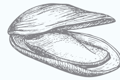

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Introduction

This Management's Discussion and Analysis ("MD&A"), dated February 22, 2017, relates to the financial condition and results of operations of High Liner Foods Incorporated for the fifty-two weeks ended December 31, 2016 ("Fiscal 2016") compared to the fifty-two weeks ended January 2, 2016 ("Fiscal 2015"). Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2016 Annual Report along with our Annual Audited Consolidated Financial Statements ("Consolidated Financial Statements") as at and for the fifty-two weeks ended December 31, 2016, 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 February 22, 2017, except as otherwise noted.

Comparability of Periods

The Company's fiscal year-end floats, and ends on the Saturday closest to December 31. The Company follows a fifty-two week reporting cycle, which periodically necessitates a fiscal year of fifty-three weeks. Fiscal years 2016 and 2015 were fifty-two weeks, and fiscal year 2014 was fifty-three weeks. When a fiscal year such as 2014 contains fifty-three weeks, the reporting cycle is divided into four quarters of thirteen weeks each except for the fourth quarter, which is fourteen weeks in duration. Therefore, amounts presented may not be entirely comparable.

Non-IFRS Financial Measures

This document also includes certain non-IFRS financial measures, which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes. These non-IFRS measures do not have any standardized meaning as prescribed by IFRS, and therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures in the *Non-IFRS Financial Measures* section starting on page 32 of this MD&A.

Currency

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

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

In some parts of this document, balance sheet and operating items of the Parent are discussed in the CAD functional currency (the "domestic currency" 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 includes statements that are forward looking. Our actual results may be substantially different because of the risks and uncertainties associated with our business and the general economic environment. We discuss the principal risks of our business in the *Risk Factors* section on page 38 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved, and if it is achieved, we cannot provide assurance that it will result in an increase in the Company's share price. See the *Forward-Looking Information* section on page 45 of this MD&A.

1 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"). The Company ceased value-added fish operations at its plant in New Bedford, Massachusetts ("MA") on July 15, 2016 and sold the facility and the New Bedford scallop business on September 7, 2016 (as explained in the *Recent Developments* section of this MD&A on page 18).

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

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

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.

Corporate Strategy and Values

Our business strategy is focused on selling frozen seafood in North America. We focus on frozen seafood because we are experts in this category, and on the North American market because we continue to see opportunities for growth by building on our position as a leader in frozen seafood in both the U.S. and Canada.

Our business strategy is supported by our corporate vision, mission and values. Our vision sets our overall direction:

"Great tasting seafood for a better life."

Our mission describes why we exist as a company:

"With the customer at the centre of all we do, we are on a mission to drive seafood consumption by providing innovative solutions to a world looking for healthy, easy to prepare, delicious seafood options."

Seafood is a nutritious protein choice which North Americans, on average, are not consuming enough of to meet the recommended two servings per week in the U.S. Dietary Guidelines for Americans (Eighth Edition) 2015–2020 and Canada's Food Guide (2011). We see this as an opportunity to drive seafood consumption in North America through introducing new and innovative frozen seafood products to the market that not only make it easy for health-conscious consumers to incorporate more seafood into their diets, but which appeal to consumers as a convenient and delicious option when making a choice among proteins. Ultimately, we are focused on developing and marketing frozen seafood products that will result in North Americans choosing to eat more seafood than they do today.

Seafood is a complex category for our retail and foodservice customers. Buying seafood is complex due to a global supply chain and the existence of more than one hundred commercial species, and in addition, many people believe that preparing seafood is time consuming and difficult. We are committed to simplifying the seafood category for our customers, from procurement through to preparation, and leveraging the full extent of our seafood expertise so they can be confident in serving quality, delicious seafood products.

The Company and its employees are committed to conducting business in a manner that always reflects the following values:

- **Customer focused**: We are focused on meeting the current and future needs of our customers and believe that our success depends on understanding our customers, building strong relationships and delivering quality products on time.
- **Innovative**: We are committed to providing differentiated and innovative products and services to grow our business and meet the needs of a changing marketplace. We are also committed to innovation in how we work, to make the business more efficient.
- **Responsible**: We take responsibility for our actions. In a competitive industry, we operate with integrity with our customers, suppliers and each other. We respect our environment and are committed to sustainability in all our operations.

In combination with our growth strategy described below, we believe our business strategy will help to achieve our vision and increase shareholder value in the long term.

Growth Strategy

Our growth strategy is focused on sustainable organic sales volume growth and the acquisition of frozen seafood businesses.

Sustainable Organic Sales Volume Growth

Internal growth has become increasingly challenging over the last several years as demand for traditional breaded and battered frozen seafood products, which makes up a significant portion of our product portfolio today, has been declining. We have experienced a slower rate of decline than the overall market, but this trend has had a negative impact on our year-over-year sales volume trends and the efficiency of our manufacturing facilities. We are primarily focused on product innovation to return the Company to volume growth, but cannot achieve this until sales from new products are sufficient to offset the decline being experienced in the breaded and battered category and/or this category stabilizes.

Our product innovation efforts aimed at increasing sales volume are focused on two areas. The first is our core offerings, where we are focused on innovating and improving the types of products that already exist in our portfolio today. This is about breathing new life into and expanding our core product offerings, ensuring they reflect what we know consumers want when they are selecting seafood products. In some instances these efforts may include activities aimed at changing customer and consumer perception regarding what our core products offer in terms of quality and value.

The second area product innovation efforts are being focused is creating and delivering new products to the market that align with emerging consumer trends and preferences. This is about growing sales from products that do not currently exist in our portfolio or the marketplace, but that we believe will appeal to today's seafood consumer. Ideally, the types of new products we introduce to the market will also expand and diversify our portfolio to include more of the species that are experiencing the greatest growth rates in the marketplace, yet represent only a relatively small percentage of our current business.

Given the increasing importance our ability to innovate has on achieving sustainable organic sales volume growth, we adopted a new approach to product innovation in 2016 called Innovation Engineering. Innovation Engineering is a methodology that allows us to speed up innovation efforts, while simultaneously reducing risk in the process. Many employees have received in-depth training on this new approach and we are already seeing early signs of success since putting it into action.

Commercial excellence is also a key part of our growth strategy. This means building effective relationships with our customers and leveraging the full extent of our seafood expertise to help them win in seafood. Part of this is ensuring our sales and marketing teams are structured and equipped with the information and market intelligence needed to provide customers with products that meet their needs and to make effective pricing and promotional decisions.

Acquisition of Frozen Seafood Businesses

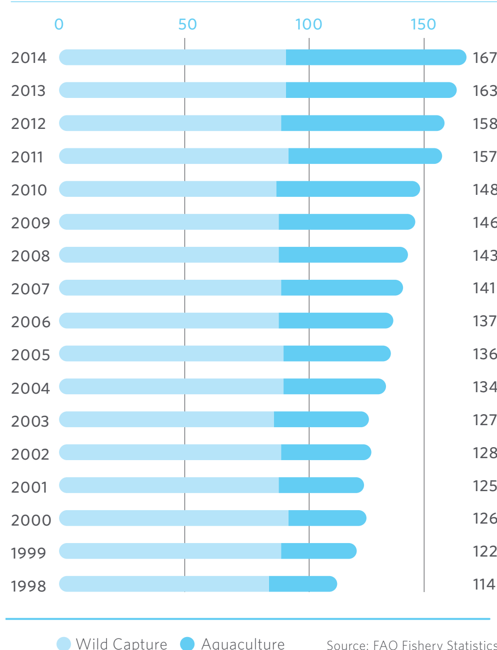
Although organic growth is our primary focus, our strength in the value-added frozen seafood business in North America creates a strategic opportunity for us to acquire businesses operating in the same markets. We are interested in acquisition opportunities to support sales and earnings growth and further species diversification. Target businesses must be principally selling frozen seafood in North America and we must be able to leverage some combination of the following to increase shareholder returns: our existing brands, customer or supplier relationships, manufacturing facilities, business systems, or our expertise in marketing, frozen food logistics and product development.

We have made five acquisitions since late 2007, all of which were aligned with the above criteria. These acquisitions positioned High Liner Foods as the North American leader in value-added frozen seafood, the clear market leader in both retail and foodservice channels in Canada, and a leading supplier of value-added (including private-label) frozen seafood products in retail and foodservice channels in the U.S.

Global Seafood Supply and Demand

As a consumer-driven sales and marketing company, we focus on matching supply to demand. Procuring seafood on global markets allows us to provide products based on consumer preferences. The global supply of seafood is expanding, and global consumer demand is increasing due to the recognized health benefits and taste of seafood and increased demand from emerging economies. The catch of wild fish has stabilized at around 90 million tonnes annually, which represents between 55% and 60% of the total supply, while aquaculture production continues to increase as illustrated in the following chart reported by the Food & Agriculture Organization of the United Nations ("FAO") in 2016:

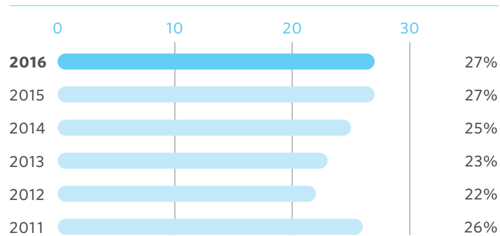
Global Fisheries Production
Share of Capture and Aquaculture (million MT)



Source: FAO Fishery Statistics

Globally, there has been considerable development in the aquaculture industry both in finfish and shellfish species. This trend is expected to continue. We currently procure aquaculture products, including warm water shrimp, tilapia, pangasius (basa), mussels, scallops and Atlantic salmon. Our strategy is to increase the procurement of aquaculture products in the future as we continue to align with this trend. Despite procuring aquaculture products, the vast majority of our seafood product sales are from wild-caught fish. As illustrated in the following chart, aquaculture accounted for 27% of our sales in 2016.

Percentage of Invoiced Sales from Aquaculture Species



Globally, demand over time is expected to increase faster than supply, resulting in increases in seafood costs. These increases in demand come about as a result of increasing disposable incomes in the countries of Brazil, Russia, India and China ("BRIC"), and increased demand in Southeast Asia. The trend of increasing demand was affected, at least temporarily, as a result of the global financial crisis and the changed relationship between currencies of producing and consuming countries. Demand from Europe, especially Southern European countries, decreased significantly due to the financial uncertainty surrounding the European Union. However, in the longer term, we expect demand to continue to increase, resulting in increases in seafood costs.

Core Businesses

High Liner Foods is the leading North American processor and marketer of value-added frozen seafood. We own strong brands, and we are also an important supplier of private-label frozen seafood products for many North American food retailers, club stores and foodservice distributors.

High Liner Foods consists of two main geographically-based business units – the United States and Canada:

United States Operations

Retail

Our U.S. subsidiary produces and sells value-added frozen seafood products under the ***Fisher Boy***, ***High Liner***, ***Sea Cuisine*** and ***C. Wirthy & Co.*** brands. The business distributes products throughout the U.S. and in Mexico through traditional grocery stores and club stores, among others. The club store channel is important to our growth strategy for the U.S. retail business, and we sell to all major U.S. club store chains. We have built business in this channel by introducing innovative premium products under the ***High Liner*** and ***Sea Cuisine*** brands. Our U.S. subsidiary is also one of the leading suppliers in the U.S. of retail private-label value-added frozen seafood. We produce more than 45 different labels for U.S. grocery retailers, primarily breaded and battered fish sticks and portions.

Foodservice

Customer channels in this business include foodservice operators in multiple restaurant segments, broad line foodservice distributors, specialty seafood distributors, and food processing companies. High Liner Foods is one of the largest seafood suppliers to this market especially in value-added products. We are recognized particularly for our innovative product development expertise. In recent years, acquisitions have added new products and brands to our foodservice offerings and have substantially increased High Liner Foods' share of the market for value-added seafood products in the U.S. foodservice industry. This division also sells a full line of raw (unprocessed) and cooked uncoated seafood to the foodservice channel. Products in this channel are sold under the ***High Liner***, ***Icelandic Seafood*** and ***FPI*** brands.

Canadian Operations

Retail

From our sales and marketing headquarters in the Greater Toronto Area ("GTA"), the flagship brand of our business, ***High Liner***, is sold to every major Canadian grocery retailer and club store. It is Canada's leading seafood name. The brand includes more than 100 individual products, from our traditional battered and breaded fish portions to innovative and highly popular premium products that offer a variety of seafood species responding to modern tastes as well as raw uncoated seafood products for consumers to prepare themselves at home. We also sell a significant portion of the value-added products that our customers resell under their own private labels.

Foodservice

Our Canadian foodservice business, also headquartered in the GTA, is growing due to our ability, through worldwide procurement, to provide foodservice customers with innovative products and new species. Foodservice specializes in delivering seafood and menu expertise to restaurant chains and Canada's leading foodservice distributors. Foodservice products are sold under the ***High Liner***, ***FPI*** and ***Mirabel*** brands and include both value-added and raw products. High Liner Foods is the largest frozen seafood supplier in the Canadian foodservice channel. Private labels are also produced for some of our larger customers.

Core Competencies

Our core operational competencies are:

Broad Market Reach

We have been supplying food products to major grocery retailers and foodservice distributors for decades. We have developed strong relationships with our customers through excellent customer service and brand recognition. We sell to most of the retail chains, the major club stores, and foodservice distributors in North America.
We have ensured that our infrastructure is capable of meeting the exacting demands of these customers, for both excellent products and delivery service as well as meeting their ever-increasing technological requirements.

All Commodity Volume ("ACV") is an important measure of product availability in retail. This is a measure of the volume of the traditional grocery stores as a percentage of total stores in a market (Canada or the U.S.) in which our products are sold. An increase in ACV generally means that our products are in more stores and, therefore, available to more consumers in more markets, which should translate into increased sales.

- In Canada, our ACV approaches 100% as our branded products can be found in virtually all stores where frozen seafood is sold.
- In the U.S., our brands, which include ***Fisher Boy***, ***High Liner*** and ***Sea Cuisine***, have a smaller share of the "total frozen seafood" category than in Canada. ACV for all our branded products increased to 87% at the end of 2016, compared to ACV of 81% at the end of 2015. The increase of ACV during 2016 is mainly attributable to the introduction of a new product line at a major retailer. In some regions in the U.S., the ACV is substantially higher than 87%.
- In Mexico, although we do not track ACV, we are confident in our position as a leading breaded and battered seafood supplier in major centers.

In Canada, we use Nielsen® to track market share and ACV of our retail brands in grocery, mass merchandising, general merchandising, club stores and distributors. In the U.S., we use IRI to track market share and ACV of our retail brands, where it tracks all grocery stores, supercenters (including Walmart) and club stores (excluding Costco). Since we are well represented at Costco, we believe our actual ACV is higher than that presented by IRI.

Market Leading Brands

We consider our brands to be one of our greatest assets and in 2016, approximately 79% of our sales were from branded products.

Market share is an important performance indicator. The market shares of our retail brands are significant, particularly in Canada. We track retail market share information by purchasing syndicated data. We measure share on a rolling four-week, twelve- or thirteen-week, and fifty-two week basis, and have good insight as to whether consumers are responding to our new product ideas and promotions. Foodservice market shares are hard to measure, as there is no independent source that tracks foodservice sales in a manner comparable to the retail channel and instead we estimate our market share based on our information and knowledge of the market.

In Canada, ***High Liner*** is the leading frozen seafood brand, with market share more than twice the size of our nearest competitor in retail and foodservice channels. In Canada, the strength of our brand reputation can be leveraged into growth with new species, in new channels and to new customers. The brand also has a positive impact on our foodservice business where we are well known for our innovative, quality products and superior service.

High Liner is currently building brand awareness in the U.S., particularly in the retail sector. Known in U.S. club stores for the launch of premium products under the ***High Liner*** brand, the umbrella branding of ***Fisher Boy*** and ***Sea Cuisine*** brands further strengthens our market position in traditional grocery outlets. ***Fisher Boy*** brand has a strong presence in certain regions and ***Sea Cuisine*** has a growing importance in the "prepared seafood" category. In the U.S. foodservice market, the ***FPI*** and ***Icelandic*** brands are the most recognizable brands and, like the ***High Liner*** brand, are also well known for product innovation and quality, and we are a leading supplier of value-added frozen seafood products to the U.S. foodservice market. Including private-label products, we believe we are the largest value-added frozen seafood supplier in the U.S.

Diversified Global Procurement and Logistics Expertise

We are seafood experts, and procure seafood on world markets from a position of strength. We have no harvesting or farming operations, so we procure many species from around the world, accessing product from various fisheries in different parts of the globe. This provides us with a continuity of supply, without the investment in capital necessary for fishing or farming operations, and allows us to focus on what the customer wants rather than trying to sell what is caught. Our procurement group's proprietary Internet-based procurement and inventory management system enables the purchase of approximately 30 species of seafood from geographically diverse suppliers in approximately 20 different countries. The results are lower raw material costs, better predictability of raw material supply and pricing, higher quality product, reduced risk and better inventory management. Our expertise has also allowed us to competitively outsource low value-added, labour-intensive products to other processors, freeing capacity in our own plants for more specialized and higher value-added products.

Differentiated Innovative Products

Innovation is one of our core values and we strive to develop and launch new products that are differentiated from others in the market. Our ***Pan Sear***, ***Fire Roasters***, ***Flame Savours***, ***Upper Crust*** and ***Icelandic Seafood Beer-Battered*** product lines are the most differentiated in the industry and are experiencing continued success across both retail and foodservice product lines, including our successful ***Sea Cuisine*** line in the U.S.

Operational Resources

Our existing operational resources include:

Plant Capacity

As explained in the *Recent Developments* section on page 18 of this MD&A, the Company reduced excess capacity across its manufacturing facilities by ceasing value-added fish operations at its production facility in New Bedford, MA in the third quarter of 2016. This was the last significant planned activity associated with the supply chain optimization project that was first launched in the third quarter of 2014 and through which in excess of $20 million in cost savings was achieved on an annual run-rate basis. Following this closure, the Company's manufacturing footprint in North America consists of three owned and operated plants: Portsmouth and Newport News in the U.S., and Lunenburg in Canada. Combined, these facilities absorbed the production from the New Bedford facility, and still provide sufficient capacity to meet growth objectives. We also have plans that could be implemented with minimal additional capital expenditures to increase the capacity of our plants

through shift changes should further production capacity be required. Our ability to source new products is not limited to our own production. We purchase significant quantities of frozen fillets as finished goods, and some of our value-added products are purchased as finished goods.

Distribution Centers

Our Lunenburg, Portsmouth and Newport News facilities include large distribution centers. In March 2014, we purchased a previously leased distribution center in Peabody, MA. We also utilize third-party cold storage/distribution centers to supplement our facilities when needed. We have Directors of Logistics in Canada and the U.S. to ensure that the warehousing and transportation of our products are handled in a cost-effective and customer service-oriented manner.

Technology

Technology supports our growth strategy and our centralized computer systems enable us to make timely decisions. Our business is simplified through an enterprise-wide business management system and specifications management system, both by Oracle. We have also developed a proprietary Internet-enabled procurement system that allows us to manage worldwide procurement in real time. Business intelligence software allows us to manage our information on a real-time basis to help us make business decisions quickly, manage inventory and accounts receivable and provide more informative financial disclosure. We are equipped to respond to customer demands for electronic transmission of business documents, including invoices, purchase orders and payment confirmations. Our video and collaboration systems allow our geographically diverse business team to interact in real-time, thereby supporting more timely decision-making. We continue to budget significant capital to ensure we have state-of-the-art systems to manage our Company, respond to customer requests and support growth into the future.

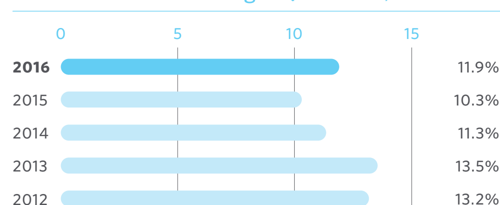
2 Financial Objectives

Our strategy was designed with the expectation to increase shareholder value. To help us focus on meeting investor expectations, we use three key financial measures to gauge our financial performance:

	Fiscal 2016	Fiscal 2015
Return		
On assets managed	**11.9%**	10.3%
On equity	**17.7%**	17.2%
Profitability		
Adjusted EBITDA as a percentage of sales	**8.6%**	7.8%
Financial strength		
Net interest-bearing debt to Adjusted EBITDA ratio (times)	**3.1x**	4.0x

Each of these financial measures is further discussed below. See the *Non-IFRS Financial Measures* section starting on page 32 for further explanation of these measures.

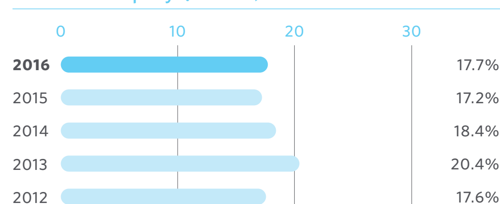
Return on Assets Managed ("ROAM")



ROAM was 11.9% at the end of Fiscal 2016 compared to 10.3% at the end of Fiscal 2015. In 2016, Adjusted EBIT increased by $3.8 million, or 6.2%, compared to 2015 and the 13-month average net assets managed decreased by $44.8 million, or 7.5%. The combined impact of these changes was an increase in ROAM for 2016 compared to 2015.

The increase in Adjusted EBIT in 2016 is a result of the same factors causing the $4.2 million increase in Adjusted EBITDA in 2016 as compared to 2015, as discussed in the *Consolidated Performance* section on page 19 of this MD&A. The decrease in the net assets managed in 2016 compared to 2015 is primarily due to a decrease in average inventory held over the comparable period.

Return on Equity ("ROE")



ROE was 17.7% at the end of Fiscal 2016 compared to 17.2% at the end of Fiscal 2015. In 2016, Adjusted Net Income less share-based compensation expense increased by $3.8 million, or 11.1%, compared to 2015, and the average common equity increased by $15.0 million, or 7.5%. The combined impact of these changes resulted in an increase in ROE for 2016 compared to 2015. The increase in Adjusted Net Income in 2016 compared to 2015 is discussed in the *Consolidated Performance* section on page 19 of this MD&A.

Adjusted EBITDA as a Percentage of Sales

Adjusted EBITDA as a percentage of sales is calculated as follows:

Adjusted EBITDA as defined in the *Non-IFRS Financial Measures* section on page 32 of this MD&A, divided by:

Sales as disclosed on the consolidated statement of income.

Adjusted EBITDA as a percentage of sales was 8.6% at the end of Fiscal 2016 compared to 7.8% at the end of Fiscal 2015. In 2016, Adjusted EBITDA increased by $4.2 million, or 5.4%, compared to 2015 and sales decreased by $45.5 million, or 4.5%. The combined impact of these changes was an increase in the rolling twelve-month Adjusted EBITDA as a percentage of sales for 2016 compared to 2015. The increase in Adjusted EBITDA as a percentage of sales for 2016 compared to 2015 reflects the higher gross profit as a percentage of sales and lower distribution expenses in 2016 as discussed in the *Consolidated Performance* section on page 19 of this MD&A.

Net Interest-Bearing Debt to Adjusted EBITDA

Net interest-bearing debt to Adjusted EBITDA is calculated as follows:

Net interest-bearing debt as defined in the *Non-IFRS Financial Measures* section on page 36 of this MD&A, divided by:

Adjusted EBITDA as defined in the *Non-IFRS Financial Measures* section on page 32 of this MD&A.

Net interest-bearing debt to Adjusted EBITDA was 3.1x at the end of Fiscal 2016 compared to 4.0x at the end of Fiscal 2015, as shown in the following table:

	Twelve months ended	
(Amounts in $000s, except as otherwise noted)	**December 31, 2016**	January 2, 2016
Net interest-bearing debt	**$ 252,056**	$ 313,065
Adjusted EBITDA	**$ 82,413**	$ 78,218
Net interest-bearing debt to Adjusted EBITDA ratio (times)	**3.1x**	4.0x

During 2016, net interest-bearing debt decreased by $61.0 million and Adjusted EBITDA increased by $4.2 million. The combined impact of these changes was a decrease in net interest-bearing debt to Adjusted EBITDA for 2016 as compared to 2015. The change in net interest-bearing debt is discussed on page 29 of this MD&A, and the change in Adjusted EBITDA is discussed on page 21 of this MD&A. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2017, we expect this ratio to be below 3.0x by the end of 2017.

