



# HIGH LINER FOODS

## **AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the fifty-two weeks ended December 30, 2017**

**With comparative figures as at and for the fifty-two weeks ended December 31, 2016**

## **To the Shareholders of High Liner Foods Incorporated**

### **Management's Responsibility**

The Management of High Liner Foods Incorporated includes corporate executives, operating and financial managers and other personnel working full-time on Company business. The statements have been prepared in accordance with generally accepted accounting principles consistently applied, using management's best estimates and judgments, where appropriate. The financial information elsewhere in this report is consistent with the statements.

Management has established a system of internal control that it believes provides a reasonable assurance that, in all material respects, assets are maintained and accounted for in accordance with management's authorization and transactions are recorded accurately on the Company's books and records. The Company's internal audit program is designed for constant evaluation of the adequacy and effectiveness of the internal controls. Audits measure adherence to established policies and procedures.

The Audit Committee of the Board of Directors is composed of five outside directors. The Committee meets periodically with management, the internal auditor and independent chartered professional accountants to review the work of each and to satisfy itself that the respective parties are properly discharging their responsibilities. The independent chartered professional accountants and the internal auditor have full and free access to the Audit Committee at any time. In addition, the Audit Committee reports its findings to the Board of Directors, which reviews and approves the consolidated financial statements.

Dated February 21, 2018

Signed

P.A. Jewer, FCA  
*Executive Vice President and Chief Financial Officer*

## Independent auditors' report

To the Shareholders of  
**High Liner Foods Incorporated**

We have audited the accompanying consolidated financial statements of **High Liner Foods Incorporated**, which comprise the consolidated statements of financial position as at December 30, 2017 and December 31, 2016, and the consolidated statements of income, comprehensive income, accumulated other comprehensive income (loss), changes in shareholders' equity and cash flows for the fifty-two weeks ended December 30, 2017 and December 31, 2016, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **High Liner Foods Incorporated** as at December 30, 2017 and December 31, 2016, and its financial performance and its cash flows for the fifty-two week periods then ended in accordance with International Financial Reporting Standards.

Halifax, Canada  
February 21, 2018

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



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

	Notes	December 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 4,738	\$ 18,252
Accounts receivable	9	92,395	75,190
Income taxes receivable		13,533	4,809
Other financial assets	26	570	1,705
Inventories	10	353,433	252,059
Prepaid expenses		3,462	3,340
<b>Total current assets</b>		<b>468,131</b>	<b>355,355</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	120,289	109,626
Deferred income taxes	20	2,787	2,290
Other receivables and miscellaneous assets	26	837	864
Intangible assets	12	158,044	98,872
Goodwill	12	157,881	118,101
<b>Total non-current assets</b>		<b>439,838</b>	<b>329,753</b>
<b>Total assets</b>	<b>13,16</b>	<b>\$ 907,969</b>	<b>\$ 685,108</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank loans	13	\$ 53,352	\$ 621
Accounts payable and accrued liabilities	14	209,910	139,378
Provisions	15	278	386
Other current financial liabilities	26	1,965	1,626
Other current liabilities		166	416
Income taxes payable		—	851
Current portion of finance lease obligations	16	714	721
<b>Total current liabilities</b>		<b>266,385</b>	<b>143,999</b>
<b>Non-current liabilities</b>			
Long-term debt	16	335,441	266,327
Other long-term financial liabilities	26	62	196
Other long-term liabilities		1,641	888
Long-term finance lease obligations	16	407	702
Deferred income taxes	20	23,943	44,602
Future employee benefits	17	11,223	8,190
<b>Total non-current liabilities</b>		<b>372,717</b>	<b>320,905</b>
<b>Total liabilities</b>		<b>639,102</b>	<b>464,904</b>
<b>Shareholders' equity</b>			
Common shares	18	112,835	86,094
Contributed surplus		14,354	14,654
Retained earnings		159,157	143,782
Accumulated other comprehensive loss		(17,479)	(24,326)
<b>Total shareholders' equity</b>		<b>268,867</b>	<b>220,204</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 907,969</b>	<b>\$ 685,108</b>

*See accompanying notes to the Consolidated Financial Statements*

**HIGH LINER FOODS INCORPORATED**  
**CONSOLIDATED STATEMENTS OF INCOME**  
*(in thousands of United States dollars, except per share amounts)*

	Notes	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
<b>Revenues</b>		\$ 1,053,846	\$ 954,986
Cost of sales		867,767	753,179
<b>Gross profit</b>		186,079	201,807
Distribution expenses		49,827	43,610
Selling, general and administrative expenses		99,449	96,978
Impairment of property, plant and equipment	11	—	2,327
Business acquisition, integration and other expenses		2,639	4,787
<b>Results from operating activities</b>		34,164	54,105
Finance costs	29	16,626	14,296
<b>Income before income taxes</b>		17,538	39,809
<b>Income taxes</b>			
Current	20	(723)	8,514
Deferred	20	(13,392)	(989)
<b>Total income tax (recovery) expense</b>		(14,115)	7,525
<b>Net income</b>		\$ 31,653	\$ 32,284
<b>Earnings per common share</b>			
Basic	21	\$ 0.98	\$ 1.04
Diluted	21	\$ 0.97	\$ 1.04
<b>Weighted average number of shares outstanding</b>			
Basic	21	32,412,215	30,917,412
Diluted	21	32,527,296	31,174,788

*See accompanying notes to the Consolidated Financial Statements*

**HIGH LINER FOODS INCORPORATED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(in thousands of United States dollars)*

	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
<b>Net income</b>	<b>\$ 31,653</b>	<b>\$ 32,284</b>
<b>Other comprehensive income (loss), net of income tax (Note 20)</b>		
Other comprehensive income (loss) to be reclassified to net income:		
Gain on hedge of net investment in foreign operations	20,985	6,372
Loss on translation of net investment in foreign operations	(30,309)	(9,113)
Translation impact on Canadian dollar denominated non-AOCI items	17,803	5,808
Translation impact on Canadian dollar denominated AOCI items	(1,291)	(372)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	7,188	2,695
Effective portion of changes in fair value of cash flow hedges	(1,838)	(1,914)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	482	(1,345)
Net change in fair value of cash flow hedges transferred to income	436	502
Translation impact on Canadian dollar denominated AOCI items	579	341
Total exchange losses on cash flow hedges	(341)	(2,416)
<b>Net other comprehensive gain to be reclassified to net income</b>	<b>6,847</b>	<b>279</b>
Other comprehensive (loss) income not to be reclassified to net income		
Defined benefit plan actuarial (losses) gains	(1,877)	323
<b>Other comprehensive income, net of income tax</b>	<b>4,970</b>	<b>602</b>
<b>Total comprehensive income</b>	<b>\$ 36,623</b>	<b>\$ 32,886</b>

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

	Foreign currency translation differences	Net exchange differences on cash flow hedges	Total AOCI
Balance at December 31, 2016	\$ (24,887)	\$ 561	\$ (24,326)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	7,188	—	7,188
Total exchange losses on cash flow hedges	—	(341)	(341)
<b>Balance at December 30, 2017</b>	<b>\$ (17,699)</b>	<b>\$ 220</b>	<b>\$ (17,479)</b>
Balance at January 2, 2016	\$ (27,582)	\$ 2,977	\$ (24,605)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	2,695	—	2,695
Total exchange losses on cash flow hedges	—	(2,416)	(2,416)
Balance at December 31, 2016	\$ (24,887)	\$ 561	\$ (24,326)

*See accompanying notes to the Consolidated Financial Statements*

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

	Common shares	Contributed surplus	Retained earnings	AOCI	Total
Balance at December 31, 2016	\$ 86,094	\$ 14,654	\$ 143,782	\$ (24,326)	\$ 220,204
Other comprehensive income	—	—	(1,877)	6,847	4,970
Net income	—	—	31,653	—	31,653
Common share dividends	—	—	(14,355)	—	(14,355)
Share-based compensation	983	(300)	—	—	683
Share issuance	25,758	—	(46)	—	25,712
<b>Balance at December 30, 2017</b>	<b>\$ 112,835</b>	<b>\$ 14,354</b>	<b>\$ 159,157</b>	<b>\$ (17,479)</b>	<b>\$ 268,867</b>
Balance at January 2, 2016	\$ 85,282	\$ 13,999	\$ 123,951	\$ (24,605)	\$ 198,627
Other comprehensive income	—	—	323	279	602
Net income	—	—	32,284	—	32,284
Common share dividends	—	—	(12,145)	—	(12,145)
Share-based compensation	909	655	—	—	1,564
Common shares repurchased for cancellation (Note 18)	(97)	—	(631)	—	(728)
Balance at December 31, 2016	\$ 86,094	\$ 14,654	\$ 143,782	\$ (24,326)	\$ 220,204

*See accompanying notes to the Consolidated Financial Statements*

**HIGH LINER FOODS INCORPORATED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands of United States dollars)*

	Notes	Fifty-two weeks ended December 30, 2017	Fifty-two weeks ended December 31, 2016
<b>Cash flows provided by (used in):</b>			
<b>Operating activities</b>			
Net income		\$ 31,653	\$ 32,284
Adjustments to net income not involving cash from operations:			
Depreciation and amortization	25	16,311	17,114
Share-based compensation expense	19	771	3,229
Loss on asset disposals and impairment		789	2,645
Future employee benefits contribution, net of expense		233	97
Finance costs		16,626	14,296
Income tax (recovery) expense	20	(14,115)	7,525
Unrealized foreign exchange gain		(937)	(571)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		51,331	76,619
Changes in non-cash working capital balances:			
Accounts receivable		(1,612)	2,089
Inventories		(37,158)	5,942
Prepaid expenses		321	(633)
Accounts payable and accrued liabilities		(10,284)	18,411
Provisions		(176)	139
Net change in non-cash working capital balances		(48,909)	25,948
Interest paid		(14,745)	(14,361)
Income taxes paid		(9,166)	(8,190)
<b>Net cash flows (used in) provided by operating activities</b>		<b>(21,489)</b>	<b>80,016</b>
<b>Financing activities</b>			
Increase (decrease) in bank loans	22	52,618	(17,148)
Repayment of finance lease obligations	22	(725)	(980)
Proceeds of long-term debt	16, 22	70,000	—
Repayment of long-term debt	16, 22	—	(26,824)
Deferred finance costs		(1,276)	—
Common share dividends paid		(14,355)	(12,145)
Common shares repurchased for cancellation		—	(728)
Options exercised for shares		140	94
Share issuance		(73)	—
<b>Net cash flows provided by (used in) financing activities</b>		<b>106,329</b>	<b>(57,731)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment, net of investment tax credits, and intangible assets		(26,488)	(16,734)
Net proceeds on disposal of assets		331	15,461
Acquisition of business, net of cash acquired	5	(74,911)	—
Payment of contingent consideration		—	(2,816)
<b>Net cash flows used in investing activities</b>		<b>(101,068)</b>	<b>(4,089)</b>
Foreign exchange increase (decrease) on cash		2,714	(987)
Net change in cash during the period		(13,514)	17,209
Cash, beginning of period		18,252	1,043
<b>Cash, end of period</b>		<b>\$ 4,738</b>	<b>\$ 18,252</b>

*See accompanying notes to the Consolidated Financial Statements*

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

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### 1. Corporate information

High Liner Foods Incorporated (the "Company" or "High Liner Foods") is a company incorporated and domiciled in Canada. The address of the Company's registered office is 100 Battery Point, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The Consolidated Financial Statements ("Consolidated Financial Statements") of the Company as at and for the fifty-two weeks ended December 30, 2017, comprise High Liner Foods' Canadian company (the "Parent") and its subsidiaries (herein together referred to as the "Company" or "High Liner Foods"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on February 21, 2018.

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### 2. Statement of compliance and basis for presentation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These Consolidated Financial Statements have been prepared on the historical-cost basis except for derivative financial instruments, financial instruments at fair value through profit or loss, and liabilities for cash-settled share-based compensation payment arrangements, which are measured at fair value, and the defined benefit employee future benefit liability which is recognized as the net total of the plan assets plus unrecognized past-service costs, and the present value of the defined benefit obligation.

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### 3. Significant accounting policies

#### (a) Basis of consolidation

These Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries as at December 30, 2017. Control is achieved when the Company is exposed, or has rights, to direct the activities that significantly affect the returns from its involvement with the investee. The Company reassesses whether or not it controls an investee on an ongoing basis.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intercompany balances, equity, income, expenses and cash flows are eliminated in full on consolidation.

#### (b) Foreign currency

##### *Functional and presentation currency*

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

The Company follows the requirements set out in IAS 21, *The Effects of Change in Foreign Exchange Rates* to translate to the presentation currency. The assets and liabilities of the Parent are translated to USD at the exchange rate as at the reporting date, and the income and expenses of the Parent are translated to USD at the monthly average exchange rates of the reporting period. Foreign currency differences are recognized in other comprehensive income ("OCI").

