



HIGH LINER FOODS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the thirteen and thirty-nine weeks ended September 28, 2019

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

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A"), dated November 7, 2019, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and thirty-nine weeks ended September 28, 2019, compared to the thirteen and thirty-nine weeks ended September 29, 2018. Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2018 Annual Report along with our Unaudited Condensed Interim Consolidated Financial Statements as at and for the thirteen and thirty-nine weeks ended September 28, 2019 ("Consolidated Financial Statements"), prepared in accordance with International Financial Reporting Standards ("IFRS"). The information contained in this document, including forward-looking statements, is based on information available to Management as of November 7, 2019, except as otherwise noted.

Non-IFRS Financial Measures

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

Currency

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

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

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements within the meaning of securities laws. In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. In addition, these statements and expectations concerning the performance of our business in general are based on a number of factors and assumptions including, but not limited to: availability, demand and prices of raw materials, energy and supplies; the condition of the Canadian and American economies; product pricing; foreign exchange rates, especially the rate of exchange of the CAD to the USD; our ability to attract and retain customers; our operating costs and improvement to operating efficiencies; interest rates; continued access to capital; the competitive environment and

related market conditions; and the general assumption that none of the risks identified below or elsewhere in this document will materialize.

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

Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "could", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective", "goal", "remain" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the *Risk Factors* section of our 2018 Annual Report and the *Risk Factors* section of our 2018 Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: volatility in the CAD/USD exchange rate; the interpretation of the U.S. Tax Reform by tax authorities; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of climate change and geopolitical events (and related economic sanctions) on the same; the impact of the U.S. Administration's tariffs on certain seafood products; costs of commodity products and other production inputs, and the ability to pass cost increases on to customers; successful integration of acquired operations; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the market place; changes in laws and regulations, including environmental, climate change, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; enterprise resource planning system risk; climate change risks, including damage to the Company's assets and supply chain and operational disruptions due to adverse weather conditions and natural disasters; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development.

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

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

COMPANY OVERVIEW

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

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

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

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

In 2018, the Company embarked on a significant undertaking as represented by the five critical initiatives summarized below to stabilize the business and create optimal conditions for innovation, industry leadership and growth in support of long-term value creation for stakeholders. At this time the Company launched its critical initiative plan, and expected the plan would achieve a minimum of \$10.0 million in annualized cost savings, on a run-rate basis. The first critical initiative of organizational realignment was completed in November 2018 and will generate net annualized run-rate cost savings of \$7.0 million (see the *Recent Developments* section on page 4 of this MD&A for further discussion).

The Company's five critical initiatives are:

- **Organizational Realignment:** Important progress has been made on this initiative, as mentioned above, to realign the organization to create a "One High Liner Foods" culture that improves efficiency and cuts costs, will facilitate knowledge sharing and organizational best practices, and lay the foundation for the critical initiatives that follow.
- **Business Simplification:** The Company will take unnecessary complexity out of its business to ensure the product portfolio is simple, yet powerful and focuses on the best of High Liner Foods - in terms of margins, customer appeal and growth potential. Although this will require certain product eliminations, this will enable the Company to focus its resources on developing and innovating the most profitable and desirable products.

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

- **Supply Chain Excellence:** The Company will build on efforts to date to create one integrated supply chain by creating a cross-border operating system, increasing the efficiency of manufacturing activities through further centralization and standardization and is focusing its attention on sales and operational planning and continuous improvement.
- **Rubicon Shrimp Alignment and Growth:** The Company will work to extract the value and synergies in this acquisition that have yet to be fully realized. By fully aligning Rubicon with High Liner Foods, the Company will maximize the opportunity for growth in the shrimp business.
- **Profitable Organic Growth:** The Company will invest in product innovation, research and partnerships to strengthen its customer engagement, shape consumer tastes and drive demand for our seafood with the goal of returning to profitable growth.

To complement existing work and address anticipated headwinds facing the business, the Company has engaged the consulting firm AlixPartners to help further analyze and identify improvements associated with our supply chain and other cost savings opportunities related to selling, general and administrative expenses. By expanding the scope of its supply chain excellence critical initiative, the Company expects a significant increase in the total net annualized run-rate cost savings associated with the critical initiative plan as compared to the \$10.0 million cost savings target previously disclosed. The cost savings resulting from the critical initiatives are expected to more than offset the anticipated ongoing financial impact of volume declines.

OUTLOOK

Management is confident that execution against its critical initiative plan will continue to deliver year-over-year Adjusted EBITDA improvement in 2019 and 2020. This Adjusted EBITDA growth will continue despite further anticipated sales volume decline that the Company is focused on replacing with increased sales of higher margin value-added products.

The Company also expects net debt to rolling twelve month Adjusted EBITDA to continue to improve in 2020 as a result of growth in Adjusted EBITDA, improved cash flow management and the dividend reduction announced in May of this year on the Company's common shares.

In May 2019, the U.S. Administration proposed 25% import tariffs (including "List 4B" tariffs) on additional Chinese imports, with no effective date. On August 23, 2019, the U.S. President proposed the List 4B tariffs be decreased to 15% with an effective date of December 15, 2019, pending further negotiations between the U.S. and China. As currently drafted, the List 4B tariffs apply only to limited products sold by the Company and as a result of mitigation activities, are not expected to have a significant financial impact. Excluding any impact related to U.S. import tariffs, the pricing and supply of seafood raw material for the products sold by the Company are expected to remain relatively stable throughout the remainder of 2019 and 2020.

RECENT DEVELOPMENTS

Organizational Realignment

During the fourth quarter of Fiscal 2018, the Company announced an organizational realignment to optimize the Company's structure in order to take better advantage of the Company's North American scale. As a result, the Company undertook significant reorganization of the internal leadership and reporting structure. The reorganization is now complete and the Company is arranged as a single frozen seafood company that is focused on North America, rather than focusing on separate geographical segments (U.S. and Canada). As such, the Company has transitioned to a single operating and reporting segment.

The 2018 organizational realignment resulted in a 14.0% reduction of its salaried workforce. The Company has

recognized total short-term termination benefits of approximately \$4.8 million, of which \$nil and \$1.3 million were recognized during the thirteen and thirty-nine weeks ended September 28, 2019, respectively, and \$3.5 million was recognized in the fourth quarter of 2018, as business acquisition, integration and other expense (income) in the consolidated statements of income (loss). No additional short-term termination benefits are expected in the fourth quarter of Fiscal 2019. The full organizational realignment undertaken in 2018 will generate approximately \$7.0 million in net annualized run rate cost savings.

Dividend and Capital Structure

After an extensive review of its capital allocation strategy, on May 14, 2019, the Board of Directors (the "Board") revised the quarterly dividend to CAD\$0.05 per common share from CAD\$0.145 per common share. The revised dividend also frees up approximately \$10 million in cash flow annually to support the reduction and refinancing of debt to create a stronger balance sheet.

Product Recall

In 2017, the Company announced a voluntary recall of certain brands of breaded fish and seafood products sold in Canada and the U.S. that may contain a milk allergen that was not declared on the ingredient label and allergen statement. The Company identified that the allergen had originated from ingredients supplied by one of the Company's ingredient suppliers. As a result, during the fifty-two weeks ended December 30, 2017, the Company recognized \$13.5 million in net losses associated with the product recall related to consumer refunds, customer fines, the return of product to be re-worked or destroyed, and direct incremental costs. These losses did not include any reduction in earnings as a result of lost sales opportunities due to limited product availability and customer shortages, or increased production costs related to the interruption of production at the Company's facilities. During the third quarter of 2018, the Company recognized an \$8.5 million recovery associated with the product recall losses from the ingredient supplier, which was recognized as business acquisition, integration and other expense (income) in the consolidated statements of income (loss).

During the first quarter of 2019, the Company recognized an \$8.5 million recovery associated with the product recall losses from the ingredient supplier, which was recognized as business acquisition, integration and other expense (income) in the consolidated statements of income (loss). As a result, the Company has recovered the full \$13.5 million in losses recognized during the fifty-two weeks ended December 30, 2017 related to consumer refunds, customer fines, the return of product to be re-worked or destroyed, and direct incremental costs, and an additional \$3.5 million related to lost sales opportunities and increased production costs. No further expenses or recoveries are expected.

