



HIGH LINER FOODS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the thirteen and thirty-nine weeks ended September 30, 2017

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

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A"), dated November 9, 2017, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and thirty-nine weeks ended September 30, 2017, compared to the thirteen and thirty-nine weeks ended October 1, 2016. Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2016 Annual Report along with our Unaudited Condensed Interim Consolidated Financial Statements ("Consolidated Financial Statements") as at and for the thirteen and thirty-nine weeks ended September 30, 2017, prepared in accordance with International Financial Reporting Standards ("IFRS"). The information contained in this document, including forward-looking statements, is based on information available to Management as of November 9, 2017, except as otherwise noted.

Non-IFRS Financial Measures

This document also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes. These non-IFRS measures do not have any standardized meaning as prescribed by IFRS, and therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures in the *Non-IFRS Financial Measures* section starting on page 24 of this MD&A.

Currency

All amounts in this MD&A are in United States dollars ("USD"), unless otherwise noted. Although the functional currency of High Liner Foods' Canadian company (the "Parent") is Canadian dollars ("CAD"), management believes the USD presentation better reflects the Company's overall business activities and improves investors' ability to compare the Company's consolidated financial results with other publicly traded businesses in the packaged foods industry (most of which are based in the United States ("U.S.") and report in USD) and should result in less volatility in reported sales and income on the conversion into the presentation currency.

For the purpose of presenting the Consolidated Financial Statements in USD, CAD-denominated assets and liabilities in the Parent's operations are converted using the exchange rate at the reporting date, and revenue and expenses are converted at the average exchange rate of the month in which the transaction occurs. As such, foreign currency fluctuations affect the reported values of individual lines on our balance sheet and income statement. When the USD strengthens (weakening CAD), the reported USD values of the Parent's CAD-denominated items decrease in the Consolidated Financial Statements, and the opposite occurs when the USD weakens (strengthening CAD).

In some parts of this document, balance sheet and operating items of the Parent are discussed in the CAD functional currency (the "domestic currency") to eliminate the effect of fluctuating foreign exchange rates used to translate the Parent's operations to the USD presentation currency.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements within the meaning of securities laws. In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. In addition, these statements and expectations concerning the performance of our business in general are based on a number of factors and assumptions including, but not limited to: availability, demand and prices of raw materials, energy and supplies; the condition of the Canadian and American economies; product pricing; foreign exchange rates, especially the rate of exchange of the CAD to the USD; our ability to attract and retain customers; our operating costs and improvement to operating efficiencies; interest rates; continued access to capital; the competitive environment and related market conditions; and the general assumption that none of the risks identified below or elsewhere in this document will materialize.

Specific forward-looking statements in this document include, but are not limited to: statements with respect to: future growth strategies and their impact on the Company's market share and shareholder value; anticipated financial performance, including earnings trends and growth; achievement, and timing of achievement, of strategic goals and publicly stated financial targets, including to increase our market share, acquire and integrate other businesses and reduce our operating and supply chain costs; and our ability to develop new and innovative products that result in increased sales and market share; increased demand for our products whether due to the recognition of the health benefits of seafood or otherwise; changes in costs for seafood and other raw materials; proposed disposal of assets and/or operations; increases or decreases in processing costs; the USD/CAD exchange rate; percentage of sales from our brands; expectations with regards to sales volume, earnings, product margins, product innovations, brand development and anticipated financial performance; competitor reaction to Company strategies and actions; impact of price increases or decreases on future profitability; sufficiency of working capital facilities; future income tax rates; the expected timing and amount of costs associated with product recalls and the expected recovery thereof; our ability to successfully integrate the proposed acquisition of Rubicon Resources, LLC; levels of accretion and synergy and earnings growth relating to Rubicon; the expected amount and timing of integration activities related to acquisitions; expected leverage levels and expected net interest-bearing debt to Adjusted EBITDA; statements under the "outlook" heading including expected demand, sales of new product, and plant production; decreased leverage in the future; estimated capital spending; future inventory trends and seasonality; market forces and the maintenance of existing customer and supplier relationships; availability of credit facilities; our projection of excess cash flow and minimum repayments under the Company's long-term loan facility; expected decreases in debt-to-capitalization ratio; dividend payments; and amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants.

Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "could", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective", "goal", "remain" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the *Risk Factors* section of our 2016 Annual Report and the *Risk Factors* section of our 2016 Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: volatility in the CAD/USD exchange rate; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of geopolitical events (and related economic sanctions) on same; costs of commodity products and other production inputs, and the ability to pass cost increases on to customers; successful integration of acquired operations; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the market place; changes in laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other

equipment and software programs; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development.

Forward-looking information is based on management's current estimates, expectations and assumptions, which we believe are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Except as required under applicable securities laws, we do not undertake to update these forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf, whether as a result of new information, future events or otherwise.

COMPANY OVERVIEW

High Liner Foods, through its predecessor companies, has been in business since 1899 and has been a publicly traded Canadian company since 1967, trading under the symbol 'HLF' on the Toronto Stock Exchange ("TSX"). We are the leading North American processor and marketer of value-added (i.e. processed) frozen seafood, producing a wide range of products from breaded and battered items to seafood entrées, that are sold to North American food retailers and foodservice distributors. The retail channel includes grocery and club stores and our products are sold throughout the U.S., Canada and Mexico under the High Liner, Fisher Boy, Mirabel, Sea Cuisine and C. Wirthy & Co. labels. The foodservice channel includes sales of seafood that are usually eaten outside the home and our branded products are sold through distributors to restaurants and institutions under the High Liner, Icelandic Seafood¹ and FPI labels. The Company is also a major supplier of private-label value-added frozen premium seafood products to North American food retailers and foodservice distributors.

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

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

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

RECENT DEVELOPMENTS

Acquisition of Rubicon Resources, LLC

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

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

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

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

Product Recall

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

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

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.

In total, \$12.0 million in actual and estimated losses associated with the product recall have been recognized during the first three quarters of 2017. These losses do not include any estimate of the reduction in earnings associated with the product recall as a result of lost sales opportunities due to limited product availability, reduced promotional activity, and customer shortages, or increased production costs related to the interruption of production at the Company's facilities.

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

The Company's estimates related to the recall are provisional and were determined based on an assessment of the information available up to the date of filing of the Consolidated Financial Statements, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company's estimates reflect the losses determined as at 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.

PERFORMANCE

The discussion and analysis of the Company's financial results focuses on the performance of the consolidated operations, and the performance of the two reportable segments described in Note 14 "*Operating segment information*" to the Consolidated Financial Statements: Canada Operations and U.S. Operations. Information is also provided for the "Corporate" category, which includes expenses for corporate functions, share-based compensation costs and business acquisition, integration and other expenses.

Seasonality

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

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

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

Consolidated Performance

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

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

(in \$000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	Thirteen weeks ended			Thirty-nine weeks ended		
	September 30, 2017	October 1, 2016	Change	September 30, 2017	October 1, 2016	Change
Sales volume (millions of lbs)	73.6	64.4	9.2	220.2	214.9	5.3
Average foreign exchange rate (USD/CAD)	\$ 1.2528	\$ 1.3050	\$ (0.0522)	\$ 1.3071	\$ 1.3218	\$ (0.0147)
Sales						
Sales in domestic currency	\$ 299,819	\$ 250,645	\$ 49,174	\$ 850,815	\$ 806,649	\$ 44,166
Foreign exchange impact	(17,115)	(20,279)	3,164	(59,991)	(60,456)	465
Sales in USD	\$ 282,704	\$ 230,366	\$ 52,338	\$ 790,824	\$ 746,193	\$ 44,631
Gross profit	\$ 48,260	\$ 46,035	\$ 2,225	\$ 141,575	\$ 158,175	\$ (16,600)
Gross profit as a percentage of sales	17.1%	20.0%	(2.9)%	17.9%	21.2%	(3.3)%
Distribution expenses	\$ 13,240	\$ 10,410	\$ 2,830	\$ 36,499	\$ 33,588	\$ 2,911
Selling, general and administrative expenses	\$ 25,035	\$ 23,434	\$ 1,601	\$ 74,840	\$ 75,677	\$ (837)
Adjusted EBITDA⁽¹⁾						
Adjusted EBITDA in domestic currency	\$ 17,923	\$ 19,143	\$ (1,220)	\$ 55,422	\$ 70,367	\$ (14,945)
Foreign exchange impact	(625)	(1,633)	1,008	(2,371)	(5,102)	2,731
Adjusted EBITDA in USD	\$ 17,298	\$ 17,510	\$ (212)	\$ 53,051	\$ 65,265	\$ (12,214)
Adjusted EBITDA as a percentage of sales	6.1%	7.6%	(1.5)%	6.7%	8.7%	(2.0)%
Net income	\$ 6,040	\$ 6,317	\$ (277)	\$ 17,426	\$ 25,626	\$ (8,200)
Basic Earnings per Share ("EPS")	\$ 0.18	\$ 0.20	\$ (0.02)	\$ 0.54	\$ 0.83	\$ (0.29)
Diluted EPS	\$ 0.18	\$ 0.20	\$ (0.02)	\$ 0.54	\$ 0.82	\$ (0.28)
Adjusted Net Income⁽¹⁾	\$ 8,424	\$ 8,960	\$ (536)	\$ 25,292	\$ 33,315	\$ (8,023)
Adjusted Basic EPS	\$ 0.25	\$ 0.29	\$ (0.04)	\$ 0.79	1.08	\$ (0.29)
Adjusted Diluted EPS ^{(1),(2)}	\$ 0.25	\$ 0.29	\$ (0.04)	\$ 0.78	1.07	\$ (0.29)
Total assets				\$ 868,527	\$ 639,637	\$ 228,890
Total long-term financial liabilities				\$ 349,149	\$ 279,751	\$ 69,398
Dividends paid per common share (CAD)	\$ 0.14	\$ 0.13	\$ 0.01	\$ 0.42	\$ 0.38	\$ 0.04

⁽¹⁾ See the *Non-IFRS Financial Measures* section starting on page 24 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.

