Management's Discussion and Analysis

For the fifty-two weeks ended December 29, 2018
(All amounts are in United States dollars unless otherwise stated)

Introduction

This Management's Discussion and Analysis ("MD&A"), dated February 27, 2019, relates to the financial condition and results of operations of High Liner Foods Incorporated for the fifty-two weeks ended December 29, 2018 ("Fiscal 2018") compared to the fifty-two weeks ended December 30, 2017 ("Fiscal 2017"). Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2018 Annual Report along with our Annual Audited Consolidated Financial Statements ("Consolidated Financial Statements") as at and for the fifty-two weeks ended December 29, 2018, 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 27, 2019, 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 2018, 2017 and 2016 were fifty-two weeks. When a fiscal year 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 34 of this MD&A.

Currency

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

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

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

Forward-Looking Statements

This MD&A 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 43 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 51 of this MD&A.

Company Overview

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

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

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

The Company has embarked on a significant undertaking as represented by the five critical initiatives summarized below to eliminate the challenges in its internal operations and strengthen the overall health of the business. The Company expects to execute on the critical initiatives outlined below within nine to twelve months and as previously disclosed, expects to achieve a minimum of $10 million in annualized cost savings, on a run rate basis, associated with these critical initiatives, starting in 2019. Annualized cost savings of $7.0 million were identified as part of the Company's organizational realignment that was completed in November 2018 (see the *Recent Developments* section on page 15).

The Company's five critical initiatives are:

- **Organizational Realignment:** Important progress has been made on this initiative, as mentioned above to realign the organization to create a "One High Liner Foods" culture that improves efficiency, cuts costs, will facilitate knowledge sharing, organizational best practices and lay the foundation for the critical initiatives that follow.
- **Business Simplification:** The Company will take unnecessary complexity out of its business to ensure the product portfolio is simple, yet powerful and focuses on the best of High Liner Foods – in terms of margins, customer appeal and growth potential. Although this will require certain product eliminations, this will enable the Company to focus its resources on developing and innovating the most profitable and desirable products.
- **Supply Chain Excellence:** The Company will build on efforts to date to create one integrated supply chain by creating a cross-border operating system, increasing the efficiency of manufacturing activities through further centralization and standardization and is focusing its attention on sales and operational planning and continuous improvement.
- **Rubicon Alignment and Growth:** The Company will work to extract the value and synergies in this acquisition that have yet to be fully realized. By fully aligning Rubicon with High Liner Foods, the Company will maximize the opportunity for growth in the shrimp business.
- **Profitable Organic Growth:** The Company will invest in product innovation, research and partnerships to strengthen its customer engagement, shape consumer tastes and demand for our seafood with the goal of returning to profitable growth by 2020.

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. In April 2018, the Company executed a seven year brand license agreement for the continued use of the Icelandic Seafood brand in the U.S. and Canada with royalty payments effective January 2019 (1.5% on net sales of products sold under the Icelandic Seafood brand).*

Financial Objectives

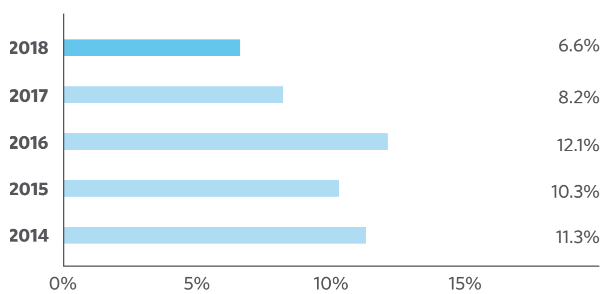
Our strategy was designed with the expectation to increase shareholder value. To help us focus on meeting investor expectations, we use three key financial measures to gauge our financial performance:

	Fiscal 2018	Fiscal 2017
Return		
On assets managed	**6.6%**	8.2%
On equity	**5.8%**	12.1%
Profitability		
Adjusted EBITDA as a percentage of sales	**6.0%**	6.3%
Financial strength		
Net interest-bearing debt to Adjusted EBITDA ratio (times)[1]	**5.8x**	5.9x

[1] *Including trailing twelve-month Adjusted EBITDA for Rubicon, net interest-bearing debt to Adjusted EBITDA (see the* Non-IFRS Financial Measures *section on page 34 of this MD&A for further discussion of Adjusted EBITDA) was 5.6x at December 30, 2017.*

Each of these financial measures is further discussed below. See the *Non-IFRS Financial Measures* section starting on page 34 for further explanation of these measures.

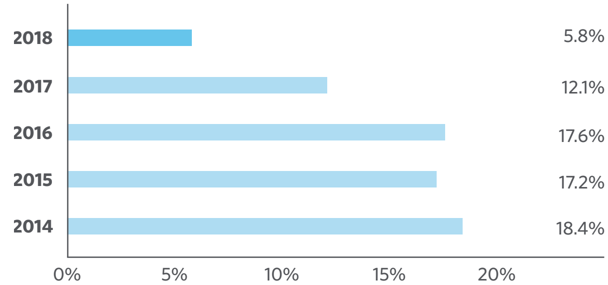
Return on Assets Managed ("ROAM")



In 2018, Adjusted EBIT decreased by $5.1 million, or 10.2%, compared to 2017 and the thirteen-month rolling average net assets managed increased by $65.5 million, or 10.7%. The combined impact of these changes was a decrease in ROAM from 8.2% at the end of Fiscal 2017 to 6.6% at the end of Fiscal 2018.

The decrease in Adjusted EBIT in 2018 is a result of the same factors causing the $3.6 million decrease in Adjusted EBITDA in 2018 compared to 2017, as discussed in the *Consolidated Performance* section on page 17 of this MD&A and an increase in depreciation and amortization expense primarily related to the full year impact of the Rubicon Resources LLC ("Rubicon") acquisition in May 2017. The increase in the average net assets managed in 2018 compared to 2017 is primarily due to the timing of the Rubicon acquisition in 2017, which resulted in higher average inventory held, intangibles, and goodwill, partially offset by an increase in average accounts payable and accrued liabilities over the comparable period.

Return on Equity ("ROE")



In 2018, Adjusted Net Income less share-based compensation expense decreased by $13.6 million, or 46.2%, compared to 2017, and the thirteen-month rolling average common equity increased by $28.9 million, or 11.9%, primarily reflecting the higher average common shares outstanding in 2018 due to the issuance of common shares in May 2017 related to the Rubicon acquisition. The combined impact of these changes resulted in a decrease in ROE from 12.1% at the end of Fiscal 2017 to 5.8% at the end of Fiscal 2018. The decrease in Adjusted Net Income in 2018 compared to 2017 is discussed in the *Consolidated Performance* section on page 17 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 34 of this MD&A, divided by:
- **Sales** as disclosed on the consolidated statements of income.

In 2018, Adjusted EBITDA decreased by $3.6 million, or 5.5%, compared to 2017 and sales decreased by $5.3 million, or 0.5%. The combined impact of these changes resulted in a decrease in Adjusted EBITDA as a percentage of sales from 6.3% in 2017 compared to 6.0% in 2018. The decrease in Adjusted EBITDA as a percentage of sales for 2018 compared to 2017 reflects lower gross profit (after adjusting the prior year for the losses associated with the 2017 product recall) and higher distribution expenses, partially offset by lower SG&A expenses in 2018, as discussed in the *Consolidated Performance* section on page 17 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 38 of this MD&A, divided by:
- **Adjusted EBITDA** as defined in the *Non-IFRS Financial Measures* section on page 34 of this MD&A.

Net interest-bearing debt to Adjusted EBITDA was 5.8x at the end of Fiscal 2018 compared to 5.9x at the end of Fiscal 2017, as shown in the following table:

	Twelve months ended	
(Amounts in $000s, except as otherwise noted)	**December 29, 2018**	December 30, 2017
Net interest-bearing debt	**$ 360,642**	$ 387,869
Adjusted EBITDA	**$ 62,474**	$ 66,112
Net interest-bearing debt to Adjusted EBITDA ratio (times)	**5.8x**	5.9x

During 2018, net interest-bearing debt decreased by $27.3 million and Adjusted EBITDA decreased by $3.6 million. The combined impact of these changes was a decrease in net interest-bearing debt to Adjusted EBITDA for 2018 compared to 2017. The change in net interest-bearing debt is discussed on page 38 of this MD&A, and the change in Adjusted EBITDA is discussed on page 34 of this MD&A. Including trailing twelve month Adjusted EBITDA for Rubicon, net interest-bearing debt to Adjusted EBITDA was 5.6x at December 30, 2017. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2019, we expect this ratio will be lower at the end of Fiscal 2019.

Outlook

High Liner continues to advise shareholders that until it successfully executes its critical initiatives over the next nine to twelve months, it is likely to continue to face pressure on its financial results due to a number of internal and external factors. Longer term, the Company expects its financial performance to improve and targets a return to profitable growth by 2020.

Recent Developments

Organizational Realignment

In August 2018, the Company communicated plans to optimize the Company's structure in order to take better advantage of the Company's North American scale, lower operating costs and improve financial performance. On November 7, 2018, the Company announced an organizational realignment which resulted in a reduction of 14.0% of its salaried workforce. The Company expects to recognize termination benefits of approximately $4.9 million related to this workforce reduction, of which $3.5 million was recognized in the fourth quarter of 2018 as business acquisition, integration and other (income) expense in the consolidated statements of income. The full organizational realignment undertaken in 2018 will generate approximately $7.0 million in net annualized run rate cost savings.

U.S. Tariffs

In September 2018, the U.S. Administration announced an additional 10% tariff on certain Chinese imports, including seafood, effective September 24, 2018, increasing to 25% effective January 1, 2019. On December 19, 2018, the U.S. Administration postponed the January 1, 2019 tariff increase, pending negotiations between the U.S. Administration and China.

The Company currently purchases its seafood raw materials from more than 20 countries around the world, including from the U.S., to meet U.S. consumer demand. A portion of this raw material is imported into China for primary processing and then exported to the U.S. for sale and secondary processing. The Company has determined that the additional tariff applies to the import of certain species into the U.S., most notably haddock, tilapia and sole/flounder. The estimated exposure of a 10% and 25% tariff in 2019 is approximately $4 million and $9 million, respectively based on current volume and raw material costs; however, the Company has begun implementing plans, including pricing actions and other supply chain initiatives, to mitigate the impact of these tariffs and reduce the estimated impact to the Company. The Company will continue to monitor these developments closely, particularly if further information becomes available regarding potential additional tariffs or how the previously announced tariffs will impact the Company.

Product Recall

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

During the fifty-two weeks ended December 29, 2018, the Company recognized an $8.5 million recovery associated with the product recall losses from the ingredient supplier, which was recognized as business acquisition, integration and other (income) expense in the consolidated statements of income.

Subsequent to December 29, 2018, the Company recovered an additional $8.5 million associated with the product recall from the ingredient supplier, for a total recovery of $17.0 million, see Note 6 *"Product recall"* to the Consolidated Financial Statements for further information). This additional recovery will be recognized during the first quarter of 2019, reflecting the period in which the recovery became virtually certain, in accordance with IFRS. No further recoveries are expected. As a result, the Company has fully recovered the $13.5 million in losses recognized during the fifty-two weeks ended December 30, 2017 related to consumer refunds, customer fines, the return of product to be re-worked or destroyed, and direct incremental costs, and an additional $3.5 million related to lost sales opportunities and increased production costs. See the *"Events After the Reporting Period"* section on page 34 for further information.

Upgrade of Enterprise Resource Planning System

During the second quarter of 2018, the Company completed a significant upgrade to its enterprise resource planning ("ERP") system, which is the business management software that supports the Company's core business processes. The upgrade provides improved capability to support the organizational realignment, current business objectives and future growth. The upgrade was completed on time, within internal spending targets, and without interruption to customers or the business.

Appointment of New President and Chief Executive Officer

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

Amendments to the Working Capital Credit Facility

In April 2018, the Company amended the $180.0 million working capital credit facility (see Note 11 *"Bank loans"* to the Consolidated Financial Statements) to extend the term from April 2019 to April 2021. There were no other significant changes to the existing terms, other than an amendment to the standby fees paid on the unutilized facility to 0.25%.

