



# HIGH LINER FOODS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the thirteen and thirty-nine weeks ended September 29, 2018**

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

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## INTRODUCTION

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This Management's Discussion and Analysis ("MD&A"), dated November 8, 2018, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and thirty-nine weeks ended September 29, 2018, compared to the thirteen and thirty-nine weeks ended September 30, 2017. 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 2017 Annual Report along with our Unaudited Condensed Interim Consolidated Financial Statements as at and for the thirteen and thirty-nine weeks ended September 29, 2018 ("Consolidated Financial Statements"), 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 8, 2018, except as otherwise noted.

### **Non-IFRS Financial Measures**

This document 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 the 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" of the Parent) to eliminate the effect of fluctuating foreign exchange rates used to translate the Parent's operations to the USD presentation currency.

## FORWARD-LOOKING STATEMENTS

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

Specific forward-looking statements in this document include, but are not limited to: statements with respect to: future growth strategies and their impact on the Company's market share and shareholder value; 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; any 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 the amount of the recovery associated with product recall costs; our ability to successfully integrate the 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, the efficiency of our plant production and U.S. tariffs on certain seafood products imported from China; expected amount and timing of cost savings related to the optimization of the Company's structure; 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 2017 Annual Report and the *Risk Factors* section of our 2017 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; the interpretation of the U.S. Tax Reform by tax authorities; 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; the impact of the U.S. Administration's tariffs on certain seafood products; 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; enterprise resource planning system risk; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development.

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

## COMPANY OVERVIEW

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

We own and operate three food-processing plants located in Lunenburg, Nova Scotia ("NS"), Portsmouth, New Hampshire ("NH"), and Newport News, Virginia ("VA").

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

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

## OUTLOOK

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The Company advises shareholders that until the completion of the critical initiatives summarized below, High Liner is likely to continue to face pressure on its financial results due to a number of internal and external factors including, among others, internal challenges being addressed by these critical initiatives, and rising raw material prices, compounded by recently imposed tariffs on key species. Longer term, the Company expects the financial performance to improve and targets a return to profitable organic growth by 2020.

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<sup>1</sup> In December 2011, as part of our acquisition of the U.S. subsidiary of Icelandic Group h.f., we acquired several brands and agreed to a seven year royalty-free licensing agreement with Icelandic Group for the use of the Icelandic Seafood brand in the U.S., Canada and Mexico. In April 2018, the Company executed a seven year brand license agreement for the continued use of the Icelandic Seafood brand in the U.S. and Canada with royalty payments effective January 2019 (1.5% on net sales of products sold under the Icelandic Seafood brand).

The Company is embarking on a significant undertaking as represented by the five critical initiatives summarized below to eliminate the challenges in its internal operations and strengthen the overall health of the business. The Company expects to execute on the critical initiatives outlined below within twelve to fifteen months and as previously disclosed, expects to achieve a minimum of \$10 million in annualized cost savings, on a run rate basis, associated with these critical initiatives, starting in 2019. Annualized cost savings of \$7.0 million have been identified as part of the Company's organizational realignment that was completed subsequent to the quarter (see *Events After the Reporting Period* section on page 24). The Company's five critical initiatives are:

- **Organizational Realignment:** Important progress has been made on this initiative, as mentioned above to realign the organization to create a “One High Liner Foods” culture that improves efficiency, cuts costs, will facilitate knowledge sharing, organizational best practices and lay the foundation for the critical initiatives that follow.
- **Business Simplification:** The Company will take unnecessary complexity out of its business to ensure the product portfolio is simple, yet powerful and focuses on the best of High Liner Foods - in terms of margins, customer appeal and growth potential. Although this will require certain product eliminations, this will enable the Company to focus its resources on developing and innovating the most profitable and desirable products.
- **Supply Chain Excellence:** The Company will build on efforts to date to create one integrated supply chain by creating a cross-border operating system, increasing the efficiency of manufacturing activities through further centralization and standardization and is focusing its attention on sales and operational planning and continuous improvement.
- **Rubicon Alignment and Growth:** The Company will work to extract the value and synergies in this acquisition that have yet to be fully realized. By fully aligning Rubicon with High Liner Foods, the Company will maximize the opportunity for growth in the shrimp business.
- **Profitable Organic Growth:** The Company will invest in product innovation, research and partnerships to strengthen its customer engagement, shape consumer tastes and demand for our seafood with the goal of returning to profitable growth by 2020.

## RECENT DEVELOPMENTS

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### U.S. Tariffs

In September 2018, the U.S. Administration announced an additional 10% tariff on certain Chinese imports, including seafood, effective September 24, 2018. On January 1, 2019, the additional tariff will increase to 25%.

The Company currently purchases its seafood raw materials from more than 20 countries around the world, including from the U.S., to meet U.S. consumer demand. A portion of this raw material is imported into China for primary processing and then exported to the U.S. for sale and secondary processing. The Company has determined that the additional tariff will apply to the import of certain species into the U.S., most notably haddock, tilapia and sole/flounder. The estimated exposure in 2019 is approximately \$10 million based on current volume and raw material costs; however, the Company has begun implementing plans, including pricing actions and other supply chain initiatives, to mitigate the impact of these tariffs and reduce the estimated impact to the Company.

### Product Recall

In 2017, the Company announced a voluntary recall of certain brands of breaded fish and seafood products sold in Canada and the U.S. that may contain a milk allergen that was not declared on the ingredient label and allergen statement. The Company identified that the allergen had originated from ingredients supplied by one of the Company's U.S. based ingredient suppliers. As a result, during the fifty-two weeks ended December 30, 2017, the Company recognized \$13.5 million in net losses associated with the product recall related to consumer refunds, customer fines, the return of product

to be re-worked or destroyed, and direct incremental costs. These losses did not include any reduction in earnings as a result of lost sales opportunities due to limited product availability and customer shortages, or increased production costs related to the interruption of production at the Company's facilities.

During the thirteen weeks ended September 29, 2018, the Company recognized an \$8.5 million recovery associated with the product recall losses from the ingredient supplier, which was recognized as business acquisition, integration and other (income) expense in the consolidated statements of income. The Company expects to recover substantially all of the remaining losses associated with the recall from the ingredient supplier, and will continue to record future recoveries in the period in which they occur or are virtually certain to occur, in accordance with IFRS.

### **Upgrade of Enterprise Resource Planning System**

During the second quarter of 2018, the Company completed a significant upgrade to its enterprise resource planning ("ERP") system, which is the business management software that supports the Company's core business processes. The upgrade provides improved capability to support the organizational realignment, current business objectives and future growth. The upgrade was completed on time, within internal spending targets, and without interruption to customers or the business.

### **Appointment of New President and Chief Executive Officer**

Effective May 1, 2018, High Liner Foods' Board of Directors appointed Rod Hepponstall as President and Chief Executive Officer. Mr. Hepponstall assumed this position from Henry Demone, Chairman of the Board of Directors. Mr. Hepponstall has extensive experience working in the food industry in the United States and Canada, in both retail and foodservice, and most recently, held the position of Senior Vice President, General Manager Retail & Foodservice Business Units at Lamb-Weston Inc., one of the world's leading suppliers of frozen potato products. In connection with Mr. Hepponstall's appointment, he also joined the Company's Board of Directors.

### **Amendments to the Working Capital Credit Facility**

In April 2018, the Company amended the \$180.0 million working capital credit facility (see Note 4 "*Bank loans*") to the Consolidated Financial Statements) to extend the term from April 2019 to April 2021. There were no other significant changes to the existing terms, other than an amendment to the standby fees paid on the unutilized facility to 0.25%.

## **PERFORMANCE**

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The discussion and analysis of the Company's financial results focuses on the performance of the consolidated operations, and the performance of the two reportable segments described in Note 13 "*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.

A significant percentage of advertising and promotional activity is typically done in the first quarter. Customer-specific promotional expenditures such as trade spending, listing allowances and couponing are deducted from "Revenues" and non-customer-specific consumer marketing expenditures are included in selling, general and administrative expenses.

