



STEADY COURSE

ANNUAL REPORT 2013



HIGH LINER FOODS

CORPORATE PROFILE

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

2013 HIGHLIGHTS

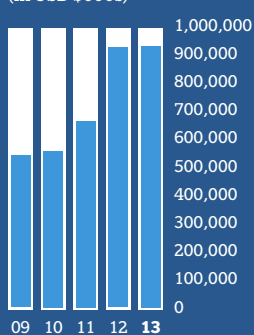
	2013	2012	% Change
Financial highlights (unaudited)			
(Amounts in USD \$000s, except per share amounts)			
Revenues	947,301	942,631	0.5
Net income	31,356	2,203	1323.3
Basic earnings per share	2.07	0.15	1280.0
Diluted earnings per share	2.01	0.14	1335.7
Adjusted net income ¹	41,281	38,071	8.4
Adjusted basic earnings per share ¹	2.72	2.52	7.9
Adjusted diluted earnings per share ¹	2.65	2.46	7.7
Adjusted EBITDA ¹	85,343	91,687	-6.9
Total assets	676,456	631,827	7.1
Capital expenditures	15,419	13,447	14.7
Book value per share	12.08	10.14	19.1
Shareholders' equity	184,649	153,354	20.4

Operating highlights

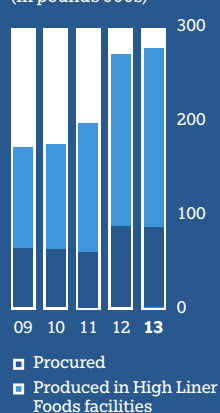
(Amounts in pounds 000s, except number of employees)

Product sales volumes:			
Produced in High Liner Foods facilities	195,166	187,381	4.2
Procured	87,242	87,836	-0.7
	282,408	275,217	2.6
Number of employees			
	1,540	1,652	-6.8

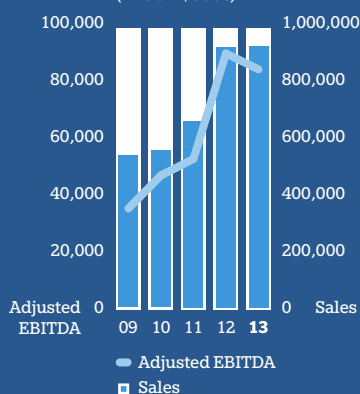
Sales
(in USD \$000s)



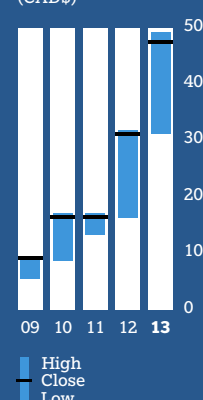
Product Sales Volume
(in pounds 000s)



Sales vs Adjusted EBITDA
(in USD \$000s)



Historic Stock Performance
(CAD\$)



¹ Please refer to High Liner Foods' Management's Discussion and Analysis ("MD&A") Introduction section beginning on page 12 of this Annual Report which defines all non-IFRS financial measures.



STEADY COURSE



Following years of strong growth, High Liner Foods remains on a steady course to achieve its vision to be the leading supplier of frozen seafood in North America.

LETTER TO SHAREHOLDERS



High Liner Foods achieved record net sales and Adjusted Net Income in 2013, aided by the acquisition of American Pride Seafoods. However, we did not achieve the level of Sales, Adjusted EBITDA, and Adjusted Net Income we expected due to a number of challenges, including weak consumer spending in the U.S. casual dining market and complexities associated with the consolidation of our U.S. production and distribution facilities. Nevertheless, the value of our common shares increased 48.5 percent during 2013 and closed the year at \$46.03 CAD. We were also pleased to be added to the S&P/TSX Canadian Dividend Aristocrats® Index on December 20, 2013, following several years of strong growth, rising liquidity and increasing dividends.

FINANCIAL RESULTS¹

Sales in domestic currency increased for the fifth consecutive year, but at a slower pace, reaching \$956.3 million compared to \$942.3 million in 2012. Adjusted Net Income increased by \$3.2 million to \$41.3 million and diluted EPS based on Adjusted Net Income rose 7.7 percent to \$2.65 per share.

Increased sales reflect the acquisition of American Pride Seafoods, strong club store sales, higher branded retail sales in the U.S., and higher food service sales in Canada, partially offset by a decline in U.S. food service sales and retail private label sales in both countries. While the U.S. economy experienced a modest recovery in 2013, U.S. restaurant sales remained soft, particularly in the casual dining segment, which is a key driver for our business.

Adjusted EBITDA decreased from \$91.7 million to \$85.3 million, due in large part to what was, in retrospect, an overly ambitious schedule for the consolidation of our U.S. production facilities, and to a lesser extent, a shorter Lent-promotion season, which limited sales during the most important period of the year.



INNOVATION

FUELS OUR

GROWTH

STEADY COURSE



Made from a premium blend of Atlantic and Wild Pacific salmon, the **Ultimate Salmon Burger** is the latest in a long line of seafood innovations introduced through High Liner Foods' FPI brand. Lean, delicious and easy to prepare, it's the better burger choice for healthier menu options.



QUALITY

— IS OUR UNWAVERING —

COMMITMENT

STEADY COURSE



Today's retail and food service customers expect top quality. As the leading provider of value-added frozen seafood in North America, High Liner Foods consistently delivers on these requirements with their high standards for quality assurance, sustainability, food safety and product traceability.



OUR STRATEGIC GOALS

Each year High Liner Foods' focus is guided by our strategic goals, and in 2013 we continued on our steady course to achieve them.

Profitable growth

One year ago, we felt confident we would achieve our target of \$100 million in Adjusted EBITDA by 2015 so we announced a new Adjusted EBITDA target of \$150 million by 2015. We are committed to achieving this goal, however, the results of the past year require that we give ourselves more time. In this regard, we have extended the date by one year to 2016, but the Adjusted EBITDA target of \$150 million remains unchanged, as does our plan to achieve it through organic growth, acquisitions and supply chain optimization.

Over the past seven years, acquisitions have been instrumental in advancing High Liner Foods' growth and evolution into the leading provider of value-added frozen seafood in North America. Given the fragmented nature of the industry, we do not believe this trend is about to change. Unlike the meat or poultry businesses, which are structured around very few sources of animal protein, the seafood industry delivers more than a hundred

species to the plates of consumers, with dozens of companies sourcing them, depending on the scale of the fishery. At the other end of the supply chain, our retail and food service customers are helping to drive consolidation in the seafood industry because they prefer to work with fewer trusted suppliers who can consistently and reliably meet all of their needs. These customers value our unsurpassed product assortment and our standards for on-time delivery, quality assurance, food safety, traceability and sustainable sourcing.

Similar to previous acquisitions, the purchase of American Pride Seafoods in October 2013 bolsters and complements High Liner Foods' market leadership position in the value-added frozen seafood industry, while also adding a large U.S.-based scallop business to our portfolio. The company's facility in New Bedford, MA processes more than seven million pounds of scallops annually. At the same time, American Pride Seafoods has strengthened our roster of U.S. chain restaurant customers, enhanced an already significant market position in the educational food service segment and broadened our product line across the entire High Liner Foods customer base.

ACQUISITION

AMERICAN PRIDE SEAFOODS

The acquisition of American Pride Seafoods, in New Bedford, MA, has bolstered High Liner Foods' leadership position in the food service segment of the U.S. value-added frozen seafood industry and added a significant U.S.-based scallop processing operation to its portfolio. A key component of High Liner Foods' strategy is profitable growth through acquisitions that complement and strengthen its leadership position within the industry.



We also have a track record of driving organic growth through innovation. Our *Sea-Cuisine*, *Flame-Savours* and *Pan-Sear* product lines exemplify the innovative thinking that has brought easy and delicious gourmet seafood to the kitchen table. In fact, Canadian consumers recently awarded *Pan-Sear Traditional* with The Best New Product Award for the Frozen Fish Category in one of the country's leading annual surveys, the fifth consecutive year that High Liner Foods has won this award. These new product platforms, as well as industry leading beer-battered products sold under the Icelandic Seafoods brand, are driving the growth in our U.S. retail brand, *Sea Cuisine*.

Looking ahead, innovation will continue to be an important driver behind organic growth. However, our efforts will be increasingly focused on the changing dynamics of the U.S. food service industry, where more consumer dollars are migrating from full service casual dining to fast casual restaurants that feature fast, high-quality food with a compelling value proposition.

Supply chain optimization

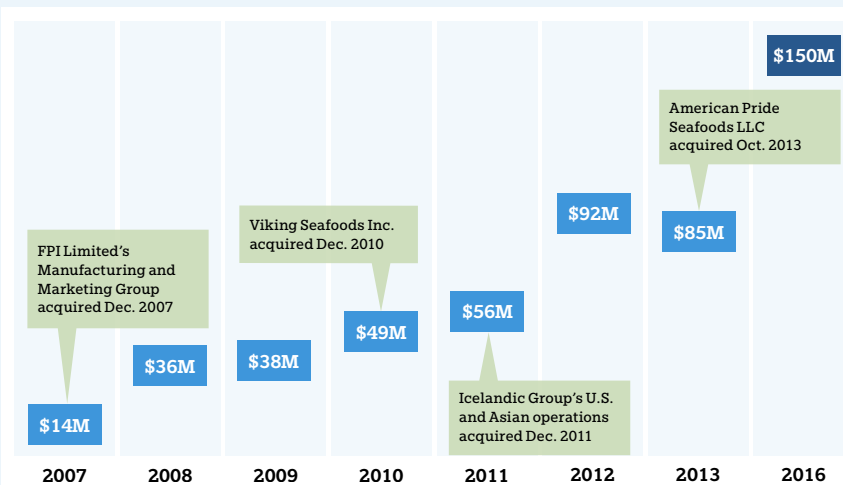
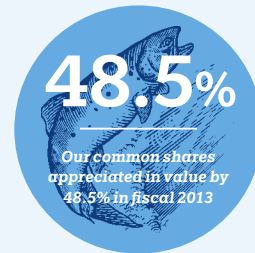
Following the integration of the sales forces and broker networks of High Liner Foods and Icelandic USA in early 2012, our next step was the complete integration of all operations and the optimization of our

entire U.S. production and distribution network. During the first three months of 2013, following the closure of two of our plants, we transferred production from these closed facilities, and consolidated all of our U.S. food service distribution into Newport News, VA. While our people accomplished this enormous task ahead of schedule, 2013 was devoted to addressing some of the production issues associated with these changes. At this point, we are successfully addressing these challenges and expect to realize the full \$18 million in annual synergies estimated at the time of the Icelandic USA acquisition.

Sustainable sourcing

In 2010, High Liner Foods made a commitment to source all of our seafood – approximately 30 species from 20 countries around the world – from certified sustainable or responsible² fisheries or aquaculture farms by the end of 2013. I am proud to say that we have achieved 99% of this goal.

The tremendous progress we have made reflects a fundamental change in the commitment of the seafood industry, its customers, and everyday consumers, to restoring a healthy balance to the world's marine ecosystems. With the exception of the Canadian Atlantic coast, stocks and quotas in the North Atlantic and North Pacific fisheries are at or near record highs



ADJUSTED EBITDA FROM 2007 TO OUR 2016 GOAL

High Liner Foods has increased Adjusted EBITDA by more than 500 percent since 2007. High Liner Foods is focused on achieving \$150 million in Adjusted EBITDA in 2016 through a combination of acquisitions, organic growth and operating efficiencies.



EXCELLENCE

— IN OPERATIONS WILL DRIVE —

PROFITABILITY

STEADY COURSE



Following the optimization of its U.S. production and distribution facilities in the next few months, High Liner Foods expects to realize the full \$18 million in annual synergies it previously estimated relating to the acquisition of Icelandic USA.



SUSTAINABILITY

IS OUR WAY OF

LIFE

STEADY COURSE



In late-2010, High Liner Foods pledged its commitment to source all seafood from certified sustainable or responsible fisheries by 2013. It reached 99% of this goal. Working with the Sustainable Fisheries Partnership and other industry partners, High Liner Foods has played a leading role in the recovery of the world's major fisheries.





Henry Demone, Chief Executive Officer (right) and
Keith Decker, President and Chief Operating Officer

and protected by an unprecedented commitment to sustainable management. In cooperation with industry partners such as the Marine Stewardship Council and other like-minded businesses, High Liner Foods has taken a leadership role in advancing seafood sustainability.

Going forward we will continue to work to achieve the remaining 1% of this goal and as part of our ongoing commitment to sustainability, we will look for additional opportunities to improve sustainability across our entire supply chain, extending our efforts to additional inputs such as energy and packaging, as well as waste reduction.

Succession planning

We are fortunate to have many talented people at High Liner Foods who possess considerable experience and work well together as a team. Nevertheless, we are planning ahead for a large number of retirements over the next 10 years. Given this reality, and the need to keep pace with High Liner Foods' growth, it is important that we take a disciplined approach to talent management and succession planning. In fact, succession

planning has now replaced sustainable sourcing as one of the company's three primary strategic goals to ensure we have the human capacity and expertise necessary to support our growth strategy.

The appointment of Keith Decker as President and Chief Operating Officer ("COO") in September 2013 marked the beginning of this process. The former President and COO of Fishery Products International ("FPI"), Keith joined High Liner Foods through the acquisition of FPI's North American value-added food service and retail frozen seafood businesses in 2007. Since then he has capably directed the integration of three major acquisitions into our U.S. business. In his new role, Keith is responsible for the day-to-day operations of High Liner Foods as well as helping to lead the organization towards its vision of becoming the leading frozen seafood supplier in North America.

We were also pleased to find an accomplished successor for Kelly Nelson who announced his retirement in September 2013. Mr. Paul Jewer comes to us as an experienced CFO from the Canadian grocery industry.

AWARD

REFRIGERATED & FROZEN FOODS PROCESSOR OF THE YEAR

High Liner Foods was proud to receive Refrigerated & Frozen Foods Magazine's **Frozen Foods Processor of the Year Award** in 2013, in recognition of growth and industry leadership in sustainability, packaging, food safety, new product development and capital investment. All frozen food processors in North America are eligible for this prestigious award.



The year ahead

Looking toward the balance of 2014 and beyond, High Liner Foods will continue to follow the basic strategies that have enabled us to grow Adjusted EBITDA from \$13.9 million in 2007 to \$85.3 million in 2013. Our goal of achieving \$150.0 million in Adjusted EBITDA is a challenging one, particularly if the restaurant industry headwinds faced in 2013 persist, but we continue to believe it is achievable through a combination of acquisitions, organic growth and increasing operating efficiencies. Buoyed by a strong share price, solid balance sheet, and a leadership position in the frozen seafood business, High Liner Foods is well situated to make accretive acquisitions in a fragmented industry that we believe will continue to consolidate. In our critical U.S. food service business, our efforts will focus on utilizing our expertise in product innovation to help our restaurant customers adapt to a changing market. We also expect to continue to benefit from continuous improvement in our supply chain, as well as incremental operating improvements going forward. The integration of American Pride Seafoods will begin in April 2014 and is expected to generate cost reductions and other synergies, the full impact of which will begin to be realized later in 2014.

In closing, I would like to thank the more than 1,500 people of High Liner Foods for their dedication and energy during an exceptionally busy year. I would also like to extend my sincere appreciation to my

friend and colleague Kelly Nelson, who will retire in May 2014 following an outstanding 30-year career with High Liner Foods. Kelly and I worked closely together from our early days during the turnaround of National Sea Products and through the strategic transformation and growth of High Liner Foods over the past seven years. He was instrumental in those efforts and we wish him all the best.

We would also like to express our sincere appreciation to Bob Shea, who will not be standing for re-election to the Board at our upcoming annual general meeting. Bob is our longest serving director, having joined the Board in 1982 before restructuring. He has been instrumental in guiding the Company through its many challenges and recent successes over the course of his tenure.

Finally, High Liner Foods would like to thank its many valued customers, suppliers and investors who have played such an important role in our success. With your continued support, I am confident that High Liner Foods will remain on a steady course towards its vision to be the leading supplier of frozen seafood in North America.

Sincerely,

(signed)

Henry Demone,
Chief Executive Officer



AWARD

VALUE CREATION DEALMAKER OF THE YEAR

High Liner Foods was honoured to receive **The Value Creation Dealmaker of the Year Award** in 2013 in recognition of its 2012 acquisition of Icelandic USA. The premier program of its kind in Canada, the Canadian Dealmakers program recognizes individuals and companies whose transactions have significantly impacted their industry through innovation and growth, establishment of best practices, enhancement of customer needs and products, and value creation.

¹ All amounts are reported in U.S. dollars ("USD") unless otherwise noted.

² To qualify as certified sustainable or responsible the seafood must come from: fisheries and aquaculture farms certified as sustainable by the Marine Stewardship Council, the Global Aquaculture Alliance's Best Aquaculture Practices program, or the Aquaculture Stewardship Council; or fisheries and farms not certified sustainable must be on a clear, defined path actively working toward certification and capable of documenting measurable improvements. High Liner Foods will continue to collaborate with its NGO partner, the Sustainable Fisheries Partnership, to achieve these objectives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

WITH

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MANAGEMENT'S DISCUSSION & ANALYSIS

For the fifty-two weeks ended December 28, 2013

(All amounts are in U.S. dollars unless otherwise stated)

Introduction

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

We, us, our, Company, High Liner Foods

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 February 19, 2014. This MD&A includes High Liner Foods' operating and financial results for fiscal 2013 and fiscal 2012, and should be read in conjunction with our Annual Audited Consolidated Financial Statements for the fifty-two weeks ended December 28, 2013, with comparative figures as at and for the fifty-two weeks ended December 29, 2012 ("Consolidated Financial Statements").

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 was the beginning of our fiscal 2010 year.

Financial information contained in this MD&A for fiscal 2013, 2012 and 2011 are comparative as they are in accordance with IFRS. Where historical information prior to 2010 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 Foods, including our most recent Annual Information Form, is available on SEDAR's website at www.sedar.com, and in the Investor Information section of High Liner Foods' website at 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 fifty-two weeks, but from time to time, some fiscal years will have fifty-three weeks. 2013, 2012 and 2011 were fifty-two week years.

Quarterly and Annual Comparisons in this MD&A

Unless otherwise indicated, all comparisons of results to the fourth quarter of 2013 are against results for the fourth quarter of 2012, and all comparisons of results for fiscal 2013 are against results for fiscal 2012. References to the fiscal years 2013, 2012 and 2011 are to the fifty-two weeks ended December 28, 2013, December 29, 2012 and December 31, 2011, respectively.

Accounting Estimates and Assumptions

The preparation of consolidated financial statements under IFRS requires management to make critical judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities as at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. We base our judgments, estimates and assumptions on historical experience and various other factors believed to be reasonable under the given 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 under the heading "Use of estimates and critical judgments" in note 2 to the Consolidated Financial Statements for the period ended December 28, 2013 requires High Liner Foods 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 of this MD&A.

Presentation Currency

The Company's financial statements are presented in U.S. dollars ("USD"), and accordingly, financial information in the MD&A are also presented in USD, unless otherwise noted.

At the end of fiscal 2012, the Company changed its presentation currency from Canadian dollars ("CAD") to USD, effective retrospectively to January 3, 2010 (comparative information provided for 2010 and 2011 was therefore restated for this change in presentation currency). Although the functional currency of the Canadian parent company is CAD, management believes the USD presentation better reflects the total Company's business activities and improves investors' ability to compare the total Company's financial results with other publicly traded businesses in the packaged foods industry (most of which are based in the U.S. and report in USD) and should result in less volatility in reported sales on the conversion into the reporting currency.

Approximately two-thirds of our operations and assets are denominated in USD; most of our debt is denominated in USD; our bank covenants are measured in USD; and some of the Canadian parent company's input costs are denominated in USD. Reporting in USD reduces the volatility of currency changes; however, when the U.S. dollar strengthens (weakening Canadian currency), the reported values of Canadian dollar denominated items of the Canadian parent company decrease in the consolidated statements and the opposite occurs when the U.S. dollar weakens. Canadian dollar denominated items in the Canadian parent company's operations are converted to USD at the balance sheet date for balance sheet items and at the average exchange rate of the month the transaction occurs for income statement items. As such, foreign currency fluctuations affect the reported values of individual lines on our balance sheet and income statement.

In some parts of this document, balance sheet and operating items of the Canadian parent company are discussed in its CAD functional currency. We do this to eliminate the effect of fluctuating foreign exchange rates used to translate the Company's Canadian operations to the USD presentation currency.

Non-IFRS Financial Measures

The Company reports its financial results in accordance with IFRS. We include certain non-IFRS financial measures and ratios in our Quarterly and Annual Reports as management 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.

These non-IFRS financial measures are defined below and include: Adjusted Net Income; Adjusted Diluted Earnings per Share ("EPS"); Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA"); Adjusted Earnings before Interest and Taxes ("EBIT"); Standardized Free Cash Flow; and Adjusted Standardized Free Cash Flow.

Adjusted Net Income

Adjusted Net Income is net income excluding the after-tax impact of: business acquisition, integration and other expenses; impairment of property, plant and equipment related to plant closures; additional depreciation on property to be disposed of as part of an acquisition; an increased cost of goods sold relating to purchase price allocation to inventory acquired over its book value; non-cash expense from revaluing an embedded derivative associated with the long-term debt LIBOR floor and marking-to-market an interest rate swap related to the embedded derivative; the write-off or write down of deferred financing charges on the re-pricing of our term loan; withholding tax related to intercompany dividends; and stock compensation expense.

Adjusted Diluted EPS

Adjusted Diluted EPS is Adjusted Net Income, as defined above, divided by the average diluted number of shares.

Adjusted EBITDA

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 and is earnings before interest, taxes, depreciation and amortization, excluding: business acquisition, integration and other expenses; impairment of property, plant and equipment related to plant closures; increased cost of goods sold relating to purchase price allocation to inventory acquired over its book value; gains or losses on disposal of assets; and stock compensation expense. For purposes of the leverage tests calculated under the Company’s debt covenants, “EBITDA” is based on Adjusted EBITDA.

Management believes that Adjusted EBITDA 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 associated with acquisitions and synergy attainment, as well as market-based compensation related to stock price. 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.

Adjusted EBIT

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

Standardized Free Cash Flow

Standardized Free Cash Flow follows the October 2008 “General Principles and Guidance for Reporting EBITDA and Free Cash Flow” issued by the Canadian Institute of Chartered Accountants and is cash flow from operating activities less purchase of property, plant and equipment (net of investment tax credits) as reported on the Consolidated Statement of Cash Flows. The purchase of property, plant and equipment as part of the acquisition of a business is not deducted from free cash flow.

Adjusted Standardized Free Cash Flow

Adjusted Standardized Free Cash Flow is Standardized Free Cash Flow, adjusted to exclude the estimated value of the accounts receivable of American Pride Seafoods’ (“American Pride”) on the date High Liner Foods acquired their net assets, excluding their accounts receivable balance, which was estimated to be \$15.5 million. See Section 5.1 “The American Pride Acquisition” for more details on this transaction. Due to the exclusion of accounts receivable from the net assets acquired, the increase in High Liner Foods’ accounts receivables of \$17.4 million as at December 28, 2013, compared to December 29, 2012, primarily reflects accounts receivable related to American Pride’s sales. This increase is being reported in the Company’s Statement of Cash Flows as an increase in Fiscal 2013’s non-cash working capital requirements and has the effect of decreasing the net cash flows from operating activities compared to if we had acquired the American Pride’s accounts receivables as part of the acquisition, in which case approximately \$15.5 million of this increase in accounts receivables would be reflected in the Statement of Cash Flows as cash used in investing activities.

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 entitled “Risk Factors and Risk Management”. 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

Company Overview

High Liner Foods through its predecessor companies, has been in business since 1899. Its name has been a fixture in the Canadian seafood industry for more than eighty years and **Captain High Liner** is one of the most highly recognized consumer brand icons in Canada. Today, High Liner Foods is the leading North American processor and marketer of value-added frozen seafood.

In recent years, High Liner Foods has made a number of strategic acquisitions (“the Acquisitions”), including:

- In December 2007, we acquired the North American manufacturing and marketing business of FPI Limited, including FPI’s prominent food service business headquartered in Danvers, Massachusetts (“MA”).
- In December 2010, we acquired the business of Viking Seafoods, Inc. (the “Viking Acquisition” or “Viking”), a value-added business serving the U.S. food service seafood market from Malden, MA.
- In December 2011, we acquired the U.S. subsidiary and Asian procurement operations of Icelandic Group h.f., (the “Icelandic USA Acquisition” or “Icelandic USA”), one of the largest suppliers of value-added seafood to the U.S. food service market, serving the market from Newport News, Virginia.
- In October 2013, we purchased the American Pride Seafoods business from American Seafoods Group LLC, a value-added frozen seafood and scallop processing business serving the U.S. food service seafood market from New Bedford, MA. This acquisition (the “American Pride Acquisition”) is described in detail in Section 5.1 of this MD&A.

High Liner Foods’ retail branded products are sold throughout the U.S., Canada and Mexico under the **High Liner**, **Fisher Boy**, **Mirabel** and **Sea Cuisine** labels, and are available in most grocery and club stores. The Company also sells branded products to restaurants and institutions under the **High Liner**, **Icelandic Seafood**, **FPI**, **Viking**, **Mirabel**, **Samband of Iceland** and effective October 1, 2013, **American Pride Seafood** label, and is the major supplier of private label value-added seafood products to North American food retailers and food service distributors.

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

1.1 Vision

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

To be the leading supplier of frozen seafood in North America.

During the past several years, we were first focused on our vision, “to be the the leader in value-added frozen seafood in North America”

until, with the Icelandic USA Acquisition (described below) in late 2011, this vision was effectively achieved. Following the substantial completion of activities to integrate this acquisition into High Liner Foods' business, the Company announced in early 2013 an updated and expanded vision, "to be the leading frozen seafood supplier in North America".

The "value-added" modifier was dropped, recognizing that in our pursuit to be the leading supplier of frozen seafood in North America, we will continue to focus on growing our value-added products, from breaded and battered items to seafood entrees, but we will also focus on growing our raw (i.e. unprocessed) frozen seafood product offerings, which in 2013 represented approximately 32% of our product sales. This change is not a mandate to become a commodity trader. We have high standards for margins, return on assets managed and return on equity and will ensure these are maintained by continuing to differentiate our raw frozen products by virtue of a combination of branding, marketing, quality and service.

We are focused on frozen seafood, because we are experts in this category and on North America because we continue to see opportunities for growth in the North American markets, by building on our position as a leader in frozen seafood in both Canada and the U.S., particularly in the food service channel.

1.2 Core Businesses

High Liner Foods 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 **Viking** and we manufacture private labels. In late 2011, the Icelandic USA Acquisition added the **Samband of Iceland** brand to our list of offerings. In addition, the **Icelandic Seafood** brand is licensed to High Liner Foods by the Icelandic Group. In 2013, the **American Pride Seafood** brand was acquired.

As at the end of 2013 we own and operate four food-processing plants located in: Lunenburg, Nova Scotia; Portsmouth, New Hampshire; Newport News, Virginia; and New Bedford, MA. The plants in Newport News and New Bedford were acquired as part of the Icelandic USA and American Pride Acquisitions, in 2011 and 2013, respectively. We also operate a leased food-processing facility in Malden, MA, which was obtained as part of the Viking Acquisition.

At the end of 2012 and in early 2013, we permanently closed our two processing facilities located in Burin, Newfoundland and Danvers, MA, respectively, as they were surplus to our capacity needs. These two plants were our higher-cost facilities and closing them makes High Liner Foods a stronger, more competitive company.

In the first quarter of 2013, we sold the processing facility acquired in Dalian, China as part of the Icelandic USA Acquisition, to the minority shareholder. In the first quarter of 2013, we also sold our joint venture interest in HighKan Holdings Limited ("HighKan") to our former joint venture partner. HighKan owns 80% of Dencan Seafood Limited ("Dencan"), a Chinese company operating a leased primary fish processing facility in China. Upon selling our interests in these facilities, we entered into purchase arrangements with both to continue purchasing product, at the same or similar volumes.

High Liner Foods consists of two main business units, geographically based, being the U.S. and Canada:

United States Operations

Retail

Our U.S. subsidiary produces and sells value-added seafood products under the **Fisher Boy**, **High Liner**, and **Sea Cuisine** brands. The business distributes products throughout the U.S. and in Mexico through traditional grocery stores and club stores, among others. The club store channel is important to our growth strategy for the U.S. retail business, and we sell to all major U.S. club store chains. We have built business in this channel by introducing innovative premium products under the **High Liner** and **Sea Cuisine** brands. Our U.S. subsidiary also is the largest supplier of retail private label processed seafood in the U.S. 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 food processing companies. High Liner Foods is one of the largest seafood suppliers to this market especially in value-added products. We are particularly recognized for our innovative product development expertise. The acquisitions have added new products and brands to our food service offerings and have substantially increased High Liner Foods' share of the market for value-added seafood products in the U.S. food service industry. This division also sells a full line of raw and cooked uncoated seafood to the food service channel. Products are sold under the **Icelandic Seafood**, **FPI**, **Viking** and **American Pride Seafood** brands.

Canadian Operations

Retail

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

Food Service

Our Canadian food service business, also headquartered in the GTA, is growing due to our ability, through worldwide procurement, to provide food service customers with 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 and include both value-added and raw, or cooked and unprocessed products. High Liner Foods is the largest frozen seafood supplier in the Canadian food service channel. Private labels are also produced for some of our larger customers.

1.3 Strategy

Overview

Our overall business strategy is a simple one: we satisfy the seafood preferences of North American consumers. We need to be, and are, seafood experts. We focus exclusively on creating and marketing top quality frozen seafood.

We are committed to developing, producing and delivering high-quality and innovative seafood products for our retail, club store and food service customers, and to providing all customers with superior levels of service. We strive to maintain and improve our market leadership positions through continuous product improvement, product innovation, and consistently providing high levels of customer service, including ensuring continuity of supply and on-time product delivery.

It is through partnering with customers and suppliers, further developing our brands, achieving operational excellence, maintaining our superior procurement expertise and providing leadership in the frozen seafood category, that we expect to achieve our vision and increase shareholder value in the long-term.

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

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

Growth Strategy

High Liner Foods will pursue growth in two areas:

Organic Growth in Core Markets

We plan to continue to grow our seafood businesses in Canada, the U.S. and Mexico, in traditional retail, club and food service channels. New product introductions, as well as the introduction of new species, are an integral part of this strategy. Gaining additional sales volume with existing customers by providing them with a wider range of seafood products is also a key component of this strategy.

We are focused on increasing the sales, profits and market share of our major brands. Our market share in the retail frozen seafood market in both Canada and the U.S. has been increasing. Our market share in Canada is much higher than in the U.S. due to our long-standing leadership position. High Liner Foods dominates the Canadian frozen seafood category and is a key participant in the U.S. market.