⁽²⁾ CAD-Equivalent Adjusted Diluted EPS was \$0.31 and \$0.38 for the thirteen weeks ended September 30, 2017 and October 1, 2016, respectively, and \$1.02 and \$1.41 for the thirty-nine weeks ended September 30, 2017 and October 1, 2016, respectively. See the *Non-IFRS Financial Measures* section on page 27 for further explanation of CAD-Equivalent Adjusted Diluted EPS.

The sale of our New Bedford scallop business on September 7, 2016 had the impact of lowering sales volume by 1.0 million pounds, sales by \$11.6 million, and \$0.3 million on Adjusted EBITDA in the third quarter of 2017 compared to the third quarter of 2016. The sale had the impact of lowering sales volume by 2.4 million pounds, sales by \$31.4

million, and \$0.3 million on Adjusted EBITDA during the first three quarters of 2017 compared to the same period last year.

The acquisition of Rubicon on May 30, 2017 had the impact of increasing sales volume by 9.4 million pounds, sales by \$49.3 million and Adjusted EBITDA by \$1.4 million in the third quarter of 2017 compared to the third quarter of 2016. The acquisition had the impact of increasing sales volume by 12.7 million pounds, sales by \$67.0 million, and Adjusted EBITDA by \$1.9 million in the first three quarters of 2017 compared to the same period last year.

Sales

Thirteen weeks

Consolidated sales volume for the third quarter of 2017 increased by 9.2 million pounds, or 14.2%, to 73.6 million pounds compared to 64.4 million pounds in the same period in 2016 due to higher sales volume in our U.S. business, reflecting the following:

- Addition of sales volume from Rubicon during the third quarter of 2017 (9.4 million lbs) (see the *Recent Developments* section on page 3); and
- Revision of estimated sales volume related to the return of various products associated with the product recall (0.1 million pounds) (see the *Recent Developments* section on page 3); offset by
- Lower scallop sales as a result of the sale of the New Bedford scallop business in the third quarter of 2016 (1.0 million pounds).

Excluding the impact of these items, sales volume for the third quarter of 2017 increased by 0.7 million pounds, reflecting higher sales volume in our U.S. foodservice business. Sales volume continued to be impacted in the third quarter by lost sales opportunities associated with limited product availability, reduced promotional activity in Canada and customer shortages as a result of the recall.

Sales in the third quarter of 2017 increased by \$52.3 million, or 22.6%, to \$282.7 million compared to \$230.4 million in the same period last year. The stronger Canadian dollar in the third quarter of 2017 compared to the same quarter of 2016 increased the value of USD sales from our CAD-denominated operations by approximately \$2.8 million relative to the conversion impact last year.

Sales in domestic currency increased by \$49.2 million, or 19.6%, to \$299.8 million in the third quarter of 2017 compared to \$250.6 million in the third quarter of 2016. Excluding the addition of sales from Rubicon (\$49.3 million), the increase in sales due to revising the estimated product recall returns (\$0.7 million), and reduced sales due to the sale of New Bedford (\$11.6 million), sales increased by \$10.8 million or 4.5%, mainly due to the increased volume mentioned previously.

Thirty-nine weeks

Sales volume in the first three quarters of 2017 increased by 5.3 million pounds, or 2.4%, to 220.2 million pounds compared to 214.9 million pounds in the same period last year, due to higher sales volume in both our Canadian and U.S. businesses reflecting the following:

- The addition of sales volume from Rubicon since the date of acquisition (12.7 million pounds) (see the *Recent Developments* section on page 3); offset by
- Reduced sales volume related to the return of various products associated with the product recall (2.4 million pounds) (see the *Recent Developments* section on page 3); and
- Lower scallop sales as a result of the sale of the New Bedford scallop business in the third quarter of 2016 (2.4 million pounds).

Excluding the impact of these items, sales volume for the first three quarters of 2017 decreased by 2.6 million pounds, reflecting residual manufacturing challenges associated with production transferred from our previously-owned New Bedford facility, which resulted in an inability to meet heightened demand in March related to a late Lent, and the continued impact of lower demand for traditional breaded and battered frozen seafood products which we were unable to offset with sales from our new frozen seafood products. In addition to the reduction in volume associated with the product recall returns mentioned above, sales volume was also negatively impacted in the second and third quarters by lost sales opportunities associated with limited product availability, reduced promotional activity in Canada, and customer shortages as a result of the recall.

Sales in the first three quarters of 2017 were \$790.8 million, representing a \$44.6 million or 5.9% increase, compared to \$746.2 million in the same period last year. The stronger Canadian dollar in the first three quarters of 2017 compared to the first three quarters of 2016 increased the value of reported USD sales from our CAD-denominated operations by approximately \$2.0 million relative to the conversion impact last year.

Sales in domestic currency increased by \$44.2 million, or 5.5%, to \$850.8 million in the first three quarters of 2017 compared to \$806.6 million in the same period last year. Excluding the addition of sales from Rubicon (\$67.0 million), the decrease in sales due to the product recall returns (\$8.4 million), and reduced sales due to the sale of New Bedford (\$31.4 million), sales increased by \$17.0 million or 2.2%, reflecting increased sales in both our Canadian and U.S. businesses, despite the lower sales volume mentioned previously.

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

Gross Profit

Thirteen weeks

Gross profit increased in the third quarter of 2017 by \$2.3 million, or 5.0%, to \$48.3 million compared to \$46.0 million in the same period in 2016, reflecting higher sales volumes, partially offset by a decrease in gross profit as a percentage of sales to 17.1% compared to 20.0%. The increase in gross profit reflects the gross profit from Rubicon for the third quarter of 2017 (\$5.7 million), partially offset by \$2.7 million in further actual and estimated losses associated with the product recall recognized in the third quarter of 2017 and lower gross profit due to the sale of New Bedford (\$0.6 million).

Excluding the impact of the recall, the acquisition of Rubicon and the sale of New Bedford, gross profit decreased by \$0.1 million to \$45.3 million (19.4% as a percentage of sales) compared to \$45.4 million in the same period of 2016 (20.7% as a percentage of sales) reflecting the increased sales volume mentioned previously, offset by the decrease in gross profit as a percentage of sales that reflects the impact of unfavorable product mix changes driven by the reduced promotional activity, raw material cost increases and continued plant inefficiencies that were worsened by production interruptions at the Company's facilities as a result of the product recall. In addition, the stronger Canadian dollar had the effect of increasing the value of reported USD gross profit from our Canadian operations in 2017 by approximately \$0.5 million relative to the conversion impact last year.

Thirty-nine weeks

Gross profit decreased in the first three quarters of 2017 by \$16.6 million, or 10.4%, to \$141.6 million compared to \$158.2 million the same period last year, reflecting a decrease in gross profit as a percentage of sales to 17.9% compared to 21.2%. This decrease reflects the \$12.0 million in actual and estimated losses associated with the product recall recognized in the first three quarters of 2017 and lower gross profit due to the sale of New Bedford (\$1.3 million), partially offset by gross profit from Rubicon since the date of acquisition (\$7.8 million).

Excluding the impact of the recall, the acquisition of Rubicon and the sale of New Bedford, gross profit decreased by \$11.1 million to \$145.8 million (19.9% as a percentage of sales) compared to \$156.9 million (21.9% as a percentage of sales), due to the decrease in sales volume previously mentioned, the impact of product mix changes, raw material cost increases and the plant inefficiencies mentioned above. In addition, gross profit decreased compared to the prior year due to the recognition of foreign exchange gains in 2016, partially related to favourable hedging activities in our Canadian operations, that did not reoccur in 2017. In addition, the stronger Canadian dollar had the effect of increasing

the value of reported USD gross profit from our Canadian operations in 2017 by approximately \$0.4 million relative to the conversion impact last year.

Gross profit by reportable segment is discussed in more detail in the *Performance by Segment* section on page 13 below.

