

# ACHIEVING **OUR** VISION

HIGH LINER FOODS | Annual Report 2011



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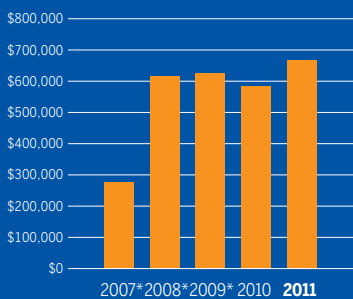
## IBC

Shareholder information



## SALES

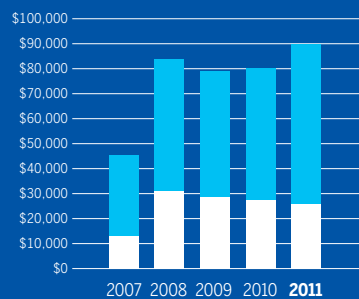
(in 000s)



\*In accordance with Canadian GAAP (not restated)

## PRODUCT SALES VOLUMES

(in metric tonnes)



■ Procured ■ Produced in High Liner facility

## SALES vs. EBITDA

(in 000s)



\*In accordance with Canadian GAAP (not restated)

## Corporate profile:

High Liner Foods is a leading North American processor and marketer of prepared, value-added frozen seafood. Our branded products are sold throughout the United States, Canada and Mexico under the *High Liner*, *Fisher Boy*, *Mirabel*, *Sea Cuisine* and *Royal Sea* labels, and are available in most grocery and club stores. High Liner Foods also sells its products under *High Liner*, *FPI*, *Mirabel*, *Viking*, *Icelandic Seafood*, *Samband of Iceland*, *Seastar*, and *Seaside* brands to restaurants and institutions, and is a major supplier of private label seafood products to North American food retailers and food service distributors.

# WE ARE THE LEADER IN VALUE-ADDED FROZEN SEAFOOD IN NORTH AMERICA

We focus on frozen seafood because we are experts in the industry. We focus on value-added because we have the proven skills to meet the demand for **great-tasting and convenient seafood**. We focus on North America because this is where we already have a **competitive advantage** – and we see many opportunities for growth.

In Canada, we hold the #1 retail market position and are the largest food service company in the country. In the U.S., we are the **leading value-added seafood supplier** in food service and the second largest retail player by volume with a leading position in private label products.



# AT-A-GLANCE

## HIGH LINER business model

### Broadest Market Reach In Industry

We are the only value-added seafood company that competes in every sales channel in both Canada and the U.S. We are:

- Twice the size of our largest competitor in the retail and food service channels in Canada with virtually 100% distribution and a leading market share of frozen seafood sold in all channels.
- The largest food service supplier of value-added seafood in U.S.
- Estimated #2 supplier of seafood by volume in U.S. retail channel including the club channel, private label and our niche brands.
- The largest grocery-chain supplier of private label processed seafood in U.S. and Canada.

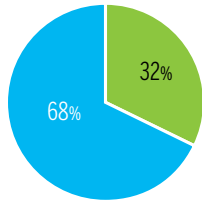
### Market Leading Brands

- High Liner has been a respected name in seafood since 1899. Generations of children have been raised on our fish sticks by parents who trust our products. Today the High Liner brand is one of the strongest food brands in Canada, recognized by 92% of Canadians.

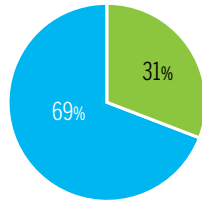


## Sales Mix

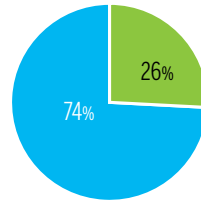
Pro forma including Icelandic USA Acquisition



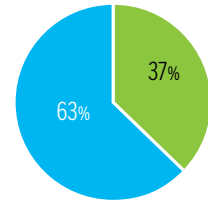
U.S. & Mexico / Canada



Food Service / Retail



Branded / Private Level



Value-added / Raw & Ready to Eat

### Diversified Global Procurement

- We procure approximately 30 species from approximately 100 quality suppliers in 30 countries around the world.
- With the Icelandic USA acquisition, we became the world's largest single buyer of cod and haddock.
- We have long-term relationships with our suppliers, many of whom share our commitment to sustainability.
- The geographic diversity of our procurement territory and species helps us manage fluctuations in the cost of raw materials.
- Our state-of-the-art web-based IT system allows our suppliers to work with us no matter where in the world they are located.



### Frozen Food Logistics Expertise

- We deliver to customers in every province and state in Canada and the U.S., and in major retail centres in Mexico.
- We have an IT system that allows for seamless ordering, invoicing, vendor-managed inventory, on-time delivery and order fill precision.
- Our ability to deliver is exceptional. Our case fill and order fill rates for value-added products, the ultimate measure of our ability to meet customer expectations, exceeds 98.5%.



### Innovative Product Development

New and differentiated products distinguish High Liner Foods from our competitors and allow our customers – restaurants, food retailers, club stores – to distinguish their product offerings as well.

- Sales of new products represented 14% of our total revenues in 2011.
- We launched more than 25 significant new products in 2010 and 2011 and dozens of products that extend already popular lines are planned for launch in 2012.
- Launched in late 2010 in the U.S. food service market, sales of *FireRoasters* exceeded expectations. In 2012, the line will be rolled out into clubs and retail markets in the U.S. and the food service market in Canada and as *Flame Savours* under the High Liner brand in Canada.





## LETTER TO SHAREHOLDERS

On December 19, 2011 your Company acquired the Icelandic Group's U.S. and Asian operations. This transaction has helped us achieve our vision of being the leading value-added seafood supplier in North America.

It was an exceptional conclusion to another year of strong sales and earnings.

Sales volume increased for the third consecutive year, exceeding 200 million pounds from 177 million in 2010. Revenue was up 14.3% to \$668 million and earnings before interest, taxes, depreciation and amortization (EBITDA) increased 15.9% to \$54.7. Excluding stock option expense, net income excluding business acquisition, integration and other costs increased by 11.2% to \$28.2 million, and diluted EPS increased 17.9% to \$1.84. We achieved this growth with a very strong performance in the U.S. despite strong upward raw material cost pressure from the beginning of the year. Canadian results improved as the year progressed.

It is important that we keep in mind that our performance has been achieved during a time of great economic uncertainty. Unemployment remains stubbornly high and consumers remain cautious. It has become more fashionable to save money. Cautious consumers are putting pressure on our retail and food service customers as they fight to maintain



**Henry Demone** President & CEO

profitability. In turn, they are putting pressure on us to control our prices and provide them with the exciting new products that will help them grow market share.

Nevertheless, this is a time of considerable opportunity for High Liner Foods. Our business is selling seafood to North Americans. Food is a staple and, as such, demand for our products remains relatively stable during good times and bad. We manage our business well with the proof in our financial and operating performance.

### **The Icelandic USA Acquisition**

During 2010, we set the aggressive goal of increasing our EBITDA to \$100 million by 2015. We now own the assets to achieve this goal, potentially a year or two earlier than our original objective. For the 12 months ending December 2011, the Icelandic USA Acquisition operations achieved sales of US\$265 million excluding trading sales, and *pro forma* adjusted EBITDA of approximately US\$30 million. We expect the acquisition to be immediately accretive to earnings per share before one-time costs related to the acquisition. Total annual synergies are expected to be US\$16 million to US\$18 million by 2014.

We acquired the assets for a purchase price of US\$232.7 million paid in cash, excluding seasonal working capital of US\$14 million, and financed with new long-term debt of US\$250 million and an increase in High Liner Foods' existing loan facility from US\$120 million to US\$180 million. This pushes our debt to EBITDA ratio to 4.4X before synergies, which is above our traditional leverage target of 3X, but it also brings High Liner Foods very close to \$1 billion in revenue and \$94 million in EBITDA on a *pro forma* basis including

near term synergies. Achieving near term synergies is expected to reduce our leverage to 3.8X within two years and below 3X as quickly as possible.

I am confident that we will extract the full strategic and financial benefits of this acquisition as planned and return to our traditional leverage targets. Our experience with the acquisition of FPI Ltd. in 2007 and Viking Seafoods, Inc. in 2010 are ample proof of our ability to integrate acquisitions quickly and extract all possible synergies.

Not only are the financial benefits of the Icelandic USA Acquisition compelling, the assets are an exceptionally good fit for High Liner Foods. The company was one of our largest and toughest competitors in the food service channel with great products that complement our own line, one that continues to grow through innovation. One of our more exciting new FPI products is *FireRoasters*, launched in late 2010 in the food service market. The success of the products has encouraged us to roll the line out in 2012 into clubs and retail markets in the U.S. and the food service market in Canada, and as *Flame Savours* under the High Liner brand in Canada.

### **Our planet, our promise**

Achieving \$100 million in EBITDA is a corporate objective, but we are just as committed to a goal established in 2010 – to distribute only certified sustainable products by 2013. Our initiatives are discussed in detail on pages 8 and 9. Our efforts have been recognized by Intrafish Media with an award that recognizes progressive vision and innovation in seafood sustainability. I was named 2011 Person of the Year, but the award was really won through the

hard work and support of High Liner Foods employees and partners in Canada, the U.S., and around the world.

### **Outlook**

To achieve our goals of profitable growth and sustainability, we must continue to run our current business well; plan and execute the integration of the Icelandic USA Acquisition; and achieve the planned synergies. To ensure we are successful, we are making investments in systems and infrastructure to strengthen an already world-class business platform and prepare High Liner Foods for the next stage in our growth.

I would like to thank our shareholders for their investment in our company and for the feedback, views and ideas that so many of you share with us throughout the year. We appreciate your insight and are working hard to deserve your trust.

We are deeply saddened by the passing of Senator Fred Dickson on February 9 this year. Senator Dickson joined the High Liner Foods board at the time of the 1984 restructuring, serving until 1994. He returned to the board in 2000. He was an active member of the Executive and Audit Committees and will be greatly missed.



We would also like to express our appreciation to Randy Bell, who will not be standing for re-election to the board at our upcoming annual general meeting. Randy's keen awareness of events in Newfoundland and Labrador allowed him to make an important contribution to our progress over the years.

We look forward to updating you on our progress as we execute our strategy.

(Signed:)

Henry Demone  
President & CEO





# GOAL 1: ACHIEVING PROFITABLE GROWTH



During 2010, High Liner Foods set the aggressive goal of **increasing EBITDA to \$100 million by 2015**. Today, we are convinced that we have the ability to achieve, if not exceed, that target, possibly before 2015.



Our pace of growth demands state-of-the-art technology to ensure optimum efficiency throughout our operations.

**W**e have recognized trusted brands that deliver on consumer expectations and a reputation for exceeding the demands of our customers. We have solid expertise in worldwide procurement of seafood. We have the proven ability to identify, develop and market innovative products that meet evolving consumer tastes. We have strong relationships with all major supermarket chains, food service customers and club stores throughout North America. And we have the ability to deliver value to our customers and consumers.

These compelling strengths were significantly strengthened with the Icelandic USA Acquisition. Our focus in 2012 will be the integration of this acquisition into our existing operations and achieving the \$16 million to \$18 million in synergies that we've identified. During the integration, we plan to retain all of the customers of the acquired business by continuing to provide the high-quality products and service they've come to expect from this operation. We are implementing

our systems capability to put the entire company on one management platform that will integrate purchasing, ordering, shipping and billing, making the whole stronger than the parts.

## Market leadership

The Icelandic USA Acquisition extends our already impressive market leadership. We now have the leading position in almost every market in which we compete: #1 in both food service and retail in Canada, where we have a leading position of the market for frozen seafood; #1 in food service value-added seafood in the U.S. We are the second largest producer by volume of value-added seafood in the U.S. retail marketplace. We have a sales team and distribution network reaching from the Atlantic to the Pacific and from the Arctic to the Gulf of Mexico.

## Innovation

Innovation has been at the heart of our market leadership and brand trust for many years. Creating new and differentiated products distinguishes High Liner Foods from every other



competitor in the market place and allows our customers – restaurants, food retailers and club stores – to distinguish their product offerings as well. Recently we received Canadian Living's Best New Product in the Frozen Fish Category award for the third consecutive year. In 2011, sales from new products launched in the previous 24 months exceeded \$41.3 million or 12.3% of total sales in Canada, and \$57.7 million or 14.6% of total sales in the U.S.

Launched in late 2010 in the U.S. food service market, sales of FPI's *FireRoasters* exceeded expectations within the first 12 months. In 2012, the line will be rolled out into clubs and retail markets in the U.S. and the food service market in Canada, and as *Flame Savours* under the High Liner brand in Canada. This ability to move innovations across borders and across distribution channels will accelerate our ability to out-innovate our competitors and capture even more market share.

We develop our products with a keen awareness that our consumers are increasingly health conscious. High Liner Foods became a leader in our industry with the removal of almost all trans fats from our products in 2004. We continue to push for improvements and in 2011; we began to use frying

oil that was guaranteed to be below 0.75% trans fats. To address consumer concerns over sodium content in processed foods and Health Canada's sodium reduction strategy, we reformulated 17 Canadian retail and food service products to reduce the sodium content.

### Procurement

With the Icelandic USA acquisition, High Liner became the largest buyer of cod and haddock in the world. This acquisition also brought new suppliers from Iceland and Norway into our network. We now procure approximately 30 species from approximately 100 select suppliers in 30 countries, and we are regularly seeking and developing relationships with new suppliers who can expand the breadth and quality of our products. This geographic diversity of supply helps manage fluctuations in the cost of raw materials while our scale gives us control over the pricing on some species. It also gives considerable influence over global seafood harvesting practices through our own purchasing policies to purchase seafood only from companies committed

to sustainability. Our procurement network combined with our ability to innovate and our compelling market share gives us the platform to establish a leadership position in key species for the North American market.

### Logistics

Our logistics group provides a best-in-class supply chain capable of meeting the demands of our suppliers and customers for seamless ordering, invoicing, integrated information systems, vendor managed inventory, on-time delivery and order fill precision. Our ability to deliver is exceptional. Our case fill and order fill rates, the ultimate measure of our ability to meet customer expectations, regularly exceed the market benchmark of 98.5%. We have a truck delivering seafood to almost every major customer in North America every week. This provides us with the opportunity to add additional products to shipments at reduced costs.





## GOAL 2: 100% SUSTAINABILITY

High Liner Foods remains committed to sourcing all of its seafood from certified sustainable or responsible fisheries and aquaculture farms by the end of 2013.



With this commitment, we will require wild-caught seafood and farmed products to come from fisheries and aquaculture farms certified as sustainable by the *Marine Stewardship Council (MSC)* or equivalent, the *Global Aquaculture Alliance* or the *Aquaculture Stewardship Council* or on a clear, defined path toward being sustainable and capable of documenting measurable improvements. High Liner Foods will continue to collaborate with the *Sustainable Fisheries Partnership* to achieve these objectives.

During 2011 we made significant progress toward achieving our goal. By December 31, 55% of our wild seafood was certified, a significant increase from 35% at the end of 2010. About 68% of our aquaculture seafood was from *Global Aquaculture Alliance BAP (Best Aquaculture Practices)* certified facilities. Our initiatives along with the efforts of other companies and organizations within the seafood industry have had a substantial impact on the world's seafood resources. Quotas have increased in many regions including New Zealand, the North Pacific, the North Atlantic and the Baltic Sea. These are regions where the harvesters of seafood sell primarily to European and North American customers who have made public commitments to sustainability. Sustainability will no longer be an option, but a requirement to sustain our relationships with our customers. It is also good for business. Healthy fish stocks provide raw material at affordable prices to grow our business.

Still, there is much work to be done to advance the sustainability of the world's seafood resources and meet our own sustainability goals. In 2011, we focused on driving more wild fisheries toward *MSC* certification, particularly the Russian Pollock fisheries in the Bering Sea and Sea of Okhotsk, the Russian Atlantic Cod fishery in the Barents Sea, the cod fishery in Canada's 3Ps region of southern Newfoundland and Labrador, the Russian Pacific cod fishery in the Bering Sea and the Russian wild pink salmon fishery.

We engaged in many initiatives to support global sustainable fisheries:

- We were the principal sponsor of the Seafood Summit 2011 in Vancouver. This global conference brought together representatives from the seafood industry and conservation community for in-depth discussions and presentations.
- Working with the National Fisheries Institute, we took the industry-lead to identify cost-effective traceability solutions for retailers.



- We contributed to the Monterey Bay Aquarium (MBAq) Cooking for Solutions event. This event brings together the finest chefs from every region of the United States as ambassadors for sustainable dining. Non-profit MBAq is the creator of Seafood WATCH and one of the leading forces behind conservation in the oceans.
- We met with the Marine Stewardship Council (MSC) along with representatives from the seafood industry around the world to discuss improvements to the program and opportunities to work together.
- We spoke at the International Fishery Congress in Vladivostok, Russia and participated as a panellist in the US Senate briefing on illegal, unreported and unregulated fishing (IUU).

While building a sustainable global resource is critical to achieving our corporate goal of 100% sustainable seafood, we also launched or continued many corporate initiatives:

- Our employee training program – Seafood Savvy – intensified the spotlight on sustainability.
- We made dozens of visits to our customers to educate and profile High Liner Food’s sustainability efforts.
- We improved our traceability capability through changes to our procurement systems to collect and track more information on our sources, customers and products.



## Reducing our environmental footprint



Our focus is on the sustainability of the seafood that we procure, but our Sustainability Council also coordinates efforts to reduce our impact on the environment by seeking improvements in energy consumption, waste from our plants, packaging, transportation and distribution. Dozens of initiatives were completed or launched in 2011:

- We engaged every plant in Canada and the U.S. in projects to reduce our energy consumption.
- Packaging innovation in the U.S. and Canada focused on organic inks, reducing carton sizes and improving the recyclable characteristics of packaging board.
- This annual report for 2011 is printed on recyclable paper with organic inks.

Our focus in 2012 will be to continuing driving wild fisheries toward MSC certification by supporting the Russian Pollock, salmon and Pacific cod MSC processes. We will also continue to encourage and support the certification of Canada’s 3Ps cod fishery and the balance of the Barents Sea cod and haddock. Projects aimed at reducing our energy consumption will continue and we’ll enhance our packaging innovation teams. The development of a formal social, ethical and environmental policy that was launched in 2011 will also continue.

### Our commitment: RESPECT

Our commitment begins on the water and continues from ocean to plate. The framework for this commitment is embodied in RESPECT for Our Planet Our Promise. Please visit [www.highlinersustainability.com](http://www.highlinersustainability.com) to read the complete statement.





## GOAL 3: INVESTING IN SYSTEMS AND INFRASTRUCTURE

With the Icelandic USA Acquisition in December 2011, our sales in 2012 will approach \$1 billion with product sales volumes approaching 300 million pounds.



**T**his pace of growth demands state-of-the-art technology. In 2011, we made the critical investment of close to \$1.5 million to acquire and implement Oracle™ product life cycle technology that will enhance the capabilities of our existing Oracle™ JD Edwards enterprise resource planning system (ERP). It will standardize almost every aspect of managing our products, from new product development and



We are building a platform on which we will be able to grow.

establishing consistent specifications to procurement, production scheduling and sales order processing and ingredient traceability. We also commenced implementation of a warehouse management software program to place all of High Liner Foods' distribution centres under one system.

### Establishing the platform

In 2011, the first year of a five-year implementation program, we began the process of creating the product data records on which every other aspect of the technology will depend with the implementation of a global specification management system (GSM). GSM will hold the specifications for every product that High Liner Foods purchases, processes and distributes.

This system will refine the ability of our procurement and purchasing teams to comply with those specifications at a very detailed level when purchasing seafood or ingredients. Our customers will know with precision the ingredients of every product that we sell and where it came from. Finally, we will be able

to assure regulators that High Liner Foods is meeting or exceeding the tough new food safety regulations being implemented in Canada and the U.S.

During 2011, we also created a supplier rating metric that will rate every supplier on on-time delivery, quality of product delivered, pricing and sustainability status.

### Optimizing Enterprise Resource Planning (ERP)

To optimize the use of the company's ERP system, we implemented Oracle's User Productivity Kit (UPK), a collaborative content development platform that makes creating, maintaining and storing training materials and standard operating procedures easier and more accessible.

Our goal is to ensure every High Liner Foods employee has the same information and tools and that we are functioning as an integrated whole. It is also a platform on which we will be able to continue to grow organically and through acquisition.



## SUSTAINING FINANCIAL STRENGTH

**Confirming our commitment to conservative financial management:** In 2007, High Liner Foods embarked on a program to consolidate the distribution of value-added frozen seafood to the U.S. food service industry.

We acquired FPI Ltd. in 2007 and Viking Seafoods, Inc in 2010 – never straying from our commitment to conservative financial management. In the discussion below, High Liner Foods CFO Kelly Nelson answers questions that have been posed by shareholders about the 2011 Icelandic USA Acquisition and the ongoing financial management of the company.



**Kelly Nelson** Chief Financial Officer

**Q** What does your capital expenditure program look like going forward?

**A** Our capital budget for 2012 and 2013 should not be more than \$35 million. That's \$11 million that will be spent between 2012 and 2013 in order to achieve all the synergies that the Icelandic USA Acquisition presents and another \$16 million to improve our manufacturing footprint with the remainder being spent on system upgrades. This will mean investment in plant and equipment in order to reduce costs. We're also upgrading our IT systems to establish a common platform across the company and build the capability to meet new regulations around food safety in both Canada and the U.S. and our sustainability goal of 100% sustainable seafood by 2013.

**Q** Do you plan to make more acquisitions?

**A** We continue to look for profitable growth and there continues to be opportunities to consolidate the North American seafood industry. Right now we are focused on integrating the acquisition and de-leveraging, but we continue to watch the marketplace. If the right acquisition comes along and we can do it within our current financing arrangements, we would look at it.



**Q** Do you plan to purchase shares under a normal course issuer bid as you've done in the past?

**A** A normal course issuer bid is allowed under the terms of the new debt and we continue to see our stock as an attractive investment. We have already approved a new normal course issuer bid that allows us to buy 100,000 common shares and 100,000 non-voting equity shares over the next few months.

**Q** Do you expect changes in your dividend policy?

**A** Our bank agreements and projection allow us to continue to pay the current level of dividends. As we achieve synergies and reduce our leverage we should be able to increase dividends.

## SUSTAINING FINANCIAL STRENGTH (CONT'D)

Right now we are focused on integrating the acquisition and de-levering, but we continue to watch the marketplace for opportunities to consolidate the industry and grow profitably.

**Q** What are the terms of your new debt?

**A** The transaction was paid in cash, financed with new long-term debt and an increase in an existing asset-based revolving loan facility from US\$120 million to US\$180 million. The long-term debt is a US\$250 million senior secured term loan with a six-year term that pays interest at 5.50% plus LIBOR (floor of 1.5%). A portion of the proceeds was used to repay all long-term debt existing at the time. Upon closing, we drew the full US\$250 million senior secured term loan and approximately US\$126 million of the revolving loan facility, including pre-acquisition borrowing, leaving additional borrowing availability under the revolving loan facility of approximately US\$48 million based on current margin calculations.

**Q** High Liner Foods has set a limit on debt to EBITDA of 3.0:1 in previous annual reports. Today it's 4.4:1. Tell me about your plans to reduce that to within your traditional comfort zone and when will that happen?

**A** We've identified \$16 million to \$18 million of synergies. We expect to achieve about \$12 million in synergies before the end of 2013. Cash earnings are immediately accretive, so we'll still be generating cash from day one even with the increased interest expense. Given the synergies, cash flow, historical EBITDA of both companies and the additional EBITDA from the new cold storage operation in Newport News, we're confident that we can reduce leverage to below three times EBITDA within a reasonable period of time. In fact, including near term synergies of \$12 million and average debt rather than seasonality high debt the ratio would be 3.7:1 at year end.

**Q** Why did you fund the acquisition of Icelandic USA with debt instead of equity?

**A** The stock market was depressed, our stock was undervalued. On the other hand the debt markets were open to us at reasonable interest rates. Just as important, our experience in the industry and with the FPI and Viking integrations gave us confidence that we would be able to achieve the synergies and generate the cash flows that would allow us to return reasonably quickly to a more conservative balance sheet.



**Q** Are you planning to do an equity issue in the near term?

**A** At this time, the company does not have any plans to do an equity issue. However, if an attractive acquisition opportunity was to come to our attention before we have returned to a reasonable leverage level, we may look at an equity issue.

**Q** Will you be able to continue to meet your return on equity (ROE) target of 14.0%?

**A** Subject to purchase price accounting adjustments with respect to the amortization of intangibles, the acquisition is immediately accretive to earnings per share before one-time costs. We expect to meet or exceed our ROE target, excluding those costs, in 2012.

# MANAGEMENT'S DISCUSSION AND ANALYSIS/ FINANCIAL REVIEW

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

Management's discussion and analysis (MD&A) provides management's perspective on High Liner, our performance, and our strategy for the future.

## IMPORTANT NOTES

### We, us, our, Company, High Liner

In this MD&A, these terms all refer to High Liner Foods Incorporated, and its businesses and subsidiaries.

### Review and approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on March 15, 2012. This MD&A includes High Liner's operating and financial results for fiscal 2011 and fiscal 2010, and should be read with our Consolidated Financial Statements.

### Adoption of International Financial Reporting Standards

We adopted International Financial Reporting Standards ("IFRS") for our fiscal 2011 year, with restatement of fiscal 2010 comparatives. Our transition date under IFRS was January 3, 2010, which is the beginning of our fiscal 2010 year. Complete details on our transition to IFRS are included in note 26 to our consolidated financial statements that are included in the Annual Report on page 103. While there were many changes in numbers relating to our financial results and statement of financial position, our adoption of IFRS did not result in material changes to EBITDA or net income. We note, however, that the book value of shareholders' equity as at our transition date increased by \$6.1 million, primarily due to the write-up of property, plant and equipment.

Financial information contained in this MD&A for fiscal 2011 and 2010 are comparative as we restated 2010 to be in accordance with IFRS. Financial information prior to January 3, 2010 has not been restated as the transition rules did not require us to do so. Where historical information is presented in this MD&A that has NOT been restated to IFRS, we have noted it as such.

### Other important documents

Additional information relating to High Liner, including our most recent Annual Information Form, is available on SEDAR's website at [www.sedar.com](http://www.sedar.com), and in the Investor Information section of High Liner's website at [www.highlinerfoods.com](http://www.highlinerfoods.com).

### Comparability of periods

The Company's fiscal year-end floats, and ends on the Saturday closest to December 31. Most of our fiscal years have 52 weeks, but from time to time, some fiscal years will have 53 weeks. Both 2011 and 2010 had 52-week years.

### Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons to the fourth quarter of 2011 are against the fourth quarter of 2010, and all comparisons to fiscal 2011 are against fiscal 2010. References to the fiscal years 2010, 2011 and 2012 are to the 52 weeks ended January 1, 2011, December 31, 2011 and December 29, 2012, respectively.

### Accounting estimates and assumptions

The preparation of consolidated financial statements under IFRS requires management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses

during the reporting period. We use accounting estimates to determine various items, including allowance for doubtful accounts receivable, estimated amounts owing to customers for various sales and promotional programs and other costs to be invoiced to us after period end but relating to the accounting period in question. We base our estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. If final amounts differ from estimates, it is expected to have little or no impact on our financial condition. In our judgment, none of the estimates discussed in Note 2 (e) of the Consolidated Financial Statements for the period ended December 31, 2011 require High Liner to make assumptions about matters that are highly uncertain. None of the estimates is considered a critical accounting estimate, except as noted in Section 7.

### Currency

All dollar amounts are in Canadian dollars unless otherwise noted. Approximately two thirds of our operations, assets and liabilities are denominated in the United States currency. As such, foreign currency fluctuations affect the reported values of individual lines on our balance sheet and income statement. When the Canadian dollar strengthens, the reported values decrease and the opposite occurs when the Canadian dollar weakens.

In some parts of this document we discuss balance sheet and operating items in domestic currency. This effectively means that the self-sustaining U.S. operations are converted to Canadian dollars at par. We have done this to show the true changes in domestic currency, eliminating the effect of fluctuating foreign exchange rates on the translation of our U.S. subsidiary. U.S. dollar denominated items in the Canadian operations continue to be converted to Canadian dollars at the balance sheet date for balance sheet items and at the exchange rate of the day the transaction occurs for income statement items.

### Non-IFRS Financial Measures

The Company reports its financial results in accordance with International Financial Reporting Standards. We have included in our Quarterly Report and this MD&A certain non-IFRS financial measures and ratios. These non-IFRS financial measures are Adjusted EBITDA, net debt and free cash flow.

The Company believes these non-IFRS financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning 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. Our definition of Standardized Free Cash Flow and Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Canadian Institute of Chartered Accountants. These measures are defined in more detail later in this document.

### 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 Section 8 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved. If it is achieved, we cannot provide assurance that it will result in an increase in our share price. See Section 9 entitled "Forward-Looking Information".



# 1. VISION, CORE BUSINESSES, AND STRATEGY

High Liner has been in business since 1899. Our name has been a fixture in Canadian grocery retailing for more than 80 years and today Captain High Liner is one of the most highly recognized consumer brand icons in Canada. We are leveraging our Canadian strength to build upon our established retail presence in the United States and Mexico by introducing more of North America to the High Liner brand.

In late 2007, High Liner acquired the North American manufacturing and marketing business of FPI Limited, including FPI's prominent food service business headquartered in Danvers, Massachusetts. At the end of 2010, High Liner acquired Viking Seafoods, Inc. (the "Viking Acquisition" or "Viking"). Viking is a value-added company serving the U.S. food service seafood market from Malden, Massachusetts.

At the end of 2011, High Liner acquired the U.S. subsidiary and Asian procurement operations of Icelandic Group h.f., one of the largest suppliers of value-added seafood to the U.S. food service market. (See Section 5.1 of this document and the Business Acquisition Report filed on SEDAR on March 16, 2012 for more details on this important acquisition (the "Icelandic USA Acquisition" or the "Acquisition").)

Although our roots are in the Atlantic Canada fishery, we purchase all our seafood raw material and some finished goods from around the world. From our headquarters in Lunenburg, Nova Scotia, we have transformed our long and proud heritage into worldwide seafood expertise. We deliver on the expectations of the modern consumer by selling seafood products that respond to their demands for convenient, tasty, and nutritional food at good value.

## 1.1 VISION

At High Liner, our reputation for delivering outstanding seafood products is an advantage in the competitive North American market. Our vision sets our overall direction:

### **We will be the leader in value-added frozen seafood in North America.**

We focus on frozen seafood, because we are experts in this category. We focus on value-added, as that is where we can gain the most differentiation from our competitors due to our excellent product development skills. We focus on North America because we see many opportunities for growth in the North American markets. The acquisitions that we have done in the past few years truly solidify our position as the leader in value-added frozen seafood in both Canada and the United States, especially in the food service channel.

## 1.2 CORE BUSINESSES

High Liner operates in the North American packaged foods industry. We process and market frozen seafood, and distribute products to retail and food service customers. We sell our own brands, including *High Liner*, *Fisher Boy*, *FPI*, *Sea Cuisine*, *Mirabel* and *Royal Sea*, and we manufacture private labels. Late in 2010 the Viking Acquisition added the *Viking* family of products to our portfolio. In late 2011 the Icelandic USA Acquisition added the *Samband of Iceland*, *Seaside* and *Seastar* brands to our list of offerings. In addition, the *Icelandic Seafood* brand is licensed to High Liner by the Icelandic Group.

We own and operate six food-processing plants located in: Lunenburg, Nova Scotia; Burin, Newfoundland & Labrador; Portsmouth, New Hampshire; Danvers, Massachusetts; Newport News, Virginia; and Dalian, China. The Newport News and Dalian plants were part of the Icelandic USA Acquisition. We also operate a leased food-processing facility in Malden, Massachusetts, which was obtained as part of the Viking Acquisition.

High Liner consists of two main business units, geographically based, being the United States and Canada:

### United States Operations

#### RETAIL

Our U.S. subsidiary produces and sells seafood products under the *Fisher Boy*, *High Liner* and *Sea Cuisine* brands. The business distributes products throughout the United States and in Mexico. The club store channel is important to our growth strategy for the U.S. retail business, and we sell to all major U.S. club store chains. We have built business in this channel by introducing innovative premium products under the *High Liner Sea Cuisine* brand. *Fisher Boy* and *Sea Cuisine* brands are now sold under the umbrella of the *High Liner* brand so that we can market our products more efficiently. Our U.S. subsidiary also is the largest supplier of retail private label processed seafood in the United States. We produce over 50 different labels for U.S. grocery retailers, primarily breaded and battered fish sticks and portions.

#### FOOD SERVICE

Customer channels in this business include food service operators in multiple restaurant segments, broad line food service distributors, specialty seafood distributors, and general line food processing companies. FPI is one of the largest seafood suppliers to this market. Due to the strength of the FPI brand, this business is being managed as Fishery Products International, a division of High Liner Foods. It is particularly recognized for its innovative product development expertise for the food service channel. The Viking and Icelandic USA Acquisitions added new products to our food service offerings and has substantially increased High Liner Foods' share of the market for value-added seafood products in the U.S. food service industry.

## Canadian Operations

### RETAIL

From our sales and marketing headquarters in Toronto, the flagship brand of our business, *High Liner*, is sold to every major Canadian grocery retailer and club store. It is Canada's leading retail seafood name. The brand includes more than 100 individual products, from our traditional battered and breaded fish portions to innovative and highly popular premium products that offer a variety of seafood species responding to modern tastes. Retail also includes the *Mirabel* and *Royal Sea* brands, offering unparalleled variety to Canada's retailers and clubs. Retail also sells private label brands to customers.

### FOOD SERVICE

Our Canadian food service business, also headquartered in Toronto, is growing due to our ability, through worldwide procurement, to provide food service customers with new innovative products and new species. Food Service specializes in delivering seafood and menu expertise to restaurant chains and Canada's leading food service distributors. Food Service products are sold under the *High Liner*, *FPI* and *Mirabel* brands. High Liner is the largest frozen seafood supplier in the food service channel. Private labels are also produced for some of our larger customers.

## 1.3 STRATEGY

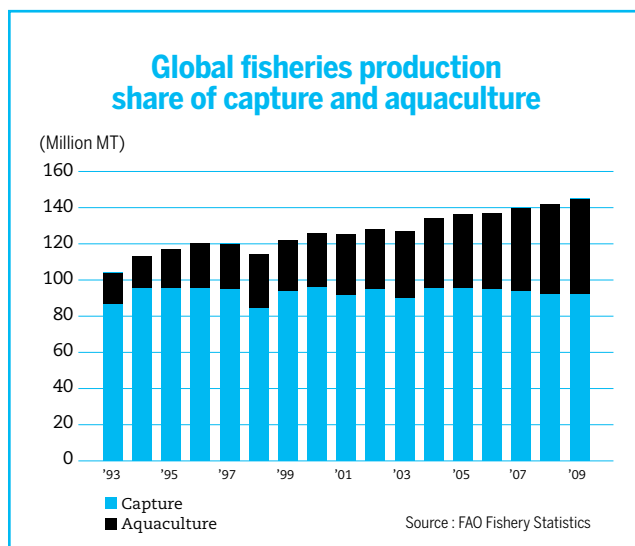
### Overview

Our overall business is a simple one: we satisfy the seafood preferences of North American consumers. We do not need to be a vertically integrated seafood harvester to achieve this goal. We need to be, and are, seafood experts. We focus exclusively on creating and marketing top-quality frozen seafood.

Our mission statement describes our business:

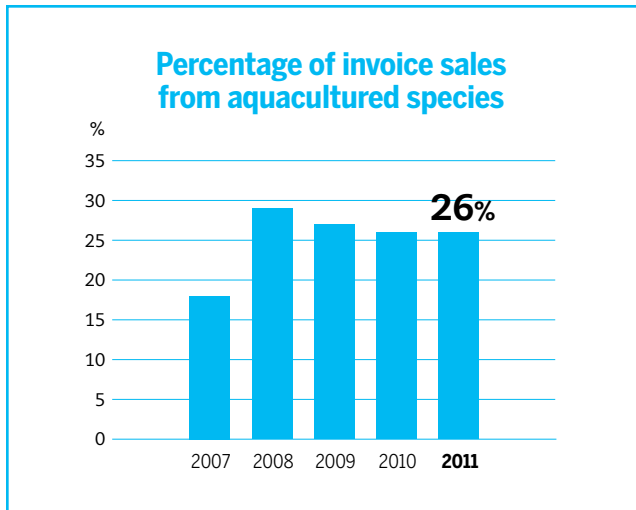
- Our team brings value to our retail, club store and food service customers through our commitment to the development and delivery of high-quality and innovative value-added seafood, and by providing them with a superior customer service level.
- We increase earnings, and thus shareholder value, by:
  - Partnering with our customers and suppliers
  - Developing our brands
  - Achieving operational excellence
  - Providing leadership, development opportunities, and a safe and pleasant working environment to our employees.

Seafood is a growing category in the food industry. The global supply of seafood is expanding, and consumer demand is increasing due to the recognized health benefits and taste of seafood. Our growth will be based on these trends<sup>1</sup>.



Growth in the global supply of seafood is due to increased aquaculture production and the stabilization of wild-caught species in most areas of the world. However, demand has increased faster than supply, resulting in increases in raw material costs. This increased demand came about as a result of increasing interest from North American consumers in seafood as a healthy food choice. In addition, increasing disposable incomes in countries like Russia and China also increased demand. The trend of increasing demand was reversed, at least temporarily, during 2009 and to a lesser extent in 2010, as a result of the global financial crisis and the changed relationship between currencies of producing and consuming countries. In 2011, demand increased as the economy showed signs of recovery. We expect<sup>1</sup> longer-term demand to continue to increase and we have seen increased costs in 2011 and expect<sup>1</sup> raw material costs in 2012 to increase again for most species that we procure.

<sup>1</sup> Certain information in this sentence and paragraph contains forward-looking information. See disclosure in Section 9 of this document.



As a consumer-driven sales and marketing company, we focus on matching supply to demand. Procuring seafood on global markets allows us to provide products based on consumer preferences. North Americans want good taste, excellent value, and high-quality products. They are looking for healthier and more convenient foods. They want a variety of premium, restaurant-quality food at home. Consumers increasingly choose seafood, as it matches these criteria.

In addition to organic growth, we grow by acquisition. Our acquisition criteria are strict. The target business must be complementary to frozen seafood, and must leverage our existing leading brands, strong customer relationships, marketing and logistics expertise, and product development expertise. The Viking and Icelandic USA Acquisitions were aligned to these criteria.

We expect seafood will continue to be a popular choice for consumers, and we expect<sup>1</sup> demand to increase for our products. While many consumers tended to be more cost-conscious in 2010 and 2011, dampening our food service sales, we expect<sup>1</sup> that cost-conscious consumers will eat away from home more in 2012, increasing sales in this channel. We also expect<sup>1</sup> retail sales in both Canada and the U.S. to increase in 2012 due to new products being offered and promotional efforts.

### Strategic Goals for 2011

Our two objectives for 2011 were focused on 1) Profitable Growth; and 2) Sustainability.

#### PROFITABLE GROWTH

This goal included:

- Internal growth by improving our Adjusted EBITDA (as defined on page 37) on existing business by 5% annually. In light of cost increases experienced for raw material and energy in 2011, we needed to generate top-line growth as well as investing in our facilities to lower costs to be successful. In 2011, excluding the Viking and Icelandic USA Acquisitions, we increased Adjusted EBITDA by 4.6%.

- Acquisitions and related synergies, with a focus on accretive acquisitions in our core business. In late 2010, we completed the Viking Acquisition. By April 4, 2011, we completed the integration of the Viking operations into our U.S. operations. The integration effort went smoothly, did not impact customer service, and strengthened the organization. On December 19, 2011, we acquired the U.S. subsidiary and Asian procurement operations of Icelandic Group h.f., one of the largest suppliers of value-added seafood to the U.S. food service market. As the Icelandic USA Acquisition was completed late in 2011, the focus of 2012 will be the successful integration of this business within our U.S. operations.
- Growth opportunities in emerging economies with growing middle-class consumption. Our initial focus is Mexico where a growing middle class and expanding supermarket distribution are leading to growth in frozen seafood consumption. We are also taking the first steps into offering products in South America.

#### SUSTAINABILITY

We developed a three-year plan in 2010 to achieve our goal in this area. We developed reporting systems to be able to report to our customers on the status of certification of all the products they purchase from us. We also publicly announced that we made a commitment to source all of our seafood from certified sustainable or responsible fisheries and aquaculture farms by the end of 2013.

With this commitment, we will require wild-caught seafood and farmed products to either come from fisheries and aquaculture farms certified as sustainable by the Marine Stewardship Council (MSC), the Global Aquaculture Alliance's (GAA) Best Aquaculture Practices (BAP) program and the Aquaculture Stewardship Council (ASC), or require those suppliers not certified to be on a clear, defined path toward being sustainable and capable of documenting measurable improvements.

We are committed to our goal of doing business only with suppliers who share our vision of sourcing seafood responsibly, and with a dedication to environmental stewardship to ensure that our natural resources are available for generations to follow. This proactive, ongoing effort will include engaging with our suppliers in projects that make the long-term viability of these farms and fisheries possible.

For those fisheries that are not under assessment by MSC, we will ensure that they are "responsible" fisheries. This means those fisheries must use "best in class" methodologies to demonstrate documented improvements in fishing practices as reported by FishSource™ ([www.FishSource.org](http://www.FishSource.org)) or evaluated by an equivalent standard. For those fisheries that have made sufficient improvements to enter into the MSC program, we will require them to enter the full MSC assessment process.

In addition, by the end of 2013, all of the uncertified sources that we work with must have undergone an independent evaluation, and enter a third-party assessment program such as MSC, GAA's BAP program, or the ASC. Also, all sources undergoing improvements will be required by us to report an improvement work plan and milestones to be achieved.

2011 was year two of that plan and our focus was on increasing the amount of raw material that comes from certified sources, reducing energy and packaging, and satisfying the demands of our key customers.

Readers who are interested in learning more about sustainability at High Liner are encouraged to visit our sustainability website at <http://www.highlinersustainability.com/en/index.htm>, which does not form part of this MD&A.

### Strategic Goals for 2012<sup>1</sup>

Our business is selling seafood to North Americans. Food is a staple and, as such, demand for our products remains relatively stable during good times and bad. We strive to effectively manage our business and to continue to report increased sales and earnings. Our recent success in acquiring the former Icelandic USA operations was important, given the competitive bidding process, and our focus now turns toward the successful execution of our integration strategy to realize any potential synergies going forward. With the combination of efforts in many key areas across our business, we hope to achieve<sup>1</sup> a number of corporate, operational, and financial milestones over the next few years.

