Management's Discussion and Analysis

For the fifty-two weeks ended December 28, 2019
(All amounts are in United States dollars unless otherwise stated)

Introduction

This Management's Discussion and Analysis ("MD&A"), dated February 26, 2020, relates to the financial condition and results of operations of High Liner Foods Incorporated for the fifty-two weeks ended December 28, 2019 ("Fiscal 2019") compared to the fifty-two weeks ended December 29, 2018 ("Fiscal 2018"). Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2019 Annual Report along with our Annual Audited Consolidated Financial Statements ("Consolidated Financial Statements") as at and for the fifty-two weeks ended December 28, 2019, 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 26, 2020, 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 2019, 2018 and 2017 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 includes certain non-IFRS financial measures, which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes. These non-IFRS measures do not have any standardized meaning as prescribed by IFRS and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures in the *Non-IFRS Financial Measures* section starting on page 32 of this MD&A.

Currency

All amounts in this MD&A are in United States dollars ("USD"), unless otherwise noted. Although the functional currency of High Liner Foods' Canadian company (the "Parent") is 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 certain sections 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 40 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 49 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 a leading North American processor and marketer of value-added (i.e. processed) frozen seafood, producing a wide range of products from breaded and battered items to seafood entrées, that are sold to North American food retailers and foodservice distributors. In addition, we are a major supplier of commodity products in the North American market. The retail channel includes grocery and club stores and our products are sold throughout the U.S. and Canada under the ***High Liner***, ***Fisher Boy***, ***Mirabel***, ***Sea Cuisine*** and ***Catch of the Day*** labels. The foodservice channel includes sales of seafood that is usually eaten outside the home and our branded products are sold through distributors to restaurants and institutions under the ***High Liner***, ***Mirabel***, ***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 ("N.S."), Portsmouth, New Hampshire, and Newport News, Virginia.

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, N.S., we have transformed our long and proud heritage into global seafood expertise. We deliver on the expectations of consumers by selling seafood products that respond to their demands for sustainable, convenient, tasty and nutritious seafood, at good value.

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

[(1)] *In December 2011, as part of our acquisition of the U.S. subsidiary of Icelandic Group h.f., we acquired several brands and agreed to a seven-year royalty-free licensing agreement with Icelandic Group for the use of the Icelandic Seafood brand in the U.S., Canada and Mexico. 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).*

Critical Initiatives

In 2018, the Company embarked on a significant undertaking as represented by the five critical initiatives summarized below to stabilize the business and create optimal conditions for innovation, industry leadership and growth in support of long-term value creation for stakeholders. At this time the Company launched its critical initiative plan, and expected the plan would achieve a minimum of $10.0 million in annualized cost savings, on a run-rate basis. The first critical initiative of organizational realignment was completed in November 2018 and generated net annualized run-rate cost savings of $7.0 million (see the *Recent Developments* section on page 16 of this MD&A for further discussion).

During the second quarter of 2019, to complement existing work and address anticipated headwinds facing the business, the Company engaged consulting firm AlixPartners to help further analyze and identify improvements associated with its supply chain and other cost savings opportunities related to selling, general and administrative expenses. As a result of expanding the scope of the supply chain excellence critical initiative, combined with the annual cost savings generated from the organizational realignment, the Company expects a significant increase in the total net annualized run-rate cost savings associated with the overall critical initiative plan as compared to the $10.0 million cost savings target initially disclosed.

The Company's five critical initiatives were as follows and laid the foundation for the strategic objectives High Liner Foods will advance in 2020:

- Organizational Realignment: The Company made important progress on this initiative throughout 2019 to realign the organization and create a "One High Liner Foods" culture that improves efficiency and cuts costs, facilitates knowledge sharing and organizational best practices, and laid the foundation for the critical initiatives that follow.
- Business Simplification: The Company has reduced unnecessary complexity in its business to simplify its product portfolio and focus the portfolio on the best of High Liner Foods – in terms of margins, customer appeal and growth potential. Although this has required certain product eliminations in 2019 (235 products and 8 species), it has enabled the Company to focus its resources on its most profitable and desirable products.

- **Supply Chain Excellence:** The Company has built on efforts to date to create one integrated supply chain by working to develop a cross-border operating system, increasing the efficiency of manufacturing activities through further centralization and standardization, and improving sales and operational planning. $9.8 million in cost savings were realized in 2019 related to these activities including from improved plant efficiency.
- **Rubicon Shrimp Alignment and Growth:** The Company has worked to extract the value and synergies in this acquisition that have yet to be fully realized. By fully integrating the Rubicon shrimp business into High Liner Foods, the Company is now better positioned to maximize the opportunity for growth in shrimp, one of the fastest growing species in North America.
- **Profitable Organic Growth:** The Company has invested in product innovation, research and partnerships to strengthen its customer engagement, shape consumer tastes and drive demand for its seafood with the goal of returning to profitable growth.

Following execution of its critical initiative plan in 2018 and 2019, High Liner Foods is a more profitable business. Adjusted EBITDA growth in 2019 compared to 2018 reflects cost savings and efficiency improvements resulting from the critical initiatives (see the *Performance* section on page 18 of this MD&A for further discussion).

In 2020, the Company plans to continue to turnaround the business and reposition it for long-term sustainable value creation. Building on a stronger foundation, continuous improvement across the business in 2020 is expected to deliver further growth in Adjusted EBITDA compared to 2019 and continue to reposition the business for a return to profitable, sustainable revenue growth (see the *Outlook* section on page 16 of this MD&A for further discussion). The Company's strategic objectives in 2020 focus on:

- Growing revenue from profitable value-added products through improved sales and marketing execution, ongoing portfolio management and accelerated product innovation; and
- Further improving profitability through continued business simplification, improved business processes and supply chain optimization, including completing operating efficiency and cost savings initiatives identified in 2019.

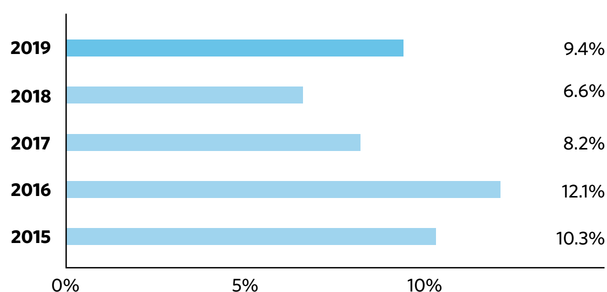
Financial Objectives

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

	Fiscal 2019	Fiscal 2018
Return		
On assets managed	**9.4%**	6.6%
On equity	**8.8%**	5.8%
Profitability		
Adjusted EBITDA as a percentage of sales	**9.1%**	6.0%
Financial strength		
Net Debt to Adjusted EBITDA ratio (times)	**4.1x**	5.8x

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

Return on Assets Managed ("ROAM")

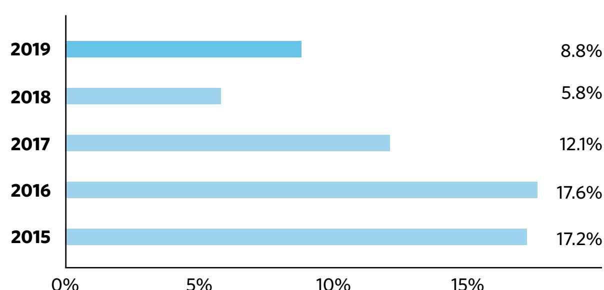


In 2019, Adjusted EBIT increased by $18.2 million, or 40.6%, compared to 2018 and the thirteen-month rolling average net assets managed decreased by $9.8 million, or 1.5%. The combined impact of these changes was an increase in ROAM from 6.6% at the end of Fiscal 2018 to 9.4% at the end of Fiscal 2019.

The increase in Adjusted EBIT in 2019 is a result of the same factors causing the $22.8 million increase in Adjusted EBITDA in 2019 compared to 2018, as discussed in the *Consolidated Performance* section on page 20 of this MD&A, and an increase in depreciation and amortization expense primarily related to the adoption of the new lease standard that was effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A).

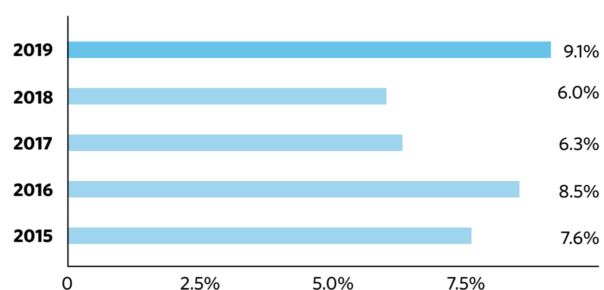
The decrease in the average net assets managed in 2019 compared to 2018 is primarily due to a decrease in average accounts receivable and inventories, partially offset by a decrease in average accounts payable and accrued liabilities as a result of the Company's focus on working capital management, and an increase in right-of-use assets related to the adoption of the new lease standard during Fiscal 2019 as discussed above.

Return on Equity ("ROE")



In 2019, Adjusted Net Income less share-based compensation expense increased by $8.1 million, or 50.8%, compared to 2018, and the thirteen-month rolling average common equity decreased by $1.3 million, or 0.5%. The combined impact of these changes resulted in an increase in ROE from 5.8% at the end of Fiscal 2018 to 8.8% at the end of Fiscal 2019. The increase in Adjusted Net Income in 2019 compared to 2018 is discussed in the *Consolidated Performance* section on page 21 of this MD&A.