3 Outlook

We expect the trend of lower demand for frozen seafood products will continue into 2017 and that we will not return to volume growth until our new product sales can offset the decline that the traditional breaded and battered category is experiencing. Innovation activities and new product offerings in 2017 will focus on bringing new customers to the frozen seafood category through the introduction of new frozen seafood products that align with emerging consumer trends and preferences. After completing our supply chain optimization project and improving our debt-to-Adjusted EBITDA ratio in 2016, we are well positioned for further product innovation and acquisition opportunities to support sales and earnings growth and further species diversification.

4 Recent Developments

On August 16, 2016, High Liner Foods entered into a purchase and sale agreement with Blue Harvest Fisheries to sell the principal assets related to the Company's scallop business, along with the New Bedford facility. On September 7, 2016, the sale was completed and the Company received cash proceeds of $15.1 million. High Liner will continue to offer scallops to its customers through an ongoing supply agreement with Blue Harvest. Value-added fish operations ceased at the New Bedford facility in mid-July 2016, following the transfer of production to the Company's other manufacturing facilities.

The Company previously announced on February 17, 2016, that it would cease value-added fish operations at its New Bedford facility to reduce excess capacity across its North American production network, thereby improving manufacturing efficiencies and helping the Company achieve its supply chain optimization objectives. The annual ongoing pre-tax reduction in operating costs (which represents an increase in earnings before interest, taxes, depreciation and amortization, or "EBITDA") resulting from the consolidation is estimated to be approximately $7.0 million, with a nominal amount of this reduction realized in the last half of 2016. The impact on annual EBITDA related to discontinuing scallop processing operations at the New Bedford facility is expected to be nominal going forward.

As of December 31, 2016, the Company has incurred $9.9 million in pre-tax one-time costs relating to the transfer of assets, termination of employment at the New Bedford plant, write-down of inventories, accelerated depreciation, impairment of assets, and other costs.

5 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 21 "*Operating segment information*" to the Consolidated Financial Statements: Canada Operations and U.S. Operations. Information is also provided for the "Corporate" category, which includes expenses for corporate functions, share-based compensation costs and business acquisition, integration and other expenses.

Seasonality

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

In our retail business, we spend significant dollars on consumer advertising and listing allowances for new product launches. Although the related activities benefit more than one period, the costs must be expensed in the period when the initial promotional activity takes place or when new products are first shipped. A significant percentage of advertising is typically done in either the first or fourth quarter,

however the accounting periods during which we incur these expenditures may vary from year to year and, therefore, there may be fluctuations in income relating to these activities. Customer-specific promotional expenditures such as trade spending, listing allowances and couponing are deducted from "Revenues" and non-customer-specific consumer marketing expenditures are included in selling, general and administrative expenses.

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

Consolidated Performance

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

	Fifty-two weeks ended			Fifty-three weeks ended
(in $000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	**December 31, 2016**	January 2, 2016	**Change**	January 3, 2015
Sales volume (millions of lbs)	**277.3**	284.4	**(7.1)**	307.6
Average foreign exchange rate (USD/CAD)	**$ 1.3248**	$ 1.2791	**$ 0.0457**	$ 1.1044
Sales				
Sales in domestic currency	**$ 1,037,259**	$ 1,073,834	**$ (36,575)**	$ 1,083,487
Foreign exchange impact	**(81,243)**	(72,327)	**(8,916)**	(31,874)
Sales in USD	**$ 956,016**	$ 1,001,507	**$ (45,491)**	$ 1,051,613
Gross profit	**$ 202,837**	$ 201,664	**$ 1,173**	$ 220,405
Gross profit as a percentage of sales	**21.2%**	20.1%	**1.1%**	21.0%
Distribution expenses	**$ 43,610**	$ 48,037	**$ (4,427)**	$ 52,558
Selling, general and administrative expenses	**$ 96,978**	$ 93,597	**$ 3,381**	$ 105,313
Adjusted EBITDA[1]				
Adjusted EBITDA in domestic currency	**$ 89,382**	$ 83,912	**$ 5,470**	$ 85,455
Foreign exchange impact	**(6,969)**	(5,694)	**(1,275)**	(2,114)
Adjusted EBITDA in USD	**$ 82,413**	$ 78,218	**$ 4,195**	$ 83,341
Adjusted EBITDA as a percentage of sales	**8.6%**	7.8%	**0.8%**	7.9%
Net income	**$ 32,950**	$ 29,581	**$ 3,369**	$ 30,300
Basic Earnings per Share ("EPS")	**$ 1.07**	$ 0.96	**$ 0.11**	$ 0.99
Diluted EPS	**$ 1.06**	$ 0.95	**$ 0.11**	$ 0.97
Adjusted Net Income[1]	**$ 40,948**	$ 35,563	**$ 5,385**	$ 38,781
Adjusted Basic EPS	**$ 1.32**	$ 1.15	**$ 0.17**	$ 1.26
Adjusted Diluted EPS[1, 2]	**$ 1.31**	$ 1.14	**$ 0.17**	$ 1.24
Total assets	**$ 684,141**	$ 693,067	**$ (8,926)**	$ 705,574
Total long-term financial liabilities	**$ 276,303**	$ 291,935	**$ (15,632)**	$ 305,863
Dividends paid per common share (CAD)	**$ 0.520**	$ 0.465	**$ 0.055**	$ 0.410

1 See the *Non-IFRS Financial Measures* section starting on page 32 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.

2 CAD-Equivalent Adjusted Diluted EPS was $1.74 and $1.46 for the fifty-two weeks ended December 31, 2016 and January 2, 2016, respectively, and $1.37 for the fifty-three weeks ended January 3, 2015. See the *Non-IFRS Financial Measures* section on page 35 for further explanation of CAD-Equivalent Adjusted Diluted EPS.

Sales

Sales volume in 2016 decreased by 7.1 million pounds, or 2.5%, to 277.3 million pounds compared to 284.4 million pounds in 2015 due to lower sales volume in the first quarter of 2016 primarily due to a shorter Lenten promotional period as compared to the first quarter of 2015, a lower demand for traditional breaded and battered seafood products, and a decline in scallop sales due to the sale of the New Bedford facility.

Sales in 2016 were $956.0 million, representing a $45.5 million or 4.5% decrease, compared to $1,001.5 million in 2015. The weaker Canadian dollar in 2016 compared to 2015 decreased the value of reported USD sales from our CAD-denominated operations by approximately $8.7 million relative to the conversion impact last year.

Sales in domestic currency decreased by $36.5 million, or 3.4%, to $1,037.3 million in 2016 compared to $1,073.8 million in 2015 reflecting the lower sales volume mentioned previously, the impact of sales price decreases, and a change in product mix.

Sales by reportable segment are discussed in more detail in the *Performance by Segment* section on page 22 below.

Gross Profit

Gross profit in 2016 was $202.8 million compared to $201.6 million in 2015 and gross profit as a percentage of sales was 21.2% compared to 20.1%.

Gross profit increased by $1.2 million in 2016 relative to 2015 reflecting the improvement in gross profit as a percentage of sales resulting from lower raw material costs and higher supply chain optimization savings realized in 2016, partially offset by lower sales volume and an unfavourable change in the USD/CAD exchange rate used to translate our CAD-denominated operations to USD. The weaker Canadian dollar had the effect of decreasing the value of reported USD gross profit from our Canadian operations in 2016 by approximately $2.1 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 22 below.

Distribution Expenses

Distribution expenses, consisting of freight and storage, decreased in 2016 by $4.4 million to $43.6 million compared to $48.0 million in the same period last year due to lower volumes and fuel costs and higher supply chain optimization savings, primarily in our U.S. operations. As a percentage of sales, distribution expenses decreased to 4.6% in 2016 compared to 4.8% in the same period in 2015.

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

(Amounts in $000s)	**Fifty-two weeks ended December 31, 2016**	Fifty-two weeks ended January 2 2016
SG&A expenses, as reported	**$ 96,978**	$ 93,597
Less:		
Share-based compensation expense[1]	**3,113**	1,157
Depreciation and amortization expense[1]	**8,246**	7,111
SG&A expenses, net	**$ 85,619**	$ 85,329
SG&A expenses, net as a percentage of sales	**9.0%**	8.5%

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.

SG&A expenses were $97.0 million and $93.6 million in 2016 and 2015, respectively. SG&A expenses included share-based compensation expense of $3.1 million in 2016 compared to $1.2 million in 2015, primarily reflecting an increase in share-based compensation units outstanding, an improved share price, and improved results for performance-based awards. SG&A expenses also included depreciation and amortization expense of $8.2 million and $7.1 million in 2016 and 2015, respectively. The increase in depreciation and amortization expense in 2016 relates to the accelerated depreciation charge relating to the cessation of value-added fish operations at the New Bedford facility.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses remained constant in 2016 compared to the same period last year at $85.6 million. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expenses increased to 9.0% in 2016 compared to 8.5% in 2015, due to the impact of lower sales in 2016.

In domestic currency, SG&A expenses excluding share-based compensation and depreciation and amortization expenses, were $95.0 million, representing an increase of $1.3 million over expenses of $93.7 million in 2015 due to higher incentives, partially offset by a reduction in marketing expenses in the U.S. and higher supply chain optimization savings.

Adjusted EBITDA

We refer to Adjusted EBITDA throughout this MD&A, including in the *Performance by Segment* section on page 22, where Adjusted EBITDA for Fiscal 2016 is discussed for both our Canadian and U.S. operations. See the *Non-IFRS Financial Measures* section on page 32 for further explanation of this non-IFRS measure.

Consolidated Adjusted EBITDA increased in 2016 by $4.2 million or 5.4%, to $82.4 million compared to $78.2 million in 2015. 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 $7.0 million in 2016 compared to $5.7 million in 2015, reflecting in part the weaker Canadian dollar in 2016.

In domestic currency, Adjusted EBITDA increased in 2016 by $5.5 million, or 6.6%, to $89.4 million (8.6% of sales) compared to $83.9 million (7.8% of sales) in 2015. The increase in Adjusted EBITDA reflects the higher gross profit and reduction in distribution expenses, partially offset by the increase in SG&A expenses, as previously mentioned.

The following table shows the impact in 2016 and 2015 of converting our CAD-denominated operations and corporate activities to our USD presentation currency.

	Fifty-two weeks ended			Fifty-two weeks ended		
(Amounts in $000s)	**December 31, 2016 USD**	January 2, 2016 USD	**% Change USD**	**December 31, 2016 Domestic $**	January 2, 2016 Domestic $	**% Change Domestic $**
External Sales						
Canada	**$ 251,509**	$ 259,600	**(3.1)%**	**$ 332,752**	$ 331,927	**0.2%**
USA	**704,507**	741,907	**(5.0)%**	**704,507**	741,907	**(5.0)%**
	956,016	1,001,507	**(4.5)%**	**1,037,259**	1,073,834	**(3.4)%**
Conversion	**–**	–		**(81,243)**	(72,327)	
	$ 956,016	$ 1,001,507	**(4.5)%**	**$ 956,016**	$ 1,001,507	**(4.5)%**
Adjusted EBITDA						
Canada	**$ 22,673**	$ 22,043	**2.9%**	**$ 30,226**	$ 28,312	**6.8%**
USA	**61,594**	56,048	**9.9%**	**61,594**	56,048	**9.9%**
Corporate	**(1,854)**	127	**(1,559.8)%**	**(2,438)**	(448)	**444.2%**
	82,413	78,218	**5.4%**	**89,382**	83,912	**6.5%**
Conversion	**–**	–		**(6,969)**	(5,694)	
	$ 82,413	$ 78,218	**5.4%**	**$ 82,413**	$ 78,218	**5.4%**
Adjusted EBITDA as percentage of sales						
In USD	**8.6%**	7.8%				
In Domestic $				**8.6%**	7.8%	

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 32 for further explanation of these non-IFRS measures.

Net income increased in 2016 by $3.4 million, or 11.5%, to $33.0 million ($1.06 per diluted share) compared to $29.6 million ($0.95 per diluted share) in 2015. The increase in net income reflects the increase in Adjusted EBITDA mentioned previously, a decrease in business acquisition, integration and other expenses (see page 27 of this MD&A), and a decrease in finance costs, partially offset by an increase in income tax expense and an impairment of property, plant and equipment (see the *Recent Developments* section on page 18 of this MD&A).

As noted above, net income included "business acquisition, integration and other expenses" (as explained in the *Business Acquisition, Integration and Other Expenses* section on page 27 of this MD&A) and other certain non-cash expenses related to: accelerated depreciation on equipment and impairment of property, plant and equipment as part of the cessation of plant operations; share-based compensation expense; and marking-to-market an interest rate swap not designated for hedge accounting. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income in 2016 increased by $5.3 million, or 14.9%, to $40.9 million compared to $35.6 million in 2015.

Correspondingly, Adjusted Diluted EPS increased by $0.17 to $1.31 in 2016 compared to $1.14 in 2015 and when converted to CAD using the average USD/CAD exchange rate for 2016 of 1.3248 (2015: 1.2791), CAD-Equivalent Adjusted Diluted EPS increased by CAD$0.28 to CAD$1.74 in 2016 compared to CAD$1.46 in 2015.

Performance by Segment

Canadian Operations

(All currency amounts in this section are in CAD)

	Fifty-two weeks ended		
(in $000s, except sales volume and percentage amounts)	**December 31, 2016**	January 2, 2016	**Change**
Sales volume (millions of lbs)	**68.1**	68.2	**(0.1)**
Sales	**$ 332,752**	$ 331,927	**$ 825**
Gross profit	**$ 73,925**	$ 69,237	**$ 4,688**
Gross profit as a percentage of sales	**22.2%**	20.9%	**1.3%**
Adjusted EBITDA[1]	**$ 30,226**	$ 28,312	**$ 1,914**
Adjusted EBITDA as a percentage of sales	**9.1%**	8.5%	**0.6%**

1 See the *Non-IFRS Financial Measures* section on page 32 for further explanation of Adjusted EBITDA.

Sales volume for our Canadian operations decreased by 0.1 million pounds during 2016 to 68.1 million pounds compared to 68.2 million pounds in 2015. Sales in 2016 increased by $0.9 million, or 0.3%, to $332.8 million, as compared to $331.9 million in 2015, reflecting a change in the product mix and higher sales prices, offset by the decline in sales volume.

Gross profit increased in 2016 by $4.7 million to $73.9 million (22.2% of sales) compared to $69.2 million (20.9% of sales) in 2015, reflecting lower raw material costs and the change in product mix mentioned previously.

Adjusted EBITDA for our Canadian operations increased in 2016 by $1.9 million, or 6.7%, to $30.2 million (9.1% of sales) compared to $28.3 million (8.5% of sales) in 2015. This increase was primarily due to the higher gross profit mentioned previously, partially offset by increased SG&A expenses related to higher incentive expense.

U.S. Operations

(All currency amounts in this section are in USD)

	Fifty-two weeks ended		
(in $000s, except sales volume and percentage amounts)	**December 31, 2016**	January 2, 2016	**Change**
Sales volume (millions of lbs)	**209.2**	216.2	**(7.0)**
Sales	**$ 704,507**	$ 741,907	**$ (37,400)**
Gross profit	**$ 144,672**	$ 142,986	**$ 1,686**
Gross profit as a percentage of sales	**20.5%**	19.3%	**1.2%**
Adjusted EBITDA[1]	**$ 61,601**	$ 56,048	**$ 5,553**
Adjusted EBITDA as a percentage of sales	**8.7%**	7.6%	**1.1%**

1 See the *Non-IFRS Financial Measures* section on page 32 for further explanation of Adjusted EBITDA.

Sales volume for our U.S. operations decreased by 7.0 million pounds, or 3.2%, in 2016 to 209.2 million pounds compared to 216.2 million pounds in 2015, due to lower sales volume primarily due to a shorter Lenten promotional period in the first quarter of 2016 as compared to the first quarter of 2015, a lower demand for traditional breaded and battered seafood products, and a decline in scallop sales due to the sale of the New Bedford facility.

Sales in 2016 decreased by $37.4 million, or 5.0%, to $704.5 million compared to $741.9 million in 2015 reflecting the lower sales volume, the impact of sales price decreases, and a change in the product mix.

Gross profit increased in 2016 by $1.7 million to $144.7 million (20.5% of sales) compared to $143.0 million (19.3% of sales) in 2015, reflecting higher supply chain optimization savings and the impact of raw material cost decreases, partially offset by lower volumes and an unfavourable change in the product mix.

Adjusted EBITDA for our U.S. operations increased in 2016 by $5.5 million, or 9.9%, to $61.6 million (8.7% of sales) compared to $56.0 million (7.6% of sales) in 2015. This increase was primarily due to the higher gross profit mentioned previously, lower distribution costs related to lower volumes, a reduction in fuel costs, and supply chain optimization activities, and lower SG&A expenses related to a reduction in marketing costs.

6 Results by Quarter

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

Fiscal 2016

(Amounts in $000s, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales	**$ 290,548**	**$ 224,667**	**$ 230,755**	**$ 210,046**	**$ 956,016**
Adjusted EBITDA[1]	**$ 29,417**	**$ 17,727**	**$ 17,899**	**$ 17,370**	**$ 82,413**
Net Income	**$ 13,717**	**$ 5,374**	**$ 6,603**	**$ 7,256**	**$ 32,950**
Basic EPS	**$ 0.44**	**$ 0.17**	**$ 0.21**	**$ 0.25**	**$ 1.07**
Diluted EPS	**$ 0.44**	**$ 0.17**	**$ 0.21**	**$ 0.24**	**$ 1.06**
Adjusted Net Income[1]	**$ 15,368**	**$ 8,769**	**$ 9,246**	**$ 7,565**	**$ 40,948**
Adjusted Basic EPS	**$ 0.50**	**$ 0.28**	**$ 0.30**	**$ 0.24**	**$ 1.32**
Adjusted Diluted EPS[1]	**$ 0.49**	**$ 0.28**	**$ 0.30**	**$ 0.24**	**$ 1.31**
Dividends paid per common share (in CAD)	**$ 0.120**	**$ 0.130**	**$ 0.130**	**$ 0.140**	**$ 0.520**
Net working capital[2]	**$ 216,572**	**$ 204,555**	**$ 195,792**	**$ 194,990**	**$ 194,990**

Fiscal 2015

(Amounts in $000s, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales	$ 310,222	$ 226,339	$ 240,081	$ 224,865	$ 1,001,507
Adjusted EBITDA[1]	$ 30,672	$ 12,734	$ 17,055	$ 17,757	$ 78,218
Net Income	$ 12,533	$ 3,956	$ 6,073	$ 7,019	$ 29,581
Basic	$ 0.41	$ 0.13	$ 0.19	$ 0.23	$ 0.96
Diluted	$ 0.40	$ 0.13	$ 0.19	$ 0.23	$ 0.95
Adjusted Net Income[1]	$ 15,628	$ 4,721	$ 7,074	$ 8,140	$ 35,563
Adjusted Basic EPS	$ 0.51	$ 0.15	$ 0.23	$ 0.26	$ 1.15
Adjusted Diluted EPS[1]	$ 0.50	$ 0.15	$ 0.23	$ 0.26	$ 1.14
Dividends paid per common share (in CAD)	$ 0.105	$ 0.120	$ 0.120	$ 0.120	$ 0.465
Net working capital[2]	$ 258,892	$ 257,028	$ 227,234	$ 219,558	$ 219,558

1 See the *Non-IFRS Financial Measures* section starting on page 32 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.
2 Net working capital comprises accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions.

7 Fourth Quarter

Consolidated Results

Please note that the fourth quarters of Fiscal 2016 and Fiscal 2015 had thirteen weeks, while the fourth quarter of Fiscal 2014 had fourteen weeks as explained in the *Introduction* section on page 12 of this MD&A.

	Thirteen weeks ended		Fourteen weeks ended
(in $000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	**December 31, 2016**	January 2, 2016	January 3, 2015[1]
Sales volume (millions of lbs)	**62.4**	66.2	76.6
Average foreign exchange rate (USD/CAD)	**$ 1.3341**	$ 1.3358	$ 1.1356
Sales			
Canada	**$ 62,209**	$ 59,413	$ 78,250
United States	**147,837**	165,452	188,645
Total sales	**$ 210,046**	$ 224,865	$ 266,895
Gross profit	**$ 44,885**	$ 46,070	$ 52,853
Gross profit as a percentage of sales	**21.4%**	20.5%	19.8%
Adjusted EBITDA[2]	**$ 17,370**	$ 17,757	$ 20,437
Adjusted EBITDA as a percentage of sales	**8.3%**	7.9%	7.7%
Net income	**$ 7,256**	$ 7,019	$ 5,639
Basic EPS	**$ 0.25**	$ 0.23	$ 0.18
Diluted EPS	**$ 0.24**	$ 0.23	$ 0.18
Adjusted Net Income[2]	**$ 7,565**	$ 8,140	$ 9,073
Adjusted EPS	**$ 0.24**	$ 0.26	$ 0.29
Adjusted Diluted EPS[2]	**$ 0.24**	$ 0.26	$ 0.29

1 The Company began consolidating the results of Atlantic Trading Company upon its acquisition on October 7, 2014.
2 See the *Non-IFRS Financial Measures* section starting on page 32 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

The sale of our New Bedford scallop business on September 7, 2016 (as discussed in the *Recent Developments* section on page 18 of this MD&A) had the impact of lowering sales volume by 0.6 million pounds, sales by $8.0 million, and Adjusted EBITDA by $0.3 million in the fourth quarter of 2016 compared to the fourth quarter of 2015.

Sales

Consolidated sales volume for the fourth quarter of 2016 decreased by 3.8 million pounds, or 5.7%, to 62.4 million pounds compared to 66.2 million pounds in the same period in 2015 due to lower sales volume in our U.S. retail and foodservice businesses primarily reflecting the impact of lower demand for traditional breaded and battered frozen seafood products, which we were unable to offset with sales from our new frozen seafood products that align with emerging consumer trends and preferences. In addition, sales volume decreased as a result of the decline in scallop sales due to the sale of the New Bedford facility, as mentioned previously.

Sales in the fourth quarter of 2016 decreased by $14.9 million, or 6.6%, to $210.0 million compared to $224.9 million in the same period last year. The slightly stronger Canadian dollar in the fourth quarter of 2016 compared to the same quarter of 2015 increased the value of USD sales from our CAD-denominated operations by approximately $0.1 million relative to the conversion impact last year.

Sales in domestic currency decreased by $14.1 million, or 5.8%, to $230.8 million in the fourth quarter of 2016 compared to $244.9 million in the fourth quarter of 2015, reflecting the lower U.S. sales volume and the impact of the change in product mix mentioned above.

Gross Profit

Gross profit for the fourth quarter of 2016 was $44.9 million compared to $46.1 million in the same period in 2015 and gross profit as a percentage of sales increased to 21.4% compared to 20.5% in 2015.

Gross profit decreased by $1.2 million in 2016 relative to 2015, reflecting an increase in gross profit as a percentage of sales, partially offset by lower sales volumes. Gross profit as a percentage of sales was higher in the fourth quarter of 2016, primarily due to lower raw material costs and higher supply chain optimization savings realized in the period.

Distribution Expenses

Distribution expenses decreased in the fourth quarter of 2016 by $1.5 million to $10.0 million compared to $11.5 million in the same period in 2015, due to lower volumes and fuel costs, and higher supply chain optimization savings, primarily in our U.S. operations.

As a percentage of sales, these expenses decreased to 4.8% in the fourth quarter of 2016, compared to 5.1% in the same period in 2015.

Selling, General and Administrative Expenses

SG&A expenses decreased in the fourth quarter of 2016 by $0.5 million to $21.3 million compared to $21.8 million in the same period last year. SG&A expenses included a share-based compensation recovery of $0.1 million for the fourth quarter of 2016 compared to an expense of $0.7 million for the same period in 2015. SG&A expenses also included depreciation and amortization expense of $1.8 million in both the fourth quarter of 2016 and 2015.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses increased in the fourth quarter of 2016 by $0.2 million to $19.7 million compared to $19.5 million in the same period last year, primarily as a result of higher incentives, partially offset by a reduction in marketing expenses in the U.S. and higher supply chain optimization savings. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense increased to 9.4% in 2016 compared to 8.7% in the same period last year, due to the impact of lower sales in the quarter.