Our Corporate Strategic Goals for 2012<sup>1</sup> are:

#### PROFITABLE GROWTH

We want to grow our business to achieve \$100 million in EBITDA by 2015. We will achieve this goal by:

- a) Completing the integration of Icelandic USA into our U.S. operations in 2012. These assets earned pro forma Adjusted EBITDA of approximately US\$29 million in 2011, after taking into account the full year of savings from the investment in a new cold storage facility at the Newport News, VA plant that opened in 2011. The integration will allow us to realize expected significant near-term synergies of US\$12.1 million and total ongoing annual synergies to be in the range of US\$16-\$18 million. Part of the integration plan will involve the transition to operate our entire business on one systems platform with a focus to continually improve our efficiency and communication as an organization.
- b) Organic growth. Our 2012 business plan anticipates sales volume increases, excluding the Icelandic USA Acquisition. Organic growth will be achieved by effective execution of our business plan: we will use our scale to improve procurement of seafood as well as other inputs; we will continue launching successful products across all sales channels and customers such as chain accounts, clubs, and

ingredients, including the recently launched equivalent in Canada to *FireRoasters*, known as *Flame Savours*; and we also plan to develop and implement a leadership position in new species.

#### SUSTAINABILITY

Continuation of our three-year plan to source all of our seafood from certifiable or sustainable or responsible fisheries and aquaculture farms by the end of 2013. In particular, in 2012 we want to:

- Support the Russian Pollock Marine Stewardship Council (MSC) certification process
- Take a leadership role in the Russian salmon MSC process
- Develop a plan for Russian Pacific cod MSC certification
- Support the certification of the balance of the Barents Sea cod & haddock

#### SYSTEMS IMPROVEMENTS

Our focus in this area for the next few years will be on upgrading our Product Lifecycle Management (PLM) systems. In 2012, we will implement a new Global Specification Management system acquired from Oracle to ensure that we have the best systems available to keep track of our over 2,000 products. We recognize that we are a customer-centric organization and that developing differentiated, innovative products is our strength. We also know that our supply chain is long, both in terms of time from when an order is placed for goods to when the finished product is delivered to our customer, and in terms of the distance that the product travels. Therefore, our ability to track this information is very important to us. Historically, we have done this very well, but our processes can be more efficient. This advanced system will allow us to improve food safety and traceability, and will also provide a more efficient and productive approach for us to maintain product data, making the administration of current product codes more efficient and accurate, as well as reducing our overall new product introduction costs. Continuing investments in PLM systems in 2013 will also help us identify and determine what product development projects would be the best use of Company resources, as well as improve our ability and efficiency in collecting, re-using, and auditing product food safety data.

#### Financial Objectives

Our strategy was designed with the expectation<sup>1</sup> to increase shareholder value. To help us maintain a focus on meeting investor expectations, we have chosen four key financial measures to gauge our performance. We have set these measures based on the performance achieved by comparable food companies in North America.

	Benchmark	2011 Actual
<b>Returns</b>		
On assets managed	15.0%	<b>14.7%</b>
On equity	14.0%	<b>17.5%</b>
<b>Profitability</b>		
Trailing 12-month EBIT as a percentage of net sales	6.0%	<b>6.7%</b>
<b>Financial Strength</b>		
Interest-bearing debt to trailing 12-month EBITDA (not to exceed)	3.0x	<b>4.4x</b>
<b>Inventory Management</b>		
Inventory turns	4.2x	<b>3.7x</b>

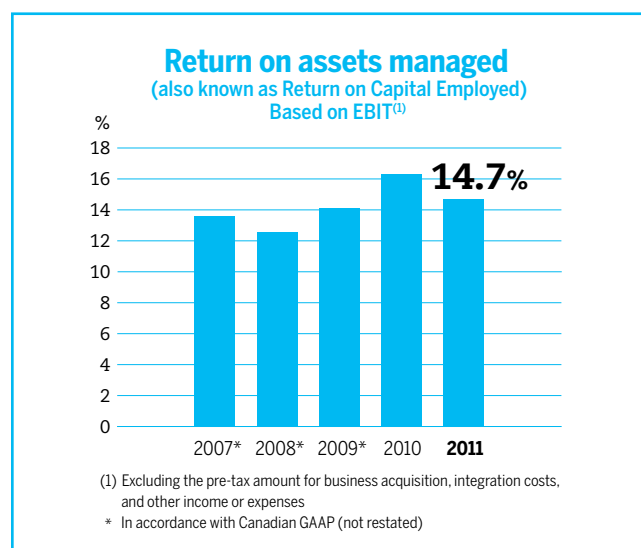
Each of these is discussed below.

**Return on Assets Managed (ROAM) is calculated as follows:**

Adjusted EBITDA (as defined on page 37) less depreciation and amortization = Earnings before interest and taxes (EBIT),

Divided by:

Average assets managed. "Assets managed" include all assets, excluding employee future benefits, and deferred income taxes, and less accounts payable. Average assets managed is calculated using the average net assets managed for each of the preceding 13-month periods.



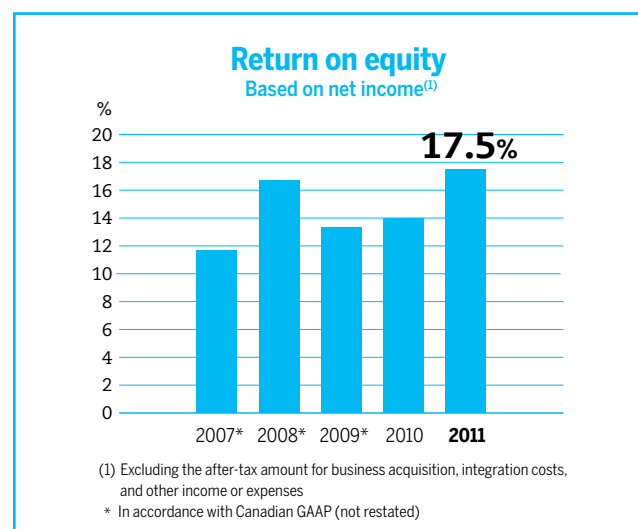
In 2011, our return on assets managed (ROAM) was 14.7%, lower than our benchmark by 0.3 percentage points. Adjusted EBITDA in 2011 increased by \$7.5 million over 2010; however, the Icelandic USA average assets managed for one month are included when income was included for only a few days. Excluding the assets and income of Icelandic USA, ROAM was 15.6%.

**Return on Equity (ROE) is calculated as follows:**

Net income, excluding after-tax business acquisition, integration costs and other income or expenses.

Divided by:

Average common equity. Average equity is calculated using common equity for each of the preceding 13-month periods.



Our return on equity (ROE) in 2011 was 17.5%. Income, excluding business acquisition, integration costs and other income or expenses, increased in 2011 and average debt levels were higher, both contributing to a higher ROE in 2011. Increased borrowing for the Icelandic USA Acquisition in December 2011 is expected<sup>1</sup> to increase average leverage and return in equity for 2012. Excluding the Icelandic USA Acquisition, ROE in 2011 was unchanged at 17.5%.

**Trailing 12-month earnings before interest and taxes as a percentage of net sales is calculated as follows:**

All earnings before interest and taxes, excluding business acquisition, integration costs and other income or expenses.

Divided by:

Sales, as disclosed on the consolidated statement of income.

Our trailing 12-month earnings before interest and taxes (EBIT) as a percentage of net sales revenue is 6.7%. This ratio has improved slightly over the last year due to the Viking Acquisition, where margins are higher on value-added products and as we continue to improve performance from operations.

**Interest-bearing debt to trailing 12-month EBITDA is calculated as follows:**

Interest-bearing debt, being bank loans, plus current and long-term portions of long-term debt and capital lease obligations

Divided by:

Adjusted EBITDA, which is defined on page 37.

Interest-bearing debt to trailing 12-month Adjusted EBITDA is 4.4 times on a pro forma basis to include the income of the Icelandic USA Acquisition, based on the interest-bearing debt at the end of fiscal 2011. This is higher than last year as debt increased in December 2011 due to the Icelandic USA Acquisition. On a pro forma basis, including the historical EBITDA and near term synergies expected from the Icelandic USA Acquisition, the ratio is 3.7 times. Our intent is to bring the interest-bearing debt to 12-month EBITDA ratio to our target of 3.0 times as soon as possible.

**Inventory turns is calculated as follows:**

Cost of sales for the year.

Divided by:

Average inventory available for sale or use as of the end of each month of the year. It includes raw material, finished goods, packaging and ingredients, but excludes maintenance parts and inventory in transit and in inspection.

Our inventory turns in 2011 were 3.7 times. Our target in 2010 was 5.0 times. As many of our products come from various parts of the world, the resulting lead-time is long and, given our commitment to ensuring that we meet customer service requirements, this results in an inventory level that is higher than ideal. Given this dynamic, we changed the benchmark target in 2011 to 4.2 times to reflect what we think is achievable in our current business environment. This is a more realistic target for inventory turns due to the long supply chain and seasonality for our products.

## 2. STRATEGIC MEASURES

Our performance against key metrics will tell us whether we are achieving our strategic objectives. We made considerable progress in 2011 by focusing on these metrics.

### 2.1 OUR BRANDS

#### MARKET SHARE

The market shares of our retail brands speak volumes. Food service market shares are hard to measure, as there is no independent source that tracks food service sales in a manner comparable to the retail channel. However, based on our information and knowledge of the market, we are clearly the market leader in Canada and are now the largest frozen value-added seafood supplier in the USA after the acquisitions in 2010 and 2011.

We track retail market share information by purchasing syndicated data. We measure share on a rolling four-week, twelve- or thirteen-week, and fifty-two week basis, and have good insight as to whether consumers are responding to our new product ideas and promotions. In Canada, we are the leader in the retail channel, with a market share more than twice the size of our nearest competitor. In the United States, our *Fisher Boy* brand has a strong presence in certain regions and *Sea Cuisine* has a growing importance in the prepared seafood category.

#### DISTRIBUTION

An important measure for retail distribution is “all commodity volume” (ACV). This is a measure of the volume of the traditional grocery stores as a percentage of total stores in a market (Canada or the United States) in which our products are sold. An increase in ACV means that our products are in more stores and, therefore, available to more consumers in more markets, which should translate into increased sales. In Canada, our ACV approaches 100% as *High Liner* products can be found in virtually all grocery stores. In the U.S., our brands, which include *Fisher Boy*, *High Liner* and *Sea Cuisine*, have a smaller share of the total frozen seafood category than *High Liner* in Canada. ACV for all *High Liner* umbrella branded products was nearing 61% at the end of 2011 compared to 57% at the end of last year. In some regions in the U.S., this is substantially higher. In Mexico, although we do not track ACV, we are confident in our position as a leading seafood supplier in the major centres.

In Canada, we use ACNielsen® to track market share and ACV of our retail brands in grocery, mass merchandising, general merchandising, club stores, and distributors. In the U.S., we use Information Resources Inc. (“IRI”) to track market share and ACV of our retail brands, where it tracks sales in traditional grocery stores and Wal-Mart supercentres, but excludes club stores and other mass merchandisers. Since we are well represented in these channels in the U.S., we believe our actual ACV is higher than that as presented by IRI.

## PERCENTAGE OF OVERALL SALES FROM OUR BRANDS

Our brands are one of our core strengths. Consequently, most of our sales are of our branded products. We measure the percentage of our sales from our brands over a rolling 52-week period, with the goal to keep it at 80%. In 2011, our brand sales were 79% of total sales. In 2012, we anticipate<sup>1</sup> the percentage of overall sales from our brands will be similar in 2012, including the Icelandic USA Acquisition.

## 2.2 OUR ORGANIZATION

### PRODUCTIVITY

We have seven manufacturing plants, including six we own and one that we lease, each with capacity for growth. We measure throughput, pounds produced per working hour, and pounds of production on a rolling 12-month basis to ensure optimum productivity and plant utilization. In 2009, we invested in a high-speed production line for our Portsmouth plant, which contributed to annual cost savings and improved our long-term profitability. We are continually looking for opportunities to invest in projects for our plants that have a quick financial payback on the initial capital investment, with the goal of reducing operating costs. As a result of the December 2011 acquisition we now have a primary processing operation in China.

### CUSTOMER SERVICE

Our strong customer relationships are a competitive strength. To preserve them, we must consistently strive to exceed customer expectations. To that end, we measure case fill rates, our ability to achieve at least 98.5% purchase order fulfillment is at the top of the industry. For 2011, our purchase order fulfillment, measured by number of cases of products shipped compared to what was ordered, was 96.8% in Canada and 97.6% in the U.S. Our performance in Canada in 2010 was considerably below expectations due to supply issues for a number of commodity products, especially shrimp, salmon, scallops and haddock, but we were able to improve customer service during 2011. Order fill rates for value-added products consistently exceed our targets.

### PEOPLE

We are building a high-performance organization by investing in our people. We intend to develop our future leaders from within, and thus we are focused on increasing individual capacity for leadership and track the ratio of internal hires to external hires. We adopted and implemented a training and development plan in 2010 for all employees, and the program continued in earnest in 2011 and will be continued in 2012.

## 2.3 GROW THROUGH INNOVATION

### OVERALL SALES INCREASES

Global procurement means that we can access any species that meets consumer tastes. In addition, we have become experts in product development. Overall sales increases provide us an indication on how successful our ideas are. We aim to achieve at least a 5% increase in sales year-over-year. In 2011, our sales increased by 16.8% in domestic dollars, resulting from strong organic growth and the Viking Acquisition. Excluding Viking and the Icelandic USA Acquisitions, sales in domestic currency increased 9.0%, compared with our 5.0% target. In terms of volume, sales in 2011 increased 13.6% (4.3% excluding Viking and the Icelandic USA Acquisitions). We expect<sup>1</sup> volume in 2012 to increase, but higher seafood costs, which are expected in 2012, will require us to increase selling prices for most products. Increased prices are coming at a time when retail customers are pushing back strongly against price increases, and given this environment, there is a risk that retailers in particular will not allow us to increase costs. If price increases are not implemented, profitability for 2012 may<sup>1</sup> be adversely affected. Conversely, if the price increases are successfully implemented, this may<sup>1</sup> result in a decrease in sales volume as consumers look to competing proteins.

### SALES FROM NEW PRODUCTS

Maintaining our benchmark sales from new products tells us that we are renewing our product line in a sustainable way. We measure annual sales and profits from new products to provide us with information as to our success in reaching consumers with new and consistently reliable food choices. In 2011, sales from new products launched in the previous 24 months were approximately 14% of our sales.

## 3. CAPABILITY: RESOURCES AND CORE COMPETENCIES

High Liner has both the financial and operational resources to achieve our objectives.

### 3.1 LIQUIDITY AND CAPITAL RESOURCES

Highlights for 2011 are as follows:

- Increased short-term debt by \$78.3 million to finance the Icelandic USA Acquisition;
- Long-term debt and capital lease obligations, including current portion, of \$243.6 million, up from the \$52.4 million at the end of 2010 due to the Icelandic USA Acquisition;
- Cash on hand at year-end of \$3.3 million;
- Net interest-bearing debt that is 70% of total capitalization;
- US\$180.0 million in committed lines of credit (more than US\$40 million available at the end of 2011).

#### Debt

High Liner entered into long-term funded debt agreement late in 2007. All real property and equipment and personal property have been pledged as collateral for this debt. For the first 24 months of the term, only interest was payable. Repayments were based on a 12-year amortization schedule, with the full repayment due on December 20, 2012. This funded debt was repaid as part of the refinancing for the Icelandic USA Acquisition. As a result of the payment, we incurred and paid a prepayment penalty for foregone interest in the amount of \$2.4 million.

High Liner obtained a new US\$250.0 million senior secured term loan facility ("Term Loan") in December 2011. Substantially all tangible and intangible assets of the Company are pledged as collateral for the Term Loan. Minimum repayments of US\$2.5 million are required on an annual basis, plus 50% of defined excess, cash beginning in 2013, based on the previous year's cash flow. The Term Loan bears interest at 5.50% plus LIBOR (floor of 1.5%) with standard covenants, including required interest coverage and leverage ratios.

The terms of the new long-term debt facility require us to swap 50% of the variable interest rate for a fixed rate for the first two years. This was completed after year-end, and results in 50% of the US\$250.0 million facility bearing a fixed effective interest rate of 7%, with the other 50% at variable rates. As such, we expect<sup>1</sup> that there will be fluctuations in interest expense due to changes in interest rates once LIBOR is higher than the floor of 150 BPS in addition to that on our working capital facility as discussed below.

We entered into a new US\$120.0 million asset-based working capital facility in November 2010 with the Royal Bank of Canada as collateral and administrative agent. This facility was amended in December 2011 as part of the Icelandic USA Acquisition. The amended facility is now a US\$180.0 million asset-based working capital facility, which expires in 2017, and provides for the following:

- Canadian dollar Prime Rate loans and U.S. Base Rate loans in U.S. dollars at Prime or Base Rate plus 0.00% to 1.00%;
- Bankers' Acceptances (BA) loans at BA rates plus 1.75% to 2.50%;
- LIBOR advances at LIBOR plus 1.75% to 2.50%; and
- Unused line fees of 0.25% to 0.50%.

The above rates/spreads charged are based on Funded Debt to EBITDA ratios. At the end of 2011 we were borrowing at the high end of the rate structure as our leverage increased due to the recent Icelandic USA Acquisition. We expect leverage will decrease to more normal levels over the next few years as we pay-down loans with our cash flow from operations and realize synergies from the Acquisition.

The asset-based working capital facility will<sup>1</sup> be sufficient to fund all of the Company's current cash requirements for 2012.

Full details of the financing arrangements are included in Notes 12 and 13 to the 2011 financial statements.

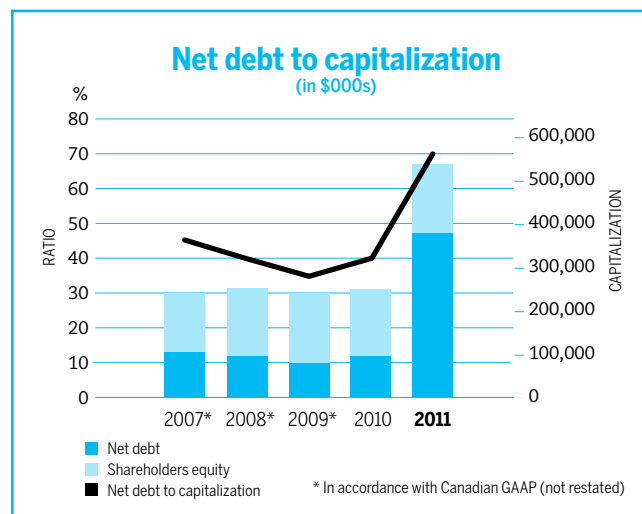
Prior to the Icelandic USA Acquisition in December 2011, average short-term borrowings in 2011 were approximately \$57 million compared to \$18 million in 2010. In 2011, our short-term bank loans increased US\$31.5 million as a result of the Viking Acquisition that closed in December 2010, which was funded from our short-term bank loan facility. During 2011, we generated cash that allowed us to pay down current bank loans, while the stronger Canadian dollar reduced the conversion of U.S. denominated debt to Canadian dollars. At December 31, 2011, our bank loans increased by approximately \$60 million, due to the Icelandic USA Acquisition, to \$121.0 million. Our unused available credit on pre-arranged short-term working capital borrowing facilities was approximately \$40 million at year-end, based on margin calculations. We expect<sup>1</sup> available credit in 2012 to be lower than in 2011 due to the additional borrowing and expected higher average loan balances due to projected increases in the cost of inventory.

The Company's line of credit of US\$180.0 million is a U.S. dollar line, of which US\$120.0 million is allocated to our U.S. operations and the remainder is allocated to our Canadian operations.

On January 1, 2011, we had letters of credit outstanding in the amount of US\$3.5 million to secure obligations for the purchase of seafood, US\$0.2 million to secure lease obligations with respect to a leased cold storage facility, and CAD\$7.5 million to secure certain obligations under the Company's supplemental executive retirement plan, for a total of CAD\$11.2 million. These were extinguished during



the year and new letters of credit were created during 2011 as required. On December 31, 2011, we had letters of credit outstanding in the amount of US\$1.3 million to secure obligations for the purchase of seafood, US\$0.2 million to secure lease obligations with respect to a leased cold storage facility, and CAD\$9.3 million to secure certain obligations under the Company's supplemental executive retirement plan.



## Working Capital

Net working capital balances, consisting of accounts receivable, inventory, prepaid expenses, provisions and accounts payable, at the end of fiscal 2011 were \$116 million higher than they were a year ago, principally as a result of the Icelandic USA Acquisition, which added \$95 million in net working capital. Excluding this acquisition, net working capital balances in 2011 were higher than they were a year ago due to the Viking Acquisition, which increased both accounts receivable and inventory. In addition, the weaker Canadian dollar (US\$1.000 = CAD\$1.017) further increased working capital relative to the previous year (US\$1.0000 = CAD\$0.9946). As more than 50% of our operations are in the United States, and we translate the balance sheet of the U.S. subsidiary to Canadian dollars using the month-end exchange rate, the weaker Canadian dollar increases the carrying value of working capital. Also, many assets and liabilities in the Canadian operations are denominated in U.S. dollars, and are influenced by the value of the Canadian dollar.

Excluding the Icelandic USA Acquisition, working capital assets increased \$5.0 million over January 1, 2011, solely due to the conversion of the U.S. operation's inventory (\$1.3 million) and accounts receivable (\$3.7 million). In addition, the Canadian company's inventory, although denominated in Canadian dollars, is substantially purchased in U.S. dollars and therefore is impacted by changes in the Canadian/U.S. exchange rate. Inventory purchased by the Canadian operations had an increased cost of approximately 2.3% due to the exchange rates in effect for 2011 over the same period last year, after taking into account hedging activities, increasing inventory by approximately \$1.0 million.

The Company has 59.0 million pounds of product inventory, excluding Icelandic USA, at the end of 2011 compared with 51.2 million pounds at the end of fiscal 2010.

Partially offsetting the increase in working capital assets is the foreign currency effect on accounts payable. The increase in accounts payable for the conversion of the U.S. operation's balances at the end of fiscal 2011 was \$1.8 million compared to the end of fiscal 2010. In addition, a significant portion of payables in the Canadian company are denominated in U.S. dollars for the purchase of seafood in U.S. dollars.

Net working capital added by the Icelandic USA Acquisition was \$94.5 million as at December 31, 2011.

Our working capital requirements fluctuate during the year, peaking between December and April as our inventory is the highest at that time. We expect<sup>1</sup> this trend to continue and we have enough availability on our line of credit to finance our working capital requirements throughout 2012. If we were to do another acquisition, we would need to expand our working capital facility.

## Cash Flow

Cash flow provided by operations before changes in non-cash working capital items for 2011 decreased from the same period last year, mainly due to the costs incurred to complete the Icelandic USA Acquisition that were expensed in December 2011. In addition, non-cash working capital items used cash in the most recent year, primarily the result of an investment in inventory, compared to 2010 where working capital generated cash.

Standardized free cash flow<sup>2</sup> was a negative \$3.4 million for the year-ended December 31, 2011, compared to a positive \$46.0 million for the year-ended January 1, 2011. Cash flow from operations before working capital changes was decreased by costs incurred to complete the Icelandic USA Acquisition that were expensed in December. As well, non-cash working capital used cash in the most recent year, compared to cash flow that was generated from working capital in the previous year. Standardized free cash flow also decreased during the most recent year due to higher capital expenditures. Capital expenditures in 2011 were higher than 2010 due primarily to information technology projects, including the Product Life Cycle software and other projects.

We have adjusted Standardized Free Cash Flow in the table below for the impact of foreign exchange contracts that were unwound in 2008. In 2010, \$0.2 million of the benefit relating to the unwound contracts has been excluded from cash flow from operations as it was cash received in a prior year. The Adjusted Free Cash Flow adds back to 2010 the impact of the foreign exchange gain realized on the contracts.

<sup>2</sup> Our definition of Standardized Free Cash Flow follows the general principles and guidance for reporting this measure issued by the Canadian Institute of Chartered Accountants.

The table below reconciles our Standardized Free Cash Flow and Adjusted Free Cash Flow with measures that are in accordance with IFRS.

(In \$000s)	2011	2010
Cash flow from operating activities*	\$ 3,572	\$ 50,356
Less: total capital expenditures, net of investment tax credits*	(6,952)	(4,339)
<b>Standardized Free Cash Flow</b>	<b>\$ (3,380)</b>	<b>\$ 46,017</b>
Impact of one-time unwinding of foreign exchange contract in fiscal 2008*	-	165
<b>Adjusted Free Cash Flow</b>	<b>\$ (3,380)</b>	<b>\$ 46,182</b>

\* Per Cash Flow Statement

We discuss liquidity risk in Section 8.9 below and Note 24 in our financial statements.

## Capital Expenditures

Gross capital expenditures for 2011 were \$7.8 million compared with \$5.3 million in the previous year. The increase is attributable primarily to higher spending on information technology projects, including the Product Life Cycle software.

We plan<sup>1</sup> to invest approximately \$9 million to \$13 million in capital assets in 2012. Almost \$3.8 million of our capital expenditures in 2012 are expected<sup>1</sup> to be for strategic initiatives or related to the achievement of synergies on the Acquisition and a further \$1.8 million for projects that will reduce the cost of our operations. The remainder of the capital budget is for projects that will ensure we continue to be in compliance with regulatory and other requirements, and for the replacement of aging equipment. Cash generated from operations and short-term borrowings will fund capital additions in 2012.

## Contractual Obligations

Contractual obligations relating to our long-term debt, finance lease obligations, operating leases, purchase obligations, and other long-term obligations are disclosed in the table below.

(Amounts in \$000s)	Payments Due by Period				
	Total	Less than 1 year	2 – 3 Years	4 – 5 Years	After 5 Years
<b>Contractual Obligations</b>					
Long-term debt	254,250	2,543	11,441	15,256	225,010
Finance lease obligations	3,663	1,064	1,410	1,044	145
Operating leases	6,957	2,707	3,368	882	-
Purchase obligations	225,676	219,894	5,782	-	-
<b>Total contractual obligations</b>	<b>490,546</b>	<b>226,208</b>	<b>22,001</b>	<b>17,182</b>	<b>225,155</b>

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See Sections 8.2 and 8.5 for more details.

## Financial Instruments

### CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

We formally document all relationships between hedging instruments and hedged items, as well as risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred. Any portion of hedge ineffectiveness has been recognized in the income statement as it has occurred.

The following table identifies all of the financial instruments and the value recorded at the balance sheet date. The carrying values of held-for-trading financial assets, loans and receivables, and other financial liabilities approximate fair value due to the short term to maturity of these financial instruments. Financial liabilities carried at amortized cost are shown at their amortized cost using the effective interest rate method. Items accounted as hedges represent fair value of the Company's foreign exchange contracts as well as the fair value of its interest rate swap on its long-term debt.

(Amounts in \$000s)	As at December 31, 2011				
	Financial assets at fair value through profit and loss	Loans and receivables	Financial liabilities at amortized cost	Items accounted for as hedges	Total carrying amount
Cash and cash equivalents	3,260	-	-	-	3,260
Accounts receivable	-	84,920	-	-	84,920
Other financial assets	-	-	-	1,346	1,346
Bank loans	-	-	120,980	-	120,980
Accounts payable and accrued liabilities	-	-	108,553	-	108,553
Provisions	-	-	675	-	522
Other financial liabilities	-	-	-	793	793
Long-term debt	-	-	239,981	-	239,981

#### INTEREST RATES USED FOR DETERMINING FAIR VALUE

The interest rates used to discount the estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread and were as follows:

	December 31 2011	January 1 2011	January 3 2010
Bank loans	3.10%	2.27%	1.56%
Long-term debt	7.00%	2.30%	4.08%
Capital lease obligations	5.90%	5.62%	5.66%

#### AMORTIZED COST IMPACT ON INTEREST EXPENSE

In fiscal 2011, we expensed \$0.1 million (2010: \$0.5 million) and \$0.2 million (2010: \$0.2 million) of short-term and long-term interest, respectively, relating to interest that was calculated using the effective interest rate method relating to its transaction fees on our borrowings.

#### FORWARD EXCHANGE CONTRACTS

We systematically enter into foreign exchange contracts, with maturities of 15 months or less, with exceptions for one customer who requires hedging at their request. We use hedge accounting to account for these foreign exchange contracts.

At year-end, we had the following total foreign exchange forward single rate contracts outstanding:

	December 31, 2011	
	Sell CAD\$	Receive US\$
Forward rate	5,327,982	5,294,465

The single rate contracts at December 31, 2011 have rates ranging from 0.9491 to 1.02823, with maturities ranging from January 2012 to September 2012.

At year-end 2011, we had the following foreign exchange "average rate forward" purchase contracts outstanding:

	December 31, 2011		
	Weighted Average Put Rate	Weighted Average Call Rate	Total US Value In \$000s
Average rate forwards			
Average rate	1.0019	1.0090	36,499,227

#### Average rate forward purchase contracts:

Where the average noon-day exchange rate during the contract term falls between the benefit and protection rates, no cash settlements are exchanged between us and the intermediary. If the average noon-day exchange rate during the contract term is less than the benefit rate, then on the contract settlement date, we would pay the intermediary the difference in the rate times the notional dollar value hedged. If the average noon-day exchange rate during the contract term is greater than the protection rate, then on the contract settlement date, the intermediary would pay us the difference in the rate times the notional dollar value hedged. The benefit and protection rates are the same for forward single rate contracts, while forward average range contracts have a spread between the benefit and protection rates.

With the exception of US\$2.4 million average rate contracts with maturities ranging between January 2013 and December 2013, all foreign exchange contracts have maturities that are less than one year.

#### CASH FLOW HEDGE

Prior to November 30, 2011, our U.S. subsidiary had an interest rate swap agreement in place that converted principal and interest payments from Canadian to U.S. dollars and was used to hedge the foreign exchange exposure on the 6.31% Series A note. The note and interest rate swap had the same critical terms and the swap was valued at rates prevailing as at the balance sheet date. Gains and losses on the swap were included in other comprehensive income and transferred to income to offset gains and losses on the debt when recorded in income. As of November 30, 2011, in anticipation of the Icelandic USA Acquisition and associated refinancing, we extinguished the swap.

Included in current bank loans at December 31, 2011 was a borrowing of US\$15 million (January 1, 2011: US\$5.0 million; January 3, 2010: US\$15.0 million), which has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this investment. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness recognized in the fiscal years ending December 31, 2011 or January 1, 2011.

#### ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments as at December 31, 2011 and January 1, 2011 are based on relevant market prices and information at that time. The fair-value estimate is not necessarily indicative of the amounts that we might receive or pay in actual market transactions. The total fair value of all of the foreign exchange future contracts as at December 31, 2011 was an asset of \$0.6 million (January 1, 2011: liability of \$1.4 million). The fair value of the interest and principal cross-currency swap was a liability of \$0.2 million on January 1, 2011.

The fair value of our long-term debt is estimated to be \$254.2 million at December 31, 2011. The fair value of our capital lease obligations is estimated to be \$3.7 million. These fair values are calculated by discounting the future cash flows of each loan at the estimated yield to maturity based on publicly available information. Since we do not intend to settle the long-term debt or capital lease obligations prior to maturity, the fair value does not represent an actual liability and, therefore, does not include exchange or settlement costs.

Our remaining financial instruments consist of cash and cash equivalents, trade and other accounts receivables, sundry investments, and current liabilities. The difference between the carrying values and the fair market values of these financial instruments are not significant given the short-term maturities or the credit terms of those instruments.

All financial instruments carried at fair value are categorized in three categories defined as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Other techniques, which use inputs other than quoted market prices, included within Level 1 that are observable, either directly (as prices) or indirectly (derived from prices).
- Level 3: Valuation techniques, which use inputs not based on observable market data.

At December 31, 2011, the Company had the following financial instruments measured at fair value categorized into the following levels:

(All amounts in \$000s)	December 31			
	2011	Level 1	Level 2	Level 3
Assets measured at fair value Foreign exchange contracts; hedged	1,346	-	1,346	-
Liabilities measured at fair value Foreign exchange contracts; hedged	793	-	793	-

#### Capital Structure

Detailed information regarding the designation and number of each class of shares outstanding and of each class of security convertible into shares is disclosed in Note 16 to the annual financial statements.

#### EQUITY

The book value of our equity at the end of 2011 was \$10.71 per share compared with \$9.72 at the end of 2010. We filed a normal course issuer bid in November 2009 that permitted the purchase of up to 320,000 of our common shares and up to 30,000 non-voting equity shares during the 12-month period ending on November 24, 2010. When the bid expired, we had purchased 9,200 non-voting equity shares through the Company's defined benefit pension plan at an average price of \$10.93. We did not purchase any common or non-voting shares in 2010 under this normal course issuer bid.

We filed a new normal course issuer bid in December 2010 to purchase up to 663,000 common shares and up to 93,840 non-voting equity shares. When the bid expired, we had purchased 88,758 non-voting equity shares for aggregate consideration of \$1.2 million at an average price of \$13.70 per share. The shares that were repurchased were cancelled.

We filed a new normal course issuer bid in January 2012 to purchase up to 100,000 common shares, and up to 100,000 non-voting equity shares. Any shares purchased under the normal course issuer bid will be cancelled. The bid will terminate no later than January 30, 2013.

In late 2010, we dissolved a subsidiary that held High Liner shares, which had been repurchased primarily through normal course issuer bids. Common and non-voting shares held by this subsidiary were cancelled on the dissolution. Outstanding shares of the Company had been presented on a net basis after deducting these shares. The wind-up of the subsidiary has resulted in a charge of \$6.6 million to retained earnings on the fiscal 2010 balance sheet and an increase for the same amount in share capital. Prior to the wind-up of the subsidiary, share capital was reduced for the full cost of the shares we repurchased. After the wind-up, the amount charged to share capital is the average book value of the shares. The difference between the average cost that we incurred to repurchase the shares and the average book value of the shares, being \$6.6 million, was charged to retained earnings.

In 2010, we amended the terms and conditions of our non-voting equity shares to provide for a right of retraction for a limited period of time. Under this temporary retraction right, each holder of High Liner's non-voting equity shares could elect to have High Liner repurchase that holder's non-voting equity shares for a retraction price of \$8.00 per share between April 7, 2010 and April 30, 2010. As well, we amended the conditions attached to our common shares to permit each common share to be converted into a non-voting equity share at any time at the option of the holder after the expiry of the non-voting equity share temporary retraction right. As a result, 3,185,030 non-voting equity shares were retracted under the temporary retraction right for \$25.5 million in connection with the temporary retraction right. This was financed by the utilization of cash on hand and draws on our working capital lines.

The retraction of our non-voting equity shares resulted in an increase of \$8.9 million in contributed surplus on our balance sheet in fiscal 2010. As the cost of the retraction was less than the assigned value of the shares, the difference represents a contribution by the original shareholders that accrues to the benefit of the remaining shareholders. Since a company cannot earn a profit from the acquisition of its own shares, the difference is not included in retained earnings, but credited to contributed surplus. The amount credited to contributed surplus was equal to the difference between the redemption cost and the assigned value of all shares, regardless of whether they were retracted.

In 2010, we granted a waiver under our shareholder rights plan in respect of a reorganization of our largest shareholder. To facilitate the waiver, the Company redeemed its shareholder rights under the plan adopted in December 2007 and adopted a new shareholder rights plan on substantially the same terms as the 2007 shareholder rights plan. Under the replacement shareholder rights plan, one right was issued in respect of each common share and non-voting share of High Liner outstanding to holders of record on July 23, 2010. The rights that were issued under the 2007 shareholder rights plan were redeemed at a price of \$0.00001 per right. The cost of the redemption was not material to the Company. Although the new shareholder rights plan was effective immediately, its adoption was subject to ratification by the shareholders, which was obtained on January 5, 2011 at a special shareholders' meeting.

#### **DIVIDENDS**

The quarterly dividend for the first quarter of 2010 was \$0.075 per common and non-voting equity share. The dividend for the second, third and fourth quarters of 2010 was increased to \$0.085 per common and non-voting equity share. In the first quarter of 2011, we increased the quarterly dividend again to \$0.09 per common and non-voting equity share, followed by a further increase to \$0.10 per common and non-voting equity share for the remaining quarters in 2011. The dividend policy reflects our confidence in our growth strategy, together with significant improvements on our balance sheet since divesting our fishing assets.

On February 22, 2012, the Directors approved a quarterly dividend of \$0.10 per share on the Company's common and non-voting equity shares payable on March 15, 2012 to holders of record on March 5, 2012.

These dividends are "eligible dividends" for Canadian tax purposes.

Our capital management practices are described at length in Note 23 to our annual financial statements.

#### **DISCLOSURE OF OUTSTANDING SHARE DATA**

On March 15, 2012 13,337,906 common shares, 1,788,062 non-voting equity shares and 852,317 stock options were outstanding. The stock options are exercisable on a one-for-one basis for common shares of the Company.

### **3.2 OPERATIONAL RESOURCES**

Our organic growth plans can be achieved without significant operational expansion.

Our existing operational resources include:

#### **PLANT CAPACITY**

Our seven manufacturing facilities have ample production capacity to meet forecasted demands. Our ability to source new products is not limited to our own production. We purchase significant quantities of frozen fillets as finished goods, and some of our value-added products are purchased as finished goods.

#### **DISTRIBUTION CENTRES**

Our Lunenburg, Portsmouth and Newport News facilities include large distribution centres. We lease a U.S. distribution centre in Peabody, Massachusetts, which we operate ourselves. We also utilize third-party cold storage/distribution centres to supplement our facilities when needed. We have Directors of Logistics in each Company location to ensure that the warehousing and transportation of our products is handled in cost-effective and customer-service-oriented methods.

#### **TECHNOLOGY**

Our business is simplified through an enterprise-wide business management system, using Oracle software. We have also developed a proprietary internet-enabled procurement system that allows us to manage procurement online in real time. Business intelligence software allows us to manage our information on a real-time basis to help us make business decisions quickly, manage inventory and accounts receivable and provide more informative financial disclosure. We have ensured that we are equipped to respond to customer demands for electronic transmission of business documents, including invoices, purchase orders and payment confirmations. In 2011, we have embarked on a renewal of our Product Life Cycle systems through a purchase of Oracle software. We are currently implementing the Global Specifications Management software through the company.

### 3.3 CORE COMPETENCIES

Our core operational competencies are:

#### BRAND EQUITY

*High Liner* is the leading Canadian seafood brand, with a leading retail market share. The retail market share that we are using to measure ourselves against includes mass merchandisers, general merchandisers, club stores and distributors, in addition to the grocery channel. We are the preferred seafood brand, and the value of our leadership position is not recorded in our financial statements. The strength of our brand reputation can be leveraged into growth with new species, in new channels, and to new customers. The brand also has a positive impact on our food service business where we are well known for our innovative, quality products and superior service.

*High Liner* is currently building brand awareness in the U.S. Well known in U.S. club stores for the launch of premium products under the *High Liner* brand and the umbrella branding of *Fisher Boy* and *Sea Cuisine* brands further strengthen our market position in traditional grocery outlets. *Fisher Boy* already has strong brand recognition in certain regions of the U.S. and *Sea Cuisine* is expanding its ACV.

In the U.S. food service market, the *FPI* brand is also well known for its product innovation and quality products. It is one of the most recognizable brands in the U.S. food service market. The *Viking* brand increases our share of the market for broad line value-added seafood products in the U.S. food service industry, making us one of the largest suppliers of value-added seafood products to that market. In addition, the Icelandic USA Acquisition makes us the largest supplier of value-added seafood to the U.S. food service market.

#### PROCUREMENT EXPERTISE

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

based on changing consumer tastes. We can be flexible, and now we more quickly respond to trends and tastes as they emerge. Our joint venture in China and the addition of a primary processing plant in China strengthen our control over seafood supplies.

#### CUSTOMER RELATIONSHIPS

We have been supplying food products to major grocery retailers and food service distributors for decades. We have developed strong relationships with our customers through excellent customer service and brand recognition. We reach our consumers through these exceptionally strong customer relationships. We sell to most of the retail chains and to the major club stores in North America and most food service distributors in Canada and the U.S. We have ensured that our infrastructure is capable of meeting the exacting demands of these customers, for both excellent products and delivery service.

#### DIFFERENTIATED INNOVATIVE PRODUCTS

Innovation is one of our core values and we exhibit this especially in our product line. We strive to develop and launch new products that are differentiated from others in the market. For example, in late 2010 we launched a new innovative product line in the U.S. food service channel called *FireRoasters*. Due to the success of *FireRoasters* we are expanding its distribution to U.S. retail, and Canadian retail and food service channels. It is a line of value-added, flame-seared seafood product that is unlike anything in the market today. During 2011, we created more than 125 stock keeping units for new products. *High Liner's Market Cuts*, which were launched in 2011 in Canadian retail, won the "Best New Product Award<sup>3</sup>" in the frozen fish category in January 2012. Our premium products in the U.S. and Canada have been an excellent example of our innovation in seafood products. Increasing the depth of our product line by adding new species from aquaculture has allowed us to develop even more innovative products.

#### LOW BREAK-EVEN POINT, SCALABLE OPERATIONS

Our business model has a low break-even point. We are no longer in the capital-intensive fishing operations, but instead rely on our procurement expertise. Our business has relatively low fixed costs and proportionately more variable costs, which means that the break-even point for the Company is low. Our sales more than doubled since 2007, and they are expected<sup>1</sup> to increase significantly in 2012 as a result of the Icelandic USA Acquisition; however, our selling, general and administrative costs that are primarily fixed costs increased at a much slower pace. Specifically, our selling, general and administrative costs, excluding stock options, as a percentage of sales in 2007 were 14.3%, but this has now dropped to 10.7% in 2011 and is expected<sup>1</sup> to decrease even further in 2012. We are<sup>1</sup> well positioned to continue to increase sales and profitability without significant increases in fixed cost.

<sup>3</sup> The Best New Product Awards is an annual awards program focusing on everyday consumer packaged goods products in the food, personal care and household care categories. Winners are selected based on voting by over 25,000 Canadian consumers from coast-to-coast who participate in the annual independent market research survey conducted by BrandSpark International.

**ABILITY TO MANAGE MARGINS**

As we are a significant supplier to our customers, we are important to them. They value our brands, our differentiated products, and the continuity of supply. Likewise, we are a large and well-respected customer to our suppliers, and have significant procurement expertise. Combined, these strengths allow us to manage the margins we generate on our sales, either by changing prices to our customers when necessary or qualifying for better prices from our suppliers.

**GOVERNANCE**

Our 2011 Management Information Circular includes full details of our governance structures and processes.

