



HIGH LINER FOODS

SECOND QUARTER REPORT TO SHAREHOLDERS

Thirteen weeks and twenty-six weeks ended June 30, 2018



HIGH LINER FOODS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the thirteen and twenty-six weeks ended June 30, 2018

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

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A"), dated August 14, 2018, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and twenty-six weeks ended June 30, 2018, compared to the thirteen and twenty-six weeks ended July 1, 2017. Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2017 Annual Report along with our Unaudited Condensed Interim Consolidated Financial Statements as at and for the thirteen and twenty-six weeks ended June 30, 2018 ("Consolidated Financial Statements"), prepared in accordance with International Financial Reporting Standards ("IFRS"). The information contained in this document, including forward-looking statements, is based on information available to Management as of August 14, 2018, except as otherwise noted.

Non-IFRS Financial Measures

This document includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes. These non-IFRS measures do not have any standardized meaning as prescribed by IFRS, and therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures in the *Non-IFRS Financial Measures* section starting on page 23 of this MD&A.

Currency

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "could", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective", "goal", "remain" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the *Risk Factors* section of our 2017 Annual Report and the *Risk Factors* section of our 2017 Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: volatility in the CAD/USD exchange rate; the interpretation of the U.S. Tax Reform by tax authorities; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of geopolitical events (and related economic sanctions) on same; the impact of the U.S. Administration's proposed tariffs on certain seafood products; costs of commodity products and other production inputs, and the ability to pass cost increases on to customers; successful integration of acquired operations; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the market place; changes in

laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; enterprise resource planning system risk; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development.

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

COMPANY OVERVIEW

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

OUTLOOK

Organizational priorities for the next 12 to 18 months will focus on creating a more efficient company and improving performance. Specifically, changes have been made to optimize the Company's structure by aligning the organization by core function, instead of by geography. This will take better advantage of the Company's North American scale and result in a more efficient cost structure. The Company's executive team has been aligned to this optimized structure and the rest of the organization is now also being aligned. This work will be completed in 2018 and while it is expected that there will be costs incurred this year related to this activity, it is too early to quantify these costs. The Company expects this optimized structure will result in a minimum of \$10 million in annualized cost savings, on a run rate basis,

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).

starting in 2019. However, there are other areas of the business where additional investment will be required to ensure that the Company has the right expertise, processes and tools required to capitalize on market opportunities. These will be determined as part of business objectives focused on profitable organic growth, business simplification, supply chain excellence, and integrating and growing the Rubicon business that was acquired in 2017. The Company will also work to mitigate the impact of higher raw material and supply chain costs through these initiatives.

On July 11, 2018 the U.S. Administration announced additional proposed tariffs that, if implemented, would apply to certain seafood imported into the U.S. from China. The proposed tariffs are currently open for public comment and could impact seafood purchased by the Company, and the industry overall, as a significant volume of seafood consumed in the U.S. is imported to meet U.S. consumer needs. The Company currently purchases its seafood raw materials from more than 20 countries around the world, including from the U.S., to meet U.S. consumer demand. A portion of this raw material is imported into China for primary processing and then exported to the U.S. for sale and secondary processing. The Company will continue to monitor these developments closely, particularly as further information becomes available on what products could be impacted by these proposed tariffs and how these proposed tariffs would be implemented.

RECENT DEVELOPMENTS

Appointment of New President and Chief Executive Officer

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

Product Recall

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

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

Amendments to the Working Capital Credit Facility

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

Upgrade of Enterprise Resource Planning System

During the quarter, the Company completed a significant upgrade to its enterprise resource planning ("ERP") system, which is the business management software that supports the Company's core business processes. The upgrade provides

improved capability to support the organizational realignment, current business objectives and future growth. The upgrade was completed on time, within internal spending targets, and without interruption to customers or the business.

PERFORMANCE

The discussion and analysis of the Company's financial results focuses on the performance of the consolidated operations, and the performance of the two reportable segments described in Note 13 "*Operating segment information*" to the Consolidated Financial Statements: Canada Operations and U.S. Operations. Information is also provided for the "Corporate" category, which includes expenses for corporate functions, share-based compensation costs and business acquisition, integration and other expenses.

Seasonality

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

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

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

Consolidated Performance

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

(in \$000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	Thirteen weeks ended			Twenty-six weeks ended		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Sales volume (millions of lbs)	65.5	63.4	2.1	153.6	146.6	7.0
Average foreign exchange rate (USD/CAD)	\$ 1.2910	\$ 1.3448	\$ (0.0538)	\$ 1.2813	\$ 1.3343	\$ (0.0530)
Sales						
Sales in domestic currency	\$ 264,505	\$ 254,890	\$ 9,615	\$ 601,388	\$ 550,997	\$ 50,391
Foreign exchange impact	(19,193)	(22,505)	3,312	(36,892)	(42,877)	5,985
Sales in USD	\$ 245,312	\$ 232,385	\$ 12,927	\$ 564,496	\$ 508,120	\$ 56,376
Gross profit	\$ 43,310	\$ 37,807	\$ 5,503	\$ 103,871	\$ 93,315	\$ 10,556
Gross profit as a percentage of sales	17.7%	16.3%	1.4 %	18.4%	18.4%	— %
Distribution expenses	\$ 12,524	\$ 11,234	\$ 1,290	\$ 27,832	\$ 23,259	\$ 4,573
Selling, general and administrative expenses	\$ 24,296	\$ 24,815	\$ (519)	\$ 49,599	\$ 49,805	\$ (206)
Adjusted EBITDA⁽¹⁾						
Adjusted EBITDA in domestic currency	\$ 12,726	\$ 14,440	\$ (1,714)	\$ 37,964	\$ 37,500	\$ 464
Foreign exchange impact	(676)	(1,023)	347	(1,692)	(1,747)	55
Adjusted EBITDA in USD	\$ 12,050	\$ 13,417	\$ (1,367)	\$ 36,272	\$ 35,753	\$ 519
Adjusted EBITDA as a percentage of sales	4.9%	5.8%	(0.9)%	6.4%	7.0%	(0.6)%
Net income	\$ 2,804	\$ 644	\$ 2,160	\$ 13,055	\$ 11,386	\$ 1,669
Basic Earnings per Share ("EPS")	\$ 0.08	\$ 0.02	\$ 0.06	\$ 0.39	\$ 0.37	\$ 0.02
Diluted EPS	\$ 0.08	\$ 0.02	\$ 0.06	\$ 0.39	\$ 0.36	\$ 0.03
Adjusted Net Income⁽¹⁾						
Adjusted Basic EPS	\$ 0.11	\$ 0.19	\$ (0.08)	\$ 0.43	\$ 0.54	\$ (0.11)
Adjusted Diluted EPS ^{(1),(2)}	\$ 0.11	\$ 0.19	\$ (0.08)	\$ 0.43	\$ 0.53	\$ (0.10)
Total assets				\$ 826,460	\$ 829,957	\$ (3,497)
Total long-term financial liabilities				\$ 349,262	\$ 347,938	\$ 1,324
Dividends paid per common share (CAD)	\$ 0.145	\$ 0.140	\$ 0.005	\$ 0.290	\$ 0.280	\$ 0.010

⁽¹⁾ See the *Non-IFRS Financial Measures* section starting on page 23 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.

⁽²⁾ CAD-Equivalent Adjusted Diluted EPS was \$0.14 and \$0.26 for the thirteen weeks ended June 30, 2018 and July 1, 2017, respectively, and \$0.55 and \$0.71 for the twenty-six weeks ended June 30, 2018 and July 1, 2017, respectively. See the *Non-IFRS Financial Measures* section on page 25 for further explanation of CAD-Equivalent Adjusted Diluted EPS.

The acquisition of Rubicon Resources, LLC ("Rubicon") on May 30, 2017 had the impact of increasing sales volume by 3.5 million pounds, sales by \$17.4 million and gross profit by \$1.8 million, and decreasing Adjusted EBITDA by \$0.3 million for the thirteen weeks ended June 30, 2018 as compared to the same period last year as a result of incorporating Rubicon's results for the full quarter.

The acquisition of Rubicon had the impact of increasing sales volume by 11.4 million pounds, sales by \$59.5 million, gross profit by \$6.8 million and Adjusted EBITDA by \$0.8 million in the first half of 2018 as compared to the same

period last year as a result of incorporating Rubicon's results for the full year-to-date period. Additional information relating to the Rubicon acquisition is available in the Company's consolidated financial statements for the year ended December 30, 2017.

Sales

Thirteen weeks

Consolidated sales volume for the second quarter of 2018 increased by 2.1 million pounds, or 3.3%, to 65.5 million pounds compared to 63.4 million pounds in the same period in 2017 primarily due to higher sales volume in our U.S. business reflecting the following:

- An additional 3.5 million pounds in the second quarter of 2018 from Rubicon, which was acquired on May 30, 2017, as compared to the same period last year; and
- Lower sales volume during the second quarter of 2017 associated with the product recall in 2017 (2.5 million pounds) (see the *Recent Developments* section on page 4).

Excluding the impact of these items, sales volume for the second quarter of 2018 decreased by 3.9 million pounds, or 6.2%, primarily reflecting lower sales volume in our U.S. foodservice and retail businesses and Canadian retail business.

Sales in the second quarter of 2018 increased by \$12.9 million, or 5.6%, to \$245.3 million compared to \$232.4 million in the same period last year. The stronger Canadian dollar in the second quarter of 2018 compared to the same quarter of 2017 increased the value of USD sales from our CAD-denominated operations by approximately \$2.7 million relative to the conversion impact last year.

Sales in domestic currency increased by \$9.6 million, or 3.8%, to \$264.5 million in the second quarter of 2018 compared to \$254.9 million in the second quarter of 2017. Excluding the additional sales from Rubicon (\$17.4 million), and the lower sales during the second quarter of 2017 associated the product recall (\$9.1 million), sales decreased by \$16.9 million, or 6.8%, mainly due to the decreased volume mentioned previously and changes in product mix, partially offset by price increases to recover raw material cost increases.

Twenty-six weeks

Sales volume in the first half of 2018 increased by 7.0 million pounds, or 4.8%, to 153.6 million pounds compared to 146.6 million pounds in the same period last year, primarily due to higher sales volume in our U.S. business reflecting the following:

- An additional 11.4 million pounds in the first half of 2018 from Rubicon, which was acquired on May 30, 2017, compared to the same period last year; and
- Lower sales volume in the first half of 2017 associated with the product recall (2.5 million pounds).

Excluding these items, sales volume in the first half of 2018 decreased by 6.9 million pounds, or 4.7%, primarily due to lower sales volume in our U.S. foodservice and retail businesses and Canadian retail business.

Sales in the first half of 2018 were \$564.5 million, representing an increase of \$56.4 million, or 11.1%, compared to \$508.1 million in the same period last year. The stronger Canadian dollar in the first half of 2018 compared to the first half of 2017 increased the value of reported USD sales from our CAD-denominated operations by approximately \$5.6 million relative to the conversion impact last year.

Sales in domestic currency increased by \$50.4 million, or 9.1%, to \$601.4 million in the first half of 2018 compared to \$551.0 million in the same period last year. Excluding the additional sales from Rubicon of \$59.5 million and the lower sales during the first half of 2017 associated the product recall (\$9.1 million), sales decreased by \$18.2 million, or 3.3%, mainly due to the lower sales volume mentioned above and unfavourable changes in product mix, partially offset by price increases related to raw material cost increases.

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

Gross Profit

Thirteen weeks

Gross profit increased in the second quarter of 2018 by \$5.5 million, or 14.6%, to \$43.3 million compared to \$37.8 million in the same period in 2017, reflecting an increase in gross profit as a percentage of sales to 17.7% compared to 16.3%. This increase reflects the additional gross profit from Rubicon (\$1.8 million) and non-reoccurring losses associated with the product recall in 2017 (\$8.6 million).

Excluding the impact of the acquisition of Rubicon and the recall, gross profit decreased by \$4.9 million to \$39.4 million (18.7% as a percentage of sales) compared to \$44.3 million in the same period of 2017 (19.8% as a percentage of sales), due to lower sales volume, unfavourable changes in product mix and plant inefficiencies in our U.S. business, partially offset by price increases to recover raw material cost increases and improved plant efficiency in our Canadian business. In addition, the stronger Canadian dollar had the effect of increasing the value of reported USD gross profit from our Canadian operations in 2018 by approximately \$0.5 million relative to the conversion impact last year.

Twenty-six weeks

Gross profit increased in the first half of 2018 by \$10.6 million, or 11.3%, to \$103.9 million compared to \$93.3 million in the same period last year, and gross profit as a percentage of sales remained consistent with the prior year at 18.4% as a percentage of sales. This increase reflects the additional gross profit from Rubicon (\$6.8 million) and non-reoccurring losses associated with the product recall in 2017 (\$9.3 million).