Adoption of IFRS 16, *Leases*

The Company has adopted the new lease standard, IFRS 16, *Leases* ("IFRS 16") effective December 30, 2018 using the modified retrospective method, including the application of certain practical expedients, and therefore the comparative information for Fiscal 2018 has not been restated. The implementation of IFRS 16 has resulted in additional assets and liabilities on the consolidated statements of financial position of approximately \$14.6 million (see the *Accounting Estimates and Standards* section on page 24 of this MD&A). In addition, the nature of the expense related to these leases has changed as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and interest expense on the lease liabilities using the effective interest method. Approximately \$5.1 million, previously accounted for as operating lease expense, is now accounted for as \$4.6 million of depreciation expense and \$1.3 million of finance costs for fifty-two weeks ended December 28, 2019. The Company's non-IFRS financial measures for Fiscal 2019 reflect the impact IFRS 16, and prior periods have been not be adjusted consistent with the modified retrospective method (see the *Non-IFRS Financial Measures* section starting on page 20 of this MD&A).

Board of Directors

The Chairman of the Board, Henry Demone, retired from the Board following the conclusion of the Annual General Meeting ("AGM") on May 14, 2019. The Board appointed Robert Pace as the new Chairman of the Board at that time.

U.S. Tariffs

In September 2018, the U.S. Administration commenced trade discussions with China which has resulted in the following actions related to tariffs on goods imported to the U.S.:

- Initial 10% tariff on certain Chinese imports effective September 24, 2018 ("first action");
- Increase to a 25% tariff on Chinese imports covered by the first action effective May 10, 2019 for items entering the U.S. on or after June 10, 2019; and
- Initial 15% tariff on Chinese imports falling under List 4B effective December 15, 2019 ("second action"), pending further negotiations between the U.S. and China.

The 5% additional tariff proposed on certain Chinese imports covered by the first action on August 23, 2019, which would bring the total tariff to 30%, has been postponed indefinitely, due to favourable negotiations between the U.S. and China.

The Company currently purchases its seafood raw materials from more than 20 countries, including from the U.S., to meet U.S. consumer demand. A portion of this raw material is imported into China for primary processing and then exported to the U.S. for sale and secondary processing. The Company has determined that the additional tariffs in the first action impacted most notably haddock (excluding block), tilapia, and sole/flounder and the additional tariffs in the second action will most notably impact pollock. The estimated annual run-rate exposure of the 25% tariff on Chinese imports covered by the first action is approximately \$12.0 million, based on current volume and raw material costs. The estimated annual run-rate exposure of a 15% tariff on List 4B items is approximately \$2.0 million, based on current volume and raw material costs. However, the Company has begun implementing plans, including pricing actions and other supply chain initiatives, to mitigate the impact of these tariffs and reduce the estimated impact to the Company.

The Company will continue to monitor these developments closely, particularly if further information becomes available regarding potential additional tariffs or how the previously announced tariffs will impact the Company. The Company is actively pursuing formal tariff exclusions on the items affected that do not originate in China.

Refinancing of term loan facility and amendment of working capital facility

Subsequent to September 29, 2019, the Company announced the amendment of its working capital facility (refer to Note 5 "*Bank loans*" to the Consolidated Financial Statements for further information) and the early refinancing of its term loan facility (refer to Note 6 "*Long-term debt*" to the Consolidated Financial Statements for further information). The working capital facility was amended by reducing the amount of the facility from \$180.0 million to \$150.0 million and extending the term from April 2021 to April 2023. The term loan facility was reduced from \$370.0 million to \$300.0 million, the term was extended from April 2021 to October 2026, and the applicable interest rates for loans under the facility was increased from LIBOR plus 3.25% (1.00% LIBOR floor) to LIBOR plus 4.25% (1.00% LIBOR floor).

See the "*Events After the Reporting Period*" section on page 20 for further information.

PERFORMANCE

As previously discussed, the Company undertook significant reorganization of the internal leadership and reporting structure. The reorganization is now complete and the Company is arranged as a single, focused frozen seafood company that is focused on North America, rather than focusing on separate geographical segments (U.S. and Canada). As such, the Company has transitioned to a single operating and reporting segment (see Note 13 "*Geographic information*" to the Consolidated Financial Statements) and the following discussion and analysis of the Company's financial results focuses on the performance of the consolidated operations.

Seasonality

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

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

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

Consolidated Performance

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

(in \$000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	Thirteen weeks ended			Thirty-nine weeks ended		
	September 28, 2019	September 29, 2018	Change	September 28, 2019	September 29, 2018	Change
Sales volume (millions of lbs)	60.2	64.2	(4.0)	199.1	217.8	(18.7)
Average foreign exchange rate (USD/CAD)	\$ 1.3205	\$ 1.3072	\$ 0.0133	\$ 1.3295	\$ 1.2877	\$ 0.0418
Sales	\$ 220,141	\$ 241,157	\$ (21,016)	\$ 720,599	\$ 805,653	\$ (85,054)
Gross profit	\$ 42,434	\$ 43,999	\$ (1,565)	\$ 141,358	\$ 147,870	\$ (6,512)
Gross profit as a percentage of sales	19.3%	18.2%	1.1%	19.6%	18.4%	1.2%
Distribution expenses	\$ 10,697	\$ 12,692	\$ (1,995)	\$ 34,375	\$ 40,524	\$ (6,149)
Selling, general and administrative expenses	\$ 25,429	\$ 21,650	\$ 3,779	\$ 71,442	\$ 71,249	\$ 193
Adjusted EBITDA ⁽¹⁾	\$ 16,455	\$ 14,235	\$ 2,220	\$ 66,553	\$ 50,506	\$ 16,047
Adjusted EBITDA as a percentage of sales	7.5%	5.9%	1.6%	9.2%	6.3%	2.9%
Net (loss) income	\$ (2,400)	\$ 4,531	\$ (6,931)	\$ 13,308	\$ 17,586	\$ (4,278)
Basic (Loss) Earnings per Share ("EPS")	\$ (0.07)	\$ 0.13	\$ (0.20)	\$ 0.39	\$ 0.52	\$ (0.13)
Diluted EPS	\$ (0.07)	\$ 0.13	\$ (0.20)	\$ 0.39	\$ 0.52	\$ (0.13)
Adjusted Net Income ⁽¹⁾	\$ 3,857	\$ 412	\$ 3,445	\$ 23,462	\$ 14,881	\$ 8,581
Adjusted Basic EPS	\$ 0.11	\$ 0.01	\$ 0.10	\$ 0.69	\$ 0.44	\$ 0.25
Adjusted Diluted EPS ⁽¹⁾	\$ 0.11	\$ 0.01	\$ 0.10	\$ 0.68	\$ 0.44	\$ 0.24
Total assets				\$ 810,069	\$ 826,142	\$ (16,073)
Total long-term financial liabilities				\$ 350,186	\$ 348,967	\$ 1,219
Dividends paid per common share (CAD)	\$ 0.050	\$ 0.145	\$ (0.095)	\$ 0.245	\$ 0.435	\$ (0.190)

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

Sales

Thirteen weeks

Consolidated sales volume for the third quarter of 2019 decreased by 4.0 million pounds, or 6.2%, to 60.2 million pounds compared to 64.2 million pounds in the same period in 2018 due to lower sales volumes in our retail and foodservice businesses, including lower sales volume as a result of lost business in the latter half of Fiscal 2018 and the exit of low margin business.

Sales in the third quarter of 2019 decreased by \$21.1 million, or 8.7%, to \$220.1 million compared to \$241.2 million in the same period last year. The decrease in sales reflects the lower sales volumes and changes in sales mix, partially offset by price increases related to raw material cost increases. In addition, the weaker Canadian dollar in the third quarter of 2019 compared to the same quarter of 2018 decreased the value of USD sales from our CAD-denominated operations by approximately \$0.6 million relative to the conversion impact last year.

Thirty-nine weeks

Sales volume in the first three quarters of 2019 decreased by 18.7 million pounds, or 8.6%, to 199.1 million pounds compared to 217.8 million pounds in the same period last year due to lower sales volumes in our retail and foodservice businesses, including lower sales volume as a result of lost business in the latter half of Fiscal 2018 and the exit of low margin business.

Sales in the first three quarters of 2019 decreased by \$85.1 million, or 10.6%, to \$720.6 million compared to \$805.7 million in the same period last year. The decrease in sales reflects the lower sales volumes mentioned above and changes in sales mix, partially offset by price increases related to raw material cost increases. In addition, the weaker Canadian dollar in the first three quarters of 2019 compared to the first three quarters of 2018 decreased the value of reported USD sales from our CAD-denominated operations by approximately \$5.7 million relative to the conversion impact last year.