We support our brands by conducting consumer research to determine what food products and formats appeal to consumers. We then focus product development to deliver on these expectations.

North Americans want good taste, excellent value, and high-quality products. They are looking for sustainable, healthier and more convenient foods and they want a variety of premium, restaurant quality food at home.

Our Canadian retail business has built its business developing a line of premium quality products and introduced new uncoated products into the seafood departments of Canadian grocery stores. Having products in the seafood department and the frozen food aisles increases our brand presence in grocery stores.

New product development in our U.S. retail business is focused on premium quality seafood products that are sold in the frozen section of fresh seafood departments and delis under the Sea Cuisine brand. Club store sales in both Canada and the U.S. have also benefited from product development expertise and we have grown our share of the value-added business with all major club stores in the U.S.

In our U.S. food service business, we have successfully launched several product platforms in recent years – *Upper Crust* in 2004, *Pan Sear* in 2006 and *Fire Roasters* in 2010. The *Fire Roasters* products, which are not available from our competitors, are restaurant-inspired, high quality, ready-to-cook entrees that are popular with restaurant operators that do not want to have to prepare the seafood in their own kitchens. The *Fire Roaster* products, marketed in Canada as *Flame Savours*, have also been successful in Canada's food service and retail businesses. Icelandic Seafoods' differentiated beer battered line of products has also contributed to our product offerings in retail and food service.

Acquisition of Frozen Seafood Businesses

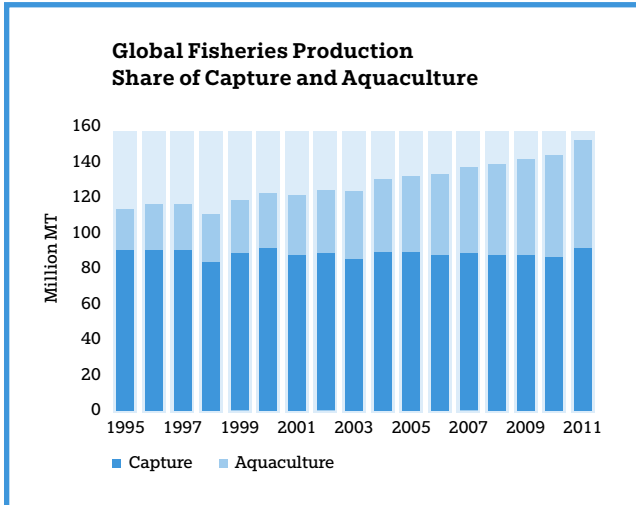
Although organic growth is an important focus, our strength in the value-added frozen seafood business in North America creates a strategic opportunity for us to acquire businesses operating in the same markets. Our acquisition criteria are strict. Target businesses must be principally selling frozen seafood in North America and for us to achieve the required synergies upon integrating these businesses into ours, acquisitions must leverage our existing leading brands, customer relationships, robust business systems and our expertise in marketing, frozen food logistics and product development. Our recent acquisitions were aligned to this criteria and following the acquisitions we have made since 2007:

- High Liner Foods is the leading marketer and processor of value-added frozen seafood in North America.
- In Canada, we are the clear market leader for frozen seafood products in both retail and food service channels.
- In the U.S., we are a leading supplier of frozen seafood products in the food service channel and the leading supplier of value-added frozen seafood products in this channel.

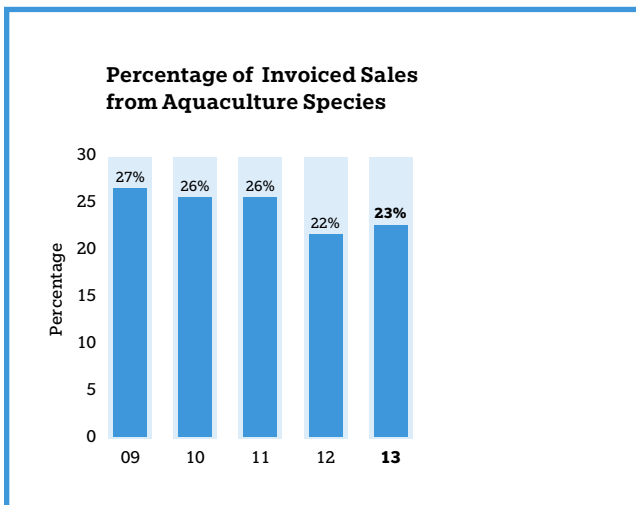
Global Seafood Supply and Demand

As a consumer-driven sales and marketing company, we focus on matching supply to demand. Procuring seafood on global markets allows us to provide products based on consumer preferences. The global supply of seafood is expanding, and global consumer demand is increasing due to the recognized health benefits and taste of seafood and increased demand from emerging economies.

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, as illustrated in the following chart:



Globally, there has been considerable development in the aquaculture industry both in finfish and shellfish species. This trend is expected to continue. We currently procure aquaculture products, including warm water shrimp, tilapia, pangasius (basa), mussels, scallops and Atlantic salmon. Our strategy is to increase the procurement of aquaculture products in the future as we continue to expand shrimp, tilapia and pangasius sales and investigate the feasibility and profitability of using more aquaculture species. Despite procuring aquaculture products, the vast majority of our seafood product sales are from wild caught fish. Excluding sales from American Pride, aquaculture accounted for 23% of our sales in 2013, as shown in the following chart:



Globally, demand over time is expected to increase faster than supply, resulting in increases in seafood costs. These increases in demand come about as a result of increasing disposable incomes in

countries like Russia, Brazil, India and China that also increase consumption of seafood products. The trend of increasing demand was affected, at least temporarily, as a result of the global financial crisis and the changed relationship between currencies of producing and consuming countries. Demand from Europe, especially Southern European countries, decreased significantly due to the financial uncertainty surrounding the European Union. However, in the longer term, we expect demand to continue to increase, resulting in increases to prices of seafood. In 2014, we expect raw material costs to decrease for several significant species that we procure, due to both continued low demand in Europe and increasing supply due to quota increases, although for some species, such as shrimp, scallops and haddock, they are likely to stay above recent historical levels due to continued supply shortages.

2013 Strategic Goals

Our strategic objectives for 2013, along with commentary thereon, were:

1. Supply Chain Optimization

2013 was the first year for this multi-year goal to focus on driving innovation across the organization through standardization and system optimization in the purchase of materials, inventory management, product rationalization, and shipping, both into North America and to customers.

We buy approximately 30 species of seafood from 20 countries. Our customers deserve and expect great customer service and we need to manage inventory at reasonable levels in order to achieve our financial targets. Our inventory management can improve. This is a big challenge that touches most parts of the organization. However, with focus and hard work we can become the industry leader in supply chain management, which will be a powerful competitive advantage difficult for our competitors to achieve.

In the first quarter of 2013, we expedited the closure of our plant in Danvers and increased production at our manufacturing facilities in Newport News and Portsmouth, and relocated U.S. food service distribution to Newport News. During this transition, plant throughput rates decreased at Newport News and Portsmouth as they integrated new products into their respective production facilities. Restoring these production issues was an organizational priority for the remainder of 2013 and as a result, less resources were available than planned to focus on optimizing our supply chain, slowing progress on this goal. However, several initiatives were initiated related to this strategic goal and in 2014, driving costs out of our supply chain and taking advantage of our growing infrastructure, will be a larger focus for the Company than it was in 2013.

2. Profitable Growth

This goal is a multi-year goal as well. Prior to 2013, we had been working towards a goal to earn \$100 million of Adjusted EBITDA by 2015; however, based on our financial performance in 2012 and the Icelandic USA Acquisition, we believed we would achieve \$100 million in Adjusted EBITDA in 2013 and changed this goal to \$150 million of Adjusted EBITDA by 2015. Through a combination of supply chain excellence, internal growth and acquisition, we believe we can increase Adjusted EBITDA to \$150 million.

Progress on this goal in 2013 include the American Pride Acquisition in the fourth quarter (see Section 5.1 of this MD&A for more information); however, due to slowed progress on our “supply chain excellence” goal as explained above and current headwinds on our U.S. food service business (discussed in detail under the “Performance” section of this MD&A), we are not confident we can achieve this level of Adjusted EBITDA by the end of 2015, and are extending this goal by another year, to the end of 2016.

3. Sustainability

In late 2010, we made an ambitious, but important, organizational commitment to source all of our seafood from “certified sustainable or responsible” fisheries and aquaculture, and we set out to accomplish this by the end of 2013. At the beginning of 2010, approximately 22% of our wild seafood was certified and 75% of our aquaculture seafood was from Global Aquaculture Alliance Best Aquaculture Practices (“BAP”) certified facilities. At the end of 2013, we achieved 99% of this goal and through this process, High Liner Foods has become recognized as a global leader in driving best practice improvements in wild fisheries and aquaculture. We will continue to work to achieve the remaining 1% of this goal and as part of our ongoing commitment to sustainability, will continue to work on additional opportunities to improve sustainability across our supply chain, extending beyond the seafood we source.

Strategic Goals for 2014

Our Corporate Strategic Goals for 2014 are:

1. Supply Chain Optimization

As explained above, we did not make as much progress towards the goal in 2013 as expected due to the challenges in our U.S. plant consolidation. Nevertheless, this remains a major opportunity. Our company has quadrupled in size over the past six years. We now operate on a scale that is far larger than many of our competitors and we need to take advantage of this scale to improve our quality and service and reduce costs.

2. Profitable Growth – \$150 million in Adjusted EBITDA

As explained above, challenges encountered in 2013 will make it difficult to achieve this target by the end of 2015 and we have extended it by a year, to the end of 2016. We continue to believe this goal is achievable through a combination of supply chain excellence, internal growth and acquisition. In addition to integrating the American Pride Acquisition in 2014, to achieve \$150 million in Adjusted EBITDA, we believe we need to successfully complete the integration of one major or two smaller acquisitions, and increase organic growth by the introduction of innovative new product platforms and market share gains before the end of 2016.

3. Succession Planning

We have a talented team of people with High Liner Foods that have considerable experience and work together well as a team. Nevertheless, we are planning ahead for a large number of retirements expected over the next 10 years, and succession planning activities are well underway at the senior levels of the organization. We need to make sure that we both develop and hire talented people to elevate the organization when vacancies are created by retirements and we also need to build internal capacity for integrating the companies that we plan to acquire as part of our growth strategy.

Financial Objectives

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

	Benchmark	2013 Actual	2012 Actual
Returns			
On assets managed	15.0%	13.5%	13.2%
On equity	18.0%	20.4%	17.6%
Profitability			
Trailing 12-month Adjusted EBIT as a percentage of net sales	8.0%	7.4%	7.9%
Financial strength			
Net interest-bearing debt to Adjusted EBITDA ratio (times)	3.0	3.9	3.4
Inventory management			
Inventory turns (times)*	4.2	4.3	4.0

* Excluding American Pride in 2013

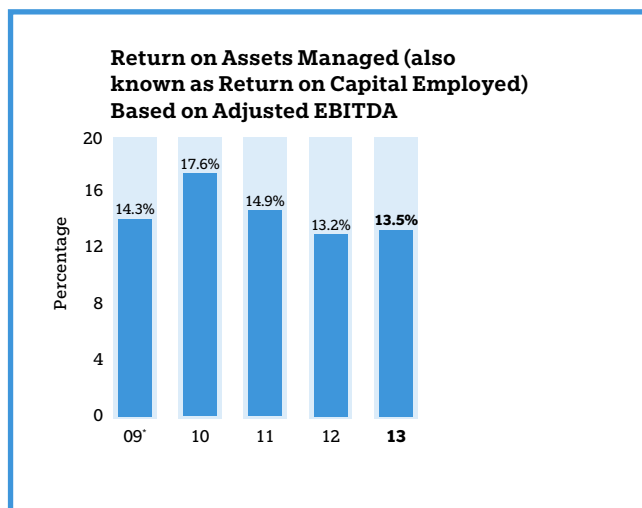
Each of these financial measures is discussed below.

Return on assets managed (“ROAM”) is calculated as follows:

Adjusted EBITDA as defined under the heading “Non-IFRS Financial Measures” in the Introduction section of this MD&A.

Divided by:

Average assets managed (calculated using the average net assets month-end balance for each of the preceding 13 months, where “net assets managed” includes all assets, except for employee future benefits, deferred income taxes and other certain financial assets, less accounts payable and provisions).



* 2009 has been converted to USD by taking the previously reported Canadian dollar amount and converting it at the annual exchange rate for the year. 2009 is in accordance with Canadian GAAP (not restated to IFRS).

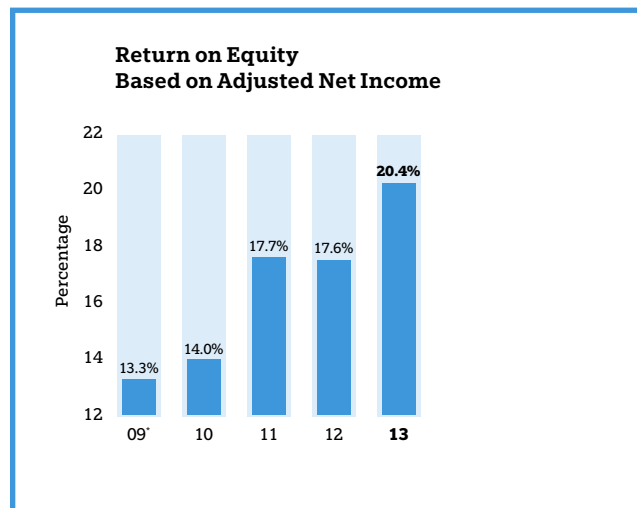
In 2013 our ROAM was 13.5%, compared to our benchmark of 15.0%. Adjusted EBITDA in 2013 decreased by 6.3 million over 2012 but average net assets managed also decreased, principally inventory. The net result is that ROAM did not change significantly from what we reported at the end of 2012. The American Pride Acquisition, completed on October 1, 2013, increased our net assets managed for three months in 2013. As these assets were purchased based on achieving the synergies projected there is a mismatch between the assets acquired and the returns in the current year. Also, production challenges encountered after our Danvers plant closure in the first quarter of 2013, had a negative effect on this ratio.

Return on equity ("ROE") is calculated as follows:

Adjusted Net Income (calculated as under the heading "Non-IFRS Financial Measures" in the Introduction section of this MD&A, except including stock-based compensation expense).

Divided by:

Average common equity (calculated using the common equity month-end balance for each of the proceeding 13 months).



* 2009 has been converted to USD by taking the previously reported Canadian dollar amount and converting it at the annual average exchange rate for the year. 2009 is in accordance with Canadian GAAP (not restated to IFRS).

Our ROE in 2013 was 20.4%. Adjusted Net Income increased 8.4% in 2013 over 2012 and average common equity increased by 7.0% in 2013, increasing ROE to above our target of 18.0%.

Trailing 12-month Adjusted EBIT as a percentage of net sales is calculated as follows:

Adjusted EBIT as defined under the heading "Non-IFRS Financial Measures" in the Introduction section of this MD&A.

Divided by:

Sales as disclosed on the consolidated statement of income.

Our trailing 12-month Adjusted EBIT as a percentage of net sales revenue is 7.4%. This ratio has deteriorated over the last year due to the issues encountered in 2013 related to the closure of the Danvers plant and due to American Pride having lower margins than those High Liner Foods has traditionally achieved. We have a plan to increase the margins from American Pride's operations based on the attainment of synergies.

Net interest-bearing debt to trailing 12-month Adjusted EBITDA is calculated as follows:

Net interest-bearing debt (calculated as bank loans, plus current and long-term portions of long-term debt and capital lease obligations (but excluding all deferred charges or adjustments for the embedded derivative), net of cash).

Divided by:

Adjusted EBITDA as defined under the heading "Non-IFRS Financial Measures" in the Introduction section of this MD&A.

Net interest-bearing debt to trailing 12-month Adjusted EBITDA is 3.9 times at the end of fiscal 2013, compared to 3.4 times at the end of fiscal 2012 as shown in the following table.

(Amounts in \$000s)	Fifty-two weeks ended	
	December 28, 2013	December 29, 2012
Net interest-bearing debt as calculated in note 24 to the Consolidated Financial Statements	\$ 332,039	\$ 311,810
Rolling fifty-two week Adjusted EBITDA	\$ 85,343	\$ 91,687
Net interest-bearing debt to Adjusted EBITDA ratio (times)	3.9	3.4

During 2013, our net interest-bearing debt increased due to the American Pride Acquisition, and our Adjusted EBITDA decreased as explained in Section 5 of this document. Combined, these items increased the net interest-bearing debt to trailing 12-month Adjusted EBITDA ratio.

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 (calculation includes raw material, finished goods, packaging and ingredients, but excludes maintenance parts and inventory in transit and in inspection).

Our average inventory turns in 2013 were 4.3 times excluding American Pride. 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 inventory being a significant asset. Average inventory in 2013 was lower than 2012 despite an increase in inventory in the fourth quarter of 2013 related to the American Pride Acquisition.

2. Performance Measures

Our performance against key metrics will tell us whether we are achieving our strategic objectives. We made considerable progress in 2013 by focusing on these metrics.

2.1 Our Brands

Market Share

The market shares of our retail brands are significant. 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 the largest value-added frozen seafood supplier in the U.S.

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 U.S., our **Fisher Boy** brand has a strong presence in certain regions and **Sea Cuisine** has a growing importance in the "prepared seafood" category.

Retail Availability

An important measure for retail availability 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 U.S.) 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 stores where frozen seafood is sold. In the U.S., our brands, which include **Fisher Boy**, **High Liner** and **Sea Cuisine**, have a smaller share of the "total frozen seafood" category than **High Liner** in Canada. ACV for all High Liner Foods branded products was nearing 82% at the end of 2013 compared to 66% at the end of last year. The large increase is due to a concerted effort on our part to increase distribution for our products, especially **Sea Cuisine**. In some regions in the U.S., this is substantially higher. Although, in Mexico City we do not track ACV, we are confident in our position as a leading breaded and battered seafood supplier in the major centers.

In Canada, we use Nielsen® to track market share and ACV of our retail brands in grocery, mass merchandising, general merchandising, club stores, and distributors. In the U.S. we use Information Resources Inc. ("IRI") to track market share and ACV of our retail brands, where it tracks all grocery stores, super-centers (including Walmart) and club store channels (excluding Costco). 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 fifty-two week period, with the goal to keep it at 80%. In 2013, excluding the sales from

American Pride, our brand sales increased to 79% of total sales compared to 76% in 2012, and were very close to target.

2.2 Our Organization

Productivity

At the end of fiscal 2013, we had five manufacturing plants, including four that we own and one that we lease, each with capacity for growth. In the fourth quarter of 2013, we added the New Bedford food-processing facility as part of the American Pride Acquisition.

At the end of 2012 and in early 2013, we permanently closed our two processing facilities located in Burin and Danvers, respectively. Likewise, in the first quarter of 2013, we sold a primary processing operation that we acquired in December 2011 as part of the Icelandic acquisition, and a joint venture, both in China. We continue to purchase products from these Asian facilities. Our strategy in overseas procurement is to maximize our flexibility, which we believe will be better achieved by not owning or directly managing overseas production.

With the closure and sale of these facilities, we continue to have adequate capacity for growth, and are investing in our continuing manufacturing infrastructure. 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. 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. In 2013, pounds per working hour declined as the learning curve on products transferred out of the closed plants took longer than expected. This also had the impact of temporarily reducing capacity. Efforts in 2013 have already resulted in increased production run rates and we expect to be back to normal levels by the second half of 2014. This will reduce costs and increase capacity. The addition of the New Bedford plant on October 1, 2013 has also increased capacity.

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 and strive to achieve at least 98.5% purchase order fulfillment, which is at the top of the industry. For 2013, including American Pride, our purchase order fulfillment, measured by number of cases of products shipped compared to what was ordered, was 96.0%. This was lower than our target due to supply issues for a number of commodity products, especially sole/flounder, cod, shrimp, and haddock, along with distribution center issues encountered as we consolidated our U.S. food service distribution in the first quarter of 2013. We are focused on streamlining operations in Newport News and we expect that fill rates in 2014 will be better than in 2013, with the exception of some continued supply problems on some commodity products.

People

We are building a high-performance organization by investing in our people. We are focused on developing 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 have training and development plans for all employees that continued in earnest in 2013 and will continue in 2014 and beyond, reflecting our ongoing commitment to employee development. High Liner Foods was selected as one of Nova Scotia's and Atlantic Canada's Top Employers for 2012 and 2013. The Top Employers is an annual regional competition organized by the editors of the national Canada's Top 100 Employers competition. This special designation recognizes employers in Atlantic Canada that lead their industries in offering exceptional places to work.

2.3 Grow Through Innovation

Overall Sales Increases

Global procurement means that we can access any species that meets consumer tastes. In addition, we are experts in product development. Overall sales increases provide us an indication on how successful our ideas are and we aim to achieve at least a 5% increase in sales year over year. In 2013, our sales in domestic dollars increased by \$14.0 million or 1.5%. Excluding sales from American Pride, sales in domestic currency decreased 2.7% compared with our 5.0% target. In terms of volume, total sales in 2013 increased 2.6% or excluding American Pride, total sales decreased 2.0%. We expect volume in 2014 to increase, and the higher seafood costs that we experienced in the last half of 2013 are expected to continue into 2014. Consequently, we expect our selling prices in 2014 will be higher than those of 2013. Higher selling prices are required to attempt to counteract the seafood cost increase we are experiencing for certain species, especially shrimp and haddock. Per capita consumption in the U.S. is not growing and to counteract that we are targeting differentiated products and creative promotions to grow consumption and market share from competitors.

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 2013, excluding sales from American Pride, sales from new products launched in the previous 24 months were approximately 8% of our sales.

3. Capability: Resources and Core Competencies

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

3.1 Liquidity and Capital Resources

Our balance sheet is affected by foreign currency fluctuations. The effect of foreign currency is discussed in this section and under the heading "Presentation Currency" in the Introduction section, and Section 8.5 "Foreign Currency" of this MD&A.

Net Interest-Bearing Debt

Our net interest-bearing debt is comprised of working capital credit and term loan facilities, and finance leases, less cash. Our net interest-bearing debt position increased to a liability of \$332.0 million at December 28, 2013 compared to a liability of \$311.8 million at December 29, 2012. This \$20.2 million increase reflects the use of debt to acquire American Pride, partially offset by positive cash flow generated from operations. This acquisition is explained in Section 5.1 “The American Pride Acquisition” of this MD&A.

Term Loan Facility

High Liner Foods entered into a \$250.0 million senior secured term loan facility (“Term Loan”) in December 2011. This facility was amended in February 2013 resulting in the following changes:

- Interest rates decreased to LIBOR plus 3.5%, with a LIBOR floor of 1.25% from LIBOR plus 5.5% and a floor of 1.5%;
- The available amount or “basket” for dividends and normal course issuer bid (“NCIB”) payments was increased to \$15.5 million from the previous limit of \$8.0 million. Dividends and NCIB payments are allowed beyond the basket as defined free cash flow is generated and not required for debt repayment;
- A prepayment penalty of 1% was in place until February 8, 2014;
- Leverage ratios were amended and step down leverage requirements removed so that the debt to EBITDA ratio limit is now 4.5x for the term of the loan;
- The interest coverage covenant was removed; and
- Other minor changes relating to relaxing the requirements around investments and acquisitions.

The amortization and maturity date are unchanged, meaning the full amount of the remaining debt is due to be paid in December 2017.

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

Minimum repayments are required on an annual basis, plus additional payments based on a leverage test, up to 50% of defined excess cash flow beginning in 2013, based on the previous year’s cash flow. In March 2013, we paid 25% of our excess cash flow for 2012 which was \$13.8 million. Due to this excess cash flow payment, which in accordance with the terms of the debt agreement is applied against the principal payments otherwise due, there were no additional repayments in 2013 and there will be no regularly scheduled repayments in 2014. There will be no excess cash flow payment in 2014 because the defined excess cash flow was negative in 2013 due primarily to the American Pride Acquisition described in Section 5.1 of this MD&A.

The terms of the long-term debt facility required us to protect 50% of the variable interest rate for a fixed rate until December 2013. A derivative financial instrument was therefore purchased in the second quarter of 2012 which results in the LIBOR rate on 50% of the Term Loan being capped at 1.5% until April 2014. Also on May 3, 2012, we entered into an interest rate swap to exchange floating three month LIBOR for a fixed rate on our Term Loan, with an embedded floor of 1.5%, for a notional amount of \$100.0 million for the period of April 4, 2014 until April 4, 2016. On a quarterly basis starting in 2014, we are required to pay the fixed swap rate and expect to receive the floating three month LIBOR rate (but no

less than 1.5%), effectively fixing the rate between 1.747% to 1.997%. See Section 4.5 for a description of the implication of such swap on our financial results.

As the interest rates on the long-term debt facility were fixed on only a portion of the US\$250.0 million face value of the debt, the other portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates if LIBOR is higher than the floor of 1.25%.

Working Capital Credit Facility

We entered into a \$120.0 million asset-based working capital facility in November 2010 with the Royal Bank of Canada as collateral and administrative agent. In December 2011, this facility was amended to increase it to \$180.0 million, of which \$125.0 million is allocated to our U.S. operations and the remainder is allocated to our Canadian operations. In February 2013, the facility was amended again with changes to interest rates and increased flexibility around acquisitions being the major changes. The working capital facility expires in 2016 and provides, after the February 2013 amendment, for the following based on the “Average Adjusted Aggregate Availability” as defined in the credit agreement:

- Canadian Prime Rate loans denominated in CAD and Canadian Base Rate and U.S. Prime Rate loans denominated in USD at Prime or Base Rate plus 0.00% to 0.75%;
- Bankers’ Acceptances (BA) loans at BA rates plus 1.75% to 2.25%;
- LIBOR advances at LIBOR plus 1.75% to 2.25; and
- Unused line fees of 0.25% to 0.375%.

At the end of the fourth quarter of 2013, we were borrowing at the following rates:

- Canadian Prime Rate loans denominated in CAD and Canadian Base Rate and U.S. Prime Rate loans denominated in USD at Prime or Base Rate plus 0.50%;
- Bankers’ Acceptances (BA) loans at BA rates plus 2.00%;
- LIBOR advances at LIBOR plus 2.00%; and
- Unused line fees of 0.375%.

Excluding any major acquisitions, we believe the asset-based working capital facility should be sufficient to fund all of the Company’s current cash requirements for 2014.

We also entered into interest rate swaps to hedge a portion of our working capital loans. The swaps are for a notional \$50 million for the period of May 4, 2012 to March 4, 2014, and then for \$30 million for the period March 5, 2014 to March 4, 2015, at an average LIBOR rate of 0.719% and 0.726%, respectively. These swaps effectively fix the interest rate on a portion of our working capital loans.

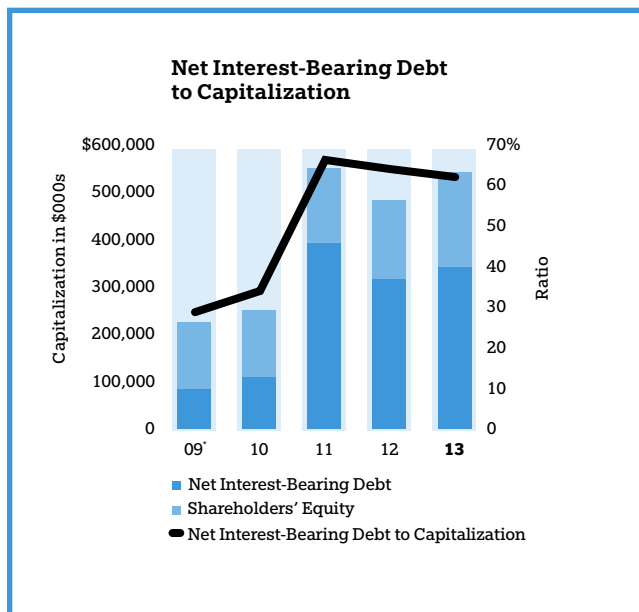
Full details of the financing arrangements are included in notes 12 and 13 to the Consolidated Financial Statements.

Prior to the American Pride Acquisition in October 2013, average short-term borrowings in 2013 were approximately \$52.0 million compared to approximately \$100.0 million in 2012. The decrease in short-term borrowings was the result of positive cash flow generated from operations and decreases in working capital.

At the end of the fourth quarter of 2013, the Company had \$67.9 million of unused borrowing capacity taking into account both margin calculations and the total line availability.

On December 28, 2013, letters of credit were outstanding in the amount of \$0.6 million (December 29, 2012: \$0.6 million) to support raw material purchases and \$0.8 million to secure certain contractual obligations (December 29, 2012: \$0.5 million). There were also standby letters of credit in the amount of \$11.2 million (December 29, 2012: \$11.1 million) to secure obligations under the Company's supplemental executive retirement plan. Letters of credit reduce the availability under our working capital facility and are accounted for in the \$67.9 million of unused borrowing capacity disclosed above.

We expect the average available credit in 2014 to be lower than in 2013 due to expected higher average loan balances as the result of the American Pride Acquisition and increased capital expenditures. We expect leverage will decrease to more historically normal levels over the next few years as we pay down loans with our cash flow from operations and realize additional synergies from the American Pride Acquisition. In 2013, Standardized Free Cash Flow was \$12.6 million and debt repayments were \$16.5 million.



* 2009 has been converted to USD by taking the previously reported Canadian dollar amount and converting it at the annual average exchange rate for the year. 2009 is in accordance with Canadian GAAP (not restated to IFRS).

Net Non-Cash Working Capital

Net non-cash working capital balances, consisting of accounts receivable, inventory, prepaid expenses, less provisions and accounts payable, at the end of fiscal 2013 were \$244.9 million, compared to \$196.2 million a year ago. This \$48.7 million increase was due mainly to the American Pride Acquisition in 2013, including a \$4.2 million receivable from the vendor relating to post-acquisition working capital adjustments (see Section 5.1 of this MD&A and note 4 to the Consolidated Financial Statements for more details on this acquisition).

Our working capital requirements fluctuate during the year, usually peaking between December and April as our inventory is the highest at that time. Going forward, we expect the trend of inventory peaking between December and April to continue and we have enough availability on our line of credit to finance our working capital requirements throughout 2014. However, if we were to do another acquisition, depending on the size, we may need to expand our working capital facility.

Cash Flow

Cash flow from operating activities, excluding the change in non-cash working capital balances, was relatively unchanged in 2013 compared to 2012.

Adjusted Standardized Free Cash Flow was \$28.1 million for the year ended December 28, 2013, compared to \$66.3 million for the year ended December 29, 2012.