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements In United States dollars, unless otherwise noted

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### ***Translation of transactions and balances into the functional currency***

Transactions in currencies other than the functional currency ("foreign currencies") are translated to the respective functional currencies of the Parent and its subsidiaries at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at that date. Foreign currency non-monetary items that are measured in terms of historical cost are not retranslated. Foreign currency non-monetary items that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Differences arising on settlement or translation of monetary items are recognized in the consolidated statements of income with the exception of monetary items that are designated as part of the hedge of the Company's net investment in a foreign operation. The latter exchange differences are recognized in OCI, to the extent the hedge is effective, until the net investment is disposed of or the hedge is ineffective, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

### **(c) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

Any contingent consideration to be transferred by the Company will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") is measured at fair value with changes in fair value recognized either in the consolidated statements of income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

When the Company acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Acquisition-related costs are expensed as incurred and included in business acquisition, integration and other expenses in the consolidated statements of income.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is not amortized, and is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units ("CGUs") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

### **(d) Non-current assets held for sale and discontinued operations**

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell ("FVLCS"). For the asset to be classified as held for sale, the sale must be highly probable and the asset or disposal group must be available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

### **(e) Cash**

Cash includes cash on hand and demand deposits with initial and remaining maturity of three months or less. Cash does not include any restricted cash.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

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### (f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of manufactured inventories is based on the first-in first-out method. The cost of procured finished goods and unprocessed raw material inventory is based on weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing the inventories to their existing location and condition. In the case of manufactured inventories and semi-finished materials, cost includes an appropriate share of production overheads based on normal operating capacity. Cost may also include transfers from OCI of any gain or loss on qualifying cash flow hedges of foreign currency related to purchases of inventories.

### (g) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses, if any. The initial cost of an asset comprises its purchase price or construction cost, any expenditures directly attributable to bringing the asset into operation, and the present value of the expected cost for decommissioning the asset after its use, if the recognition criteria for a provision are met. The cost of self-constructed assets includes the cost of materials, direct labour, other costs directly attributable to bringing the assets to a working condition for their intended use, and costs of dismantling and removing the items and restoring the site on which they are located. Cost may also include transfers from OCI of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The capitalized value of a finance lease is also included in property, plant and equipment, and is measured at the lower of the present value of the minimum lease payments and the fair value of the leased asset.

Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the asset will flow to the Company, and the costs can be measured reliably. This would include costs related to the refurbishment or replacement of major components of the asset, when the refurbishment results in a significant extension in the physical life of the component, and in which case, the carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance of property, plant and equipment are expensed as incurred in the consolidated statements of income.

Gains or losses from the derecognition of an asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income when the asset is derecognized.

The cost of property, plant and equipment, less any residual value, is allocated over the estimated useful life of the asset on a straight-line basis. Depreciation is recognized on a straight-line basis as this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets and leasehold improvements are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives applicable to each category of property, plant and equipment, except for land, for the current and comparative periods are as follows:

Buildings	20 - 40 years
Furniture, fixtures and production equipment	10 - 25 years
Computer equipment and vehicles	4 - 10 years

When components of an item of property, plant and equipment have different useful lives than those noted above, they are accounted for as separate items of property, plant and equipment. The estimated useful lives, depreciation methods, and residual values are reviewed annually, with any changes in estimate being accounted for prospectively from the date of the change.

### (h) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset(s) or the arrangement conveys a right to use the asset(s).

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

### *Company as a lessee*

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statements of income.

Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term.

### **(i) Intangible assets**

Intangible assets acquired separately are measured at cost on initial recognition. Intangible assets acquired in a business combination are recorded at fair value on the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if applicable.

The useful lives of intangible assets are assessed to be either finite or indefinite.

- Intangible assets with finite lives are amortized over their useful or economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.
- Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually at the CGU level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. Certain brands acquired through business combinations have no foreseeable limit to the period over which the assets are expected to generate net cash flows and are therefore determined to have indefinite useful lives.

The estimated useful lives applicable to each category of intangible assets for the current and comparative periods are as follows:

Brands	2 - 8 years
Customer and supplier relationships	10 - 25 years
Computer software	5 - 15 years
Indefinite lived brands	Indefinite, subject to impairment testing annually

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and accounted for prospectively from the date of the change.

The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset. Gains or losses from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income when the asset is derecognized.

### **(j) Impairment**

#### *Non-financial assets*

The carrying amounts of non-financial assets, excluding inventories and deferred income tax assets, are reviewed for impairment at each reporting date, or whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. Reviews are undertaken on an asset-by-asset basis, except where the recoverable amount for an individual asset cannot be determined, in which case the review is undertaken at a CGU level.

On an annual basis, the Company evaluates the carrying amount of CGUs to which goodwill has been allocated, to determine whether such carrying amount may be impaired. To accomplish this, the Company compares the recoverable amount of a CGU to its carrying amount. This evaluation is performed more frequently if there is an indication that a CGU may be impaired.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

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The Company estimates the non-financial asset's recoverable amount for the purpose of impairment testing using the higher of its FVLCS and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. The excess of the carrying amount over the recoverable amount is considered an impairment loss and is recognized in the consolidated statements of income. With respect to CGUs, impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

In determining FVLCS, an appropriate valuation model is used. These calculations are corroborated by the use of valuation multiples, quoted share prices and other available fair value indicators.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previous impairment losses may no longer exist or may have decreased. If such an indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The impairment loss to be reversed in the consolidated statements of income is limited to the recoverable amount, but not beyond the carrying amount, net of depreciation or amortization, that would have arisen if the prior impairment loss had not been recognized.

### ***Financial assets***

The Company assesses at each financial reporting date whether a financial asset or group of assets is impaired. If there is objective evidence that an impairment loss on an asset or a group of assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's or group of assets' original effective interest rate ("EIR"), computed at initial recognition. The carrying amount of the asset or group of assets is reduced through use of an allowance account and the loss is recognized in the consolidated statements of income. Assets or groups of assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in the consolidated statements of income to the extent that the carrying value of the asset or group of assets does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are derecognized when they are assessed as uncollectible.

### **(k) Provisions, contingent liabilities and contingent assets**

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

### **(l) Future employee benefits**

#### ***Defined benefit pension plans ("DBPP")***

For DBPPs and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected-unit-credit method pro-rated on service and management's best estimate of expected salary escalation and retirement ages of employees.

The determination of benefit expense requires assumptions such as the discount rate to measure the obligation, the projected age of employees upon retirement, the expected rate of future compensation increases and the expected mortality rate of pensioners. The total past-service cost arising from plan amendments is recognized immediately in the consolidated statements of income. The present value of the defined benefit obligation ("DBO") is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have

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terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the DBO and the fair value of plan assets are recognized immediately in the consolidated statements of comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Fair value is based on market price information, and in the case of quoted securities, is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

### ***Defined contribution pension plans ("DCPP")***

A DCPP is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to DCPPs are recognized as an employee benefit expense in the consolidated statements of income in the periods during which services are rendered by employees.

### ***Short-term employee benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or incentive plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### ***Termination benefits***

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits payable more than twelve months after the reporting period are discounted to their present value.

### **(m) Revenue recognition**

Revenue from the sale of products is recognized when the risks and rewards of the underlying products have been substantially transferred to the customer (usually on delivery of the goods). The Company experiences very few product returns and collection of invoices is consistently high.

Marketing programs provided to customers and operators, including volume rebates, cooperative advertising and other trade marketing programs, are all customer-specific programs to promote the Company's products. Consequently, sales are recorded net of these estimated marketing costs at the time of sale. All other non-customer-specific marketing costs (general advertising, etc.) are expensed as incurred as selling, general and administrative expense.

### **(n) Share-based compensation**

#### ***Equity-settled transactions***

The Company measures all equity-settled share-based awards made to employees and others providing similar services (collectively, "employees") based on the fair value of the options or units on the date of grant. The grant date fair value of stock options is estimated using an option pricing model and is recognized as employee benefits expense over the vesting period, based on the number of options that are expected to vest, with a corresponding increase recognized in contributed surplus. The fair value estimate requires determination of the most appropriate inputs to the pricing model, including the expected life, volatility, and dividend yield, which are fully described in Note 19. The grant date fair value of equity-settled deferred share units, performance share units and restricted share units is determined based on the market value of the Company's shares on the date of grant, and is expensed over the vesting period based on the estimated number of units that are expected to vest.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based compensation payments or is otherwise beneficial to the employee as measured at the date of modification.

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### ***Cash-settled transactions***

The cost of cash-settled transactions is measured initially at fair value at the award grant date using the market value of the Company's shares on the date of grant.

The Company recognizes the fair value of the amount payable to employees as compensation expense as it is earned, based on the estimated number of units expected to vest with a corresponding increase in liabilities. The liability is remeasured at each reporting date by using the fair market value of a common share at the reporting date and the performance multiplier, if applicable, with any changes in the fair value recognized as employee benefits expense in the consolidated statements of income. In the case of stock options issued with tandem share appreciation rights ("SARs"), if employees elect to exercise their options for shares, thereby cancelling the SARs, share capital is increased by the sum of the consideration paid by employees and the liability is reversed, with any difference being recorded in the consolidated statements of income.

### **(o) Income taxes**

Income tax expense comprises current and deferred income taxes, and is recognized in the consolidated statements of income, except to the extent that it relates to a business combination or to items recognized directly in equity or OCI.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates that are enacted or substantively enacted at the reporting date and any adjustment to taxes payable or receivable in respect of previous years. Current income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity or on different taxable entities but the entity intends to settle current income tax assets and liabilities on a net basis or their income tax assets and liabilities will be realized simultaneously.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: (i) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; (ii) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future and the timing of the reversal of the temporary differences can be controlled, and (iii) taxable temporary differences arising on the initial recognition of goodwill which is not deductible for tax purposes. Deferred income tax assets and liabilities are measured at the enacted or substantively enacted rate that is expected to apply when the related temporary differences reverse.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent it is probable future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable the related tax benefit will be realized.

### **(p) Earnings per share**

Basic earnings per share is calculated by dividing net income attributable to equity holders by the weighted average number of shares outstanding during the period, accounting for any changes to the number of shares outstanding, except those transactions affecting the number of shares outstanding without a corresponding change in resources.

Diluted earnings per share is calculated by dividing net income attributable to equity holders by the weighted average number of shares outstanding adjusted for the effects of all potentially dilutive shares. Potentially dilutive shares are only those shares that would result in a decrease to earnings per share or increase to loss per share. Dilutive shares are calculated using the treasury method for stock options, which assumes that outstanding units with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average market price of the common shares for the period. The if-converted method is used for other share-based units, and assumes that all units have been converted in determining diluted earnings per share if they are in-the-money, except where such conversion would be anti-dilutive.

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### (q) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as: (i) financial asset at fair value through profit or loss, (ii) available-for-sale financial assets, (iii) held-to-maturity investments, (iv) loans and receivables, (v) financial liabilities at fair value through profit or loss, or (vi) other financial liabilities.

#### *Financial assets or liabilities at fair value through profit or loss ("FVTPL")*

Financial assets and liabilities at FVTPL include financial instruments which are held-for-trading ("HFT") or that are designated as FVTPL upon initial recognition. Financial instruments are classified as HFT if they are acquired for the purpose of selling or repurchasing in the near term. Financial instruments at FVTPL are carried in the consolidated statements of financial position at fair value with net changes in fair value presented as finance costs or finance income in the consolidated statements of income.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

#### *Other financial liabilities*

Other financial liabilities generally include interest-bearing loans and borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the EIR amortization process.

The Company's financial instruments are classified and subsequently measured as follows:

<b>Asset / liability</b>	<b>Classification</b>	<b>Subsequent measurement</b>
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Foreign exchange contracts	Fair value through profit or loss	Fair value
Interest rate swaps	Fair value through profit or loss	Fair value
Bank loans	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Finance lease obligations	Other financial liabilities	Amortized cost

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Transaction costs, other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are combined with the fair value of the financial asset or financial liability on initial recognition and amortized using the EIR method. If modifications are made to a financial liability that are not considered to be substantial, the transaction costs related to this modification are combined with the carrying amount, and amortized over the life of the instrument using the EIR method. If modifications are made that are considered to be substantial, the transaction costs related to the modification are expensed.

A financial asset is derecognized when the Company transfers its contractual rights to receive cash flows without retaining control or substantially all the risks and rewards of ownership of the asset, or the Company enters into a pass-through arrangement. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

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All assets and liabilities for which fair value is measured or disclosed in the Consolidated Financial Statements are categorized within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the Consolidated Financial Statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy as explained above.

### **(r) Derivative instruments and hedging**

All derivative instruments, including embedded derivatives that are not closely related to the host contract, are recorded in the consolidated statements of financial position at fair value on the date a contract is entered into and subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the hedge designation. The Company designates certain derivatives as one of the following:

*(i) Embedded derivatives* are measured at fair value with changes in fair value recognized in the consolidated statements of income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset or financial liability out of FVTPL.

*(ii) Fair value hedges* are hedges of the fair value of recognized assets, liabilities or a firm commitment. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the consolidated statements of income together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

*(iii) Cash flow hedges* are hedges of highly probable forecasted transactions. The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges are recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income. Additionally:

- Amounts accumulated in OCI are recycled to the consolidated statements of income in the period when the hedged item affects profit and loss;
- When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that was reported in OCI remains in AOCI and is recognized in the consolidated statements of income when the forecasted transaction ultimately affects profit and loss; and
- When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately recognized in the consolidated statements of income.

*(iv) Hedges of a net investment in a foreign operation* are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in OCI while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in AOCI is transferred to the consolidated statements of income.

### *(v) Derivatives that do not qualify for hedge accounting*

Certain of the Company's derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized as finance costs in the consolidated statements of income consistent with the underlying nature and purpose of the derivative instruments.