Gross Profit

Thirteen weeks

Gross profit decreased in the third quarter of 2019 by \$1.6 million, or 3.6%, to \$42.4 million compared to \$44.0 million in the same period in 2018, while gross profit as a percentage of sales increased to 19.3% compared to 18.2% in the same period last year. The decrease in gross profit reflects the lower sales volume discussed above and raw material cost increases, including tariffs on certain species imported into the U.S. from China (see the *Recent Developments* section on page 4 of this MD&A). This was partially offset by sales price increases, favorable product mix related to the exit of low margin business and improved plant efficiencies partially related to the Company's supply chain excellence initiatives (see the *Company Overview* section on page 3 of this MD&A).

In addition, the weaker Canadian dollar decreased the value of reported USD gross profit from our Canadian operations in 2019 by approximately \$0.1 million relative to the conversion impact last year.

Thirty-nine weeks

Gross profit decreased in the first three quarters of 2019 by \$6.5 million, or 4.4%, to \$141.4 million compared to \$147.9 million in the same period last year, while gross profit as a percentage of sales increased to 19.6% compared to 18.4% in the same period last year. The decrease in gross profit reflects the lower sales volume discussed above and raw material cost increases including tariffs on certain species imported into the U.S. from China (see the *Recent Developments* section on page 4 of this MD&A). This decrease was partially offset by sales price increases, favourable product mix related to the exit of the low margin business and improved plant efficiencies partially related to supply chain excellence initiatives (see the *Company Overview* section on page 3 of this MD&A).

In addition, the weaker Canadian dollar decreased the value of reported USD gross profit from our Canadian operations in 2019 by approximately \$1.3 million relative to the conversion impact last year.

Distribution Expenses

Thirteen weeks

Distribution expenses, consisting of freight and storage, decreased in the third quarter of 2019 by \$2.0 million to \$10.7 million compared to \$12.7 million in the same period in 2018, reflecting lower freight and storage costs primarily related to the lower sales volume mentioned previously and savings associated with supply chain excellence initiatives (see the *Company Overview* section on page 3 of this MD&A). As a percentage of sales, these expenses decreased to 4.9% in the third quarter of 2019 compared to 5.3% in the same period in 2018.

Thirty-nine weeks

Distribution expenses, consisting of freight and storage, decreased in the first three quarters of 2019 by \$6.1 million to \$34.4 million compared to \$40.5 million in the same period last year reflecting lower freight and storage costs primarily related to the lower sales volume mentioned previously and savings associated with supply chain excellence initiatives (see the *Company Overview* section on page 3 of this MD&A). As a percentage of sales, distribution expenses decreased to 4.8% in the first three quarters of 2019 compared to 5.0% in the same period in 2018.

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
SG&A expenses, as reported	\$ 25,429	\$ 21,650	\$ 71,442	\$ 71,249
Less:				
Share-based compensation expense ⁽¹⁾	4,364	18	8,603	1,011
Depreciation and amortization expense ⁽¹⁾	2,683	2,457	8,135	7,056
SG&A expenses, net	\$ 18,382	\$ 19,175	\$ 54,704	\$ 63,182
SG&A expenses, net as a percentage of sales	8.4%	8.0%	7.6%	7.8%

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

Selling, General and Administrative Expenses

Thirteen weeks

SG&A expenses increased in the third quarter of 2019 by \$3.7 million to \$25.4 million compared to \$21.7 million in the same period last year. SG&A expenses included share-based compensation expense of \$4.4 million in the third quarter of 2019 compared to a nominal expense for the same period in 2018, primarily due to the issuance of stock options and cash-settled awards and a higher share price compared to the same period last year. SG&A expenses also included depreciation and amortization expense of \$2.7 million in the third quarter of 2019 and \$2.5 million in the same period of 2018. This increase was primarily related to the adoption of the new lease standard that was effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 4 of this MD&A).

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the third quarter of 2019 by \$0.8 million to \$18.4 million compared to \$19.2 million in the same period last year, due to lower salaries and benefits related to the organizational realignment (see the *Company Overview* section on page 3 of this MD&A), lower consumer marketing and administrative expenditures associated with cost saving initiatives and lower variable selling costs largely related to the lower sales volume mentioned previously. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense increased to 8.4% in the third quarter of 2019 compared to 8.0% in the same period last year.

Thirty-nine weeks

SG&A expenses increased by \$0.2 million to \$71.4 million in the first three quarters of 2019 as compared to \$71.2 million in the same period last year. SG&A expenses included share-based compensation expense of \$8.6 million in the first three quarters of 2019 compared to an expense of \$1.0 million in the same period last year, primarily due to the issuance of stock options and cash-settled awards and a higher share price compared to the same period last year. SG&A expenses also included depreciation and amortization expense of \$8.1 million in the first three quarters of 2019 compared to \$7.1 million in the same period last year. This increase was primarily related to adoption of the new lease standard that was effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 4 of this MD&A).

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the first three quarters of 2019 by \$8.5 million to \$54.7 million compared to \$63.2 million in the same period last year, due to lower salaries and benefits related to the organizational realignment (see the *Company Overview* section on page 3 of this MD&A), lower consumer marketing and administrative expenditures associated with cost saving initiatives and lower variable selling costs largely related to the lower sales volume mentioned previously. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 7.6% in the first three quarters of 2019 compared to 7.8% in the same period last year.

Adjusted EBITDA

We refer to Adjusted EBITDA throughout this MD&A in discussing our results for the thirteen and thirty-nine weeks ended September 28, 2019. See the *Non-IFRS Financial Measures* section on page 20 for further explanation of this non-IFRS measure.

Thirteen weeks

Consolidated Adjusted EBITDA increased in the third quarter of 2019 by \$2.3 million, or 16.2%, to \$16.5 million compared to \$14.2 million in the same period last year. The increase in Adjusted EBITDA reflects the impact of the new lease standard adopted at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 4 of this MD&A), the decrease in distribution and net SG&A expenses, partially offset by the lower gross profit discussed previously.

The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency increased the value of reported Adjusted EBITDA in USD by \$0.7 million in the third quarter of 2019 compared to \$0.4 million in 2018.

Thirty-nine weeks

Consolidated Adjusted EBITDA increased in the first three quarters of 2019 by \$16.1 million, or 31.9%, to \$66.6 million compared to \$50.5 million in the same period last year. The increase in Adjusted EBITDA reflects the inclusion of \$5.5 million of the \$8.5 million recovery received from the ingredient supplier in the first quarter of 2019 associated with the 2017 product recall (see the *Recent Developments* section on page 4 of this MD&A), the impact of the new lease standard adopted at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 4 of this MD&A) and the decrease in distribution and net SG&A expenses, partially offset by the lower gross profit discussed previously. The remaining recovery from the ingredient supplier of \$3.0 million (of the total \$8.5 million) and the \$8.5 million recovery received in the third quarter of 2018 were excluded from Adjusted EBITDA, consistent with the treatment in Fiscal 2017 when the related \$11.5 million in product recall costs were added back or excluded for the purpose of Adjusted EBITDA.

The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by \$2.5 million in the first three quarters of 2019 compared to \$2.2 million in 2018.

Net (Loss) Income

We refer to Adjusted Net Income and Adjusted Diluted EPS throughout this MD&A. See the *Non-IFRS Financial Measures* section starting on page 20 for further explanation of these non-IFRS measures.

Thirteen weeks

Net (loss) income decreased in the third quarter of 2019 by \$6.9 million, or 153.0%, to a net loss of \$2.4 million (\$0.07 loss per diluted share) compared to net income of \$4.5 million (\$0.13 per diluted share) in the same period last year. The decrease in net income reflects the decrease in gross profit discussed previously, the increase in SG&A expenses, the product recall recovery of \$8.5 million from the ingredient supplier recognized in the third quarter of 2018 (see the *Recent Developments* section on page 4 of this MD&A), costs associated with the Company's critical initiatives (see the *Company Overview* on page 3 of this MD&A) and higher depreciation and amortization expense, partially offset by the decrease in distribution expense and lower income taxes (see the *Income Taxes* section on page 13 of this MD&A).