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

Seasonality

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

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

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

Consolidated Performance

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

(in $000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	Fifty-two weeks ended December 29, 2018	Fifty-two weeks ended December 30, 2017	Change	Fifty-two weeks ended December 31, 2016
Sales volume (millions of lbs)	**284.0**	291.8	**(7.8)**	277.3
Average foreign exchange rate (USD/CAD)	**$ 1.2956**	$ 1.2983	**$ (0.0027)**	$ 1.3248
Sales				
Sales in domestic currency	**$ 1,123,228**	$ 1,131,733	**$ (8,505)**	$ 1,036,229
Foreign exchange impact	**(74,697)**	(77,887)	**3,190**	(81,243)
Sales in USD	**$ 1,048,531**	$ 1,053,846	**$ (5,315)**	$ 954,986
Gross profit	**$ 188,157**	$ 186,079	**$ 2,078**	$ 201,807
Gross profit as a percentage of sales	**17.9%**	17.7%	**0.2%**	21.1%
Distribution expenses	**$ 52,649**	$ 49,827	**$ 2,822**	$ 43,610
Selling, general and administrative expenses	**$ 92,208**	$ 99,449	**$ (7,241)**	$ 96,978
Adjusted EBITDA(1)				
Adjusted EBITDA in domestic currency	**$ 66,731**	$ 68,780	**$ (2,049)**	$ 88,352
Foreign exchange impact	**(4,257)**	(2,668)	**(1,589)**	(6,969)
Adjusted EBITDA in USD	**$ 62,474**	$ 66,112	**$ (3,638)**	$ 81,383
Adjusted EBITDA as a percentage of sales	**6.0%**	6.3%	**(0.3)%**	8.5%
Net income	**$ 16,776**	$ 31,653	**$ (14,877)**	$ 32,284
Basic Earnings per Share ("EPS")	**$ 0.50**	$ 0.98	**$ (0.48)**	$ 1.04
Diluted EPS	**$ 0.50**	$ 0.97	**$ (0.47)**	$ 1.04
Adjusted Net Income(1)	**$ 17,049**	$ 30,142	**$ (13,093)**	$ 40,284
Adjusted Basic EPS	**$ 0.51**	$ 0.93	**$ (0.42)**	$ 1.30
Adjusted Diluted EPS(1),(2)	**$ 0.51**	$ 0.93	**$ (0.42)**	$ 1.29
Total assets	**$ 837,155**	$ 907,969	**$ (70,814)**	$ 685,108
Total long-term financial liabilities	**$ 335,364**	$ 348,774	**$ (13,410)**	$ 276,303
Dividends paid per common share (CAD)	**$ 0.580**	$ 0.565	**$ 0.015**	$ 0.520

(1) *See the* Non-IFRS Financial Measures *section starting on page 34 for further explanation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.*

(2) *CAD-Equivalent Adjusted Diluted EPS was $0.66, $1.21 and $1.71 for the fifty-two weeks ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. See the* Non-IFRS Financial Measures *section on page 37 for further explanation of CAD-Equivalent Adjusted Diluted EPS.*

The acquisition of Rubicon on May 30, 2017 had the impact of increasing sales volume by 7.5 million pounds, sales by $35.1 million, gross profit by $4.4 million and Adjusted EBITDA by $1.2 million in 2018 as compared to 2017 as a result of incorporating Rubicon's results for the full year. Additional information relating to the Rubicon acquisition is available in the Company's Consolidated Financial Statements for the year ended December 29, 2018.

SALES

Sales volume in 2018 decreased by 7.8 million pounds, or 2.7%, to 284.0 million pounds compared to 291.8 million pounds in 2017, including the following:

- An additional 7.5 million pounds in 2018 from Rubicon, which was acquired on May 30, 2017, compared to 2017; and
- Lower sales volume in 2017 associated with the product recall of 2.4 million pounds.

Excluding these items, sales volume in 2018 decreased by 17.7 million pounds, or 6.5%, primarily due to lower sales volume in our U.S. retail and foodservice businesses and Canadian retail business, partially offset by higher sales volume in our Canadian foodservice business.

Sales in 2018 were $1,048.5 million, representing a decrease of $5.3 million, or 0.5%, compared to $1,053.8 million in 2017. The stronger Canadian dollar in 2018 compared to 2017 increased the value of reported USD sales from our CAD-denominated operations by approximately $0.5 million relative to the conversion impact last year.

Sales in domestic currency decreased by $8.5 million, or 0.8%, to $1,123.2 million in 2018 compared to $1,131.7 million in 2017. Excluding the additional sales from Rubicon of $35.1 million and the lower sales during 2017 associated the product recall ($8.8 million), sales decreased by $52.4 million, or 5.1%, due to the lower sales volume mentioned above and changes in product mix, partially offset by price increases related to raw material cost increases.

Sales by reportable segment are discussed in more detail in the *Performance by Segment* section on page 20.

GROSS PROFIT

Gross profit increased in 2018 by $2.1 million, or 1.1%, to $188.2 million compared to $186.1 million in 2017, reflecting an increase in gross profit as a percentage of sales to 17.9% compared to 17.7% in the prior year and losses associated with the product recall in 2017 ($13.5 million).

Excluding the impact of the product recall, gross profit decreased by $11.4 million, or 5.7%, due to the decrease in sales volume previously mentioned, raw material cost increases, unfavourable changes in product mix and U.S. plant inefficiencies, partially offset by the price increases, improved efficiency in our Canadian plant and increased gross profit associated with the inclusion of Rubicon for the full period in the current year. In addition, the stronger Canadian dollar had the effect of increasing the value of reported USD gross profit from our Canadian operations in 2018 by approximately $0.2 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 20.

DISTRIBUTION EXPENSES

Distribution expenses, consisting of freight and storage, increased in 2018 by $2.8 million to $52.6 million compared to $49.8 million in the same period last year, due to the acquisition of Rubicon and higher fuel, line-haul and storage costs, partially offset by the lower sales volume mentioned previously. As a percentage of sales, distribution expenses increased to 5.0% in 2018 compared to 4.7% in the same period in 2017.

SELLING, GENERAL AND ADMINISTRATIVE ("SG&A") EXPENSES

	Fifty-two weeks ended	
(Amounts in $000s)	**December 29, 2018**	December 30, 2017
SG&A expenses, as reported	**$ 92,208**	$ 99,449
Less:		
Share-based compensation expense[(1)]	**1,188**	712
Depreciation and amortization expense[(1)]	**9,441**	8,296
SG&A expenses, net	**$ 81,579**	$ 90,441
SG&A expenses, net as a percentage of sales	**7.8%**	8.6%

(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 decreased by $7.2 million to $92.2 million in 2018 as compared to $99.4 million in 2017. SG&A expenses included share-based compensation expense of $1.2 million in 2018 compared to an expense of $0.7 million in 2017, primarily reflecting additional stock option grants during the year, partially offset by a lower share price during the year. SG&A expenses also included depreciation and amortization expense of $9.4 million in 2018 compared to $8.3 million in 2017. The increase in depreciation and amortization expense is primarily related to the amortization of intangible assets acquired as part of the Rubicon acquisition in May 2017.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in 2018 by $8.8 million to $81.6 million compared to $90.4 million in the same period last year, due to lower administrative expenditures, including termination benefits, and lower consumer marketing expenditures across the Company, reflecting cost saving initiatives. The decrease in SG&A expenses was partially offset by increased expenses associated with the inclusion of Rubicon for the full period in the current year. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 7.8% in 2018 compared to 8.6% in the same period last year.

ADJUSTED EBITDA

We refer to Adjusted EBITDA throughout this MD&A, including in the *Performance by Segment* section on page 20, where Adjusted EBITDA is discussed for both our Canadian and U.S. operations. See the *Non-IFRS Financial Measures* section on page 34 for further explanation of this non-IFRS measure.

Consolidated Adjusted EBITDA decreased in 2018 by $3.6 million, or 5.5%, to $62.5 million compared to $66.1 million in 2017. 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 $4.3 million in 2018 compared to $2.7 million in 2017.

In domestic currency, Adjusted EBITDA decreased in 2018 by $2.1 million, or 3.0%, to $66.7 million (5.9% of sales) compared to $68.8 million (6.1% of sales) in 2017 reflecting the lower gross profit ($11.8 million) after adjusting for the losses associated with the 2017 product recall and an increase in distribution expenses explained previously, partially offset by the lower SG&A expenses mentioned previously. In addition, Adjusted EBITDA in 2017 included $2.3 million ($2.0 million USD) in product recall costs that were not added back for the purpose of Adjusted EBITDA.

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

(Amounts in $000s)	Fifty-two weeks ended December 29, 2018 USD	Fifty-two weeks ended December 30, 2017 USD	% Change USD	Fifty-two weeks ended December 29, 2018 Domestic $	Fifty-two weeks ended December 30, 2017 Domestic $	% Change Domestic $
External Sales						
Canada	$ 253,329	$ 262,063	(3.3)%	$ 328,026	$ 339,950	(3.5)%
USA	795,202	791,783	0.4%	795,202	791,783	0.4%
	1,048,531	1,053,846	(0.5)%	1,123,228	1,131,733	(0.8)%
Conversion	—	—		(74,697)	(77,887)	
	$ 1,048,531	$ 1,053,846	(0.5)%	$ 1,048,531	$ 1,053,846	(0.5)%
Adjusted EBITDA						
Canada	$ 16,039	$ 13,657	17.4%	$ 20,795	$ 17,715	17.4%
USA	50,604	56,991	(11.2)%	50,604	56,991	(11.2)%
Corporate	(4,169)	(4,536)	(8.1)%	(4,668)	(5,926)	(21.2)%
	62,474	66,112	(5.5)%	66,731	68,780	(3.0)%
Conversion	—	—		(4,257)	(2,668)	
	$ 62,474	$ 66,112	(5.5)%	$ 62,474	$ 66,112	(5.5)%
Adjusted EBITDA as percentage of sales						
In USD	6.0%	6.3%				
In Domestic $				5.9%	6.1%	

NET INCOME

We refer to Adjusted Net Income, Adjusted Diluted EPS and CAD-Equivalent Adjusted Diluted EPS throughout this MD&A. See the *Non-IFRS Financial Measures* section starting on page 34 for further explanation of these non-IFRS measures.

Net income decreased in 2018 by $14.9 million, or 47.0%, to $16.8 million ($0.50 per diluted share) compared to $31.7 million ($0.97 per diluted share) in 2017. The decrease in net income reflects the decrease in Adjusted EBITDA mentioned previously, an impairment of property, plant and equipment, an increase in termination benefits as a result of restructuring activities in the first three quarters of 2018 and the organizational realignment announced in November 2018 (see the *Recent Developments* section on page 15), an increase in finance costs and depreciation and amortization expense. Additionally, in 2018 the Company had an income tax expense of $6.1 million compared to an income tax recovery of $14.1 million in the same period last year that related to the impact of the reduction in federal corporate income tax rate associated with the U.S. Tax Reform in 2017 (see the *Income Taxes* section on page 28 of this MD&A). This decrease in net income was partially offset by the product recall recovery of $8.5 million from the ingredient supplier (see the *Recent Developments* section on page 15).

In 2018, net income included "business acquisition, integration and other (income) expense" (as explained in the *Business Acquisition, Integration and Other (Income) Expense* section on page 27 of this MD&A) related to the product recall recovery mentioned above, termination benefits as a result of restructuring activities in the first three quarters of 2018 and the organizational realignment announced in November 2018, and other non-cash expenses, including an impairment of property, plant and equipment. In 2017, net income included "business acquisition, integration and other (income) expense" related to the acquisition of Rubicon and other business development activities, losses associated with the product recall, and other non-cash expenses. Excluding the impact of these non-routine expenses or other non-cash expenses, and the impact of the U.S. Tax Reform in 2017, Adjusted Net Income in 2018 decreased by $13.1 million, or 43.4%, to $17.0 million compared to $30.1 million in 2017.

Adjusted Diluted EPS decreased by $0.42 to $0.51 in 2018 compared to $0.93 in 2017 and when converted to CAD using the average USD/CAD exchange rate for 2018 of 1.2956 (2017: 1.2983), CAD-Equivalent Adjusted Diluted EPS decreased by CAD$0.55 to CAD$0.66 in 2018 compared to CAD$1.21 in 2017 due to the increase in the weighted average number of shares outstanding associated with the acquisition of Rubicon and the decrease in Adjusted Net Income explained above.