Distribution Expenses

Thirteen weeks

Distribution expenses, consisting of freight and storage, increased in the third quarter of 2017 by \$2.8 million to \$13.2 million compared to \$10.4 million in the same period in 2016, primarily due to higher volumes associated with the acquisition of Rubicon. As a percentage of sales, these expenses increased to 4.7% in the third quarter of 2017, compared to 4.5% in the same period in 2016.

Thirty-nine weeks

Distribution expenses increased in the first three quarters of 2017 by \$2.9 million to \$36.5 million compared to \$33.6 million in the same period last year, primarily due to increased volumes associated with the acquisition of Rubicon, partially offset by reduced storage costs in our U.S. operations. As a percentage of sales, distribution expenses increased slightly to 4.6% in the first three quarters of 2017 compared to 4.5% in the same period in 2016.

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
SG&A expenses, as reported	\$ 25,035	\$ 23,434	\$ 74,840	\$ 75,677
Less:				
Share-based compensation (recovery) expense ⁽¹⁾	(395)	1,780	753	3,222
Depreciation and amortization expense ⁽¹⁾	2,358	1,775	5,954	6,497
SG&A expenses, net	\$ 23,072	\$ 19,879	\$ 68,133	\$ 65,958
SG&A expenses, net as a percentage of sales	8.2%	8.6%	8.6%	8.8%

⁽¹⁾ Represents share-based compensation (recovery) 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 2017 by \$1.6 million to \$25.0 million compared to \$23.4 million in the same period last year. SG&A expenses included a share-based compensation recovery of \$0.4 million for the third quarter of 2017 compared to a \$1.8 million expense for the same period in 2016. SG&A expenses also included depreciation and amortization expense of \$2.4 million in the third quarter of 2017 and \$1.8 million in the same period of 2016. The increase in depreciation and amortization expense primarily relates to the amortization of intangible assets acquired as part of the Rubicon acquisition.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses increased in the third quarter of 2017 by \$3.2 million to \$23.1 million compared to \$19.9 million in the same period last year, primarily due to increased expenses associated with the acquisition of Rubicon, increased termination benefits and higher administrative and marketing expenses across the Company. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 8.2% in the third quarter of 2017 compared to 8.6% in the same period last year.

Thirty-nine weeks

SG&A expenses decreased by \$0.9 million to \$74.8 million in the first three quarters of 2017 as compared to \$75.7 million in the same period last year. SG&A expenses included share-based compensation expense of \$0.8 million in the first three quarters of 2017 compared to \$3.2 million in the same period last year. SG&A expenses also included depreciation and amortization expense of \$6.0 million and \$6.5 million in the first three quarters of 2017 and 2016, respectively. The decrease in depreciation and amortization expense relates to an accelerated depreciation charge that occurred in 2016 relating to the cessation of value-added fish operations at the New Bedford facility, partially offset by the amortization of intangible assets acquired as part of the Rubicon acquisition, as mentioned previously.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses increased in the first three quarters of 2017 by \$2.0 million to \$68.0 million compared to \$66.0 million in the same period last year, due to increased expenses associated with the acquisition of Rubicon and higher termination benefits, offset by lower U.S. sales and marketing expenses. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expenses decreased to 8.6% in the first three quarters of 2017 compared to 8.8% in the same period last year.

Adjusted EBITDA

We refer to Adjusted EBITDA throughout this MD&A, including in the *Performance by Segment* section on page 13, where Adjusted EBITDA is discussed for both our Canadian and U.S. operations. See the *Non-IFRS Financial Measures* section on page 24 for further explanation of this non-IFRS measure.

Thirteen weeks

Consolidated Adjusted EBITDA decreased in third quarter of 2017 by \$0.2 million, or 1.1%, to \$17.3 million compared to \$17.5 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 \$0.6 million in the third quarter of 2017 compared to \$1.6 million in 2016.

In domestic currency, Adjusted EBITDA decreased in the third quarter of 2017 by \$1.2 million, or 6.4%, to \$17.9 million (6.0% of sales) compared to \$19.1 million (7.6% of sales) in 2016. The decrease in Adjusted EBITDA reflects the increases in distribution and SG&A expenses mentioned previously, offset by the higher gross profit mentioned previously that is further increased by \$3.5 million (\$3.3 million USD) in actual and estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA, as they relate to destroyed product and direct incremental costs incurred by the Company related to consumer refunds and customer fines. The \$2.9 million (\$2.7 million USD) in net estimated losses mentioned previously in the gross profit section included a \$0.5 million (\$0.6 million USD) recovery associated with revising estimates related to product recall returns that has not been added back for the purpose of Adjusted EBITDA, consistent with the treatment in the second quarter. Adjusted EBITDA was positively affected by the acquisition of Rubicon, which contributed \$1.4 million to Adjusted EBITDA in the third quarter of 2017.

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

	Thirteen weeks ended			Thirteen weeks ended		
	September 30, 2017	October 1, 2016	% Change	September 30, 2017	October 1, 2016	% Change
(Amounts in \$000s)	USD	USD	USD	Domestic \$	Domestic \$	Domestic \$
External Sales						
Canada	\$ 68,129	\$ 66,476	2.5 %	\$ 85,244	\$ 86,755	(1.7)%
USA	214,575	163,890	30.9 %	214,575	163,890	30.9 %
	282,704	230,366	22.7 %	299,819	250,645	19.6 %
Conversion	—	—		(17,115)	(20,279)	
	\$ 282,704	\$ 230,366	22.7 %	\$ 282,704	\$ 230,366	22.7 %
Adjusted EBITDA						
Canada	\$ 3,382	\$ 6,003	(43.7)%	\$ 4,200	\$ 7,837	(46.4)%
USA	15,224	11,620	31.0 %	15,224	11,620	31.0 %
Corporate	(1,308)	(113)	1,057.5 %	(1,501)	(314)	378.0 %
	17,298	17,510	(1.2)%	17,923	19,143	(6.4)%
Conversion	—	—		(625)	(1,633)	
	\$ 17,298	\$ 17,510	(1.2)%	\$ 17,298	\$ 17,510	(1.2)%
Adjusted EBITDA as percentage of sales						
In USD	6.1%	7.6%				
In Domestic \$				6.0%	7.6%	

Thirty-nine weeks

Consolidated Adjusted EBITDA decreased in the first three quarters of 2017 by \$12.2 million or 18.7%, to \$53.1 million compared to \$65.3 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 \$2.4 million in the first three quarters of 2017 compared to \$5.1 million in the same period last year.

In domestic currency, Adjusted EBITDA decreased in the first three quarters of 2017 by \$15.0 million, or 21.3%, to \$55.4 million (6.5% of sales) compared to \$70.4 million (8.7% of sales) in the same period last year. The decrease in Adjusted EBITDA reflects the lower gross profit mentioned previously, with the exception of \$10.8 million (\$10.0 million USD) in actual and estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA, consistent with the prior quarter. The \$13.1 million (\$12.0 million USD) in net estimated losses mentioned previously in the gross profit section included \$2.3 million (\$2.0 million USD) related to product recall returns that has not been added back for the purpose of Adjusted EBITDA, consistent with the treatment in the second quarter. In addition, Adjusted EBITDA decreased due to the higher distribution and SG&A expenses as explained above, partially offset by the acquisition of Rubicon which contributed \$1.9 million to Adjusted EBITDA since the date of acquisition.

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

(Amounts in \$000s)	Thirty-nine weeks ended			Thirty-nine weeks ended		
	September 30, 2017	October 1, 2016	% Change	September 30, 2017	October 1, 2016	% Change
	USD	USD	USD	Domestic \$	Domestic \$	Domestic \$
External Sales						
Canada	\$ 196,136	\$ 189,300	3.6 %	\$ 256,127	\$ 249,756	2.6 %
USA	594,688	556,893	6.8 %	594,688	556,893	6.8 %
	790,824	746,193	6.0 %	850,815	806,649	5.5 %
Conversion	—	—		(59,991)	(60,456)	
	\$ 790,824	\$ 746,193	6.0 %	\$ 790,824	\$ 746,193	6.0 %
Adjusted EBITDA						
Canada	\$ 10,181	\$ 17,162	(40.7)%	\$ 13,297	\$ 22,712	(41.5)%
USA	45,758	48,859	(6.3)%	45,758	48,859	(6.3)%
Corporate	(2,888)	(756)	282.0 %	(3,633)	(1,204)	201.7 %
	53,051	65,265	(18.7)%	55,422	70,367	(21.2)%
Conversion	—	—		(2,371)	(5,102)	
	\$ 53,051	\$ 65,265	(18.7)%	\$ 53,051	\$ 65,265	(18.7)%
Adjusted EBITDA as percentage of sales						
In USD	6.7%	8.7%				
In Domestic \$				6.5%	8.7%	

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 24 for further explanation of these non-IFRS measures.

Thirteen weeks

Net income decreased in the third quarter of 2017 by \$0.3 million, or 4.4%, to \$6.0 million (\$0.18 per diluted share) compared to \$6.3 million (\$0.20 per diluted share) in the same period last year. The decrease in net income reflects the decrease in Adjusted EBITDA mentioned previously and a decrease in income tax expense, offset by an increase in depreciation and finance costs.

