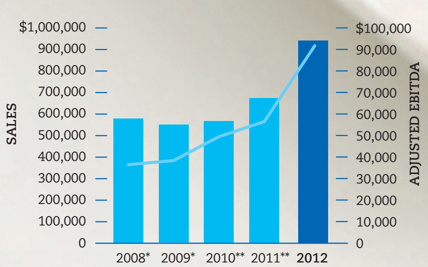
ready for more

HIGH LINER FOODS | ANNUAL REPORT 2012

With the integration of Icelandic USA successfully completed, we have achieved our vision of becoming the leading value-added frozen seafood company in North America. **Now we are ready for more.** This year's annual report discusses our plans to keep building upon High Liner Food's hard-earned leadership position.

Sales vs. Adjusted EBITDA(1)
(in $000s)



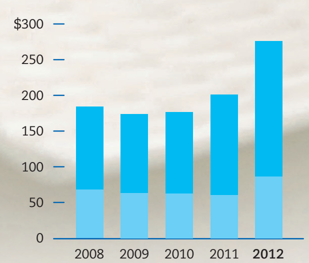
■ Sales — Adjusted EBITDA

(1) Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization, excluding impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, gains or losses on disposal of assets, and the increase in cost of goods sold relating to inventory acquired from business acquisitions, above its book value, as part of the fair value requirements of purchase price accounting.

* 2008 and 2009 have been converted to USD by taking the previously reported CAD amounts and converting them at the annual average exchange rate for each year. These two years are in accordance with Canadian GAAP (not restated).

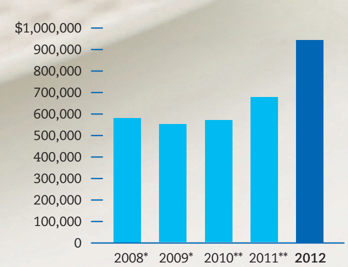
** 2010 and 2011 have been restated.

Product Sales Volume
(in millions of pounds)



■ Procured ■ Produced in High Liner facilities

Sales
(in $000s)



* 2008 and 2009 have been converted to USD by taking the previously reported CAD amounts and converting them at the annual average exchange rate for each year. These two years are in accordance with Canadian GAAP (not restated).

** 2010 and 2011 have been restated.

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

letter to shareholders

2012 WAS A YEAR IN WHICH High Liner Foods posted new performance records while successfully creating a larger and better platform for growth. Sales volumes increased for the fourth consecutive year, reaching 276.2 million pounds compared to 200.8 million pounds in 2011. Revenue was up 40% to $943 million and Adjusted EBITDA[1] increased 62% to $92 million. Similarly Adjusted Net Income[2] increased by 32% to $38 million and diluted EPS based on Adjusted Net Income rose 31% to $2.46.

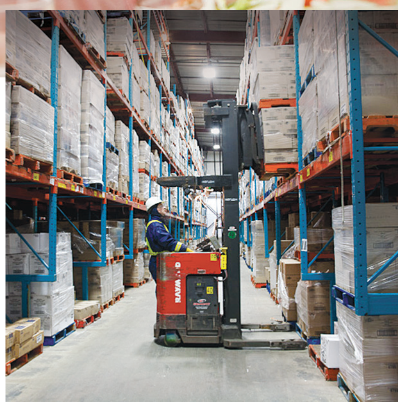
Henry Demone, President & CEO

Our record sales performance was due to the addition of the Icelandic USA business, which also experienced 3.3% year-over-year sales growth on a pro forma basis that assumes it had been part of our operations for all of 2011. Canadian sales were up 5.6% year-over-year while our non-Icelandic U.S. sales were essentially flat reflecting competitive pressures in the food business, continued weakness in the casual dining industry and declining raw material prices.

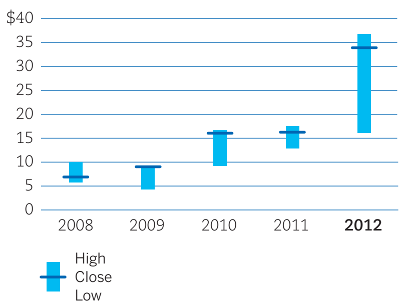
Ready for more

Two years ago, we shared our Vision to become "*the leader in value-added frozen seafood in North America*" and set our sights on achieving $100 million in Adjusted EBITDA by the end of 2015. Since then, we have achieved internal growth and successfully acquired and integrated Viking Seafoods Inc. and Icelandic Group's U.S. and Asian operations. Today, we are on the verge of realizing this goal almost two years ahead of schedule.

As I write this letter, High Liner Foods is the clear North American leader in value-added seafood products with an expanding family of trusted brands and the opportunity to strengthen our presence in every segment of this market. Yet we see an opportunity to leverage our seafood procurement expertise and grow the raw frozen products that already constitute 33% of High Liner Food's total sales. This is a comparatively fragmented market in which we see abundant prospects for a seafood supplier with the capability to differentiate a selective raw frozen product offering through superior branding, marketing, quality control and service. Accordingly, we have updated and expanded our vision and now aspire to become: *the leading supplier of frozen seafood in North America*.



Historic Stock Performance
(TSX)



Despite this subtle change to our vision, High Liner Foods will retain the intense focus on our strategic goals that has served us well over the years. Our strategic goals for 2013 are:

Profitable growth

Recognizing that we expect our growth target of $100 million in Adjusted EBITDA to be realized this year, it's obviously time to raise the bar. Through a combination of organic sales growth, relatively smaller scale acquisitions (compared to the Icelandic USA acquisition) and improved supply chain efficiencies, we are determined (can't be striving yet with respect to future endeavours) to achieve $150 million in Adjusted EBITDA for the fiscal year of 2015. You can read more about our plans to get there, and the metrics we will be using to track our progress, in the MD&A of this annual report.

Supply chain excellence

Our customers expect high-quality products and great customer service from us whether or not we are in the midst of complex organizational change. We continued to deliver on these expectations in 2012 while fully integrating the sales forces, broker networks and operations of High Liner Foods and Icelandic USA. Beginning in November 2012, substantially all High Liner Foods foodservice products sold in the U.S. were shipped from our Newport News, Virginia distribution centre, with substantially all retail products shipping from a similar facility in Peabody, Massachusetts. In addition to consolidating six North American production facilities into four locations, we fully integrated customer service and order fulfillment functions across the company to provide customers with one seamless system for ordering, invoicing and delivery. With the extraordinary effort of many people, the integration of Icelandic USA was completed ahead of schedule, with $9 million of synergies recognized in income in 2012 and at least $9 million more efficiencies to come. The total is expected to exceed the $16–$18 million in synergies that we estimated to achieve from the acquisition. With the completion of this integration, and with the assistance of a single enterprise resource planning system, we intend to focus, as part of our objective to achieve $150 million of Adjusted EBITDA, on analyzing all levels of our supply chain to achieve $20–$25 million in annualized cost reductions over the next three years.

Sustainable sourcing

High Liner Foods buys more than 30 species of seafood from 20 countries around the world. No matter where it comes from, we remain committed to sourcing all of our seafood from certified sustainable or responsible fisheries or aquaculture farms by the end of 2013. We made significant progress toward this goal in 2012 and by the end of the year, approximately 70% of our wild seafood was certified, a significant increase from 55% at the end of 2011. Almost all of our Aquaculture seafood procured in 2012 was from Global Aquaculture Alliance BAP (Best Aquaculture Practices) certified facilities, up from 68% in 2011.

“...we are determined to achieve $150 million in adjusted EBITDA for the fiscal year of 2015.”

We are also using our market leadership to advance seafood sustainability. In May 2012, High Liner Foods embarked on a new partnership with the Marine Stewardship Council (MSC) in which all of our wild caught seafood began to feature the MSC eco-label in addition to High Liner Food’s own Responsibly Sourced eco-label, which now appears on 60% of our High Liner Canadian retail seafood products. These initiatives are aimed at helping customers feel confident in the seafood choices they make while allowing them to play a more direct role in protecting the health of our oceans.

In partnership with other companies in the seafood industry, such efforts have already had a significant impact on the viability of the world’s seafood resources. This can be seen in the continuing recovery of fish stocks and rising quotas in the North Pacific, North Atlantic, and the Baltic Sea.

Outlook

Looking toward the balance of this year and beyond, I am confident that the best is yet to come. We are North America’s leading processor and marketer of value-added frozen seafood with a large and growing presence in all major segments. With the successful integration of Icelandic USA, we possess a larger and more efficient growth platform with opportunities for continuous improvement of our inventory management and other supply chain processes. With the benefit of steady product demand and strong cash flows, we were able to reduce our net debt from $370.3 million (4.4 times Adjusted EBITDA) following the Icelandic USA Acquisition to $311.8 million (3.4 times Adjusted EBITDA) at the end 2012. This will provide us with greater financial flexibility and the ability to capitalize on opportunities as they become available. The $58.5 million reduction in debt resulted from improved

Sea Cuisine® brings a world of gourmet seafood to the kitchen table, all made with the finest ingredients.

Adjusted EBITDA from 2007 to our 2015 goal

The award-winning Flame Savours™ product line features three styles of delicious flame-seared fillets.

"…we remain steadfast in our commitment to source all our seafood from certified sustainable or responsible fisheries or aquaculture farms."

methods of financing overseas inventories, improved inventory management generally and from the cash generated from the combined operations.

We also expect to realize benefits from lower raw material prices. As a result of rising quotas and continued weak demand in the European economies, raw materials are plentiful, particularly in certain key species. While we stand to benefit from this current dynamic, we will need to remain vigilant to protect sales and margins in a highly competitive North American market.

Longer term, we are also well positioned to benefit from more fundamental global economic and demographic trends. The emergence of a growing and increasingly prosperous middle class in the developing world has led to relatively higher cost increases for meat proteins, which we expect will provide opportunities to increase sales and market share for our products. At the same time, changing demographics are expected to lead to an increase in seafood consumption. Trends that are generally positive for our business include an aging, increasingly health conscious population and relatively faster rates of growth in North America's Asian and Latin populations, which are characterized by significantly higher per capita seafood consumption.

In closing, I would like to thank the more than 1,650 people of High Liner Foods for their capability and dedication during an ambitious and challenging year. Thanks to them, we have posted solid financial results and created a larger, more efficient platform for continuing growth.

We would also like to express our appreciation and gratitude to our outgoing directors, Stan Spavold and Laurie Bebo, for their contribution and commitment to the Company of the past number of years.

I look forward to reporting on our progress in the months ahead.

(Signed)

Sincerely,

HENRY DEMONE
President and CEO

[1] **Adjusted EBITDA** is earnings before interest, taxes, depreciation and amortization, excluding impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, gains or losses on disposal of assets, and the increase in cost of goods sold relating to inventory acquired from business acquisitions, above its book value, as part of the fair value requirements of purchase price accounting.