In 2019, net (loss) income included "business acquisition, integration and other expense (income)" (as explained in the *Business Acquisition, Integration and Other Expense (Income)* section on page 12 of this MD&A) related to the costs associated with the Company's critical initiatives mentioned above, and other non-cash expenses. In 2018, net (loss) income included "business acquisition, integration and other expense (income)" related to the product recall recovery received in the third quarter of 2018, short-term termination benefits as a result of restructuring activities, and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income in the third quarter of 2019 increased by \$3.5 million, or 875.0%, to \$3.9 million compared to \$0.4 million in the same period last year.

Correspondingly, Adjusted Diluted EPS increased by \$0.10 to \$0.11 compared to \$0.01 in the third quarter of the same period last year.

Thirty-nine weeks

Net income decreased in the first three quarters of 2019 by \$4.3 million, or 24.4%, to \$13.3 million (\$0.39 per diluted share) compared to \$17.6 million (\$0.52 per diluted share) in the same period last year. The decrease in net income reflects the decrease in gross profit discussed previously, the increase in SG&A expenses, the increase in short-term termination benefits as a result of the organizational realignment announced in November 2018, costs associated with the Company's critical initiatives, and an increase in finance costs and depreciation and amortization expense as discussed in other sections of this MD&A. This decrease was partially offset by the decrease in distribution expenses and lower income tax expense as discussed in the *Income Taxes* section on page 13 of this MD&A.

In the first three quarters of 2019, net income included "business acquisition, integration and other expense (income)" (as explained in the *Business Acquisition, Integration and Other Expense (Income)* section on page 12 of this MD&A) related to the product recall recovery, short-term termination benefits and the costs associated with the Company's critical initiatives mentioned above, and other non-cash expenses. In 2018, net income included "business acquisition, integration and other expense (income)" related to the product recall recovery in the third quarter of 2018, short-term termination benefits as a result of restructuring activities and other non-cash expenses. Excluding the impact of these non-routine items or other non-cash expenses, and including the \$3.0 million product recall recovery excluded from Adjusted EBITDA, Adjusted Net Income in the first three quarters of 2019 increased by \$8.6 million, or 57.7%, to \$23.5 million compared to \$14.9 million in the same period last year.

Adjusted Diluted EPS increased by \$0.24 to \$0.68 in the first three quarters of 2019 compared to \$0.44 in the same period last year.

RESULTS BY QUARTER

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

(Amounts in \$000s, except per share amounts)	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Sales	\$ 220,141	\$ 223,034	\$ 277,424	\$ 242,878	\$ 241,157	\$ 245,312	\$ 319,184	\$ 263,022	\$ 282,704
Adjusted EBITDA ⁽¹⁾	\$ 16,455	\$ 17,883	\$ 32,215	\$ 11,968	\$ 14,235	\$ 12,050	\$ 24,221	\$ 13,060	\$ 17,298
Net (Loss) Income	\$ (2,400)	\$ 946	\$ 14,762	\$ (810)	\$ 4,531	\$ 2,804	\$ 10,251	\$ 14,227	\$ 6,040
Adjusted Net Income ⁽¹⁾	\$ 3,857	\$ 4,680	\$ 14,925	\$ 2,169	\$ 412	\$ 3,766	\$ 10,703	\$ 4,849	\$ 8,424
EPS, based on Net (Loss) Income									
Basic	\$ (0.07)	\$ 0.03	\$ 0.44	\$ (0.02)	\$ 0.13	\$ 0.08	\$ 0.31	\$ 0.43	\$ 0.18
Diluted	\$ (0.07)	\$ 0.03	\$ 0.43	\$ (0.02)	\$ 0.13	\$ 0.08	\$ 0.31	\$ 0.43	\$ 0.18
EPS, based on Adjusted Net Income ⁽¹⁾									
Basic	\$ 0.11	\$ 0.14	\$ 0.44	\$ 0.07	\$ 0.01	\$ 0.11	\$ 0.32	\$ 0.15	\$ 0.25
Diluted ⁽¹⁾	\$ 0.11	\$ 0.13	\$ 0.44	\$ 0.07	\$ 0.01	\$ 0.11	\$ 0.32	\$ 0.15	\$ 0.25
Dividends paid per common share (CAD)									
	\$ 0.050	\$ 0.050	\$ 0.145	\$ 0.145	\$ 0.145	\$ 0.145	\$ 0.145	\$ 0.145	\$ 0.140
Net non-cash working capital ⁽²⁾									
	\$ 201,289	\$ 209,791	\$ 230,412	\$ 227,223	\$ 233,916	\$ 227,935	\$ 244,764	\$ 239,102	\$ 208,507

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

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

BUSINESS ACQUISITION, INTEGRATION AND OTHER EXPENSE (INCOME)

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Business acquisition, integration and other expense (income)	\$ 3,414	\$ (6,813)	\$ (987)	\$ (6,102)

Business acquisition, integration and other expense (income) for the thirty-nine weeks ended September 28, 2019 included the recognition of the \$8.5 million recovery associated with the 2017 product recall from the ingredient supplier, largely offset by short-term termination benefits as a result of the organizational realignment initiated in November 2018 of \$1.3 million (see the *Recent Developments* section on page 4 of this MD&A), costs of \$4.4 million related to the Company's critical initiatives (see the *Company Overview* on page 3 of this MD&A), and other non-routine expenses.

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

FINANCE COSTS

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Interest paid in cash during the period	\$ 4,379	\$ 5,019	\$ 15,075	\$ 14,688
Change in cash interest accrued during the period	176	(78)	(362)	468
Total interest to be paid in cash	4,555	4,941	14,713	15,156
Interest expense on lease liabilities	256	—	1,071	—
Deferred financing cost amortization	216	168	644	659
Total finance costs	\$ 5,027	\$ 5,109	\$ 16,428	\$ 15,815

Finance costs were \$0.1 million lower in the third quarter of 2019 and \$0.6 million higher in the first three quarters of 2019 compared to the same periods last year. The increase in the first three quarters of 2019 was due to higher interest rates and interest expense on lease liabilities related to the adoption of the new lease standard effective the beginning of Fiscal 2019 (see the *Recent Developments* section on page 4 of this MD&A). This increase was partially offset by lower average net debt during the first three quarters of 2019 compared to the same period last year.

INCOME TAXES

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended September 28, 2019 was 29.2% (thirteen and thirty-nine weeks ended September 29, 2018: 29.3%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended September 28, 2019 was a recovery of 21.6% and an expense of 30.4%, respectively (thirteen and thirty-nine weeks ended September 29, 2018: an expense of 56.3% and 30.7%, respectively). The higher effective income tax rate for the third quarter of 2018 was attributable to reduced interest expense deductibility associated with the Company's tax efficient financing structure due to a valuation allowance.

CONTINGENCIES

The Company has no material outstanding contingencies.

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 1 of this MD&A (under the heading "*Currency*") and in the Foreign Currency risk discussion on page 27 (in the *Risk Factors* section).

Our capital management practices are described in Note 26 "*Capital management*" to the 2018 annual consolidated financial statements.

Working Capital Credit Facility

The Company entered into a \$180.0 million asset-based working capital credit facility (the "Facility") in November 2010 with the Royal Bank of Canada as Administrative and Collateral agent. On October 16, 2019, the Company announced the amendment of its working capital facility which resulted in a reduction of the amount of the facility to

\$150.0 million and an extension of the term from April 2021 to April 2023 (see *Events After the Reporting Period* section on page 20 of this MD&A).

The rates provided by the working capital credit facility are noted in the following table, based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement. The Company's borrowing rates as of September 28, 2019 are also noted in the following table.

Per Credit Agreement	As at September 28, 2019	
Canadian Prime Rate revolving loans, Canadian Base Rate revolving and U.S. Prime Rate revolving loans, at their respective rates	plus 0.00% to 0.25%	plus 0.00%
Bankers' Acceptances ("BA") revolving loans, at BA rates	plus 1.25% to 1.75%	plus 1.25%
LIBOR revolving loans at LIBOR, at their respective rates	plus 1.25% to 1.75%	plus 1.25%
Letters of credit, with fees of	1.25% to 1.75%	1.25%
Standby fees, required to be paid on the unutilized facility, of	0.25%	0.25%

Average short-term borrowings outstanding during the first three quarters of 2019 were \$21.5 million compared to \$51.0 million in the same period last year. This \$29.5 million decrease in average short-term borrowings primarily reflects higher payments due to higher cash flow provided by operations, decreased working capital requirements during the latter half of 2018 and the first three quarters of 2019, and decreased dividend payments related to the reduction of the quarterly dividend on the Company's common shares (see the *Dividends* section on page 18 of this MD&A). Average short-term borrowings outstanding during the the first three quarters of 2018 were higher as a result of increased borrowings in 2017 due to the acquisition of Rubicon in May 2017, increased working capital requirements and reduced cash flow provided by operations in the latter half of 2017.