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At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedge instrument, the hedged item of the transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

The Company applied the following amendment, which was effective for annual periods beginning on or after January 1, 2017:

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

In January 2016, as part of their disclosure initiative, the IASB issued amendments to IAS 7, *Statement of Cash Flows*, requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Company. The Company has adopted the amendments to IAS 7; however they did not have a material impact on the Consolidated Financial Statements.

### **(t) Accounting pronouncements issued but not yet effective**

The standards, amendments and interpretations that have been issued, but are not yet effective, up to the date of issuance of these financial statements are disclosed below. The Company intends to adopt these standards when they become effective.

#### **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 intends to adopt the amendments to IFRS 2 in the consolidated financial statements for the annual period beginning January 1, 2018. The Company is in the process of assessing the impact of this new standard and does not anticipate that the new standard will significantly affect 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 will ultimately replace 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 9, and does not anticipate that the new standard will significantly affect 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 standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The new revenue standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Two methods of adoption are available: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (cumulative effect method). The Company has decided to adopt the standard on December 31, 2017 using the full retrospective method with the completed contract practical expedients available under this method.

The Company has substantially 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 net income upon initial application. Specifically, the Company has concluded

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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 sales incentive programs. However, the following two presentation differences on the consolidated statements of income have been identified going forward:

- The Company receives donated product at no cost from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies. Upon adoption of IFRS 15, the Company will be required to include the fair value of the donated product in the transaction price recognized on the sale of the finished products. This will increase the revenue and costs of sales recorded upon distribution to the eligible agencies by an equivalent amount, as compared to the Company's current accounting treatment.
- The Company has identified payments made to a customer that will be accounted for as a reduction of revenue under IFRS 15. This will decrease revenue and cost of sales recorded by an equivalent amount, as compared to the Company's current accounting treatment.

If the Company were not to elect to use the completed contract practical expedients, revenue and cost of sales in the comparative period would require adjustments with no resulting impact on net income.

### **IFRS 16, Leases**

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

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## **4. Critical accounting estimates and judgments**

The preparation of the Company's Consolidated Financial Statements requires management to make critical judgments, estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. On an ongoing basis, management evaluates the judgments, estimates and assumptions using historical experience and various other factors believed to be reasonable under the given circumstances. Actual outcomes may differ from these estimates and could require a material adjustment to the reported carrying amounts in the future.

The most significant estimates made by management include the following:

### ***Impairment of non-financial assets***

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding future cash flows before taxes. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results or budgets, and a terminal value calculated by discounting the final year in perpetuity. The future cash flows are then discounted to their present value using a suitable discount rate that incorporates a risk premium specific to each business. Further details, including the manner in which the Company identifies its CGUs, and the key assumptions used in determining the recoverable amounts, are disclosed in Note 12.

### ***Future employee benefits***

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rate, future salary increases, mortality rates and future pension increases. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate. See Note 17 for certain assumptions made with respect to future employee benefits.

### ***Income taxes***

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the

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underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that are believed to appropriately reflect the risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each reporting date; however, it is possible that at some future date, an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in these inputs could affect the reported fair value of financial instruments.

### *Sales and marketing accruals*

The Company makes estimates to determine the costs associated with the sale of product to be allocated to certain variable sales and marketing expenses, including volume rebates and other sales volume discounts, coupon redemption costs and costs incurred related to damages. The Company's estimates include consideration of empirical data and trends combined with future expectations of sales volume, with estimates being reviewed on a monthly basis for reasonability.

The most significant judgments made by management include the following:

### *Impairment of non-financial assets*

The Company uses judgment to determine the grouping of assets to include in its CGUs for the purpose of impairment testing for property, plant and equipment, intangible assets and goodwill. In addition, on a quarterly basis, management uses judgment to determine whether there have been any indicators of impairment, or any indicators of impairment reversal, which would require a quarterly impairment test.

### *Income taxes*

The Company is subject to income tax in various jurisdictions. Significant judgment is required to determine the consolidated tax provision. The tax rates and tax laws used to compute income tax are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

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## **5. Business combinations**

### *Acquisition of Rubicon Resources, LLC*

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

After working capital adjustments and cash acquired as part of the acquisition, the Company paid \$100.6 million to acquire 100% of the outstanding interests in Rubicon. The purchase consideration was settled in cash (\$75.0 million), and in common shares (\$25.8 million or 2.43 million shares). The share consideration is subject to a three-year standstill agreement during which time the sellers are not permitted to sell the shares (except in limited circumstances).

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The acquisition was financed using the Company's existing asset-based revolving credit facility ("ABL", see Note 13); however, on June 6, 2017, the Company refinanced a portion of this additional ABL debt to a fixed term by replacing it with a \$70.0 million addition to the senior secured term loan (see Note 16).

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

*(Amounts in \$000s)*

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

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

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

The following sets forth the final allocation of the purchase price to assets and liabilities acquired, based on the final estimate of the fair value of the identifiable assets and liabilities recognized on the acquisition date.

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

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

Goodwill recorded on this transaction represents the value anticipated to be created from the Company's ability to grow sales of shrimp throughout its operations. The goodwill, with a tax basis of \$44.4 million, is deductible for income tax purposes. The goodwill has been allocated to the Canadian and U.S. CGUs during Fiscal 2017, based on synergies expected to be realized in each CGU (see Note 12).

In order to complete this acquisition, the Company incurred acquisition-related costs during the year in the form of advisory, legal and professional fees. Acquisition-related costs totaled \$0.7 million for the fifty-two weeks ended December 30, 2017 and have been included in business acquisition, integration and other expenses on the consolidated statements of income.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

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From the date of acquisition, Rubicon contributed \$117.1 million of revenue and \$3.0 million of earnings before income taxes, excluding one-time business acquisition costs. Had the acquisition occurred as of the beginning of the annual reporting period, January 1, 2017, the revenue for the combined entity, including Rubicon, would have been \$1.1 billion, and earnings before income taxes, excluding one-time business acquisition costs, for the combined entity would have been \$19.5 million for the fifty-two weeks ended December 30, 2017.

### 6. Revision of previously reported consolidated financial statements

During the first quarter of 2017, the Company identified an error related to the accounting for donated product received from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies. The Company has concluded that this error is immaterial to each of the prior periods. Therefore, comparative financial information has been adjusted, but previously filed reports have not been amended. For the year ended December 31, 2016, the adjustments decreased the Company's net income by \$0.7 million. Opening retained earnings at January 3, 2016 were decreased by \$1.9 million.

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

<b>As at December 31, 2016</b>			
<i>(Amounts in \$000s)</i>	<b>Previously reported</b>	<b>Adjustments</b>	<b>As adjusted</b>
<b>Consolidated Statements of Financial Position</b>			
Income taxes receivable	\$ 3,783	\$ 1,026	\$ 4,809
Inventories	252,118	(59)	252,059
Accounts payable and accrued liabilities	135,272	4,106	139,378
Deferred income taxes	45,183	(581)	44,602
Retained earnings	146,340	(2,558)	143,782
<b>Fifty-two weeks ended December 31, 2016</b>			
<i>(Amounts in \$000s, except per share amounts)</i>	<b>Previously reported</b>	<b>Adjustments</b>	<b>As adjusted</b>
<b>Consolidated Statements of Income</b>			
Revenues	\$ 956,016	\$ (1,030)	\$ 954,986
Income taxes			
Current	8,737	(223)	8,514
Deferred	(848)	(141)	(989)
Total income tax expense	7,889	(364)	7,525
Net income	32,950	(666)	32,284
Earnings per common share			
Basic	1.07	(0.03)	1.04
Diluted	1.06	(0.02)	1.04
<b>Consolidated Statements of Comprehensive Income</b>			
Total comprehensive income	\$ 33,552	\$ (666)	\$ 32,886

**HIGH LINER FOODS INCORPORATED**  
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**7. Product recall**

In April of 2017, the Company announced a voluntary recall of certain brands of breaded fish and seafood products sold in Canada that may contain a milk allergen that was not declared on the ingredient label and allergen statement. The Company identified that the allergen had originated from ingredients supplied by one of the Company's U.S.-based ingredient suppliers. Subsequently, the Company was notified by the ingredient supplier that several additional ingredients were being recalled due to the potential presence of undeclared milk, which necessitated the expansion of the Company's initial recall to include additional value-added seafood products sold in the U.S. and Canada.

As a result, during the fifty-two weeks ended December 30, 2017, the Company recognized \$13.5 million in estimated 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 do not include any reduction in earnings as a result of lost sales opportunities due to limited product availability and customer shortages, or increased production costs related to the interruption of production at the Company's facilities.

The Company's remaining estimate related to the recall was determined based on an assessment of the information available up to the date of filing of these Consolidated Financial Statements, including the extent of potential additional claims that have yet to be received. The Company's estimate reflects the losses determined as at December 30, 2017 to be both probable and reasonably estimable. The Company may need to revise this estimate in subsequent periods for any additional claims that may be received.

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**8. Disposition of New Bedford**

On February 17, 2016, the Company announced the cessation of value-added fish operations at its facility in New Bedford, Massachusetts to reduce excess capacity across its manufacturing network. In June 2016, the Company determined that the carrying value of assets associated with the New Bedford facility, including assets and semi-finished and raw material inventory related to the scallop division, formed a disposal group where the carrying value would not be recovered through continuing use. As a result of the requirement to recognize these assets at the lower of carrying value and fair value less costs to sell, the Company recognized an impairment loss of \$2.3 million on the property, plant and equipment during the fifty-two weeks ended December 31, 2016 in the consolidated statements of income. Value-added fish operations at the New Bedford facility ceased in mid-July 2016, following the transfer of production to the Company's other manufacturing facilities.

On August 16, 2016, the Company entered into a purchase and sale agreement with Blue Harvest Fisheries to sell the assets of the Company's scallop business and the New Bedford facility. On September 7, 2016, the sale was completed and the Company received cash proceeds of \$15.1 million. As a result, the Company recognized a loss on the sale of scallop and supplies inventory of \$0.2 million during the fifty-two weeks ended December 31, 2016, which is included in business acquisition, integration and other expenses in the consolidated statements of income.

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**9. Accounts receivable**

<i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Trade accounts receivable	\$ 90,148	\$ 74,130
Other accounts receivable	2,247	1,060
	<b>\$ 92,395</b>	<b>\$ 75,190</b>

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Accounts receivable bear normal commercial credit terms and are non-interest bearing. The entire accounts receivable balance is pledged as collateral for the Company's working capital facility (see Note 13), excluding the accounts receivable acquired as part of the acquisition of Rubicon (see Note 5). As part of the Rubicon acquisition, the Company has assumed financing arrangement guarantees for certain suppliers granting a security interest in substantially all of the inventory and proceeds thereon (see Note 23).

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements In United States dollars, unless otherwise noted

The following is a reconciliation of the changes in the impairment of receivables:

*(Amounts in \$000s)*

At January 2, 2016	\$	322
New impairment reserves charged		219
Impairment reserves utilized		(176)
Unused impairment reserves reversed		(125)
At December 31, 2016	\$	240
New impairment reserves charged		287
Impairment reserves utilized		(22)
Unused impairment reserves reversed		(24)
<b>At December 30, 2017</b>	<b>\$</b>	<b>481</b>

The aging analysis of trade accounts receivables, based on the invoice date is as follows:

	0-30 days	31-60 days	over 60 days
At December 31, 2016	90 %	8 %	2 %
<b>At December 30, 2017</b>	<b>89%</b>	<b>10%</b>	<b>1%</b>

## 10. Inventories

Total inventories at the lower of cost and net realizable value on the consolidated statements of financial position comprise the following:

<i>(Amounts in \$000s)</i>	<b>December 30,</b>	December 31,
	<b>2017</b>	<b>2016</b>
Finished goods	\$ 246,460	\$ 159,244
Raw and semi-finished material	106,973	92,815
	<b>\$ 353,433</b>	<b>\$ 252,059</b>

During 2017, \$867.8 million (2016: \$753.2 million) was recognized as an expense for inventories in cost of sales on the consolidated statements of income. Of this, \$5.9 million (2016: \$4.4 million) was written-down during the year and a reversal for unused impairment reserves of \$1.2 million (2016: \$0.5 million) was recorded. As of December 30, 2017, the value of inventory pledged as collateral for the Company's working capital facility (see Note 13), which excludes inventory acquired as part of the Rubicon inventory acquisition (see Note 5), was \$230.9 million (December 31, 2016: \$184.6 million). As part of the Rubicon acquisition, the Company has assumed financing arrangement guarantees for certain suppliers granting a security interest in substantially all of the inventory and proceeds thereon (see Note 23).