Adjusted EBITDA as a Percentage of Sales

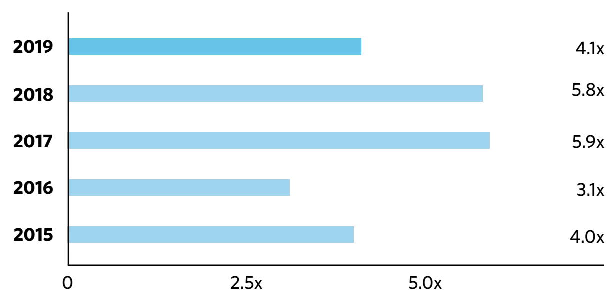


Adjusted EBITDA as a percentage of sales is calculated as follows:

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

In 2019, Adjusted EBITDA increased by $22.8 million, or 36.6%, compared to 2018 and sales decreased by $106.3 million, or 10.1%. The combined impact of these changes resulted in an increase in Adjusted EBITDA as a percentage of sales from 6.0% in 2018 compared to 9.1% in 2019. The increase in Adjusted EBITDA is discussed in the *Consolidated Performance* section on page 20 of this MD&A.

Net Debt to Adjusted EBITDA



Net Debt to Adjusted EBITDA is calculated as follows:

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

During 2019, Net Debt decreased by $14.0 million and Adjusted EBITDA increased by $22.8 million. The combined impact of these changes was an improvement in Net Debt to Adjusted EBITDA for 2019 compared to 2018. The change in Net Debt is discussed on page 27 of this MD&A and the change in Adjusted EBITDA is discussed on page 20 of this MD&A. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2020, we expect this ratio will be lower at the end of Fiscal 2020.

Outlook

High Liner Foods is confident that it will deliver year-over-year annual Adjusted EBITDA growth in 2020 as the Company benefits from the work completed in 2019 and drives continuous improvements across the business. The Company also expects that by the end of 2020, the impact of new business and new product sales will return the Company to profitable revenue growth.

Net Debt to Adjusted EBITDA is expected to continue to improve in 2020 as a result of growth in Adjusted EBITDA, improved cash flow management and the dividend reduction announced in May of this year on the Company's common shares.

The Company currently purchases its seafood raw materials and commodity products from 25 countries, including China. Chinese processors are central to the Company's supply chain operating efficiently and, therefore, the Company is closely monitoring the current coronavirus disease outbreak ("COVID-19") and reviewing options, should they be required, to mitigate the impact of any prolonged disruption in supply from any of its Chinese suppliers.

The Company will also continue to closely monitor developments related to U.S. tariffs on seafood products imported to the U.S. from China and any potential recovery of previously paid tariffs.

Excluding any impact related to the current COVID-19 outbreak and U.S. tariffs on seafood products imported from China, the pricing and supply of seafood raw materials for the products sold by the Company are expected to remain relatively stable throughout 2020.

Recent Developments

Organizational Realignment

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

The 2018 organizational realignment resulted in a 14.0% reduction of its salaried workforce. The Company has recognized total short-term termination benefits of approximately $4.8 million, of which $1.3 million was recognized during the fifty-two weeks ended December 28, 2019, and $3.5 million was recognized in the fourth quarter of 2018, as business acquisition, integration and other expense (income) in the consolidated statements of income. The full organizational realignment undertaken in 2018 will generate approximately $7.0 million in net annualized run rate cost savings.

Dividend and Capital Structure

After an extensive review of its capital allocation strategy, on May 14, 2019, the Board of Directors (the "Board") revised the quarterly dividend to CAD$0.050 per common share from CAD$0.145 per common share. The revised dividend also frees up approximately $10 million in cash flow annually to support the reduction and refinancing of debt to create a stronger balance sheet.

Product Recall

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

During the fifty-two weeks ended December 28, 2019, the Company recognized an $8.5 million recovery associated with the product recall losses from the ingredient supplier, which was recognized as business acquisition, integration and other expense (income) in the consolidated statements of income. As a result, the Company has recovered the full $13.5 million in losses recognized during the fifty-two weeks ended December 30, 2017 related to consumer refunds, customer fines, the return of product to be re-worked or destroyed, and direct incremental costs, and an additional $3.5 million related to lost sales opportunities and increased production costs. No further expenses or recoveries are expected.

Adoption of IFRS 16, *Leases*

The Company has adopted the new lease standard, IFRS 16, *Leases* ("IFRS 16"), effective December 30, 2018 using the modified retrospective method, including the application of certain practical expedients, and therefore the comparative information for Fiscal 2018 has not been restated. The implementation of IFRS 16 has resulted in additional assets and liabilities on the consolidated statements of financial position of approximately $14.6 million (see the *Accounting Estimates and Standards* section on page 37 of this MD&A). In addition, the nature of the expense related to these leases has changed as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and interest expense on the lease liabilities using the effective interest method. Approximately $5.1 million, previously accounted for as operating lease expense, is now accounted for as $4.6 million of depreciation expense and $1.3 million of finance costs for fifty-two weeks ended December 28, 2019. The Company's non-IFRS financial measures for Fiscal 2019 reflect the impact of IFRS 16, and prior periods have not been adjusted, consistent with the modified retrospective method (see the *Non-IFRS Financial Measures* section starting on page 32 of this MD&A).

Board of Directors

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

U.S. Tariffs

In September 2018, the U.S. Trade Representative ("USTR") commenced trade discussions with China which has resulted in the following actions related to additional tariffs on goods imported to the U.S.:

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

The 5% additional tariff proposed on certain Chinese imports covered by the first action on August 23, 2019, which would bring the total tariff to 30%, and the 15% tariff proposed on certain Chinese imports covered by the second action, have been postponed indefinitely.

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

During December 2019, the Company received notice of approval of an exclusion request submitted to the USTR regarding tariffs on certain goods imported to the U.S. from China. The exclusion applies to tariffs already incurred, or that would otherwise be incurred, on specific goods from September 24, 2018 to August 7, 2020 and may result in the recovery of tariffs previously paid by the Company. It is not practicable at this time to estimate the timing or amount of any recovery.

The Company will continue to monitor these developments closely, particularly if further information becomes available regarding potential additional tariffs or exclusions, or how the previously announced tariffs and exclusions will impact the Company.

Refinancing of Term Loan Facility and Amendment of Working Capital Facility

During October 2019, the Company announced the amendment of its working capital facility (refer to Note 11 "*Bank loans*" to the Consolidated Financial Statements for further information) and the early refinancing of its term loan facility (refer to Note 14 "*Long-term debt*" to the Consolidated Financial Statements for further information). The working capital facility was amended by reducing the amount of the facility from $180.0 million to $150.0 million and extending the term from April 2021 to April 2023. The term loan facility was reduced from $370.0 million to $300.0 million, the term was extended from April 2021 to October 2026, and the applicable interest rates for loans under the facility was increased from LIBOR plus 3.25% (1.00% LIBOR floor) to LIBOR plus 4.25% (1.00% LIBOR floor).

The refinancing of the term loan facility was not assessed as a substantial modification, and as a result, the deferred finance costs related to the original facility continue to be amortized over the remaining term. In addition, the Company incurred further deferred finance costs on the amended facility of $6.1 million. As the net present value of the cash flows of the modified debt exceeded the carrying value of the original facility before the amendments, a modification loss of $11.0 million was recorded in finance costs on the consolidated statements of income during the fifty-two weeks ended December 28, 2019.

Performance

As previously discussed, the Company undertook significant reorganization of the internal leadership and reporting structure. The reorganization is now complete and the Company is arranged as a single, focused frozen seafood company that is focused on North America, rather than focusing on separate geographical segments (U.S. and Canada). As such, the Company has transitioned to a single operating and reporting segment (see Note 24 "*Geographic information*" to the Consolidated Financial Statements) and the following discussion and analysis of the Company's financial results focuses on the performance of the consolidated operations.

Seasonality

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

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

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

Consolidated Performance

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

(in $000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	Fifty-two weeks ended December 28, 2019	Fifty-two weeks ended December 29, 2018	Change	Fifty-two weeks ended December 30, 2017
Sales volume (millions of lbs)	**258.8**	284.0	**(25.2)**	291.8
Average foreign exchange rate (USD/CAD)	**$ 1.3273**	$ 1.2956	**$ 0.0317**	$ 1.2983
Sales	**$ 942,224**	$ 1,048,531	**$ (106,307)**	$ 1,053,846
Gross profit	**$ 185,860**	$ 188,157	**$ (2,297)**	$ 186,079
Gross profit as a percentage of sales	**19.7%**	17.9%	**1.8%**	17.7%
Distribution expenses	**$ 45,759**	$ 52,649	**$ (6,890)**	$ 49,827
Selling, general and administrative expenses	**$ 90,019**	$ 92,208	**$ (2,189)**	$ 99,449
Adjusted EBITDA[1]	**$ 85,324**	$ 62,474	**$ 22,850**	$ 66,112
Adjusted EBITDA as a percentage of sales	**9.1%**	6.0%	**3.1%**	6.3%
Net income	**$ 10,289**	$ 16,776	**$ (6,487)**	$ 31,653
Basic Earnings per Share ("EPS")	**$ 0.31**	$ 0.50	**$ (0.19)**	$ 0.98
Diluted EPS	**$ 0.30**	$ 0.50	**$ (0.20)**	$ 0.97
Adjusted Net Income[1]	**$ 29,137**	$ 17,049	**$ 12,088**	$ 30,142
Adjusted Basic EPS	**$ 0.86**	$ 0.51	**$ 0.35**	$ 0.93
Adjusted Diluted EPS[1]	**$ 0.85**	$ 0.51	**$ 0.34**	$ 0.93
Total assets	**$ 820,494**	$ 837,155	**$ (16,661)**	$ 907,969
Total long-term financial liabilities	**$ 309,480**	$ 333,871	**$ (24,391)**	$ 348,774
Dividends paid per common share (in CAD)	**$ 0.295**	$ 0.580	**$ (0.285)**	$ 0.565

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

SALES

Sales volume in 2019 decreased by 25.2 million pounds, or 8.9%, to 258.8 million pounds compared to 284.0 million pounds in 2018 due to lower sales volumes in our retail and foodservice businesses, including lower sales volume as a result of lost business in the latter half of Fiscal 2018 and the fourth quarter of Fiscal 2019, and the exit of low margin business, partially offset by new business and new product sales.