Performance by Segment

CANADIAN OPERATIONS

(All currency amounts in this section are in CAD)

(in $000s, except sales volume and percentage amounts)	Fifty-two weeks ended December 29, 2018	Fifty-two weeks ended December 30, 2017	Change
Sales volume (millions of lbs)	**66.6**	68.9	**(2.3)**
Sales	**$ 328,026**	$ 339,950	**$ (11,924)**
Gross profit	**$ 60,576**	$ 59,358	**$ 1,218**
Gross profit as a percentage of sales	**18.5%**	17.5%	**1.0%**
Adjusted EBITDA[1]	**$ 20,795**	$ 17,715	**$ 3,080**
Adjusted EBITDA as a percentage of sales	**6.3%**	5.2%	**1.1%**

[1] *See the* Non-IFRS Financial Measures *section on page 34 for further explanation of Adjusted EBITDA.*

Sales volume for our Canadian operations decreased in 2018 by 2.3 million pounds to 66.6 million pounds compared to 68.9 million pounds in 2017. Excluding the reduced sales volume associated with the product recall during 2017 (0.4 million pounds), sales volume in 2018 decreased by 2.7 million pounds, or 3.9% reflecting lower sales volume in the retail business, partially offset by higher volume in the foodservice business.

Sales in 2018 decreased by $12.0 million, or 3.5%, to $328.0 million compared to $340.0 million in 2017. Excluding the sales impact of the 2017 product recall ($2.8 million), sales in 2018 decreased by $14.8 million, or 4.3%, primarily reflecting the decreased sales volume and changes in product mix, partially offset by price increases related to raw material cost increases.

Gross profit increased in 2018 by $1.2 million to $60.6 million (18.5% of sales) compared to $59.4 million (17.5% of sales) in 2017. Excluding the losses associated with the 2017 product recall ($5.0 million), gross profit decreased by $3.8 million, or 6.0%, reflecting the lower sales volume noted above, changes in product mix and raw material cost increases, partially offset by the price increases and improvement in plant efficiency.

Adjusted EBITDA for our Canadian operations increased in 2018 by $3.1 million, or 17.4%, to $20.8 million (6.3% of sales) compared to $17.7 million (5.2% of sales) in 2017, primarily reflecting decreased SG&A expenses due to lower administrative and consumer marketing expenses, partially offset by the lower gross profit ($3.8 million) after adjusting for the losses associated with the 2017 product recall, and increased distribution expenses. In addition, Adjusted EBITDA in 2017 included $1.4 million in product recall costs that were not added back for the purpose of Adjusted EBITDA.

U.S. OPERATIONS

(All currency amounts in this section are in USD)

(in $000s, except sales volume and percentage amounts)	Fifty-two weeks ended December 29, 2018	December 30, 2017	Change
Sales volume (millions of lbs)	**217.3**	222.9	**(5.6)**
Sales	**$ 795,202**	$ 791,783	**$ 3,419**
Gross profit	**$ 140,775**	$ 140,372	**$ 403**
Gross profit as a percentage of sales	**17.7%**	17.7%	**—%**
Adjusted EBITDA(1)	**$ 50,604**	$ 56,991	**$ (6,387)**
Adjusted EBITDA as a percentage of sales	**6.4%**	7.2%	**(0.8)%**

(1) *See the* Non-IFRS Financial Measures *section on page 34 for further explanation of Adjusted EBITDA.*

Sales volume for our U.S. operations decreased by 5.6 million pounds, or 2.5%, in 2018 to 217.3 million pounds compared to 222.9 million pounds in 2017, including the following:

- An additional 7.5 million pounds in 2018 from Rubicon, which was acquired on May 30, 2017, as compared to 2017; and
- Lower sales volume in 2017 related to the product recall of 1.9 million pounds.

Excluding the impact of these items, sales volume for the 2018 decreased by 15.0 million, or 7.4%, reflecting lower sales volume in both the retail and foodservice businesses.

Sales in 2018 increased by $3.4 million, or 0.4%, to $795.2 million compared to $791.8 million in 2017, primarily reflecting the additional sales from Rubicon ($35.1 million) and lower sales during 2017 associated with the product recall ($6.0 million). Excluding the impact of these items, sales decreased by $37.7 million, or 5.5%, primarily due to the decreased volume mentioned above and changes in product mix, partially offset by price increases related to raw material cost increases.

Gross profit increased in 2018 by $0.4 million to $140.8 million (17.7% of sales) compared to $140.4 million (17.7% of sales) in 2017, reflecting the losses associated with the product recall in 2017 ($9.6 million). Excluding the impact the 2017 product recall, gross profit decreased by $9.2 million, or 6.1%, primarily due to the lower sales volume mentioned above, raw material cost increases, plant inefficiencies and product mix, partially offset by the price increases and increased gross profit associated with the inclusion of Rubicon for the full period in the current year.

Adjusted EBITDA for our U.S. operations decreased in 2018 by $6.4 million, or 11.2%, to $50.6 million (6.4% of sales) compared to $57.0 million (7.2% of sales) in 2017 reflecting the lower gross profit ($9.2 million) after adjusting for the losses associated with the 2017 product recall, and increases in distribution expenses that were partially related to the inclusion of Rubicon for the full period in the current year. The decrease in Adjusted EBITDA was partially offset by lower SG&A expenses due to lower consumer marketing expenditures and lower administrative expenses, despite the inclusion of Rubicon for a full period in the current year. In addition, Adjusted EBITDA in 2017 included $0.9 million in recall costs that were not added back for the purpose of Adjusted EBITDA.

RESULTS BY QUARTER

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

FISCAL 2018

(Amounts in $000s, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Sales	**$ 319,184**	**$ 245,312**	**$ 241,157**	**$ 242,878**	**$ 1,048,531**
Adjusted EBITDA[1]	**$ 24,221**	**$ 12,050**	**$ 14,235**	**$ 11,968**	**$ 62,474**
Net Income	**$ 10,251**	**$ 2,804**	**$ 4,531**	**$ (810)**	**$ 16,776**
Basic EPS	**$ 0.31**	**$ 0.08**	**$ 0.13**	**$ (0.02)**	**$ 0.50**
Diluted EPS	**$ 0.31**	**$ 0.08**	**$ 0.13**	**$ (0.02)**	**$ 0.50**
Adjusted Net Income[1]	**$ 10,703**	**$ 3,766**	**$ 412**	**$ 2,169**	**$ 17,049**
Adjusted Basic EPS	**$ 0.32**	**$ 0.11**	**$ 0.01**	**$ 0.07**	**$ 0.51**
Adjusted Diluted EPS[1]	**$ 0.32**	**$ 0.11**	**$ 0.01**	**$ 0.07**	**$ 0.51**
Dividends paid per common share (in CAD)	**$ 0.145**	**$ 0.145**	**$ 0.145**	**$ 0.145**	**$ 0.580**
Net non-cash working capital[2]	**$ 244,764**	**$ 227,935**	**$ 233,916**	**$ 227,223**	**$ 227,223**

FISCAL 2017

(Amounts in $000s, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Sales	$ 275,735	$ 232,385	$ 282,704	$ 263,022	$ 1,053,846
Adjusted EBITDA[1]	$ 22,337	$ 13,417	$ 17,298	$ 13,060	$ 66,112
Net Income	$ 10,742	$ 644	$ 6,040	$ 14,227	$ 31,653
Basic EPS	$ 0.35	$ 0.02	$ 0.18	$ 0.43	$ 0.98
Diluted EPS	$ 0.34	$ 0.02	$ 0.18	$ 0.43	$ 0.97
Adjusted Net Income[1]	$ 10,815	$ 6,054	$ 8,424	$ 4,849	$ 30,142
Adjusted Basic EPS	$ 0.34	$ 0.19	$ 0.25	$ 0.15	$ 0.93
Adjusted Diluted EPS[1]	$ 0.34	$ 0.19	$ 0.25	$ 0.15	$ 0.93
Dividends paid per common share (in CAD)	$ 0.140	$ 0.140	$ 0.140	$ 0.145	$ 0.565
Net non-cash working capital[2]	$ 218,832	$ 206,094	$ 208,507	$ 239,102	$ 239,102

[1] *See the* Non-IFRS Financial Measures *section starting on page 34 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.*

[2] *Net non-cash working capital comprises accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, contract liability, and provisions.*

FOURTH QUARTER

Consolidated Performance

(in $000s, except sales volume, per share amounts, percentage amounts and exchange rates)	Thirteen weeks ended December 29, 2018	Thirteen weeks ended December 30, 2017	Change	Thirteen weeks ended December 31, 2016
Sales volume (millions of lbs)	**66.1**	71.6	**(5.5)**	62.4
Average foreign exchange rate (USD/CAD)	**$ 1.3197**	$ 1.2715	**$ 0.0482**	$ 1.3341
Sales				
Sales in domestic currency	**$ 261,224**	$ 280,917	**$ (19,693)**	$ 229,580
Foreign exchange impact	**(18,346)**	(17,895)	**(451)**	(20,787)
Sales in USD	**$ 242,878**	$ 263,022	**$ (20,144)**	$ 208,793
Gross profit	**$ 40,287**	$ 44,504	**$ (4,217)**	$ 46,632
Gross profit as a percentage of sales	**16.6%**	16.9%	**(0.3)%**	20.9%
Distribution expenses	**$ 12,125**	$ 13,328	**$ (1,203)**	$ 10,023
Selling, general and administrative expenses	**$ 20,959**	$ 24,609	**$ (3,650)**	$ 21,300
Adjusted EBITDA[(1)]				
Adjusted EBITDA in domestic currency	**$ 13,663**	$ 13,355	**$ 308**	$ 17,986
Foreign exchange impact	**(1,695)**	(295)	**(1,400)**	(1,869)
Adjusted EBITDA in USD	**$ 11,968**	$ 13,060	**$ (1,092)**	$ 16,117
Adjusted EBITDA as a percentage of sales	**4.9%**	5.0%	**(0.1)%**	7.7%
Net (loss) income	**$ (810)**	$ 14,227	**$ (15,037)**	$ 6,658
Basic EPS	**$ (0.02)**	$ 0.43	**$ (0.45)**	$ 0.22
Diluted EPS	**$ (0.02)**	$ 0.43	**$ (0.45)**	$ 0.21
Adjusted Net Income[(1)]	**$ 2,169**	$ 4,849	**$ (2,680)**	$ 6,969
Adjusted EPS	**$ 0.07**	$ 0.15	**$ (0.08)**	$ 0.22
Adjusted Diluted EPS[(1)]	**$ 0.07**	$ 0.15	**$ (0.08)**	$ 0.22

(1) *See the* Non-IFRS Financial Measures *section starting on page 34 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.*

SALES

Consolidated sales volume for the fourth quarter of 2018 decreased by 5.5 million pounds, or 7.6%, to 66.1 million pounds compared to 71.6 million pounds in the same period in 2017 due to lower sales volumes in our Canadian retail business and our U.S. retail and foodservice businesses.

Sales in the fourth quarter of 2018 decreased by $20.1 million, or 7.7%, to $242.9 million compared to $263.0 million in the same period last year. The weaker Canadian dollar in the fourth quarter of 2018 compared to the same quarter of 2017 decreased the value of USD sales from our CAD-denominated operations by approximately $2.2 million relative to the conversion impact last year.

Sales in domestic currency decreased by $19.7 million, or 7.0%, to $261.2 million in the fourth quarter of 2018 compared to $280.9 million in the fourth quarter of 2017. Excluding the decrease in sales during the fourth quarter of 2017 associated with the revision of estimated product returns related to the product recall ($0.4 million), sales decreased by $20.1 million, or 7.1%, mainly due to the decreased volume mentioned previously and changes in product mix, partially offset by price increases related to raw material cost increases.

GROSS PROFIT

Gross profit decreased in the fourth quarter of 2018 by $4.2 million, or 9.5%, to $40.3 million compared to $44.5 million in the same period in 2017, partially reflecting a decrease in gross profit as a percentage of sales to 16.6% compared to 16.9%. Gross profit in the fourth quarter of 2017 included losses associated with the product recall in 2017 ($1.5 million).

Excluding the impact of the recall, gross profit decreased by $5.7 million to $40.3 million (16.6% as a percentage of sales) compared to $46.0 million in the same period of 2017 (17.5% as a percentage of sales), due to lower sales volume, raw material cost increases, unfavourable changes in product mix and U.S. plant inefficiencies, partially offset by the price increases. In addition, the weaker Canadian dollar had the effect of decreasing the value of reported USD gross profit from our Canadian operations in 2018 by approximately $0.4 million relative to the conversion impact last year.