Excluding the impact of the acquisition of Rubicon and the recall, gross profit decreased by \$5.5 million to \$95.0 million (19.5% as a percentage of sales) compared to \$100.5 million (20.1% as a percentage of sales), due to the decrease in sales volume previously mentioned, unfavourable changes in product mix and plant inefficiencies in our U.S. business, partially offset by higher sales prices and improved plant efficiency in our Canadian business. In addition, the stronger Canadian dollar had the effect of increasing the value of reported USD gross profit from our Canadian operations in 2018 by approximately \$1.1 million relative to the conversion impact last year.

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

Distribution Expenses

Thirteen weeks

Distribution expenses, consisting of freight and storage, increased in the second quarter of 2018 by \$1.3 million to \$12.5 million compared to \$11.2 million in the same period in 2017, due to the acquisition of Rubicon and higher fuel, line-haul and storage costs, partially offset by lower sales volume primarily in our U.S. business. As a percentage of sales, these expenses increased to 5.1% in the second quarter of 2018, compared to 4.8% in the same period in 2017.

Twenty-six weeks

Distribution expenses, consisting of freight and storage, increased in the first half of 2018 by \$4.5 million to \$27.8 million compared to \$23.3 million in the same period last year, primarily due to the acquisition of Rubicon and higher fuel, line-haul and storage costs, partially offset by lower sales volume in our Canadian and U.S. businesses. As a percentage of sales, distribution expenses increased to 4.9% in the first half of 2018 compared to 4.6% in the same period in 2017.

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

(Amounts in \$000s)	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
SG&A expenses, as reported	\$ 24,296	\$ 24,815	\$ 49,599	\$ 49,805
Less:				
Share-based compensation expense ⁽¹⁾	1,109	951	993	1,148
Depreciation and amortization expense ⁽¹⁾	2,402	1,928	4,601	3,596
SG&A expenses, net	\$ 20,785	\$ 21,936	\$ 44,005	\$ 45,061
SG&A expenses, net as a percentage of sales	8.5%	9.4%	7.8%	8.9%

⁽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 decreased in the second quarter of 2018 by \$0.5 million to \$24.3 million compared to \$24.8 million in the same period last year. SG&A expenses included a share-based compensation expense of \$1.1 million for the second quarter of 2018 compared to an expense of \$1.0 million in the same period in 2017. SG&A expenses also included depreciation and amortization expense of \$2.4 million in the second quarter of 2018 and \$1.9 million in the same period of 2017. The increase in depreciation and amortization expense primarily relates to the additional amortization on the intangible assets acquired as part of the Rubicon acquisition in May 2017.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the second quarter of 2018 by \$1.1 million to \$20.8 million compared to \$21.9 million in the same period last year, due to lower consumer marketing expenditures and lower administrative expenses, partially offset by increased expenses associated with the inclusion of a full quarter of expenses for Rubicon in the current year and higher corporate administrative expenses. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 8.5% in the second quarter of 2018 compared to 9.4% in the same period last year.

Twenty-six weeks

SG&A expenses decreased by \$0.2 million to \$49.6 million in the first half of 2018 as compared to \$49.8 million in the same period last year. SG&A expenses included share-based compensation expense of \$1.0 million in the first half of 2018 compared to an expense of \$1.1 million in the same period last year. SG&A expenses also included depreciation and amortization expense of \$4.6 million in the first half of 2018 compared to \$3.6 million in the same period last year. The increase in depreciation and amortization expense primarily related to the amortization of intangible assets acquired as part of the Rubicon acquisition in May 2017.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the first half of 2018 by \$1.1 million to \$44.0 million compared to \$45.1 million in the same period last year, due to lower administrative expenses and lower consumer marketing expenditures in our Canadian business, partially offset by increased expenses associated with the inclusion of expenses for a full period for Rubicon in the current year. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expenses decreased to 7.8% in the first half of 2018 compared to 8.9% in the same period last year.

Adjusted EBITDA

We refer to Adjusted EBITDA throughout this MD&A, including in the *Performance by Segment* section on page 13, where Adjusted EBITDA is discussed for both our Canadian and U.S. operations. See the *Non-IFRS Financial Measures* section on page 23 for further explanation of this non-IFRS measure.

Adjusted EBITDA**Thirteen weeks**

Consolidated Adjusted EBITDA decreased in the second quarter of 2018 by \$1.4 million, or 10.2%, to \$12.0 million compared to \$13.4 million in the same period last year. The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by \$0.7 million in the second quarter of 2018 compared to \$1.0 million in 2017.

In domestic currency, Adjusted EBITDA decreased in the second quarter of 2018 by \$1.7 million, or 11.9%, to \$12.7 million (4.8% of sales) compared to \$14.4 million (5.7% of sales) in 2017 reflecting the lower gross profit (after adjusting for the losses associated with the 2017 product recall (\$4.1 million)) and increases in distribution expenses. This decrease in Adjusted EBITDA was partially offset by the lower SG&A expenses. In addition, Adjusted EBITDA in the second quarter of 2017 included \$2.0 million (\$1.9 million USD) in product recall costs that were not added back for the purpose of Adjusted EBITDA.

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

	Thirteen weeks ended			Thirteen weeks ended		
	June 30, 2018	July 1, 2017	% Change	June 30, 2018	July 1, 2017	% Change
(Amounts in \$000s)	USD	USD	USD	Domestic \$	Domestic \$	Domestic \$
External Sales						
Canada	\$ 66,017	\$ 65,124	1.4 %	\$ 85,210	\$ 87,629	(2.8)%
USA	179,295	167,261	7.2 %	179,295	167,261	7.2 %
	245,312	232,385	5.6 %	264,505	254,890	3.8 %
Conversion	—	—		(19,193)	(22,505)	
	\$ 245,312	\$ 232,385	5.6 %	\$ 245,312	\$ 232,385	5.6 %
Adjusted EBITDA						
Canada	\$ 3,797	\$ 3,306	14.9 %	\$ 4,889	\$ 4,476	9.2 %
USA	10,396	11,102	(6.4)%	10,396	11,102	(6.4)%
Corporate	(2,143)	(991)	116.2 %	(2,559)	(1,138)	124.9 %
	12,050	13,417	(10.2)%	12,726	14,440	(11.9)%
Conversion	—	—		(676)	(1,023)	
	\$ 12,050	\$ 13,417	(10.2)%	\$ 12,050	\$ 13,417	(10.2)%
Adjusted EBITDA as percentage of sales						
In USD	4.9%	5.8%				
In Domestic \$				4.8%	5.7%	

Twenty-six weeks

Consolidated Adjusted EBITDA increased in the first half of 2018 by \$0.5 million, or 1.5%, to \$36.3 million compared to \$35.8 million in the same period last year. The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by \$1.7 million in the first half of 2018 and the first half of 2017.

In domestic currency, Adjusted EBITDA increased in the first half of 2018 by \$0.5 million, or 1.2%, to \$38.0 million (6.3% of sales) compared to \$37.5 million (6.8% of sales) in the same period last year due to the lower SG&A expenses, partially offset by the lower gross profit (after adjusting for the losses associated with the 2017 product recall (\$3.2 million)) and increases in distribution expenses explained previously. In addition, Adjusted EBITDA in the first half of 2017 included \$2.9 million (\$2.6 million USD) in product recall costs that were not added back for the purpose of Adjusted EBITDA.

Adjusted EBITDA was positively affected by the acquisition of Rubicon, which contributed an additional \$0.8 million in Adjusted EBITDA. Excluding Rubicon, Adjusted EBITDA was \$35.0 million, or 7.2% as a percentage of sales.

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

	Twenty-six weeks ended			Twenty-six weeks ended		
	June 30, 2018	July 1, 2017	% Change	June 30, 2018	July 1, 2017	% Change
(Amounts in \$000s)	USD	USD	USD	Domestic \$	Domestic \$	Domestic \$
External Sales						
Canada	\$ 132,438	\$ 128,007	3.5 %	\$ 169,330	\$ 170,884	(0.9)%
USA	432,058	380,113	13.7 %	432,058	380,113	13.7 %
	564,496	508,120	11.1 %	601,388	550,997	9.1 %
Conversion	—	—		(36,892)	(42,877)	
	\$ 564,496	\$ 508,120	11.1 %	\$ 564,496	\$ 508,120	11.1 %
Adjusted EBITDA						
Canada	\$ 8,438	\$ 6,800	24.1 %	\$ 10,784	\$ 9,098	18.5 %
USA	29,921	30,534	(2.0)%	29,921	30,534	(2.0)%
Corporate	(2,087)	(1,581)	32.0 %	(2,741)	(2,132)	28.6 %
	36,272	35,753	1.5 %	37,964	37,500	1.2 %
Conversion	—	—		(1,692)	(1,747)	
	\$ 36,272	\$ 35,753	1.5 %	\$ 36,272	\$ 35,753	1.5 %
Adjusted EBITDA as percentage of sales						
In USD	6.4%	7.0%				
In Domestic \$				6.3%	6.8%	

Net Income

We refer to Adjusted Net Income, Adjusted Diluted EPS and CAD-Equivalent Adjusted Diluted EPS throughout this MD&A. See the *Non-IFRS Financial Measures* section starting on page 23 for further explanation of these non-IFRS measures.

Net Income

Thirteen weeks

Net income increased in the second quarter of 2018 by \$2.2 million, or 335.4%, to \$2.8 million (\$0.08 per diluted share) compared to \$0.6 million (\$0.02 per diluted share) in the same period last year. The increase in net income reflects the costs that did not reoccur during 2018 related to the acquisition of Rubicon and the 2017 product recall, partially offset by the decrease in Adjusted EBITDA mentioned previously, a decrease in income tax recovery and an increase in depreciation and finance costs.

In 2018, net income included other non-cash expenses and in 2017, net income included "business acquisition, integration and other expenses" (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 16 of this MD&A) related to the acquisition of Rubicon, losses associated with the product recall, and other non-cash expenses. Excluding the impact of these non-routine and other non-cash expenses, Adjusted Net Income in the second quarter of 2018 decreased by \$2.3 million, or 37.8%, to \$3.8 million compared to \$6.1 million in the same period last year.

Correspondingly, Adjusted Diluted EPS decreased by \$0.08 to \$0.11 compared to \$0.19 in the second quarter of the same period last year, and when converted to CAD using the average USD/CAD exchange rate for the period of 1.291 (2017: 1.3448), CAD-Equivalent Adjusted Diluted EPS decreased by CAD\$0.12 to CAD\$0.14 compared to CAD \$0.26 in the second quarter of 2017.

Twenty-six weeks

Net income increased in the first half of 2018 by \$1.7 million, or 14.7%, to \$13.1 million (\$0.39 per diluted share) compared to \$11.4 million (\$0.36 per diluted share) in the same period last year. The increase in net income reflects the increase in Adjusted EBITDA mentioned previously and the costs that did not reoccur during 2018 related to the acquisition of Rubicon and the 2017 product recall, partially offset by the an increase depreciation and amortization expenses, finance costs and income tax expense.

In the first half of 2018 and 2017, net income included other non-cash expenses and "business acquisition, integration and other expenses" (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 16 of this MD&A) related to termination benefits as a result of restructuring activities in 2018, and business acquisition costs related to the acquisition of Rubicon and losses associated with the product recall in 2017. Excluding the impact of these non-routine expenses and other non-cash expenses, Adjusted Net Income in the first half of 2018 decreased by \$2.4 million, or 14.2%, to \$14.5 million compared to \$16.9 million in the same period last year.

Adjusted Diluted EPS decreased by \$0.10 to \$0.43 in the first half of 2018 compared to \$0.53 in the same period last year and when converted to CAD using the average USD/CAD exchange rate for the first half of 2018 of 1.2813 (the first half of 2017: 1.3343), CAD-Equivalent Adjusted Diluted EPS decreased by CAD\$0.16 to CAD\$0.55 in the first half of 2018 compared to CAD\$0.71 in the same period last year due to the increase in the weighted average number of shares outstanding associated with the acquisition of Rubicon and the decrease in Adjusted Net Income explained above.