Sales in 2019 decreased by $106.3 million, or 10.1%, to $942.2 million compared to $1,048.5 million in 2018. The decrease in sales reflects the lower sales volumes mentioned above and changes in sales mix, partially offset by price increases related to raw material cost increases. In addition, the weaker Canadian dollar in 2019 compared to 2018 decreased the value of reported USD sales from our CAD-denominated operations by approximately $5.8 million relative to the conversion impact last year.

GROSS PROFIT

Gross profit decreased in 2019 by $2.3 million, or 1.2%, to $185.9 million compared to $188.2 million in 2018, while gross profit as a percentage of sales increased to 19.7% compared to 17.9% in 2018. The decrease in gross profit reflects the lower sales volume discussed above and raw material cost increases, including tariffs on certain species imported into the U.S. from China (see the *Recent Developments* section on page 16 of this MD&A). This decrease was partially offset by sales price increases, favourable product mix related to the exit of the low margin business and improved plant efficiencies partially related to supply chain excellence initiatives (see the *Company Overview* section on page 13 of this MD&A).

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

DISTRIBUTION EXPENSES

Distribution expenses, consisting of freight and storage, decreased in 2019 by $6.8 million to $45.8 million compared to $52.6 million in 2018 primarily reflecting the lower sales volume mentioned previously and savings associated with supply chain excellence initiatives (see the *Company Overview* section on page 13 of this MD&A), partially offset by increased depreciation expense related to the adoption of the new lease standard that was effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A). As a percentage of sales, distribution expenses decreased to 4.9% in 2019 compared to 5.0% in 2018.

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

	Fifty-two weeks ended	
(Amounts in $000s)	**December 28, 2019**	December 29, 2018
SG&A expenses, as reported	**$ 90,019**	$ 92,208
Less:		
Share-based compensation expense[(1)]	**7,084**	1,188
Depreciation and amortization expense[(1)]	**10,779**	9,441
SG&A expenses, net	**$ 72,156**	$ 81,579
SG&A expenses, net as a percentage of sales	**7.7%**	7.8%

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

SG&A expenses decreased by $2.2 million to $90.0 million in 2019 as compared to $92.2 million in 2018. SG&A expenses included share-based compensation expense of $7.1 million in 2019 compared to $1.2 million in 2018, primarily due to the issuance of stock options and cash-settled awards and a higher share price at the end of 2019 compared to 2018. SG&A expenses also included depreciation and amortization expense of $10.8 million in 2019 compared to $9.4 million in 2018. This increase was primarily related to adoption of the new lease standard that was effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A).

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in 2019 by $9.4 million to $72.2 million compared to $81.6 million in 2018, due to lower salaries and benefits related to the organizational realignment (see the *Company Overview* section on page 13 of this MD&A), lower consumer marketing and administrative expenditures associated with cost saving initiatives and lower variable selling costs largely related to the lower sales volume mentioned previously. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 7.7% in 2019 compared to 7.8% in 2018.

ADJUSTED EBITDA

We refer to Adjusted EBITDA throughout this MD&A in discussing our results for the fifty-two weeks ended December 28, 2019. See the *Non-IFRS Financial Measures* section on page 32 for further explanation of this non-IFRS measure.

Consolidated Adjusted EBITDA increased in 2019 by $22.8 million, or 36.6%, to $85.3 million compared to $62.5 million in 2018. The increase in Adjusted EBITDA reflects the inclusion of $5.5 million of the $8.5 million recovery received from the ingredient supplier in the first quarter of 2019 associated with the 2017 product recall (see the *Recent Developments* section on page 16 of this MD&A), the impact of the new lease standard adopted at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A) and the decrease in distribution and net SG&A expenses, partially offset by the lower gross profit, all discussed previously. The remaining recovery received from the ingredient supplier of $3.0 million (of the total $8.5 million) and the $8.5 million recovery received in the third quarter of 2018 were excluded from Adjusted EBITDA, consistent with the treatment in Fiscal 2017 when the related $11.5 million in product recall costs were added back or excluded for the purpose of Adjusted EBITDA.

The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by $4.8 million in 2019 compared to $4.3 million in 2018.

NET INCOME

We refer to Adjusted Net Income and Adjusted Diluted EPS throughout this MD&A. See the *Non-IFRS Financial Measures* section starting on page 32 for further explanation of these non-IFRS measures.

Net income decreased in 2019 by $6.5 million, or 38.7%, to $10.3 million ($0.30 per diluted share) compared to $16.8 million ($0.50 per diluted share) in 2018. The decrease in net income reflects an increase in finance costs primarily reflecting the loss on modification of debt related to the debt refinancing completed in October 2019 (see the *Recent Developments* section on page 16 of this MD&A), costs associated with the Company's critical initiatives, and the increase in share-based compensation and depreciation and amortization expenses discussed previously, partially offset by the increase in Adjusted EBITDA discussed previously, a decrease in short-term termination benefits associated with the organizational realignment announced in November 2018, and lower income tax expense as discussed in the *Income Taxes* section on page 25 of this MD&A.

In 2019, net income included "business acquisition, integration and other expense (income)" (as explained in the *Business Acquisition, Integration and Other Expense (Income)* section on page 25 of this MD&A) related to the product recall recovery, short-term termination benefits and the costs associated with the Company's critical initiatives mentioned above, and other non-cash expenses. In 2018, net income included "business acquisition, integration and other expense (income)" related to the product recall recovery in the third quarter of 2018, short-term termination benefits as a result of restructuring activities and other non-cash expenses. Excluding the impact of these non-routine items or other non-cash expenses and the loss on modification of debt related to the debt refinancing completed in October 2019 (see the *Recent Developments* section on page 16 of this MD&A), and including the $3.0 million product recall recovery excluded from Adjusted EBITDA, Adjusted Net Income in 2019 increased by $12.1 million, or 70.9%, to $29.1 million compared to $17.0 million in 2018.

Adjusted Diluted EPS increased by $0.34 to $0.85 in 2019 compared to $0.51 in 2018.

Results by Quarter

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

FISCAL 2019

(Amounts in $000s, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Sales	**$ 277,424**	**$ 223,034**	**$ 220,141**	**$ 221,625**	**$ 942,224**
Adjusted EBITDA[1]	**$ 32,215**	**$ 17,883**	**$ 16,455**	**$ 18,771**	**$ 85,324**
Net Income	**$ 14,762**	**$ 946**	**$ (2,400)**	**$ (3,019)**	**$ 10,289**
Basic EPS	**$ 0.44**	**$ 0.03**	**$ (0.07)**	**$ (0.09)**	**$ 0.31**
Diluted EPS	**$ 0.43**	**$ 0.03**	**$ (0.07)**	**$ (0.09)**	**$ 0.30**
Adjusted Net Income[1]	**$ 14,925**	**$ 4,680**	**$ 3,857**	**$ 5,675**	**$ 29,137**
Adjusted Basic EPS	**$ 0.44**	**$ 0.14**	**$ 0.11**	**$ 0.17**	**$ 0.86**
Adjusted Diluted EPS[1]	**$ 0.44**	**$ 0.13**	**$ 0.11**	**$ 0.17**	**$ 0.85**
Dividends paid per common share (in CAD)	**$ 0.145**	**$ 0.050**	**$ 0.050**	**$ 0.050**	**$ 0.295**
Net non-cash working capital[2]	**$ 230,412**	**$ 209,791**	**$ 201,289**	**$ 239,176**	**$ 239,176**

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

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

(2) *Net 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 $000s, except sales volume, per share amounts, percentage amounts and exchange rates)	Thirteen weeks ended December 28, 2019	Thirteen weeks ended December 29, 2018	Change	Thirteen weeks ended December 30, 2017
Sales volume (millions of lbs)	**59.7**	66.1	**(6.4)**	71.6
Average foreign exchange rate (USD/CAD)	**$ 1.3206**	$ 1.3197	**$ 0.0009**	$ 1.2715
Sales	**$ 221,625**	$ 242,878	**$ (21,253)**	$ 263,022
Gross profit	**$ 44,502**	$ 40,287	**$ 4,215**	$ 44,504
Gross profit as a percentage of sales	**20.1%**	16.6%	**3.5%**	16.9%
Distribution expenses	**$ 11,384**	$ 12,125	**$ (741)**	$ 13,328
Selling, general and administrative expenses	**$ 18,577**	$ 20,959	**$ (2,382)**	$ 24,609
Adjusted EBITDA[1]	**$ 18,771**	$ 11,968	**$ 6,803**	$ 13,060
Adjusted EBITDA as a percentage of sales	**8.5%**	4.9%	**3.6%**	5.0%
Net (loss) income	**$ (3,019)**	$ (810)	**$ (2,209)**	$ 14,227
Basic EPS	**$ (0.09)**	$ (0.02)	**$ (0.07)**	$ 0.43
Diluted EPS	**$ (0.09)**	$ (0.02)	**$ (0.07)**	$ 0.43
Adjusted Net Income[1]	**$ 5,675**	$ 2,169	**$ 3,506**	$ 4,849
Adjusted EPS	**$ 0.17**	$ 0.07	**$ 0.10**	$ 0.15
Adjusted Diluted EPS[1]	**$ 0.17**	$ 0.07	**$ 0.10**	$ 0.15

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

SALES

Sales volume for the fourth quarter of 2019 decreased by 6.4 million pounds, or 9.7%, to 59.7 million pounds compared to 66.1 million pounds in the same period in 2018 due to lower sales volumes in our retail and foodservice businesses, including lower sales volume as a result of lost business in the latter half of Fiscal 2018 and the fourth quarter of Fiscal 2019 and the exit of low margin business, partially offset by new business and new product sales.