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements In United States dollars, unless otherwise noted

### 11. Property, plant and equipment

<i>(Amounts in \$000s)</i>	<b>Land and buildings</b>	<b>Furniture, fixtures, and production equipment</b>	<b>Computer equipment and vehicles<sup>(1)</sup></b>	<b>Total</b>
<b>Cost</b>				
At January 2, 2016	\$ 78,105	\$ 76,547	\$ 15,190	\$ 169,842
Additions	3,008	11,182	1,970	16,160
Disposals	(9,558)	(8,107)	(1,162)	(18,827)
Effect of exchange rates	398	385	247	1,030
At December 31, 2016	\$ 71,953	\$ 80,007	\$ 16,245	\$ 168,205
Additions	5,217	12,262	1,715	19,194
Acquisition	—	—	184	184
Disposals	(181)	(1,633)	(431)	(2,245)
Effect of exchange rates	1,197	1,452	795	3,444
<b>At December 30, 2017</b>	<b>\$ 78,186</b>	<b>\$ 92,088</b>	<b>\$ 18,508</b>	<b>\$ 188,782</b>
<b>Accumulated depreciation and impairment</b>				
At January 2, 2016	\$ (19,376)	\$ (28,435)	\$ (6,317)	\$ (54,128)
Depreciation and impairment	(4,144)	(5,789)	(2,013)	(11,946)
Disposals	3,154	4,132	703	7,989
Effect of exchange rates	(188)	(189)	(117)	(494)
At December 31, 2016	\$ (20,554)	\$ (30,281)	\$ (7,744)	\$ (58,579)
Depreciation and impairment	(2,700)	(5,043)	(2,010)	(9,753)
Disposals	75	1,442	(172)	1,345
Effect of exchange rates	(531)	(587)	(388)	(1,506)
<b>At December 30, 2017</b>	<b>\$ (23,710)</b>	<b>\$ (34,469)</b>	<b>\$ (10,314)</b>	<b>\$ (68,493)</b>
<b>Net carrying value</b>				
At December 31, 2016	\$ 51,399	\$ 49,726	\$ 8,501	\$ 109,626
<b>At December 30, 2017</b>	<b>\$ 54,476</b>	<b>\$ 57,619</b>	<b>\$ 8,194</b>	<b>\$ 120,289</b>

<sup>(1)</sup> The carrying value of vehicles and equipment held under finance leases at December 30, 2017 was \$1.6 million (December 31, 2016: \$3.6 million) and additions during the year were \$0.4 million (December 31, 2016: \$1.0 million).

In accordance with the announcement on February 17, 2016 to cease value-added fish operations at the production facility in New Bedford, Massachusetts, the Company determined that as of April 2, 2016, the criteria to re-evaluate the useful life and residual value of certain capital assets were met. Accordingly, \$1.5 million of accelerated depreciation was recorded during the fifty-two weeks ended December 31, 2016. These assets were disposed of as a result of the sale of the assets of the Company's scallop business and the New Bedford facility on September 7, 2016. See Note 8 for further information.

An impairment loss of \$nil (December 31, 2016: \$2.3 million) was recorded during the fifty-two weeks ended December 30, 2017.

The Company has a General Security Agreement that has pledged all of its property, plant and equipment as collateral for its bank loans and long-term debt. See Note 13 and Note 16 for further information.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements In United States dollars, unless otherwise noted

### 12. Goodwill and intangible assets

The Company's intangible assets consist of brands and customer and supplier relationships that have been acquired through a business combination, and computer software.

<i>(Amounts in \$000s)</i>	Intangible assets					Goodwill	Total goodwill and intangible assets
	Brands	Customer and supplier relationships	Indefinite lived brands	Computer software	Total intangible assets		
<b>Cost</b>							
At January 2, 2016	\$ 6,938	\$ 106,956	\$ 14,488	165	\$ 128,547	\$ 117,824	\$ 246,371
Additions	—	—	—	1,531	1,531	—	1,531
Effect of exchange rates	—	32	13	—	\$ 45	277	322
At December 31, 2016	\$ 6,938	\$ 106,988	\$ 14,501	\$ 1,696	\$ 130,123	\$ 118,101	\$ 248,224
Additions	—	57,785	—	7,666	\$ 65,451	39,105	104,556
Effect of exchange rates	—	75	9	217	\$ 301	675	976
<b>At December 30, 2017</b>	<b>\$ 6,938</b>	<b>\$ 164,848</b>	<b>\$ 14,510</b>	<b>\$ 9,579</b>	<b>\$ 195,875</b>	<b>\$ 157,881</b>	<b>\$ 353,756</b>
<b>Accumulated amortization</b>							
At January 2, 2016	\$ (4,292)	\$ (21,334)	\$ (441)	—	\$ (26,067)	—	\$ (26,067)
Amortization	(1,045)	(4,130)	—	—	(5,175)	—	(5,175)
Effect of exchange rates	—	(9)	—	—	(9)	—	(9)
At December 31, 2016	\$ (5,337)	\$ (25,473)	\$ (441)	—	\$ (31,251)	—	\$ (31,251)
Amortization	(1,035)	(4,122)	—	—	(5,157)	—	(5,157)
Amortization on acquisition	—	(1,401)	—	—	(1,401)	—	(1,401)
Effect of exchange rates	—	(22)	—	—	(22)	—	(22)
<b>At December 30, 2017</b>	<b>\$ (6,372)</b>	<b>\$ (31,018)</b>	<b>\$ (441)</b>	<b>—</b>	<b>\$ (37,831)</b>	<b>—</b>	<b>\$ (37,831)</b>
<b>Net carrying value</b>							
At December 31, 2016	\$ 1,601	\$ 81,515	\$ 14,060	\$ 1,696	\$ 98,872	\$ 118,101	\$ 216,973
<b>At December 30, 2017</b>	<b>\$ 566</b>	<b>\$ 133,830</b>	<b>\$ 14,069</b>	<b>\$ 9,579</b>	<b>\$ 158,044</b>	<b>\$ 157,881</b>	<b>\$ 315,925</b>

The computer software is not ready for use as at December 30, 2017 and is not being amortized. Included in selling, general and administrative expenses for the fifty-two weeks ended December 30, 2017 are \$0.3 million (2016: \$nil) in costs related to the capitalized computer software.

Goodwill related to the Rubicon acquisition (see Note 5) has been allocated to the Canadian and U.S. CGUs during Fiscal 2017, based on synergies expected to be realized in each CGU.

The carrying amount of goodwill acquired through business combinations and brands with indefinite lives have been allocated to the Canadian and U.S. CGUs for impairment testing as follows:

<i>(Amounts in \$000s)</i>	Canada		U.S.	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Goodwill	\$ 20,270	\$ 9,290	\$ 137,611	\$ 108,811
Indefinite lived brands	\$ 463	\$ 454	\$ 13,606	\$ 13,606

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements In United States dollars, unless otherwise noted

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### **Impairment of goodwill and identifiable intangible assets**

As described in Note 3, the carrying values of goodwill and intangible assets with indefinite lives are tested for impairment annually (as at the first day of the Company's fourth quarter). The Company's impairment test for goodwill and intangible assets with indefinite useful lives was based on FVLCS at October 1, 2017. The key assumptions used to determine the recoverable amount for the different CGUs for the most recently completed impairment calculations for Fiscal 2017 and Fiscal 2016 are discussed below. The Company has not identified any indicators of impairment at any other date and as such has not completed an additional impairment calculation.

The recoverable amount of the CGUs has been determined based on the FVLCS, determined using an income approach using the discounted cash flow methodology. The fair value of the CGU must be measured using the assumptions that market participants would use rather than those related specifically to the Company. In addition, the market approach was employed in assessing the reasonableness of the conclusions reached.

#### ***Income approach***

The discounted cash flow ("DCF") technique provides the best assessment of what each CGU could be exchanged for in an arm's length transaction as fair value is represented by the present value of expected future cash flows of the business together with the residual value of the business at the end of the forecast period. The DCF was applied on an enterprise-value basis, where the after-tax cash flows prior to interest expense are discounted using a weighted average cost of capital ("WACC"). This approach requires assumptions regarding revenue growth rates, gross margins, capital expenditures, tax rates and discount rates.

#### ***Market approach***

It is assumed under the market approach that the value of a company reflects the price at which comparable companies in the same industry are purchased under similar circumstances. A comparison of a CGU to similar companies in the same industry whose financial information is publicly available may provide a reasonable basis to estimate fair value. Fair value under this approach is calculated based on EBITDA multiples and revenue multiples compared to the average median multiples based on publicly available information for comparable companies and transaction prices.

### **Key assumptions used in determining the FVLCS**

#### ***Cash flow projections***

The cash flow projections, covering a five-year period ("projection period"), were based on financial projections approved by management using assumptions that reflect the Company's most likely planned course of action, given management's judgment of the most probable set of economic conditions, adjusted to reflect the perspective of the expectations of a market participant. Gross margins are based on actual and estimated values in the first year of the projection period, budgeted values in the second year of the projection period, and these are increased over the projection period using an approximate growth rate for anticipated efficiency improvements. The projected gross margins are updated to reflect anticipated future changes, such as currency fluctuations, in the cost of inputs (primarily raw materials and commodity products used in processing), which are obtained from forward-looking data. Forecast figures are used where data is publicly available; otherwise, past actual raw material cost movements have been used combined with management's industry experience and analysis of the seafood and commodity markets.

#### ***Discount rate***

The discount rate (WACC) reflects the current market assessment of the risk specific to comparable companies. The discount rate was based on the weighted average cost of equity and cost of debt for comparable companies within the industry. The cost of equity was calculated using the capital asset pricing model. The debt component of the WACC was determined by using an after-tax cost of debt. The after-tax WACC applied to the Canadian CGU and U.S. CGU cash flow projections was 9.3% and 10.6%, respectively, at October 1, 2017.

#### ***Growth rate***

Growth rates used to extrapolate the Company's projection were determined using published industry growth rates in combination with inflation assumptions and the input of each CGU's management group based on historical trend analysis and future expectations of growth. The growth rate applied to the cash flow projections of both the Canadian and U.S. CGUs was 2.0% at October 1, 2017.

# HIGH LINER FOODS INCORPORATED

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### Costs to sell

The costs to sell each CGU have been estimated at approximately 3.0% of the CGU's enterprise value. The costs to sell reflect the incremental costs, excluding finance costs and income taxes, that would be directly attributable to the disposal of the CGU, including legal costs, marketing costs, costs of removing assets and direct incremental costs incurred in preparing the CGU for sale.

### Sensitivity to changes in assumptions

With regard to the assessment of the FVLCS for each of the CGUs, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of either CGU to materially exceed its recoverable amount.

## 13. Bank loans

<i>(Amounts in \$000s)</i>	December 30, 2017	December 31, 2016
Bank loans, denominated in CAD (average variable rate of 3.04%; December 31, 2016: 2.70%)	\$ 9,435	\$ 959
Bank loans, denominated in USD (average variable rate of 3.64%; December 31, 2016: 4.00%)	44,125	—
	<b>53,560</b>	959
Less: deferred finance costs	<b>(208)</b>	(338)
	<b>\$ 53,352</b>	\$ 621

The Company has a five-year \$180.0 million working capital facility (the "Facility"), with the Royal Bank of Canada as Administrative and Collateral Agent, which expires in April 2019. The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility (see Note 16), and excluding the assets acquired as part of the Rubicon acquisition (see Note 5). A second charge over the Company's property, plant and equipment is also in place. As at December 30, 2017, the Company had \$111.8 million of undrawn borrowing facility (December 31, 2016: \$151.6 million).

As at December 30, 2017 and December 31, 2016, the Facility allowed the Company to borrow:

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%
Bankers' Acceptances ("BA") revolving loans, at BA rates	plus 1.25% to 1.75%
LIBOR revolving loans at LIBOR, at their respective rates	plus 1.25% to 1.75%
Letters of credit, with fees of	1.25% to 1.75%
Standby fees, required to be paid on the unutilized facility, of	0.25% to 0.375%

## 14. Accounts payable and accrued liabilities

<i>(Amounts in \$000s)</i>	December 30, 2017	December 31, 2016
Trade accounts payable and accrued liabilities	\$ 198,329	\$ 124,084
Employee accruals, including incentives and vacation pay	11,546	14,682
Share-based compensation (Note 19)	35	612
	<b>\$ 209,910</b>	\$ 139,378

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Trade accounts payable and accrued liabilities are non-interest bearing. Employee accruals, including incentives and vacation pay, are non-interest bearing and normally settle within fifty-two weeks. Share-based payments included in the above are settled within fifty-two weeks.

**15. Provisions**

The amounts recognized in provisions include the Company's coupon redemption costs, termination benefits (see Note 17) and employee incentives. Employee incentives and termination benefits, when applicable, are included as other provisions in the first, second and third quarter of the year only, until the amounts can be estimated with certainty at the end of the fourth quarter, and at which time they are reclassified to accounts payable and accrued liabilities. The following is a reconciliation of the carrying amounts:

*(Amounts in \$000s)*

At December 31, 2016	\$	386
New provisions added		5,841
Provisions utilized		(1,382)
Reclassified to accounts payable and accrued liabilities		(4,567)
<b>At December 30, 2017</b>	<b>\$</b>	<b>278</b>

The Company's provision amounts are usually settled within eleven months from initiation and are immaterial to the Company on an individual basis. Management does not expect the outcome of any of the recorded amounts will give rise to any significant expense beyond the amounts recognized at December 30, 2017. The Company is not eligible for any reimbursement by third parties for these amounts.

**16. Long-term debt and finance lease obligations**

*(Amounts in \$000s)*

	<b>December 30, 2017</b>	December 31, 2016
Term loan	<b>\$ 337,926</b>	\$ 267,926
Less: deferred finance costs	<b>(2,485)</b>	(1,599)
	<b>\$ 335,441</b>	\$ 266,327

As at December 30, 2017, the Company had a \$370.0 million term loan facility with an interest rate of 3.25% plus LIBOR (LIBOR floor of 1.00%), maturing on April 24, 2021. The term loan facility was increased from \$300.0 million to \$370.0 million on June 6, 2017 to facilitate the Rubicon acquisition (see Note 5). 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.