DISTRIBUTION EXPENSES

Distribution expenses, consisting of freight and storage, decreased in the fourth quarter of 2018 by $1.2 million to $12.1 million compared to $13.3 million in the same period in 2017, primarily due to the lower sales volume, partially offset by higher fuel and line-haul costs. As a percentage of sales, these expenses decreased to 5.0% in the fourth quarter of 2018 compared to 5.1% in the same period in 2017.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses decreased in the fourth quarter of 2018 by $3.6 million to $21.0 million compared to $24.6 million in the same period last year. SG&A expenses included share-based compensation expense of $0.2 million in the fourth quarter of 2018 compared to a nominal recovery for the same period in 2017. SG&A expenses also included depreciation and amortization expense of $2.4 million in the fourth quarter of 2018 and $2.3 million in the same period of 2017.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the fourth quarter of 2018 by $3.9 million to $18.4 million compared to $22.3 million in the same period last year, due to lower administrative expenses, termination benefits and consumer marketing expenditures across the Company, reflecting cost saving initiatives. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 7.6% in the fourth quarter of 2018 compared to 8.5% in the same period last year.

ADJUSTED EBITDA

Consolidated Adjusted EBITDA decreased in the fourth quarter of 2018 by $1.1 million, or 8.4%, to $12.0 million compared to $13.1 million in 2017. The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by $1.7 million in the fourth quarter of 2018 compared to $0.3 million in 2017.

In domestic currency, Adjusted EBITDA increased in the fourth quarter of 2018 by $0.3 million, or 2.3%, to $13.7 million (5.2% of sales) compared to $13.4 million (4.8% of sales) in 2017. The increase in Adjusted EBITDA reflects lower distribution expenses and SG&A expenses across the Company, partially offset by the lower gross profit ($5.0 million) after adjusting for the losses associated with the 2017 product recall.

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

	Thirteen weeks ended			Thirteen weeks ended		
(Amounts in $000s)	**December 29, 2018 USD**	December 30, 2017 USD	**% Change USD**	**December 29, 2018 Domestic $**	December 30, 2017 Domestic $	**% Change Domestic $**
External Sales						
Canada	**$ 57,509**	$ 65,928	**(12.8)%**	**$ 75,855**	$ 83,823	**(9.5)%**
USA	**185,369**	197,094	**(5.9)%**	**185,369**	197,094	**(5.9)%**
	242,878	263,022	**(7.7)%**	**261,224**	280,917	**(7.0)%**
Conversion	**—**	—		**(18,346)**	(17,895)	
	$ 242,878	$ 263,022	**(7.7)%**	**$ 242,878**	$ 263,022	**(7.7)%**
Adjusted EBITDA						
Canada	**$ 4,700**	$ 3,476	**35.2%**	**$ 6,223**	$ 4,418	**40.9%**
USA	**8,825**	11,231	**(21.4)%**	**8,825**	11,231	**(21.4)%**
Corporate	**(1,557)**	(1,647)	**(5.5)%**	**(1,385)**	(2,294)	**(39.6)%**
	11,968	13,060	**(8.4)%**	**13,663**	13,355	**2.3%**
Conversion	**—**	—		**(1,695)**	(295)	
	$ 11,968	$ 13,060	**(8.4)%**	**$ 11,968**	$ 13,060	**(8.4)%**
Adjusted EBITDA as percentage of sales						
In USD	**4.9%**	5.0%				
In Domestic $				**5.2%**	4.8%	

NET (LOSS) INCOME

Net income decreased in the fourth quarter of 2018 by $15.0 million, or 105.7%, to a net loss of $0.8 million ($0.02 loss per diluted share) compared to net income of $14.2 million ($0.43 per diluted share) in 2017. The decrease in net income reflects the lower income tax recovery during the fourth quarter of 2018 of $1.7 million compared to the $13.5 million recovery in the same period last year related to the impact of the reduction in federal corporate income tax rate associated with the U.S. Tax Reform (see the *Income Taxes* section on page 28 of this MD&A). Additionally, net income decreased due to the decrease in Adjusted EBITDA mentioned previously, an impairment of property, plant and equipment, an increase in termination benefits associated with the organizational realignment announced in November 2018 (see the *Recent Developments* section on page 15) and an increase in finance costs.

In 2018, net loss included "business acquisition, integration and other (income) expense" (as explained in the *Business Acquisition, Integration and Other (Income) Expense* section on page 27 of this MD&A) related to termination benefits associated with the organizational realignment and other non-cash expenses, including an impairment of property, plant and equipment. In 2017, net income included "business acquisition, integration and other (income) expense" related to business development activities, termination benefits associated with restructuring activities, losses related to the product recall, and other non-cash expenses. Excluding the impact of these non-routine or non-cash expenses and the impact of the U.S. Tax Reform in 2017, Adjusted Net Income in the fourth quarter of 2018 decreased by $2.6 million, or 55.3%, to $2.2 million compared to $4.8 million in 2017.

Correspondingly, Adjusted Diluted EPS decreased by $0.08 to $0.07 compared to $0.15 in the fourth quarter of 2017, and when converted to CAD using the average USD/CAD exchange rate for the period of 1.3197 (2017: 1.2715), CAD-Equivalent Adjusted Diluted EPS decreased by CAD$0.10 to CAD$0.09 compared to CAD$0.19 in the fourth quarter of 2017.

Performance by Segment

CANADIAN OPERATIONS

(All currency amounts in this section are in CAD)

	Thirteen weeks ended		
(in $000s, except sales volume and percentage amounts)	**December 29, 2018**	December 30, 2017	**Change**
Sales volume (millions of lbs)	**15.7**	17.0	**(1.3)**
Sales	**$ 75,855**	$ 83,823	**$ (7,968)**
Gross profit	**$ 14,562**	$ 14,784	**$ (222)**
Gross profit as a percentage of sales	**19.2%**	17.6%	**1.6%**
Adjusted EBITDA[1]	**$ 6,223**	$ 4,418	**$ 1,805**
Adjusted EBITDA as a percentage of sales	**8.2%**	5.3%	**2.9%**

[1] *See the* Non-IFRS Financial Measures *section on page 34 for further explanation of Adjusted EBITDA.*

THIRTEEN WEEKS

Sales volume for our Canadian operations decreased in the fourth quarter of 2018 by 1.3 million pounds to 15.7 million pounds as compared to 17.0 million pounds in 2017 primarily reflecting lower sales volume in the retail business.

Sales in the fourth quarter decreased by $8.0 million, or 9.5%, to $75.8 million compared to $83.8 million in the same period of 2017. Excluding the incremental sales during the fourth quarter of 2017 associated with the revision of estimated product returns related to the product recall ($0.1 million), sales in the fourth quarter of 2018 decreased by $7.9 million, or 9.4%, due to decreased sales volume and changes in product mix, partially offset by price increases related to raw material cost increases.

Gross profit decreased by $0.2 million in the fourth quarter of 2018 to $14.6 million compared to $14.8 million in 2017, while gross profit as a percentage of sales increased to 19.2% in the fourth quarter of 2018 compared to 17.6% in 2017. Excluding the losses associated with the 2017 product recall ($0.1 million), gross profit decreased by $0.3 million, or 2.3%, reflecting the lower sales volume mentioned above and raw material cost increases, partially offset by price increases and favorable changes in product mix resulting in a higher gross profit as a percentage of sales as noted above.

Adjusted EBITDA for our Canadian operations increased during the fourth quarter of 2018 by $1.8 million, or 40.9%, to $6.2 million (8.2% of sales) as compared to $4.4 million (5.3% of sales) in 2017, reflecting lower distribution, consumer marketing and administrative expenses, partially offset by the lower gross profit ($0.3 million) after adjusting for the losses associated with the 2017 product recall.

U.S. OPERATIONS

(All currency amounts in this section are in USD)

	Thirteen weeks ended		
(in $000s, except sales volume and percentage amounts)	**December 29, 2018**	December 30, 2017	**Change**
Sales volume (millions of lbs)	**50.5**	54.6	**(4.1)**
Sales	**$ 185,369**	$ 197,094	**$ (11,725)**
Gross profit	**$ 29,035**	$ 33,115	**$ (4,080)**
Gross profit as a percentage of sales	**15.7%**	16.8%	**1.1%**
Adjusted EBITDA[1]	**$ 8,825**	$ 11,231	**$ (2,406)**
Adjusted EBITDA as a percentage of sales	**4.8%**	5.7%	**(0.9)%**

[1] *See the* Non-IFRS Financial Measures *section on page 34 for further explanation of Adjusted EBITDA.*

THIRTEEN WEEKS

Sales volume for our U.S. operations decreased by 4.1 million pounds, or 7.6%, in the fourth quarter of 2018 to 50.5 million pounds compared to 54.6 million pounds in 2017, due to lower sales volume from the foodservice and retail businesses.

Sales during the fourth quarter decreased by $11.7 million, or 5.9%, to $185.4 million compared to $197.1 million in 2017, partially reflecting lower sales during the fourth quarter of 2017 associated with the product recall ($0.5 million). Excluding the impact of the recall, sales decreased by $12.2 million, or 6.2%, primarily due to the lower sales volume mentioned above, partially offset by price increases to recover raw material cost increases and changes in product mix.

Gross profit decreased in the fourth quarter of 2018 by $4.1 million to $29.0 million (15.7% of sales) compared to $33.1 million (16.8% of sales) in the same period last year. Excluding the non-reoccurring losses associated with the 2017 product recall ($1.4 million), gross profit decreased by $5.5 million, or 16.0%, due to plant inefficiencies, the lower sales volume mentioned above, raw material cost increases and unfavourable changes in product mix, partially offset by price increases related to raw material cost increases.

Adjusted EBITDA for our U.S. operations decreased during the fourth quarter of 2018 by $2.4 million, or 21.4%, to $8.8 million (4.8% of sales), compared to $11.2 million (5.7% of sales) in 2017 reflecting the lower gross profit ($5.5 million) after adjusting for the losses associated with the 2017 product recall, partially offset by lower consumer marketing and administrative expenses.

Business Acquisition, Integration and Other (Income) Expense

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

(Amounts in $000s)	Thirteen weeks ended **December 29, 2018**	Thirteen weeks ended December 30, 2017	Fifty-two weeks ended **December 29, 2018**	Fifty-two weeks ended December 30, 2017
Business acquisition, integration and other (income) expense	**$ 3,631**	$ 991	**$ (2,471)**	$ 2,639

Business acquisition, integration and other (income) expense for the fifty-two weeks ended December 29, 2018 included the recognition of an $8.5 million recovery associated with the 2017 product recall from the ingredient supplier, partially offset by termination benefits as a result of restructuring activities during the first three quarters of 2018 and the organizational realignment initiated in November 2018 of $3.5 million. See *Recent Developments* section on page 15 of this MD&A for further discussion.

In 2017, business acquisition, integration and other (income) expense included costs related to the acquisition of Rubicon, termination benefits related to restructuring activities, and other strategic business development activities.

Finance Costs

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

(Amounts in $000s)	Thirteen weeks ended **December 29, 2018**	Thirteen weeks ended December 30, 2017	Fifty-two weeks ended **December 29, 2018**	Fifty-two weeks ended December 30, 2017
Interest paid in cash during the period	**$ 5,229**	$ 4,549	**$ 19,917**	$ 14,745
Change in cash interest accrued during the period	**344**	71	**812**	1,160
Total interest to be paid in cash	**5,573**	4,620	**20,729**	15,905
Deferred financing cost amortization	**215**	221	**874**	721
Total finance costs	**$ 5,788**	$ 4,841	**$ 21,603**	$ 16,626

Finance costs were $1.0 million higher in the fourth quarter of 2018 and $5.0 million higher in 2018 compared to the same periods last year due to higher interest rates and higher average net interest-bearing debt during 2018 compared to 2017.

Income Taxes

High Liner Foods' effective income tax rate for the year ended December 29, 2018 was an expense of 26.6% compared to a recovery of 80.5% in 2017. In the fourth quarter of 2018, the effective tax rate was a recovery of 67.8% compared to a recovery of 1,835.6% in the fourth quarter of 2017. The higher effective tax rate for the year and quarter ended December 29, 2018 compared to the same period last year was attributable to the reduced interest expense deductibility associated with the Company's tax efficient financing structures and the recognition of transitional tax benefits in the fourth quarter of 2017 triggered by the U.S. Tax Reform resulting in a revaluation of the deferred tax liability for changes in substantively enacted tax rates. The applicable statutory rates in Canada and the U.S. were 29.2% and 27.6%, respectively.

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

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

See Note 18 "*Income tax*" to the Consolidated Financial Statements for full information with respect to income taxes.