[2] **Adjusted Net Income** is net income excluding the after-tax impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, the increase in cost of goods sold relating to inventory acquired from business acquisitions over its book value, non-cash expense from revaluing an embedded derivative associated with the long-term debt LIBOR floor, marking-to-market an interest rate swap related to the embedded derivative, the write off of deferred financing charges on the re-pricing of the Term Loan and withholding tax related to inter-company dividends.

management's discussion & analysis

with financial review

Management's Discussion and Analysis

Financial Review

management's discussion & analysis

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

Introduction

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

Important Notes

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

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on February 20, 2013. This MD&A includes High Liner's operating and financial results for fiscal 2012 and fiscal 2011, and should be read in conjunction with our 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 is the beginning of our fiscal 2010 year.

Financial information contained in this MD&A for fiscal years 2012, 2011 and 2010 are comparative as they are in accordance with IFRS. Where historical information is presented in this MD&A that has NOT been restated to IFRS, we have noted it as such.

Other Important Documents

Additional information relating to High Liner, including our most recent Annual Information Form, is available on SEDAR's website at www.sedar.com, and in the Investor Information section of High Liner's 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. Both 2012 and 2011 were fifty-two week years.

Quarterly and Annual Comparisons in this MD&A

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

Accounting Estimates and Assumptions

The preparation of consolidated financial statements under IFRS requires management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. We use accounting estimates to determine various items, including allowance for doubtful accounts receivable, estimated amounts owing to customers for various sales and promotional programs and other costs to be invoiced to us after period end but relating to the accounting period in question. We base our estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. If final amounts differ from estimates, it is expected to have little or no impact on our financial condition. In our judgment, none of the estimates discussed in Note 2 (e) of the Consolidated Financial Statements for the period ended December 29, 2012 requires High Liner to make assumptions about matters that are highly uncertain. None of the estimates is considered a critical accounting estimate, except as noted in Section 7.

Currency

During the current fiscal year, the Company changed its presentation currency from Canadian dollars (CAD) to U.S. dollars (USD), effective retrospectively to January 3, 2010 (see note 27 of the Consolidated Financial Statements for the period ended December 29, 2012), and unless otherwise noted, all amounts in this document are in U.S. dollars. The U.S. dollars presentation currency better reflects the Company's business activities and improves investors' ability to compare the Company's financial results with other publicly traded businesses in packaged foods industry and should result in less volatility in sales, earnings and on the balance sheet, as a large part of our financial statement items are functional U.S. dollars or are influenced by U.S. dollars commodities.

For example, approximately two-thirds of our operations and assets are denominated in U.S. dollars; the Canadian company's inventory balances are influenced by U.S. commodities prices; most of our debt is denominated in U.S. dollars; and, as such, our bank covenants are measured in U.S. dollars. As such, foreign currency fluctuations affect the reported values of individual lines on our balance sheet and income statement. Reporting in U.S. dollars will greatly reduce the volatility of currency changes. However, when the U.S. dollar strengthens (weakening Canadian currency), the reported values decrease and the opposite occurs when the U.S. dollar weakens. Canadian dollar denominated items in the Canadian operations are converted to U.S. dollars 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.

In some parts of this document we discuss balance sheet and operating items in domestic currency. This effectively means that the Company's Canadian operations are converted to U.S. dollars at par. We have done this to show the true changes in domestic currency, eliminating the effect of fluctuating foreign exchange rates on the translation of the Canadian company to U.S. dollars.

Non-IFRS Financial Measures

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

The Company believes these non-IFRS financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Our definition of Standardized Free Cash Flow and Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Canadian Institute of Chartered Accountants. These measures are defined in more detail later in this document.

Forward-Looking Statements

This MD&A includes statements that are forward looking. Our actual results may be substantially different because of the risks and uncertainties associated with our business and the general economic environment. We discuss the principal risks of our business in Section 8 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved. If it is achieved, we cannot provide assurance that it will result in an increase in our share price. See Section 9 entitled "Forward-Looking Information".

1. Vision, Core Businesses and Strategy

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

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

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

Although our roots are in the Atlantic Canada fishery, we purchase all our seafood raw material and some finished goods from around the world. From our headquarters in Lunenburg, Nova Scotia, we have transformed our long and proud heritage into worldwide seafood expertise. We deliver on the expectations of the 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, our reputation for delivering outstanding seafood products is an advantage in the competitive North American market. Our vision sets our overall direction:

We will be the leading frozen seafood supplier in North America.

You will notice our vision has changed slightly from last year as in late 2011 we were in the highly unusual situation of having achieved our previously declared Vision earlier than expected. A Vision is meant to inspire an organization to do great things. As such we changed our vision in 2012 to: "To be the leading supplier of frozen seafood in North America." We are maintaining the focus on seafood in North America, but dropping the value-added modifier. Uncoated frozen products already make up almost 38% of our product line. However, even though we have dropped "value-added", we will ensure that our raw and cooked uncoated frozen products are differentiated by virtue of some combination of brand, packaging, service and program. This change is not a mandate to become a "one-stop-shop" by increasing the number of species sold, or to become a commodity trader. We have high standards for margins, return on assets managed and return on equity. We will only operate at this level by building on strength and creating new strengths in the future.

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

1.2 Core Businesses

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

During 2012 we owned and operated six food-processing plants located in: Lunenburg, Nova Scotia; Burin, Newfoundland & Labrador; Portsmouth, New Hampshire; Danvers, Massachusetts; Newport News, Virginia; and Dalian, China. The Newport News and Dalian plants were acquired as part of the Icelandic USA Acquisition. We also operate a leased food-processing facility in Malden, Massachusetts, which was obtained as part of the Viking Acquisition. At the end of 2012 and in early 2013, we permanently closed our processing facilities located in Danvers and Burin, as they were surplus to our capacity needs. The two plants that were closed were our higher-cost facilities and their closure makes High Liner a stronger, more competitive company. In the first quarter of 2013, we sold the joint venture in China to our partners. However we continue to procure from them under contract.

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

United States Operations

Retail

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

Food Service

Customer channels in this business include food service operators in multiple restaurant segments, broad line food service distributors, specialty seafood distributors, and general line food processing companies. *High Liner* is one of the largest seafood suppliers to this market. We are particularly recognized for our innovative product development expertise for the food service channel. The Viking and Icelandic USA Acquisitions added new products to our food service offerings under the *Viking, Icelandic*

Seafood, Samband of Iceland, Seaside and *Seastar* brands, and, combined with our *FPI* brand, has 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.

Canadian Operations

Retail

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

Food Service

Our Canadian food service business, also headquartered in Toronto, is growing due to our ability, through worldwide procurement, to provide food service customers with 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 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

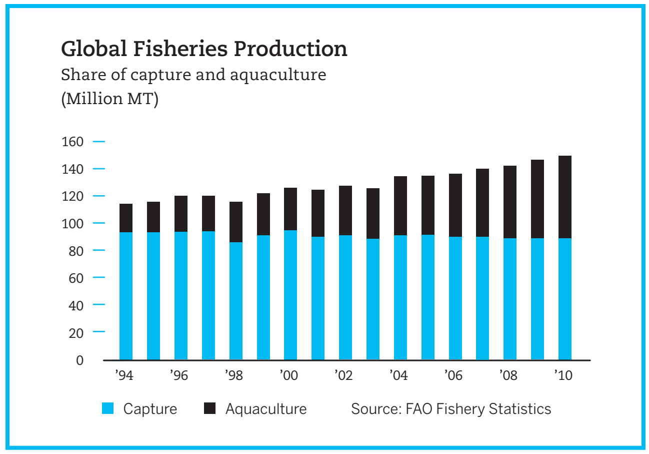
Our overall business is a simple one: we satisfy the seafood preferences of North American consumers. We do not need to be a vertically integrated seafood harvester to achieve this goal. We need to be, and are, seafood experts. We focus exclusively on creating and marketing top quality frozen seafood.

Our mission statement describes our business:

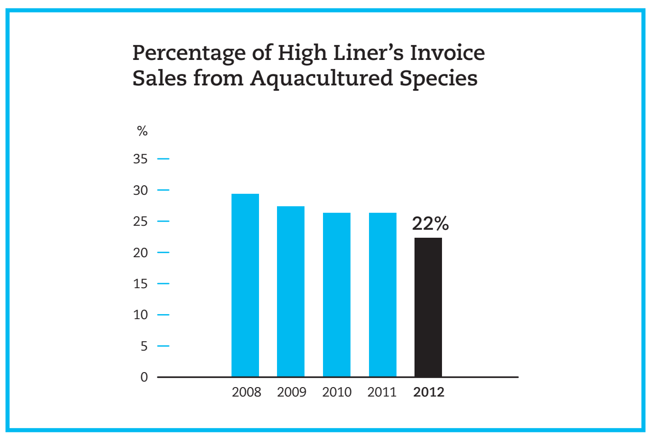
- **Our team brings value to our retail, club store and food service customers through our commitment to the development and delivery of high-quality and innovative seafood, and by providing them with a superior customer service level.**

- **We increase earnings, and thus shareholder value, by:**
  - **Partnering with our customers and suppliers**
  - **Developing our brands**
  - **Achieving operational excellence, and**
  - **Providing leadership, development opportunities, and a safe and pleasant working environment to our employees**

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



Growth in the global supply of seafood is due to increased aquaculture production and the stabilization of wild-caught species in most areas of the world. However, demand over time is expected to increase faster than supply, resulting in increases in raw material costs. These increases in demand come about as a result of increasing interest from North American consumers in seafood as a healthy and sustainable food choice. In addition, increasing disposable incomes in countries like Russia, Brazil, India and China also increase demand for seafood. The trend of increasing demand was reversed, 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. Although longer term we expect demand to continue to increase, resulting in increases to prices of seafood, in 2013 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.



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

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

We expect seafood will continue to be a popular choice for consumers, and we expect demand to increase for our products. While many consumers tended to be more cost-conscious in 2011 and 2012, dampening our food service sales, we expect that consumers will eat away from home more in 2013, increasing sales in this channel. We also expect retail sales in both Canada and the U.S. to increase in 2013 due to new products being offered and promotional efforts.