Sales in the fourth quarter of 2019 decreased by $21.3 million, or 8.8%, to $221.6 million compared to $242.9 million in the same period last year. The decrease in sales reflects the lower sales volumes discussed above and changes in sales mix, partially offset by price increases related to raw material cost increases. In addition, the weaker Canadian dollar in the fourth quarter of 2019 compared to the same quarter of 2018 decreased the value of USD sales from our CAD-denominated operations by approximately $0.1 million relative to the conversion impact last year.

GROSS PROFIT

Gross profit increased in the fourth quarter of 2019 by $4.2 million, or 10.5%, to $44.5 million compared to $40.3 million in 2018 and gross profit as a percentage of sales increased to 20.1% compared to 16.6%. The increase in gross profit reflects the increase in sales prices discussed above, favourable product mix related to the exit of low margin business and improved plant efficiencies related to the Company's supply chain excellence initiatives (see the *Company Overview* section on page 13 of this MD&A). This was partially offset by the lower sales volume discussed above and raw material cost increases, including tariffs on certain species imported into the U.S. from China (see the *Recent Developments* section on page 16 of this MD&A).

In addition, the weaker Canadian dollar decreased the value of reported USD gross profit from our Canadian operations in 2019 by an amount consistent with the conversion impact last year.

DISTRIBUTION EXPENSES

Distribution expenses, consisting of freight and storage, decreased in the fourth quarter of 2019 by $0.7 million to $11.4 million compared to $12.1 million in the same period in 2018, primarily reflecting the lower sales volume mentioned previously and savings associated with supply chain excellence initiatives (see the *Company Overview* section on page 13 of this MD&A), partially offset by increased depreciation expense related to the adoption of the new lease standard that was effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A). As a percentage of sales, these expenses increased to 5.1% in the fourth quarter of 2019 compared to 5.0% in the same period in 2018.

SG&A EXPENSES

SG&A expenses decreased in the fourth quarter of 2019 by $2.4 million to $18.6 million compared to $21.0 million in the same period last year. SG&A expenses included share-based compensation recovery of $1.5 million in the fourth quarter of 2019 compared to share-based compensation expense of $0.2 million for the same period in 2018, primarily due to a decrease in share price over the fourth quarter of 2019, partially offset by the vesting of cash-settled units. SG&A expenses also included depreciation and amortization expense of $2.6 million in the fourth quarter of 2019 and $2.4 million in the same period of 2018. This increase was primarily related to the adoption of the new lease standard that was effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A).

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the fourth quarter of 2019 by $0.9 million to $17.5 million compared to $18.4 million in the same period last year, due to lower consumer marketing and administrative expenditures associated with cost saving initiatives and lower variable selling costs largely related to the lower sales volume mentioned previously. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense increased to 7.9% in the fourth quarter of 2019 compared to 7.6% in the same period last year.

ADJUSTED EBITDA

Consolidated Adjusted EBITDA increased in the fourth quarter of 2019 by $6.8 million, or 56.8%, to $18.8 million compared to $12.0 million in 2018. The increase in Adjusted EBITDA reflects the impact of the new lease standard adopted at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A), the increase in gross profit and the decrease in distribution and net SG&A expenses, all discussed previously.

The impact of converting our CAD-denominated operations and corporate activities to our USD presentation currency decreased the value of reported Adjusted EBITDA in USD by $2.2 million in the fourth quarter of 2019 compared to $1.7 million in 2018.

NET LOSS

Net loss increased in the fourth quarter of 2019 by $2.2 million, or 272.7%, to a net loss of $3.0 million ($0.09 loss per diluted share) compared to a net loss of $0.8 million ($0.02 loss per diluted share) in the same period in 2018. The increase in net loss reflects an increase in finance costs primarily reflecting the loss on modification of debt related to the debt refinancing completed in October 2019 (see the *Recent Developments* section on page 16 of this MD&A) and the increase in depreciation and amortization expenses discussed previously, partially offset by a decrease in short-term termination benefits associated with the organizational realignment announced in November 2018, the decrease in share-based compensation expenses discussed previously, and the increase in Adjusted EBITDA.

In 2019, net loss included "business acquisition, integration and other expense (income)" (as explained in the *Business Acquisition, Integration and Other Expense (Income)* section on page 25 of this MD&A) related to the costs associated with the Company's critical initiatives mentioned above, and other non-cash expenses. In 2018, net loss included "business acquisition, integration and other expense (income)" related to short-term termination benefits as a result of restructuring activities, and other non-cash expenses. Excluding the impact of these non-routine or other non-cash expenses and the loss on modification of debt related to the debt refinancing completed in October 2019 (see the *Recent Developments* section on page 16 of this MD&A), Adjusted Net Income in the fourth quarter of 2019 increased by $3.5 million, or 161.6%, to $5.7 million compared to $2.2 million in the same period in 2018.

Correspondingly, Adjusted Diluted EPS increased by $0.10 to $0.17 compared to $0.07 in the fourth quarter of 2018.

Business Acquisition, Integration and Other Expense (Income)

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

(Amounts in $000s)	Thirteen weeks ended		Fifty-two weeks ended	
	December 28, 2019	December 29, 2018	**December 28, 2019**	December 29, 2018
Business acquisition, integration and other expense (income)	**$ 2,559**	$ 3,631	**$ 1,572**	$ (2,471)

Business acquisition, integration and other expense (income) for the fifty-two weeks ended December 28, 2019 included the recognition of the $8.5 million recovery associated with the 2017 product recall from the ingredient supplier, largely offset by short-term termination benefits resulting from the organizational realignment initiated in November 2018 of $1.3 million (see the *Recent Developments* section on page 16 of this MD&A), costs of $6.6 million related to the Company's critical initiatives (see the *Company Overview* on page 13 of this MD&A), and other non-routine expenses.

For the fifty-two weeks ended December 29, 2018, business acquisition, integration and other expense (income) included the recognition of an $8.5 million recovery associated with the 2017 product recall from the ingredient supplier, partially offset by short-term termination benefits resulting from restructuring activities in the first three quarters of 2018 and the organizational realignment initiated in November 2018 of $3.5 million. See the *Recent Developments* section on page 16 of this MD&A for further discussion.

Finance Costs

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

(Amounts in $000s)	Thirteen weeks ended		Fifty-two weeks ended	
	December 28, 2019	December 29, 2018	**December 28, 2019**	December 29, 2018
Interest paid in cash during the period	**$ 5,098**	$ 5,229	**$ 20,173**	$ 19,917
Change in cash interest accrued during the period	**(286)**	344	**(648)**	812
Total interest to be paid in cash	**4,812**	5,573	**19,525**	20,729
Modification loss related to debt refinancing activities[1]	**10,969**	—	**10,969**	—
Interest expense on lease liabilities[2]	**376**	—	**1,447**	—
Deferred financing cost amortization	**427**	215	**1,071**	874
Total finance costs	**$ 16,584**	$ 5,788	**$ 33,012**	$ 21,603

[1] *The thirteen and fifty-two weeks ended December 28, 2019 include a loss on the modification of debt related to the debt refinancing completed in October 2019 (see the* Recent Developments *section on page 16 of this MD&A).*

[2] *During the thirteen and fifty-two weeks ended December 28, 2019, interest expense included additional expense primarily related to the adoption of the new lease standard that was effective the beginning of Fiscal 2019 (see the* Recent Developments *section on page 16 of this MD&A).*

Finance costs were $10.8 million higher in the fourth quarter of 2019 and $11.4 million higher in the fifty-two weeks ended December 28, 2019 compared to the same periods last year. The increase in the fifty-two weeks ended December 28, 2019 was due to a loss on the modification of debt related to the debt refinancing completed in October 2019 (see the *Recent Developments* section on page 16 of this MD&A), higher interest rates and interest expense on lease liabilities related to the adoption of the new lease standard effective the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A). This increase was partially offset by lower average Net Debt during 2019 compared to 2018.