Performance by Segment

Canadian Operations

(All currency amounts in this section are in CAD)

(in \$000s, except sales volume and percentage amounts)	Thirteen weeks ended			Twenty-six weeks ended		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Sales volume (millions of lbs)	17.2	17.3	(0.1)	34.8	35.0	(0.2)
Sales	\$ 85,210	\$ 87,629	\$ (2,419)	\$ 169,330	\$ 170,884	\$ (1,554)
Gross profit	\$ 15,559	\$ 13,965	\$ 1,594	\$ 32,579	\$ 30,549	\$ 2,030
Gross profit as a percentage of sales	18.3%	15.9%	2.4%	19.2%	17.9%	1.3%
Adjusted EBITDA ⁽¹⁾	\$ 4,889	\$ 4,476	\$ 413	\$ 10,784	\$ 9,098	\$ 1,686
Adjusted EBITDA as a percentage of sales	5.7%	5.1%	0.6%	6.4%	5.3%	1.1%

⁽¹⁾ See the *Non-IFRS Financial Measures* section on page 23 for further explanation of Adjusted EBITDA.

Thirteen weeks

Sales volume for our Canadian operations decreased in the second quarter of 2018 by 0.1 million pounds to 17.2 million pounds as compared to 17.3 million pounds in 2017. Excluding the reduced sales volume associated with the product recall during the second quarter of 2017 (0.3 million pounds), sales volume for the second quarter of 2018 decreased by 0.4 million pounds, or 2.6% reflecting lower sales volume in the retail business.

Sales in the second quarter decreased by \$2.4 million, or 2.8%, to \$85.2 million compared to \$87.6 million in the same period of 2017. Excluding the sales impact of the 2017 product recall (\$2.2 million), sales in the second quarter of 2018 decreased by \$4.6 million, or 5.1%, due to decreased sales volume and changes in product mix.

Gross profit increased by \$1.6 million in the second quarter of 2018 to \$15.6 million (18.3% of sales) compared to \$14.0 million (15.9% of sales) in 2017. Excluding the losses associated with the 2017 product recall (\$2.8 million), gross profit decreased by \$1.2 million, or 8.8%, reflecting raw material cost increases and the lower sales volume mentioned above, partially offset by improvements in plant efficiency.

Adjusted EBITDA for our Canadian operations increased during the second quarter of 2018 by \$0.4 million, or 9.2%, to \$4.9 million (5.7% of sales) as compared to \$4.5 million (5.1% of sales) in 2017, primarily reflecting decreased SG&A expenses related to lower consumer marketing and administrative expenses, partially offset by the lower gross profit (after adjusting for the losses associated with the 2017 product recall (\$1.2 million)) and increased distribution expenses. In addition, Adjusted EBITDA in the second quarter of 2017 included \$0.3 million in product recall costs that were not added back for the purpose of Adjusted EBITDA.

Twenty-six weeks

Sales volume for our Canadian operations decreased by 0.2 million pounds in the first half of 2018 to 34.8 million pounds compared to 35.0 million pounds in 2017. Excluding the reduced sales volume associated with the product recall during the first half of 2017 (0.3 million pounds), sales volume in the first half of 2018 decreased by 0.5 million pounds, or 1.4% primarily reflecting lower sales volume in the retail business.

Sales in the first half of 2018 decreased by \$1.6 million, or 0.9%, to \$169.3 million compared to \$170.9 million in the same period last year. Excluding the sales impact of the 2017 product recall (\$2.2 million), sales in the first half of 2018 decreased by \$3.8 million, or 2.1%, primarily reflecting the decreased sales volume and changes in product mix, partially offset by price increases related to raw material cost increases.

Gross profit increased in the first half of 2018 by \$2.1 million to \$32.6 million (19.2% of sales) compared to \$30.5 million (17.9% of sales) in the same period last year. Excluding the losses associated with the 2017 product recall (\$3.7 million), gross profit decreased by \$1.6 million, or 5.0%, reflecting the lower sales volume noted above, changes in product mix and raw material cost increases, partially offset by improvements in plant efficiency.

Adjusted EBITDA for our Canadian operations increased in the first half of 2018 by \$1.7 million, or 18.5%, to \$10.8 million (6.4% of sales) compared to \$9.1 million (5.3% of sales) in the same period last year, primarily reflecting decreased SG&A expenses due to lower administrative and consumer marketing expenses, partially offset by the lower gross profit (after adjusting for the losses associated with the 2017 product recall (\$1.6 million)) and increased distribution expenses. In addition, Adjusted EBITDA in the first half of 2017 included \$0.3 million in product recall costs that were not added back for the purpose of Adjusted EBITDA.

U.S. Operations

(All currency amounts in this section are in USD)

(in \$000s, except sales volume and percentage amounts)	Thirteen weeks ended			Twenty-six weeks ended		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Sales volume (millions of lbs)	48.3	46.0	2.3	118.8	111.6	7.2
Sales	\$ 179,295	\$ 167,261	\$ 12,034	\$ 432,058	\$ 380,113	\$ 51,945
Gross profit	\$ 31,697	\$ 27,352	\$ 4,345	\$ 78,310	\$ 70,002	\$ 8,308
Gross profit as a percentage of sales	17.7%	16.4%	1.3 %	18.1%	18.4%	(0.3)%
Adjusted EBITDA⁽¹⁾	\$ 10,396	\$ 11,102	\$ (706)	\$ 29,921	\$ 30,534	\$ (613)
Adjusted EBITDA as a percentage of sales	5.8%	6.6%	(0.8)%	6.9%	8.0%	(1.1)%

⁽¹⁾ See the *Non-IFRS Financial Measures* section on page 23 for further explanation of Adjusted EBITDA.

Thirteen weeks

Sales volume for our U.S. operations increased by 2.3 million pounds, or 4.8%, in the second quarter of 2018 to 48.3 million pounds compared to 46.0 million pounds in the same period last year, reflecting the following:

- An additional 3.5 million pounds in the second quarter of 2018 from Rubicon, which was acquired on May 30, 2017, as compared to the same period last year; and
- Lower sales volume during the second quarter of 2017 related to the product recall in 2017 (2.2 million pounds).

Excluding the impact of these items, sales volume for the second quarter of 2018 decreased by 3.4 million pounds, or 7.6%, reflecting lower sales volume in the foodservice and retail businesses.

Sales during the second quarter increased by \$12.0 million, or 7.2%, to \$179.3 million compared to \$167.3 million in 2017, primarily reflecting the additional sales from Rubicon (\$17.4 million) and lower sales during the second quarter of 2017 associated the product recall (\$6.9 million). Excluding the impact of these items, sales decreased by \$12.3 million, or 7.9%, due to the lower sales volume mentioned above and unfavourable changes in product mix, partially offset by price increases to recover raw material cost increases.

Gross profit increased in the second quarter of 2018 by \$4.3 million to \$31.7 million (17.7% of sales) compared to \$27.4 million (16.4% of sales) in the same period last year, reflecting the additional gross profit from Rubicon (\$1.8 million), and non-reoccurring losses associated with the product recall in 2017 (\$6.5 million). Excluding the impact of these items, gross profit decreased by \$4.0 million to \$27.8 million (19.3% as a percentage of sales) compared to \$31.7 million (20.3% as a percentage of sales) in the same period last year, due to plant inefficiencies, the lower sales volume mentioned above and unfavourable changes in product mix, partially offset by price increases.

Adjusted EBITDA for our U.S. operations decreased during the second quarter of 2018 by \$0.7 million, or 6.4%, to \$10.4 million (5.8% of sales), compared to \$11.1 million (6.6% of sales) in 2017 reflecting the lower gross profit (after adjusting for the losses associated with the 2017 product recall (\$2.2 million)). Adjusted EBITDA also decreased due to increases in distribution and SG&A expenses that were primarily related to the inclusion of a full quarter for Rubicon in the current year. In addition, Adjusted EBITDA in the second quarter of 2017 included \$1.7 million of product recall costs that were not added back for the purpose of Adjusted EBITDA.

Twenty-six weeks

Sales volume for our U.S. operations increased by 7.2 million pounds, or 6.4%, in the first half of 2018 to 118.8 million pounds compared to 111.6 million pounds in the same period last year, reflecting the following:

- An additional 11.4 million pounds in the first half of 2018 from Rubicon, which was acquired on May 30, 2017, as compared to the same period last year; and
- Lower sales volume in the first half of 2017 related to the product recall (2.2 million pounds).

Excluding the impact of these items, sales volume for the the first half of 2018 decreased by 6.4 million, or 5.8% to 104.0 million pounds compared to 110.4 million pounds in the same period last year reflecting lower sales volume in both the retail and foodservice businesses.

Sales in the first half of 2018 increased by \$51.9 million, or 13.7%, to \$432.1 million compared to \$380.1 million in the same period last year, primarily reflecting the additional sales from Rubicon (\$59.5 million) and lower sales during the first half of 2017 associated the product recall (\$6.9 million). Excluding the impact of the Rubicon acquisition and the product recall, sales decreased by \$14.5 million, or 3.9%, primarily due to the decreased volume explained above and unfavourable product mix, partially offset by price increases related to raw material cost increases.

Gross profit increased in the first half of 2018 by \$8.3 million to \$78.3 million (18.1% of sales) compared to \$70.0 million (18.4% of sales) in the same period last year, reflecting the additional gross profit from Rubicon (\$6.8 million) and non-reoccurring losses associated with the product recall in 2017 (\$6.5 million). Excluding the impact of the acquisition of Rubicon and the 2017 product recall, gross profit decreased by \$5.0 million to \$69.4 million (19.6% as a percentage of sales) compared to \$74.4 million (20.1% as a percentage of sales) in the same period last year, primarily due to the lower sales volume, plant inefficiencies and unfavourable product mix, partially offset by price increases.

Adjusted EBITDA for our U.S. operations decreased in the first half of 2018 by \$0.6 million, or 2.0%, to \$29.9 million (6.9% of sales) compared to \$30.5 million (8.0% of sales) in the same period last year due to increases in distribution expenses and SG&A expenses that were primarily related to the inclusion of a full period for Rubicon in the current year. The decrease in Adjusted EBITDA was partially offset by the higher gross profit (after adjusting for the losses associated with the 2017 product recall (\$1.8 million)). In addition, Adjusted EBITDA in the first half of 2017 included \$1.7 million in recall costs that were not added back for the purpose of Adjusted EBITDA.

Adjusted EBITDA was positively affected by the acquisition of Rubicon, which contributed an additional \$0.8 million in Adjusted EBITDA. Excluding Rubicon, Adjusted EBITDA was \$28.7 million, or 8.1% as a percentage of sales.

RESULTS BY QUARTER

The following contains certain corrections of errors identified in previously reported amounts for the periods in Fiscal 2016. See Note 6 "Revision of previously reported consolidated financial statements" to the 2017 annual consolidated financial statements for further discussion.

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

(Amounts in 000s, except per share amounts)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Sales	\$245,312	\$319,184	\$263,022	\$282,704	\$232,385	\$275,735	\$208,793	\$230,366	\$224,388
Adjusted EBITDA⁽¹⁾	\$ 12,050	\$ 24,221	\$ 13,060	\$ 17,298	\$ 13,417	\$ 22,337	\$ 16,117	\$ 17,510	\$ 17,448
Net Income	\$ 2,804	\$ 10,251	\$ 14,227	\$ 6,040	\$ 644	\$ 10,742	\$ 6,660	\$ 6,316	\$ 5,129
Adjusted Net Income⁽¹⁾	\$ 3,766	\$ 10,703	\$ 4,849	\$ 8,424	\$ 6,054	\$ 10,815	\$ 6,969	\$ 8,959	\$ 8,524
EPS, based on Net Income									
Basic	\$ 0.08	\$ 0.31	\$ 0.43	\$ 0.18	\$ 0.02	\$ 0.35	\$ 0.22	\$ 0.20	\$ 0.17
Diluted	\$ 0.08	\$ 0.31	\$ 0.43	\$ 0.18	\$ 0.02	\$ 0.34	\$ 0.21	\$ 0.20	\$ 0.16
EPS, based on Adjusted Net Income⁽¹⁾									
Basic	\$ 0.11	\$ 0.32	\$ 0.15	\$ 0.25	\$ 0.19	\$ 0.35	\$ 0.23	\$ 0.29	\$ 0.28
Diluted ⁽¹⁾	\$ 0.11	\$ 0.32	\$ 0.15	\$ 0.25	\$ 0.19	\$ 0.35	\$ 0.22	\$ 0.29	\$ 0.27
Dividends paid per common share (CAD)									
	\$ 0.145	\$ 0.145	\$ 0.145	\$ 0.140	\$ 0.140	\$ 0.140	\$ 0.140	\$ 0.130	\$ 0.130
Net non-cash working capital⁽²⁾									
	\$227,935	\$244,764	\$239,102	\$208,507	\$206,094	\$218,832	\$190,825	\$192,879	\$202,031

⁽¹⁾ See the *Non-IFRS Financial Measures* section starting on page 23 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 EXPENSES

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

(Amounts in \$000s)	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Business acquisition, integration and other expenses	\$ 55	\$ 625	\$ 711	\$ 901

Business acquisition, integration and other expenses primarily included costs related to termination benefits as a result of restructuring activities in the first half of 2018.