Strategic Goals for 2012

Our strategic objectives for 2012, along with commentary thereon, were:

Profitable Growth

We wanted to grow our business to achieve $100 million in Adjusted EBITDA by 2015 by:

a) Completing the integration of *Icelandic* USA – The most significant goal was completing the integration of *Icelandic* USA into our U.S. operations in 2012. These assets earned pro forma Adjusted EBITDA of approximately $29 million in 2011, after taking into account the full year of savings from the investment in a new cold storage facility at the Newport News, VA plant that opened in 2011. The integration allowed us to realize synergies of $9.4 million in 2012 and we currently estimate total ongoing annual synergies to be in the range of $18–$20 million, higher than originally anticipated. Part of the integration plan involved the transition to operate our entire business on High Liner's systems platform with a focus to continually improving our efficiency and communication as an organization. We were on one computer operating system by October 2012 and had the ability to interact with our customers with a single order, shipment and invoice at the end of November, months ahead of our original plans.

b) Organic growth – Our 2012 business plan anticipated sales volume increases, excluding the Icelandic USA Acquisition. Organic growth was expected to be achieved by effective execution of our business plan: using our scale to improve procurement of seafood as well as other inputs; launching successful products across all sales channels and customers such as chain accounts, clubs and ingredients, including the recently launched equivalent in Canada to *FireRoasters*, known as *Flame Savours*; and we also planned to develop and implement a leadership position in new species. We were successful in growing our branded retail businesses in both Canada and the U.S. in 2012 but food service underperformed expectations with a decline in sales in the U.S. market and flat sales in Canada.

However, through acquisitions and the retail growth, we are pleased to report that we achieved Adjusted EBITDA of $91.7 million in 2012, bringing us very close to the $100 million target earlier than anticipated. We anticipate Adjusted EBITDA in 2013 will exceed $100 million, once the costs reduction from closing the two plants are realized.

Sustainability

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

– Supported the Russian Pollock Marine Stewardship Council (MSC) certification process
– Took a leadership role in the Russian salmon MSC process
– Developed a plan for Russian Pacific cod MSC certification
– Supported the certification of the balance of the Barents Sea cod & haddock fisheries

We are pleased to report that we made significant progress toward this goal in 2012, and by the end of fiscal 2012 approximately 70% of our wild seafood was certified, a significant increase from 55% at the end of 2011. Close to 100% of our aquaculture seafood procured in 2012 was from Global Aquaculture Alliance BAP (Best Aquaculture Practices) certified facilities, up from 68% in 2011.

Systems Improvements

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

Strategic Goals for 2013

Our Corporate Strategic Goals for 2013 are:

Supply Chain Excellence

Stressing 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 more than 30 species of seafood from 20 countries. Our customers deserve and expect great customer service. 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. This will be a powerful competitive advantage that will be very difficult for our competitors to achieve.

Profitable Growth

We had been working towards a goal to earn $100 million of Adjusted EBITDA by 2015. However, we expect to reach this goal in 2013. We believe that the combination of supply chain excellence, internal growth and a couple of smaller acquisitions will result in an additional $50 million of EBITDA over the next 3 years. Accordingly, we have increased our financial targets in line with the performance of our business and our new goal is to earn $150 million of Adjusted EBITDA by the end of 2015.

Sustainability

2013 is the third year of our goal to procure from sustainable sources by the end of the year. We have made enormous progress but there is more work to do in 2013 to achieve our objective. In particular, Russian and Alaskan Pollock & Salmon, as well as a number of smaller fisheries, will need continued attention.

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 gauge our performance. As a result of our recent positive performance, we have increased our benchmarks: Profitability to 8% from 6% of net sales, and Return on Equity to 18% from 14%.

We have set these measures based on the performance achieved by comparable food companies in North America.

	Benchmark	2012 Actual
Returns		
On assets managed	15.0%	**13.4%**
On equity	18.0%	**17.6%**
Profitability		
Trailing 12-month EBIT as a percentage of net sales	8.0%	**7.9%**
Financial Strength		
Interest-bearing debt to trailing 12-month EBITDA (not to exceed)	3.0x	**3.4x**
Inventory Management		
Inventory turns	4.2x	**4.0x**

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

Adjusted EBITDA (as defined on page 26) less depreciation and amortization = Earnings before interest and taxes (EBIT),

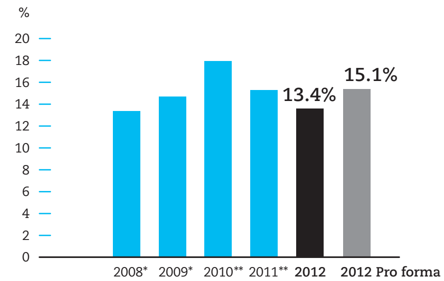
Divided by:

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

Each of these is discussed below.

Return on Assets Managed

(also known as Return on Capital Employed)
Based on Adjusted EBIT



* 2008 and 2009 have been converted to USD by taking the previously reported CAD amounts and converting them at the exchange rates for each year. These two years are in accordance with Canadian GAAP (not restated).

** 2010 and 2011 have been restated.

In 2012 our return on assets managed (ROAM) was 13.4%, lower than our benchmark by 1.6 percentage points. Adjusted EBITDA in 2012 increased by $35.3 million over 2011 but average assets managed also increased, decreasing ROAM. The Acquisition completed on December 19, 2011 immediately increased our assets managed, including new intangibles and goodwill. These assets were purchased based on achieving the synergies projected. As it took us a year to achieve those synergies, we did not meet our ROAM objective for 2012. However, on a fully synergized basis, with all synergies included, ROAM would be 15.1%, achieving our target.

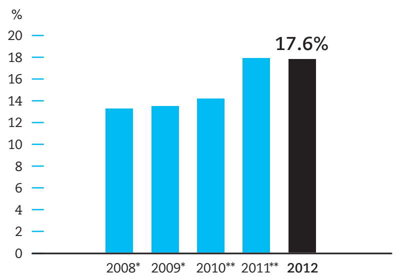
Return on Equity (ROE) is calculated as follows:

Net income excluding the after-tax impairment of property, plant and equipment, business acquisition and integration expenses, the increase in cost of goods sold relating to inventory acquired from business acquisitions over its book value, non-cash expense from revaluing an embedded derivative associated with the long-term debt LIBOR floor, marking-to-market an interest rate swap related to the embedded derivative, the writeoff of deferred financing charges on the amendment of the Term Loan and withholding tax related to inter-company dividends.

Divided by:

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

Return on Equity
Based on net income (1)



(1) Net income excluding the after-tax impairment of property, plant and equipment, business acquisition and integration expenses, the increase in cost of goods sold relating to inventory acquired from business acquisitions over its book value, non-cash expense from revaluing an embedded derivative associated with the long-term debt LIBOR floor, marking-to-market an interest rate swap related to the embedded derivative, the writeoff of deferred financing charges on the amendment of the Term Loan and withholding tax related to inter-company dividends.

* 2008 and 2009 have been converted to USD by taking the previously reported CAD amounts and converting them at the exchange rates for each year. These two years are in accordance with Canadian GAAP (not restated).

** 2010 and 2011 have been restated.

As we exceeded our ROE target in 2011, we increased the target from 14.0% in 2011 to 18.0% in 2012. Our return on equity (ROE) in 2012 was 17.6%. Adjusted Net Income, after deducting stock compensation expense, was similar in 2011 and 2012. Equity in 2012 increased slightly, decreasing ROE in 2012.

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

All earnings before interest and taxes, excluding the after-tax impairment of property, plant and equipment, business acquisition and integration expenses, and the increase in cost of goods sold relating to inventory acquired from business acquisitions over its book value.

Divided by:

Sales, as disclosed on the consolidated statement of income.

Our trailing 12-month earnings before interest and taxes (EBIT) as a percentage of net sales revenue is 7.9%. This ratio has improved over the last year due to the Icelandic USA Acquisition, where margins are higher on value-added products and as we continue to achieve synergies.

Interest-bearing debt to trailing 12-month Adjusted EBITDA is 3.4 times, based on the interest-bearing debt at the end of fiscal 2012, compared to 4.4 times at the end of fiscal 2011. On a pro forma basis, including the near-term synergies expected yet to be achieved from the Icelandic USA Acquisition, the ratio is 3.1 times, which brings us very close to our target of 3.0 times.

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

Interest-bearing debt, being bank loans, plus current and long-term portions of long-term debt and capital lease obligations (but excluding all deferred charges or adjustments for the embedded derivative).

Divided by:

Adjusted EBITDA, which is defined on page 26.

Inventory turns is calculated as follows:

Cost of sales for the year.

Divided by:

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

Our inventory turns in 2012 were 4.0 times. As many of our products come from various parts of the world, the resulting lead-time is long and, given our commitment to ensuring that we meet customer service requirements, this results in an inventory level that is higher than ideal. Inventory in 2012 was higher than target due to absorbing Icelandic USA's inventory and planning processes into our systems and an increase in inventory to allow for the closure of the Danvers and Burin plants. Given this, we believe 4.2 times is achievable in our current business environment, but will require us to stretch to achieve this target.

2. Strategic Measures

Our performance against key metrics will tell us whether we are achieving our strategic objectives. We made considerable progress in 2012 by focusing on these metrics.

2.1 Our Brands

Market Share

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

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

Distribution

An important measure for retail distribution is "all commodity volume" (ACV). This is a measure of the volume of the traditional grocery stores as a percentage of total stores in a market (Canada or the United States) in which our products are sold. An increase in ACV means that our products are in more stores and, therefore, available to more consumers in more markets, which should translate into increased sales. In Canada, our ACV approaches 100% as *High Liner* products can be found in virtually all grocery stores. In the U.S., our brands, which include *Fisher Boy, High Liner* and *Sea Cuisine*, have a smaller share of the total frozen seafood category than *High Liner* in Canada. ACV for all High Liner branded products was nearing 66% at the end of 2012 compared to 61% at the end of last year. In some regions in the U.S., this is substantially higher. In Mexico City, although we do not track ACV, we are confident in our position as a leading breaded and battered seafood supplier in the major centres.

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

Percentage of Overall Sales from Our Brands

Our brands are one of our core strengths. Consequently, most of our sales are of our branded products. We measure the percentage of our sales from our brands over a rolling 52-week period, with the goal to keep it at 80%. In 2012, our brand sales were 76% of total sales, which is down slightly from the previous year.

2.2 Our Organization

Productivity

At the end of fiscal 2011, we had seven manufacturing plants, including six we owned and one that we leased, each with capacity for growth. During 2012, we announced the consolidation of our plants, with Danvers and Burin being closed in January 2013 and December 2012 respectively. Likewise, subsequent to year end we have sold our Chinese joint venture. We will continue purchasing products from this facility. 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.

Customer Service

Our strong customer relationships are a competitive strength. To preserve them, we must consistently strive to exceed customer expectations. To that end, we measure case fill rates, our ability to achieve at least 98.5% purchase order fulfillment is at the top of the industry. For 2012, our purchase order fulfillment, measured by number of cases of products shipped compared to what was ordered, was 98.1% due to supply issues for a number of commodity products, especially sole/flounder, cod, shrimp and haddock. Order fill rates for value added products consistently exceed our targets.