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, our certifying officers have limited the scope of their design of disclosure controls and procedures, and our Company's internal control over financial reporting to exclude controls, policies and procedures relating to the Icelandic USA Acquisition, as it arose in late 2011, and they have not yet performed sufficient procedures to include it in our certifications. National Instrument 52-109 permits a business that an issuer acquires not more than 365 days before the issuer's financial year-end to be excluded from the scope of the certifications, to allow it sufficient time to ensure controls, policies and procedures are effective. This operation will be transitioned to High Liner systems in 2012 and the scope limitation for it will be removed for the fiscal 2012 year-end certificates. Summary financial information for the Acquisition for the period from the acquisition date of December 19, 2011 to December 31, 2011 includes sales of US\$8.7 million, and Adjusted EBITDA of US\$0.9 million. Information concerning assets and liabilities acquired is provided in note 4 to our consolidated financial statements.

Our Chief Executive Officer and Chief Financial Officer have evaluated the design and effectiveness of our disclosure controls and procedures as of December 31, 2011. They have concluded that our current disclosure controls and procedures are designed to provide, and do operate to provide, reasonable assurance that (i) 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 (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

In addition, our Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting (ICFR) to provide reasonable assurance regarding the

reliability of financial reporting and the preparation of financial statements for external purposes. Further, our Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the design and operation of ICFR at the financial year-end and have concluded that our current ICFR was effective at the financial year-end based on that evaluation. There have been no material changes to the Company's internal controls during the year.

## 4. OTHER ITEMS IMPORTANT TO UNDERSTANDING OUR RESULTS

### 4.1 ACCOUNTING STANDARDS

As mentioned earlier in this document, we adopted International Financial Reporting Standards ("IFRS") for our fiscal 2011 year, with restatement of fiscal 2010 comparatives. Our transition date under IFRS was January 3, 2010, which is the beginning of our fiscal 2010 year. Our fiscal 2011 financial statements are our first annual financial statements since we adopted IFRS. Complete details on our transition to IFRS are included in note 26 to our consolidated financial statements that are attached to this document. While there were many changes in numbers relating to our financial results and statement of financial position, our adoption of IFRS did not result in material changes to EBITDA or net income. We note, however, that the book value of shareholders' equity as at our transition date increased by \$6.1 million, primarily due to the write-up of property, plant and equipment. This is only slightly different than the \$6.7 million that we disclosed in our fiscal 2010 MD&A, due to small adjustments made as we finalized the transition in 2011.

Our transition to IFRS went very smoothly. Our information systems were capable of handling our IFRS requirements. We provided training to our Audit Committee members, senior management, and those responsible for the day-to-day IFRS accounting. We have assessed and made changes to our disclosure and internal controls as necessary. The net changes to our financial results and statement of financial position were not significant for the Company and the IFRS transition adjustments did not negatively impact our financial covenants; therefore, we did not have to renegotiate our existing lending agreements or other legal agreements. The adoption of IFRS has not impacted the way in which we measure our financial performance, and commentary included in this MD&A reflects changes in the business environment and other factors, unless we have specifically identified the impact being related to transition to IFRS.

In addition to the existing IFRS standards that the Company adopted for 2010 and 2011, the International Accounting

Standards Board (IASB) and the IFRS Interpretations Committee (IFPIC) have issued additional standards and interpretations with an effective date applicable for High Liner in reporting periods subsequent to fiscal 2011 as follows:

- IFRS 7 – Disclosures – Enhanced De-recognition Disclosure Requirements;
- IFRS 9 – Financial Instruments: Classification and Measurement;
- IFRS 10 – Consolidated Financial Statements;
- IFRS 12 – Disclosure of Interests in Other Entities;
- IFRS 11 – Joint Arrangements;
- IFRS 13 – Fair Value Measurement;
- IAS 19 – Post-employment Benefits (Including Pensions);
- IAS 12 – Income Taxes – Recovery of Underlying Assets; and
- IAS 1 – Presentation of Financial Statements (IAS 1) and the presentation of Items in Other Comprehensive Income (OCI).

Additional details relating to the new standards and amendments are included in our consolidated financial statements for fiscal 2011 in note 3(f) New standards and interpretations issued but not effective. Our current evaluation is that the effect, if any, that these new standards and amendments will have on our financial results is minimal as the changes applicable to the Company primarily relate to disclosure requirements, or were previously anticipated and options were chosen on transition to IFRS to minimize their impact on future reporting periods.

#### **4.2 TRANSACTIONS WITH RELATED PARTIES**

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, Sjovik, h.f. and Icelandic Northwest Ltd. High Liner Foods (USA) Incorporated's wholly owned subsidiaries include Viking Seafoods, LLC and ISF (USA) LLC. Sjovik, h.f. has subsidiaries in Thailand and China. These companies purchase and/or sell inventory between them, and do so in the normal course of operations. As well, the parent company provides management and IT services to the subsidiaries. The companies lend and borrow money between them. Periodically, capital assets are transferred between companies. On consolidation, revenue, costs, IT services, gains or losses, and all inter-company balances, are eliminated.

In addition to transactions between the parent and subsidiaries, High Liner Foods has entered into certain transactions and agreements in the normal course of business with certain other related parties, as disclosed in the notes to the 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.

During 2011, we purchased \$3.7 million of shellfish from Clearwater Seafood's Limited Partnership at negotiated market prices. We sell the shellfish to our customers. Clearwater owned a significant, non-controlling interest in the Company during most of 2011. As well, we store products in Crystal Cold Storage & Warehousing Inc. where we pay a market-based storage price, and we lease our Malden production facility from Pier 17 Realty Trust Inc. where we pay a market-based rent. These facilities are owned by the vendors of the Viking Acquisition.

#### **4.3 FINANCING COSTS**

Interest expense in 2011 increased from 2010 levels as a result of higher average short-term bank loans. We expect<sup>1</sup> our short-term bank loans in 2012 to be higher than those of 2011 due to the working capital acquired as part of the Icelandic USA Acquisition and the additional loans that were used to finance the Acquisition. We also expect<sup>1</sup> higher interest rates on our facility due to higher interest rate spreads in the new long-term debt that was entered into for the Acquisition. Consequently, we expect<sup>1</sup> interest expense in 2012 to be higher than it was in 2011.

#### **4.4 BUSINESS ACQUISITION, INTEGRATIONS AND OTHER EXPENSES**

In 2010, we incurred one-time costs of \$1.0 million associated with the Viking Acquisition, partially reduced by a reversal of over-accrued reorganization costs from the prior year. These included due diligence, appraisal costs, legal and other professional fees. In 2011, we expensed \$10.9 million of acquisition, financing and integration costs related to the Icelandic USA Acquisition. These costs included investment banking, legal, accounting, due diligence, and similar transaction costs.

#### **4.5 AMORTIZATION OF INTANGIBLE ASSETS**

This consists of amortization of intangible assets, brands, and customer relationships over their estimated useful lives. The final purchase price accounting for Viking was completed in 2011 and resulted in slightly higher amortization than originally estimated. As the purchase price accounting for the Icelandic USA Acquisition will not be finalized until after the issue of the 2011 year-end financial statements, amortization has been estimated for the 13 days of operations in 2011.

As required by accounting pronouncements, we performed goodwill and indefinite life intangible asset impairment tests in both fiscal 2010 and 2011, which showed that goodwill is not impaired.



## 4.6 INCOME TAXES

High Liner's effective income tax rate in 2011 is 33.9%, compared to 38.7% for 2010. Our Canadian statutory rate for 2011 was approximately 29%. The effective rate in 2011 is higher than the statutory rate due to a higher U.S. statutory tax rate of 38.6%, and due to the tax treatment of certain business acquisition costs that are only partially deductible or non-deductible for tax purposes. During 2011, the Company recorded an additional \$0.8 million of non-deductible one-time withholding tax relating to the dividend that was paid in connection with the financing for the Viking Acquisition.

The Canadian income tax rules changed in 2010 regarding the tax deductibility of stock option expense. The cash-settling of stock options by employees is no longer deductible to the employer if the employee is entitled to the stock option deduction. Generally, the stock option deduction is only available to employees where they acquire securities of their employer or if the employer makes an election to forgo the deduction for a cash payment. The Company reviewed the changes to these rules and elected in 2010 to forgo the tax deduction on any amount paid to the employee in respect of the employee's disposition of their rights under the Company's stock option program.

The effective rate in 2010 is also higher than our statutory rate as we declared and paid a dividend in December of 2010 from our U.S. subsidiary to High Liner. This dividend was in connection with the financing for the Viking Acquisition, and was subject to a 5% non-deductible one-time withholding tax of \$1.0 million, which is recorded in our income tax expense for 2010. As well, we recorded \$3.7 million of stock compensation expense, which increased our effective tax rate as it was not deductible for income tax purposes.

See Note 20 to the annual financial statements for full information with respect to income taxes. Loss carry-forwards are still available in the U.S. operations to reduce cash taxes for the next year or two. The Canadian statutory income tax rate for 2012 is approximately 28%.

## 4.7 CONTINGENCIES

We have no material contingencies that are outstanding.

## 4.8 CONTRACTUAL ARRANGEMENTS

As part of the FPI acquisition in 2007, the Company entered into an agreement with the Province of Newfoundland and Labrador with respect to its operations in Burin, Newfoundland, and relating to its U.S. operations. The Company has agreed to maintain specified volumes of production in the plant until December 2012. Failure to maintain these volumes will result in a payment to the Province of Newfoundland and Labrador of \$0.07 per pound for each pound of volume shortfall. In addition, over the period ending in December 2012, the Company

has committed to spend \$3 million in product development activities in the Province of Newfoundland and Labrador and new equipment for Burin. Of these expenditures, 60% must be product development expenditures. In fiscal 2011 and 2010, the Company paid \$0.7 million (relating to the production shortfall). If the Company ceases permanent operation of the plant in Burin it must pay the Province \$12,500 for each unionized worker (who has been employed at Burin and is losing employment in the year of closure) to be used as a worker transition fund by the Province. Based on current employment levels this would be approximately \$1.5 million. The Company has current operating plans for Burin but may or may not maintain the agreed-upon production levels.

The Company has also agreed not to sell its U.S. operations during the period ending December 2012 without making a payment to the Province of Newfoundland and Labrador of \$5 million.

# 5. PERFORMANCE

## 5.1 THE ICELANDIC USA AND VIKING ACQUISITIONS

On December 19, 2011, High Liner acquired operations of U.S. subsidiary (Icelandic USA) and Asian procurement operations of Icelandic Group h.f., one of the largest suppliers of value-added seafood to the U.S. food service market. Since the acquisition was concluded late in the fiscal year, 2011 includes only 13 days of operations from the Icelandic USA Acquisition. The narrative in this section aims to assist the reader in understanding both the financial statements and the underlying performance of the business in 2011, together with our views on how the Icelandic USA Acquisition will contribute to High Liner in 2012 and beyond.

The Icelandic USA Acquisition is another milestone on our journey to becoming a larger company and in growing our EBITDA. It immediately increased our pro forma EBITDA by an estimated \$29.6 million and synergies expected<sup>1</sup> to be realized in the future will further increase EBITDA. Moreover, it moves us closer to our vision to be the North American leader in frozen value-added seafood. The acquisition has brought to High Liner a complementary food service business in the U.S., adding to the strong business we acquired in 2007 from FPI and in 2010 from Viking. The Icelandic USA Acquisition will also continue to increase our competitive advantage in procuring raw material and finished goods.

Sales from the Icelandic USA Acquisition from the closing date of December 19, 2011 to December 31, 2011 were \$9.0 million (US\$8.7 million) and Adjusted EBITDA was \$1.0 million (US\$0.9 million). The table below shows the high level view of sales and Adjusted EBITDA as reported:

Year-ended December 31, 2011 (In \$000s)	HLF	Viking	Icelandic USA	Consolidated
Sales	622,114	37,523	8,952	668,589
Adjusted EBITDA <sup>(1)</sup>	49,255	4,483	959	54,697

(1) See Adjusted EBITDA definition page 37

If the Icelandic USA Acquisition had been completed at the beginning of 2011, based on numbers prepared for the Business Acquisition Report that was filed with the TSX on March 16, 2012, High Liner's 2011 financial highlights would be as follows:

Year-ended December 31, 2011 (In \$000s)	HLF	Viking	Icelandic USA <sup>(2)</sup>	Consolidated
Sales	622,114	37,523	281,370	941,007
Adjusted EBITDA <sup>(1)</sup>	49,255	4,483	26,447	80,185

(1) See Adjusted EBITDA definition page 37

(2) Unaudited – results to December 18, 2011 were prior to the Icelandic USA Acquisition

On December 13, 2010, High Liner acquired the operations of Viking Seafoods, Inc. Since the acquisition was concluded late in the fiscal year, 2010 includes only 20 days of operations from the Viking Acquisition. In the management commentary for the remainder of Section 5, we will include the results of the Viking Acquisition in the analysis and will not segregate the impact of the Viking Acquisition from the operations, unless otherwise noted. This narrative will assist the reader in understanding both the financial statements and the underlying performance of the business in 2011 excluding Viking.

## 5.2 OVERALL PERFORMANCE

Before discussing and analyzing the results of operations for 2011, it is important to review high-level trends, uncertainties and market factors that impacted 2011. As mentioned, unless otherwise noted, these comments will exclude the Icelandic USA Acquisition's impact on our 2011 results. As the Viking Acquisition's results were included in our operating results for fiscal 2011, we will include commentary on these as well.

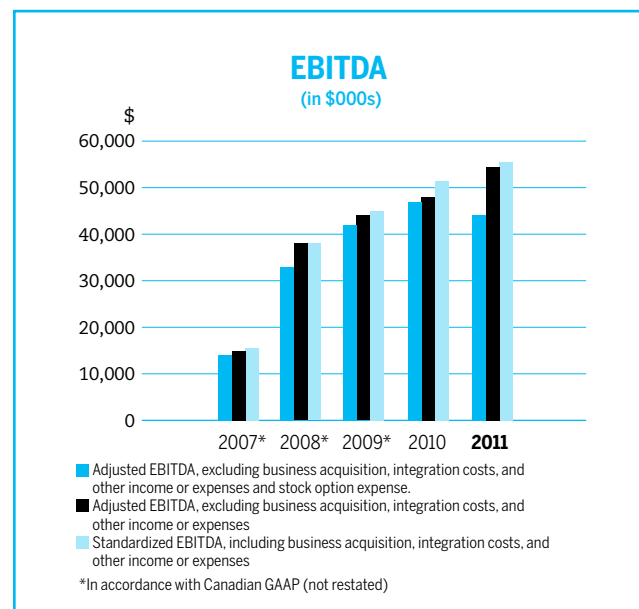
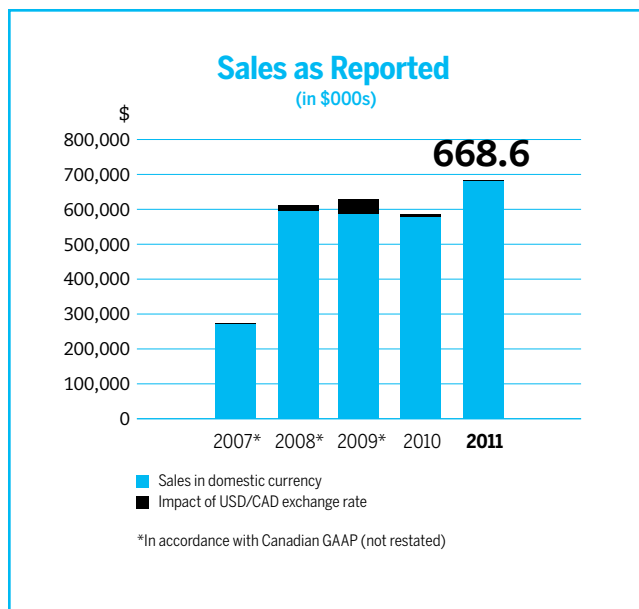
Fiscal 2011 was a very successful year for the Company in an uncertain economic environment. It was the first full year after the acquisition of Viking and is one of the best years that the Company has had in its history. While synergies from the Viking Acquisition were realized in 2011, we expect<sup>1</sup> to realize additional synergies in 2012, primarily from annualizing synergies that were put in place in 2011 but were only included in our financial results for part of the year. In addition, the Icelandic USA Acquisition will transform our business in 2012, significantly increasing sales and EBITDA.

The economic environment of the past few years was challenging for many companies. At the same time as we are facing a cost-conscious consumer, we have to deal with food inflation. Increases in the cost of seafood, flour-based ingredients and cooking oils required us to implement price increases in fiscal 2009. For the first half of 2010, cost increases on seafood and ingredients eased, meaning

that 2010 was the first year in many years where we did not increase prices. In fact, we decreased selling prices on commodity items and increased promotional activity on value-added products to drive growth.

The current economic environment continues to create volatility in the cost of seafood and other commodities. Prior to the economic downturn, which began in 2008, many species of seafood and non-seafood commodities reached record-high costs. We saw decreases in late 2009 for many of our seafood and non-seafood commodity costs, with the lower costs continuing into the first half of 2010. However, in the last half of 2010, we again experienced upward pressure on costs. Due to our inventory positions and contracts in place, the impact of the higher seafood and non-seafood commodity costs was only marginally felt in 2010. However, we did experience higher seafood and non-seafood commodity costs in 2011 and we expect<sup>1</sup> higher average seafood and commodity costs in 2012 relative to 2011.

Foreign exchange also impacts the results of the Company. During fiscal 2010, the Canadian/U.S. dollar exchange rate was relatively stable, with exchange rates ranging from 0.9946 to 1.0778. Likewise, in fiscal 2011, the exchange rate was also stable, ranging from 0.9449 to 1.0604. See Section 8.4 below for a full analysis of the impact on foreign exchange on our results.

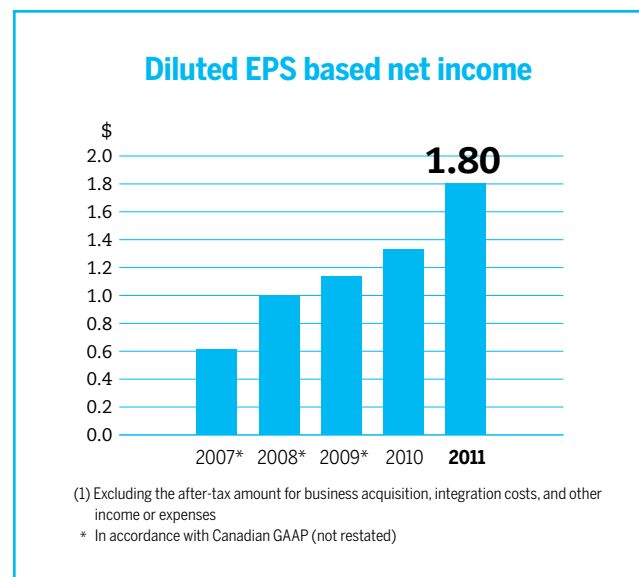
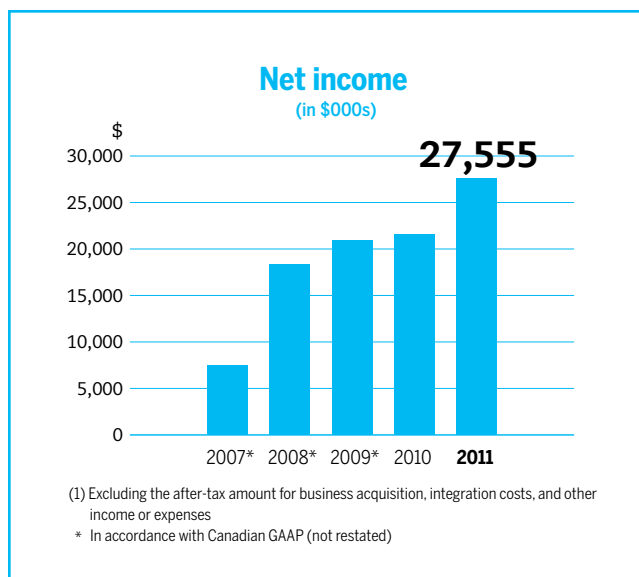


**Sales in domestic dollars increased in 2011:**

- Viking and Icelandic USA added \$46.5 million to sales
- Higher organic sales volume added to the sales
- Selling prices in 2011 were higher

**EBITDA improved in 2011:**

- Viking, including synergies, added to EBITDA
- New products increase EBITDA
- Lower stock option expenses
- Increased investment in Portsmouth plant efficiencies
- Higher selling prices offset higher cost



**Improvement in net income excluding business acquisition, integration costs, and other income or expenses and diluted earnings per share in 2011 due to:**

- Viking, including synergies, added to EBITDA
- New products increase EBITDA
- Lower stock option expenses
- Increased investment in Portsmouth plant efficiencies

## 5.3 CONSOLIDATED RESULTS

### Selected Annual Information

The table below summarizes key financial information for our last three fiscal years.

(All amounts in thousands except per share amounts and exchange rates)	2011*	2010**	2009***
<b>Sales</b>			
Canada	\$ 296,009	\$ 284,356	\$ 297,709
United States	\$ 372,580	\$ 300,359	\$ 329,477
Total sales	\$ 668,589	\$ 584,715	\$ 627,186
<b>Net income:</b>			
Total	\$ 18,180	\$ 19,985	\$ 19,747
Basic Earnings per Common Share	\$ 1.20	\$ 1.24	\$ 1.07
Diluted Earnings per Common Share	\$ 1.19	\$ 1.23	\$ 1.07
<b>Net income excluding one-time business acquisition, integration costs and other expenses, after income tax:</b>			
Total	\$ 27,555	\$ 21,535	\$ 20,889
Basic Earnings per Common Share	\$ 1.82	\$ 1.34	\$ 1.14
Diluted Earnings per Common Share	\$ 1.80	\$ 1.33	\$ 1.14
<b>Total assets</b>	\$ 690,535	\$ 328,302	\$ 304,247
<b>Total long-term financial liabilities</b>	\$ 240,037	\$ 47,164	\$ 53,548
<b>Cash dividends per share:</b>			
Common Shares	\$ 0.39	\$ 0.33	\$ 0.27
Non-Voting Equity Shares	\$ 0.39	\$ 0.33	\$ 0.27
<b>Gross capital expenditures</b>	\$ 7,830	\$ 5,251	\$ 12,668
<b>Average foreign exchange rate for the year (USD/CAD)</b>	\$ 0.9891	\$ 1.0300	\$ 1.1405

\* Includes the results of the Icelandic USA Acquisition for December 19, 2011 to December 31, 2011 and the results of the Viking Acquisition for the full year.

\*\* Includes the results of the Viking Acquisition for December 13, 2011 to January 1, 2011. Restated for IFRS.

\*\*\* Not restated for IFRS. These are calculated using Canadian generally accepted accounting principles.

## Seasonality

Quarterly operating results fluctuate throughout the year. Summary information for each of the eight most recently completed quarters is presented below.

### QUARTERLY FINANCIAL DATA

#### Fiscal 2011

(\$000s, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales	\$ 177,108	\$ 153,285	\$ 161,717	\$ 176,479	\$ 668,589
Adjusted EBITDA <sup>(1)</sup>	18,139	10,316	12,863	13,379	54,697
Adjusted EBITDA <sup>(1)</sup> excluding stock compensation expense	18,044	10,840	12,122	14,342	55,348
Net income	9,729	4,776	6,695	(3,020)	18,180
After-tax income before business acquisition, integration costs and other expenses <sup>(3)</sup>	9,894	4,913	7,005	5,743	27,555
Earnings per Common Share based on net income					
Basic earnings per Common Share <sup>(2)</sup>	0.64	0.32	0.44	(0.20)	1.20
Diluted earnings per Common Share <sup>(2)</sup>	0.63	0.31	0.44	(0.20)	1.19
Earnings per Common Share, after-tax income before business acquisition, integration costs and other expenses <sup>(3)</sup>					
Basic earnings per Common Share <sup>(2)</sup>	0.65	0.33	0.46	0.38	1.82
Diluted earnings per Common Share <sup>(2)</sup>	0.64	0.32	0.46	0.38	1.80

#### Fiscal 2010

(\$000s, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales	\$ 165,113	\$ 134,614	\$ 144,213	\$ 140,775	\$ 584,715
Adjusted EBITDA <sup>(1)</sup>	14,730	9,552	12,512	10,391	47,185
Adjusted EBITDA <sup>(1)</sup> excluding stock compensation expense	15,424	9,668	13,068	12,758	50,918
Net income	7,763	4,414	6,122	1,686	19,985
After-tax income before business acquisition, integration and other expenses <sup>(3)</sup>	7,763	4,304	6,163	3,305	21,535
Earnings per Common Share based on net income					
Basic earnings per Common Share <sup>(2)</sup>	0.42	0.28	0.40	0.11	1.24
Diluted earnings per Common Share <sup>(2)</sup>	0.42	0.28	0.40	0.11	1.23
Earnings per Common Share, after-tax income before business acquisition, integration and other expenses <sup>(3)</sup>					
Basic earnings per Common Share <sup>(2)</sup>	0.42	0.27	0.41	0.22	1.34
Diluted earnings per Common Share <sup>(2)</sup>	0.42	0.27	0.40	0.21	1.33

(1) See definition of Adjusted EBITDA on page 37.

(2) Total for the year does not add to the sum of the quarters due to the nature of the calculations and rounding.

(3) After tax income is net income excluding business acquisition, integration costs, and other income or expenses.

The first quarter of the year is historically better than the other three quarters for both sales and profits, depending on the timing of Lent. This modest benefit is usually offset in the third quarter, with both the first and second halves of the year comparable. Our U.S. retail business and, to a lesser degree, our U.S. food service business traditionally experience a strong first quarter as retailers and restaurants promote seafood during the Lenten period. For retail sales, the second and third quarters are more challenging during the warmer months as consumers spend more time outdoors, travel, and use ovens less often, resulting in a decreased demand for our products. However, for the food service business, activities are usually elevated in the second and third quarters as consumers are on vacation and travel more than other times of the year. The fourth quarter includes several festive occasions that increase demand for our products in both retail and food service.

In our retail businesses, we spend significant amounts on consumer advertising and new product launches. Although the related activities benefit more than one period, the related costs must be expensed when the initial promotional activity takes place. The accounting periods during which we choose to incur these expenditures may change from year to year. Therefore, there may be fluctuations in income relating to these activities. A significant percentage of advertising is usually done in either the first or fourth quarters.

Inventory levels fluctuate throughout the year, being higher to support strong sales periods, especially in the first quarter of the year. Inventories are seasonally high at the end of the year and throughout the first quarter. This is due to the seasonal closure of plants in Asia during the Lunar New Year period, which results in significantly higher inventories in December, January, February and March than during the rest of the year.

Going forward, we expect<sup>1</sup> seasonality to be similar to 2011.

## Sales

Sales for fiscal 2011 were \$668.6 million, compared to \$584.7 million in fiscal 2010. In 2011, more than 55% of the Company's operations, including sales, were denominated in U.S. dollars. The stronger Canadian dollar decreased the value of reported U.S. sales by approximately \$12.7 million. The Viking Acquisition added \$37.5 million to our sales in 2011 compared to \$1.7 million in 2010. The Icelandic USA Acquisition added \$9.0 million to our sales in 2011.

Sales in domestic currency for 2011, including the Viking Acquisition, were \$672.3 million compared to \$575.7 million for the previous year. Sales volume measured in pounds, excluding the Icelandic USA Acquisition, was 198.2 million (including 14.6 million pounds coming from the Viking brand) compared to 176.6 million the previous year, an increase of 12.2%. This was the result of improving economic conditions and new product introductions. We increased prices on commodity and value-added products as a result of input cost increases, and this increased sales relative to the

previous year. Icelandic USA Acquisition added 2.5 million pounds in the year. Sales trends are discussed in more detail below in the section called *Performance by Segment*.

## Gross Profit

Gross profit in 2011 was \$151.9 million compared to \$137.2 million in 2010. Gross profit as a percentage of sales was 22.7% in 2011 compared to 23.5% the previous year. Gross profit increased by \$14.8 million in 2011 due to an increase in sales but decreased slightly as a percentage of sales due to an increase in input costs, primarily in seafood, and additional trade spending to promote products and increase distribution.

## Distribution Expense

Distribution expense in 2011 increased by \$5.0 million, or 16.6% from the previous year, due to higher sales volumes resulting from Viking products and organic growth. Distribution expenses in 2011 were 5.2% of sales, up slightly from 5.1% in the previous year, primarily due to higher fuel surcharges passed on to the Company in 2011 by third-party freight carriers.

## Selling, General and Administrative Expense (SG&A)

SG&A expense in 2011 increased \$3.6 million, or 5.2%, over the previous year. SG&A expense for 2011 was 10.8% of sales, compared to 11.7% for the previous year. In 2011, our U.S. operations advertised on television, radio and other means, adding \$1.1 million to our consumer marketing costs in 2011. During 2011, we recorded a stock option expense of \$0.7 million, which was recorded in SG&A, compared to the previous year where we recorded a \$3.7 million expense. The stock option expense in 2010 was affected by a significant increase in our stock price, increasing from \$9.25 to \$16.25. The methodology to value options is very much influenced by the value of our stock price. Excluding stock option expense, SG&A in 2011 was 10.7% of sales, compared to 11.1% in 2010.

## Adjusted EBITDA

Our consolidated Adjusted EBITDA<sup>4</sup> in 2011 was \$54.7 million, an increase of 15.9% compared to \$47.2 million in 2010. The change in the value of the Canadian dollar, excluding its impact on purchases of seafood for the Canadian market, reduced EBITDA by \$0.9 million due to the conversion of U.S. results to Canadian dollars.

Included in Adjusted EBITDA<sup>4</sup> of 2011 is a stock option expense of \$0.7 million compared to \$3.7 million in 2010, as mentioned above. Excluding stock option expense, Adjusted EBITDA<sup>4</sup> in 2011 was \$55.3 million, compared to \$50.9 million in 2010.

In domestic currency, Adjusted EBITDA<sup>4</sup> for 2011 was \$54.9 million compared to \$46.5 million in 2010. The increase was due to an increase in sales volume, including Viking, cost reduction strategies, and lower exchange rates that

<sup>4</sup> See definition on page 37.

effectively reduced our product cost. In domestic currency, Adjusted EBITDA<sup>4</sup> as a percentage of sales was 8.2%, up a fraction of a percentage point from the previous year.

Adjusted EBITDA<sup>4</sup> in domestic dollars was affected by the following:

- seafood and other input cost increases (partially offset by the effect of a stronger Canadian dollar on purchases of seafood for the Company's Canadian operations);
- Viking and Icelandic USA added \$5.4 million to Adjusted EBITDA<sup>4</sup>;
- higher slotting and couponing costs on the launch of new products and expansion of distribution for existing products;
- price increases to counteract the increase in cost;

- higher distribution and storage costs, resulting from an increase in sales relative to the previous year and higher energy costs;
- selling and administrative costs increased compared to last year as a result of the Viking Acquisition;
- stock compensation expense decreased in 2011 as the increase in the Company's share price in 2010 was not repeated to the same extent in 2011, and;
- we realized increased efficiencies in our operations.

The table below reconciles our Adjusted EBITDA<sup>4</sup> with measures that are found in our financial statements. It should be noted that Standardized EBITDA includes a stock option expense of \$0.7 million in 2011 compared to \$3.7 million in 2010. The larger stock option expense in 2011 was the result of the significant appreciation in the Company's stock price in 2010.

Fifty-two weeks ended	Fifty-two weeks ended			January 1, 2011		
	Canada	U.S.	Total	Canada	U.S.	Total
(Amounts in \$000s)						
<b>Net income</b>	<b>\$ 13,049</b>	<b>\$ 5,131</b>	<b>\$ 18,180</b>	\$ 12,313	\$ 7,672	\$ 19,985
Add back:						
Depreciation	3,642	4,259	7,901	3,577	3,726	7,303
Amortization	229	1,604	1,833	212	992	1,204
Financing costs	1,837	4,146	5,983	1,337	3,828	5,165
Income taxes	5,379	3,953	9,332	7,410	5,229	12,639
<b>Standardized EBITDA</b>	<b>24,136</b>	<b>19,093</b>	<b>43,229</b>	24,849	21,447	46,296
Add back (deduct):						
Business acquisition, integration and other expenses"	1,265	10,010	11,275	86	789	875
Loss (gain) on disposal of assets	17	176	193	45	(32)	13
<b>Adjusted EBITDA<sup>4</sup></b>	<b>25,418</b>	<b>29,279</b>	<b>54,697</b>	24,980	22,204	47,184

**Adjusted EBITDA** is earnings before interest, taxes, depreciation and amortization, business acquisition, integration and other expense as disclosed on the consolidated statements of income. Management believes that this is a useful performance measure as it approximates cash generated from operations, before capital expenditures and changes in working capital and excludes non-operating items. Adjusted EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. Adjusted EBITDA does not have a standardized meaning prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by others. Our definition of Adjusted EBITDA follows the October 2008 general principles and guidance for reporting EBITDA issued by the Canadian Institute of Chartered Accountants (CICA).

We discuss Adjusted EBITDA<sup>4</sup>, sometimes referred to simply as EBITDA<sup>4</sup>, and both terms are used interchangeably in various places in this document. We also refer to Adjusted EBITDA<sup>4</sup> of our Canadian operations and of our U.S. operations. These are calculated in the same fashion as described above and can be reconciled to our operating segment information disclosure Note 19 to the consolidated financial statements.

The following table shows the impact of foreign currency on the conversion of our U.S. operations into Canadian dollars.

(In \$000s)	2011 Canadian \$	2010 Canadian \$	2011 Domestic \$	2010 Domestic \$	Change over 2010 Domestic \$
<b>External Sales</b>					
Canada	\$ 296,009	\$ 284,356	\$ 296,009	\$ 284,356	4.1%
USA	372,580	300,359	376,284	291,386	29.1%
	668,589	584,715	672,293	575,742	16.8%
Conversion	-	-	(3,704)	8,973	
	668,589	584,715	668,589	584,715	14.3%
<b>Adjusted EBITDA</b>					
Canada	25,418	24,978	25,418	24,978	1.8%
USA	29,279	22,207	29,498	21,528	37.0%
	54,697	47,185	54,916	46,506	18.1%
Conversion	-	-	(219)	679	
	54,697	47,185	54,697	47,185	15.9%
<b>Adjusted EBITDA as % of sales</b>					
In Canadian dollars	8.2%	8.1%			
In domestic dollars			8.2%	8.1%	

As can be seen above, sales decreased \$12.7 million in 2011 due to a stronger Canadian dollar. Adjusted EBITDA was reduced by \$0.9 million for the same reason. The reason for the increase in Adjusted EBITDA from 2010 is discussed by business in Section 5.4 below.

## Net Income

Net income for 2011 was \$18.2 million, or \$1.20 per basic share, compared to \$20.0 million, or \$1.24 per basic share for last year. However, the results for both 2010 and 2011 included unusual and one-time costs.

The following table shows the impact of one-time acquisition costs, integration costs and stock option expense on our diluted earnings per share for 2010 and 2011. It also calculates earnings per share for both 2010 and 2011 using the shares outstanding at the end of 2011 to normalize the non-voting share retraction that occurred partway through 2010 and to better compare the two years.

(\$000s)	2011			2010		
	Diluted Earnings Per Share Based on			Diluted Earnings Per Share Based on		
	Average Shares Outstanding	Year-end Shares Outstanding		Average Shares Outstanding	Year-end 2011 Shares Outstanding	
<b>Net Income</b>	\$ 18,180	\$ 1.19	\$ 1.19	\$ 19,985	\$ 1.23	\$ 1.30
Add back		-	-		-	-
After-tax business acquisition, integration, and other costs	8,575	0.56	0.56	544	0.03	0.04
Intercompany dividend withholding tax	800	0.05	0.05	1,006	0.06	0.07
	27,555	1.80	1.80	21,535	1.33	1.41
Stock Compensation Expense (including income tax adjustment in 2010)	651	0.04	0.04	3,833	0.24	0.25
<b>Adjusted Net Income</b>	28,206	1.84	1.84	25,368	1.56	1.66
Shares outstanding – as reported (000s)		15,087			15,087	
Dilutive effect of stock options outstanding at year-end (000s)		232			232	
Year-end 2011 dilutive shares (000s)		15,341	15,319		16,244	15,319

The above table shows that excluding the impact of one-time acquisition and integration costs, stock option expense, and adjusting income taxes for withholding tax paid on an intercompany dividend, net income in 2011 increased by \$2.8 million, or 11.2%, and diluted earnings per share calculated using shares outstanding at the end of 2011 increased by \$0.18 per share.



## 5.4 PERFORMANCE BY SEGMENT

### Canadian Operations

Our Canadian operations had external sales of \$296.0 million in 2011, compared to \$284.4 million in the previous year, representing an increase of 4.1%. The improvement in sales is a reversal of the decline experienced in fiscal 2010. Sales volume was relatively unchanged from 2011 at 69.9 million pounds compared to the previous year. Canadian food service sales volume increased by 5.5% in pounds, as the economic activity in Canada increased relative to 2010. Retail sales pounds decreased by 6.2% relative to the same period last year, due to consumers' responses to increased prices and competition.

Our retail operations were challenged in 2011, principally in the uncoated fillet category. We increased selling prices in 2009 and 2010, especially on uncoated fillets, which resulted in price increases at the consumer level that allowed cheaper private label and trader labels to gain market share in the category. To counteract this increase in competition, we invested sales and marketing funds to drive more volume through our customers' stores, launched new value-pack commodity items to better compete with trader labels, and reformulated some products to have more competitive price points. We expect<sup>1</sup> our investment in these initiatives to result in higher retail volume in 2012.

Adjusted EBITDA<sup>4</sup> in our Canadian operations for 2011 was \$25.4 million compared to \$25.0 million for the previous year. Although Adjusted EBITDA<sup>4</sup> is relatively flat compared to 2011, it increased as result of higher overall sales volumes, cost-reduction strategies, new product introductions, lower exchange rates that effectively reduced our product cost, and lower stock option expense of \$3.1 million. However, EBITDA decreased as a result of investments we made in expanding distribution for the High Liner brand in our retail operations.

### U.S. Operations

(All currency amounts in this section are in U.S. dollars, unless otherwise noted)

Our U.S. operations had external sales of \$376.3 million in 2011, including the Viking and Icelandic USA Acquisitions, compared to \$291.4 million in 2010. Viking added \$37.5 million to our sales in 2011 compared to \$1.7 million in 2010. The Icelandic USA Acquisition added \$8.7 million to our sales in 2011. Sales volume for the year, including Viking but excluding the Icelandic USA Acquisition, increased by 20.5% to 128.3 million pounds compared to 106.5 million pounds in the 2010. Viking accounted for a 13.1% increase in volume and 6.6% increase in sales value. Our base business volume grew 7.4% in pounds and 9.0% in dollars.

Our U.S. food service operations, including Viking but excluding the Icelandic USA Acquisition, recorded an increase in sales pounds of 28.1% in 2011. Viking accounted for 24.2% of the increase in volume, with the base business growing 3.9%. This continues to be a positive development

as it represents the first year of growth since the start of the economic downturn, and we continue to remain cautiously optimistic that the worst of the recession in the United States is behind us and that consumers will be eating away from home more often. The increase in our base business was led by our distributor businesses. Our national accounts business was down by volume as these channels were particularly hit by the economic conditions.

U.S. retail operations experienced a 12.1% increase in sales volume in 2011. We experienced growth for our branded products in traditional grocery stores of 17.8% during the quarter as we expanded distribution for our *Fisher Boy* and *Sea Cuisine* products, and also launched additional new products. We ran a television and radio advertising campaign in 2011 to increase *Fisher Boy* brand awareness and increase sales. The ad campaign was very positive, in our opinion, justifying the incremental investment spent in marketing during the year relative to the previous year. Sales to club stores increased more than 20% in volume during 2011 as a result of new product launches, increased distribution for existing products, and strong sales for seasonal products. Sales volume for our private label products was in line with that of 2010, increasing by 2.5%.

Adjusted EBITDA<sup>4</sup> for the U.S. operations for the year was \$29.5 million compared to \$21.5 million in 2010, an increase of 37.0%. Adjusted EBITDA<sup>4</sup> improved due to an increase in sales volume, largely coming from Viking. A stronger Canadian dollar decreased Adjusted EBITDA<sup>4</sup> in Canadian dollars by CAD\$0.9 million. In addition, stock option expense in 2011 was \$0.3 million lower than in 2010.

### Outlook<sup>1</sup>

Our operating results are strong and our success with strategic initiatives in 2011 help position us for 2012 and beyond. Our focus will now be on integrating the Icelandic USA Acquisition and benefitting from expected synergies resulting from the combined operations. We expect a majority of the synergies to be achieved over the next two years, with total ongoing annual synergies thereafter in the range of US\$16-\$18 million.

Over the past year, we saw growth in both food service and retail businesses in the U.S. and we expect<sup>1</sup> that strength to continue into 2012 with the addition of *Viking* and *Icelandic Seafood* brands of products as well as the strength in our *High Liner* and *FPI* businesses. In Canada, while we recorded a turnaround positive 4.1% overall sales growth in 2011 due to improvement in our food service business, our retail operations remained under pressure due to increased selling prices and a more competitive retail environment. Our Canadian retail business gained strength as 2011 progressed, following a disappointing first quarter. To address this, we increased our marketing initiatives to drive volume in stores, launched value-pack commodity products that can compete with trader labels, and reformulated some items to achieve more competitive price points. We expect these initiatives, and the introduction of new products in 2012, to result in

increased sales volume in Canada this year. Additionally, while we expect<sup>1</sup> raw material costs for most species that we procure to be higher during the first half of 2012 than we experienced for the same period in 2011, prices for several key raw materials have recently decreased. Due to inventory and contracts, we will start to benefit from these lower costs during the second half of the year. We also expect<sup>1</sup> our increased purchasing power, expanded distribution, and cost-reduction efforts to contribute to operating improvements this year.

## 6. SUMMARY OF RESULTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2011

Sales for the fourth quarter of fiscal 2011 were \$176.5 million compared to \$140.8 million for the fourth quarter of fiscal 2010. The weakened Canadian dollar in the fourth quarter of 2011, relative to the same period in the previous year, increased sales of our U.S. operations by \$1.4 million. Total sales volume, excluding Icelandic USA, was 48.7 million pounds, an increase of 5.7 million pounds from the same period last year, which consists of an increase of 2.6 million pounds related to Viking products and a 3.1-million pound increase for other products. Icelandic USA added 2.5 million pounds in the quarter.