At the end of the third quarter of 2019, the Company had \$140.4 million (September 29, 2018: \$124.9 million) of unused borrowing capacity, taking into account both margin calculations and the total line availability. Included in this amount are letters of credit, which reduce the availability under the working capital credit facility. On September 28, 2019, letters of credit and standby letters of credit were outstanding in the amount of \$24.2 million (September 29, 2018: \$17.2 million) to support raw material purchases and to secure certain contractual obligations, including those related to the Company's Supplemental Executive Retirement Plan ("SERP").

The facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility, and excluding the assets acquired as part of the Rubicon acquisition. A second charge over the Company's property, plant and equipment is also in place. Additional details regarding the Company's working capital credit facility are provided in Note 5 "*Bank loans*" and Note 15 "*Events after the reporting period*" to the Consolidated Financial Statements.

In the absence of any major acquisitions, voluntary term loan repayments or capital expenditures, we expect average short-term borrowings by the end of 2019 to be consistent with the first three quarters of 2019, and we believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

Term Loan Facility

As at September 28, 2019, 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. On October 16, 2019, the Company announced the early refinancing of its term loan facility. The term loan facility was reduced from \$370.0 million to \$300.0 million, the term was extended from April 2021 to October 2026, and the applicable interest rate for loans under the facility was increased from LIBOR plus 3.25% (1.00% LIBOR floor) to LIBOR plus 4.25% (LIBOR floor of 1.00%) (see *Events After the Reporting Period* section on page 20 of this MD&A).

Prior to the October 2019 refinancing, quarterly repayments of \$0.9 million were required on the term loan as regularly scheduled principal repayments. On an annual basis, based on a leverage test, additional prepayments ("mandatory excess cash flow prepayments") could be required of up to 50% of the previous year's defined excess cash flow. During the first quarter of 2019, a mandatory prepayment of \$13.7 million was made due to excess cash flows in 2018. During the fourth quarter of 2019, the principal amount outstanding of \$324.0 million was reduced by \$24.0 million to \$300.0 million as a part of the term loan facility refinancing.

Under the October 2019 refinanced term loan agreement, quarterly repayments of \$1.9 million are required on the term loan as regularly scheduled repayments. Any mandatory and voluntary repayments made subsequent to the time of refinancing are applied to future regularly scheduled principal repayments.

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

During the thirty-nine weeks ended September 28, 2019, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility:

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
Designated in a formal hedging relationship:				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700% \$	20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150% \$	25.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700% \$	40.0
January 4, 2018	April 24, 2021	3-month LIBOR (floor 1.0%)	2.2200% \$	80.0

As of September 28, 2019, the combined impact of the interest rate swaps listed above effectively fix the interest rate on \$165.0 million of the \$370.0 million face value of the term loan and the remaining portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates when LIBOR is higher than the embedded floor of 1.0%.

Additional details regarding the Company's term loan are provided in Note 6 "Long-term debt" and Note 15 "Events after the reporting period" to the Consolidated Financial Statements.

Net Debt

The Company's net debt (as calculated in the *Non-IFRS Financial Measures* section on page 23 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs) and lease liabilities, less cash. Net debt decreased by \$50.3 million to \$312.3 million at September 28, 2019 compared to \$362.6 million at September 29, 2018, reflecting higher payments in the latter half of 2018 and first three quarters of 2019 due to higher cash flow from operating activities in 2018 and 2019 as a result of improved inventory management, lower capital expenditures, and lower dividend payments related to the reduction of the quarterly dividend on the Company's common shares (see the *Dividends* section on page 18 of this MD&A). Additionally, the Company had a higher cash balance on hand as at September 28, 2019 as compared to September 29, 2018. This was partially offset by the transitional increase in lease liabilities upon the adoption of the new lease standard effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 4 of this MD&A).

Including the impact of the new lease standard since adoption only (December 30, 2018), net debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 20 of this MD&A for further discussion of Adjusted EBITDA) was 4.0x at September 28, 2019 compared to 5.8x at the end of Fiscal 2018. Including trailing twelve-month Adjusted EBITDA for the new lease standard, net debt to rolling twelve-month Adjusted EBITDA was 3.9x at September 28, 2019. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in the fourth quarter of 2019, we expect that at the end of Fiscal 2019 this ratio will remain consistent

with the ratio as at September 28, 2019 due to the increased working capital requirements in advance of the Lenten period.

(Amounts in \$000s, except as otherwise noted)	Twelve months ended	
	September 28, 2019	December 29, 2018
Net debt	\$ 312,268	\$ 360,642
Adjusted EBITDA	\$ 78,521	\$ 62,474
Net debt to Adjusted EBITDA ratio (times)	4.0x	5.8x

Capital Structure

At September 28, 2019, net debt was 53.6% of total capitalization compared to 57.1% at September 29, 2018.

(Amounts in \$000s)	September 28, 2019	December 29, 2018	September 29, 2018
Net debt ⁽¹⁾	\$ 312,268	\$ 360,642	\$ 362,620
Shareholders' equity	269,712	263,859	275,551
Unrealized losses (gains) on derivative financial instruments included in AOCI	278	(2,215)	(2,982)
Total capitalization	\$ 582,258	\$ 622,286	\$ 635,189
Net debt as percentage of total capitalization	53.6%	58.0%	57.1%

⁽¹⁾ The Company has adopted the new lease standard, IFRS 16, *Leases*, effective December 30, 2018, which has resulted in additional lease liabilities of \$14.6 million (see the *Recent Developments* section on page 4 of this MD&A). IFRS 16 was applied using the modified retrospective method, and as a result, the comparative information for Fiscal 2018 has not been restated. Therefore, these lease liabilities are only included in the Company's net debt balance as at September 28, 2019, increasing net debt by \$12.3 million. Net debt, excluding the impact of IFRS 16, would be 52.6% of total capitalization as at September 28, 2019.

Using our September 28, 2019 market capitalization of \$274.7 million, based on a share price of CAD\$10.91 (USD \$8.23 equivalent), instead of the book value of equity, net debt as a percentage of total capitalization decreases to 53.2%.

Cash Flow

(Amounts in \$000s)	Thirteen weeks ended			Thirty-nine weeks ended		
	September 28, 2019	September 29, 2018	Change	September 28, 2019	September 29, 2018	Change
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes refunded (paid)	\$ 13,354	\$ 20,872	\$ (7,518)	\$ 63,126	\$ 56,726	\$ 6,400
Interest paid	(4,379)	(5,019)	640	(15,075)	(14,688)	(387)
Income taxes refunded (paid)	—	3,965	(3,965)	(400)	4,025	(4,425)
Cash flows provided by operations, including interest and income taxes, and before changes in non-cash working capital balances	8,975	19,818	(10,843)	47,651	46,063	1,588
Net change in non-cash working capital balances	6,503	(4,467)	10,970	28,047	906	27,141
Net cash flows provided by operating activities	15,478	15,351	127	75,698	46,969	28,729
Net cash flows used in financing activities	(2,355)	(14,427)	12,072	(55,351)	(38,768)	(16,583)
Net cash flows used in investing activities	(2,189)	(2,602)	413	(4,757)	(10,305)	5,548
Foreign exchange increase (decrease) on cash	513	319	194	(458)	(247)	(211)
Net change in cash during the period	\$ 11,447	\$ (1,359)	\$ 12,806	\$ 15,132	\$ (2,351)	\$ 17,483

Net cash flows provided by operating activities increased by \$0.1 million in the third quarter of 2019 to an inflow of \$15.5 million compared to an inflow of \$15.4 million in the same period last year reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, decreased \$10.8 million in the third quarter of 2019 to an inflow of \$9.0 million compared to an inflow of \$19.8 million in the same period last year. This change reflects a decrease in cash flows from operations and lower tax refunds, partially offset by lower interest payments.
- Cash flows from changes in net non-cash working capital increased by \$11.0 million in the third quarter of 2019 to an inflow of \$6.5 million compared to an outflow of \$4.5 million in the same period last year. This increase primarily reflects more favourable changes in accounts payable and accrued liabilities, partially offset by unfavourable changes in accounts receivable and prepaid expenses during the third quarter of 2019 compared to the same period last year.