People

We are building a high-performance organization by investing in our people. We intend to develop our future leaders from within, and thus, we are focused on increasing individual capacity for leadership and track the ratio of internal hires to external hires. We have training and development plans for all employees, and the training program continued in earnest in 2012 and will be continued in 2013. High Liner 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. We aim to achieve at least a 5% increase in sales year-over-year. In 2012, our sales increased by 40.2% in domestic dollars resulting from the Icelandic USA Acquisition. Excluding the Icelandic USA Acquisition, sales were unchanged from 2011, compared with our 5.0% target. In terms of volume, sales in 2012 increased 37.5% (decreased 4.8% excluding the Icelandic USA Acquisition). We expect volume in 2013 to increase, and the lower seafood costs that we experienced in the last half of 2012 is expected to continue into 2013. Consequently, we expect our selling prices in 2013 will be lower than 2012 for commodity seafood products. This is coming at a time when retail customers are seeing price increases in other proteins such as beef, chicken and pork, and given this environment, we believe there may be an opportunity for us to sell even more seafood in 2013.

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 2012, sales from new products launched in the previous 24 months were approximately 8% of our sales.

3. Capability: Resources and Core Competencies

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

3.1 Liquidity and Capital Resources

Highlights for 2012 are as follows:

- Completed the integration of Icelandic USA into High Liner's operations;
- Sales increased by 39.5% to $942.6 million from $675.5 million; the Icelandic USA acquisition added $275.8 million to sales versus $8.5 million in 2011;

- Reported net income of $2.2 million (diluted EPS of $0.14), compared with $18.7 million (diluted EPS of $1.22), in 2011, with the decrease attributable to costs related to the Icelandic USA acquisition and integration, higher stock compensation expense, higher financing costs, and the expensing of deferred financing costs in 2012 as mentioned above;
- Adjusted EBITDA increased by 62.5% to $91.7 million from $56.5 million;
- Adjusted Net Income of $38.1 million (Adjusted diluted EPS of $2.46), compared with $28.9 million (Adjusted diluted EPS of $1.88);
- Sales volume increased by 37.5% to 276.2 million pounds; Icelandic USA contributed 85.0 million pounds to total sales volume in 2012;
- Synergies achieved during the year totalled $9.4 million, consistent with the high end of our original annual guidance.

Debt

High Liner entered into a $250.0 million senior secured term loan facility ("Term Loan") in December 2011. Substantially all tangible and intangible assets of the Company are pledged as collateral for the Term Loan. Minimum repayments are required on an annual basis, plus, based on leverage test, a percent of defined excess cash beginning in 2013, based on the previous year's cash flow. After amendments on the debt negotiated subsequent to year end, we expect to pay 25% of our excess cash flow which, is approximately $13.9 million. This, plus the regularly scheduled payments, is expected to result in a repayment of $17.3 million in 2013 compared to the $34.2 million shown as the current portion of long-term debt as at December 29, 2012. After the amendments discussed below, the Term Loan bears interest at 3.5% (5.50% to February 8, 2013) plus LIBOR with a floor of 1.25% (1.5% to February 8, 2013) with standard financial covenants, including required leverage ratios.

The terms of the long-term debt facility required us to protect 50% of the variable interest rate for a fixed rate for the first two years. A derivative financial instrument was therefore purchased in the first 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 3-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 3-month LIBOR rate (but no less than 1.5%), effectively fixing the rate between 1.747% to 1.997%. See discussion on "Finance Costs" under the section titled "Other Items Important to Understanding Our Results" 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 50% of the US$250.0 million face value of the debt, the other 50% 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.

Subsequent to year end, the long-term debt facility was amended, which decreased interest rates to LIBOR plus 3.5% and decreased the LIBOR floor to 1.25%. Also, the available amount (i.e., "basket") for dividends and normal course issuer bid (NCIB) payments was increased to $15.5 million from the previous $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% is in place until February 2014. Leverage ratios were also amended and step down leverage requirements removed so that the debt to EBITDA ratio is now 4.5x for the term of the loan. The interest coverage covenant was removed. Other minor items related to relaxing requirements around investments and acquisition were also changed. The amortization and maturity date are unchanged, meaning the full amount of the remaining debt is due to be paid in December 2017.

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. This facility was amended in December 2011 to increase the facility to $180.0 million. Subsequent to year end the facility was amended with changes to interest rates and increased flexibility around acquisitions being the major changes. This working capital facility expires in 2016 and provides, after February 2013 amendment, for the following based on Average Adjusted Aggregate Availability:

- Canadian dollar Prime Rate, and U.S. dollar Base Rate and Prime Rate loans at Prime or Base Rate plus 0% to 0.75%;
- Bankers' Acceptances (BA) loans at BA rates plus 1.75% to 2.25% (2.50% to February 8, 2013);
- LIBOR advances at LIBOR plus 1.75% to 2.25% (2.50% to February 8, 2013); and
- Unused line fees of 0.25% to 0.375%.

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.

The asset-based working capital facility should be sufficient to fund all of the Company's current cash requirements for 2013.

Full details of the financing arrangements are included in Notes 12 and 13 to the 2012 financial statements.

Prior to the Icelandic USA Acquisition in December 2011, average short-term borrowings in 2011 were approximately $57 million. In 2012, our average short-term borrowings were approximately $100 million, increased by approximately $43 million due to the Icelandic USA Acquisition in December, 2011. During 2012, we generated cash that allowed us to pay down current bank loans by $59.7 million. Our unused available credit on pre-arranged short-term working capital borrowing facilities was approximately $100 million at year end, based on margin calculations. We expect available credit in 2013 to be higher than in 2012 due to the lower borrowings and expected lower average loan balances due to projected increased cash flow that will allow us to repay additional short-term borrowings.

The Company's line of credit of $180.0 million is a U.S. dollar line of which $125.0 million is allocated to our U.S. operations and the remainder is allocated to our Canadian operations.

On December 29, 2012, we had letters of credit outstanding in the amount of $0.6 million to secure obligations for the purchase of seafood, USD$0.5 million to secure lease obligations, and CAD$11.0 million to secure certain obligations under the Company's supplemental executive retirement plan.

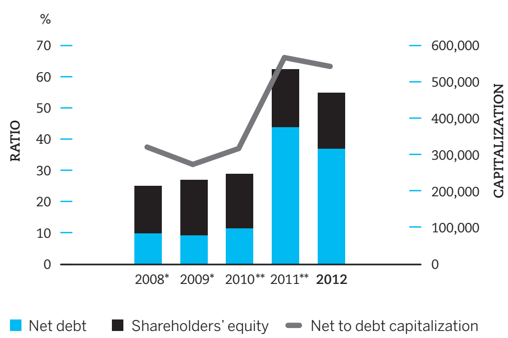
We expect leverage will decrease to more historically normal levels over the next few years as we pay down loans with our cash flow from operations and realize additional synergies from the Icelandic USA Acquisition. In 2012, free cash flow was $66 million and debt repayments were $62.6 million.

Working Capital

Net working capital balances, consisting of accounts receivable, inventory, prepaid expenses, less provisions and accounts payable, at the end of fiscal 2012 were $198 million, compared to $235 million a year ago. This is a $37 million decrease partly due to lower inventories.

Net Debt to Capitalization

(Amounts in $000s)



* 2008 and 2009 have been converted to USD by taking the previously reported CAD amounts and converting them at the period end exchange rate for each year. These two years are in accordance with Canadian GAAP (not restated).

** 2010 and 2011 have been restated.

Our working capital requirements fluctuate during the year, usually peaking between December and April as our inventory is the highest at that time. In 2012, we were able to reduce working capital in part by making alternative supplier arrangements for certain raw material that we procured and store in Asia for further processing, which meant inventory that was in the past on our balance sheet is no longer on it at the end of 2012. Also, the inventory that we acquired as part of the Icelandic USA Acquisition was unusually high when the deal closed in December 2011 and we were able to reduce it in 2012. Finally, the integration of Icelandic USA into High Liner also allowed us to better manage inventory, resulting in lower balances by the end of 2012. Average replacement costs for some products, specifically cod, were also lower at year end than in the previous year. Account receivable was also down as non-trade receivables related to the acquisition were extinguished.

Going forward, we expect the inventory trend of peaking between December and April to continue and we have enough availability on our line of credit to finance our working capital requirements throughout 2013. If we were to do another acquisition, we may need to expand our working capital facility, depending on the size of the acquisition.

Cash Flow

Cash flow provided by operations before changes in non-cash working capital items for 2012 increased from the same period last year, mainly due to the additional cash flow from operations generated by the Icelandic USA Acquisition, including synergies, and due to lower integration/acquisition costs incurred in 2012 than in 2011. In addition, non-cash working capital items generated cash in the most recent year, primarily the result of a decrease in inventory, compared to 2011 where working capital used cash.

Standardized free cash flow[1] was $66.3 million for the year ended December 29, 2012, compared to a negative $2.6 million for the year ended December 31, 2011. Cash flow increased due to a reduction of working capital, mainly inventory, from the change for the prior year. Cash flow from operations before working capital changes also increased due to cash generated by the Icelandic USA Acquisition. Standardized free cash flow was partially decreased during the most recent year due to higher capital expenditures. Capital expenditures in 2012 were higher than 2011 due primarily to integration efforts.

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

(Amounts in $000s)	**Fiscal 2012**	Fiscal 2011
Net change in non-cash working capital items	**$ 25,219**	$ (25,020)
Cash flow from operating activities, including interest and income taxes	**53,765**	29,429
Cash flow from operating activities*	**78,984**	4,409
Less: total capital expenditures, net of investment tax credits*	**(12,709)**	(7,047)
Standardized Free Cash Flow	**$ 66,275**	$ (2,638)

*Per Cash Flow Statement

We discuss liquidity risk in Section 8.10 below and Note 24 in our financial statements.

Other Liquidity Items

Stock Options

From 2000 to 2012 most stock options issued contained a tandem stock appreciation right (Tandem 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. An expense of $10.3 million was recorded in 2012 based on an increase in the Company's stock price. The liability at the end of 2012 was $10.8 million, compared to $4.0 million at the end of fiscal 2011. In comparison, stock options without SARs are valued once when granted using a trinomial model or similar

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

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 stock price over the past year, we have recorded a substantial stock compensation expense, which at this time, is non-cash until holders exercise.

Any options exercised in shares would continue to be cash positive.

Recognizing the volatility of tandem stock appreciation rights 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 the third quarter of 2012 did not contain a Tandem SAR. As well, subsequent to year end, at the election of individual directors and named executive officers, amendments may be made to the stock options granted in earlier years to eliminate the tandem SAR. In addition, instead of a risk that the Company might be called upon for a cash payment equal to the value of the SARs, future exercises of these options will see the issuance of common stock to the holder of the options, who will then decide to sell in the market to crystallize a cash gain or hold the stock. In this case the Company receives the value of the strike price of the option as proceeds on sale of shares.