In 2017, net income included "business acquisition, integration and other expenses" (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 16 of this MD&A) related to the acquisition of Rubicon and other business development activities. In addition, net income included the actual and estimated losses related to the product recall previously mentioned, and other non-cash expenses. In 2016, net income included "business acquisition, integration and other expenses" related to accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of New Bedford plant operations, and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income in the third quarter of 2017 decreased by \$0.6 million, or 6.6%, to \$8.4 million compared to \$9.0 million in the same period last year compared to the same period last year.

Correspondingly, Adjusted Diluted EPS decreased by \$0.04 to \$0.25 compared to \$0.29 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 1.2528

(2016: 1.3050), CAD-Equivalent Adjusted Diluted EPS decreased by CAD\$0.07 to CAD\$0.31 compared to CAD \$0.38 in the third quarter of 2016.

Thirty-nine weeks

Net income decreased in the first three quarters of 2017 by \$8.2 million, or 32.0%, to \$17.4 million (\$0.54 per diluted share) compared to \$25.6 million (\$0.82 per diluted share) in the same period last year. The decrease in net income reflects the decrease in Adjusted EBITDA mentioned previously, partially offset by a decrease in income tax expense and a decrease in depreciation.

As noted previously, net income in the first three quarters of 2017 included "business acquisition, integration and other expenses" related to the acquisition of Rubicon, the actual and estimated losses related to the product recall previously mentioned, and other non-cash expenses. Net income in the first three quarters of 2016 included "business acquisition, integration and other expenses" related to accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of New Bedford plant operations, and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income in the first three quarters of 2017 decreased by \$8.0 million, or 24.0%, to \$25.3 million compared to \$33.3 million in the same period last year.

Correspondingly, Adjusted Diluted EPS decreased by \$0.29 to \$0.78 in the first three quarters of 2017 compared to \$1.07 in the same period last year and when converted to CAD using the average USD/CAD exchange rate for the first three quarters of 2017 of 1.3071 (the first three quarters of 2016: 1.3218), CAD-Equivalent Adjusted Diluted EPS decreased by CAD\$0.39 to CAD\$1.02 in the first three quarters of 2017 compared to CAD\$1.41 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		
	September 30, 2017	October 1, 2016	Change	September 30, 2017	October 1, 2016	Change
Sales volume (millions of lbs)	16.9	17.2	(0.3)	52.0	51.5	0.5
Sales	\$ 85,244	\$ 86,755	\$ (1,512)	\$ 256,127	\$ 249,756	\$ 6,371
Gross profit	\$ 14,026	\$ 18,749	\$ (4,723)	\$ 44,574	\$ 56,151	\$ (11,577)
Gross profit as a percentage of sales	16.5%	21.6%	(5.2)%	17.4%	22.5%	(5.1)%
Adjusted EBITDA⁽¹⁾	\$ 4,200	\$ 7,837	\$ (3,637)	\$ 13,297	\$ 22,712	\$ (9,415)
Adjusted EBITDA as a percentage of sales	4.9%	9.0%	(4.1)%	5.2%	9.1%	(3.9)%

⁽¹⁾ See the *Non-IFRS Financial Measures* section on page 24 for further explanation of Adjusted EBITDA.

Thirteen weeks

Sales volume for our Canadian operations decreased during the third quarter of 2017 by 0.3 million pounds to 16.9 million pounds as compared to 17.2 million pounds in 2016. Excluding an increase in the estimate of reduced sales volume related to the return of various products associated with the product recall (0.1 million pounds), sales volume for the third quarter of 2017 decreased by 0.2 million pounds, primarily reflecting lower sales volume in the retail business. In addition to the reduction in volume associated with product recall returns, sales volume continued to be negatively impacted during the quarter by lost sales opportunities associated with limited product availability, reduced promotional activity, and customer shortages as a result of the recall.

Sales in the third quarter decreased by \$1.6 million, or 1.8%, to \$85.2 million compared to \$86.8 million in the same period of 2016, reflecting the decreased sales volume and an increase in the estimate of reduced sales on product returns

associated with the product recall (\$0.8 million). Excluding the impact of the returns associated with the product recall, sales in the third quarter decreased by \$0.8 million to \$86.0 million due to the decreased sales volumes mentioned above.

Gross profit decreased by \$4.7 million in the third quarter of 2017 to \$14.0 million (16.5% of sales) compared to \$18.7 million (21.6% of sales) in 2016, reflecting \$1.3 million in actual and estimated losses associated with the product recall recognized in the third quarter. Excluding these losses, gross profit decreased by \$3.4 million to \$15.3 million, or 17.8% as a percentage of sales, primarily as a result of unfavourable changes in product mix driven by the reduced promotional activity, raw material cost increases, and continued plant inefficiencies that were worsened by production interruptions at the Company's facilities as a result of the product recall.

Adjusted EBITDA for our Canadian operations decreased during the third quarter of 2017 by \$3.6 million, or 46.1%, to \$4.2 million as compared to \$7.8 million in 2016 (2017: 4.9% of sales, 2016: 9.0%), primarily reflecting the lower gross profit explained above, with the exception of \$1.0 million in actual and estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA (related to destroyed product and direct incremental costs related to consumer refunds and customer fines). \$0.3 million in actual and estimated losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA, consistent with the treatment in second quarter.

Thirty-nine weeks

Sales volume for our Canadian operations increased by 0.5 million pounds during the first three quarters of 2017 to 52.0 million pounds compared to 51.5 million pounds in the same period of 2016. Excluding the reduced sales volume related to the return of various products associated with the product recall (0.4 million pounds), sales volume in the first three quarters of 2017 increased by 0.9 million pounds, primarily reflecting higher sales volume in the foodservice business. In addition to the reduction in volume associated with product recall returns, sales volume was also negatively impacted in the second and third quarters by lost sales opportunities associated with limited product availability, reduced promotional activity, and customer shortages as a result of the recall.

Sales in the first three quarters of 2017 increased by \$6.3 million, or 2.6%, to \$256.1 million, as compared to \$249.8 million in the same period last year, due to the increased sales volume, price increases and a change in sales mix, partially offset by the reduced sales on product returns associated with the product recall (\$2.9 million). Excluding the impact of the returns associated the product recall, sales in the first three quarters of 2017 increased by \$9.2 million to \$259.0 million.

Gross profit decreased in the first three quarters of 2017 by \$11.6 million to \$44.6 million (17.4% of sales) compared to \$56.2 million (22.5% of sales) in the same period last year, reflecting \$4.9 million in actual and estimated losses associated with the product recall. Excluding these losses, gross profit decreased by \$6.7 million to \$49.5 million or 19.1% as a percentage of sales, primarily as a result of unfavourable changes in the product mix, raw material cost increases, and continued plant inefficiencies as previously mentioned. In addition, gross profit decreased due to the recognition of foreign exchange gains related to favourable hedging activities in 2016 that did not reoccur in 2017.

Adjusted EBITDA for our Canadian operations decreased in the first three quarters of 2017 by \$9.4 million, or 41.5%, to \$13.3 million compared to \$22.7 million (2017: 5.2% of sales, 2016: 9.1%) in the same period last year, primarily reflecting the lower gross profit explained above, with the exception of \$3.5 million in actual and estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA as explained above, and higher distribution and SG&A expenses. \$1.4 million in actual and estimated losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA, consistent with the treatment in the second quarter.

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

(in \$000s, except sales volume and percentage amounts)	Thirteen weeks ended			Thirty-nine weeks ended		
	September 30, 2017	October 1, 2016	Change	September 30, 2017	October 1, 2016	Change
Sales volume (millions of lbs)	56.7	47.2	9.5	168.3	163.4	4.9
Sales	\$ 214,575	\$ 163,890	\$ 50,685	\$ 594,688	\$ 556,893	\$ 37,795
Gross profit	\$ 37,253	\$ 31,267	\$ 5,986	\$ 107,255	\$ 113,872	\$ (6,617)
Gross profit as a percentage of sales	17.4%	19.1%	(1.7)%	18.0%	20.4%	(2.4)%
Adjusted EBITDA⁽¹⁾	\$ 15,224	\$ 11,620	\$ 3,604	\$ 45,758	\$ 48,859	\$ (3,101)
Adjusted EBITDA as a percentage of sales	7.1%	7.1%	— %	7.7%	8.8%	(1.1)%

⁽¹⁾ See the *Non-IFRS Financial Measures* section on page 24 for further explanation of Adjusted EBITDA.

Thirteen weeks

Sales volume for our U.S. operations increased by 9.5 million pounds, or 20.0% in the third quarter of 2017 to 56.7 million pounds compared to 47.2 million pounds in the same period last year, reflecting the following:

- Addition of sales volume from Rubicon for the third quarter of 2017 (9.4 million pounds);
- Revision of estimated sales volume related to the return of various products associated with the product recall (0.2 million pounds); offset by
- Lower scallop sales as a result of the sale of the New Bedford scallop business in the third quarter of 2016 (1.0 million pounds).