Quarterly principal repayments of \$0.9 million are required on the term loan. During the fifty-two weeks ended December 31, 2016, a mandatory prepayment of \$11.8 million was made due to excess cash flows in 2015, and a voluntary repayment of \$15.0 million was made to reduce excess cash balances. The prepayments are applied to future regularly scheduled principal repayments, and as such, no regularly scheduled principal repayments were paid in 2017 and no additional repayments are required for 2018.

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

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The Company has finance leases for various vehicles and other items of equipment. The principal payments required on finance leases are as follows:

<b>Finance lease obligations</b>	<b>Future minimum lease payments</b>	<b>Imputed interest</b>	<b>Finance lease liabilities</b>
<i>(Amounts in \$000s)</i>			
2018	\$ 756	\$ 42	\$ 714
2019	294	17	277
2020	123	3	120
2021	11	1	10
			1,121
Less: current portion			(714)
			<b>\$ 407</b>

Interest payable on the various obligations ranges from fixed rates of 0% to 8.84% for the fifty-two weeks ended December 30, 2017 (fifty-two weeks ended December 31, 2016: 0% to 8.18%).

## 17. Future employee benefits

### Non-pension benefit plan

In Canada, the Company sponsors a non-pension benefit plan for employees hired before May 19, 1993. This benefit is a paid-up life insurance policy or a lump sum payment based on the employee's final earnings at retirement. In both Canada and the U.S., the Company maintains a non-pension benefit plan for employees who retire after twenty-five years of service with the Company. At retirement, the benefit is a payment of \$1,000 to \$2,500 depending on the years of service.

### Defined contribution pension plans

In Canada, the Company maintains a DCPD for all salaried employees.

In the U.S., the Company maintains two DCPD under the provisions of the *Employment Retirement Income Security Act of 1974* (a 401(k) Savings Plan), which covers substantially all employees of the Company's U.S. subsidiary. The Company also makes a safe harbor matching contribution equal to 100% of salary deferrals (contributions to the plan) that do not exceed 3% of compensation plus 50% of salary deferrals between 3% and 5% of salary compensation.

In both Canada and the U.S., the Company maintains defined contribution Supplemental Executive Retirement Plans ("SERP") to extend the same pension plan benefits to certain senior executives, as is provided to others in the DCPD who were not affected by income tax maximums.

Total expense and cash contributions for the Company's DCPD was \$2.0 million for the year ended December 30, 2017 (December 31, 2016: \$2.2 million).

### Defined benefit pension plans

In Canada, the Company also sponsors two actively funded DBPPs. None of the Company's pension plans provide indexation in retirement.

### Canadian union employee plan

One of the actively funded DBPPs is for the Nova Scotia Union employees and provides a flat-dollar plan with negotiated increases.

### Canadian management plan

The Company sponsors a DBPP specifically for Canadian management employees (the "Management Plan"). On December 30, 2017, nine persons were enrolled as active members in the Management Plan, including one senior executive, who are Canadian residents and were employed prior to January 1, 2000. The objective of the Management Plan is to provide an annual pension (including Canada Pension Plan) of 2% of the average of a member's highest five years' regular earnings while a member of the Management Plan, multiplied by the number of years of credited service. Incentive payments are not eligible earnings for pension

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purposes. The Management Plan was grandfathered and no new entrants are permitted. All members contribute 3.25% of their earnings up to the Years Maximum Pensionable Earnings (“YMPE”) and 5% in excess of the YMPE to the maximum that a member can contribute based on income tax rules. The credited service under the Management Plan for the Canadian senior executive is twenty-seven years.

Upon retirement, the employees in the Management Plan are provided lifetime retirement income benefits based on their best five years of salary less Canada Pension Plan benefits. Full benefits are payable at age 65, or at age 60 if the executive has at least twenty-five years of service. The normal benefits are payable for life and 60% is payable to their spouse upon the employee's death, with a guarantee of sixty months. Members can retire at age 55 with a reduction. Other levels of survivor benefits are offered. Instead, members can elect to take their pension benefit in a lump-sum payment at retirement.

As at December 30, 2017, the Company also guarantees through its SERP to extend the same pension plan benefits to one Canadian senior executive that it provides to others in the Management Plan who were not affected by income tax maximums. The annual pension amounts derived from the aggregate of the Management Plan and SERP benefits represent 1.3% of the five-year average YMPE plus 2% of the salary remuneration above the five-year average YMPE. The combination of these amounts is multiplied by the years of service to determine the full annual pension entitlement from the two plans.

### ***U.S. management plans***

The Company also has one DBPP in the U.S. that covers two former employees. These plans have ceased to accrue benefits to employees.

Information regarding the Company's DBPPs, in aggregate, is as follows:

<b>Funded status</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Total present value of obligations <sup>(1)</sup>	\$ 43,066	\$ 37,073
Fair value of plan assets	31,843	28,883
<b>Net accrued defined benefit obligation</b>	<b>\$ 11,223</b>	<b>\$ 8,190</b>

<sup>(1)</sup>The Company has a letter of credit outstanding as at December 30, 2017 relating to the securitization of the Company's unfunded benefit plans under the SERP in the amount of \$9.7 million (December 31, 2016: \$9.8 million).

<b>Movement in the present value of the defined benefit obligations</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
DBO at the beginning of the year	\$ 37,073	\$ 35,463
Benefits paid by the plans	(1,695)	(1,688)
Effect of movements in exchange rates	2,762	1,064
Current service costs	842	701
Interest on obligations	1,466	1,491
Employee contributions	53	52
Effect of changes in financial assumptions	2,565	(10)
<b>DBO at the end of the year</b>	<b>\$ 43,066</b>	<b>\$ 37,073</b>

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<b>Movement in the present value of plan assets</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Fair value of plan assets at the beginning of the year	\$ 28,883	\$ 25,832
Reclass of other plan asset	—	526
Employee contributions paid into the plans	53	52
Employer contributions paid into the plans	979	1,051
Benefits paid by the plans	(1,695)	(1,688)
Effect of movements in exchange rates	2,116	785
	<b>\$ 30,336</b>	<b>\$ 26,558</b>
Actual return on plan assets:		
Return on plan assets	\$ 1,127	\$ 1,078
Actuarial gains in OCI	459	1,324
Fees and expenses	(79)	(77)
	<b>1,507</b>	<b>2,325</b>
<b>Fair value of plan assets at the end of the year</b>	<b>\$ 31,843</b>	<b>\$ 28,883</b>
<b>Expense recognized in the consolidated statements of income</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Current service costs	\$ 842	\$ 701
Interest on obligation	1,466	1,491
Return on plan assets	(1,127)	(1,078)
Fees and expenses	79	77
	<b>\$ 1,260</b>	<b>\$ 1,191</b>
<b>Expense recognized in the following line items in the consolidated statements of income</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Cost of sales	\$ 730	\$ 518
Selling, general and administrative expenses	530	673
	<b>\$ 1,260</b>	<b>\$ 1,191</b>
<b>Plan assets comprise:</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Equity securities <sup>(1)</sup>	\$ 13,565	\$ 12,332
Debt securities	17,418	15,913
Cash and cash equivalents	860	638
	<b>\$ 31,843</b>	<b>\$ 28,883</b>

<sup>(1)</sup>The plan assets include CAD\$2.7 million of the Company's own common shares at market value at December 30, 2017 (December 31, 2016: CAD\$3.7 million).

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<b>Actuarial (gains) losses recognized in OCI</b>	<b>December 30,</b>	December 31,
<i>(Amounts in \$000s)</i>	<b>2017</b>	2016
Cumulative amount at the beginning of the year	\$ 5,596	\$ 6,189
Recognized during the period	2,182	(805)
Effect of exchange rates	456	212
<b>Cumulative amount at the end of the year</b>	<b>\$ 8,234</b>	<b>\$ 5,596</b>

<b>Principal actuarial assumptions</b>	<b>December 30,</b>	December 31,
<i>(Expressed as weighted averages)</i>	<b>2017</b>	2016
	%	%
Discount rate for the benefit cost for the year ended	3.82	3.95
Discount rate for the accrued benefit obligation as at year-end	3.40	3.82
Expected long-term rate on plan assets as at year-end	3.82	3.95
Future compensation increases for the benefit cost for the year ended	3.00	4.00
Future compensation increases for the accrued benefit obligation as at year-end	3.00	3.00

A quantitative sensitivity analysis for significant assumptions as at December 30, 2017 is shown below:

<i>(Amounts in \$000s)</i>	<b>Discount rate</b>		<b>Mortality rate</b>	
Sensitivity level	0.5% increase	0.5% decrease	One-year increase	One-year decrease
(Decrease) increase on DBO	\$ (2,860)	\$ 3,169	\$ 1,216	\$ (1,256)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the net DBO as a result of reasonable changes in key assumptions occurring at the end of the reporting period. An analysis on salary increases and decreases is not material. The Company expects CAD\$1.5 million in contributions to be paid to its DBPP and CAD\$3.0 million to its DCP in Fiscal 2018.

### Short-term employee benefits

The Company has recognized severance and retention benefits that were dependent upon the continuing provision of services through to certain pre-defined dates, which for the fifty-two weeks ended December 30, 2017 was an expense of \$0.2 million (December 31, 2016: \$2.3 million expense) in the consolidated statements of income.

### Termination benefits

The Company has also expensed termination benefits during the period, which are recorded as of the date the committed plan is in place and communication is made. These termination benefits relate to severance, which is not based on a future service requirement, and are included on the following line items in the consolidated statements of income:

<i>(Amounts in \$000s)</i>	<b>December 30,</b>	December 31,
	<b>2017</b>	2016
Cost of sales	\$ 260	\$ 96
Distribution expenses	11	—
Business acquisition, integration and other expenses	897	83
Selling, general and administrative expenses	1,804	1,298
	<b>\$ 2,972</b>	<b>\$ 1,477</b>

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**18. Share capital**

The share capital of the Company is as follows:

	December 30, 2017	December 31, 2016
<b>Authorized:</b>		
Preference shares, par value of CAD\$25 each, issuable in series	5,999,994	5,999,994
Subordinated redeemable preference shares, par value of CAD\$1 each, redeemable at par	1,025,542	1,025,542
Non-voting equity shares	Unlimited	Unlimited
Common shares, without par value	Unlimited	Unlimited

**Purchase of shares for cancellation**

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

During the fifty-two weeks ended December 31, 2016, the Company purchased 50,000 common shares under the plan announced in January 2016 at an average price of CAD\$19.38 per share for total cash consideration of CAD\$1.0 million. The excess of the purchase price over the book value of the shares in the amount of \$0.6 million was charged to retained earnings.

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

	Fifty-two weeks ended December 30, 2017		Fifty-two weeks ended December 31, 2016	
	Shares	(\$000s)	Shares	(\$000s)
Balance, beginning of period	30,889,078	\$ 86,094	30,874,164	\$ 85,282
Shares issued on acquisition of Rubicon (Note 5)	2,429,014	25,758	—	—
Options exercised for shares	19,187	140	17,923	94
Options exercised for shares via cashless exercise method (Note 19)	42,536	—	46,991	—
Fair value of share-based compensation on options exercised	—	843	—	815
Shares repurchased for cancellation	—	—	(50,000)	(97)
<b>Balance, end of period</b>	<b>33,379,815</b>	<b>\$ 112,835</b>	<b>30,889,078</b>	<b>\$ 86,094</b>

During the fifty-two weeks ended December 30, 2017, the Company distributed dividends per share of CAD\$0.565 (fifty-two weeks ended December 31, 2016: CAD\$0.520).

On February 21, 2018, the Company's Board of Directors declared a quarterly dividend of CAD\$0.145 per share, payable on March 15, 2018 to shareholders of record as of March 1, 2018.

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**19. Share-based compensation**

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

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

The carrying amount of cash-settled share-based compensation arrangements recognized in accounts payable and accrued liabilities, other current liabilities and other long-term liabilities on the consolidated statements of financial position was \$nil, \$0.2 million and \$1.6 million, respectively, as at December 30, 2017 (December 31, 2016: \$0.6 million, \$0.4 million and \$0.9 million, respectively).

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

<i>(Amounts in \$000s)</i>	<b>Fifty-two weeks ended December 30, 2017</b>	<b>Fifty-two weeks ended December 31, 2016</b>
<b>Cost of sales resulting from:</b>		
Equity-settled awards	\$ 59	\$ 116
<b>Selling, general and administrative expenses resulting from:</b>		
Cash-settled awards	256	1,809
Equity-settled awards	456	1,304
<b>Share-based compensation expense <sup>(1)</sup></b>	<b>\$ 771</b>	<b>\$ 3,229</b>

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

**Share Option Plan**

Under the terms of the Company's Option Plan, the Company may grant options to eligible participants, including: Directors, members of the Company's Leadership Team, and senior managers of the Company. Shares to be optioned are not to exceed the aggregate number of 3,800,000 as of May 7, 2013 (adjusted for the two-for-one stock split that was effective May 30, 2014), representing 12.4% of the then issued and outstanding authorized shares. The option price for the shares cannot be less than the fair market value (as defined further in the Share Option Plan) of the optioned shares as of the date of grant. The term during which any option granted may be exercised may not exceed ten years from the date of grant. The purchase price is payable in full at the time the option is exercised. Options are not transferable or assignable.