Defined Benefit Pension Plans

The Company's defined benefits pension plans can have an impact of the Company's cash flow requirements and affects liquidity. In 2012, the defined benefit pension expense for accounting purposes was $1.0 million. However, due to the fact that these pension plans are not fully funded, the annual cash contributions were $2.0 million higher than the 2012 accounting expense. For 2013, we expect cash contributions of approximately $2.4 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 SERP liability of $11.1 million that is secured by a letter of credit of a similar amount. Only small amounts of pension benefits are currently being paid from the SERP liability.

Capital Expenditures

Gross capital (including capital leases) expenditures for 2012 were $13.4 million compared with $7.7 million in the previous year. The increase is attributable primarily to strategic initiatives or related to the achievement of synergies pertaining to the Icelandic USA Acquisition and for projects that reduce the ongoing cost of our operations. The remainder of the capital spending is for maintenance capital to remain compliant with regulatory and other requirements, and for replacement of equipment that is at the end of its useful life.

We plan to invest approximately $17 million to $20 million in capital assets in 2013. As a result of the rationalization of our production facilities, which saw the closure of our Danvers and Burin plants, we will be spending more capital in 2013 in order to achieve the targeted cost savings. We have made a decision to invest in our 40-year-old Portsmouth plant to make it easier for us to continue to exceed ever-increasing food safety requirements. We are now confident that capacities can be expanded in the continuing plants by changing shift patterns. Approximately $4.2 million of our capital expenditures in 2013 are expected to be for strategic initiatives or related to the achievement of synergies and plant rationalization savings and a further $2 million for projects that will reduce the cost of our operations. The remainder of the capital budget is for projects that will ensure that we continue to be in compliance with regulatory and other requirements, and for the replacement of aging equipment. We expect cash generated from operations and short-term borrowings will fund capital additions in 2013.

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 annual financial statements.

Equity

The book value of our equity at the end of 2012 was $10.13 per share compared with $10.53 at the end of 2011. The decrease in equity was a result of integration costs, asset impairments on facilities and deferred financing costs related to the acquisition and favourable amendments on our loans.

We filed a normal course issuer bid in December 2010 to purchase up to 663,000 common shares and up to 93,840 non-voting equity shares. When the bid expired in 2011, we had purchased 88,758 non-voting equity shares for aggregate consideration of CAD$1.2 million at an average price of CAD$13.70 per share. The shares that were repurchased were cancelled.

We filed a normal course issuer bid in January 2012 to purchase up to 100,000 common shares, and up to 100,000 non-voting equity shares. We repurchased 29,100 non-voting equity shares for aggregate consideration of CAD$509,250 or CAD$17.50 per share under this bid in 2012. These shares were cancelled. The bid terminated on January 30, 2013 with no additional shares being purchased.

We filed a new normal course issuer bid in January 2013 to purchase up to 250,000 common shares. This bid terminates on January 30, 2014.

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 Toronto Stock Exchange 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 Toronto Stock Exchange under the symbol "HLF". The Non-Voting Shares were required to accommodate certain completed transactions and had no further applicability to the Company. This redemption simplified our capital structure as well as improved liquidity for all shareholders of the Company.

Dividends

The quarterly dividend for the first quarter of 2011 was CAD$0.09 per common and non-voting equity share, which was then increased to CAD$0.10 per common and non-voting equity share for the remaining quarters in 2011 and for the first two quarters of 2012. The dividend was set at CAD$0.11 per common and non-voting equity share for the last two quarters of 2012.

Our dividend policy reflects our confidence in our growth strategy, together with significant improvements on our balance sheet. Dividends are subject to restrictions in our credit agreements. Availability under the working capital facilities needs to be $22.5 million or higher. Under the term loan, after recent amendments, capital distributions including both normal NCIB and dividends cannot exceed the greater of $15.5 million per year or defined excess cash flow accumulated less required debt repayments over the term of the loan.

On February 20, 2013, the Directors approved a quarterly dividend of CAD$0.15 per share on the Company's common shares payable on March 15, 2013 to holders of record on March 1, 2013.

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

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

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.

	Payments Due by Period				
(Amounts in $000s)	Total	Less than 1 year	2–3 Years	4–5 Years	After 5 Years
Long-term debt	$ 248,125	$ 34,237	$ 15,938	$ 197,950	$ –
Finance lease obligations	3,220	1,039	1,518	663	–
Operating leases	14,294	4,557	5,824	3,913	–
Purchase obligations	216,752	199,494	17,258	–	–
Total contractual obligations	$ 482,391	$ 239,327	$ 40,538	$ 202,526	$ –

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

Financial Instruments

Classification of Financial Instruments

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

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

Readers are directed to Note 22 to our audited financial statements for the year ended December 29, 2012 for a complete description of the use of derivative financial instruments by the Company.

Disclosure of Outstanding Share Data

On February 20, 2013, 15,142,244 common shares and 862,766 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. 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 Centres

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

Technology

Our business is simplified through an enterprise-wide business management system, using *Oracle* software. We have also developed a proprietary internet-enabled procurement system that allows us to manage procurement in real time. Business intelligence software allows us to manage our information on a real-time basis to help us make business decisions quickly, manage inventory and accounts receivable and provide more informative financial disclosure. We have ensured that we are equipped to respond to customer demands for electronic transmission of business documents, including invoices, purchase orders and payment confirmations. In 2011, we embarked on a renewal of our Product Life Cycle systems through a purchase of *Oracle* software. In 2012, we implemented Global Specifications Management software throughout the company. In 2012, we invested in network infrastructure to ensure that our operations will function during business disruptions at our Halifax data centre.

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 *Sea Cuisine* is expanding its ACV.

In the U.S. food service market, the *FPI* brand is also well known for its product innovation and quality products. It is one of the most recognizable brands in the U.S. food service market. The *Viking* brand, and the addition of the *Icelandic Seafood, Samband of Iceland, Seaside* and *Seastar* brands, makes us the largest supplier of value-added seafood to the U.S. food service market.

Procurement Expertise

We are seafood experts, and procure seafood on world markets from a position of strength. We have no harvesting or farming operations, we procure many species from around the world, accessing product from various fisheries in different parts of the globe. This provides us with a continuity of supply, without the investment in capital necessary for fishing or farming operations, and allows us to focus on what the customer wants rather than trying to sell what is caught. Our procurement group's proprietary internet-based procurement and inventory management system enables the purchase of approximately 30 species of seafood from geographically diverse suppliers in approximately 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.

Customer Relationships

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

Differentiated Innovative Products

Innovation is one of our core values and we exhibit this especially in our product line. We strive to develop and launch new products that are differentiated from others in the market. For example, in late 2010 we launched a new innovative product line in the U.S. food service channel called *FireRoasters*. Due to the success of *FireRoasters* we expanded its distribution to U.S. retail, and Canadian retail and food service channels. It is a line of value-added, flame-seared seafood product that is unlike anything in the market today. High Liner's *Flame Savours*, which were launched in 2012 in Canadian retail, won the "Best New Product Award[2]" in the frozen fish category in January 2013. Our premium products in the U.S. and Canada have been an excellent example of our innovation in seafood products. Increasing the depth of our product line by adding new species from aquaculture has allowed us to develop even more innovative products.

Low Break-Even Point, Scalable Operations

Our business model has a low break-even point. We are no longer in the capital-intensive fishing operations, but instead rely on our procurement expertise. Our business has relatively low fixed costs and proportionately more variable costs, which means that the break-even point for the Company is low. Our sales more than 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 options, as a percentage of sales in 2007 were 14.3%, compared with 9.8% in 2012. 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 significant procurement expertise. Combined, these strengths allow us to manage the margins we generate on our sales, either by changing prices to our customers when necessary or qualifying for better prices from our suppliers.

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

Governance

Our 2012 Management Information Circular includes full details of our governance structures and processes.

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. In 2011, in accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, our certifying officers had limited their scope of their design of disclosure controls and procedures, and our Company's internal control over financial reporting to exclude controls, policies and procedures relating to the Icelandic USA Acquisition, as it arose in late 2011, and they 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. This operation was transitioned to High Liner systems in 2012 and the scope limitation was removed for the fiscal 2012 year-end certificates.

Our Chief Executive Officer and Chief Financial Officer have evaluated the design and effectiveness of our disclosure controls and procedures as of December 29, 2012. They have concluded that our current disclosure controls and procedures are designed to provide, and do operate to provide, reasonable assurance that (i) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure.

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

4. Other Items Important to Understanding our Results

4.1 Accounting Standards

High Liner reports its financial results using International Financial Reporting Standards ("IFRS"). Our detailed accounting policies are included in the notes to the consolidated financial statements for fiscal 2012. In addition to the existing IFRS standards that the Company adopted, 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 in reporting periods subsequent to fiscal 2012 as follows:

- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities;
- IFRS 9 – Financial Instruments: Classification and Measurement;
- IFRS 10 – Consolidated Financial Statements;
- IFRS 11 – Joint Arrangements;
- IFRS 12 – Disclosure of Interests in Other Entities;
- IFRS 13 – Fair Value Measurement;
- IAS 1 – Presentation of Financial Statements (IAS 1) and the presentation of Items in Other Comprehensive Income (OCI);
- IAS 12 – Income Taxes – Recovery of Underlying Assets;
- IAS 19 – Post-employment Benefits (Including Pensions); and
- IAS 28 – Investments in Associates and Joint Ventures (as revised in 2011).

Additional details relating to the new standards and amendments are included in our consolidated financial statements for fiscal 2012 in note 3 *New standards and interpretations issued but not effective*. The Company's evaluation of the effect, if any, that these new standards and amendments will have on our financial results is ongoing.

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

In addition to transactions between the parent and subsidiaries, High Liner Foods has entered into certain transactions and agreements in the normal course of business with certain other related parties, as disclosed in the notes to the financial statements. Transactions with these parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During 2012, 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.

On November 15, 2012, High Liner announced the redemption of all outstanding non-voting equity shares ("Non-Voting Shares"), in exchange for common shares ("Common Shares") of High Liner, with one Common Share being issued for each Non-Voting Share redeemed. On November 15, 2012, related parties of High Liner 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 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's market capitalization.

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 Viking was completed in 2011 and for Iceland USA was completed in 2012. Amortization expense was $5.6 million in 2012 compared to $1.8 million in 2011. The increase is due to the Icelandic USA Acquisition. 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 2012 and 2011, which showed that goodwill is not impaired.

4.4 Business Acquisition, Integrations and Other Expenses

In 2011 and 2012, we incurred acquisition, financing and integration costs related to the Icelandic USA Acquisition. These costs included investment banking, legal, accounting, due diligence, and similar transaction costs. As part of an optimization of our supply chain upon the Icelandic USA Acquisition, we announced on May 3, 2012, that we were closing two of our production facilities.

The table that follows shows the various items that are related to acquisition and integration efforts and related impairments due to the closure of production facilities.