In the first half of 2017, business acquisition, integration and other expenses primarily included costs related to the acquisition of Rubicon.

FINANCE COSTS

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

(Amounts in \$000s)	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Interest paid in cash during the period	\$ 4,834	\$ 3,995	\$ 9,669	\$ 7,388
Change in cash interest accrued during the period	249	(480)	545	(455)
Total interest to be paid in cash	5,083	3,515	10,214	6,933
Deferred financing cost amortization	268	146	492	276
Total finance costs	\$ 5,351	\$ 3,661	\$ 10,706	\$ 7,209

Finance costs were \$1.7 million higher in the second quarter of 2018 and \$3.5 million higher in the first half of 2018 compared to the same periods last year due to higher interest rates and increased net interest-bearing debt, primarily reflecting the acquisition of Rubicon and lower cash flow provided by operating activities during Fiscal 2017.

INCOME TAXES

The Company's statutory tax rate was 29.3% for the second quarter and the first half of 2018 (2017: 29.2%). The effective income tax rate in the second quarter of 2018 was a recovery of 158.7% compared to a recovery of 125.5% in the same period last year. The change in the effective income tax rate for the second quarter of 2018 compared to same period last year was attributable to the Tax Cuts and Jobs Act that was signed into law on December 22, 2017 ("U.S. Tax Reform"), including a reduction in the U.S. federal corporate income tax rate from 35% to 21%, partially offset by non-deductible acquisition financing deductions. The effective income tax rate was an expense of 13.1% in the first half of 2018 as compared to the effective tax rate of an expense of 6.2% in the first half of 2017.

Future regulations and interpretations to be issued by U.S. authorities may also impact the estimates and assumptions used in calculating the Company's income tax provisions.

CONTINGENCIES

The Company has no material outstanding contingencies.

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 1 of this MD&A (under the heading "Currency") and in the Foreign Currency risk discussion on page 29 (in the *Risk Factors* section).

Our capital management practices are described in Note 27 "Capital management" to the 2017 annual consolidated financial statements.

Working Capital Credit Facility

The Company entered into an asset-based working capital credit facility in November 2010 with the Royal Bank of Canada as Administrative and Collateral agent, which would expire by its terms in April 2019. There have been several amendments made to this facility, with the most substantial amendment occurring in April 2014 when it was amended concurrently with the term loan, and increased from \$120.0 million to \$180.0 million. In April 2018, the Company

amended the working capital credit facility to extend the term from April 2019 to April 2021. There were no other significant changes to the existing terms, other than an amendment to the standby fees paid on the unutilized facility to 0.25% (previously a range of 0.25% to 0.375%).

The working capital credit facility provides for the rates noted in the following table, based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement. The Company's borrowing rates as of June 30, 2018 are also noted in the following table.

Per Credit Agreement	As at June 30, 2018	
Canadian Prime Rate revolving loans, Canadian Base Rate revolving and U.S. Prime Rate revolving loans, at their respective rates	plus 0.00% to 0.25%	plus 0.00%
Bankers' Acceptances ("BA") revolving loans, at BA rates	plus 1.25% to 1.75%	plus 1.50%
LIBOR revolving loans at LIBOR, at their respective rates	plus 1.25% to 1.75%	plus 1.50%
Letters of credit, with fees of	1.25% to 1.75%	1.50%
Standby fees, required to be paid on the unutilized facility, of	0.25%	0.250%

Average short-term borrowings outstanding during the first half of 2018 were \$60.1 million compared to \$13.0 million in the same period last year. This \$47.0 million increase primarily reflects increased borrowing due to the acquisition of Rubicon, reduced cash flow provided by operations in the latter half of Fiscal 2017 and increased working capital requirements during the first half of 2018.

At the end of the second quarter of 2018, the Company had \$119.2 million (July 1, 2017: \$138.4 million) of unused borrowing capacity, taking into account both margin calculations and the total line availability. Included in this amount are letters of credit, which reduce the availability under our working capital credit facility. On June 30, 2018, letters of credit and standby letters of credit were outstanding in the amount of \$16.4 million (July 1, 2017: \$17.9 million) to support raw material purchases and to secure certain contractual obligations, including those related to the Company's Supplemental Executive Retirement Plan ("SERP").

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

In the absence of any major acquisitions or capital expenditures, we expect average short-term borrowings by the end of 2018 to be lower than the first half of 2018, and we believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

Term Loan Facility

The Company entered into a term loan in December 2011. There have been several amendments made to the term loan with the most recent being in April 2014, when it was amended concurrently with the working capital credit facility and increased to \$300.0 million. In June 2017, the term loan facility was increased from \$300.0 million to \$370.0 million to facilitate the Rubicon acquisition. The \$70.0 million addition to the term loan was made in accordance with the term loan credit agreement, which provides for incremental increases that meet stated provisions, at consistent terms.

Minimum repayments on the term loan are required on an annual basis, plus, based on a leverage test, additional payments could be required of up to 50% of the previous year's defined excess cash flow. There were excess cash flows in 2015, due largely to decreased working capital and capital expenditures in 2015 as compared to 2014, and as a result, an excess cash flow payment of \$11.8 million was made in March 2016. In addition, the Company made a voluntary repayment of \$15.0 million during the second quarter of 2016 to reduce excess cash balances. Quarterly principal

repayments of \$0.9 million are required on the term loan; however, as per the loan agreement, the mandatory excess cash flow payment and the voluntary repayment will be applied to future regularly scheduled principal repayments. As such, no regularly scheduled principal repayments were paid in 2017 and no repayments are required in 2018.

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

During the twenty-six weeks ended June 30, 2018, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility:

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
Designated in a formal hedging relationship:				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700% \$	20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150% \$	25.0
April 4, 2016	April 4, 2018	3-month LIBOR (floor 1.0%)	1.2325% \$	35.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700% \$	40.0
December 28, 2017	April 24, 2021	3-month LIBOR (floor 1.0%)	2.2200% \$	80.0

As of June 30, 2018, the combined impact of the interest rate swaps listed above effectively fix the interest rate on \$165.0 million of the \$370.0 million face value of the term loan and the remaining portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates when LIBOR is higher than the embedded floor of 1.0%.

Additional details regarding the Company's term loan are provided in Note 5 "Long-term debt" to the Consolidated Financial Statements.

Net Interest-Bearing Debt

The Company's net interest-bearing debt (as calculated in the *Non-IFRS Financial Measures* section on page 26 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs) and finance leases, less cash. Net interest-bearing debt increased by \$22.1 million to \$371.9 million at June 30, 2018 compared to \$349.8 million at July 1, 2017, primarily reflecting lower cash flow from operating activities and higher capital expenditures in the latter half of 2017.

Net interest-bearing debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 23 of this MD&A for further discussion of Adjusted EBITDA) was 5.6x at June 30, 2018 compared to 5.9x at the end of Fiscal 2017. Including trailing twelve-month Adjusted EBITDA for Rubicon, net interest-bearing debt to rolling twelve-month Adjusted EBITDA was 5.6x at the end of Fiscal 2017. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2018, we expect this ratio to improve throughout the remainder of 2018.

(Amounts in \$000s, except as otherwise noted)	Twelve months ended	
	June 30, 2018	December 30, 2017
Net interest-bearing debt	\$ 371,925	\$ 387,869
Adjusted EBITDA	\$ 66,629	\$ 66,112
Net interest-bearing debt to Adjusted EBITDA ratio (times)	5.6x	5.9x

Capital Structure

At June 30, 2018, net interest-bearing debt was 58.0% of total capitalization, as compared to 58.1% at July 1, 2017.

(Amounts in \$000s)	June 30, 2018	December 30, 2017	July 1, 2017
Net interest-bearing debt	\$ 371,925	\$ 387,869	\$ 349,821
Shareholders' equity	272,391	268,867	251,849
Unrealized (gains) losses on derivative financial instruments included in AOCI	(3,195)	(220)	456
Total capitalization	\$ 641,121	\$ 656,516	\$ 602,126
Net interest-bearing debt as percentage of total capitalization	58.0%	59.1%	58.1%

Using our June 30, 2018 market capitalization of \$258.4 million, based on a share price of CAD\$10.17 (USD\$7.74 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization increases to 59.0%.

Cash Flow

(Amounts in \$000s)	Thirteen weeks ended			Twenty-six weeks ended		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid	\$ 12,298	\$ 6,039	\$ 6,259	\$ 35,853	\$ 27,954	\$ 7,899
Interest paid	(4,834)	(3,995)	(839)	(9,669)	(7,388)	(2,281)
Income taxes (paid) refunded	(16)	(5,421)	5,405	61	(7,845)	7,906
Cash flows provided by operations, including interest and income taxes, and before changes in non-cash working capital balances	7,448	(3,377)	10,825	26,245	12,721	13,524
Net change in non-cash working capital balances	15,203	13,083	2,120	5,373	(15,300)	20,673
Net cash flows provided by (used in) operating activities	22,651	9,706	12,945	31,618	(2,579)	34,197
Net cash flows (used in) provided by financing activities	(19,422)	68,785	(88,207)	(24,341)	72,825	(97,166)
Net cash flows used in investing activities	(3,738)	(81,591)	77,853	(7,701)	(86,986)	79,285
Foreign exchange (decrease) increase on cash	(889)	(376)	(513)	(568)	118	(686)
Net change in cash during the period	\$ (1,398)	\$ (3,476)	\$ 2,078	\$ (992)	\$ (16,622)	\$ 15,630

Net cash flows provided by (used in) operating activities increased by \$12.9 million in the second quarter of 2018 to an inflow of \$22.7 million compared to an inflow of \$9.7 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 \$10.8 million in the second quarter of 2018 to an inflow of \$7.4 million compared to an outflow of \$3.4 million in the same period last year. This increase reflects more favourable cash flows from operations and lower income tax payments, partially offset by higher interest payments.
- Cash flows from changes in net non-cash working capital increased by \$2.1 million in the second quarter of 2018 to an inflow of \$15.2 million compared to an inflow of \$13.1 million in the same period last year. This

increase primarily reflects a more favourable change in inventories, partially offset by less favourable changes in accounts receivable, provisions, and accounts payable and accrued liabilities during the second quarter of 2018 compared to the same period last year.

Net cash flows provided by (used in) operating activities increased by \$34.2 million in the first half of 2018 to an inflow of \$31.6 million compared to an outflow of \$2.6 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 \$13.5 million in the first half of 2018 to an inflow of \$26.2 million compared to an inflow of \$12.7 million in the same period last year. This increase reflects more favourable cash flows from operations and lower income tax payments, partially offset by higher interest payments.
- Cash flows from changes in net non-cash working capital increased by \$20.7 million in 2018 to an inflow of \$5.4 million compared to an outflow of \$15.3 million in the same period last year. This increase primarily reflects a more favourable change in inventories, partially offset by less favourable changes in provisions, and accounts payable and accrued liabilities during the first half of 2018 compared to the same period last year.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 26 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended June 30, 2018 decreased by \$14.4 million to an outflow of \$9.4 million compared to an inflow of \$5.0 million for the twelve months ended June 30, 2017. This decrease reflects a less favourable change in working capital, partially offset by higher cash flow from operating activities, including interest and income taxes and lower capital expenditures during the twelve months ended June 30, 2018 as compared to the twelve months ended July 1, 2017.

Net Non-Cash Working Capital

(Amounts in \$000s)	June 30, 2018	December 30, 2017	Change
Accounts receivable	\$ 88,064	\$ 92,395	\$ (4,331)
Inventories	277,200	353,433	(76,233)
Prepaid expenses	4,461	3,462	999
Accounts payable and accrued liabilities	(141,184)	(209,910)	68,726
Provisions	(606)	(278)	(328)
Net non-cash working capital	\$ 227,935	\$ 239,102	\$ (11,167)

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 \$11.2 million to \$227.9 million at the end of June 30, 2018 as compared to \$239.1 million at the end of December 30, 2017, primarily reflecting lower inventories and accounts receivable, partially offset by lower accounts payable and accrued liabilities, due to the timing of working capital requirements.

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

Capital Expenditures

Capital expenditures (including finance leases and computer software) were \$3.9 million and \$8.3 million during the second quarter and the first half of 2018 respectively, as compared to capital expenditures of \$6.9 million and \$12.6 million during the second quarter and the first half of 2017, respectively, due to lower capital expenditures in 2018 as a result of non-reoccurring 2017 projects that were primarily related to improvements in manufacturing facilities and leasehold improvements. Capital expenditures were also lower during the second quarter and the first half of 2018

compared to the same periods in 2017 due to the timing of capital expenditures related to improvements in the Company's enterprise-wide business management system.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2018 will be approximately \$17.0 million and funded by cash generated from operations and short-term borrowings.