Excluding the impact of these items, sales volume for the third quarter of 2017 increased by 0.9 million pounds reflecting higher sales volume in the foodservice business. Sales volume continued to be negatively impacted during the quarter by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales during the third quarter increased by \$50.7 million, or 30.9%, to \$214.6 million compared to \$163.9 million in 2016 primarily reflecting the acquisition of Rubicon (\$49.3 million), and incremental sales due to the revision of estimated product returns associated with the product recall (\$1.5 million), offset by lower scallop sales as a result of the sale of New Bedford in the third quarter of 2016 (\$11.6 million). Excluding the impact of these items, sales increased by \$11.5 million or 7.6% mainly due to favorable changes in product mix and higher sales prices to recover raw material cost increases.

Gross profit increased in the third quarter of 2017 by \$6.0 million to \$37.3 million (17.4% of sales) compared to \$31.3 million (19.1% of sales) in the same period last year, reflecting the gross profit from Rubicon for the third quarter of 2017 (\$5.7 million), offset by \$1.6 million in actual and estimated losses associated with the product recall, and lower gross profit due to the sale of New Bedford (\$0.6 million). Excluding the impact of the recall, the acquisition of Rubicon and the sale of New Bedford, gross profit increased by \$2.5 million to \$33.2 million (20.2% as a percentage of sales) compared to \$30.7 million (20.1% as a percentage of sales) in the same period of 2016, due to product mix changes, and the increased sales volume mentioned previously.

Adjusted EBITDA for our U.S. operations increased during the third quarter of 2017 by \$3.6 million, or 31.0%, to \$15.2 million, compared to \$11.6 million in 2016 (2017: 7.1% of sales, 2016: 7.1% of sales) reflecting the higher gross profit explained above, with the exception of \$2.4 million in actual and estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA (related to destroyed product and direct incremental costs related to consumer refunds and customer fines), and the acquisition of Rubicon, which contributed \$1.4 million

to Adjusted EBITDA, partially offset by increases in distribution and SG&A expenses. \$0.8 million in recoveries related to revised estimates of product recall returns have not been added back for the purpose of Adjusted EBITDA, consistent with the treatment in the second quarter.

Thirty-nine weeks

Sales volume for our U.S. operations increased by 4.9 million pounds, or 3.0%, in the first three quarters of 2017 to 168.3 million pounds compared to 163.4 million pounds in the same period last year, reflecting the following:

- Addition of sales volume from Rubicon since the date of acquisition (12.7 million pounds); offset by
- Reduced sales volume related to the actual or anticipated return of various products associated with the product recall (1.9 million pounds); and
- Lower scallop sales as a result of the sale of the New Bedford scallop business in the third quarter of 2016 (2.4 million pounds).

Excluding the impact of these items, sales volume for the first three quarters of 2017 decreased by 3.5 million pounds primarily reflecting residual manufacturing challenges associated with production transferred from our previously-owned New Bedford facility, which resulted in an inability to meet heightened demand in March related to a late Lent and which was worsened by production interruptions at the Company's facilities as a result of the product recall, and the continued impact of lower demand for traditional breaded and battered frozen seafood products which we were unable to offset with sales from our new frozen seafood products. In addition to the reduction in volume associated with product recall returns, sales volume was also negatively impacted in the second and third quarters by lost sales opportunities associated with limited product availability and customer shortages as a result of the recall.

Sales in the first three quarters of 2017 increased by \$37.8 million, or 6.8%, to \$594.7 million compared to \$556.9 million in the same period last year largely reflecting the acquisition of Rubicon (\$67.0 million), partially offset by reduced sales on product returns associated with the product recall (\$5.5 million), and lower scallop sales as a result of the sale of New Bedford in the third quarter of 2016 (\$31.4 million). Excluding the impact of these items, sales increased by \$7.7 million or 1.3% mainly due to favorable changes in product mix and higher sales prices to recover raw material cost increases.

Gross profit decreased in the first three quarters of 2017 by \$6.6 million to \$107.3 million (18.0% of sales) compared to \$113.9 million (20.4% of sales) in the same period last year, reflecting \$8.2 million in actual and estimated losses associated with the product recall, offset by the gross profit from Rubicon since the date of acquisition (\$7.9 million), and lower gross profit due to the sale of New Bedford (\$1.3 million). Excluding the impact of the recall, the acquisition of Rubicon and the sale of New Bedford, gross profit decreased by \$5.0 million to \$107.6 million (20.2% as a percentage of sales) compared to \$112.6 million (21.4% as a percentage of sales) the same period last year, due to the lower sales volume, continued plant inefficiencies, higher raw material costs, and product mix changes.

Adjusted EBITDA for our U.S. operations decreased in the first three quarters of 2017 by \$3.1 million, or 6.3%, to \$45.8 million compared to \$48.9 million (2017: 7.7% of sales, 2016: 8.8%) in the same period last year reflecting the lower gross profit explained above, with the exception of \$7.3 million in actual and estimated losses related to the product recall which have been added back for the purpose of Adjusted EBITDA as explained above, and higher SG&A, partially offset by lower distribution expenses and the acquisition of Rubicon, which contributed \$1.4 million to Adjusted EBITDA since the date of acquisition. \$0.9 million in actual and estimated losses related to product recall returns have not been added back for the purpose of Adjusted EBITDA, consistent with the treatment in the second quarter.

BUSINESS ACQUISITION, INTEGRATION AND OTHER EXPENSES

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Business acquisition, integration and other expenses	\$ 747	\$ 1,954	\$ 1,648	\$ 4,301
Impairment of property, plant and equipment	—	—	—	2,327
	\$ 747	\$ 1,954	\$ 1,648	\$ 6,628

In the first three quarters of 2017, business acquisition, integration and other expenses included costs related to the acquisition of Rubicon Resources, LLC and other strategic business development activities. See the *Recent Developments* section on page 3 for further discussion.

In the first three quarters of 2016, business acquisition, integration and other expenses primarily included costs related to the cessation of value-added fish operations at the New Bedford facility, partially offset by proceeds on the settlement of the insurance claim related to the partial roof collapse at the New Bedford facility in 2015. The impairment of property, plant and equipment recorded in the first three quarters of 2016 was also related to the New Bedford facility.

FINANCE COSTS

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Interest paid in cash during the period	\$ 2,808	\$ 3,331	\$ 10,196	\$ 10,878
Change in cash interest accrued during the period	1,544	8	1,089	(273)
Total interest to be paid in cash	4,352	3,339	11,285	10,605
Mark-to-market gain on interest rate swap not designated for hedge accounting	—	—	—	(126)
Deferred financing cost amortization	224	133	500	268
Total finance costs	\$ 4,576	\$ 3,472	\$ 11,785	\$ 10,747

Finance costs were \$1.1 million higher in the third quarter of 2017 and \$1.0 million higher in the first three quarters of 2017 compared to the same periods last year due to increased net interest-bearing debt primarily reflecting the acquisition of Rubicon.

Marking-to-market interest rate swaps not designated in a formal hedging relationship had no impact on diluted EPS in the first three quarters of 2017 and 2016 (see the discussion on Adjusted Net Income and Adjusted Diluted EPS in the *Non-IFRS Financial Measures* section, starting on page 26 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 2017 (2016: 29.2%). The effective income tax rate in the third quarter of 2017 was a recovery of 29.6% compared to an expense of 6.6% in the same period last year. The change in the effective income tax rate for the third quarter of 2017 compared to same period last year was attributable to the impact of acquisition financing deductions on lower pre-tax income and recognition of tax benefits during the quarter.

The effective income tax rate was a recovery of 3.7% in the first three quarters of 2017 as compared to the effective tax rate of an expense of 18.7% in the first three quarters of 2016.

RESULTS BY QUARTER

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

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

(Amounts in 000s, except per share amounts)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Sales	\$282,704	\$232,385	\$275,735	\$208,794	\$230,366	\$224,388	\$291,439	\$224,282	\$239,857
Adjusted EBITDA⁽¹⁾	\$ 17,298	\$ 13,417	\$ 22,337	\$ 16,118	\$ 17,510	\$ 17,448	\$ 30,308	\$ 17,174	\$ 16,831
Net Income	\$ 6,040	\$ 644	\$ 10,742	\$ 6,660	\$ 6,316	\$ 5,129	\$ 14,180	\$ 6,667	\$ 5,938
Adjusted Net Income⁽¹⁾	\$ 8,424	\$ 6,054	\$ 10,815	\$ 6,969	\$ 8,959	\$ 8,524	\$ 15,831	\$ 7,788	\$ 6,939
EPS, based on Net Income									
Basic	\$ 0.18	\$ 0.02	\$ 0.34	\$ 0.22	\$ 0.20	\$ 0.17	\$ 0.46	\$ 0.22	\$ 0.19
Diluted	\$ 0.18	\$ 0.02	\$ 0.34	\$ 0.21	\$ 0.20	\$ 0.17	\$ 0.45	\$ 0.21	\$ 0.19
EPS, based on Adjusted Net Income⁽¹⁾									
Basic	\$ 0.25	\$ 0.19	\$ 0.35	\$ 0.23	\$ 0.29	\$ 0.28	\$ 0.51	\$ 0.25	\$ 0.22
Diluted ⁽¹⁾	\$ 0.25	\$ 0.19	\$ 0.34	\$ 0.22	\$ 0.29	\$ 0.27	\$ 0.51	\$ 0.25	\$ 0.22
Dividends paid per common share (CAD)									
	\$ 0.140	\$ 0.140	\$ 0.140	\$ 0.140	\$ 0.130	\$ 0.130	\$ 0.120	\$ 0.120	\$ 0.120
Net non-cash working capital⁽²⁾									
	\$208,507	\$206,094	\$218,832	\$190,825	\$192,879	\$202,031	\$214,327	\$216,422	\$224,681

⁽¹⁾ See the *Non-IFRS Financial Measures* section starting on page 24 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

⁽²⁾ Net non-cash working capital is comprised of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions.

