b>	<b>1,757,619</b>	<b>\$ 18.29</b>	<b>1,623,857</b>	<b>\$ 18.20</b>	<b>1,757,619</b>	<b>\$ 18.29</b>	<b>1,623,857</b>	<b>\$ 18.20</b>
<b>Exercisable, end of period</b>	<b>1,076,732</b>	<b>\$ 19.11</b>	<b>770,110</b>	<b>\$ 19.27</b>	<b>1,076,732</b>	<b>\$ 19.11</b>	<b>770,110</b>	<b>\$ 19.27</b>

<sup>(1)</sup> For the thirteen and thirty-nine weeks ended September 30, 2017, nil and 14,295 shares were issued via the cashless exercise method, respectively (thirteen and thirty-nine weeks ended October 1, 2016: 37,957 and 46,682 shares, respectively).

<sup>(2)</sup> The weighted average share price at the date of exercise for these options was CAD\$nil and CAD\$18.40 for the thirteen and thirty-nine weeks ended September 30, 2017, respectively (thirteen and thirty-nine weeks ended October 1, 2016: CAD\$24.89 and CAD\$22.62, respectively).

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

Option price (CAD)	Options outstanding			Options exercisable	
	Number outstanding	Weighted average exercise price	Average life (years)	Number exercisable	Weighted average exercise price
\$8.25-\$10.00	127,236	\$ 9.10	0.27	127,236	\$ 9.10
\$10.01-\$15.00	77,850	\$ 13.69	9.63	3,000	\$ 14.03
\$15.01-\$20.00	750,863	\$ 15.61	2.70	347,831	\$ 15.96
\$20.01-\$25.00	801,670	\$ 22.72	1.84	598,665	\$ 23.09
<b>Total</b>	<b>1,757,619</b>			<b>1,076,732</b>	

The fair value of options granted during the thirty-nine weeks ended September 30, 2017 and October 1, 2016 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted-average inputs and assumptions:

	September 30, 2017	October 1, 2016
Dividend yield (%)	3.11	3.14
Expected volatility (%)	34.70	33.33
Risk-free interest rate (%)	1.61	0.63
Expected life (years)	6.81	5.20
Weighted average share price (CAD)	\$ 17.89	\$ 15.29
<b>Weighted average fair value (CAD)</b>	<b>\$ 4.34</b>	<b>\$ 3.27</b>

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Outstanding, beginning of period	251,360	213,436	216,070	139,184
Granted	7,625	—	95,096	82,017
Reinvested dividends	2,660	1,098	6,517	4,228
Released and paid in cash	—	—	(25,873)	—
Forfeited	—	—	(30,165)	(10,895)
<b>Outstanding, end of period</b>	<b>261,645</b>	<b>214,534</b>	<b>261,645</b>	<b>214,534</b>

The expected performance multiplier used in determining the fair value of the liability and related share-based compensation expense for the PSUs granted during the thirteen and thirty-nine weeks ended September 30, 2017 was 82% (October 1, 2016: 82%) and the share price at the reporting date was CAD\$14.01 (October 1, 2016: CAD\$26.03). The PSUs will vest at the end of a three-year period, if agreed-upon performance measures are met (if applicable).

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

	Thirteen weeks ended <b>September 30, 2017</b>	Thirty-nine weeks ended <b>September 30, 2017</b>
Outstanding, beginning of period	61,697	—
Granted	5,773	66,557
Reinvested dividends	693	1,606
Outstanding, end of period	68,163	68,163

The share price at the reporting date for the RSUs was CAD\$14.01. The RSUs will vest at the end of a three-year period.

## 11. Income tax expense

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended September 30, 2017 was 29.2% (thirteen and thirty-nine weeks ended October 1, 2016: 29.2%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended September 30, 2017 was a recovery of 29.6% and a recovery of 3.7%, respectively (thirteen and thirty-nine weeks ended October 1, 2016: an expense of 6.6% and an expense of 18.7%, respectively). The lower effective tax rate for the thirteen weeks ended September 30, 2017 compared to the prior year is attributable to the impact of acquisition financing deductions on lower pre-tax income and recognition of tax benefits during the quarter that were not previously recognized.