Adjusted EBITDA

Consolidated Adjusted EBITDA decreased in the fourth quarter of 2016 by $0.4 million, or 2.2%, to $17.4 million compared to $17.8 million in 2015. 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 $1.9 million in the fourth quarter of 2016 compared to $1.4 million in 2015.

In domestic currency, Adjusted EBITDA increased in the fourth quarter of 2016 by $0.1 million, or 0.5%, to $19.2 million (8.3% of sales) compared to $19.1 million (7.8% of sales) in 2015. The increase in Adjusted EBITDA reflects the reduction in distribution expenses, largely offset by the lower gross profit, as previously mentioned.

The following table shows the impact in the fourth quarter of 2016 and 2015 of converting our CAD-denominated operations and corporate activities to our USD presentation currency.

	Thirteen weeks ended			**Thirteen weeks ended**		
(Amounts in $000s)	**December 31, 2016 USD**	January 2, 2016 USD	**% Change USD**	**December 31, 2016 Domestic $**	January 2, 2016 Domestic $	**% Change Domestic $**
External Sales						
Canada	**$ 62,209**	$ 59,413	**4.7%**	**$ 82,996**	$ 79,437	**4.5%**
USA	**147,837**	165,452	**(10.6)%**	**147,837**	165,452	**(10.6)%**
	210,046	224,865	**(6.6)%**	**230,833**	244,889	**(5.7)%**
Conversion	**—**	—		**(20,787)**	(20,024)	
	$ 210,046	$ 224,865	**(6.6)%**	**$ 210,046**	$ 224,865	**(6.6)%**
Adjusted EBITDA						
Canada	**$ 5,511**	$ 5,642	**(2.3)%**	**$ 7,513**	$ 7,560	**(0.6)%**
USA	**12,960**	12,915	**0.3%**	**12,960**	12,915	**0.3%**
Corporate	**(1,101)**	(800)	**37.6%**	**(1,234)**	(1,352)	**(8.7)%**
	17,370	17,757	**(2.2)%**	**19,239**	19,123	**0.6%**
Conversion	**—**	—		**(1,869)**	(1,366)	
	$ 17,370	$ 17,757	**(2.2)%**	**$ 17,370**	$ 17,757	**(2.2)%**
Adjusted EBITDA as percentage of sales						
In USD	**8.3%**	7.9%				
In Domestic $				**8.3%**	7.8%	

Net Income

Net income increased in the fourth quarter of 2016 by $0.3 million, or 4.3%, to $7.3 million ($0.24 per diluted share) compared to $7.0 million ($0.23 per diluted share) in the fourth quarter of last year. The increase in net income reflects a decrease in finance costs and share-based compensation expense, partially offset by the decrease in Adjusted EBITDA mentioned previously and an increase in income tax expense.

Net income included "business acquisition, integration and other expenses", and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses, Adjusted Net Income for the fourth quarter of 2016 decreased by $0.5 million, or 6.2%, to $7.6 million compared to $8.1 million in the same period last year.

Correspondingly, Adjusted Diluted EPS decreased by $0.02 to $0.24 compared to $0.26 in the fourth quarter of 2015, and when converted to CAD using the average USD/CAD exchange rate for the period of 1.3341 (2015: 1.3358), CAD-Equivalent Adjusted Diluted EPS decreased by CAD$0.03 to CAD$0.32 compared to CAD$0.35 in the fourth quarter of 2015.

Performance by Segment

Canadian Operations

(All currency amounts in this section are in CAD)

	Thirteen weeks ended		
(in $000s, except sales volume and percentage amounts)	**December 31, 2016**	January 2, 2016	**Change**
Sales volume (millions of lbs)	**16.6**	16.5	**0.1**
Sales	**$ 82,996**	$ 79,437	**$ 3,559**
Gross profit	**$ 17,774**	$ 16,561	**$ 1,213**
Gross profit as a percentage of sales	**21.4%**	20.8%	**0.6%**
Adjusted EBITDA[1]	**$ 7,513**	$ 7,560	$ **(47)**
Adjusted EBITDA as a percentage of sales	**9.1%**	9.5%	**(0.4)%**

1 See the *Non-IFRS Financial Measures* section on page 32 for further explanation of Adjusted EBITDA.

Sales volume for our Canadian operations increased during the fourth quarter of 2016 by 0.1 million pounds to 16.6 million pounds as compared to 16.5 million pounds in 2015. Sales in the fourth quarter increased by $3.6 million, or 4.5%, to $83.0 million compared to $79.4 million in the same period of 2015, reflecting the increased sales volume and increased sales prices.

Gross profit increased by $1.2 million in the fourth quarter of 2016 to $17.8 million (21.4% of sales) compared to $16.6 million (20.8% of sales) in 2015, due to increased sales volume, higher sales prices and optimized promotional spending, offset by increased raw material costs.

Adjusted EBITDA for our Canadian operations remained consistent during the fourth quarter of 2016 at $7.5 million as compared to 2015 (2016: 9.1% of sales, 2015: 9.5%), as the improvement in gross profit was offset by increased SG&A expenses related to higher incentive and marketing expenses.

U.S. Operations

(All currency amounts in this section are in USD)

	Thirteen weeks ended		
(in $000s, except sales volume and percentage amounts)	**December 31, 2016**	January 2, 2016	**Change**
Sales volume (millions of lbs)	**45.7**	49.7	**(4.0)**
Sales	**$ 147,837**	$ 165,452	**$ (17,615)**
Gross profit	**$ 31,024**	$ 31,535	**$ (511)**
Gross profit as a percentage of sales	**21.0%**	19.1%	**1.9%**
Adjusted EBITDA[1]	**$ 12,960**	$ 12,915	**$ 45**
Adjusted EBITDA as a percentage of sales	**8.8%**	7.8%	**1.0%**

1 See the *Non-IFRS Financial Measures* section on page 32 for further explanation of Adjusted EBITDA.

Sales volume for our U.S. operations decreased by 4.0 million pounds, or 8.0%, during the fourth quarter of 2016 to 45.7 million pounds compared to 49.7 million pounds in 2015, primarily reflecting lower sales volume in the foodservice and retail businesses largely due to the impact of lower demand for traditional breaded and battered frozen seafood products, which we were unable to offset with sales from our new frozen seafood products that align with emerging consumer trends and preferences.

Sales during the fourth quarter decreased by $17.7 million, or 10.7%, to $147.8 million compared to $165.5 million in 2015 reflecting lower sales volume and a change in product mix.

Gross profit decreased in the fourth quarter of 2016 by $0.5 million to $31.0 million (21.0% of sales) compared to $31.5 million (19.1% of sales) in the same period last year, reflecting lower raw material costs and higher supply chain optimization savings, partially offset by lower sales volume and the change in product mix mentioned previously.

Adjusted EBITDA for our U.S. operations remained consistent during the fourth quarter of 2016 at $13.0 million as compared to 2015 (2016: 8.8% of sales, 2015: 7.8% of sales) as the lower gross profit noted previously was offset by lower distribution costs related to lower volumes, a reduction in fuel costs, and supply chain optimization activities.

8 Business Acquisition, Integration and Other Expenses

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

	Thirteen weeks ended		Fifty-two weeks ended	
(Amounts in $000s)	**December 31, 2016**	January 2, 2016	**December 31, 2016**	January 2, 2016
Business acquisition, integration and other expenses	**$ 485**	$ 478	**$ 4,787**	$ 7,473
Impairment of property, plant and equipment	**—**	—	**2,327**	—
	$ 485	$ 478	**$ 7,114**	$ 7,473

In 2016, business acquisition, integration and other expenses primarily included costs related to the cessation of operations and the sale of the New Bedford facility (as explained in the *Recent Developments* section on page 18 of this MD&A), partially offset by proceeds on the settlement of the insurance claim related to the partial roof collapse at the New Bedford facility in 2015. The impairment of property, plant and equipment recorded in 2016 is also related to the New Bedford facility.

In 2015, business acquisition, integration and other expenses included consulting fees related to supply chain optimization activities, costs related to plant closures including the cessation of operations at the previously leased Malden facility in April 2015, insurance deductible costs relating to the partial roof collapse at the New Bedford facility mentioned above, and employee benefits costs related to the termination of employees as part of restructuring activities.

9 Finance Costs

Finance costs were $0.4 million lower in the fourth quarter of 2016 and $2.0 million lower in 2016 compared to the same period last year, due to lower average debt levels in 2016 as compared to 2015.

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

	Thirteen weeks ended		Fifty-two weeks ended	
(Amounts in $000s)	**December 31, 2016**	January 2, 2016	**December 31, 2016**	January 2, 2016
Interest paid in cash during the period	**$ 3,483**	$ 3,896	**$ 14,361**	$ 16,102
Change in cash interest accrued during the period	**(64)**	13	**(469)**	58
Total interest to be paid in cash	**3,419**	3,909	**13,892**	16,160
Mark-to-market gain on interest rate swap not designated for hedge accounting	**—**	(127)	**(126)**	(475)
Deferred financing cost amortization	**130**	132	**530**	562
Total finance costs	**$ 3,549**	$ 3,914	**$ 14,296**	$ 16,247

Marking-to-market interest rate swaps not designated in a formal hedging relationship had no impact on diluted EPS in 2016 and 2015 (see the discussion on Adjusted Net Income and Adjusted Diluted EPS in the *Non-IFRS Financial Measures* section, starting on page 32 of this MD&A).

10 Income Taxes

High Liner Foods' effective income tax rate for the year ended December 31, 2016 was 19.3% compared to 18.5% in 2015. In the fourth quarter of 2016 the effective tax rate was 23.8% compared to 15.7% in the fourth quarter of 2015. The higher effective tax rate for the year and quarter ended December 31, 2016 compared to the same period in the prior year is primarily attributable to an increase in income subject to higher foreign tax rates.

The applicable statutory rates in Canada and the U.S. were 29.2% and 39.6%, respectively. The effective tax rate was lower compared to the applicable statutory rates due primarily to the benefit of acquisition financing deductions.

See Note 17 to the Consolidated Financial Statements for full information with respect to income taxes.

11 Contingencies

The Company has no material outstanding contingencies.

12 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 12 of this MD&A (under the heading "*Currency*") and in the Foreign Currency risk discussion on page 40 (in the *Risk Factors* section).

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

Working Capital Credit Facility

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

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

As at December 31, 2016, the Company was borrowing at the following rates:

- Canadian Prime Rate revolving loans denominated in CAD, and Canadian Base Rate revolving and U.S. Prime Rate revolving loans denominated in USD, at Prime or Base Rate, plus 0.00%;
- BA loans at BA rates plus 1.25%;
- LIBOR advances at LIBOR plus 1.25%;
- Letters of credit with fees of 1.25%; and
- Standby fees of 0.375%.

Average short-term borrowings were $11.7 million in 2016 compared to $51.6 million in 2015. This $39.9 million decrease primarily reflects the repayment of debt with cash flow provided by operating activities.

At the end of the fourth quarter of 2016, the Company had $151.6 million (January 2, 2016: $148.9 million) of unused borrowing capacity taking into account both margin calculations and the total line availability. On December 31, 2016, letters of credit and standby letters of credit were outstanding in the amount of $16.9 million (January 2, 2016: $11.2 million) to support raw material purchases and to secure certain contractual obligations, including those related to the Company's Supplemental Executive Retirement Plan ("SERP"). Letters of credit reduce the availability under our working capital credit facility and are accounted for in the $151.6 million of unused borrowing capacity noted above.

Additional details regarding the Company's working capital facility are provided in Note 10 "*Bank Loans*" to the Consolidated Financial Statements.

In the absence of any major acquisitions or capital expenditures in 2017, we expect average short-term borrowings in 2017 to be lower than 2016. We believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

Term Loan Facility

High Liner Foods entered into a term loan in December 2011. There have been several amendments made to the term loan with the most recent being in April 2014, when it was amended concurrently with the working capital credit facility. As part of the April 2014 amendments, the term loan was increased from $250.0 million to $300.0 million.

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 $0.75 million are required on the term loan, however, as per the loan agreement, the mandatory excess cash flow payment and the voluntary repayment will be applied to future regularly scheduled principal repayments. As such, no regularly scheduled principal repayments are required in 2017.

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

During the fifty-two weeks ended December 31, 2016, 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
Not designated in a formal hedging relationship:				
April 4, 2014	April 4, 2016	3-month LIBOR (floor 1.5%)	1.9970%	$ 100.0

As of December 31, 2016, the combined impact of the interest rate swaps listed above effectively fix the interest rate on $120.0 million of the $300.0 million face value of the term loan and the other portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates if LIBOR is higher than the embedded floor of 1.0%. The implication of marking-to-market the interest rate swap not designated for hedge accounting on our financial results is discussed in the *Finance Costs* section on page 27 of this MD&A.

Additional details regarding the Company's term loan are provided in Note 13 "*Long-term debt and finance lease obligations*" to the Consolidated Financial Statements.

Net Interest-Bearing Debt

The Company's net interest-bearing debt (as calculated in the *Non-IFRS Financial Measures* section on page 36 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 decreased by $61.0 million to $252.1 million at December 31, 2016 compared to $313.1 million at January 2, 2016, reflecting the repayment of debt with cash flow provided by operating activities and the receipt of proceeds on the sale of New Bedford in September which increased the Company's cash balances.

Net interest-bearing debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 32 of this MD&A for further discussion of Adjusted EBITDA) was 3.1x at December 31, 2016 compared to 4.0x at the end of Fiscal 2015 as shown in the section starting on page 17. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2017, we expect this ratio to be below 3.0x by the end of 2017.

Capital Structure

At December 31, 2016, net interest-bearing debt was 53.1% of total capitalization, as compared to 61.3% at January 2, 2016.

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Net interest-bearing debt	**$ 252,056**	$ 313,065
Shareholders' equity	**222,762**	200,519
Unrealized losses (gains) on derivative financial instruments included in AOCI	**(561)**	(2,977)
Total capitalization	**$ 474,257**	$ 510,607
Net interest-bearing debt as percentage of total capitalization	**53.1%**	61.3%

Using our December 31, 2016 market capitalization of $459.0 million, based on a share price of CAD$19.95 (USD$14.86 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization decreased to 35.4%.

Normal Course Issuer Bid

In January 2015, we filed a new Normal Course Issuer Bid ("2015 NCIB") to purchase up to 150,000 common shares. When the 2015 NCIB expired on January 30, 2016, the Company had purchased 30,000 common shares for aggregate consideration of CAD$0.5 million, at an average price of CAD$17.62 per share. The shares that were repurchased were cancelled.

In January 2016, we filed a new NCIB ("2016 NCIB") to purchase up to 150,000 common shares. When the 2016 NCIB expired on January 30, 2017, the Company had purchased 50,000 common shares for aggregate consideration of CAD$1.0 million, at an average price of CAD$19.38 per share. The shares that were repurchased were cancelled.

In January 2017, we filed a new NCIB ("2017 NCIB") to purchase up to 150,000 common shares. The 2017 NCIB terminates on February 8, 2018.

The Company has established an automatic securities purchase plan for the common shares of the Company for all the bids listed above with a termination date coinciding with the NCIB termination date. The preceding plans also constitute an "automatic plan" for purposes of applicable Canadian Securities Legislation and have been approved by the TSX.

Dividends

As shown in the following table, the quarterly dividend on the Company's common shares increased three times during the last two fiscal years, reflecting the Company's confidence in its growth strategy. The quarterly dividends paid in the last two years were as follows:

Dividend Record Date	Quarterly Dividend CAD
December 1, 2016	$ 0.140
September 1, 2016	$ 0.130
June 1, 2016	$ 0.130
March 1, 2016	$ 0.120
December 1, 2015	$ 0.120
September 1, 2015	$ 0.120
June 1, 2015	$ 0.120
February 27, 2015	$ 0.105

Dividends and NCIBs are subject to restrictions as follows:

- 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 $135.6 million on December 31, 2016 and NCIBs are subject to an annual limit of $10.0 million; and
- Under the Term Loan facility, dividends cannot exceed $17.5 million per year. This amount increases to the greater of $25.0 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan when the defined total leverage ratio is below 4.5x and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 3.07x on December 31, 2016. NCIBs are subject to an annual limit of $10.0 million under the Term Loan facility.

On February 22, 2017, the Directors approved a quarterly dividend of CAD$0.14 per share on the Company's common shares payable on March 15, 2017 to holders of record on March 3, 2017. These dividends are "eligible dividends" for Canadian income tax purposes.

Disclosure of Outstanding Share Data

On February 22, 2017, 30,889,078 common shares and 1,604,157 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

Net Non-Cash Working Capital

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 $24.9 million to $195.0 million at the end of the fourth quarter of 2016, reflecting improved inventory management, the sale of New Bedford scallop inventory, and increased payables.

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

Cash Flow

Net cash flows provided by operating activities decreased by $2.5 million in 2016 to $80.0 million compared to $82.5 million in 2015 reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, increased $2.9 million in 2016 to $55.1 million compared to $52.2 million in 2015. This increase reflects more favourable results from operations and lower interest payments, offset by higher income tax payments.
- Cash flows from changes in net non-cash working capital decreased by $5.4 million in 2016 to $24.9 million compared to $30.3 million in 2015. This decrease primarily reflects less favourable changes in accounts payable and accrued liabilities, partially offset by more favourable changes in inventories during 2016 compared to 2015.

Net cash flows provided by operating activities decreased by $1.1 million in the fourth quarter of 2016 to $14.7 million compared to $15.8 million in the fourth quarter of 2015 reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, increased $1.1 million in the fourth quarter of 2016 to $11.9 million compared to $10.8 million in 2015. This increase reflects more favourable results from operations and lower interest payments, offset by higher income tax payments.
- Cash flows from changes in net non-cash working capital decreased by $2.2 million in the fourth quarter of 2016 to $2.8 million compared to $5.0 million in 2015. This decrease primarily reflects less favourable changes in inventories, partially offset by more favourable changes in accounts payable and accrued liabilities during the fourth quarter of 2016 compared to 2015.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 35 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended December 31, 2016 decreased by $1.2 million to $63.3 million compared to $64.5 million for the twelve months ended January 2, 2016. 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 December 31, 2016 as compared to the twelve months ended January 2, 2016.

Capital Expenditures

Gross capital expenditures (including finance leases) were $7.0 million for the fourth quarter of 2016 ($17.7 million for 2016), or $1.1 million higher than capital expenditures of $5.9 million during the same quarter last year ($18.5 million for 2015) due to the timing of expenditures.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2017 will be between $18.0 million and $20.0 million and funded by cash generated from operations and short-term borrowings.

Other Liquidity Items

Share-based compensation awards

From 2000 to 2011 all stock options issued contained a tandem stock appreciation right ("SAR") which allowed the option holder, upon exercise, to receive cash instead of shares. Under IFRS, these options are accounted for as a liability and marked-to-market at each reporting period based on the value of the Company's share price. The liability increases when share prices rise, with a corresponding increase in expense, and conversely, the liability decreases when the share price declines in value, with a corresponding reduction in expense.

Recognizing the volatility of SARs on the Company's profit and loss and the potential cash outflow if many of them were exercised for cash in a particular year, the options granted since the third quarter of 2011 have not contained a SAR. As well, in March 2013, amendments were made to eliminate the SAR on substantially all of the options previously granted to the Company's directors and senior management in prior years. Effective at that time, the liability for these individuals on the SARs ($7.6 million) was fixed and the liability was reclassified as contributed surplus and no future profit and loss impact is necessary going forward.

Stock options without SARs are accounted for as equity-settled transactions where they are valued once when granted using the Black-Scholes pricing model, and are expensed over the vesting period, with no additional expense recorded based on changes in the market price of the stock in future periods.

Share-based compensation expense of $3.2 million was recorded in 2016 compared to $1.1 million in 2015, based on: the change in the Company's share price for outstanding awards accounted for as a liability, expense over the vesting period for outstanding awards accounted for as equity-settled transactions, and the issuance of options during the year valued using a Black-Scholes model. Share-based compensation expense is non-cash until option holders exercise, and was higher in 2016 compared to 2015 primarily reflecting the increase in the Company's stock price during 2016.

During 2016, holders exercised SARs and Performance Share Units ("PSUs") and received cash in the amount of $0.5 million (2015: $0.4 million). The liability for share-based compensation awards at the end of Fiscal 2016 was $1.9 million compared to $1.0 million at the end of Fiscal 2015.

Any options exercised in shares are cash positive or cash neutral if the holder elects to use the cashless exercise method under the plan. Cash received from options exercised for shares during 2016 was $0.1 million (2015: $0.7 million).

Defined Benefit Pension Plans

The Company's defined benefits pension plans can impact the Company's cash flow requirements and affect its liquidity. In 2016, the defined benefit pension expense for accounting purposes was $1.2 million (2015: $1.9 million) and the annual cash contributions were $0.1 million lower than the 2016 accounting expense (2015: $1.1 million lower). For 2017, we expect cash contributions to be approximately CAD$1.1 million and for the defined benefit expense to be CAD$2.0 million. We have more than adequate availability under our working capital credit facility to make the required future cash contributions for our defined benefit pension plans. As well, we have a SERP liability for accounting purposes of $6.3 million that is secured by a letter of credit in the amount of $9.8 million.

Contractual Obligations

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

		Payments Due by Period		
(Amounts in $000s)	Total	Less than 1 year	1–5 Years	Thereafter
Long-term debt	$ 267,926	$ –	$ 267,926	$ –
Finance lease obligations	1,423	721	702	–
Other long-term liabilities	1,304	416	888	–
Operating leases	27,391	4,884	17,935	4,572
Purchase obligations	158,543	143,363	15,180	–
Total contractual obligations	$ 456,587	$ 149,384	$ 302,631	$ 4,572

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the Procurement section on page 39 and the *Foreign Currency* section on page 40 of this MD&A for further details.

Financial Instruments

We utilize derivative financial instruments in accordance with a written policy to manage foreign currency, commodity and interest rate exposures. The policy prohibits the use of derivative financial instruments for trading or speculative purposes.

We formally document all relationships between hedging instruments and hedged items, as well as risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Any portion of hedge ineffectiveness has been recognized in the income statement as it has occurred.

Readers are directed to Note 22 "*Fair value measurement*" to the Consolidated Financial Statements for a complete description of the Company's use of derivative financial instruments.

13 Related Party Transactions

The Company's business is carried on through the Parent company, High Liner Foods Incorporated, and wholly-owned operating subsidiaries, Sjovik, h.f. and High Liner Foods (USA) Incorporated. Sjovik, h.f. has a subsidiary in Thailand. High Liner Foods (USA) Incorporated's wholly-owned subsidiaries include: ISF (USA), LLC; APS, LLC; and Atlantic Trading Company LLC. These companies purchase and/or sell inventory between them, and do so in the normal course of operations. The companies lend and borrow money between them, and periodically, capital assets are transferred between companies. High Liner Foods Incorporated buys all of the seafood for all of the subsidiaries, and also provides management, procurement and IT services to the subsidiaries. On consolidation, revenue, costs, information technology services, gains or losses, and all inter-company balances are eliminated.

In addition to transactions between the Parent and subsidiaries, High Liner Foods may enter into certain transactions and agreements in the normal course of business with certain other related parties (see Note 20 "*Related party disclosures*" to the Consolidated Financial Statements). Transactions with these parties, if any, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14 Non-IFRS Financial Measures

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

Adjusted EBITDA

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

We use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) as a performance measure as it approximates cash generated from operations before capital expenditures and changes in working capital, and it excludes the impact of expenses associated with business acquisition, integration activities, certain non-routine costs and share-based compensation expense related to the Company's

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

The table below reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, including the operating segment information disclosed in Note 21 "*Operating segment information*".