The Option Plan permits, at the time of granting an option, granting the right to receive, at the time of exercise and in lieu of the right to purchase an optioned share, a cash amount equal to the difference between the option price and the fair market value of the share on the date of exercise (a SAR). Effective March 29, 2013, amendments were made to eliminate the SARs on certain options granted in early 2012 and prior for certain Directors and officers of the Company. On a voluntary basis, these Directors and officers relinquished the entitlement under the SARs, resulting in 409,649 options with SARs being extinguished, and then reinvested as options that do not have SARs. On the amendment date, the liability of \$7.6 million for these options with SARs was fixed, resulting in no future impact on profit or loss for the options that were vested at that time, and was reclassified to contributed surplus. Options with SARs are accounted for as cash-settled transactions and options without SARs are accounted for as equity-settled transactions.

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Options issued may also be awarded a cashless exercise option at the discretion of the Board, where the holder may elect to receive, without payment of any additional consideration, optioned shares equal to the value of the option as computed by the Option Plan. When the holder elects to receive the cashless exercise option, the Company accounts for these options as equity-settled transactions. The following table illustrates the number ("No.") and weighted average exercise prices ("WAEP") of, and movements in, options during the period:

	Fifty-two weeks ended		Fifty-two weeks ended	
	December 30, 2017		December 31, 2016	
	No.	WAEP (CAD)	No.	WAEP (CAD)
Outstanding, beginning of period	1,607,350	\$ 18.21	1,323,292	\$ 18.98
Granted	216,599	17.70	654,196	15.29
Exercised for shares				
Exercised for shares via cashless method <sup>(1)(2)</sup>	(116,384)	9.27	(150,786)	16.28
Exercised for shares <sup>(2)</sup>	(19,187)	9.37	(17,923)	7.31
	(135,571)	9.29	(168,709)	15.33
Exercised for cash <sup>(2)</sup>	(10,083)	10.02	(73,579)	7.33
Cancelled or forfeited	(190,997)	18.07	(121,850)	21.30
Expired	(146,849)	19.42	(6,000)	23.11
<b>Outstanding, end of period</b>	<b>1,340,449</b>	<b>\$ 18.99</b>	<b>1,607,350</b>	<b>\$ 18.21</b>
<b>Exercisable, end of period</b>	<b>825,375</b>	<b>\$ 20.34</b>	<b>756,610</b>	<b>\$ 19.30</b>

<sup>(1)</sup> For the fifty-two weeks ended December 30, 2017, 42,536 shares were issued via the cashless exercise method (fifty-two weeks ended December 31, 2016: 46,991 shares).

<sup>(2)</sup> The weighted average share price at the date of exercise for these options was CAD\$14.62 for the fifty-two weeks ended December 30, 2017 (fifty-two weeks ended December 31, 2016: CAD\$22.52).

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

Option price (CAD)	Options outstanding			Options exercisable	
	Number outstanding	Weighted average exercise price	Average life (years)	Number exercisable	Weighted average exercise price
8.25-10.00	14,332	\$ 8.25	0.85	14,332	\$ 8.25
10.01-15.00	87,850	13.71	8.87	13,000	13.87
15.01-20.00	572,199	15.61	2.63	271,591	15.96
20.01-25.00	666,068	22.81	1.50	526,452	23.09
	<b>1,340,449</b>			<b>825,375</b>	

The fair value of options granted during the fifty-two weeks ended December 30, 2017 and December 31, 2016 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average inputs and assumptions:

	December 30, 2017	December 31, 2016
Dividend yield (%)	3.15	3.14
Expected volatility (%)	34.71	33.33
Risk-free interest rate (%)	1.62	0.63
Expected life (years)	6.73	5.19
Weighted average share price (CAD)	\$ 17.70	\$ 15.29
<b>Weighted average fair value (CAD)</b>	<b>\$ 4.28</b>	<b>\$ 3.27</b>

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The expected life of the options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

**Performance Share Unit Plan**

The PSU Plan is intended to align the Company's senior management with the enhancement of shareholder returns and other operating measures of performance. Both PSUs and RSUs may be issued under the PSU Plan to any eligible employee of the Company, or its subsidiaries, who have rendered meritorious services that contributed to the success of the Company. Directors who are not full-time employees of the Company may not participate in the PSU Plan. The Company is permitted to issue up to 400,000 shares from treasury in settling entitlements under the PSU Plan.

The PSU plan is dilutive and units may be settled in cash or shares upon vesting. If settled in cash, the amount payable to the participant shall be determined by multiplying the number of PSUs or RSUs (which will be adjusted in connection with the payment of dividends by the Company as if such PSUs or RSUs were common shares held under a dividend reinvestment plan) by the fair market value of a common share at the vesting date, and in the case of PSUs, by a performance multiplier to be determined by the Company's Board of Directors. If settled in shares on the vesting date, each RSU is exchanged for a common share, and each PSU is multiplied by a performance multiplier and then exchanged for common shares.

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

	<b>Fifty-two weeks ended December 30, 2017</b>	Fifty-two weeks ended December 31, 2016
Outstanding, beginning of period	<b>216,070</b>	139,184
Granted	<b>95,096</b>	82,017
Reinvested dividends	<b>9,153</b>	5,764
Released and paid in cash	<b>(25,873)</b>	—
Forfeited	<b>(30,890)</b>	(10,895)
<b>Outstanding, end of period</b>	<b>263,556</b>	216,070

The expected performance multiplier used in determining the fair value of the liability and related share-based compensation expense for PSUs for the fifty-two weeks ended December 30, 2017 was 34% (December 31, 2016: 63%).

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

	<b>Fifty-two weeks ended December 30, 2017</b>
Outstanding, beginning of period	—
Granted	<b>70,971</b>
Reinvested dividends	<b>2,283</b>
Forfeited	<b>(725)</b>
<b>Outstanding, end of period</b>	<b>72,529</b>

The share price at the reporting date for the PSUs and the RSUs was CAD\$14.83 (December 31, 2016: CAD\$19.95). The PSUs and RSUs will vest at the end of a three-year period, if agreed-upon performance measures are met (if applicable).

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**Deferred Share Unit Plan**

The DSU Plan allows a director to receive all or any portion of their annual retainer, additional fees and equity value in DSUs in lieu of cash or options. DSUs cannot be redeemed for cash until the holder is no longer a Director of the Company. These units are considered cash-settled share-based payment awards and are non-dilutive. At December 30, 2017 there were 77,934 DSUs outstanding (December 31, 2016: 34,337 DSUs).

**20. Income tax**

The Company's statutory tax rate for the year ended December 30, 2017 is 29.3% (December 31, 2016: 29.2%). The Company's effective income tax rate was a recovery of 80.5% for the year ended December 30, 2017 (December 31, 2016: an expense of 18.9%). The lower effective income tax rate in Fiscal 2017 was attributable to the reduction in the U.S. federal corporate income tax rate which resulted in the revaluation of the deferred tax liability for changes in substantively enacted tax rates and the recognition of tax benefits that were not previously recognized.

On December 22, 2017, the Tax Cuts and Jobs Act ("U.S. Tax Reform") was signed into law, which reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the U.S. Tax Reform, the Company's net deferred tax liability at December 30, 2017 decreased by \$11.2 million.

The U.S. Tax Reform introduces other important changes in the U.S. corporate income tax laws that may significantly affect the Company in future years, including the creation of a new Base Erosion Anti-Abuse Tax that subjects certain payments from U.S. corporations to foreign related parties to additional taxes, and limitations to certain deductions for net interest expense incurred by U.S. corporations. The U.S. Tax Reform also includes an increase in bonus depreciation from 50% to 100% for qualified property placed in service after September 27, 2017 and before 2023. Future regulations and interpretations to be issued by U.S. authorities may also impact the Company's estimates and assumptions used in calculating its income tax provisions.

The major components of income tax (recovery) expense are as follows:

<b>Consolidated statements of income</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
<b>Current income tax expense</b>	<b>\$ (723)</b>	<b>\$ 8,514</b>
<b>Deferred income tax expense</b>		
Origination and reversal of temporary differences	<b>(2,206)</b>	(989)
Change in substantively enacted tax rates (U.S.)	<b>(11,186)</b>	—
	<b>(13,392)</b>	(989)
<b>Income tax (recovery) expense reported in the consolidated statements of income</b>	<b>\$ (14,115)</b>	<b>\$ 7,525</b>

<b>Consolidated statements of comprehensive income</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
<b>Income tax expense (recovery) related to items charged or credited directly to OCI during the period:</b>		
Gain on hedge of net investment in foreign operations	<b>\$ 1,481</b>	\$ 604
Loss on translation of net investment in foreign operations	<b>(1,242)</b>	(876)
Effective portion of changes in fair value of cash flow hedges	<b>(756)</b>	(618)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	<b>199</b>	(548)
Net change in fair value of cash flow hedges transferred to income	<b>177</b>	38
Defined benefit plan actuarial (loss) gain	<b>(641)</b>	381
<b>Income tax recovery directly to OCI</b>	<b>\$ (782)</b>	<b>\$ (1,019)</b>

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The reconciliation between income tax (recovery) expense and the product of accounting profit multiplied by the Company's statutory tax rate is as follows:

<i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Accounting profit before tax at statutory income tax rate of 29.3% (2016: 29.2%)	\$ 5,139	\$ 11,617
Non-deductible expenses for tax purposes:		
Non-deductible share-based compensation	575	296
Tax benefits not previously recognized	(1,639)	—
Other non-deductible items	239	313
Effect of higher income tax rates of U.S. subsidiary	1,566	2,490
Acquisition financing deduction	(8,720)	(7,487)
Change in substantively enacted tax rates (U.S.)	(11,186)	—
Other	(89)	296
<b>Income tax (recovery) expense</b>	<b>\$ (14,115)</b>	<b>\$ 7,525</b>

<b>Deferred income tax</b>	<b>Consolidated statements of financial position as at:</b>		<b>Consolidated statements of income for the years ended:</b>	
	<b>December 30, 2017</b>	December 31, 2016	<b>December 30, 2017</b>	December 31, 2016
<i>(Amounts in \$000s)</i>				
Accelerated depreciation for tax purposes on property, plant and equipment	\$ (10,378)	\$ (15,117)	\$ (2,621)	\$ (601)
Inventory	(93)	(1,296)	(1,203)	3,217
Intangible assets	(21,142)	(33,399)	(7,879)	(980)
Pension	3,499	2,639	(46)	(216)
Revaluation of cash flow hedges	302	(239)	(10)	(309)
Losses available for offset against future taxable income	4,179	3,295	(884)	(1,981)
Deferred charges and other	2,477	1,805	(749)	(119)
<b>Deferred income tax recovery</b>			<b>\$ (13,392)</b>	<b>\$ (989)</b>
<b>Net deferred income tax liability</b>	<b>\$ (21,156)</b>	<b>\$ (42,312)</b>		

**Reflected in the consolidated statements of financial position as follows:**

Deferred income tax assets	\$ 2,787	\$ 2,290
Deferred income tax liabilities	(23,943)	(44,602)
<b>Net deferred income tax liability</b>	<b>\$ (21,156)</b>	<b>\$ (42,312)</b>

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<b>Reconciliation of net deferred income tax liabilities</b> <i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Opening balance, beginning of year	\$ (42,312)	\$ (44,031)
Deferred income tax recovery during the period recognized in income	2,206	989
Deferred income tax recovery arising from a change in tax rate	11,186	—
Deferred income tax recovery arising from an acquisition (Note 5)	6,683	—
Deferred income tax recovery (expense) during the period recognized in retained earnings	641	(383)
Deferred income tax recovery during the period recognized in OCI	440	1,113
Closing balance, end of year	<b>\$ (21,156)</b>	<b>\$ (42,312)</b>

The Company has net operating losses in its U.S. subsidiaries of \$1.7 million at December 30, 2017 (December 31, 2016: \$1.8 million) that are available to use from 2018 to 2028. A deferred income tax asset has been recognized for the amount that is probable to be realized.

The Company had unused capital losses of \$18.4 million at December 30, 2017 (December 31, 2016: \$20.0 million), which have an indefinite carryforward period. A deferred tax asset has only been recognized to the extent of the benefit that is probable to be realized.

The Company can control the distribution of profits, and accordingly, no deferred income tax liability has been recorded on the undistributed profit of its subsidiaries that will not be distributed in the foreseeable future.

The temporary difference associated with investments in subsidiaries, for which a deferred tax liability has not been recognized, is \$nil at December 30, 2017 and December 31, 2016.

There are no income tax consequences attached to the payment of dividends in either 2017 or 2016 by the Company to its shareholders.

## 21. Earnings per share

Net income and basic weighted average shares outstanding are reconciled to diluted earnings and diluted weighted average shares outstanding, respectively, as follows:

	<b>Fifty-two weeks ended December 30, 2017</b>			Fifty-two weeks ended December 31, 2016		
	Net income (\$000s)	Weighted average shares (000s)	Per share (\$)	Net income (\$000s)	Weighted average shares (000s)	Per share (\$)
<b>Net income</b>	<b>\$ 31,653</b>	<b>32,412</b>	<b>\$ 0.98</b>	\$ 32,284	30,917	\$ 1.04
Dilutive options	—	115	—	—	258	—
<b>Diluted earnings</b>	<b>\$ 31,653</b>	<b>32,527</b>	<b>\$ 0.97</b>	\$ 32,284	31,175	\$ 1.04

Excluded from the diluted earnings per common share calculation for the fifty-two weeks ended December 30, 2017 were 752,152 options, as their effect would have been anti-dilutive (December 31, 2016: 695,436 options).