The major components of income tax recovery in the consolidated statement of comprehensive income for the thirteen and thirty-nine weeks ended September 30, 2017 and October 1, 2016 were as follows:

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	<b>September 30, 2017</b>	October 1, 2016	<b>September 30, 2017</b>	October 1, 2016
<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 \$	908	\$ (269)	\$ 1,682	\$ 1,362
(Loss) gain on translation of net investment in foreign operations	(695)	233	(1,254)	(1,534)
Effective portion of changes in fair value of cash flow hedges	(338)	293	(848)	(1,358)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	61	(23)	(26)	(524)
Net change in fair value of cash flow hedges transferred to income	(1)	—	69	31
Defined benefit plan actuarial losses	(310)	(274)	(752)	(174)
<b>Income tax recovery recognized in other comprehensive income</b>	<b>\$ (375)</b>	<b>\$ (40)</b>	<b>\$ (1,129)</b>	<b>\$ (2,197)</b>

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**12. Commitments**

***Guarantee of Supplier Financing Arrangement***

As part of the Rubicon acquisition (see Note 3), the Company assumed financing arrangement guarantees for certain suppliers that finance their exports of seafood products to Rubicon. As part of this financing arrangement, the Company has granted a security interest in substantially all of the inventory and proceeds thereon arising from purchases from these suppliers and has guaranteed the suppliers' borrowings, to the extent that such borrowings were used in connection with the exportation of seafood products to Rubicon. The Company has deemed the amount of the guarantee to be the open accounts payable to these suppliers. As of September 30, 2017, the Company's open accounts payable to these suppliers was \$56.1 million.

**13. Related party transactions**

As a result of the Rubicon acquisition, the Company has related party transactions with a company controlled by certain key management of Rubicon. Total purchases from related parties for the thirteen and thirty-nine weeks ended September 30, 2017 were \$0.6 million and \$1.7 million, respectively (thirteen and thirty-nine weeks ended October 1, 2016: \$nil), and as at September 30, 2017 there was \$0.6 million (October 1, 2016: \$nil) due to the related parties.

**14. Operating segment information**

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

<i>(Amounts in \$000s)</i>	<b>Thirteen weeks ended</b>				<b>Thirteen weeks ended</b>			
	<b>September 30, 2017</b>				<b>October 1, 2016</b>			
	<b>Canada</b>	<b>U.S.</b>	<b>Corporate</b>	<b>Total</b>	<b>Canada</b>	<b>U.S.</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenues (excluding intercompany sales)</b>	<b>\$ 68,129</b>	<b>\$ 214,575</b>	<b>\$ —</b>	<b>\$282,704</b>	<b>\$ 66,476</b>	<b>\$ 163,890</b>	<b>\$ —</b>	<b>\$230,366</b>
Cost of sales (excluding intercompany sales)	<b>56,906</b>	<b>177,322</b>	<b>216</b>	<b>234,444</b>	<b>52,111</b>	<b>132,623</b>	<b>(403)</b>	<b>184,331</b>
<b>Gross profit</b>	<b>\$ 11,223</b>	<b>\$ 37,253</b>	<b>\$ (216)</b>	<b>\$ 48,260</b>	<b>\$ 14,365</b>	<b>\$ 31,267</b>	<b>\$ 403</b>	<b>\$ 46,035</b>
<b>Income (loss) before income taxes</b>	<b>\$ 2,006</b>	<b>\$ 9,207</b>	<b>\$ (6,551)</b>	<b>\$ 4,662</b>	<b>\$ 5,589</b>	<b>\$ 8,649</b>	<b>\$ (7,473)</b>	<b>\$ 6,765</b>
Add back:								
Depreciation and amortization included in:								
Cost of sales	<b>335</b>	<b>1,270</b>	<b>44</b>	<b>1,649</b>	<b>296</b>	<b>1,329</b>	<b>19</b>	<b>1,644</b>
Distribution expenses	<b>38</b>	<b>325</b>	<b>—</b>	<b>363</b>	<b>38</b>	<b>326</b>	<b>—</b>	<b>364</b>
Selling, general and administrative expenses	<b>154</b>	<b>1,936</b>	<b>268</b>	<b>2,358</b>	<b>105</b>	<b>1,311</b>	<b>359</b>	<b>1,775</b>
<b>Total depreciation and amortization</b>	<b>527</b>	<b>3,531</b>	<b>312</b>	<b>4,370</b>	<b>439</b>	<b>2,966</b>	<b>378</b>	<b>3,783</b>
Finance costs	<b>—</b>	<b>—</b>	<b>4,576</b>	<b>4,576</b>	<b>—</b>	<b>—</b>	<b>3,472</b>	<b>3,472</b>
<b>Income (loss) before depreciation, amortization, finance costs and income taxes</b>	<b>\$ 2,533</b>	<b>\$ 12,738</b>	<b>\$ (1,663)</b>	<b>\$ 13,608</b>	<b>\$ 6,028</b>	<b>\$ 11,615</b>	<b>\$ (3,623)</b>	<b>\$ 14,020</b>