Income Taxes

High Liner Foods' effective income tax rate for the year ended December 28, 2019 was 29.2% compared to 26.6% in 2018. In the fourth quarter of 2019, the effective tax rate was a recovery of 34.5% compared to a recovery of 67.8% in the fourth quarter of 2018. The higher effective tax rate for the year and quarter ended December 28, 2019 compared to the same period last year was attributable to reduced interest expense deductibility associated with the Company's tax-efficient financing structure due to a valuation allowance. The applicable statutory rates in Canada and the U.S. were 29.2% and 27.6%, respectively.

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 46 (in the *Risk Factors* section).

Our capital management practices are described in Note 26 "*Capital management*" to the 2019 Consolidated Financial Statements.

Working Capital Credit Facility

The Company entered into a $180.0 million asset-based working capital credit facility (the "Facility") in November 2010 with the Royal Bank of Canada as Administrative and Collateral agent. During October 2019, the Company announced the amendment of its working capital facility which resulted in a reduction of the amount of the facility to $150.0 million and an extension of the term from April 2021 to April 2023.

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

	Per credit agreement	As at December 28, 2019
Canadian Prime Rate revolving loans, Canadian Prime 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 2019 were $24.4 million compared to $46.8 million in 2018. This $22.4 million decrease in average short-term borrowings primarily reflects increased debt repayments due to higher cash flow provided by operations, decreased average working capital requirements during 2019 as compared to 2018, and decreased dividend payments related to the reduction of the quarterly dividend on the Company's common shares (see the *Dividends* section on page 28 of this MD&A). Average short-term borrowings outstanding during 2018 were higher than 2017 as a result of increased borrowings due to the acquisition of Rubicon in May 2017, increased working capital requirements and reduced cash flow provided by operations in the latter half of 2017, partially offset by higher debt repayments in the latter half of 2018.

At the end of the fourth quarter of 2019, the Company had $99.4 million (December 29, 2018: $118.2 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 28, 2019, letters of credit and standby letters of credit were outstanding in the amount of $12.6 million (December 29, 2018: $15.4 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 North America, subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility. 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*".

In the absence of any major acquisitions, voluntary term loan repayments or capital expenditures, we expect average short-term borrowings by the end of 2020 to be consistent with 2019, and we believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

Term Loan Facility

As at December 28, 2019, the Company had a $300.0 million term loan facility with an interest rate of 4.25% plus LIBOR (LIBOR floor of 1.00%), maturing in October 2026. During October 2019, the Company announced the early refinancing of its term loan facility. The term loan facility was reduced from $370.0 million to $300.0 million, the term was extended from April 2021 to October 2026, and the applicable interest rate for loans under the facility was increased from LIBOR plus 3.25% (1.00% LIBOR floor) to LIBOR plus 4.25% (LIBOR floor of 1.00%).

Prior to the October 2019 refinancing, quarterly repayments of $0.9 million were required on the term loan as regularly scheduled principal repayments. Under the October 2019 refinanced term loan agreement, quarterly repayments of $1.9 million are required on the term loan as regularly scheduled repayments. On an annual basis, based on a leverage test, additional prepayments ("mandatory excess cash flow prepayments") could be required of up to 50% of the previous year's defined excess cash flow. Per the loan agreement, mandatory excess cash flow prepayments and voluntary repayments will be applied to future regularly scheduled principal repayments.

During the first quarter of 2019, a mandatory prepayment of $13.7 million was made due to excess cash flows in 2018. During the fourth quarter of 2019, the principal amount outstanding of $324.0 million was reduced by $24.0 million to $300.0 million as a part of the term loan facility refinancing. As at December 28, 2019, the Company had a mandatory prepayment of $12.6 million due in 2020 related to excess cash flows in 2019.

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 28, 2019, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility:

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

As of December 28, 2019, the combined impact of the interest rate swaps listed above effectively fix the interest rate on $165.0 million of the $300.0 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*" to the Consolidated Financial Statements.

Net Debt

The Company's Net Debt (as calculated in the *Non-IFRS Financial Measures* section on page 32 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs and modification losses) and lease liabilities, less cash. Net Debt decreased by $14.0 million to $346.6 million at December 28, 2019 compared to $360.6 million at December 29, 2018, reflecting higher debt repayments in 2019 as described above due to higher cash flows from operations in 2019, lower capital expenditures, and lower dividend payments related to the reduction of the quarterly dividend on the Company's common shares (see the *Dividends* section on page 28 of this MD&A). This was offset by a lower cash balance on hand as at December 28, 2019 as compared to December 29, 2018, and the transitional increase in lease liabilities upon the adoption of the new lease standard effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A).

Including the impact of the new lease standard since adoption (December 30, 2018), Net Debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 32 of this MD&A for further discussion of Adjusted EBITDA) was 4.1x at December 28, 2019 compared to 5.8x at the end of Fiscal 2018. In the absence of any major acquisitions or strategic initiatives requiring capital expenditures in 2020, we expect this ratio will be lower at the end of Fiscal 2020.

Capital Structure

At December 28, 2019, Net Debt was 56.3% of total capitalization compared to 58.0% at December 29, 2018.

(Amounts in $000s)	**December 28, 2019**	December 29, 2018
Net Debt[(1)]	**$ 346,592**	$ 360,642
Shareholders' equity	**268,170**	263,859
Unrealized losses (gains) on derivative financial instruments included in AOCI	**396**	(2,215)
Total capitalization	**$ 615,158**	$ 622,286
Net debt as percentage of total capitalization	**56.3%**	58.0%

(1) *The Company has adopted the new lease standard, IFRS 16, Leases, effective December 30, 2018, which has resulted in additional lease liabilities of $14.6 million (see the* Recent Developments *section on page 16 of this MD&A). IFRS 16 was applied using the modified retrospective method, and as a result, the comparative information for Fiscal 2018 has not been restated. Therefore, these lease liabilities are only included in the Company's Net Debt balance as at December 28, 2019, increasing Net Debt by $11.4 million. Net Debt, excluding the impact of IFRS 16, would be 55.5% of total capitalization as at December 28, 2019.*

Using our December 28, 2019 market capitalization of $210.3 million, based on a share price of CAD$8.23 (USD$6.30 equivalent), instead of the book value of equity, Net Debt as a percentage of total capitalization increases to 62.2%.

Normal Course Issuer Bid

In January 2018, we filed a new NCIB ("2018 NCIB") to purchase up to 150,000 common shares. The 2018 NCIB terminated on February 1, 2019. During the fifty-two weeks ended December 28, 2019 there were no purchases under this plan. As at February 26, 2020, the Company has not filed a new NCIB.

The Company 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 plan also constitutes an "automatic plan" for purposes of applicable Canadian Securities Legislation and have been approved by the TSX.

Dividends

In May 2019, after an extensive review of its capital allocation strategy, the Board elected to revise the quarterly dividend to CAD$0.050 per common share from CAD$0.145 per common share applicable on a prospective basis, commencing with the Company's Q2 2019 quarterly dividend. This revision has brought the dividend back in line with the Company's previously disclosed guidance for the dividend to provide a payout of 30–35% of trailing Adjusted Diluted EPS (see the *Non-IFRS Financial Measures* section on page 32 of this MD&A) relative to 2018 and Q1 2019 financial results. The revised dividend also frees up approximately $10.0 million in cash flow annually to support the reduction of debt to create a stronger balance sheet.

As shown in the following table, the quarterly dividend on the Company's common shares decreased 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, 2019	$ 0.050
September 1, 2019	0.050
June 1, 2019	0.050
March 7, 2019	0.145
December 1, 2018	0.145
September 1, 2018	0.145
June 1, 2018	0.145
March 1, 2018	0.145

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 $18.8 million or higher, and was $110.3 million on December 28, 2019, and NCIBs are subject to an annual limit of $10.0 million with a provision to carry forward unused amounts subject to a maximum of $20.0 million per annum; and
- Under the term loan facility, dividends cannot exceed $17.5 million per year. This amount increases to the greater of $25.0 million per year or 32.5% of EBITDA as defined in the loan agreement when the defined total leverage ratio is below 4.0x. The defined total leverage ratio was 4.1x on December 28, 2019. NCIBs are subject to an annual limit of $10.0 million under the term loan facility.

On February 26, 2020, the Directors approved a quarterly dividend of CAD$0.050 per share on the Company's common shares payable on March 15, 2020 to holders of record on March 4, 2020. These dividends are "eligible dividends" for Canadian income tax purposes.

Disclosure of Outstanding Share Data

On February 26, 2020, 33,383,481 common shares and 1,711,416 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 $000s)	**December 28, 2019**	December 29, 2018	**December 28, 2019**	December 29, 2018
Net cash flows (used in) provided by operating activities	**$ (24,092)**	$ 9,964	**$ 51,606**	$ 56,933
Net cash flows provided by (used in) financing activities	**4,646**	1,826	**(50,705)**	(36,942)
Net cash flows used in investing activities	**(1,812)**	(3,541)	**(6,569)**	(13,842)
Foreign exchange decrease on cash	**(298)**	(1,068)	**(756)**	(1,319)
Net change in cash during the period	**$ (21,556)**	$ 7,181	**$ (6,424)**	$ 4,830

Cash was $3.1 million at December 28, 2019, compared to $9.6 million at December 29, 2018. The decrease in cash for the fifty-two weeks ended December 28, 2019 is discussed further below.

CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities were $5.3 million lower in 2019 compared to the same period last year. The decrease in 2019 was due to unfavourable changes in net non-cash working capital, higher interest payments, and lower income tax refunds, partially offset by higher cash flows from earnings. The unfavourable changes in net non-cash working capital are the result of unfavourable changes in inventories, accounts receivable and provisions, partially offset by favourable changes in prepaid expenses and accounts payable and accrued liabilities.

CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows from financing activities were $13.8 million lower in 2019 compared to the same period last year. The decrease in 2019 was due to higher long-term debt and deferred finance cost repayments related to an excess cash flow payment in the first quarter of 2019 and payments incurred as a part of the debt refinancing completed in October 2019 (see the *Recent Developments* section on page 16 of this MD&A), and higher lease liability repayments related to the adoption of the new lease standard that was effective at the beginning of Fiscal 2019 (see the *Recent Developments* section on page 16 of this MD&A). This was partially offset by decreased dividend payments related to the reduction of the quarterly dividend on the Company's common shares (see the *Dividends* section on page 28 of this MD&A) and an increase in bank loans in 2019 compared to a decrease in 2018.

CASH FLOWS FROM INVESTING ACTIVITIES

Cash flows from investing activities were $7.3 million higher in 2019 compared to the same period last year. The increase in 2019 was due to lower capital expenditures related to property, plant and equipment and intangible assets.

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 32 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended December 28, 2019 increased by $2.0 million to an inflow of $45.0 million compared to an inflow of $43.0 million for the twelve months ended December 29, 2018. This increase reflects lower capital expenditures and higher cash flows from operating activities, including interest and income taxes, partially offset by an unfavourable change in non-cash working capital during the twelve months ended December 28, 2019 as compared to the twelve months ended December 29, 2018.

Net Non-Cash Working Capital

(Amounts in $000s)	**December 28, 2019**	December 29, 2018	**Change**
Accounts receivable	**$ 85,089**	$ 84,873	**$ 216**
Inventories	**294,913**	301,411	**(6,498)**
Prepaid expenses	**4,322**	4,333	**(11)**
Accounts payable and accrued liabilities	**(144,819)**	(161,934)	**17,115**
Provisions	**(329)**	(1,460)	**1,131**
Net non-cash working capital	**$ 239,176**	$ 227,223	**$ 11,953**

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 increased by $12.0 million to $239.2 million at December 28, 2019 as compared to $227.2 million at December 29, 2018, primarily reflecting lower accounts payable and accrued liabilities, partially offset by decreased inventories.

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 2020.

Capital Expenditures

Capital expenditures (including computer software) were $1.8 million and $6.6 million during the fourth quarter and fifty-two weeks ended December 28, 2019 respectively, as compared to capital expenditures of $3.7 million and $14.6 million during the fourth quarter and fifty-two weeks ended December 29, 2018, respectively. Capital expenditures were lower in 2019 due to the non-reoccurring capital expenditures incurred in the first half of 2018 related to improvements in the Company's enterprise-wide business management system.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2020 will be approximately $15.0 million and funded by cash generated from operations and short-term borrowings.

Other Liquidity Items

SHARE-BASED COMPENSATION AWARDS

Share-based compensation expense increased to $7.1 million in 2019 compared to $1.2 million in 2018 and is non-cash until unit holders exercise the awards. The change in share-based compensation is discussed on page 20 of this MD&A. Additional details regarding the Company's share-based compensation are provided in Note 17 "*Share-based compensation*" to the Consolidated Financial Statements.

During 2019, unit holders exercised Restricted Share Units ("RSUs") and Deferred Share Units ("DSUs") and received cash in the amount of $0.4 million (2018: $0.2 million). The liability for share-based compensation awards at the end of Fiscal 2019 was $7.9 million compared to $1.7 million at the end of Fiscal 2018.

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 2019 was $nil (2018: $nil).

DEFINED BENEFIT PENSION PLANS

The Company's defined benefit pension plans can impact the Company's cash flow requirements and liquidity. In 2019, the defined benefit pension expense for accounting purposes was $1.3 million (2018: $1.3 million) and the annual cash contributions were consistent with the 2019 accounting expense (2018: $0.1 million lower). For 2020, we expect cash contributions to be approximately CAD$1.4 million and the defined benefit pension expense to be approximately CAD$1.4 million. We have more than adequate availability under our working capital credit facility to make the required future cash contributions to our defined benefit pension plans. As well, we have a SERP liability for accounting purposes of $6.8 million that is secured by a letter of credit in the amount of $9.5 million.

Contractual Obligations

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

	Payments due by period			
(Amounts in $000s)	Total	Less than 1 year	1–5 Years	Thereafter
Bank loans	$ 37,956	$ 37,956	$ —	$ —
Long-term debt	416,058	36,064	112,565	267,429
Lease liabilities	14,186	5,504	7,911	771
Purchase obligations	100,083	94,947	5,136	—
Total contractual obligations	$ 568,283	$ 174,471	$ 125,612	$ 268,200

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 42 and the *Foreign Currency* section on page 46 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 2019 annual 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, High Liner Foods (USA) Incorporated and High Liner Foods, útibú á Íslandi. High Liner Foods, útibú á Íslandi 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 information technology services to the subsidiaries. On consolidation, revenue, costs, gains or losses, and all intercompany 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.

The Company had related party transactions with a company controlled by a strategic advisor of Rubicon. Effective the beginning of the second quarter of 2019, this company ceased to be a related party in accordance with IFRS. Total sales to related parties for the fifty-two weeks ended December 28, 2019 were $0.3 million (fifty-two weeks ended December 29, 2018: $0.9 million). The Company leased an office building from a related party at an amount which approximated the fair market value that would be incurred if leased from a third party. Effective the beginning of the second quarter of 2019, the lessor ceased to be a related party in accordance with IFRS. The aggregate payments under the lease, which are measured at the exchange amount, were $0.2 million during the fifty-two weeks ended December 28, 2019 (fifty-two weeks ended December 29, 2018: $0.7 million).

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"); Standardized Free Cash Flow; Net 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 adjusted for items that are not considered representative of ongoing operational activities of the business. The related margin is defined as Adjusted EBITDA divided by net sales ("Adjusted EBITDA as a percentage of sales"), where net sales is defined as "Sales" on the consolidated statements of income.

We use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) as a performance measure as it approximates cash generated from operations before capital expenditures and changes in working capital, and it excludes the impact of expenses and recoveries associated with certain non-routine items that are not considered representative of the ongoing operational activities, as discussed above, and share-based compensation expense related to the Company's share price. We believe investors and analysts also use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) to evaluate the performance of our business. The most directly comparable IFRS measure to Adjusted EBTIDA 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.

(Amounts in $000s)	**Thirteen weeks ended December 28, 2019**	Thirteen weeks ended December 29, 2018
Net income	**$ (3,019)**	$ (810)
Add back (deduct):		
Depreciation and amortization expense[1]	**5,678**	4,464
Financing costs[2]	**16,584**	5,788
Income tax recovery	**(1,589)**	(1,705)
Standardized EBITDA	**17,654**	7,737
Add back (deduct):		
Business acquisition, integration and other expenses (income)[3]	**2,559**	3,631
Impairment of property, plant and equipment	**6**	299
Loss on disposal of assets	**61**	112
Share-based compensation (recovery) expense	**(1,509)**	189
Adjusted EBITDA	**$ 18,771**	$ 11,968

(Amounts in $000s)	Fifty-two weeks ended December 28, 2019	Fifty-two weeks ended December 29, 2018
Net income	**$ 10,289**	$ 16,776
Add back (deduct):		
Depreciation and amortization expense[(1)]	**22,455**	17,771
Financing costs[(2)]	**33,012**	21,603
Income tax expense	**4,235**	6,090
Standardized EBITDA	**69,991**	62,240
Add back (deduct):		
Business acquisition, integration and other expenses (income)[(3)]	**7,105**	(2,471)
Impairment of property, plant and equipment	**974**	1,302
Loss on disposal of assets	**130**	166
Share-based compensation expense	**7,124**	1,237
Adjusted EBITDA	**$ 85,324**	$ 62,474

(1) *The thirteen and fifty-two weeks ended December 28, 2019 include additional depreciation and amortization expense primarily related to the adoption of the new lease standard that was effective the beginning of Fiscal 2019 (see the* Recent Developments *section on page 16 of this MD&A).*

(2) *The thirteen and fifty-two weeks ended December 28, 2019 include a loss on the modification of debt related to the debt refinancing completed in October 2019 (see the* Recent Developments *section on page 16 of this MD&A).*

(3) *The fifty-two weeks ended December 28, 2019 includes short-term termination benefits incurred as part of the organizational realignment (see the* Recent Developments *section on page 16 of this MD&A) and costs related to the Company's critical initiatives (see the* Company Overview *section on page 13 of this MD&A). Additionally, the fifty-two weeks ended December 28, 2019 includes $3.0 million of the $8.5 million product recall recovery received from the ingredient supplier in the first quarter of 2019, and the fifty-two weeks ended December 29, 2018 includes the $8.5 million recovery received from the ingredient supplier in the third quarter of 2018 (see the* Recent Developments *section on page 16 of this MD&A).*

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.