				Thirteen weeks ended December 31, 2016				Thirteen weeks ended January 2, 2016
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Net income (loss)	**$ 4,972**	**$ 9,862**	**$ (7,578)**	**$ 7,256**	$ 5,250	$ 9,411	$ (7,642)	$ 7,019
Add back:								
Depreciation and amortization	**509**	**3,015**	**289**	**3,813**	459	3,448	240	4,147
Financing costs	**–**	**–**	**3,549**	**3,549**	–	–	3,914	3,914
Income tax expense	**–**	**–**	**2,272**	**2,272**	–	–	1,303	1,303
Standardized EBITDA	**5,481**	**12,877**	**(1,468)**	**16,890**	5,709	12,859	(2,185)	16,383
Add back (deduct):								
Business acquisition, integration and other expenses	**–**	**–**	**485**	**485**	–	–	478	478
Impairment of property, plant and equipment	**–**	**–**	**–**	**–**	–	–	–	–
(Gain) loss on disposal of assets	**30**	**83**	**(33)**	**80**	(67)	56	–	(11)
Share-based compensation expense	**–**	**–**	**(85)**	**(85)**	–	–	907	907
Adjusted EBITDA	**$ 5,511**	**$ 12,960**	**$ (1,101)**	**$ 17,370**	$ 5,642	$ 12,915	$ (800)	$ 17,757

				Fifty-two weeks ended December 31, 2016				Fifty-two weeks ended January 2, 2016
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Net income (loss)	**$ 20,888**	**$ 48,775**	**$ (36,713)**	**$ 32,950**	$ 20,232	$ 42,057	$ (32,708)	$ 29,581
Add back:								
Depreciation and amortization	**1,860**	**12,694**	**2,560**	**17,114**	1,938	13,492	1,310	16,740
Financing costs	**–**	**–**	**14,296**	**14,296**	–	–	16,247	16,247
Income tax expense	**–**	**–**	**7,889**	**7,889**	–	–	6,729	6,729
Standardized EBITDA	**22,748**	**61,469**	**(11,968)**	**72,249**	22,170	55,549	(8,422)	69,297
Add back (deduct):								
Business acquisition, integration and other expenses	**–**	**–**	**4,787**	**4,787**	–	–	7,473	7,473
Impairment of property, plant and equipment	**–**	**–**	**2,327**	**2,327**	–	–	–	–
(Gain) loss on disposal of assets	**(75)**	**125**	**(229)**	**(179)**	(127)	499	(43)	329
Share-based compensation expense	**–**	**–**	**3,229**	**3,229**	–	–	1,119	1,119
Adjusted EBITDA	**$ 22,673**	**$ 61,594**	**$ (1,854)**	**$ 82,413**	$ 22,043	$ 56,048	$ 127	$ 78,218

Adjusted EBIT

Adjusted EBIT is Adjusted EBITDA less depreciation and amortization expenses. Corporate incentives and management analysis of the business are based on Adjusted EBIT. The following tables reconcile Adjusted EBITDA to Adjusted EBIT.

				Thirteen weeks ended December 31, 2016				Thirteen weeks ended January 2, 2016
(Amounts in $000s)	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Adjusted EBITDA	**$ 5,511**	**$ 12,960**	**$ (1,101)**	**$ 17,370**	$ 5,642	$ 12,915	$ (800)	$ 17,757
Less:								
Depreciation and amortization	**509**	**3,015**	**289**	**3,813**	459	3,448	240	4,147
Adjusted EBIT	**$ 5,002**	**$ 9,945**	**$ (1,390)**	**$ 13,557**	$ 5,183	$ 9,467	$ (1,040)	$ 13,610

				Fifty-two weeks ended December 31, 2016				Fifty-two weeks ended January 2, 2016
(Amounts in $000s)	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Adjusted EBITDA	**$ 22,673**	**$ 61,594**	**$ (1,854)**	**$ 82,413**	$ 22,043	$ 56,048	$ 127	$ 78,218
Less:								
Depreciation and amortization	**1,860**	**12,694**	**2,560**	**17,114**	1,938	13,492	1,310	16,740
Adjusted EBIT	**$ 20,813**	**$ 48,900**	**$ (4,414)**	**$ 65,299**	$ 20,105	$ 42,556	$ (1,183)	$ 61,478

Adjusted Net Income and Adjusted Diluted EPS

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

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

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

		Thirteen weeks ended December 31, 2016		Thirteen weeks ended January 2, 2016
	$000s	Diluted EPS	$000s	Diluted EPS
Net income	**$ 7,256**	**$ 0.24**	$ 7,019	$ 0.23
Add back:				
Business acquisition, integration and other expenses	**485**	**0.01**	478	0.01
Accelerated depreciation on equipment as part of the cessation of operations	**24**	**–**	–	–
Mark-to-market gain on interest rate swaps not designated for hedge accounting	**–**	**–**	(251)	(0.01)
Share-based compensation expense (recovery)	**(85)**	**–**	908	0.03
Tax impact of reconciling items	**(115)**	**(0.01)**	(14)	–
Adjusted Net Income	**$ 7,565**	**$ 0.24**	$ 8,140	$ 0.26
Average shares for the period (000s)		**31,251**		31,220

	Fifty-two weeks ended December 31, 2016		Fifty-two weeks ended January 2, 2016	
	$000	Diluted EPS	$000s	Diluted EPS
Net income	$ 32,950	$ 1.06	$ 29,581	$ 0.95
Add back:				
Business acquisition, integration and other expenses	4,787	0.15	7,473	0.24
Impairment of property, plant and equipment	2,327	0.07	–	–
Accelerated depreciation on equipment as part of the cessation of operations	1,453	0.05	216	–
Mark-to-market gain on interest rate swaps not designated for hedge accounting	(126)	–	(599)	(0.02)
Share-based compensation expense	3,229	0.10	1,118	0.04
Tax impact of reconciling items	(3,672)	(0.12)	(2,226)	(0.07)
Adjusted Net Income	$ 40,948	$ 1.31	$ 35,563	$ 1.14
Average shares for the period (000s)		31,175		31,265

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		Fifty-two weeks ended	
	December 31, 2016	January 2, 2016	December 31, 2016	January 2, 2016
Adjusted Diluted EPS	$ 0.24	$ 0.26	$ 1.31	$ 1.14
Average foreign exchange rate for the period	1.3341	1.3358	1.3248	1.2791
CAD-Equivalent Adjusted Diluted EPS	$ 0.32	$ 0.35	$ 1.74	$ 1.46

Standardized Free Cash Flow

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

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

The table below reconciles our Standardized Free Cash Flow (“FCF”) calculated on a rolling twelve-month basis, with measures that are in accordance with IFRS and as reported in the Consolidated Statement of Cash Flows.

	Twelve months ended		
(Amounts in $000s)	**December 31, 2016**	January 2, 2016	**$ Change**
Net change in non-cash working capital items	**$ 24,918**	$ 30,264	**$ (5,346)**
Cash flow from operating activities, including interest and income taxes	**55,098**	52,193	**2,905**
Cash flow from operating activities	**80,016**	82,457	**(2,441)**
Less: total capital expenditures, net of investment tax credits	**(16,734)**	(17,947)	**1,213**
Standardized Free Cash Flow	**$ 63,282**	$ 64,510	**$ (1,228)**

Net Interest-Bearing Debt

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

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

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

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Current bank loans	**$ 621**	$ 17,158
Add-back: deferred finance costs on current bank loans	**338**	470
Total current bank loans	**959**	17,628
Long-term debt	**266,327**	281,017
Current portion of long-term debt	**—**	11,816
Add-back: deferred finance costs on long-term debt	**1,599**	1,917
Total term loan debt	**267,926**	294,750
Long-term portion of finance lease obligations	**702**	715
Current portion of finance lease obligations	**721**	1,015
Total finance lease obligation	**1,423**	1,730
Less: cash	**(18,252)**	(1,043)
Net interest-bearing debt	**$ 252,056**	$ 313,065

Return on Assets Managed

ROAM is Adjusted EBIT of this MD&A divided by average assets managed (calculated using the average net assets month-end balance for each of the preceding thirteen months, where “net assets managed” includes all assets, except for employee future benefits, deferred income taxes and other certain financial assets, less accounts payable and provisions).

We believe investors and analysts use ROAM as an indicator of how efficiently the Company is using its assets to generate earnings. ROAM has no comparable IFRS financial measure, but rather is calculated using several asset items in the Consolidated Statement of Financial Position.

The table below reconciles our average net assets calculated on a rolling thirteen-month basis, with Adjusted EBIT (which is reconciled to IFRS measures on page 34 of this MD&A).

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Adjusted EBIT	**$ 65,299**	$ 61,478
Thirteen-month rolling average net assets	**550,891**	595,727
ROAM	**11.9%**	10.3%

Return on Equity

ROE is calculated as Adjusted Net Income, less share-based compensation expense, divided by average common equity (calculated using the common equity month-end balance for each of the preceding thirteen months, comprised of common shares, contributed surplus, retained earnings, and accumulated other comprehensive income).

We believe investors and analysts use ROE as an indicator of how efficiently the Company is managing the equity provided by shareholders. ROE has no comparable IFRS financial measure, but rather is calculated using average equity from the Consolidated Statement of Financial Position.

The table below reconciles our average common equity calculated on a rolling thirteen-month basis, with Adjusted Net Income (which is reconciled to IFRS measures on page 34 of this MD&A).

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Adjusted Net Income	**$ 40,948**	$ 35,563
Less: Share-based compensation expense, net of tax[1]	**2,792**	1,207
	38,156	34,356
Thirteen-month rolling average common equity	**214,990**	199,953
ROE	**17.7%**	17.2%

1 Net of tax expense of $0.4 million during the fifty-two weeks ended December 31, 2016 and net of tax recovery of $0.1 million during the fifty-two weeks ended January 2, 2016.

15 Governance

Our 2016 Management Information Circular, to be filed in connection with our annual shareholder meeting on May 10, 2017, includes full details of our governance structures and processes.

We maintain a set of disclosure controls and procedures ("DC&P") designed to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms.

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of our DC&P as of December 31, 2016. They have concluded that our current DC&P are designed to provide, and do operate to provide, reasonable assurance that: (a) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods; and (b) material information regarding the Company is accumulated and communicated to the Company's management, including its CEO and CFO to allow timely decisions regarding required disclosure.

In addition, our CEO and CFO have designed or caused to be designed under their supervision, internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Furthermore, our CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the design and operation of ICFR at the fiscal year-end and have concluded that our current ICFR was effective at the fiscal year-end based on that evaluation.

There has been no change in the Company's ICFR during 2016 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

16 Accounting Estimates and Standards

Critical Accounting Estimates

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.

The most significant estimates made by management include the following:

Impairment of Non-Financial Assets

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding future cash flows before taxes. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results or budgets, and a terminal value calculated by discounting the final year in perpetuity. The future cash flows are then discounted to their present value using suitable discount rate that incorporates a risk premium specific to each business. Further details, including the manner in which the Company identifies its CGUs and key assumptions used in determining the recoverable amounts, are disclosed in Note 9 "*Goodwill and intangible assets*" to the Consolidated Financial Statements.

Future Employee Benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the defined benefit obligation ("DBO") are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rate, future salary increases, mortality rates and future pension increases. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate. See Note 14 "*Future employee benefits*" to the Consolidated Financial Statements for certain assumptions made with respect to future employee benefits.

Income Taxes

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

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

Fair Value of Financial Instruments

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

Sales and Marketing Accruals

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

Accounting Standards

High Liner Foods reports its financial results using IFRS. Our detailed accounting policies are included in the Notes to the Consolidated Financial Statements.

As disclosed in Note 3 "*Significant accounting policies*" to the Consolidated Financial Statements for the period ended December 31, 2016, no new accounting standards have been adopted in Fiscal 2016, but an amendment to IAS 1, *Presentation of Financial Statements* was applied effective January 1, 2016.

New Accounting Standards and Interpretations Issued but not yet Effective

In addition to the existing IFRS standards adopted by the Company, the International Accounting Standards Board and the IFRS Interpretations Committee have issued additional standards and interpretations with an effective date subsequent to Fiscal 2016. As disclosed in Note 3 to the Consolidated Financial Statements, we are currently evaluating the effect, if any, that the new proposed standards, interpretations and amendments will have on our financial results. We will determine and disclose the impact that these standards and amendments have on the Company closer to their effective dates.

17 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.

Food Safety

Senior management accountability: Keith Decker, President and CEO; Jeff O'Neill, President and Chief Operating Officer, Canadian Operations; Peter Brown, President and Chief Operating Officer, U.S. Operations
Board oversight accountability: Audit Committee

At High Liner Foods, food safety is our top priority. Our brand equity and reputation are inextricably linked to the quality and safety of our food products. We must be vigilant in ensuring our products are safe and comply with all applicable laws and regulations. Consumers are also increasingly better informed about conscientious food choices.

All of our processing plants have the required State or Provincial and Federal licenses to operate. The U.S. requires its seafood processing plants to adopt a quality management system based on Hazard Analysis Critical Control Points ("HACCP") principles. Our plants in Portsmouth and Newport News are regularly inspected and meet or exceed all HACCP requirements.

In Canada, all seafood-processing plants are required to adopt a Quality Management Plan ("QMP") covering the regulatory and safety aspects of food processing. High Liner Foods' QMP has been approved by the Canadian Food Inspection Agency ("CFIA") and has been in good standing since inception of this requirement. Canada's QMP is an accepted standard under the U.S. HACCP system. Our Lunenburg facility falls under this regulation and meets or exceeds the related regulations.

Plants outside of North America must also pass HACCP audits to be able to export products to the U.S. All of the Company's non-North American suppliers operate HACCP approved plants. The CFIA must inspect food that is procured outside of Canada. The Food and Drug Administration ("FDA") inspects food that enters the U.S. In addition, all purchases are subject to quality inspection by the Company's own quality inspectors. We have strict specifications for suppliers of both raw material and finished goods to ensure that procured goods are of the same quality as products made in our own plants, as indicated in our "*Supplier Standards and Audit Manual*".

All of our plants in the U.S. and Canada are certified to Global Food Safety Initiative ("GFSI") standards, and we are recommending our global suppliers work to achieve this standard too. The Lunenburg and Portsmouth plants have Safe Quality Foods ("SQF") certifications and the Newport News plant is certified to British Retail Consortium ("BRC") standards.

We employ several experts in this area, including food scientists, quality technicians, raw material inspectors, and labelling and nutritional consultants. We also have a supplier code of conduct and retain independent auditors to monitor compliance.

The Company has a Quality Steering Council comprised of all senior quality and regulatory personnel in the Company. Their mission is to ensure that High Liner Foods has the best policies, consistently applied throughout the Company as well as implementing audit processes and ensuring all personnel are adequately trained. Quality and food safety activities also include state-of-the-art product specification and traceability systems.

Procurement

Senior management accountability: Paul Snow, Executive VP, Global Procurement
Board oversight accountability: Audit Committee, Board of Directors

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2016, the Company purchased approximately 198 million pounds of seafood, with an approximate value of $518.0 million. Seafood and other food input markets are global with values expressed in USD. We buy approximately 30 species of seafood from 20 countries around the world. There are no formal hedging mechanisms in the seafood market. Prices can change due to changes in the balance between supply and demand. Weather, quota changes, geopolitical issues including economic sanctions, disease and other environmental impacts can affect supply. Changes in the relative values of currency can change the demand from a particular country whose currency has risen or fallen as compared to the U.S. dollar. The increasing middle class and government policies in emerging economies, as well as demand from health-conscious consumers, affect the demand side as well. Costs in Canada are also affected by the Canadian and U.S. dollar exchange rates. A strong Canadian dollar offsets increases in the U.S. dollar cost of raw materials for our Canadian operations, and conversely when the Canadian dollar weakens, it increases our costs. We hedge exposures to currency changes and enter into annual supply contracts when possible. All foreign currency hedging activities are carried out in accordance with the Company's formal *Price Risk Management Policy*, under the oversight of the Audit Committee.

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

As we purchase all the seafood that we sell, we have developed close relationships with key suppliers. We currently purchase significant quantities of frozen raw material and finished goods originating from many different areas of the world. Our supplier base is diverse to ensure no over-reliance on any source. Our strategy is to always have at least two suppliers of seafood products when we can. A very small percentage of our supply is single sourced. We also maintain strict *Supplier Approval and Audit Standards*. Through audit procedures, all food suppliers are required to meet our quality control and safety standards, which, in many instances, are higher than regulatory standards. All product is inspected, to assure consumers that High Liner Foods quality is consistent, regardless of source or origin.

We sometimes pay for finished goods upon shipment from Asia or we acquire unprocessed seafood raw material and negotiate processing arrangements with suppliers to convert that raw material into our finished goods or raw material for our North American plants. We are doing this to ensure we receive the high-quality seafood we require and are receiving better prices from suppliers as a result. Although this increases inventory on our balance sheet, it results in higher income and profitability due to the negotiated lower cost product.

Availability of Seafood

Senior management accountability: Keith Decker, President and CEO
Board oversight accountability: Board of Directors

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

The Company expects demand for seafood to grow from current levels as the global economy, and particularly the BRIC and Southeast Asia economies, improves. We expect the supply of wild-caught seafood to be stable over the long term, notwithstanding recent increases in quota in certain fisheries, in part due to sustainability efforts. We anticipate new demand will be supplied primarily from aquaculture. Currently, four of the top seven species consumed in the U.S. (shrimp, salmon, tilapia and pangasius) are partly or totally supplied by aquaculture and approximately 30% of the Company's procurement by value is related to aquaculture products. To the extent aquaculture is unable to supply future demand, prices may increase materially which may have a negative impact on the Company's results.

The Company has made the strategic decision not to be vertically integrated for a number of reasons, including the large amount of capital that would be involved and expected returns on such capital. As well, the Company's current model results in only purchasing product to meet customer demand, thereby eliminating the risk in a vertically integrated company of holding caught product that has limited or no market demand. Instead, we remain committed to our strategy to develop the North American market by differentiating ourselves based on product offerings and service levels, building our

brands and customer relationships, as well as being a low cost, large scale manufacturer of seafood products, and leveraging such position to buy seafood at reasonable prices and be the supplier of choice for North American customers and consumers. However, in the event supply shortages of certain seafood, or trade barriers to acquiring seafood as a result of economic sanctions or otherwise, results in difficulty procuring species, the financial results of High Liner Foods may be adversely affected.

Loss of Customer and Credit Risk

Senior management accountability: Paul Jewer, Executive VP and Chief Financial Officer; Jeff O'Neill, President and Chief Operating Officer, Canadian Operations; Peter Brown, President and Chief Operating Officer, U.S. Operations
Board oversight accountability: Audit Committee

We sell the vast majority of our products to large food retailers, including supercenters and club stores, and foodservice distributors in North America. The food distribution industry is consolidating. Our customers are getting larger, more sophisticated and want to conduct business with experienced, reliable suppliers. We are an important supplier to our customers because we can transact business on their terms and provide them with a significant portion of their seafood requirements. We must continue to grow and stay ahead of customer expectations in order to continue to be important to them. We have one customer that represents approximately 16% (2015: 16%) of our sales and our top ten customers represent approximately 56% (2015: 61%) of our total sales. Industry consolidation further emphasizes the importance we place on ensuring that our supply chain management and technology infrastructure keep pace with the service delivery expectations of our customers.

Although we insure our accounts receivable risk, our bad debt expense has historically been nominal. As of the filing of this report, we are not aware of any customer that is in financial trouble that would result in a material loss to the Company and our receivables are substantially current at year-end.

Foreign Currency

Senior management accountability: Paul Jewer, Executive VP and Chief Financial Officer
Board oversight accountability: Audit Committee

Overview

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. Generally, a stronger CAD is beneficial to earnings and shareholders' equity as discussed below. Conversely, a weakening CAD can decrease earnings.

Income Statement Effects of Foreign Currency

The Parent has a CAD functional currency, meaning that all transactions are recorded in CAD. However, as we report in USD, the results of the Parent are converted into USD for external reporting purposes. Therefore, the Canadian and U.S. dollar exchange rates impact the results we report. Also, other currencies have an indirect effect on High Liner Foods' operations.

The table below summarizes the effects of foreign exchange on our operations in their functional currency:

Currency	Strength	Impact on High Liner Foods
CAD	Strong	Results in a reduction in the cost of inputs for the Canadian operations in CAD. Competitive activity may result in some selling price declines on unprocessed product.
CAD	Weak	Results in an increase in the cost of inputs for the Canadian operations in CAD. Justified cost increases are usually accepted by customers. If prices rise too sharply there may be a volume decline until consumers become accustomed to the new level of pricing.
Euro	Strong	Results in increased demand from Europe for seafood supplies and may increase prices in USD.
Euro	Weak	Results in decreased demand from Europe for seafood supplies and may decrease prices in USD.
Asian currencies	Strong	Results in higher cost for seafood related to Asian-domestic inputs such as labour and overheads of primary producers. As well, increased demand may result from domestic Asian markets increasing USD prices. Justified cost increases are usually accepted by customers. If prices rise too sharply, there may be a volume decline until consumers become accustomed to the new level of pricing.
Asian currencies	Weak	Results in lower cost for seafood related to Asian-domestic inputs such as labour and overheads of primary producers. As well, decreased demand may result from domestic Asian markets, decreasing USD prices. Competitive activity may result in some selling price declines on unprocessed product.
USD	Strong	As in most commodities, a strong USD usually decreases input costs in USD, as suppliers in countries not using the USD need less USD to receive the same amount in domestic currency. In Canadian operations, it increases input costs in CAD.
USD	Weak	As in most commodities, a weak USD usually increases input costs in USD, as suppliers in countries not using the USD need more USD to receive the same amount in domestic currency. In Canadian operations, it decreases input costs in CAD.

The value of the USD compared to other world currencies has an impact on many commodities, including seafood, packaging, flour-based products, cooking oil and transportation costs that are either sold in USD or have USD-input costs. This is because many producing countries do not use the USD as their functional currency and, therefore, changes in the value of the USD means that producers in other countries need less or more USD to obtain the same amount in their domestic currency. Changes in the value of the CAD by itself against the USD simply result in an increase or decrease in the CAD cost of inputs.

For products sold in Canada, raw material is purchased in USD and flour-based ingredients, cooking oils and transportation costs all have significant commodity components that are traded in USD. However, labour, packaging and ingredient conversion costs, overheads and SG&A costs are incurred in CAD. A strengthening CAD decreases the cost of these inputs and vice versa in the Canadian operation's domestic currency. When the value of the CAD changes, competitive factors on commodity products, primarily raw frozen shellfish and groundfish, especially in our Canadian foodservice business, force us to react when competitors use a lower CAD cost of imported products to decrease prices and, therefore, pass on the cost decrease to customers. An increasing CAD cost usually results in higher selling prices to Canadian customers.

The operations of the Parent are translated to USD for external reporting. Approximately 30% of the Company's consolidated sales and a portion of its expenses are denominated in CAD. As such, fluctuations in exchange rates impact the translated value of the Parent's sales, costs and expenses when translated to USD.

The average Canadian dollar in 2016 (at a USD/CAD exchange rate of 1.3248) weakened approximately 3.6% over the average of 2015. Because we report our financial results in USD, a weakening CAD has the immediate effect of decreasing the USD value of CAD-denominated sales, costs and expenses. In 2016, CAD-denominated sales comprised approximately 32.1% of our total sales in domestic currency and we expect this to be relatively consistent in 2016.

For 2017, approximately between CAD$370-390 million of the Parent's external sales are expected to be in CAD. This exposure is estimated to decrease to between CAD$210-220 million after taking into account the CAD cost in labour, packaging, supplies and overheads. Holding all other factors constant, the net effect of a one-cent change in the USD/CAD, prior to hedging activities and price changes, is a change in after-tax income of approximately $1.2 million.

As mentioned, although High Liner Foods reports in USD, our Canadian operations continue to be managed in CAD, which is the functional currency of the Parent. Therefore, in accordance with the Company's "Price Risk Management Policy" (the "Policy"), we undertake hedging activities, buying USD forward, using various derivative products. To reduce our exposure to the USD on the more price inelastic items, the Policy allows us to hedge forward a maximum of 15 months of purchases; at 70-90% of exposure for the first three months, 55-85% for the next three months, 30-75% for the next three, 10-60% for the next three, and 0-60% for the last three months. The lower end of these ranges are required to be hedged by the Policy with the upper ranges allowed if management believes the situation warrants a higher level of purchases to be hedged. Variations from the Policy require the approval of the Audit Committee.