CONTINGENCIES

The Company has no material outstanding contingencies.

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 1 of this MD&A (under the heading "Currency") and in the Foreign Currency risk discussion on page 31 (in the *Risk Factors* section).

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

Working Capital Credit Facility

The Company entered into an asset-based working capital credit facility in November 2010 with the Royal Bank of Canada as the collateral and administrative agent. There have been several amendments made to this facility with the most recent being in April 2014, when it was amended concurrently with the term loan, and increased from \$120.0 million to \$180.0 million. The working capital credit facility provides for the rates noted in the following table, based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement. The rates at which the Company is currently borrowing are also noted in the following table.

Per Credit Agreement		As at September 30, 2017
Canadian Prime Rate loans denominated in CAD, Canadian Base Rate revolving and U.S. Prime Rate revolving loans denominated in USD, at Prime or Base Rate	plus 0.00% to 0.25%	plus 0.00%
Bankers' Acceptances ("BA") loans at BA rates	plus 1.25% to 1.75%	plus 1.25%
LIBOR advances at LIBOR	plus 1.25% to 1.75%	plus 1.25%
Letters of credit with fees of	1.25% to 1.75%	1.25%
Standby fees of	0.25% to 0.375%	0.375%

Average short-term borrowings were \$16.7 million in the first three quarters of 2017 compared to \$14.6 million in the same period last year. This \$2.1 million increase primarily reflects the reduced cash flow provided by operating activities, increased borrowings due to the acquisition of Rubicon, and increased capital expenditures.

At the end of the third quarter of 2017, the Company had \$147.9 million (October 1, 2016: \$143.3 million) of unused borrowing capacity taking into account both margin calculations and the total line availability. On September 30, 2017, letters of credit and standby letters of credit were outstanding in the amount of \$15.4 million (October 1, 2016: \$14.8 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 \$147.9 million of unused borrowing capacity noted above.

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

In the absence of any major acquisitions or capital expenditures we expect average short-term borrowings in the last quarter of 2017 to be higher than the first three quarters of 2017, and we believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

Term Loan Facility

High Liner Foods entered into a term loan in December 2011. There have been several amendments made to the term loan with the most recent being in April 2014. In June 2017, the term loan facility was increased from \$300.0 million to \$370.0 million to facilitate the Rubicon acquisition (see the *Recent Developments* section on page 3 for further discussion). The \$70.0 million addition to the term loan was made in accordance with the term loan credit agreement, which provides for incremental increases that meet stated provisions, at consistent terms.

Minimum repayments on the term loan are required on an annual basis, plus, based on a leverage test, additional payments could be required of up to 50% of the previous year's defined excess cash flow. There were excess cash flows in 2015, due largely to decreased working capital and capital expenditures in 2015 as compared to 2014, and as a result, an excess cash flow payment of \$11.8 million was made in March 2016. In addition, the Company made a voluntary repayment of \$15.0 million during the second quarter of 2016 to reduce excess cash balances. Quarterly principal repayments of \$0.9 million are required on the term loan, however, as per the loan agreement, the mandatory excess cash flow payment and the voluntary repayment will be applied to future regularly scheduled principal repayments. As such, no regularly scheduled principal repayments are required in 2017.

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

During the 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:

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

As of September 30, 2017, the combined impact of the interest rate swaps listed above effectively fix the interest rate on \$120.0 million of the \$370.0 million face value of the term loan and the other portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates when LIBOR is higher than the embedded floor of 1.0%.

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

Net Interest-Bearing Debt

The Company's net interest-bearing debt (as calculated in the *Non-IFRS Financial Measures* section on page 28 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs) and finance leases, less cash. Net interest-bearing debt increased by \$101.2 million to \$353.6 million at September 30, 2017 compared to \$252.4 million at October 1, 2016, primarily reflecting the acquisition of Rubicon.

Including trailing twelve month Adjusted EBITDA for Rubicon, net interest-bearing debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 24 of this MD&A for further discussion of Adjusted EBITDA) was 4.5x at September 30, 2017 compared to 3.1x at the end of Fiscal 2016. Excluding trailing twelve month Adjusted EBITDA for Rubicon, net interest-bearing debt to Adjusted EBITDA was as shown in the table below. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2017, we expect this ratio will remain consistent at the end of 2017.

(Amounts in \$000s, except as otherwise noted)	Twelve months ended	
	September 30, 2017	December 31, 2016
Net interest-bearing debt	\$ 353,589	\$ 252,056
Adjusted EBITDA	\$ 69,170	\$ 81,384
Net interest-bearing debt to Adjusted EBITDA ratio (times)	5.1x	3.1x

Capital Structure

At September 30, 2017, net interest-bearing debt was 57.8% of total capitalization, as compared to 53.7% at October 1, 2016.

(Amounts in \$000s)	September 30, 2017	October 1, 2016	December 31, 2016
Net interest-bearing debt	\$ 353,589	\$ 252,372	\$ 252,056
Shareholders' equity	256,825	216,873	220,204
Unrealized losses (gains) on derivative financial instruments included in AOCI	819	999	(561)
Total capitalization	\$ 611,233	\$ 470,244	\$ 471,699
Net interest-bearing debt as percentage of total capitalization	57.8%	53.7%	53.4%

Using our September 30, 2017 market capitalization of \$373.3 million, based on a share price of CAD\$14.01 (USD \$11.20 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization decreased to 48.6%.

Cash Flow

(Amounts in \$000s)	Thirteen weeks ended			Thirty-nine weeks ended		
	September 30, 2017	October 1, 2016	Change	September 30, 2017	October 1, 2016	Change
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid	\$ 12,600	\$ 15,911	\$ (3,311)	\$ 40,554	\$ 61,026	\$ (20,472)
Interest paid	(2,808)	(3,331)	523	(10,196)	(10,878)	682
Income taxes paid	(1,120)	(2,993)	1,873	(8,965)	(6,719)	(2,246)
Cash flows provided by operations, including interest and income taxes, and before change in non-cash working capital balances	8,672	9,587	(915)	21,393	43,429	(22,036)
Net change in non-cash working capital balances	(4,270)	7,828	(12,098)	(19,570)	21,861	(41,431)
Net cash flows provided by operating activities	4,402	17,415	(13,013)	1,823	65,290	(63,467)
Net cash flows provided by (used in) financing activities	510	(10,939)	11,449	73,335	(54,291)	127,626
Net cash flows (used in) provided by investing activities	(8,061)	9,584	(17,645)	(95,047)	5,291	(100,338)
Foreign exchange increase (decrease) on cash	3,846	(183)	4,029	3,964	35	3,929
Net change in cash during the period	\$ 697	\$ 15,877	\$ (15,180)	\$ (15,925)	\$ 16,325	\$ (32,250)

Net cash flows provided by operating activities decreased by \$13.0 million in the third quarter of 2017 to \$4.4 million compared to \$17.4 million in the third quarter of the same period last year reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, decreased \$0.9 million in the third quarter of 2017 to \$8.7 million compared to \$9.6 million in the same period last year. This decrease reflects less favourable results from operations, offset by lower interest and income tax payments.

- Cash flows from changes in net non-cash working capital decreased by \$12.1 million in the third quarter of 2017 to an outflow of \$4.3 million compared to an inflow of \$7.8 million in the same period last year. This decrease primarily reflects less favourable changes in accounts receivable and inventories, partially offset by more favourable changes in accounts payables and accrued liabilities during the third quarter of 2017 compared to the same period last year.