Dividends

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

On August 14, 2018, the Company's Board of Directors approved a quarterly dividend of CAD\$0.145 per share on the Company's common shares, payable on September 15, 2018 to holders of record on September 1, 2018. These dividends are considered "eligible dividends" for Canadian income tax purposes.

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

- Under the working capital credit facility, Average Adjusted Aggregate Availability, as defined in the credit agreement, needs to be \$22.5 million or higher and was \$133.2 million on June 30, 2018, and NCIBs are subject to an annual limit of \$10.0 million with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum; and
- Under the term loan facility, dividends cannot exceed \$17.5 million per year. This amount increases to the greater of \$25.0 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan when the defined total leverage ratio is below 4.5x and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 5.6x on June 30, 2018. NCIBs are subject to an annual limit of \$10.0 million under the term loan facility with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum.

Contractual Obligations

Contractual obligations relating to our long-term debt, finance lease obligations, operating leases, purchase obligations and other long-term liabilities as at June 30, 2018 were as follows:

(Amounts in \$000s)	Payments Due by Period			
	Total	Less than 1 year	1-5 Years	Thereafter
Long-term debt	\$ 337,926	\$ —	\$ 337,926	\$ —
Finance lease obligations	1,174	534	640	—
Other current and long-term liabilities	1,972	106	1,866	—
Operating leases	23,045	2,998	16,289	3,758
Purchase obligations	121,007	109,974	11,033	—
Total contractual obligations	\$ 485,124	\$ 113,612	\$ 367,754	\$ 3,758

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* risk section in the 2017 Annual Report and the *Foreign Currency* section on page 29 of this MD&A for further details.

Financial Instruments and Risk Management

The Company has exposure to the following risks as a result of its use of financial instruments: foreign currency risk, interest rate risk, credit risk and liquidity risk. The Company enters into interest rate swaps, foreign currency contracts, and insurance contracts to manage these risks that arise from the Company's operations and its sources of financing,

in accordance with a written policy that is reviewed and approved by the Audit Committee of the Board of Directors. The policy prohibits the use of derivative financial instruments for trading or speculative purposes.

Readers are directed to Note 14 "*Fair value measurement*" of the Consolidated Financial Statements for a complete description of the Company's use of derivative financial instruments and their impact on the financial results, and to Note 28 "*Financial risk management objectives and policies*" of the 2017 annual consolidated financial statements for further discussion of the Company's financial risks and policies.

Disclosure of Outstanding Share Data

On August 14, 2018, 33,383,481 common shares and 1,790,858 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

RELATED PARTY TRANSACTIONS

As a result of the Rubicon acquisition in May 2017, the Company has right of first refusal on certain commodity seafood sales from a company controlled by Brian Wynn, who is now a member of the Company's management. Total sales to related parties for the thirteen and twenty-six weeks ended June 30, 2018 were \$0.1 million and \$0.2 million, respectively (thirteen and twenty-six weeks ended July 1, 2017: \$nil) and as at June 30, 2018 there was \$0.2 million due from the related parties (July 1, 2017: \$nil). Total purchases from related parties for the thirteen and twenty-six weeks ended June 30, 2018 were \$nil (thirteen and twenty-six weeks ended July 1, 2017: \$1.2 million), and as at June 30, 2018, there was \$nil due to related parties (July 1, 2017: \$1.5 million).

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

NON-IFRS FINANCIAL MEASURES

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

Adjusted EBITDA

Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Chartered Professional Accountants of Canada ("CPA Canada") and is earnings before interest, taxes, depreciation and amortization, excluding: business acquisition, integration and other expenses including those related to the cessation of plant operations; gains or losses on disposal of assets; termination benefits; and share-based compensation expense. The related margin is defined as Adjusted EBITDA divided by net sales ("Adjusted EBITDA as a percentage of sales"), where net sales is defined as "Revenues" on the consolidated statements of income.

We use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) as a performance measure as it approximates cash generated from operations before capital expenditures and changes in working capital, and it excludes the impact of expenses associated with business acquisition, integration activities, certain non-routine costs and share-based compensation expense related to the Company's share price. We believe investors and analysts also use Adjusted EBITDA and Adjusted EBITDA as a percentage of sales to evaluate performance of our business. The most directly comparable IFRS measure to Adjusted EBITDA is "Results from operating activities" on the consolidated statements of income. Adjusted EBITDA is also useful when comparing companies, as it eliminates the differences in earnings that are due to how a company is financed. Also, for the purpose of certain covenants on our credit facilities, "EBITDA" is based on Adjusted EBITDA, with further adjustments as defined in the Company's credit agreements.

The following table reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, including the operating segment information disclosed in Note 13 "Operating segment information".

(Amounts in \$000s)	Thirteen weeks ended June 30, 2018				Thirteen weeks ended July 1, 2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Net income (loss)	\$ 3,301	\$ 6,972	\$ (7,469)	\$ 2,804	\$ 903	\$ 3,103	\$ (3,362)	\$ 644
Add back (deduct):								
Depreciation and amortization expense	538	3,416	519	4,473	478	3,137	293	3,908
Financing costs	—	—	5,351	5,351	—	—	3,661	3,661
Income tax recovery	—	—	(1,720)	(1,720)	—	—	(3,172)	(3,172)
Standardized EBITDA	3,839	10,388	(3,319)	10,908	1,381	6,240	(2,580)	5,041
Add back (deduct):								
Business acquisition, integration and other expenses	—	—	55	55	—	—	625	625
(Gain) loss on disposal of assets	(42)	8	—	(34)	43	30	(1)	72
Direct costs and returned destroyed product ⁽¹⁾	—	—	—	—	1,882	4,832	—	6,714
Share-based compensation expense	—	—	1,121	1,121	—	—	965	965
Adjusted EBITDA	\$ 3,797	\$ 10,396	\$ (2,143)	\$ 12,050	\$ 3,306	\$ 11,102	\$ (991)	\$ 13,417

(Amounts in \$000s)	Twenty-six weeks ended June 30, 2018				Twenty-six weeks ended July 1, 2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Net income (loss)	\$ 7,390	\$ 22,997	\$ (17,332)	\$ 13,055	\$ 3,965	\$ 19,615	\$ (12,194)	\$ 11,386
Add back (deduct):								
Depreciation and amortization expense	1,088	6,842	855	8,785	923	6,028	572	7,523
Financing costs	—	—	10,706	10,706	—	—	7,209	7,209
Income tax expense	—	—	1,968	1,968	—	—	755	755
Standardized EBITDA	8,478	29,839	(3,803)	34,514	4,888	25,643	(3,658)	26,873
Add back (deduct):								
Business acquisition, integration and other expenses	—	—	711	711	—	—	901	901
(Gain) loss on disposal of assets	(40)	82	(13)	29	30	59	(1)	88
Direct costs and returned destroyed product ⁽¹⁾	—	—	—	—	1,882	4,832	—	6,714
Share-based compensation expense	—	—	1,018	1,018	—	—	1,177	1,177
Adjusted EBITDA	\$ 8,438	\$ 29,921	\$ (2,087)	\$ 36,272	\$ 6,800	\$ 30,534	\$ (1,581)	\$ 35,753

⁽¹⁾ Associated with the product recall (see the *Recent Developments* section on page 4).

Adjusted Net Income and Adjusted Diluted EPS

Adjusted Net Income is net income excluding the after-tax impact of: business acquisition, integration and certain other non-routine costs including those related to the cessation of plant operations; the non-cash expense or income related to marking-to-market an interest rate swap not designated for hedge accounting; termination benefits; the U.S. Tax Reform and share-based compensation expense. Adjusted Diluted EPS is Adjusted Net Income divided by the average diluted number of shares outstanding.

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

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

	Thirteen weeks ended June 30, 2018		Thirteen weeks ended July 1, 2017	
	\$000s	Diluted EPS	\$000s	Diluted EPS
Net income	\$ 2,804	\$ 0.08	\$ 644	0.02
Add back (deduct):				
Business acquisition, integration and other expenses	55	—	625	0.02
Direct costs and returned destroyed product ⁽¹⁾	—	—	6,714	0.21
Share-based compensation expense	1,121	0.04	965	0.03
Tax impact of reconciling items	(214)	(0.01)	(2,894)	(0.09)
Adjusted Net Income	\$ 3,766	\$ 0.11	\$ 6,054	0.19
Average shares for the period (000s)		33,635		32,017

	Twenty-six weeks ended June 30, 2018		Twenty-six weeks ended July 1, 2017	
	\$000s	Diluted EPS	\$000s	Diluted EPS
Net income	\$ 13,055	\$ 0.39	\$ 11,386	0.36
Add back (deduct):				
Business acquisition, integration and other expenses	711	0.02	901	0.03
Direct costs and returned destroyed product ⁽¹⁾	—	—	6,714	0.21
Share-based compensation expense	1,019	0.03	1,177	0.04
Tax impact of reconciling items	(316)	(0.01)	(3,309)	(0.11)
Adjusted Net Income	\$ 14,469	\$ 0.43	\$ 16,869	0.53
Average shares for the period (000s)		33,580		31,594

⁽¹⁾ Associated with the product recall (see the *Recent Developments* section on page 4).

CAD-Equivalent Adjusted Diluted EPS

CAD-Equivalent Adjusted Diluted EPS is Adjusted Diluted EPS, as defined above, converted to CAD using the average USD/CAD exchange rate for the period. High Liner Foods' common shares trade on the TSX and are quoted in CAD. The CAD-Equivalent Adjusted Diluted EPS is provided for the purpose of calculating financial ratios, like share price-to-earnings ratio, where investors should take into consideration that the Company's share price and dividend rate are reported in CAD and its earnings and financial position are reported in USD. This measure is included for illustrative

purposes only, and would not equal the Adjusted Diluted EPS in CAD that would result if the Company's Consolidated Financial Statements were presented in CAD.

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Adjusted Diluted EPS	\$ 0.11	\$ 0.19	\$ 0.43	\$ 0.53
Average foreign exchange rate for the period	1.2910	1.3448	1.2813	1.3343
CAD-Equivalent Adjusted Diluted EPS	\$ 0.14	\$ 0.26	\$ 0.55	\$ 0.71

Standardized Free Cash Flow

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

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

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

(Amounts in \$000s)	Twelve months ended		
	June 30, 2018	July 1, 2017	Change
Net change in non-cash working capital items	\$ (28,236)	\$ (3,386)	\$ (24,850)
Cash flow from operating activities, including interest and income taxes	40,944	32,947	7,997
Cash flow from operating activities	12,708	29,561	(16,853)
Less: total capital expenditures, net of investment tax credits	(22,075)	(24,540)	2,465
Standardized Free Cash Flow	\$ (9,367)	\$ 5,021	\$ (14,388)

Net Interest-Bearing Debt

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

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

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

(Amounts in \$000s)	June 30, 2018	December 30, 2017	July 1, 2017
Current bank loans	\$ 36,146	\$ 53,352	\$ 11,906
Add-back: deferred finance costs on current bank loans	425	208	276
Total current bank loans	36,571	53,560	12,182
Long-term debt	335,915	335,441	335,205
Add-back: deferred finance costs on long-term debt	2,011	2,485	2,721
Total term loan debt	337,926	337,926	337,926
Long-term portion of finance lease obligations	640	407	648
Current portion of finance lease obligations	534	714	695
Total finance lease obligation	1,174	1,121	1,343
Less: cash	(3,746)	(4,738)	(1,630)
Net interest-bearing debt	\$ 371,925	\$ 387,869	\$ 349,821

GOVERNANCE

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

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

There were no other changes in the Company's ICFR, during the period beginning on April 1, 2018 and ending on June 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR, except as noted above.

ACCOUNTING ESTIMATES AND STANDARDS

Critical Accounting Estimates

Critical accounting judgments and estimates used in preparing our Consolidated Financial Statements are described in the Company's 2017 Annual Report. The preparation of the Company's Consolidated Financial Statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. Actual outcomes may differ from these estimates under different assumptions and conditions that could require a material adjustment to the reported carrying amounts in the future. There have been no material changes to our critical accounting estimates and judgments during the thirteen and twenty-six weeks ended June 30, 2018.

Accounting Standards

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

IFRS 2, *Share-based Payment*

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

IFRS 9, *Financial Instruments: Classification and Measurement*

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

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts* and various revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard is applicable to all contracts the Company has with customers. The Company has elected to adopt the standard using the full retrospective method and applied the completed contract practical expedients, which allows the Company to exclude completed contracts that began and ended in the same annual reporting period and those contracts that were complete at the beginning of the earliest period presented. For completed contracts with variable consideration, the Company applied the practical expedient and has used the transaction price at the date when the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods because the Company has concluded that the difference was immaterial.