- Cash flow from operations, before the net change in non-cash working capital, was \$53.4 million, relatively consistent with prior year. Significant efforts were made in 2013 in integrating Icelandic USA and achieving synergies, but production and distribution issues resulting from the closure of our Danvers plant and the relocation of our food service distribution center to Newport News negatively impacted EBITDA and therefore cash flow.
- Cash flow from net non-cash working capital decreased by \$52.3 million due primarily to the American Pride Acquisition in 2013 (see Section 5.1 for more details on this acquisition) and a significant decrease in inventory in 2012. American Pride's accounts receivable were not purchased as part of the acquisition and excluding the approximate value of their accounts receivables on the acquisition date of \$15.5 million, net non-cash working capital increased by \$36.8 million. Inventories were higher than optimal at the end of 2011, so we made a concerted effort and reduced them by \$35 million in fiscal 2012.
- Capital expenditures in 2013 were \$2.0 million higher than 2012 due to increased capital expenditures related to integration efforts.
- Standardized Free Cash Flow decreased by \$54 million in 2013 compared to 2012, before being adjusted for the value of American Pride's accounts receivable not purchased as part of the acquisition.

The table below reconciles our Standardized Free Cash Flow and Adjusted Standardized Free Cash Flow for the rolling fifty-two weeks with measures that are in accordance with IFRS.

(Amounts in \$000s)	Fifty-two weeks ended	
	December 28, 2013	December 29, 2012
Net change in non-cash working capital items*	\$ (26,122)	\$ 26,162
Cash flow from operating activities, including interest and income taxes*	53,433	52,822
Cash flow from operating activities*	27,311	78,984
Less: total capital expenditures, net of investment tax credits*	(14,734)	(12,709)
Standardized Free Cash Flow	12,577	66,275
Add back: approximate value of the accounts receivable of American Pride excluded from the acquisition**	15,500	—
Adjusted Standardized Free Cash Flow	\$ 28,077	\$ 66,275

* As reported in the Consolidated Statement of Cash Flows

** Refer to the description of Adjusted Standardized Free Cash Flow in the Introduction section of this MD&A

We discuss liquidity risk in Section 8.10 below and note 24 to our Consolidated Financial Statements.

Other Liquidity Items

Stock Options and PSUs

From 2000 to 2011 all stock options issued contained a tandem stock appreciation right ("SAR") which allowed the option holder, upon exercise, to receive cash instead of shares. Under IFRS, these stock options are accounted for as a liability and marked-to-market at each reporting period based on the value of the Company's stock price. The liability increases when stock prices rise with a corresponding expense and conversely, the liability decreases with income recorded when the stock declines in value. In comparison, stock options without SARs are valued once when granted using a trinomial model or similar method and are expensed once with no additional expense recorded based on changes in the market price of the stock in future periods.

Due to the significant appreciation in the High Liner Foods stock price over the past two years, we have recorded a substantial stock compensation expense, which is non-cash until option holders exercise. An expense of \$6.7 million was recorded in 2013 based on an increase in the Company's stock price for options with SARs, the issuance of stock options during the year valued using a trinomial method, and the increase in the valuation of Performance Stock Units ("PSUs"). During 2013, holders exercised SARs for cash in the amount of \$3.3 million (2012: \$1.8 million). The liability for SARs at the end of 2013 was \$2.9 million, compared to \$10.8 million at the end of fiscal 2012.

Any options exercised in shares are cash positive or cash neutral if the holder elects to use the cashless exercise method under the plan. Cash received from options exercised for shares during 2013 was \$1.4 million.

Recognizing the volatility of SARs on the Company's profit and loss and the potential cash outflow if many of them were exercised for cash in a particular year, the stock options granted in 2013 and the third quarter of 2012 did not contain a SAR. As well, in March 2013, amendments were made to eliminate the SAR on substantially all of the stock options previously granted to the Company's directors and senior management in prior years. Effective at that time, the liability for these individuals on the SARs (\$7.6 million) was fixed and the liability was reclassified as Contributed surplus and no future profit and loss impact will be necessary going forward.

Defined Benefit Pension Plans

The Company's defined benefits pension plans can have an impact on the Company's cash flow requirements and affects liquidity. In 2013, the defined benefit pension expense for accounting purposes was \$1.7 million. However, due to the fact that these pension plans are not fully funded, the annual cash contributions were \$1.0 million higher than the 2013 accounting expense (2012: \$1.7 million). For 2014, we expect cash contributions of approximately \$2.2 million compared to a defined benefit expense of \$1.4 million. We have more than adequate availability under our working capital credit facility to make the required future cash contributions for our defined benefit pension plans. As well, we have a Supplemental Executive Retirement Plan ("SERP") liability for accounting purposes of \$7.0 million that is secured by a letter of credit in the amount of \$11.2 million. Only small amounts of pension benefits are currently being paid from the SERP liability.

Capital Expenditures

Gross capital (including finance leases) expenditures for 2013 were \$15.4 million compared with \$13.4 million in the previous year.

As a result of the rationalization of our production facilities which saw the closure of our plants in Danvers and Burin at the end of 2012 and in early 2013, more capital was spent in 2013 in our other facilities in order to achieve the targeted cost savings associated with these plant closures. We have made a decision to invest in our Portsmouth plant to make it easier for us to continue to satisfy ever-increasing food safety requirements. We are confident that once the production challenges related to these facilities integrating products formerly produced by the Danvers plant are fully resolved, capacities can be expanded in the continuing plants by changing shift patterns. Approximately \$6 million of our capital expenditures in 2013 was for strategic initiatives or related to the achievement of synergies and plant rationalization savings and a further \$2 million for projects that reduced the cost of our operations. The remainder of the capital budget was for projects that will ensure that we continue to be in compliance with regulatory and other requirements, and for the replacement of aging equipment.

In 2013, we entered into an agreement to purchase a previously leased cold storage distribution facility in Peabody, MA, for \$8.6 million in March 2014. This will increase capital expenditures in 2014 and replace an operating lease payment of \$1.2 million with depreciation and interest expense in 2014 onward. Capital expenditures will also increase in 2014 related to the New Bedford manufacturing facility acquired as part of the American Pride Acquisition and due to other strategic initiatives.

Excluding strategic initiatives that may arise and the \$8.6 million for Peabody, management expects that capital expenditures in 2014 will be between \$15 million and \$20 million, higher than 2013. Cash generated from operations and short-term borrowings funded capital spending in 2013 and will fund capital additions in 2014.

Capital Structure

Detailed information regarding the designation and number of each class of shares outstanding and of each class of security is disclosed in note 16 to the Consolidated Financial Statements.

Equity

The book value of our equity at the end of 2013 was \$12.08 per share compared with \$10.14 at the end of 2012. The increase in equity was substantially a result of operating profits.

We filed a NCIB in January 2012 to purchase up to 100,000 common shares, and up to 100,000 non-voting equity shares. When the bid expired on January 30, 2013, we had repurchased 29,100 non-voting equity shares for aggregate consideration of CAD\$509,250 or CAD\$17.50 per share and the shares were canceled.

We filed an NCIB in January 2013 ("2013 NCIB") to purchase up to 250,000 common shares. In connection with this bid, the Company established an automatic securities purchase plan ("the 2013 Plan") for the common shares of the Company. The 2013 Plan was established to provide standard instructions regarding how High Liner Foods common shares were to be repurchased under the 2013 NCIB, and provided that High Liner Foods could repurchase its securities under the 2013 Plan on any trading day during the term of the 2013 NCIB, including during self-imposed trading blackout periods. The 2013 Plan was an annual plan and like the 2013 NCIB, also terminated on January 30, 2014. Under the 2013 Plan, the Company was also able to vary, suspend or terminate the 2013 Plan if it did not have material non-public information and the decision to vary, suspend or terminate the 2013 Plan was not taken during a self-imposed trading blackout period. The 2013 Plan constituted an "automatic plan" for purposes of applicable Canadian securities legislation and had been reviewed by the Toronto Stock Exchange ("TSX"). When the 2013 NCIB expired in January 2014, we had not purchased any shares under the bid.

In January 2014, we filed a new NCIB ("2014 NCIB") to purchase up to 250,000 common shares. This bid terminates on January 30, 2015. In connection with this new bid, the Company again established an automatic securities purchase plan ("2014 Plan") for the common shares of the Company that is identical to the 2013 Plan, except that this plan will terminate on January 30, 2015, when the 2014 NCIB will also terminate. Like the 2013 Plan, the 2014 Plan constitutes an "automatic plan" for purposes of applicable Canadian Securities legislation and has been reviewed by the TSX.

In December 2012, we redeemed all of our issued and outstanding non-voting equity shares (the "Non-Voting Shares") in accordance with their terms. At that time, 1,758,962 Non-Voting Shares were issued and outstanding and traded on the TSX under the symbol "HLF.A". The redemption price for each Non-Voting Share was the issuance of one common share of the Company, which trade on the TSX under the symbol "HLF". The Non-Voting Shares were required to accommodate certain completed transactions and had no further applicability in the circumstances. This redemption simplified our capital structure as well as improved liquidity for all shareholders of the Company.

Dividends

The quarterly dividend on the Company's common and non-voting equity shares has been increased four times during the 2012 and 2013 fiscal periods, as shown in the following table.

Dividend Record Date	Quarterly Dividend (CAD\$)
December 2, 2013	\$0.19
September 3, 2013	\$0.18
June 1, 2013	\$0.18
March 1, 2013	\$0.15
December 1, 2012	\$0.11
September 1, 2012	\$0.11
June 1, 2012	\$0.10
March 1, 2012	\$0.10

The increases in the quarterly dividend per common share reflects our confidence in our growth strategy, together with significant improvements on our balance sheet and cash flow. Dividends are subject to restrictions in our credit agreements. The "Adjusted Aggregate Availability", as defined in the credit agreement, needs to be \$22.5 million or higher under the working capital facilities (actual availability on December 28, 2013 was \$84.5 million). Under the Term Loan facility, after recent amendments, capital distributions, including both NCIBs and dividends, cannot exceed the greater of \$15.5 million per year or the defined available amount based on excess cash flow not used for long-term debt repayments accumulated over the term of the loan.

On February 19, 2014, the Directors approved a quarterly dividend of CAD\$0.19 per share on the Company's common shares payable on March 17, 2014 to holders of record on March 3, 2014.

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

Our capital management practices are described at length in note 24 to our Consolidated Financial Statements.

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	1 – 3 Years	3 – 5 Years	After 5 Years
Long-term debt	\$ 232,720	\$ —	\$ 11,470	\$ 221,250	\$ —
Finance lease obligations	2,626	979	1,494	153	—
Operating leases	17,562	4,857	7,949	4,756	—
Purchase obligations	237,069	229,155	7,914	—	—
Total contractual obligations	\$ 489,977	\$ 234,991	\$ 28,827	\$ 226,159	\$ —

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products, and frying oils, and the purchase of a cold storage facility in Peabody, MA. See Sections 8.2 and 8.5 of this MD&A 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. Any portion of hedge ineffectiveness has been recognized in the income statement as it has occurred.

Readers are directed to *note 22* to Consolidated Financial Statements for a complete description of the use of derivative financial instruments by the Company.

Disclosure of Outstanding Share Data

On February 19, 2014, 15,290,710 common shares and 556,992 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 manufacturing facilities have ample production capacity to meet forecasted demands, once the production challenges encountered in our U.S. facilities in 2013, related to these facilities integrating products formerly produced by the Danvers plant into

their respective production, are fully resolved. In addition, we have plans that can be implemented with minimal additional capital expenditures to increase the capacity of our plants through shift changes should further production capacity be required. Our ability to source new products is not limited to our own production. We purchase significant quantities of frozen fillets as finished goods, and some of our value-added products are purchased as finished goods.

Distribution Centers

Our Lunenburg, Portsmouth, Newport News and New Bedford facilities include large distribution centers. We lease a U.S. distribution center in Peabody, MA, which we operate ourselves and will be purchasing in 2014. We also utilize third-party cold storage/distribution centers to supplement our facilities when needed. We have Directors of Logistics in Canada and the U.S. to ensure that the warehousing and transportation of our products is handled in a cost-effective and customer-service-oriented manner.

Technology

Technology supports our growth strategy and our centralized computer systems enable us to be agile making timely decisions. Our business is simplified through an enterprise-wide business management system and specifications management system, using *Oracle* software. We have also developed a proprietary internet-enabled procurement system that allows us to manage procurement in real time. Business intelligence software allows us to manage our information on a real-time basis to help us make business decisions quickly, manage inventory and accounts receivable and provide more informative financial disclosure. We 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 2012, we implemented Global Specifications Management software and invested in network infrastructure to ensure that our operations will function during business disruptions at our Halifax data center. In 2013, we purchased and installed a document management system to simplify and expedite supplier payments. We continue to budget significant capital dollars to ensure we have state-of-the-art systems to manage our Company and respond to customer requests.

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. 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., particularly in the retail sector. Well known in U.S. club stores for the launch of premium products under the **High Liner** brand, the umbrella branding of **Fisher Boy** and **Sea Cuisine** brands further strengthens our market position in traditional grocery outlets. Moreover, **Fisher Boy** already has independent brand recognition in certain regions of the U.S and Mexico, and **Sea Cuisine** is expanding its ACV.

In the U.S. food service market, the **FPI** and **Icelandic Seafood** brands are the most recognizable brands and, like the **High Liner** brand, are also well known for product innovation and quality. Combined with the **Viking** brand, and the more recently acquired **American Pride Seafood** brand, we are 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 20 different countries. The results are lower raw material costs, better predictability of raw material supply and pricing, higher 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 us with the freedom to develop products based on changing consumer tastes. We can be flexible, which allows us to respond quickly to trends and tastes as they emerge. The American Pride Acquisition adds a shore-based scallop processing operation that makes us one of the leading scallop processing companies in the U.S.

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 as well as meeting their ever increasing technological requirements.

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. Our **Pan Sear**, **Fire Roasters**, **Flame Savours**, **Upper Crust** and **Icelandic Seafood Beer-Battered** product lines are the most differentiated in the industry and are experiencing continued success across both retail and food service product lines, including our successful **Sea Cuisine** line in the U.S. In Canada, our **Catch of the Day** fillets, and a new product line named **Captain's Crew** that was launched in 2013 are very successful, as is the **Flame Savours** line, which won the *Best New Product Award*¹ in the "frozen fish" category in January 2013. In January 2014, High Liner Foods' **Pan-Sear Traditional** product won this award again, which was the fifth year in a row that one of our products won this award. 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 lowers our break-even point. Our sales more than tripled since 2007; 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 compensation and amortization expense, as a percentage of sales in 2007 were 14.3%, compared with 9.2% in 2013. The success in the attainment of the planned synergies has contributed significantly to this achievement. We are well positioned to continue to increase sales and profitability without significant increases in fixed costs.

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 of quality products. Likewise, we are a large and well-respected customer to our suppliers, and have

¹ The Best New Product Awards sponsored by Canadian Living 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 90,000 Canadian consumers from coast-to-coast who participate in the annual independent market research survey conducted by BrandSpark International.

significant procurement expertise and buy significant volumes. 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 2013 Management Information Circular, to be filed in connection with our annual general meeting of shareholders on May 8, 2014, 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 2013, in accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, our certifying officers had 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 American Pride Acquisition, as it arose in late 2013, and they had not 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. We plan to transition this operation to High Liner Foods' systems in 2014, which will result in the scope limitation being removed for the fiscal 2014 year-end certificates.

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of our disclosure controls and procedures as of December 28, 2013. They have concluded that our current disclosure controls and procedures are designed to provide, and do operate to provide, reasonable assurance that (a) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (b) material information regarding the Company is accumulated and communicated to the Company's management, including its CEO and CFO to allow timely decisions regarding required disclosure.

In addition, our CEO and CFO have designed or caused to be designed under their supervision, internal 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 CEO and CFO 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

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

New standards, interpretations and amendments thereof, adopted by the Company in 2013

The adoption of new standards and interpretations as of December 30, 2012, the first day of fiscal 2013, that had an impact on the accounting policies, financial position or performance of the Company, are described in note 3 to the Consolidated Financial Statements.

New Accounting Standards and Interpretations Issued But Not Yet Effective

In addition to the existing IFRS standards adopted by the Company, the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC") have issued additional standards and interpretations with an effective date applicable for High Liner Foods in reporting periods subsequent to fiscal 2013. We are evaluating the effect, if any, that new proposed standards and amendments will have on our financial results. We will determine and disclose the impact that these standards and amendments have on the Company closer to their effective dates.

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 and Sjovik, h.f. High Liner Foods (USA) Incorporated's wholly-owned subsidiaries include Viking Seafoods, LLC, ISF (USA) LLC and APS, LLC. Sjovik, h.f. has a subsidiary in Thailand. 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, procurement and IT services to the subsidiaries. The companies lend and borrow money between them. Periodically, capital assets are transferred between companies. High Liner Foods Incorporated buys all of the seafood for all of the subsidiaries. On consolidation, revenue, costs, IT services, gains or losses, and all intercompany 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 Consolidated Financial Statements. Transactions with these parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During 2013, we stored 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 indirectly owned by Mr. James Covelluzzi, a Director of High Liner Foods.

On November 15, 2012, High Liner Foods announced the redemption of all outstanding non-voting equity shares ("Non-Voting Shares") issued by it, in exchange for common shares ("Common Shares") of High Liner Foods, with one Common Share being issued for each Non-Voting Share redeemed. On November 15, 2012, related parties of High Liner Foods held 382,420 Non-Voting Shares, or 21.7% of Non-Voting Shares. The redemption did not materially affect the voting position of any such individual related party. The redemption was approved on November 15, 2012 by a committee of the board that was appointed by the board of High Liner Foods on November 8, 2012 to consider the Non-Voting Shares and, if it determined appropriate, the potential redemption of the Non-Voting Shares. There were no contrary or dissenting views expressed by members of the board or committee. The transaction was exempt from the valuation and shareholder approval requirements of Multilateral Instrument 61-101 because the fair market value of the transaction was below 25% of High Liner Foods' market capitalization.

4.4 Business Acquisition, Integration and Other Expenses

In 2012 and 2013, we incurred acquisition, integration and other costs related to the Icelandic USA and American Pride Acquisitions. The following table shows the financial impact of various items related to: the acquisition efforts related to the American Pride Acquisition in 2013, including investment banking, legal, accounting, due diligence and similar transaction costs; and the integration efforts and related impairments associated with the Icelandic USA Acquisition. As part of optimizing our supply chain after the Icelandic USA Acquisition, we announced in Q2 2012, that we were closing two of our production facilities, which resulted in accelerated depreciation and impairment of property, plant and equipment at these facilities in 2012.

(Amounts in \$000s)	Fifty-two weeks ended	
	December 28, 2013	December 29, 2012
Pre-tax basis:		
Impairment of property, plant and equipment	\$ —	\$ 13,230
Business acquisition, integration and other expenses	3,256	10,741
Cost of sales:		
Additional depreciation for impairment of property, plant & equipment	—	1,879
	\$ 3,256	\$ 25,850
After-tax basis:		
Impairment of property, plant and equipment	\$ —	\$ 8,635
Business acquisition, integration and other expenses	2,068	6,895
Cost of sales:		
Additional depreciation for Impairment of property, plant & equipment	—	1,146
	\$ 2,068	\$ 16,676

4.3 Amortization of Intangible Assets

This category consists of amortization of intangible assets, brands, and customer relationships over their estimated useful lives. The final purchase price accounting for the Icelandic USA Acquisition was completed in 2012. The purchase price accounting for the American Pride Acquisition will be finalized in 2014. Intangible assets resulting from this acquisition are expected to be nominal in value and therefore, no amortization has been recorded in 2013. Amortization expense was \$5.3 million in 2013 and \$5.6 million in 2012. Amortization of intangible assets is recorded on the income statement in "Selling, General and Administrative Expenses".

As required by accounting pronouncements, we performed goodwill and indefinite life intangible asset impairment tests in both fiscal 2013 and 2012, which showed that goodwill is not impaired.

4.5 Financing Costs

Interest expense in 2013 was lower than in 2012 as a result of: lower average short-term and long-term debt levels; lower interest rates as a result of the debt amendments made in February of 2013; lower amortization of deferred financing costs as the amortization of the majority of the deferred financing costs associated with the long-term debt obtained in late 2011 was accelerated in 2012; a lower expense associated with the valuation of an embedded derivative included in the long-term debt; and a lower mark-to-market loss related to an interest rate swap that does not qualify for hedge accounting.

The table below shows the breakdown of the various components of the Company's finance costs.

(Amounts in \$000s)	Fifty-two weeks ended	
	December 28, 2013	December 29, 2012
Interest paid in cash during period	\$ 16,786	\$ 19,145
Change in cash interest accrued during the period	(2,363)	2,579
Total interest to be paid in cash	14,423	21,724
Deferred financing cost amortization	888	2,775
Accelerated deferred cost amortization	1,063	8,755
Mark-to-market on embedded derivative	(149)	2,605
Mark-to-market on interest rate swap	104	726
Total finance costs	\$ 16,329	\$ 36,585

Included in finance costs is the value of marking-to-market an embedded derivative that is included in long-term debt at year-end. The embedded derivative relates to a LIBOR floor of 1.25% (2012; 1.50%) on our term debt that, under IFRS Financial Instruments, must be separated, or bifurcated, from the long-term debt and presented as "Other long-term financial liabilities" on the balance sheet on inception, and then marked-to-market at each reporting date. The embedded derivative increases as interest rates decrease and vice versa. This "floor" is currently greater than the prevailing interest rates. As the derivative gets revalued, the mark-to-market amount is accounted for as a non-cash expense or income in finance costs, which creates volatility in this expense. The associated non-cash amortization of the original value of the option is charged to income as financing costs using the effective interest method on the associated debt. The revaluation of the embedded derivative as it is marked-to-market at each reporting date, and the related amortization of deferred financing charges, are non-cash as they will never result in a cash payment above actual interest expense and principal payments. As the principal of the term loan is repaid, the expense or income charged to finance costs on the embedded derivative in a prior period will be reversed so that over the remaining term that the loan is outstanding it will have no effect on earnings. However, as interest rates fluctuate the timing of these two items will not perfectly offset one another and non-cash volatility will result in fluctuating financing costs from period to period.

As a result of amendments made to our long-term debt in the first quarter of 2013, accounting practices required us to accelerate the amortization of the deferred financing costs less the recovery of amounts previously expensed related to the embedded derivative in 2012 year-end financial results due to the significantly favourable changes in the future cash flows under the amendments which resulted in the amendment being accounted for as an extinguishment of debt in fiscal 2013. Previously deferred fees were expensed over the revised remaining life of the original debt resulting in increased amortization in 2012 of \$8.7 million. The amended long-term debt also contains an embedded derivative related to a LIBOR floor of 1.25%. The value of the new embedded derivative was \$6.0 million on inception. The cost of obtaining the amendments to the loan in the first quarter, that on a new debt would be deferred and amortized, was required to be expensed as incurred in the amount of \$1.0 million.

Also included in finance costs is a charge for marking-to-market an interest rate swap containing an embedded floor entered into in 2012 related to long-term debt. Due to the requirement to bifurcate the value of the embedded floor from the long-term debt, this swap does not qualify for hedge accounting.

The earnings per share implications for 2013 and 2012 of marking-to-market the embedded derivative and the interest rate swap are disclosed in the table in Section 5.3 of this document.

We expect our short-term bank loans in 2014 to be higher than those of 2013 due to the American Pride Acquisition in the fourth quarter of 2013. However, we expect lower interest rates on our short-term and long-term debt due to the amendments made in February 2013. Overall, we expect interest expense in 2014 to be similar to that of 2013.

4.6 Income taxes

High Liner Foods' effective income tax rate in 2013 is 28.2% compared to a recovery of income taxes in 2012 despite having pre-tax income. Our Canadian statutory rate for 2013 was 27.9%. The higher effective income tax rate is due to higher net income, non-deductible stock compensation expense and a higher U.S. statutory tax rate of 38.9%. The recovery in 2012 is due primarily to the benefit of acquisition financing deductions in connection with the Viking and Icelandic USA acquisitions and integrations, partially offset by non-deductible stock compensation expense and a higher U.S. statutory tax rate. In 2012, the non-deductible withholding tax relating to a dividend that was paid in connection with the financing for the Viking Acquisition was reduced by \$0.4 million once the liability was finalized after the income tax return for 2011 was filed.

See note 20 to the Consolidated 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 2014 is 28.8%.

4.7 Contingencies

We have no material contingencies that are outstanding.

5. Performance

5.1 The American Pride Acquisition

On October 1, 2013, High Liner Foods acquired the net assets and operations of American Pride Seafoods from Seattle-based American Seafoods Group LLC.

American Pride is primarily a value-added frozen seafood food service and scallop processing business based in New Bedford, MA. The acquisition bolstered High Liner Foods' market leadership position in the food service segment of the U.S. value-added frozen seafood market, and also added a significant U.S. based scallop processing operation to the Company's business portfolio.

American Pride's branded and private label products are primarily distributed in the U.S. to food service customers in the commercial and independent restaurant, health care and education markets, as well as to some export and U.S. retail markets.

High Liner Foods paid \$34.5 million in cash proceeds, subject to closing working capital adjustments, to acquire American Pride's net assets, which principally included inventory, plant and equipment located in New Bedford, and excluded accounts receivable of approximately \$15.5 million, for a total estimated enterprise value at that time of approximately \$50.0 million. As part of the transaction, we also assumed certain operating leases related to the acquired businesses. The acquisition was financed within existing credit facilities.

Subsequent to the acquisition date and after estimated working capital adjustments, the purchase price was estimated to be \$30.3 million, excluding accounts receivable. The Company and the vendor have yet to finalize the working capital adjustments for this transaction; however, the final amount will be ascertainable later in 2014. Additional information on the fair value of the identifiable assets and liabilities acquired is provided in note 4 to the Consolidated Financial Statements. The net assets recognized

in the December 28, 2013 financial statements are based on a provisional assessment of fair value as the Company has sought an independent valuation for the purchase price allocation. The results of the valuation have not been finalized as at the date these financial statements were approved for issue by management, and as a result, the financial information disclosed is based on management's best estimate and are disclosed on a provisional basis.

American Pride's revenues were approximately \$190 million in 2012. The acquisition was modestly accretive to earnings in 2013 and we expect it will modestly accretive in 2014, after considering the impact of incremental interest costs related to financing the acquisition, and excluding the impact of any integration costs. One-time costs associated with the acquisition were expensed in 2013 and the acquisition was financed within existing credit facilities.

High Liner Foods plans to operate American Pride without any substantial changes to its existing operations until post-Lent 2014. This will allow High Liner Foods to continue its current efforts focused on fully realizing the synergies related to the closure of our plant in Danvers, which occurred in the first quarter of 2013. As a result, realization of the full synergies expected from integrating this acquisition will be not be realized until after 2014. While the operating margins of American Pride have traditionally been lower than those of High Liner Foods, the Company expects these margins will improve to levels closer to High Liner Foods' existing operating margins once American Pride is fully integrated and expected synergies from the transaction are realized.

Since this acquisition didn't occur until early in the fourth quarter of 2013, only one quarter of 2013's financial performance includes the impact of the American Pride Acquisition. The information in the following table is intended to assist the reader in understanding the impact of the American Pride Acquisition on the Company's consolidated financial performance in fiscal 2013.

	Sales Volume (millions of lbs)		Sales (USD)		Sales (Domestic \$)		Adjusted EBITDA (USD)
(Amounts in \$000s, except sales volume)							
Actuals 2013, excluding American Pride	269.8	\$	907,601	\$	916,607	\$	83,852
Actuals 2013, American Pride only	12.6		39,700		39,700		1,491
Actuals 2013, including American Pride	282.4	\$	947,301	\$	956,307	\$	85,343
Actuals 2012	275.2	\$	942,631	\$	942,348	\$	91,687
Change, excluding American Pride	(2.0)%		(3.7)%		(2.7)%		(8.5)%
Change, American Pride only	4.6%		4.2%		4.2%		1.6%
Total change, including American Pride	2.6%		0.5%		1.5%		(6.9)%

5.2 Overall Performance

Financial and operational highlights for the 2013 fiscal year include (all comparisons are relative to fiscal year 2012, unless otherwise noted):

- Sales increased by 0.5% to \$947.3 million from \$942.6 million (the American Pride Acquisition added \$39.7 million in sales);
- Reported net income increased by \$29.2 million to \$31.4 million (or EPS of \$2.01), compared with \$2.2 million (diluted EPS of \$0.14);
- Adjusted Net Income increased by \$3.2 million to \$41.3 million (Adjusted Diluted EPS of \$2.65) from \$38.1 million (Adjusted Diluted EPS of \$2.46);
- Adjusted EBITDA was \$85.3 million, compared with \$91.7 million;
- Adjusted Standardized Free Cash Flow was \$28.1 million, compared with \$66.3 million;
- Net interest-bearing debt to Adjusted EBITDA increased to 3.9x at the end of fiscal 2013, compared to 3.4x at the end of fiscal 2012; and
- Integration of Icelandic USA was completed in the first quarter of 2013 and American Pride was acquired at the beginning of the fourth quarter.

Overall, 2013 was a successful year and the Company reported the highest sales and net income (on a reported and adjusted basis) in its history. However, the year was not without its challenges and is reflected in the \$6.4 million decrease in Adjusted EBITDA in 2013 compared to 2012. Following is a high level summary of the events, trends and circumstances that impacted our performance in 2013.

In the first quarter of 2013, we completed the integration of the Icelandic USA Acquisition ahead of our original schedule, and achieved the synergies expected with those activities. In connection with this acquisition, to achieve additional synergies, we closed our plant in Danvers and moved our U.S. food service distribution center to Newport News, and incurred additional operating and distribution costs that were not fully anticipated. These costs primarily related to reduced operating efficiency at our production facilities in our Newport News and Portsmouth facilities as they integrated production from the closed Danvers plant into their own. These production challenges continued through the remainder of year, however to a lesser degree as the year progressed, and had the effect of deferring the full impact of the expected synergies related to closing the Danvers plant.

Also in the first quarter of 2013, we negotiated favourable amendments to our term loan and working capital facilities, resulting in savings in financing costs in excess of \$6 million on an annual basis.