Net cash flows provided by operating activities increased by \$28.7 million in the first three quarters of 2019 to an inflow of \$75.7 million compared to an inflow of \$47.0 million in the same period last year, reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, increased by \$1.6 million in the first three quarters of 2019 to an inflow of \$47.7 million compared to an inflow of \$46.1 million in the same period last year. This change reflects an increase in cash flows from operations, partially offset by higher interest and income tax payments.
- Cash flows from changes in net non-cash working capital increased by \$27.1 million in 2019 to an inflow of \$28.0 million compared to an inflow of \$0.9 million in the same period last year. This increase reflects more favourable changes in accounts receivable and accounts payable and accrued liabilities, partially offset by a less favourable change in inventories, provisions and prepaid expenses during the first three quarters of 2019 compared to the same period last year.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 23 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended September 28, 2019 increased by \$70.3 million to an inflow of \$77.4 million compared to an inflow of \$7.1 million for the twelve months ended September 29, 2018. This increase reflects higher cash flows from operating activities, including interest and income taxes, a favourable change in working capital and lower capital expenditures during the twelve months ended September 28, 2019 as compared to the twelve months ended September 29, 2018.

Net Non-Cash Working Capital

(Amounts in \$000s)	September 28, 2019	December 29, 2018	Change
Accounts receivable	\$ 78,867	\$ 84,873	\$ (6,006)
Inventories	264,161	301,411	(37,250)
Prepaid expenses	5,335	4,333	1,002
Accounts payable and accrued liabilities	(146,912)	(161,934)	15,022
Provisions	(162)	(1,460)	1,298
Net non-cash working capital	\$ 201,289	\$ 227,223	\$ (25,934)

Net non-cash working capital consists of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions. Net non-cash working capital decreased by \$25.9 million to \$201.3 million at September 28, 2019 as compared to \$227.2 million at December 29, 2018, primarily reflecting lower accounts receivable and inventories offset by lower accounts payable and accrued liabilities due to the timing of working capital requirements.

Our working capital requirements fluctuate during the year, usually peaking between December and March as our inventory is the highest at that time. Going forward, we expect the trend of inventory peaking between December and March to continue, and believe we have enough availability on our working capital credit facility to finance our working capital requirements throughout the remainder of 2019.

Capital Expenditures

Capital expenditures (including computer software) were \$2.2 million and \$4.8 million during the third quarter and the first three quarters of 2019 respectively, as compared to capital expenditures of \$2.7 million and \$11.0 million during the third quarter and the first three quarters of 2018, respectively. Capital expenditures were lower in the first three quarters of 2019 due to the non-reoccurring capital expenditures incurred in the first half of 2018 related to improvements in the Company's enterprise-wide business management system.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2019 will be approximately \$8.0 to \$10.0 million and funded by cash generated from operations and short-term borrowings.

Dividends

In May 2019, after an extensive review of its capital allocation strategy, the Board elected to revise the quarterly dividend to CAD\$0.050 per common share from CAD\$0.145 per common share applicable on a prospective basis, commencing with the Company's Q2 2019 quarterly dividend. This revision has brought the dividend back in line with the Company's previously disclosed guidance for the dividend to provide a payout of 30-35% of trailing Adjusted Diluted EPS (see the *Non-IFRS Financial Measures* section on page 22 of this MD&A) relative to 2018 and Q1 2019 financial results. The revised dividend also frees up approximately \$10.0 million in cash flow annually to support the reduction and refinancing of debt to create a stronger balance sheet.

The Company paid a CAD\$0.050 per share quarterly dividend on September 15, 2019 to common shareholders of record on September 1, 2019.

On November 7, 2019, the Company's Board of Directors approved a quarterly dividend of CAD\$0.050 per share on the Company's common shares, payable on December 15, 2019 to holders of record on December 1, 2019. These dividends are considered "eligible dividends" for Canadian income tax purposes.

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

- Under the October 2019 working capital credit facility, Average Adjusted Aggregate Availability, as defined in the credit agreement, needs to be \$18.8 million or higher and was \$133.5 million on September 28, 2019, and NCIBs are subject to an annual limit of \$10.0 million with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum; and
- Under the October 2019 term loan facility, dividends cannot exceed \$17.5 million per year. This amount increases to the greater of \$25.0 million per year or 32.5% of EBITDA as defined in the loan agreement when the defined total leverage ratio is below 4.0x. The defined total leverage ratio was 3.9x on September 28, 2019. NCIBs are subject to an annual limit of \$10.0 million under the term loan facility with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum.

Contractual Obligations

Contractual obligations relating to our long-term debt, lease liabilities, purchase obligations and other long-term liabilities as at September 28, 2019 were as follows:

(Amounts in \$000s)	Payments Due by Period			
	Total	Less than 1 year	1-5 Years	Thereafter
Long-term debt	\$ 324,231	\$ —	\$ 324,231	\$ —
Lease liabilities	12,737	4,626	7,271	840
Other current and long-term liabilities	9,680	6,070	3,610	—
Purchase obligations	191,056	184,416	6,640	—
Total contractual obligations	\$ 537,704	\$ 195,112	\$ 341,752	\$ 840

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* risk section in the 2018 Annual Report and the *Foreign Currency* section on page 27 of this MD&A for further details.

Financial Instruments and Risk Management

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

Readers are directed to Note 14 "*Fair value measurement*" of the Consolidated Financial Statements for a complete description of the Company's use of derivative financial instruments and their impact on the financial results, and to Note 27 "*Financial risk management objectives and policies*" of the 2018 annual consolidated financial statements for further discussion of the Company's financial risks and policies.

Disclosure of Outstanding Share Data

On November 7, 2019, 33,383,481 common shares and 1,815,318 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

RELATED PARTY TRANSACTIONS

The Company had related party transactions with a company controlled by a strategic advisor of Rubicon. Effective the beginning of the second quarter of 2019, this company ceased to be a related party in accordance with IFRS. Total sales to related parties for the thirteen and thirty-nine weeks ended September 28, 2019 were \$nil and \$0.3 million, respectively (thirteen and thirty-nine weeks ended September 29, 2018: \$0.3 million and \$0.5 million, respectively). The Company leased an office building from a related party at an amount which approximated the fair market value that would have been incurred if leased from a third party. Effective the beginning of the second quarter of 2019, the lessor ceased to be a related party in accordance with IFRS. The aggregate payments under the lease, which were measured at the exchange amount, were \$nil and \$0.2 million for the thirteen and thirty-nine weeks ended September 28, 2019, respectively (thirteen and thirty-nine weeks ended September 29, 2018: \$0.2 million and \$0.5 million, respectively).

Refer to Note 23 "*Related party disclosures*" to the 2018 annual consolidated financial statements for a further description of the Company's related party transactions which are substantially unchanged in 2019, other than those mentioned above.

EVENTS AFTER THE REPORTING PERIOD

Refinancing of term loan facility and amendment of working capital facility

On October 16, 2019, the Company announced the amendment of its working capital facility (refer to Note 5 "*Bank loans*" to the Consolidated Financial Statements) and the early refinancing of its term loan facility (refer to Note 6 "*Long-term debt*" to the Consolidated Financial Statements). The working capital facility was amended by reducing the amount of the facility from \$180.0 million to \$150.0 million and extending the term from April 2021 to April 2023. The term loan facility was reduced from \$370.0 million to \$300.0 million, the term was extended from April 2021 to October 2026, and the applicable interest rates for loans under the facility was increased from LIBOR plus 3.25% (1.00% LIBOR floor) to LIBOR plus 4.25% (1.00% LIBOR floor).

NON-IFRS FINANCIAL MEASURES

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

Adjusted EBITDA

Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Chartered Professional Accountants of Canada ("*CPA Canada*") and is earnings before interest, taxes, depreciation and amortization adjusted for items that are not considered representative of ongoing operational activities of the business. The related margin is defined as Adjusted EBITDA divided by net sales ("*Adjusted EBITDA as a percentage of sales*"), where net sales is defined as "*Sales*" on the consolidated statements of income (loss).