Fifty-Two Weeks Ended (Amounts in $000s)	**Dec. 29, 2012**	Dec. 31, 2011
Pre tax		
Impairment of property, plant and equipment	**$ 13,230**	$ –
Business acquisition, integration and other (expenses)	**10,741**	11,049
Cost of Sales		
Continued depreciation for Impairment of property, plant & equipment	**1,879**	–
	$ 25,850	$ 11,049
After tax		
Impairment of property, plant and equipment	**$ 8,635**	$ –
Business acquisition, integration and other (expenses)	**6,895**	8,397
Cost of Sales		
Continued depreciation for Impairment of property, plant & equipment	**1,146**	–
	$ 16,676	$ 8,397

4.5 Financing Costs

Interest expense in 2012 is higher than in 2011 as a result of higher short-term and long-term debt levels due principally to the Icelandic USA Acquisition, and due to deferred financing costs, the valuation of an embedded derivative associated with the long-term debt, and the mark-to-market of a related interest rate swap that does not qualify for hedge accounting.

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

Fifty-Two Weeks Ended (Amounts in $000s)	**Dec. 29, 2012**	Dec. 31, 2011
Interest paid in cash during period	**$ 19,145**	$ 5,241
Change in cash interest accrued during the period	**2,660**	449
Total interest to be paid in cash	**21,805**	5,690
Deferred financing cost amortization	**2,775**	329
Accelerated deferred cost amortization	**8,713**	–
Valuation of embedded derivative	**2,605**	–
Mark-to-market on interest rate swap	**726**	–
Total finance costs	**$ 36,624**	$ 6,019

Included in finance costs is the value of marking to market an embedded derivative that was included in long-term debt at year end. The embedded derivative related to a LIBOR floor of 1.5% on our term debt that, under IFRS Financial Instruments, needed to be separated from the long-term debt and presented as "Other 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 normal 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 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 standards required an acceleration of the amortization of net deferred financing costs in 2012 due to the significantly favourable changes in the future cash flows under the amendments. This resulted in the amendment being accounted for as an extinguishment of debt in fiscal 2013. Previously deferred fees were therefore expensed over the revised remaining life of the original debt resulting in increased net 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.

Also included in finance costs is a charge for mark-to-market on an interest rate swap that we entered into in 2012. However, as the embedded floor was bifurcated from long-term debt, the swap does not qualify for hedge accounting, as hedging a derivative is not permissible under IFRS. Consequently, the swap was marked-to-market during the year, resulting in an expense of $0.5 million.

The earnings per share implications for 2012 of the embedded derivative and the swap are disclosed in the table in section 5.3 of this document.

We expect our short-term bank loans in 2013 to be generally lower than those of 2012 and also expect lower interest rates on our long-term debt due to amendments made to it in early 2013. Consequently, we expect interest expense in 2013 to be lower than it was in 2012.

4.6 Income Taxes

High Liner's effective income tax rate in 2012 is a recovery of income taxes despite having pre-tax income, compared to 33.9% for 2011. Our Canadian statutory rate for 2012 was approximately 27%. The recovery in 2012 is due primarily to the benefit of acquisition financing deductions in connection with the Viking and Icelandic USA acquisitions, partially offset by non-deductible stock compensation expense and a higher U.S. statutory tax rate of 39%. During 2011, the Company recorded an additional $0.8 million of non-deductible one-time withholding tax relating to the dividend that was paid in connection with the financing for the Viking Acquisition. In 2012, the non-deductible withholding tax relating to the dividend that was paid in connection with the financing for the Viking Acquisition was reduced by $0.4 million once the estimate was finalized after the income tax return for 2011 was filed.

See Note 20 to the annual financial statements for full information with respect to income taxes. Loss carry-forwards are still available in the U.S. operations to reduce cash taxes for the next year or two. The Canadian statutory income tax rate for 2013 is approximately 27%.

4.7 Contingencies

We have no material contingencies that are outstanding.

5. Performance

5.1 The Icelandic USA Acquisition

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

The Icelandic USA Acquisition was another milestone on our journey to becoming a larger company and in growing our EBITDA. It immediately increased our pro forma EBITDA by $27 million and synergies expected to be realized in the future will further increase EBITDA. Moreover, it moved us closer to our vision to be the North American leader in frozen value-added seafood. The acquisition brought to High Liner a complementary food service business in the U.S., adding to the strong businesses we acquired in 2007 and 2010. The Icelandic USA Acquisition also increased our competitive advantage in procuring raw material and finished goods. Synergies of $9.4 million were realized in 2012.

The table which follows shows the consolidated results on a pro forma basis, which includes the Icelandic USA operations in 2011 as though they had been part of High Liner's results for all of 2011. Sales of the Asian Trading business in 2012 of $2.3 million (2011 pro forma sales of $19.8 million), not intended to be continued by High Liner, are excluded from the totals.

Fifty-Two Weeks Ended (Amounts in $000s)	Sales	Pounds Sold	Adjusted EBITDA*
Actuals 2012, excluding Icelandic USA	**$ 666,785**	**$ 191,159**	**$ 52,273**
Actuals 2012, Icelandic USA	**273,546**	**85,034**	**39,453**
Actuals 2012, including Icelandic USA	**940,331**	**276,193**	**91,726**
Actuals 2011, excluding Icelandic USA	$ 666,798	$ 198,203	$ 55,287
Icelandic USA – 2011	264,752	82,812	26,940
Actuals 2011 – Pro forma, including Icelandic USA	931,550	281,015	82,227
Change, excluding Icelandic USA	0.0%	–3.6%	–5.5%
Change, Icelandic USA	3.3%	2.7%	46.4%
Change Total, including Icelandic USA	0.9%	–1.7%	11.6%

*As the business is now substantially integrated, the determination of Adjusted EBITDA between Icelandic USA and our pre-acquisition operations is difficult to do, as costs and synergies achieved in bringing the two businesses together are intermingled. As such, the 2012 amounts were determined using management's best estimates.

Integration efforts have gone well and the focus on the Icelandic business has delivered a small increase in volume on a year-to-date basis. However, pre-Icelandic Acquisition High Liner sales, after a strong first quarter during Lent, were lower in the later part of 2012 compared with the same period last year. The reduction relates to certain large-volume, lower-margin accounts that either have not been selling as much seafood as last year, the loss of business as a result of 'two supplier' policies instituted by certain customers, and/or through competitive activity. None of the reduction is attributable to the Icelandic USA Acquisition.

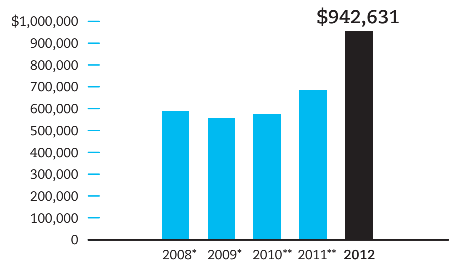
5.2 Overall Performance

Before discussing and analyzing the results of operations for 2012, it is important to review high-level trends, uncertainties and market factors that impacted 2012.

Fiscal 2012 was a very successful year for the Company in an uncertain economic environment. It was the first full year after the acquisition of Icelandic USA and is one of the most profitable years that the Company has had in its history. While synergies from the Icelandic USA Acquisition were realized in 2012, we expect to realize additional synergies in 2013, primarily from annualizing synergies that were put in place in 2012 but were only included in our financial results for part of the year, especially the cost saving from closing the two plants late in 2012 and early 2013.

The economic environment of the past few years was challenging for many companies. At the same time, as we are facing a cost-conscious consumer, we have to deal with food inflation. Increases in the cost of seafood, flour-based ingredients, and cooking oils required us to implement price increases in fiscal 2012. For the first half of 2012, costs did increase to the predicted levels, but in the last half of the year we saw some decreases in certain seafood species. Due to our inventory positions and contracts in place, the impact of the lower seafood costs was only marginally felt in 2012 and, in fact, competitive activity pushed selling prices down more quickly than inventory costs came down. However, we expect lower average seafood costs in 2013 relative to 2012.

Sales
(Amounts in $000s)



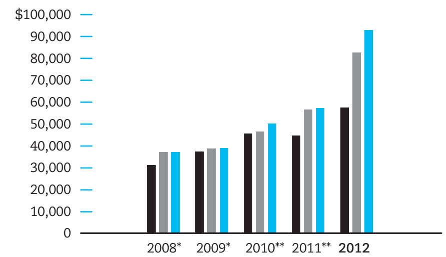
* 2008 and 2009 have been converted to USD by taking the previously reported CAD amounts and converting them at the annual average exchange rate for each year. These two years are in accordance with Canadian GAAP (not restated).

** 2010 and 2011 have been restated.

Sales in domestic dollars increased in 2012:

- Icelandic USA added $275.8 million to sales

EBITDA
(Amounts in $000s)



- Standardized EBITDA, as per calculation on page 26
- Adjusted EBITDA, same definition as (1) except including non-cash stock compensation expense
- Adjusted EBITDA (see note (1) below)

(1) Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization, excluding impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, gains or losses on disposal of assets, and the increase in cost of goods sold relating to inventory acquired from business acquisitions, above its book value, as part of the fair value requirements of purchase price accounting

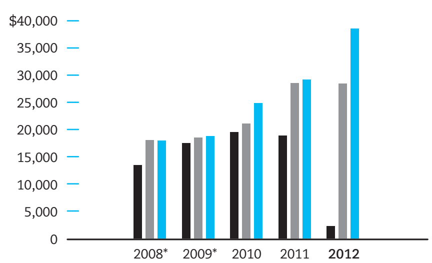
* 2008 and 2009 have been converted to USD by taking the previously reported CAD amounts and converting them at the annual average exchange rate for each year. These two years are in accordance with Canadian GAAP (not restated).

** 2010 and 2011 have been restated.

Adjusted EBITDA improved in 2012:

- Icelandic USA, including synergies, added $38.3 million to EBITDA
- New products increased EBITDA

Net Income
(Amounts in $000s)

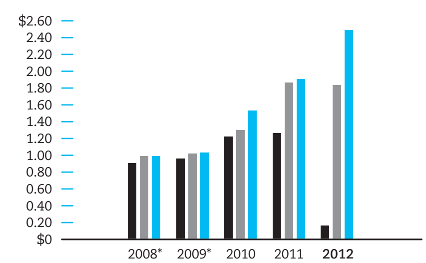


- Net Income, as reported
- Adjusted Net Income[(1)], including non-cash stock compensation expense
- Adjusted Net Income (see note (1) below)

(1) Adjusted Net Income is net income excluding the after-tax impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, the increase in cost of goods sold relating to inventory acquired from business acquisitions over its book value, non-cash expense from revaluing an embedded derivative associated with the long-term debt LIBOR floor, marking-to-market an interest rate swap related to the embedded derivative, the write off of deferred financing charges on the re-pricing of the Term Loan and withholding tax related to inter-company dividends.