Throughout 2013, we experienced year-over-year declines in sales from our U.S. food service business (reflecting soft sales in the U.S. restaurant industry in 2013) and in sales from our retail private label value-added products in Canada and the U.S. (reflecting the overall trend in the seafood marketplace of decreased demand for

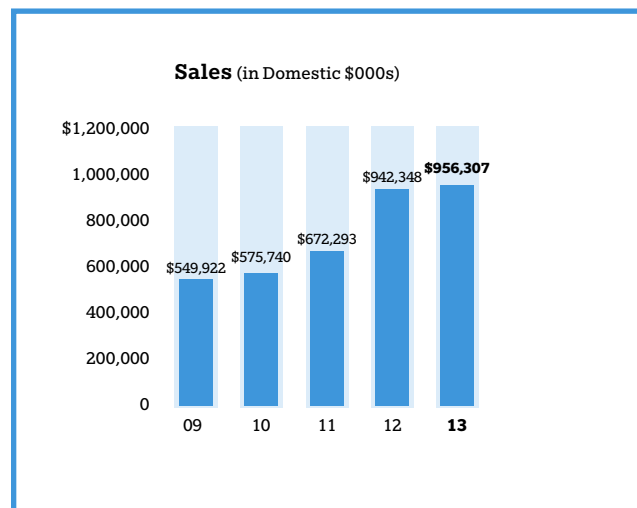
retail private label seafood products). Helping to offset these declines, sales to club stores were very strong in both countries in 2013 and sales from our U.S. retail business increased compared to 2012 primarily as a result of increased sales from our **Sea Cuisine** product line.

Raw seafood costs were particularly volatile in 2013, and while generally we can manage the impact of changing raw seafood costs on our margins because of our inventory positions and supplier contracts, rapid and significant decreases in certain commodity seafood costs in the first quarter of 2013 led to competitive pressures that forced us to lower our selling prices for some products more quickly than our inventory costs came down.

Our Standardized Free Cash Flow was very strong in the the first three quarters of the year and allowed us to reduce our “Net interest-bearing debt to Adjusted EBITDA” ratio, calculated on a rolling fifty-two week basis, to 3.16x at the end of the third quarter, compared to 3.40x at the end of fiscal 2012. The American Pride Acquisition, early in the fourth quarter, was financed with existing credit facilities, and resulted in a boost to sales in the fourth quarter. The acquisition and increased working capital in the fourth quarter of 2013 increased debt and the net interest-bearing debt to Adjusted EBITDA ratio to 3.9x.

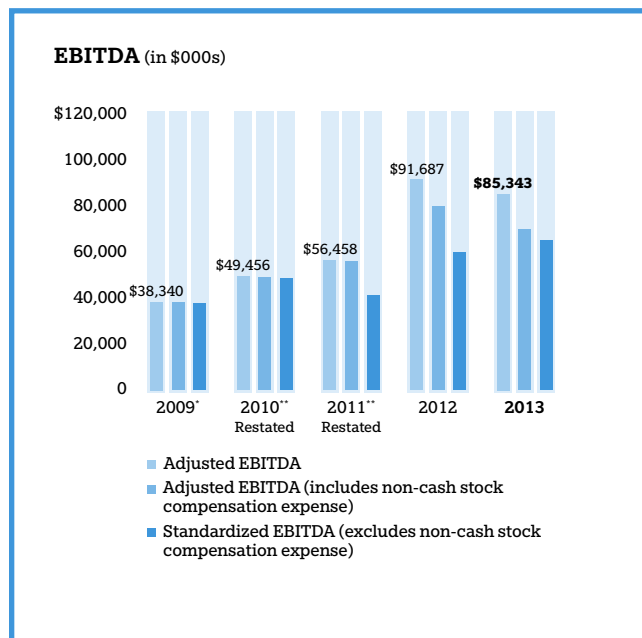
The remainder of this section provides comparative information for a five year period for key financial measures. The Company’s financial performance in 2013 is discussed in greater detail in Sections 5.3 and 5.4 of this MD&A.

Sales in domestic dollars increased \$14.0 million in 2013:



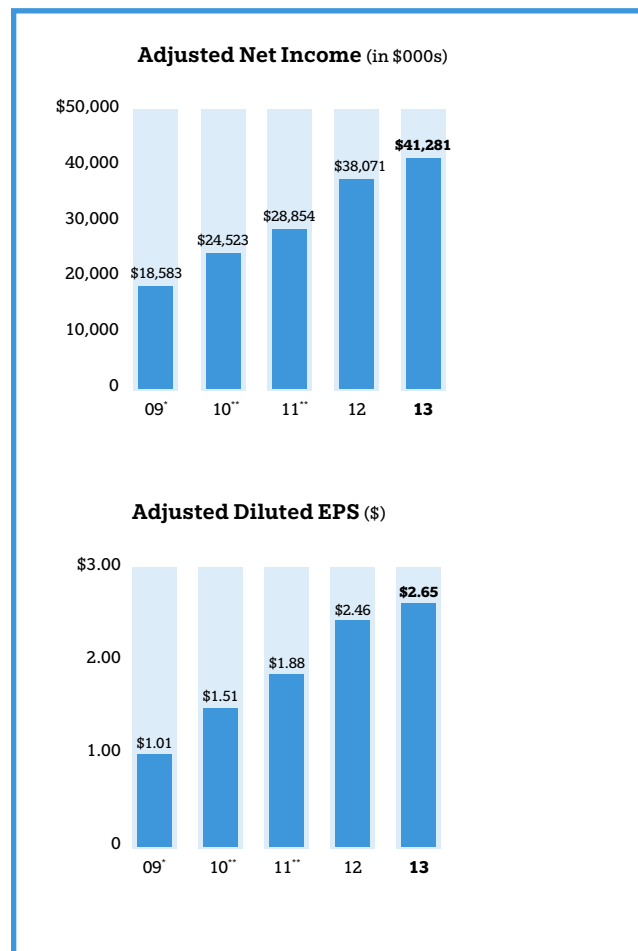
- The American Pride Acquisition added \$39.7 million to sales in 2013.

Adjusted EBITDA decreased by \$6.4 million in 2013:



- * 2009 has been converted to USD by taking the previously reported Canadian dollar amounts and converting it at the annual average exchange rate for that year. This year is in accordance with Canadian GAAP (not restated).
- ** Restated as explained under the heading "Presentation Currency" in the Introduction section of this MD&A.
- The American Pride Acquisition added \$1.5 million to Adjusted EBITDA in 2013.

Adjusted Net Income and Adjusted Diluted EPS increased by \$3.2 million and \$0.19, respectively, in 2013:



- * 2009 has been converted to USD by taking the previously reported Canadian dollar amounts and converting it at the annual average exchange rate for that year. This year is in accordance with Canadian GAAP (not restated).
- ** Restated as explained under the heading "Presentation Currency" in the Introduction section of this MD&A.

5.3 Consolidated Results

Selected Annual Information

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

(Amounts in \$000s, except sales volumes, per share amounts and exchange rates)	Fifty-two weeks ended		
	December 28, 2013*	December 29, 2012**	December 31, 2011***
Sales			
Canada	\$ 303,589	\$ 312,884	\$ 299,255
United States	643,712	629,747	376,284
Total sales	\$ 947,301	\$ 942,631	\$ 675,539
Sales volume (millions of lbs)	282.4	275.2	200.6
Net income			
Total	\$ 31,356	\$ 2,203	\$ 18,660
EPS – Basic	\$ 2.07	\$ 0.15	\$ 1.24
EPS – Diluted	\$ 2.01	\$ 0.14	\$ 1.22
Adjusted Net income			
Total	\$ 41,281	\$ 38,071	\$ 28,854
EPS – Basic	\$ 2.72	\$ 2.52	\$ 1.91
EPS – Diluted	\$ 2.65	\$ 2.46	\$ 1.88
Total assets	\$ 676,456	\$ 631,827	\$ 687,347
Total long-term financial liabilities	\$ 243,146	\$ 231,993	\$ 247,352
Cash dividends per share:			
Common shares (in CAD)	\$ 0.70	\$ 0.42	\$ 0.39
Non-voting equity shares (in CAD)	\$ —	\$ 0.15	\$ 0.39
Total capital expenditures, net of investment tax credits, financed by operations	\$ 14,734	\$ 12,709	\$ 7,047
Average foreign exchange rate for the year (USD/CAD)	\$ 1.0295	\$ 0.9996	\$ 0.9891

* includes the results of the American Pride Acquisition for October 1, 2013 to December 28, 2013.

** includes the results of the Icelandic USA Acquisitions for the full year.

*** includes the results of the Icelandic USA Acquisition for December 19, 2011 to December 31, 2011.

Seasonality

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

Fiscal 2013

(Amounts in \$000s, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales	\$ 275,161	\$ 204,909	\$ 216,486	\$ 250,745	\$ 947,301
Adjusted EBITDA	\$ 21,282	\$ 19,323	\$ 22,055	\$ 22,683	\$ 85,343
Net income	\$ 5,264	\$ 9,881	\$ 7,444	\$ 8,767	\$ 31,356
Adjusted Net Income	\$ 9,788	\$ 9,183	\$ 10,366	\$ 11,944	\$ 41,281
EPS, based on Net Income					
EPS – Basic	\$ 0.35	\$ 0.65	\$ 0.49	\$ 0.58	\$ 2.07
EPS – Diluted	\$ 0.34	\$ 0.63	\$ 0.48	\$ 0.56	\$ 2.01
EPS, based on Adjusted Net Income					
EPS – Basic	\$ 0.65	\$ 0.61	\$ 0.68	\$ 0.78	\$ 2.72
EPS – Diluted	\$ 0.63	\$ 0.59	\$ 0.67	\$ 0.76	\$ 2.65

Fiscal 2012

(Amounts in \$000s, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales	\$ 287,580	\$ 216,831	\$ 219,940	\$ 218,280	\$ 942,631
Adjusted EBITDA	\$ 31,527	\$ 16,367	\$ 21,723	\$ 22,070	\$ 91,687
Net income (loss)	\$ 1,728	\$ 989	\$ 2,172	\$ (2,686)	\$ 2,203
Adjusted Net Income	\$ 14,009	\$ 5,450	\$ 7,978	\$ 10,634	\$ 38,071
EPS, based on Net Income (loss)					
EPS – Basic	\$ 0.11	\$ 0.07	\$ 0.14	\$ (0.17)	\$ 0.15
EPS – Diluted	\$ 0.11	\$ 0.06	\$ 0.14	\$ (0.17)	\$ 0.14
EPS, based on Adjusted Net Income					
EPS – Basic	\$ 0.93	\$ 0.36	\$ 0.53	\$ 0.70	\$ 2.52
EPS – Diluted	\$ 0.91	\$ 0.35	\$ 0.52	\$ 0.68	\$ 2.46

Overall, the first quarter of the year is historically stronger than the other three quarters for both sales and profits, and correspondingly, the second quarter is the weakest, resulting in the first half of the year being similar in total to the second half. Both our U.S. retail and food service businesses traditionally experience a strong first quarter as retailers and restaurants promote seafood during the Lenten period. As such, the timing of Lent can impact our first quarter results, with later Lents generally contributing to stronger financial results than earlier Lents. The Lenten period was earlier in 2013 than in 2012 with Good Friday falling on March 29, 2013 compared to April 6, 2012. The Lenten period will be later in 2014 as Good Friday falls on April 18, 2014.

The second and third quarters are more challenging for retail 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 during 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 listing allowances for new product launches. Although the related activities benefit more than one

period, the related costs must be expensed in the period when the initial promotional activity takes place or when new products are first shipped. A significant percentage of advertising is typically done in either the first or fourth quarters; however, the accounting periods during which we incur these expenditures may change from year to year and therefore, there may be fluctuations in income relating to these activities. Investment in promoting our **Sea Cuisine** brand in the U.S. in 2013 resulted in increased trade spending, listing allowances and couponing, which are all deducted from revenues; and increased consumer marketing expense, which is included in selling, general and administration expense, compared to 2012.

Inventory levels fluctuate throughout the year, being higher to support strong sales periods such as for the Lenten period. In addition to the sales demands, we must take early delivery of a quantity of seafood prior to the seasonal closure of plants in Asia during the Lunar New Year period. These events typically result in higher inventories and related bank loans in December, January, February and March than during the rest of the year.

Going forward, we expect seasonality trends in 2014 to be similar to 2013.

Sales

Sales for fiscal 2013 were \$947.3 million, compared to \$942.6 million in fiscal 2012. In 2013, more than two thirds of the Company's operations, including sales, were denominated in USD. The weaker Canadian dollar in Fiscal 2013 compared to Fiscal 2012 decreased the value of reported USD sales by approximately \$9.3 million relative to the conversion impact in 2012.

Sales in domestic currency for 2013, including American Pride, were \$956.3 million compared to \$942.3 million for the previous year. American Pride added \$39.7 million in sales in 2013. Sales volume measured in pounds, including American Pride, was 282.4 million pounds compared to 275.2 million pounds for the previous year, an increase of 2.6%. American Pride added 12.6 million pounds of sales in 2013.

Excluding American Pride, sales in domestic currency decreased by \$25.7 million and pounds sold decreased by 5.4 million in 2013 compared to 2012. The vast majority of the decrease in sales in 2013 is attributable to lower food service sales in the U.S. and lower retail private label value-added sales in Canada and the U.S., partially offset by strong club sales in both countries, increased branded retail sales in the U.S. and increased food service sales in Canada. The decline in U.S. food service sales reflects weak sales being experienced by the U.S. restaurant industry as a whole in 2013, and the decrease in retail private label value-added sales reflects a trend being experienced in the seafood marketplace overall of decreased demand for retail private label seafood products. In addition, sales in 2013 were negatively impacted by the following items compared to 2012:

- Decreases in certain commodity seafood costs in 2013 led to a reduction in the selling prices for some products in 2013;
- An earlier Lent resulted in a shorter selling period in 2013 between the Super Bowl and Good Friday, a period when seafood is typically heavily promoted; and
- In the first quarter of 2013, we expedited the closure of our plant in Danvers and relocated food service distribution to Newport News which resulted in production and logistical challenges and hindered the delivery of product to our customers.

Sales trends are discussed in more detail below in Section 5.4 "Performance by Segment".

Gross Profit

Gross profit in 2013 was \$215.4 million compared to \$206.7 million in 2012. Gross profit as a percentage of sales was 22.7% in 2013 compared to 21.9% the previous year. Gross profit increased by \$8.8 million in 2013 relative to 2012 due to increased sales as a result of the American Pride Acquisition, along with an overall decrease in input costs and synergies realized from integrating Icelandic USA. Partially offsetting these items were a 2.0% decrease in the Company's sales volumes (excluding the impact of the American Pride Acquisition); increased operating expenses related to our U.S. manufacturing facilities; and the impact of an unfavourable change in the CAD/USD exchange rate used to translate our CAD denominated operations to USD.

In the first quarter of 2013, we expedited the closure of our plant in Danvers and increased production at our manufacturing facilities in Newport News and Portsmouth, and relocated U.S. food service distribution to Newport News. During this transition, we incurred incremental operating costs associated with decreased plant

throughput rates as our manufacturing facilities integrated new products into their respective production facilities. While we have been successful in increasing plant throughput rates from those experienced in the first quarter, these rates have not been fully restored to optimal levels and as a result, we continued to incur additional operating costs in Newport News and Portsmouth related to these reduced throughputs. In addition, in the first quarter of 2013, additional costs were incurred related to the plant closure to relocate equipment and competitive pressures that reduced commodity selling prices more rapidly than the applicable decline in cost for these products, negatively impacted gross profit.

Distribution Expense

Distribution expense, consisting of freight and storage, increased in 2013 by \$8.9 million, or 19.9% from the previous year, due partially to higher sales volumes resulting from the American Pride Acquisition. Distribution expenses as a percentage of sales increased in 2013 to 5.6%, compared to 4.7% in the previous year, reflecting the production issues encountered after the closure of our Danvers plant in the first quarter of 2013 associated with reduced plant throughput rates and increased movement of product between our U.S. facilities to balance the productivity issues and plant capacities. In addition, in the first quarter of 2013 we relocated our U.S. food service distribution to Newport News and incurred additional distribution costs as a result of challenges encountered related to hiring and training additional staff for our cold storage facility.

The additional distribution costs incurred in 2013 were approximately \$9.0 million and had the effect of deferring the full impact of the expected synergies related to closing the Danvers plant. Excluding these additional costs, distribution expense would have been 4.7% of sales for 2013 equal to that of 2012. The Company has focused on these costs throughout the year and it is expected that costs will be lower as a percentage of sales in 2014 than in 2013, and just slightly higher than historical levels.

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

	Fifty-two weeks ended	
	December 28, 2013	December 29, 2012
(Amounts in \$000s)		
SG&A expense	\$ 98,902	\$ 100,862
Less:		
Stock compensation expense *	6,143	9,250
Amortization expense	5,255	5,518
Net SG&A expense	\$ 87,504	\$ 86,094
Net SG&A expense as a % of sales	9.2%	9.1%

* The % of stock compensation expense allocated between SG&A and Cost of sales in 2013 was relatively consistent with 2012.

SG&A expense as reported was \$2.0 million lower in 2013 than in the previous year.

During 2013, we recorded a stock-based compensation expense of \$6.1 million in SG&A compared to \$9.3 million during 2012. In 2012, our stock-based compensation expense was higher than in 2013 due to a significant increase in our stock price in that year. Although our stock price continued to increase in 2013, we amended stock options granted prior to the third quarter of 2013 to

certain Company directors and senior management to eliminate the SARs. Also, stock options granted in late 2012 and 2013 did not contain SARs. See discussion of stock options in Section 3.1 regarding SARs and their impact on the financial results of High Liner Foods. These two items reduced the stock-based expense in 2013.

Amortization recorded in SG&A did not change in 2013 compared to 2012. However, amortization expense for customer relationships was lower in 2013 as we extended our amortization period in late 2012. This was offset by the write down of an acquired brand that was impaired.

Excluding stock-based compensation and amortization expenses, SG&A expense, for 2013 was 9.2% of sales, compared to 9.1% for the previous year. The increase in a SG&A as a percentage of sales is due to lower sales achieved in 2013. In terms of dollars spent, the increase in SG&A, excluding stock-based compensation and amortization, reflects synergies realized in 2013 from integrating Icelandic USA, offset by an increase in U.S. consumer advertising and other promotional costs spent in 2013 as we invested in increasing the distribution and sales for our retail **Sea Cuisine** brand sold in the U.S.

Adjusted EBITDA

Our consolidated Adjusted EBITDA in 2013 was \$85.3 million, a decrease of 6.9% compared to \$91.7 million in 2012. The change in the value of the Canadian dollar, excluding its impact on purchases

of seafood for the Canadian market, reduced EBITDA by \$1.0 million due to the conversion of Canadian parent company's results to USD.

In domestic currency, Adjusted EBITDA for 2013 was \$86.3 million compared to \$91.7 million in 2012 and as a percentage of sales, was 9.0% in 2013, down from 9.7% in 2012. American Pride contributed \$1.5 million in Adjusted EBITDA in 2013 and excluding this amount, Adjusted EBITDA in domestic currency decreased by \$6.9 million in 2013 compared to 2012.

Adjusted EBITDA in domestic dollars was affected by the following:

- Lower U.S. food service and retail private label value-added sales (excluding sales from American Pride);
- Increased production and distribution costs associated with reduced plant throughput rates experienced at our U.S. manufacturing facilities since our Danvers plant was closed and relocation of U.S. food service distribution to Newport News in the first quarter of 2013;
- Higher **Sea Cuisine** marketing costs; and
- Lower margins in the first quarter of 2013 on certain food service commodity products as selling price decreases were passed on to customers in advance of experiencing lower average costs.

The negative impact of these items on Adjusted EBITDA was partially offset by lower overall raw material costs in 2013, realization of synergies resulting from integrating Icelandic USA and \$1.5 million in Adjusted EBITDA from American Pride in 2013.

The table below reconciles our Adjusted EBITDA with measures that are found in our financial statements.

(Amounts in \$000s)	Fifty-two weeks ended December 28, 2013			Fifty-two weeks ended December 29, 2012		
	Canada	U.S.	Total	Canada	U.S.	Total
Net income	\$ 13,920	\$ 17,436	\$ 31,356	\$ 4,266	\$ (2,063)	\$ 2,203
Add back:						
Depreciation	3,329	6,572	9,901	3,837	9,993	13,830
Amortization	553	4,705	5,258	190	5,361	5,551
Financing costs	1,234	15,095	16,329	1,512	35,073	36,585
Income tax expense (recovery)	7,651	4,641	12,292	3,668	(5,335)	(1,667)
Standardized EBITDA	26,687	48,449	75,136	13,473	43,029	56,502
Add back (deduct):						
Business acquisition, integration and other expenses	29	3,227	3,256	2,321	8,420	10,741
Impairment of property, plant and equipment	—	—	—	4,407	8,823	13,230
Increase in cost of sales due to purchase price allocation to inventory	—	—	—	—	1,149	1,149
Loss (gain) on disposal of assets	16	231	247	(270)	80	(190)
Adjusted EBITDA, including stock compensation expense	26,732	51,907	78,639	19,931	61,501	81,432
Stock compensation expense	5,455	1,249	6,704	8,655	1,600	10,255
Adjusted EBITDA	\$ 32,187	\$ 53,156	\$ 85,343	\$ 28,586	\$ 63,101	\$ 91,687

We discuss Adjusted EBITDA, in various places in this document. We also refer to Adjusted EBITDA 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 in note 19 to the Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

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

(Amounts in \$000s)	Fifty-two weeks ended		Fifty-two weeks ended		Change in 2013 over 2012 Domestic \$
	December 28, 2013 USD	December 29, 2012 USD	December 28, 2013 Domestic \$	December 29, 2012 Domestic \$	
External Sales					
Canada	\$ 303,589	\$ 312,884	\$ 312,595	\$ 312,601	—%
USA	643,712	629,747	643,712	629,747	2.2%
	947,301	942,631	956,307	942,348	1.5%
Conversion	—	—	(9,006)	283	
	\$ 947,301	\$ 942,631	\$ 947,301	\$ 942,631	0.5%
Adjusted EBITDA					
Canada	\$ 32,187	\$ 28,586	\$ 33,181	\$ 28,549	16.2%
USA	53,156	63,101	53,156	63,101	(15.8)%
	85,343	91,687	86,337	91,650	(5.8)%
Conversion	—	—	(994)	37	
	\$ 85,343	\$ 91,687	\$ 85,343	\$ 91,687	(6.9)%
Adjusted EBITDA as % of sales					
In USD	9.0%	9.7%			
In Domestic \$			9.0%	9.7%	

As can be seen above, sales in domestic currency increased \$14.0 million in 2013, compared to 2012. Likewise, Adjusted EBITDA decreased by \$5.3 million from 2012 and this change is discussed by business segment in Section 5.4 below.

Net Income

Net income for 2013 was \$31.4 million (\$2.01 per diluted share) compared to \$2.2 million (\$0.14 per diluted share) for 2012. However, the results for both 2012 and 2013 included unusual and one-time costs.

The following table shows the impact of one-time acquisition costs, integration costs, stock option expense, and other items on our diluted EPS for 2013 and 2012.

	Fifty-two weeks ended December 28, 2013		Fifty-two weeks ended December 29, 2012	
	\$000	Diluted EPS	\$000	Diluted EPS
Net income	\$ 31,356	\$ 2.01	\$ 2,203	\$ 0.14
Add back, after-tax:				
Business acquisition, integration and other costs	2,068	0.13	6,895	0.45
Impairment of property, plant and equipment	—	—	8,635	0.56
Additional depreciation on property to be disposed of as part of an acquisition	—	—	1,146	0.07
Increase in cost of sales due to purchase price allocation to inventory	—	—	761	0.05
Revaluation of embedded derivative on debt	(105)	(0.01)	1,899	0.12
Accelerated amortization of deferred financing charges	776	0.05	6,380	0.41
Interest rate swap on embedded derivative	76	—	529	0.03
Intercompany dividend withholding tax	744	0.05	(402)	(0.03)
	34,915	2.24	28,046	1.81
Stock compensation expense	6,366	0.41	10,025	\$ 0.65
Adjusted Net Income	\$ 41,281	2.65	\$ 38,071	\$ 2.46
Average shares for the period		15,593		15,460

The above table shows that excluding the impact of one-time acquisition and integration costs, stock option expense, other items, and adjusting income taxes for withholding tax paid on an intercompany dividend, Adjusted Net Income increased in 2013 by \$3.2 million, or 8.4%, and Adjusted Diluted EPS increased by \$0.19 per share.

5.4 Performance by Segment

Canadian Operations

(All currency amounts in this section are in CAD, unless otherwise noted)

Our Canadian operations had external sales of \$312.6 million in 2013, consistent with the previous year. Sales volume decreased 0.2% to 72.6 million pounds.

Canadian retail sales volume decreased 1.5% in 2013 compared to 2012, reflecting decreased retail value-added private label sales, partially offset by increased club store sales. The lower private label value-added sales reflect an overall trend being experienced in the seafood marketplace. Retail branded product sales decreased slightly in 2013 compared to 2012; however, 2012 included initial stocking sales of the new **Flame Savours** product that were not repeated in 2013.

Canadian food service sales volume increased by 1.1% in 2013 compared to 2012.

Adjusted EBITDA for our Canadian operations increased by \$4.6 million to \$33.2 million in 2013 compared to \$28.5 million in 2012. This increase primarily reflects the lower overall raw material costs in 2013 compared to 2012 and cost savings related to closing our Burin plant in late 2012.

U.S. Operations

(All currency amounts in this section are in USD, unless otherwise noted)

In the first quarter of 2013 we expedited the closure of our plant in Danvers, increased production at our Newport News and Portsmouth production facilities and relocated U.S. food service distribution to Newport News. This was discussed under Section 5.3 "Consolidated Results" of this MD&A.

We have been focused on maximizing throughput rates and reducing operating costs associated with our U.S. manufacturing facilities and distribution costs are expected to be lower in the first quarter of 2014. Improvements have been made in throughput rates in the U.S. plants but we will not achieve our targets until the second half of 2014.

As part of the integration of Icelandic USA into our business, certain products have been converted from one brand to another as we solidify our brand positioning and as a result, we can no longer report sales and operating results for High Liner Foods' pre-Icelandic USA business separate from the post-Icelandic USA results.

Our U.S. operations had external sales in 2013, including American Pride, of \$643.7 million, compared to \$629.7 million in 2012. American Pride added \$39.7 million in sales. Sales volume for the year, including American Pride, increased by 3.6% to 209.8 million pounds compared to 202.4 million pounds in 2012. American Pride added 12.6 million pounds of volume in 2013. Excluding American Pride, sales from our U.S. operations decreased by \$25.7 million and pounds sold decreased by 5.2 million in 2013 compared to 2012.

U.S. retail sales volume increased by 0.5% in 2013 compared to the same period last year, reflecting increased sales to club stores and an increase in our retail branded product sales (primarily **Sea Cuisine** products which have been heavily promoted in 2013 compared to 2012), partially offset by decreased retail private label value-added sales. As previously explained, the decrease in private label value-added sales reflects an overall trend being experienced in the seafood market place.

Our U.S. food service sales volumes decreased by 3.8% in 2013 compared to 2012, reflecting:

- Lower sales to food distributors and restaurants in 2013 related to soft restaurant sales resulting from a sluggish economic recovery in the U.S. and severe weather conditions than the previous year keeping diners at home;
- An earlier Lent in the first quarter of 2013 compared to 2012, which is when seafood products are heavily promoted by restaurants; and
- Lower food service sales to schools, as schools chose to reduce seafood items from their menus due to uncertainties created from the introduction of new nutritional requirements for these products.

Adjusted EBITDA for our U.S. operations decreased in 2013 to \$53.2 million from \$63.1 million in 2012. American Pride contributed \$1.5 million in Adjusted EBITDA in 2013 and excluding this amount, Adjusted EBITDA from our U.S. operations decreased by \$11.4 million in 2013 compared to 2012.

Adjusted EBITDA from our U.S. operations was affected by the following items which are primarily the same items listed above that were responsible for the decrease in the Company's consolidated Adjusted EBITDA in 2013 compared to 2012:

- Lower overall sales (excluding American Pride);
- Increased production and distribution costs associated with reduced plant throughput rates experienced at our U.S. manufacturing facilities since our Danvers plant was closed and relocation of U.S. food service distribution to Newport News in the first quarter of 2013;
- Higher **Sea Cuisine** marketing costs;
- Lower margins in the first quarter of 2013 on certain food service commodity products as selling price declines were passed on to customers in advance of experiencing lower average costs; and
- The negative impact of these items on Adjusted EBITDA was partially offset by lower overall raw material costs in 2013, realization of synergies resulting from integrating Icelandic USA and \$1.5 million in Adjusted EBITDA from American Pride in 2013.

Outlook

We will continue to focus on our vision to be the leading supplier of frozen seafood in North America. We expect our annual sales will exceed the \$1.0 billion mark for the first time in 2014 and we remain committed to growing Adjusted EBITDA to \$150 million, although we have extended the period to reach this goal by one year to 2016. Our strategy to achieve this has not changed and organic growth, acquisitions and optimizing our supply chain will all play an important role. We are focused on growing our Adjusted EBITDA in 2014. Regarding current pricing on the major seafood species we procure, prices for haddock, scallops and shrimp remain high,

while prices for cod and Alaskan pollock, our two largest species, remain attractive. The U.S. restaurant industry is continuing to show lackluster growth and it is as important as ever that we continue our track record of offering new and innovative products to our customers to increase demand for frozen seafood products and grow our market share.

We have been operating American Pride as a stand-alone operation since they were acquired last October and will start to integrate it into the rest of our business following the 2014 Lenten season. We expect by that time to have any lingering issues associated with reduced plant throughput rates in the U.S. resolved.

6. Summary of Results for the Fourth Quarter Ended December 28, 2013

Highlights

Financial and operational highlights for the **fourth quarter of 2013** include (all comparisons are relative to the fourth quarter of 2012, unless otherwise noted):

- American Pride Seafoods was acquired on October 1, 2013;
- Sales increased by 14.9% to \$250.7 million from \$218.3 million (the American Pride Acquisition added \$39.7 million in sales);
- Reported net income increased by \$11.5 million to \$8.8 million (or EPS of \$0.56), compared with a net loss of \$2.7 million (diluted EPS of \$(0.17));
- Adjusted Net Income increased by \$1.3 million to \$11.9 million (Adjusted Diluted EPS of \$0.76) from \$10.6 million (Adjusted Diluted EPS of \$0.68); and
- Adjusted EBITDA was \$22.7 million, compared with \$22.1 million (the American Pride Acquisition added \$1.5 million in Adjusted EBITDA).

The American Pride Acquisition

As discussed in Section 5.1, the American Pride Acquisition occurred on October 1, 2013 and therefore, the Company's fourth quarter financial results for 2013 are the first quarter to include the impact of this acquisition. The information in the following table is intended to assist the reader in understanding the impact of the American Pride Acquisition on the Company's consolidated performance in the fourth quarter of 2013.