The Policy excludes certain products where the price in the marketplace moves up or down with changes in the CAD cost of the product. Approximately $70.0 million to $90.0 million of the USD purchases of the Parent are part of the hedging program annually and are usually hedged between 40-75% of the next 12 months of forecasted purchases. We are currently forecasting

$72.0 million in items to be hedged in 2017 and of this amount, 72% are currently hedged.

Details on the hedges in place as at December 31, 2016 are included in Note 22 "*Fair value measurement*" to the Consolidated Financial Statements.

Balance Sheet Effects of Foreign Currency

As we have operations in Canada, and some monetary assets and liabilities in the U.S. that are denominated in CAD, assets and liabilities of the consolidated Company change as exchange rates fluctuate. At December 31, 2016, the CAD or USD/CAD exchange rate strengthened by approximately 3.0% from its value at January 2, 2016. As such, the CAD-denominated carrying value of items such as accounts receivable, inventory, fixed assets and accounts payable of the Parent have decreased in our USD balance sheet. The net offset of those changes flow through accumulated other comprehensive income ("AOCI") in shareholders' equity on the balance sheet. Changes in monetary assets and liabilities in the U.S. that are denominated in CAD flow through the income statement, unless they are hedged.

Growth (Other than by Acquisition)

Senior management accountability: Jeff O'Neill, President and Chief Operating Officer, Canadian Operations; Peter Brown, President and Chief Operating Officer, U.S. Operations
Board oversight accountability: Board of Directors

A key component of High Liner Foods' growth strategy is organic or internal growth by (a) increasing sales and earnings in existing markets with existing products; and (b) expanding into new markets and products. There can be no assurance that the Company will be successful in growing its business or in managing its growth in a manner consistent with this strategy. Furthermore, successful expansion may place a significant strain on key personnel of High Liner Foods, from a retention perspective, as well as on its operations, financial resources and other resources. The Company's ability to manage growth will also depend in part on its ability to continue to grow and enhance its information systems in a timely fashion. It must also manage succession planning for personnel across the organization to support such growth. Any inability to properly manage growth could result in cancellation of customer orders, as well as increased operating costs, and correspondingly, could have an adverse effect on High Liner Foods' financial results.

Acquisitions

Senior management accountability: Keith Decker, President and CEO
Board oversight accountability: Board of Directors

Our growth strategy includes growth by acquisition. The Company may not be able to carry out its strategy of acquisition of other frozen seafood companies, as that depends in part on the availability of suitable target companies. In addition, the Company may face competition for the acquisition of attractive processors from other consolidators in the frozen food industry who may be larger or better financed. Our ability to successfully integrate acquisitions into our existing operations could affect our financial results. We may seek to expand our business through acquisitions and may divest of under-performing or non-core businesses. Our success depends, in part, upon our ability to identify such acquisition and divestiture opportunities and to negotiate favourable contractual terms. The failure to obtain proper regulatory approvals could adversely affect our growth strategy.

Liquidity

Senior management accountability: Paul Jewer, Executive VP and Chief Financial Officer
Board oversight accountability: Audit Committee

Our primary sources of working capital are cash flows from operations and borrowings under our credit facilities. We actively manage our relationships with our lenders and have in place adequate credit facilities until December 2019, when the working capital credit facility is scheduled to be renewed.

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next 12 months as well as models that look out five years. Working capital and cash balances are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable and finance leases. The Company's objective is that not more than 50% of borrowings should mature in the next twelve-month period.

At December 31, 2016, less than 1% of our debt will mature in less than one year based on the carrying value of borrowings reflected in the Consolidated Financial Statements. Our long-term debt is described in Note 13 "*Long-term debt and finance lease obligations*" to the Consolidated Financial Statements. No principal repayments are required in 2017 due to $26.8 million in prepayments in 2016 that will be applied to future regularly scheduled principal repayments. The prepayments included a mandatory payment of $11.8 million as a result of excess cash flows in 2015, and a voluntary repayment of $15.0 million to reduce excess cash balances in 2016. At December 31, 2016 and at the date of this document, we are in compliance with all covenants and terms of our banking facilities.

As a result of the volatile capital markets and the resulting widespread drop in public issuer valuations in the latter part of 2008, our defined benefit pension plans experienced losses. Since then, the asset mix of our defined benefit pension plans was changed with the objective of reducing the volatility of the plan's anticipated funded position. This has resulted in investing part of the portfolio in fixed income assets with a duration similar to that of the pension obligations. The change in the asset mix, additional Company contributions, and good investment returns, have improved the financial position of our two largest defined benefit pension plans. The latest actuarial valuations of these two plans were performed during Fiscal 2014 and showed: combined going concern surpluses of CAD$2.6 million; one plan had a solvency deficit of CAD$1.0 million; and the other plan had a solvency surplus of CAD$1.0 million.

Sustainability, Corporate Responsibility and Public Opinion

Senior management accountability: Keith Decker, President and CEO
Board oversight accountability: Board of Directors

The future success and growth of our business relies heavily upon our ability to protect and preserve the natural resources essential for our business and to make sustainability part of how we operate in every facet of our business.

High Liner Foods made a public sustainability commitment in late 2010 to source all of its seafood from "certified sustainable or responsible" fisheries and aquaculture by the end of 2013. The Company was substantially successful in fulfilling the commitment it made in late 2010 and is now recognized as a global leader in driving best practice improvements in wild fisheries and aquaculture. Customers will continue to demand product solutions that are innovative, high quality and responsibly sourced. To the extent we fail to meet these customer expectations, operational results and brand equity may be adversely affected. Credible sustainability certifications have become a required tool to validate industry-driven wild fishery and aquaculture improvements. Environmental advocacy groups will continue to promote use of credible certification schemes to define sustainable wild fisheries and aquaculture.

In 2015, the Company implemented a social compliance program with seafood suppliers which outlines acceptable standards for the treatment of all suppliers' employees involved in the production of seafood product for our Company.

In the long term, further enhancing policies related to sustainability, environmental and social compliance both within High Liner Foods and its supply chain, may add to High Liner Foods' costs and reduce margins.

Industry Consolidation

Senior management accountability: Keith Decker, President and CEO; Jeff O'Neill, President and Chief Operating Officer, Canadian Operations; Peter Brown, President and Chief Operating Officer, U.S. Operations
Board oversight accountability: Board of Directors

Grocery retailers, wholesalers, food processors and foodservice distributors in North America have consolidated and continue to consolidate. Grocery retailers typically charge suppliers listing or "slotting" fees for shelf space on a per product basis for new products, and also require money to support product advertising and promotions. Arising out of these consolidations we have experienced demands from customers for increased listing and promotional incentives and improved payment terms. However, as a supplier of Canada's leading frozen seafood brand and a leading supplier to the U.S. foodservice channel, we expect to remain an important supplier to grocery retailers and foodservice distributors, although such consolidation may adversely affect the Company's financial results.

Consolidation of customers is expected to result in some consolidation of suppliers in the U.S. seafood industry. The supply of seafood, especially in the U.S. foodservice market, is highly fragmented. Consolidation is needed to reduce costs and increase service levels to keep pace with the expectation of customers.

We are always looking for acquisition opportunities to leverage our current strengths.

We are focusing efforts on brand strength, new products, procurement activities and superior customer service to ensure we outperform competitors. Consolidation makes it more important to achieve and maintain a brand leadership position, as consolidators move towards centralized buying and streamlined procurement. We are in a good position to meet these demands, since we offer quality, popular products under leading brands and have the ability to meet the customer service expectations of the major retailers. Given our brand strategy, customer consolidation is an opportunity for High Liner Foods to grow in step with customer growth.

Seafood Production from Asia

Senior management accountability: Paul Snow, Executive VP, Global Procurement
Board oversight accountability: Board of Directors

For more than a decade, many seafood companies, including High Liner Foods, have diverted production of certain primary produced products to Asia, and China in particular. Asian processing plants are able to produce many seafood products at a lower cost than is possible in North America and in other more developed countries. These plants are also able to achieve a better yield on raw material due to the use of more manual processes and they produce excellent quality. Land-based seafood primary processing plants in developed countries, such as Norway, Iceland and Canada, have found it extremely difficult to compete with Asian processors, especially when they compete with them for the raw material on global markets. We anticipated this trend ahead of our many competitors. It was part of our rationale for exiting the primary-processing and fishing businesses, and the trend allowed us to develop opportunities that are now contributing to our growth strategy. We chose to work closely with selected Asian suppliers to become an important customer, especially for our major species. We have made it possible for these suppliers to meet our exacting quality and manufacturing standards and in turn we have access to the variety and volume of seafood products, including a significant amount of wild-caught product from the Atlantic and Pacific Oceans that we need to fulfil our brand strategy. These suppliers are central to our supply chain operating efficiently, and thus any adverse changes in the operations of such suppliers, or our commercial relationships with such suppliers, may adversely affect the Company's results.

Competition Risk

Senior management accountability: Jeff O'Neill, President and Chief Operating Officer, Canadian Operations; Peter Brown, President and Chief Operating Officer, U.S. Operations
Board oversight accountability: Board of Directors

High Liner Foods competes with a number of food manufacturers and distributors and its competition varies by distribution method, product category and geographic market. Some of High Liner Foods' competitors have greater financial and other resources than it does and/or may have access to labour or products that are not available to High Liner Foods. In addition, High Liner Foods' competitors may

be able to better withstand market volatility. There can be no assurance that High Liner Foods' principal competitors will not be successful in capturing, or that new competitors will not emerge and capture, a share of the Company's present or potential customer base and/or market share.

In addition, it is possible that some of High Liner Foods' suppliers or customers could become competitors of High Liner Foods if they decide to distribute or source their own food products. Furthermore, if one or more of High Liner Foods' competitors were to merge or partner with another of its competitors, the change in the competitive landscape could adversely affect High Liner Foods and its financial results. Competitors may also establish or strengthen relationships with parties with whom High Liner Foods has relationships, thereby limiting its ability to distribute certain products. Disruptions in High Liner Foods' business caused by such events could have a material adverse effect on its results of operations and financial condition.

Non-Seafood Commodities

Senior management accountability: Jeff O'Neill, President and Chief Operating Officer, Canadian Operations; Peter Brown, President and Chief Operating Officer, U.S. Operations; Derivatives – Paul Jewer, Executive VP and Chief Financial Officer
Board oversight accountability: Audit Committee

Our operating costs are affected by price changes in commodities such as crude oil, wheat, corn, paper products and frying oils. To minimize our risk, the Company's *Price Risk Management Policy* dictates the use of fixed pricing with suppliers whenever possible but allows the use of hedging with derivative instruments if deemed prudent. Throughout 2016 and 2015, the Company has managed this risk through contracts with suppliers.

Crude oil prices, which influence fuel surcharges from freight suppliers, decreased significantly in the last half of 2015. World commodity prices for flour (wheat and corn) and oils (corn, soy and canola), important ingredients in many of the Company's products, decreased in 2015 after having decreased in 2014. The Company currently has fixed price contracts with suppliers covering a significant portion of the Company's 2016 commodity purchase requirements.

Geopolitical Risk

Senior management accountability: Keith Decker, President and CEO
Board oversight accountability: Board of Directors

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; and economic sanctions and trade barriers.

Changes, if any, in 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 occurrence of these various factors and uncertainties cannot be accurately predicted and could have a material adverse effect on the Company's operations or profitability.

Information Technology Security

Senior management accountability: Paul Jewer, Executive VP and Chief Financial Officer
Board oversight accountability: Audit Committee

High Liner Foods relies on IT systems in all areas of operations. The Company's information systems are subject to an increasing number of sophisticated cyber threats. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving. Should a cyber-attack be successful and a breach of sensitive information occur or its systems and services be disrupted, the Company's financial position, brands, and/or ability to achieve its strategic objectives may be negatively affected.

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.

Board Accountability

The Board oversees risk management at High Liner Foods, and has delegated to the Audit Committee the task of providing reasonable assurance that we appropriately identify and manage risks. The Audit Committee reviews at least annually the Company's Business Risk Management policies, including the *Price Risk Management Policy*, and reviews and approves the disclosure of risk factors in this MD&A and in other public documents issued by High Liner Foods. Price and financial risks are reviewed at each Audit Committee meeting, including the Company's credit exposures. The Audit Committee also annually reviews the Company's insurance program.

We have identified the principal risks that could have a significant, adverse impact on our performance, reputation or ability to service our customers and have, in the absence of controls, a reasonable probability of occurring. Every principal risk is assigned to the Board and at least one member of our senior management team who has reporting, oversight and operational accountability for the risk. These risks are regularly reviewed by our senior management team, and by one or more internal committees or Board committees, which have governance and oversight accountability for the risk. This commentary is from a high-level perspective on the nature of each risk and describes the main practices in place to manage these risks. Additional discussion of some of these risks is included in our 2016 Annual Information Form, available at www.highlinerfoods.com or at www.sedar.com.

18 Forward-Looking Information

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; 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; increases or decreases in processing costs; the USD/CAD exchange rate; percentage of sales from our brands; expectations with regards to sales volume, 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 amount and timing of cost savings related to supply chain optimization initiatives, including, without limitation, related to the cessation of value-added fish processing operations at our New Bedford facility and the accounting implications of same; the expected amount and timing of integration activities and synergies related to acquisitions; 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 term loan facility; expected decreases in debt-to-capitalization ratio; dividend payments; non-recurrence and successful resolution of plant throughput declines experienced following the closure of our plant in Danvers, Massachusetts, in the first quarter of 2013; 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 this MD&A and the "*Risk Factors*" section of our most recent Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: volatility in the CAD/USD exchange rate; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of geopolitical events (and related economic sanctions) on same; costs of commodity products and other production inputs, and the ability to pass cost increases on to customers; successful integration of the operations of acquisitions; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the marketplace; changes in laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development.

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

Management's Responsibility

To the Shareholders of High Liner Foods Incorporated

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

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

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

Dated February 22, 2017

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

Independent Auditors' Report

To the Shareholders of High Liner Foods Incorporated

We have audited the accompanying consolidated financial statements of High Liner Foods Incorporated, which comprise the consolidated statements of financial position as at December 31, 2016 and January 2, 2016, and the consolidated statements of income, comprehensive income, accumulated other comprehensive income (loss), changes in shareholders' equity and cash flows for the fifty-two weeks ended December 31, 2016 and January 2, 2016, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of High Liner Foods Incorporated as at December 31, 2016 and January 2, 2016, and its financial performance and its cash flows for the fifty-two week periods then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants
Licensed Public Accountants

Halifax, Canada
February 22, 2017

Consolidated Statement of Financial Position

(in thousands of United States dollars)	Notes	December 31, 2016	January 2, 2016
ASSETS			
Current			
Cash		**$ 18,252**	$ 1,043
Accounts receivable	6	**75,190**	76,335
Income taxes receivable		**3,783**	5,218
Other financial assets	22	**1,705**	6,453
Inventories	7	**252,118**	261,771
Prepaid expenses		**3,340**	2,051
Total current assets		**354,388**	352,871
Non-current			
Property, plant and equipment	8	**111,322**	115,879
Deferred income taxes	17	**2,290**	2,495
Other receivables and miscellaneous assets	22	**864**	1,683
Intangible assets	9	**97,176**	102,315
Goodwill	9	**118,101**	117,824
Total non-current assets		**329,753**	340,196
Total assets		**$ 684,141**	$ 693,067
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank loans	10	**$ 621**	$ 17,158
Accounts payable and accrued liabilities	11	**135,272**	120,336
Provisions	12	**386**	263
Other current financial liabilities	22	**1,626**	817
Other current liabilities		**416**	–
Income taxes payable		**851**	2,242
Current portion of long-term debt	13	**–**	11,816
Current portion of finance lease obligations	13	**721**	1,015
Total current liabilities		**139,893**	153,647
Non-current liabilities			
Long-term debt	13	**266,327**	281,017
Other long-term financial liabilities	22	**196**	89
Other long-term liabilities		**888**	483
Long-term finance lease obligations	13	**702**	715
Deferred income taxes	17	**45,183**	46,966
Future employee benefits	14	**8,190**	9,631
Total non-current liabilities		**321,486**	338,901
Total liabilities		**461,379**	492,548
Shareholders' equity			
Common shares	15	**86,094**	85,282
Contributed surplus		**14,654**	13,999
Retained earnings		**146,340**	125,843
Accumulated other comprehensive loss		**(24,326)**	(24,605)
Total shareholders' equity		**222,762**	200,519
Total liabilities and shareholders' equity		**$ 684,141**	$ 693,067

See accompanying notes to the consolidated financial statements

Consolidated Statement of Income

(in thousands of United States dollars, except per share amounts)	Notes	**Fifty-two weeks ended December 31, 2016**	Fifty-two weeks ended January 2, 2016
Revenues		**$ 956,016**	$ 1,001,507
Cost of sales		**753,179**	799,843
Gross profit		**202,837**	201,664
Distribution expenses		**43,610**	48,037
Selling, general and administrative expenses		**96,978**	93,597
Impairment of property, plant and equipment	5	**2,327**	–
Business acquisition, integration and other expenses		**4,787**	7,473
Results from operating activities		**55,135**	52,557
Finance costs	25	**14,296**	16,247
Income before income taxes		**40,839**	36,310
Income taxes			
Current	17	**8,737**	5,707
Deferred	17	**(848)**	1,022
Total income tax expense		**7,889**	6,729
Net income		**$ 32,950**	$ 29,581
Earnings per common share			
Basic	18	**$ 1.07**	$ 0.96
Diluted	18	**$ 1.06**	$ 0.95
Weighted average number of shares outstanding			
Basic	18	**30,917,412**	30,818,804
Diluted	18	**31,174,788**	31,264,671

See accompanying notes to the consolidated financial statements

Consolidated Statement of Comprehensive Income

(in thousands of United States dollars)	**Fifty-two weeks ended December 31, 2016**	Fifty-two weeks ended January 2, 2016
Net income	**$ 32,950**	$ 29,581
Other comprehensive income (loss), net of income tax *(Note 17)*		
Other comprehensive income (loss) to be reclassified to net income:		
Gain (loss) on hedge of net investment in foreign operations	**6,372**	(37,517)
(Loss) gain on translation of net investment in foreign operations	**(9,113)**	50,316
Translation impact on Canadian dollar denominated non-AOCI items	**5,808**	(32,294)
Translation impact on Canadian dollar denominated AOCI items	**(372)**	1,736
Total exchange gains (losses) on translation of foreign operations and Canadian dollar denominated items	**2,695**	(17,759)
Effective portion of changes in fair value of cash flow hedges	**(1,914)**	6,915
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	**(1,345)**	(5,398)
Net change in fair value of cash flow hedges transferred to income	**502**	(314)
Translation impact on Canadian dollar denominated AOCI items	**341**	(401)
Total exchange (losses) gains on cash flow hedges	**(2,416)**	802
Net other comprehensive gain (loss) to be reclassified to net income	**279**	(16,957)
Other comprehensive income (loss) not to be reclassified to net income:		
Defined benefit plan actuarial gains (losses)	**323**	(75)
Other comprehensive income (loss), net of income tax	**602**	(17,032)
Total comprehensive income	**$ 33,552**	$ 12,549

Consolidated Statement of Accumulated Other Comprehensive Income (Loss) ("AOCI")

(in thousands of United States dollars)	**Foreign currency translation differences**	**Net exchange differences on cash flow hedges**	**Total AOCI**
Balance at January 2, 2016	**$ (27,582)**	**$ 2,977**	**$ (24,605)**
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	**2,695**	**–**	**2,695**
Total exchange losses on cash flow hedges	**–**	**(2,416)**	**(2,416)**
Balance at December 31, 2016	**$ (24,887)**	**$ 561**	**$ (24,326)**
Balance at January 3, 2015	$ (9,823)	$ 2,175	$ (7,648)
Total exchange losses on translation of foreign operations and Canadian dollar denominated items	(17,759)	–	(17,759)
Total exchange gains on cash flow hedges	–	802	802
Balance at January 2, 2016	$ (27,582)	$ 2,977	$ (24,605)

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity

(in thousands of United States dollars)	Common shares	Contributed surplus	Retained earnings	AOCI	Total
Balance at January 2, 2016	$ 85,282	$ 13,999	$ 125,843	$ (24,605)	$ 200,519
Other comprehensive income	—	—	323	279	602
Net income	—	—	32,950	—	32,950
Common share dividends	—	—	(12,145)	—	(12,145)
Share-based compensation	909	655	—	—	1,564
Common shares repurchased for cancellation *(Note 15)*	(97)	—	(631)	—	(728)
Balance at December 31, 2016	**$ 86,094**	**$ 14,654**	**$ 146,340**	**$ (24,326)**	**$ 222,762**
Balance at January 3, 2015	$ 82,658	$ 14,056	$ 107,908	$ (7,648)	$ 196,974
Other comprehensive loss	—	—	(75)	(16,957)	(17,032)
Net income	—	—	29,581	—	29,581
Common share dividends	—	—	(11,023)	—	(11,023)
Share-based compensation	2,713	(57)	—	—	2,656
Common shares repurchased for cancellation *(Note 15)*	(89)	—	(548)	—	(637)
Balance at January 2, 2016	$ 85,282	$ 13,999	$ 125,843	$ (24,605)	$ 200,519

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

(in thousands of United States dollars)	Notes	**Fifty-two weeks ended December 31, 2016**	Fifty-two weeks ended January 2, 2016
Cash flows provided by (used in):			
Operating activities			
Net income		**$ 32,950**	$ 29,581
Adjustments to net income not involving cash from operations:			
Depreciation and amortization	21	**17,114**	16,740
Share-based compensation expense	16	**3,229**	1,119
Loss on asset disposals and impairment		**2,645**	647
Future employee benefits contribution, net of expense		**97**	1,096
Finance costs		**14,296**	16,247
Income tax expense	17	**7,889**	6,729
Unrealized foreign exchange gain		**(571)**	(3,124)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		**77,649**	69,035
Changes in non-cash working capital balances:			
Accounts receivable		**2,089**	1,833
Inventories		**4,609**	(14,620)
Prepaid expenses		**(633)**	101
Accounts payable and accrued liabilities		**18,714**	42,979
Provisions		**139**	(29)
Net change in non-cash working capital balances		**24,918**	30,264
Interest paid		**(14,361)**	(16,102)
Income taxes paid		**(8,190)**	(740)
Net cash flows provided by operating activities		**80,016**	82,457
Financing activities			
Decrease in bank loans		**(17,148)**	(47,480)
Repayment of finance lease obligations		**(980)**	(778)
Repayment of long-term debt	13	**(26,824)**	(3,000)
Common share dividends paid		**(12,145)**	(11,023)
Common share repurchase for cancellation		**(728)**	(637)
Options exercised for shares		**94**	664
Net cash flows used in financing activities		**(57,731)**	(62,254)
Investing activities			
Purchase of property, plant and equipment, net of investment tax credits		**(16,734)**	(17,947)
Net proceeds on disposal of assets	5	**15,461**	242
Net proceeds on replacement of assets		**—**	1,647
Payment of contingent consideration		**(2,816)**	(2,300)
Change in other receivables and miscellaneous assets		**—**	(97)
Net cash flows used in investing activities		**(4,089)**	(18,455)
Foreign exchange decrease on cash		**(987)**	(1,749)
Net change in cash during the period		**17,209**	(1)
Cash, beginning of period		**1,043**	1,044
Cash, end of period		**$ 18,252**	$ 1,043

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

Note 1: Corporate information

High Liner Foods Incorporated (the "Company" or "High Liner Foods") is a company incorporated and domiciled in Canada. The address of the Company's registered office is 100 Battery Point, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The Consolidated Financial Statements ("Consolidated Financial Statements") of the Company as at and for the fifty-two weeks ended December 31, 2016, comprise High Liner Foods' Canadian company (the "Parent") and its subsidiaries (herein together referred to as the "Company" or "High Liner Foods"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on February 22, 2017.

Note 2: Statement of compliance and basis for presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective January 1, 2016.

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

Note 3: Significant accounting policies

(a) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2016. Control is achieved when the Company is exposed, or has rights, to direct the activities that significantly affect the returns from its involvement with the investee. The Company reassesses whether or not it controls an investee on an ongoing basis.