We use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) as a performance measure as it approximates cash generated from operations before capital expenditures and changes in working capital, and it excludes the impact of expenses and recoveries associated with certain non-routine items that are not considered representative of the

ongoing operational activities, as discussed above, and share-based compensation expense related to the Company's share price. We believe investors and analysts also use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) to evaluate the performance of our business. The most directly comparable IFRS measure to Adjusted EBITDA is "Results from operating activities" on the consolidated statements of income (loss). Adjusted EBITDA is also useful when comparing companies, as it eliminates the differences in earnings that are due to how a company is financed. Also, for the purpose of certain covenants on our credit facilities, "EBITDA" is based on Adjusted EBITDA, with further adjustments as defined in the Company's credit agreements.

The following table reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements.

(Amounts in \$000s)	Thirteen weeks ended September 28, 2019	Thirteen weeks ended September 29, 2018
Net (loss) income	\$ (2,400)	\$ 4,531
Add back (deduct):		
Depreciation and amortization expense	5,717	4,522
Financing costs	5,027	5,109
Income tax (recovery) expense	(663)	5,827
Standardized EBITDA	7,681	19,989
Add back (deduct):		
Business acquisition, integration and other expenses (income) ⁽¹⁾	3,414	(6,813)
Impairment of property, plant and equipment	930	1,003
Loss on disposal of assets	55	26
Share-based compensation expense	4,375	30
Adjusted EBITDA	\$ 16,455	\$ 14,235

(Amounts in \$000s)	Thirty-nine weeks ended September 28, 2019	Thirty-nine weeks ended September 29, 2018
Net income	\$ 13,308	\$ 17,586
Add back (deduct):		
Depreciation and amortization expense	16,777	13,305
Financing costs	16,428	15,815
Income tax expense	5,824	7,795
Standardized EBITDA	52,337	54,501
Add back (deduct):		
Business acquisition, integration and other expenses (income) ⁽¹⁾	4,547	(6,102)
Impairment of property, plant and equipment	968	1,003
Loss on disposal of assets	68	56
Share-based compensation expense	8,633	1,048
Adjusted EBITDA	\$ 66,553	\$ 50,506

⁽¹⁾ The thirty-nine weeks ended September 28, 2019 include short-term termination benefits incurred as part of the organizational realignment (see the *Recent Developments* section on page 4 of this MD&A) and costs related to the Company's critical initiatives (see the *Company Overview* section on page 3 of this MD&A). Additionally, the thirty-nine weeks ended September 28, 2019 includes \$3.0 million of the \$8.5 million product recall recovery received from the ingredient supplier in the first quarter of 2019, and the thirty-nine weeks ended September 29, 2018 includes the \$8.5 million recovery received from the ingredient supplier in the third quarter of 2018 (see the *Recent Developments* section on page 4 of this MD&A).

Adjusted Net Income and Adjusted Diluted EPS

Adjusted Net Income is net (loss) income adjusted for the after-tax impact of items which are not representative of ongoing operational activities of the business and certain non-cash expenses or income. Adjusted Diluted EPS is Adjusted Net Income divided by the average diluted number of shares outstanding.

We use Adjusted Net Income and Adjusted Diluted EPS to assess the performance of our business without the effects of the above-mentioned items, and we believe our investors and analysts also use these measures. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. The most comparable IFRS financial measures are net (loss) income and EPS.

The table below reconciles our Adjusted Net Income with measures that are found in our Consolidated Financial Statements:

	Thirteen weeks ended September 28, 2019		Thirteen weeks ended September 29, 2018	
	\$000s	Diluted EPS	\$000s	Diluted EPS
Net (loss) income	\$ (2,400)	\$ (0.07)	\$ 4,531	\$ 0.13
Add back (deduct):				
Business acquisition, integration and other expenses (income) ⁽¹⁾	3,414	0.10	(6,813)	(0.20)
Impairment of property, plant and equipment	930	0.03	1,003	0.03
Share-based compensation expense	4,375	0.13	30	—
Tax impact of reconciling items	(2,462)	(0.07)	1,661	0.05
Adjusted Net Income	\$ 3,857	\$ 0.11	\$ 412	\$ 0.01
Average shares for the period (000s)		33,807		33,674

	Thirty-nine weeks ended September 28, 2019		Thirty-nine weeks ended September 29, 2018	
	\$000s	Diluted EPS	\$000s	Diluted EPS
Net income	\$ 13,308	\$ 0.39	\$ 17,586	\$ 0.52
Add back (deduct):				
Business acquisition, integration and other expenses (income) ⁽¹⁾	4,547	0.13	(6,102)	(0.18)
Impairment of property, plant and equipment	968	0.03	1,003	0.03
Share-based compensation expense	8,633	0.25	1,048	0.03
Tax impact of reconciling items	(3,994)	(0.12)	1,346	0.04
Adjusted Net Income	\$ 23,462	\$ 0.68	\$ 14,881	\$ 0.44
Average shares for the period (000s)		34,257		33,601

⁽¹⁾ The thirty-nine weeks ended September 28, 2019 include short-term termination benefits incurred as part of the organizational realignment (see the *Recent Developments* section on page 4 of this MD&A) and costs related to the Company's critical initiatives (see the *Company Overview* section on page 3 of this MD&A). Additionally, the thirty-nine weeks ended September 28, 2019 includes \$3.0 million of the \$8.5 million product recall recovery received from the ingredient supplier in the first quarter of 2019, and the thirty-nine weeks ended September 29, 2018 includes the \$8.5 million recovery received from the ingredient supplier in the third quarter of 2018 (see the *Recent Developments* section on page 4 of this MD&A).

Standardized Free Cash Flow

Standardized Free Cash Flow follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by CPA Canada and is cash flow from operating activities less capital expenditures (net of investment tax credits) as reported in the consolidated statements of cash flows. The capital expenditures related to business acquisitions are not deducted from Standardized Free Cash Flow.

We believe Standardized Free Cash Flow is an important indicator of financial strength and performance of our business because it shows how much cash is available to pay dividends, repay debt (including lease liabilities) and reinvest in the Company. We believe investors and analysts use Standardized Free Cash Flow to value our business and its underlying assets. The most comparable IFRS financial measure is "cash flows from operating activities" in the consolidated statements of cash flows.

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

(Amounts in \$000s)	Twelve months ended		
	September 28, 2019	September 29, 2018	Change
Net change in non-cash working capital items	\$ 31,582	\$ (28,433)	\$ 60,015
Cash flow from operating activities, including interest and income taxes	54,080	52,090	1,990
Cash flow from operating activities	85,662	23,657	62,005
Less: total capital expenditures, net of investment tax credits	(8,294)	(16,522)	8,228
Standardized Free Cash Flow	\$ 77,368	\$ 7,135	\$ 70,233

Net Debt

Net Debt is calculated as the sum of bank loans, long-term debt and lease liabilities, less cash.

We consider Net Debt to be an important indicator of our Company's financial leverage because it represents the amount of debt that is not covered by available cash. We believe investors and analysts use Net Debt to determine the Company's financial leverage. Net Debt has no comparable IFRS financial measure, but rather is calculated using several asset and liability items in the consolidated statements of financial position.

The following table reconciles Net Debt to IFRS measures reported as at the end of the indicated periods.

(Amounts in \$000s)	September 28, 2019	December 29, 2018	September 29, 2018
Current bank loans	\$ —	\$ 31,152	\$ 25,676
Add-back: deferred finance costs included in current bank loans	—	353	397
Total current bank loans	—	31,505	26,073
Long-term debt	323,118	322,674	336,062
Current portion of long-term debt	—	13,655	—
Add-back: deferred finance costs included in long-term debt	1,113	1,597	1,864
Total term loan debt	324,231	337,926	337,926
Long-term portion of lease liabilities	8,111	407	566
Current portion of lease liabilities	4,626	372	442
Total lease liabilities ⁽¹⁾	12,737	779	1,008
Less: cash	(24,700)	(9,568)	(2,387)
Net debt	\$ 312,268	\$ 360,642	\$ 362,620

⁽¹⁾ The Company has adopted the new lease standard, IFRS 16, *Leases*, which has resulted in additional lease liabilities of \$14.6 million effective December 30, 2018 (see the *Recent Developments* section on page 4 of this MD&A). IFRS 16 was applied using the modified retrospective method and as a result, the comparative information for Fiscal 2018 has not been restated. Therefore these lease liabilities are only included in the Company's net debt balance as at September 28, 2019, where IFRS 16 has increased net debt by \$12.3 million.