(Amounts in \$000s, except sales volume)	Sales Volume (millions of lbs)	Sales (USD)	Sales (Domestic \$)	Adjusted EBITDA (USD)
Actuals 2013, excluding American Pride	61.9	\$ 211,045	\$ 214,727	\$ 21,192
Actuals 2013, American Pride only	12.6	39,700	39,700	1,491
Actuals 2013, including American Pride	74.5	\$ 250,745	\$ 254,427	\$ 22,683
Actuals 2012	62.6	\$ 218,280	\$ 217,569	\$ 22,070
Change, excluding American Pride	(1.0)%	(3.3)%	(2.7)%	(4.0)%
Change, American Pride only	20.1%	18.2%	18.2%	6.8%
Total change, including American Pride	19.0%	14.9%	16.9%	2.8%

Consolidated Results

The table below summarizes key financial information for the fourth quarter of our last three fiscal years.

(Amounts in \$000s, except sales volumes and per share amounts)	Thirteen weeks ended		
	December 28, 2013*	December 29, 2012	December 31, 2011**
Sales			
Canada	\$ 75,925	\$ 80,059	\$ 74,745
United States	174,820	138,221	97,731
Total Sales	\$ 250,745	\$ 218,280	\$ 172,476
Sales Volume (millions of lbs)	74.5	62.6	51.2
Net Income (loss):			
Total	\$ 8,767	\$ (2,686)	\$ (2,939)
EPS – Basic	\$ 0.58	\$ (0.18)	\$ (0.19)
EPS – Diluted	\$ 0.56	\$ (0.17)	\$ (0.19)
Adjusted Net income:			
Total	\$ 11,944	\$ 10,633	\$ 6,740
EPS – Basic	\$ 0.78	\$ 0.70	\$ 0.45
EPS – Diluted	\$ 0.76	\$ 0.68	\$ 0.44

* Includes the results of the American Pride Acquisition for October 1, 2013 to December 28, 2013.

** Includes the results of the Icelandic USA Acquisition for December 19, 2011 to December 31, 2011.

Sales for the fourth quarter of 2013, including American Pride, were \$250.7 million, compared to \$218.3 million for the previous year. In 2013, more than two thirds of the Company's operations, including sales, were denominated in USD. The weaker Canadian dollar in the fourth quarter of 2013 compared to the same period last year decreased the value of reported USD sales by approximately \$4.5 million relative to the conversion impact in 2012.

Sales in domestic currency for the fourth quarter of 2013, including American Pride, were \$254.4 million compared to \$217.6 million for the previous year. American Pride added \$39.7 million in sales. Sales volume measured in pounds, including the American Pride Acquisition, was 74.5 million pounds compared to 62.6 million pounds for the previous year, an increase of 19.1%. American Pride added 12.6 million pounds in 2013. Excluding American Pride, sales in domestic currency decreased by \$2.8 million and pounds sold decreased by 0.7 million in the fourth quarter of 2013 compared to the same period in 2012.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

The following table shows the impact of foreign currency on the conversion of our Canadian parent company's sales and Adjusted EBITDA into USD.

(Amounts in \$000s)	Thirteen weeks ended		Thirteen weeks ended		Change in 2013 over 2012 Domestic \$
	December 28, 2013 USD	December 29, 2012 USD	December 28, 2013 Domestic \$	December 29, 2012 Domestic \$	
External Sales					
Canada	\$ 75,925	\$ 80,059	\$ 79,607	\$ 79,348	0.3%
USA	174,820	138,221	174,820	138,221	26.5%
	250,745	218,280	254,427	217,569	16.9%
Conversion	—	—	(3,682)	711	
	\$ 250,745	\$ 218,280	\$ 250,745	\$ 218,280	14.9%
Adjusted EBITDA					
Canada	\$ 7,846	\$ 9,116	\$ 8,243	\$ 9,039	(8.8)%
USA	14,837	12,954	14,837	12,954	14.5%
	22,683	22,070	23,080	21,993	4.9%
Conversion	—	—	(397)	77	
	\$ 22,683	\$ 22,070	\$ 22,683	\$ 22,070	2.8%
Adjusted EBITDA as % of sales					
In USD	9.0%	10.1%			
In Domestic \$			9.1%	10.1%	

Our Canadian operations had external sales in Domestic currency of \$79.6 million, compared to \$79.3 million for the same period last year. Sales volume decreased by 4.3% during the quarter to 17.7 million pounds compared to the fourth quarter of last year.

Our U.S. operations, including American Pride, had sales in the fourth quarter of 2013 of \$174.8 million, compared to \$138.2 million for the same period last year. The American Pride Acquisition added \$39.7 million in sales. U.S. operations' sales volume, including American Pride, in the fourth quarter increased by 28.8% to 56.8 million, compared to the fourth quarter of last year.

Excluding American Pride, U.S. operations' sales increased by \$3.1 million and pounds sold increased by 0.1 million in the fourth quarter of 2013 compared to the same period in 2012.

Our consolidated Adjusted EBITDA in the fourth quarter of 2013, including the American Pride Acquisition, was \$22.7 million compared to \$22.1 million for the same period in 2012. The American Pride Acquisition added \$1.5 million in Adjusted EBITDA in the fourth quarter of 2013. Excluding the American Pride Acquisition, Adjusted EBITDA in the fourth quarter of 2013 decreased by \$0.9 million (\$0.4 million in Domestic currency).

The table below reconciles our Adjusted EBITDA with measures that are found in our financial statements.

(Amounts in \$000s)	Thirteen weeks ended	
	December 28, 2013	December 29, 2012
Net income (loss)	\$ 8,767	\$ (2,686)
Add back:		
Depreciation	2,761	3,915
Amortization	1,203	202
Financing costs	3,592	14,347
Income tax expense (recovery)	2,212	(1,681)
Standardized EBITDA	18,535	14,097
Add back (deduct):		
Business acquisition, integration and other expenses	1,964	3,409
Impairment of property, plant and equipment	—	(493)
Increase in cost of sales due to purchase price allocation to inventory	—	—
Loss (gain) on disposal of assets	67	(88)
Adjusted EBITDA, including stock compensation expense	20,566	16,925
Stock compensation expense	2,117	5,145
Adjusted EBITDA	\$ 22,683	\$ 22,070

The results for the fourth quarter were affected by most of the same items discussed in Sections 5.3 and 5.4, which discussed performance in fiscal 2013 compared to fiscal 2012. These items include soft U.S. restaurant sales, lower retail private label value-added product sales, and higher production and distribution costs in the U.S. In addition, in the fourth quarter of 2013, sales from our Canadian retail business were lower compared to the same period last year, due to changes in the timing of customer promotions and increased competition from other proteins.

The effective income tax rate for the fourth quarter of 2013 was 20.1% compared to the applicable statutory rate in Canada of approximately 27.9% and the statutory rate in the U.S. of 38.9%. The effective income tax rate in the fourth quarter of 2013 is lower than the statutory rate due primarily to the benefit of acquisition financing deductions.

The effective income tax rate for the fourth quarter of 2012 was a recovery of 38.5% compared to the applicable statutory rate in Canada of approximately 27.3% and the statutory rate in the U.S. of 38.9%. The income tax recovery in the fourth quarter of 2012 is higher than the statutory rate due to the benefit of acquisition financing deductions in connection with the Viking and Icelandic USA acquisitions, partially offset by non-deductible stock-based compensation expense and the income of the U.S. subsidiary where the statutory tax rate is higher.

The table below shows the impact of non-operating, one-time acquisition costs, stock compensation expense and adjusting income taxes for withholding tax paid on an intercompany dividend excluded from Adjusted Net Income on our Adjusted Diluted EPS for the fourth quarters of 2013 and 2012.

	Thirteen weeks ended December 28, 2013		Thirteen weeks ended December 29, 2012	
	\$000	Diluted EPS	\$000	Diluted EPS
Net income (loss)	\$ 8,767	\$ 0.56	\$ (2,686)	\$ (0.17)
Add back, after-tax:				
Business acquisition, integration, and other costs	1,216	0.08	2,215	0.14
Impairment of property, plant and equipment	—	—	(355)	(0.02)
Additional depreciation on property to be disposed of as part of an acquisition	—	—	376	0.02
Revaluation of embedded derivative on debt	(129)	(0.01)	(377)	(0.02)
Accelerated amortization of deferred financing costs	—	—	6,380	0.41
Interest rate swap on embedded derivative	71	—	8	—
Intercompany dividend withholding tax	50	—	—	—
	9,975	0.63	5,561	0.36
Stock compensation expense	1,969	0.13	5,072	0.32
Adjusted Net Income	\$ 11,944	\$ 0.76	\$ 10,633	\$ 0.68
Average shares for the period		15,645		15,562

Adjusted Net Income increased in 2013 by \$1.3 million, or 12.2%, and Adjusted Diluted EPS increased by \$0.08 per share.

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 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 are impaired. 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 and goodwill 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* to the 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. Further details, including a sensitivity analysis of key assumptions, are given in *note 5* to the Consolidated Financial Statements.

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.

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in *note 18* to the Consolidated Financial Statements.

Future Employee 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* to the Consolidated Financial Statements for certain assumptions made with respect to future employee benefits.

Income Taxes

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

Fair Value of Financial Instruments

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

assumptions about these factors could affect the reported fair value of financial instruments.

Sales and Marketing Accruals

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

8. Risk Factors and Risk Management

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

We have identified the principal risks that could have a significant, adverse impact on our performance, reputation or ability to service our customers and have, in the absence of controls, a reasonable probability of occurring. Every principal risk is assigned to 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 2013 Annual Information Form, available at www.highlinerfoods.com or at www.sedar.com.

8.2 Procurement

Senior management accountability: Paul Snow, Executive 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

buys more than \$400 million of these products annually. Seafood and other food inputs markets are global with values expressed in USD. We buy 30 species of seafood from 20 countries around the world. There are no formal hedging mechanisms in the seafood market. Prices can change due to changes in the balance between supply and demand. Weather, quota changes, disease and other environmental impacts can affect supply. Changes in the relative values of currency can change the demand from a particular country whose currency has risen or fallen as compared to the U.S. dollar. The increasing middle class and government policies in emerging economies, as well as demand from health conscious consumers, affect the demand side as well. Costs in Canada are also affected by the Canadian / U.S. exchange rates. We hedge exposures to currency changes, and we enter into annual 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 broad product line and customer base and geographically diverse procurement operations help us mitigate changes in the cost of our raw materials. In addition, species substitution, product formulation changes, long-term relationship with suppliers, and price changes to customers are all important factors in our ability to manage margins to target.

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

In 2011, we saw a trend for increasing cost during the year and into early 2012. In late 2012, seafood costs decreased for many species that we procure. In 2013, we had lower average seafood costs than those experienced in 2012, but costs in late 2013 increased for shrimp, scallops and haddock, which may adversely affect volumes as well as margins into next 2014.

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. Our strategy is to always have at least two suppliers of seafood products when we can. A very small percentage of our supply is single sourced. We also maintain strict *Supplier Approval and Audit Standards*. Through audit procedures, all food suppliers are required to meet our quality control and safety standards, which, in many instances, are higher than regulatory standards. All product is inspected, to assure consumers that High Liner Foods quality is consistent, regardless of source or origin.

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

In 2010, we established a joint venture between High Liner Foods and a 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 the European joint venture partner and sold to us. In early 2013, we sold our shares in the joint venture to our European joint venture partner. We continue procuring the same volume of products from this company as we did prior to the sale, at the same or similar prices.

We acquired a primary processing plant in China in 2011 as part of the Icelandic USA Acquisition. This subsidiary produces raw material and finished goods for our Newport News operations. In the first quarter of 2013, we sold this operation to the minority shareholder. We continue procuring the same volume of products from this company as we did prior to the sale, at same or similar prices.

8.3 Availability of Seafood

Senior management accountability: Keith Decker, President and Chief Operating Officer ("COO")

Board oversight accountability: Audit Committee

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

The Company expects demand for seafood to grow from current levels as the global economy, and particularly European economy, improves. We expect the supply of wild caught seafood to be stable over the long term, notwithstanding recent increases in quota in certain fisheries, in part due to sustainability efforts. We anticipate new demand will be supplied primarily from aquaculture. Currently, 23% of our sales come from an aquaculture source, and four of the top seven species consumed in the U.S. (shrimp, salmon, tilapia, and pangasius) are partly or totally supplied by aquaculture. To the extent aquaculture is unable to supply future demand, prices may increase materially which may have a negative impact on the Company's results.

We have made the strategic decision not to be vertically integrated for a number of reasons, including the large amount of capital that would be involved and expected returns on such capital. As well, as a vertically integrated company, overall reduced returns to shareholders would likely result from subsidizing our North American operations with output from fishing efforts that could be sold in global markets at higher prices. Instead, we remain committed to our strategy to develop the North American market by differentiating ourselves based on product offerings and service levels, building our brands and customer relationships, as well as being the lowest cost, largest scale manufacturer of seafood products and to leverage such position to buy seafood at reasonable prices and be the supplier of choice for North American customers and consumers. However, in the event scarcity of certain seafood results in difficulty procuring species, the financial results of High Liner Foods may be adversely affected.

8.4 Loss of Customer and Credit Risk

Senior management accountability: Kelly Nelson, Executive Vice President & Chief Financial Officer; Mario Marino, President and COO, Canadian Operations; Keith Decker, (Interim) President and COO, High Liner Foods (USA)

Board oversight accountability: Audit Committee

We sell the vast majority of our products to large food retailers, supercenters 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 and provide them a significant portion of their seafood requirements. We must continue to grow and stay ahead of customer expectations in order to continue to be important to them. Excluding the American Pride Acquisition, we have one customer that represents approximately 17% of our sales and our top ten customers represent approximately 63% of our total sales. During 2013, six of our larger customers announced merger plans: Loblaw's and Shoppers Drug Mart; Sobeys and Canada Safeway; and Sysco and US Foods. Once these mergers are completed, we expect the consolidation in our customer base will increase. 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 historically been nominal. As of the filing of this report, we are not aware of any customer that is in financial trouble that would result in a material loss to the Company and our receivables are substantially current at year-end.

8.5 Foreign Currency

Senior management accountability: Kelly Nelson, Executive Vice President & Chief Financial Officer

Board oversight accountability: Audit Committee

Overview

High Liner Foods reports its results in USD to reduce volatility caused by changes in the U.S. dollar to Canadian dollar exchange rate. The Company's income statement and balance sheet are both affected by foreign currency fluctuations in a number of ways. Generally, a stronger Canadian dollar is beneficial to earnings and shareholders' equity as discussed below. Conversely, a weakening Canadian dollar can decrease earnings.

Income Statement Effects of Foreign Currency

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

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

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 USD 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 USD 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 CAD for the Canadian market is purchased substantially in USD. All seafood is priced in USD and flour-based ingredients, cooking oils and transportation costs all have significant components that are denominated in USD, even if ultimately purchased in CAD. A strengthening Canadian dollar decreases the cost of these inputs and vice versa in the Canadian operation's domestic currency. When the value of the Canadian dollar changes, competitive factors on commodity products, primarily raw frozen shellfish and groundfish, especially in our Canadian food service business, force us to react when competitors use a lower Canadian-dollar cost of imported products to decrease prices and, therefore, pass on the cost decrease to customers. Increasing Canadian dollar costs usually result in higher selling prices to customers.

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

The average Canadian dollar in 2013 (at an exchange rate of 0.9713 for each U.S. dollar) has weakened approximately 3.0% over the

average of 2012. Because we report our financial results in USD, a weakening Canadian dollar has the immediate effect of decreasing the U.S. dollar value of Canadian dollar denominated sales, costs and expenses. In 2013, Canadian dollar denominated sales comprised approximately 30% of our total sales in domestic currency and in 2014, we expect this percentage to be slightly lower as 2014 will include a full year of sales from the American Pride Acquisition, which are denominated in USD.

For 2014, approximately \$300 million of the Canadian operation's external sales are expected to be in CAD. This exposure is estimated to decrease to \$200 million after taking into account the Canadian dollar cost in labour, packaging, supplies and overheads. Based on this, the net effect of a one-cent change in the U.S. dollar exchange rate relative to the Canadian dollar, prior to hedging activities and price changes to customers, is a change in after-tax income of approximately \$1.5 million.

As mentioned, although High Liner Foods now reports in USD, our Canadian operations continue to be managed and accounted for in CAD, which is the functional currency of the Canadian company. Therefore, in accordance with the Company's "Price Risk Management Policy" ("the Policy"), we undertake hedging activities, buying USD forwards using various derivative products. 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 fifteen 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 months. The lower end of these ranges are required to be hedged by the Policy with the upper ranges allowed if management believes the situation warrants a higher level of purchases to be hedged. Variations from policy require the approval of the Audit Committee.

The Company's Policy excludes certain commodity products for the food service market, such as raw and cooked shrimp and raw

fish fillets, that 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. Approximately US\$85 million of the U.S. dollar purchases of the Canadian company are part of the hedging program and are usually hedged between 45-55% of the next twelve months of forecasted purchases.

Details on the hedges in place on December 28, 2013 are included in note 22 to the Consolidated Financial Statements.

Balance Sheet Effects of Foreign Currency

As we have operations in Canada, and some monetary assets and liabilities in the U.S. that are denominated in CAD, assets and liabilities of the consolidated company change as exchange rates fluctuate. At December 28, 2013, the Canadian dollar weakened by approximately 7.0% from its value at December 29, 2012. As such, the weakened Canadian dollar has decreased the carrying value of items such as accounts receivable, inventory, fixed assets, and accounts payable of the Canadian operations in our U.S. dollar balance sheet. The net offset of those changes flow through Other Comprehensive Income in shareholders' equity on the balance sheet. Changes in monetary assets and liabilities in the U.S. that are denominated in CAD flow through the income statement, unless they are hedged.

8.6 Non-Seafood Commodities

Senior management accountability: Mario Marino, President and COO, Canadian Operations; Keith Decker, (Interim) President and COO, High Liner Foods (USA); Derivatives – Kelly Nelson, Executive Vice President & Chief Financial Officer; Rick Barnhardt, 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 incoming and outgoing freight. When we experience higher crude oil prices, freight costs increase as our freight suppliers add fuel surcharges and our suppliers charge us more for ocean freight. 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 five years. We do not plan to hedge fuel surcharges in 2014.

Other commodities, whose fluctuating market prices may affect our financial results, are flour, corn, 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 2012 and 2013, we have been able to deal with this risk to management's satisfaction using contracts with our suppliers. World commodity prices for flour (wheat and corn) and oils (corn, soy and canola), important ingredients in the manufacture of many of the Company's products, decreased in 2013 and are trending stable for 2014. Currently, we are still working with fixed price contracts with our suppliers and have most of 2014's commodities under contract.

8.7 Food Safety

Senior management accountability: Mario Marino, President and COO Canadian Operations; Keith Decker, (Interim) President and COO High Liner Foods (USA)

Board oversight accountability: Board of Directors

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

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

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

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

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

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

The Company has a Quality Steering Council comprised of all senior quality personnel in the Company. Their mission is to ensure that High Liner Foods has the best policies, consistently applied throughout the Company as well as implementing audit processes and ensuring 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 2012 and 2013.

8.8 Growth (other than by Acquisition)

Senior management accountability: Mario Marino, President and COO, Canadian Operations; Keith Decker, (Interim) President and COO, High Liner Foods (USA)

Board oversight accountability: Board of Directors

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

8.9 Acquisitions

Senior management accountability: Henry Demone, CEO

Board oversight accountability: Board of Directors

Our strategy includes growth by acquisition. The Company may not be able to carry out its strategy of acquisition of other frozen seafood companies, as that depends in part on the availability of suitable 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 of 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.

8.10 Liquidity

Senior management accountability: Kelly Nelson, Executive Vice President & Chief Financial Officer

Board oversight accountability: Audit Committee

Our primary sources of working capital are cash flows from operations and borrowings under our credit facilities. We actively manage our relationships with our lenders and have in place adequate credit facilities until December 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 five 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 1% of our debt will mature in less than one year at December 28, 2013 based on the carrying value of borrowings reflected in the financial statements. Our long-term debt is described in *note 13* to the Consolidated Financial Statements and has no regularly scheduled repayments in 2014 due to the mandatory excess cash flow payment made in 2013 that is applied in the direct order of maturity of the remaining repayments due for the twenty-four months following the mandatory prepayment, and thereafter, ratably to the remaining repayments and due to the 2013 excess cash flow calculation indicating that no excess cash flow payments need to be made. At December 28, 2013 and at the date of this document, we are in compliance with all covenants and terms of our banking facilities.

As a result of the volatile capital markets and the resulting widespread drop in public issuer valuations in the latter part of 2008, our defined benefit pension plans experienced losses. However, the capital markets improved in 2012 and 2013, reducing the losses. The latest actuarial valuations of our two largest defined benefit pension plans were performed during fiscal 2011 and showed combined going concern deficits of CAD\$2.2 million and solvency deficits of CAD\$8.3 million. Annual minimum special contributions of CAD\$1.8 million were required to reduce the solvency deficits until the next valuations are performed in 2014. The asset mix of our defined benefit pension plans was determined 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.

8.11 Sustainability, Corporate Responsibility and Public Opinion

Senior management accountability: Keith Decker, President and COO

Board oversight accountability: Board of Directors

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

High Liner Foods fulfilled 99% of the public sustainability commitment it made in late 2010 to source all of its seafood from "certified sustainable or responsible" fisheries and aquaculture by the end of 2013, and is now recognized as a global leader in driving best practice improvements in wild fisheries and aquaculture. Customers will continue to demand product solutions that are innovative, high quality and responsibly sourced. Credible sustainability certifications have become a required tool to validate industry driven wild fishery and aquaculture improvements. Environmental advocacy groups will continue to promote use of credible certification schemes to define sustainable wild fisheries and aquaculture. We will strive to achieve the remaining 1% of this goal and as part of our ongoing commitment to sustainability, and we will continue to pursue additional opportunities to improve sustainability across our supply chain, extending beyond the seafood we source.

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

8.12 Industry Consolidation

Senior management accountability: Keith Decker, President and COO; Mario Marino, President and COO, Canadian Operations

Board oversight accountability: Board of Directors

Grocery retailers, wholesalers and food processors in North America have consolidated and continue to consolidate. In Canada, five major food retailers control, in aggregate, more than 72.5%² of the retail food sales market. In the U.S. retailers are also consolidating. Ten retail operators now control approximately 66%³ of U.S. retail grocery sales. Grocery retailers typically charge suppliers listing or "slotting" fees for shelf space on a per product basis for new products, and also require money to support product advertising and promotions. Arising out of these consolidations we have experienced demands from customers for increased listing and promotional incentives and improved payment terms.

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

Consolidation of customers is expected to result in some consolidation of suppliers in the U.S. seafood industry. The supply of seafood, especially in the U.S. food service market, is highly fragmented. Consolidation is needed to reduce costs and increase service levels to keep pace with the expectation of customers. We are always looking for acquisition opportunities to leverage our current strengths.

8.13 Increase in Seafood Production from Asia

Senior management accountability: Paul Snow, Executive Vice President Procurement

Board oversight accountability: Board of Directors

For more than a decade, many seafood companies, including High Liner Foods, have diverted production of certain primary produced products to Asia, and China in particular. Asian processing plants are able to produce many seafood products at a lower cost than is possible in North America and in other more developed countries.

These plants are also able to achieve a better yield on raw material due to the use of more manual processes and they produce excellent quality. Land-based seafood primary processing plants in developed countries, such as Norway, Iceland and Canada, have found it extremely difficult to compete with Asian processors, especially when they compete with them for the raw material on global markets. We anticipated this trend ahead of our many competitors. It was part of our rationale for exiting the primary processing and fishing businesses, and the trend allowed us to develop opportunities that are now contributing to our growth strategy. We chose to work closely with selected Asian suppliers to become an important customer, especially for cod and haddock suppliers. We have made it possible for these suppliers to meet our exacting quality and manufacturing standards and in turn we have access to the variety and volume of seafood products, including a significant amount of wild-caught product from the Atlantic and Pacific oceans that we need to fulfill our brand strategy. We have taken advantage of this trend and moved a significant portion of our processed shrimp production from U.S. co-packers to Asian suppliers. Although we have not seen this trend significantly affect products produced in our North American plants, we continue to look at alternate options for the production of highly labour intensive product.

8.14 Competition Risk

Senior management accountability: Mario Marino, President and COO, Canadian Operations; Keith Decker, (Interim) President and COO, High Liner Foods (USA)

Board oversight accountability: Board of Directors

High Liner Foods competes with a number of food manufacturers and distributors and its competition varies by distribution method, product category and geographic market. Some of High Liner Foods' competitors have greater financial and other resources than it does and/or may have access to labour or other products that are not available to High Liner Foods. In addition, High Liner Foods' competitors may be able to better withstand market volatility. There can be no assurance that High Liner Foods' principal competitors will not be successful in capturing, or that new competitors will not emerge and capture, a share of the Company's present or potential customer base and/or market share.

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

² Market share is estimated by Nielsen® based from the TI Grocery Composite.

³ According to "2012 Marketing Handbook", published by Trade Dimensions International, Inc.

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 and improvement to operating efficiencies; interest rates; continued access to capital; the competitive environment and related market conditions; and the general assumption that none of the risks identified below or elsewhere in this document will materialize.

Specific forward-looking statements in this document include, but are not limited to: statements with respect to future growth strategies and its impact on shareholder value; seafood availability, demand and pricing; product pricing, including the cost of raw materials, energy and supplies; operating costs; plant performance; our ability to attract and retain customers; required level of bank loans and interest rates; our ability to attract and retain experienced and skilled employees. increases in the disposable incomes of consumers, and economic recovery in both Canada and the U.S. markets; 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 2014; 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 American Pride with High Liner Foods' operations; the increased market share anticipated due to the addition of American Pride value-added seafood products; increased leverage attributable to the acquisitions of American Pride; 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 Icelandic USA and American Pride Acquisitions; improved U.S. food service position from the American Pride 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 Factors and 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 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 marketplace; changes in laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; supplier fulfillment of contractual agreements and obligations; 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 statements of financial position as at December 28, 2013 and December 29, 2012, and the consolidated statements of comprehensive income (loss), changes in shareholder's equity and cash flows for the fifty-two weeks ended December 28, 2013 and December 29, 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of High Liner Foods Incorporated as at December 28, 2013 and December 29, 2012, and its financial performance and its cash flows for the fifty-two weeks in accordance with International Financial Reporting Standards.

(signed)

Ernst & Young LLP
Chartered Accountants
Halifax, Canada
February 19, 2014

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

Dated February 19, 2014

(signed)

K.L. Nelson, FCA
Executive Vice President and Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of U.S. dollars)	Notes	December 28, 2013	December 29, 2012
ASSETS			
Current:			
Cash		\$ 1,206	\$ 65
Accounts receivable	9	91,334	73,947
Income taxes receivable		3,509	5,145
Other financial assets	22	1,524	533
Inventories	8	254,072	222,313
Prepaid expenses		2,952	2,991
Total current assets		354,597	304,994
Non-current:			
Property, plant and equipment	6	97,503	89,268
Deferred income taxes	20	4,656	7,207
Other receivables and miscellaneous assets		1,906	2,035
Intangible assets	5	105,253	110,631
Goodwill	5	111,999	112,873
Total non-current assets		321,317	322,014
Assets classified as held for sale	7	542	4,819
Total assets		\$ 676,456	\$ 631,827
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current:			
Bank loans	12	\$ 97,227	\$ 59,704
Accounts payable and accrued liabilities	10	103,215	101,441
Provisions	11	240	1,614
Other current financial liabilities	22	459	550
Income taxes payable		2,543	1,165
Current portion of long-term debt	13	—	34,237
Current portion of finance lease obligations	13	979	1,039
Total current liabilities		204,663	199,750
Non-current:			
Long-term debt	13	226,929	213,359
Other long-term financial liabilities	22	5,597	1,130
Other long-term liabilities		1,044	1,532
Long-term finance lease obligations	13	1,647	2,181
Deferred income taxes	20	43,998	45,126
Future employee benefits	14	7,929	13,791
Total non-current liabilities		287,144	277,119
Liabilities directly associated with the assets held for sale	7	—	1,604
Total liabilities		491,807	478,473
Shareholders' equity:			
Common shares	16	80,260	75,169
Contributed surplus		13,781	7,719
Retained earnings		90,792	66,373
Accumulated other comprehensive (loss) income		(184)	4,093
Total shareholders' equity		184,649	153,354
Total liabilities and shareholders' equity		\$ 676,456	\$ 631,827

Commitments (note 15)

See accompanying notes

CONSOLIDATED STATEMENT OF INCOME

(in thousands of U.S. dollars, except per share amounts)	Notes	Fifty-two weeks ended	
		December 28, 2013	December 29, 2012
Revenues		\$ 947,301	\$ 942,631
Cost of sales		731,884	735,970
Gross profit		215,417	206,661
Distribution expenses		53,368	44,511
Selling, general and administrative expenses		98,902	100,862
Impairment of property, plant and equipment		—	13,230
Business acquisition, integration and other expenses		3,256	10,741
Results from operating activities		59,891	37,317
Finance costs		16,329	36,585
(Income) loss from equity accounted investee, net of income tax		(86)	196
Income before income taxes		43,648	536
Income taxes			
Current	20	12,378	5,442
Deferred	20	(86)	(7,109)
Total income tax expense (recovery)		12,292	(1,667)
Net income		\$ 31,356	\$ 2,203
PER SHARE EARNINGS			
Earnings per common share			
Basic	17	\$ 2.07	\$ 0.15
Diluted	17	\$ 2.01	\$ 0.14
Weighted average number of shares outstanding			
Basic	17	15,183,747	15,118,752
Diluted	17	15,593,166	15,460,417

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in thousands of U.S. dollars)	Fifty-two weeks ended	
	December 28, 2013	December 29, 2012
Net income for the period	\$ 31,356	\$ 2,203
Other comprehensive income (loss), net of income tax <i>(note 20)</i>		
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:		
(Loss) gain on hedge of net investment in foreign operations	(11,265)	3,475
Gain (loss) on translation of net investment in foreign operations	6,048	(1,756)
Translation impact on Canadian dollar denominated AOCI items	(4)	166
Total exchange (losses) gains on translation of foreign operations	(5,221)	1,885
Effective portion of changes in fair value of cash flow hedges	1,186	(1,088)
Net change in fair value of cash flow hedges transferred to income	(228)	265
Translation impact on Canadian dollar denominated AOCI items	(14)	32
Total exchange gains (losses) on cash flow hedges	944	(791)
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods	(4,277)	1,094
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Defined benefit plan actuarial gains (losses)	3,368	(3,379)
Other comprehensive loss, net of income tax	(909)	(2,285)
Total comprehensive income (loss)	\$ 30,447	\$ (82)

See accompanying notes

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME ("AOCI")

(in thousands of U.S. dollars)	Foreign currency translation differences	Net exchange (losses)/gains on cash flow hedges	Total accumulated other comprehensive (loss) income
Balance at December 29, 2012	\$ 4,586	\$ (493)	\$ 4,093
Exchange differences on translation of foreign operations	(5,221)	—	(5,221)
Cash flow hedges	—	944	944
Balance at December 28, 2013	\$ (635)	\$ 451	\$ (184)
Balance at December 31, 2011	\$ 2,701	\$ 298	\$ 2,999
Exchange differences on translation of foreign operations	1,885	—	1,885
Cash flow hedges	—	(791)	(791)
Balance at December 29, 2012	\$ 4,586	\$ (493)	\$ 4,093

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of U.S. dollars)	Non-voting equity	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance at December 29, 2012	\$ —	\$ 75,169	\$ 7,719	\$ 66,373	\$ 4,093	\$ 153,354
Other comprehensive income (loss)	—	—	—	3,368	(4,277)	(909)
Net income for the period	—	—	—	31,356	—	31,356
Common share dividends	—	—	—	(10,305)	—	(10,305)
Share-based payments	—	5,091	(1,518)	—	—	3,573
Conversion of SARs <i>(note 18)</i>	—	—	7,580	—	—	7,580
Balance at December 28, 2013	\$ —	\$ 80,260	\$ 13,781	\$ 90,792	\$ (184)	\$ 184,649
Balance at December 31, 2011	\$ 12,973	\$ 60,958	\$ 7,969	\$ 73,928	\$ 2,999	\$ 158,827
Other comprehensive (loss) income	—	—	—	(3,379)	1,094	(2,285)
Net income for the period	—	—	—	2,203	—	2,203
Common share dividends	—	—	—	(6,379)	—	(6,379)
Share-based payments	—	1,464	21	—	—	1,485
Shares redeemed and re-issued	(12,747)	12,747	—	—	—	—
Shares repurchased	(226)	—	(271)	—	—	(497)
Balance at December 29, 2012	\$ —	\$ 75,169	\$ 7,719	\$ 66,373	\$ 4,093	\$ 153,354

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of U.S. dollars)	Fifty-two weeks ended	
	December 28, 2013	December 29, 2012
Cash provided by (used in) operations:		
Net income for the period	\$ 31,356	\$ 2,203
Charges (credits) to income not involving cash from operations:		
Depreciation and amortization	15,159	19,381
Share-based payment expense	6,704	10,255
(Gain) loss on asset disposals, and impairment	(126)	13,589
Payments of future employee benefits in excess of expense	(948)	(1,728)
Finance costs	16,329	36,585
Income tax expense (recovery)	12,292	(1,667)
(Income) loss from equity accounted investee, net of income taxes	(86)	196
Unrealized foreign exchange loss	700	683
Cash flow provided by operations before changes in non-cash working capital, interest and income taxes paid:	81,380	79,497
Net change in non-cash working capital balances:		
Accounts receivable	(15,157)	4,958
Inventories	(3,162)	35,258
Prepays	841	(423)
Provisions	(1,237)	904
Accounts payables and accrued liabilities	(7,407)	(14,535)
Net change in non-cash working capital balances	(26,122)	26,162
Interest paid	(16,786)	(19,145)
Income taxes paid	(11,161)	(7,530)
Net cash flows provided by operating activities	27,311	78,984
Cash provided by (used in) financing activities:		
Increase (decrease) in current working capital facilities	37,771	(59,673)
Repayment of finance lease obligations	(1,052)	(1,009)
Repayment of long-term debt	(15,406)	(1,875)
Finance costs	(1,423)	—
Common share dividends paid	(10,305)	(6,379)
Share repurchase	—	(497)
Stock options exercised	1,395	650
Net cash flows provided by (used in) financing activities	10,980	(68,783)
Cash provided by (used in) investing activities:		
Purchase of property, plant and equipment, net of investment tax credits (note 6)	(14,734)	(12,709)
Net proceeds on disposal of assets	7,124	232
Acquisition of business, net (note 4)	(30,312)	—
Change in other receivables and miscellaneous assets	249	(247)
Net cash flows used in investing activities	(37,673)	(12,724)
Foreign exchange (decrease) increase on cash	(182)	88
Change in cash during the period	436	(2,435)
Add-back: cash directly associated with assets held for sale (note 7)	705	(705)
Cash, beginning of period	65	3,205
Cash, end of period	\$ 1,206	\$ 65

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Corporate information

High Liner Foods Incorporated (the "Company" or "High Liner") is a company incorporated and domiciled in Canada. The address of the Company's registered office is 100 Battery Point, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The consolidated financial statements of the Company as at and for the fifty-two weeks ended December 28, 2013 comprise the Parent and its subsidiaries (herein together referred to as the "Company" or "High Liner"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products.