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

## Consolidated Performance

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

| (in \$000s, except sales volume, per share amounts, percentage amounts, and exchange rates) | Thirteen weeks ended |                    |                    | Thirty-nine weeks ended |                    |                    |
|---|----------------------|--------------------|--------------------|-------------------------|--------------------|--------------------|
|   | September 29, 2018   | September 30, 2017 | Change             | September 29, 2018      | September 30, 2017 | Change             |
| <b>Sales volume (millions of lbs)</b>   | <b>64.2</b>          | <b>73.6</b>        | <b>(9.4)</b>       | <b>217.8</b>            | <b>220.2</b>       | <b>(2.4)</b>       |
| <b>Average foreign exchange rate (USD/CAD)</b>  | <b>\$ 1.3072</b>     | <b>\$ 1.2528</b>   | <b>\$ 0.0544</b>   | <b>\$ 1.2877</b>        | <b>\$ 1.3071</b>   | <b>\$ (0.0194)</b> |
| <b>Sales</b>  |                      |                    |                    |                         |                    |                    |
| Sales in domestic currency  | \$ 260,616           | \$ 299,819         | \$ (39,203)        | \$ 862,003              | \$ 850,815         | \$ 11,188          |
| Foreign exchange impact   | (19,459)             | (17,115)           | (2,344)            | (56,350)                | (59,991)           | 3,641              |
| <b>Sales in USD</b>   | <b>\$ 241,157</b>    | <b>\$ 282,704</b>  | <b>\$ (41,547)</b> | <b>\$ 805,653</b>       | <b>\$ 790,824</b>  | <b>\$ 14,829</b>   |
| <b>Gross profit</b>   | <b>\$ 43,999</b>     | <b>\$ 48,260</b>   | <b>\$ (4,261)</b>  | <b>\$ 147,870</b>       | <b>\$ 141,575</b>  | <b>\$ 6,295</b>    |
| <b>Gross profit as a percentage of sales</b>  | <b>18.2%</b>         | <b>17.1%</b>       | <b>1.1 %</b>       | <b>18.4%</b>            | <b>17.9%</b>       | <b>0.5 %</b>       |
| <b>Distribution expenses</b>  | <b>\$ 12,692</b>     | <b>\$ 13,240</b>   | <b>\$ (548)</b>    | <b>\$ 40,524</b>        | <b>\$ 36,499</b>   | <b>\$ 4,025</b>    |
| <b>Selling, general and administrative expenses</b>   | <b>\$ 21,650</b>     | <b>\$ 25,035</b>   | <b>\$ (3,385)</b>  | <b>\$ 71,249</b>        | <b>\$ 74,840</b>   | <b>\$ (3,591)</b>  |
| <b>Adjusted EBITDA<sup>(1)</sup></b>  |                      |                    |                    |                         |                    |                    |
| Adjusted EBITDA in domestic currency  | \$ 14,677            | \$ 17,923          | \$ (3,246)         | \$ 52,688               | \$ 55,422          | \$ (2,734)         |
| Foreign exchange impact   | (442)                | (625)              | 183                | (2,182)                 | (2,371)            | 189                |
| <b>Adjusted EBITDA in USD</b>   | <b>\$ 14,235</b>     | <b>\$ 17,298</b>   | <b>\$ (3,063)</b>  | <b>\$ 50,506</b>        | <b>\$ 53,051</b>   | <b>\$ (2,545)</b>  |
| <b>Adjusted EBITDA as a percentage of sales</b>   | <b>5.9%</b>          | <b>6.1%</b>        | <b>(0.2)%</b>      | <b>6.3%</b>             | <b>6.7%</b>        | <b>(0.4)%</b>      |
| <b>Net income</b>   | <b>\$ 4,531</b>      | <b>\$ 6,040</b>    | <b>\$ (1,509)</b>  | <b>\$ 17,586</b>        | <b>\$ 17,426</b>   | <b>\$ 160</b>      |
| Basic Earnings per Share ("EPS")  | \$ 0.13              | \$ 0.18            | \$ (0.05)          | \$ 0.52                 | \$ 0.54            | \$ (0.02)          |
| Diluted EPS   | \$ 0.13              | \$ 0.18            | \$ (0.05)          | \$ 0.52                 | \$ 0.54            | \$ (0.02)          |
| <b>Adjusted Net Income<sup>(1)</sup></b>  | <b>\$ 412</b>        | <b>\$ 8,424</b>    | <b>\$ (8,012)</b>  | <b>\$ 14,881</b>        | <b>\$ 25,292</b>   | <b>\$ (10,411)</b> |
| Adjusted Basic EPS  | \$ 0.01              | \$ 0.25            | \$ (0.24)          | \$ 0.44                 | \$ 0.79            | \$ (0.35)          |
| Adjusted Diluted EPS <sup>(1),(2)</sup>   | \$ 0.01              | \$ 0.25            | \$ (0.24)          | \$ 0.44                 | \$ 0.78            | \$ (0.34)          |
| <b>Total assets</b>   |                      |                    |                    | <b>\$ 826,142</b>       | <b>\$ 868,527</b>  | <b>\$ (42,385)</b> |
| <b>Total long-term financial liabilities</b>  |                      |                    |                    | <b>\$ 348,967</b>       | <b>\$ 349,149</b>  | <b>\$ (182)</b>    |
| <b>Dividends paid per common share (CAD)</b>  | <b>\$ 0.145</b>      | <b>\$ 0.140</b>    | <b>\$ 0.005</b>    | <b>\$ 0.435</b>         | <b>\$ 0.420</b>    | <b>\$ 0.015</b>    |

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

<sup>(2)</sup> CAD-Equivalent Adjusted Diluted EPS was \$0.01 and \$0.31 for the thirteen weeks ended September 29, 2018 and September 30, 2017, respectively, and \$0.57 and \$1.02 for the thirty-nine weeks ended September 29, 2018 and September 30, 2017, respectively. See the *Non-IFRS Financial Measures* section on page 27 for further explanation of CAD-Equivalent Adjusted Diluted EPS.

The acquisition of Rubicon Resources, LLC ("Rubicon") on May 30, 2017 had the impact of increasing sales volume by 8.0 million pounds, sales by \$41.3 million, gross profit by \$5.2 million and Adjusted EBITDA by \$0.1 million in the first three quarters of 2018 as compared to the same period last year as a result of incorporating Rubicon's results for the full year-to-date period. Additional information relating to the Rubicon acquisition is available in the Company's consolidated financial statements for the year ended December 30, 2017.

## Sales

### *Thirteen weeks*

Consolidated sales volume for the third quarter of 2018 decreased by 9.4 million pounds, or 12.8%, to 64.2 million pounds compared to 73.6 million pounds in the same period in 2017. Excluding the increase in sales volume associated with the revision of estimated product returns related to the product recall during the third quarter of 2017 (0.1 million pounds) (see the *Recent Developments* section on page 4), sales volume for the third quarter of 2018 decreased by 9.3 million pounds, or 12.6%.

The decrease in sales volume reflects lower sales volume in our U.S. foodservice and retail businesses and Canadian retail business, including lower sales volume from Rubicon (3.4 million pounds) due to the loss of a major customer.

Sales in the third quarter of 2018 decreased by \$41.5 million, or 14.7%, to \$241.2 million compared to \$282.7 million in the same period last year. The weaker Canadian dollar in the third quarter of 2018 compared to the same quarter of 2017 decreased 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 decreased by \$39.2 million, or 13.1%, to \$260.6 million in the third quarter of 2018 compared to \$299.8 million in the third quarter of 2017. Excluding the increase in sales during the third quarter of 2017 associated with the revision of estimated product returns related to the product recall (\$0.7 million), sales decreased by \$38.5 million, or 12.8%, mainly due to the decreased volume mentioned previously and changes in product mix, partially offset by price increases related to raw material cost increases.

### *Thirty-nine weeks*

Sales volume in the first three quarters of 2018 decreased by 2.4 million pounds, or 1.1%, to 217.8 million pounds compared to 220.2 million pounds in the same period last year, including the following:

- An additional 8.0 million pounds in the first three quarters of 2018 from Rubicon, which was acquired on May 30, 2017, compared to the same period last year; and
- Lower sales volume in the first three quarters of 2017 associated with the product recall (2.4 million pounds).

Excluding these items, sales volume in the first three quarters of 2018 decreased by 12.8 million pounds, or 6.1%, primarily due to lower sales volume in our U.S. foodservice and retail businesses and Canadian retail business, partially offset by higher sales volume in our Canadian foodservice business.

Sales in the first three quarters of 2018 were \$805.7 million, representing an increase of \$14.9 million, or 1.9%, compared to \$790.8 million in the same period last year. The stronger Canadian dollar in the first three quarters of 2018 compared to the first three quarters of 2017 increased the value of reported USD sales from our CAD-denominated operations by approximately \$2.7 million relative to the conversion impact last year.

Sales in domestic currency increased by \$11.2 million, or 1.3%, to \$862.0 million in the first three quarters of 2018 compared to \$850.8 million in the same period last year. Excluding the additional sales from Rubicon of \$41.3 million and the lower sales during the first three quarters of 2017 associated with the product recall (\$8.4 million), sales decreased by \$38.5 million, or 4.9%, mainly due to the lower sales volume mentioned above and changes in product mix, partially offset by price increases related to raw material cost increases.

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

## Gross Profit

### *Thirteen weeks*

Gross profit decreased in the third quarter of 2018 by \$4.3 million, or 8.9%, to \$44.0 million compared to \$48.3 million in the same period in 2017, while gross profit as a percentage of sales increased to 18.2% compared to 17.1%. Gross profit in the third quarter of 2017 included non-reoccurring losses associated with the product recall in 2017 (\$2.7 million).

Excluding the impact of the recall, gross profit decreased by \$7.0 million to \$44.0 million (18.2% as a percentage of sales) compared to \$51.0 million in the same period of 2017 (18.1% as a percentage of sales), due to lower sales volume, unfavourable changes in product mix and U.S. plant inefficiencies, partially offset by price increases related to raw material cost increases. In addition, the weaker Canadian dollar had the effect of decreasing the value of reported USD gross profit from our Canadian operations in 2018 by approximately \$0.5 million relative to the conversion impact last year.

### *Thirty-nine weeks*

Gross profit increased in the first three quarters of 2018 by \$6.3 million, or 4.4%, to \$147.9 million compared to \$141.6 million in the same period last year, reflecting an increase in gross profit as a percentage of sales to 18.4% compared to 17.9% in the prior year. This increase reflects the additional gross profit from Rubicon (\$5.2 million) and non-reoccurring losses associated with the product recall in 2017 (\$12.0 million).

Excluding the impact of the acquisition of Rubicon and the product recall, gross profit decreased by \$10.9 million, or 7.5%, due to the decrease in sales volume previously mentioned, unfavourable changes in product mix and U.S. plant inefficiencies, partially offset by higher sales prices and improved efficiency in our Canadian plant. In addition, the stronger Canadian dollar had the effect of increasing the value of reported USD gross profit from our Canadian operations in 2018 by approximately \$0.6 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.

## Distribution Expenses

### *Thirteen weeks*

Distribution expenses, consisting of freight and storage, decreased in the third quarter of 2018 by \$0.5 million to \$12.7 million compared to \$13.2 million in the same period in 2017, due to the lower sales volume mentioned previously, partially offset by higher fuel, line-haul and storage costs. As a percentage of sales, these expenses increased to 5.3% in the third quarter of 2018, compared to 4.7% in the same period in 2017.

### *Thirty-nine weeks*

Distribution expenses, consisting of freight and storage, increased in the first three quarters of 2018 by \$4.0 million to \$40.5 million compared to \$36.5 million in the same period last year, primarily due to the acquisition of Rubicon and higher fuel, line-haul and storage costs, partially offset by the lower sales volume mentioned previously. As a percentage of sales, distribution expenses increased to 5.0% in the first three quarters of 2018 compared to 4.6% in the same period in 2017.

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

| (Amounts in \$000s)                                    | Thirteen weeks ended |                    | Thirty-nine weeks ended |                    |
|--|----------------------|--------------------|-------------------------|--------------------|
|  | September 29, 2018   | September 30, 2017 | September 29, 2018      | September 30, 2017 |
| SG&A expenses, as reported                             | \$ 21,650            | \$ 25,035          | \$ 71,249               | \$ 74,840          |
| Less:  |                      |                    |                         |                    |
| Share-based compensation expense <sup>(1)</sup>        | 18                   | (395)              | 1,011                   | 753                |
| Depreciation and amortization expense <sup>(1)</sup>   | 2,457                | 2,358              | 7,056                   | 5,954              |
| <b>SG&amp;A expenses, net</b>                          | <b>\$ 19,175</b>     | <b>\$ 23,072</b>   | <b>\$ 63,182</b>        | <b>\$ 68,133</b>   |
| <b>SG&amp;A expenses, net as a percentage of sales</b> | <b>8.0%</b>          | <b>8.2%</b>        | <b>7.8%</b>             | <b>8.6%</b>        |

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

**Selling, General and Administrative Expenses*****Thirteen weeks***

SG&A expenses decreased in the third quarter of 2018 by \$3.3 million to \$21.7 million compared to \$25.0 million in the same period last year. SG&A expenses included a nominal share-based compensation expense in the third quarter of 2018 compared to a recovery of \$0.4 million in the same period in 2017. SG&A expenses also included depreciation and amortization expense of \$2.5 million in the third quarter of 2018 and \$2.4 million in the same period of 2017.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the third quarter of 2018 by \$3.9 million to \$19.2 million compared to \$23.1 million in the same period last year, due to lower administrative expenses, including termination benefits, and lower consumer marketing expenditures across the Company reflecting cost saving initiatives. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 8.0% in the third quarter of 2018 compared to 8.2% in the same period last year.