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<i>(Amounts in \$000s)</i>	Thirty-nine weeks ended September 30, 2017				Thirty-nine weeks ended October 1, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Revenues (excluding intercompany sales)</b>	\$ 196,136	\$ 594,688	\$ —	\$ 790,824	\$ 189,300	\$ 556,893	\$ —	\$ 746,193
Cost of sales (excluding intercompany sales)	162,031	487,433	(215)	649,249	146,834	443,021	(1,837)	588,018
<b>Gross profit</b>	<b>\$ 34,105</b>	<b>\$ 107,255</b>	<b>\$ 215</b>	<b>\$ 141,575</b>	<b>\$ 42,466</b>	<b>\$ 113,872</b>	<b>\$ 1,837</b>	<b>\$ 158,175</b>
<b>Income (loss) before income taxes</b>	<b>\$ 5,971</b>	<b>\$ 28,822</b>	<b>\$ (17,990)</b>	<b>\$ 16,803</b>	<b>\$ 15,916</b>	<b>\$ 39,138</b>	<b>\$ (23,519)</b>	<b>\$ 31,535</b>
Add back:								
Depreciation and amortization included in:								
Cost of sales	965	3,778	98	4,841	915	4,581	42	5,538
Distribution expenses	113	985	—	1,098	111	1,156	—	1,267
Selling, general and administrative expenses	371	4,796	787	5,954	325	3,942	2,230	6,497
<b>Total depreciation and amortization</b>	<b>1,449</b>	<b>9,559</b>	<b>885</b>	<b>11,893</b>	<b>1,351</b>	<b>9,679</b>	<b>2,272</b>	<b>13,302</b>
Finance costs	—	—	11,785	11,785	—	—	10,747	10,747
<b>Income (loss) before depreciation, amortization, finance costs and income taxes</b>	<b>\$ 7,420</b>	<b>\$ 38,381</b>	<b>\$ (5,320)</b>	<b>\$ 40,481</b>	<b>\$ 17,267</b>	<b>\$ 48,817</b>	<b>\$ (10,500)</b>	<b>\$ 55,584</b>

<i>(Amounts in \$000s)</i>	As at September 30, 2017				As at December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Total assets</b>	<b>\$ 150,703</b>	<b>\$ 699,452</b>	<b>\$ 18,372</b>	<b>\$ 868,527</b>	<b>\$ 137,331</b>	<b>\$ 522,426</b>	<b>\$ 25,351</b>	<b>\$ 685,108</b>
<b>Total liabilities</b>	<b>\$ 51,531</b>	<b>\$ 154,389</b>	<b>\$ 405,782</b>	<b>\$ 611,702</b>	<b>\$ 109,910</b>	<b>\$ 73,573</b>	<b>\$ 281,421</b>	<b>\$ 464,904</b>