Net cash flows provided by operating activities decreased by \$63.5 million in the first three quarters of 2017 to \$1.8 million compared to \$65.3 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 by \$22.0 million in the first three quarters of 2017 to \$21.4 million compared to \$43.4 million in the same period last year. This decrease reflects less favourable results from operations and higher income tax payments, offset by lower interest payments.
- Cash flows from changes in net non-cash working capital decreased by \$41.5 million in 2017 to an outflow of \$19.6 million compared to an inflow of \$21.9 million in the same period last year. This decrease primarily reflects less favourable changes in inventories, partially offset by more favourable changes in accounts payables and accrued liabilities during the first three quarters of 2017 compared to the same period last year.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 28 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended September 30, 2017 decreased by \$115.4 million to an outflow of \$10.5 million compared to an inflow of \$104.9 million for the twelve months ended October 1, 2016. This decrease reflects a less favourable change in working capital, lower cash flow from operating activities, including interest and income tax payments, and higher capital expenditures during the twelve months ended September 30, 2017 as compared to the twelve months ended October 1, 2016.

Net Non-Cash Working Capital

(Amounts in \$000s)	September 30, 2017	December 31, 2016	Change
Accounts receivable	\$ 98,399	\$ 75,190	\$ 23,209
Inventories	313,144	252,059	61,085
Prepaid expenses	3,558	3,340	218
Accounts payables and accrued liabilities	(201,580)	(139,378)	(62,202)
Provisions	(5,014)	(386)	(4,628)
Net non-cash working capital	\$ 208,507	\$ 190,825	\$ 17,682

Net non-cash working capital consists of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions. Net non-cash working capital increased by \$17.7 million to \$208.5 million at the end of the third quarter of 2017 as compared to December 31, 2016, primarily reflecting increased accounts receivable and inventory, partially offset by higher accounts payable and accrued liabilities, largely due to the acquisition of Rubicon and the timing of working capital requirements.

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

Capital Expenditures

Gross capital expenditures (including finance leases) were \$8.2 million and \$20.8 million for the third quarter and the first three quarters of 2017 respectively, as compared to capital expenditures of \$5.7 million and \$10.8 million for the third quarter and the first three quarters of 2016, respectively, due to capital expenditures related to efficiency

improvements in manufacturing facilities, leasehold improvements, and investments in the Company's enterprise-wide business management system.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2017 will be approximately \$25.0 million and funded by cash generated from operations and short-term borrowings.

Dividends

The Company paid a CAD\$0.140 per share quarterly dividend on September 15, 2017 to common shareholders of record on September 1, 2017.

On November 9, 2017, the Company's Board of Directors approved a quarterly dividend of CAD\$0.145 per share on the Company's common shares, payable on December 15, 2017 to holders of record on December 1, 2017. The quarterly dividend of CAD\$0.145 per share represents a 3.6% increase from the CAD\$0.140 per share quarterly dividend paid on September 15, 2017 to common shareholders of record on September 1, 2017, and reflects the Board's continued confidence in the Company's operations.

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

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

- Under the working capital credit facility, Average Adjusted Aggregate Availability, as defined in the credit agreement, needs to be \$22.5 million or higher and was \$132.1 million on September 30, 2017, and NCIBs are subject to an annual limit of \$10.0 million; and
- Under the term loan facility, dividends cannot exceed \$17.5 million per year. This amount increases to the greater of \$25.0 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan when the defined total leverage ratio is below 4.50x and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 4.6x on September 30, 2017. NCIBs are subject to an annual limit of \$10.0 million under the term loan facility.

Contractual Obligations

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

(Amounts in \$000s)	Payments Due by Period			
	Total	Less than 1 year	1 - 5 Years	Thereafter
Long-term debt	\$ 337,926	\$ —	\$ 337,926	\$ —
Finance lease obligations	1,257	692	565	—
Other current and long-term liabilities	1,646	141	1,505	—
Operating leases	19,909	4,596	14,283	1,030
Purchase obligations	178,701	168,699	10,002	—
Total contractual obligations	\$ 539,439	\$ 174,128	\$ 364,281	\$ 1,030

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* section on page 32 and the *Foreign Currency* section on page 31 of this MD&A for further details.

Financial Instruments and Risk Management

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

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

Disclosure of Outstanding Share Data

On November 9, 2017, 33,332,387 common shares and 1,757,619 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

RELATED PARTY TRANSACTIONS

As a result of the Rubicon acquisition, the Company has right of first refusal on certain commodity seafood sales from a company controlled by Brian Wynn, who is now part of the Company's management. Total purchases from this company for the thirteen and 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.

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

OUTLOOK

Increasing the efficiency of the Company's manufacturing facilities is the primary focus to improve near-term financial performance. Product innovation is how the Company will grow the business and create longer-term shareholder value. This will continue to be a key strategic objective in 2018. Opportunities also exist to improve pricing methodologies, lower fixed costs, further increase the effectiveness of our supply supply chain and product innovation, as well as simplify the business. Increased focus on these areas will improve financial performance in 2018, quicken the pace at which the Company can achieve its strategic objectives, and better position it to pursue its profitable growth opportunities.

NON-IFRS FINANCIAL MEASURES

The Company uses the following non-IFRS financial measures in this MD&A to explain the following financial results: Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"); Adjusted Net Income; Adjusted Diluted Earnings per Share ("Adjusted Diluted EPS"); CAD-Equivalent Adjusted Diluted EPS; Standardized Free Cash Flow; and Net Interest-Bearing Debt.

Adjusted EBITDA

Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Chartered Professional Accountants of Canada ("CPA Canada") and is earnings before interest, taxes, depreciation and amortization, excluding: business acquisition, integration and other expenses including those

related to the cessation of plant operations; gains or losses on disposal of assets; and share-based compensation expense. The related margin is defined as Adjusted EBITDA divided by net sales ("Adjusted EBITDA as a percentage of sales"), where net sales is defined as "Revenues" on the Consolidated Statement of Income.

We use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) as a performance measure as it approximates cash generated from operations before capital expenditures and changes in working capital, and it excludes the impact of expenses associated with business acquisition, integration activities, certain non-routine costs and share-based compensation expense related to the Company's share price. We believe investors and analysts also use Adjusted EBITDA and Adjusted EBITDA as a percentage of sales to evaluate performance of our business. The most directly comparable IFRS measure to Adjusted 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 following table reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, including the operating segment information disclosed in Note 14 "Operating segment information".

(Amounts in \$000s)	Thirteen weeks ended September 30, 2017				Thirteen weeks ended October 1, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Net income (loss)	\$ 2,006	\$ 9,207	\$ (5,173)	\$ 6,040	\$ 5,589	\$ 8,649	\$ (7,921)	\$ 6,317
Add back:								
Depreciation and amortization	527	3,531	312	4,370	439	2,966	378	3,783
Financing costs	—	—	4,576	4,576	—	—	3,472	3,472
Income tax expense	—	—	(1,378)	(1,378)	—	—	448	448
Standardized EBITDA	2,533	12,738	(1,663)	13,608	6,028	11,615	(3,623)	14,020
Add back (deduct):								
Business acquisition, integration and other expenses	—	—	747	747	—	—	1,954	1,954
Loss (gain) on disposal of assets	25	56	(12)	69	(25)	5	(174)	(194)
Direct costs and returned destroyed product ⁽¹⁾	824	2,430	—	3,254	—	—	—	—
Share-based compensation expense	—	—	(380)	(380)	—	—	1,730	1,730
Adjusted EBITDA	\$ 3,382	\$ 15,224	\$ (1,308)	\$ 17,298	\$ 6,003	\$ 11,620	\$ (113)	\$ 17,510

(Amounts in \$000s)	Thirty-nine weeks ended September 30, 2017				Thirty-nine weeks ended October 1, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Net income (loss)	\$ 5,971	\$ 28,822	\$ (17,367)	\$ 17,426	\$ 15,916	\$ 39,138	\$ (29,428)	\$ 25,626
Add back:								
Depreciation and amortization	1,449	9,559	885	11,893	1,351	9,679	2,272	13,302
Financing costs	—	—	11,785	11,785	—	—	10,747	10,747
Income tax expense	—	—	(623)	(623)	—	—	5,909	5,909
Standardized EBITDA	7,420	38,381	(5,320)	40,481	17,267	48,817	(10,500)	55,584
Add back (deduct):								
Business acquisition, integration and other expenses	—	—	1,648	1,648	—	—	4,301	4,301
Impairment of property, plant and equipment	—	—	—	—	—	—	2,327	2,327
Loss (gain) on disposal of assets	55	115	(13)	157	(105)	42	(196)	(259)
Direct costs and returned destroyed product ⁽¹⁾	2,706	7,262	—	9,968	—	—	—	—
Share-based compensation expense	—	—	797	797	—	—	3,312	3,312
Adjusted EBITDA	\$ 10,181	\$ 45,758	\$ (2,888)	\$ 53,051	\$ 17,162	\$ 48,859	\$ (756)	\$ 65,265

⁽¹⁾ Associated with the product recall (see the *Recent Developments* section on page 3).