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

(b) Foreign currency

Functional and presentation currency

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

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

Translation of transactions and balances into the functional currency

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

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

(c) Business combinations and goodwill

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

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

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

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

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

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

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

(e) Cash

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

(f) Inventories

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

(g) Property, plant and equipment

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

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

Any gain or loss on the derecognition of an asset is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized on a net basis within the consolidated statement of income.

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

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

Buildings	15–60 years
Furniture, fixtures and production equipment	10–25 years
Computer equipment and vehicles	4–11 years

When components of an item of property, plant and equipment have different useful lives than those noted above, they are accounted for as separate items of property, plant and equipment. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Any changes in estimates of useful lives are accounted for prospectively from the date of the change.

(h) Leases

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

Company as a lessee

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

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

(i) Intangible assets

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

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

- Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.
- Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually at the CGU level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

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

Brands	2–8 years
Customer relationships	25 years
Indefinite lived brands	Indefinite, subject to impairment testing annually

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

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

(j) Impairment

Non-financial assets

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

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

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

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

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

Financial assets

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

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

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

(k) Provisions, contingent liabilities and contingent assets

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision and the amount initially recognized, less any amortization. Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

(l) Future employee benefits

Defined benefit pension plans ("DBPP")

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

The determination of benefit expense requires assumptions such as the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation increases and the expected mortality rate of pensioners. The total past-service cost arising from plan amendments is recognized immediately in the consolidated statement of income. The present value of the defined benefit obligation ("DBO") is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the DBO and the fair value of plan assets are recognized immediately in the statement of comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

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

Defined contribution pension plans ("DCPP")

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

Short-term employee benefits

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

Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits payable more than 12 months after the reporting period are discounted to their present value.

(m) Revenue recognition

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

Marketing programs provided to customers and operators, including volume rebates, cooperative advertising and other trade marketing programs, are all customer-specific programs to promote the Company's products. Consequently, sales are recorded net of these estimated marketing costs at the time of sale. Consumer coupons used to encourage consumers to purchase products through the Company's customers are recognized as a reduction to sales in the period the coupons are issued. Certain customers require payment of one-time listing allowances (or "slotting fees") in order to obtain space for a new product in their stores. These fees are recognized as a reduction of revenue at the earlier of the date the fees are paid in cash or the date on which a liability to the customer is created (usually on shipment of the new product). All other non-customer-specific marketing costs (general advertising, etc.) are expensed as incurred as selling, general and administrative expense.

(n) Share-based compensation

Equity-settled transactions

The Company measures all equity-settled share-based awards made to employees and others providing similar services (collectively, "employees") based on the fair value of the options or units on the date of grant. The grant date fair value of stock options is estimated using an option pricing model and is recognized as employee benefits expense over the vesting period, based on the number of options that are expected to vest, with a corresponding increase recognized in contributed surplus. The fair value estimate requires determination of the most appropriate inputs to the pricing model, including the expected life, volatility, and dividend yield, which are fully described in Note 16. The grant date fair value of equity-settled deferred share units, performance share units, and restricted share units are determined based on the market value of the Company's shares on the date of grant, and is expensed over the vesting period based on the estimated number of units that are expected to vest.

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

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the award grant date using an option pricing model or the market value of the Company's shares on the date of grant. The Company recognizes the fair value of the amount payable to employees as compensation expense as it is earned, based on the estimated number of units expected to vest with a corresponding increase in liabilities. The liability is re-measured at each reporting date with any changes in the fair value recognized as employee benefits expense in the consolidated statement of income. In the case of stock options issued with share appreciation rights (SARs), if employees elect to exercise their options for shares, thereby cancelling the SARs, share capital is increased by the sum of the consideration paid by employees and the liability is reversed, with any difference being recorded in the consolidated statement of income.

(o) Income taxes

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

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

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

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

(p) Earnings per share

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

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

(q) Financial instruments

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

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

Financial assets and liabilities at FVTPL include financial instruments which are held-for-trading ("HFT") or that are designated as FVTPL upon initial recognition. Financial instruments are classified as HFT if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments as defined by IAS 39. The Company has not designated any financial assets or liabilities upon initial recognition at FVTPL. Financial instruments at FVTPL are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of income.

Loans and receivables

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

Other financial liabilities

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

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

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

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

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

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

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

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

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

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

(r) Derivative instruments and hedging

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

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

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

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

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

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

(v) Derivatives that do not qualify for hedge accounting

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

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

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

The Company applied the following amendment, which was effective for annual periods beginning on or after January 1, 2016:

Amendments to IAS 1, *Presentation of Financial Statements*

The amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1") clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes; and provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements. This amendment did not have a material impact on the annual consolidated financial statements of the Company.

(t) Accounting pronouncements issued but not yet effective

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

IFRS 9, *Financial Instruments: Classification and Measurement*

In 2013, the IASB issued amendments to IFRS 9, *Financial Instruments* ("IFRS 9"), issued in 2010, which will ultimately replace IAS 39. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts* and various revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard will be applicable to all contracts the Company has with customers. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new revenue standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 allows for early adoption, but the Company does not intend to do so.

The Company has begun assessing the impact of IFRS 15, and currently does not anticipate that the new standard will significantly affect its consolidated financial statements. The Company expects to report more detailed information in its 2017 financial statements.

IFRS 16, *Leases*

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

IAS 7, *Statement of Cash Flows*

In January 2016, as part of their disclosure initiative, the IASB issued amendments to IAS 7, *Statement of Cash Flows*, requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Company. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017.

IFRS 2, *Share-based Payment*

In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Note 4. Critical accounting estimates and judgments

The preparation of the Company's 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 the judgments, estimates and assumptions using historical experience and various other factors believed to be reasonable under the given circumstances. Actual outcomes may differ from these estimates and could require a material adjustment to the reported carrying amounts in the future.

The most significant estimates made by management include the following:

Impairment of non-financial assets

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding future cash flows before taxes. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results or budgets, and a terminal value calculated by discounting the final year in perpetuity. The future cash flows are then discounted to their present value using suitable discount rate that incorporates a risk premium specific to each business. Further details, including the manner in which the Company identifies its CGUs and key assumptions used in determining the recoverable amounts, are disclosed in Note 9.

Future employee benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the defined benefit obligation ("DBO") are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rate, future salary increases, mortality rates and future pension increases. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate. See Note 14 for certain assumptions made with respect to future employee benefits.

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

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

Fair value of financial instruments

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

Sales and marketing accruals

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

The most significant judgments made by management include the following:

Impairment of non-financial assets

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

Income taxes

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

Note 5. Disposition of New Bedford

On February 17, 2016, the Company announced the cessation of value-added fish operations at its facility in New Bedford, Massachusetts to reduce excess capacity across its manufacturing network. In June 2016, the Company determined that the carrying value of assets associated with the New Bedford facility, including assets and semi-finished and raw material inventory related to the scallop division, formed a disposal group where the carrying value would not be recovered through continuing use. Accordingly, this inventory and property, plant and equipment, which related to the U.S. operating segment, was presented separately on the consolidated statement of financial position as assets held for sale and the depreciation of this property, plant and equipment ceased. As a result of the requirement to recognize these assets at the lower of carrying value and fair value less costs to sell, the Company recognized an impairment loss of $2.3 million on the property, plant and equipment during the second quarter. Value-added fish operations at the New Bedford facility ceased in mid-July 2016, following the transfer of production to the Company's other manufacturing facilities.

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

Note 6. Accounts receivable

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Trade accounts receivable	**$ 74,130**	$ 75,063
Other accounts receivable	**1,060**	1,272
	$ 75,190	$ 76,335

Accounts receivable bear normal commercial credit terms, usually 30 days or less, and are non-interest bearing. The entire accounts receivable balance is pledged as collateral for the Company's working capital facility (see Note 10).

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

(Amounts in $000s)	
At January 3, 2015	$ 387
New impairment reserves charged	134
Impairment reserves utilized	(8)
Unused impairment reserves reversed	(191)
At January 2, 2016	$ 322
New impairment reserves charged	219
Impairment reserves utilized	(176)
Unused impairment reserves reversed	(125)
At December 31, 2016	**$ 240**

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

	0-30 days	31-60 days	over 60 days
At January 2, 2016	90%	9%	1%
At December 31, 2016	**90%**	**8%**	**2%**

Note 7. Inventories

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

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Finished goods	**$ 159,303**	$ 167,570
Raw and semi-finished material	**92,815**	94,201
	$ 252,118	$ 261,771

During 2016, $753.2 million (2015: $799.8 million) was recognized as an expense for inventories in cost of sales on the consolidated statement of income. Of this, $4.4 million (2015: $4.9 million) was written-down during the year and included a reversal for unused impairment reserves of $0.5 million (2015: $0.8 million). As of December 31, 2016, the value of inventory subject to a reserve was $11.1 million (January 2, 2016: $13.9 million). As of December 31, 2016, the value of inventory pledged as collateral for the Company's working capital facility (see Note 10) was $117.4 million (January 2, 2016: $125.3 million).

Note 8. Property, plant and equipment

(Amounts in $000s)	Land and buildings	Furniture, fixtures, and production equipment	Computer equipment and vehicles[1]	Total
Cost				
At January 3, 2015	$ 79,600	$ 77,882	$ 14,506	$ 171,988
Additions	4,648	9,641	3,949	18,238
Disposals	(3,611)	(8,209)	(1,601)	(13,421)
Effect of exchange rates	(2,532)	(2,767)	(1,499)	(6,798)
At January 2, 2016	$ 78,105	$ 76,547	$ 15,355	$ 170,007
Additions	3,008	11,182	3,501	17,691
Disposals	(9,558)	(8,107)	(1,162)	(18,827)
Effect of exchange rates	398	385	247	1,030
At December 31, 2016	**$ 71,953**	**$ 80,007**	**$ 17,941**	**$ 169,901**
Accumulated depreciation and impairment				
At January 3, 2015	$ (22,282)	$ (28,971)	$ (6,503)	$ (57,756)
Depreciation for the year	(3,105)	(6,546)	(1,864)	(11,515)
Disposals	4,447	5,869	1,323	11,639
Effect of exchange rates	1,564	1,213	727	3,504
At January 2, 2016	$ (19,376)	$ (28,435)	$ (6,317)	$ (54,128)
Depreciation for the year	(4,144)	(5,789)	(2,013)	(11,946)
Disposals	3,154	4,132	703	7,989
Effect of exchange rates	(188)	(189)	(117)	(494)
At December 31, 2016	**$ (20,554)**	**$ (30,281)**	**$ (7,744)**	**$ (58,579)**
Net carrying value				
At January 2, 2016	$ 58,729	$ 48,112	$ 9,038	$ 115,879
At December 31, 2016	**$ 51,399**	**$ 49,726**	**$ 10,197**	**$ 111,322**

1 The carrying value of vehicles and equipment held under finance leases at December 31, 2016 was $3.6 million (2015: $2.9 million) and additions during the year were $1.0 million (2015: $0.4 million).

In accordance with the announcement on February 17, 2016 to cease value-added fish operations at the production facility in New Bedford, Massachusetts, the Company determined that as of April 2, 2016, the criteria to re-evaluate the useful life and residual value of certain capital assets were met. Accordingly, $1.5 million of accelerated depreciation was recorded during the fifty-two weeks ended December 31, 2016. These assets were disposed of as a result of the sale of the assets of the Company's scallop business and the New Bedford facility on September 7, 2016. See Note 5 for further information.

The Company has a General Security Agreement that has pledged all of its property, plant and equipment as collateral for its bank loans and long-term debt. See Note 10 and Note 13 for further information.

Note 9. Goodwill and intangible assets

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

	Intangible assets					
(Amounts in $000s)	**Brands**	**Customer relationships**	**Indefinite lived brands**	**Total intangible assets**	**Goodwill**	**Total goodwill and intangible assets**
Cost						
At January 3, 2015	$ 7,015	$ 107,141	$ 14,563	$ 128,719	$ 119,270	$ 247,989
Additions from acquisitions	–	–	–	–	178	178
Effect of exchange rates	(77)	(185)	(75)	(337)	(1,624)	(1,961)
At January 2, 2016	$ 6,938	$ 106,956	$ 14,488	$ 128,382	$ 117,824	$ 246,206
Additions from acquisitions	–	–	–	–	–	–
Effect of exchange rates	–	32	13	45	277	322
At December 31, 2016	**$ 6,938**	**$ 106,988**	**$ 14,501**	**$ 128,427**	**$ 118,101**	**$ 246,528**
Accumulated amortization						
At January 3, 2015	$ (3,247)	$ (17,326)	$ (441)	$ (21,014)	$ –	$ (21,014)
Amortization	(1,119)	(4,106)	–	(5,225)	–	(5,225)
Effect of exchange rates	74	98	–	172	–	172
At January 2, 2016	$ (4,292)	$ (21,334)	$ (441)	$ (26,067)	$ –	$ (26,067)
Amortization	(1,045)	(4,130)	–	(5,175)	–	(5,175)
Effect of exchange rates	–	(9)	–	(9)	–	(9)
At December 31, 2016	**$ (5,337)**	**$ (25,473)**	**$ (441)**	**$ (31,251)**	**$ –**	**$ (31,251)**
Net carrying value						
At January 2, 2016	$ 2,646	$ 85,622	$ 14,047	$ 102,315	$ 117,824	$ 220,139
At December 31, 2016	**$ 1,601**	**$ 81,515**	**$ 14,060**	**$ 97,176**	**$ 118,101**	**$ 215,277**

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

	Canada		U.S.	
(Amounts in $000s)	**December 31, 2016**	January 2, 2016	**December 31, 2016**	January 2, 2016
Goodwill	**$ 9,290**	$ 9,013	**$ 108,811**	$ 108,811
Indefinite lived brands	**$ 454**	$ 441	**$ 13,606**	$ 13,606

Impairment of Goodwill and Identifiable Intangible Assets

As described in Note 3, the carrying values of goodwill and intangible assets with indefinite lives are tested for impairment annually (as at the first day of the Company's fourth quarter). The Company's impairment test for goodwill and intangible assets with indefinite useful lives was based on FVLCS at October 2, 2016. The key assumptions used to determine the recoverable amount for the different CGUs for the most recently completed impairment calculations for Fiscal 2016 and Fiscal 2015 are discussed below. The Company has not identified any indicators of impairment at any other date and as such has not completed an additional impairment calculation.

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

Income Approach

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

Market Approach

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

Key assumptions used in determining the FVLCS

Cash Flow Projections

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

Discount rate

The discount rate (WACC) reflects the current market assessment of the risk specific to comparable companies. The discount rate was based on the weighted-average cost of equity and cost of debt for comparable companies within the industry. The cost of equity was calculated using the capital asset pricing model. The debt component of the WACC was determined by using an after-tax cost of debt. The post-tax WACC applied to the Canadian CGU and U.S. CGU cash flow projections was 9.6% and 9.3%, respectively, at October 1, 2016.

Growth rate

Growth rates used to extrapolate the Company's projection were determined using published industry growth rates in combination with inflation assumptions and the input of each CGU's management group based on historical trend analysis and future expectations of growth. The growth rate applied to the cash flow projections of both the Canadian and U.S. CGU was 2.0% at October 1, 2016.

Costs to sell

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

Sensitivity to changes in assumptions

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

Note 10. Bank loans

(Amounts in $000s)	December 31, 2016	January 2, 2016
Bank loans, denominated in CAD (average variable rate of 2.70%; January 2, 2016: 2.70%)	**$ 959**	$ 1,077
Bank loans, denominated in USD (average variable rate of 4.00%; January 2, 2016: 1.88%)	**—**	16,551
	959	17,628
Less: deferred finance costs	**(338)**	(470)
	$ 621	$ 17,158

The Company has a five year $180.0 million working capital facility (the "Facility"), with Royal Bank of Canada as Administrative and Collateral Agent, which expires in April 2019. The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility (see Note 13). A second charge over the Company's plant and equipment is also in place. As at December 31, 2016 and January 2, 2016, the Facility allowed the Company to borrow: Canadian Prime Rate revolving loans, Canadian Base Rate revolving loans and U.S. Prime Rate revolving loans at their respective rates plus 0.00% to 0.25%; BA Equivalent revolving loans and LIBOR revolving loans at their respective rates plus 1.25% to 1.75%; and letters of credit with fees of 1.25% to 1.75%. Standby fees are 0.25% to 0.375% and are required to be paid on the unutilized facility. As at December 31, 2016, the Company had $151.6 million of undrawn borrowing facility (January 2, 2016: $148.9 million).

Note 11. Accounts payable and accrued liabilities

(Amounts in $000s)	December 31, 2016	January 2, 2016
Trade accounts payable and accrued liabilities[1]	**$ 119,978**	$ 112,393
Employee accruals, including incentives and vacation pay	**14,682**	7,330
Share-based compensation *(Note 16)*	**612**	613
	$ 135,272	$ 120,336

1 Includes contingent consideration of $nil at December 31, 2016 (January 2, 2016: $2.3 million), relating to the acquisition of Atlantic Trading Company, LLC on October 7, 2014. The final annual installment was made during the fifty-two weeks ended December 31, 2016.

Trade accounts payable and accrued liabilities bear normal commercial credit terms, usually 30 days or less, and are non-interest bearing. Employee accruals, including incentives and vacation pay, are non-interest bearing and normally settle within 52 weeks. Share-based payments included in the above are settled within 52 weeks.

Note 12. Provisions

The amounts recognized in provisions include the Company's coupon redemption costs, termination benefits (Note 14) and employee incentives. Employee incentives are included as other provisions in the first, second and third quarters of the year only, until the amounts can be estimated with certainty at the end of the fourth quarter, and at which time they are reclassified to accounts payable and accrued liabilities. The following is a reconciliation of the carrying amounts:

(Amounts in $000s)	
At January 2, 2016	$ 263
New provisions added	13,142
Provisions utilized	(1,218)
Reclassified to accounts payable and accrued liabilities	(11,706)
Unused amounts reversed	(95)
At December 31, 2016	**$ 386**

Provision amounts are usually settled within eleven months from initiation and are immaterial to the Company on an individual basis. Management does not expect the outcome of any of the recorded amounts will give rise to any significant expense beyond the amounts recognized at December 31, 2016. The Company is not eligible for any reimbursement by third parties for these amounts.

Note 13. Long-term debt and finance lease obligations

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Term loan	**$ 267,926**	$ 294,750
Less: current portion	**—**	(11,816)
	267,926	282,934
Less: deferred finance costs	**(1,599)**	(1,917)
	$ 266,327	$ 281,017

As at December 31, 2016, the Company had a $300.0 million term loan facility with an interest rate of 3.25% plus LIBOR (LIBOR floor of 1.00%), maturing on April 24, 2021. The regularly scheduled principal repayment terms are $0.75 million, paid on a quarterly basis. During the fifty-two weeks ended December 31, 2016, a payment 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. As such, no additional regularly scheduled principal repayments are required for the remainder of 2017.

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

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

Finance lease obligations (Amounts in $000s)	Future minimum lease payments	Imputed interest	Finance lease liabilities
2017	765	44	721
2018	615	22	593
2019	107	3	104
2020	5	—	5
			1,423
Less: current portion			(721)
			$ 702

Interest payable on the various obligations ranges from fixed rates of 0% to 8.18% for the fifty-two weeks ended December 31, 2016 (fifty-two weeks ended January 2, 2016: 0% to 8.18%).

Note 14. Future employee benefits

Pension and non-pension benefit plans

In Canada, the Company maintains a DCPP and two active DBPPs covering all Canadian employees. With respect to U.S. employees, the Company's subsidiary maintains a DCPP (401(k)) that covers substantially all U.S. employees.

In Canada, the Company also sponsors a non-pension benefit plan for employees hired before May 19, 1993. This benefit is a paid-up life insurance policy or a lump sum payment based on the employee's final earnings at retirement. In both Canada and the U.S., the Company maintains a non-pension benefit plan for employees who retire after 25 years of service with the Company. At retirement, the benefit is a payment of $1,000 to $2,500 depending on the years of service.

Defined contribution pension plans

In Canada, the Company maintains a DCPP for all salaried employees, including new Named Executive Officers ("NEO").

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

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

Total expense and cash contributions for the Company's DCPP was $2.2 million for the year ended December 31, 2016 (January 2, 2016: $2.2 million).

Defined benefit pension plans

The Company sponsors two actively funded and one non-funded DBPP in Canada. No Company pension plans provide indexation in retirement.

One of the actively funded DBPPs is for the Nova Scotia Union employees and provides a flat-dollar plan with negotiated increases. The other pension plan is for management employees and is described below:

Canadian management plan

The Company sponsors a DBPP specifically for Canadian management employees (the "Management Plan"). On December 31, 2016, nine persons were enrolled as active members in the Management Plan, including one NEO, who are Canadian residents and were employed prior to January 1, 2000. The objective of the Management Plan is to provide an annual pension (including Canada Pension Plan) of 2% of the average of a member's highest five years' regular earnings while a member of the Management Plan, multiplied by the number of years of credited service. Incentive payments are not eligible earnings for pension purposes. The Management Plan was grandfathered and no new entrants are permitted. All members contribute 3.25% of their earnings up to the Years Maximum Pensionable Earnings ("YMPE") and 5% in excess of the YMPE to the maximum that a member can contribute based on income tax rules. The credited service under the Management Plan for each Canadian NEO is 20 years.

Upon retirement, the employees in the Management Plan are provided lifetime retirement income benefits based on their best five years of salary less Canada Pension Plan benefits. Full benefits are payable at age 65, or at age 60 if the executive has at least 25 years of service. The normal benefits are payable for life and 60% is payable to their spouse upon the employee's death, with a guarantee of 60 months. Members can retire at age 55 with a reduction. Other levels of survivor benefits are offered. Instead, members can elect to take their pension benefit in a lump-sum payment at retirement.

The Company also guarantees through its SERP to extend the same pension plan benefits to Canadian NEOs that it provides to others in the Management Plan who were not affected by income tax maximums. The annual pension amounts derived from the aggregate of the Management Plan and SERP benefits represent 1.3% of the five-year average YMPE plus 2% of the salary remuneration above the five-year average YMPE. The combination of these amounts is multiplied by the years of service to determine the full annual pension entitlement from the two plans. As at December 31, 2016, one of the Company's NEOs is a member of the SERP.

U.S. management plans

The Company also has three small DBPPs in the U.S. that cover two former employees and one current employee. These plans have ceased to accrue benefits to employees.

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

Funded status (Amounts in $000s)	**December 31, 2016**	January 2, 2016
Total present value of obligations[1]	**$ 37,073**	$ 35,463
Fair value of plan assets	**28,883**	25,832
Net accrued defined benefit obligation	**$ 8,190**	$ 9,631

1 The Company has a letter of credit outstanding as at December 31, 2016 relating to the securitization of the Company's unfunded benefit plans under the SERP in the amount of $9.8 million (January 2, 2016: $10.2 million).

Movement in the present value of the defined benefit obligations (Amounts in $000s)	**December 31, 2016**	January 2, 2016
DBO at the beginning of the year	**$ 35,463**	$ 40,825
Benefits paid by the plans	**(1,688)**	(1,948)
Effect of movements in exchange rates	**1,064**	(6,184)
Current service costs	**701**	867
Interest on obligations	**1,491**	1,486
Employee contributions	**52**	82
Plan amendments	**—**	577
Effect of changes in demographic assumptions	**—**	—
Effect of changes in financial assumptions	**(10)**	(45)
Effect of changes in experience adjustments	**—**	(197)
DBO at the end of the year	**$ 37,073**	$ 35,463

Movement in the present value of plan assets (Amounts in $000s)	**December 31, 2016**	January 2, 2016
Fair value of plan assets at the beginning of the year	**$ 25,832**	$ 31,958
Reclass of other plan asset	**526**	—
Employee contributions paid into the plans	**52**	82
Employer contributions paid into the plans	**1,051**	797
Benefits paid by the plans	**(1,688)**	(1,948)
Effect of movements in exchange rates	**785**	(4,765)
	$ 26,558	$ 26,124
Actual return on plan assets:		
Expected return on plan assets	**$ 1,078**	$ 1,142
Actuarial gains in OCI	**1,324**	(1,354)
Fees and expenses	**(77)**	(80)
	2,325	(292)
Fair value of plan assets at the end of the year	**$ 28,883**	$ 25,832

Expense recognized in the consolidated statement of income (Amounts in $000s)	**December 31, 2016**	January 2, 2016
Current service costs	**$ 701**	$ 867
Interest on obligation	**1,491**	1,486
Expected return on plan assets	**(1,078)**	(1,142)
Plan amendments	**—**	577
Fees and expenses	**77**	80
	$ 1,191	$ 1,868

Expense recognized in the following line items in the consolidated statement of income (Amounts in $000s)	**December 31, 2016**	January 2, 2016
Cost of sales	**$ 518**	$ 478
Selling, general and administrative expenses	**673**	1,390
	$ 1,191	$ 1,868

Plan assets comprise: (Amounts in $000s)	**December 31, 2016**	January 2, 2016
Equity securities[1]	**$ 12,332**	$ 10,100
Debt securities	**15,913**	14,957
Cash and cash equivalents	**638**	775
Total	**$ 28,883**	$ 25,832

1 The plan assets include CAD$3.7 million of the Company's own common shares at market value at December 31, 2016 (January 2, 2016: CAD$2.9 million).