GOVERNANCE

In accordance with National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*", our certifying officers have evaluated the design effectiveness of Disclosure Controls and Procedures ("DC&P"), and our Company's Internal Control over Financial Reporting ("ICFR"). There were no changes in the Company's ICFR during the period beginning on June 30, 2019 and ending on September 28, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

ACCOUNTING ESTIMATES AND STANDARDS

Critical Accounting Estimates

Critical accounting judgments and estimates used in preparing our Consolidated Financial Statements are described in the Company's 2018 Annual Report. The preparation of the Company's Consolidated Financial Statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. Actual outcomes may differ from these estimates under different assumptions and conditions that could require a material adjustment to the reported carrying amounts in the future. There have been no material changes to our critical accounting estimates and judgments during the thirteen and thirty-nine weeks ended September 28, 2019.

Accounting Standards

The accounting policies used in the preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended December 29,

2018, except for the adoption of the following new standards and amendments that were effective for annual periods beginning on January 1, 2019 and that the Company adopted on December 30, 2018:

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 eliminates the distinction between operating and finance leases, bringing most leases on-balance sheet for lessees under a single model, unless an election is made to exclude a lease with a lease term of 12 months or less or the lease is for a low-value asset. A lessee recognizes a right-of-use ("ROU") asset representing the Company's right to use the underlying asset and a lease liability representing the obligation to make lease payments. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The Company has elected to adopt the standard using the modified retrospective method and therefore the comparative information for Fiscal 2018 has not been restated. The Company has recognized new assets and liabilities for all leases that were previously classified as operating leases, other than those that were excluded due to the elected practical expedients. The Company applied the following practical expedients upon transition:

- The previous determination pursuant to IAS 17 and IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, of whether a contract is a lease has been maintained for existing contracts;
- The Company has exercised the option not to apply the new recognition requirements to short-term leases with a term of 12 months or less (and no purchase option) and leases of low-value assets;
- For the purpose of initial measurement of the right-of-use assets as at December 30, 2018, initial direct costs were not taken into account; and
- The Company has elected not to separate non-lease components from lease components and will account for identified components as a single lease component.

As at December 30, 2018, the additional assets and liabilities on the consolidated statements of financial position amounts to \$14.6 million (see Note 4 "*Right-of-use assets and lease liabilities*" to the Consolidated Financial Statements). In addition, the nature of the expense related to these leases has changed as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and interest expense on the lease liabilities using the effective interest method.

The following table reconciles the operating lease payments as at December 29, 2018 to the lease liabilities recognized as at December 30, 2018:

<i>(Amounts in \$000s)</i>	Lease liabilities
Minimum lease payments under operating leases as at December 29, 2018	\$ 20,186
Recognition exemption	
for short-term leases	(24)
for leases of low-value assets	(15)
Reasonably certain extension options	423
Variable non-lease components ⁽¹⁾	(2,653)
Lease obligation as at December 30, 2018 (gross, without discounting)	17,917
Effect from discounting at the incremental borrowing rate as at December 30, 2018 ⁽²⁾	(3,347)
Liabilities additionally recognized based on the initial application of IFRS 16 as at December 30, 2018	14,570
Current portion of lease liabilities as at December 29, 2018	372
Long-term lease liabilities as of December 29, 2018	407
Total lease liabilities as of December 30, 2018	\$ 15,349

⁽¹⁾ Total payments related to variable non-lease components were \$0.1 million and \$0.4 million during the thirteen and thirty-nine weeks ended September 28, 2019, respectively.

⁽²⁾ The weighted-average incremental borrowing rate ("IBR") for lease liabilities initially recognized as of December 30, 2018 was 10%. If the Company's IBR changed by 1%, the lease liabilities initially recognized would change by approximately \$0.4 million.

See Note 2 "*Basis of preparation*" to the Consolidated Financial Statements for the Company's IFRS 16 accounting policy.

IAS 19, *Employee Benefits*

In February 2018, the IASB issued amendments to IAS 19, *Employee Benefits* ("IAS 19"), which addresses the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. The current service cost and net interest for the remainder of the period after the plan amendment, curtailment or settlement should reflect the updated actuarial assumptions after such an event. The amendments apply to plan amendments, curtailments, or settlements that occur on or after January 1, 2019, with early adoption permitted.

The Company has adopted the amendments to IAS 19 on a prospective basis, which had no impact on the Consolidated Financial Statements.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment*

In June 2017, the International Accounting Standards Board (IASB) issued IFRIC Interpretation 23 - *Uncertainty over Income Tax Treatments* (the "Interpretation") to address the accounting for income taxes when treatments involve uncertainty that affects the application of IAS 12, *Income Taxes* ("IAS 12"). The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Interpretation had no impact on the Consolidated Financial Statements, therefore the Company was able to implement the Interpretation retrospectively without the use of hindsight.

RISK FACTORS

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

Readers should refer to the 2018 Annual Report and AIF for a more detailed description of risk factors applicable to the Company, which are available at www.sedar.com and at www.highlinerfoods.com. We have updated certain risk factors below for the first three quarters of 2019.

Foreign Currency

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

The Canadian dollar weakened relative to the U.S. dollar approximately 2.5% as of September 28, 2019 compared to September 29, 2018. On our balance sheet, this decreases the USD carrying value of both CAD-denominated assets and liabilities and increases the foreign exchange translation impact of our Canadian company included in accumulated other comprehensive income ("AOCI") in shareholders' equity. As our Canadian operations are a net importer of seafood and other products purchased in USD, a stronger CAD reduces its costs and a weaker CAD increases its costs in its CAD functional currency.

In order to minimize foreign exchange risk, we undertake hedging activities using various derivative products in accordance with the Company's "Price Risk Management Policy", which is approved and monitored by the Audit Committee. We hedge the USD costs of a portion of our raw material requirements and retail commodity products as sales price increases on these products take more time to implement. We generally do not hedge certain commodity foodservice products as the sales prices to our customers change frequently enough to capture foreign exchange fluctuations, but may do so from time to time. During the third quarter of 2019, our hedging activities resulted in an effective USD/CAD exchange rate of 1.3221 for inventory purchased in USD by our Canadian operations, compared to 1.2977 for the third quarter of 2018.

Our risk management strategy with respect to exposure to the Canadian dollar is fully explained in the MD&A in our 2018 Annual Report.

Geopolitical Risk

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

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

In 2017, the U.S. Tax Reform resulted in significant changes to tax legislation in the United States and certain aspects of the U.S. Tax Reform are still subject to interpretation which could impact the results of operations, financial condition and cash flows of the Company (see the *Income Taxes* section on page 13 of this MD&A).

In September 2018, the U.S. Administration commenced trade discussions with China which has resulted in the following actions related to tariffs on goods imported to the U.S.:

- Initial 10% tariff on certain Chinese imports effective September 24, 2018 ("first action");
- Increase to a 25% tariff on Chinese imports covered by the first action effective May 10, 2019 for items entering the U.S. on or after June 10, 2019; and
- Initial 15% tariff on Chinese imports falling under List 4B effective December 15, 2019 ("second action"), pending further negotiations between the U.S. and China.

The 5% additional tariff proposed on certain Chinese imports covered by the first action on August 23, 2019, which would bring the total tariff to 30%, has been postponed indefinitely, due to favourable negotiations between the U.S. and China.

The Company currently purchases its seafood raw materials from more than 20 countries, including from the U.S., to meet U.S. consumer demand. A portion of this raw material is imported into China for primary processing and then exported to the U.S. for sale and secondary processing. The Company has determined that the additional tariffs in the first action impacted most notably haddock (excluding block), tilapia, and sole/flounder and the additional tariffs in the second action will most notably impact pollock. The estimated annual run-rate exposure of the 25% tariff on Chinese imports covered by the first action is approximately \$12.0 million, based on current volume and raw material costs. The estimated annual run-rate exposure of a 15% tariff on List 4B items is approximately \$2.0 million, based on current volume and raw material costs. However, the Company has begun implementing plans, including pricing actions and other supply chain initiatives, to mitigate the impact of these tariffs and reduce the estimated impact to the Company.

The Company will continue to monitor these developments closely, particularly if further information becomes available regarding potential additional tariffs or how the previously announced tariffs will impact the Company. The Company is actively pursuing formal tariff exclusions on the items affected that do not originate in China.

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