***Thirty-nine weeks***

SG&A expenses decreased by \$3.6 million to \$71.2 million in the first three quarters of 2018 as compared to \$74.8 million in the same period last year. SG&A expenses included share-based compensation expense of \$1.0 million in the first three quarters of 2018 compared to an expense of \$0.8 million in the same period last year. SG&A expenses also included depreciation and amortization expense of \$7.1 million in the first three quarters of 2018 compared to \$6.0 million in the same period last year. The increase in depreciation and amortization expense primarily related to the amortization of intangible assets acquired as part of the Rubicon acquisition in May 2017.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the first three quarters of 2018 by \$4.9 million to \$63.2 million compared to \$68.1 million in the same period last year, due to lower administrative expenditures, including termination benefits, and lower consumer marketing expenditures across the Company, reflecting cost saving initiatives. The decrease in SG&A expenses was partially offset by increased expenses associated with the inclusion of expenses for a full period for Rubicon in the current year. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expenses decreased to 7.8% in the first three quarters of 2018 compared to 8.6% 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 the third quarter of 2018 by \$3.1 million, or 17.9%, to \$14.2 million compared to \$17.3 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 \$0.4 million in the third quarter of 2018 compared to \$0.6 million in 2017.

In domestic currency, Adjusted EBITDA decreased in the third quarter of 2018 by \$3.2 million, or 17.9%, to \$14.7 million (5.6% of sales) compared to \$17.9 million (6.1% of sales) in 2017 reflecting the lower gross profit (\$6.9 million) after adjusting for the losses associated with the 2017 product recall, partially offset by the lower distribution expenses and lower SG&A expenses across the Company. In addition, Adjusted EBITDA in the third quarter of 2017 included \$0.5 million (\$0.6 million USD) in product recall recoveries that were not added back for the purpose of Adjusted EBITDA.

The following table shows the impact in the third quarter of 2018 and 2017 of converting our CAD-denominated operations and corporate activities to our USD presentation currency.

|   | Thirteen weeks ended  |                       |                | Thirteen weeks ended  |                       |                |
|---|-----------------------|-----------------------|----------------|-----------------------|-----------------------|----------------|
|   | September 29,<br>2018 | September 30,<br>2017 | % Change       | September 29,<br>2018 | September 30,<br>2017 | % Change       |
| (Amounts in \$000s)                           | USD                   | USD                   | USD            | Domestic \$           | Domestic \$           | Domestic \$    |
| <b>External Sales</b>                         |                       |                       |                |                       |                       |                |
| Canada  | \$ 63,382             | \$ 68,129             | (7.0)%         | \$ 82,841             | \$ 85,244             | (2.8)%         |
| USA   | 177,775               | 214,575               | (17.2)%        | 177,775               | 214,575               | (17.2)%        |
|   | <b>241,157</b>        | <b>282,704</b>        | <b>(14.7)%</b> | <b>260,616</b>        | <b>299,819</b>        | <b>(13.1)%</b> |
| Conversion                                    | —                     | —                     |                | (19,459)              | (17,115)              |                |
|   | <b>\$ 241,157</b>     | <b>\$ 282,704</b>     | <b>(14.7)%</b> | <b>\$ 241,157</b>     | <b>\$ 282,704</b>     | <b>(14.7)%</b> |
| <b>Adjusted EBITDA</b>                        |                       |                       |                |                       |                       |                |
| Canada  | \$ 2,901              | \$ 3,382              | (14.2)%        | \$ 3,788              | \$ 4,200              | (9.8)%         |
| USA   | 11,860                | 15,224                | (22.1)%        | 11,860                | 15,224                | (22.1)%        |
| Corporate                                     | (526)                 | (1,308)               | (59.8)%        | (971)                 | (1,501)               | (35.3)%        |
|   | <b>14,235</b>         | <b>17,298</b>         | <b>(17.7)%</b> | <b>14,677</b>         | <b>17,923</b>         | <b>(18.1)%</b> |
| Conversion                                    | —                     | —                     |                | (442)                 | (625)                 |                |
|   | <b>\$ 14,235</b>      | <b>\$ 17,298</b>      | <b>(17.7)%</b> | <b>\$ 14,235</b>      | <b>\$ 17,298</b>      | <b>(17.7)%</b> |
| <b>Adjusted EBITDA as percentage of sales</b> |                       |                       |                |                       |                       |                |
| In USD  | <b>5.9%</b>           | 6.1%                  |                |                       |                       |                |
| In Domestic \$                                |                       |                       |                | <b>5.6%</b>           | 6.0%                  |                |

**Thirty-nine weeks**

Consolidated Adjusted EBITDA decreased in the first three quarters of 2018 by \$2.6 million, or 4.8%, to \$50.5 million compared to \$53.1 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 \$2.2 million in the first three quarters of 2018 compared to \$2.4 million in 2017.

In domestic currency, Adjusted EBITDA decreased in the first three quarters of 2018 by \$2.7 million, or 4.9%, to \$52.7 million (6.1% of sales) compared to \$55.4 million (6.5% of sales) in the same period last year reflecting the lower gross profit (\$7.2 million) after adjusting for the losses associated with the 2017 product recall, and increase in distribution expenses explained previously, partially offset by the lower SG&A expenses mentioned previously. In addition, Adjusted EBITDA in the first three quarters of 2017 included \$2.3 million (\$2.0 million USD) in product recall costs that were not added back for the purpose of Adjusted EBITDA.

Adjusted EBITDA was positively affected by the acquisition of Rubicon, which contributed an additional \$0.1 million in the first three quarters of 2018 as compared to the same period last year. Excluding Rubicon, Adjusted EBITDA for the thirty-nine weeks ended September 29, 2018 was \$48.4 million, or 7.0% as a percentage of sales.

The following table shows the impact in the first three quarters of 2018 and 2017 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 29,<br>2018   | September 30,<br>2017 | % Change      | September 29,<br>2018   | September 30,<br>2017 | % Change      |
|   | USD                     | USD                   | USD           | Domestic \$             | Domestic \$           | Domestic \$   |
| <b>External Sales</b>                         |                         |                       |               |                         |                       |               |
| Canada  | \$ 195,821              | \$ 196,136            | (0.2)%        | \$ 252,171              | \$ 256,127            | (1.5)%        |
| USA   | 609,832                 | 594,688               | 2.5 %         | 609,832                 | 594,688               | 2.5 %         |
|   | <b>805,653</b>          | <b>790,824</b>        | <b>1.9 %</b>  | <b>862,003</b>          | <b>850,815</b>        | <b>1.3 %</b>  |
| Conversion                                    | —                       | —                     |               | (56,350)                | (59,991)              |               |
|   | <b>\$ 805,653</b>       | <b>\$ 790,824</b>     | <b>1.9 %</b>  | <b>\$ 805,653</b>       | <b>\$ 790,824</b>     | <b>1.9 %</b>  |
| <b>Adjusted EBITDA</b>                        |                         |                       |               |                         |                       |               |
| Canada  | \$ 11,339               | \$ 10,181             | 11.4 %        | \$ 14,572               | \$ 13,297             | 9.6 %         |
| USA   | 41,780                  | 45,758                | (8.7)%        | 41,780                  | 45,758                | (8.7)%        |
| Corporate                                     | (2,613)                 | (2,888)               | (9.5)%        | (3,664)                 | (3,633)               | 0.9 %         |
|   | <b>50,506</b>           | <b>53,051</b>         | <b>(4.8)%</b> | <b>52,688</b>           | <b>55,422</b>         | <b>(4.9)%</b> |
| Conversion                                    | —                       | —                     |               | (2,182)                 | (2,371)               |               |
|   | <b>\$ 50,506</b>        | <b>\$ 53,051</b>      | <b>(4.8)%</b> | <b>\$ 50,506</b>        | <b>\$ 53,051</b>      | <b>(4.8)%</b> |
| <b>Adjusted EBITDA as percentage of sales</b> |                         |                       |               |                         |                       |               |
| In USD  | <b>6.3%</b>             | 6.7%                  |               |                         |                       |               |
| In Domestic \$                                |                         |                       |               | <b>6.1%</b>             | 6.5%                  |               |

## 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 2018 by \$1.5 million, or 25.0%, to \$4.5 million (\$0.13 per diluted share) compared to \$6.0 million (\$0.18 per diluted share) in the same period last year. The decrease in net income reflects the decrease in Adjusted EBITDA mentioned previously, an impairment of property, plant and equipment, and an increase in finance costs and income tax expense, partially offset by the product recall recovery of \$8.5 million from the ingredient supplier (see the *Recent Developments* section on page 4).

In 2018, net income included "business acquisition, integration and other (income) expenses" (as explained in the *Business Acquisition, Integration and Other (Income) Expenses* section on page 16 of this MD&A) related to the product recall recovery mentioned above, termination benefits as a result of restructuring activities in 2018, and other non-cash expenses, including an impairment of property, plant and equipment. In 2017, net income included "business acquisition, integration and other (income) expenses" related to the acquisition of Rubicon and other business development activities, losses associated with the product recall, and other non-cash expenses. Excluding the impact of these non-routine and other non-cash expenses, Adjusted Net Income in the third quarter of 2018 decreased by \$8.0 million, or 95.2%, to \$0.4 million compared to \$8.4 million in the same period last year.

Correspondingly, Adjusted Diluted EPS decreased by \$0.24 to \$0.01 compared to \$0.25 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 1.3072 (2017: 1.2528), CAD-Equivalent Adjusted Diluted EPS decreased by CAD\$0.30 to CAD\$0.01 compared to CAD \$0.31 in the third quarter of 2017.