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

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

Accounting Standards and Interpretations Issued but not yet Effective

The standards, amendments and interpretations that have been issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC"), but that are not yet effective, up to the date of issuance of this MD&A are consistent with those disclosed in Note 2 "*Significant accounting policies*" to the Consolidated Financial Statements.

RISK FACTORS

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

Readers should refer to the 2017 Annual Report and AIF for a more detailed description of risk factors applicable to the Company, which are available at www.sedar.com and at www.highlinerfoods.com. We have updated certain risk factors below for the first half of 2018.

Foreign Currency

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

The Canadian dollar weakened relative to the U.S. dollar approximately 1.2% as of June 30, 2018 compared to July 1, 2017. On our balance sheet, this decreases the USD carrying value of both CAD-denominated assets and liabilities and increases the foreign exchange translation impact of our Canadian company included in accumulated other comprehensive income ("AOCI") in shareholders' equity. As our Canadian operations are a net importer of seafood and other products purchased in USD, a stronger CAD reduces its costs and a weaker CAD increases its costs in its CAD functional currency.

In order to minimize foreign exchange risk, we undertake hedging activities using various derivative products in accordance with the Company's "Price Risk Management Policy", which is approved and monitored by the Audit Committee. We hedge the USD costs of a portion of our raw material requirements and retail commodity products as sales price increases on these products take more time to implement. We generally do not hedge certain commodity foodservice products as the sales prices to our customers change frequently enough to capture foreign exchange fluctuations, but may do so from time to time. During the second quarter of 2018, our hedging activities resulted in an effective USD/CAD exchange rate of 1.2903 for inventory purchased in USD by our Canadian operations, compared to 1.3371 for the second quarter of 2017.

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

Geopolitical Risk

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

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

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

On July 11, 2018 the U.S. Administration announced additional proposed tariffs that, if implemented, would apply to certain seafood imported into the U.S. from China. These proposed tariffs could impact seafood purchased by the Company, and the industry overall, as a significant volume of seafood consumed in the U.S. is imported to meet U.S. consumer needs. The Company currently purchases raw material from more than 20 countries around the world, including from the U.S., to meet 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 proposed tariffs are currently open for public comment.

The Company will continue to monitor these developments closely, particularly as further information becomes available on what products could be impacted by this proposed tariff and how the proposed tariffs would be implemented.

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

Information Technology and Cybersecurity Risk

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

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

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



HIGH LINER FOODS

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the thirteen and twenty-six weeks ended June 30, 2018
With comparative figures as at and for the thirteen and twenty-six weeks ended July 1, 2017**

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

	Notes	June 30, 2018	December 30, 2017
ASSETS			
Current assets			
Cash		\$ 3,746	\$ 4,738
Accounts receivable	10	88,064	92,395
Income taxes receivable		15,142	13,533
Other financial assets	14	2,219	570
Inventories		277,200	353,433
Prepaid expenses		4,461	3,462
Total current assets		390,832	468,131
Non-current assets			
Property, plant and equipment		116,344	120,289
Deferred income taxes	9	25	2,787
Other receivables and miscellaneous assets	14	2,342	837
Intangible assets		159,509	158,044
Goodwill		157,408	157,881
Total non-current assets		435,628	439,838
Total assets	4,5	\$ 826,460	\$ 907,969
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank loans	4	\$ 36,146	\$ 53,352
Accounts payable and accrued liabilities		138,155	205,855
Contract liability	10	3,029	4,055
Provisions		606	278
Other current financial liabilities	14	182	1,965
Other current liabilities		106	166
Current portion of finance lease obligations		534	714
Total current liabilities		178,758	266,385
Non-current liabilities			
Long-term debt	5	335,915	335,441
Other long-term financial liabilities	14	21	62
Other long-term liabilities		1,866	1,641
Long-term finance lease obligations		640	407
Deferred income taxes	9	26,049	23,943
Future employee benefits		10,820	11,223
Total non-current liabilities		375,311	372,717
Total liabilities		554,069	639,102
Shareholders' equity			
Common shares	7	112,887	112,835
Contributed surplus		14,950	14,354
Retained earnings		165,010	159,157
Accumulated other comprehensive loss		(20,456)	(17,479)
Total shareholders' equity		272,391	268,867
Total liabilities and shareholders' equity		\$ 826,460	\$ 907,969

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

	Notes	Thirteen weeks ended		Twenty-six weeks ended	
		June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues	10	\$ 245,312	\$ 232,385	\$ 564,496	\$ 508,120
Cost of sales		202,002	194,578	460,625	414,805
Gross profit		43,310	37,807	103,871	93,315
Distribution expenses		12,524	11,234	27,832	23,259
Selling, general and administrative expenses		24,296	24,815	49,599	49,805
Business acquisition, integration and other expenses		55	625	711	901
Results from operating activities		6,435	1,133	25,729	19,350
Finance costs		5,351	3,661	10,706	7,209
Income (loss) before income taxes		1,084	(2,528)	15,023	12,141
Income taxes					
Current	9	(714)	(679)	40	2,229
Deferred	9	(1,006)	(2,493)	1,928	(1,474)
Total income tax (recovery) expense		(1,720)	(3,172)	1,968	755
Net income		\$ 2,804	\$ 644	\$ 13,055	\$ 11,386
Earnings per common share					
Basic		\$ 0.08	\$ 0.02	\$ 0.39	\$ 0.37
Diluted		\$ 0.08	\$ 0.02	\$ 0.39	\$ 0.36
Weighted average number of shares outstanding					
Basic		33,632,740	31,824,125	33,562,247	31,395,833
Diluted		33,635,222	32,016,708	33,579,741	31,593,857

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income	\$ 2,804	\$ 644	\$ 13,055	\$ 11,386
Other comprehensive income (loss), net of income tax				
Other comprehensive income (loss) to be reclassified to net income:				
(Loss) gain on hedge of net investment in foreign operations	(5,399)	8,754	(14,218)	10,556
Gain (loss) on translation of net investment in foreign operations	7,828	(12,240)	20,510	(14,905)
Translation impact on Canadian dollar denominated non-AOCI items	(4,901)	6,563	(13,198)	8,048
Translation impact on Canadian dollar denominated AOCI items	340	(476)	954	(576)
Total exchange (losses) gains on translation of foreign operations and Canadian dollar denominated items	(2,132)	2,601	(5,952)	3,123
Effective portion of changes in fair value of cash flow hedges	1,198	(1,212)	2,773	(1,397)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	(109)	(95)	586	(212)
Net change in fair value of cash flow hedges transferred to income	(68)	152	16	327
Translation impact on Canadian dollar denominated AOCI items	(172)	198	(400)	265
Total exchange gains (losses) on cash flow hedges	849	(957)	2,975	(1,017)
Net other comprehensive (losses) gains to be reclassified to net income	(1,283)	1,644	(2,977)	2,106
Other comprehensive (loss) income not to be reclassified to net income				
Defined benefit plan actuarial (losses) gains	(297)	(969)	139	(1,237)
Other comprehensive (loss) income, net of income tax	(1,580)	675	(2,838)	869
Total comprehensive income	\$ 1,224	\$ 1,319	\$ 10,217	\$ 12,255

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

	Foreign currency translation differences	Net exchange differences on cash flow hedges	Total AOCI
Balance at December 30, 2017	\$ (17,699)	\$ 220	\$ (17,479)
Total exchange losses on translation of foreign operations and Canadian dollar denominated items	(5,952)	—	(5,952)
Total exchange gains on cash flow hedges	—	2,975	2,975
Balance at June 30, 2018	\$ (23,651)	\$ 3,195	\$ (20,456)
Balance at December 31, 2016	\$ (24,887)	\$ 561	\$ (24,326)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	3,123	—	3,123
Total exchange losses on cash flow hedges	—	(1,017)	(1,017)
Balance at July 1, 2017	\$ (21,764)	\$ (456)	\$ (22,220)

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

	Common shares	Contributed surplus	Retained earnings	AOCI	Total
Balance at December 30, 2017	\$ 112,835	\$ 14,354	\$ 159,157	\$ (17,479)	\$ 268,867
Other comprehensive loss	—	—	139	(2,977)	(2,838)
Net income	—	—	13,055	—	13,055
Common share dividends	—	—	(7,341)	—	(7,341)
Share-based compensation	52	596	—	—	648
Balance at June 30, 2018	\$ 112,887	\$ 14,950	\$ 165,010	\$ (20,456)	\$ 272,391
Balance at December 31, 2016	\$ 86,094	\$ 14,654	\$ 143,782	\$ (24,326)	\$ 220,204
Other comprehensive income	—	—	(1,237)	2,106	869
Net income	—	—	11,386	—	11,386
Common share dividends	—	—	(6,747)	—	(6,747)
Share-based compensation	185	240	—	—	425
Share issuance	25,758	—	(46)	—	25,712
Balance at July 1, 2017	\$ 112,037	\$ 14,894	\$ 147,138	\$ (22,220)	\$ 251,849

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

		Thirteen weeks ended		Twenty-six weeks ended	
	Notes	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Cash flows provided by (used in):					
Operating activities					
Net income		\$ 2,804	\$ 644	\$ 13,055	\$ 11,386
Adjustments to net income not involving cash from operations:					
Depreciation and amortization	13	4,473	3,908	8,785	7,523
Share-based compensation expense	8	1,121	965	1,018	1,177
Loss on asset disposals and impairment		16	118	114	165
Future employee benefits contribution, net of expense		(59)	50	(93)	146
Finance costs		5,351	3,661	10,706	7,209
Income tax (recovery) expense	9	(1,720)	(3,172)	1,968	755
Unrealized foreign exchange loss (gain)		312	(135)	300	(407)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		12,298	6,039	35,853	27,954
Changes in non-cash working capital balances:					
Accounts receivable		20,606	30,221	3,244	2,505
Inventories		15,826	(14,587)	71,797	20,052
Prepaid expenses		(1,151)	(1,401)	(1,098)	(223)
Accounts payable and accrued liabilities		(20,299)	(2,690)	(68,917)	(41,729)
Provisions		221	1,540	347	4,095
Net change in non-cash working capital balances		15,203	13,083	5,373	(15,300)
Interest paid		(4,834)	(3,995)	(9,669)	(7,388)
Income taxes (paid) refunded		(16)	(5,421)	61	(7,845)
Net cash flows provided by (used in) operating activities		22,651	9,706	31,618	(2,579)
Financing activities					
(Decrease) increase in bank loans		(15,480)	3,811	(16,357)	11,306
Repayment of finance lease obligations		(120)	(174)	(358)	(417)
Proceeds of long-term debt		—	70,000	—	70,000
Deferred finance costs		(212)	(1,244)	(309)	(1,244)
Common share dividends paid		(3,634)	(3,535)	(7,341)	(6,747)
Options exercised for shares		24	—	24	—
Share issuance		—	(73)	—	(73)
Net cash flows (used in) provided by financing activities		(19,422)	68,785	(24,341)	72,825
Investing activities					
Purchase of property, plant and equipment, net of investment tax credits, and intangible assets		(3,741)	(6,748)	(7,820)	(12,233)
Net proceeds on disposal of assets		3	68	119	158
Acquisition of business, net of cash acquired		—	(74,911)	—	(74,911)
Net cash flows used in investing activities		(3,738)	(81,591)	(7,701)	(86,986)
Foreign exchange (decrease) increase on cash		(889)	(376)	(568)	118
Net change in cash during the period		(1,398)	(3,476)	(992)	(16,622)
Cash, beginning of period		5,144	5,106	4,738	18,252
Cash, end of period		\$ 3,746	\$ 1,630	\$ 3,746	\$ 1,630

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

1. Corporate information

High Liner Foods Incorporated (the "Company" or "High Liner Foods") is a company incorporated and domiciled in Canada. The address of the Company's registered office is 100 Battery Point, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The Unaudited Condensed Interim Consolidated Financial Statements ("Consolidated Financial Statements") of the Company as at and for the thirteen and twenty-six weeks ended June 30, 2018, comprise High Liner Foods' Canadian company (the "Parent") and its subsidiaries (herein together referred to as the "Company" or "High Liner Foods"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on August 14, 2018.

2. Basis of preparation

(a) Statement of compliance

These Consolidated Financial Statements are in compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These Consolidated Financial Statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 30, 2017, as set out in the 2017 Annual Report, available at www.highlinerfoods.com.

(b) Functional and presentation currency

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

(c) Seasonality of operations

The Company's operating results are affected by the timing of holidays. Inventory levels fluctuate throughout the year, and are at their highest in the first quarter to support strong sales during the Lenten period. In addition, the timing of ordering raw materials is earlier than typically required in order to have adequate quantities available during the seasonal closure of plants in Asia during the Lunar New Year period. These events typically result in significantly higher inventories in December, January, February and March than during the rest of the year.