(Amounts in $000s)	Thirteen weeks ended December 28, 2019	Thirteen weeks ended December 29, 2018
Adjusted EBITDA	**$ 18,771**	$ 11,968
Less:		
Depreciation and amortization expense[(1)]	**5,678**	4,464
Adjusted EBIT	**$ 13,093**	$ 7,504

(Amounts in $000s)	Fifty-two weeks ended December 28, 2019	Fifty-two weeks ended December 29, 2018
Adjusted EBITDA	**$ 85,324**	$ 62,474
Less:		
Depreciation and amortization expense[(1)]	**22,455**	17,771
Adjusted EBIT	**$ 62,869**	$ 44,703

(1) *During the fifty-two weeks ended December 29, 2018, depreciation and amortization expense included additional expense primarily related to the adoption of the new lease standard that was effective the beginning of Fiscal 2019 (see the* Recent Developments *section on page 16 of this MD&A).*

Adjusted Net Income and Adjusted Diluted EPS

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

We use Adjusted Net Income and Adjusted Diluted EPS to assess the performance of our business without the effects of the above-mentioned items, and we believe our investors and analysts also use these measures. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. The most comparable IFRS financial measures are net 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 28, 2019			Thirteen weeks ended December 29, 2018		
		$000s		**Diluted EPS**		$000s	Diluted EPS
Net income	**$**	**(3,019)**	**$**	**(0.09)**	$	(810)	$ (0.02)
Add back (deduct):							
Business acquisition, integration and other expenses (income)[1]		**2,559**		**0.08**		3,631	0.10
Impairment of property, plant and equipment		**6**		**—**		299	0.01
Share-based compensation (recovery) expense		**(1,509)**		**(0.04)**		189	0.01
Modification loss on debt refinancing activities[2]		**10,969**		**0.32**		—	—
Tax impact of reconciling items		**(3,331)**		**(0.10)**		(1,140)	(0.03)
Adjusted Net Income	**$**	**5,675**	**$**	**0.17**	$	2,169	$ 0.07
Average shares for the period (000s)				**33,796**			33,675

		Fifty-two weeks ended December 28, 2019			Fifty-two weeks ended December 29, 2018		
		$000s		**Diluted EPS**		$000s	Diluted EPS
Net income	**$**	**10,289**	**$**	**0.30**	$	16,776	$ 0.50
Add back (deduct):							
Business acquisition, integration and other expenses (income)[1]		**7,105**		**0.21**		(2,471)	(0.07)
Impairment of property, plant and equipment		**974**		**0.03**		1,302	0.04
Share-based compensation expense		**7,124**		**0.21**		1,237	0.03
Modification loss on debt refinancing activities[2]		**10,969**		**0.32**		—	—
Tax impact of reconciling items		**(7,324)**		**(0.21)**		205	0.01
Adjusted Net Income	**$**	**29,137**	**$**	**0.85**	$	17,049	$ 0.51
Average shares for the period (000s)				**34,195**			33,619

[1] *The fifty-two weeks ended December 28, 2019 includes short-term termination benefits incurred as part of the organizational realignment (see the* Recent Developments *section on page 16 of this MD&A) and costs related to the Company's critical initiatives (see the* Company Overview *section on page 13 of this MD&A). Additionally, the fifty-two weeks ended December 28, 2019 includes $3.0 million of the $8.5 million product recall recovery received from the ingredient supplier in the first quarter of 2019, and the fifty-two weeks ended December 29, 2018 includes the $8.5 million recovery received from the ingredient supplier in the third quarter of 2018 (see the* Recent Developments *section on page 16 of this MD&A).*

[2] *The thirteen and fifty-two weeks ended December 28, 2019 includes a loss on the modification of debt related to the debt refinancing completed in October 2019 (see the* Recent Developments *section on page 16 of this MD&A).*

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 28, 2019	December 29, 2018	**December 28, 2019**	December 29, 2018
Adjusted Diluted EPS	**$ 0.17**	$ 0.07	**$ 0.85**	$ 0.51
Average foreign exchange rate for the period	**1.3206**	1.3197	**1.3273**	1.2956
CAD-Equivalent Adjusted Diluted EPS	**$ 0.22**	$ 0.09	**$ 1.13**	$ 0.66

Standardized Free Cash Flow

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

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

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

	Twelve months ended		
(Amounts in $000s)	**December 28, 2019**	December 29, 2018	**Change**
Net change in non-cash working capital items	**$ (9,144)**	$ 4,441	**$ (13,585)**
Cash flow from operating activities, including interest and income taxes	**60,750**	52,492	**8,258**
Cash flow from operating activities	**51,606**	56,933	**(5,327)**
Less: total capital expenditures, net of investment tax credits	**(6,569)**	(13,961)	**7,392**
Standardized Free Cash Flow	**$ 45,037**	$ 42,972	**$ 2,065**

Net Debt

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

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

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

(Amounts in $000s)	**December 28, 2019**	December 29, 2018
Current bank loans	**$ 37,546**	$ 31,152
Add-back: deferred finance costs included in current bank loans	**410**	353
Total current bank loans	**37,956**	31,505
Long-term debt	**289,020**	322,674
Current portion of long-term debt	**14,511**	13,655
Add-back: deferred finance costs included in long-term debt	**7,073**	1,597
Less: loss on modification of debt[(1)]	**(10,604)**	—
Total term loan debt	**300,000**	337,926
Long-term portion of lease liabilities	**7,198**	407
Current portion of lease liabilities	**4,582**	372
Total lease liabilities[(2)]	**11,780**	779
Less: cash	**(3,144)**	(9,568)
Net Debt	**$ 346,592**	$ 360,642

(1) *The fifty-two weeks ended December 28, 2019 reflects a loss on the modification of debt related to the debt refinancing completed in October 2019 (see the* Recent Developments *section on page 16 of this MD&A) that has been excluded from the calculation of Net Debt as it does not represent expected cash outflows from term loan debt.*

(2) *The Company has adopted the new lease standard, IFRS 16,* Leases*, which has resulted in additional lease liabilities of $14.6 million effective December 30, 2018 (see the* Recent Developments *section on page 16 of this MD&A). IFRS 16 was applied using the modified retrospective method and as a result, the comparative information for Fiscal 2018 has not been restated. Therefore these lease liabilities are only included in the Company's Net Debt balance as at December 28, 2019, where IFRS 16 has increased Net Debt by $11.4 million.*

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 33 of this MD&A).

(Amounts in $000s)	**December 28, 2019**	December 29, 2018
Adjusted EBIT	**$ 62,869**	$ 44,703
Thirteen-month rolling average net assets	**666,522**	676,343
ROAM	**9.4%**	6.6%

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 33 of this MD&A).

(Amounts in $000s)	**December 28, 2019**	December 29, 2018
Adjusted Net Income	**$ 29,137**	$ 17,049
Less: share-based compensation expense, net of tax[1]	**5,196**	1,176
	23,941	15,873
Thirteen-month rolling average common equity	**271,663**	272,952
ROE	**8.8%**	5.8%

[1] *Net of tax expense of $1.9 million and $0.1 million during the fifty-two weeks ended December 28, 2019 and December 29, 2018, respectively.*

Governance

Our 2019 Management Information Circular, to be filed in connection with our Annual General Meeting of Shareholders on May 12, 2020, includes full details of our governance structures and processes.

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

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of our DC&P as of December 28, 2019. 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 2019 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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 the North American business. Further details, including the manner in which the Company identifies its CGU, and the key assumptions used in determining the recoverable amount, 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 28, 2019, we adopted the following new standards and amendments that were effective for annual periods beginning on January 1, 2019 and that the Company has adopted on December 30, 2018:

IFRS 16, Leases
In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases*, and its associated interpretive guidance. The new standard eliminates the distinction between operating and finance leases, bringing most leases on-balance sheet for lessees under a single model, unless an election is made to exclude a lease with a lease term of 12 months or less or the lease is for a low-value asset. A lessee recognizes a right-of-use ("ROU") asset representing the Company's right to use the underlying asset and a lease liability representing the obligation to make lease payments. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained.

The Company has elected to adopt the standard using the modified retrospective method and therefore the comparative information for Fiscal 2018 has not been restated. The Company has recognized new assets and liabilities for all leases that were previously classified as operating leases, other than those that were excluded due to the elected practical expedients. The Company applied the following practical expedients upon transition:

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

As at December 30, 2018, the Company recognized additional assets and liabilities on the consolidated statements of financial position of $14.6 million (see Note 9). In addition, the nature of the expense related to these leases has changed as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and interest expense on the lease liabilities using the effective interest method.

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

(Amounts in $000s)		Lease liabilities
Minimum lease payments under operating leases as at December 29, 2018	$	20,186
Recognition exemption for		(24)
Short-term leases		(15)
Leases of low-value assets		423
Reasonably certain extension options		(2,653)
Variable non-lease components[1]		17,917
Lease obligation as at December 30, 2018 (gross, without discounting)		(3,347)
Effect from discounting at the incremental borrowing rate as at December 30, 2018[2]		14,570
Liabilities recognized based on the initial application of IFRS 16 as at December 30, 2018		372
Current portion of lease liabilities as at December 29, 2018		407
Long-term lease liabilities as of December 29, 2018		272,952
Total lease liabilities as of December 30, 2018	$	15,349

[1] *Total payments related to variable non-lease components were $0.5 million during the fifty-two weeks ended December 28, 2019.*

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

ACCOUNTING POLICY

At inception, the Company assesses whether a contract is or contains a lease which involves the exercise of judgment. The Company has elected not to separate lease and non-lease components for its right-of-use assets. The Company has elected not to recognize ROU assets and lease liabilities for leases where the total lease term is less than 12 months, or for a lease of low value. The payments for these leases will be recognized on a straight-line basis over the lease term as operating expenses.