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements In United States dollars, unless otherwise noted

### 22. Changes in financial liabilities arising from financing activities

<i>(Amounts in \$000s)</i>	December 31, 2016	Cash flows	Reclassified between current and non-current	Change in fair values	New leases	Deferred finance costs	Other <sup>(1)</sup>	<b>December 30, 2017</b>
Bank loans	\$ 621	\$ 52,618	\$ —	\$ —	\$ —	\$ —	\$ 113	\$ 53,352
Other current financial liabilities	1,626	—	—	573	—	—	(234)	1,965
Current portion of finance lease obligations	721	(725)	603	—	90	—	25	714
Long-term debt	266,327	70,000	—	—	—	(1,276)	390	335,441
Other long-term financial liabilities	196	—	—	(80)	—	—	(54)	62
Long-term finance lease obligations	702	—	(603)	—	310	—	(2)	407
<b>Total liabilities from financing activities</b>	<b>\$ 270,193</b>	<b>\$ 121,893</b>	<b>\$ —</b>	<b>\$ 493</b>	<b>\$ 400</b>	<b>\$ (1,276)</b>	<b>\$ 238</b>	<b>\$ 391,941</b>

<sup>(1)</sup> 'Other' includes the effect of amortization of deferred financing charges and the impact of the foreign exchange movements. The Company classifies interest paid and income taxes paid as cash flows from operating activities.

### 23. Guarantees and commitments

#### *Guarantee of supplier financing arrangement*

As part of the Rubicon acquisition (see Note 5), the Company assumed financing arrangement guarantees for certain suppliers that finance their exports of seafood products to Rubicon. As part of this financing arrangement, the Company has granted a security interest in substantially all of the inventory and proceeds thereon arising from purchases from these suppliers and has guaranteed the suppliers' borrowings, to the extent that such borrowings were used in connection with the exportation of seafood products to Rubicon. The Company has deemed the amount of the guarantee to be the open accounts payable to these suppliers and as of December 30, 2017, the open accounts payable was \$53.5 million.

Operating lease commitments for the next five years and thereafter are as follows:

<i>(Amounts in \$000s)</i>	<b>Operating lease payments</b>
2018	\$ 5,041
2019	4,825
2020	4,583
2021	3,869
2022	1,477
Thereafter	3,981

Operating lease commitments result principally from leases for cold storage facilities, office equipment, premises and production equipment. Operating lease payments recognized as an expense during the fifty-two weeks ended December 30, 2017 were \$5.1 million (December 31, 2016: \$5.0 million).

The Company's lease arrangements do not contain restrictions concerning dividends, additional debt, and further leasing imposed by the lessor, and on aggregate contain the option to renew the contract for at least one additional term.

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The Company had letters of credit outstanding as at December 30, 2017 relating to the procurement of inventories and the security of certain contractual obligations of \$5.0 million (December 31, 2016: \$7.1 million). The Company also had a letter of credit outstanding as at December 30, 2017 relating to the securitization of the Company's SERP benefit plan (see Note 17) in the amount of \$9.7 million (December 31, 2016: \$9.8 million).

**24. Related party disclosures**

**Entity with significant influence over the Company**

As at December 30, 2017, Thornridge Holdings Limited owns 34.5% of the Company's outstanding common shares (December 31, 2016: 37.3%).

**Other related parties**

As a result of the Rubicon acquisition, the Company has new related party transactions with a company controlled by certain key management of Rubicon. Total purchases from related parties for the fifty-two weeks ended December 30, 2017 were \$1.7 million (fifty-two weeks ended December 31, 2016: nominal), and as at December 30, 2017, there was \$nil (December 31, 2016: \$nil) due to the related parties. Total sales to related parties for the fifty-two weeks ended December 30, 2017 were \$0.2 million (fifty-two weeks ended December 31, 2016: \$nil), and as at December 30, 2017 there was \$0.2 million (December 31, 2016: \$nil) due from the related parties.

The Company did not have any transactions during 2016 or 2017 with entities who had significant influence over the Company or with members of the Board of Directors and their related interests.

**Key management personnel compensation**

In addition to their salaries, the Company also provides benefits to the Chief Executive Officer ("CEO"), and certain senior executive officers in the form of contributions to post-employment benefit plans, non-cash plans and various other short- and long-term incentive and benefit plans as described below.

The Company has entered into Change of Control Agreements (the "Agreements") with certain senior executive officers. The Agreements are automatically extended annually by one additional year unless the Company provides 90 days' notice of its unwillingness to extend the agreements. The Agreements provide that in the event of a termination by the Company following a change of control, other than for cause or by senior executive officers for good reason as defined in the Agreements, senior executive officers are entitled to: (a) cash compensation equal to their final annual compensation (including base salary and short-term incentives) multiplied by two for all senior executive officers; (b) the automatic vesting of any options or other entitlements for the purchase or acquisition of shares in the capital of the Company which are not then exercisable, which shall be exercisable following termination for two years for all senior executive officers; and (c) continue to participate in certain benefit programs for two years for all senior executive officers.

The following are the amounts recognized as an expense during the reporting period related to key management personnel compensation:

<i>(Amounts in \$000s)</i>	<b>Fifty-two weeks ended December 30, 2017</b>	Fifty-two weeks ended December 31, 2016
Salaries and short-term incentive plans <sup>(1)</sup>	\$ 2,586	\$ 3,558
Post-employment benefits <sup>(2)</sup>	163	151
Termination benefits <sup>(2)</sup>	1,534	—
Share-based compensation <sup>(3)</sup>	171	1,713
	<b>\$ 4,454</b>	<b>\$ 5,422</b>

(1) Short-term incentive amounts were for those earned in 2017 and 2016.

(2) Refer to Note 17 for details of each plan.

(3) Refer to Note 19 for details regarding the Company's Option and PSU Plans.

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## Notes to the Consolidated Financial Statements In United States dollars, unless otherwise noted

### 25. Operating segment information

The Company operates in one dominant industry segment, the manufacturing and marketing of prepared and packaged frozen seafood. The Company evaluates performance of the reportable segments on a geographical basis using net income before depreciation, amortization, finance costs and income taxes. The Company also reports a "Corporate" category, which does not qualify as a component of another reportable segment or as a separate reportable segment. Corporate includes expenses for corporate functions, share-based compensation costs and business acquisition, integration and other expenses. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No operating segments have been aggregated to form the reportable operating segments.

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

<i>(Amounts in \$000s)</i>	Fifty-two weeks ended December 30, 2017				Fifty-two weeks ended December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Revenue (excluding intercompany sales)</b>	\$ 262,063	\$ 791,783	\$ —	\$ 1,053,846	\$ 251,509	\$ 703,477	\$ —	\$ 954,986
Cost of sales (excluding intercompany sales)	216,329	651,411	27	867,767	195,722	559,835	(2,378)	753,179
<b>Gross profit</b>	\$ 45,734	\$ 140,372	\$ (27)	\$ 186,079	\$ 55,787	\$ 143,642	\$ 2,378	\$ 201,807
<b>Income (loss) before income taxes</b>	\$ 8,853	\$ 34,997	\$ (26,312)	\$ 17,538	\$ 20,888	\$ 47,745	\$ (28,824)	\$ 39,809
Add-back:								
Depreciation and amortization included in:								
Cost of sales	1,319	5,073	153	6,545	1,215	5,943	58	7,216
Distribution expenses	150	1,320	—	1,470	148	1,504	—	1,652
Selling, general and administrative expenses	492	6,727	1,077	8,296	497	5,247	2,502	8,246
<b>Total depreciation and amortization</b>	1,961	13,120	1,230	16,311	1,860	12,694	2,560	17,114
Finance costs	—	—	16,626	16,626	—	—	14,296	14,296
<b>Income (loss) before depreciation, amortization, finance costs and income taxes</b>	\$ 10,814	\$ 48,117	\$ (8,456)	\$ 50,475	\$ 22,748	\$ 60,439	\$ (11,968)	\$ 71,219

<i>(Amounts in \$000s)</i>	As at December 30, 2017				As at December 31, 2016			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Total assets</b>	\$ 172,180	\$ 713,729	\$ 22,060	\$ 907,969	\$ 137,331	\$ 522,426	\$ 25,351	\$ 685,108
<b>Total liabilities</b>	\$ 51,894	\$ 156,821	\$ 430,387	\$ 639,102	\$ 109,910	\$ 73,573	\$ 281,421	\$ 464,904

For the fifty-two weeks ended December 30, 2017 and December 31, 2016 the Company recognized \$332.7 million and \$162.6 million of sales from two customers and one customer, respectively, that represent more than 10% of the Company's total consolidated sales, arising from sales in both the Canadian and U.S. reportable operating segments.

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**26. Fair value measurement**

**Fair value of financial instruments**

Fair value is a market-based measurement, not an entity-specific measurement. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. Management is responsible for valuation policies, processes and the measurement of fair value within the Company.

Financial liabilities carried at amortized cost are shown using the EIR method. Other financial assets and other financial liabilities represent the fair value of the Company's foreign exchange contracts as well as the fair value of interest rate swaps on debt.

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

<i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>		December 31, 2016	
	<b>Level 2</b>	<b>Level 3</b>	Level 2	Level 3
<b>Fair value of financial assets</b>				
Foreign exchange contracts	\$ 501	\$ —	\$ 1,883	\$ —
Interest rate swaps	906	—	686	—
<b>Fair value of financial liabilities</b>				
Interest rate swaps	367	—	769	—
Foreign exchange contracts	1,660	—	1,053	—
Long-term debt	—	335,711	—	266,727
Finance lease obligations	—	1,129	—	1,434

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

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

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the fifty-two weeks ended December 30, 2017, no such transfers occurred.

The financial liabilities that are not measured at fair value on the consolidated statements of financial position consist of long-term debt and finance lease obligations. The carrying amounts for these instruments are \$335.4 million and \$1.1 million, respectively, as at December 30, 2017 (December 31, 2016: \$266.3 million and \$1.4 million, respectively).

**Amortized cost impact on interest expense**

During the fifty-two weeks ended December 30, 2017, the Company expensed \$0.2 million and \$0.6 million (December 31, 2016: \$0.1 million and \$0.4 million) of short-term and long-term interest, respectively, relating to interest that was calculated using the EIR method associated with transaction fees and borrowings.

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The fair values of other financial assets and liabilities at December 30, 2017 and December 31, 2016 are shown below:

<i>(Amounts in \$000s)</i>	Other financial assets		Other financial liabilities	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
<b>Financial instruments at fair value through OCI:</b>				
Foreign exchange forward contracts	\$ 501	\$ 1,860	\$ 1,532	\$ 1,039
Interest rate swap	906	686	367	769
<b>Financial instruments at fair value through profit or loss:</b>				
Foreign exchange forward contracts not designated in hedge relationships	—	23	128	14
	<b>\$ 1,407</b>	<b>\$ 2,569</b>	<b>\$ 2,027</b>	<b>\$ 1,822</b>

### Hedging activities

#### *Interest rate swaps*

During the fifty-two weeks ended December 30, 2017, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (see Note 16):

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
December 28, 2017	April 24, 2021	3-month LIBOR (floor 1.0%)	2.2200% \$	80.0

The cash flow hedge of interest expense variability was assessed to be highly effective for the fifty-two weeks ended December 30, 2017 and December 31, 2016, and therefore, the change in fair value for those interest rate swaps designated in a hedging relationship was included in OCI as nominal and an after-tax net loss of \$0.4 million, respectively.

The Company did not hold any interest rate swaps that were not designated during the fifty-two weeks ended December 30, 2017; therefore, the change in fair value was \$nil. During the fifty-two weeks ended December 31, 2016, the change in fair value for an interest rate swap that was not designated in a formal hedging relationship was a net gain of \$0.1 million.

#### *Foreign currency contracts*

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

As at December 30, 2017, the Company had outstanding notional amounts of \$38.1 million (December 31, 2016: \$50.2 million) in foreign currency average-rate forward contracts and \$6.0 million (December 31, 2016: \$5.4 million) in foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of \$1.5 million (December 31, 2016: \$3.9 million) average-rate forward contracts with maturities ranging from January 2019 to June 2019, all foreign currency forward contracts have maturities that are less than one year.

The cash flow hedges of the expected future purchases were assessed to be highly effective for the fifty-two weeks ended December 30, 2017 and December 31, 2016, and therefore, the change in fair value was recorded in OCI as an after-tax net loss of \$1.8 million and \$1.5 million, respectively. The amount recognized in the consolidated statements of income resulting from hedge ineffectiveness during the fifty-two weeks ended December 30, 2017 was nominal (fifty-two weeks ended December 31, 2016: net gain of \$0.1 million).