These financial statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on February 19, 2014.

NOTE 2 Basis of preparation

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

The Company conducts its business in Canadian dollars ("CAD") and U.S. dollars ("USD"). Unless otherwise noted, all amounts in these consolidated financial statements are in USD and all values are rounded to the nearest thousand (\$000), except when otherwise indicated.

Basis of measurement

The 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;
- Liabilities for cash-settled share-based payment arrangements are measured at fair value;
- The defined benefit employee future benefit liability is recognized as the net total of the plan assets, plus unrecognized past service costs and the present value of the defined benefit obligation.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 28, 2013. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangement(s); and
- The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. 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 interests;
- 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 OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

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 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 are impaired. 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 and goodwill 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*.

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. Further details, including a sensitivity analysis of key assumptions, are given in *note 5*.

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.

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in *note 18*.

Future employee 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 future employee benefits.

Income Taxes

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

Fair value of financial instruments

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

Sales and marketing accruals

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

NOTE 3 Significant accounting policies

Business combinations and goodwill

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

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized 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 CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in a normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Company measures financial instruments, such as derivatives and non-financial assets, at fair value at each balance sheet date. Fair values of financial instruments measured at amortized cost are disclosed in *note 23*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

External valuers are involved for valuation of significant assets and liabilities. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, at each reporting date, the Company's internal valuation team analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the valuation team verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The valuation team, in conjunction with the Company's external valuers, also compares each of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Non-current assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Cash

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

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 the inventories 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 OCI of any gain or loss on qualifying cash flow hedges of foreign currency related to 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

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

Translation of Parent Company to USD for presentation currency

The Parent Company is High Liner's Canadian company, and its functional currency is CAD; however, the Company's presentation currency is USD. The USD presentation currency is chosen because it better reflects the Company's business activities and improves investors' ability to compare the Company's financial results with other publicly traded businesses in the packaged foods industry.

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

Hedge of net investment in a foreign operation

The Company applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Parent Company's functional currency (CAD). Foreign currency differences arising on the re-translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in OCI 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 in 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.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. 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, direct labour, 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 transfers from OCI 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. 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 on a net basis within profit or loss.

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 expensed as incurred.

Depreciation is calculated on 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.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that 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.

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(s) or the arrangement conveys a right to use the asset(s).

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 statement of income.

Leased assets are depreciated over their useful lives. However, if there is no reasonable certainty that the Company will obtain ownership of a leased asset 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 statement of income on a straight-line basis over the lease term.

Provisions, contingent liabilities and contingent assets

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision 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.

Impairment of non-financial assets

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 CGU's 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.

The Company has two CGUs: the Canadian operations and the U.S. operations.

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.

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 CGU'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 statement of income.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its 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 their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. 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 statement of income 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 CGU 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 certain brands have indefinite useful lives requiring impairment testing annually or more frequently when an indication of impairment exists.

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

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

Brands	2–8 years
Customer relationships	10–25 years
Indefinite lived brands	Indefinite, subject to impairment testing annually

Research and development costs

The Company monitors the level of product and process development costs against all the relevant criteria to determine whether or not to capitalize. 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. For the Company 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 nominal.

Future employee benefits

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 salary escalation and retirement ages of employees.

The determination of benefit expense requires assumptions such as the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected mortality rate of pensioners. 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 statement of income. 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 future contributions to the plan.

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.

Share-based payments

The Company has a Common Share Option Plan, which is described in note 18 and recognizes compensation expense for option awards using the fair value method of accounting.

The Company's Common Share Option Plan includes, at the discretion of the Board, tandem Share Appreciation Rights ("SARs") to option grants, which allows the employee to either exercise the share option for shares, or to exercise the SARs and thereby receive the value of the share option in cash.

(i) Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a trinomial model. As the SARs are 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 which 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 canceling 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.

(ii) Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognized in employee benefits expense, together with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to payment. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The statement of income credit or expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (note 17).

Short-term employee benefits

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

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

Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. 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 Taxes

Income tax expense is comprised of current and deferred income taxes. Current and deferred income taxes are recognized in profit or loss except to the extent that they relate to a business combination, or to items recognized directly in equity or in OCI.

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 taxes 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 income tax assets and liabilities are measured at the enacted or substantively enacted rate that is expected to apply when the related temporary differences reverse. 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 the entity intends 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.

Marketing programs provided to customers and operators including volume rebates, cooperative advertising and other trade marketing programs are all customer specific programs to promote the Company's products. Consequently, sales are recorded net of these estimated sales and marketing costs, which are recognized as incurred at the time of sale. Consumer coupons used to encourage consumers to purchase the Company's products through the Company's customers are recognized as a reduction to sales when the coupons are issued. 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.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Financial instruments

Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

For purposes of subsequent measurement, financial assets are classified into the following categories:

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Company has not designated any financial assets at

fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

(ii) Loans and receivables

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained

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 EIR (the EIR 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 receivables are derecognized when they are assessed as uncollectible.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payables, accrued liabilities, bank loans, derivative financial instruments and long-term debt.

The subsequent measurement of financial liabilities depends on their classification, as described below:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include 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 incurred for the purpose of repurchasing in the near-term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liability upon initial recognition as at fair value through profit or loss.

(ii) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of income.

This category generally applies to interest-bearing loans and borrowings. For more information refer *notes 12 and 13*.

Derecognition of financial liabilities

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Derivative instruments/hedging

All derivative instruments, including embedded derivatives that are not closely related to the host contract, are recorded in the statement of financial position at fair value, on the date a contract is entered into and 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 hedge designation. The Company designates certain derivatives as either:

(i) 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 statement of income together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

(ii) Cash flow hedges

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

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

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 the transaction, the nature of the risk being hedged, and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

(iii) Hedges of a net investment in a foreign operation

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 OCI while any gains or losses relating to the ineffective portion are recognized in the statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of income.

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

(iv) 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 as finance costs in the statement of income consistent with the underlying nature and purpose of the derivative instruments.

New standards, interpretations and amendments thereof, adopted by the Company

The following adoption of new standards and interpretations as of December 30, 2012 that had an impact on the accounting policies, financial position or performance of the Company are described below:

IAS 19 Employee Benefits (Revised)

On December 30, 2012, the Company adopted the amendments to IAS 19 with retrospective application. These range from fundamental changes in the standard such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The impact this amendment had on the Company is described in note 14.

IFRS 13 Fair Value Measurement

On December 30, 2012, the Company adopted IFRS 13 on a prospective basis. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The impact this amendment had on the Company's reported fair values was nominal. Additional disclosures were required and are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 23.

Several other new standards were adopted for the first time in 2013 as required; however, they do not impact the annual consolidated financial statements of the Company.

NOTE 4 Business combinations

Acquisition of American Pride Seafoods

On October 1, 2013, the Company acquired the net assets and operations of American Pride Seafoods from Seattle-based American Seafoods Group LLC ("American Pride Acquisition").

American Pride Seafoods ("American Pride") is primarily a value-added frozen seafood food service and scallop processing business based in New Bedford, Massachusetts ("MA"). The primary reason for the business combination was to bolster the Company's market leadership position in the food service segment of the U.S. value-added frozen seafood market, and to add a significant U.S.-based scallop processing operation to its business portfolio.

The Company paid \$34.5 million in cash proceeds, subject to closing working capital adjustments, to acquire American Pride's net assets, which principally include inventory, property, plant and equipment located in New Bedford, MA, and excluded accounts receivable of \$15.5 million, for a total enterprise value of \$50.0 million. After working capital adjustments, the purchase price was determined to be \$30.3 million, excluding accounts receivable. As part of the transaction, the Company assumed certain operating leases related to the acquired businesses.

From the date of acquisition, the American Pride Acquisition contributed \$39.7 million of revenue and \$1.1 million of earnings before interest and taxes, excluding one-time business acquisition costs. Had the acquisition occurred as of the beginning of the annual reporting period, December 30, 2012, the revenue for the combined entity including American Pride would have been \$1.1 billion and earnings before interest and taxes, excluding one-time business acquisition costs, for the combined entity would have been \$62.0 million.

The fair value of the identifiable assets and liabilities of the American Pride Acquisition as at the date of acquisition, based on a provisional assessment, were:

(Amounts in \$000s)	Provisional fair value recognized on acquisition
Assets	
Property, plant and equipment (note 6)	\$ 10,280
Prepaid expenses	661
Inventories	33,665
	44,606
Liabilities	
Accounts payable and accruals	(9,094)
Above market lease	(5,200)
	(14,294)
Total identifiable net assets at fair value and purchase consideration recorded	\$ 30,312
Agreed upon purchase price based on average working capital	\$ 34,500
Net post closing working capital adjustments	(4,195)
Cash acquired	7
Net purchase consideration recorded	\$ 30,312

Accounts receivable upon close of the acquisition were collected on account of the seller, which totaled \$15.5 million. As at year-end, accounts receivable have increased as result of the acquisition by \$18.4 million, where \$14.2 million relates to trade receivables, and \$4.2 million relates to a receivable from American Seafoods Group for a proposed working capital adjustment.

The net assets recognized in the December 28, 2013 financial statements are based on a provisional assessment of fair value as the Company has sought an independent valuation for the purchase price allocation. The results of the valuation have not been finalized as at the date these financial statements were approved for issue by management, and as a result, the financial information disclosed is based on management's best estimate and are disclosed on a provisional basis.

NOTE 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 at September 29, 2013. 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 CGUs for the most recently completed impairment calculations for fiscal 2013 and fiscal 2012 are discussed following the table 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 28, 2013 and December 29, 2012:

(Amounts in \$000s)	Brands 2-8 Yrs	Customer relationships 10-25 Yrs	Land rights 15 Yrs	Indefinite lived brands	Total intangible assets	Goodwill	Total goodwill and intangible assets
Cost							
At December 31, 2011	\$ 6,245	\$ 100,701	\$ 492	\$ 14,630	122,068	\$ 112,603	\$ 234,671
Translation adjustment of Canadian based assets	13	31	—	22	66	270	336
At December 29, 2012	\$ 6,258	\$ 100,732	\$ 492	\$ 14,652	\$ 122,134	\$ 112,873	\$ 235,007
Disposals relating to sale of subsidiary (note 7)	—	—	(492)	—	(492)	—	(492)
Translation adjustment of Canadian based assets	(42)	(100)	—	(41)	(183)	(874)	(1,057)
At December 28, 2013	\$ 6,216	\$ 100,632	\$ —	\$ 14,611	\$ 121,459	\$ 111,999	\$ 233,458
Accumulated amortization							
At December 31, 2011	\$ (422)	\$ (5,052)	\$ —	\$ —	\$ (5,474)	\$ —	\$ (5,474)
Amortization	(949)	(4,568)	(34)	—	(5,551)	—	(5,551)
Translation adjustment of Canadian based assets	(7)	(13)	—	—	(20)	—	(20)
At December 29, 2012	\$ (1,378)	\$ (9,633)	\$ (34)	\$ —	\$ (11,045)	\$ —	\$ (11,045)
Amortization	(951)	(3,866)	—	(441)	(5,258)	—	(5,258)
Disposals relating to sale of subsidiary (note 7)	—	—	34	—	34	—	34
Translation adjustment of Canadian based assets	33	30	—	—	63	—	63
At December 28, 2013	\$ (2,296)	\$ (13,469)	\$ —	\$ (441)	\$ (16,206)	\$ —	\$ (16,206)
Carrying value December 29, 2012	\$ 4,880	\$ 91,099	\$ —	\$ 14,652	\$ 110,631	\$ 112,873	\$ 223,504
Carrying value December 28, 2013	\$ 3,920	\$ 87,163	\$ —	\$ 14,170	\$ 105,253	\$ 111,999	\$ 217,252
Allocated to Canada:							
Carrying value December 29, 2012				\$ 1,046		\$ 12,535	
Carrying value December 28, 2013				\$ 542		\$ 11,661	
Allocated to U.S.:							
Carrying value December 29, 2012				\$ 13,606		\$ 100,338	
Carrying value December 28, 2013				\$ 13,628		\$ 100,338	

During 2013, the Company recorded an impairment loss of \$0.4 million on a brand acquired in 2007, due to discontinuation of sales under that brand. This impairment loss has been recorded in the Canadian CGU and reportable operating segment.

The Company has two CGUs: Canada and the U.S. The Company has determined these CGUs as the smallest identifiable group of assets that generate, or could generate, cash inflows that are largely independent of the cash inflows from the other assets. The Canadian and U.S. CGUs used for impairment testing are based on geography and are also the Company's operating and reportable segments (note 19).

Goodwill acquired through business combinations and brands with indefinite lives have been allocated to the Canadian and U.S. CGUs for impairment testing purposes.

The recoverable amount of the CGUs has been determined based on the fair value less costs to sell ("FVLCS"). In determining the FVLCS of each of the CGUs, a discounted cash flow methodology was utilized. 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
Canada			
September 29, 2013 valuation date	12%	2%	2%
September 30, 2012 valuation date	12%	2%	2%
U.S.			
September 29, 2013 valuation date	12%	2%	2%
September 30, 2012 valuation date	12%	2%	2%

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

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

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

Gross margins including raw material cost and currency fluctuations

Gross margins are based on actual and estimated values in the first year of the projection period, budgeted values in the second year of the projection period, and these are increased over the projection period for anticipated efficiency improvements. The projected gross margins are then updated to reflect anticipated future changes in the cost 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 cost 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 the CGUs 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 CGU'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.

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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 CGU's management group based on historical trend analysis and future expectations of growth.

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 reflects the incremental costs, excluding finance costs and income taxes, that would be directly attributable to the disposal of the CGU, including legal costs, marketing costs, costs of removing assets and direct incremental costs incurred in preparing the CGU for sale.

Sensitivity to changes in assumptions

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

NOTE 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	Investment tax credits ("ITCs")	Total
Cost										
At December 31, 2011	\$ 3,348	\$ 58,260	\$ 25,208	\$ 39,505	\$ 4,049	\$ 4,340	\$ 1,455	\$ 5,115	\$ (1,129)	\$ 140,151
Additions	—	6,161	—	4,157	1,766	553	59	738	13	13,447
Disposals	—	(730)	(88)	(137)	—	(3)	(23)	(635)	—	(1,616)
Effect of exchange rates	5	367	92	329	58	77	16	43	(25)	962
Assets held for sale	—	(783)	(888)	(1,679)	(2)	—	(19)	—	—	(3,371)
At December 29, 2012	\$ 3,353	\$ 63,275	\$ 24,324	\$ 42,175	\$ 5,871	\$ 4,967	\$ 1,488	\$ 5,261	\$ (1,141)	\$ 149,573
Additions	—	6,120	584	5,713	1,534	709	252	685	(178)	15,419
Acquisition (note 4)	1,515	5,897	2,710	—	46	—	112	—	—	10,280
Disposals	(1,985)	(7,136)	(3,409)	(8,242)	(1,515)	(552)	(212)	(655)	—	(23,706)
Effect of exchange rates	(16)	(1,167)	(297)	(1,132)	(223)	(299)	(65)	(145)	86	(3,258)
Assets held for sale	—	(1,349)	—	—	—	—	—	—	—	(1,349)
At December 28, 2013	\$ 2,867	\$ 65,640	\$ 23,912	\$ 38,514	\$ 5,713	\$ 4,825	\$ 1,575	\$ 5,146	\$ (1,233)	\$ 146,959
Accumulated depreciation										
At December 31, 2011	\$ —	\$ (11,689)	\$ (2,913)	\$ (14,614)	\$ (2,120)	\$ (1,880)	\$ (704)	\$ (871)	\$ 448	\$ (34,343)
Depreciation for the year	—	(8,806)	(330)	(2,389)	(910)	(793)	(130)	(515)	43	(13,830)
Disposals	—	307	32	94	—	3	—	478	—	914
Write-downs	(1,227)	(4,322)	(1,824)	(4,786)	(830)	(40)	(36)	—	—	(13,065)
Effect of exchange rates	—	(89)	(25)	(171)	(36)	(34)	(10)	(18)	10	(373)
Assets held for sale	—	166	102	113	2	—	9	—	—	392
At December 29, 2012	\$ (1,227)	\$ (24,433)	\$ (4,958)	\$ (21,753)	\$ (3,894)	\$ (2,744)	\$ (871)	\$ (926)	\$ 501	\$ (60,305)
Depreciation for the year	—	(6,006)	(213)	(1,773)	(816)	(516)	(86)	(532)	41	(9,901)
Disposals	—	4,322	218	10,921	1,441	543	161	495	—	18,101
Write-downs	—	—	—	—	—	—	—	—	—	—
Effect of exchange rates	7	606	216	687	118	144	37	63	(36)	1,842
Assets held for sale	—	807	—	—	—	—	—	—	—	807
At December 28, 2013	\$ (1,220)	\$ (24,704)	\$ (4,737)	\$ (11,918)	\$ (3,151)	\$ (2,573)	\$ (759)	\$ (900)	\$ 506	\$ (49,456)
Carrying amounts										
At December 29, 2012	\$ 2,126	\$ 38,842	\$ 19,366	\$ 20,422	\$ 1,977	\$ 2,223	\$ 617	\$ 4,335	\$ (640)	\$ 89,268
At December 28, 2013	\$ 1,647	\$ 40,936	\$ 19,175	\$ 26,596	\$ 2,562	\$ 2,252	\$ 816	\$ 4,246	\$ (727)	\$ 97,503

Refer to note 19 for additional information related to depreciation expense.

For the fifty-two weeks ended December 29, 2012, the Company recorded an impairment loss of \$13.2 million representing the write-down of certain property, plant and equipment due to the closure of the Burin, Newfoundland and Danvers, MA plants. This was recognized in the consolidated statement of income, and operating segment information (*note 19*), in line item "Impairment of property, plant, and equipment". The fair value for the Danvers plant was determined by a third-party market estimate, and the fair value for the Burin plant was determined to be nil based on the outcome of recent transactions for similar assets in the same industry. The impairment loss relating to the Burin closure of \$4.4 million was allocated to the Canadian reportable operating segment, and the impairment loss relating to the Danvers closure of \$8.8 million was allocated to the U.S. reportable operating segment. The Company has not identified any additional indicators of impairment as at December 28, 2013.

NOTE 7 Assets held for sale and disposals

In February 2013, the Company sold its 50% ownership in its joint venture with High Kan Holdings, who owned 80% of Dencan Seafoods Ltd., for \$0.1 million, equal to its carrying value.

In March 2013, the Company determined that its plant and equipment in Danvers, MA, met the criteria to be classified as assets held for sale. Accordingly, \$4.5 million of the Danvers plant's property, plant and equipment was re-classified as assets held for sale at that time. This value was subsequently adjusted to be \$5.5 million, and in December 2013 the Company sold the Danvers plant and certain equipment for net proceeds of \$5.0 million, resulting in a nominal loss which has been recorded in the U.S. reportable operating segment. The remaining \$0.5 million consists of equipment that met the criteria to be classified as assets held for sale.

Also in March 2013, the Company sold its subsidiary, Dalian Three Star Seafood Co. Ltd., for \$3.2 million, resulting in a pre-tax net loss of \$0.1 million included in business acquisition, integration and other expenses on the consolidated statement of income. This loss has been allocated to the U.S. reportable operating segment. The net assets directly related to the disposed group were classified as held for sale at December 29, 2012, as per the table below:

(Amounts in \$000s)	December 29, 2012
Assets	
Cash	\$ 705
Accounts receivable	150
Inventories	496
Prepaid expenses	31
Property, plant and equipment	2,979
Intangible assets	458
	4,819
Liabilities	
Provisions	350
Accounts payable and accrued liabilities	1,254
	1,604
Net assets directly associated with disposal group	\$ 3,215

NOTE 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 28, 2013	December 29, 2012
Finished goods – procured	\$ 76,396	\$ 78,116
Finished goods – manufactured	78,515	70,762
Raw and semi-finished material	69,353	43,517
Supplies, repair parts and other	10,092	14,868
H&G ⁽¹⁾ , including H&G paid in advance	13,357	7,170
Inventory in transit, paid in advance	6,359	8,376
	254,072	222,809
Less: inventories held for sale (note 7)	—	(496)
	\$ 254,072	\$ 222,313

(1) Headless and gutted

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

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Inventory costs recognized as an expense during the year	\$ 730,908	\$ 737,459
Write-down of inventories recognized as an expense, during the year:		
Inventory reserves utilized	(2,473)	(1,825)
New inventory reserves created	5,257	1,056
Unused inventory reserves reversed	(1,808)	(720)
Total expenses recognized as cost of sales during the year	\$ 731,884	\$ 735,970

The value of inventory subject to a reserve was \$8.8 million (December 29, 2012: \$2.4 million). Inventory and reserves have increased due to the American Pride Acquisition (note 4).

NOTE 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 working capital facility.

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Trade accounts receivable	\$ 84,787	\$ 73,171
Other accounts receivable	6,547	926
	91,334	74,097
Less: accounts receivable held for sale (note 7)	—	(150)
	\$ 91,334	\$ 73,947

Accounts receivable have increased due to the American Pride Acquisition (note 4).

See below for the movements in the position for impairment of receivables:

(Amounts in \$000s)	Individually impaired	Collectively impaired	Total
At December 31, 2011	\$ 191	\$ 22	\$ 213
New impairment reserves charged	211	—	211
Impairment reserves utilized	(40)	—	(40)
Unused impairment reserves reversed	(148)	(22)	(170)
At December 29, 2012	\$ 214	\$ —	\$ 214
New impairment reserves charged	212	—	212
Impairment reserves utilized	—	—	—
Unused impairment reserves reversed	(157)	—	(157)
At December 28, 2013	\$ 269	\$ —	\$ 269

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

	0-30 days	31-60 days	over 60 days
At December 29, 2012	90%	9%	1%
At December 28, 2013	88%	12%	—%

NOTE 10 Accounts payable and accrued liabilities

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Trade accounts payable and accrued liabilities	\$ 89,421	\$ 78,287
Employee accruals, including incentives and vacation pay	10,481	14,403
Share-based payments	3,313	10,005
	103,215	102,695
Less: accounts payable and accrued liabilities held for sale (note 7)	—	(1,254)
	\$ 103,215	\$ 101,441

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

NOTE 11 Provisions

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

(Amounts in \$000s)	
December 29, 2012	\$ 1,614
Provisions acquired (note 4)	5,200
New provisions added	5,438
Provisions utilized	(1,432)
Reclassified to accounts payable and accrued liabilities	(9,688)
Unused amounts reversed	(892)
December 28, 2013	\$ 240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The amounts recognized in 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 eleven months from initiation, and are immaterial to the Company on an individual basis. Management does not expect the outcome of any of the recorded amounts will give rise to any significant expense beyond the amounts recognized at December 28, 2013. The Company is not eligible for any reimbursement by third parties in this regard for these amounts.

NOTE 12 Bank loans

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Bank loans, denominated in CAD, interest rates not exceeding Canadian prime rate plus 75 basis points or BA Equivalent plus 225 basis points, (as at December 29, 2012 not exceeding Canadian prime rate plus 100 basis points or BA Equivalent plus 250 basis points), (average variable rate as at fiscal 2013 year-end was 3.58%; fiscal 2012 year-end was 3.75%).	\$ 6,784	\$ 1,745
Bank loans, denominated in USD, interest rates not exceeding Canadian base rate plus 75 basis points, U.S. prime rate plus 75 basis points, or LIBOR plus 225 basis points (as at December 29, 2012 not exceeding Canadian base rate plus 100 basis points, U.S. prime rate plus 100 basis points, or LIBOR plus 250 basis points), (average variable rate as at fiscal 2013 year-end was 2.73%; fiscal 2012 year-end was 2.84%).	91,115	58,785
	97,899	60,530
Less: financing costs	(672)	(826)
	\$ 97,227	\$ 59,704

On October 1, 2013, the Company's acquisition of the net assets and operations of American Pride (*note 4*) was financed using its existing working capital facility, which increased the drawings by \$34.5 million.

In 2011 the Company replaced its existing working capital facility with a new five year \$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 inventories 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 was amended in February 2013, and allows the Company to borrow Canadian Prime Rate revolving loans, Canadian Base Rate revolving loans, and U.S. Prime Rate revolving loans plus 0.00% to 0.75%; BA Equivalent revolving loans, LIBOR revolving loans and letter of credit fees plus 1.75% to 2.25%. Standby fees are also required to be paid on the unutilized line.

NOTE 13 Long-term debt and finance lease obligations

Long-term debt

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Term loan at 3.5% plus LIBOR (floor at 1.25%); (December 29, 2012: 5.5% plus LIBOR (floor at 1.5%))	\$ 232,720	\$ 248,125
Less: current portion	—	(34,237)
	232,720	213,888
Less: bifurcated embedded derivative at initial recognition of \$6.0 million (December 29, 2012: \$6.2 million) less accretion	(4,856)	(159)
	227,864	213,729
Less: financing charges	(935)	(370)
	\$ 226,929	\$ 213,359

In February 2013, the Company amended its term loan, which was deemed to be an extinguishment of the original placement. Net deferred financing costs of \$8.7 million relating to the original placement were expensed in fiscal 2012 as finance costs. The principal amendments to the term loan included: a reduction in applicable interest rates, resulting in a reduced interest rate for loans under the facility (*note 12*), from 5.5% plus a 1.5% LIBOR floor, to 3.5% plus a 1.25% LIBOR floor; total leverage ratio changed from 4.5x with step-downs starting in 2013 to a fixed total leverage ratio of 4.5x and removal of minimum interest coverage ratio requirements; increased capacity for capital

expenditures, distributions and repurchases; and increased flexibility and capacity for permitted investments and acquisitions by the Company. The principal amount, maturity and amortization terms of the term loan were not changed by the amendments, with the exception of amounts required to be paid with defined excess cash flow.

The LIBOR floor of 1.25% represents an embedded interest rate derivative that requires bifurcation, where the bifurcated amount is carried at fair value (note 22).

Under the term facility, the Company made a required mandatory prepayment in the first quarter of 2013 of its defined excess cash flow relating to fiscal 2012. The agreement requires the prepayment to be applied in the direct order of maturity of the remaining repayments due for the twenty-four months following the relevant mandatory prepayment event, and thereafter, ratably to the remaining repayments. Accordingly, there is no current portion of the term debt due as no payments are required in the next twelve months.