Actuarial (gains) losses recognized in OCI (Amounts in $000s)	**December 31, 2016**	January 2, 2016
Cumulative amount at the beginning of the year	**$ 6,189**	$ 6,073
Recognized during the period	**(805)**	989
Effect of exchange rates	**212**	(873)
Cumulative amount at the end of the year	**$ 5,596**	$ 6,189

Principal actuarial assumptions (Expressed as weighted averages)	**December 31, 2016 %**	January 2, 2016 %
Discount rate for the benefit cost for the year ended	**3.95**	3.95
Discount rate for the accrued benefit obligation as at year-end	**3.82**	3.95
Expected long-term rate on plan assets as at year-end	**3.95**	3.95
Future compensation increases for the benefit cost for the year ended	**4.00**	4.00
Future compensation increases for the accrued benefit obligation as at year-end	**3.00**	4.00

A quantitative sensitivity analysis for significant assumptions as at December 31, 2016 is shown below:

(Amounts in $000s)	**Discount Rate**		**Mortality Rate**	
Sensitivity level	**0.5% increase**	**0.5% decrease**	**One-year increase**	**One-year decrease**
(Decrease) increase on DBO	**$ (2,435)**	**$ 2,710**	**$ 1,020**	**$ (1,036)**

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the net DBO as a result of reasonable changes in key assumptions occurring at the end of the reporting period. An analysis on salary increases and decreases is not material. The Company expects CAD$1.1 million in contributions to be paid to its DBPP and CAD$2.9 million to its DCPP in Fiscal 2017.

Short-term employee benefits

The Company has recognized severance and retention benefits that were dependent upon the continuing provision of services through to certain pre-defined dates, which for the fifty-two weeks ended December 31, 2016 was an expense of $2.3 million (January 2, 2016: $0.3 million expense) in the consolidated statement of income.

Termination benefits

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

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Cost of sales	**$ 96**	$ 449
Distribution expenses	**—**	54
Business acquisition, integration and other expenses	**83**	1,137
Selling, general and administrative expenses	**1,298**	969
	$ 1,477	$ 2,609

Note 15. Share capital

The share capital of the Company is as follows:

	December 31, 2016	January 2, 2016
Authorized:		
Preference shares, par value of CAD$25 each, issuable in series	**5,999,994**	5,999,994
Subordinated redeemable preference shares, par value of CAD$1 each, redeemable at par	**1,025,542**	1,025,542
Non-voting equity shares	**Unlimited**	Unlimited
Common shares, without par value	**Unlimited**	Unlimited

Purchase of shares for cancellation

In January 2016, 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, 2016 and will terminate no later than February 1, 2017.

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

During the fifty-two weeks ended January 2, 2016, the Company purchased 13,300 common shares under the NCIB plan announced on January 29, 2014 at an average price of CAD$21.75 per share for a total cash consideration of CAD$0.3 million, with the excess of the purchase price over the book value of the shares in the amount of $0.2 million being charged to retained earnings. During the fifty-two weeks ended January 2, 2016, the Company also purchased 30,000 common shares under the NCIB plan announced on January 28, 2015 at an average price of CAD$17.62 per share for total cash consideration of CAD$0.5 million, with the excess of the purchase price over the book value of the shares in the amount of $0.4 million being charged to retained earnings.

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

	Fifty-two weeks ended December 31, 2016		Fifty-two weeks ended January 2, 2016	
	Shares	**($000s)**	Shares	($000s)
Balance, beginning of period	**30,874,164**	**$ 85,282**	30,706,290	$ 82,658
Options exercised for shares	**17,923**	**94**	101,678	664
Options exercised for shares via cashless exercise method	**46,991**	**—**	109,496	—
Fair value of share-based compensation on options exercised	**—**	**815**	—	2,049
Shares repurchased for cancellation	**(50,000)**	**(97)**	(43,300)	(89)
Balance, end of period	**30,889,078**	**$ 86,094**	30,874,164	$ 85,282

During the fifty-two weeks ended December 31, 2016, the Company distributed dividends per share of CAD$0.520 (fifty-two weeks ended January 2, 2016: CAD$0.465).

On February 22, 2017, the Company's Board of Directors declared a quarterly dividend of CAD$0.140 per share, payable on March 15, 2017 to shareholders of record as of March 3, 2017.

Note 16. Share-based compensation

The Company has a Share Option Plan for designated directors, officers and certain managers of the Company, a Performance Share Unit ("PSU") Plan for eligible employees, and a Deferred Share Unit ("DSU") Plan for directors of the Company.

Issuances of options 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 Share Option 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 12-month period, of an aggregate number of shares under the PSU Plan, the Option Plan and any other share-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares.

The carrying amount of cash-settled share-based compensation arrangements recognized in accounts payable and accrued liabilities, other current liabilities and other long-term liabilities on the consolidated statement of financial position, was $0.6 million, $0.4 million and $0.9 million, respectively, as at December 31, 2016 (January 2, 2016: $0.6 million, $nil and $0.4 million, respectively).

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

	Fifty-two weeks ended	
(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Cost of sales resulting from:		
Cash-settled awards	**$ –**	$ (171)
Equity-settled awards	**116**	133
Selling, general and administrative expenses resulting from:		
Cash-settled awards	**1,809**	(703)
Equity-settled awards	**1,304**	1,860
Share-based compensation expense[1]	**$ 3,229**	$ 1,119

1 Cash-settled awards may include options with SARs, PSUs and DSUs. Equity-settled awards include options.

Share Option Plan

Under the terms of the Company's Option Plan, the Company may grant options to eligible participants, including: directors, members of the Company's Leadership Team, and senior managers of the Company. Shares to be optioned are not to exceed the aggregate number of 3,800,000 as of May 7, 2013 (adjusted for the two-for-one stock split that was effective May 30, 2014), representing 12.4% of the then issued and outstanding authorized shares. The option price for the shares cannot be less than the fair market value (as defined further in the Share Option Plan) of the optioned shares as of the date of grant. The term during which any option granted may be exercised may not exceed 10 years from the date of grant. The purchase price is payable in full at the time the option is exercised. Options are not transferable or assignable.

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

Options issued may also be awarded a cashless exercise option at the discretion of the Board, where the holder may elect to receive, without payment of any additional consideration, optioned shares equal to the value of the option as computed by the Option Plan. When the holder elects to receive the cashless exercise option, the Company accounts for these options as equity-settled transactions.

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

	Fifty-two weeks ended December 31, 2016		Fifty-two weeks ended January 2, 2016	
	No.	**WAEP (CAD)**	No.	WAEP (CAD)
Outstanding, beginning of period	**1,323,292**	**$ 18.98**	1,252,172	$ 14.90
Granted	**654,196**	**15.29**	445,642	23.21
Exercised for shares via cashless method[1,2]	**(150,786)**	**16.28**	(194,620)	10.57
Exercised for shares[2]	**(17,923)**	**7.31**	(101,678)	8.16
Exercised for shares[2]	**(168,709)**	**15.33**	(296,298)	9.74
Exercised for cash[2]	**(73,579)**	**7.33**	(42,170)	6.42
Cancelled or forfeited	**(121,850)**	**21.30**	(36,054)	20.71
Expired	**(6,000)**	**23.11**	–	–
Outstanding, end of period	**1,607,350**	**$ 18.21**	1,323,292	$ 18.98
Exercisable, end of period	**756,610**	**$ 19.30**	868,892	$ 17.03

1 For the fifty-two weeks ended December 31, 2016, 46,991 shares were received via the cashless exercise method (fifty-two weeks ended January 2, 2016, 109,496 shares).

2 The weighted average share price at the date of exercise for these options was CAD$22.52 for the fifty-two weeks ended December 31, 2016 (fifty-two weeks ended January 2, 2016: CAD$22.53).

Set forth below is a summary of the outstanding options to purchase common shares as at December 31, 2016:

	Options outstanding			Options exercisable	
Option price	Number oustanding	Weighted average exercise price	Average life (years)	Number exercisable	Weighted average exercise price
8.25-10.00	156,986	9.07	0.59	156,986	9.07
10.00-15.00	3,000	14.03	4.25	–	–
15.00-20.00	751,935	15.61	3.78	115,732	17.34
20.00-25.00	695,436	23.10	2.30	483,892	23.09
Total	1,607,350			756,610	

The fair value of options granted during the fifty-two weeks ended December 31, 2016 and January 2, 2016 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted-average inputs and assumptions:

	December 31, 2016	January 2, 2016
Dividend yield (%)	**3.14**	1.84
Expected volatility (%)	**33.33**	30.69
Risk-free interest rate (%)	**0.63**	0.98
Expected life (years)	**5.19**	4.78
Weighted average share price (CAD)	**$ 15.29**	$ 23.21
Weighted average fair value (CAD)	**$ 3.27**	$ 5.23

Performance Share Unit Plan

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

The PSU plan is dilutive and units may be settled in cash or shares upon vesting. The Company estimates the fair value of PSUs by using the fair market value of a common share at the reporting date and the performance multiplier. The compensation expense is recognized over the term, at which point the PSUs will vest if agreed-upon performance measures are met. The Company estimates the value of RSUs by using the fair value of a common share at the reporting date and the compensation expense is recognized over the vesting term.

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

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

	Fifty-two weeks ended	
	December 31, 2016	January 2, 2016
Outstanding, beginning of period	**139,184**	102,991
Granted	**82,017**	77,823
Reinvested dividends	**5,764**	4,396
Released and paid in cash	**—**	(7,997)
Forfeited	**(10,895)**	(38,029)
Outstanding, end of period	**216,070**	139,184

The expected performance multiplier used in determining the fair value of the liability and related share-based compensation expense for the PSUs granted during the fifty-two weeks ended December 31, 2016 was 59% (January 2, 2016: 19%) and the share price at the reporting date was CAD$19.95 (January 2, 2016: CAD$15.55). The PSUs will vest at the end of a three-year period, if agreed-upon performance measures are met (if applicable).

Deferred Share Unit Plan

The DSU Plan allows a director to receive all or any portion of their annual retainer, additional fees and equity value in DSUs in lieu of cash or options. DSUs cannot be redeemed for cash until the holder is no longer a Director of the Company. These are considered cash-settled share-based payment awards and are non-dilutive. At December 31, 2016 there were 34,337 DSUs outstanding (January 2, 2016: 23,580 DSUs).

Note 17. Income tax

The Company's statutory tax rate for the year ended December 31, 2016 is 29.2% (January 2, 2016: 29.1%). The Company's effective income tax rate for the year ended December 31, 2016 is 19.3% (January 2, 2016: 18.5%). The higher effective income tax rate in Fiscal 2016 is attributable to an increase in income subject to higher foreign tax rates.

The major components of income tax expense are as follows:

Consolidated statement of income (Amounts in $000s)	**December 31, 2016**	January 2, 2016
Current income tax expense	**$ 8,737**	$ 5,707
Deferred income tax expense:		
Origination and reversal of temporary differences	**(848)**	1,022
Income tax expense reported in the consolidated statement of income	**$ 7,889**	$ 6,729

Consolidated statement of comprehensive income (Amounts in $000s)	**December 31, 2016**	January 2, 2016
Income tax expense (recovery) related to items charged or credited directly to OCI during the period:		
Gain (loss) on hedge of net investment in foreign operations	**$ 604**	$ (5,338)
(Loss) gain on translation of net investment in foreign operations	**(876)**	4,632
Effective portion of changes in fair value of cash flow hedges	**(618)**	2,833
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	**(548)**	(2,206)
Net change in fair value of cash flow hedges transferred to income	**38**	(125)
Defined benefit plan actuarial gain (loss)	**381**	(53)
Income tax (recovery) directly to OCI and retained earnings	**$ (1,019)**	$ (257)

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

(Amounts in $000s)	December 31, 2016	January 2, 2016
Accounting profit before tax at statutory income tax rate of 29.2% (2015: 29.1%)	$ 11,917	$ 10,566
Non-deductible expenses for tax purposes:		
Non-deductible share-based compensation	296	874
Other non-deductible items	313	382
Effect of higher income tax rates of U.S. subsidiary	2,597	2,175
Acquisition financing deduction	(7,487)	(7,677)
Other	253	409
Income tax expense	$ 7,889	$ 6,729

Deferred income tax	Consolidated statement of financial position as at:		Consolidated statement of income for the years ended:	
(Amounts in $000s)	December 31, 2016	January 2, 2016	December 31, 2016	January 2, 2016
Accelerated depreciation for tax purposes on property, plant and equipment	$ (16,335)	$ (16,964)	$ (601)	$ (1,266)
Inventory	(1,296)	1,921	3,217	3,288
Intangible assets	(32,905)	(33,904)	(980)	1,496
Pension	2,639	2,887	(216)	(227)
Revaluation of cash flow hedges	(239)	(1,449)	(309)	2,437
Losses available for offset against future taxable income	3,438	1,457	(1,981)	(2,358)
Deferred charges and other	1,805	1,581	22	(2,348)
Deferred income tax (recovery) expense			$ (848)	$ 1,022
Net deferred income tax liability	$ (42,893)	$ (44,471)		

Reflected in the consolidated statement of financial position as follows:

	December 31, 2016	January 2, 2016
Deferred income tax assets	$ 2,290	$ 2,495
Deferred income tax liabilities	(45,183)	(46,966)
Net deferred income tax liability	$ (42,893)	$ (44,471)

Reconciliation of net deferred income tax liabilities (Amounts in $000s)	December 31, 2016	January 2, 2016
Opening balance, beginning of year	$ (44,471)	$ (43,350)
Deferred income tax recovery (expense) during the period recognized in income	848	(1,022)
Deferred income tax (expense) recovery during the period recognized in retained earnings	(383)	53
Deferred income tax recovery (expense) during the period recognized in OCI	1,113	(152)
Closing balance, end of year	$ (42,893)	$ (44,471)

The Company has net operating losses in its U.S. subsidiaries of $nil (January 2, 2016: $0.6 million). A deferred income tax asset has been recognized for the amount that is probable to be realized.

The Company has unused capital losses of $20.0 million (January 2, 2016: $20.0 million) which have an indefinite carryforward period. A deferred tax asset has only been recognized to the extent of the benefit that is probable to be realized.

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

The temporary difference associated with investments in subsidiaries, for which a deferred tax liability has not been recognized, totals $nil at December 31, 2016 and January 2, 2016.

There are no income tax consequences attached to the payment of dividends in either 2016 or 2015 by the Company to its shareholders.

Note 18. Earnings per share

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

	Fifty-two weeks ended December 31, 2016			Fifty-two weeks ended January 2, 2016		
	Net income ($000s)	**Weighted average shares (000s)**	**Per share ($)**	Net income ($000s)	Weighted average shares (000s)	Per share ($)
Net income	**$ 32,950**	**30,917**	**$ 1.07**	$ 29,581	30,819	$ 0.96
Dilutive options	**—**	**258**	**—**	—	446	—
Diluted earnings	**$ 32,950**	**31,175**	**$ 1.06**	$ 29,581	31,265	$ 0.95

Excluded from the diluted earnings per common share calculation for the fifty-two weeks ended December 31, 2016 were 695,436 options, as their effect would have been anti-dilutive (January 2, 2016: 796,553 options).

Note 19. Commitments

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

(Amounts in $000s)	Operating lease payments
2017	$ 4,884
2018	4,681
2019	4,562
2020	4,487
2021	4,205
Thereafter	4,572

Operating lease commitments result principally from leases for cold storage facilities, office equipment, premises and production equipment. Operating lease payments recognized as an expense during the fifty-two weeks ended December 31, 2016 were $5.0 million (January 2, 2016: $5.5 million).

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

The Company has letters of credit outstanding as at December 31, 2016, relating to the procurement of inventories and the security of certain contractual obligations of $7.1 million (January 2, 2016: $1.0 million). The Company also had a letter of credit outstanding as at December 31, 2016 relating to the securitization of the Company's SERP benefit plan (see Note 14) in the amount of $9.8 million (January 2, 2016: $10.2 million).

Note 20. Related party disclosures

Entity with significant influence over the Company

As at December 31, 2016, Thornridge Holdings Limited owns 37.3% of the outstanding common shares in High Liner Foods (January 2, 2016: 37.3%).

Other related parties

Total purchases from other related parties were nominal for the year ended December 31, 2016 (January 2, 2016: $0.4 million).

The Company had no sales to or amounts due from related parties throughout 2015 or 2016, nor did the Company have any transactions during 2015 or 2016 with entities who had significant influence over the Company or with members of the Board of Directors and their related interests.

Key management personnel compensation

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

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

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

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Salaries and short-term incentive plans[1]	**$ 3,558**	$ 3,672
Post-employment benefits	**—**	257
Future employee benefits[2]	**151**	361
Share-based awards[3]	**1,713**	2,589
	$ 5,422	$ 6,879

1 Short-term incentive amounts were for those earned in 2016 and 2015.
2 Refer to Note 14 for details of each plan.
3 Refer to Note 16 for details regarding the Company's option and PSU plans.

Note 21. Operating segment information

The Company operates in one dominant industry segment, the manufacturing and marketing of prepared and packaged frozen seafood. The Company evaluates performance of the reportable segments on a geographical basis using net income before depreciation, amortization, finance costs and income taxes. The Company also reports a "Corporate" category which does not qualify as a component of another reportable segment nor as a separate reportable segment. Corporate includes expenses for corporate functions, share-based compensation costs and business acquisition, integration and other expenses. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No operating segments have been aggregated to form the reportable operating segments.

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

				Fifty-two weeks ended December 31, 2016				Fifty-two weeks ended January 2, 2016
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Revenue (excluding intercompany sales)	**$ 251,509**	**$ 704,507**	**$ —**	**$ 956,016**	$ 259,600	$ 741,907	$ –	$ 1,001,507
Cost of sales (excluding intercompany sales)	**195,722**	**559,835**	**(2,378)**	**753,179**	205,423	598,921	(4,501)	799,843
Gross profit	**$ 55,787**	**$ 144,672**	**$ 2,378**	**$ 202,837**	$ 54,177	$ 142,986	$ 4,501	$ 201,664
Income (loss) before income taxes	**$ 20,888**	**$ 48,775**	**$ (28,824)**	**$ 40,839**	$ 20,232	$ 42,057	$ (25,979)	$ 36,310
Add back:								
Depreciation and amortization included in:								
Cost of sales	**1,215**	**5,943**	**58**	**7,216**	1,253	6,987	3	8,243
Distribution expenses	**148**	**1,504**	**—**	**1,652**	138	1,248	–	1,386
Selling, general and administrative expenses	**497**	**5,247**	**2,502**	**8,246**	547	5,257	1,307	7,111
Total depreciation and amortization	**1,860**	**12,694**	**2,560**	**17,114**	1,938	13,492	1,310	16,740
Finance costs	**—**	**—**	**14,296**	**14,296**	–	–	16,247	16,247
Income (loss) before depreciation, amortization, finance costs and income taxes	**$ 22,748**	**$ 61,469**	**$ (11,968)**	**$ 72,249**	$ 22,170	$ 55,549	$ (8,422)	$ 69,297

				As at December 31, 2016				As at January 2, 2016
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Total assets	**$ 137,331**	**$ 522,485**	**$ 24,325**	**$ 684,141**	$ 121,855	$ 555,583	$ 15,629	$ 693,067
Total liabilities	**$ 109,910**	**$ 69,467**	**$ 282,002**	**$ 461,379**	$ 88,452	$ 29,917	$ 374,179	$ 492,548

For the fifty-two weeks ended December 31, 2016, the Company recognized $162.6 million (January 2, 2016: $171.1 million) of sales from one customer that represents more than 10% of the Company's total consolidated sales, arising from sales in both the Canadian and U.S. reportable operating segments.

Note 22. Fair value measurement

Fair value of financial instruments

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

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

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

	December 31, 2016		January 2, 2016	
(Amounts in $000s)	**Level 2**	**Level 3**	Level 2	Level 3
Fair value of financial assets				
Foreign exchange contracts	**$ 1,883**	**$ –**	$ 6,552	$ –
Interest rate swaps	**686**	**–**	–	–
Fair value of financial liabilities				
Interest rate swaps	**769**	**–**	755	–
Foreign exchange contracts	**1,053**	**–**	151	–
Long-term debt	**–**	**266,727**	–	287,783
Finance lease obligations	**–**	**1,434**	–	1,737

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

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

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the fifty-two weeks ended December 31, 2016 no such transfers have occurred.

The financial liabilities that are not measured at fair value on the consolidated statement of financial position consist of long-term debt (including current portion) and finance lease obligations. The carrying amount for these instruments are $266.3 million and $1.4 million, respectively, as at December 31, 2016 (January 2, 2016: $292.8 million and $1.7 million, respectively).

Amortized cost impact on interest expense

In the fifty-two weeks ended December 31, 2016, the Company expensed $0.1 million and $0.4 million (January 2, 2016: $0.2 million and $0.4 million) of short-term and long-term interest, respectively, relating to interest that was calculated using the EIR method relating to its transaction fees and its borrowings.

The fair values of other financial assets and liabilities at December 31, 2016 and January 2, 2016 are shown below:

	Other financial assets		Other financial liabilities	
(Amounts in $000s)	**December 31, 2016**	January 2, 2016	**December 31, 2016**	January 2, 2016
Financial instruments at fair value through OCI:				
Foreign exchange forward contracts	**$ 1,860**	$ 5,133	**$ 1,039**	$ 151
Interest rate swap	**686**	—	**769**	504
Financial instruments at fair value through profit or loss:				
Foreign exchange contracts not designated in hedge relationships	**23**	1,419	**14**	—
Interest rate swaps not designated in hedge relationships	**—**	—	**—**	251
	$ 2,569	$ 6,552	**$ 1,822**	$ 906

Hedging activities

Interest rate swaps

During the fifty-two weeks ended December 31, 2016, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (see Note 13):

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
Not designated in a formal hedging relationship:				
April 4, 2014	April 4, 2016	3-month LIBOR (floor 1.5%)	1.9970%	$ 100.0

The cash flow hedge of interest expense variability was assessed to be highly effective for the fifty-two weeks ended December 31, 2016 and January 2, 2016, and therefore, the change in fair value for those interest rate swaps designated in a hedging relationship was included in OCI as after-tax net losses of $0.4 million and $0.3 million, respectively.

For the fifty-two weeks ended December 31, 2016, the change in fair value for the interest rate swap that has not been designated in a formal hedging relationship was a net gain of $0.1 million, and was recorded in income (January 2, 2016: net gain of $0.5 million).

Foreign currency contracts

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

As at December 31, 2016, the Company had outstanding notional amounts of $50.2 million in foreign currency average-rate forward contracts and $5.4 million in foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of $3.9 million average-rate forward contracts with maturities ranging from January 2018 to June 2018, all foreign currency forward contracts have maturities that are less than one year.

As at December 31, 2016, the Company had outstanding notional amounts of $8.0 million foreign currency single-rate forward contracts outstanding to hedge foreign currency exchange risk on its USD monetary assets and liabilities. These contracts were not formally designated as a hedge. The change in fair value for the year ended December 31, 2016 and January 2, 2016, was a net gain of $0.3 million and $0.5 million, respectively, which was recorded in income.