Contingencies

The Company has no material outstanding contingencies.

Liquidity and Capital Resources

The Company's balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 12 of this MD&A (under the heading "*Currency*") and in the Foreign Currency risk discussion on page 49 (in the *Risk Factors* section).

Our capital management practices are described in Note 26 "*Capital management*" to the 2018 Consolidated Financial Statements.

Working Capital Credit Facility

The Company entered into an asset-based working capital credit facility in November 2010 with the Royal Bank of Canada as Administrative and Collateral agent, which would expire by its terms in April 2019. There have been several amendments made to this facility, with the most substantial amendment occurring in April 2014 when it was amended concurrently with the term loan, and increased from $120.0 million to $180.0 million. In April 2018, the Company amended the working capital credit facility to extend the term from April 2019 to April 2021. There were no other significant changes to the existing terms, other than an amendment to the standby fees paid on the unutilized facility to 0.25% (previously a range of 0.25% to 0.375%).

The working capital credit facility provides for the rates noted in the following table, based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement. The Company's borrowing rates as of December 29, 2018 are also noted in the following table.

Per credit agreement		As at December 29, 2018
Canadian Prime Rate revolving loans, Canadian Base Rate revolving and U.S. Prime Rate revolving loans, at their respective rates	plus 0.00% to 0.25%	plus 0.00%
Bankers' Acceptances ("BA") revolving loans, at BA rates	plus 1.25% to 1.75%	plus 1.25%
LIBOR revolving loans at LIBOR, at their respective rates	plus 1.25% to 1.75%	plus 1.25%
Letters of credit, with fees of	1.25% to 1.75%	1.25%
Standby fees, required to be paid on the unutilized facility, of	0.25%	0.25%

Average short-term borrowings outstanding during 2018 were $46.8 million compared to $24.1 million in 2017. This $22.7 million increase primarily reflects increased borrowing due to the acquisition of Rubicon in May 2017, reduced cash flow provided by operations in the latter half of Fiscal 2017 and increased working capital requirements during the first half of 2018, partially offset by higher payments in the latter half of 2018.

At the end of the fourth quarter of 2018, the Company had $118.2 million (December 30, 2017: $111.8 million) of unused borrowing capacity, taking into account both margin calculations and the total line availability. Included in this amount are letters of credit, which reduce the availability under the working capital credit facility. On December 29, 2018, letters of credit and standby letters of credit were outstanding in the amount of $15.4 million (December 30, 2017: $14.7 million) to support raw material purchases and to secure certain contractual obligations, including those related to the Company's Supplemental Executive Retirement Plan ("SERP").

The facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility, and excluding the assets acquired as part of the Rubicon acquisition. A second charge over the Company's property, plant and equipment is also in place. Additional details regarding the Company's working capital credit facility are provided in Note 11 "*Bank loans*" to the Consolidated Financial Statements.

In the absence of any major acquisitions or capital expenditures, we expect average short-term borrowings by the end of 2019 to be lower than 2018, and we believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

Term Loan Facility

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

Minimum repayments on the term loan are required on an annual basis, plus, based on a leverage test, additional payments could be required of up to 50% of the previous year's defined excess cash flow. There were excess cash flows in 2015, due largely to decreased working capital and capital expenditures in 2015 as compared to 2014, and as a result, an excess cash flow payment of $11.8 million was made in March 2016. In addition, the Company made a voluntary repayment of $15.0 million during the second quarter of 2016 to reduce excess cash balances. Quarterly principal repayments of $0.9 million are required on the term loan; however, as per the loan agreement, the mandatory excess cash flow payment and the voluntary repayment will be applied to future regularly scheduled principal repayments. As such, no regularly scheduled principal repayments were paid in 2018 and no principal repayments are required for 2019. There were excess cash flows in 2018, primarily due to higher cash flows from operations and lower capital expenditures in 2018 compared to 2017, and as a result an excess cash flow payment of $13.7 million is payable as at December 29, 2018.

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 29, 2018, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility:

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

As of December 29, 2018, the combined impact of the interest rate swaps listed above effectively fix the interest rate on $165.0 million of the $370.0 million face value of the term loan and the remaining portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates when LIBOR is higher than the embedded floor of 1.0%.

Additional details regarding the Company's term loan are provided in Note 14 "*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 38 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 $27.3 million to $360.6 million at December 29, 2018 compared to $387.9 million at December 30, 2017, reflecting higher payments in the latter half of 2018 due to higher cash flow from operating activities during 2018 compared to 2017, partially due to improved inventory management, lower capital expenditures and a higher cash balance on hand as at December 29, 2018 compared to December 30, 2017.

Net interest-bearing debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 34 of this MD&A for further discussion of Adjusted EBITDA) was 5.8x at December 29, 2018 compared to 5.9x at the end of Fiscal 2017, as shown in the table in the *Financial Objectives* section on page 14 of this MD&A. Including trailing twelve-month Adjusted EBITDA for Rubicon, net interest-bearing debt to rolling twelve-month Adjusted EBITDA was 5.6x at the end of Fiscal 2017. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2019, we expect this ratio will be lower at the end of Fiscal 2019.

Capital Structure

At December 29, 2018, net interest-bearing debt was 58.0% of total capitalization compared to 59.1% at December 30, 2017.

(Amounts in $000s)	**December 29, 2018**	December 30, 2017
Net interest-bearing debt	**$ 360,642**	$ 387,869
Shareholders' equity	**263,859**	268,867
Unrealized gains on derivative financial instruments included in AOCI	**(2,215)**	(220)
Total capitalization	**$ 622,286**	$ 656,516
Net interest-bearing debt as percentage of total capitalization	**58.0%**	59.1%

Using our December 29, 2018 market capitalization of $178.9 million, based on a share price of CAD$7.30 (USD$5.36 equivalent), instead of the book value of equity, net interest-bearing debt as a percentage of total capitalization increased to 66.8%.

Normal Course Issuer Bid

In January 2017, we filed a new Normal Course Issuer Bid ("2017 NCIB") to purchase up to 150,000 common shares. The 2017 NCIB terminated on February 8, 2018. During the fifty-two weeks ended December 30, 2017 there were no purchases under this plan.

In January 2018, we filed a new NCIB ("2018 NCIB") to purchase up to 150,000 common shares. The 2018 NCIB terminates on February 1, 2019. During the fifty-two weeks ended December 29, 2018 there were no purchases under this plan.

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 one time during the last two fiscal years. The quarterly dividends paid in the last two years were as follows:

Dividend record date	Quarterly dividend CAD
December 1, 2018	$ 0.145
September 1, 2018	$ 0.145
June 1, 2018	$ 0.145
March 1, 2018	$ 0.145
December 1, 2017	$ 0.145
September 1, 2017	$ 0.140
June 1, 2017	$ 0.140
March 1, 2017	$ 0.140

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, must be $22.5 million or higher, and was $109.8 million on December 29, 2018, and NCIBs are subject to an annual limit of $10.0 million with a provision to carry forward unused amounts subject to a maximum of $20.0 million per annum; and

- Under the term loan facility, dividends cannot exceed $17.5 million per year. This amount increases to the greater of $25.0 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan when the defined total leverage ratio is below 4.5x, and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 5.3x on December 29, 2018. NCIBs are subject to an annual limit of $10.0 million under the term loan facility.

On February 27, 2019, the Directors approved a quarterly dividend of CAD$0.145 per share on the Company's common shares payable on March 15, 2019 to holders of record on March 7, 2019. These dividends are "eligible dividends" for Canadian income tax purposes. The Board is continuing to review the Company's capital structure to determine the prudent use of capital and will provide an update when the Company reports its financial results for the first quarter of 2019 in May.

Disclosure of Outstanding Share Data

On February 27, 2019, 33,383,481 common shares and 1,624,681 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

Cash Flow

	Thirteen weeks ended			Fifty-two weeks ended		
(Amounts in $000s)	**December 29, 2018**	December 30, 2017	Change	**December 29, 2018**	December 30, 2017	Change
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes refunded (paid)	**$ 7,922**	$ 10,777	**$ (2,855)**	**$ 64,647**	$ 51,331	**$ 13,316**
Interest paid	**(5,229)**	(4,549)	**(680)**	**(19,917)**	(14,745)	**(5,172)**
Income taxes refunded (paid)	**3,736**	(202)	**3,938**	**7,762**	(9,166)	**16,928**
Cash flows provided by operations, including interest and income taxes, and before change in non-cash working capital balances	**6,429**	6,026	**403**	**52,492**	27,420	**25,072**
Net change in non-cash working capital balances	**3,535**	(29,339)	**32,874**	**4,441**	(48,909)	**53,350**
Net cash flows provided by (used in) operating activities	**9,964**	(23,313)	**33,277**	**56,933**	(21,489)	**78,422**
Net cash flows provided by (used in) financing activities	**1,826**	32,995	**(31,169)**	**(36,942)**	106,329	**(143,271)**
Net cash flows used in investing activities	**(3,541)**	(6,021)	**2,480**	**(13,842)**	(101,068)	**87,226**
Foreign exchange (decrease) increase on cash	**(1,068)**	(1,250)	**182**	**(1,319)**	2,714	**(4,033)**
Net change in cash during the period	**$ 7,181**	$ 2,411	**$ 4,770**	**$ 4,830**	$ (13,514)	**$ 18,344**

Net cash flows provided by (used in) operating activities increased by $33.3 million in the fourth quarter of 2018 to an inflow of $10.0 million compared to an outflow of $23.3 million in 2017 reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, increased $0.4 million in the fourth quarter of 2018 to an inflow of $6.4 million compared to an inflow of $6.0 million in 2017. This increase reflects income tax refunds received, partially offset by less favourable cash flows from operations and higher interest payments.
- Cash flows from changes in net non-cash working capital increased by $32.9 million in the fourth quarter of 2018 to an inflow of $3.6 million compared to an outflow of $29.3 million in 2017. This increase primarily reflects more favourable changes in inventories, provisions and accounts payable and accrued liabilities, partially offset by a less favourable change in accounts receivable, during the fourth quarter of 2018 compared to 2017.

Net cash flows provided by (used in) operating activities increased by $78.4 million in 2018 to an inflow of $56.9 million compared to an outflow of $21.5 million in 2017, reflecting the following:

- Cash flows from operating activities, including interest and income taxes, and before the change in non-cash working capital balances, increased by $25.1 million in 2018 to an inflow of $52.5 million compared to an inflow of $27.4 million in 2017. This increase reflects more favourable cash flows from operations and income tax refunds received, partially offset by higher interest payments.
- Cash flows from changes in net non-cash working capital increased by $53.3 million in 2018 to an inflow of $4.4 million compared to an outflow of $48.9 million in 2017. This increase primarily reflects more favourable changes in inventories and accounts receivable, partially offset by a less favourable change in accounts payable and accrued liabilities during 2018 compared to 2017.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 37 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended December 29, 2018 increased by $91.0 million to an inflow of $43.0 million compared to an outflow of $48.0 million for the twelve months ended December 30, 2017. This increase reflects higher cash flows from operating activities, including interest and income taxes, a more favourable change in working capital and lower capital expenditures during the twelve months ended December 29, 2018 as compared to the twelve months ended December 30, 2017.

Net Non-Cash Working Capital

(Amounts in $000s)	**December 29, 2018**	December 30, 2017	**Change**
Accounts receivable	**$ 84,873**	$ 92,395	**$ (7,522)**
Inventories	**301,411**	353,433	**(52,022)**
Prepaid expenses	**4,333**	3,462	**871**
Accounts payable and accrued liabilities	**(161,934)**	(209,910)	**47,976**
Provisions	**(1,460)**	(278)	**(1,182)**
Net non-cash working capital	**$ 227,223**	$ 239,102	**$ (11,879)**

Net non-cash working capital consists of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions. Net non-cash working capital decreased by $11.9 million to $227.2 million at the end of December 29, 2018 as compared to $239.1 million at the end of December 30, 2017, primarily reflecting lower inventories and accounts receivable, partially offset by lower accounts payable and accrued liabilities, reflecting improved inventory management due to the timing of working capital requirements.

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

Capital Expenditures

Capital expenditures (including finance leases and computer software) were $3.7 million and $14.6 million during the fourth quarter and fifty-two weeks ended 2018 respectively, as compared to capital expenditures of $6.5 million and $27.8 million during the fourth quarter and fifty-two weeks ended 2017, respectively, due to non-reoccurring 2017 projects that were primarily related to improvements in manufacturing facilities and leasehold improvements, and the timing of capital expenditures related to improvements in the Company's enterprise-wide business management system, which was completed in May 2018.