### *Thirty-nine weeks*

Net income increased in the first three quarters of 2018 by \$0.2 million, or 1.1%, to \$17.6 million (\$0.52 per diluted share) compared to \$17.4 million (\$0.54 per diluted share) in the same period last year. The increase in net income reflects the product recall recovery of \$8.5 million from the ingredient supplier (see the *Recent Developments* section on page 4), partially offset by the decrease in Adjusted EBITDA mentioned previously, an impairment of property, plant and equipment and an increase in finance costs, depreciation and amortization and income tax expense.

In the first three quarters of 2018, net income included "business acquisition, integration and other (income) expenses" (as explained in the *Business Acquisition, Integration and Other (Income) Expenses* section on page 16 of this MD&A) related to the product recall recovery mentioned above, termination benefits as a result of restructuring activities in 2018, and other non-cash expenses, including an impairment of property, plant and equipment. In 2017, net income included "business acquisition, integration and other (income) expenses" related to the acquisition of Rubicon and other business development activities, losses associated with the product recall, and other non-cash expenses. Excluding the impact of these non-routine expenses and other non-cash expenses, Adjusted Net Income in the first three quarters of 2018 decreased by \$10.4 million, or 41.1%, to \$14.9 million compared to \$25.3 million in the same period last year.

Adjusted Diluted EPS decreased by \$0.34 to \$0.44 in the first three quarters of 2018 compared to \$0.78 in the same period last year and when converted to CAD using the average USD/CAD exchange rate for the first three quarters of 2018 of 1.2877 (the first three quarters of 2017: 1.3071), CAD-Equivalent Adjusted Diluted EPS decreased by CAD \$0.45 to CAD\$0.57 in the first three quarters of 2018 compared to CAD\$1.02 in the same period last year due to the increase in the weighted average number of shares outstanding associated with the acquisition of Rubicon and the decrease in Adjusted Net Income explained above.

## 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 29, 2018   | September 30, 2017 | Change     | September 29, 2018      | September 30, 2017 | Change     |
| Sales volume (millions of lbs)                          | 16.1                 | 16.9               | (0.8)      | 51.0                    | 52.0               | (1.0)      |
| Sales   | \$ 82,841            | \$ 85,244          | \$ (2,403) | \$ 252,171              | \$ 256,127         | \$ (3,956) |
| Gross profit  | \$ 13,435            | \$ 14,026          | \$ (591)   | \$ 46,014               | \$ 44,574          | \$ 1,440   |
| Gross profit as a percentage of sales                   | 16.2%                | 16.5%              | (0.3)%     | 18.2%                   | 17.4%              | 0.8%       |
| Adjusted EBITDA <sup>(1)</sup>                          | \$ 3,788             | \$ 4,200           | \$ (412)   | \$ 14,572               | \$ 13,297          | \$ 1,275   |
| Adjusted EBITDA as a percentage of sales                | 4.6%                 | 4.9%               | (0.3)%     | 5.8%                    | 5.2%               | 0.6%       |

<sup>(1)</sup> 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 in the third quarter of 2018 by 0.8 million pounds to 16.1 million pounds as compared to 16.9 million pounds in 2017. Excluding the reduced sales volume associated with the product recall during the third quarter of 2017 (0.1 million pounds), sales volume for the third quarter of 2018 decreased by 0.9 million pounds, or 5.3% reflecting lower sales volume in the retail business.

Sales in the third quarter decreased by \$2.4 million, or 2.8%, to \$82.8 million compared to \$85.2 million in the same period of 2017. Excluding the sales impact of the 2017 product recall (\$0.8 million), sales in the third quarter of 2018 decreased by \$3.2 million, or 3.7%, due to decreased sales volume and changes in product mix, partially offset by price increases related to raw material cost increases.

Gross profit decreased by \$0.6 million in the third quarter of 2018 to \$13.4 million (16.2% of sales) compared to \$14.0 million (16.5% of sales) in 2017. Excluding the losses associated with the 2017 product recall (\$1.3 million), gross profit decreased by \$1.9 million, or 12.4%, reflecting raw material cost increases, unfavorable changes in product mix and the lower sales volume mentioned above.

Adjusted EBITDA for our Canadian operations decreased during the third quarter of 2018 by \$0.4 million, or 9.5%, to \$3.8 million (4.6% of sales) as compared to \$4.2 million (4.9% of sales) in 2017, primarily reflecting the lower gross profit (\$1.9 million) after adjusting for the losses associated with the 2017 product recall and increased distribution expenses, partially offset by lower consumer marketing and administrative expenses. In addition, Adjusted EBITDA in the third quarter of 2017 included \$0.3 million in product recall costs that were not added back for the purpose of Adjusted EBITDA.

#### Thirty-nine weeks

Sales volume for our Canadian operations decreased by 1.0 million pounds in the first three quarters of 2018 to 51.0 million pounds compared to 52.0 million pounds in 2017. Excluding the reduced sales volume associated with the product recall during the first three quarters of 2017 (0.4 million pounds), sales volume in the first three quarters of 2018 decreased by 1.4 million pounds, or 2.7% reflecting lower sales volume in the retail business, partially offset by higher volume in the foodservice business.

Sales in the first three quarters of 2018 decreased by \$3.9 million, or 1.5%, to \$252.2 million compared to \$256.1 million in the same period last year. Excluding the sales impact of the 2017 product recall (\$2.9 million), sales in the

first three quarters of 2018 decreased by \$6.8 million, or 2.7%, primarily reflecting the decreased sales volume and changes in product mix, partially offset by price increases related to raw material cost increases.

Gross profit increased in the first three quarters of 2018 by \$1.4 million to \$46.0 million (18.2% of sales) compared to \$44.6 million (17.4% of sales) in the same period last year. Excluding the losses associated with the 2017 product recall (\$4.9 million), gross profit decreased by \$3.5 million, or 7.1%, reflecting the lower sales volume noted above, changes in product mix and raw material cost increases, partially offset by improvement in plant efficiency.

Adjusted EBITDA for our Canadian operations increased in the first three quarters of 2018 by \$1.3 million, or 9.8%, to \$14.6 million (5.8% of sales) compared to \$13.3 million (5.2% of sales) in the same period last year, primarily reflecting decreased SG&A expenses due to lower administrative and consumer marketing expenses, partially offset by the lower gross profit (\$3.5 million) after adjusting for the losses associated with the 2017 product recall, and increased distribution expenses. In addition, Adjusted EBITDA in the first three quarters of 2017 included \$1.4 million in product recall costs that were not added back for the purpose of Adjusted EBITDA.

### 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 29, 2018   | September 30, 2017 | Change             | September 29, 2018      | September 30, 2017 | Change            |
| <b>Sales volume (millions of lbs)</b>                   | <b>48.1</b>          | <b>56.7</b>        | <b>(8.6)</b>       | <b>166.8</b>            | <b>168.3</b>       | <b>(1.5)</b>      |
| <b>Sales</b>  | <b>\$ 177,775</b>    | <b>\$ 214,575</b>  | <b>\$ (36,800)</b> | <b>\$ 609,832</b>       | <b>\$ 594,688</b>  | <b>\$ 15,144</b>  |
| <b>Gross profit</b>                                     | <b>\$ 33,430</b>     | <b>\$ 37,253</b>   | <b>\$ (3,823)</b>  | <b>\$ 111,739</b>       | <b>\$ 107,255</b>  | <b>\$ 4,484</b>   |
| <b>Gross profit as a percentage of sales</b>            | <b>18.8%</b>         | <b>17.4%</b>       | <b>1.4 %</b>       | <b>18.3%</b>            | <b>18.0%</b>       | <b>0.3 %</b>      |
| <b>Adjusted EBITDA<sup>(1)</sup></b>                    | <b>\$ 11,860</b>     | <b>\$ 15,224</b>   | <b>\$ (3,364)</b>  | <b>\$ 41,780</b>        | <b>\$ 45,758</b>   | <b>\$ (3,978)</b> |
| <b>Adjusted EBITDA as a percentage of sales</b>         | <b>6.7%</b>          | <b>7.1%</b>        | <b>(0.4)%</b>      | <b>6.9%</b>             | <b>7.7%</b>        | <b>(0.8)%</b>     |

<sup>(1)</sup> 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 decreased by 8.6 million pounds, or 15.2%, in the third quarter of 2018 to 48.1 million pounds compared to 56.7 million pounds in the same period last year. Excluding higher sales volume related to the revision of the estimated impact of the product recall in 2017 (0.2 million pounds), sales volume for the third quarter of 2018 decreased by 8.4 million pounds, or 14.9%. This decrease reflects lower sales volume from the foodservice and retail businesses, including lower sales volume from Rubicon (3.4 million pounds) due to the loss of a major customer.

Sales during the third quarter decreased by \$36.8 million, or 17.1%, to \$177.8 million compared to \$214.6 million in 2017, partially reflecting incremental sales during the third quarter of 2017 associated with the revision of estimated product returns related to the product recall (\$1.5 million). Excluding the impact of the recall, sales decreased by \$35.3 million, or 16.6%, primarily due to the lower sales volume mentioned above, partially offset by price increases to recover raw material cost increases and favourable changes in product mix.

Gross profit decreased in the third quarter of 2018 by \$3.9 million to \$33.4 million (18.8% of sales) compared to \$37.3 million (17.4% of sales) in the same period last year. Excluding the non-reoccurring losses associated with the 2017 product recall (\$1.6 million), gross profit decreased by \$5.5 million, or 14.0%, due to plant inefficiencies, the lower sales volume mentioned above and unfavourable changes in product mix, partially offset by price increases.

Adjusted EBITDA for our U.S. operations decreased during the third quarter of 2018 by \$3.3 million, or 22.1%, to \$11.9 million (6.7% of sales), compared to \$15.2 million (7.1% of sales) in 2017 reflecting the lower gross profit (\$5.5 million) after adjusting for the losses associated with the 2017 product recall, partially offset by lower distribution expenses and lower consumer marketing and administrative expenses. In addition, Adjusted EBITDA in the third quarter of 2017 included \$0.8 million of product recall recoveries that were not added back for the purpose of Adjusted EBITDA.

### *Thirty-nine weeks*

Sales volume for our U.S. operations decreased by 1.5 million pounds, or 0.9%, in the first three quarters of 2018 to 166.8 million pounds compared to 168.3 million pounds in the same period last year, reflecting the following:

- An additional 8.0 million pounds in the first three quarters of 2018 from Rubicon, which was acquired on May 30, 2017, as compared to the same period last year; and
- Lower sales volume in the first three quarters of 2017 related to the product recall (1.9 million pounds).

Excluding the impact of these items, sales volume for the the first three quarters of 2018 decreased by 11.4 million, or 7.2%, reflecting lower sales volume in both the retail and foodservice businesses.