The principal payments required on long-term debt and finance leases are as follows:

Long-term debt

(Amounts in \$000s)

2014	\$	—
2015		3,970
2016		7,500
2017		221,250
	\$	232,720

Finance lease obligations

(Amounts in \$000s)

	Finance lease payments	Imputed interest	Finance lease liabilities
2014	\$ 1,111	\$ 132	\$ 979
2015	930	73	857
2016	666	29	637
2017	155	2	153
			2,626
Less: current portion			(979)
Long-term finance lease obligation			\$ 1,647

NOTE 14 Future employee benefits

For the fifty-two weeks ended December 28, 2013 and December 29, 2012, the expected return on plan assets was calculated using the same interest rate as applied for the purpose of discounting the defined benefit obligation. The amended standard (note 3) increased the estimated fiscal 2013 net benefit expense to \$1.7 million. The adjustment required for the fifty-two weeks ended December 29, 2012, was nominal.

Description of pension and non-pension benefit plans

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

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

Defined contribution plans

Effective December 31, 1999, the Company introduced a new defined contribution pension plan for all Canadian salaried employees including new Named Executive Officers ("NEOs").

In the U.S., 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 Company's U.S. subsidiary, including U.S. NEOs. In fiscal 2013, NEOs were permitted to contribute up to 20% of their base pay, to a maximum of \$16.5 thousand (employees over 50 years of age could contribute an additional \$5.5 thousand). The Company also makes a safe harbor matching contribution equal to 100% of their salary deferrals (contributions to the plan) that do not exceed 3% of their compensation plus 50% of salary deferrals between 3% and 5% of their salary compensation.

Defined benefit plans

The Company sponsors two active funded and one non-funded defined benefit pension plans in Canada. 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 Company has defined benefit pension plans for its management employees as follows:

Canadian management plan

The Company sponsors a defined benefit plan specifically for Canadian management employees (the "Management Plan"). On December 28, 2013, 19 persons were enrolled as active members in the Management Plan including the Chief Executive Officer and 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 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 twenty years.

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

The Company also guarantees through its Supplemental Executive Retirement Plan (the "SERP") to extend the same pension plan benefits to Canadian NEO's that it provides to others in the Management Plan who were not affected by income tax maximums. The annual pension amounts derived from the aggregate of 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. As at December 28, 2013, four of the Company's NEO's are members of the SERP.

U.S. management plans

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.

Defined benefit pension plan funding details

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Present value of unfunded obligations ⁽¹⁾	\$ 8,426	\$ 7,690
Present value of funded obligations	30,918	35,227
Total present value of obligations	39,344	42,917
Fair value of plan assets	31,415	29,218
Net accrued defined benefit obligation	7,929	13,699
Total accrued defined benefit asset	—	(92)
Total accrued defined benefit obligation	7,929	13,791
Net accrued defined benefit obligation	\$ 7,929	\$ 13,699

(1) The Company has a letter of credit outstanding as at December 28, 2013 relating to the securitization of the Company's unfunded benefit plans under the SERP in the amount of \$11.2 million (December 29, 2012: \$11.1 million).

Plan assets comprise:

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Equity securities ⁽¹⁾	\$ 14,395	\$ 12,651
Debt securities	15,890	15,281
Cash and cash equivalents	1,130	1,286
Total	\$ 31,415	\$ 29,218

(1) The plan assets include \$5.9 million of the Company's own common shares at market value (December 29, 2012: \$3.9 million).

Movement in the present value of the defined benefit obligations

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Defined benefit obligations at the beginning of the year	\$ 42,917	\$ 34,127
Benefits paid by the plans	(2,221)	(1,470)
Effect of movements in exchange rates	(2,922)	770
Current service costs	1,028	831
Interest on obligations	1,670	1,805
Employee contributions	116	134
Actuarial (gains) losses in OCI	(1,244)	6,720
Defined benefit obligations at the end of the year	\$ 39,344	\$ 42,917

Movement in the present value of plan assets

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Fair value of plan assets at the beginning of the year	\$ 29,218	\$ 23,134
Employee contributions paid into the plans	116	134
Employer contributions paid into the plans	2,732	3,167
Benefits paid by the plans	(2,221)	(1,470)
Effect of movements in exchange rates	(2,195)	534
	\$ 27,650	\$ 25,499
Actual return on plan assets:		
Expected return on plan assets	\$ 1,116	\$ 1,553
Actuarial gains in OCI	2,749	2,361
Fees and expenses	(100)	(195)
	3,765	3,719
Fair value of plan assets at the end of the year	\$ 31,415	\$ 29,218

Expense recognized in profit or loss

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Current service costs	\$ 1,028	\$ 831
Interest on obligation	1,670	1,805
Expected return on plan assets	(1,116)	(1,553)
	\$ 1,582	\$ 1,083

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

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Cost of sales	\$ 436	\$ 163
Selling, general and administrative expenses	1,146	920
	\$ 1,582	\$ 1,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Actuarial (gains) losses recognized in OCI

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Cumulative amount at the beginning of the year	\$ 8,440	\$ 3,778
Recognized during the period	(4,159)	4,559
Effect of exchange rates	(402)	103
Cumulative amount at the end of the year	\$ 3,879	\$ 8,440

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

	December 28, 2013 %	December 29, 2012 %
Discount rate for the benefit cost for the fiscal year ended	3.92	5.16
Discount rate for the accrued benefit obligation as at year-end	4.64	3.92
Expected long-term rate on plan assets	3.92	6.41
Future compensation increases for the benefit cost for the fiscal year ended	4.00	4.00
Future compensation increases for the accrued benefit obligation as at year-end	4.00	4.00

A quantitative sensitivity analysis for significant assumptions as at December 28, 2013 is shown below:

Assumptions

(Amounts in \$000s)	Discount Rate		Mortality Rate	
Sensitivity level	0.5% increase	0.5% decrease	One year increase	One year decrease
Increase (decrease) on defined benefit obligation	\$ (4,648)	\$ 4,648	\$ 1,005	\$ (1,027)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. An analysis on salary increases and decreases is not material.

Historical information

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Experience (gain) losses arising on plan liabilities	\$ (1,244)	\$ 6,720
Experience (gain) losses arising on plan assets	\$ (2,749)	\$ (2,361)

The Company expects CAD\$2.3 million in contributions to be paid to its defined benefit plans and CAD\$2.7 million to its defined contribution plans in fiscal 2014.

Short-term employee benefits

The Company has recognized severance and retention benefits that were dependent upon the continuing provision of services through to certain pre-defined dates, which for the fifty-two weeks ended December 28, 2013 was a recovery of \$0.3 million (December 29, 2012: \$5.2 million expense) in business acquisition, integration and other expenses on the statement of income.

Termination benefits

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

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Cost of sales	\$ 20	\$ —
Distribution expenses	—	25
Business acquisition, integration and other expenses	964	582
Selling, general and administrative	474	627
	\$ 1,458	\$ 1,234

NOTE 15 Commitments

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

(Amounts in \$000s)	Operating lease payments
2014	\$ 4,857
2015	4,223
2016	3,726
2017	3,609
2018	1,147

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 \$4.7 million (December 29, 2012: \$3.3 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 28, 2013, relating to the procurement of inventories and the security of certain contractual obligations of \$1.4 million (December 29, 2012: \$1.2 million) that are denominated in USD. The Company also had a letter of credit outstanding as at December 28, 2013 relating to the securitization of the Company's SERP benefit plan (note 14) in the amount of \$11.2 million (December 29, 2012: \$11.1 million).

NOTE 16 Share capital

The share capital of the Company is as follows:

	December 28, 2013	December 29, 2012
Authorized:		
Preference shares, par value of CAD\$25 each, issuable in series	5,999,994	5,999,994
Subordinated redeemable preference shares, par value of CAD\$1 each, redeemable at par	1,025,542	1,025,542
Non-voting equity shares	198,123,180	198,123,180
Common shares, without par value	200,000,000	200,000,000

A summary of the Company's equity share transactions are as follows:

	December 28, 2013		December 29, 2012	
	Shares	(\$000s)	Shares	(\$000s)
Common shares:				
Balance, beginning of period	15,128,769	\$ 75,169	13,298,784	\$ 60,958
Stock options exercised (note 18)	156,941	1,395	71,023	650
Equity-settled reclassification from contributed surplus or liability (note 18)	—	3,696	—	814
	156,941	5,091	71,023	1,464
Share redemption (non-voting to common)	—	—	1,758,962	12,747
Balance, end of period	15,285,710	\$ 80,260	15,128,769	\$ 75,169
Non-voting equity shares:				
Balance, beginning of period	—	\$ —	1,788,062	\$ 12,973
Shares repurchased	—	—	(29,100)	(226)
Share redemption (non-voting to common)	—	—	(1,758,962)	(12,747)
Balance, end of period	—	\$ —	—	\$ —

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The following dividends were declared and paid by the Company:

Amounts:	December 28, 2013			December 29, 2012	
	Per share (CAD\$)	(\$000s)	Per share (CAD\$)	(\$000s)	
Dividends on common and non-voting shares declared and paid during the period:	\$ 0.70	\$ 10,305	\$ 0.42	\$ 6,379	
Dividends on common shares proposed for approval after the respective reporting period (not recognized as a liability during the period):	0.19	2,715	0.15	2,269	

NOTE 17 Earnings per share

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

	December 28, 2013				December 29, 2012		
	Income (\$000s)	Weighted average shares (000s)	Per share (\$)	Income (\$000s)	Weighted average shares (000s)	Per share (\$)	
Basic Earnings per Share:							
Income available to common shareholders	\$ 31,356	15,184	\$ 2.07	\$ 2,203	15,119	\$ 0.15	
Diluted Earnings per Share:							
Effect of dilutive securities:							
Stock options and performance share units	—	409	—	—	342	—	
Income available to common shareholders and assumed conversions	\$ 31,356	15,593	\$ 2.01	\$ 2,203	15,461	\$ 0.14	

For the fifty-two weeks ended December 28, 2013 and December 29, 2012 all options outstanding were dilutive.

NOTE 18 Share-based payments

Common Share Option Plan

The Company has a Common Share Option Plan ("Option Plan") for designated directors, officers and certain managers of the Company and of subsidiary companies. Stock options issued may be awarded, at the discretion of the Board, with SARs. If awarded, 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. Stock options issued also may be awarded a cashless exercise option, at the discretion of the Board, where the holder may elect to receive, without payment of any additional consideration, optioned shares equal to the value of the option as computed by the Option Plan.

Effective March 29, 2013, amendments were made to eliminate the SARs on certain stock options granted in early 2012 and prior for certain directors and officers of the Company. On a voluntary basis, these directors and officers relinquished the entitlement under the SARs, resulting in 409,649 options with SARs being extinguished, then reinvested as options that do not have SARs. On the amendment date, the liability of \$7.6 million for these individuals on the SARs was fixed, resulting in no future impact on profit or loss for the options that were vested at that time, and was reclassified to contributed surplus.

When the holder is awarded stock options with SARs, the Company accounts for this Option Plan as a cash-settled plan. The fair value of the SARs is measured at each reporting date using a trinomial 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.

When the holder is not awarded stock options with SARs, or if the holder elects to receive the cashless exercise option, the Company accounts for this plan as an equity-settled plan. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding

increase in contributed surplus, over the period that the employees unconditionally become entitled to payment. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

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 shares to be optioned to each. The eligible participants are directors, members of the Company's management committee, and senior managers of the Company. Shares to be optioned were not to exceed the aggregate number of 1,900,000 as of May 7, 2013, representing 12.4% of the issued and outstanding authorized shares. The option price for the shares is determined by the Committee at the time of granting of the option but cannot be less than the fair market value (as defined further in the Option Plan of the Company) of the optioned shares as of the date of grant, provided that the option price of options to purchase non-voting shares shall not be less than 90% of the minimum option price determined by the tests as described further in the Option Plan when granting options to purchase common shares. The term during which any option granted may be exercised is determined by the HR 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 authorized shares issuable to insiders, at any time, shall not exceed 10% of the issued and outstanding shares, and the number of shares issued to insiders, within a one year period, shall not exceed 10% of the issued and outstanding shares. Options are not assignable.

The carrying amount of the liability recognized relating to the SARs is as follows:

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Fair value included in accounts payable and accrued liabilities	\$ 2,767	\$ 9,730
Fair value included in other long-term liabilities	136	1,059
Total liability	\$ 2,903	\$ 10,789

The continuity of the total liability is as follows:

(Amounts in \$000s)	Total fair value of liability
Balance at December 29, 2012	\$ 10,789
Expense	4,097
Equity-settled exercises	(765)
Redeemed in cash	(3,304)
Reclassified to contributed surplus	(7,580)
Translation adjustment	(334)
Balance at December 28, 2013	\$ 2,903

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

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Cost of sales resulting from:		
Cash-settled options	\$ 83	\$ 340
Equity-settled options	166	62
Changes in the fair value of the liability and contributed surplus	312	603
Selling, general and administrative expenses resulting from:		
Cash-settled options	3,221	1,834
Equity-settled options	3,530	752
Changes in the fair value of the liability and contributed surplus	(1,809)	6,024
Share-based payment expense	\$ 5,503	\$ 9,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Options granted between February 2007 and February 2013	December 28, 2013	December 29, 2012
Dividend yield (%)	1.25–2.02	1.36–2.02
Expected volatility (%)	25.65–38.78	22.97–36.32
Risk-free interest rate (%)	1.00–1.98	1.13–1.38
Expected life (years)	0.14–6.00	0.98–5.25
Weighted average fair value (CAD\$)	5.31–39.06	5.32–24.00

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 period:

	December 28, 2013		December 29, 2012	
	No.	WAEP (CAD\$)	No.	WAEP (CAD\$)
Options with SARs:				
Outstanding, beginning of period	702,643	\$ 14.14	675,250	\$ 11.10
Granted	—	—	233,793	18.78
Exercised for shares	(47,838)	16.41	(71,023)	9.18
Exercised for cash	(139,819)	12.68	(133,877)	9.47
Canceled or forfeited	—	—	(1,500)	18.78
Reinvested as options without SARs	(409,649)	14.20	—	—
Outstanding, end of period	105,337	\$ 14.85	702,643	\$ 14.14
Exercisable, end of period	71,937	\$ 13.54	394,565	\$ 11.20
Options without SARs:				
Outstanding, beginning of period	15,750	\$ 19.68	—	\$ —
Granted	161,496	34.77	15,750	19.68
Exercised for shares	(130,242)	11.87	—	—
Options reinvested without SARs	409,649	14.20	—	—
Outstanding, end of period	456,653	\$ 22.33	15,750	\$ 19.68
Exercisable, end of period	168,670	\$ 14.19	—	\$ —
Total options:				
Outstanding, beginning of period	718,393	\$ 14.27	675,250	\$ 11.10
Granted	161,496	34.77	249,543	18.84
Exercised for shares ⁽¹⁾	(178,080)	13.09	(71,023)	9.18
Exercised for cash	(139,819)	12.68	(133,877)	9.47
Canceled or forfeited	—	—	(1,500)	18.78
Outstanding, end of period	561,990	\$ 20.93	718,393	\$ 14.27
Exercisable, end of period	240,607	\$ 14.00	394,565	\$ 11.02

(1) 2013 includes 79,490 options exercised for 58,351 shares via the cashless exercise method, and 98,590 options exercised for 98,590 shares, totaling 156,941 shares received for exercise of options. In 2012, there were no options exercised via the cashless exercise method.

The weighted average fair value of options granted during the fifty-two weeks ended December 28, 2013, was CAD\$34.77 (fifty-two weeks ended December 29, 2012: CAD\$18.84).

The range of exercise prices for options outstanding at the end of the period was CAD\$6.90 – CAD\$34.77 (December 29, 2012: CAD\$6.90 – CAD\$19.68).

Performance Share Unit (“PSU”) Plan

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 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 who have rendered meritorious services that contributed to the success of the Company, 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 the Company’s 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 Company’s 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 PSU Plan will be approved annually by the HR Committee.

The PSU Plan shall be paid by one or both of the following forms: (i) cash; or (ii) common shares. Common 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 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 Option Plan and any other security based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares.

The following table illustrates the number (“No”) of, and movements in, PSUs during the period:

(Amounts in units)	December 28, 2013 No.	December 29, 2012 No.
PSU, multiple criteria		
Outstanding, beginning of period	55,892	16,798
Granted	21,639	38,040
Re-invested dividends	1,522	1,054
Released and paid in cash	(13,440)	—
Expired	(4,015)	—
Outstanding, end of period	61,598	55,892
PSU, single criteria		
Outstanding, beginning of period	16,282	—
Granted	—	15,975
Re-invested dividends	320	307
Outstanding, end of period	16,602	16,282

The carrying amount of the liability relating to the PSUs is as follows:

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Fair value included in accounts payable and accrued liabilities	\$ 546	\$ 275
Fair value included in other long-term liabilities	733	473
Total liability	\$ 1,279	\$ 748

The share-based payment expense recognized in the fifty-two weeks ended December 28, 2013 was \$1.2 million (fifty-two weeks ended December 29, 2012: \$0.6 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The assumptions used in determining the fair value of the liability and related share-based payment expense for the PSUs were as follows:

PSUs granted between March 2011 and February 2013	December 28, 2013	December 29, 2012
Dividend yield (%)	1.65	1.42
Expected life of the PSU (years) multiple criteria	1.00–2.00	1.00–2.00
Expected life of the PSU (years) single criteria	1.00	2.00
Expected vesting (%)	50–54	100–110
Forfeiture rate (%)	—	—
Share price at reporting date (CAD\$)	46.03	31.00

Deferred share units (“DSUs”)

In the first quarter of 2012, a new long-term incentive arrangement, Deferred Share Unit Plan, was adopted by the Company’s Board of Directors. A director may elect to receive all or any portion of their annual retainer, additional fees and equity value (“Elected Amount”) in DSUs in lieu of cash or options. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. At December 28, 2013 there were 2,204 DSUs outstanding (December 29, 2012: nil). During the fifty-two weeks ended December 28, 2013, the share-based payment expense was nominal.

NOTE 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. 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)	December 28, 2013			December 29, 2012		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales within geographic region ⁽¹⁾	\$ 303,589	\$ 642,938	\$ 946,527	\$ 312,884	\$ 627,039	\$ 939,923
Sales outside of geographic region ⁽¹⁾	38,277	13,753	52,030	8,130	14,474	22,604
	341,866	656,691	998,557	321,014	641,513	962,527
Intercompany sales outside of geographic region ⁽¹⁾	(38,277)	(12,979)	(51,256)	(8,130)	(11,773)	(19,903)
Revenue (excluding intercompany sales)	303,589	643,712	947,301	312,884	629,747	942,631
Cost of sales (excluding intercompany sales)	230,399	501,485	731,884	243,670	492,300	735,970
Gross profit	73,190	142,227	215,417	69,214	137,447	206,661
Distribution expenses	14,352	39,016	53,368	14,588	29,923	44,511
Selling, general and administrative expenses	36,047	62,855	98,902	38,354	62,508	100,862
Impairment of property plant and equipment	—	—	—	4,407	8,823	13,230
Business acquisition integration and other expenses	29	3,227	3,256	2,321	8,420	10,741
Financing costs	1,234	15,095	16,329	1,512	35,073	36,585
(Loss) income from equity accounted investee	(43)	(43)	(86)	98	98	196
Income (loss) before income tax	21,571	22,077	43,648	7,934	(7,398)	536
Income tax expense (recovery)	7,651	4,641	12,292	3,668	(5,335)	(1,667)
Net income (loss)	\$ 13,920	\$ 17,436	\$ 31,356	\$ 4,266	\$ (2,063)	\$ 2,203
Add back:						
Depreciation included in:						
Cost of sales	1,761	5,219	6,980	2,363	9,110	11,473
Distribution	161	1,170	1,331	171	469	640
Selling, general and administrative expenses	1,407	183	1,590	1,303	414	1,717
Total depreciation	3,329	6,572	9,901	3,837	9,993	13,830
Amortization included in:						
Cost of sales	—	3	3	—	33	33
Selling, general and administrative expenses	553	4,702	5,255	190	5,328	5,518
Total amortization	553	4,705	5,258	190	5,361	5,551
Total depreciation and amortization	3,882	11,277	15,159	4,027	15,354	19,381
Financing costs	1,234	15,095	16,329	1,512	35,073	36,585
Income tax expense (recovery)	7,651	4,641	12,292	3,668	(5,335)	(1,667)
Income before depreciation, amortization, financing and income taxes	\$ 26,687	\$ 48,449	\$ 75,136	\$ 13,473	\$ 43,029	\$ 56,502

(1) Geographic regions include Canada, U.S., and Mexico, where Mexico is presented as part of the U.S. segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(Amounts in \$000s)	As at December 28, 2013			As at December 29, 2012		
	Canada	U.S.	Total	Canada	U.S.	Total
Capital expenditures						
Financed by operations	\$ 4,818	\$ 9,916	\$ 14,734	\$ 3,965	\$ 8,744	\$ 12,709
Financed by finance leases	685	—	685	738	—	738
Total capital expenditures	\$ 5,503	\$ 9,916	\$ 15,419	\$ 4,703	\$ 8,744	\$ 13,447

(Amounts in \$000s)	As at December 28, 2013			As at December 29, 2012		
	Canada	U.S.	Total	Canada	U.S.	Total
Total assets	\$ 148,587	\$ 527,869	\$ 676,456	\$ 147,286	\$ 484,541	\$ 631,827
Goodwill	11,661	100,338	111,999	12,535	100,338	112,873
Liabilities	315,148	176,659	491,807	307,721	170,752	478,473

For the fifty-two weeks ended December 28, 2013 the Company has recognized \$171.5 million (December 29, 2012: \$171.7 million) of sales from one customer that represents more than 10% of the Company's total consolidated sales, arising from sales in both the Canada and U.S. reportable operating segments.

NOTE 20 Income tax expense

The major components of income tax expense (recovery) are as follows:

Consolidated statement of income

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Current tax expense:		
Current period	\$ 12,378	\$ 5,442
Deferred income tax:		
Origination and reversal of temporary differences	189	(6,983)
Change in tax rate applicable to reversal of temporary differences	(275)	154
Recognition of previously unrecognized tax asset	—	(280)
	(86)	(7,109)
Income tax expense (recovery) reported in the consolidated statement of income	\$ 12,292	\$ (1,667)

Consolidated statement of comprehensive income

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Income tax expense (recovery) related to items charged or credited directly to OCI and retained earnings during the period:		
(Loss) gain on hedge of net investment in foreign operations	\$ (1,675)	\$ 609
Gain (loss) on translation of net investment in foreign operations	1,306	(157)
Effective portion of changes in fair value of cash flow hedges	480	(437)
Net change in fair value of cash flow hedges transferred to income	(77)	96
Defined benefit plan actuarial gain (loss)	1,041	(1,230)
Income tax expense (recovery) directly to OCI (loss) and retained earnings	\$ 1,075	\$ (1,119)

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

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Accounting profit before tax at statutory income tax rate of 27.9% (2012 – 27.3%)	\$ 12,178	\$ 146
Non-deductible expenses for tax purposes:		
Withholding tax on dividends	771	(402)
Non-deductible share-based compensation	1,205	2,209
Other non-deductible items	198	225
Effect of higher income tax rates of U.S. subsidiary	3,832	2,750
Acquisition financing deduction	(5,981)	(6,813)
Other	89	218
Income tax expense (recovery)	\$ 12,292	\$ (1,667)

Deferred income tax relates to the following:

Deferred income tax

(Amounts in \$000s)	Consolidated statement of financial position as at:		Consolidated statement of income for the fifty-two weeks ended:	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Accelerated depreciation for tax purposes on property, plant and equipment	\$ (14,802)	\$ (11,289)	\$ 3,490	\$ (5,237)
Inventory	(908)	(7,647)	(6,741)	(107)
Intangible assets	(35,155)	(36,996)	(1,797)	(1,583)
Pension	2,399	3,849	157	422
Revaluation of cash flow hedges	(257)	150	2	(183)
Losses available for offset against future taxable income	2,369	7,195	4,826	4,029
Deferred charges and other	7,012	6,819	(23)	(4,450)
Deferred income tax recovery	\$ —	\$ —	\$ (86)	\$ (7,109)
Net deferred income tax liability	\$ (39,342)	\$ (37,919)	\$ —	\$ —

Reflected in the consolidated statement of financial position as follows:

Deferred income tax assets	4,656	7,207
Deferred income tax liabilities	(43,998)	(45,126)
Net deferred income tax liability	\$ (39,342)	\$ (37,919)

Reconciliation of deferred income tax (liabilities) assets, net

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Opening balance, beginning of year	\$ (37,919)	\$ (46,324)
Deferred income tax recovery during the period recognized in income	86	7,109
Deferred income tax (expense) recovery during the period recognized in retained earnings	(1,041)	1,230
Deferred income tax (expense) recovery during the period recognized in OCI	(468)	66
Closing balance, end of year	\$ (39,342)	\$ (37,919)

The Company has net operating losses in its U.S. subsidiaries of \$6.6 million (December 29, 2012: \$9.7 million) that are available for use from 2014–2028. 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 accordingly, no deferred income tax liability has been recorded on the undistributed profit of its subsidiaries that will not be distributed in the foreseeable future.

The temporary difference associated with investments in subsidiaries, for which a deferred tax liability has not been recognized totals \$0.3 million (December 29, 2012: \$0.3 million).

There are no income tax consequences attached to the payment of dividends in either 2013 or 2012 by the Company to its shareholders.

NOTE 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.

Future employee benefits

Please refer to *note 14* for details of each plan as applicable to the Company’s CEO and 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 CEO and NEOs are 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 which are not then exercisable, which shall be exercisable following termination for 3 years for the CEO and 2 years for all other NEOs; and (c) continue to participate in certain benefit programs for 3 years for the CEO and 2 years for all other NEOs.

Short-term incentive plans

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 Option Plan and the Company’s PSU Plan. Details regarding the Share Option and PSU Plans are detailed in *note 18*.

Key management personnel compensation is comprised of:

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Salaries	\$ 2,017	\$ 1,958
Short-term incentive plans	318	1,087
Future employee benefits	382	496
Share-based awards	1,381	1,659
	\$ 4,098	\$ 5,200

Key management personnel and director transactions

Directors of the Company control 3.8% 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

As at December 28, 2013, Thornridge Holdings Limited owns 37.7% of the outstanding common shares in High Liner Foods Inc. (December 29, 2012: 38.1% of outstanding common shares).

Other related parties

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, MA where the Company pays market-based rent.

Joint venture in which the Company is a venturer

In February 2013, the Company sold its 50% interest in its joint venture HighKan Holdings Limited (note 7), a holding company with an 80% interest in Dencan Seafood Limited. Prior to sale, the Company regularly purchased raw materials and finished goods from Dencan Seafood Limited and used the raw materials in production for sale to its customers.

The aggregate value of transactions and outstanding balances with related parties were as follows:

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Other related parties:		
Crystal Cold Storage & Warehousing Inc.:		
Services from related party	\$ 246	\$ 637
Amounts owed to related party	—	231
Pier 17 Realty Trust Inc.:		
Rent paid to related party	367	400
Joint venture in which the Company is a venturer:		
Dencan Seafoods Ltd.: ⁽¹⁾		
Purchases from related party	1,980	19,478
Total purchases from related parties	\$ 2,593	\$ 20,515
Total amounts owed to related parties	—	231

⁽¹⁾In February 2013, the Company sold its 50% ownership in High Kan Holdings that owned 80% of Dencan Seafoods Ltd.; therefore, transactions reflected in 2013 are up to the point of sale.

The Company had no sales to or amounts due from related parties throughout 2012 or 2013, nor did the Company have any transactions during 2012 or 2013 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.

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 payables.

NOTE 22 Financial instruments

(Amounts in \$000s)	Other financial assets:		Other financial liabilities:	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Financial instruments at fair value through OCI				
Foreign exchange forward contracts	\$ 1,524	\$ 533	\$ 459	\$ 550
Interest rate swap	—	—	188	412
Financial instruments at fair value through profit or loss:				
Embedded derivative	—	—	4,576	—
Interest rate swaps not designated in hedge relationships	—	—	833	718
	\$ 1,524	\$ 533	\$ 6,056	\$ 1,680

Hedging activities

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. Any portion of hedge ineffectiveness has been recognized in the statement of income as it occurs.

Foreign currency hedge

At December 28, 2013, the Company held foreign currency forward contracts designated as hedges of expected future purchases from suppliers transacting in USD, 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.

At the end of the fifty-two weeks ended December 28, 2013, the cash flow hedges of the expected future purchases in the future quarters of 2014 were assessed to be highly effective and were therefore included in OCI in respect of these contracts as follows:

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Unrealized gain (loss)	\$ 1,567	\$ (675)
Deferred tax (expense) recovery	(443)	190

Amounts recognized in income resulting from hedge ineffectiveness during the fifty-two weeks ended December 28, 2013 and December 29, 2012 were nominal.

The amount removed from OCI, net of tax, during the fifty-two weeks ended December 28, 2013 and included in the carrying amount of the hedging items was \$0.3 million (December 29, 2012: nominal).

Interest rate swaps

On March 22, 2012, the Company entered into an interest rate swap to exchange floating 1-month LIBOR for a fixed rate on the revolving credit facility for a three-year period. Effective May 4, 2012 until March 4, 2015, the Company entered into a swap on floating 1-month LIBOR for a fixed rate of 0.763% on a notional amount of \$10.0 million. The Company's U.S. subsidiary also entered into a swap on floating 1-month LIBOR for a fixed rate of 0.708% on a notional amount of \$40.0 million reducing to \$20.0 million during the last twelve months of the tenure. On a monthly basis, the Company pays the fixed swap rate and receives the floating 1-month LIBOR rate, effectively fixing the rate at 0.763% and 0.708% for the Canadian and U.S. borrowers, respectively.

On March 12, 2012, the Company entered into an interest rate cap with a strike price of 1.5% on a notional amount of \$125.0 million as a hedge against interest rate increases on the long-term debt facility. Effective March 30, 2012 until April 4, 2014, the Company will receive a payment from the seller at the end of each three month period in which the three month LIBOR rate exceeds the strike price.

The swaps are valued at rates prevailing at the balance sheet date. Gains and losses on designated swaps are included in OCI and are transferred to income to offset interest costs on the debt when recorded in income.

At the end of the fifty-two weeks ended December 28, 2013, the cash flow hedges of interest rate swap relating to the U.S. subsidiary revolving credit facility were assessed to be highly effective and were therefore included in OCI in respect of these contracts as follows:

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Unrealized gain (loss)	\$ 94	\$ (412)
Deferred tax (expense) recovery	(37)	145

Amounts recognized in income resulting from hedge ineffectiveness during the fifty-two weeks ended December 28, 2013 and December 29, 2012 were nominal.