## 15. Fair value measurement

### Fair value of financial instruments

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

<i>(Amounts in \$000s)</i>	September 30, 2017		December 31, 2016	
	Level 2	Level 3	Level 2	Level 3
<b>Fair value of financial assets</b>				
Foreign exchange contracts	\$ 731	\$ —	\$ 1,883	\$ —
Interest rate swaps	387	—	686	—
<b>Fair value of financial liabilities</b>				
Interest rate swaps	362	—	769	—
Foreign exchange contracts	2,615	—	1,053	—
Long-term debt	—	336,016	—	266,727
Finance lease obligations	—	1,262	—	1,434

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

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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 September 30, 2017 no such transfers occurred.

The financial liabilities that are not measured at fair value on the consolidated statement of financial position consist of long-term debt (including current portion) and finance lease obligations. The carrying amounts for these instruments are \$335.3 million and \$1.3 million, respectively, as at September 30, 2017 (December 31, 2016: \$266.3 million and \$1.4 million, respectively).

**Hedging activities**

***Interest rate swaps***

During the thirty-nine weeks ended September 30, 2017, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (see Note 7):

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
<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

The cash flow hedge of interest expense variability was assessed to be highly effective for the thirteen and thirty-nine weeks ended September 30, 2017 and October 1, 2016, and therefore, the change in fair value for those interest rate swaps designated in a hedging relationship was included in OCI as nominal and after-tax net losses of \$0.4 million, respectively, and as nominal and after-tax net losses of \$1.3 million, respectively.

During the thirteen and thirty-nine weeks ended October 1, 2016, the change in fair value for an interest rate swap that was not designated in a formal hedging relationship was a net gain of \$0.1 million.

***Foreign currency contracts***

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

As at September 30, 2017, the Company had outstanding notional amounts of \$49.4 million in foreign currency average-rate forward contracts and \$9.0 million in foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of \$4.6 million average-rate forward contracts with maturities ranging from October 2018 to March 2019, all foreign currency forward contracts have maturities that are less than one year.

The cash flow hedges of the expected future purchases were assessed to be highly effective for the thirteen and thirty-nine weeks ended September 30, 2017 and October 1, 2016, and therefore, the change in fair value was recorded in OCI as after-tax net loss of \$0.9 million and after-tax net loss of \$1.9 million, respectively, and after-tax net gain of \$0.5 million and after-tax net loss of \$2.2 million, respectively. The amount recognized in the consolidated statement of income resulting from hedge ineffectiveness during the thirteen and thirty-nine weeks ended September 30, 2017 were nominal losses, respectively (thirteen and thirty-nine weeks ended October 1, 2016: \$nil and net gain of \$0.2 million, respectively).

As at September 30, 2017, the Company had outstanding notional amounts of \$5.0 million of foreign currency single-rate forward contracts outstanding to hedge foreign currency exchange risk on USD monetary assets and liabilities that were not formally designated as a hedge. The change in fair value for the thirteen and thirty-nine weeks ended September 30, 2017 and October 1,

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**In United States dollars, unless otherwise noted**

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2016 was a nominal gain and a net loss of \$0.1 million, respectively and a net gain of \$0.1 million and a net gain of \$0.2 million, respectively, which was recorded in the consolidated statement of income.

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

As at September 30, 2017, a total borrowing of \$333.3 million (\$20.0 million included in accounts payable, \$6.0 million included in bank loans and \$307.3 million included in long-term debt) (December 31, 2016: \$15.0 million included in accounts payable and \$237.3 million included in long-term debt) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the re-translation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There was no hedge ineffectiveness recognized during the thirty-nine weeks ended September 30, 2017 and October 1, 2016.

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