Sales in the first three quarters of 2018 increased by \$15.1 million, or 2.5%, to \$609.8 million compared to \$594.7 million in the same period last year, primarily reflecting the additional sales from Rubicon (\$41.3 million) and lower sales during the first three quarters of 2017 associated with the product recall (\$5.5 million). Excluding the impact of these items, sales decreased by \$31.7 million, or 5.9%, primarily due to the decreased volume mentioned above and changes in product mix, partially offset by price increases related to raw material cost increases.

Gross profit increased in the first three quarters of 2018 by \$4.4 million to \$111.7 million (18.3% of sales) compared to \$107.3 million (18.0% of sales) in the same period last year, reflecting the additional gross profit from Rubicon (\$5.2 million) and non-reoccurring losses associated with the product recall in 2017 (\$8.2 million). Excluding the impact of the acquisition of Rubicon and the 2017 product recall, gross profit decreased by \$9.0 million, or 8.3% , primarily due to the lower sales volume mentioned above, plant inefficiencies and unfavourable product mix, partially offset by price increases.

Adjusted EBITDA for our U.S. operations decreased in the first three quarters of 2018 by \$4.0 million, or 8.7%, to \$41.8 million (6.9% of sales) compared to \$45.8 million (7.7% of sales) in the same period last year reflecting the lower gross profit (\$3.7 million) after adjusting for the losses associated with the 2017 product recall, and increases in distribution expenses that were partially related to the inclusion of a full period for Rubicon in the current year. The decrease in Adjusted EBITDA was partially offset by lower SG&A expenses due to lower consumer marketing expenditures and lower administrative expenses, despite the inclusion of Rubicon for a full year in the current year. In addition, Adjusted EBITDA in the first three quarters of 2017 included \$0.9 million in recall costs that were not added back for the purpose of Adjusted EBITDA.

Adjusted EBITDA was positively affected by the acquisition of Rubicon, which contributed an additional \$0.1 million in Adjusted EBITDA. Excluding Rubicon, Adjusted EBITDA was \$39.8 million, or 7.9% as a percentage of sales.

## RESULTS BY QUARTER

The following contains certain corrections of errors identified in previously reported amounts for the periods in Fiscal 2016. See Note 6 "Revision of previously reported consolidated financial statements" to the 2017 annual 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 2018    | Q2 2018    | Q1 2018    | Q4 2017    | Q3 2017    | Q2 2017    | Q1 2017    | Q4 2016    | Q3 2016    |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Sales</b>   | \$ 241,157 | \$ 245,312 | \$ 319,184 | \$ 263,022 | \$ 282,704 | \$ 232,385 | \$ 275,735 | \$ 208,793 | \$ 230,366 |
| <b>Adjusted EBITDA<sup>(1)</sup></b>                   | \$ 14,235  | \$ 12,050  | \$ 24,221  | \$ 13,060  | \$ 17,298  | \$ 13,417  | \$ 22,337  | \$ 16,117  | \$ 17,510  |
| <b>Net Income</b>                                      | \$ 4,531   | \$ 2,804   | \$ 10,251  | \$ 14,227  | \$ 6,040   | \$ 644     | \$ 10,742  | \$ 6,660   | \$ 6,316   |
| <b>Adjusted Net Income<sup>(1)</sup></b>               | \$ 412     | \$ 3,766   | \$ 10,703  | \$ 4,849   | \$ 8,424   | \$ 6,054   | \$ 10,815  | \$ 6,969   | \$ 8,959   |
| <b>EPS, based on Net Income</b>                        |            |            |            |            |            |            |            |            |            |
| Basic  | \$ 0.13    | \$ 0.08    | \$ 0.31    | \$ 0.43    | \$ 0.18    | \$ 0.02    | \$ 0.34    | \$ 0.22    | \$ 0.20    |
| Diluted  | \$ 0.13    | \$ 0.08    | \$ 0.31    | \$ 0.43    | \$ 0.18    | \$ 0.02    | \$ 0.34    | \$ 0.21    | \$ 0.20    |
| <b>EPS, based on Adjusted Net Income<sup>(1)</sup></b> |            |            |            |            |            |            |            |            |            |
| Basic  | \$ 0.01    | \$ 0.11    | \$ 0.32    | \$ 0.15    | \$ 0.25    | \$ 0.19    | \$ 0.35    | \$ 0.23    | \$ 0.29    |
| Diluted <sup>(1)</sup>                                 | \$ 0.01    | \$ 0.11    | \$ 0.32    | \$ 0.15    | \$ 0.25    | \$ 0.19    | \$ 0.34    | \$ 0.22    | \$ 0.29    |
| <b>Dividends paid per common share (CAD)</b>           |            |            |            |            |            |            |            |            |            |
|  | \$ 0.145   | \$ 0.145   | \$ 0.145   | \$ 0.145   | \$ 0.140   | \$ 0.140   | \$ 0.140   | \$ 0.140   | \$ 0.130   |
| <b>Net non-cash working capital<sup>(2)</sup></b>      |            |            |            |            |            |            |            |            |            |
|  | \$ 233,916 | \$ 227,935 | \$ 244,764 | \$ 239,102 | \$ 208,507 | \$ 206,094 | \$ 218,832 | \$ 190,825 | \$ 192,879 |

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

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

## BUSINESS ACQUISITION, INTEGRATION AND OTHER (INCOME) EXPENSES

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

| (Amounts in \$000s)  | Thirteen weeks ended |                    | Thirty-nine weeks ended |                    |
|--|----------------------|--------------------|-------------------------|--------------------|
|  | September 29, 2018   | September 30, 2017 | September 29, 2018      | September 30, 2017 |
| Business acquisition, integration and other (income) expense | \$ (6,813)           | \$ 747             | \$ (6,102)              | \$ 1,648           |

Business acquisition, integration and other (income) expense included the recognition of an \$8.5 million recovery associated with the 2017 product recall from the ingredient supplier, partially offset by termination benefits as a result of restructuring activities in the first three quarters of 2018.

In the first three quarters of 2017, business acquisition, integration and other expenses primarily included costs related to the acquisition of Rubicon and other strategic business development activities.

## 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 29, 2018   | September 30, 2017 | September 29, 2018      | September 30, 2017 |
| Interest paid in cash during the period           | \$ 5,019             | \$ 2,808           | \$ 14,688               | \$ 10,196          |
| Change in cash interest accrued during the period | (78)                 | 1,544              | 468                     | 1,089              |
| <b>Total interest to be paid in cash</b>          | <b>4,941</b>         | <b>4,352</b>       | <b>15,156</b>           | <b>11,285</b>      |
| Deferred financing cost amortization              | 168                  | 224                | 659                     | 500                |
| <b>Total finance costs</b>                        | <b>\$ 5,109</b>      | <b>\$ 4,576</b>    | <b>\$ 15,815</b>        | <b>\$ 11,785</b>   |

Finance costs were \$0.5 million higher in the third quarter of 2018 and \$4.0 million higher in the first three quarters of 2018 compared to the same periods last year due to higher interest rates and increased net interest-bearing debt, primarily reflecting the acquisition of Rubicon and lower cash flow provided by operating activities during Fiscal 2017.

## INCOME TAXES

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended September 29, 2018 was 29.3% (thirteen and thirty-nine weeks ended September 30, 2017: 29.2%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended September 29, 2018 was an expense of 56.3% and an expense of 30.7%, respectively (thirteen and thirty-nine weeks ended September 30, 2017: a recovery of 29.6% and a recovery of 3.7%, respectively). The higher effective income tax rate for the third quarter of 2018 compared to same period last year was attributable to reduced interest expense deductibility associated with the Company's tax efficient financing structures due to a valuation allowance, partially offset by a reduction in the U.S. federal corporate income tax rate from 35% to 21%, which are both attributable to the Tax Cuts and Jobs Act that was signed into law on December 22, 2017 ("U.S. Tax Reform"). The Company expects the annual effective income tax rate to be approximately 20-25% for 2018.

Future regulations and interpretations to be issued by U.S. authorities may also impact the estimates and assumptions used in calculating the Company's income tax 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 Note 27 "Capital management" to the 2017 annual consolidated financial statements.

## Working Capital Credit Facility

The Company entered into an asset-based working capital credit facility in November 2010 with the Royal Bank of Canada as Administrative and Collateral agent, which would expire by its terms in April 2019. There have been several amendments made to this facility, with the most substantial amendment occurring in April 2014 when it was amended concurrently with the term loan, and increased from \$120.0 million to \$180.0 million. In April 2018, the Company amended the working capital credit facility to extend the term from April 2019 to April 2021. There were no other significant changes to the existing terms, other than an amendment to the standby fees paid on the unutilized facility to 0.25% (previously a range of 0.25% to 0.375%).

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 Company's borrowing rates as of September 29, 2018 are also noted in the following table.

| Per Credit Agreement   | As at September 29, 2018 |            |
|--|--------------------------|------------|
| Canadian Prime Rate revolving loans, Canadian Base Rate revolving and U.S. Prime Rate revolving loans, at their respective rates | plus 0.00% to 0.25%      | plus 0.00% |
| Bankers' Acceptances ("BA") revolving loans, at BA rates   | plus 1.25% to 1.75%      | plus 1.25% |
| LIBOR revolving loans at LIBOR, at their respective rates  | plus 1.25% to 1.75%      | plus 1.25% |
| Letters of credit, with fees of  | 1.25% to 1.75%           | 1.25%      |
| Standby fees, required to be paid on the unutilized facility, of   | 0.25%                    | 0.25%      |

Average short-term borrowings outstanding during the first three quarters of 2018 were \$51.0 million compared to \$16.7 million in the same period last year. This \$34.3 million increase primarily reflects increased borrowing due to the acquisition of Rubicon, reduced cash flow provided by operations in the latter half of Fiscal 2017 and increased working capital requirements during the first half of 2018.

At the end of the third quarter of 2018, the Company had \$124.9 million (September 30, 2017: \$147.9 million) of unused borrowing capacity, taking into account both margin calculations and the total line availability. Included in this amount are letters of credit, which reduce the availability under our working capital credit facility. On September 29, 2018, letters of credit and standby letters of credit were outstanding in the amount of \$17.2 million (September 30, 2017: \$15.4 million) to support raw material purchases and to secure certain contractual obligations, including those related to the Company's Supplemental Executive Retirement Plan ("SERP").

The facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility, and excluding the assets acquired as part of the Rubicon acquisition. A second charge over the Company's property, plant and equipment is also in place. Additional details regarding the Company's working capital credit facility are provided in Note 4 "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 2018 to be consistent with the first three quarters of 2018, 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

The Company entered into a term loan in December 2011. There have been several amendments made to the term loan with the most recent being in April 2014, when it was amended concurrently with the working capital credit facility and increased to \$300.0 million. In June 2017, the term loan facility was increased from \$300.0 million to \$370.0 million to facilitate the Rubicon acquisition. 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 were paid in 2017 and no repayments are required in 2018.

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 29, 2018, 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) |
|---|-------------------|----------------------------|----------------|----------------------------|
| <b>Designated in a formal hedging relationship:</b> |                   |                            |                |                            |
| December 31, 2014                                   | December 31, 2019 | 3-month LIBOR (floor 1.0%) | 2.1700% \$     | 20.0                       |
| March 4, 2015                                       | March 4, 2020     | 3-month LIBOR (floor 1.0%) | 1.9150% \$     | 25.0                       |
| April 4, 2016                                       | April 4, 2018     | 3-month LIBOR (floor 1.0%) | 1.2325% \$     | 35.0                       |
| April 4, 2016                                       | April 24, 2021    | 3-month LIBOR (floor 1.0%) | 1.6700% \$     | 40.0                       |
| January 4, 2018                                     | April 24, 2021    | 3-month LIBOR (floor 1.0%) | 2.2200% \$     | 80.0                       |

As of September 29, 2018, the combined impact of the interest rate swaps listed above effectively fix the interest rate on \$165.0 million of the \$370.0 million face value of the term loan and the remaining 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 5 "Long-term debt" to the Consolidated Financial Statements.

### Net Interest-Bearing Debt

The Company's net interest-bearing debt (as calculated in the *Non-IFRS Financial Measures* section on page 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 \$9.0 million to \$362.6 million at September 29, 2018 compared to \$353.6 million at September 30, 2017, primarily reflecting lower cash flow from operating activities and higher capital expenditures in the latter half of 2017.

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 5.7x at September 29, 2018 compared to 5.9x at the end of Fiscal 2017. Including trailing twelve-month Adjusted EBITDA for Rubicon, net interest-bearing debt to rolling twelve-month Adjusted EBITDA was 5.6x at the end of Fiscal 2017. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in the fourth quarter of 2018, we expect that at the end of Fiscal 2018, this ratio will be consistent with the ratio at the end of Fiscal 2017.

| (Amounts in \$000s, except as otherwise noted)             | Twelve months ended |                   |
|--|---------------------|-------------------|
|  | September 29, 2018  | December 30, 2017 |
| Net interest-bearing debt                                  | \$ 362,620          | \$ 387,869        |
| Adjusted EBITDA  | \$ 63,566           | \$ 66,112         |
| Net interest-bearing debt to Adjusted EBITDA ratio (times) | 5.7x                | 5.9x              |

### Capital Structure

At September 29, 2018, net interest-bearing debt was 57.1% of total capitalization, as compared to 57.8% at September 30, 2017.

| (Amounts in \$000s)  | September 29, 2018 | December 30, 2017 | September 30, 2017 |
|--|--------------------|-------------------|--------------------|
| Net interest-bearing debt  | \$ 362,620         | \$ 387,869        | \$ 353,589         |
| Shareholders' equity   | 275,551            | 268,867           | 256,825            |
| Unrealized (gains) losses on derivative financial instruments included in AOCI | (2,982)            | (220)             | 819                |
| <b>Total capitalization</b>  | <b>\$ 635,189</b>  | <b>\$ 656,516</b> | <b>\$ 611,233</b>  |
| <b>Net interest-bearing debt as percentage of total capitalization</b>         | <b>57.1%</b>       | <b>59.1%</b>      | <b>57.8%</b>       |

Using our September 29, 2018 market capitalization of \$208.0 million, based on a share price of CAD\$8.05 (USD \$6.23 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization increased to 63.6%.

### Cash Flow

| (Amounts in \$000s)   | Thirteen weeks ended |                    |            | Thirty-nine weeks ended |                    |           |
|---|----------------------|--------------------|------------|-------------------------|--------------------|-----------|
|   | September 29, 2018   | September 30, 2017 | Change     | September 29, 2018      | September 30, 2017 | Change    |
| Cash flows provided by operations before changes in non-cash working capital, interest and income taxes refunded (paid)         | \$ 20,872            | \$ 12,600          | \$ 8,272   | \$ 56,726               | \$ 40,554          | \$ 16,172 |
| Interest paid   | (5,019)              | (2,808)            | (2,211)    | (14,688)                | (10,196)           | (4,492)   |
| Income taxes refunded (paid)  | 3,965                | (1,120)            | 5,085      | 4,025                   | (8,965)            | 12,990    |
| Cash flows provided by operations, including interest and income taxes, and before changes in non-cash working capital balances | 19,818               | 8,672              | 11,146     | 46,063                  | 21,393             | 24,670    |
| Net change in non-cash working capital balances   | (4,467)              | (4,270)            | (197)      | 906                     | (19,570)           | 20,476    |
| Net cash flows provided by operating activities   | 15,351               | 4,402              | 10,949     | 46,969                  | 1,823              | 45,146    |
| Net cash flows (used in) provided by financing activities   | (14,427)             | 510                | (14,937)   | (38,768)                | 73,335             | (112,103) |
| Net cash flows used in investing activities   | (2,602)              | (8,061)            | 5,459      | (10,305)                | (95,047)           | 84,742    |
| Foreign exchange increase (decrease) on cash  | 319                  | 3,846              | (3,527)    | (247)                   | 3,964              | (4,211)   |
| Net change in cash during the period  | \$ (1,359)           | \$ 697             | \$ (2,056) | \$ (2,351)              | \$ (15,925)        | \$ 13,574 |

Net cash flows provided by operating activities increased by \$11.0 million in the third quarter of 2018 to an inflow of \$15.4 million compared to an inflow of \$4.4 million in the same period last year reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, increased \$11.1 million in the third quarter of 2018 to an inflow of \$19.8 million compared to an inflow of \$8.7 million in the same period last year. This increase reflects more favourable cash flows from operations and income tax refunds, partially offset by higher interest payments.
- Cash flows from changes in net non-cash working capital decreased by \$0.2 million in the third quarter of 2018 to an outflow of \$4.5 million compared to an outflow of \$4.3 million in the same period last year. This decrease primarily reflects a less favourable change in provisions and accounts payable and accrued liabilities, partially offset by more favourable change in inventories and accounts receivable, during the third quarter of 2018 compared to the same period last year.

Net cash flows provided by operating activities increased by \$45.2 million in the first three quarters of 2018 to an inflow of \$47.0 million compared to an inflow of \$1.8 million in the same period last year, reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, increased by \$24.7 million in the first three quarters of 2018 to an inflow of \$46.1 million compared to an inflow of \$21.4 million in the same period last year. This increase reflects more favourable cash flows from operations and income tax refunds, partially offset by higher interest payments.
- Cash flows from changes in net non-cash working capital increased by \$20.5 million in 2018 to an inflow of \$0.9 million compared to an outflow of \$19.6 million in the same period last year. This increase primarily reflects a more favourable change in inventories and accounts receivable, partially offset by less favourable changes in provisions and accounts payable and accrued liabilities during the first three quarters of 2018 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 29, 2018 increased by \$17.6 million to an inflow of \$7.1 million compared to an outflow of \$10.5 million for the twelve months ended September 30, 2017. This increase reflects higher cash flow from operating activities, including interest and income taxes and lower capital expenditures, partially offset by a less favourable change in working capital during the twelve months ended September 29, 2018 as compared to the twelve months ended September 30, 2017.

### Net Non-Cash Working Capital

| (Amounts in \$000s)                      | September 29,<br>2018 | December 30,<br>2017 | Change            |
|--|-----------------------|----------------------|-------------------|
| Accounts receivable                      | \$ 88,981             | \$ 92,395            | \$ (3,414)        |
| Inventories                              | 283,951               | 353,433              | (69,482)          |
| Prepaid expenses                         | 3,909                 | 3,462                | 447               |
| Accounts payable and accrued liabilities | (142,779)             | (209,910)            | 67,131            |
| Provisions                               | (146)                 | (278)                | 132               |
| <b>Net non-cash working capital</b>      | <b>\$ 233,916</b>     | <b>\$ 239,102</b>    | <b>\$ (5,186)</b> |

Net non-cash working capital consists of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions. Net non-cash working capital decreased by \$5.2 million to \$233.9 million at the end of September 29, 2018 as compared to \$239.1 million at the end of December 30, 2017, primarily reflecting lower inventories and accounts receivable, partially offset by lower accounts payable and accrued liabilities, due to the timing of working capital requirements.

Our working capital requirements fluctuate during the year, usually peaking between December and March as our inventory is the highest at that time. Going forward, we expect the trend of inventory peaking between December and March to continue, and believe we have enough availability on our working capital credit facility to finance our working capital requirements throughout the remainder of 2018.

### **Capital Expenditures**

Capital expenditures (including finance leases and computer software) were \$2.7 million and \$11.0 million during the third quarter and the first three quarters of 2018 respectively, as compared to capital expenditures of \$8.3 million and \$20.9 million during the third quarter and the first three quarters of 2017, respectively, due to non-reoccurring 2017 projects that were primarily related to improvements in manufacturing facilities and leasehold improvements and the timing of capital expenditures related to improvements in the Company's enterprise-wide business management system.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2018 will be approximately \$14.0 million and funded by cash generated from operations and short-term borrowings.

### **Dividends**

The Company paid a CAD\$0.145 per share quarterly dividend on September 15, 2018 to common shareholders of record on September 1, 2018.

On November 8, 2018, 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, 2018 to holders of record on December 1, 2018. These dividends are considered "eligible dividends" for Canadian income tax purposes. The Board also announced that it has commenced a review of its capital structure to determine the most prudent use of capital.

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 \$126.1 million on September 29, 2018, and NCIBs are subject to an annual limit of \$10.0 million with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum; 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 4.5x and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 5.7x on September 29, 2018. NCIBs are subject to an annual limit of \$10.0 million under the term loan facility with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum.

## Contractual Obligations

Contractual obligations relating to our long-term debt, finance lease obligations, operating leases, purchase obligations and other long-term liabilities as at September 29, 2018 were 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               | 1,008                  | 442               | 566               | —               |
| Other current and long-term liabilities | 1,735                  | 80                | 1,655             | —               |
| Operating leases                        | 21,668                 | 5,658             | 14,638            | 1,373           |
| Purchase obligations                    | 115,256                | 105,811           | 9,445             | —               |
| <b>Total contractual obligations</b>    | <b>\$ 477,593</b>      | <b>\$ 111,991</b> | <b>\$ 364,230</b> | <b>\$ 1,373</b> |

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* risk section in the 2017 Annual Report 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 14 "*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 28 "*Financial risk management objectives and policies*" of the 2017 annual consolidated financial statements for further discussion of the Company's financial risks and policies.