(In \$000s)	2011 Canadian \$	2010 Canadian \$	2011 Domestic \$	2010 Domestic \$	Change over 2010 Domestic \$
<b>External Sales</b>					
Canada	\$ 76,478	\$ 69,961	\$ 76,478	\$ 69,961	9.3%
USA	100,001	70,814	97,755	69,923	39.8%
	<b>176,479</b>	140,775	<b>174,233</b>	139,884	24.5%
Conversion	-	-	2,246	891	
	<b>176,479</b>	140,775	<b>176,479</b>	140,775	25.4%
<b>Adjusted EBITDA</b>					
Canada	5,602	5,284	5,602	5,284	6.0%
USA	7,777	5,107	7,601	5,043	50.7%
	<b>13,379</b>	10,391	<b>13,203</b>	10,327	27.8%
Conversion	-	-	176	64	
	<b>13,379</b>	10,391	<b>13,379</b>	10,391	28.8%
<b>Adjusted EBITDA as % of sales</b>					
In Canadian dollars	7.6%	7.4%			
In domestic dollars			7.6%	7.4%	

Our Canadian operations had external sales of \$76.5 million, compared to \$70.0 million for the same period last year. Sales volume increased by 5.4% during the quarter to 17.8 million pounds compared to the fourth quarter of last year.

Our U.S. operations had sales of US\$97.7 million, compared to US\$69.9 million for the same period last year. U.S. operations sales volume for the quarter, including Viking products, increased by 18.5% to 30.9 million pounds. Viking accounted for 9.9 percentage points of the 18.5% and organic growth accounted for the remainder. The organic growth was evenly distributed between retail and food service operations.

Our consolidated Adjusted EBITDA<sup>4</sup> in the fourth quarter of 2011 was \$13.4 million compared to \$10.4 million for the same period in 2010. The increase was due in part to a decrease in stock compensation expense of \$1.4 million. As our stock price increased from \$12.00 to \$16.25 per share

during the fourth quarter of 2010, the stock compensation expense for that period was unusually high. Excluding stock compensation expense from both 2010 and 2011, Adjusted EBITDA<sup>4</sup> in the fourth quarter of 2011 was \$14.3 million compared to \$12.8 million for the same period in 2010.

Given our overall net loss for the fourth quarter of 2011, due to one-time acquisition costs, our effective tax rate for the fourth quarter of 2011 was an expense of 41.3%, compared to our Canadian statutory rate of approximately 29%. The effective income tax rate in the fourth quarter of 2011 is affected by the tax treatment of certain business acquisition costs that are only partly or non-deductible for tax purposes, and an additional \$0.8 million of non-deductible one-time withholding tax relating to the dividend that was paid in connection with the financing for the Viking Acquisition, as estimates were firmed up. These items reduced the overall tax recovery.

The effective rate in the fourth quarter of 2010 was 70.1% due to a dividend paid in December of 2010 from our U.S. subsidiary to the parent. This dividend was in connection with the financing structure implemented for the Viking Acquisition, and resulted in withholding tax of \$1.0 million, which is recorded in our income tax expense for 2010.

In addition, the Canadian income tax rules changed in 2010 regarding the tax deductibility of stock option expense. The cash settling of stock options by employees was no longer deductible to the employer if the employee is entitled to the stock option deduction. Generally, the stock option deduction is only available to employees when they acquire securities of their employer or if the employer makes an election to forgo the deduction for a cash payment. The Company has

reviewed the changes to these rules and will elect to forgo the tax deduction on any amount paid to the employee in respect of the employee's disposition of their rights under the Company's stock option program. During the fourth quarter of 2010, we recorded \$2.4 million of stock compensation expense, which increased our effective tax rate. As well, a deferred income tax asset of \$0.5 million from 2010 and the first three quarters of 2010 needed to be expensed during the fourth quarter when the income tax rules changed regarding the tax deductibility of stock compensation expense.

The table below shows the impact of non-operating, one-time acquisition costs, and stock option expense on our diluted earnings per share for the fourth quarter of 2010 and 2011.

	Q4 2011			Q4 2010		
	Diluted Earnings Per Share			Diluted Earnings Per Share		
	Based on			Based on		
	Average	Year-end		Average	Year-end	
(\$000)	Shares	Shares	Shares	Shares	Shares	
	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	
<b>Net Income</b>	\$ (3,020)	\$ (0.20)	\$ (0.20)	\$ 1,686	\$ 0.11	\$ 0.11
Add back						
Business acquisition, integration and other costs	7,963	0.52	0.52	613	0.04	0.04
Intercompany dividend withholding tax	800	0.05	0.05	1,006	0.07	0.07
	5,743	0.38	0.38	3,305	0.21	0.22
Stock Compensation Expense, including income tax adjustment	963	0.06	0.06	2,367	0.15	0.15
<b>Adjusted Net Income</b>	<b>6,706</b>	<b>0.44</b>	<b>0.44</b>	<b>5,672</b>	<b>0.37</b>	<b>0.37</b>
Shares outstanding (000s)			15,087			15,087
Dilutive effect of stock options outstanding at year-end (000s)			203			203
Year-end 2011 dilutive shares (000s)		15,290	15,290		15,374	15,290

## 7. CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates 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 critical judgment made by management in applying the Company's accounting policies that could impact the amounts recognized in the consolidated financial statements is in relation to management's assessment of arrangements containing a lease and lease classification.

The most significant estimates made by management include the following:

### IMPAIRMENT OF NON-FINANCIAL ASSETS.

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash generating unit ("CGU") for impairment assessment purposes at the lowest level at which there are

identifiable cash flows that are independent from other Company assets. The Company's CGUs including a goodwill balance are tested for impairment annually and at other times when indicators of impairment arise. The manner in which the Company identified its CGUs is disclosed in Note 5 and Note 26 (c)(i) of our consolidated financial statements.

When calculations to determine the recoverable amount of the CGU are undertaken, management must estimate the expected future cash flows from the individual asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. Further details, including a sensitivity analysis of key assumptions, are given in Note 5 and Note 26 (c)(i).

#### **SHARE-BASED PAYMENTS**

The Company measures the cost of cash-settled transactions with employees initially at fair value at the grant date; the liability is re-measured at each balance sheet date with changes in fair value recognized in profit or loss.

Estimating fair value requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including assumptions on the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 18 of the consolidated financial statements.

#### **EMPLOYEE FUTURE BENEFITS**

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected mortality rate of pensioners. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results, which are estimated based on assumptions. See Note 14 of the consolidated financial statements for certain assumptions made with respect to employee future benefits.

#### **INCOME TAXES**

Income taxes in reporting periods are accrued, to the extent practicable, based on current tax expected to be paid or recovered for the year, and deferred taxes applicable in respect of the temporary differences that will reverse in subsequent periods. The tax rates and tax laws used

to compute the amounts are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined. Significant judgment is required in determining the global provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each balance sheet date. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

#### **FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

#### **SALES AND MARKETING ACCRUALS**

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

The preparation of our consolidated financial statements requires management to make certain estimates and assumptions. The estimates and assumptions are based on our experience combined with management's understanding of facts and circumstances at the time. These estimates may differ from actual results, and certain estimates are considered critical as they are both important to reflect the Company's financial position and results of operations and require a significant or complex judgment on the part of management. The following is a summary of certain accounting estimates or policies considered critical by management.

## 8. RISK MANAGEMENT

High Liner has a strategic approach to risk management. To achieve a superior return on investment, we have designed an enterprise-wide approach, from the top down, to ensure we can identify, prioritize, and manage risk effectively and consistently across the organization.

### 8.1 BOARD ACCOUNTABILITY

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

We have identified nine principal risks that could have a significant, adverse impact on our performance, reputation or ability to service our customers and have, in the absence of controls, a reasonable probability of occurring. Every principal risk is assigned to at least one member of our senior management team or to a board or management committee who has reporting, oversight, and operational accountability for the risk. These risks are regularly reviewed by our senior management team, and by one or more internal committees or Board committees, which have governance and oversight accountability for the risk. This commentary is from a high-level perspective on the nature of each risk and describes the main practices in place to manage these risks. Additional discussion of some of these risks is included in our 2011 Annual Information Form, available at [www.highlinerfoods.com](http://www.highlinerfoods.com) or at [www.sedar.com](http://www.sedar.com).

### 8.2 PROCUREMENT

**Senior management accountability:**  
Paul Snow, Vice President Procurement

**Board oversight accountability:** Audit Committee

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. The Canadian operation buys as much as \$200 million and the U.S. operation, including Viking and Icelandic USA, buys as much as \$400 million of these products annually. Prices can fluctuate and there is no formal commercial mechanism for hedging either sales or purchases. Purchases of seafood on global markets are principally in U.S. dollars. We hedge exposures to currency changes, and we enter into longer-term supply contracts when possible. All foreign currency hedging activities are carried out in accordance with our formal *Price Risk Management Policy*, under the oversight of the Audit Committee.

Our strategy is to always have at least two suppliers of seafood products when we can. A very small percentage of our supply is single sourced.

A strong Canadian dollar offsets increases in the U.S. dollar cost of raw materials for our Canadian operations, and conversely when the dollar weakens, it increases our costs.

After substantial seafood cost increases in 2008, we saw cost decreases in late 2009 for most of the fish species we procured. The cost decreases reached their low point in 2009 and we continued to experience lower costs in the first half of 2010 due to contracts we had in place that were in effect for part of 2010 and as a result of low cost inventory we had on hand at the end of 2009. In 2011, we saw a trend for increasing cost during the year and into 2012. We expect<sup>1</sup> to have higher average seafood costs in 2012 than in 2011. See section 8.4 below for a more extensive discussion on the impact of foreign exchange on our operating results.

As we purchase all seafood that we sell, we have developed close relationships with key suppliers. We currently purchase significant quantities of frozen raw material and finished goods originating from all over the world. Our supplier base is diverse to ensure no over-reliance on any source. 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 raw materials are inspected, to assure consumers that High Liner quality is consistent, regardless of source or origin.

We sometimes pay for finished goods upon shipment from Asia, or we acquire seafood raw material and negotiate processing arrangements with suppliers to convert that raw material into our finished goods or raw material for our North American plants. In some instances, this means the outlay of cash for inventory is 90 days or more. We are doing this to ensure we receive the seafood we require and are receiving better prices from suppliers as a result. Although

this increases inventory on our balance sheet, it results in higher income and profitability due to the negotiated lower cost product.

In 2010, we established a joint venture between High Liner and an European raw material supplier. The joint venture, along with an Asian company, established a processing facility in China and began operations in 2010. This facility processes products from raw material primarily sourced from our European joint venture partner and sold to us. In addition to helping us contain costs, the joint venture allows us to better control quality and availability of products.

We acquired a primary processing plant in China as part of the Icelandic USA Acquisition. This subsidiary produces raw material and finished goods for our Newport News operations.

### 8.3 LOSS OF CUSTOMER AND CREDIT RISK

**Senior management accountability:** Kelly Nelson, Executive Vice President, CFO & Secretary; Mario Marino, President and Chief Operating Officer Canadian Operations; Keith Decker, President and Chief Operating Officer High Liner Foods (USA)

**Board oversight accountability:** Audit Committee

We sell the vast majority of our products to large food retailers, supercentres and club stores, and food service distributors in North America. The food distribution industry is consolidating. Our customers are getting larger, more sophisticated and want to conduct business with experienced, reliable suppliers. We are an important supplier to our customers because we can transact business on their terms. We must continue to grow and stay ahead of customer expectations in order to continue to be important to them. We have one customer that represents approximately 15% of our sales. When we include the expected annual Icelandic USA sales, this customer will represent<sup>1</sup> approximately 17% of our sales. We focus on ensuring that our supply chain management and technology infrastructure keep pace with the service delivery expectations of our customers.

We do not currently insure our accounts receivable risk as our bad debt expense has been nominal. Although economic conditions are not as positive as they were prior to the downturn, we believe<sup>1</sup> the worst is behind us and expect<sup>1</sup> most of our customers will see improvements in business results. As of the filing of this report, we are not aware of any customer who is in financial trouble that would result in a loss to the Company, and our receivables are substantially current at year-end.

### 8.4 FOREIGN CURRENCY

**Senior management accountability:**

Kelly Nelson, Executive Vice President, CFO & Secretary

**Board oversight accountability:** Audit Committee

#### Overview

High Liner Foods' income statement and balance sheet are both affected by foreign currency fluctuations in a number of ways. Generally, a stronger Canadian dollar is beneficial to earnings and working capital requirements but can reduce shareholders' equity as discussed below. Conversely, a weakening Canadian dollar increases costs and working capital and decreases sales and related profit.

#### Income Statement Effects of Foreign Currency

The average Canadian dollar in 2011 (at an exchange rate of \$0.9891 for each U.S. dollar) has strengthened approximately 4% over the average of 2010. More than 55% of the Company's sales and expenses are denominated in U.S. dollars. As such, fluctuations in exchange rates impact the translated value of sales, costs and expenses. Secondly, most of the items we sell in Canada have U.S.-dollar-denominated raw material costs as we procure these on world markets in U.S. dollars. Thirdly, items we produce in one country and sell in another are affected by exchange fluctuations.

High Liner Foods has a self-sustaining operating subsidiary in the U.S. Its domestic currency is U.S. dollars. In addition, a small amount of sales of the Canadian company are transacted in U.S. dollars. Because we report our financial results in Canadian dollars, a strengthening Canadian dollar has the immediate effect of decreasing the Canadian dollar value of U.S.-dollar-denominated sales, costs and expenses. In 2011, U.S.-dollar-denominated sales comprised approximately 55% of our total ongoing sales in domestic currency. In 2012, our U.S.-dollar-denominated sales revenue is expected<sup>1</sup> to grow to approximately 67% of our total sales due to the Icelandic USA Acquisition.

In looking at the effect on net income, the majority of sales in U.S. dollars, being those of our U.S. subsidiary, have U.S.-dollar-denominated input costs and, therefore, changes in exchange rate only affect the conversion to Canadian dollars of profit earned in the U.S. operations. For products produced in Canada destined for the U.S. market, raw material is also purchased in U.S. dollars. However, labour, packaging and overhead for these products are purchased in Canadian dollars and, therefore, a strengthening Canadian dollar increases these costs in U.S.-dollar terms and decreases the related profit. Conversely, a weakening Canadian dollar decreases these costs in U.S. dollar terms and increases the related profit. For products produced in the U.S. for the Canadian market, the full product cost is subject to changes in exchange rates.

The value of the U.S. dollar 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 U.S. dollars or have U.S.-dollar input costs. This is because many producing countries do not use the U.S. dollar as their functional currency, and therefore, changes in the value of the U.S. dollar means that producers in other countries need less or more U.S. dollars to obtain the same amount in their domestic currency. Changes in the value of the Canadian dollar by itself against the U.S. dollar simply result in an increase or decrease in the Canadian-dollar cost of inputs.

The raw material for products sold in Canadian dollars for the Canadian market is purchased substantially in U.S. dollars. Flour-based ingredients, cooking oils and transportation costs all have significant components that are denominated in U.S. dollars, even if ultimately purchased in Canadian dollars. A strengthening Canadian dollar decreases the cost of these inputs and vice versa. Competitive factors on commodity products, primarily raw frozen shellfish and groundfish, especially in our Canadian food service business, come into play when the value of the Canadian dollar changes. Our Canadian food service competitors use a lower Canadian-dollar cost of imported products to decrease prices and, therefore, pass on the cost decrease to customers, and we react accordingly. Increasing Canadian-dollar costs result in higher selling prices to customers.

For 2012<sup>1</sup>, approximately US\$17 million of the Canadian operation's external sales are expected to be in U.S. dollars. Approximately US\$200 million of purchases of raw material and finished goods for the Canadian operation will be acquired with U.S. funds. Therefore, our exposure on purchases for the Canadian marketplace is expected to exceed our sales of products produced in Canada for the U.S. market by US\$183 million in 2012. This exposure is estimated to increase to pre-tax US\$196 million after taking into account the U.S.-dollar commodity cost in breeding, paper and cooking oil that we purchase, partially offset by the conversion of U.S. subsidiary income to Canadian dollars and inter-company charges. Based on this, the net effect of a one-cent change in the U.S.-dollar exchange rate for the Canadian dollar, prior to hedging activities and price changes to customers, is a change in after-tax income of approximately \$1.4 million.

In accordance with the *Price Risk Management Policy*, we undertake hedging activities using various derivative products. The policy is approved and monitored by the Audit Committee. Our Treasury Team, under the direction of Chief Financial Officer Kelly Nelson, and with oversight from the Audit Committee, manages foreign exchange risk. Certain commodity products, such as raw and cooked shrimp, are not hedged under this program as the price in the marketplace moves up or down with changes in the Canadian-dollar cost of the product. To reduce our exposure to the U.S. dollar on the more price inelastic items, our policy allows us to hedge forward a maximum of 15 months; at 70%-90% of exposure for the first three months, 55%-85% for the next

three months, 30%-75% for the next three, 10%-60% for the next three, and 0%-60% for the last three. The lower end of these ranges are required to be hedged by the policy, with the upper ranges allowed if management believes the situation warrants a higher level of purchases to be hedged. Variations from policy require the approval of the Audit Committee.

The Company's policy excludes food service commodity fillets from its hedging program as the price in the marketplace moves up or down with changes in the Canadian-dollar cost of this product. Approximately US\$90 million of the U.S. purchases of the Canadian company are part of the hedging program and are usually hedged between 45%-55% of the next 12 months of forecasted purchases.

Details on the hedges in place on December 31, 2011 are included on page 25 of this document.

### Balance Sheet Effects of Foreign Currency

As we have operations in the United States, and monetary assets and liabilities in Canada that are denominated in U.S. dollars, assets and liabilities of the consolidated company change as exchange rates fluctuate. At December 31, 2011, the Canadian dollar strengthened by approximately 2% from its value at January 1, 2011. As such, the strengthened Canadian dollar has decreased the carrying value of items such as accounts receivable, inventory, fixed assets and accounts payable. The net offset of those changes that relate to our self-sustaining U.S. subsidiary flows through Other Comprehensive Income in shareholders' equity on the balance sheet. Changes in monetary assets and liabilities in Canada that are denominated in U.S. dollars flow through the income statement.

## 8.5 OTHER COMMODITIES

### Senior management accountability:

Mario Marino President and Chief Operating Officer Canadian Operations; Keith Decker, President and Chief Operating Officer (Derivatives – Kelly Nelson, Executive Vice President, CFO & Secretary); Mark Leslie, Vice President U.S. Supply Chain

### Board oversight accountability: Audit Committee

Our operating costs are affected by changes in crude oil prices, which particularly influence the costs of our outgoing freight. When we experience higher crude oil prices, freight costs increase as our freight suppliers add fuel surcharges. To minimize our risk, and in accordance with the *Price Risk Management Policy*, we can enter into costless collar hedges but did not do so in the last four years. We do not plan to hedge fuel surcharges in 2012.

Other commodities, whose fluctuating market prices may affect our financial results, are flour, paper products and frying oils. The company's *Price Risk Management Policy* dictates that we use fixed pricing with suppliers whenever possible but allows the use of hedging with costless tunnels or swaps if deemed prudent. During 2010 and 2011, we have been able to deal with this risk to management's satisfaction using contracts with our suppliers. World commodity prices for flour, corn and soy and canola oils, important ingredients in the manufacture of many of the Company's products, decreased in 2011 but are again trending upward for 2012. Currently, we are still working with fixed price contracts with our suppliers and have most of 2012's commodity under contract.

## 8.6 FOOD SAFETY

### Senior management accountability:

Mario Marino President and Chief Operating Officer Canadian Operations; Keith Decker, President and Chief Operating Officer High Liner Foods (USA)

**Board oversight accountability:** Board of Directors

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

At High Liner, food safety is our top priority. All of our processing plants have the proper State or Provincial and Federal licences to operate. The United States requires its seafood processing plants to adopt a quality management plan known as HACCP (Hazard Analysis of Critical Control Points). Our plants in Portsmouth, New Hampshire; Danvers and Malden, Massachusetts; and Newport News, Virginia; are regularly inspected and meet or exceed all HACCP requirements.

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

Plants outside of North America must also pass HACCP audits to be able to export products to the U.S. All of the Company's non-North American suppliers operate HACCP approved plants. The Canadian Food Inspection Agency (CFIA) must inspect food that is procured outside of Canada. The Food and Drug Administration (FDA) inspects food that enters the United States. In addition, all purchases are subject to quality

inspection by the Company's own quality inspectors. We have strict specifications for suppliers of both raw material and finished goods to ensure that procured goods are of the same quality as products made in our own plants, as indicated in our *Supplier Standards and Audit Manual*.

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

The Company has a Quality Steering Council with all senior quality personnel in the Company involved. Their mission is to ensure that High Liner has the best policies, consistently applied throughout the Company as well as implementing audit processes and ensuring quality personnel are adequately trained. Quality and food safety, including the implementation and maintenance of state-of-the-art product specification and traceability systems, were strategic goals of the Company in 2010 and progress was made on these initiatives in 2011.

## 8.7 TECHNOLOGY

### Senior management accountability:

Kelly Nelson, Executive Vice President, CFO & Secretary

**Board oversight accountability:** Audit Committee

Our technology infrastructure is critical to the daily requirements of our business. The integrity and availability of information stored on that infrastructure must be assured. The inability to process customer payments, manage our supply chain, and operate manufacturing equipment due to loss of technology could shut down operations and impact our ability to deliver products to market. Numerous controls have been implemented to manage technology risk, including a comprehensive technology business recovery plan and offsite backup technology centres. We also use a minimal number of technology platforms. With our leading-edge enterprise-wide computer software systems (principally Oracle® and Lotus Notes®) and our investment in internet-enabling connectivity with suppliers and customers, we are able to control our business processes.

We have a detailed business recovery plan for all our administrative systems, which includes backup services for our computer operations. In 2011, we expect<sup>1</sup> to improve these plans moving to a high-availability platform to ensure our customers do not experience any changes in service levels due to computer failures.

We purchased new Product Life Management software from Oracle in 2011 and are implementing the Global Specifications Management module. This initiative is part of our renewal of systems related to product safety, traceability and new product development as High Liner continues to invest in this area to keep our leadership position.



## 8.8 ACQUISITIONS

### Senior management accountability:

Henry Demone, President and Chief Executive Officer

### Board oversight accountability: Board of Directors

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

## 8.9 LIQUIDITY

### Senior management accountability:

Kelly Nelson, Executive Vice President, CFO & Secretary

### Board oversight accountability: Audit Committee

Our primary sources of working capital are cash flows from operations and borrowings under our credit facilities. We actively manage our relationships with our lenders and have in place adequate credit facilities until December 2016 when the working capital revolver facilities are scheduled to be renewed.

We monitor risk of a shortage of funds using a detailed budgeting process that identifies financing needs for the next 12 months as well as models that look out 5 years. Working capital requirements are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable, and finance leases. Our objective is that not more than 50% of borrowings should mature in the next 12-month period. Less than 11% of our long-term debt will mature in less than one year at December 31, 2011 based on the carrying value of borrowings reflected in the financial statements. Our long-term debt is described in Note 13 of our financial statements and has annual required minimum principal payments of US\$2.5 million plus, beginning in 2013, 50% of the prior year's defined free cash flow. At December 31, 2011 and at the date of this document, we are in compliance with all covenants and terms of our banking facilities.

As a result of the volatile capital markets and the resulting widespread drop in public issuer valuations in the latter part of 2008, our defined benefit pension plans have experienced losses. However, the capital markets improved in 2010 and 2011, reducing the losses. The actuarial valuation of our largest defined benefit pension plan was as of September 2008 and showed a going concern surplus and a small solvency deficit that will be funded over five years. The next actuarial valuation is due to be effective no later than September 2011 and in the process of being compiled for filing no later than September 2012. We anticipate the required annual contributions after the valuation is completed will increase by more than \$1.0 million. As well, our move to IFRS for accounting purposes has crystallized these losses in retained earnings, thereby enabling us to exclude them from income. Late in 2009, we changed the asset mix of our defined benefit pension plans 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.

## 8.10 SUSTAINABILITY, CORPORATE RESPONSIBILITY AND PUBLIC OPINION

### Senior management accountability:

Henry Demone, President and Chief Executive Officer

### Board oversight accountability: Board of Directors

As discussed in Section 1.3 of this document, we have publicly announced that we will source all of our seafood from certified sustainable or responsible fisheries and aquaculture farms by the end of 2013. We will require the seafood we purchase be certified by the Marine Stewardship Council (MSC), the Global Aquaculture Alliance's (GAA) Best Aquaculture Practices (BAP) program or the Aquaculture Certification Council or under some other acceptable regime.

Major customers in all areas of the Company's business are requiring that seafood purchased by them will need to be certified as coming from a sustainable fish resource or from aquaculture farms that adhere to acceptable sustainability practices. In 2011, approximately 55% of our wild-caught seafood and 68% of our aquaculture purchases came from certified fisheries, representing substantial increases over 2010.

We made sustainability a strategic goal for 2010 and 2011 and have added dedicated resources at the senior level to develop the sustainability plan for the company. In the long term sustainability will need to include policies on green issues such as energy consumption, packaging, and the like. It will also involve our human resources practices and policies.

## 9. 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 Canadian dollar to the U.S. dollar; our ability to attract and retain customers; our operating costs; interest rates; continued access to capital; 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 its impact on shareholder value; increased demand for our products due to the recognition of the health benefits of seafood, increases in the disposable incomes of consumers, and economic recovery in both Canada and the U.S. markets; increasing costs for seafood and other raw materials; increasing processing costs in China, the exchange rate for the Canadian dollar relative to the U.S. dollar compared to previous years; percentage of sales from our brands; operating cost savings expected in 2012; expectations with regards to sales volumes, product innovations, brand development and anticipated financial performance; impact of price increases on future profitability; sufficiency of working capital facilities; future income tax rates; the anticipated efficient integration of the operations of Icelandic USA with High Liner operations; the increased market share anticipated due to the addition of Viking and Icelandic USA value-added seafood products; increased leverage attributable to the acquisitions of Viking and Icelandic USA; planned capital investments; future inventory trends and seasonality; market forces and the maintenance of existing customer relationships; expected changes in seafood costs; financial performance from the Viking and Icelandic USA Acquisitions; improved U.S. food service position from the Icelandic USA Acquisition; and availability of credit facilities.

Forward-looking statements can generally be identified by the use of the conditional tense, the words “may”, “should”, “would”, “believe”, “plan”, “expect”, “intend”, “anticipate”, “estimate”, “foresee”, “objective” 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 Management” section of this MD&A and the “Risk Factors” section of our most recent Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods’ business include, but are not limited to, the following factors: volatility in the U.S. / Canadian exchange rate; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods; costs of commodity products and other production inputs; successful integration of the operations of Icelandic USA with High Liner Foods’ operations; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the market place; changes in laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; supplier fulfillment of contractual agreements and obligations; High Liner Foods’ ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development. Forward-looking information is based on management’s current estimates, expectations and assumptions, which we believe are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Except as required under applicable securities legislation, 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.

# INDEPENDENT AUDITORS' REPORT

## To the Shareholders of High Liner Foods Incorporated

We have audited the accompanying consolidated financial statements of High Liner Foods Incorporated which comprise the consolidated statement of financial position as at December 31, 2011, January 1, 2011 and January 3, 2010 and the consolidated statements of income, comprehensive loss, accumulated other comprehensive income, changes in shareholders' equity, and cash flows for the 52 weeks ended December 31, 2011 and January 1, 2011, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditors' responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of High Liner Foods Incorporated as at December 31, 2011, January 1, 2011 and January 3, 2010 and its financial performance and its cash flows for the 52 weeks ended December 31, 2011 and January 1, 2011 in accordance with International Financial Reporting Standards.

*Ernst + Young LLP*

Chartered Accountants

Halifax, Canada

March 16, 2012

# MANAGEMENT'S RESPONSIBILITY

## To the Shareholders of High Liner Foods Incorporated

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

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

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



K.L. Nelson, FCA

Executive Vice President,  
Chief Financial Officer and Secretary

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Canadian dollars)

	Notes	December 31, 2011	January 1, 2011	January 3, 2010
<b>ASSETS</b>				
<b>Current:</b>				
Cash and cash equivalents		\$ 3,260	\$ 598	\$ 1,953
Accounts receivable	9	84,920	50,452	57,963
Income tax receivable		3,557	701	1,288
Other financial assets	22	1,346	890	1,590
Inventories	8	261,330	131,980	119,308
Prepaid expenses		3,019	1,889	2,024
<b>Total current assets</b>		<b>357,432</b>	<b>186,510</b>	<b>184,126</b>
<b>Non-current:</b>				
Property, plant and equipment	6	99,933	67,269	69,061
Deferred income taxes	20	1,695	2,403	3,628
Other receivables and miscellaneous assets		1,210	814	406
Investment in equity accounted investee	7	275	157	-
Employee future benefits	14	94	91	118
Intangible assets	4,5	103,109	31,239	19,965
Goodwill	4,5	126,787	39,819	35,983
		<b>333,103</b>	<b>141,792</b>	<b>129,161</b>
		<b>\$ 690,535</b>	<b>\$ 328,302</b>	<b>\$ 313,287</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current:</b>				
Bank loans	12	\$ 120,980	\$ 42,725	\$ 23,051
Accounts payable and accrued liabilities	10	108,553	60,065	49,905
Provisions	11	675	550	1,423
Other current financial liabilities	22	793	2,334	3,989
Income taxes payable		1,990	3,230	29
Current portion of long-term debt	13	2,543	4,426	4,582
Current portion of finance lease obligations	13	1,064	972	864
<b>Total current liabilities</b>		<b>236,598</b>	<b>114,302</b>	<b>83,843</b>
<b>Non-current:</b>				
Long-term debt	13	237,438	43,912	49,920
Other long-term financial liabilities	22	-	207	928
Long-term finance lease obligations	22	2,599	3,045	2,700
Deferred income taxes	20	41,099	9,895	5,705
Employee future benefits	14	11,274	9,630	6,991
<b>Total liabilities</b>		<b>529,008</b>	<b>180,991</b>	<b>150,087</b>
<b>Shareholders' equity</b>				
Common shares	16	78,067	78,326	106,098
Contributed surplus		8,406	8,917	-
Retained earnings		76,770	65,557	59,240
Accumulated other comprehensive loss		(1,716)	(5,489)	(2,138)
<b>Total equity</b>		<b>161,527</b>	<b>147,311</b>	<b>163,200</b>
		<b>\$ 690,535</b>	<b>\$ 328,302</b>	<b>\$ 313,287</b>

Commitments (note 15)

See accompanying notes

# CONSOLIDATED STATEMENTS OF INCOME

	Fifty-two weeks ended	
(In thousands of Canadian dollars, except per share information)	December 31, 2011	January 1, 2011
<b>Sales</b>	<b>\$ 668,589</b>	\$ 584,715
Cost of sales	516,659	447,542
<b>Gross profit</b>	<b>151,930</b>	137,173
Distribution expenses	35,021	30,027
Selling, general and administrative expenses	72,086	68,500
Business acquisition, integration and other expenses	11,275	875
<b>Results from operating activities</b>	<b>33,548</b>	37,771
Finance costs	5,983	5,165
Share of income of equity accounted investee (net of income tax)	53	(18)
<b>Income before income taxes</b>	<b>27,512</b>	32,624
<b>Income taxes</b>		
Current	5,692	6,380
Deferred	3,640	6,259
Total income taxes	9,332	12,639
<b>Net income</b>	<b>\$ 18,180</b>	\$ 19,985
<b>PER SHARE EARNINGS</b>		
<b>Earnings per common share</b>		
Basic	1.20	1.24
Diluted	1.19	1.23
<b>Weighted average number of shares outstanding</b>		
Basic	15,108,823	16,096,010
Diluted	15,340,963	16,243,780

See accompanying notes

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)	Fifty-two weeks ended	
	December 31, 2011	January 1, 2011
<b>Net income for the period</b>	\$ 18,180	\$ 19,985
<b>Other comprehensive income (loss), net of income tax (note 20)</b>		
Gain on hedge of net investment in foreign operations	291	313
Gain (loss) on translation of net investment in foreign operations	1,872	(4,082)
	<b>2,163</b>	<b>(3,769)</b>
Effective portion of changes in fair value of cash flow hedges	1,211	(2,251)
Net change in fair value of cash flow hedges transferred to income	399	2,669
	<b>1,610</b>	<b>418</b>
Defined benefit plan actuarial losses	(1,076)	(1,727)
Other comprehensive income (loss), net of income tax	2,697	(5,078)
<b>Total comprehensive income</b>	\$ <b>20,877</b>	\$ <b>14,907</b>

See accompanying notes

# CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

(In thousands of Canadian dollars)	Foreign currency translation adjustments	Net exchange (losses)/ gains on cash flow hedges	Total accumulated other comprehensive (loss) income
<b>Balance as at January 1, 2011</b>	\$ (3,769)	\$ (1,720)	\$ (5,489)
Exchange differences on translation of foreign operations	2,163	-	2,163
Cash flow hedges	-	1,610	1,610
<b>Balance as at December 31, 2011</b>	\$ <b>(1,606)</b>	\$ <b>(110)</b>	\$ <b>(1,716)</b>
Balance as at January 3, 2010	\$ -	\$ (2,138)	\$ (2,138)
Exchange differences on translation of foreign operations	(3,769)	-	(3,769)
Cash flow hedges	-	418	418
Balance as at January 1, 2011	\$ (3,769)	\$ (1,720)	\$ (5,489)

See accompanying notes

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)	Non-voting equity	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
<b>Balance, January 1, 2011</b>	\$ 15,011	\$ 63,315	\$ 8,917	\$ 65,557	\$ (5,489)	\$ 147,311
<b>Other comprehensive loss</b>	-	-	-	(1,076)	3,773	2,697
<b>Net income for the period</b>	-	-	-	18,180	-	18,180
<b>Non-voting share dividends</b>	-	-	-	(707)	-	(707)
<b>Common share dividends</b>	-	-	-	(5,184)	-	(5,184)
<b>Share-based payments</b>	-	451	-	-	-	451
<b>Shares repurchased</b>	(710)	-	(511)	-	-	(1,221)
<b>Balance, December 31, 2011</b>	\$ 14,301	\$ 63,766	\$ 8,406	\$ 76,770	\$ (1,716)	\$ 161,527
Balance, January 3, 2010	\$ 49,409	\$ 56,689	\$ -	\$ 59,240	\$ (2,138)	\$ 163,200
Other comprehensive loss	-	-	-	(1,727)	(3,351)	(5,078)
Net income for the period	-	-	-	19,985	-	19,985
Non-voting share dividends	-	-	-	(859)	-	(859)
Common share dividends	-	-	-	(4,379)	-	(4,379)
Share-based payments	-	33	-	-	-	33
Wind up of subsidiary:						
Shares cancelled	(4)	6,593	3	(6,592)	-	-
Share retraction:						
Shares repurchased	(25,480)	-	-	(111)	-	(25,591)
Shares cancelled	(8,914)	-	8,914	-	-	-
Balance, January 1, 2011	\$ 15,011	\$ 63,315	\$ 8,917	\$ 65,557	\$ (5,489)	\$ 147,311

See accompanying notes



# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fifty-two weeks ended	
(In thousands of Canadian dollars)	December 31, 2011	January 1, 2011
<b>Cash provided by (used in) operations:</b>		
Net income from continuing operations for the period	\$ 18,180	\$ 19,985
<b>Charges (credits) to income not involving cash from operations:</b>		
Depreciation and amortization	9,734	8,505
Loss on disposal of assets	271	114
Income tax expense	9,332	12,639
Interest expense	5,983	5,165
Share-based payment expense	651	3,095
Payments of employee future benefits different than expense	(131)	309
Share of income of equity accounted investee	53	(18)
Movement of provisions	370	1,642
Unwound foreign exchange gains reclassified from Accumulated Other Comprehensive Income	-	(165)
Unrealized foreign exchange loss	195	(130)
Cash flow from operations before changes in non-cash working capital	44,638	51,141
Net change in non-cash working capital balances	(25,142)	8,063
	19,496	59,204
Interest paid	(5,194)	(4,717)
Income taxes paid	(10,730)	(4,131)
	3,572	50,356
<b>Cash provided by (used in) financing activities:</b>		
Increase in current working capital facilities	78,286	20,674
Proceeds from lease financing	-	668
Proceeds from long-term debt	258,125	-
Repayment of long-term debt	(49,649)	(4,511)
Repayment of finance lease obligations	(893)	(806)
Common share dividends paid	(5,184)	(4,379)
Non-voting common share dividends paid	(707)	(859)
Deferred financing costs	(15,077)	-
Advances to affiliates	-	(5)
Share-based payments exercised	243	32
Share retraction costs	-	(150)
Repurchase of capital stock	(1,221)	(25,480)
	263,923	(14,816)
<b>Cash provided by (used in) investing activities:</b>		
Purchase of property, plant and equipment (net of investment tax credits)	(6,952)	(4,339)
Net proceeds on disposal of assets	143	34
Acquisition of business (net of cash acquired)	(257,778)	(30,952)
Change other receivables and miscellaneous assets	(382)	(1,462)
	(264,969)	(36,719)
<b>Foreign exchange decrease on cash and cash equivalents</b>	<b>136</b>	<b>(176)</b>
<b>Change in cash and cash equivalents during the period</b>	<b>2,662</b>	<b>(1,355)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>598</b>	<b>1,953</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,260</b>	<b>\$ 598</b>

See accompanying notes

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1. REPORTING ENTITY

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High Liner Foods Incorporated (the “Company” or “High Liner”) is a company domiciled in Canada. The address of the Company’s registered office is 100 Battery Point Road, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The consolidated financial statements of the Company as at and for the fifty-two week period ended December 31, 2011 comprise the non-consolidated Parent and its subsidiaries (herein together referred to as the “Company” and individually as “Company subsidiaries”) and the Company’s interest in associates and jointly controlled entities. The Company primarily is involved in the manufacturing and marketing of prepared and packaged frozen seafood products.

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## 2. BASIS OF PREPARATION

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### (A) STATEMENT OF COMPLIANCE

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The Company’s financial statements for the fifty-two week period ended December 31, 2011 are the first annual financial statements that comply with International Financial Reporting Standards (“IFRS”). High Liner’s transition date to IFRS was January 3, 2010 (“Transition date”). The Company prepared its opening IFRS balance sheet as at that date. The reporting date of these consolidated financial statements is as at and for the fifty-two week period ended December 31, 2011. The Company’s IFRS adoption date was January 2, 2011 (“Changeover date” or “adoption date”).

These consolidated financial statements have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) because they are the Company’s first full set of IFRS-compliant financial statements for the year ended December 31, 2011. These financial statements have been prepared in accordance with those IFRS standards and IFRIC (International Financial Reporting Interpretations Committee) interpretations issued and effective or issued and early adopted as at the time of preparing these statements (March 2012). The policies set out below have been consistently applied to all the periods presented.

High Liner’s consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP” or “GAAP”) until January 1, 2011. Canadian GAAP differs in some areas from IFRS. In preparing High Liner’s 2011 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the Canadian GAAP financial statements to comply with IFRS. In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS and the comparative figures in respect of 2010 were restated to reflect these adjustments. Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the Company’s equity and its net income and cash flows are provided in *note 26, Explanation of Transition to IFRS*.

These financial statements were authorized for issue in accordance with a resolution of the directors on March 15, 2012.

### (B) BASIS OF MEASUREMENT

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These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;

- liabilities for cash-settled share-based payment arrangements are measured at fair value;
- production equipment is measured at its fair value as at the Company's Transition Date; and
- the defined benefit employee future benefit asset is recognized as the net total of the plan assets, plus unrecognized past service costs and the present value of the defined benefit obligation.

### **(C) FUNCTIONAL AND PRESENTATION CURRENCY**

Unless otherwise noted, all amounts in these consolidated financial statements are in Canadian dollars, which is the Company's presentation currency. Each of the Company's subsidiaries and its joint venture determines its own functional currency. The Company conducts its business in Canadian and US dollars. The average US to Canadian dollar exchange rate throughout the fifty-two week period ended December 31, 2011 was 0.9891 (January 1, 2011: 1.0300). The December 31, 2011 period end exchange rate was 1.017, the January 1, 2011 year end exchange rate was 0.9946 and the transition date exchange rate was 1.0466. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

### **(D) PERIOD END DATES**

The Company's fiscal year end is on the Saturday closest to December 31. This results in a fifty-three week fiscal year every five to seven years. Both the 2011 and the 2010 fiscal years are fifty-two week years. The Company's financial reporting periods each consist of thirteen weeks with the exception of the fourth quarter in a fifty-three week year, which consists of fourteen weeks.

### **(E) USE OF ESTIMATES AND CRITICAL JUDGMENTS**

The preparation of the Company's financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates 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 critical judgment made by management in applying the Company's accounting policies that could impact the amounts recognized in the consolidated financial statements is in relation to management's assessment of arrangements containing a lease and lease classification.

The most significant estimates made by management include the following:

#### **Impairment of non-financial assets**

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash-generating unit ("CGU") for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other Company assets. The Company's CGUs, including a goodwill balance, are tested for impairment annually and at other times when indicators of impairment arise. The manner in which the Company identified its CGUs is disclosed in *note 5* and *note 26 (c)(i)*.

When calculations to determine the recoverable amount of the CGU are undertaken, management must estimate the expected future cash flows from the individual asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being tested. Further details, including a sensitivity analysis of key assumptions, are given in *note 5* and *note 26 (c)(i)*.

#### **Share-based payments**

The Company measures the cost of cash-settled transactions with employees initially at fair value at the grant date; the liability is re-measured at each balance sheet date with changes in fair value recognized in profit or loss.

Estimating fair value requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including assumptions on the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in *note 18*.

#### **Employee future benefits**

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected mortality rate of pensioners. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results, which are estimated based on assumptions. See note 14 for certain assumptions made with respect to employee future benefits.

### **Income taxes**

Income taxes in reporting periods are accrued, to the extent practicable, based on current tax expected to be paid or recovered for the year, and deferred taxes applicable in respect of the temporary differences that will reverse in subsequent periods. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined. Significant judgment is required in determining the global provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each balance sheet date. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### **Fair value of financial instruments**

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

### **Sales and marketing accruals**

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

### **(F) SEASONALITY OF OPERATIONS**

Due to the seasonality of the Company's business, comparatives are presented on the consolidated balance sheet for the current and prior period quarter, in addition to the balances as of the Company's fiscal year end. Inventory levels fluctuate throughout the year. This is due to the seasonal closure of plants in Asia during the Lunar New Year period, which results in significantly higher inventories in December, January, February and March than during the rest of the year.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 3, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by Company subsidiaries.

#### BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2011.

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

#### INTEREST IN A JOINT VENTURE

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement, where the Company does not have rights to individual assets or obligations for expenses of the venture. Rather, the Company is entitled to a share of the outcome of the activities of the joint venture. The consolidated financial statements include the Company's share of the profit or loss of its joint ventures accounted for using the equity method, and the carrying amount of those interests.

#### TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intercompany balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in full in preparing the consolidated financial statements.

#### BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed. When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured until it is finally settled within equity.

For acquisitions, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's operating segments that are expected to benefit from the combination.

## **Acquisitions of non-controlling interests**

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. In such circumstances the carrying amounts of the controlling and non-controlling interests adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent, with no goodwill recognized as a result of such transactions.