* 2008 and 2009 have been converted to USD by taking the previously reported CAD amounts and converting them at the annual average exchange rate for each year. These two years are in accordance with Canadian GAAP (not restated).

Diluted EPS



- EPS, as reported
- EPS, based on Adjusted Net Income[(1)] except including non-cash stock compensation expense
- EPS, based on Adjusted Net Income (see note (1) below)

(1) Adjusted Net Income is net income excluding the after-tax impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, the increase in cost of goods sold relating to inventory acquired from business acquisitions over its book value, non-cash expense from revaluing an embedded derivative associated with the long-term debt LIBOR floor, marking-to-market an interest rate swap related to the embedded derivative, the write off of deferred financing charges on the re-pricing of the Term Loan and withholding tax related to inter-company dividends.

* 2008 and 2009 have been converted to USD by taking the previously reported CAD dollar amounts and converting them at the annual average exchange rate for each year. These two years are in accordance with Canadian GAAP (not restated).

Improvement in Adjusted Net Income and diluted earnings per share in 2012 due to:

- Icelandic USA, including synergies, added to EBITDA
- New products increase EBITDA

5.3 Consolidated Results

Selected Annual Information

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

(Amounts in $000s, Except Per Share Amounts and Exchange Rates)	**2012***	2011**	2010***
Sales			
Canada	**$ 312,884**	$ 299,255	$ 276,186
United States	**629,747**	376,284	291,386
Total sales	**942,631**	675,539	567,572
Net income			
Total	**2,203**	18,660	19,299
Basic Earnings per Common Share	**0.15**	1.24	1.20
Diluted Earnings per Common Share	**0.14**	1.22	1.19
Adjusted Net Income			
Total	**38,071**	28,854	24,523
Basic Earnings per Common Share	**2.52**	1.91	1.52
Diluted Earnings per Common Share	**2.46**	1.88	1.51
Total assets	**631,283**	687,347	330,079
Total long-term financial liabilities	**231,993**	247,352	57,103
Cash dividends per share			
Common Shares – in CAD	**0.42**	0.39	0.33
Non-Voting Equity Shares in CAD	**0.42**	0.39	0.33
Gross capital expenditures	**13,447**	7,675	5,270
Average foreign exchange rate for the year (USD/CAD)	**0.9996**	0.9891	1.0300

* includes the results of the Icelandic USA and Viking acquisitions for the full year.
** includes the results of the Icelandic USA Acquisition for December 19, 2011 to December 31, 2011 and the results of the Viking Acquisition for the full year.
*** includes the results of the Viking Acquisition for December 13, 2010 to January 1, 2011.

Seasonality

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

Quarterly Financial Data

Fiscal 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(1)	**31,529**	**16,372**	**21,753**	**22,072**	**91,726**
Net income (loss)	**1,728**	**989**	**2,169**	**(2,683)**	**2,203**
Adjusted Net Income(2)	**14,009**	**5,450**	**7,976**	**10,636**	**38,071**
Earnings per Common Share based on net income					
Basic earnings per Common Share(3)	**0.11**	**0.07**	**0.14**	**(0.18)**	**0.15**
Diluted earnings per Common Share(3)	**0.11**	**0.06**	**0.14**	**(0.18)**	**0.14**
Earnings per Common Share, based on Adjusted Net Income(2)					
Basic earnings per Common Share(3)	**0.93**	**0.36**	**0.53**	**0.70**	**2.52**
Diluted earnings per Common Share(3)	**0.91**	**0.35**	**0.52**	**0.68**	**2.46**

Fiscal 2011

(Amounts in $000s, Except Per Share Amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales	$ 179,938	$ 158,399	$ 164,727	$ 172,475	$ 675,539
Adjusted EBITDA(1)	18,624	11,227	12,299	14,308	56,458
Net income (loss)	9,888	4,929	6,784	(2,941)	18,660
Adjusted Net Income(2)	10,138	5,637	6,341	6,738	28,854
Earnings per Common Share based on net income					
Basic earnings per Common Share(3)	0.65	0.33	0.45	(0.19)	1.24
Diluted earnings per Common Share(3)	0.64	0.32	0.44	(0.19)	1.22
Earnings per Common Share, based on Adjusted Net Income(3)					
Basic earnings per Common Share(3)	0.67	0.37	0.42	0.45	1.91
Diluted earnings per Common Share(3)	0.66	0.37	0.41	0.44	1.88

(1) See definition of Adjusted EBITDA on page 26.
(2) See definition of Adjusted Net Income on page 22.
(3) Total for the year does not add to the sum of the quarters due to the nature of the calculations and rounding.

The first quarter of the year is historically stronger than the other three quarters for both sales and profits, depending on the timing of Lent, and correspondingly the second quarter is the weakest. The Lenten period was earlier in 2012 than in 2011, with Good Friday falling on April 6, 2012 compared to April 22, 2011. Our U.S. retail business and our U.S. food service business traditionally experiences a strong first quarter as retailers and restaurants promote seafood during the Lenten period. For retail sales, the second and third quarters are more challenging during the warmer months as consumers spend more time outdoors, travel, and use ovens less often, resulting in a decreased demand for our products. However, for the food service business, activities are usually elevated in the third quarter 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 when the initial promotional activity takes place or when new products are first shipped. The accounting periods during which we choose to incur these expenditures may change from year to year. Therefore, there may be fluctuations in income relating to these activities. A significant percentage of advertising is typically done in either the first or fourth quarters.

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 significantly higher inventories in December, January, February and March than during the rest of the year.

Going forward, we expect seasonality to be similar to 2012.

Sales

Sales for fiscal 2012 were $942.6 million, compared to $675.5 million in fiscal 2011. In 2012, more than two thirds of the Company's operations, including sales, were denominated in U.S. dollars. The stronger Canadian dollar decreased the value of reported U.S. sales by approximately $3.0 million relative to the conversion impact in 2011. The Icelandic USA Acquisition added $275.8 million to our sales in 2012 compared to $8.5 million in 2011.

Sales in domestic currency for 2012, including the Icelandic USA Acquisition, were $942.3 million compared to $672.3 million for the previous year. Sales volume measured in pounds, including the Icelandic USA Acquisition, was 276.2 million compared to 200.8 million the previous year, an increase of 37.5%. The Icelandic USA Acquisition added 85.0 million pounds in the year.

Sales trends are discussed in more detail below in the section called Performance by Segment.

Gross Profit

Gross profit in 2012 was $209.5 million compared to $153.5 million in 2011. Gross profit as a percentage of sales was 22.2% in 2012 compared to 22.7% the previous year. Gross profit increased by $56.0 million in 2012 due to an increase in sales but decreased slightly as a percentage of sales due to an increase in input costs.

Distribution Expense

Distribution expense in 2012 increased by $10.9 million, or 30.9% from the previous year, due to higher sales volumes resulting from the Icelandic USA Acquisition and organic growth. Distribution expenses in 2012 were 4.9% of sales, down from 5.2% in the previous year, primarily due to efficiencies realized due to our larger scale.

Selling, General and Administrative Expense (SG&A)

Fifty-Two Weeks Ended (Amounts in $000s)	**Dec. 29, 2012**	Dec. 31, 2011
Selling, general and administrative expenses (SG&A) as reported	**$ 101,891**	$ 72,898
Less		
Stock compensation expense*	**9,250**	699
Amortization expense	**5,551**	1,840
Net SGA	**$ 87,090**	$ 70,359
Net SGA as a % of sales	**9.2%**	10.4%

*Total stock compensation expense for the year is higher as some has been expensed in cost of sales and in distribution.

SG&A expense in 2012 increased $29.0 million over the previous year. SG&A expense for 2012, excluding amortization and stock compensation expense, was 9.2% of sales, compared to 10.4% for the previous year. SG&A expenses increased in 2012 as a result of the Icelandic USA Acquisition.

During 2012, we recorded a stock-based compensation expense (described below) of $9.3 million in SG&A versus $0.7 million during 2011. The increase in the 2012 stock-based compensation expense was due to an increase in our stock price. (See the Liquidity Section, "Stock Options" above for discussion regarding SARs and their impact on the financial results of High Liner.) Higher amortization of intangible assets from the Icelandic USA Acquisition in the amount of $4.5 million was offset by the achievement of approximately $9.4 million of synergies realized.

Adjusted EBITDA

Our consolidated Adjusted EBITDA[3] in 2012 was $91.7 million, an increase of 62.5% compared to $56.5 million in 2011. The change in the value of the Canadian dollar, excluding its impact on purchases of seafood for the Canadian market, reduced EBITDA by $0.2 million due to the conversion of Canadian results to United States' dollars.

In domestic currency, Adjusted EBITDA[3] for 2012 was $91.7 million compared to $56.2 million in 2011. The increase was due to an increase in sales volume, including Icelandic USA, and cost reduction strategies. In domestic currency, Adjusted EBITDA[3] as a percentage of sales was 9.7%, up from 8.4% in 2011.

Adjusted EBITDA[3] in domestic dollars was affected by the following:

- Icelandic USA added $9.4 million to Adjusted EBITDA[3].
- Realized increased synergies from the Icelandic USA Acquisition and efficiencies in our operations increased Adjusted EBITDA by $3.7 million.
- Reduced sales in our pre-acquisition USA operations reduced EBITDA. Competitive activity resulted in lower selling prices on commodities before higher cost inventory was sold.

3. See definition on page 26.

The table below reconciles our Adjusted EBITDA[3] with measures that are found in our financial statements.

	Fifty-Two Weeks Ended December 29, 2012			Fifty-Two Weeks Ended December 31, 2011		
(Amounts in $000s)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Net income (loss)	**$ 4,266**	**$ (2,063)**	**$ 2,203**	$ 13,820	$ 4,840	$ 18,660
Add back (deduct)						
Depreciation	**3,837**	**9,993**	**13,830**	3,681	4,300	7,981
Amortization	**190**	**5,361**	**5,551**	232	1,608	1,840
Financing costs	**1,512**	**35,112**	**36,624**	1,095	4,924	6,019
Income taxes	**3,668**	**(5,335)**	**(1,667)**	5,632	3,838	9,470
Standardized EBITDA	**$ 13,473**	**$ 43,068**	**$ 56,541**	$ 24,460	$ 19,510	$ 43,970
Add back (deduct)						
Business acquisition, integration and other expenses	**$ 2,321**	**$ 8,420**	**$ 10,741**	$ 1,238	$ 9,811	$ 11,049
Impairment of property, plant and equipment	**4,407**	**8,823**	**13,230**	–	–	–
Increase in cost of sales	**–**	**1,149**	**1,149**	–	510	510
Loss (gain) on disposal of assets	**(270)**	**80**	**(190)**	16	176	192
Adjusted EBITDA, including stock compensation expense	**19,931**	**61,540**	**81,471**	25,714	30,007	55,721
Non-cash stock compensation expense	**8,655**	**1,600**	**10,255**	594	143	737
Adjusted EBITDA	**$ 28,586**	**$ 63,140**	**$ 91,726**	$ 26,308	$ 30,150	$ 56,458

Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization, excluding impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, gains or losses on disposal of assets, and the increase in cost of goods sold relating to inventory acquired from business acquisitions, above its book value, as part of the fair value requirements of purchase price accounting. Management believes that this is a useful performance measure as it approximates cash generated from operations, before capital expenditures and changes in working capital and excludes non-operating items. Adjusted EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. Adjusted EBITDA does not have a standardized meaning prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by others. Our definition of Adjusted EBITDA follows the October 2008 general principles and guidance for reporting EBITDA issued by the Canadian Institute of Chartered Accountants (CICA).

