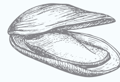

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Management's Discussion and Analysis

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.

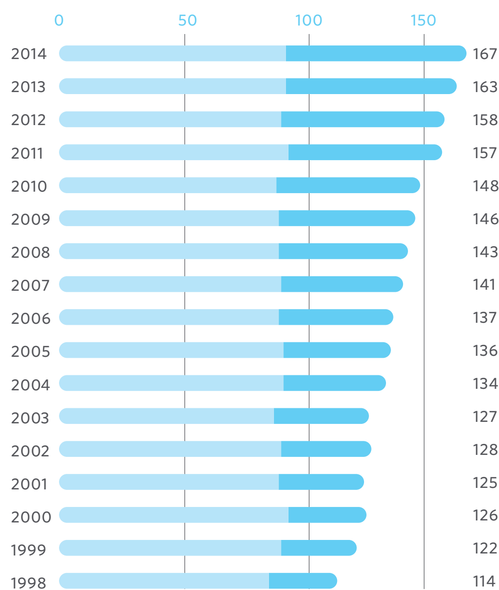
We have made five acquisitions since late 2007, all of which were aligned with the above criteria. These acquisitions positioned High Liner Foods as the North American leader in value-added frozen seafood, the clear market leader in both retail and foodservice channels in Canada, and a leading supplier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

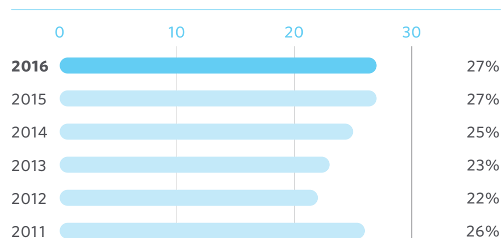
Share of Capture and Aquaculture (million MT)



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.

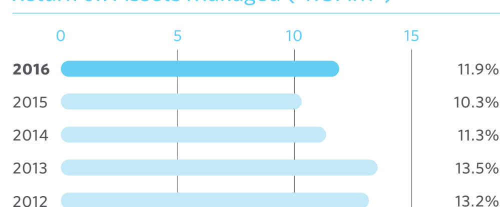
2 Financial Objectives

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.

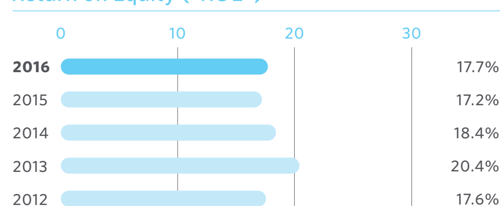
Return on Assets Managed ("ROAM")



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 Measure*s 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)

(in $000s, except sales volume and percentage amounts)	Fifty-two weeks ended December 31, 2016	Fifty-two weeks ended January 2, 2016	Change
Sales volume (millions of lbs)	**68.1**	68.2	**(0.1)**
Sales	**$ 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)

(in $000s, except sales volume and percentage amounts)	Fifty-two weeks ended December 31, 2016	Fifty-two weeks ended January 2, 2016	Change
Sales volume (millions of lbs)	**209.2**	216.2	**(7.0)**
Sales	**$ 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)

(in $000s, except sales volume and percentage amounts)	Thirteen weeks ended December 31, 2016	Thirteen weeks ended January 2, 2016	Change
Sales volume (millions of lbs)	**16.6**	16.5	**0.1**
Sales	**$ 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)

(in $000s, except sales volume and percentage amounts)	Thirteen weeks ended December 31, 2016	Thirteen weeks ended January 2, 2016	Change
Sales volume (millions of lbs)	**45.7**	49.7	**(4.0)**
Sales	**$ 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.