The amount removed from OCI, net of tax, during the fifty-two weeks ended December 28, 2013 and included in the carrying amount of the hedging items was nominal (December 29, 2012: nil).

Hedge of net investment in foreign operations

As at December 28, 2013, there was a borrowing of \$15.0 million included in bank loans, and \$170.0 million included in long-term debt (December 29, 2012: \$170.0 million included in long-term debt), 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 net investment. Gains or losses on the re-translation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There is no ineffectiveness recognized in the fiscal years ended December 28, 2013 or December 29, 2012.

Economic hedges

Financial assets and liabilities at fair value through profit and loss are those interest rate swaps that are not designated in hedge relationships.

On May 3, 2012, the Company entered into an interest rate swap to exchange floating 3-month LIBOR for a fixed rate on its term loan credit facility, with an embedded floor of 1.5% for a fixed rate of 1.997% on a notional amount of \$100.0 million for the period of April 4, 2014 until April 4, 2016. On a quarterly basis starting in 2014, the Canadian company will pay the fixed swap rate and receive the floating 3-month LIBOR rate (but no less than 1.5%), effectively fixing the rate at 1.997%.

Embedded derivatives

As described in note 13, the Company's long-term debt facility bears interest at LIBOR plus 3.5%, with a LIBOR floor of 1.25%. This interest rate floor represents an embedded interest rate derivative that requires bifurcation, where the bifurcated amount is carried at fair value with changes going through profit or loss. The fair value of the embedded derivative at December 28, 2013, was \$4.6 million (December 29, 2012: nominal) with the change in value recorded in finance costs.

Classification of financial instruments

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 that time. The carrying values of the Company's loans and receivables (which only include 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 EIR 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)	Financial assets at fair value through profit and loss	Financial liabilities at fair value through profit and loss	Accounts receivable	Financial liabilities at amortized cost	Items accounted for as hedges	Total carrying amount
As at December 28, 2013						
Cash	\$ 1,206	\$ —	\$ —	\$ —	\$ —	\$ 1,206
Accounts receivable	—	—	91,334	—	—	91,334
Other financial assets	—	—	—	—	1,524	1,524
Bank loans	—	—	—	97,227	—	97,227
Accounts payable and accrued liabilities	—	—	—	103,215	—	103,215
Provisions	—	—	—	240	—	240
Other current financial liabilities	—	—	—	—	459	459
Other long-term financial liabilities	—	833	—	4,576	188	5,597
Other long-term liabilities	—	—	—	1,044	—	1,044
Long-term debt	—	—	—	226,929	—	226,929
As at December 29, 2012						
Cash	\$ 65	\$ —	\$ —	\$ —	\$ —	\$ 65
Accounts receivable	—	—	73,947	—	—	73,947
Other financial assets	—	—	—	—	533	533
Bank loans	—	—	—	59,704	—	59,704
Accounts payable and accrued liabilities	—	—	—	101,441	—	101,441
Provisions	—	—	—	1,614	—	1,614
Other current financial liabilities	—	—	—	—	550	550
Current portion of long-term debt	—	—	—	34,237	—	34,237
Other long-term financial liabilities	—	718	—	—	412	1,130
Other long-term liabilities	—	—	—	1,532	—	1,532
Long-term debt	—	—	—	213,359	—	213,359

Interest rates used for determining fair value

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

	December 28, 2013	December 29, 2012
Bank loans	2.79%	2.86%
Long-term debt	3.81%	4.75%
Finance lease obligations	3.56%	6.04%

Amortized cost impact on interest expense

In the fifty-two weeks ended December 28, 2013, the Company expensed \$0.3 million and \$0.6 million (December 29, 2012: \$0.3 million and \$2.5 million) of short-term and long-term interest, respectively, relating to interest that was calculated using the EIR method relating to its transaction fees and its borrowings.

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:

(Amounts in \$000s)

	December 28, 2013	
	Sell CAD\$	Receive US\$
Forward rate	\$ 272	\$ 262

The forward single rate contracts at December 28, 2013 have a rate of \$1.0358 which all mature in January 2014.

For the fifty-two weeks ended December 28, 2013, the Company had the following foreign exchange "average rate" purchase contracts outstanding:

	December 28, 2013		
Average rate forwards	Weighted Average Put Rate	Weighted Average Call Rate	Total Value \$000s
Average rate	\$ 1.0491	\$ 1.0491	\$ 45,362

With the exception of \$5.2 million average rate forward contracts with maturities ranging from December 2014 to June 2015, all foreign exchange purchase contracts have maturities that are less than one year.

NOTE 23 Fair value measurement

The Company is required to determine the fair value of all derivatives, and uses a market approach to do so. Fair value is a market-based measurement, not an entity-specific measurement. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

The Company uses a fair value hierarchy, based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing inputs with the highest level of objectivity and Level 3 representing inputs with the lowest level of objectivity. The following table sets out the classification of the methodology used by the Company to fair value its derivatives:

(Amounts in \$000s)	December 28, 2013		December 29, 2012	
	Level 2	Level 3	Level 2	Level 3
Assets measured at fair value				
Foreign exchange contracts; hedged	\$ 1,524	\$ —	\$ 533	—
Receivables	—	91,334	—	73,947
Liabilities measured at fair value				
Interest rate swaps	1,021	—	1,130	—
Embedded derivative	4,576	—	—	—
Total interest rate swaps and embedded derivative	5,597	—	1,130	—
Foreign exchange contracts; hedged	459	—	550	—
Accounts payable and accrued liabilities	—	103,215	—	101,441
Long-term debt	—	241,941	—	275,744
Finance lease obligations	—	2,752	—	3,179

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

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2, and Level 3 fair value measurements. During the fifty-two weeks ended December 28, 2013, and December 29, 2012 no such transfers have occurred.

Management is responsible for valuation policies, processes and the measurement of fair value within the Company.

The financial assets and liabilities included on the statement of financial position that are not measured at fair value consisted of the following:

(Amounts in \$000s)	December 28, 2013		December 29, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including current portion)	\$ 226,929	\$ 241,941	\$ 247,596	\$ 275,744
Finance lease obligations	2,626	2,752	3,220	3,179

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

NOTE 24 Capital management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, purchase its capital stock under a 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 adjusted aggregated availability under the working capital debt facility is less than \$22.5 million. The Company currently has availability in excess of \$84.5 million as at December 28, 2013. The Company also has restrictions on capital distributions, where the aggregate amount cannot exceed the greater of \$15.5 million per year and the available excess cash flow as defined in its credit agreement. For the fifty-two weeks ended December 28, 2013, the Company has paid \$10.3 million in dividends and \$nil in NCIB. The Company monitors capital (excluding letters of credit) using the ratio of net interest-bearing debt to capitalization, which is net interest bearing debt, divided by total capital plus net interest-bearing debt. The Company's objective is to keep this ratio between 35% and 50%. Seasonal working capital debt may result in

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the Company exceeding the ratio at certain times throughout the fiscal year. The Directors of the Company have also decided that this range can be exceeded on a temporary basis as a result of the recent acquisitions.

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Current bank loans	\$ 97,227	\$ 59,704
Add-back: deferred charges on current bank loans	672	826
Total current bank debt	97,899	60,530
Long-term debt	226,929	213,359
Current portion of long-term debt	—	34,237
Add-back: deferred charges on long-term debt	935	370
Add-back: bifurcated embedded derivative	4,856	159
Total term loan debt	232,720	248,125
Long-term portion of finance lease obligations	1,647	2,181
Current portion of finance lease obligations	979	1,039
Total finance lease obligation	2,626	3,220
Less: cash	(1,206)	(65)
Net interest-bearing debt	332,039	311,810
Shareholders' equity	184,649	153,354
Unrealized (gains) losses on derivative financial instruments included in accumulated other comprehensive loss/income	(451)	493
Total capitalization	\$ 516,237	\$ 465,657
Net interest-bearing debt as % of capitalization	64%	67%

NOTE 25 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, and cash, which arise directly from its operations.

The Company also enters into derivative transactions, primarily interest rate swaps and forward currency contracts. Their 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 2013 and 2012 that no speculative trading in derivatives shall be undertaken.

The main risks arising from the Company's financial instruments are 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 debt obligations with floating interest rates. For both of fiscal 2013 and 2012 the Company's policy is to manage interest cost using a mix of fixed and variable rate debts. The Company's objective is to keep between 35% and 55% of its borrowings at fixed rates of interest. To manage this, the Company enters into fixed rate debt facilities or interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional 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. At December 28, 2013, 54% of the outstanding long-term debt was hedged (December 29, 2012: 50%) and 53% of the Company's borrowings, including the asset-based facility, are either hedged or at a fixed rate of interest (December 29, 2012: 57%).

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, except basis points)	US\$	CAD\$	Increase/ (decrease) in basis points	Annualized (decrease)/ increase on profit before tax (\$000s)
December 28, 2013				
Current bank loans:	\$ 91,115	\$ —	25/(25)	(228)/228
	\$ 6,784	\$ 7,256	25/(25)	(17)/17
Long-term debt:	\$ 232,720	\$ —	25/(25)	(582)/582
December 29, 2012				
Current bank loans:	\$ 58,785	\$ —	25/(25)	(147)/147
	\$ 1,745	\$ 1,737	25/(25)	(4)/4
Long-term debt:	\$ 248,125	\$ —	25/(25)	(620)/620

Foreign currency risk

High Liner Foods' Canadian company (the Parent) is a company with a CAD functional currency, meaning that all transactions are recorded in CAD. However, as the reporting currency is USD, the results of the Canadian company are converted into USD for external reporting purposes. Therefore, the Canadian to U.S. exchange rates impact the results reported.

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

The Canadian company hedges forecasted cash flows for purchases of products for its Canadian operations where the purchase price is substantially known in advance (targeted purchases). 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 Canadian 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 and corn products in its breeding and batters, and soya and canola bean based cooking oils. The Company hedges these inputs on a small scale, however relying where possible on fixed price contracts in CAD from 3 to 12 months with suppliers.

At December 28, 2013, the Canadian company hedged 64% (December 29, 2012: 56%) of its targeted foreign currency seafood purchases, extending to December 2014.

For the fifty-two weeks ended December 28, 2013, approximately 65% of the Canadian company's costs were based on currencies other than the Company's functional currency, while almost 95% of the Canadian operation's sales were denominated in the Company's functional currency.

As the Company has operations in Canada, and some assets and liabilities in Canada that are denominated in CAD, assets and liabilities of the consolidated company change as exchange rates fluctuate. A stronger Canadian dollar has the effect of increasing the carrying value of assets and liabilities such as accounts receivable, inventory, fixed assets, and accounts payable of the Canadian operations when translated to USD. The net offset of those changes flow through OCI. Based on the equity of the Canadian company as of December 28, 2013 a one cent increase/(decrease) in the U.S./CAD exchange rate will (decrease)/increase equity by approximately \$0.3 million (December 29, 2012: \$0.8 million).

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, 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

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account for 59% (December 29, 2012: 55%) of the trade receivables at year-end with the largest customer accounting for 14% (December 29, 2012: 14%). 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 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 twelve month period. At December 28, 2013, less than 1% (December 29, 2012: 13%) of the Company's debt will mature in less than one year based on the carrying value of borrowings reflected in the financial statements. At December 28, 2013, 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 28, 2013	Bank loans	Accounts payable	Other long-term liabilities	Long-term debt	Finance lease obligations	Total
Due within 1 year	\$ —	\$ 103,215	\$ —	\$ —	\$ 979	\$ 104,194
Due in 1-3 years	97,899	—	1,044	11,470	1,494	111,907
Due in 3-5 years	—	—	—	221,250	153	221,403
	\$ 97,899	\$ 103,215	\$ 1,044	\$ 232,720	\$ 2,626	\$ 437,504

As at December 29, 2012

Due within 1 year	\$ —	\$ 101,441	\$ —	\$ 34,237	\$ 1,039	\$ 136,717
Due in 1-3 years	—	—	1,532	15,938	1,518	18,988
Due in 3-5 years	60,530	—	—	13,125	663	74,318
Thereafter	—	—	—	184,825	—	184,825
	\$ 60,530	\$ 101,441	\$ 1,532	\$ 248,125	\$ 3,220	\$ 414,848

Seafood price risk

The Company is dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. The Company buys as much as \$600.0 million of this product annually. A 1% change in the price of frozen raw seafood materials would increase/decrease the Company's procurement costs by \$6.0 million. Prices can fluctuate and there is no formal commercial mechanism for hedging either sales or purchases. Purchases of seafood on global markets are principally in USD. The Company hedges exposures to a portion of our currency exposures, and enters 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. The Company focuses on the development of close relationships with key suppliers. The Company currently purchases significant quantities of frozen raw material and finished goods originating from all over the world. The Company's supplier base is diverse to ensure no over-reliance on any one source or species. The Company maintains a strict policy of Supplier Approval and Audit Standards.

Over time, the company is also able to increase selling prices to its customers for increases in the world price of seafood and for currency fluctuations.

Commodity risk

The Company's operating costs are affected by changes in crude oil prices, which particularly influence the costs of 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 five 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 2013 and 2012 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, decreased in 2013 after the increases seen in 2012. The price of corrugated and folding carton increased in 2013 as it did in 2012, which is used as an input in packaging the Company's products. The Company currently has fixed price contracts with suppliers covering a significant portion of the Company's 2014 commodity purchase requirements.

NOTE 26 Supplemental information

Components of income and expenses included in the consolidated statement of income:

(Amounts in \$000s)	December 28, 2013	December 29, 2012
Included in finance costs:		
Interest expense on bank loans	\$ 2,248	\$ 3,498
Interest expense on long-term debt	11,997	18,028
Interest rate hedge	142	720
Deferred financing charges	888	2,775
Revaluation of embedded derivative	(149)	2,605
Write-down of deferred financing charges and bifurcated embedded derivative on long-term debt	1,063	8,755
Interest on letter of credit for SERP	39	250
Foreign exchange loss (gain)	101	(46)
Total finance costs	\$ 16,329	\$ 36,585

Foreign exchange loss (gains) included in:

Cost of sales	\$ 232	\$ (373)
Finance costs	101	(46)
Total foreign exchange loss (gains)	\$ 333	\$ (419)

Losses (gains) on disposal of assets included in:

Cost of sales	\$ 210	\$ 237
Distribution expenses	42	33
Selling, general and administrative expenses	(4)	(461)
Total losses (gains) on disposal of assets	\$ 248	\$ (191)

Employee compensation and benefit expense:

Wages and salaries (including payroll benefits)	\$ 105,394	\$ 101,018
Future employee benefit costs	3,777	3,428
Share-based payment expense	6,704	10,255
Termination benefits	1,458	1,234
Short-term employee benefits	(282)	5,213
Total employee compensation and benefit expense	\$ 117,051	\$ 121,148

NOTE 27 Comparative figures

Comparative information for the fifty-two weeks ended December 29, 2012 in the consolidated financial statements has been reclassified to reflect a \$1.8 million increase to goodwill from accounts receivable and accounts payable.

Certain other comparative figures have also been reclassified to conform to the current year's presentation.

HISTORICAL CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(Amounts in \$000s, except per share amounts)	2013*	2012*	2011*	2010*	2009**	2008**	2007**	2006**	2005**	2004**
Revenues	\$ 947,301	\$ 942,631	\$ 675,539	\$ 567,572	\$ 549,922	\$ 578,844	\$ 256,180	\$ 230,702	\$ 206,326	\$ 199,252
Gross profit	215,417	206,661	153,530	133,169	117,953	124,282	66,293	60,486	55,276	56,479
Distribution expenses	53,368	44,511	35,382	29,149	28,383	34,816	18,781	18,931	17,825	15,496
Selling, general and administrative expenses	98,902	100,862	72,898	66,565	58,787	61,604	36,729	32,288	31,817	28,709
Impairment of property, plant and equipment	—	13,230	—	—	—	—	—	—	—	—
Business acquisition, integration and other expenses	3,256	10,741	11,049	870	403	4,585	1,197	—	—	—
Finance costs	16,329	36,585	6,019	5,025	4,895	6,061	46	810	344	270
(Income) loss from equity accounted investee, net of income tax	(86)	196	52	(16)	—	—	—	—	—	—
Non-operating items and gain (loss) on disposal of assets	—	—	—	—	808	79	(311)	152	(438)	(688)
Income before income taxes	43,648	536	28,130	31,576	24,677	17,137	9,851	8,305	5,728	12,692
Income taxes										
Current	12,378	5,442	5,762	6,220	2,234	2,822	2,331	2,188	859	555
Deferred	(86)	(7,109)	3,708	6,057	5,130	980	1,082	1,600	1,688	2,710
Total income tax expense (recovery)	12,292	(1,667)	9,470	12,277	7,364	3,802	3,413	3,788	2,547	3,265
Net income from continuing operations for the period	31,356	2,203	18,660	19,299	17,313	13,335	6,438	4,517	3,181	9,427
Net income (loss) from discontinued operations, net of income taxes	—	—	—	—	—	—	346	(699)	(36,565)	(3,154)
Net income (loss) for the period	\$ 31,356	\$ 2,203	\$ 18,660	\$ 19,299	\$ 17,313	\$ 13,335	\$ 6,784	\$ 3,818	\$ (33,384)	\$ 6,273
Reconciliation to EBITDA:										
Add-back:										
Net income (loss) from discontinued operations, net of income taxes	—	—	—	—	—	—	(346)	699	36,565	3,154
Income tax expense (recovery)	12,292	(1,667)	9,470	12,277	7,364	3,802	3,413	3,788	2,547	3,265
Financing costs	16,329	36,585	6,019	5,025	4,895	6,061	46	810	344	270
Amortization of intangible assets	5,258	5,551	1,840	1,169	1,314	1,300	7	11	1	7
Depreciation	9,901	13,830	7,981	7,094	5,796	6,079	2,865	2,649	2,525	2,382
Standardized EBITDA	\$ 75,136	\$ 56,502	\$ 43,970	\$ 44,864	\$ 36,682	\$ 30,577	\$ 12,769	\$ 11,775	\$ 8,598	\$ 15,351
Add-back:										
Business acquisition, integration and other	3,256	10,741	11,049	870	403	4,585	1,197	—	—	—
Impairment of property, plant and equipment	—	13,230	—	—	—	—	—	—	—	—
Increase in cost of sales due to purchase price allocation to inventory	—	1,149	510	55	—	927	—	—	—	—
Loss (gain) on disposal of assets	247	(190)	192	14	431	378	—	194	101	(5)
Stock-based compensation	6,704	10,255	737	3,653	320	(102)	126	29	—	52
Non-operating items	—	—	—	—	504	51	(210)	148	466	(462)
Adjusted EBITDA	\$ 85,343	\$ 91,687	\$ 56,458	\$ 49,456	\$ 38,340	\$ 36,416	\$ 13,882	\$ 12,146	\$ 9,165	\$ 14,936
Reconciliation to Adjusted Net Income:										
Net income	\$ 31,356	\$ 2,203	\$ 18,660	\$ 19,299	\$ 17,313	\$ 13,335	\$ 6,784	\$ 3,818	\$ (33,384)	\$ 6,273
Add-back:										
Net loss from discontinued operations, net of income taxes	—	—	—	—	—	—	(346)	699	36,565	3,154
Stock-based compensation	6,366	10,025	703	3,653	219	(67)	80	18	—	52
Impairment of property, plant and equipment	—	8,635	—	—	—	—	—	—	—	—
Additional depreciation on property that is to be disposed as part of the acquisition	—	1,146	—	—	—	—	—	—	—	—
Business acquisition, integration and other expenses	2,068	6,895	8,397	541	497	3,853	821	—	—	—
Non-operating items	—	—	—	—	504	53	(209)	148	464	(463)
Increase in cost of sales due to purchase price allocation to inventory	—	761	312	34	—	575	—	—	—	—
Revaluation of embedded derivative on debt	(105)	1,899	—	—	—	—	—	—	—	—
Interest rate swap on embedded derivative	76	529	—	—	—	—	—	—	—	—
Accelerated amortization of deferred financing charges	776	6,380	—	—	—	—	—	—	—	—
Intercompany dividend withholding tax	744	(402)	782	996	—	—	—	—	—	—
Adjusted Net Income	\$ 41,281	\$ 38,071	\$ 28,854	\$ 24,523	\$ 18,533	\$ 17,749	\$ 7,130	\$ 4,683	\$ 3,645	\$ 9,016

(Amounts in \$000s, except per share amounts)	2013*	2012*	2011*	2010*	2009**	2008**	2007**	2006**	2005**	2004**
Book value per common share at year end	\$ 12.08	\$ 10.14	\$ 10.53	\$ 9.78	\$ 7.51	\$ 7.93	\$ 5.59	\$ 4.38	\$ 3.89	\$ 7.10
Gross capital expenditures from continuing operations	15,419	13,447	7,675	5,134	11,107	6,051	3,620	3,186	3,423	4,072
Per share information:										
Basic info per common share										
Based on net income	\$ 2.07	\$ 0.15	\$ 1.24	\$ 1.20	\$ 0.94	\$ 0.89	\$ 0.65	\$ 0.37	\$ (3.16)	\$ 0.58
Based on income from continuing operations	2.07	0.15	1.24	1.20	0.94	0.89	0.62	0.44	0.30	0.87
Based on adjusted net income	2.72	2.52	1.82	1.52	1.01	1.18	0.68	0.45	0.34	0.83
Diluted info per common share										
Based on net income	2.01	0.14	1.22	1.19	0.94	0.72	0.53	0.27	(3.24)	0.50
Based on income from continuing operations	2.01	0.14	1.22	1.19	0.94	0.72	0.50	0.34	0.22	0.78
Based on adjusted net income	2.65	2.46	1.88	1.51	1.01	0.97	0.57	0.35	0.26	0.75
Common shares										
Outstanding at year end	15,286	15,129	15,087	15,149	18,331	18,471	13,381	10,315	10,284	10,710
Average outstanding for the year:										
Basic	15,184	15,119	15,109	16,096	18,385	15,059	10,443	10,306	10,567	10,863
Diluted	15,593	15,460	15,341	16,245	18,396	18,203	10,592	10,371	10,567	11,075
Amounts in this section are in CAD\$:										
Second preference shares										
Dividends declared and paid	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 166	\$ 1,210	\$ 1,174	\$ 1,036	\$ 992
Dividends per share	—	—	—	—	—	0.83	6.05	5.87	5.18	5.02
Series A preference shares										
Dividends declared and paid	—	—	—	—	—	774	—	—	—	—
Dividends per share	—	—	—	—	—	0.39	—	—	—	—
Common shares										
Dividends declared and paid	10,305	6,379	5,891	5,238	4,959	3,244	2,073	2,027	2,147	2,176
Dividends per share	0.70	0.42	0.39	0.33	0.27	0.22	0.20	0.20	0.20	0.20

* Amounts for 2013-2010 are based on International Financial Reporting Standards ("IFRS"); amounts for previous years are based on Canadian Generally Accepted Accounting Principles ("GAAP").

** Commencing in 2012 the Company changed its presentation currency from CAD to USD. The numbers for 2013-2010 have been fully restated. Historical information for 2009-2004 has been converted by taking the previously reported Canadian dollar amounts and converting it at the annual average exchange rate for that year.

HISTORICAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(Amounts in \$000s)	2013	2012*	2011*	2010*	2009**	2008**	2007**	2006**	2005**	2004**
Cash	\$ 1,206	\$ 65	\$ 3,205	\$ 601	\$ 1,866	\$ 5,808	\$ 7,219	\$ 206	\$ 497	\$ 420
Accounts receivable	91,334	73,947	83,590	50,724	56,901	52,758	70,171	26,792	24,099	23,053
Income taxes receivable	3,509	5,145	3,498	704	1,231	37	2,467	138	9	—
Other financial assets	1,524	533	1,323	895	—	—	—	—	—	—
Inventories	254,072	222,313	256,324	132,696	114,261	121,304	112,949	37,834	50,843	38,005
Prepaid expenses	2,952	2,991	2,969	1,899	1,934	1,472	1,750	588	547	533
Future income taxes	—	—	—	—	3,675	1,266	1,331	253	468	6,134
Total current assets	354,597	304,994	350,909	187,519	179,868	182,645	195,887	65,811	76,463	68,145
Property, plant and equipment	97,503	89,268	105,808	67,634	56,878	48,745	58,779	22,344	23,117	22,579
Deferred income taxes	4,656	7,207	1,667	2,416	333	688	1,714	2,579	3,981	5,528
Investment in equity accounted investee	—	96	271	154	—	—	—	—	—	—
Other receivables and miscellaneous assets	1,906	1,847	1,190	819	232	109	66	931	1,012	6,607
Future employee benefits	—	92	92	92	7,062	2,872	6,908	5,458	4,573	2,777
Intangible assets	105,253	110,631	116,594	31,409	18,904	19,877	—	—	—	—
Goodwill	111,999	112,873	110,816	40,036	27,423	25,413	—	—	—	35,749
Intangible assets and goodwill	—	—	—	—	—	—	43,702	—	—	—
Assets classified as held for sale	542	4,819	—	—	—	—	—	—	—	—
Total assets	\$ 676,456	\$ 631,827	\$ 687,347	\$ 330,079	\$ 290,700	\$ 280,349	\$ 307,056	\$ 97,123	\$ 109,146	\$ 141,385
Bank loans – actual amounts owing	\$ 97,899	\$ 60,530	\$ 119,936	\$ 43,261	\$ 22,084	\$ 33,500	\$ 63,506	\$ 8,680	\$ 21,278	\$ 6,083
Bank loans – deferred charges	(672)	(826)	(978)	(304)	(312)	(518)	(880)	—	—	—
Accounts payable and accrued liabilities	99,902	91,436	102,623	55,821	52,431	60,800	52,190	23,244	25,244	27,071
Stock compensation payable – current	3,313	10,005	4,233	4,559	—	—	—	—	—	—
Provisions	240	1,614	1,013	553	—	—	—	—	—	—
Other current financial liabilities	459	550	780	2,347	—	—	—	—	—	—
Income taxes payable	2,543	1,165	2,024	3,248	28	2,018	447	—	136	—
Current portion of long-term debt	—	34,237	2,500	4,450	4,378	—	—	—	—	—
Current portion of finance lease obligations	979	1,039	1,046	978	826	378	616	481	451	369
Total current liabilities	204,663	199,750	233,177	114,913	79,435	96,178	115,879	32,405	47,088	33,523
Long-term debt – actual amounts owing	232,720	213,888	247,500	44,456	48,996	53,366	53,522	—	—	—
Long-term debt – deferred charges and market valuations	(5,791)	(529)	(20,254)	(305)	(412)	(554)	(677)	—	—	—
Other long-term financial liabilities	5,597	1,130	6,223	208	1,198	1,744	—	—	—	—
Other long-term liabilities	175	—	—	—	—	—	—	—	—	—
Stock compensation payable – long-term	869	1,532	243	—	—	—	—	—	—	—
Long-term finance lease obligations	1,647	2,181	2,555	3,062	2,580	424	265	409	543	649
Deferred income taxes	43,998	45,126	47,991	9,949	4,479	—	—	—	—	6,038
Future employee benefits	7,929	13,791	11,085	9,682	4,338	465	4,320	3,178	2,692	2,347
Liabilities directly associated with the assets held for sale	—	1,604	—	—	—	—	—	—	—	—
Shareholders' equity	184,649	153,354	158,827	148,114	150,086	128,726	133,747	61,131	58,823	98,828
Total liabilities and shareholders' equity	\$ 676,456	\$ 631,827	\$ 687,347	\$ 330,079	\$ 290,700	\$ 280,349	\$ 307,056	\$ 97,123	\$ 109,146	\$ 141,385

* Amounts for 2013-2010 are based on IFRS; amounts for previous years are based on Canadian GAAP.

** Commencing in 2012 the Company changed its presentation currency from CAD to USD. The numbers for 2013-2010 have been fully restated. Historical information for 2009-2004 has been converted by taking the previously reported Canadian dollar amounts and converting it at the annual average exchange rate for that year.

CORPORATE INFORMATION (AS AT DECEMBER 28, 2013)

Honourary Directors

D.R. Sobey

Board of Directors

D.H.L. Buntain^{3,4}

J.G. Covelluzzi³

H.E. Demone⁴

R.P. Dexter, Q.C.^{2,4}

D.J. Hennigar (Chair)⁴

M.R. Hennigar²

S.L. Jamieson³

J.T. MacQuarrie, Q.C.^{3,4}

R.A. Miller²

R.L. Pace³

R.E. Shea²

Officers and Canadian Management

D.J. Hennigar

Chairman of the Board

H.E. Demone

Chief Executive Officer

K.A. Decker¹

President & Chief Operating Officer

M.P. Marino¹

President & Chief Operating Officer, Canadian Operations

K.L. Nelson, FCA¹

Executive Vice President & CFO⁵

J.E. Brown, CHRP¹

Executive Vice President, Human Resources

P.W. Snow¹

Executive Vice President, Global Procurement

T. Rorabeck,

Vice President, Corporate Affairs & General Counsel

J.J. Amlinger

Vice President, Sales & Marketing Food Service

J.J. O'Neill

Vice President, Retail Sales & Marketing

G.W. LeBlanc, CA

Corporate Controller

L.C. Obritsch

Vice President, Canadian Plant Operations

High Liner Foods (USA) Inc.

K.A. Decker¹

President & Chief Operating Officer (Interim)

A.W. Christianson

Senior Vice President, US Plant Operations

S.J. Prusank

Senior Vice President, Food Service Sales & Marketing

C.M. Trosin

Vice President, Sales & Marketing, Retail

R.H. Barnhardt

Vice President, US Supply Chain

M.E. Sirois

Vice President, Technical Services

M.D. Leslie

Vice President, Integration & Special Projects

Plants

Massachusetts: Malden, New Bedford

New Hampshire: Portsmouth

Virginia: Newport News

Nova Scotia: Lunenburg

Operating Subsidiary companies

High Liner Foods (USA), Incorporated

APS, LLC

ISF (USA), LLC

Viking Seafoods, LLC

High Liner Foods (Thailand) Co., Ltd.

Auditors

Ernst & Young LLP, Chartered Accountants

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100 Battery Point

P.O. Box 910

Lunenburg, NS B0J 2C0

Common Shares listed on

The Toronto Stock Exchange

Trading Symbol – HLF

Annual General and Special Meeting of Shareholders

Thursday, May 8, 2014

11:30 a.m.

World Trade & Convention Centre

Halifax, Nova Scotia

¹ Management Committee (K.A. Decker, Chair)

² Audit Committee (R.P. Dexter, Chair)

³ Human Resources & Governance Committee (D.H.L. Buntain, Chair)

⁴ Executive Committee (D.J. Hennigar, Chair)

⁵ Effective February 24, 2014, P.A. Jewer became Executive Vice President & CFO and K.L. Nelson became Executive Vice President



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