## Disclosure of Outstanding Share Data

On November 8, 2018, 33,383,481 common shares and 1,765,566 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

## RELATED PARTY TRANSACTIONS

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As a result of the Rubicon acquisition in May 2017, the Company has right of first refusal on certain commodity seafood sales from a company controlled by Brian Wynn, who is now a member of the Company's management. Total sales to related parties for the thirteen and thirty-nine weeks ended September 29, 2018 were \$0.3 million and \$0.5 million, respectively (thirteen and thirty-nine weeks ended September 30, 2017: \$nil) and as at September 29, 2018 there was \$0.4 million due from the related parties (September 30, 2017: \$nil). Total purchases from related parties for the thirteen and thirty-nine weeks ended September 29, 2018 were \$nil (thirteen and thirty-nine weeks ended September 30, 2017: \$0.6 million and \$1.7 million, respectively), and as at September 29, 2018, there was \$nil due to related parties (September 30, 2017: \$0.6 million).

Refer to Note 20 "Related party disclosures" to the 2017 annual consolidated financial statements for a further description of the Company's related party transactions which are substantially unchanged in 2018.

## EVENTS AFTER THE REPORTING PERIOD

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### *Organizational realignment*

In August 2018, the Company communicated plans to optimize the Company's structure in order to take better advantage of the Company's North American scale, lower operating costs and improve financial performance. On November 7, 2018, the Company announced an organizational realignment which resulted in a reduction of 14.0% of its salaried workforce. The Company expects to recognize termination benefits of approximately \$4.5 million related to this workforce reduction, of which \$3.3 million is expected to be recognized in the fourth quarter of 2018. The full organizational realignment undertaken in 2018 will generate approximately \$7.0 million in net annualized run rate cost savings.

## NON-IFRS FINANCIAL MEASURES

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

### **Adjusted EBITDA**

Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Chartered Professional Accountants of Canada ("CPA Canada") and is earnings before interest, taxes, depreciation and amortization, excluding: business acquisition, integration and other expenses including those related to the cessation of plant operations; gains or losses on disposal of assets; termination benefits; 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 statements 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 statements 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 13 "Operating segment information".

| (Amounts in \$000s)  | Thirteen weeks ended<br>September 29, 2018 |                  |                 |                  | Thirteen weeks ended<br>September 30, 2017 |                  |                   |                  |
|--|--|------------------|-----------------|------------------|--|------------------|-------------------|------------------|
|  | Canada                                     | U.S.             | Corporate       | Total            | Canada                                     | U.S.             | Corporate         | Total            |
| <b>Net income (loss)</b>   | \$ 2,381                                   | \$ 7,468         | \$ (5,318)      | \$ 4,531         | \$ 2,006                                   | \$ 9,207         | \$ (5,173)        | \$ 6,040         |
| Add back (deduct):   |  |                  |                 |                  |  |                  |                   |                  |
| Depreciation and amortization expense  | 495  | 3,420            | 607             | 4,522            | 527  | 3,531            | 312               | 4,370            |
| Financing costs  | —  | —                | 5,109           | 5,109            | —  | —                | 4,576             | 4,576            |
| Income tax expense (recovery)  | —  | —                | 5,827           | 5,827            | —  | —                | (1,378)           | (1,378)          |
| <b>Standardized EBITDA</b>   | <b>2,876</b>                               | <b>10,888</b>    | <b>6,225</b>    | <b>19,989</b>    | <b>2,533</b>                               | <b>12,738</b>    | <b>(1,663)</b>    | <b>13,608</b>    |
| Add back (deduct):   |  |                  |                 |                  |  |                  |                   |                  |
| Business acquisition, integration and other (income) expenses <sup>(1)</sup> | —  | —                | (6,813)         | (6,813)          | —  | —                | 747               | 747              |
| Impairment of property, plant and equipment                                  | —  | 972              | 31              | 1,003            | —  | —                | —                 | —                |
| Loss (gain) on disposal of assets  | 25   | —                | 1               | 26               | 25   | 56               | (12)              | 69               |
| Direct costs and returned destroyed product <sup>(2)</sup>                   | —  | —                | —               | —                | 824  | 2,430            | —                 | 3,254            |
| Share-based compensation expense (recovery)                                  | —  | —                | 30              | 30               | —  | —                | (380)             | (380)            |
| <b>Adjusted EBITDA</b>   | <b>\$ 2,901</b>                            | <b>\$ 11,860</b> | <b>\$ (526)</b> | <b>\$ 14,235</b> | <b>\$ 3,382</b>                            | <b>\$ 15,224</b> | <b>\$ (1,308)</b> | <b>\$ 17,298</b> |

| (Amounts in \$000s)  | Thirty-nine weeks ended<br>September 29, 2018 |                  |                   |                  | Thirty-nine weeks ended<br>September 30, 2017 |                  |                   |                  |
|--|---|------------------|-------------------|------------------|---|------------------|-------------------|------------------|
|  | Canada  | U.S.             | Corporate         | Total            | Canada  | U.S.             | Corporate         | Total            |
| <b>Net income (loss)</b>   | \$ 9,774                                      | \$ 30,462        | \$ (22,650)       | \$ 17,586        | \$ 5,971                                      | \$ 28,822        | \$ (17,367)       | \$ 17,426        |
| Add back (deduct):   |   |                  |                   |                  |   |                  |                   |                  |
| Depreciation and amortization expense  | 1,582   | 10,261           | 1,462             | 13,305           | 1,449   | 9,559            | 885               | 11,893           |
| Financing costs  | —   | —                | 15,815            | 15,815           | —   | —                | 11,785            | 11,785           |
| Income tax expense (recovery)  |   |                  | 7,795             | 7,795            | —   | —                | (623)             | (623)            |
| <b>Standardized EBITDA</b>   | <b>11,356</b>                                 | <b>40,723</b>    | <b>2,422</b>      | <b>54,501</b>    | <b>7,420</b>                                  | <b>38,381</b>    | <b>(5,320)</b>    | <b>40,481</b>    |
| Add back (deduct):   |   |                  |                   |                  |   |                  |                   |                  |
| Business acquisition, integration and other (income) expenses <sup>(1)</sup> | —   | —                | (6,102)           | (6,102)          | —   | —                | 1,648             | 1,648            |
| Impairment of property, plant and equipment                                  | —   | 972              | 31                | 1,003            | —   | —                | —                 | —                |
| (Gain) loss on disposal of assets  | (17)  | 85               | (12)              | 56               | 55  | 115              | (13)              | 157              |
| Direct costs and returned destroyed product <sup>(2)</sup>                   | —   | —                | —                 | —                | 2,706   | 7,262            | —                 | 9,968            |
| Share-based compensation expense   | —   | —                | 1,048             | 1,048            | —   | —                | 797               | 797              |
| <b>Adjusted EBITDA</b>   | <b>\$ 11,339</b>                              | <b>\$ 41,780</b> | <b>\$ (2,613)</b> | <b>\$ 50,506</b> | <b>\$ 10,181</b>                              | <b>\$ 45,758</b> | <b>\$ (2,888)</b> | <b>\$ 53,051</b> |

<sup>(1)</sup> During the thirteen weeks ended September 29, 2018, the Company recognized an \$8.5 million recovery associated with the product recall losses from the ingredient supplier (see the *Recent Developments* section on page 4).

<sup>(2)</sup> Associated with the product recall (see the *Recent Developments* section on page 4).

### Adjusted Net Income and Adjusted Diluted EPS

Adjusted Net Income is net income excluding the after-tax impact of: business acquisition, integration and certain other non-routine costs including those related to the cessation of plant operations; the non-cash expense or income related to marking-to-market an interest rate swap not designated for hedge accounting; termination benefits; the U.S. Tax Reform 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<br>September 29, 2018 |         |             | Thirteen weeks ended<br>September 30, 2017 |             |
|--|--|---------|-------------|--|-------------|
|  | \$   | \$000s  | Diluted EPS | \$   | Diluted EPS |
| <b>Net income</b>  | \$   | 4,531   | \$ 0.13     | \$   | 0.18        |
| Add back (deduct):   |  |         |             |  |             |
| Business acquisition, integration and other (income) expenses <sup>(1)</sup> |  | (6,813) | (0.20)      | 747  | 0.02        |
| Impairment of property, plant and equipment                                  |  | 1,003   | 0.03        | —  | —           |
| Direct costs and returned destroyed product <sup>(2)</sup>                   |  | —       | —           | 3,254                                      | 0.10        |
| Share-based compensation expense (recovery)                                  |  | 30      | —           | (380)                                      | (0.01)      |
| Tax impact of reconciling items  |  | 1,662   | 0.05        | (1,237)                                    | (0.04)      |
| <b>Adjusted Net Income</b>   | \$   | 413     | \$ 0.01     | \$   | 0.25        |
| <b>Average shares for the period (000s)</b>                                  |  |         | 33,674      |  | 33,439      |

|  | Thirty-nine weeks ended<br>September 29, 2018 |         |             | Thirty-nine weeks ended<br>September 30, 2017 |             |
|--|---|---------|-------------|---|-------------|
|  | \$  | \$000s  | Diluted EPS | \$  | Diluted EPS |
| <b>Net income</b>  | \$  | 17,586  | \$ 0.52     | \$  | 0.54        |
| Add back (deduct):   |   |         |             |   |             |
| Business acquisition, integration and other (income) expenses <sup>(1)</sup> |   | (6,102) | (0.18)      | 1,648   | 0.05        |
| Impairment of property, plant and equipment                                  |   | 1,003   | 0.03        | —   | —           |
| Direct costs and returned destroyed product <sup>(2)</sup>                   |   | —       | —           | 9,968   | 0.31        |
| Share-based compensation expense   |   | 1,048   | 0.03        | 797   | 0.02        |
| Tax impact of reconciling items  |   | 1,346   | 0.04        | (4,547)                                       | (0.14)      |
| <b>Adjusted Net Income</b>   | \$  | 14,881  | \$ 0.44     | \$  | 0.78        |
| <b>Average shares for the period (000s)</b>                                  |   |         | 33,601      |   | 32,222      |

<sup>(1)</sup> During the thirteen weeks ended September 29, 2018, the Company recognized an \$8.5 million recovery associated with the product recall losses from the ingredient supplier (see the *Recent Developments* section on page 4).