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

Other Liquidity Items

SHARE-BASED COMPENSATION AWARDS

Share-based compensation expense of $1.2 million was recorded in 2018 compared to $0.8 million in 2017, 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 unit holders exercise the awards, and was higher in 2018 compared to 2017 primarily due to the issuance of options and cash-settled awards during the year resulting in a higher share-based compensation expense, partially offset by the lower share price during 2018, which impacts the fair value of the outstanding awards accounted for as a liability.

During 2018, holders exercised Performance Share Units ("PSUs") and Restricted Share Units ("RSUs") and received cash in the amount of $0.2 million (2017: $0.5 million). The liability for share-based compensation awards at the end of Fiscal 2018 was $1.7 million compared to $1.8 million at the end of Fiscal 2017.

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 2018 was $nil (2017: $0.1 million).

DEFINED BENEFIT PENSION PLANS

The Company's defined benefit pension plans can impact the Company's cash flow requirements and affect its liquidity. In 2018, the defined benefit pension expense for accounting purposes was $1.3 million (2017: $1.3 million) and the annual cash contributions were $0.1 million lower than the 2018 accounting expense (2017: $0.2 million lower). For 2019, we expect cash contributions to be approximately CAD$2.1 million and the defined benefit pension expense to be approximately CAD$1.6 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 $5.9 million that is secured by a letter of credit in the amount of $8.5 million.

Contractual Obligations

Contractual obligations relating to our long-term debt, finance lease obligations, operating leases, purchase obligations and other long-term liabilities as at December 29, 2018 were as follows:

	Payments due by period			
(Amounts in $000s)	Total	Less than 1 year	1–5 Years	Thereafter
Long-term debt	$ 337,926	$ 13,655	$ 324,271	$ —
Finance lease obligations	779	372	407	—
Other current and long-term liabilities	1,738	245	1,493	—
Operating leases	20,186	5,537	12,205	2,444
Purchase obligations	89,995	84,832	5,163	—
Total contractual obligations	$ 450,624	$ 104,641	$ 343,539	$ 2,444

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* risk section on page 44 and the *Foreign Currency* section on page 49 of this MD&A for further details.

Financial Instruments and Risk Management

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

Readers are directed to Note 25 "*Fair value measurement*" of the Consolidated Financial Statements for a complete description of the Company's use of derivative financial instruments and their impact on the financial results, and to Note 27 "*Financial risk management objectives and policies*" of the Consolidated Financial Statements for further discussion of the Company's financial risks and policies.

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; and Rubicon Resources, 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 the seafood for all of the subsidiaries, and also provides management, procurement and IT services to the subsidiaries. On consolidation, revenue, costs, 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 23 "*Related party disclosures*" to the Consolidated Financial Statements). Transactions with these parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As a result of the Rubicon acquisition during Fiscal 2017, the Company has right of first refusal on certain commodity seafood sales from a company controlled by Brian Wynn, who is part of the Company's management. Total purchases from related parties for the fifty-two weeks ended December 29, 2018 were $nil (fifty-two weeks ended December 30, 2017: $1.7 million), and as at December 29, 2018, there was $nil (December 30, 2017: $nil) due to the related parties. Total sales to related parties for the fifty-two weeks ended December 29, 2018 were $0.9 million (fifty-two weeks ended December 30, 2017: $0.2 million), and as at December 29, 2018 there was $0.5 million (December 30, 2017: $0.2 million) due from the related parties. The Company leases an office building from a related party at an amount which approximates the fair market value that would be incurred if leased from a third party. The aggregate payments under the lease, which are measured at the exchange amount, totaled approximately $0.7 million during the fifty-two weeks ended December 29, 2018 (fifty-two weeks ended December 30, 2017: $0.6 million).

Events After the Reporting Period

As described in the *Recent Developments* section on page 15 of this MD&A, subsequent to December 29, 2018, the Company recovered an additional $8.5 million associated with the product recall from the ingredient supplier, for a total recovery of $17.0 million. This additional recovery will be recognized during the first quarter of 2019, reflecting the period in which the recovery became virtually certain, in accordance with IFRS. No further recoveries are expected.

As a result, the Company has fully recovered the $13.5 million in losses recognized during the fifty-two weeks ended December 30, 2017 related to consumer refunds, customer fines, the return of product to be re-worked or destroyed, and direct incremental costs, and an additional $3.5 million related to lost sales opportunities and increased production costs.

Non-IFRS Financial Measures

The Company uses the following non-IFRS financial measures in this MD&A to explain the following financial results: Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"); Adjusted Earnings before Interest and Taxes ("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; termination benefits; and share-based compensation expense. The related margin is defined as Adjusted EBITDA divided by net sales ("Adjusted EBITDA as a percentage of sales"), where net sales is defined as "Revenues" on the consolidated statements of income.

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

The following table reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, including the operating segment information disclosed in Note 24 "*Operating segment information*".

	Thirteen weeks ended December 29, 2018				Thirteen weeks ended December 30, 2017			
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Net income (loss)	**$ 3,908**	**$ 5,359**	**$ (10,077)**	**$ (810)**	$ 2,883	$ 6,173	$ 5,171	$ 14,227
Add back (deduct):								
Depreciation and amortization expense	**512**	**3,340**	**612**	**4,464**	512	3,561	345	4,418
Financing costs	**—**	**—**	**5,788**	**5,788**	—	—	4,841	4,841
Income tax recovery	**—**	**—**	**(1,705)**	**(1,705)**	—	—	(13,492)	(13,492)
Standardized EBITDA	**4,420**	**8,699**	**(5,382)**	**7,737**	3,395	9,734	(3,135)	9,994
Add back (deduct):								
Business acquisition, integration and other expenses[1]	**—**	**—**	**3,631**	**3,631**	—	—	991	991
Impairment of property, plant and equipment	**238**	**61**	**—**	**299**	—	—	—	—
Loss on disposal of assets	**42**	**65**	**5**	**112**	—	54	523	577
Direct costs and returned destroyed product[2]	**—**	**—**	**—**	**—**	81	1,443	—	1,524
Share-based compensation expense (recovery)	**—**	**—**	**189**	**189**	—	—	(26)	(26)
Adjusted EBITDA	**$ 4,700**	**$ 8,825**	**$ (1,557)**	**$ 11,968**	$ 3,476	$ 11,231	$ (1,647)	$ 13,060

	Fifty-two weeks ended December 29, 2018				Fifty-two weeks ended December 30, 2017			
(Amounts in $000s)	**Canada**	**U.S.**	**Corporate**	**Total**	Canada	U.S.	Corporate	Total
Net income (loss)	**$ 13,681**	**$ 35,822**	**$ (32,727)**	**$ 16,776**	$ 8,853	$ 34,997	$ (12,197)	$ 31,653
Add back (deduct):								
Depreciation and amortization expense	**2,094**	**13,602**	**2,075**	**17,771**	1,961	13,120	1,230	16,311
Financing costs	**—**	**—**	**21,603**	**21,603**	—	—	16,626	16,626
Income tax expense (recovery)	**—**	**—**	**6,090**	**6,090**	—	—	(14,115)	(14,115)
Standardized EBITDA	**15,775**	**49,424**	**(2,959)**	**62,240**	10,814	48,117	(8,456)	50,475
Add back (deduct):								
Business acquisition, integration and other (income) expenses[1]	**—**	**—**	**(2,471)**	**(2,471)**	—	—	2,639	2,639
Impairment of property, plant and equipment	**238**	**1,033**	**31**	**1,302**	—	—	—	—
Loss (gain) on disposal of assets	**26**	**147**	**(7)**	**166**	56	168	510	734
Direct costs and returned destroyed product[2]	**—**	**—**	**—**	**—**	2,787	8,706	—	11,493
Share-based compensation expense	**—**	**—**	**1,237**	**1,237**	—	—	771	771
Adjusted EBITDA	**$ 16,039**	**$ 50,604**	**$ (4,169)**	**$ 62,474**	$ 13,657	$ 56,991	$ (4,536)	$ 66,112

[1] *See the* Business Acquisition, Integration and Other (Income) Expense *section on page 27.*

[2] *Associated with the product recall (see the* Recent Developments *section on page 15).*

Adjusted EBIT

Adjusted EBIT is Adjusted EBITDA less depreciation and amortization expense. 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 29, 2018				Thirteen weeks ended December 30, 2017
(Amounts in $000s)	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Adjusted EBITDA	**$ 4,700**	**$ 8,825**	**$ (1,557)**	**$ 11,968**	$ 3,476	$ 11,231	$ (1,647)	$ 13,060
Less:								
Depreciation and amortization expense	**512**	**3,340**	**612**	**4,464**	512	3,561	345	4,418
Adjusted EBIT	**$ 4,188**	**$ 5,485**	**$ (2,169)**	**$ 7,504**	$ 2,964	$ 7,670	$ (1,992)	$ 8,642

				Fifty-two weeks ended December 29, 2018				Fifty-two weeks ended December 30, 2017
(Amounts in $000s)	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Adjusted EBITDA	**$ 16,039**	**$ 50,604**	**$ (4,169)**	**$ 62,474**	$ 13,657	$ 56,991	$ (4,536)	$ 66,112
Less:								
Depreciation and amortization expense	**2,094**	**13,602**	**2,075**	**17,771**	1,961	13,120	1,230	16,311
Adjusted EBIT	**$ 13,945**	**$ 37,002**	**$ (6,244)**	**$ 44,703**	$ 11,696	$ 43,871	$ (5,766)	$ 49,801

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; the non-cash expense or income related to marking-to-market an interest rate swap not designated for hedge accounting; termination benefits; the U.S. Tax Reform and share-based compensation expense. Adjusted Diluted EPS is Adjusted Net Income divided by the average diluted number of shares outstanding.

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

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

		Thirteen weeks ended December 29, 2018		Thirteen weeks ended December 30, 2017
	$000s	Diluted EPS	$000s	Diluted EPS
Net income	**$ (810)**	**$ (0.02)**	$ 14,227	$ 0.43
Add back (deduct):				
Business acquisition, integration and other (income) expenses(1)	**3,631**	**0.10**	991	0.03
Impairment of property, plant and equipment	**299**	**0.01**	—	—
Direct costs and returned destroyed product(2)	**—**	**—**	1,524	0.05
Share-based compensation expense (recovery)	**189**	**0.01**	(26)	—
U.S. Tax Reform(3)	**—**	**—**	(11,186)	(0.34)
Tax impact of reconciling items	**(1,140)**	**(0.03)**	(681)	(0.02)
Adjusted Net Income	**$ 2,169**	**$ 0.07**	$ 4,849	$ 0.15
Average shares for the period (000s)		**33,675**		33,423

	Fifty-two weeks ended December 29, 2018		Fifty-two weeks ended December 30, 2017	
	$000s	**Diluted EPS**	$000s	Diluted EPS
Net income	**$ 16,776**	**$ 0.50**	$ 31,653	$ 0.97
Add back (deduct):				
Business acquisition, integration and other (income) expenses[1]	**(2,471)**	**(0.07)**	2,639	0.08
Impairment of property, plant and equipment	**1,302**	**0.04**	—	—
Direct costs and returned destroyed product[2]	**—**	**—**	11,493	0.35
Share-based compensation expense	**1,237**	**0.03**	770	0.03
U.S. Tax Reform[3]	**—**	**—**	(11,186)	(0.34)
Tax impact of reconciling items	**205**	**0.01**	(5,227)	(0.16)
Adjusted Net Income	**$ 17,049**	**$ 0.51**	$ 30,142	$ 0.93
Average shares for the period (000s)		**33,619**		32,527

[1] *See the* Business Acquisition, Integration and Other (Income) Expense *section on page 27 for further details.*

[2] *Associated with the product recall (see the* Recent Developments *section on page 15).*

[3] *Associated with the U.S. Tax Reform enacted on December 22, 2017 (see the* Income Taxes *section on page 28).*

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 29, 2018	December 30, 2017	**December 29, 2018**	December 30, 2017
Adjusted Diluted EPS	**$ 0.07**	$ 0.15	**$ 0.51**	$ 0.93
Average foreign exchange rate for the period	**1.3197**	1.2715	**1.2956**	1.2983
CAD-Equivalent Adjusted Diluted EPS	**$ 0.09**	$ 0.19	**$ 0.66**	$ 1.21

Standardized Free Cash Flow

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

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

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

(Amounts in $000s)	Twelve months ended December 29, 2018	December 30, 2017	Change
Net change in non-cash working capital items	$ 4,441	$ (48,909)	$ 53,350
Cash flow from operating activities, including interest and income taxes	52,492	27,420	25,072
Cash flow from operating activities	56,933	(21,489)	78,422
Less: total capital expenditures, net of investment tax credits	(13,961)	(26,488)	12,527
Standardized Free Cash Flow	$ 42,972	$ (47,977)	$ 90,949

Net Interest-Bearing Debt

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

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

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

(Amounts in $000s)	December 29, 2018	December 30, 2017
Current bank loans	$ 31,152	$ 53,352
Add-back: deferred finance costs on current bank loans	353	208
Total current bank loans	31,505	53,560
Long-term debt	322,674	335,441
Current portion of long-term debt	13,655	—
Add-back: deferred finance costs on long-term debt	1,597	2,485
Total term loan debt	337,926	337,926
Long-term portion of finance lease obligations	407	407
Current portion of finance lease obligations	372	714
Total finance lease obligation	779	1,121
Less: cash	(9,568)	(4,738)
Net interest-bearing debt	$ 360,642	$ 387,869

Return on Assets Managed

ROAM is Adjusted EBIT 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 future employee benefits, deferred income taxes and other certain financial assets, less accounts payable and accrued liabilities, 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 statements 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 36 of this MD&A).