## **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are cash on hand, demand deposits with initial and remaining maturity of three months or less or short-term, highly liquid investments, also 90 days or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents do not include any restricted cash.

## **INVENTORIES**

Inventories are measured at the lower of cost and net realizable value. The cost of manufactured inventories is based on the first-in first-out principle. The cost of procured finished goods and unprocessed raw material inventory is weighted average cost. Inventory includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## **FOREIGN CURRENCY**

### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Company's subsidiaries at exchange rates at the dates of the transactions. Each subsidiary determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency; the functional currency of the Company itself is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation (see (iii) below), or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are effectively translated using the exchange rate at the date of the transaction.

### **(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars, which is the Company's presentation currency, at the exchange rate as at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at the monthly average exchange rates of the reporting period. Foreign currency differences are recognized in other comprehensive income in the cumulative translation account. When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss. Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences.

### **(iii) Hedge of net investment in foreign operation**

The Company applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the parent entity's functional currency (Canadian dollars). Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the currency translation differences balance. To the extent

that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to profit or loss as part of the profit or loss on disposal.

## PROPERTY, PLANT AND EQUIPMENT

### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including the present value of the expected cost for the decommissioning of the asset after its use, if the recognition criteria for a provision are met. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Cost also may include capitalized borrowing costs and transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on the derecognition of the asset is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income in profit or loss.

### (ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in income as incurred.

### (iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in income on a straight-line basis over the estimated useful lives of each component part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Building structure	60 years
Major building components	15–30 years
Production equipment	10–25 years
Furniture and fixtures	10–25 years
Computer hardware and peripherals	4–5 years
Software components	4–11 years

Depreciation methods, useful lives and residual values are reviewed at least at each financial year end and adjusted if appropriate.

## LEASES

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

### Company as a lessee

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

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

## **INVESTMENT TAX CREDITS (“ITCs”)**

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Investment tax credits earned as a result of purchasing capital assets are recorded as a reduction to property, plant and equipment. ITCs are amortized at the same rates as the related capital assets and the amortization of ITCs is recorded as a reduction of the depreciation of the related capital assets.

Investment tax credits also arise as a result of the Company incurring eligible research and development expenses and these credits are recorded as a reduction to the related expense.

## **PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

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Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan’s main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization. Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets. They are described along with the Company’s contingent liabilities in note 11.

## **IMPAIRMENT OF NON-FINANCIAL ASSETS**

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The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Due to the interdependencies of cash inflows generated by the Company’s assets it has been determined that its CGUs are equal to its operating segments, Canada and the USA. Corporate assets are allocated to the operating segments for purposes of the impairment testing.

In assessing value in use, the estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by the use of valuation multiples, quoted share prices and other available fair value indicators. Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previous impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed its carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.



## GOODWILL

Goodwill acquired in business combinations is initially measured at cost being the excess of the cost of the business combination over the fair value of the acquired interest in the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill will be reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in subsequent periods. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The Company's intangible assets consist of brands that have been acquired through a business combination and have indefinite useful lives requiring impairment testing annually or more frequently when an indication of impairment exists.

Gains or losses from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

The estimated useful lives for the current and comparative periods are as follows:

Brands	2–8 years
Customer relationships	10–20 years
Indefinite lived brands	Indefinite, subject to impairment testing annually

## RESEARCH AND DEVELOPMENT COSTS

Research and development costs include all costs relating to the activities that support the development and manufacturing of new or improved products or processes. Research activity costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company is able to demonstrate the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- Its ability to use or sell the intangible asset arising from the project;
- The availability of resources to complete the asset; and
- The ability to clearly identify the related costs on an individualized basis for a specific project during the development phase.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when development is complete and the asset is available for use or sale. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales.

High Liner monitors the level of product development costs and process development costs against all the criteria set out above. These include the requirement to establish that a flow of economic benefits and the ability to use or sell the product or process developed is probable, before costs are capitalized. For High Liner this is evident only shortly before a product is launched into the market or a process is integrated into production. The level of costs incurred after these criteria have been met is currently not material.

## **OPERATING SEGMENTS**

The Company's operating segments are based on the geographic markets it serves and are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"). The Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and is therefore the CODM.

## **EMPLOYEE FUTURE BENEFITS**

### **(i) Defined benefit plans**

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

The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected mortality rate of pensioners. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results, which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the income statement. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested. The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in the statement of comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and actuarial gains and losses not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

### **(ii) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

### **(iii) Share-based payments**

The Company has a share-based payment plan, which is described in note 18 and recognizes compensation expense for option awards using the fair value method of accounting.

The Company's share option plan includes tandem Share Appreciation Rights ("SARs") to option grants, which allow the employee to either exercise the share option for shares, or to exercise the tandem SARs and thereby receive the value of the share option in cash. As this is an option for the holder, the Company applies the cash settled share-based payments rules in its accounting for the plan.

The Company accrues compensation expense with a corresponding increase in liabilities in the amount that represents the fair value of the amount payable to employees in respect of SARs, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in the respective functional area in profit or loss.

When employees exercise their share options for shares, thereby cancelling the tandem SARs, share capital is increased by the sum of the consideration paid by the employee and the liability reversed, with any difference being recorded in income.

**(iv) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(v) Termination benefits**

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**INCOME TAX**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future and the timing of the reversal of the temporary differences can be controlled. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill, which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

**REVENUE RECOGNITION**

The Company recognizes sales in income when the risks and rewards of the underlying products have been substantially transferred to the customer, usually on delivery of the goods. The Company experiences very few product returns and collectability of its invoices is consistently high.

The Company offers various marketing programs to customers and consumers including volume rebates, cooperative advertising and various other trade marketing programs, and consumer discount coupons. Marketing programs to customers and consumers including volume rebates, cooperative advertising and other trade marketing programs that reduce sales are all customer specific programs to target consumers to purchase High Liner product at the Company's customers. Consequently, sales are recorded net of these estimated sales and marketing costs, which are recognized as incurred at the time of sale. Coupon redemption costs are recognized when coupons are issued as a reduction to sales. Certain customers require the payment of one-time listing allowances (slotting fees) in order to obtain space for a new product on its shelves. These fees are recognized as reductions of revenue at the earlier of the date the fees are paid in cash or on which a liability to the customer is created (usually on shipment of the new product). All other non-customer specific marketing costs (general advertising, etc.) are expensed as incurred as selling, general and administrative expense.

## **BORROWING COSTS**

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Borrowing costs that are directly attributable to the acquisition, construction or production of an asset, which necessarily takes a substantial period of time to get ready for its intended use or sale, form, part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Company capitalizes borrowing costs for all eligible assets where construction was started or proceeded on or after the IFRS transition date January 3, 2010.

## **FINANCIAL INSTRUMENTS**

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### **(i) Financial assets**

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired where the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

#### **Financial assets at fair value through profit or loss**

##### **CLASSIFICATION**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category include cash and cash equivalents.

##### **RECOGNITION AND MEASUREMENT**

Investments are initially recognized, and subsequently carried, at fair value, with changes recognized in the income statement. Transaction costs are expensed.

#### **Loans and receivables**

##### **CLASSIFICATION**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current financial assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Assets in this category include accounts receivables and other receivables and sundry investments.

##### **RECOGNITION AND MEASUREMENT**

Investments are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

#### **Available-for-sale financial assets**

##### **CLASSIFICATION**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in other non-current financial assets unless management intends to dispose of the investment within 12 months of the date of the statement of financial position.

##### **RECOGNITION AND MEASUREMENT**

Investments are initially recognized at fair value plus transaction costs and are subsequently carried at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are included in the income statement.

### **(ii) Financial liabilities**

Financial liabilities primarily consist of accounts payables, accrued liabilities, bank loans, derivative financial instruments and long-term debt. Financial liabilities are initially measured at fair value and in the case of loans and borrowings plus directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit and loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments as defined by IAS 39. Gains or losses on liabilities held for trading are recognized in the income statement. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method amortization process. The effective interest rate amortization is included in finance costs in the income statement.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

### **(iii) Derivative instruments/hedging**

All derivative instruments, including embedded derivatives, are recorded in the statement of financial position at fair value, on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. The Company designates certain derivatives as either:

#### **Fair value hedges**

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

#### **Cash flow hedges**

These are hedges of highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized as other comprehensive income in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Additionally:

- amounts accumulated in other comprehensive income are recycled to the income statement in the period when the hedged item will affect profit and loss (for instance, when the forecast purchase that is hedged takes place);
- when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement; and
- when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately recognized in the income statement.

The Company uses forward currency contracts as hedges of its exposure to the foreign currency risk for the purchase of raw materials.

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

#### **Hedges of a net investment**

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

The Company uses a loan as a hedge of its exposure to foreign exchange risk on its investment in foreign subsidiary. Refer to note 22 for more details.

#### **Derivatives that do not qualify for hedge accounting**

Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within "Other finance costs" or "Operating expenses" in the income statement consistent with the underlying nature and purpose, financing or operating of the derivative instruments.

**(iv) Fair value**

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the date of the statement of financial position. For investments where there is no active market, fair value is determined by using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

**(v) Impairment**

The Company assesses at each financial reporting date whether a financial asset or group of assets is impaired.

**Assets carried at amortized cost**

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured individually as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

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

**Available-for-sale financial investments**

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

**(vi) Additional disclosures**

Disclosures regarding the risks arising from financial instruments are included in *note 24*.

**(vii) Comprehensive income**

Comprehensive income includes the Company's net income and other comprehensive income. Other comprehensive income includes unrealized exchange gains and losses on translation of self-sustaining foreign operations and changes in the fair market value of derivative instruments designated as cash flow hedges, net of applicable income taxes. The components of comprehensive income are disclosed in the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Equity.

**NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

(i) The Company has adopted the following new standards, amendments to standards and interpretations that have been issued but are not yet effective, which have been applied in preparing these consolidated financial statements effective January 3, 2010:

**IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011. Where the amendments to IFRS 9 would otherwise become mandatory for the Company's fiscal 2013 consolidated financial statements, the Company early adopted the IFRS 9 amendments issued to date as at the

Company's transition date to minimize future changes in disclosures. The impact of early adoption was minimal compared to the existing requirements under IFRS. The Company will quantify the impact on the Company of the adoption of future phases when they are issued.

(ii) In addition to the new standard that the Company adopted above, effective January 3, 2010, the IASB and the IFRS Interpretations Committee (IFRIC) have issued additional standards and interpretations with an effective date after the date of these financial statements. Set out below are only the standards deemed applicable to the Company, which the Company intends to adopt when they become mandatorily effective:

#### **IAS 12 Income Taxes – Recovery of Underlying Assets**

The amendment introduces the requirement to calculate deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16, to always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

#### **IFRS 7 Financial Instruments: Disclosures – Enhanced De-recognition Disclosure Requirements**

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment became effective for annual periods beginning on or after July 1, 2011, and was mandatorily effective for the Company January 1, 2012. The amendment affects disclosure only and the Company expects there to be no impact on the Company's financial position or performance.

#### **IFRS 10 – Consolidated Financial Statements and IFRS 12 – Disclosure of Interests in Other Entities**

In May 2011, the IASB issued IFRS 10 and IFRS 12 establishing principles for identifying when an entity controls other entities and comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles. IFRS 10 will replace IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" and provides a single model for consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power and requires that control is assessed as facts and circumstances change. IFRS 12 includes disclosure requirements about subsidiaries, joint ventures and associates, replacing existing requirements. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling interests have in the consolidated entities, and the nature and risks associated with interests in other entities. These standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not identified any impact on the Company's current reporting structure resulting from the release of these two new standards.

#### **IFRS 11 – Joint Arrangements**

In May 2011, the IASB issued IFRS 11 Joint Arrangements. This new standard replaces IAS 31 – Interests in Joint Ventures. "Joint Arrangements" applies when accounting for interests where there is joint control. Joint ventures would be classified either as joint operations or joint ventures, and the structure of the arrangement would no longer be the most significant factor when determining this classification. In addition, the standard removes the option to proportionately consolidate a joint venture, and requires instead the use of the equity method of accounting. On transition to IFRS the Company chose to apply the option available in the existing standard to account for its investment in a joint venture using the equity method and as a result, the release of IFRS 11 has no impact on the Company outside of documentation and disclosure requirements. This new standard is mandatorily effective for the Company's fiscal year end beginning January 1, 2013, with earlier adoption permitted.

#### **IFRS 13 – Fair Value Measurement**

In May 2011, the IASB released IFRS 13, providing a single source of fair value measurement and disclosure requirements in IFRS. IFRS 13 will be effective for the Company December 30, 2012, the first day of fiscal 2013, with earlier adoption permitted. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires additional disclosures about fair value measurements. With respect to the Company's current financial instruments, we do not anticipate any impact on financial reporting resulting from the adoption of IFRS 13, the significant changes in IFRS 13 relate to items that fall within level 3 of the fair value measurement hierarchy, which, the Company currently does not have.

#### **IAS 19 – Post-employment Benefits (Including Pensions)**

In June 2011, the IASB issued an amended version of IAS 19, which includes, among other changes, the immediate recognition of the re-measurement component in other comprehensive income, thereby removing the accounting option previously available in IAS 19 to recognize or to defer recognition of changes in defined benefit obligations and in the fair value of plan assets directly in the

statement of income. IAS 19 also introduces a net interest approach that replaces the expected return on assets and interest costs on the defined benefit obligation with a single net interest component determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation. In addition, all past service costs are required to be recognized in profit or loss when the employee benefit plan is amended and no longer spread over any future service period. The amendments are effective for periods beginning January 1, 2013 with retrospective application required. Anticipating these changes, on transition to IFRS where the Company had a choice between methods, the Company elected immediate recognition of the re-measurement component and of past service costs and, as a result, the amendments to IAS 19 have no impact on the Company.

#### **IAS 1 – Presentation of Financial Statements (IAS 1) and the presentation of Items in Other Comprehensive Income (OCI)**

In June 2011, the IASB issued amendments to IAS 1 to require entities to group items within OCI that either will (or will when specific conditions are met) be reclassified subsequently to the income statement separate from those that will not be. The objective of this change was to clarify for users what impact items in OCI may have on future net income. Each of the current items in the Company's statement of OCI would, or would under specific conditions, subsequently recycle through the statement of income, and as such would be listed under one heading. The Company will apply the amendments in conjunction with the mandatory effective date in its financial statement for the fiscal year ended 2013.

## **4. BUSINESS COMBINATIONS**

### **ACQUISITION OF VIKING SEAFOODS LLC**

On December 13, 2010, the Company acquired certain assets and liabilities of Viking Seafoods, Inc. ("Viking" or the "Acquisition"), an unlisted company based in Malden, Massachusetts in the business of processing value-added frozen seafood products. The Company has acquired Viking because it is expected to substantially increase the Company's share of the market for broad line value-added seafood products in the U.S. food service industry. The assets acquired did not include Viking's manufacturing plant in Malden; however, the Company has committed to a 5-year lease for use of this plant.

The fair value of the identifiable assets and liabilities of Viking as at the date of acquisition were:

(Amounts in \$000s)	Initial fair value recognized on acquisition	Adjustments to the provision recognized during the period	Final fair value recognized
<b>Assets</b>			
Property, plant and equipment (note 6)	\$ 2,591	\$ –	\$ 2,591
Trade receivables	3,140	(23)	3,117
Inventories	9,764	(155)	9,609
Intangible assets	2,857	10,643	13,500
	<b>\$ 18,352</b>	<b>\$ 10,465</b>	<b>\$ 28,817</b>
<b>Liabilities</b>			
Trade payables	(2,361)	(583)	(2,944)
Total identifiable net assets at fair value	<b>\$ 15,991</b>	<b>\$ 9,882</b>	<b>\$ 25,873</b>
Goodwill arising on acquisition (note 5)	15,811	(10,732)	5,079
Purchase consideration transferred	<b>\$ 31,802</b>	<b>\$ (850)</b>	<b>\$ 30,952</b>

The Company drew the total consideration transferred of \$31.8 million from its existing credit facility to fund the acquisition of Viking's net assets and liabilities assumed. The purchase price of US\$31.5 million was reduced by the net working capital adjustment of US\$0.8 million, which was finalized within the first quarter of 2011.

Transaction and business integration costs of \$0.4 million (January 1, 2011: \$0.7 million) have been expensed and are included in business acquisition, integration and other expenses.

The net assets recognized in the January 1, 2011 financial statements and as adjusted during the period were based on a provisional assessment of fair value for the equipment, intangible assets and residual goodwill acquired. The results of this valuation had not been received at the date the fiscal 2010 financial statements were approved for issue by management. This was subsequently completed in 2011.



The goodwill of \$5.0 million comprises the fair value of expected synergies arising from the acquisition of Viking.

Goodwill and intangible assets are allocated entirely to the U.S. segment. The amounts recognized are expected to be deductible for income tax purposes.

During the 52 weeks ended December 31, 2011, Viking has contributed \$37.5 million in net sales and \$3.4 million to income before interest and taxes of the Company (January 1, 2011: \$1.7 million of revenue and \$0.1 million in income before interest and taxes).

### Acquisition of Icelandic Group's U.S. Subsidiary and Asian Procurement Operations (The Icelandic USA Acquisition)

On December 19, 2011, the Company acquired Icelandic Group h.f.'s U.S. subsidiary, Icelandic USA and its Asian procurement operations. The Acquisition gives High Liner ownership of one of the largest suppliers of high-quality frozen value-added seafood to the U.S. food service market. The seafood product lines acquired include battered and breaded products as well as a full line of premium fillets. The Acquisition includes a modern processing plant in Newport News, Virginia, as well as subsidiaries that operate a processing plant in China and procure product from other Asian countries. High Liner acquired several brands in connection with the acquisition. In addition, High Liner entered into a seven-year royalty-free licensing agreement with Icelandic Group for the use of the Icelandic® Seafood brand in the United States, Canada and Mexico. High Liner has also structured a long-term distribution agreement with Icelandic Group to ensure that High Liner can continue to procure fillets from producers in Iceland to be sold in the U.S. market. The Acquisition is expected to be a good fit with the Company's existing U.S. operations as it will allow the Company to address a larger consolidated customer base through stronger purchasing power. The Acquisition also provides the Company a more efficient supply chain with stronger product development capabilities.

The fair value of the identifiable assets and liabilities of the Acquisition as at the date of acquisition were:

(Amounts in \$000s)	<b>Provisional fair value recognized on acquisition</b>
<b>Assets</b>	
Property, plant and equipment (note 6)	\$ 33,052
Trade receivables	29,767
Prepaid expenses	780
Inventories	91,942
Intangible assets	74,189
	<b>\$ 229,730</b>
<b>Liabilities</b>	
Trade payables	(31,186)
Employee future benefit	(296)
Deferred income taxes (note 20)	(28,136)
Total identifiable net assets at fair value	<b>\$ 170,112</b>
Goodwill arising on acquisition (note 5)	87,666
Purchase consideration recorded	<b>\$ 257,778</b>

The amounts in the table below differ slightly from what was previously announced, due to final adjustments for working capital and cash balances:

(Amounts in \$000s)	
Agreed upon purchase price based on average working capital (US\$)	\$ 232,722
Seasonal working capital acquired at closing (US\$)	18,436
Cash acquired (US\$)	(1,495)
Net purchase price (US\$)	249,663
Exchange rate	1.0325
Purchase consideration recorded	<b>\$ 257,778</b>

The transaction was financed with proceeds from a new long-term loan for US\$250 million (see note 13) and an increase in the Company's existing asset-based loan facility (see note 12). Proceeds from the new long-term loan were used to repay existing long-term loan indebtedness of approximately US\$47 million, with the remainder being used to fund the acquisition and transaction costs of \$26.0 million. \$10.9 million of these transaction costs were expensed during the year as business acquisition and other expenses on the statement of income and \$15.1 million were capitalized as deferred financing costs that have reduced the value of debt on the balance sheet to be amortized to interest expenses in the future.

The net assets recognized in the December 31, 2011 financial statements are based on a provisional assessment of fair value as the Company has sought an independent valuation for the equipment, real estate, intangible assets and residual goodwill acquired for which the accounting is incomplete. The results of the valuation have not been received as at the date these financial statements were approved for issue by management. As a result, the financial information disclosed is based on management's best estimate and is disclosed on a provisional basis.

Pending the finalization of the valuation reports noted above and their impact on accounting for taxes, which are incomplete at this time, the Company is only able to provide a provisional fair value for customer relationships and brands acquired as part of the acquisition based on preliminary information we have gathered during the due diligence phase of completing the acquisition and is subject to revisions in future periods resulting from the finalization of the purchase price accounting. Goodwill and intangible assets are allocated entirely to the US cash-generating unit. The goodwill and intangibles recognized are not expected to be deductible for income tax purposes.

From the date of acquisition, the Acquisition contributed \$9.0 million of revenue and \$0.7 million of earnings before interest and taxes, excluding one-time business acquisition costs.

## 5. GOODWILL AND INTANGIBLE ASSETS

Goodwill is tested for impairment annually (as at the first day of the Company's fourth quarter) and when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill and intangible assets with indefinite useful lives was based on fair value less costs to sell as of the IFRS transition date and as of the fiscal year end 2011. The method used to determine the Company's fair value less costs to sell uses a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash-generating units for the most recently completed impairment calculations for fiscal 2011, fiscal 2010 and the IFRS transition date as at January 3, 2010 are discussed below. The Company has not identified any indicators of impairment at any other date and, as such, has not completed an additional impairment calculation.

The following table outlines the carrying amount and classification of the Company's intangible assets for the periods ending December 31, 2011, January 1, 2011 and January 3, 2010:

	Brands 2-8 Yrs	Customer relationships 10-20 Yrs	Indefinite lived brands	Total intangible assets	Goodwill	Total goodwill and intangible assets
(Amounts in \$000s as restated (note 26 (c)(i)))						
<b>Cost</b>						
At January 3, 2010	\$ 729	\$ 11,498	\$ 10,322	\$ 22,549	\$ 35,983	\$ 58,532
Additions from acquisitions (note 4)	-	11,312	2,188	13,500	5,079	18,579
Translation adjustment of U.S.-based assets	(7)	(671)	(488)	(1,166)	(1,243)	(2,409)
At January 1, 2011	\$ 722	\$ 22,139	\$ 12,022	\$ 34,883	\$ 39,819	\$ 74,702
Additions from acquisitions (note 4)	2,499	33,969	37,721	74,189	87,666	161,855
Translation adjustment of U.S.-based assets	(35)	(37)	(326)	(398)	(698)	(1,096)
<b>At December 31, 2011</b>	<b>\$ 3,186</b>	<b>\$ 56,071</b>	<b>\$ 49,417</b>	<b>\$ 108,674</b>	<b>\$ 126,787</b>	<b>\$ 235,461</b>
<b>Accumulated amortization</b>						
At January 3, 2010	\$ 281	\$ 2,303	\$ -	\$ 2,584	\$ -	\$ 2,584
Amortization	72	1,132	-	1,204	-	1,204
Translation adjustment of U.S.-based assets	(7)	(137)	-	(144)	-	(144)
At January 1, 2011	\$ 346	\$ 3,298	\$ -	\$ 3,644	\$ -	\$ 3,644
Amortization	79	1,744	-	1,823	-	1,823
Translation adjustment of U.S.-based assets	3	95	-	98	-	98
<b>At December 31, 2011</b>	<b>\$ 428</b>	<b>\$ 5,137</b>	<b>\$ -</b>	<b>\$ 5,565</b>	<b>\$ -</b>	<b>\$ 5,565</b>
Carrying value January 3, 2010	\$ 448	\$ 9,195	\$ 10,322	\$ 19,965	\$ 35,983	\$ 55,948
Carrying value January 1, 2011	\$ 376	\$ 18,841	\$ 12,022	\$ 31,239	\$ 39,819	\$ 71,058
<b>Carrying value December 31, 2011</b>	<b>\$ 2,758</b>	<b>\$ 50,934</b>	<b>\$ 49,417</b>	<b>\$ 103,109</b>	<b>\$ 126,787</b>	<b>\$ 229,896</b>

Goodwill acquired through business combinations and brands with indefinite lives have been allocated to two cash-generating units for impairment testing purposes.

The cash-generating units have been based on geography, Canada and the U.S., which is consistent with the Company's identified operating and reportable segments. Canada and the U.S. operating units are determined to be the smallest identifiable group of assets that generate cash inflows and are largely independent of the cash inflows from other assets.

Carrying amount of goodwill and brands allocated to each of the cash-generating units are as follows:

(Amounts in \$000s) as restated (note 26 (c)(i))	Carrying amount of goodwill	Carrying amount of brands and customer relationships with indefinite useful lives
<b>Canada</b>		
January 3, 2010	12,474	1,040
January 1, 2011	12,474	1,040
<b>December 31, 2011</b>	<b>12,474</b>	<b>1,040</b>
<b>U.S.</b>		
January 3, 2010	23,509	9,282
January 1, 2011	27,345	10,982
<b>December 31, 2011</b>	<b>114,313</b>	<b>48,377</b>
<b>Total Company</b>		
January 3, 2010	35,983	10,322
January 1, 2011	39,819	12,022
<b>December 31, 2011</b>	<b>126,787</b>	<b>49,417</b>

The recoverable amount of the cash-generating units has been determined based on the fair value less costs to sell ("FVLCS"). In determining the FVLCS of each of the Canadian and U.S. CGUs, we utilized a discounted cash flow methodology. The discounted cash flow technique provides the best assessment of what each CGU could be exchanged for in an arm's-length transaction as fair value is represented by the present value of expected future cash flows of the business together with the residual value of the business at the end of the forecast period. The discounted cash flow was applied on an enterprise value basis, where the after-tax cash flows prior to interest expense are discounted using a weighted average cost of capital ("WACC"). The cash flow projections, covering a five-year period, were based on financial projections approved by senior management using assumptions that reflect the Company's most likely planned courses of action, given Management's judgment of the most probable set of economic conditions, adjusted to reflect the perspective of the expectations of a market participant.

The WACC (discount rate applied) terminal capitalization rate and growth rate applied to each CGU's cash flow projection are outlined in the following table:

	Discount rate (WACC)	Terminal capitalization rate	Growth rate
<b>Canada</b>			
October 2, 2011 valuation date	10.1%	2%	2-3%
October 3, 2010 valuation date	11.8%	2%	2-3%
January 3, 2010 valuation date	12.7%	2%	1-4%
<b>U.S.</b>			
October 2, 2011 valuation date	12.0%	2%	2-3%
October 3, 2010 valuation date	11.4%	2%	2-4%
January 3, 2010 valuation date	11.9%	2%	2-4%

#### Summary of key assumptions used in determining the fair value less costs to sell

The discounted cash flow calculation used for the two cash-generating units is most sensitive to the following assumptions:

- Discount rate applied (WACC);
- Gross margins and raw materials price costs;
- Inflation;
- Market share during the projection period;
- Growth rate used to extrapolate cash flows beyond the projection period; and
- Costs to sell.

#### **DISCOUNT RATE**

The discount rate reflects the current market assessment of the risk specific to comparable companies of High Liner. The discount rate was based on the average weighted average cost of equity and cost of debt for comparable companies to High Liner within the industry. The cost of equity was calculated using the capital asset pricing model. The debt component of the WACC was determined by using an after-tax cost of debt.

#### **GROSS MARGINS INCLUDING RAW MATERIAL PRICES AND CURRENCY FLUCTUATIONS**

Gross margins are based on average values achieved in the three years preceding the start of the projection period. These are increased over the projection period for anticipated efficiency improvements. The projected gross margins are then updated to reflect anticipated future changes in the price of inputs (primarily raw materials and commodity products used in processing, such as cooking oil, wheat, fuel and boxboard), which are obtained from published indices for the countries from which raw materials are sourced, as well as forward-looking data relating to specific commodities. Forecast figures are used where data is publicly available, otherwise past actual raw material price movements have been used as an indicator of future price movements combined with Management's industry experience and analysis of the seafood and commodity markets.

#### **INFLATION**

Estimates are obtained from published indices for the countries in which they operate.

#### **MARKET SHARE DURING THE PROJECTION PERIOD**

These assumptions are important because, as well as using industry data for growth rates, management assesses how the unit's position, relative to its competitors, might change over the projection period. Management expects the Company's share of the Canadian frozen seafood market to be stable over the projection period, whereas Management expects the U.S. position, relative to its competitors, to continue to strengthen.

#### **GROWTH RATE USED TO EXTRAPOLATE CASH FLOWS BEYOND THE PROJECTION PERIOD**

Growth rates used to extrapolate the Company's projection were determined using published industry growth rates in combination with inflation assumptions and the input of each management group based on historical trend analysis and future expectations of growth. The growth rates used in the 5-year projection declined by 0.5% each year until the terminal period where the growth rate was assumed to be equal to inflation.

#### **COSTS TO SELL**

Each CGU's costs to sell have been estimated to approximate 3% of the CGU's enterprise value. The costs to sell reflect the incremental costs, excluding finance costs and income taxes, that would be directly attributable to the disposal of a CGU, including legal costs, marketing costs, costs of removing assets and direct incremental costs incurred in preparing the CGU for sale.

#### **SENSITIVITY TO CHANGES IN ASSUMPTIONS**

With regards to the assessment of the fair value less costs to sell for each of the cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount.

## 6. PROPERTY, PLANT AND EQUIPMENT

(Amounts in \$000s)	Land	Production equipment	Building structures	Major building components	Computer hardware and peripherals	Software components	Furniture and fixtures	Equipment under finance lease	ITCs	Total
<b>Cost</b>										
At January 3, 2010*	\$ 2,304	\$ 41,884	\$ 10,376	\$ 29,752	\$ 6,565	\$ 2,687	\$ 1,319	\$ 4,293	\$ (852)	\$ 98,328
Additions	-	2,004	-	1,216	303	198	4	1,526	(37)	5,214
Acquisition of a subsidiary (note 4)	-	2,591	-	-	-	-	-	-	-	2,591
Disposals	-	(3,242)	-	(662)	(3,260)	(174)	(203)	(542)	-	(8,083)
Impairment	-	(79)	-	-	-	-	-	-	-	(79)
Effect of exchange rates	(103)	(1,839)	(302)	(474)	255	(26)	59	(244)	-	(2,674)
At January 1, 2011	\$ 2,201	\$ 41,319	\$ 10,074	\$ 29,832	\$ 3,863	\$ 2,685	\$ 1,179	\$ 5,033	\$ (889)	\$ 95,297
Additions	-	3,471	65	1,614	625	1,417	19	620	(259)	7,572
Acquisition of a subsidiary (note 4)	932	22,518	14,657	6,801	1,384	2,146	-	-	-	48,438
Disposals	-	(387)	-	(327)	(648)	(9)	(7)	(520)	-	(1,898)
Effect of exchange rates	30	818	(88)	(47)	(196)	(24)	(26)	71	-	538
<b>At December 31, 2011</b>	<b>\$ 3,163</b>	<b>\$ 67,739</b>	<b>\$ 24,708</b>	<b>\$ 37,873</b>	<b>\$ 5,028</b>	<b>\$ 6,215</b>	<b>\$ 1,165</b>	<b>\$ 5,204</b>	<b>\$ (1,148)</b>	<b>\$ 149,947</b>
<b>Accumulated depreciation</b>										
At January 3, 2010*	\$ -	\$ (5,999)	\$ (2,566)	\$ (13,263)	\$ (4,887)	\$ (1,378)	\$ (822)	\$ (727)	\$ 375	\$ (29,267)
Depreciation for the year	-	(4,159)	(212)	(1,316)	(603)	(341)	(45)	(644)	38	(7,282)
Acquisition of a subsidiary (note 4)	-	(19)	-	-	-	-	-	-	-	(19)
Disposals	-	3,229	-	662	3,260	174	203	386	-	7,914
Effect of exchange rates	-	(44)	72	314	42	10	10	222	-	626
At January 1, 2011	\$ -	\$ (6,992)	\$ (2,706)	\$ (13,603)	\$ (2,188)	\$ (1,535)	\$ (654)	\$ (763)	\$ 413	\$ (28,028)
Depreciation for the year	-	(4,817)	(207)	(1,360)	(608)	(383)	(61)	(508)	43	(7,901)
Acquisition of a subsidiary (note 4)	-	(7,722)	(2,841)	(2,059)	(939)	(1,825)	-	-	-	(15,386)
Disposals	-	110	-	252	646	6	7	387	-	1,408
Effect of exchange rates	-	201	11	(118)	(32)	23	(5)	(187)	-	(107)
<b>At December 31, 2011</b>	<b>\$ -</b>	<b>\$ (19,220)</b>	<b>\$ (5,743)</b>	<b>\$ (16,888)</b>	<b>\$ (3,121)</b>	<b>\$ (3,714)</b>	<b>\$ (713)</b>	<b>\$ (1,071)</b>	<b>\$ 456</b>	<b>\$ (50,014)</b>
<b>Carrying amounts</b>										
At January 3, 2010	\$ 2,304	\$ 35,885	\$ 7,810	\$ 16,489	\$ 1,678	\$ 1,309	\$ 497	\$ 3,566	\$ (477)	\$ 69,061
At January 1, 2011	\$ 2,201	\$ 34,327	\$ 7,368	\$ 16,229	\$ 1,675	\$ 1,150	\$ 525	\$ 4,270	\$ (476)	\$ 67,269
<b>At December 31, 2011</b>	<b>\$ 3,163</b>	<b>\$ 48,519</b>	<b>\$ 18,965</b>	<b>\$ 20,985</b>	<b>\$ 1,907</b>	<b>\$ 2,501</b>	<b>\$ 452</b>	<b>\$ 4,133</b>	<b>\$ (692)</b>	<b>\$ 99,933</b>

\*(note 26 (c) (ix)) Please refer to note 19 for additional information related to depreciation expense.

## 7. EQUITY ACCOUNTED INVESTEE

These consolidated financial statements include the Company's share of the income/loss from its 50% interest in its joint venture, HighKan Holdings Limited ("HighKan"), using equity method accounting. HighKan is a holding company with an 80% controlling interest in Dencan Seafood Ltd., which operates in the business of processing frozen seafood products. In fiscal 2010 and 2011 the Company has not received a dividend from its investment. The Company has no share of any contingent liabilities or capital commitments as at December 31, 2011 or as at January 1, 2011.

Summary financial information not adjusted for the ownership held by the Company is as follows:

(Amounts in US\$000s)	As at and for the fifty-two weeks ended, December 31, 2011	As at and for the fifty-two weeks ended, January 1, 2011
Current assets	\$ 6,477	\$ 4,029
Non-current assets	173	129
Current liabilities	6,047	3,870
Revenues	24,394	13,523
Expenses	24,101	13,745
Net income (loss)	293	(222)

## 8. INVENTORIES

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

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
Finished goods – procured	\$ 87,094	\$ 46,457	\$ 51,156
Finished goods – manufactured	60,507	35,930	32,954
Raw and semi-finished material	98,299	36,790	22,581
Supplies, repair parts and other	9,566	6,550	6,309
Inventory in transit, paid in advance	5,864	6,253	6,308
	<b>\$ 261,330</b>	<b>\$ 131,980</b>	<b>\$ 119,308</b>

Expenses recognized in cost of sales for inventories during the year are comprised of the following:

(Amounts in \$000s)	December 31, 2011	January 1, 2011
Inventory costs recognized as an expense, during the year	\$ 516,920	\$ 448,063
Write down of inventories recognized as an expense, during the year:		
Inventory reserves utilized	(947)	(659)
New inventory reserves created	1,094	581
Unused inventory reserves reversed	(408)	(443)
Total expenses recognized as cost of sales, during the year	<b>\$ 516,659</b>	<b>\$ 447,542</b>

The value of inventory subject to a reserve was \$3.2 million (January 1, 2011: \$4.1 million and as January 3, 2010: \$3.6 million).

## 9. ACCOUNTS RECEIVABLE

Accounts receivable bear normal commercial credit terms, usually 30 days or less, and are non-interest bearing. The entire accounts receivable balance is pledged as collateral for the Company's short-term bank loans.

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
Trade accounts receivable	\$ 78,642	\$ 46,540	\$ 55,305
Other accounts receivable	6,278	3,912	2,658
	<b>\$ 84,920</b>	<b>\$ 50,452</b>	<b>\$ 57,963</b>

As at December 31, 2011, trade receivables of an initial value of \$0.2 million (January 1, 2011: \$0.2 million; January 3, 2010: \$0.3 million) were impaired and fully provided for. See below for the movements in the position for impairment of receivables.

(Amounts in \$000s)	Individually impaired	Collectively impaired	Total
At January 3, 2010	\$ 274	\$ –	\$ 274
New impairment reserves charged	23	22	45
Impairment reserves utilized	(6)	–	(6)
Unused impairment reserves reversed	(132)	–	(132)
At January 1, 2011	\$ 159	\$ 22	\$ 181
New impairment reserves charged	178	–	178
Impairment reserves utilized	(110)	–	(110)
Reserves arising from acquisition	124	–	124
Unused impairment reserves reversed	(157)	–	(157)
<b>At December 31, 2011</b>	<b>\$ 194</b>	<b>\$ 22</b>	<b>\$ 216</b>

The Company's trade accounts receivable aging based on the invoice date is as follows:

	0-30 days	31-60 days	over 60 days
<b>At December 31, 2011</b>	<b>95%</b>	<b>5%</b>	<b>0%</b>
At January 1, 2011	93%	6%	1%
At January 3, 2010	89%	10%	1%

For the fifty-two weeks ended December 31, 2011, the Company has recognized \$110.2 million (January 1, 2011: \$87.1 million) of sales from one customer that represents more than 10% of the Company's total consolidated sales, which are equally split between the Canadian and U.S. reportable operating segments in note 19.

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
Trade accounts payable and accrued liabilities	\$ 86,286	\$ 43,770	\$ 38,099
Employee accruals, including incentives and vacation pay	17,962	11,764	10,401
Share-based payments	4,305	4,531	1,405
	<b>\$ 108,553</b>	<b>\$ 60,065</b>	<b>\$ 49,905</b>

Trade accounts payable and accrued liabilities bear normal commercial credit terms, usually 30 days or less, and are non-interest bearing.

Employee accruals, including incentives, vacation pay and share-based payments, are non-interest bearing and settle within a fifty-two week period.

For additional information relating to the Company's accounts payable and accrued liabilities, see note 22.

## 11. PROVISIONS

All provisions are considered current. The carrying amounts are analyzed as follows:

(Amounts in \$000s)	Purchase commitment	Other	Total
Carrying amount, January 3, 2010	\$ 747	\$ 676	\$ 1,423
New provisions added	-	880	880
Provisions utilized	(747)	(1,006)	(1,753)
Carrying amount, January 1, 2011	\$ -	\$ 550	\$ 550
New provisions added	-	952	952
Provisions utilized	-	(827)	(827)
<b>Carrying amount, December 31, 2011</b>	<b>\$ -</b>	<b>\$ 675</b>	<b>\$ 675</b>

The purchase commitment relates to the unfavourable portion of a supplier agreement with one supplier, which expired and was settled in full in the fourth quarter of fiscal 2010. The amount recognized was based on estimated purchase levels for future periods. As at January 3, 2010, the total liability consisted of \$0.2 million for the Canadian Company portion and \$0.5 million for the U.S. Company portion.

The amounts recognized in other provisions include the Company's coupon redemption costs, termination benefits (note 14) and miscellaneous other items. Employee incentives are included as other provisions in the first, second and third quarters of the year only until the amounts can be estimated with certainty at the end of the fourth quarter. Provision amounts are usually settled within 6 months from initiation, depending on the procedures used for negotiating the claims, and are immaterial to the Company on an individual basis. Management does not expect the outcome of any of the recorded amounts will give rise to any significant loss beyond the amounts recognized at December 31, 2011. The Company is not eligible for any reimbursement by third parties in this regard for these amounts.

## 12. BANK LOANS

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
Bank loans, denominated in Canadian dollars, interest rate not exceeding prime plus 250 basis points, (as at December 31, 2011 not exceeding prime), (average variable rate for fiscal 2011 year end was 3.83%; fiscal 2010 year end was 3.0%; 2.25% at Transition)	\$ 10,182	\$ 4,735	\$ 974
Bank loans, denominated in U.S. dollars, interest rate not exceeding U.S. base rate plus 250 basis points, (as at December 31, 2011 not exceeding U.S. base rate), (average variable rate for fiscal 2011 year end was 2.98%; fiscal 2010 year end 2.2%; 1.61% at Transition), (2011: US\$109,924; 2010: US\$38,500; Transition: US\$21,153)	111,793	38,292	22,139
	<b>121,975</b>	43,027	23,113
Less: financing costs*	(995)	(302)	(62)
	<b>\$ 120,980</b>	\$ 42,725	\$ 23,051

\* (note 26 (c)(vi))

On December 19, 2011, the Company replaced its existing working capital facility with a new five-year US\$180 million working capital facility entered into with Royal Bank of Canada as Administrative and Collateral Agent expiring December 19, 2016 (the "facility"). This facility replaced all existing working capital debt facilities. The facility is asset-based and is collateralized by the Company's inventory and accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands and trade names and related intangibles under the long-term debt facilities. A second charge over the Company's plant and equipment is also in place. The facility allows borrowings by way of Prime loans, Base Rate loans, LIBOR, or Canadian BAs at interest rates and spreads that depend on leverage, defined as Funded Debt to EBITDA. In certain circumstances, based on availability under the line, the Company must also maintain fixed charge coverage of 1.1 to 1. Fixed charges include interest and debt repayments, capital lease payments and capital distributions, such as dividends or repurchase of shares under normal course issuer bids. This facility allows the Company to borrow Canadian dollar Prime Rate loans and U.S. Base Rate loans in U.S. dollars at Prime or Base Rate plus 0.00% to 1.00%; Bankers' Acceptances (BA) loans at BA rates plus 1.75% to 2.50%; and LIBOR advances at LIBOR plus 1.75% to 2.50%. Standby fees are also required to be paid on the un-utilized line. The rate of interest charged on borrowings depends on a financial leverage ratio.

## 13. LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS

### Long-term debt

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
<b>Notes payable</b>			
Series A at 6.31%	\$ -	\$ 15,812	\$ 17,250
Series B at 6.012% (US\$28,470 in 2010; US\$31,058 at Transition)	-	28,316	32,504
Series C at 6.012% (LIBOR plus 2.00% in 2010 and at Transition) (US\$4,537 in 2010 and US\$4,950 at Transition)	-	4,513	5,180
Term loan at 1.50% LIBOR floor plus 5.5%	<b>254,250</b>	-	-
Less: financing charges	<b>(14,269)</b>	(303)	(432)
	<b>239,981</b>	48,338	54,502
Less: current portion	<b>(2,543)</b>	(4,426)	(4,582)
	<b>\$ 237,438</b>	\$ 43,912	\$ 49,920

On December 19, 2011, the Company secured a US\$250 million long-term loan, where the proceeds from this loan were used to repay the existing notes payable and to finance the Icelandic USA Acquisition (see note 4). The loan is secured on a first-priority basis by substantially all tangible and intangible assets and the assets and stock of its present and future subsidiaries. Repayments are to be made in 23 consecutive quarterly installments, with the unpaid balance due in full on December 31, 2017. The agreement includes financial covenant requirements of minimum interest coverage ratio, maximum total leverage ratio, and maximum capital expenditures.