(d) New standards, interpretations and amendments thereof, adopted by the Company

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

IFRS 2, *Share-based Payment*

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

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

IFRS 9, *Financial Instruments: Classification and Measurement*

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

- The Company did not identify any changes to the classification and measurement of the existing financial instruments upon applying IFRS 9, other than a change in the classification of cash and accounts receivable from loans and receivables to assets at amortized cost, which had no impact on measurement of these financial instruments.
- IFRS 9 requires the Company to record expected credit losses ("ECL") on the entire accounts receivable balance. The Company has applied the simplified approach and has calculated the lifetime ECLs based on an established provision matrix that considers the Company's historical credit loss experience, adjusted for forward-looking factors specific to the Company's customers and the economic environment. The adoption of the ECL requirements of IFRS 9 had an immaterial impact on the Consolidated Financial Statements (see Note 10).
- The Company has concluded that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 does not have an impact on the Company's Consolidated Financial Statements.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts* and various revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard is applicable to all contracts the Company has with customers. The Company has elected to adopt the standard using the full retrospective method and applied the completed contract practical expedients, which allows the Company to exclude completed contracts that began and ended in the same annual reporting period and those contracts that were complete at the beginning of the earliest period presented. For completed contracts with variable consideration, the Company applied the practical expedient and has used the transaction price at the date when the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods because the Company has concluded that the difference was immaterial.

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

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

If the Company did not elect to use the completed contract practical expedient, revenue and cost of sales in the comparative period would require adjustments, with no resulting impact on net income, as follows:

- The Company would have recognized \$1.2 million, \$2.4 million, and \$4.7 million of incremental revenue and cost of sales on the sale of donated finished products for the thirteen and twenty-six weeks ended July 1, 2017 and fifty-two weeks ended December 30, 2017, respectively.

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

- The Company would have decreased revenue and cost of sales recorded by \$0.1 million, \$0.1 million and \$0.6 million for the thirteen and twenty-six weeks ended July 1, 2017 and fifty-two weeks ended December 30, 2017, respectively for identified payments made to a customer that would be accounted for as a reduction of revenue under IFRS 15.

Accounting policy

Revenue from the sale of products is recognized when the terms of a contract with a customer has been satisfied, which occurs when control has been transferred to customers, either upon delivery to or pick-up by the customer. Revenue is measured as the amount of consideration the Company expects to receive, and varies with changes in marketing programs provided to customers, including volume rebates, cooperative advertising and other trade marketing programs which promote the Company's products. Revenue from customer contracts is recognized based on the price specified in the contract, net of the estimated trade marketing programs. Accumulated historical experience is used to estimate and accrue for the trade marketing programs, using the expected value method or most likely method, depending on the program. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

Arreceivable is recognized when the goods are delivered or picked up by the customer as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Company has determined that no significant financing components exist with respect to contracts with customers, as account receivables bear normal commercial credit terms and are non-interest bearing.

The Company has elected to apply the practical expedient and will recognize the incremental costs of obtaining a contract as an expense when incurred because the amortization period of the asset that the Company otherwise would have recognized is less than one year. See Note 10 for further details on the transition to IFRS 15.

(e) Accounting pronouncements issued but not yet effective

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

IFRS 16, Leases

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

The Company is progressing through the assessment of the impact IFRS 16 will have on the consolidated financial statements and expects that the impact will be significant as the Company will recognize new assets and liabilities for most of the leases which are currently classified as operating leases. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and an interest expense on the lease liabilities. The standard permits two methods of adoption: retrospectively to each reporting period presented (full retrospective method), or retrospective with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company has decided to adopt the standard on December 30, 2018 using the modified retrospective method with certain practical expedients that are available under this method. The Company will continue to evaluate the impact of the new standard and disclosures on the consolidated financial statements during the year.

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 is currently evaluating the impact of this new standard on its consolidated financial statements.

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

3. Product recall

In April 2017, the Company announced a voluntary recall of certain brands of breaded fish and seafood products sold in Canada that may contain a milk allergen that was not declared on the ingredient label and allergen statement. The Company identified that the allergen had originated from ingredients supplied by one of the Company's U.S.-based ingredient suppliers. As a result, during the thirteen weeks ended April 1, 2017 the Company recognized \$0.7 million in estimated net losses associated with the product recall related to consumer refunds, customer fines, the return of product to be re-worked or destroyed, and direct incremental costs.

Subsequently, during the second quarter of fiscal 2017, the Company was notified by the ingredient supplier that several additional ingredients were being recalled due to the potential presence of undeclared milk allergens, which necessitated the expansion of the Company's initial recall to include additional value-added seafood products sold in the U.S. and Canada. As a result, the Company recognized further net losses associated with the product recall of \$8.6 million during the thirteen weeks ended July 1, 2017 (fifty-two weeks ended December 30, 2017: \$13.5 million). 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. Additional information relating to the product recall is available in the Company's consolidated financial statements for the year ended December 30, 2017.

4. Bank loans

<i>(Amounts in \$000s)</i>	June 30, 2018	December 30, 2017
Bank loans, denominated in CAD (average variable rate of 3.20%; December 30, 2017: 3.04%)	\$ 5,682	\$ 9,435
Bank loans, denominated in USD (average variable rate of 4.29%; December 30, 2017: 3.64%)	30,889	44,125
	36,571	53,560
Less: deferred finance costs	(425)	(208)
	\$ 36,146	\$ 53,352

In April 2018, the Company amended the \$180.0 million working capital facility (the "Facility"), with the Royal Bank of Canada as Administrative and Collateral Agent, to extend the term from April 2019 to April 2021. There were no other significant changes to the existing terms, other than an amendment to the standby fees paid on the unutilized facility to 0.25% (previously 0.25% to 0.375%). The amendment to the Facility was not assessed as a substantial modification, and as a result, the deferred finance costs related to the original Facility continue to be amortized over the remaining term. The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility (see Note 5), and excluding the assets acquired as part of the Rubicon Resources, LLC ("Rubicon") acquisition which was closed on May 30, 2017. Additional information relating to the Rubicon acquisition is available in the Company's consolidated financial statements for the year ended December 30, 2017. A second charge over the Company's property, plant and equipment is also in place. As at June 30, 2018, the Company had \$119.2 million of undrawn borrowing facility (December 30, 2017: \$111.8 million).

As at June 30, 2018, the Facility allowed the Company to borrow:

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

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5. Long-term debt

<i>(Amounts in \$000s)</i>	June 30, 2018	December 30, 2017
Term loan	\$ 337,926	\$ 337,926
Less: deferred finance costs	(2,011)	(2,485)
	\$ 335,915	\$ 335,441

As at June 30, 2018, the Company had a \$370.0 million term loan facility with an interest rate of 3.25% plus LIBOR (LIBOR floor of 1.00%), maturing on April 24, 2021. The term loan facility was increased from \$300.0 million to \$370.0 million on June 6, 2017 to facilitate the Rubicon acquisition, in accordance with the term loan credit agreement, which provides for incremental increases that meet stated provisions, at consistent terms.

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

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

6. Employee benefits

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

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Termination benefits				
Cost of sales	\$ 4	\$ 18	\$ 18	\$ 44
Distribution expenses	—	13	—	13
Business acquisition, integration and other expenses	76	—	732	—
Selling, general and administrative expenses	55	148	78	598
	\$ 135	\$ 179	\$ 828	\$ 655
Short-term benefits				
Selling, general and administrative expenses	—	—	21	27
	\$ —	\$ —	\$ 21	\$ 27

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7. Share capital

Purchase of shares for cancellation

In January 2018, the Company announced that the Toronto Stock Exchange approved the renewal of the Company's Normal Course Issuer Bid ("NCIB") to repurchase for cancellation up to 150,000 common shares. The price the Company will pay for any common shares acquired will be the market price at the time of acquisition. Purchases could commence on February 2, 2018 and will terminate no later than February 1, 2019. During the twenty-six weeks ended June 30, 2018 there were no purchases under this plan.

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

	Twenty-six weeks ended June 30, 2018		Twenty-six weeks ended July 1, 2017	
	Shares	(\$000s)	Shares	(\$000s)
Balance, beginning of period	33,379,815	\$ 112,835	30,889,078	\$ 86,094
Shares issued on acquisition of Rubicon	—	—	2,429,014	25,758
Options exercised for shares	3,666	24	—	—
Options exercised for shares via cashless exercise method (Note 8)	—	—	14,295	—
Fair value of share-based compensation on options exercised	—	28	—	185
Balance, end of period	33,383,481	\$ 112,887	33,332,387	\$ 112,037

During the thirteen and twenty-six weeks ended June 30, 2018, the Company distributed dividends per share of CAD\$0.145 and CAD\$0.290, respectively (thirteen and twenty-six weeks ended July 1, 2017: CAD\$0.140 and CAD\$0.280, respectively).

On August 14, 2018, the Company's Board of Directors declared a quarterly dividend of CAD\$0.145 per share, payable on September 15, 2018 to shareholders of record as of September 1, 2018.

8. Share-based compensation

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

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

The carrying amount of cash-settled share-based compensation arrangements recognized in other current liabilities and other long-term liabilities on the consolidated statements of financial position was \$0.1 million and \$1.9 million, respectively, as at June 30, 2018 (December 30, 2017: \$0.2 million and \$1.6 million, respectively).

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

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Cost of sales resulting from:				
Equity-settled awards ⁽¹⁾	\$ 12	\$ 14	\$ 25	\$ 29
Selling, general and administrative expenses resulting from:				
Cash-settled awards ⁽¹⁾	648	763	390	756
Equity-settled awards ⁽¹⁾	461	188	603	392
Share-based compensation expense	\$ 1,121	\$ 965	\$ 1,018	\$ 1,177

⁽¹⁾ Cash-settled awards may include options with share appreciation rights ("SAR"), RSUs, PSUs, and DSUs. Equity-settled awards include options.

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

	Thirteen weeks ended				Twenty-six weeks ended			
	June 30, 2018		July 1, 2017		June 30, 2018		July 1, 2017	
	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)
Outstanding, beginning of period	1,309,189	\$ 17.58	1,718,764	\$ 18.40	1,340,449	\$ 18.21	1,607,350	\$ 18.21
Granted	633,909	10.92	—	—	804,312	11.27	123,614	20.61
Exercised for shares via cashless method ^{(1),(2)}	—	—	(26,750)	8.92	—	—	(29,750)	9.56
Exercised for shares ⁽²⁾	(3,666)	8.25	—	—	(3,666)	8.25	—	—
Exercised for cash ⁽²⁾	—	—	—	—	(2,000)	8.25	(3,000)	9.39
Cancelled or forfeited	—	—	—	—	—	—	(3,200)	15.30
Expired	(148,574)	18.25	—	—	(348,237)	20.87	(3,000)	23.21
Outstanding, end of period	1,790,858	\$ 15.19	1,692,014	\$ 18.55	1,790,858	\$ 15.19	1,692,014	\$ 18.55
Exercisable, end of period	830,229	\$ 18.12	1,094,112	\$ 19.15	830,229	\$ 18.12	1,094,112	\$ 19.15

⁽¹⁾ For the thirteen and twenty-six weeks ended June 30, 2018, nil shares were issued via the cashless exercise method (thirteen and twenty-six weeks ended July 1, 2017: 13,836 and 14,295 shares, respectively).

⁽²⁾ The weighted average share price at the date of exercise for these options was CAD\$10.57 and CAD\$10.79 for the thirteen and twenty-six weeks ended June 30, 2018, respectively (thirteen and twenty-six weeks ended July 1, 2017: CAD\$18.48 and CAD\$18.40, respectively).

Set forth below is a summary of the outstanding options to purchase common shares as at June 30, 2018:

Option price (CAD)	Options outstanding			Options exercisable	
	Number outstanding	Weighted average exercise price	Average life (years)	Number exercisable	Weighted average exercise price
\$ 8.25-10.00	8,666	\$ 8.25	0.75	8,666	\$ 8.25
\$ 10.01-15.00	892,162	11.51	5.23	146,300	11.18
\$ 15.01-20.00	451,935	15.30	2.73	282,200	15.3
\$ 20.01-25.00	438,095	22.70	1.72	393,063	22.94
	1,790,858			830,229	

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The fair value of options granted during the twenty-six weeks ended June 30, 2018 and July 1, 2017 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average inputs and assumptions:

	June 30, 2018	July 1, 2017
Dividend yield (%)	5.16	2.72
Expected volatility (%)	35.45	33.87
Risk-free interest rate (%)	2.10	1.55
Expected life (years)	5.00	5.00
Weighted average share price (CAD)	\$ 11.34	\$ 20.61
Weighted average fair value (CAD)	\$ 2.32	\$ 4.99

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Outstanding, beginning of period	308,615	248,213	263,556	216,070
Granted	36,451	1,277	156,590	87,471
Reinvested dividends	4,680	1,870	8,656	3,857
Released and paid in cash	—	—	(14,096)	(25,873)
Forfeited and expired	(6,117)	—	(71,077)	(30,165)
Outstanding, end of period	343,629	251,360	343,629	251,360

The expected performance multiplier used in determining the fair value of the liability and related share-based compensation expense for PSUs for the thirteen and twenty-six weeks ended June 30, 2018 was 40% (July 1, 2017: 62%).