(Amounts in $000s)	December 29, 2018	December 30, 2017
Adjusted EBIT	$ 44,703	$ 49,801
Thirteen-month rolling average net assets	676,343	610,891
ROAM	6.6%	8.2%

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 statements 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 36 of this MD&A).

(Amounts in $000s)	**December 29, 2018**	December 30, 2017
Adjusted Net Income	**$ 17,049**	$ 30,142
Less: Share-based compensation expense, net of tax[(1)]	**1,176**	658
	15,873	29,484
Thirteen-month rolling average common equity	**272,952**	244,012
ROE	**5.8%**	12.1%

[(1)] *Net of tax expense of $0.1 million during the fifty-two weeks ended December 29, 2018 and net of tax expense of $0.1 million during the fifty-two weeks ended December 30, 2017*

Governance

Our 2018 Management Information Circular, to be filed in connection with our Annual General Meeting of Shareholders on May 14, 2019, 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.

For the first two quarters of 2018, in accordance with National Instrument 52-109, our certifying officers had limited the scope of their DC&P, and the Company's Internal Control over Financial Reporting ("ICFR") to exclude controls, policies and procedures relating to Rubicon Resources, LLC which was acquired on May 30, 2017, as they had not performed sufficient procedures to include it in the Company's certifications. National Instrument 52-109 permits a business that an issuer acquires not more than 365 days before the issuer's financial year-end be excluded from the scope of the certifications to allow it sufficient time to perform adequate procedures to ensure controls, policies and procedures are effective. Rubicon Resources, LLC was integrated with High Liner Foods as of June 30, 2018, and the scope limitation was removed for the Fiscal 2018 year-end certificates.

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

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of our DC&P as of December 29, 2018. 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, ICFR, 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 2018 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR, except as noted above.

Accounting Estimates and Standards

Critical Accounting Estimates

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 and/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 an appropriate discount rate that incorporates a risk premium specific to each business. Further details, including the manner in which the Company identifies its CGUs, and the key assumptions used in determining the recoverable amounts, are disclosed in Note 10 "*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 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 15 "*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 are believed to appropriately reflect the risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each reporting date; however, it is possible that at some future date, an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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

SALES AND MARKETING ACCRUALS
The Company estimates variable consideration to determine the costs associated with the sale of product to be allocated to certain variable sales and marketing expenses, including volume rebates and other sales volume discounts, coupon redemption costs, costs incurred related to damages and other trade marketing programs. The Company's estimates include consideration of historical data and trends, combined with future expectations of sales volume, with estimates being reviewed on a frequent 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 29, 2018, we adopted the following new standards and amendments that were effective for annual periods beginning on January 1, 2018 and that the Company has adopted on December 31, 2017:

IFRS 2, Share-based Payment
In June 2016, the IASB issued final amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

(ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company has adopted the amendments to IFRS 2; however they did not have a material impact on the Consolidated Financial Statements.

IFRS 9, Financial Instruments: Classification and Measurement
In 2015, the IASB issued the final version of the amendments to IFRS 9, *Financial Instruments*, issued in 2010, which replaced IAS 39. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. With the exception of hedge accounting, which the Company applied prospectively, the Company has applied IFRS 9 retrospectively, with the initial application date of December 31, 2017. The Company performed a detailed impact assessment of all three aspects of IFRS 9; however, as discussed below, they did not have a material impact on the Consolidated Financial Statements and no adjustments to the comparative information for the period beginning January 1, 2017 were required.

- The Company did not identify any changes to the classification and measurement of the existing financial instruments upon applying IFRS 9, other than a change in the classification of cash and accounts receivable from loans and receivables to financial assets at amortized cost, which had no impact on measurement of these financial instruments.
- The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Company to record ECL on the entire accounts receivable balance. The Company has applied the simplified approach and has calculated the lifetime ECLs based on an established provision matrix that considers the Company's historical credit loss experience, adjusted for forward-looking factors specific to the Company's customers and the economic environment. The adoption of the ECL requirements of IFRS 9 had an immaterial impact on the Consolidated Financial Statements (see Note 7 "*Accounts receivable*" to the Consolidated Financial Statements).
- The Company has concluded that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 does not have an impact on the Company's Consolidated Financial Statements.

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

The Company has applied the new standard and did not identify any material impacts on the consolidated statements of financial position or income upon initial application. Specifically, the adoption of IFRS 15 did not result in any material refinements to the current estimation methodologies or the timing of the recognition of estimates in relation to the Company's trade marketing programs. However, the following two presentation differences on the consolidated statements of income have been identified:

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

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

- The Company would have recognized $4.7 million of incremental revenue and cost of sales on the sale of donated finished products for the fifty-two weeks ended December 30, 2017.
- The Company would have decreased revenue and cost of sales recorded by $0.6 million for the fifty-two weeks ended December 30, 2017 for identified payments made to a customer that would be accounted for as a reduction of revenue under IFRS 15.

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 2018. The Company intends to adopt these standards when they become effective.

IFRS 16, Leases

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

The Company has substantially completed the assessment of IFRS 16 and the impact the new standard will have on the consolidated financial statements, which will be significant as the Company will recognize new assets and liabilities for most of the leases that are currently classified as operating leases. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and an interest expense on the lease liabilities. The standard permits two methods of adoption: retrospectively to each reporting period presented (full retrospective method), or retrospective with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company has decided to adopt the standard on December 30, 2018 using the modified retrospective method with certain practical expedients that are available under this method. The Company has reached conclusions on key accounting policies upon transition to IFRS 16. The Company will finalize the impact of the new standard and disclosures on the consolidated financial statements during the first quarter of Fiscal 2019.

IAS 19, Employee Benefits

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

IFRIC Interpretation 23, Uncertainty over Income Tax Treatment

The IFRS Interpretation Committee issued an Interpretation to address the accounting for income taxes when treatments involve uncertainty that affects the application of IAS 12, *Income Taxes* ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Company will apply the interpretation from the effective date. The Company is currently evaluating the impact of the Interpretation on its consolidated financial statements.

Risk Factors

High Liner Foods is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company takes a strategic approach to risk management. To achieve a 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.

While risk management is part of the Company's transactional, operational and strategic decisions, as well as the Company's overall management approach, risk management does not guarantee that events or circumstances will not occur which could have a material adverse impact on the Company's financial condition and performance.

Food Safety

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. Customers expect consistently safe, quality products and their expectations are unwavering regardless of the commodity or complexity of the supply chain. Consumers are increasingly better informed about conscientious food choices.

High Liner processing plants have all the required State, Provincial and/or Federal licenses to operate. Additionally, all High Liner plants are certified to the Global Food Safety Initiatives ("GFSI"), Safe Quality Foods ("SQF") and British Retail Consortium ("BRC") standards, meaning our processing plants have passed a rigorous quality and food safety system audit that is internationally recognized and globally benchmarked. The GSFI certification enables High Liner to supply our wide range of products to some of the industry's most discerning customers. This yearly certification process helps drive improvement across the organization, critical for maintaining customer and consumer confidence.

In Canada, all seafood-processing plants are required to adopt a Preventative Control Plan ("PCP") under the recently implemented Safe Food for Canadians Act and Regulations. These requirements cover the regulatory and safety aspects of food processing and importing in Canada and have been developed by the Canadian Food Inspection Agency ("CFIA") based on global best practices. This plan must also include a Hazard Analysis Critical Control Point ("HACCP") Plan. High Liner Foods' PCP and processing facilities are regularly inspected and audited by the CFIA and remain in good standing.

In the United States, High Liner's plants produce product in accordance with standards set forth by the U.S. Food and Drug Administration's ("FDA") and the U.S. Department of Agriculture ("USDA"). The regulatory requirements for seafood processing (and importing) in the United States are very specific for fish and fishery products and all plants are required to operate with current seafood HACCP programs. Our plants are regularly inspected and audited by our regulatory partners in the U.S. and remain in good standing.

In addition, our suppliers' plants outside of North America must demonstrate compliance for imported products in accordance with the guidelines set forth in the FDA seafood HACCP. All of the Company's non-North American suppliers operate with HACCP approved plans and are required to adhere to newly strengthened FDA and Canadian CFIA importation requirements focusing on food safety and traceability. In addition, all purchases are subject to risk based quality review and inspection by the Company's own trained 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 and consistency as products processed in our own plants. High Liner Foods has offices in Qingdao, China; Bangkok, Thailand; and Reykjavik, Iceland and employs full-time procurement and food safety and quality experts to oversee procurement activities around the world. This oversight includes production monitoring and finished product inspection at the source before shipment to North America. 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.

In order to maintain compliance with the various, and ever changing regulatory, industry and customer requirements and expectations, we employ a Food Safety and Quality Assurance team comprised of highly qualified, trained and experienced personnel including food scientists, quality technicians, quality and food safety auditors, and labelling and nutritional professionals. High Liner has retained independent auditors to add an additional level of scrutiny to our food safety programs. High Liner Foods has robust audit policies and processes that are consistently applied throughout the Company, audit processes are implemented and all personnel are adequately trained. Quality and food safety activities also include state-of-the-art product specification and traceability systems. We are continuously evaluating and updating our internal operating standards to keep pace with the industry expectations and to support improved performance and greater success.

Product Recall

The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage, accidental contamination, product tampering, consumer product liability, and the potential costs and disruptions of a product recall. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems and by maintaining prudent levels of insurance. However, the Company cannot assure that such systems, even when working effectively, will eliminate the risks related to food safety. The Company could be required to recall certain of its products in the event of contamination or adverse test results or as precautionary measures. There is also a risk that not all of the product subject to the recall will be properly identified, or that the recall will not be successful or not be enacted in a timely manner. Any product contamination could subject the Company to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales. Many of these costs and losses are not covered by insurance. Any of these events could have a material adverse impact on the Company's financial condition and results of operations.

The Company initiated a product recall during the second quarter of 2017. See the *Recent Developments* section on page 15 of this MD&A.

Procurement

Our business depends upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2018, the Company purchased approximately 180 million pounds of seafood, with an approximate value of $556.0 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 fluctuate due to changes in the balance between supply and demand over which the Company has little or no control. Weather, quota changes, disease, geopolitical issues, including economic sanctions, tariffs and trade barriers, and other environmental impacts in key fisheries 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 demand as well.

Raw material costs in Canada are 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 of the Board of Directors.

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, product formulation changes, long-term relationships with suppliers, and price changes to customers are all important factors in our ability to manage supply of necessary products.

We purchase frozen raw material and finished goods originating from many different areas of the world and ensure, to the extent possible, that 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 where possible.

There can be no assurance that disruptions in supply will not occur, nor can there be any assurance that all or part of any increased costs experienced by the Company from time to time can be passed along to consumers of the Company's products directly or in a timely manner.

Availability of Seafood and Non-Seafood Goods

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 Asian economies, improve. In general, we expect the supply of wild-caught seafood in our core species to be stable over the long term. We anticipate new seafood 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 41% of the Company's procurement by value is related to aquaculture products. To the extent there are unexpected declines in our core products of wild-caught seafood, or 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. 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.