Prior to November 30, 2011, the Company's U.S. subsidiary had an interest rate swap agreement in place that converted principal and interest payments from Canadian to U.S. dollars and was used to hedge the foreign exchange exposure on the Company's 6.31% Series A note. As of November 30, 2011, the Company divested itself of the swap. As of January 1, 2011, the notional amount of the interest rate swap was US\$15.8 million and as of January 3, 2010 was US\$17.2 million, whereby it received a Canadian dollar fixed rate of interest of 6.31% and paid a fixed U.S. dollar rate equal to 6.26% on the notional amount.

The principal payments required on long-term debt and finance leases in each of the next five fiscal periods and thereafter are as follows:

### Long-term debt

(Amounts in \$000s)	Notes payable
2012	2,543
2013	3,813
2014	7,628
2015	7,628
2016	7,628
Thereafter	225,010

### Finance lease obligations

(Amounts in \$000s)	Finance lease payments	Imputed interest	Finance lease liabilities
2012	1,245	181	1,064
2013	919	128	791
2014	702	83	619
2015	566	52	514
2016	554	24	530
Thereafter	146	1	145

## 14. FUTURE EMPLOYEE BENEFITS

### DESCRIPTION OF PENSION AND NON-PENSION BENEFIT PLANS

In Canada, the Company maintains a number of defined contribution plans and defined benefit pension plans covering all Canadian employees. With respect to United States employees, the Company's subsidiary maintains a defined contribution plan (401k) that covers all U.S. employees.

The Company sponsors four funded and four non-funded defined benefit pension plans. No Company pension plans provide indexation in retirement.

The funded defined pension benefit plan for the Nova Scotia union employees is a flat-dollar plan with negotiated increases.

The funded defined benefit plan for Canadian salaried employees has been wound up with only a few members who have not yet confirmed whether they will elect to be transferred to the Company's Defined Contribution Plan for salaried employees or have an annuity purchased on their behalf.

The Company also sponsors a non-pension benefit plan for employees hired before May 19, 1993. This benefit is a paid-up life insurance policy or a lump sum payment based on the employee's final earnings at retirement.

The Company has pension plans for its management employees as follows:

### CANADIAN MANAGEMENT PENSION PLANS

Effective December 31, 1999, the Company introduced a new Defined Contribution Pension plan for all salaried employees including new Named Executive Officers ("NEOs"). The Company also sponsors a defined benefit plan specifically for Canadian management employees (the "Management Plan"). On December 31, 2011, 21 persons were enrolled as active members in the Management Plan including the NEOs who are Canadian residents and were employed prior to January 1, 2000. The objective of the Management Plan is to provide an annual pension (including Canada Pension Plan) of 2% of the average of a member's highest five years' regular earnings while a member of the Management Plan multiplied by the number of years of credited service. Incentive payments are not eligible earnings for pension purposes. The Management Plan for the NEOs in Canada was grandfathered, and no new entrants are permitted.

All members contribute 3.25% of their earnings up to the Years Maximum Pensionable Earnings (“YMPE”) and 5% in excess of the YMPE to the maximum that a member can contribute based on income tax rules. The credited service under the Management Plan for each Canadian NEO is 20 years.

Upon retirement, the employees in the Management Plan are provided lifetime retirement income benefits based on their best five years of salary less Canada Pension benefits. Full benefits are payable at age 65, or at age 60 if the executive has at least 25 years of service. The benefits are payable for life, and 60% is payable to their spouse upon their death with a guarantee of 60 months. Members can retire at age 55 with a reduction.

In Canada, the Company also guarantees, through its Supplemental Executive Retirement Plan (the “SERP”), to extend pension plan benefits to NEOs that it would to others in the Management Plan who were not affected by income tax maximums. The annual pension amounts derived from the aggregate of Management Plan and SERP benefits represent 1.3% of the 5-year average YMPE plus 2% of the salary remuneration above the 5-year average YMPE. The combination of these amounts is multiplied by the years of service to determine the full annual pension entitlement from the two plans. Four of the Company’s NEOs’ retirees are members of the SERP.

## U.S. MANAGEMENT PLANS

In the United States, the Company maintains a defined contribution savings plan under the provisions of the Employment Retirement Income Security Act of 1974 (a 401(k) plan), which covers substantially all employees of the U.S. subsidiary company, including U.S. NEOs. U.S. NEOs were permitted to contribute up to 20% of their base pay, to a maximum of \$16,500 (employees over 50 years of age could contribute an additional \$5,500). The Company also makes a Safe Harbour matching contribution equal to 100% of their salary deferrals that do not exceed 3% of their compensation plus 50% of salary deferrals between 3%-5% of their salary compensation. The Company also has a Senior Officer Retirement Program (“SORP”) in the U.S. for a limited number of selected employees. This plan ceased to accrue benefits to employees as of September 30, 2006.

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
Present value of unfunded obligations <sup>(1)</sup>	\$ 6,866	\$ 5,813	\$ 4,749
Present value of funded obligations	27,842	26,305	22,636
Total present value of obligations	\$ 34,708	\$ 32,118	\$ 27,385
Fair value of plan assets	23,528	22,579	20,512
Net accrued defined benefit obligation	\$ 11,180	\$ 9,539	\$ 6,873
Total accrued defined benefit (asset)	(94)	(91)	(118)
Total accrued defined benefit obligation	11,274	9,630	6,991
Net accrued defined benefit obligation	\$ 11,180	\$ 9,539	\$ 6,873

(1) The Company has a letter of credit outstanding as at December 31, 2011, relating to the securitization of the Company’s unfunded benefit plans under the SERP in the amount of \$9.7 million (January 1, 2011: \$7.5 million and January 3, 2010: \$5.7 million).

### Plan assets comprise:

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
Equity securities <sup>(1)</sup>	\$ 9,892	\$ 10,314	\$ 10,218
Debt securities	12,574	11,586	7,907
Cash and cash equivalents	1,062	679	2,387
Total	\$ 23,528	\$ 22,579	\$ 20,512

(1) The plan assets include \$2.1 million of the Company’s own common shares at market value (January 1, 2011: \$1.7 million, and January 3, 2010: \$0.9 million).

**Movement in the present value of the defined benefit obligations**

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
Defined benefit obligations at the beginning of the year	\$ 32,118	\$ 27,385
Benefits paid by the plan	(2,269)	(1,084)
Effect of movements in exchange rates	-	(12)
Current service costs	735	584
Interest on obligation	1,784	1,734
Employee contributions	131	135
SERP acquired	309	-
Actuarial losses in other comprehensive income	1,900	3,376
Defined benefit obligations at the end of the year	\$ 34,708	\$ 32,118

**Movement in the present value of plan assets**

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
Fair value of plan assets at the beginning of the year	\$ 22,579	\$ 20,512
Employee contributions paid into the plan	131	135
Employer contributions paid into the plan	1,274	720
Benefits paid by the plan	(2,269)	(1,084)
Effect of movements in exchange rates	(19)	(9)
	\$ 21,696	\$ 20,274
Actual return on plan assets:		
Expected return on plan assets	\$ 2,042	1,432
Actuarial gains in other comprehensive income	-	1,011
Fees and expenses	(210)	(138)
	\$ 1,832	\$ 2,305
Fair value of plan assets at the end of the year	\$ 23,528	\$ 22,579

**Expense recognized in profit or loss**

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
Current service costs	\$ 735	\$ 584
Interest on obligation	1,784	1,734
Expected return on plan assets	(1,401)	(1,294)
	\$ 1,118	\$ 1,024

**The expense is recognized in the following line items in the consolidated statement of income**

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
Cost of sales	\$ 185	\$ 151
Selling, general and administrative expenses	933	873
	\$ 1,118	\$ 1,024

**Actuarial gains and losses recognized in other comprehensive income**

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
Cumulative amount at the beginning of the year	\$ 2,365	\$ -
Recognized during the period	1,477	2,365
Cumulative amount at the end of the year	\$ 3,842	\$ 2,365

### Principal actuarial assumptions at the reporting period date (expressed as weighted averages)

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
Discount rate for the benefit cost for the fiscal year ended	5.56	6.53
Discount rate for the accrued benefit obligation as at year end	5.16	5.56
Expected long-term rate on plan assets	6.40	6.38
Future compensation increases for the benefit cost for the fiscal year ended	3.09	3.11
Future compensation increases for the accrued benefit obligation as at year end	3.09	3.11
Future pension increases	YMPE	YMPE

The overall expected long-term rate of return on assets is 6.38%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

### Historical information

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
Experience adjustments arising on plan liabilities	1,902	3,250
Experience adjustments arising on plan assets	425	985

The Company expects \$1.2 million in contributions to be paid to its defined benefit plans and \$2.3 million to its defined contribution plans in fiscal 2012.

In December 2011, the Company issued letters indicating future dates where the service of certain employees will no longer be required by the Company. If the employee continues to provide service until the date communicated in their letter, they will be entitled to receive benefits as defined in the letter as at that time. If the employee does not remain in service with the Company, no benefits or severance payments will be made to the employees. The Company expects that 100% of the employees will remain employed until the date communicated in their letter. As a result, the Company has recognized the related compensation expense for the pro rata service provided, from the date communicated to the reporting date, in the amount of \$0.5 million in business acquisition, integration and other expenses on the income statement and has included the unpaid portion as a provision (note 11) on the statement of financial position.

## 15. COMMITMENTS

Operating lease commitments for the next five years and amounts due thereafter are shown in the following table:

(Amounts in \$000s)	Operating lease payments
2012	\$ 2,707
2013	2,404
2014	964
2015	715
2016	167
Thereafter	NIL

Operating lease commitments result principally from leases for cold storage facilities, office equipment, premises and production equipment. Operating lease payments recognized as an expense during the year are \$2.8 million.

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

The Company has letters of credit outstanding as at December 31, 2011 relating to the procurement of inventories and the security of an obligation under a lease of \$1.5 million (January 1, 2011: \$3.7 million; January 3, 2010: \$2.2 million) that are denominated in U.S. dollars (translated at the balance sheet date rate). The Company also had a letter of credit outstanding as at December 31, 2011 relating to the securitization of the Company's SERP benefit plan (note 14) in the amount of \$9.3 million (January 1, 2011: \$7.5 million; January 3, 2010: \$5.7 million).

## 16. SHARE CAPITAL

The share capital of the Company is as follows:

	December 31, 2011	January 1, 2011	January 3, 2010
Authorized			
Preference shares of the par value of \$25 each, issuable in series	5,999,994	5,999,994	5,999,994
Subordinated redeemable preference shares of the par value of \$1 each, redeemable at par	1,025,542	1,025,542	1,025,542
Non-voting equity shares	200,000,000	200,000,000	200,000,000
Common shares, without par value	200,000,000	200,000,000	200,000,000

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

In the fourth quarter of 2010, the Company wound up a wholly-owned subsidiary company that had previously held a common share balance of 1,238,418 in the amount of \$12,468,552.

Upon windup, the subsidiary's cost to repurchase the common shares was \$10.07 per share for a total cost of \$12.5 million. All shares held by the subsidiary were cancelled at the time of wind up at an average cost per common share of \$4.84 resulting in an increase to share capital and a reduction to retained earnings of \$6.5 million.

A summary of the Company's non-voting equity share transactions is as follows:

In addition to the cancellation of the 800 shares held by a subsidiary company in the second quarter of 2010, the Company repurchased 3,185,030 of its non-voting common shares for \$8.00 per share for a total cost of \$25.5 million. In the fourth quarter of 2010, these shares, in addition to the 800 subsidiary company's shares, which were purchased for \$5.10 per share with an average cost per share of \$8.00 upon cancellation, were also cancelled, resulting in a net reduction of the non-voting equity share capital and increase in contributed surplus in the amount of \$8.9 million.

During the first quarter of 2011, the Company repurchased 50,000 non-voting equity shares for \$13.80 per share for a total cost of \$0.7 million resulting in a decrease to contributed surplus of \$0.3 million.

During the second quarter of 2011, the Company repurchased 31,958 non-voting equity shares for \$13.81 per share for a total cost of \$0.4 million resulting in a decrease to contributed surplus of \$0.2 million.

During the third quarter of 2011, the Company repurchased 6,800 non-voting equity shares for \$13.18 per share for a total cost of \$89 thousand resulting in a decrease to contributed surplus of \$35 thousand.

	Fifty-two weeks ended December 31, 2011		Fifty-two weeks ended January 1, 2011	
	Shares	(\$000s)	Shares	(\$000s)
<b>Common shares:</b>				
Balance, beginning of period	13,271,809	\$ 63,315	13,268,809	\$ 56,689
Stock options exercised	26,975	451	3,000	33
Cancelled share reclassified to retained earnings	-	-	-	6,593
Balance, end of period	13,298,784	\$ 63,766	13,271,809	\$ 63,315
<b>Non-voting equity shares:</b>				
Balance, beginning of period	1,876,820	\$ 15,011	5,061,850	\$ 49,409
Shares repurchased	(88,758)	(710)	(3,185,030)	(25,480)
Cancelled share reclassified to contributed surplus	-	-	-	(8,918)
Balance, end of period	1,788,062	\$ 14,301	1,876,820	\$ 15,011

The following dividends were declared and paid by the Company:

Amounts:	Fifty-two weeks ended December 31, 2011		Fifty-two weeks ended January 1, 2011	
	Per Share	(\$000s)	Per Share	(\$000s)
Dividends on common and non-voting shares declared and paid during the period:	0.39	5,891	0.33	5,238
Dividends on common and non-voting shares proposed for approval after the respective reporting period (not recognized as a liability during the period):	0.10	1,513	0.085	1,368

## 17. EARNINGS PER SHARE

The following is the reconciliation of the numerators and the denominators of basic and diluted earnings per share computations:

	Fifty-two weeks ended December 31, 2011			Fifty-two weeks ended January 1, 2011		
	Income (\$000s)	Weighted average shares (000s)	Per share amount \$	Income (\$000s)	Weighted average shares (000s)	Per share amount \$
<b>Basic Earnings per Share:</b>						
Income available to common shareholders	\$ 18,180	15,109	\$ 1.20	\$ 19,985	16,096	\$ 1.24
<b>Diluted Earnings per Share:</b>						
Effect of dilutive securities:						
Stock options and performance share units	-	232	-	-	148	-
Income available to common shareholders and assumed conversions	\$ 18,180	15,341	\$ 1.19	\$ 19,985	16,244	\$ 1.23

For the fifty-two weeks ended December 31, 2011 all options outstanding were dilutive. For the fifty-two weeks ended January 1, 2011 options to purchase 103,000 common shares at an average price of \$11.67 per share were outstanding and exercisable at year end but were not included in the compilation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year.

## 18. SHARE-BASED PAYMENTS

### COMMON SHARE OPTION PLAN

The Company has a common share option plan for designated directors, officers and certain managers of the Company and of subsidiary companies. Stock options issued are awarded with Tandem Stock Appreciation Rights (SARs). The SARs have the same vesting, expiry and exercise terms and conditions as the underlying options. The option holder has the choice to either exercise the option or forfeit the option and receive a cash payment equal to the difference between the market value of the shares on the date of exercise and the exercise price.

Under the terms of the plan the Company's Human Resources and Corporate Governance Committee of the Board (the HR Committee) designates eligible participants to whom options will be granted, and the number of Common Shares to be optioned to each. The eligible participants are directors, members of management committee, and senior managers of the Company and subsidiaries of the Company. Common shares to be optioned were not to exceed the aggregate number of 1,500,000 as of February 20, 2007, representing less than 10% of the issued and outstanding Common shares. The option price for the Common shares is determined by the Committee at the time of granting of the option but cannot be less than either the closing price of the Common shares on the last trading day immediately preceding the date of grant or a price per share equal to the simple average price per Common share at which the Common shares have traded during a period not exceeding 20 consecutive trading days ending on the trading day immediately preceding the date of grant. The term during which any option granted may be exercised is determined by the Committee at the time the option is granted but may not exceed ten years from the date of grant. The purchase price is payable in full at the time the option is exercised. The number of Common shares issuable to insiders, at any time, shall not exceed 10% of the issued and outstanding Common shares, and the number of Common shares issued to insiders, within a one-year period, shall not exceed 10% of the issued and outstanding Common shares. Options are not assignable.

The Board of Directors of the Company approved the following changes to be made to the share option plan during the first quarter of 2011:

- 1) Permitted options to be granted for non-voting equity shares rather than only for Common shares;
- 2) Added a provision that the Company may require payment of an amount equal to the withholding and remittance obligation imposed on the Company by recent tax law changes; and
- 3) Changed the calculation of "fair market value" of shares to a volume weighted average consistent with TSX policy.

In addition, the following changes were made to the share option plan by the Board of Directors with the approval of the Shareholders at the Annual General Meeting on May 17, 2011:

- 1) Increased the number of shares that may be issued from treasury of the Company upon the exercise of options under the share option plan on and after May 17, 2011 to 1,300,000; and
- 2) Added a cashless exercise feature whereby the participant may elect to receive the value of the option gain in the form of issued shares instead of paying for the shares or exercising the option for cash under the SAR.

Where the share option plan holder may make the choice to either exercise the option or forfeit the option and receive a cash payment under the SAR equal to the difference between the market value of the shares on the date of exercise and the exercise price, the Company accounts for this share option plan as a cash-settled plan. The fair value of the SARs is measured at each reporting date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. As services are received, compensation expense and a corresponding liability to pay for those services is recognized over the expected vesting period. Until the liability is settled, it is re-measured at each reporting date with changes in fair value recognized in profit or loss over the vesting period.

The carrying amount of the liability and the compensation expense recognized relating to the options as at and for each reporting period ended were as follows:

**As at and for the fifty-two week periods ended:**

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
Fair value of liability	\$ 4,202	\$ 4,531	\$ 1,405
Compensation expense recognized	651	3,732	NA

Share based payment expense is recognized in the following line items in the consolidated statement of income:

(Amounts in \$000s)	December 31, 2011	January 1, 2011
<b>Cost of sales resulting from:</b>		
Cash-settled options	S 110	S 209
Equity-settled options	26	-
Changes in the fair value of the liability	(93)	282
<b>Selling, general and administrative expenses resulting from:</b>		
Cash-settled options	607	430
Equity-settled options	154	-
Changes in the fair value of the liability	(153)	2,813
	<b>S 651</b>	<b>S 3,734</b>

The following inputs and assumptions were used in the binomial option pricing model in calculating the fair value of each grant of options as follows:

	August 2011	February 2011	August 2010	February 2010	February 2009	May 2008	February 2008	December 2007	February 2006	February 2005	March 2004	February 2004
Share price at grant date	\$ 14.80	\$ 16.50	\$ 11.67	\$ 10.33	\$ 6.90	\$ 9.00	\$ 9.45	\$ 9.64	\$ 8.65	\$ 9.75	\$ 11.10	\$ 10.99
Expected life of the option (years)	7	7	6	6	6	6	6	6	6	6	6	6
Exercise price	\$ 14.80	\$ 16.50	\$ 11.67	\$ 10.33	\$ 6.90	\$ 9.00	\$ 9.45	\$ 9.64	\$ 8.65	\$ 9.75	\$ 11.10	\$ 10.99

**December 31, 2011**

	August 2011	February 2011	August 2010	February 2010	February 2009	May 2008	February 2008	December 2007	February 2006
Expected volatility %	38.29	38.29	40.36	37.34	38.57	29.30	29.43	29.21	30.42
Risk-free rate %	1.42	1.42	1.22	1.16	1.02	0.96	0.96	0.95	0.95
Forfeiture rate %	1.87	1.87	1.87	1.87	1.87	1.87	1.87	1.87	1.87
Dividend yield %	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45

**January 1, 2011**

	August 2010	February 2010	February 2009	May 2008	February 2008	December 2007	February 2006	February 2005
Expected volatility %	38.45	39.63	42.35	39.07	39.12	39.75	29.23	23.96
Risk-free rate %	2.51	2.45	2.21	1.94	1.9	1.86	1.67	1.68
Forfeiture rate %	1.87	1.87	1.87	1.87	1.87	1.87	1.87	1.87
Dividend yield %	2.09	2.09	2.09	2.09	2.09	2.09	2.09	2.09

**January 3, 2010**

	February 2009	May 2008	February 2008	December 2007	February 2006	February 2005	March 2004	February 2004
Expected volatility %	43.69	43.69	43.69	43.69	43.69	50.31	29.89	29.89
Risk-free rate %	2.90	2.61	2.61	2.53	1.70	0.97	0.12	0.12
Forfeiture rate %	1.87	1.87	1.87	1.87	1.87	1.87	1.87	1.87
Dividend yield %	2.92	2.92	2.92	2.92	2.92	2.92	2.92	2.92

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

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

	Fifty-two weeks ended December 31, 2011		Fifty-two weeks ended January 1, 2011	
	No.	WAEP	No.	WAEP
<b>Outstanding, beginning of period</b>	<b>665,500</b>	<b>\$ 9.51</b>	603,250	\$ 8.94
Granted	148,250	16.44	258,250	10.86
Exercised for shares	(26,975)	(9.01)	(3,000)	10.99
Exercised for cash	(111,525)	9.23	(107,500)	8.41
Forfeited/expired	-	-	(85,500)	10.90
<b>Outstanding, end of period</b>	<b>675,250</b>	<b>\$ 11.10</b>	665,500	\$ 9.51
<b>Exercisable, end of period</b>	<b>538,000</b>	<b>\$ 9.74</b>	408,750	\$ 8.67
<b>Weighted average fair value of options granted during the period</b>	<b>148,250</b>	<b>\$ 5.05</b>	258,250	\$ 7.42
<b>Range of exercise prices outstanding at the end of the period</b>	<b>\$6.90 – \$16.50</b>		<b>\$6.90 – \$11.67</b>	



## PERFORMANCE SHARE UNIT PLAN

In the first quarter of 2011, a new long-term incentive compensation arrangement, a Performance Share Unit (PSU) plan was approved by the Directors. As approved by shareholders at the 2011 Annual General Meeting, the Company is permitted to issue up to 200,000 shares from treasury in settling bonus entitlements under the PSU plan.

Grants of PSUs will be at the discretion of the Human Resources and Corporate Governance Committee of the Board (HR Committee), within the limitations of the PSU plan and subject to the rules and policies of applicable regulatory authorities. PSUs may be issued under the PSU plan to any eligible employee of the Company or its subsidiaries who have rendered meritorious services that contributed to the success of the Company or any of its subsidiaries, as determined by the HR Committee. Directors who are not full-time employees of the Company may not participate in the PSU plan. The PSU plan is expected to reward Management Committee members for performance, which is expected to drive long-term shareholder value.

The amount payable to each participant under the PSU plan in respect of a particular grant of PSUs shall be determined by multiplying the number of PSUs (which will be adjusted in connection with the payment of dividends by the Company as if such PSUs were common shares held under a dividend reinvestment plan) by a performance multiplier to be determined by the Board of Directors and by the fair market value of a common share at the vesting date. The PSUs will vest at the end of a three-year period if agreed upon performance measures are met. The measures for the plan will be approved annually by the HR Committee.

The PSU plan shall be paid by one or more of the following forms: (i) cash; (ii) common shares; or (iii) non-voting equity shares. Common shares and non-voting equity shares may be obtained from the market or from treasury of the Company in order to pay out PSUs in accordance with their terms. Issuances of PSUs also may not result in the following limitations being exceeded: (a) the aggregate number of shares issuable to insiders pursuant to the PSU plan, the share option plan or any other security-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares at any time; and (b) the issuance from treasury to insiders, within a 12-month period, of an aggregate number of shares under the PSU plan, the share option plan and any other security-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares.

## PERFORMANCE SHARE UNITS

The Company has issued 16,459 performance share units to named executive officers during the first quarter of 2011. The carrying amount of the liability and the compensation expense recognized relating to the performance share units as at, and for, the fiscal 2011 reporting period was as follows:

### For the fifty-two weeks ended December 31, 2011:

(Amounts in \$000s)

Fair value of liability	\$	104
Compensation expense recognized		110

The assumptions used in determining the fair value of the liability and related compensation expense for the performance share units were as follows:

	<b>December 31, 2011</b>	
Share price at reporting date	\$	<b>16.35</b>
Expected life of the PSU (years)		<b>3</b>
Forfeiture rate		<b>0%</b>
Expected % vesting		<b>110%</b>

## 19. OPERATING SEGMENT INFORMATION

The Company operates in one dominant industry segment, the manufacturing and marketing of prepared and packaged frozen seafood. The Company evaluates performance of the reportable segments on a geographical basis using net income before, financing and taxes from continuing operations. The Company's results of its equity accounted investee as disclosed in note 7 are allocated to the reportable segments based on purchases. Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. Operations and identifiable assets and liabilities by reporting segment are as follows:

(Amounts in \$000s)	Fifty-two weeks ended December 31, 2011			Fifty-two weeks ended January 1, 2011		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales within geographic region	\$ 295,239	\$ 368,058	\$ 663,297	\$ 283,906	\$ 297,213	\$ 581,119
Sales outside of geographic region	7,930	17,600	25,530	5,697	9,438	15,135
	<b>303,169</b>	<b>385,658</b>	<b>688,827</b>	289,603	306,651	596,254
Intercompany sales outside of geographic region	(7,160)	(13,078)	(20,238)	(5,247)	(6,292)	(11,539)
Revenue (excluding intercompany sales)	296,009	372,580	668,589	284,356	300,359	584,715
Cost of sales (excluding intercompany sales)	(228,443)	(288,216)	(516,659)	(215,747)	(231,795)	(447,542)
Gross profit	67,566	84,364	151,930	68,609	68,564	137,173
Distribution expenses	(14,750)	(20,271)	(35,021)	(13,869)	(16,158)	(30,027)
Selling, general and administrative expenses	(31,260)	(40,826)	(72,086)	(33,603)	(34,897)	(68,500)
Business acquisition integration (costs) and other expenses	(1,265)	(10,010)	(11,275)	(86)	(789)	(875)
Financing costs	(1,837)	(4,146)	(5,983)	(1,337)	(3,828)	(5,165)
(Loss) gain from equity accounted investee	(27)	(26)	(53)	9	9	18
<b>Income before income tax</b>	<b>18,427</b>	<b>9,085</b>	<b>27,512</b>	<b>19,723</b>	<b>12,901</b>	<b>32,624</b>
Income taxes	(5,379)	(3,953)	(9,332)	(7,410)	(5,229)	(12,639)
<b>Net income</b>	<b>\$ 13,048</b>	<b>\$ 5,132</b>	<b>\$ 18,180</b>	<b>\$ 12,313</b>	<b>\$ 7,672</b>	<b>\$ 19,985</b>
Add back:						
Depreciation included in:						
Cost of sales	2,315	3,811	6,126	2,315	3,371	5,686
Distribution	180	286	466	179	209	388
Selling, general and administrative expenses	1,147	162	1,309	1,082	145	1,227
<b>Total depreciation</b>	<b>3,642</b>	<b>4,259</b>	<b>7,901</b>	<b>3,576</b>	<b>3,725</b>	<b>7,301</b>
Amortization included in:						
Selling, general and administrative expenses	229	1,604	1,833	212	992	1,204
<b>Total depreciation and amortization</b>	<b>3,871</b>	<b>5,863</b>	<b>9,734</b>	<b>3,788</b>	<b>4,717</b>	<b>8,505</b>
Financing costs	1,837	4,146	5,983	1,337	3,828	5,165
Income taxes	5,379	3,953	9,332	7,410	5,229	12,639
<b>Income before depreciation, amortization, financing and income taxes</b>	<b>\$ 24,135</b>	<b>\$ 19,094</b>	<b>\$ 43,229</b>	<b>\$ 24,848</b>	<b>\$ 21,446</b>	<b>\$ 46,294</b>
<b>Capital Expenditures</b>						
Financed by operations	3,584	3,626	7,210	2,112	2,338	4,450
Financed by finance leases	620	-	620	875	-	875
<b>Total capital expenditures</b>	<b>\$ 4,204</b>	<b>\$ 3,626</b>	<b>\$ 7,830</b>	<b>\$ 2,987</b>	<b>\$ 2,338</b>	<b>\$ 5,325</b>
<b>Total assets</b>	<b>\$ 160,271</b>	<b>\$ 530,264</b>	<b>\$ 690,535</b>	<b>\$ 123,016</b>	<b>\$ 205,286</b>	<b>\$ 328,302</b>
<b>Goodwill</b>	<b>\$ 12,474</b>	<b>\$ 114,313</b>	<b>\$ 126,787</b>	<b>\$ 12,474</b>	<b>\$ 27,345</b>	<b>\$ 39,819</b>
<b>Liabilities</b>	<b>\$ 317,621</b>	<b>\$ 211,387</b>	<b>\$ 529,008</b>	<b>\$ 55,801</b>	<b>\$ 125,190</b>	<b>\$ 180,991</b>

	As at January 3, 2010		
	Canada	U.S.	Total
<b>Total assets</b>	\$ 142,528	\$ 171,263	\$ 313,287
<b>Goodwill</b>	\$ 12,474	\$ 23,509	\$ 35,983
<b>Liabilities</b>	\$ 51,678	\$ 98,409	\$ 150,087

## 20. INCOME TAX EXPENSE

The major components of income tax expense (recovery) for the fifty-two week periods ended December 31, 2011 and January 1, 2011 were as follows:

### Consolidated income statement

(Amounts in \$000s)	December 31, 2011	January 1, 2011
<b>Current tax expense:</b>		
Current period	\$ 5,692	\$ 6,380
<b>Deferred income tax:</b>		
Origination and reversal of temporary differences	3,658	5,967
Change in tax rate applicable to reversal of temporary differences	(18)	483
Recognition of previously unrecognized tax asset	-	(191)
<b>Income tax expense reported in the income statement</b>	<b>\$ 9,332</b>	<b>\$ 12,639</b>

### Consolidated statement of other comprehensive loss

(Amounts in \$000s)	December 31, 2011	January 1, 2011
<b>Income tax expense (recovery) related to items charged or credited directly to other comprehensive income and retained earnings during the period:</b>		
Gain on hedge of net investment in foreign operations	\$ (44)	\$ 138
Effective portion of changes in fair value of cash flow hedges	427	(881)
Net change in fair value of cash flow hedges transferred to income	178	1,172
Defined benefit plan actuarial recovery (loss)	(400)	(638)
<b>Income tax expense (recovery) directly to other comprehensive income and retained earnings</b>	<b>\$ 161</b>	<b>\$ (209)</b>

A reconciliation between tax expense and the product of accounting profit multiplied by the Company's statutory tax rate for the fifty-two week periods ended December 31, 2011 and January 1, 2011 are as follows:

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
<b>Accounting profit before tax</b>		
At statutory income tax rate of 28.8% (2010 – 30.6%)	\$ 7,923	\$ 9,972
Non-deductible expenses for tax purposes:		
Withholding tax on dividends	800	1,006
Stock options	186	1,085
Non-deductible business acquisition costs	1,534	-
Other non-deductible items	167	125
Effect of higher income tax rates of U.S. subsidiary	835	1,489
Acquisition financing deduction	(2,175)	(1,031)
Other	62	(7)
<b>At the effective income tax rate of 33.9% (2010 – 38.7%)</b>	<b>\$ 9,332</b>	<b>\$ 12,639</b>

During the year the Company's statutory rate declined by approximately 1.8% primarily as a result of previously enacted tax rate reductions.

Deferred income tax relates to the following:

### Deferred income tax

(Amounts in \$000s)	Consolidated balance sheet as at			Consolidated income statement for the fifty-two weeks ended	
	December 31, 2011	January 1, 2011	January 3, 2010	December 31, 2011	January 1, 2011
Accelerated depreciation for tax purposes on property, plant and equipment	\$ (13,725)	\$ (9,161)	\$ (8,096)	\$ 464	\$ 1,060
Inventory	(7,975)	(4,865)	(4,035)	272	1,013
Intangible assets	(33,212)	(6,362)	(6,729)	2,632	(480)
Pension	3,151	2,863	1,961	27	(303)
Revaluation of cash flow hedges	(160)	442	918	(14)	186
Losses available for offset against future taxable income	10,229	6,902	11,276	(151)	4,917
Deferred charges and other	2,288	2,689	2,628	410	(134)
<b>Deferred income tax expense</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,640</b>	<b>6,259</b>
<b>Net deferred income tax liability</b>	<b>\$ (39,404)</b>	<b>\$ (7,492)</b>	<b>\$ (2,077)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Reflected in the balance sheet as follows:</b>					
Deferred income tax assets	1,695	2,403	3,628		
Deferred income tax liabilities	(41,099)	(9,895)	(5,705)		
Net deferred income tax liability	\$ (39,404)	\$ (7,492)	\$ (2,077)		

### Reconciliation of deferred income tax asset (liabilities), net

(Amounts in \$000s)	Fifty-two weeks ended	
	December 31, 2011	January 1, 2011
Opening balance, beginning of year	\$ (7,492)	\$ (2,077)
Deferred income tax expense during the period recognized in income	(3,640)	(6,259)
Deferred income tax arising from an acquisition (note 4)	(28,136)	-
Deferred income tax recovery during the period recognized in retained earnings	400	638
Deferred income tax (expense) recovery during the period recognized in other comprehensive income	(536)	206
Closing balance, end of year	\$ (39,404)	\$ (7,492)

The Company has net operating losses in its U.S. subsidiaries of \$26.3 million (January 1, 2011: \$18.2 million; January 3, 2010: \$31.3 million) that are available for use from 2012-2028. A deferred income tax asset has been recognized for the amount that is probable to be realized.

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

The temporary difference associated with investments in subsidiaries, for which a deferred tax liability has not been recognized, total to \$0.2 million (January 1, 2011: \$0.2 million; January 3, 2010: \$0.4 million).

There are no income tax consequences attached to the payment of dividends in either 2011 or 2010 by the Company to its shareholders.

## 21. RELATED PARTY TRANSACTIONS

### THE ULTIMATE PARENT

High Liner Foods Incorporated is the ultimate parent entity.

### KEY MANAGEMENT PERSONNEL COMPENSATION

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

### EMPLOYEE FUTURE BENEFITS

Please refer to note 14 for details of each plan as applicable to the Company's NEOs.

### TERMINATION AND CHANGE OF CONTROL BENEFITS

The Company has entered into Change of Control Agreements (the "Agreements") between the Company and the CEO and NEOs. The Agreements are automatically extended annually by one additional year unless the Company provides 90 days notice of its unwillingness to extend the agreements.

The change of control agreements provide that, in the event of a termination by the Company following a change of control, other than for cause, or by the executive for good reason, the NEO is entitled to: (a) cash compensation equal to the final annual compensation (including base salary and short-term incentives) multiplied by 3 for the CEO and 2 for all other NEOs; (b) the automatic vesting of any options or other entitlements for the purchase or acquisition of shares in the capital of the Company that are not then exercisable, which shall be exercisable following termination for 3 years for the CEO and 2 years for all other NEOs; (c) continue to participate in certain benefit programs for 3 years for the CEO and 2 years for all other NEOs.

### SHORT-TERM INCENTIVE PLAN

The short-term incentive ("Bonus") plan for the CEO and other NEOs is based on two components: (1) goals relating to financial performance of the Company and/or an operating unit of the Company; and (2) individual goals related specifically to the individual's responsibilities and areas of influence. The Bonus is paid as a percentage of eligible annual earnings, as reported for income taxes not including taxable benefits, miscellaneous earnings or incentive payments.

### LONG-TERM INCENTIVE PLANS

The Company has two long-term incentive plans available for the CEO and NEOs, which are the Company's share option plan and the Company's PSU plan. Details regarding the share option and PSU plan are detailed in note 18 above.

Key management personnel compensation is comprised of:

(Amounts in \$000s)	Fiscal 2011	Fiscal 2010
<b>For the fifty-two weeks ended December 31, 2011</b>		
Salaries	\$ 1,813	\$ 1,749
Short-term incentive plans	1,159	1,045
Employee future benefits	287	228
Share-based awards	484	467
	<b>\$ 3,743</b>	<b>\$ 3,489</b>

## **KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS**

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Directors of the Company control 6.0% of the common shares of the Company. A number of Directors, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The Company has transacted with a number of these entities in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's-length basis. From time to time directors of the Company, or their related entities, may purchase goods from the Company. These purchases are on the same terms and conditions as those entered into by other Company employees or customers.

## **ENTITY WITH SIGNIFICANT INFLUENCE OVER THE COMPANY**

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As at December 31, 2011, Thornridge Holdings Limited owns 40.8% of the outstanding common shares and 19.1% of the outstanding non-voting shares in High Liner Foods Inc. (January 1, 2011: 36.9% of the common shares and 18.2% of the non-voting shares). In July 2010, the Company granted a waiver under its shareholder rights plan in respect of a reorganization of its largest shareholder, Scotia Investments Limited, which involved the transfer of all of its outstanding common and non-voting equity shares of High Liner held by Scotia Investments Limited and its subsidiaries to Thornridge Holdings Limited effective November 5, 2010.

## **ASSOCIATES OF THE COMPANY**

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Maritime Paper Products Ltd. is controlled by a company that until November 5, 2010 owned a significant, non-controlling amount of the Company's outstanding Common shares. The Company regularly purchases corrugated packaging from Maritime Paper Products Ltd. at negotiated market prices. The Company uses corrugated packaging to ship its products to its customers.

A significant shareholder of Clearwater Seafood's Limited Partnership indirectly owned a significant, non-controlling interest in the Company until June 16, 2011 when that shareholder ceased to be a significant shareholder in the Company. The Company regularly purchases shellfish from Clearwater Seafood's Limited Partnership at negotiated market prices. The Company sells the shellfish to its customers.

## **OTHER RELATED PARTIES**

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Crystal Cold Storage & Warehousing Inc. provides a cold storage facility for the Company to which the Company pays a market-based price for the products stored.

Pier 17 Realty Trust Inc. is the lessor in the lease contract for the Company's processing plant in Malden, Massachusetts where the Company pays market-based rent.

## **JOINT VENTURE IN WHICH THE COMPANY IS A VENTURER**

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The Company's equity accounted for investee represents a 50% interest in HighKan Holdings Limited (January 1, 2011: 50%; January 3, 2010: 0%), a holding company with an 80% interest in Dencan Seafood Limited, which operates in the business of processing frozen seafood products. The Company regularly purchases raw materials and finished goods from Dencan Seafood Limited. The Company uses the raw materials in production for sale to its customers.

The Company had no sales to or amounts due from related parties throughout 2010 or 2011 nor did the Company have any transactions during 2010 or 2011 with entities who had significant influence over the Company or with members of key management personnel including the Company's Directors and their related interests.

The aggregate value of transactions and outstanding balances with related parties is as follows:

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
<b>Associates to the Company:</b>			
Maritime Paper Products Ltd.			
Purchases from related parties	\$ NA	\$ 4,284	\$ 3,571
Amounts owed to related parties*	NA	76	32
Clearwater Seafoods Limited Partnership			
Purchases from related parties	NA	4,611	8,643
Amounts owed to related parties*	NA	417	426
<b>Other Related Parties:</b>			
Crystal Cold Storage & Warehousing Inc.			
Purchases from related parties	896	NA	NA
Amounts owed to related parties*	-	NA	NA
Pier 17 Realty Trust Inc.			
Purchases from related parties	454	NA	NA
Amounts owed to related parties*	-	NA	NA
<b>Joint venture in which the Company is a venturer:</b>			
Qingdao Dencan Seafoods Ltd.			
Purchases from related parties	23,985	13,489	-
Amounts owed to related parties*	-	-	-
Total purchases from related parties	\$ 25,335	\$ 22,384	\$ 12,214
Total amounts owed to related parties*	-	493	458

\* Amounts are classified as accounts receivable/accounts payable respectively

All outstanding balances with these related parties are priced on an arm's-length basis and are to be settled in cash within 12 months of the reporting date. None of the balances are secured. There have been no guarantees provided or received for any related party receivables or payables. As at December 31, 2011, January 1, 2011 and January 3, 2010, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

## 22. FINANCIAL INSTRUMENTS

(Amounts in \$000s)	Other financial assets:			Other financial liabilities:		
	December 31, 2011	January 1, 2011	January 3, 2010	December 31, 2011	January 1, 2011	January 3, 2010
<b>Financial instruments at fair value through other comprehensive income</b>						
Cash flow hedges						
Foreign exchange forward contracts	\$ 1,346	\$ 890	\$ 1,590	\$ 793	\$ 2,334	\$ 3,989
Interest rate swap	-	-	-	-	207	928

### HEDGING ACTIVITIES

#### Foreign currency hedge

At December 31, 2011, the Company held foreign currency forward contracts designated as hedges of expected future purchases from suppliers transacting in U.S. dollars, which the Company has qualified as highly probable forecasted transactions. The foreign currency forward contracts are being used to hedge the foreign currency risk of the highly probable forecasted transactions. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement. Notional amounts are provided below.

At the end of the fifty-two week period ended December 31, 2011, the cash flow hedges of the expected future purchases in the future quarters of 2012 were assessed to be highly effective and an unrealized gain of \$0.9 million with a deferred tax expense of \$0.3 million, and an unrealized loss of \$2.3 million with a deferred tax recovery of \$0.7 million, were included in other comprehensive loss in respect of these contracts (January 1, 2011; unrealized gain of \$0.9 million with a deferred tax expense of \$0.3 million, and an unrealized loss of \$2.3 million with a deferred tax recovery of \$0.7 million).

Amounts recognized in income resulting from hedge ineffectiveness during the fifty-two week period ended December 31, 2011 \$0.05 million and for the fifty-two week period ended January 1, 2011 was \$0.3 million.

The amount removed from other comprehensive loss during the fifty-two week period ended December 31, 2011 and included in the carrying amount of the hedging items was \$0.4 million (January 1, 2011: \$2.7 million).

### Principal and interest payment swap

Prior to November 30, 2011, the Company's U.S. subsidiary had an interest rate swap agreement in place that converted principal and interest payments from Canadian to U.S. dollars and was used to hedge the foreign exchange exposure on the Company's 6.31% Series A note. The note and interest rate swap had the same critical terms and the swap was valued at rates prevailing at the balance sheet date. Gains and losses on the swap were included in other comprehensive income and transferred to income to offset gains and losses on the debt when recorded in income. As of November 30, 2011, the Company divested itself of the swap. As of January 1, 2011, the notional amount of the interest rate swap was US\$15.8 million and as of January 3, 2010 was US\$17.2 million whereby it receives a Canadian dollar fixed rate of interest of 6.31% and pays a fixed U.S. dollar rate equal to 6.26% on the notional amount.