The cash flow hedges of the expected future purchases were assessed to be highly effective for the fifty-two weeks ended December 31, 2016 and January 2, 2016, and therefore, the change in fair value was recorded in OCI as after-tax net loss of $1.5 million and after-tax net gains of $7.2 million, respectively. The amount recognized in the consolidated statement of income resulting from hedge ineffectiveness during the fifty-two weeks ended December 31, 2016 was a net gain of $0.1 million (January 2, 2016: net gain of $0.3 million).

Hedge of net investment in foreign operations

As at December 31, 2016, a total borrowing of $252.3 million ($15.0 million included in accounts payable and $237.3 million included in long-term debt) (January 2, 2016: $237.3 million included in long-term debt) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the 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 in the fifty-two weeks ended December 31, 2016 or January 2, 2016.

Note 23. Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, purchase its capital stock under a NCIB or issue new shares.

Capital distributions, including purchases of stock, are subject to availability under the Company's working capital debt facilities. The consolidated average adjusted aggregate availability under the working capital debt facility must be greater than $22.5 million. As at December 31, 2016, the Company has average adjusted aggregate availability of $135.6 million. The Company also has restrictions on capital distributions, where the aggregate amount for dividends are subject to an annual limit of $17.5 million with a provision to increase this amount subject to leverage and excess cash flow tests. NCIBs are subject to an annual limit of $10.0 million with a provision to carry forward unused amounts subject to a maximum of $20.0 million per annum. For the fifty-two weeks ended December 31, 2016 and January 2, 2016, the Company paid $12.1 million and $11.0 million in dividends, respectively, and $0.7 million and $0.6 million under the NCIB, respectively.

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

(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Total bank loans *(Note 10)*	**$ 959**	$ 17,628
Total term loan debt *(Note 13)*	**267,926**	294,750
Total finance lease obligation (*Note 13)*	**1,423**	1,730
Interest-bearing debt	**270,308**	314,108
Less: cash	**(18,252)**	(1,043)
Net interest-bearing debt	**252,056**	313,065
Shareholders' equity	**222,762**	200,519
Unrealized gains on derivative financial instruments included in AOCI	**(561)**	(2,977)
Total capitalization	**$ 474,257**	$ 510,607
Net interest-bearing debt as percentage of total capitalization	**53%**	61%

For the fiscal year ended December 31, 2016 the policy governing the net interest-bearing debt to capitalization ratio was changed to reflect an increase in the ratio limits from 35%-50% to 35%-60%. No changes were made in the objectives, policies or processes for managing capital for the fiscal year ended January 2, 2016.

Note 24. Financial risk management objectives and policies

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

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

Interest rate risk

The Company's exposure to the risk of changes in market interest rates arises out of the Company's debt obligations with floating interest rates. For both of Fiscal 2016 and 2015, the Company's policy is to manage interest cost using a mix of fixed and variable rate debts. The Company's objective is to keep between 35% and 55% of its borrowings at fixed rates of interest. To manage this, the Company enters into fixed rate debt facilities or interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional amount. These swaps are designated to hedge underlying debt obligations. Interest rate options that effectively fix the maximum rate of interest that the Company will pay may also be used to manage this exposure. At December 31, 2016, 45% of the Company's borrowings, including the long-term debt and the working capital facility, were either hedged or at a fixed rate of interest (January 2, 2016: 47%).

Interest rate sensitivity

The Company's profit before tax is sensitive to a change in interest rates on that portion of debt obligations with floating interest rates, with all other variables held constant. As at December 31, 2016 the Company's current bank loans were $1.0 million (January 2, 2016: $17.6 million) and long-term debt was $267.9 million (January 2, 2016: $294.8 million). An increase of 25 basis points on the bank loans would have reduced earnings before tax by a nominal amount (January 2, 2016: $0.1 million). An increase of 25 basis points above the LIBOR floor on the long-term debt would have reduced earnings before tax by $0.4 million (January 2, 2016: $0.4 million). A corresponding decrease in respective interest rates would have an approximately equal and opposite effect. There is no impact on the Company's equity except through changes in income.

Foreign currency risk

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

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

The Parent hedges forecasted cash flows for purchases of USD-denominated products for its Canadian operations where the purchase price is substantially known in advance (purchases identified for hedging). At December 31, 2016, the Parent hedged 61% (January 2, 2016: 55%) of these purchases identified for hedging, extending to March 2018. The Company's Price Risk Management Policy dictates that cash flows out 15 months are hedged between a minimum and maximum percent that declines by quarter the further into the future the cash flows are. The Company does not hedge cash flows on certain USD-denominated seafood purchases in which the ultimate selling prices charged to the Company's Canadian customers move with changes in the USD/CAD exchange rates. It is the Company's policy to set the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. The Company also has foreign exchange risk related to the USD-denominated input costs of commodities used in its Canadian operations related to freight surcharges on transportation costs, paper products in packaging, grain and corn products in its breading and batters, and soya and canola bean-based cooking oils. The Company hedges these USD-denominated input costs on a small scale, but relies where possible on 3 to 36 month, fixed-price contracts in CAD with suppliers.

For the fifty-two weeks ended December 31, 2016, approximately 69% of the Parent's costs were denominated in USD, while almost 91% of the Parent's sales were denominated in its CAD functional currency.

The Parent has some assets and liabilities that are denominated in CAD, and therefore, the assets and liabilities reported in the consolidated financial statements change as USD/CAD exchange rates fluctuate. A stronger CAD has the effect of increasing the carrying value of assets and liabilities such as accounts receivable, inventory, property, plant and equipment, and accounts payable of the Parent when translated to USD. The net offset of those changes flow through OCI. Based on the equity of the Parent as of December 31, 2016 a one cent increase/decrease in the USD/CAD exchange rate will decrease/increase equity by approximately $0.4 million (January 2, 2016: $0.1 million).

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Company holds credit insurance on its trade accounts receivable and all receivable balances are managed and monitored at the corporate level on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company's top ten customers account for 66% of the trade receivables at December 31, 2016 (January 2, 2016: 65%) with the largest customer accounting for 14% (January 2, 2016: 17%).

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

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

Liquidity risk

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next 12 months as well as the models that look out five years. Working capital and cash balances are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable, and finance leases. The Company's objective is that not more than 50% of borrowings should mature in the next 12-month period. At December 31, 2016, less than 1% of the Company's debt (January 2, 2016: less than 4%) will mature in less than one year based on the carrying value of borrowings reflected in the consolidated financial statements. At December 31, 2016, the Company was in compliance with all covenants and terms of its debt facilities.

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

(Amounts in $000s)	Due within 1 year	Due in 1-5 years	Due after 5 years	Total
Bank loans	**$ —**	**$ 959**	**$ —**	**$ 959**
Accounts payable	**135,272**	**—**	**—**	**135,272**
Other long-term liabilities	**416**	**888**	**—**	**1,304**
Long-term debt	**—**	**267,926**	**—**	**267,926**
Finance lease obligations	**721**	**702**	**—**	**1,423**
As at December 31, 2016	**$ 136,409**	**$ 270,475**	**$ —**	**$ 406,884**
Bank loans	$ —	$ 17,628	$ —	$ 17,628
Accounts payable	120,336	—	—	120,336
Other long-term liabilities	—	483	—	483
Long-term debt	11,816	3,152	279,782	294,750
Finance lease obligations	1,015	715	—	1,730
As at January 2, 2016	$ 133,167	$ 21,978	$ 279,782	$ 434,927

Seafood price risk

The Company is dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. The Company buys as much as $518.0 million of this product annually. A 1% change in the price of frozen raw seafood materials would increase/decrease the Company's procurement costs by $5.2 million. Prices can fluctuate and there is no formal commercial mechanism for hedging either sales or purchases. Purchases of seafood on global markets are principally in USD. The Company hedges exposures to a portion of its currency exposures and enters into longer term supply contracts when possible. All foreign currency hedging activities are carried out in accordance with its formal *Price Risk Management Policy*, under the oversight of the Audit Committee.

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

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

Commodity risk

The Company is exposed to price changes in commodities such as crude oil, wheat, corn, paper products, and frying oils. The Company's Price Risk Management Policy dictates the use of fixed pricing with suppliers whenever possible, but allows the use of hedging with derivative instruments if deemed prudent. Throughout 2016 and 2015, the Company managed this risk through contracts with suppliers. The Company enters into fixed price contracts with suppliers on an annual basis and, therefore, a significant portion of the Company's 2017 commodity purchase requirements is covered. Should an increase in the price of commodities materialize, there could be a negative impact on earnings performance and alternatively, a decrease in the price of commodities could result in a benefit to earnings performance.

Crude oil prices, which influence fuel surcharges from freight suppliers, started to increase in the second quarter of 2016 and ended the year above the 2015 closing price. World commodity prices for flour, soy and canola oils are important ingredients in many of the Company's products. Flour prices generally maintained the price level of the prior year, while soy and canola oil prices increased in 2016. The price of corrugated and folding carton, which is used in packaging, increased toward the end of 2016.

Note 25. Supplemental information

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

	Fifty-two weeks ended	
(Amounts in $000s)	**December 31, 2016**	January 2, 2016
Included in finance costs:		
Interest expense on bank loans	**$ 934**	$ 1,622
Interest expense on long-term debt	**12,682**	13,993
Interest rate hedge	**(127)**	(641)
Deferred financing charges	**530**	562
Interest on letter of credit for SERP	**124**	145
Fair market value accretion on acquisition	**142**	354
Foreign exchange loss	**11**	212
Total finance costs	**$ 14,296**	$ 16,247
Foreign exchange (gain) loss included in:		
Cost of sales	**$ (1,015)**	$ (3,326)
Finance costs	**11**	212
Total foreign exchange gain	**$ (1,004)**	$ (3,114)
(Gain) loss on disposal of assets included in:		
Cost of sales	**$ 181**	$ 433
Distribution expenses	**19**	34
Selling, general and administrative expenses	**(379)**	(138)
Total (gains) losses on disposal of assets	**$ (179)**	$ 329
Employee compensation and benefit expense:		
Wages and salaries (including payroll benefits)	**$ 100,007**	$ 98,915
Future employee benefit costs	**2,915**	4,199
Share-based compensation expense	**3,229**	1,119
Termination benefits	**1,477**	2,609
Short-term employee benefits	**(2,319)**	(326)
Total employee compensation and benefit expense	**$ 105,309**	$ 106,516

Note 26. Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

Historical Consolidated Statement of Income (unaudited)

in United States dollars, unless otherwise noted (Amounts in $000s, except per share amounts)	**2016**	2015	2014	2013[1]	2012	2011	2010[2]	2009[3]	2008	2007
Revenues	**$ 956,016**	$1,001,507	$1,051,613	$ 947,301	$ 942,631	$ 675,539	$ 567,572	$ 549,922	$ 578,844	$ 256,180
Gross profit	**202,837**	201,664	220,405	215,335	206,661	153,530	133,169	117,953	124,282	66,293
Distribution expenses	**43,610**	48,037	52,558	53,368	44,511	35,382	29,149	28,383	34,816	18,781
Selling, general and administrative expenses	**96,978**	93,597	105,313	98,820	100,862	72,898	66,565	58,787	61,604	36,729
Impairment of property, plant and equipment	**2,327**	–	852	–	13,230	–	–	–	–	–
Business acquisition, integration and other expenses	**4,787**	7,473	6,582	3,256	10,741	11,049	870	403	4,585	1,197
Finance costs	**14,296**	16,247	17,569	16,329	36,585	6,019	5,025	4,895	6,061	46
(Income) loss from equity accounted investee, net of income tax	**–**	–	–	(86)	196	52	(16)	–	–	–
Non-operating items and gain (loss) on disposal of assets	**–**	–	–	–	–	–	–	808	79	(311)
Income before income taxes	**40,839**	36,310	37,531	43,648	536	28,130	31,576	24,677	17,137	9,851
Income taxes										
Current	**8,737**	5,707	3,906	12,378	5,442	5,762	6,220	2,234	2,822	2,331
Deferred	**(848)**	1,022	3,325	(86)	(7,109)	3,708	6,057	5,130	980	1,082
Total income tax expense (recovery)	**7,889**	6,729	7,231	12,292	(1,667)	9,470	12,277	7,364	3,802	3,413
Net income from continuing operations	**32,950**	29,581	30,300	31,356	2,203	18,660	19,299	17,313	13,335	6,438
Net income from discontinued operations, net of income taxes	**–**	–	–	–	–	–	–	–	–	346
Net income	**$ 32,950**	$ 29,581	$ 30,300	$ 31,356	$ 2,203	$ 18,660	$ 19,299	$ 17,313	$ 13,335	$ 6,784
Reconciliation to EBITDA:										
Net income	**$ 32,950**	$ 29,581	$ 30,300	$ 31,356	$ 2,203	$ 18,660	$ 19,299	$ 17,313	$ 13,335	$ 6,784
Add-back:										
Net income from discontinued operations, net of income taxes	**–**	–	–	–	–	–	–	–	–	(346)
Income tax expense (recovery)	**7,889**	6,729	7,231	12,292	(1,667)	9,470	12,277	7,364	3,802	3,413
Finance costs	**14,296**	16,247	17,569	16,329	36,585	6,019	5,025	4,895	6,061	46
Amortization of intangible assets	**5,166**	5,225	4,923	5,258	5,551	1,840	1,169	1,314	1,300	7
Depreciation	**11,948**	11,515	11,874	9,901	13,830	7,981	7,094	5,796	6,079	2,865
Standardized EBITDA	**$ 72,249**	$ 69,297	$ 71,897	$ 75,136	$ 56,502	$ 43,970	$ 44,864	$ 36,682	$ 30,577	$ 12,769
Add-back:										
Business acquisition, integration and other expenses	**4,787**	7,473	6,582	3,256	10,741	11,049	870	403	4,585	1,197
Impairment of property, plant and equipment	**2,327**	–	852	–	13,230	–	–	–	–	–
Increase in cost of sales due to purchase price allocation to inventory	**–**	–	–	–	1,149	510	55	–	927	–
(Gain) loss on disposal of assets	**(179)**	329	681	247	(190)	192	14	431	378	–
Share-based compensation expense (recovery)	**3,229**	1,119	3,329	6,704	10,255	737	3,653	320	(102)	126
Non-operating items	**–**	–	–	–	–	–	–	504	51	(210)
Adjusted EBITDA	**$ 82,413**	$ 78,218	$ 83,341	$ 85,343	$ 91,687	$ 56,458	$ 49,456	$ 38,340	$ 36,416	$ 13,882
Reconciliation to Adjusted Net Income:										
Net income	**$ 32,950**	$ 29,581	$ 30,300	$ 31,356	$ 2,203	$ 18,660	$ 19,299	$ 17,313	$ 13,335	$ 6,784
Add-back, after-tax:										
Net income from discontinued operations, net of income taxes	**–**	–	–	–	–	–	–	–	–	(346)
Share-based compensation expense (recovery)	**2,792**	1,207	2,958	6,366	10,025	703	3,653	219	(67)	80
Impairment of property, plant and equipment	**1,614**	–	520	–	8,635	–	–	–	–	–
Accelerated depreciation on equipment/property disposed as part of a discontinuation/acquisition	**668**	216	–	–	1,146	–	–	–	–	–
Business acquisition, integration and other expenses	**3,014**	4,985	4,290	2,068	6,895	8,397	541	497	3,853	821
Non-operating items	**–**	–	–	–	–	–	–	504	53	(209)
Increase in cost of sales due to purchase price allocation to inventory	**–**	–	–	–	761	312	34	–	575	–
Mark-to-market loss (gain) on embedded derivative and related accretion	**–**	–	188	(105)	1,899	–	–	–	–	–
Mark-to-market (gain) loss on interest rate swaps	**(90)**	(426)	(80)	76	529	–	–	–	–	–
Accelerated amortization of deferred financing costs and other items resulting from debt refinancing and amendment activities	**–**	–	605	776	6,380	–	–	–	–	–
Intercompany dividend withholding tax	**–**	–	–	744	(402)	782	996	–	–	–
Adjusted Net Income	**$ 40,948**	$ 35,563	$ 38,781	$ 41,281	$ 38,071	$ 28,854	$ 24,523	$ 18,533	$ 17,749	$ 7,130

Historical Consolidated Statement of Income (unaudited)

in United States dollars, unless otherwise noted (Amounts in $000s, except per share amounts)	2016	2015	2014	2013[1]	2012	2011	2010[2]	2009[3]	2008	2007
Book value per common share	**$ 7.21**	$ 6.49	$ 6.41	$ 6.04	$ 5.07	$ 5.27	$ 4.89	$ 3.76	$ 3.97	$ 2.80
Gross capital expenditures from continuing operations ($000s)	**17,686**	18,587	28,075	15,419	13,447	7,675	5,134	11,107	6,051	3,620
Per share information:										
Basic earnings per common share										
Based on net income	**$ 1.07**	$ 0.96	$ 0.99	$ 1.03	$ 0.08	$ 0.62	$ 0.60	$ 0.47	$ 0.45	$ 0.27
Based on income from continuing operations	**1.07**	0.96	0.99	1.03	0.08	0.62	0.60	0.47	0.45	0.25
Based on adjusted net income	**1.32**	1.15	1.26	1.36	1.26	0.95	0.76	0.51	0.59	0.29
Diluted earnings per common share										
Based on net income	**1.06**	0.95	0.97	1.01	0.07	0.61	0.60	0.47	0.36	0.27
Based on income from continuing operations	**1.06**	0.95	0.97	1.01	0.07	0.61	0.60	0.47	0.36	0.25
Based on adjusted net income	**1.31**	1.14	1.24	1.32	1.23	0.94	0.76	0.51	0.49	0.29
Common shares										
Outstanding at year end (000s)	**30,889**	30,874	30,706	30,571	30,258	30,174	30,298	36,662	36,942	26,762
Average outstanding for the year:										
Basic (000s)	**30,917**	30,819	30,665	30,367	30,238	30,218	32,192	36,770	30,118	20,886
Diluted (000s)	**31,175**	31,265	31,317	31,186	30,920	30,682	32,490	36,792	36,406	21,184
Second preference shares										
Dividends declared and paid ($000s)	**$ –**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 166	$ 1,210
Dividends per share (CAD)	**–**	–	–	–	–	–	–	–	0.83	6.05
Series A preference shares										
Dividends declared and paid ($000s)	**–**	–	–	–	–	–	–	–	774	–
Dividends per share (CAD)	**–**	–	–	–	–	–	–	–	0.39	–
Common shares										
Dividends declared and paid ($000s)	**12,145**	11,023	11,285	10,305	6,379	5,891	5,238	4,959	3,244	2,073
Dividends per share (CAD)[3]	**0.520**	0.465	0.410	0.350	0.210	0.195	0.165	0.135	0.110	0.100

Historical Consolidated Statement of Financial Position (unaudited)

in United States dollars, unless otherwise noted (Amounts in $000s)	**2016**	2015	2014	2013[1]	2012	2011	2010[2]	2009[3]	2008	2007
Cash	**$ 18,252**	$ 1,043	$ 1,044	$ 1,206	$ 65	$ 3,205	$ 601	$ 1,866	$ 5,808	$ 7,219
Accounts receivable	**75,190**	76,335	81,772	90,113	73,947	83,590	50,724	56,901	52,758	70,171
Income taxes receivable	**3,783**	5,218	7,381	3,509	5,145	3,498	704	1,231	37	2,467
Other financial assets	**1,705**	6,453	4,139	1,524	533	1,323	895	–	–	–
Inventories	**252,118**	261,771	261,987	252,960	222,313	256,324	132,696	114,261	121,304	112,949
Prepaid expenses	**3,340**	2,051	2,481	2,361	2,991	2,969	1,899	1,934	1,472	1,750
Deferred income taxes	**–**	–	–	–	–	–	–	3,675	1,266	1,331
Total current assets	**354,388**	352,871	358,804	351,673	304,994	350,909	187,519	179,868	182,645	195,887
Property, plant and equipment	**111,322**	115,879	114,231	101,470	89,268	105,808	67,634	56,878	48,745	58,779
Deferred income taxes	**2,290**	2,495	3,372	4,656	7,207	1,667	2,416	333	688	1,714
Investment in equity accounted investee	**–**	–	–	–	96	271	154	–	–	–
Other receivables and miscellaneous assets	**864**	1,683	1,678	1,906	1,847	1,190	819	232	109	66
Future employee benefits	**–**	–	–	–	92	92	92	7,062	2,872	6,908
Intangible assets	**97,176**	102,315	107,704	105,253	110,631	116,594	31,409	18,904	19,877	–
Goodwill	**118,101**	117,824	119,270	111,999	112,873	110,816	40,036	27,423	25,413	–
Intangible assets and goodwill	**–**	–	–	–	–	–	–	–	–	43,702
Assets classified as held for sale	**–**	–	515	542	4,819	–	–	–	–	–
Total assets	**$ 684,141**	$693,067	$ 705,574	$ 677,499	$ 631,827	$ 687,347	$ 330,079	$290,700	$ 280,349	$ 307,056
Bank loans - actual amounts owing	**$ 959**	$ 17,628	$ 65,851	$ 97,899	$ 60,530	$ 119,936	$ 43,261	$ 22,084	$ 33,500	$ 63,506
Bank loans - deferred charges	**(338)**	(470)	(721)	(672)	(826)	(978)	(304)	(312)	(518)	(880)
Accounts payable and accrued liabilities	**134,660**	119,723	83,595	100,945	91,436	102,623	55,821	52,431	60,800	52,190
Share-based compensation payable - current	**612**	613	2,259	3,313	10,005	4,233	4,559	–	–	–
Provisions	**386**	263	437	240	1,614	1,013	553	–	–	–
Other current financial liabilities	**1,626**	817	580	459	550	780	2,347	–	–	–
Other current liabilities	**416**	–	–	–	–	–	–	–	–	–
Income taxes payable	**851**	2,242	20	2,543	1,165	2,024	3,248	28	2,018	447
Current portion of long-term debt	**–**	11,816	3,000	–	34,237	2,500	4,450	4,378	–	–
Current portion of finance lease obligations	**721**	1,015	994	979	1,039	1,046	978	826	378	616
Total current liabilities	**139,893**	153,647	156,015	205,706	199,750	233,177	114,913	79,435	96,178	115,879
Long-term debt - actual amounts owing	**267,926**	282,934	294,750	232,720	213,888	247,500	44,456	48,996	53,366	53,522
Long-term debt - deferred charges and market valuations	**(1,599)**	(1,917)	(2,717)	(5,791)	(529)	(20,254)	(305)	(412)	(554)	(677)
Other long-term financial liabilities	**196**	89	951	5,597	1,130	6,223	208	1,198	1,744	–
Other long-term liabilities	**–**	125	2,180	175	–	–	–	–	–	–
Share-based compensation payable - long-term	**888**	358	620	869	1,532	243	–	–	–	–
Long-term finance lease obligations	**702**	715	1,212	1,647	2,181	2,555	3,062	2,580	424	265
Deferred income taxes	**45,183**	46,966	46,722	43,998	45,126	47,991	9,949	4,479	–	–
Future employee benefits	**8,190**	9,631	8,867	7,929	13,791	11,085	9,682	4,338	465	4,320
Liabilities classified as held for sale	**–**	–	–	–	1,604	–	–	–	–	–
Shareholders' equity	**222,762**	200,519	196,974	184,649	153,354	158,827	148,114	150,086	128,726	133,747
Total liabilities and shareholders' equity	**$ 684,141**	$693,067	$ 705,574	$ 677,499	$ 631,827	$ 687,347	$ 330,079	$290,700	$ 280,349	$ 307,056

1 Share and per share amounts for Fiscal 2013 and prior years have been restated to reflect the retrospective application of the May 30, 2014 2-for-1 stock split.

2 In Fiscal 2012, the Company changed its presentation currency from CAD to USD. Results for Fiscal 2011 and 2010 have been fully restated to USD. Historical information for Fiscal 2009 and prior years has been converted to USD by translating the previously reported CAD results at the average annual exchange rate for that year.

3 The Company adopted International Financial Reporting Standards effective January 2, 2011, with retrospective application to Fiscal 2010. In Fiscal 2009 and prior years, the Company's results were prepared in accordance with Canadian generally accepted accounting principles.

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