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Outstanding, beginning of period	157,975	56,718	72,529	—
Granted	129,189	4,520	213,133	60,784
Reinvested dividends	3,893	459	5,929	913
Forfeited	(650)	—	(1,184)	—
Outstanding, end of period	290,407	61,697	290,407	61,697

The share price at the reporting date was CAD\$10.17 (July 1, 2017: CAD\$17.49). The PSUs will vest at the end of a three-year period, if agreed-upon performance measures are met (if applicable) and the RSUs will vest in accordance with the terms of the agreement.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Outstanding, beginning of period	83,582	36,357	77,934	34,337
Granted	58,841	37,231	63,444	38,974
Reinvested dividends	1,901	538	2,946	815
Outstanding, end of period	144,324	74,126	144,324	74,126

9. Income tax expense

The Company's statutory tax rate for the thirteen and twenty-six weeks ended June 30, 2018 was 29.3% (thirteen and twenty-six weeks ended July 1, 2017: 29.2%). The Company's effective income tax rate for the thirteen and twenty-six weeks ended June 30, 2018 was a recovery of 158.7% and an expense of 13.1%, respectively (thirteen and twenty-six weeks ended July 1, 2017: a recovery of 125.5% and an expense of 6.2%, respectively). The lower effective tax rate for the thirteen weeks ended June 30, 2018 compared to the prior year is attributable to the Tax Cuts and Jobs Act that was signed into law on December 22, 2017 ("U.S. Tax Reform"), including a reduction in the U.S. federal corporate income tax rate from 35% to 21%, offset by non-deductible acquisition financing deductions. Future regulations and interpretations to be issued by U.S. authorities may also impact the estimates and assumptions used in calculating the Company's income tax provisions.

10. Revenue from contracts with customers

Disaggregation of revenue

The Company disaggregates revenue from contracts with customers using existing operating segments, which are based on geographical locations, the U.S. and Canada (see Note 13). The Company has determined that a disaggregation of revenue using existing segments best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Accounts receivable

<i>(Amounts in \$000s)</i>	June 30, 2018	December 30, 2017
Trade accounts receivable	\$ 87,030	\$ 90,148
Other accounts receivable	1,034	2,247
	\$ 88,064	\$ 92,395

Trade accounts receivable includes revenues from contracts with customers that bear normal commercial credit terms and are non-interest bearing. For the thirteen and twenty-six weeks ended June 30, 2018 and July 1, 2017, the Company recognized nominal impairment losses, respectively related to receivables arising from contracts with customers.

Contract liability

The Company's contract liability consists of donated product received from the United States Department of Agriculture for the purpose of processing the product for distribution to eligible recipient agencies. The donated inventory is non-cash consideration that is recorded at the fair value of the product received. The Company has an obligation to sell the product to the eligible agencies at the reduced price, with the donated product being included in the transaction price recognized on the sale of the finished products. The Company has changed the presentation of this obligation on the consolidated statements of financial position and has reclassified \$4.1 million as at December 30, 2017 from accounts payable and accrued liabilities to contract liability to reflect the terminology and the presentation requirements of IFRS 15. The contract liability continues to be classified as current because the Company expects to settle the obligation within twelve months from the reporting date. During the thirteen and twenty-six weeks ended June 30, 2018, the Company recognized \$1.1 million and \$3.2 million, respectively (thirteen and twenty-six weeks ended July 1,

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2017: \$1.4 million and \$3.3 million, respectively) in revenue that was included in the contract liability balance at the beginning of the period.

11. Commitments

Guarantee of Supplier Financing Arrangement

As part of the Rubicon acquisition, the Company assumed financing arrangement guarantees for certain suppliers that finance their exports of seafood products to Rubicon. As part of this financing arrangement, the Company has granted a security interest in substantially all of the inventory and proceeds thereon arising from purchases from these suppliers and has guaranteed the suppliers' borrowings, to the extent that such borrowings were used in connection with the exportation of seafood products to Rubicon. The Company has deemed the amount of the guarantee to be the open accounts payable to these suppliers. As of June 30, 2018, the Company's open accounts payable to these suppliers was \$34.3 million.

12. Related party transactions

The Company has related party transactions with a company controlled by certain key management of Rubicon. Total sales to related parties for the thirteen and twenty-six weeks ended June 30, 2018 were \$0.1 million and \$0.2 million, respectively (thirteen and twenty-six weeks ended July 1, 2017: \$nil) and as at June 30, 2018 there was \$0.2 million due from the related parties (July 1, 2017: \$nil). Total purchases from related parties for the thirteen and twenty-six weeks ended June 30, 2018 were \$nil (thirteen and twenty-six weeks ended July 1, 2017 were \$1.2 million), and as at June 30, 2018, there was \$nil due to the related parties (July 1, 2017: \$1.5 million).

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13. Operating segment information

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

<i>(Amounts in \$000s)</i>	Thirteen weeks ended June 30, 2018				Thirteen weeks ended July 1, 2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Revenues (excluding intercompany sales)	\$ 66,017	\$ 179,295	\$ —	\$ 245,312	\$ 65,124	\$ 167,261	\$ —	\$ 232,385
Cost of sales (excluding intercompany sales)	53,948	147,598	456	202,002	54,774	139,909	(105)	194,578
Gross profit	\$ 12,069	\$ 31,697	\$ (456)	\$ 43,310	\$ 10,350	\$ 27,352	\$ 105	\$ 37,807
Income (loss) before income taxes	\$ 3,301	\$ 6,972	\$ (9,189)	\$ 1,084	\$ 903	\$ 3,103	\$ (6,534)	\$ (2,528)
Add back:								
Depreciation and amortization included in:								
Cost of sales	349	1,296	53	1,698	312	1,258	40	1,610
Distribution expenses	37	336	—	373	37	333	—	370
Selling, general and administrative expenses	152	1,784	466	2,402	129	1,546	253	1,928
Total depreciation and amortization	538	3,416	519	4,473	478	3,137	293	3,908
Finance costs	—	—	5,351	5,351	—	—	3,661	3,661
Income (loss) before depreciation, amortization, finance costs and income taxes	\$ 3,839	\$ 10,388	\$ (3,319)	\$ 10,908	\$ 1,381	\$ 6,240	\$ (2,580)	\$ 5,041

<i>(Amounts in \$000s)</i>	Twenty-six weeks ended June 30, 2018				Twenty-six weeks ended July 1, 2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Revenues (excluding intercompany sales)	\$ 132,438	\$ 432,058	\$ —	\$ 564,496	\$ 128,007	\$ 380,113	\$ —	\$ 508,120
Cost of sales (excluding intercompany sales)	106,927	353,748	(50)	460,625	105,125	310,111	(431)	414,805
Gross profit	\$ 25,511	\$ 78,310	\$ 50	\$ 103,871	\$ 22,882	\$ 70,002	\$ 431	\$ 93,315
Income (loss) before income taxes	\$ 7,390	\$ 22,997	\$ (15,364)	\$ 15,023	\$ 3,965	\$ 19,615	\$ (11,439)	\$ 12,141
Add back:								
Depreciation and amortization included in:								
Cost of sales	714	2,618	110	3,442	631	2,508	54	3,193
Distribution expenses	75	667	—	742	74	660	—	734
Selling, general and administrative expenses	299	3,557	745	4,601	218	2,860	518	3,596
Total depreciation and amortization	1,088	6,842	855	8,785	923	6,028	572	7,523
Finance costs	—	—	10,706	10,706	—	—	7,209	7,209
Income (loss) before depreciation, amortization, finance costs and income taxes	\$ 8,478	\$ 29,839	\$ (3,803)	\$ 34,514	\$ 4,888	\$ 25,643	\$ (3,658)	\$ 26,873

<i>(Amounts in \$000s)</i>	As at June 30, 2018				As at December 30, 2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Total assets	\$168,657	\$635,283	\$ 22,520	\$826,460	\$172,180	\$713,729	\$ 22,060	\$907,969
Total liabilities	\$ 50,541	\$ 87,404	\$ 416,124	\$554,069	\$ 51,894	\$156,821	\$ 430,387	\$639,102

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14. Fair value measurement

Fair value of financial instruments

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

<i>(Amounts in \$000s)</i>	June 30, 2018		December 30, 2017	
	Level 2	Level 3	Level 2	Level 3
Fair value of financial assets				
Foreign exchange contracts	\$ 1,449	\$ —	\$ 501	\$ —
Interest rate swaps	3,112	—	906	—
Fair value of financial liabilities				
Interest rate swaps	—	—	367	—
Foreign exchange contracts	203	—	1,660	—
Long-term debt	—	331,039	—	335,711
Finance lease obligations	—	1,166	—	1,129

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

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

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the twenty-six weeks ended June 30, 2018, no such transfers occurred.

The financial liabilities that are not measured at fair value on the consolidated statements of financial position consist of long-term debt (including current portion) and finance lease obligations. The carrying amounts for these instruments are \$335.9 million and \$1.2 million, respectively, as at June 30, 2018 (December 30, 2017: \$335.4 million and \$1.1 million, respectively).

Hedging activities

Interest rate swaps

During the twenty-six weeks ended June 30, 2018, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (see Note 5):

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
Designated in a formal hedging relationship:				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700% \$	20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150% \$	25.0
April 4, 2016	April 4, 2018	3-month LIBOR (floor 1.0%)	1.2325% \$	35.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700% \$	40.0
December 28, 2017	April 24, 2021	3-month LIBOR (floor 1.0%)	2.2200% \$	80.0

The cash flow hedge of interest expense variability was assessed to be highly effective for the thirteen and twenty-six weeks ended June 30, 2018 and July 1, 2017, and therefore, the change in fair value for those interest rate swaps designated in a hedging

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relationship was included in OCI as after-tax net gains of \$0.5 million and \$1.8 million, respectively and after-tax net losses of \$0.4 million and \$0.4 million, respectively.

The Company did not hold any interest rate swaps that were not designated in a formal hedging relationship during the thirteen and twenty-six weeks ended June 30, 2018 and July 1, 2017.

Foreign currency contracts

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

As at June 30, 2018, the Company had outstanding notional amounts of \$32.6 million (July 1, 2017: \$48.6 million) in foreign currency average-rate forward contracts and \$2.0 million (July 1, 2017: \$2.9 million) in foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of \$0.8 million (July 1, 2017: \$4.9 million) average-rate forward contracts with maturities ranging from July 2019 to December 2019, all foreign currency forward contracts have maturities that are less than one year.

The cash flow hedges of the expected future purchases were assessed to be highly effective for the thirteen and twenty-six weeks ended June 30, 2018 and July 1, 2017, and therefore, the change in fair value was recorded in OCI as after-tax net gains of \$0.7 million and \$1.0 million, respectively and after-tax net losses of \$0.8 million and \$1.0 million, respectively. The amount recognized in the consolidated statements of income resulting from hedge ineffectiveness during the thirteen and twenty-six weeks ended June 30, 2018 was a nominal net gain and a nominal net loss, respectively (thirteen and twenty-six weeks ended July 1, 2017: nominal net losses and nominal net losses, respectively).

As at June 30, 2018, the Company had outstanding notional amounts of \$nil (July 1, 2017: \$4.0 million) of foreign currency single-rate forward contracts outstanding to hedge foreign currency exchange risk on USD monetary assets and liabilities that were not formally designated as a hedge. The change in fair value for the thirteen and twenty-six weeks ended June 30, 2018 and July 1, 2017 was a net gain of \$0.2 million and a net gain of \$0.2 million, and a nominal net gain and a net loss of \$0.1 million, respectively, which was recorded in the consolidated statements of income.

Hedge of net investment in foreign operations

As at June 30, 2018, a total borrowing of \$313.3 million (\$6.0 million included in bank loans and \$307.3 million included in long-term debt) (December 30, 2017: a total borrowing of \$312.3 million (\$5.0 million included in bank loans and \$307.3 million included in long-term debt)) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the re-translation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There was no hedge ineffectiveness recognized during the twenty-six weeks ended June 30, 2018 and July 1, 2017.