### Hedge of net investment in foreign operations

As at December 31, 2011, included in current bank loans was a borrowing of US\$15 million (January 1, 2011: US\$5.0 million; January 3, 2010: US\$15.0 million), and included in long-term debt was a borrowing of US\$19.2 million (January 1, 2011 and January 3, 2010: \$nil), which have been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this investment. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness recognized in the fiscal years ending December 31, 2011 or January 1, 2011.

## CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred. Any portion of hedge ineffectiveness has been recognized in the income statement as it occurs.

The following table identifies all of the Company's financial instruments and their carrying values recorded at the balance sheet date and their fair values at the balance sheet. The carrying values of the Company's loans and receivables (which only includes trade receivables) approximate fair value due to the short-term to maturity of these financial instruments. Financial liabilities carried at amortized cost are shown using the effective interest rate method. Items accounted as hedges represent fair value of the Company's foreign exchange contracts as well as the fair value of its interest rate swap on its long-term debt.

	As at December 31, 2011				
(Amounts in \$000s)	Financial asset at fair value through profit and loss	Loans and receivables	Financial liabilities at amortized cost	Items accounted for as hedges	Total carrying amount
Cash and cash equivalents	\$ 3,260	\$ -	\$ -	\$ -	\$ 3,260
Accounts receivable	-	84,920	-	-	84,920
Other financial assets	-	-	-	1,346	1,346
Bank loans	-	-	120,980	-	120,980
Accounts payable and accrued liabilities	-	-	108,553	-	108,553
Provisions	-	-	675	-	675
Other financial liabilities	-	-	-	793	793
Long-term debt	-	-	239,981	-	239,981



(Amounts in \$000s)	As at January 1, 2011				
	Financial asset at fair value through profit and loss	Loans and receivables	Financial liabilities at amortized cost	Items accounted for as hedges	Total carrying amount
Cash and cash equivalents	\$ 598	\$ –	\$ –	\$ –	\$ 598
Accounts receivable	–	50,452	–	–	50,452
Other financial assets	–	–	–	890	890
Bank loans	–	–	42,725	–	42,725
Accounts payable and accrued liabilities	–	–	60,065	–	60,065
Provisions	–	–	550	–	550
Other financial liabilities	–	–	–	2,334	2,334
Other long-term financial liabilities	–	–	–	207	207
Long-term debt	–	–	48,338	–	48,338

(Amounts in \$000s)	As at January 3, 2010				
	Financial asset at fair value through profit and loss	Loans and receivables	Financial liabilities at amortized cost	Items accounted for as hedges	Total carrying amount
Cash and cash equivalents	\$ 1,953	\$ –	\$ –	\$ –	\$ 1,953
Accounts receivable	–	57,963	–	–	57,963
Other financial assets	–	–	–	1,590	1,590
Bank loans	–	–	23,051	–	23,051
Accounts payable and accrued liabilities	–	–	49,905	–	49,905
Provisions	–	–	1,423	–	1,423
Other financial liabilities	–	–	–	3,989	3,989
Other long-term financial liabilities	–	–	–	928	928
Long-term debt	–	–	54,502	–	54,502

#### INTEREST RATES USED FOR DETERMINING FAIR VALUE

The interest rates used to discount the estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread and were as follows:

	December 31, 2011	January 1, 2011	January 3, 2010
Bank loans	3.10%	2.27%	1.56%
Long-term debt	7.00%	2.30%	4.08%
Capital lease obligations	5.90%	5.62%	5.66%

#### AMORTIZED COST IMPACT ON INTEREST EXPENSE

In the fifty two-week period ended December 31, 2011, the Company expensed \$127 thousand and \$306 thousand (January 1, 2011: \$457 thousand and \$165 thousand) of short-term and long-term interest, respectively, relating to interest that was calculated using the effective interest rate method relating to its transaction fees and its borrowings.

#### FORWARD EXCHANGE CONTRACTS

The Company systematically enters into foreign exchange contracts, with maturities of 15 months or less, to hedge future cash outflows for the purchase of raw materials. The Company uses hedge accounting to account for these foreign exchange contracts.

At period-end, the Company had the following total foreign exchange forward single rate contracts outstanding:

	December 31, 2011	
	Sell	Receive
	CAD\$	US\$
Forward rate	\$ 5,327,982	\$ 5,294,465

The forward single rate contracts at December 31, 2011 have a rate of \$1.0063 with maturities ranging from January 2012 to September 2012.

For the fifty-two week period ended December 31, 2011, the Company had the following foreign exchange “average rate” purchase contracts outstanding:

	December 31, 2011		
Average rate forwards	Weighted Average Put Rate	Weighted Average Call Rate	Total US\$ Value
<b>Average rate</b>	<b>\$ 1.0019</b>	<b>\$ 1.0090</b>	<b>\$ 36,499,227</b>

With the exception of US\$2,431,611 average rate forward contracts with maturities ranging from January 2013 to December 2013, all foreign exchange purchase contracts have maturities that are less than one year.

### AVERAGE RATE FORWARD PURCHASE CONTRACTS

Where the average noon-day exchange rate during the contract term falls between the benefit and protection rates, no cash settlements are exchanged between the Company and the intermediary. If the average noon-day exchange rate during the contract term is less than the benefit rate, then on the contract settlement date, the Company would pay the intermediary the difference in the rate times the notional dollar value hedged. If the average noon-day exchange rate during the contract term is greater than the protection rate, then on the contract settlement date, the intermediary would pay the Company the difference in the rate times the notional dollar value hedged. The benefit and protection rates are the same for forward single rate contracts while forward average range contracts have a spread between the benefit and protection rates.

### ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments as at December 31, 2011, January 1, 2011 and January 3, 2010 are based on relevant market prices and information available at that time. The fair value estimates are not necessarily indicative of the amounts that the Company might receive or pay in actual market transactions. The total fair value of all of the foreign exchange future contracts as at December 31, 2011 was an asset of \$0.6 million (January 1, 2011: a liability of \$1.4 million; January 3, 2010: a liability of \$2.4 million). The fair value of the interest and principal cross currency swap at December 31, 2011 was \$nil (January 1, 2011: a liability of \$0.2 million; January 3, 2010: a liability \$0.9 million).

The fair value of the Company's long-term debt that was entered into in December 2011 was estimated to be \$254.2 million. The fair value of the Company's long-term debt that was entered into in December 2007 was estimated to be \$52.0 million as at January 1, 2011 and \$57.4 million as at January 3, 2010. The fair value of the Company's capital lease obligations at December 31, 2011 is estimated to be \$4.0 million (January 1, 2011: \$4.0 million; January 3, 2010: \$3.6 million). These fair values are calculated by discounting the future cash flows of each loan at the estimated yield to maturity based on publicly available information. Since the Company does not intend to settle its long-term debt or capital lease obligations prior to maturity, the fair values do not represent an actual liability and, therefore, do not include exchange or settlement costs.

The Company's remaining financial instruments consist of cash and cash equivalents, trade and other accounts receivables and sundry investments and current liabilities. The difference between the carrying values and the fair market values of these financial instruments are not significant given the short-term maturities and/or the credit terms of those instruments.

### FAIR VALUE HIERARCHY

All financial instruments carried at fair value are categorized in three categories defined as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Other techniques, which use inputs other than quoted market prices included within Level 1 that are observable, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques, which use inputs that are not based on observable market data.

As at the dates indicated below, the Company had the following financial instruments measured at fair value categorized into the following levels:

(All amounts in \$000s)	December 31			
	2011	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>				
Foreign exchange contracts; hedged	\$ 1,346	\$ -	\$ 1,346	\$ -
<b>Liabilities measured at fair value</b>				
Foreign exchange contracts; hedged	793	-	793	-
	January 1			
	2011	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>				
Foreign exchange contracts; hedged	\$ 890	\$ -	\$ 890	\$ -
<b>Liabilities measured at fair value</b>				
Foreign exchange contracts; hedged	(2,334)	-	(2,334)	-
Interest and principal cross currency swap	(207)	-	(207)	-
	January 3			
	2010	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>				
Foreign exchange contracts; hedged	\$ 1,590	\$ -	\$ 1,590	\$ -
<b>Liabilities measured at fair value</b>				
Foreign exchange contracts; hedged	(3,989)	-	(3,989)	-
Interest and principal cross currency swap	(928)	-	(928)	-

During the fifty-two week periods ended December 31, 2011, January 1, 2011 and January 3, 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 23. CAPITAL MANAGEMENT

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, purchase its capital stock under a Normal Course Issuer Bid ("NCIB") or issue new shares. Capital distributions, including purchases of stock, are subject to a fixed charge coverage ratio under the Company's working capital debt facilities. This ratio is only operative if the consolidated aggregated availability under the working capital debt facility is less than \$20 million. Capital distributions, including dividends and NCIB purchases are also restricted under the new long-term debt agreements. The Company has availability in excess of \$40 million as at December 31, 2011. The Company monitors capital (excluding letters of credit) using the ratio of funded debt to capitalization, which is net interest bearing debt divided by total capital plus net interest-bearing debt. The Company's objective is to keep this ratio between 35% and 50%. Seasonal working capital debt may result in the Company exceeding the ratio at certain times throughout the fiscal year. The Directors of the Company have also decided that this range can be exceeded on a temporary basis to affect the Icelandic USA Acquisition.

The Company includes in net funded debt, finance lease obligations and interest-bearing loans and borrowings, excluding deferred financing fees, less cash and cash equivalents.

(Amounts in \$000s)	December 31, 2011	January 1, 2011	January 3, 2010
Current bank loans	\$ 121,975	\$ 43,027	\$ 23,113
Current portion of long-term debt and finance leases obligations	3,607	5,398	5,446
Long-term debt and finance leases obligations	254,306	47,260	53,052
Cross currency swap mark-to-market	-	207	928
Less: cash and cash equivalents	(3,260)	(598)	(1,953)
Total funded debt	376,628	95,294	80,586
Shareholders' equity	161,527	147,311	163,200
Unrealized losses on derivative financial instruments included in accumulated other comprehensive loss	110	1,720	2,138
Total capitalization	\$ 538,265	\$ 244,325	\$ 245,924
Debt as % of capitalization	70%	39%	33%

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, letters of credit, notes payable, finance leases, and trade payables. The only purpose of these financial liabilities is to finance the Company's operations. The Company has various financial assets such as trade receivables, other accounts receivable, cash and cash equivalents, which arise directly from its operations. The Company also enters into derivative transactions, primarily interest rate swap and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of financing.

The Company's policy is and has been throughout 2011 and 2010 that no speculative trading in derivatives shall be undertaken except as noted below. The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Audit Committee of the Board of Directors reviews and approves policies for managing each of these risks, which are summarized below.

### INTEREST RATE RISK

The Company's exposure to the risk of changes in market interest rates arises out of the Company's short-term debt obligations with floating interest rates. For both of fiscal 2011 and 2010 the Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Company's objective is to keep between 35% and 55% of its borrowings at fixed rates of interest. To manage this, the Company enters into fixed rate debt facilities or interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Interest rate Options that effectively fix the maximum rate of interest that the Company will pay may also be used to manage this exposure. Under the terms of the long-term debt the Company is committed to hedge 50% of its long-term debt for a period of 2 years. At December 31, 2011: 1% (January 1, 2011: 50%; January 3, 2010: 65%) of the Company's borrowings are at a fixed rate of interest, which will increase by March 16, 2012, as 50% must be fixed according to the terms of the long-term debt.

The following table demonstrates the sensitivity of the Company's profit before tax to a change in interest rates, with all other variables held constant (through the impact on floating rate borrowings). There is no impact on the Company's equity except through changes in income.

(Amounts in \$000s)	US\$	CAD\$	Increase/ (decrease) in basis points	Annualized (decrease)/ increase on profit before tax (\$000s)
<b>December 31, 2011</b>				
Current bank loans:	\$ –	\$ 10,182	25/(25)	(25)/25
	\$ 109,924	\$ 111,793	25/(25)	(279)/279
Long-term debt:	\$ 250,000	\$ 254,250	25/(25)	(636)/636
January 1, 2011				
Current bank loans:	\$ –	\$ 4,735	25/(25)	(12)/12
	\$ 38,500	\$ 38,292	25/(25)	(96)/96
As at January 3, 2010				
Current bank loans:	\$ –	\$ 974	25/(25)	(15)/15
	\$ 21,153	\$ 22,139	25/(25)	(101)/101
Long-term debt:	\$ 4,950	\$ 5,180	25/(25)	(15)/15

### FOREIGN CURRENCY RISK

As a result of significant investment in operations in the United States through a self-sustaining subsidiary, the Company's balance sheet can be affected significantly by movements in the US\$/C\$ exchange rate. The Company seeks to mitigate some of the effect of its structural currency exposure by borrowing in U.S. dollars. Between 10% and 40% of the Company's net investment in non-Canadian operations is hedged in this manner.

In addition, the Company's equity will change as a result of foreign exchange fluctuations as it has a net investment in U.S. subsidiaries. On December 31, 2011, the Company had \$52.9 million designated as a hedge protecting approximately 34% of the exposure (January 1, 2011: \$5 million protecting approximately 16% of the exposure). Based on the net investment as of December 31, 2011, a 1-cent increase/(decrease) in the U.S. exchange rate will increase/(decrease) equity by approximately \$1.0 million (January 1, 2011: \$0.3 million; January 3, 2010: \$0.5 million).

The Company also has transactional currency exposures. Such exposure arises from sales or purchases by the Company in currencies other than its functional currency. 83% (January 1, 2011: 78%; January 3, 2010: 75%) of the Canadian operation's cost of sales is denominated in currencies other than the Company's functional currency, 37% of the total Company's cost of sales (January 1, 2011: 38%; January 3, 2010: 35%), while 92% of the Canadian operation's sales are denominated in the Company's functional currency (January 1, 2011: 97%; January 3, 2010: 96%).

The Company hedges forecasted cash flows for purchases of products where the purchase price is substantially known in advance. The policy dictates that cash flows out 15 months are hedged between a minimum and maximum percent that declines by quarter the further in the future the cash flows. The Company does not hedge cash flows on certain seafood purchases in which the ultimate selling prices charged to the Company's customers move with changes in exchange rates. It is the Company's policy to set the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. The Company also has foreign exchange risk related to the input costs of commodities related to freight surcharges on transportation costs, paper products in packaging, grain products in its breeding and batters, and cooking oils. The Company does not actively hedge these inputs, relying where possible on fixed price contracts, from three to 12 months with suppliers.

At December 31, 2011, the Company had hedged 55% (January 1, 2011: 60%; January 3, 2010: 50%) of its targeted foreign currency purchases for its Canadian operations, extending to December, 2013. The Company does not include certain commodity products in its hedging program due to the commodity nature of the marketplace. Excluding the impact of the Company's hedges, the sensitivity to a change in the U.S. dollar exchange rate, with all other variables held constant, of the Company's profit before tax is approximately \$1.9 million (January 1, 2011: \$1.7 million; January 3, 2010: \$1.7 million) for a 1-cent increase/(decrease) in the U.S. dollar rate, based on estimated annual foreign exchange exposure.

The Company's equity can fluctuate due to changes in the value of the U.S. dollar, forward exchange contracts and its net investment in its U.S. subsidiaries. The Company's forward exchange contracts are summarized in note 22, and changes in the U.S. dollar exchange rate will result in changes to the fair value of these contracts, which flow through comprehensive income.

## CREDIT RISK

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are managed and monitored at the corporate level on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company's top ten customers account for 47% (January 1, 2011: 57%; January 3, 2010: 57%) of the trade receivables at year end with the largest customer accounting for 15% (January 1, 2011: 13%; January 3, 2010: 11%). Five out of ten, for the current and the preceding two periods: (January 1, 2011 and January 3, 2010) of the customers are investment grade with two being substantial private enterprises. The Company does not purchase credit insurance on its trade accounts receivable.

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

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

## LIQUIDITY RISK

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next 12 months. Working capital and cash balances are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable, and finance leases. The Company's objective is that not more than 50% of borrowings should mature in the next 12-month period. Approximately 1.0% (January 1, 2011: 10%; January 3, 2010: 7%) of the Company's long-term debt will mature in less than one year at December 31, 2011 based on the carrying value of borrowings reflected in the financial statements. At December 31, 2011, the Company was in compliance with all covenants and terms of its debt facilities.

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

(Amounts in \$000s)

As at December 31, 2011	Bank loans	Accounts payable	Long-term debt	Finance lease obligations	Total
Due within 1 year	\$ -	\$ 108,553	\$ 2,543	\$ 1,064	\$ 112,160
Due in 1-3 years	-	-	11,441	1,410	12,851
Due in 3-5 years	121,975	-	15,256	1,044	138,275
Thereafter	-	-	225,010	145	225,155
	\$ 121,975	\$ 108,553	\$ 254,250	\$ 3,663	\$ 488,441

As at January 1, 2011

Due within 1 year	\$ -	\$ 60,065	\$ 4,426	\$ 972	\$ 65,463
Due in 1-3 years	43,027	-	44,215	1,886	89,128
Due in 3-5 years	-	-	-	1,159	1,159
	\$ 43,027	\$ 60,065	\$ 48,641	\$ 4,017	\$ 155,750

As at January 3, 2010

Due within 1 year	\$ -	\$ 49,905	\$ 4,582	\$ 864	\$ 55,351
Due in 1-3 years	23,113	-	50,352	1,961	75,426
Due in 3-5 years	-	-	-	739	739
	\$ 23,113	\$ 49,905	\$ 54,934	\$ 3,564	\$ 131,516

**SEAFOOD PRICE RISK**

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The Company is dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. The Company buys as much as \$600 million of this product annually. A 1% change in the price of frozen raw seafood materials would increase/decrease the Company's procurement costs by \$6 million. Prices can fluctuate and there is no formal commercial mechanism for hedging either sales or purchases. Purchases of seafood on global markets are principally in U.S. dollars. We hedge exposures to currency changes, and we enter into longer-term supply contracts when possible. All foreign currency hedging activities are carried out in accordance with our formal *Price Risk Management Policy*, under the oversight of the Audit Committee.

The Company has multiple strategies to manage seafood costs. Wherever possible, the Company minimizes the percentage of seafood that is being supplied by a single source and tries to have at least two suppliers for our seafood product purchases.

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

Also as part of the Company's strategy to ensure continuity of supply of seafood at the lowest possible cost, the Company established a joint venture with a European raw material supplier (as defined in note 7). The joint venture, along with an Asian company, established a processing facility in China and began operations in 2010. This facility processes products from raw material primarily sourced from our European joint venture partner and sold either to us, or to our joint venture partner. As part of the Icelandic USA Acquisition, the Company now owns a primary processing facility in China in addition to its joint venture. This assists the Company on ensuring continuity of supply for its operations.

**COMMODITY RISK**

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The Company's operating costs are affected by changes in crude oil prices, which particularly influence the costs of outgoing freight. Higher crude oil prices increase freight costs as freight suppliers add fuel surcharges. To manage this risk, in accordance with the Company's *Price Risk Management Policy*, the Company can enter into costless collar hedges but has not done so in the last four years.

Other commodities, whose fluctuating market prices may affect financial results, are flour, paper products and frying oils. The Company's *Price Risk Management Policy* dictates the use of fixed pricing with suppliers whenever possible but allows the use of hedging with costless tunnels or swaps if deemed prudent. Throughout 2011 and 2010 the Company has managed this risk through contracts with our suppliers. World commodity prices for flour, soy and canola oils, (important ingredients in the manufacture of many of the Company's products) increased in 2011 after the decreases seen in 2010. The Company currently has fixed price contracts with suppliers, covering a significant portion of the Company's 2012 commodity purchase requirements.

## 25. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances in the consolidated statements of cash flows:

(All amounts in \$000s)	Fifty-two weeks ended	
	December 31, 2011	January 1, 2011
Accounts receivable	\$ 5,484	\$ 9,194
Inventories	(34,828)	(9,501)
Prepays	(324)	70
Accounts payable and accrued liabilities	4,526	8,300
	\$ (25,142)	\$ 8,063

Components of income and expenses included in the consolidated statements of income:

Included in finance costs:	December 31, 2011	January 1, 2011
Interest expense on bank loans	\$ 1,840	\$ 1,017
Interest expense on long-term debt	3,439	3,192
Interest expense from capital leases	215	233
Deferred financing charges	327	623
Interest on letter of credit for SERP	187	131
Foreign exchange gain	(25)	(31)
<b>Total finance costs</b>	<b>\$ 5,983</b>	<b>\$ 5,165</b>

### Foreign exchange gains included in:

Cost of sales	\$ (210)	\$ 4
Finance costs	25	31
<b>Total foreign exchange (expense) gains</b>	<b>\$ (185)</b>	<b>\$ 35</b>

### Losses (gains) on disposal of assets included in:

	December 31, 2011	January 1, 2011
Cost of sales	\$ 210	\$ 97
Selling, general and administrative expenses	(17)	(84)
<b>Total losses (gains) on disposal of assets</b>	<b>\$ 193</b>	<b>\$ 13</b>

### Employee compensation and benefit expense:

	December 31, 2011	January 1, 2011
Wages and salaries (including payroll benefits)	\$ 74,841	\$ 71,669
Future employee benefit costs	2,763	2,521
Share-based payment transaction expense	651	3,732
Termination benefits	948	824
<b>Total employee compensation and benefit expense</b>	<b>\$ 79,203</b>	<b>\$ 78,746</b>

## 26. EXPLANATION OF TRANSITION TO IFRS

As stated in note 2, Basis of Preparation, these are the Company's first audited consolidated IFRS-compliant financial statements. The accounting policies set out in note 3 have been applied in preparing the financial statements for the fifty-two week periods ended December 31, 2011 and January 1, 2011 and in the preparation of the opening IFRS statement of financial position at January 3, 2010 (the Company's date of transition to IFRS).

In preparing its opening consolidated statement of financial position, the Company has adjusted amounts reported previously in its audited fiscal 2010 financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables, and the notes that accompany the tables in the following pages:



## Consolidated statement of financial position:

(In thousands of Canadian dollars)		CGAAP		IFRS	
	Note 26 (c)	January 3 2010	Reclassifications	Adjustments	January 3 2010
			(Note 26(c)(xiv))		
<b>ASSETS</b>					
<b>Current:</b>					
Cash and cash equivalents		\$ 1,953	\$ -	\$ -	\$ 1,953
Accounts receivable		59,553	(1,590)	-	57,963
Income tax receivable		1,288	-	-	1,288
Other financial assets		-	1,590	-	1,590
Inventories	v	119,586	-	(278)	119,308
Prepaid expenses		2,024	-	-	2,024
Deferred income taxes		3,846	(3,846)	-	-
<b>Total current assets</b>		<b>188,250</b>	<b>(3,846)</b>	<b>(278)</b>	<b>184,126</b>
<b>Non-current:</b>					
Property, plant and equipment	ix	59,528	-	9,533	69,061
Deferred income taxes	xii	349	81	3,198	3,628
Other receivables and sundry investments		243	-	163	406
Employee future benefits	iii	7,391	-	(7,273)	118
Intangible assets	vii	19,785	-	180	19,965
Goodwill	i	28,701	-	7,282	35,983
		115,997	81	13,083	129,161
		\$ 304,247	\$ (3,765)	\$ 12,805	\$ 313,287
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current:</b>					
Bank loans	vi	\$ 22,786	\$ -	\$ 265	\$ 23,051
Accounts payable and accrued liabilities	i,iv	54,876	(5,412)	441	49,905
Provisions	viii	-	1,423	-	1,423
Other current financial liabilities		-	3,989	-	3,989
Income taxes payable		29	-	-	29
Current portion of long-term debt		4,582	-	-	4,582
Current portion of finance lease obligations		864	-	-	864
<b>Total current liabilities</b>		<b>83,137</b>	<b>-</b>	<b>706</b>	<b>83,843</b>
<b>Non-current:</b>					
Long-term debt		50,848	(928)	-	49,920
Other long-term financial liabilities		-	928	-	928
Long-term finance lease obligations		2,700	-	-	2,700
Other long-term liabilities	i,iv	1,254	-	(1,254)	-
Deferred income taxes	xii	4,688	(3,765)	4,782	5,705
Employee future benefits	iii	4,540	-	2,451	6,991
<b>Total liabilities</b>		<b>147,167</b>	<b>(3,765)</b>	<b>6,685</b>	<b>150,087</b>
<b>Shareholders' equity</b>					
Common shares	i,xi	108,804	-	(2,706)	106,098
Contributed surplus	xi	364	-	(364)	-
Retained earnings	xiii	64,690	-	(5,450)	59,240
Accumulated other comprehensive loss	ii,iii,v	(16,778)	-	14,640	(2,138)
<b>Total equity</b>		<b>157,080</b>	<b>-</b>	<b>6,120</b>	<b>163,200</b>
		\$ 304,247	\$ (3,765)	\$ 12,805	\$ 313,287

(In thousands of Canadian dollars)

		CGAAP		IFRS	
	Note 26 (c)	January 1 2011	Reclassifications	Adjustments	January 1 2011
			(Note 26(c)(xiv))		
<b>ASSETS</b>					
<b>Current:</b>					
Cash and cash equivalents	x	\$ 806	\$ -	\$ (208)	\$ 598
Accounts receivable	x	51,349	(890)	(7)	50,452
Income tax receivable		701	-	-	701
Other financial assets		-	890	-	890
Inventories	v,x	133,517	-	(1,537)	131,980
Prepaid expenses	x	1,890	-	(1)	1,889
Deferred income taxes		2,389	(2,389)	-	-
<b>Total current assets</b>		<b>190,652</b>	<b>(2,389)</b>	<b>(1,753)</b>	<b>186,510</b>
<b>Non-current:</b>					
Property, plant and equipment	ix,x	58,829	-	8,440	67,269
Deferred income taxes	xii	-	1,048	1,355	2,403
Other receivables and miscellaneous assets	x	295	-	519	814
Investment in equity accounted investee	x	-	-	157	157
Employee future benefits	iii	3,065	-	(2,974)	91
Intangible assets	vii	31,066	-	173	31,239
Goodwill	i	33,055	-	6,764	39,819
		126,310	1,048	14,434	141,792
		\$ 316,962	\$ (1,341)	\$ 12,681	\$ 328,302
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current:</b>					
Bank loans	vi	\$ 42,423	\$ -	\$ 302	\$ 42,725
Accounts payable and accrued liabilities	i,iv,x	64,819	(2,884)	(1,870)	60,065
Provisions	viii	-	550	-	550
Other current financial liabilities		-	2,334	-	2,334
Income taxes payable		3,230	-	-	3,230
Current portion of long-term debt		4,426	-	-	4,426
Current portion of finance lease obligations		972	-	-	972
<b>Total current liabilities</b>		<b>115,870</b>	<b>-</b>	<b>(1,568)</b>	<b>114,302</b>
<b>Non-current:</b>					
Long-term debt		44,119	(207)	-	43,912
Other long-term financial liabilities		-	207	-	207
Long-term finance lease obligations		3,045	-	-	3,045
Other long-term liabilities	i,iv	673	-	(673)	-
Deferred income taxes	xii	8,872	(1,341)	2,364	9,895
Employee future benefits	iii	842	-	8,788	9,630
<b>Total liabilities</b>		<b>173,421</b>	<b>(1,341)</b>	<b>8,911</b>	<b>180,991</b>
<b>Shareholders' Equity</b>					
Common shares	i,xi	79,563	-	(1,237)	78,326
Non-controlling interest	x	50	-	(50)	-
Contributed surplus	xi	10,634	-	(1,717)	8,917
Retained earnings	xiii	72,682	-	(7,125)	65,557
Accumulated other comprehensive loss	ii,iii,v	(19,388)	-	13,899	(5,489)
<b>Total equity</b>		<b>143,541</b>	<b>-</b>	<b>3,770</b>	<b>147,311</b>
		\$ 316,962	\$ (1,341)	\$ 12,681	\$ 328,302

## Consolidated statement of income:

(Unaudited) (In thousands of Canadian dollars, except per share information)	Note 26 (c)	Fifty-two weeks ended			
		CGAAP	IFRS		January 1
		January 1 2011	Reclassifications	Adjustments	January 1 2011
<b>Sales</b>		\$ 584,715	\$ -	\$ -	\$ 584,715
Cost of sales	iii,iv,v,ix	444,359	2,070	1,113	447,542
Distribution expenses		29,591	(29,591)	-	-
<b>Gross profit</b>		110,765	27,521	(1,113)	137,173
Foreign exchange gain		(35)	35	-	-
Business acquisition, integration and other expenses	ix	875	-	-	875
Distribution expenses	ix	-	29,968	59	30,027
Selling, general and administrative expenses	iii,ix	66,477	3,166	(1,143)	68,500
Stock option expense		4,353	(4,353)	-	-
<b>Results from operating activities</b>		39,095	(1,295)	(29)	37,771
Amortization of intangible assets		1,204	(1,204)	-	-
Short-term interest expense	i,iv,vi	1,501	(1,158)	(343)	-
Long-term interest expense		3,736	(3,736)	-	-
Loss on disposal of property, plant and equipment		60	(60)	-	-
Finance costs	i,iv,vi	-	4,863	302	5,165
Share of income of equity accounted investee (net of income tax)	x	-	-	(18)	(18)
<b>Income before income taxes</b>		32,594	-	30	32,624
Income taxes					
Current		6,380	-	-	6,380
Deferred	xi	6,398	-	(139)	6,259
<b>Total income taxes</b>		12,778	-	(139)	12,639
<b>Net income for the period</b>		\$ 19,816	\$ -	\$ 169	\$ 19,985
<b>PER SHARE EARNINGS</b>					
<b>Earnings per common share</b>					
Basic		1.23			1.24
Diluted		1.22			1.23
<b>Weighted average number of shares outstanding for the period</b>					
Basic		16,096,010			16,096,010
Diluted		16,244,728			16,243,780

## Consolidated statement of comprehensive income:

(Unaudited) (In thousands of Canadian dollars)	Note 26 (c)	Fifty-two weeks ended		
		CGAAP	IFRS	
		January 1 2011	Adjustments	January 1 2011
<b>Net income for the period</b>		\$ 19,816	\$ 169	\$ 19,985
Other comprehensive loss, net of income tax				
Gain on hedge of net investment in foreign operations		313	-	313
Loss on translation of net investment in foreign operations		(3,435)	(647)	(4,082)
		(3,122)	(647)	(3,769)
Effective portion of changes in fair value of cash flow hedges	v	(2,251)	-	(2,251)
Net change in fair value of cash flow hedges transferred to income		2,763	(94)	2,669
		512		418
Defined benefit plan actuarial losses	iii	-	(1,727)	(1,727)
Other comprehensive loss, net of income tax		(2,610)	(2,374)	(5,078)
<b>Total comprehensive income for the period</b>		\$ 17,206	\$ (2,205)	\$ 14,907

	Fifty-two weeks ended		
	CGAAP	IFRS	
	January 1, 2011	Adjustments	January 1, 2011
<b>Cash provided by (used in) operations:</b>			
Net income from continuing operations for the period	\$ 19,816	\$ 169	\$ 19,985
<b>Charges (credits) to income not involving cash from operations:</b>			
Depreciation and amortization	8,357	148	8,505
Loss on disposal of assets	139	(25)	114
Income tax expense	6,398	6,241	12,639
Interest expense	-	5,165	5,165
Share-based payment expense	3,715	(620)	3,095
Payments of employee future benefits less than expense	638	(329)	309
Share of income of equity accounted investee	-	(18)	(18)
Movement of provisions	-	1,642	1,642
Unwound foreign exchange gains reclassified from Accumulated Other Comprehensive Income	(165)	-	(165)
Unrealized foreign exchange loss	(161)	31	(130)
Cash flow from operations before changes in non-cash working capital	38,737	12,404	51,141
Net change in non-cash working capital balances	11,631	(3,568)	8,063
	50,368	8,836	59,204
Interest paid	-	(4,717)	(4,717)
Income taxes paid	-	(4,131)	(4,131)
	50,368	(12)	50,356
<b>Cash provided by (used in) financing activities:</b>			
Increase in current working capital facilities	20,674	-	20,674
Proceeds from lease financing	668	-	668
Repayment of long-term debt	(4,511)	-	(4,511)
Repayment of finance lease obligations	(806)	-	(806)
Non-controlling interest investment	50	(50)	-
Common share dividends paid	(4,379)	-	(4,379)
Non-voting common share dividends paid	(859)	-	(859)
Advances to affiliates	-	(5)	(5)
Share-based payments exercised	32	-	32
Share retraction costs	(150)	-	(150)
Repurchase of capital stock	(25,480)	-	(25,480)
	(14,761)	(55)	(14,816)
<b>Cash provided by (used in) investing activities:</b>			
Purchase of property, plant and equipment (net of investment tax credits)	(4,413)	74	(4,339)
Net proceeds on disposal of assets	34	-	34
Acquisition of business	(30,952)	-	(30,952)
Change other receivables and miscellaneous assets	(1,241)	(221)	(1,462)
	(36,572)	(147)	(36,719)
<b>Foreign exchange decrease on cash and cash equivalents</b>	(182)	6	(176)
<b>Change in cash and cash equivalents during the period</b>	(1,147)	(208)	(1,355)
<b>Cash and cash equivalents, beginning of period</b>	1,953	-	1,953
<b>Cash and cash equivalents, end of period</b>	\$ 806	\$ (208)	\$ 598

**(A) IFRS 1 MANDATORY EXCEPTIONS**

IFRS 1 outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 3, 2010:

**(i) Hedge accounting**

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as of its transition date are reflected as hedges in the Company's results under IFRS. Each of the Company's hedging relationships were assessed to conclude that all hedges recorded under Canadian GAAP qualified for hedge accounting under IFRS at the transition date.

**(ii) Use of estimates**

Retrospective adjustments to accounting judgments or estimates are not allowed as part of the transition, unless there is objective evidence that those estimates were in error. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

**(B) IFRS 1 EXEMPTIONS**

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company elected to apply the following exemptions from full retrospective application of IFRS in its opening statement of financial position dated January 3, 2010:

**(i) Business combinations**

The Company elected to utilize an option provided by IFRS 1 to retrospectively apply IFRS 3 (2008), Business combinations ("IFRS 3 (2008)") to business combinations that occurred subsequent to a specific date, which may be on or before the Company's transition date. As such we have restated all business combinations that closed on or after December 19, 2007 to reflect the requirements of IFRS 3 (2008).

**(ii) Consolidated and Separate Financial Statements**

In accordance with IFRS 1, if a company elects to apply IFRS 3 (2008) retrospectively, the amendments to IAS 27, Consolidated and separate financial statements ("IAS 27 (2008)"), must also be applied retrospectively. As the Company elected to retroactively restate in accordance with IFRS 3 (2008) effective December 19, 2007, we are also required to early adopt the amendments to IAS 27 (2008) effective December 19, 2007, which did not have any financial impact on the Company's statements.

**(iii) Currency translation differences**

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, the effects of changes in foreign exchange rates ("IAS 21"), from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses from foreign operations to be reset to zero at a Company's transition date. The Company chose to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences related to this foreign operation that arose before the date of transition to IFRS will not affect the gain or loss on disposal of this foreign operation.

**(iv) Employee benefits – recognition of actuarial gains or losses**

The Company elected to apply an optional exemption provided by IFRS 1 that allows unrecognized cumulative actuarial gains or losses and vested past service costs (but not any unrecognized non-vested past service costs), as calculated in conjunction with an IFRS-compliant actuarial valuation, to be immediately recognized on the Company's date of transition to IFRS, as part of the transition adjustment to retained earnings.

**(v) Fair value of property, plant and equipment as deemed cost**

In lieu of full retrospective application of IAS 16, property, plant and equipment (“IAS 16”) on transition, IFRS 1 permits that a first-time adopter, at the date of transition, can either record its property, plant and equipment at deemed cost, or IFRS-compliant historical cost. The option can be applied separately to each asset or class of assets. The Company elected to use a combination of both. The approach taken resulted in the Company:

- Continuing to recognize real estate, software, computers and furniture and fixtures on a historical cost basis with an adjustment to revise the accumulated depreciation in accordance with IFRS-compliant estimated useful lives on a component level basis; and
- An independent fair value appraisal for production equipment was obtained. The fair value of production equipment was its deemed cost as at the transition date and depreciation for those assets will begin as at that date using the revised remaining estimated useful lives determined in conjunction by the valuation.

**(vi) Borrowing costs**

IFRS 1 permits a first-time adopter to capitalize borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2009 or the date of transition to IFRS, whichever is the later or designate an earlier date as the effective date, which may be part way through an accounting period. Whichever date is determined as the effective date, the first-time adopter capitalizes borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date. The Company elected to capitalize borrowing costs prospectively effective January 3, 2010, the transition date. The Company has not identified any capitalized borrowing costs before this date requiring a retrospective adjustment.

**(vii) Leases**

Retrospective application of IFRS would require the Company to reassess the classification of contracts in accordance with IFRIC 4, determining whether an arrangement contains a lease (“IFRIC 4”), when the application of Canadian GAAP in accordance with EIC 150, determining whether an arrangement contains a lease, already produced the same result. IFRS 1 permits that if a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRS. The Company elected to not reassess existing contracts effective January 3, 2010, the Company’s transition date, in accordance with IFRIC 4.

**(viii) Share-based payments**

IFRS 2, Share-Based Payments (“IFRS 2”), encourages but does not require the application of its provisions to equity instruments granted on or before November 7, 2002, and requires the application only to equity instruments granted after November 7, 2002 that had not vested by the Company’s transition date. The Company elected to use the exemption provided under IFRS 1 and apply IFRS 2 for all equity instruments granted after November 7, 2002.

**(C) NOTES TO THE STATEMENTS OF RECONCILIATION AND SUMMARY OF CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company’s actual cash flows, it has resulted in changes to the Company’s reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company’s Canadian GAAP statement of financial position as at January 3, 2010 and January 1, 2011, and its income statement, statement of comprehensive income and statement of cash flows for the fifty-two weeks ended January 1, 2011 have been reconciled to IFRS, with the resulting differences explained below.

**(i) Business combinations**

As stated in the section entitled “IFRS 1 Exemptions”, the Company restated its purchase price allocation in accordance with IFRS 3 (2008) for all business combinations subsequent to December 19, 2007, which impacted the Company’s purchase price allocation for the Company’s acquisition of the manufacturing and marketing assets of Fishery Products International Limited (“FPI”) such that we decreased the purchase consideration recognized under Canadian GAAP by \$5.6 million. IFRS 3 (2008) required us to expense the transaction costs incurred of \$2.9 million in the period in which they occurred and adjust the fair value of the share consideration issued to reflect the market bid price as at the acquisition date of \$9.64 per share as compared to the Canadian GAAP value of \$10.09 per share, which was based on the volume-weighted average unit closing price determined to be representative of the closing price for the five days before and after the measurement date, resulting in a decrease to the total value of share consideration paid by \$2.7 million.

Under Canadian GAAP, included in the liabilities acquired on acquisition of FPI was an amount payable for costs that resulted from the Company’s restructuring as a result of the purchase of FPI. For a liability to qualify for recognition as part of applying the acquisition method in accordance with IFRS, the identifiable liability assumed must be part of what was exchanged in the business combination transaction rather than the result of separate transactions, such as a Company restructuring. As a result, we derecognized the liability for restructuring in the business combination of \$0.6 million and decreased goodwill acquired by the same amount.

Also in accordance with IFRS's definition of onerous contracts, we were required to derecognize the liability for our Burin production shortfall payments to the Province of Newfoundland of \$1.8 million of which \$1.6 million had been included in the net assets acquired under Canadian GAAP. Under IFRS, the production shortfall payments will be recognized in the accounting period of a year in which it would be no longer possible to assign sufficient production to our Burin location to meet the production requirements.

As a result of the Company's acquisition of FPI under Canadian GAAP, we were able to recognize the benefit of previously unrecognized tax loss carry-forwards. The future tax asset offset the future tax liabilities generated from the acquisition of the FPI assets. The recognition of the future tax asset reduced the amount of goodwill that would have otherwise been recorded. Under IFRS, however, this is not permitted, and the recognition of a deferred income tax asset by the acquirer resulting from a business combination must be accounted for as income, and not part of the accounting of that business combination. As a result, the Company was required to reverse the entry previously taken, which increased the Company's goodwill balance and opening retained earnings by \$14.1 million.

The restatement of our purchase price allocation and the reversal of our Burin liability resulted in the following adjustments at the transition date for the Company:

1. An increase to total opening retained earnings of \$10.9 million;
2. A decrease to accounts payable of \$0.6 million and other long-term liabilities of \$1.2 million;
3. A reduction to share capital of \$2.7 million;
4. The recognition of a net deferred income tax liability of \$1.0 million; and
5. A net increase to goodwill of \$7.3 million in Canadian dollars;
  - a. A reduction to the Canadian reporting unit carrying value of \$3.1 million in Canadian dollars; and
  - b. An increase to the U.S. reporting unit carrying value of \$9.9 million in U.S. dollars.

The Company did not recognize any significant changes in its accounting policies for business combinations as a result of the Company's transition to IFRS due to the Company's early adoption of CICA 1582, Business Combinations, under Canadian GAAP for acquisitions subsequent to the effective date January 3, 2010, which is substantially converged with IFRS 3 (2008).

The impact of restating our purchase price allocation and the reversal of the Burin liability impacted our subsequent reporting periods, in addition to the transition entries noted above, as follows:

As at and for the fifty-two weeks ended January 1, 2011, the Company recognized:

1. An increase in accounts payable by \$0.03 million and long-term liabilities by \$0.06 million to reverse the Canadian GAAP accretion; and reduced long-term liabilities by \$0.6 million to reflect the current year expense.
2. A decrease in short-term interest expense (finance costs) of \$0.08 million and increased cost of sales of \$0.6 million with a net increase to deferred income taxes of \$0.2 million.

### **(ii) Foreign currency cumulative translation adjustment**

As noted in the section entitled "IFRS Exemption Options," the Company has elected to deem all foreign currency translation differences that arose prior to the transition date in respect of all foreign operations to be nil at the date of transition. The cumulative translation adjustment balance, net of tax, under Canadian GAAP as of January 3, 2010 of \$14.5 million was recognized as an adjustment to retained earnings from Accumulated Other Comprehensive Income. The application of the exemption had no impact on net equity. There was no impact on the foreign currency cumulative translation account in subsequent periods.

### **(iii) Employee future benefit plans**

As stated in the section entitled "IFRS 1 Exemptions", the Company elected to recognize all cumulative actuarial gains and losses that existed at the transition date in opening retained earnings for all of its employee benefit plans, a transition approach referred to as a "fresh start". At the date of transition, the Company recognized the following adjustments with respect to the election:

As at the transition date:

1. An increase to employee future benefit liabilities of \$2.4 million;
2. A reduction to employee future benefit assets of \$7.3 million;
3. A net deferred income tax asset of \$2.6 million; and
4. A reduction to opening retained earnings of \$7.1 million.