<sup>(2)</sup> Associated with the product recall (see the *Recent Developments* section on page 4).

### CAD-Equivalent Adjusted Diluted EPS

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

|  | Thirteen weeks ended |                    | Thirty-nine weeks ended |                    |
|--|----------------------|--------------------|-------------------------|--------------------|
|  | September 29, 2018   | September 30, 2017 | September 29, 2018      | September 30, 2017 |
| <b>Adjusted Diluted EPS</b>                  | \$ 0.01              | \$ 0.25            | \$ 0.44                 | \$ 0.78            |
| Average foreign exchange rate for the period | 1.3072               | 1.2528             | 1.2877                  | 1.3071             |
| <b>CAD-Equivalent Adjusted Diluted EPS</b>   | \$ 0.01              | \$ 0.31            | \$ 0.57                 | \$ 1.02            |

### 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 statements 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 statements of cash flows.

The table below reconciles our Standardized Free Cash Flow calculated on a rolling twelve-month basis, with measures that are in accordance with IFRS and as reported in the consolidated statements of cash flows.

| (Amounts in \$000s)  | Twelve months ended |                    |             |
|--|---------------------|--------------------|-------------|
|  | September 29, 2018  | September 30, 2017 | Change      |
| Net change in non-cash working capital items                             | \$ (28,433)         | \$ (15,484)        | \$ (12,949) |
| Cash flow from operating activities, including interest and income taxes | 52,090              | 32,033             | 20,057      |
| Cash flow from operating activities                                      | 23,657              | 16,549             | 7,108       |
| Less: total capital expenditures, net of investment tax credits          | (16,522)            | (27,026)           | 10,504      |
| <b>Standardized Free Cash Flow</b>                                       | \$ 7,135            | \$ (10,477)        | \$ 17,612   |

### 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 statements 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 29,<br>2018 | December 30,<br>2017 | September 30,<br>2017 |
|--|-----------------------|----------------------|-----------------------|
| Current bank loans                                     | \$ 25,676             | \$ 53,352            | \$ 16,486             |
| Add-back: deferred finance costs on current bank loans | 397                   | 208                  | 247                   |
| <b>Total current bank loans</b>                        | <b>26,073</b>         | 53,560               | 16,733                |
| Long-term debt   | 336,062               | 335,441              | 335,283               |
| Add-back: deferred finance costs on long-term debt     | 1,864                 | 2,485                | 2,643                 |
| <b>Total term loan debt</b>                            | <b>337,926</b>        | 337,926              | 337,926               |
| Long-term portion of finance lease obligations         | 566                   | 407                  | 565                   |
| Current portion of finance lease obligations           | 442                   | 714                  | 692                   |
| <b>Total finance lease obligation</b>                  | <b>1,008</b>          | 1,121                | 1,257                 |
| Less: cash   | (2,387)               | (4,738)              | (2,327)               |
| <b>Net interest-bearing debt</b>                       | <b>\$ 362,620</b>     | \$ 387,869           | \$ 353,589            |

## GOVERNANCE

In accordance with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", our certifying officers have evaluated the design effectiveness of Disclosure Controls and Procedures ("DC&P"), and our Company's Internal Control over Financial Reporting ("ICFR"). Rubicon Resources, LLC was acquired on May 30, 2017 by High Liner Foods, and has been integrated with High Liner Foods' as of September 29, 2018. Our certifying officers have concluded that our current design of DC&P and ICFR was effective as of September 29, 2018, and that there were no material weaknesses relating to the design of DC&P and ICFR.

In May 2018, the Company upgraded its ERP system which has resulted in changes to the Company's ICFR. The Company has made appropriate changes to internal controls and procedures, as is expected with a system upgrade, and is evaluating the effectiveness of these controls as part of the financial compliance program prior to the December 29, 2018 year-end.

There were no changes in the Company's ICFR, during the period beginning on July 1, 2018 and ending on September 29, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR, except as noted above.

## 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 2017 Annual Report. 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 29, 2018.

### **Accounting Standards**

The accounting policies used in the preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended December 30, 2017, except for the adoption of the following new standards and amendments that were effective for annual periods beginning on January 1, 2018 and that the Company has adopted on December 31, 2017:

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

In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment* ("IFRS 2"), clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company has adopted the amendments to IFRS 2; however they did not have a material impact on the Consolidated Financial Statements.

#### **IFRS 9, *Financial Instruments: Classification and Measurement***

In 2015, the IASB issued the final version of the amendments to IFRS 9, *Financial Instruments* ("IFRS 9"), issued in 2010, which replaced IAS 39. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. The Company performed a detailed impact assessment of all three aspects of IFRS 9; however, as discussed in Note 2 "*Significant accounting policies*" to the Consolidated Financial Statements, they did not have a material impact on the Consolidated Financial Statements.

#### **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 is applicable to all contracts the Company has with customers. The Company has elected to adopt the standard using the full retrospective method and applied the completed contract practical expedients, which allows the Company to exclude completed contracts that began and ended in the same annual reporting period and those contracts that were complete at the beginning of the earliest period presented. For completed contracts with variable consideration, the Company applied the practical expedient and has used the transaction price at the date when the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods because the Company has concluded that the difference was immaterial.

The Company has completed the assessment of the impact of the application of the new standard and reached conclusions on key accounting policies upon transitioning to IFRS 15. The Company has not identified any material impacts on the consolidated statements of financial position or income upon initial application. Specifically, the Company has concluded that the adoption of IFRS 15 will not result in any material refinements to the current estimation methodologies or the timing of the recognition of estimates in relation to the Company's trade marketing programs.

See Note 2 "*Significant accounting policies*" to the Consolidated Financial Statements for further details on the transition to IFRS 15 and the Company's revenue recognition accounting policies.

### **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 Note 2 "*Significant accounting policies*" to the Consolidated Financial Statements.

## **RISK FACTORS**

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

Readers should refer to the 2017 Annual Report and AIF for a more detailed description of risk factors applicable to the Company, which are available at [www.sedar.com](http://www.sedar.com) and at [www.highlinerfoods.com](http://www.highlinerfoods.com). We have updated certain risk factors below for the first three quarters of 2018.

### **Foreign Currency**

High Liner Foods reports its results in USD to reduce volatility caused by changes in the USD to CAD exchange rate. The Company's income statement and balance sheet are both affected by foreign currency fluctuations in a number of ways. The Company's shares are traded in CAD and reports its results in USD, therefore, investors are reminded to take this into consideration for purposes of calculating financial ratios, including dividend payout and share price-to-earnings ratios. We have discussed the impact of foreign currency fluctuations on sales and earnings for the quarter in various sections of this document.

The Canadian dollar weakened relative to the U.S. dollar approximately 3.3% as of September 29, 2018 compared to September 30, 2017. On our balance sheet, this decreases the USD carrying value of both CAD-denominated assets and liabilities and increases the foreign exchange translation impact of our Canadian company included in accumulated other comprehensive income ("AOCI") in shareholders' equity. As our Canadian operations are a net importer of seafood and other products purchased in USD, a stronger CAD reduces its costs and a weaker CAD increases its costs in its CAD functional currency.

In order to minimize foreign exchange risk, we undertake hedging activities using various derivative products in accordance with the Company's "Price Risk Management Policy", which is approved and monitored by the 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 2018, our hedging activities resulted in an effective USD/CAD exchange rate of 1.2977 for inventory purchased in USD by our Canadian operations, compared to 1.2678 for the third quarter of 2017.

Our risk management strategy with respect to exposure to the Canadian dollar is fully explained in the MD&A in our 2017 Annual Report.

### **Geopolitical Risk**

The Company's operations are currently conducted in North America and, as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary for each country and include, but are not limited to: fluctuations in currency exchange rates; inflation rates; labour unrest; terrorism; civil commotion and unrest; changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions and social unrest; changes in trade agreements; economic sanctions, tariffs and other trade barriers.

Changes, if any, in trade agreements or policies, or shifts in political attitude, could adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations including, but not limited to, export controls, income taxes, foreign investment, and environmental legislation.

The U.S. Tax Reform resulted in significant changes to tax legislation in the United States, and required a one-time remeasurement of the deferred income tax assets and liabilities of the Company's U.S. subsidiaries as described in the *Income Taxes* section on page 17. Certain aspects of the U.S. Tax Reform are still subject to interpretation and therefore, there may be further impacts on the results of operations, financial condition and cash flows of the Company.

In September 2018, the U.S. Administration announced an additional 10% tariff on certain Chinese imports, including seafood, effective September 24, 2018. On January 1, 2019, the additional tariff will increase to 25%. The Company currently purchases its seafood raw materials from more than 20 countries around the world, including from the U.S., to meet U.S. consumer demand. A portion of this raw material is imported into China for primary processing and then exported to the U.S. for sale and secondary processing. The Company has determined that the additional tariff will apply to the import of certain species into the U.S., most notably haddock, tilapia and sole/flounder. The estimated exposure in 2019 is approximately \$10 million based on current volume and raw material costs; however, the Company has begun implementing plans, including pricing action and certain supply chain initiatives, to mitigate the impact of these tariffs and reduce the estimated impact to the Company. The Company will continue to monitor these developments closely, particularly if further information becomes available regarding additional tariffs or how the previously announced tariffs will impact the Company.

The occurrence and the extent of these various factors and uncertainties cannot be accurately predicted and could have a material adverse effect on the Company's operations and profitability.

### **Information Technology and Cybersecurity Risk**

High Liner Foods relies on information technology systems and network infrastructure in all areas of operations and is therefore exposed to an increasing number of sophisticated cybersecurity threats. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving. A cybersecurity attack and a breach of sensitive information could disrupt systems and services and compromise the Company's financial position or brands, and/or otherwise adversely affect the ability to achieve its strategic objectives.

The Company maintains policies, processes and procedures to address capabilities, performance, security and availability including resiliency and disaster recovery for systems, infrastructure and data. Security protocols, along with corporate information security policies, address compliance with information security standards, including those relating to information belonging to the Company's customers and employees. The Company actively monitors, manages and continues to enhance its ability to mitigate cyber risk through its enterprise-wide programs.

The implementation of major information technology projects carries with it various risks, including the risk of realization of benefits, that must be mitigated by disciplined change management and governance processes. The Company has a business process optimization team staffed with knowledgeable internal resources (supplemented by external resources as needed) that is responsible for implementing the various initiatives.