In addition, the Company purchases non-seafood goods and ingredients from a limited number of suppliers as a result of consolidation within the industries in which these suppliers operate in North America and other major markets. Furthermore, issues with suppliers regarding pricing or performance of the goods they supply or the inability of suppliers to supply the required volumes of such goods and services in a timely manner could impact the Company's financial condition and performance. Any such impact will depend on the effectiveness of the Company's contingency plan.

Seafood Production from Asia

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 high quality 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. We work closely with selected Asian suppliers and have made it possible for these suppliers to meet our exacting quality and manufacturing standards. 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.

Non-Seafood Commodities

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 2018 and 2017, the Company has managed this risk through contracts with suppliers.

Crude oil prices, which influence fuel surcharges from freight suppliers increased during 2018 compared to 2017. World commodity prices for flour, soy and canola oils, important ingredients in many of the Company's products, fluctuated throughout the year, with flour prices increasing and soy and canola oil prices decreasing in 2018 compared to 2017. The price of corrugated and folding carton, which is used in packaging, increased in 2018. The Company currently has fixed price contracts with suppliers relating to our 2019 commodity purchase requirements and any additional amounts will be negotiated and fixed as necessary.

Customer Consolidation

We sell the vast majority of our products to large food retailers, including supercentres and club stores, and foodservice distributors in North America. As the retail grocery and foodservice trades continue to consolidate and customers grow larger and more sophisticated, the Company is required to adjust to changes in purchasing practices and changing customer requirements. Failure to do so could result in losing sales volumes and market share. The Company's net sales and profitability could also be affected by deterioration in the financial condition of, or other adverse developments in, the relationship with one or more of its major customers. Any of these events could have a material adverse effect on the Company's financial condition and results of operations.

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 focusing efforts on brand strength, new products, procurement activities and 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.

Competition Risk

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, High Liner Foods and its financial results may be significantly adversely affected if High Liner Foods' suppliers become competitors, if our customers decide to source their own food products, or if one or more of High Liner Foods' competitors were to merge with another of its competitors. 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.

Geopolitical Risk

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

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

In 2017, the U.S. Tax Reform resulted in significant changes to tax legislation in the United States and certain aspects of the U.S. Tax Reform are still subject to interpretation which could impact the results of operations, financial condition and cash flows of the Company (see the *Income Taxes* section on page 28 of this MD&A).

In September 2018, the U.S. Administration announced an additional 10% tariff on certain Chinese imports, including seafood, effective September 24, 2018, increasing to 25% effective January 1, 2019. On December 19, 2018, the U.S. Administration postponed the January 1, 2019 tariff increase, pending negotiations between the U.S. Administration and China. The Company currently purchases its seafood raw materials from more than 20 countries around the world, including from the U.S., to meet U.S. consumer demand. A portion of this raw material is imported into China for primary processing and then exported to the U.S. for sale and secondary processing. The Company has determined that the additional tariff will apply to the import of certain species into the U.S., most notably haddock, tilapia and sole/flounder. The estimated exposure of a 10% and 25% tariff in 2019 is approximately $4 and $9 million, respectively based on current volume and raw material costs; however, the Company has begun implementing plans, including pricing action and certain supply chain initiatives, to mitigate the impact of these tariffs and reduce the estimated impact to the Company. The Company will continue to monitor these developments closely, particularly if further information becomes available regarding additional tariffs or how the previously announced tariffs will impact the Company.

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

Sustainability, Corporate Responsibility and Public Opinion

The future success and growth of our business relies heavily upon our ability to use our position in the marketplace 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, or customer expectations in this regard change, 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.

Corporate Social Responsibility ("CSR") is a term used to refer to the set of voluntary actions companies take to mitigate the social and environmental impacts of their operations on society. CSR is significant in the seafood industry as seen through the multiplication of private initiatives such as certification programs, sourcing commitments and improvement projects. Many of the issues addressed through CSR in seafood occur in the downstream end of seafood supply chains and include sustainable fish stocks, social aspects such as working conditions and fair wages, and transparency. High Liner Foods has continued its leadership position with the publication of CSR reports in 2017 and 2018, which disclose many of the improvement efforts underway.

High Liner's business and operations are subject to environmental laws and regulations, including those relating to permitting requirements, wastewater discharges, air emissions (greenhouse gases and other), releases of hazardous substances and remediation of contaminated sites. The Company believes that its operations are in compliance, in all material respects, with environmental laws and regulations. Compliance with these laws and regulations requires that the Company continue to incur operating and maintenance costs and capital expenditures, including to control potential impacts of its operations on local communities. Future events such as changes in environmental laws and regulations or more vigorous regulatory enforcement policies could have a material adverse effect on the Company's financial position and could require additional expenditures to achieve or maintain compliance.

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.

Growth (Other than by Acquisition)

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.

In addition, the success of the Company depends in part on the Company's ability to respond to market trends and produce innovative products that anticipate and respond to the changing tastes and dietary habits of consumers. From time to time certain products are deemed more or less healthy and this can impact consumer buying patterns. The Company's failure to anticipate, identify, or react to these changes or to innovate could result in declining demand and prices for the Company's products, which in turn could have a material adverse effect on the Company's financial condition and results of operations.

Acquisition and Integration Risk

A component of the Company's strategy is to pursue acquisition opportunities to support sales and earnings growth and further species diversification. While management intends to be careful in selecting businesses to acquire, acquisitions inherently involve a number of risks, including, but not limited to, the possibility that the Company pays more than the acquired assets are worth; the additional expense associated with completing an acquisition; the potential loss of customers of the particular business; the difficulty of assimilating the operations and personnel of the acquired business; the challenge of implementing uniform standards, controls procedures and policies throughout the acquired business; the inability to integrate, train, retain and motivate key personnel of the acquired business; the potential disruption to the Company's ongoing business and the distraction of management from the Company's day-to-day operations; the inability to incorporate acquired businesses successfully into the Company's existing operations; and the potential impairment of relationships with the Company's employees, suppliers and customers. If any one or more of such risks materialize, they could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

In addition, the Company may not be able to maintain the levels of operating efficiency that the acquired company had achieved or might have achieved had it not been acquired by the Company. Successful integration of the acquired company's operations would depend upon the Company's ability to manage those operations and to eliminate redundant and excess costs. As a result of difficulties associated with combining operations, the Company may not be able to achieve the cost savings and other benefits that it expected to achieve with the acquisition. Any difficulties in this process could disrupt the Company's ongoing business, distract its management, result in the loss of key personnel or customers, increase its expenses and otherwise materially adversely affect the Company's business, financial condition, liquidity and operating results. Further, inherent in any acquisition, there is risk of liabilities and contingencies that the Company may not discover in its due diligence prior to the consummation of a particular acquisition, and the Company may not be indemnified for some or all of these liabilities and contingencies. The discovery of any material liabilities or contingencies in any acquisition could also have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Employment Matters

The Company and its subsidiaries have approximately 1,300 full-time and part-time employees, which include salaried and union employees, some of whom are covered by collective agreements. These employees are located in various jurisdictions, each such jurisdiction having differing employment laws. While the Company maintains systems and procedures to comply with the applicable requirements, there is a risk that failures or lapses by individual managers could result in a violation or cause of action that could have a material adverse effect on the Company's financial condition and results of operations. Furthermore, if a collective agreement covering a significant number of employees or involving certain key employees were to expire or otherwise cease to have effect leading to a work stoppage, there can be no assurance that such work stoppage would not have a material adverse effect on the Company's financial condition and results of operations. The Company's success is also dependent on its ability to recruit and retain qualified personnel. The loss of one or more key personnel could have a material adverse effect on the Company's financial condition and results of operations.

Credit Risk

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The Company considers that it has low exposure to concentration of credit risk with respect to accounts receivable from customers due to its large and diverse customer base. Although we insure our accounts receivable risk, our bad debt expense has historically been insignificant. 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

High Liner Foods reports its results in USD to reduce volatility caused by changes in the USD to CAD exchange rate. The Company's results of operations and financial condition are both affected by foreign currency fluctuations in a number of ways. 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 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. As such, fluctuations in exchange rates impact the translated value of the Parent's sales, costs and expenses when translated to USD.

Although High Liner Foods reports in USD, our Canadian operations continue to be managed in CAD. Therefore, in accordance with the Company's "*Price Risk Management Policy*" (the "Policy"), we undertake hedging activities, buying USD forward and 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 months, 10-60% for the next three months, and 0-60% for the last three months. The lower end of these ranges is 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 $60.0-80.0 million of the USD purchases of the Parent are part of the hedging program annually and are usually hedged between 40.0% and 75.0% of the next twelve months of forecasted purchases. We are currently forecasting purchases of $48.8 million to be hedged in 2019 and of this amount, 47.0% are currently hedged.

Details on the hedges in place as at December 29, 2018 are included in Note 25 "*Fair value measurement*" to the Consolidated Financial Statements.

Liquidity Risk

The ability of the Company to secure short-term and long-term financing on terms acceptable to the Company is critical to fund business growth and manage its liquidity.

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 adequate credit facilities in place until April 2021, when the working capital credit facility expires. The failure or inability of the Company to secure short-term and long-term financing in the future on terms that are commercially reasonable and acceptable to the Company could have a significant impact on the Company's opportunity for growth.

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next twelve months as well as 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 29, 2018, less than 4% 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 14 "*Long-term debt and finance lease obligations*" to the Consolidated Financial Statements. At December 29, 2018 and at the date of this document, we are in compliance with all covenants and terms of our banking facilities.

Uncertainty of Dividend Payments

Payment of dividends may be impacted by factors that can have a material adverse effect on High Liners' business, results of operations, cash flows, financial position or prospects and which could impact its liquidity and ability to declare and pay dividends (whether at current levels, revised levels or at all), and is also dependent on, among other things the ability of the Company to generate sufficient cash flows, the financial requirements of High Liner, and applicable solvency tests and contractual restrictions (whether under credit agreements or other contracts).

As the payment of dividends is subject to the discretion of the Company's Board of Directors, the Company's dividend policy could change at any time if the Board determines that a change is in the best interests of the Company.

Pension Plan Assets and Liabilities

In the normal course of business, the Company provides post-retirement pension benefits to its employees under both defined contribution and defined benefit pension plan arrangements. The funded status of the plans significantly affects the net periodic benefit costs of the Company's pension plans and the ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, and the market value of plan assets can affect the level of plan funding required, increase the Company's future funding requirements, and cause volatility in the net periodic pension cost as well as the Company's financial results. Any increase in pension expense or funding requirements could have a material adverse impact on the Company's financial condition and results of operations.

The asset mix of our defined benefit pension plans was established 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 latest actuarial valuations of these two plans were performed during Fiscal 2016 and Fiscal 2017 and showed: combined going concern surpluses of CAD$2.9 million; one plan had a solvency deficit of CAD$1.4 million; and the other plan had a solvency deficit of CAD$3.4 million.

Information Technology and Cybersecurity Risk

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

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

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

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; anticipated financial performance, including earnings trends and growth; achievement, and timing of achievement, of strategic goals and publicly stated financial targets, including to increase our market share, acquire and integrate other businesses and reduce our operating and supply chain costs; and our ability to develop new and innovative products that result in increased sales and market share; increased demand for our products whether due to the recognition of the health benefits of seafood or otherwise; changes in costs for seafood and other raw materials; any proposed disposal of assets and/or operations; increases or decreases in processing costs; the USD/CAD exchange rate; percentage of sales from our brands; expectations with regards to sales volume, earnings, product margins, product innovations, brand development and anticipated financial performance; competitor reaction to Company strategies and actions; impact of price increases or decreases on future profitability; sufficiency of working capital facilities; future income tax rates; the expected timing and the amount of the recovery associated with product recall costs; our ability to successfully integrate the acquisition of Rubicon Resources, LLC; levels of accretion and synergy and earnings growth relating to Rubicon; the expected amount and timing of integration activities related to acquisitions; expected leverage levels and expected net interest-bearing debt to Adjusted EBITDA; statements under the "outlook" heading including expected demand, sales of new product, the efficiency of our plant production and U.S. tariffs on certain seafood products imported from China; expected amount and timing of cost savings related to the optimization of the Company's structure; decreased leverage in the future; estimated capital spending; future inventory trends and seasonality; market forces and the maintenance of existing customer and supplier relationships; availability of credit facilities; our projection of excess cash flow and minimum repayments under the Company's long-term loan facility; expected decreases in debt-to-capitalization ratio; dividend payments; and amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants.

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

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