As at and for the fifty-two weeks ended January 1, 2011:

1. A net increase to employee future benefit liabilities of \$2.0 million;
2. A net deferred income tax asset of \$0.5 million;
3. An increase to Accumulated Other Comprehensive Income of \$1.7 million; and
4. A reduction to employee future benefit expense of \$0.3 million with an increase to deferred income taxes of \$0.1 million.

The adjustments above resulted from the following:

- In applying the fresh-start option, the Company recognized all cumulative actuarial gains and losses calculated under Canadian GAAP at the date of transition.
- Under Canadian GAAP, the Company utilized the corridor method, which allowed the gains and losses to stay off-balance sheet as long as they were less than 10% of the plan assets or of the defined benefit obligation, whichever was higher. While there is a deferral method available under IFRS, on transition, the Company elected to adopt the immediate recognition method, an option available in IAS 19, where the Company is able to write off actuarial gains and losses directly to comprehensive income each year. This resulted in lower pension expense recognized in fiscal 2011.
- Also included in the adjustment to opening retained earnings on transition to IFRS is the recognition of all immediately vested past service costs, which are required to be immediately recognized under IFRS, whereas under Canadian GAAP they were allocated over the average remaining service period of the employees.
- The Company also amended its accounting policies for future benefit improvements and determined that a provision be made for advance recognition of benefit improvements that were deemed to have established a constructive obligation to the Company's employees.

A summary of changes in the Company's accounting policies on transition from Canadian GAAP to IFRS with respect to employee future benefits are as follows:

#### **ACTUARIAL GAINS AND LOSSES**

Canadian GAAP – Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a “corridor” approach. The “corridor” was 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. This excess of 10% is amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% “corridor” are deferred.

IFRS – The Company elected to recognize all actuarial gains and losses immediately in a separate statement of comprehensive income without recycling to the income statement in subsequent periods. As a result, actuarial gains and losses are not amortized to the income statement but rather are recorded directly to comprehensive income at the end of each period. As a result, the Company adjusted its pension expense to remove the amortization of actuarial gains and losses.

#### **MEASUREMENT DATE**

Canadian GAAP – The measurement date of the defined benefit obligation and plan assets can be a date up to three months prior to the date of the financial statements, provided the entity adopted this practice consistently from year to year. The most recent accounting extrapolation on all pension and non-pension plans was completed as of January 2, 2010. The most recent funding valuations for the Company's defined benefit plans were completed as at September 1, 2008 for management and salaried employees, December 31, 2007 for Nova Scotia union employees and October 31, 2008 for the SORP.

IFRS – An entity is required to determine the present value of the defined benefit obligation and the fair value of plan assets with sufficient regularity such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date. As a result, on transition to IFRS, the Company re-measured its defined benefit obligations and plan assets as at the transition date, January 3, 2010, which impacted the calculation of pension expense.

#### **FAIR VALUE OF AND EXPECTED RETURN ON PLAN ASSETS**

Canadian GAAP – The expected return on plan assets is the product of the expected long-term rate of return on plan assets and a market-related fair value of plan assets. The market-related fair value recognized changes in the fair value of plan assets over a five-year period.

IFRS – The expected return on plan assets is the product of the expected long-term rate of return on plan assets and a fair value of plan assets on the balance sheet date. As a result, the Company adjusted its pension expense to reflect an expected return on plan assets using the fair value of its plan assets at the end of each period.



**ACCRUED BENEFIT ASSET**

Canadian GAAP – When a defined benefit plan gives rise to an accrued benefit asset, a valuation allowance is recognized for any excess of the accrued benefit asset over the expected future benefit. The accrued benefit asset is presented in the statement of financial position net of the valuation allowance. A change in the valuation allowance is recognized in earnings for the period in which the change occurs.

IFRS – Similar to Canadian GAAP, IFRS limits the recognition of the net benefit asset under certain circumstances to the amount that is recoverable. Since the Company has elected to recognize all actuarial gains and losses in other comprehensive income, changes in the valuation allowance are recognized in other comprehensive income in the period in which the changes occurred. As a result, the Company adjusted its pension expense to reflect this treatment.

**(iv) Share-based payments**

IFRS 2 is effective for the Company as of January 3, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following adjustments being made at the transition date:

1. All equity-settled stock options granted subsequent to November 7, 2002 were restated in accordance with IFRS 2; as stated in the section entitled “IFRS 1 Exemptions”, the transition method selected by the Company was to retroactively apply IFRS 2 to all equity instruments granted on or after November 7, 2002. As a result of selecting this transition approach, we reversed the Company’s historical Canadian GAAP equity-settled share-based payment transaction compensation charges and related equity components, resulting in a reclassification of \$0.4 million from contributed surplus to opening retained earnings;
2. All cash-settled options that have not been settled as at the transition date have been restated in accordance with IFRS 2; as a result we recognized an increase in accounts payable and accrued liabilities of \$1.04 million and a corresponding reduction to opening retained earnings with respect to the Company’s cash-settled share-based payment transactions. The adjustment is a result of the Company accounting for these share-based payment arrangements using the intrinsic value under Canadian GAAP, which has been adjusted to reflect the fair value of the liability in compliance with the requirements of IFRS; and
3. The Company also reclassified amounts previously recognized in other long-term liabilities under Canadian GAAP for share-based payments to accounts payable and accrued liabilities.

With respect to the change in the method used to value the share-based payment liability in accordance with IFRS, the Company recognized the following adjustments:

As at and for the fifty-two weeks ended January 1, 2011:

1. A decrease to accounts payable and accrued liabilities of \$0.6 million; and
2. A decrease to share-based payment expense of \$0.6 million.

A summary of changes in the Company’s accounting policies on transition from Canadian GAAP to IFRS with respect to share-based payments are as follows:

**RECOGNITION OF EXPENSE**

Canadian GAAP – For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS – Each tranche of an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition.

**FORFEITURES**

Canadian GAAP – Forfeitures of awards are recognized as they occur.

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. The Company restated its equity-settled options granted subsequent to November 7, 2002, as noted in point (1) above, and incorporated an estimate of forfeitures accordingly and determined that adjustments to its expense as recognized under Canadian GAAP were not necessary. The Company has included an estimate for forfeitures in arriving at the fair value of its cash-settled share-based payments.

#### **CASH-SETTLED SHARE-BASED PAYMENTS**

Canadian GAAP – A liability for share appreciation rights is accrued based upon the intrinsic value of the award with changes recognized in the income statement each period.

IFRS – An entity must measure the liability incurred at fair value by applying an option pricing model. Until the liability is settled, the fair value of the liability is re-measured at each reporting date, with changes in fair value recognized as the awards vest. Changes in fair value of vested awards are recognized immediately in earnings. As a result, the Company adjusted expenses associated with share appreciation rights to reflect the changes of the fair values of these awards on transition to IFRS.

#### **(v) Hedge accounting**

The Company uses cash flow hedge accounting to account for foreign exchange contracts, which are entered into based on the highly probable forecasted future cash outflows attributable to the Company's inventory purchases in U.S. dollars. The effective portion of changes in the fair value of derivatives entered into that are designated and qualify as cash flow hedges is recognized in other comprehensive income. Any gain or loss in fair value relating to the ineffective portion is recognized immediately in other income (expense).

Canadian GAAP permits any ineffectiveness resulting from when the hedged item is an anticipated transaction and the transaction does not occur by the end of the originally specified and documented time period but is considered highly probable to occur within an additional two-month period thereafter, that portion of ineffectiveness may be deferred in other comprehensive income until the anticipated transaction takes place. IFRS is consistent with Canadian GAAP with respect to permitting ineffectiveness being deferred into other comprehensive income with the exception that the delay in the anticipated transaction must be such that it occurs within a reasonably specific and generally narrow range of time, which, in practice, is considerably less than the two-month time period allowed under Canadian GAAP.

As a result, the Company was required to recognize the amount that had been deferred to other comprehensive income under Canadian GAAP as at the transition date relating to the over-hedged position as well as adjust for the ineffective portion of what was included in the Company's accounting for the gain and loss in inventory that would not have otherwise flowed through income prior to the IFRS transition date. This resulted in the Company recognizing the following adjustments:

As at the transition date:

1. A decrease to inventories of \$0.3 million;
2. A decrease to Accumulated Other Comprehensive Income of \$0.1 million;
3. A net deferred income tax asset of \$0.1 million; and
4. A reduction to opening retained earnings of \$0.3 million.

#### **(vi) Impairment of a financial asset**

The Company's accounting policy for debt issuance transaction costs include the costs incurred to obtain financings in the way of fees paid to agents, advisors, brokers and dealers, transfer taxes and duties. These transaction costs are and have been consistently reflected by the Company and its subsidiaries as a reduction in the carrying value of the associated financing obtained and amortized to interest expense using the effective interest method over the life of the debt consistent with the requirements of Canadian GAAP 3855 and IAS 39. IAS 39 requires, however, that if an entity revises its estimates of payments or receipts with respect to the associated financings, the entity shall adjust the carrying amount of the financial asset to reflect actual and revised estimated cash flows. As a result, on transition to IFRS, the Company was required to estimate the Company's expected future cash flows and as we do not anticipate to utilize the maximum credit available to the Company, the guidance with respect to an impairment of a financial asset under IFRS indicates that it is considered that we would have no remaining benefit from the deferred financing fees paid for a credit facility that is not being used (or proportionally not used) and as such this expenditure should no longer be capitalized. As a result, the Company made the following adjustments to record the impairment of deferred financing fees representing the pro rata share equal to the expected future unused portion of the working capital credit facility:

As at the transition date the Company recognized:

1. An increase in bank loans of \$0.3 million;
2. A net deferred income tax asset of \$0.1 million; and
3. A reduction to opening retained earnings of \$0.2 million.

As at and for the fifty-two weeks ended January 1, 2011 the Company recognized:

1. A decrease to bank loans of \$0.04 million;
2. A net deferred income tax liability of \$0.01 million; and
3. A decrease to short-term interest expense (finance costs) \$0.04 million with an increase in deferred taxes of \$0.01 million.

With respect to reversal of an impairment of a financial asset, IAS 39 indicates that if, in a subsequent period, we expect to, or begin to use more of the Company's facility, we would reverse the impairment taken if the decrease in the applicable impairment previously taken can be related objectively to an event occurring after the impairment was recognized (such as additional drawings on the Company's credit facility), and the previously recognized impairment loss would be reversed either directly in income or by adjusting an allowance account. The reversal should be made such that the carrying amount of the financial asset does not exceed what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The Company has not identified the need to reverse impairments taken as at this time.

#### **(vii) Impairment of a non-financial asset**

As described in note 26 (d) (i), the Company completed an impairment review of its assets both at its IFRS transition date, January 3, 2010 and for the fiscal year ended January 1, 2011 and concluded in both instances that no impairment losses in respect of the Company's cash-generating units should be recognized throughout 2010 nor has the Company identified any indicators of impairment subsequently throughout 2011. The Company assesses impairment for its indefinite lived intangible assets and goodwill by comparing the recoverable amount for each of its cash-generating units with its carrying value. The Company traditionally performs its annual test for impairment of its cash-generating units in the fourth quarter in accordance with the policy described in note 3(b).

The Company has determined that all prior period impairments recognized under Canadian GAAP with respect to its brand intangible assets are to be derecognized as a result of transitioning to IFRS. The method used to test if any impairment should be recognized for indefinite lived brand assets under Canadian GAAP is not IFRS-compliant. IFRS requires that indefinite lived intangible assets like the Company's brands are tested as part of the Company's test for impairment of its CGUs. As a result, on transition to IFRS, the Company derecognized previous impairments recognized under Canadian GAAP because there was no indication of impairment resulting from the IFRS-compliant transition date impairment test of the Company's CGUs.

As a result, the Company made the following adjustments to record the reversal of the impairment of indefinite lived intangible asset as at the transition date:

1. An increase in indefinite lived intangible brand assets of \$0.18 million;
2. A net deferred income tax asset of \$0.06 million; and
3. A reduction to opening retained earnings of \$0.12 million.

The transition adjustment above had no impact on subsequent reporting periods.

Changes in the Company's accounting policies on transition from Canadian GAAP to IFRS with respect to the recognition of an impairment of a non-financial asset are as follows:

#### **DETERMINATION OF THE RECOVERABLE AMOUNT**

Canadian GAAP – A recoverability test is performed by first comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset does not recover its carrying value, an impairment loss is calculated as the excess of the asset's carrying amount over its fair value.

IFRS – The impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. As a result of the change in measurement methodology, the Company may determine and be required to recognize impairments under IFRS that were not applicable under Canadian GAAP as a result of the change in the calculation under IFRS as noted above.

#### **RECOGNITION OF AN IMPAIRMENT**

Canadian GAAP – If indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

IFRS – If indication of impairment is identified, the asset's carrying value is compared to the asset's discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

## IMPAIRMENT REVERSALS

Canadian GAAP – Reversal of impairment losses is not permitted.

IFRS – Reversal of impairment losses is required for assets other than goodwill if certain criteria are met. The Company has not identified the need to reverse any previously taken impairment with the exception of the de-recognition of the impairments taken for its indefinite lived brand assets discussed above.

## (viii) Provisions

Under IFRS, provisions are distinguished from accrued liabilities as liabilities of uncertain timing or amount. As a result, on transition to IFRS, the Company has reclassified certain balances previously included in accounts payable and accrued liabilities on the statement of financial position, in the amount of \$1.4 million. Please refer to additional disclosures included in *note 11* to the financial statements.

## (ix) Property, plant and equipment

As stated in the section entitled “IFRS 1 Exemptions” the Company elected to recognize to restate its property, plant and equipment using a combination approach as discussed in *note 26 (b) (v)*. In applying this approach, as at the transition date:

1. The Company applied the fair value as deemed cost exemption in respect of the production equipment for manufacturing plants located in Lunenburg, Nova Scotia, Danvers, Massachusetts and Portsmouth, New Hampshire. The valuation of the equipment performed at January 3, 2010 resulted in an increase in the cost of fixed assets of \$6.0 million;
2. The Company recognized a decrease in accumulated depreciation of \$3.8 million relating to the restatement of accumulated depreciation to reflect updates in property, plant and equipment useful lives to correspond with the assessment criteria in accordance with IFRS as compared to Canadian GAAP and an increase in accumulated depreciation in the amount of \$0.3 million relating to the componentization of the Company’s real estate assets;
3. A net increase in deferred tax liability of \$3.2 million was recognized; and
4. Opening retained earnings was adjusted by \$6.3 million.

As a result of the adjustments above, as at and for the fifty-two weeks ended January 1, 2011 the Company recognized:

1. A decrease to property, plant and equipment of \$0.8 million;
2. An increase in cost of sales due to depreciation expense of \$1.0 million;
3. An increase in distribution expense due to depreciation expense of \$0.06 million;
4. A decrease in selling, general and administrative expenses due to depreciation expense of \$0.2 million;
5. A decrease to the loss due to disposal of \$0.05 million; and
6. A decrease in deferred income taxes of \$0.2 million.

## (x) Accounting for the Company’s joint venture in HighKan

In February 2010, subsequent to the Company’s date of transition to IFRS, the Company entered into a joint arrangement (see *note 7* in these statements for additional details). In accordance with Canadian GAAP requirements, the Company used proportionate consolidation to account for its investment in HighKan. As at the transition date, existing IFRS standards permitted a choice between equity-method accounting and proportionate consolidation for joint arrangements; however, in the second quarter of 2011, the International Accounting Standards Board finalized IFRS 11 – Joint Arrangements (“IFRS 11”), which was consistent with Exposure Draft 9 – *Joint Arrangements* (“ED 9”). Expecting IFRS 11 to be finalized consistent with ED 9, which prohibited the use of proportionate consolidation, the Company elected to restate its accounting for its investment in HighKan using the equity method of accounting effective February 10, 2010.

There was no impact on the Company's opening statement of financial position; however, the Company was required to recognize adjustments in subsequent periods as follows:

As at and for the 52 weeks ended January 1, 2011:

1. A decrease in cash and cash equivalents of \$0.2 million;
2. A decrease in accounts receivable and prepaid expenses of \$0.01 million;
3. A decrease in inventories of \$1.5 million;
4. A decrease in property, plant and equipment of \$0.06 million;
5. A decrease in other receivables and sundry investments of \$0.03 million;
6. An increase in investment in equity-accounted investee of \$0.15 million;
7. A decrease in accounts payable and accrued liabilities of \$1.6 million;
8. The elimination of non-controlling interests (a decrease of \$0.05 million); and
9. The recognition of share of profit of equity-accounted investee net of income taxes of \$0.02 million.

#### (xi) Capital transactions

As detailed in note 23, the Company completed a share repurchase in the second quarter of 2010 and wound up a subsidiary company that had held all repurchased shares in the 4th quarter of 2010, resulting in the cancellation of the shares held by the subsidiary.

As a result of restating the purchase price allocation of FPI on transition to IFRS (as detailed in note 26(c)(i)), the Company adjusted the cost base of the common and non-voting equity shares.

As a result, the Company was required to recognize adjustments with respect to the capital transactions completed throughout 2010 as at January 1, 2011 as follows:

1. An increase to share capital of \$1.5 million;
2. A decrease to contributed surplus of \$1.4 million; and
3. A decrease to retained earnings of \$0.1 million.

#### (xii) Income taxes

The above changes decreased (increased) the Company's net deferred tax liability as follows:

(Amounts in \$000s)	Note 26 (c)	January 3 2010	January 1 2011
Business combination	(i)	\$ (993)	\$ (959)
Employee future benefits	(iii)	2,627	3,266
Accounting for hedge ineffectiveness	(v)	89	133
Impairment of a financial asset	(vi)	81	81
Impairment of a non-financial asset	(vii)	(60)	(58)
Property, plant and equipment	(ix)	(3,194)	(3,124)
Other	(xi)	(134)	(348)
<b>Net deferred income tax liability</b>		<b>\$ (1,584)</b>	<b>\$ (1,009)</b>
Changes as presented on the statement of financial position:			
Deferred income tax asset		\$ 3,198	\$ 1,355
Deferred income tax liability		(4,782)	(2,364)
		<b>\$ (1,584)</b>	<b>\$ (1,009)</b>

The effect on the consolidated statement of comprehensive income for the year ended January 1, 2011 was to decrease the previously reported tax charge for the period by \$0.7 million.

The adjustment in note (iii) relating to the recognition of the actuarial loss in other comprehensive income resulted in an increase in the deferred tax asset of \$0.6 million, with the related tax recovery recorded in other comprehensive income for the year ended January 1, 2011.

Under IFRS, all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The effect is to reclassify \$3.8 million at January 3, 2010 and \$2.4 million at January 1, 2011 from current deferred income tax assets to long-term deferred income tax assets or liabilities.

Changes in the Company's accounting policies on transition from Canadian GAAP to IFRS with respect to the recognition and presentation of current and deferred income taxes are as follows:

#### **INTER-COMPANY TRANSACTIONS**

Canadian GAAP – Recognition of a deferred tax asset or liability for a temporary difference arising from inter-company transactions is prohibited. Such temporary differences may arise when the tax base of the asset in the buyer's jurisdiction differs from the carrying amount of the asset in the consolidated financial statements. Further, cash tax paid or recovered as a result of a transfer of an asset is recorded as a deferred tax asset or liability in the financial statements and recognized through tax expense when the asset leaves the Company or is otherwise utilized.

IFRS – There are no such exceptions under IFRS. Therefore, deferred tax is recognized for temporary differences arising on inter-company transactions measured at the tax rate of the buyer, and cash tax paid or recovered on inter-company transactions is recognized in the period incurred.

#### **DEFERRED TAX ASSETS OF AN ACQUIRER COMPANY NOT PREVIOUSLY RECOGNIZED**

Canadian GAAP – Previously unrecognized deferred tax assets of the acquirer company are recognized as part of the cost of the acquisition when such assets are more likely than not to be realized as a result of a business combination through goodwill.

IFRS – Previously unrecognized deferred tax assets of an acquirer company are recognized through earnings if realization is probable as a result of the business combination. As a result, the Company was required to recognize deferred tax assets of \$14.1 million that become realizable as a result of the restatement of the 2007 FPI acquisition, in accordance with IFRS 3, in earnings.

#### **ACCOUNTING FOR UNCERTAINTY IN INCOME TAX POSITIONS**

Canadian GAAP – Benefits for uncertain tax positions are determined based on whether it is more likely than not that an uncertain tax position will be sustained upon examination and the amount of benefit recorded is based on the single best estimate of the amount to be realized.

IFRS – The provision for uncertain tax positions is a best estimate of the amount probable to be paid based on a qualitative assessment of all relevant factors. The Company determined that there was no impact on transition to IFRS with respect to the recognition and measurement of its uncertain tax positions.

#### **ACCOUNTING FOR INCOME TAXES IN BUSINESS COMBINATIONS**

Canadian GAAP – Changes to deferred income tax assets not previously recognized relating to pre-acquisition periods are adjusted through the purchase price allocation, first reducing goodwill and intangible assets associated with the business combination and, only after exhausting those amounts, reducing income tax expense.

IFRS – Changes to pre-acquisition acquiree deferred income tax assets not previously recognized beyond 12 months of the acquisition date are recorded to the income statement.

Reclassifications required on transition from Canadian GAAP to IFRS with respect to deferred taxes are as follows:

#### **DEFERRED TAX RECLASSIFICATION**

Canadian GAAP – Deferred taxes are split between current and non-current components on the basis of either (1) the underlying asset or liability or (2) the expected reversal of items not related to an asset or liability.

IFRS – All deferred tax assets and liabilities are classified as non-current.

**(xiii) IFRS adjusted equity**

The above changes (decreased) increased the components of equity (net of related tax) as at the transition date and for each of the subsequent reporting periods as follows:

(Amounts in \$000s)	Note 26 (c)	January 3, 2010	January 1, 2011
<b>Adjustment to retained earnings:</b>			
Business combination restatement	(i)	\$ 10,878	\$ 10,496
Reclassification of contributed surplus	(i)	364	364
Cumulative translation differences	(ii)	(14,545)	(14,545)
Employee future benefits	(iii)	(7,098)	(8,585)
Share-based payments	(iv)	(1,043)	(423)
Accounting for hedge ineffectiveness in inventory	(v)	(189)	96
Reclassification for hedge ineffectiveness from AOCI	(v)	(95)	(95)
Impairment of a financial asset	(vi)	(184)	(210)
Impairment of a non-financial asset	(vii)	119	119
Property, plant and equipment	(ix)	6,339	5,698
Capital transaction restatement	(xi)	-	(116)
Deferred income taxes (other)	(xii)	4	76
<b>Decrease in retained earnings</b>		<b>\$ (5,450)</b>	<b>\$ (7,125)</b>
<b>Reclassifications within equity:</b>			
Reclassifications from AOCI			
Cumulative translation differences	(ii)	\$ 14,545	13,899
Hedge ineffectiveness accounting	(v)	95	-
<b>Increase in AOCI</b>		<b>\$ 14,640</b>	<b>\$ 13,899</b>
Reclassifications from contributed surplus			
Share-based payments	(i)	\$ (364)	\$ (1,717)
<b>Decrease in contributed surplus</b>		<b>\$ (364)</b>	<b>\$ (1,717)</b>
Restatement of share capital:			
Business combination restatement	(i)	\$ (2,706)	\$ (2,706)
Capital transaction restatement	(xi)	-	1,469
<b>Decrease in share capital</b>		<b>\$ (2,706)</b>	<b>\$ (1,237)</b>
Elimination of minority interest:			
Investment in joint arrangement	(x)	\$ -	\$ (50)
<b>Decrease in minority interest</b>		<b>\$ -</b>	<b>\$ (50)</b>
<b>Net increase in equity</b>		<b>\$ 6,120</b>	<b>\$ 3,770</b>
<b>Equity as reported under Canadian GAAP</b>		<b>\$ 157,080</b>	<b>\$ 143,541</b>
<b>IFRS adjusted equity</b>		<b>163,200</b>	<b>147,311</b>

**(xiv) Presentation differences**

Certain presentation differences between Canadian GAAP and IFRS have no impact on reported net income or total equity. Some assets and liabilities have been reclassified into other line items as a result of transitioning to IFRS, while certain income statement line items have been allocated to other lines within the income statement. These items are shown in the reconciliation statements in the column 'IFRS Reclassifications' in (xii) and (xiii) above with some additional details of the allocations provided in note 25 where standard annual disclosures in accordance IFRS require such disclosure.

## 27. EVENTS AFTER THE REPORTING PERIOD

On March 12, 2012, the Company purchased derivative financial instruments (options) to fix the interest rate "floor" at 1.5% on US \$125 million of the fixed term debt (note 13), commencing March 31, 2012 and maturing March 31, 2014.

## 28. COMPARATIVE FIGURES

Certain comparative figures on the consolidated statement of financial position have been reclassified due to adjustments made upon finalization of the Viking business combination purchase price allocation in 2011.

# HISTORICAL FINANCIAL DATA

(000s, except per share amounts)	2011	2010	2009*	2008*	2007*	2006*	2005*	2004*	2003*	2002*
<b>Sales</b>	\$ 668,589	\$ 584,715	\$ 627,186	\$ 615,948	\$ 275,317	\$ 261,662	\$ 250,108	\$ 259,267	\$ 280,639	\$ 282,364
<b>Gross profit</b>	<b>151,930</b>	137,173	134,525	132,248	71,243	68,603	67,005	73,491	79,706	76,228
Distribution expenses	(35,021)	(30,027)	(32,371)	(37,048)	(20,184)	(21,472)	(21,607)	(20,163)	(19,028)	(16,085)
Selling, general and administrative expenses	(72,086)	(68,500)	(67,047)	(65,553)	(39,473)	(36,621)	(38,568)	(37,356)	(41,722)	(38,755)
Business acquisition, integration costs, and other income or expenses	(11,275)	(875)	(460)	(4,879)	(1,286)	-	-	-	-	-
Non-operating items	-	-	(921)	(84)	334	(172)	531	895	38,566	157
<b>Results from operating activities</b>	<b>33,548</b>	37,771	33,726	24,684	10,635	10,337	7,362	16,867	57,522	21,545
Finance costs	(5,983)	(5,165)	(5,582)	(6,449)	(49)	(919)	(418)	(352)	(1,699)	(4,563)
Share of income of equity accounted investee (net of income tax)	(53)	18	-	-	-	-	-	-	-	-
<b>Income before income taxes</b>	<b>27,512</b>	32,624	28,144	18,235	10,586	9,418	6,944	16,515	55,823	16,982
Income taxes										
Current	(5,692)	(6,380)	(2,548)	(3,002)	(2,505)	(2,481)	(1,042)	(723)	(599)	(1,404)
Deferred	(3,640)	(6,259)	(5,851)	(1,043)	(1,163)	(1,815)	(2,046)	(3,526)	(2,914)	(3,385)
<b>Total income taxes</b>	<b>(9,332)</b>	(12,639)	(8,399)	(4,045)	(3,669)	(4,295)	(3,088)	(4,249)	(3,513)	(4,789)
Net income from continuing operations for the period	<b>18,180</b>	19,985	19,746	14,190	6,918	5,123	3,856	12,266	52,310	12,193
Net loss from discontinued operations, net of income taxes	-	-	-	-	372	(793)	(44,323)	(4,104)	(6,506)	(2,204)
<b>Net income (loss) for the period</b>	<b>\$ 18,180</b>	\$ 19,985	\$ 19,746	\$ 14,190	\$ 7,290	\$ 4,330	\$ (40,467)	\$ 8,162	\$ 45,804	\$ 9,989
<b>Reconciliation to EBITDA:</b>										
<b>Add back:</b>										
Net loss from discontinued operations, net of income taxes	\$ -	\$ -	\$ -	\$ -	\$ (372)	\$ 793	\$ 44,323	\$ 4,104	\$ 6,506	\$ 2,204
Income tax expense	9,332	12,639	8,398	4,045	3,669	4,297	3,088	4,249	3,513	4,789
Interest expense	5,983	5,165	5,445	6,463	377	907	419	352	1,699	4,563
Amortization of intangible assets	1,833	1,204	1,499	1,383	8	12	1	9	-	-
Depreciation	7,901	7,304	6,610	6,469	3,079	3,005	3,061	3,099	3,331	4,678
<b>Standardized EBITDA</b>	<b>\$ 43,229</b>	\$ 46,296	\$ 41,698	\$ 32,551	\$ 14,051	\$ 13,344	\$ 10,425	\$ 19,975	\$ 60,853	\$ 26,223
<b>Add back:</b>										
Business acquisition costs	11,275	875	460	4,879	1,286	-	-	-	-	-
Loss (Gain) on fixed assets	193	13	492	402	51	48	123	(6)	(122)	(199)
Non-operating items	-	-	921	84	(334)	172	(531)	(895)	(38,566)	(157)
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>\$ 54,697</b>	\$ 47,184	\$ 43,571	\$ 37,916	\$ 15,054	\$ 13,564	\$ 10,017	\$ 19,074	\$ 22,165	\$ 25,867
<b>Income before income taxes from above</b>	<b>\$ 27,512</b>	\$ 32,624	\$ 28,144	\$ 18,235	\$ 10,586	\$ 9,418	\$ 6,944	\$ 16,515	\$ 55,823	\$ 16,982
<b>Add: Business acquisition integration costs, other income or expenses and non-operating items from above</b>	<b>(11,275)</b>	(875)	(1,381)	(4,963)	(953)	(172)	531	895	38,566	157
<b>Income before taxes, business acquisition integration costs, other income or expenses and non-operating items</b>	<b>\$ 38,787</b>	\$ 33,499	\$ 29,525	\$ 23,198	\$ 11,539	\$ 9,591	\$ 6,413	\$ 15,620	\$ 17,257	\$ 16,825
<b>Income taxes on the above</b>	<b>(11,232)</b>	(11,963)	(8,638)	(4,852)	(4,014)	(4,301)	(1,994)	(3,956)	(6,363)	(6,787)
<b>After-tax income before business acquisition, integration costs, other income or expenses and non-operating items</b>	<b>\$ 27,555</b>	\$ 21,536	\$ 20,887	\$ 18,346	\$ 7,525	\$ 5,290	\$ 4,419	\$ 11,664	\$ 10,894	\$ 10,038
<b>Book value per common share at year end</b>	<b>10.71</b>	9.72	8.57	8.44	6.01	4.97	4.72	9.24	9.31	6.79
<b>Basic info per common share</b>										
Based on net income	1.20	1.24	1.07	0.88	0.58	0.30	(3.93)	0.66	4.49	0.90
Based on income from continuing operations	1.20	1.24	1.07	0.88	0.55	0.38	0.26	1.04	5.15	1.13
Based on after-tax operating income from continuing operations	1.82	1.34	1.14	1.16	0.61	0.40	0.32	0.98	0.98	0.91
<b>Based on net income, excluding business acquisition costs</b>										
Diluted info per common share										
Based on net income	1.19	1.23	1.07	0.77	0.57	0.30	(3.93)	0.65	4.10	0.84
Based on income from continuing operations	1.19	1.23	1.07	0.73	0.54	0.38	0.27	1.02	4.68	1.04
Based on after-tax operating income from continuing operations	1.80	1.33	1.14	1.00	0.61	0.40	0.32	0.96	0.90	0.84
<b>Common shares</b>										
Outstanding at year end	15,087	15,149	18,331	18,471	13,381	10,315	10,284	10,710	10,794	9,836
Average outstanding for the year	15,109	16,096	18,385	15,059	10,443	10,306	10,567	10,863	9,945	9,822



(000s, except per share amounts)	2011	2010	2009*	2008*	2007*	2006*	2005*	2004*	2003*	2002*
<b>Second preference shares</b>										
Dividends declared and paid										
Current	-	-	-	166	1,210	1,174	1,036	992	1,078	1,017
Arrears	-	-	-	-	-	-	-	-	6,260	1,362
Dividends per share	-	-	-	0.83	6.05	5.87	5.18	5.02	36.65	11.90
<b>Series A Preference Shares</b>										
Dividends declared and paid	-	-	-	774	-	-	-	-	-	-
Dividend per share	-	-	-	0.39	-	-	-	-	-	-
<b>Common shares</b>										
Dividends declared and paid	5,891	5,238	4,959	3,244	2,073	2,027	2,147	2,176	537	-
Dividend per share	0.39	0.33	0.27	0.22	0.20	0.20	0.20	0.20	0.05	-
<b>C&amp;D preference shares</b>										
Dividends declared and paid	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	65	72
Dividend per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	0
<b>Gross capital expenditures from continuing operations</b>	\$ 7,795	\$ 5,288	\$ 12,668	\$ 6,439	\$ 3,890	\$ 3,614	\$ 4,149	\$ 5,298	\$ 6,698	\$ 4,126
Cash	\$ 3,260	\$ 598	\$ 1,953	\$ 7,032	\$ 7,064	\$ 240	\$ 580	\$ 506	\$ 926	\$ 1,088
Accounts receivable	84,920	50,452	59,553	63,873	68,662	31,221	28,095	27,746	31,840	35,001
Income tax receivable	3,557	701	1,288	45	2,414	161	11	-	-	-
Inventories	261,330	131,980	119,586	146,863	110,521	44,088	59,278	45,743	49,870	50,053
Prepaid expenses	3,019	1,889	2,024	1,782	1,712	685	638	641	1,502	1,600
Other financial assets	1,346	890	-	-	-	-	-	-	-	-
Future income taxes	-	-	3,846	1,533	1,302	295	546	7,383	7,525	6,991
<b>Total current assets</b>	\$ 357,432	\$ 186,510	\$ 188,250	\$ 221,128	\$ 191,675	\$ 76,690	\$ 89,148	\$ 82,019	\$ 91,663	\$ 94,733
Property, plant & equipment	99,933	67,269	59,528	59,016	57,515	26,038	26,952	27,176	27,492	44,303
Intangible assets	103,109	31,239	19,785	24,065	-	-	-	-	-	-
Goodwill	126,787	39,819	28,701	30,767	-	-	-	43,028	45,789	56,592
Intangible assets and goodwill	-	-	-	-	42,762	-	-	-	-	-
Investment in equity-accounted investee	275	157	-	-	-	-	-	-	-	-
Deferred income taxes	1,695	2,403	-	-	-	-	-	-	-	-
Future income taxes	-	-	349	833	1,677	3,005	4,642	6,654	7,632	5,387
Other receivables and miscellaneous assets	1,210	814	243	133	66	1,084	1,179	7,952	5,513	6,702
Employee future benefits	94	91	7,391	3,477	6,759	6,360	5,332	3,342	1,701	2,188
<b>Total assets</b>	\$ 690,535	\$ 328,302	\$ 304,247	\$ 339,419	\$ 300,454	\$ 113,177	\$ 127,253	\$ 170,171	\$ 179,790	\$ 209,905
Bank loans	120,980	42,725	22,786	39,931	61,280	10,115	24,808	7,321	10,252	5,960
Accounts payable and accrued liabilities	108,553	60,065	54,876	73,611	51,068	27,087	29,407	32,583	38,668	43,792
Provisions	675	550	-	-	-	-	-	-	-	-
Other current financial liabilities	793	2,334	-	-	-	-	-	-	-	-
Income taxes payable	1,990	3,230	29	2,443	437	-	159	-	-	-
Current portion of long-term debt	2,543	4,426	4,582	-	-	-	-	-	-	15,481
Current portion of finance lease obligations	1,064	972	864	458	603	560	526	444	328	438
<b>Total current liabilities</b>	\$ 236,598	\$ 114,302	\$ 83,137	\$ 116,443	\$ 113,388	\$ 37,762	\$ 54,900	\$ 40,348	\$ 49,248	\$ 65,671
Long-term debt	237,438	43,912	50,848	63,939	51,709	-	-	-	-	48,606
Long-term finance lease obligations	2,599	3,045	2,700	513	259	477	633	781	845	789
Employee future benefits	11,274	9,630	4,540	563	4,227	3,702	3,138	2,826	2,844	2,759
Other long-term financial liabilities	-	207	1,254	2,112	-	-	-	-	-	-
Deferred income taxes	41,099	9,895	-	-	-	-	-	-	-	-
Future income taxes	-	-	4,688	-	-	-	-	7,267	6,351	4,004
Shareholders' equity:										
Minority interest	-	-	-	-	-	-	-	-	-	-
Preference shareholders	-	-	-	-	50,270	20,000	20,000	20,000	20,000	21,246
Common shareholders	161,527	147,311	157,080	155,849	80,601	51,236	48,582	98,949	100,502	66,830
<b>Total liabilities and shareholders' equity</b>	\$ 690,535	\$ 328,302	\$ 304,247	\$ 339,419	\$ 300,454	\$ 113,177	\$ 127,253	\$ 170,171	\$ 179,790	\$ 209,905

\* In accordance with Canadian GAAP (not restated)

# FINANCIAL HIGHLIGHTS

(\$000s, except per share amounts)	2011 <sup>(4)</sup>	2010 <sup>(1)</sup>	% Change
Sales	\$ 668,589	\$ 584,715	14.3%
Adjusted EBITDA <sup>(2)</sup>	54,697	47,184	15.8%
After-tax income before business acquisition, integration costs, and other income or expenses <sup>(3)</sup>	27,555	21,536	27.9%
Basic earnings per Common Share	1.82	1.34	36.3%
Diluted earnings per Common Share	1.80	1.33	35.5%
Net income for the period	18,180	19,985	-9.0%
Basic earnings per Common Share	1.19	1.23	-3.7%
Diluted earnings per Common Share	1.19	1.23	-3.7%
Total assets	690,535	328,302	110.3%
Book value per common share	10.71	9.72	10.1%
Shareholders' equity	161,527	147,311	9.7%

## Operating highlights

Product sales volumes (in metric tonnes <sup>(3)</sup> )			
Produced in High Liner facilities	62,886	51,892	21.2%
Procured	27,019	28,212	-4.2%
	89,905	80,104	12.2%
Number of employees	1,903	1,060	79.5%
Gross capital expenditures (\$000s)	7,795	5,288	47.4%

(1) Includes the operating results from the Viking Acquisition from December 13, 2010 to the end of the fiscal year.

(2) Earnings before interest, taxes, depreciation and amortization, business acquisition, integration costs, and other income or expenses (pre-2010 includes non-operating expenses) as disclosed on the consolidated statements of income.

(3) One metric tonne = 2,204.6 lbs.

(4) Includes the operating results from the Icelandic USA Acquisition from December 19, 2011 to the end of the fiscal year.



**High Liner Foods is  
honoured to be recognized  
as one of Canada's Top 100  
Employers for 2012**



# SHAREHOLDER INFORMATION

## Honourary Directors

D.R. Sobey

## Board of Directors

L. A. Bebo<sup>3</sup>

C.R. Bell<sup>2</sup>

D.H.L. Buntain<sup>3,4</sup>

J.G. Covelluzzi<sup>3</sup>

H.E. Demone<sup>4</sup>

R.P. Dexter, Q.C.<sup>2,4</sup>

D.J. Hennigar (Chair)<sup>4</sup>

J.T. MacQuarrie, Q.C.<sup>3,4</sup>

R.L. Pace<sup>3</sup>

R.E. Shea<sup>2</sup>

S.W.L. Spavold, CA<sup>2</sup>

## Officers and Canadian Management

D.J. Hennigar  
Chairman of the Board

H.E. Demone<sup>1</sup>  
President & Chief Executive Officer

M.P. Marino<sup>1</sup>  
President & Chief Operating  
Officer, Canadian Operations

K.L. Nelson, FCA<sup>1</sup>  
Executive Vice President,  
CFO & Secretary

J.E. Brown, CHRP<sup>1</sup>  
Vice President Human Resources

P.W. Snow<sup>1</sup>  
Vice President Procurement

J.J. Amlinger  
Vice President Food Service Sales  
& Marketing

J. J. O'Neill  
Vice President Retail Sales

T.L. Armstrong  
Vice President Retail Marketing

G.W. LeBlanc, CA  
Corporate Controller

L.C. Obritsch  
Vice President Canadian Plant  
Operations

## High Liner Foods (USA) Inc.

K.A. Decker<sup>1</sup>  
President & Chief Operating Officer

M.D. Leslie  
Vice President U.S. Supply Chain

A.W. Christianson  
Vice President Operations

J.R. LaBelle  
Vice President Marketing,  
Food Service

S. Prusank  
Vice President Sales, Food Service

M.E. Sirois  
Vice President, Technical Services

C.M. Trosin  
Vice President,  
Sales & Marketing, Retail

## Plants

Massachusetts: Danvers, Malden

New Hampshire: Portsmouth

Virginia: Newport News

Newfoundland &

Labrador: Burin

Nova Scotia: Lunenburg

## Operating Subsidiary companies

High Liner Foods (USA),  
Incorporated

Viking Seafoods, LLC

ISF (USA), LLC

Qingdao Dencan Seafood  
Ltd. (JV)

Dalian Three Star Seafood  
Co., Ltd.

High Liner Foods (Thailand)  
Co., Ltd.

## Auditors

Ernst & Young LLP, Chartered  
Accountants

## Transfer agent

### For help with:

- Changes of address
- Transfer of shares
- Loss of share certificates
- Consolidation of multiple mailings to one shareholder
- Estate settlements

### Contact:

Canadian Stock Transfer  
Company

AnswerLine™:

1-800-387-0825

(toll-free in North America)

or (416) 682-3860

Fax: 1-888-249-6189

E-mail inquiries:

[inquiries@canstockta.com](mailto:inquiries@canstockta.com)

[www.canstockta.com](http://www.canstockta.com)

### Mailing Address:

P.O. Box 700

Station B

Montreal, QC H3B 3K3

### Banks

The Royal Bank of Canada

JPMorgan Chase Bank, N.A

Bank of Montreal

Canadian Imperial Bank

of Commerce

## Investor Relations

### For:

- Additional financial information
- Industry and Company developments
- Additional copies of this report

### Contact:

K.L. Nelson, FCA

Secretary

Tel.: (902) 634-6200

Fax: (902) 634-6228

E-mail:

[investor@highlinerfoods.com](mailto:investor@highlinerfoods.com)

Investor relations website: [www.highlinerfoods.com](http://www.highlinerfoods.com)

### Mailing Address:

100 Battery Point

P.O. Box 910

Lunenburg, NS B0J 2C0

### Common Shares and Non Voting

Equity Shares listed on

The Toronto Stock Exchange

Trading Symbols – Common:

HLF, Non Voting: HLF.A

## Annual General and special Meeting of Shareholders

Thursday, May 10, 2012

11:30 a.m.

World Trade &

Convention Centre,

Halifax, Nova Scotia

1 Management Committee

2 Audit Committee (R.P. Dexter, Chair)

3 Human Resources & Governance Committee (D.H.L. Buntain, Chair)

4 Executive Committee (D.J. Hennigar, Chair)