Lease assets are capitalized at the commencement date of the lease and ROU assets are initially measured based on the present value of the lease payments, plus initial direct costs incurred when entering into the lease and lease payments made at or before the commencement date, less any lease incentives received. The ROU assets are depreciated over the shorter of the lease term or the estimated useful life of the underlying asset. An impairment review is undertaken for any ROU asset that shows indicators of impairment and an impairment loss is recognized against the ROU asset that is impaired.

The lease liability is measured at the present value of the fixed and eligible variable lease payments that depend on an index or rate, net of any lease incentives at the initial measurement date. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments. The present value of the lease payments is determined using the discount rate representing the Company's incremental borrowing rate on the lease commencement date, adjusted for the applicable currency of the lease contract, similar tenor and nature of the asset being leased. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

IAS 19, Employee Benefits

In February 2018, the IASB issued amendments to IAS 19, *Employee Benefits* ("IAS 19"), which addresses the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. The current service cost and net interest for the remainder of the period after the plan amendment, curtailment or settlement should reflect the updated actuarial assumptions after such an event. The amendments apply to plan amendments, curtailments, or settlements that occur on or after January 1, 2019, with early adoption permitted. The Company has adopted the amendments to IAS 19 on a prospective basis, which had no impact on the Consolidated Financial Statements.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatment

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

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

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

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 3, Business Combinations

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The amendments are intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments apply to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after January 1, 2020, with early adoption permitted. The Company will apply the interpretation from the effective date.

IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosures, Interest Rate Benchmark Reform
In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures, Interest Rate Benchmark Reform*, which concludes phase one of its work to respond to the effects of the Interbank Offered Rates ("IBOR") reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free rate ("RFR"). The amendments are effective for annual periods beginning on or after January 1, 2020 and must be applied retrospectively.

The amendments include a number of reliefs that apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or hedging instrument. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable;
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss; and
- The assessment of the economic relationship between the hedged item and the hedging instrument.

The amendments also introduce specific disclosure requirements for hedging relationships to which the reliefs are applied. The Company is currently evaluating the impact of these amendments on its Consolidated Financial Statements.

IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Amendments to the Definition of Material
In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and must be applied prospectively, with early adoption permitted. The Company will apply the amendments from the effective date.

IAS 1, Presentation of Financial Statements
In January 2020, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether or not an entity will exercise their right to defer settlement of a liability. The amendments further clarify that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively. The Company is currently evaluating the impact of these amendments on its Consolidated Financial Statements and will apply the amendments from the effective date.

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.

The Company's processing plants have all the required State, Provincial and/or Federal licenses to operate and are certified to the Global Food Safety Initiatives ("GFSI") and Safe Quality Foods ("SQF") 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 the Company to supply our wide range of products to some of the industry's most discerning customers. This annual certification process helps drive improvement across the organization, critical for maintaining customer and consumer confidence.

In Canada, certain food businesses, including 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 that describes how hazards will be controlled and/or eliminated. High Liner Foods' PCP and processing facilities are regularly inspected and audited by the CFIA and remain in good standing.

In the United States, the Company'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 Hazard Analysis Critical Control Point ("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 Foods has retained independent auditors to add an additional level of scrutiny to our food safety programs and 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 Fiscal 2017. See the *Recent Developments* section on page 16 of this MD&A.

Procurement

Our business depends upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2019, the Company purchased approximately 189 million pounds of seafood, with an approximate value of $554.0 million. Seafood and other food input markets are global with values expressed in USD. In 2019, we bought approximately 30 species of seafood from 25 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 North America (shrimp, salmon, tilapia and pangasius) are partly or totally supplied by aquaculture and approximately 34% 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 several 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, including the effects of pandemic (including COVID-19) or any other serious health concern, or our commercial relationships with such suppliers, may adversely affect the Company's results. In particular, if the current COVID-19 outbreak continues and results in a prolonged period of travel, commercial, and other similar restrictions, High Liner Foods could experience global supply disruptions. If the Company experiences supply disruptions, it may not be able to develop alternate sourcing quickly, which 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 2019 and 2018, the Company has managed this risk through contracts with suppliers.

Crude oil prices, which influence fuel surcharges from freight suppliers, increased during 2019 compared to 2018. World commodity prices for flour, soy and canola oils, imported ingredients in many of the Company's products, increased throughout 2019 compared to 2018. The price of corrugated and folded carton, which is used in packaging, remained consistent in 2019. The Company currently has fixed price contracts with suppliers relating to our 2020 commodity purchase requirements and any additional amounts will be negotiated and fixed as necessary.

Customer Consolidation

We sell the majority of our products to food distributors and large food retailers, including supercenters and club stores, in North America. As the retail grocery and foodservice trades continue to consolidate and grow more sophisticated, the Company is required to adjust to changes in purchasing practices and changing customer requirements to remain competitive. 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 its 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 sell 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; global pandemic (including COVID-19); 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 25 of this MD&A).

In 2018, the USTR commenced certain trade actions, including imposing tariffs on certain goods imported from China, including some of the species the Company imports from China. The Company has implemented plans, including pricing actions and other supply chain initiatives, to mitigate the impact of these tariffs and reduce the estimated impact to the Company's operations. However, the Company cannot control the duration or depth of such actions, which may increase product costs and reduce profitability, and potentially decrease the competitiveness of its products.

During December 2019, the Company received notice of approval of an exclusion request submitted to the USTR regarding tariffs on certain goods imported to the U.S. from China. The exclusion applies to tariffs already incurred, or that would otherwise be incurred, on specific goods from September 24, 2018 to August 7, 2020 and may result in the recovery of tariffs previously paid by the Company. It is not practicable at this time to estimate the timing or amount of any recovery. Trade discussions between the USTR and China are ongoing, which may impact the timing and amount of recoveries related to these exclusions and have a material, adverse effect on results of operations, financial condition and cash flows of the Company.

The Company will continue to monitor these developments closely, particularly if further information becomes available regarding potential additional tariffs or exclusions, or how the previously announced tariffs and exclusions 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 success and growth of our business relies heavily upon our ability to use our position in the marketplace to protect, preserve and manage the natural resources essential for our business in a sustainable manner. Sustainability is a core value that supports all sectors of our business and has positioned the Company for organic growth into the future.

High Liner Foods made a public sustainability commitment in late 2010 to source 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 preparation of CSR reports in 2017 and 2018 that disclose many of the improvement efforts underway.

High Liner Foods' 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 short term, enhanced policies related to sustainability, environmental and social compliance both within High Liner Foods and its supply chain may add to the Company's operating costs. A long-term benefit is now being realized through the stabilization of most global wild fishery stocks and continued increase in aquaculture growth that now supplies more than 50% of the global seafood demand. Operating costs are beginning to decrease through more efficient use of energy, water, reduction of waste, transportation systems and through a rigorous continuous improvement process.

Growth (Other Than by Acquisition)

A key component of High Liner Foods' growth strategy is organic or internal growth by

- Delivering profitable and sustainable revenue growth through the sale of existing high margin products;
- Eliminating under-performing products to maximize our portfolio;
- Expanding into new markets and high margin products; and
- Investing in continuous improvement in our plants and our organization to improve efficiencies and simplify the business.

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 1,200 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 expected credit losses. The Company believes 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 impairment losses related to receivables have 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, most 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 $51.7 million to be hedged in 2020 and of this amount, 70.0% are currently hedged.

Details on the hedges in place as at December 28, 2019 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 2023, 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 adverse impact on the Company's financial position and opportunities 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 lease liabilities. The Company's objective is that not more than 50% of borrowings should mature in the next twelve-month period.

At December 28, 2019, less than 6% of our debt will mature in the next twelve-month period 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*" to the Consolidated Financial Statements. At December 28, 2019 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 Liner Foods' 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). Payment of dividends is also dependent on, among other things, the ability of the Company to generate sufficient cash flows, the financial requirements of High Liner Foods, 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.

Adverse Weather Conditions and Natural Disasters

Physical risks resulting from climate change can be event-driven (acute) or long-term (chronic) shifts in climate patterns that may have financial implications for the Company, including direct damage to the Company's assets and indirect impact to the Company's supply chain. Various seafood species and non-seafood products are vulnerable to adverse weather conditions and natural disasters, including windstorms, hurricanes, floods, droughts, fires, temperature extremes and earthquakes, some of which are common but difficult to predict. Severe weather conditions may occur with higher frequency or may be less predictable in the future due to the effects of climate change. Such adverse weather conditions could impact both the availability and the quality of seafood and non-seafood products procured by the Company and prevent or impair the Company's ability to procure and sell products as planned. These factors can increase cost, decrease our sales, and lead to additional expenditures, which may have a material adverse effect on the Company's business, financial condition and results from operations.

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; 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 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: compliance with food safety laws and regulations; timely identification of and response to events that could lead to a product recall; volatility in the CAD/USD exchange rate; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of geopolitical events (and related economic sanctions) on same; the impact of the USTR'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 marketplace; 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; adverse impacts of cybersecurity attacks or breach of sensitive information; 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; credit risk associated with receivables from customers; volatility associated with the funding status of the Company's post-retirement pension benefits; compliance with debt covenants; the availability of adequate levels of insurance; adverse weather conditions and natural disasters; 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.