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 September 30, 2017			Thirteen weeks ended October 1, 2016		
	\$	\$000s	Diluted EPS	\$	\$000s	Diluted EPS
Net income	\$	6,040	\$ 0.18	\$	6,317	\$ 0.20
Add back:						
Business acquisition, integration and other expenses		747	0.02		1,954	0.07
Accelerated depreciation on equipment as part of the cessation of operations		—	—		119	—
Direct costs and returned destroyed product ⁽¹⁾		3,254	0.10		—	—
Share-based compensation expense		(380)	(0.01)		1,730	0.06
Tax impact of reconciling items		(1,237)	(0.04)		(1,160)	(0.04)
Adjusted Net Income	\$	8,424	\$ 0.25	\$	8,960	\$ 0.29
Average shares for the period (000s)			33,439			31,289

	Thirty-nine weeks ended September 30, 2017			Thirty-nine weeks ended October 1, 2016		
	\$	\$000s	Diluted EPS	\$	\$000s	Diluted EPS
Net income	\$	17,426	\$ 0.54	\$	25,626	\$ 0.82
Add back:						
Business acquisition, integration and other expenses		1,648	0.05		4,301	0.14
Impairment of property, plant and equipment		—	—		2,327	0.07
Accelerated depreciation on equipment as part of the cessation of operations		—	—		1,477	0.05
Direct costs and returned destroyed product ⁽¹⁾		9,968	0.31		—	—
Mark-to-market gain on interest rate swaps not designated for hedge accounting		—	—		(127)	—
Share-based compensation expense		797	0.02		3,312	0.11
Tax impact of reconciling items		(4,547)	(0.14)		(3,601)	(0.12)
Adjusted Net Income	\$	25,292	\$ 0.78	\$	33,315	\$ 1.07
Average shares for the period (000s)			32,222			31,138

⁽¹⁾ Associated with the product recall (see the *Recent Developments* section on page 3).

CAD-Equivalent Adjusted Diluted EPS

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Adjusted Diluted EPS	\$ 0.25	\$ 0.29	\$ 0.78	\$ 1.07
Average foreign exchange rate for the period	1.2528	1.3050	1.3071	1.3218
CAD-Equivalent Adjusted Diluted EPS	\$ 0.31	\$ 0.38	\$ 1.02	\$ 1.41

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		
	September 30, 2017	October 1, 2016	\$ Change
Net change in non-cash working capital items	\$ (15,484)	\$ 54,968	\$ (70,452)
Cash flow from operating activities, including interest and income taxes	32,033	65,646	(33,613)
Cash flow from operating activities	16,549	120,614	(104,065)
Less: total capital expenditures, net of investment tax credits	(27,026)	(15,715)	(11,311)
Standardized Free Cash Flow	\$ (10,477)	\$ 104,899	\$ (115,376)

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)	September 30, 2017	October 1, 2016
Current bank loans	\$ 16,486	\$ (109)
Add-back: deferred finance costs on current bank loans	247	384
Total current bank loans	16,733	275
Long-term debt	335,283	266,194
Add-back: deferred finance costs on long-term debt	2,643	1,732
Total term loan debt	337,926	267,926
Long-term portion of finance lease obligations	565	748
Current portion of finance lease obligations	692	791
Total finance lease obligation	1,257	1,539
Less: cash	(2,327)	(17,368)
Net interest-bearing debt	\$ 353,589	\$ 252,372

GOVERNANCE

In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, our certifying officers have limited the scope of their design of disclosure controls and procedures, and our Company's internal control over financial reporting ("ICFR") to exclude controls, policies and procedures relating to the acquisition of Rubicon (see the *Recent Developments* section on page 3) and they have not performed sufficient procedures to include Rubicon in the Company's certifications. National Instrument 52-109 permits a business that an issuer acquires not more than 365 days before the issuer's financial year-end be excluded from the scope of the certifications to allow for sufficient time to perform adequate procedures to ensure controls, policies and procedures are effective. Rubicon contributed \$67.0 million to sales and \$7.9 million to gross profit in the first three quarters of 2017. Information concerning assets and liabilities acquired as part of the acquisition of Rubicon is provided in Note 3 *Business combinations* to the Consolidated Financial Statements.

There has been no change in the Company's ICFR, during the period beginning on January 1, 2017 and ending September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

ACCOUNTING ESTIMATES AND STANDARDS

Critical Accounting Estimates

Critical accounting judgments and estimates used in preparing our Consolidated Financial Statements are described in the Company's 2016 annual MD&A and annual consolidated financial statements for the year ended December 31, 2016. The preparation of the Company's Consolidated Financial Statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. Actual outcomes may differ from these estimates under different assumptions and conditions that could require a material adjustment to the reported carrying amounts in the future. There have been

no material changes to our critical accounting estimates and judgments during the thirteen and thirty-nine weeks ended September 30, 2017, other than the estimate related to the product recall (see the *Recent Developments* section on page 3).

Accounting Standards

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

IFRS 15, Revenue from Contracts with Customers

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

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

Accounting Standards and Interpretations Issued but not yet Effective

The standards, amendments and interpretations that have been issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC"), but that are not yet effective, up to the date of issuance of this MD&A are consistent with those disclosed in the Company's 2016 annual consolidated financial statements for the year ended December 31, 2016.

RISK FACTORS

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

Readers should refer to the 2016 Annual Report and AIF for a more detailed description of risk factors applicable to the Company, which are available at www.sedar.com and at www.highlinerfoods.com. We have included new risk factors and updated certain risk factors below for the first three quarters of 2017.

Acquisition and Integration Risk

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

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

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

Product Recall

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

As discussed in the *Recent Developments* section on page 3, the Company initiated a product recall during the second quarter of 2017, and has estimated the costs associated with this recall. Our estimates are provisional and were determined based on an assessment of the information available up to the date of filing of this report, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company expects to recover substantially all of the estimated losses from the ingredient supplier, and will record these recoveries in the period in which they occur or are virtually certain to occur, however there can be no assurance that amounts will be recovered.

Foreign Currency

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

The Canadian dollar strengthened relative to the U.S. dollar approximately 4.6% as of September 30, 2017 compared to October 1, 2016. On our balance sheet, this increases the USD carrying value of both CAD-denominated assets and

liabilities and decreases the foreign exchange translation impact of our Canadian company included in accumulated other comprehensive income ("AOCI") in shareholders' equity. As our Canadian operations are a net importer of seafood and other products purchased in USD, a stronger CAD reduces its costs and a weaker CAD increases its costs in its CAD functional currency.

In order to minimize foreign exchange risk, we undertake hedging activities using various derivative products in accordance with an internal policy on managing derivative usage and risk that is approved and monitored by the Board of Directors' Audit Committee. We hedge the USD costs of a portion of our raw material requirements and retail commodity products as sales price increases on these products take more time to implement. We generally do not hedge certain commodity foodservice products as the sales prices to our customers change frequently enough to capture foreign exchange fluctuations, but may do so from time to time. During the third quarter of 2017, our hedging activities resulted in an effective USD/CAD exchange rate of 1.2678 for inventory purchased in USD by our Canadian Operations, compared to 1.2946 for the third quarter of 2016.

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

Procurement

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2016, the Company purchased approximately 198 million pounds of seafood, with an approximate value of \$518 million. Seafood and other food inputs markets are global with values expressed in USD. We buy approximately 30 species of seafood from 20 countries around the world. There are no formal hedging mechanisms in the seafood market. Prices can change due to changes in the balance between supply and demand. Weather, quota changes, geopolitical issues including economic sanctions, disease and other social, sustainability and environmental matters can affect supply and related costs. Changes in the relative values of currency can change the demand from a particular country whose currency has risen or fallen as compared to the USD. The increasing middle class and government policies in emerging economies, as well as demand from health conscious consumers, affect the demand side as well. The cost of products purchased in USD for our Canadian operations is also affected by USD/CAD exchange rate, as noted above.

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

Availability of Seafood and Non-Seafood Goods

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

The Company expects demand for seafood to grow from current levels as the global economy and Southeast Asia economies improve. We expect the supply of wild-caught seafood to be stable over the long term, notwithstanding recent increases in quota in certain fisheries, in part due to sustainability efforts. We anticipate new demand will be supplied primarily from aquaculture. Currently, four of the top seven species consumed in the U.S. (shrimp, salmon, tilapia and pangasius) are partly or totally supplied by aquaculture and approximately 25% of the Company's procurement by value is related to aquaculture products. To the extent aquaculture is unable to supply future demand, prices may increase materially which may have a negative impact on the Company's results.

The Company has made the strategic decision not to be vertically integrated for a number of reasons, including the large amount of capital that would be involved and expected returns on such capital. As well, as a vertically integrated company, overall reduced returns to shareholders would likely result from subsidizing our North American operations with output from fishing efforts that could be sold in global markets at higher prices. Instead, we remain committed

to our strategy to develop the North American market by differentiating ourselves based on product offerings and service levels, building our brands and customer relationships, being the lowest cost, largest scale manufacturer of seafood products and leveraging such position to buy seafood at reasonable prices, and be the supplier of choice for North American customers and consumers. However, in the event that supply shortages of certain seafood, or trade barriers to acquiring seafood as a result of economic sanctions or otherwise, results in difficulty procuring species from preferred suppliers or at all, the financial results of the Company may be adversely affected.

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