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As at December 30, 2017, the Company had outstanding notional amounts of \$5.0 million (2016: \$8.0 million) of foreign currency single-rate forward contracts outstanding to hedge foreign currency exchange risk on USD monetary assets and liabilities that were not formally designated as a hedge. The change in fair value for the fifty-two weeks ended December 30, 2017 and December 31, 2016 was nominal and a net gain of \$0.2 million, respectively, which was recorded in the consolidated statements of income.

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

As at December 30, 2017, a total borrowing of \$312.3 million (\$5.0 million included in bank loans and \$307.3 million included in long-term debt) (December 31, 2016: \$15.0 million included in accounts payable and \$237.3 million included in long-term debt) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the retranslation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There was no hedge ineffectiveness recognized during the fifty-two weeks ended December 30, 2017 and December 31, 2016.

**27. Capital management**

The primary objective of the Company's capital management policy is to ensure a strong credit rating and healthy capital ratios in order to support the business and maximize shareholder value. The Company defines capital as funded debt and common shareholder equity, including AOCI, except for gains and losses on derivatives used to hedge interest and foreign exchange cash flow exposure.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, by adjusting the dividend payment to shareholders, returning capital to shareholders, purchasing capital stock under a NCIB, or issuing new shares.

Capital distributions, including purchases of capital stock, are subject to availability under the Company's working capital debt facility. The consolidated Average Adjusted Aggregate Availability under the working capital debt facility must be greater than \$22.5 million. As at December 30, 2017, the Company has Average Adjusted Aggregate Availability of \$121.1 million. The Company also has restrictions on capital distributions, where the aggregate amount for dividends are subject to an annual limit of \$17.5 million with a provision to increase this amount subject to leverage and excess cash flow tests. NCIBs are subject to an annual limit of \$10.0 million. For the fifty-two weeks ended December 30, 2017 and December 31, 2016, the Company paid \$14.4 million and \$12.1 million in dividends, respectively, and \$nil and \$0.7 million under the NCIB, respectively.

The Company monitors capital (excluding letters of credit) using the ratio of net interest-bearing debt to capitalization, which is net interest-bearing debt divided by total capital plus net interest-bearing debt. The Company's objective is to keep this ratio between 35% and 60%. Seasonal working capital debt may result in the Company exceeding the ratio at certain times throughout the fiscal year. The Directors of the Company have also decided that this range can be exceeded on a temporary basis as a result of acquisitions.

<i>(Amounts in \$000s)</i>	<b>December 30, 2017</b>	December 31, 2016
Total bank loans (Note 13)	<b>\$ 53,560</b>	\$ 959
Total term loan debt (Note 16)	<b>337,926</b>	267,926
Total finance lease obligation (Note 16)	<b>1,121</b>	1,423
Interest-bearing debt	<b>392,607</b>	270,308
Less: cash	<b>(4,738)</b>	(18,252)
<b>Net interest-bearing debt</b>	<b>387,869</b>	252,056
Shareholders' equity	<b>268,867</b>	220,204
Unrealized gains on derivative financial instruments included in AOCI	<b>(220)</b>	(561)
Total capitalization	<b>\$ 656,516</b>	\$ 471,699
<b>Net interest-bearing debt as percentage of total capitalization</b>	<b>59%</b>	53%

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No changes were made in the objectives, policies or processes for managing capital for the fiscal year ended December 30, 2017. For the fiscal year ended December 31, 2016, the policy governing the net interest-bearing debt to capitalization ratio was changed to reflect an increase in the ratio limits from 35-50% to 35-60%.

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## **28. Financial risk management objectives and policies**

The Company's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, term loans, letters of credit, notes payable, finance leases, and trade payables. The only purpose of these financial liabilities is to finance the Company's operations. The Company has various financial assets such as trade receivables, other accounts receivable, and cash, which arise directly from its operations.

The Company is exposed to interest rate risk, liquidity risk, foreign currency risk and credit risk. The Company enters into interest rate swaps, foreign currency contracts and insurance contracts to manage these types of risks from the Company's operations and its sources of financing. The Company's policy is that no speculative trading in derivatives shall be undertaken. The Audit Committee of the Board of Directors reviews and approves policies for managing each of these risks, which are summarized below.

### **Interest rate risk**

The Company's exposure to the risk of changes in market interest rates arises out of the Company's debt obligations with floating interest rates. The Company's policy is to manage interest cost using a mix of fixed and variable rate debt. The Company's objective is to keep between 35% and 55% of its borrowings at fixed rates of interest. To manage this, the Company enters into fixed rate debt facilities or interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional amount. These swaps are designated to hedge underlying debt obligations. Interest rate options that effectively fix the maximum rate of interest that the Company will pay may also be used to manage this exposure. At December 30, 2017, 51% of the Company's borrowings, including the long-term debt and the working capital facility, were either hedged or at a fixed rate of interest (December 31, 2016: 45%).

#### *Interest rate sensitivity*

The Company's profit before tax is sensitive to the impact of a change in interest rates on that portion of debt obligations with floating interest rates, with all other variables held constant. As at December 30, 2017, the Company's current bank loans were \$53.6 million (December 31, 2016: \$1.0 million) and long-term debt was \$337.9 million (December 31, 2016: \$267.9 million). An increase of 25 basis points on the bank loans would have reduced earnings before tax by \$0.1 million (December 31, 2016: nominal). An increase of 25 basis points above the LIBOR floor on the long-term debt would have reduced earnings before tax by \$0.3 million (December 31, 2016: \$0.4 million). A corresponding decrease in respective interest rates would have an approximately equal and opposite effect. There is no impact on the Company's equity except through changes in income.

### **Foreign currency risk**

The Parent has a CAD functional currency, meaning that all transactions are recorded in CAD. However, as the Company's Consolidated Financial Statements are reported in USD, the results of the Parent are converted into USD for external reporting purposes. Therefore, the Canadian to U.S. exchange rates (USD/CAD) impact the results reported in the Company's Consolidated Financial Statements.

In looking at the effect on net income, the majority of sales in CAD, being those of the Parent, have USD-denominated input costs. For products sold in Canada, raw material is purchased in USD. However, labour, packaging and ingredient conversion costs, overheads and selling, general and administrative costs are incurred in CAD. A strengthening Canadian dollar has an overall effect of increasing net income in USD terms and conversely, a weakening Canadian dollar has the overall effect of decreasing net income in USD terms.

The Parent hedges forecasted cash flows for purchases of USD-denominated products for the Canadian operations where the purchase price is substantially known in advance. At December 30, 2017, the Parent hedged 49% (December 31, 2016: 61%) of these purchases identified for hedging, extending to March 2019. The Company's *Price Risk Management Policy* dictates that cash flows out fifteen months are hedged between a minimum and maximum percent that declines by quarter the further into the future the cash flows are. The Company does not hedge cash flows on certain USD-denominated seafood purchases in which the ultimate selling price charged to the Company's Canadian customers move with changes in the USD/CAD exchange rates. It is the Company's policy to set the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness.

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The Company also has foreign exchange risk related to the USD-denominated input costs of commodities used in its Canadian operations related to freight surcharges on transportation costs, paper products in packaging, grain and corn products in its breeding and batters, and soya and canola bean-based cooking oils. The Company hedges these USD-denominated input costs on a small scale, but relies where possible on three to thirty-six month, fixed price contracts in CAD with suppliers.

For the fifty-two weeks ended December 30, 2017, approximately 74% of the Parent's costs were denominated in USD, while approximately 91% of the Parent's sales were denominated in its CAD functional currency.

The Parent has some assets and liabilities that are denominated in CAD, and therefore, the assets and liabilities reported in the Consolidated Financial Statements change as USD/CAD exchange rates fluctuate. A stronger CAD has the effect of increasing the carrying value of assets and liabilities such as accounts receivable, inventory, property, plant and equipment, and accounts payable of the Parent when translated to USD. The net offset of those changes flow through OCI. Based on the equity of the Parent as of December 30, 2017, a one-cent increase/decrease in the USD/CAD exchange rate will decrease/increase equity by approximately \$0.4 million (December 31, 2016: \$0.4 million).

### **Credit risk**

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Company holds credit insurance on its trade accounts receivable and all receivable balances are managed and monitored at the corporate level on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company's top ten customers account for 68% of the trade receivables at December 30, 2017 (December 31, 2016: 66%), with the largest customer accounting for 14% (December 31, 2016: 14%).

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty. The Company manages this risk by dealing with financially creditworthy counterparties, such as Chartered Canadian banks and U.S. banks with investment grade ratings.

The maximum exposure to credit risk is equal to the carrying value of accounts receivable and derivative instruments.

### **Liquidity risk**

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next twelve months as well as the models that look out five years. Working capital and cash balances are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable, and finance leases. The Company's objective is that not more than 50% of borrowings should mature in the next twelve-month period. At December 30, 2017, less than 1% of the Company's debt (December 31, 2016: less than 1%) will mature in less than one year based on the carrying value of borrowings reflected in the Consolidated Financial Statements. At December 30, 2017, the Company was in compliance with all covenants and terms of its debt facilities.

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The table below shows the maturities of the Company's non-derivative financial liabilities:

<i>(Amounts in \$000s)</i>	<b>Due within 1 year</b>		<b>Due in 1-5 years</b>		<b>Total</b>
Bank loans	\$	—	\$	53,560	\$ 53,560
Accounts payable and accrued liabilities		209,910		—	209,910
Other liabilities		166		1,641	1,807
Long-term debt		—		337,926	337,926
Finance lease obligations		714		407	1,121
<b>As at December 30, 2017</b>	<b>\$</b>	<b>210,790</b>	<b>\$</b>	<b>393,534</b>	<b>\$ 604,324</b>
Bank loans	\$	—	\$	959	\$ 959
Accounts payable and accrued liabilities		139,378		—	139,378
Other liabilities		416		888	1,304
Long-term debt		—		267,926	267,926
Finance lease obligations		721		702	1,423
<b>As at December 31, 2016</b>	<b>\$</b>	<b>140,515</b>	<b>\$</b>	<b>270,475</b>	<b>\$ 410,990</b>

**Seafood price risk**

The Company is dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. The Company buys as much as \$661.0 million of this product annually. A 1% change in the price of frozen raw seafood materials would increase/decrease the Company's procurement costs by \$6.6 million. Prices can fluctuate and there is no formal commercial mechanism for hedging either sales or purchases. Purchases of seafood on global markets are principally in USD. The Company hedges exposures to a portion of its currency exposures and enters into longer-term supply contracts when possible.

The Company has multiple strategies to manage seafood costs. The Company purchases significant quantities of frozen raw material and finished goods originating from all over the world. The Company's supplier base is diverse to ensure no over-reliance on any one source or species. The Company maintains a strict policy of *Supplier Approval and Audit Standards*.

Over time, the Company strives to adjust selling prices to its customers as the world price of seafood changes or currency fluctuations occur.

**Commodity risk**

The Company is exposed to price changes in commodities such as crude oil, wheat, corn, paper products, and frying oils. The Company's *Price Risk Management Policy* dictates the use of fixed pricing with suppliers whenever possible, but allows the use of hedging with derivative instruments if deemed prudent. Throughout 2017 and 2016, the Company managed this risk through contracts with suppliers. The Company enters into fixed price contracts with suppliers on an annual basis and, therefore, a significant portion of the Company's 2018 commodity purchase requirements is covered. Should an increase in the price of commodities materialize, there could be a negative impact on earnings performance and alternatively, a decrease in the price of commodities could result in a benefit to earnings performance.

Crude oil prices, which influence fuel surcharges from freight suppliers increased in 2017 similarly to 2016. World commodity prices for flour, soy and canola oils, important ingredients in many of the Company's products, fluctuated throughout the year, but generally maintained the average price level of the prior year. The price of corrugated and folding carton, which is used in packaging, increased in 2017.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements In United States dollars, unless otherwise noted

### 29. Supplemental information

The components of income and expenses included in the consolidated statements of income are as follows:

<i>(Amounts in \$000s)</i>	<b>Fifty-two weeks ended December 30, 2017</b>	<b>Fifty-two weeks ended December 31, 2016</b>
<b>Included in finance costs:</b>		
Interest expense on bank loans	\$ 1,453	\$ 934
Interest expense on long-term debt	14,456	12,682
Interest rate hedge	—	(127)
Deferred financing charges	721	530
Interest on letter of credit for SERP	119	124
Fair market value accretion on acquisition	—	142
Foreign exchange (gain) loss	(123)	11
<b>Total finance costs</b>	<b>\$ 16,626</b>	<b>\$ 14,296</b>
<b>Foreign exchange (gain) loss included in:</b>		
Cost of sales	\$ (13)	\$ (1,015)
Finance costs	(122)	11
<b>Total foreign exchange gain</b>	<b>\$ (135)</b>	<b>\$ (1,004)</b>
<b>Loss (gain) on disposal of assets included in:</b>		
Cost of sales	\$ 179	\$ 181
Distribution expenses	59	19
Selling, general and administrative expenses	496	(379)
<b>Total losses (gains) on disposal of assets</b>	<b>\$ 734</b>	<b>\$ (179)</b>
<b>Employee compensation and benefit expense:</b>		
Wages and salaries (including payroll benefits)	\$ 102,198	\$ 100,007
Future employee benefit costs	3,088	2,915
Share-based compensation expense	771	3,229
Termination benefits	2,972	1,477
Short-term employee benefits	153	2,319
<b>Total employee compensation and benefit expense</b>	<b>\$ 109,182</b>	<b>\$ 109,947</b>