We discuss Adjusted EBITDA, 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 Note 19 to the consolidated financial statements.

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

(Amounts in $000s)	**2012 USD**	2011 USD	**2012 Domestic $**	2011 Domestic $	Change Over 2011 Domestic $
External Sales					
Canada	**$ 312,884**	$ 299,255	**$ 312,601**	$ 296,009	5.6%
USA	**629,747**	376,284	**629,747**	376,284	67.4%
	942,631	675,539	**942,348**	672,293	40.2%
Conversion	**–**	–	**283**	3,246	
	942,631	675,539	**942,631**	675,539	39.5%
Adjusted EBITDA					
Canada	**$ 28,586**	$ 26,308	**$ 28,549**	$ 26,035	9.7%
USA	**63,140**	30,150	**63,140**	30,150	109.4%
	91,726	56,458	**91,689**	56,185	63.2%
Conversion	**–**	–	**37**	273	
	91,726	56,458	**91,726**	56,458	62.5%
Adjusted EBITDA as % of sales					
In USD	**9.7%**	8.4%			
In domestic dollars			**9.7%**	8.4%	

As can be seen above, sales increased $270.8 million in 2012, due mainly to the Icelandic USA Acquisition. Likewise, Adjusted EBITDA increased by $35.4 million for the same reason. The reason for the increase in Adjusted EBITDA from 2011 is discussed by business in Section 5.4 below.

Net Income

Net income for 2012 was $2.2 million ($0.14 per diluted share) compared to $18.7 million ($1.22 per diluted share) for 2011. However, the results for both 2011 and 2012 included unusual and one-time costs.

The following table shows the impact of one-time acquisition costs, integration costs, stock compensation expense and other items on our diluted earnings per share for 2011 and 2012.

	2012		2011	
	Diluted Earnings Per Share Based On:		Diluted Earnings Per Share Based On:	
	$000	**Average Shares Outstanding**	$000	Average Shares Outstanding
Net Income	**$ 2,203**	**$ 0.14**	$ 18,660	$ 1.22
Add back				
After-tax business acquisition, integration, and other costs	**6,895**	**0.45**	8,397	0.55
Impairment of property, plant and equipment	**8,654**	**0.56**	–	–
Continued depreciation on property that is to be disposed as part of the acquisition	**1,127**	**0.07**	–	–
Increase in cost of sales due to purchase price allocation to inventory	**761**	**0.05**	312	0.02
Revaluation of embedded derivative on debt	**1,899**	**0.12**	–	–
Accelerated amortization of deferred financing charges	**6,380**	**0.41**	–	–
Interest rate swap on embedded derivative	**529**	**0.03**	–	–
Intercompany dividend withholding tax	**(402)**	**(0.03)**	782	0.05
	28,046	**1.81**	28,151	1.84
Stock compensation expense	**10,025**	**0.65**	703	0.05
Adjusted Net Income	**$ 38,071**	**$ 2.46**	$ 28,854	$ 1.88
Average shares for the period		**15,460**		15,341

The above table shows that excluding the impact of one-time acquisition and integration costs, stock option expense, and adjusting income taxes for withholding tax paid on an intercompany dividend, Adjusted Net Income in 2012 increased by $9.2 million, or 31.9%, and diluted earnings per share increased by $0.58 per share.

5.4 Performance by Segment

Canadian Operations

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

Our Canadian operations had external sales of $312.6 million in 2012, compared to $299.3 million in the previous year, representing an increase of 5.6%. Sales volume increased to 73.0 million pounds compared to 69.9 million the previous year. Canadian food service sales volume was essentially unchanged from 2011 as the casual dining segment was challenged due to a decrease in travellers from the U.S. through the summer season, and an increase in Canadians travelling to the U.S. Extreme hot weather during the 2012 summer also had a negative impact on food service sales as patrons chose to not dine on external patios, reducing restaurant capacity.

On the other hand, retail sales pounds increased in 2012 by 9.9% relative to 2011. Investments in sales and marketing programs in 2011 to drive more volume through our customers' stores, the launch of new value-pack commodity items to better compete with trader labels, and the reformulation of some products to have more competitive price points contributed to these positive results. In addition, *Flame Savours* were launched in 2012 based on our successful U.S. products, *FireRoasters*. These strategies were successful in also increasing retail sales volume in 2012.

Adjusted EBITDA in our Canadian operations for 2012 was $28.5 million compared to $26.0 million for the previous year, a 9.7% increase. Adjusted EBITDA increased as a result of higher overall sales volumes, cost-reduction strategies, new product introductions, and lower exchange rates that effectively reduced our product cost.

U.S. Operations

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

Fiscal 2012 is the first that included operating results for the Icelandic USA Acquisition for the full year. We began the integration of the Icelandic USA Acquisition in the first quarter of 2012 by consolidating our U.S. broker and sales forces. We continued the integration in the second quarter of this year by finalizing the organization for our U.S. operations, thereby eliminating the duplicate roles and functions between Icelandic and High Liner. We also announced in May that we would be closing two of our production facilities within the next year, including the Danvers plant. At the end of the third quarter, we migrated from the Icelandic USA computer system to High Liner's enterprise resource planning system and began moving production from the Danvers plant. By year's end, we had fully integrated the Icelandic operations and were set up to allow customers to do business with us seamlessly, no matter what brand or product they were ordering. The Danvers plant was closed in early January 2013 and all production was transferred to either Newport News or Portsmouth.

Our U.S. operations had external sales of $629.7 million in 2012, including the Icelandic USA Acquisition, compared to $376.3 million in 2011. The Icelandic USA Acquisition had sales of $273.5 million, excluding trading sale, in 2012. Sales volume for the year, including the Icelandic USA Acquisition, increased by 55.2% to 203.2 million pounds compared to 130.9 million pounds in 2011. Sales volume for our pre-Icelandic business volume decreased 7.9% in pounds and was flat in dollars.

To better understand the trends in this operation, the remainder of this section is discussed on a pro forma basis, which includes in 2011 the Icelandic USA operating results as though they had been part of High Liner's results for the full 2011 comparable period.

As part of the integration and to help achieve the synergies, High Liner planned to eliminate the non-North American trading sales historically done by Icelandic's Asian procurement. We were successful in eliminating those sales by April 2012, and thus sales in 2012 for this business were $2.3 million compared to approximately $19 million in 2011. There was no significant profit or loss on these sales.

The table below shows actual and pro forma results for our U.S. Operations, excluding the above trading sales, for 2011, compared to actual results for 2012, excluding the $2.3 million sales in 2012 and the $19 million in 2011 discussed above:

Fifty-Two Weeks Ended (Amounts in $000s)	Sales	Pounds Sold	Adjusted EBITDA*
2012			
Actuals – excluding Icelandic USA	**$ 353,901**	**118,177**	**$ 23,687**
Actuals Icelandic USA	**273,546**	**85,034**	**39,453**
Actuals including Icelandic USA	**627,447**	**203,211**	**63,140**
2011			
Actuals – excluding Icelandic USA	$ 367,543	128,279	$ 28,979
Actuals Icelandic USA	264,752	82,812	26,940
Actuals including Icelandic USA	632,295	211,091	55,919
Change, excluding Icelandic USA	–3.7%	–7.9%	–18.3%
Change, Icelandic USA	3.3%	2.7%	46.4%
Change Total, including Icelandic USA	–0.8%	–3.7%	12.9%

*As the business is now substantially integrated, the determination of Adjusted EBITDA between Icelandic USA and our pre-acquisition operations is difficult to do, as costs and synergies achieved in bringing the two businesses together are intermingled. As such, the 2012 amounts were determined using management's best estimates.

Dollar sales for 2012 of our U.S. Operations decreased slightly compared with pro forma 2011 with increases in the acquired business mostly offsetting decreases in the pre-Icelandic Acquisition business. Pro forma sales volume for 2012 decreased by 3.7% to 203.2 million pounds, compared to 211.1 million pounds in 2011.

On a pro forma basis, our U.S. food service operations, including Icelandic USA experienced a decrease in sales volume of 2.7% for 2012, compared to 2011. This reduction was attributed to our pre-Icelandic Acquisition business. In particular, this decrease is partly due to the loss of more than one of our 'National accounts' customers, lower sales at several other National account customers, and also due to higher 2011 sales on the initial product launch of *Fire Roasters* due to "channel fill" that did not repeat in 2012. As well, management decided not to compete for certain unprofitable commodity lobster and crab business from one customer which decreased sales. These decreases were partly offset by increased National account business from the acquired business.

U.S. retail operations experienced a 5.7% decrease in sales volume in 2012 compared to 2011 on a pro forma basis. This reduction in volume was attributed to private label products, which were down 10.1% in volume from 2011, in spite of new business gained, due to a decrease in private label seafood sales overall in the market place and due to the loss of some distribution for two of our larger customers, one who invoked their second supplier policy, and due to branded retailers promoting at price points lower than private label. Branded retail sales dollars increased, although sales volume to traditional grocery stores decreased 7.6% due to lower *Fisher Boy* brand sales, as we did not repeat a television and radio advertising campaign that we ran in 2011, which increased *Fisher Boy brand* awareness, distribution and sales in 2011, and competitor pricing and promotions this year that extended far beyond Lent. In addition, sales of products to Mexico have been negatively impacted by exchange rates. Decreased sales under the *Fisher Boy* brand were offset by increases in sales under the *Sea Cuisine* brand at higher price points, with volume growing steadily since its re-launch in 2008. Sales to club stores increased 6.6% in volume as a result of new product launches in the acquired business, increased distribution for existing products, and strong sales for seasonal products, offset by the loss of some commodity products to one of these customers in the pre-acquisition business.

Adjusted EBITDA for our U.S. operations in 2012 increased to $62.8 million from $55.9 million in 2011 on a pro forma basis. Profitability improved as a result of increased higher margins on new product volume, partly offsetting the loss of low-margin commodity business and an increase in volume from the Icelandic USA Acquisition, as well as realized synergies of $9.4 million that were realized in 2012.

Outlook

During 2012, much of our attention was focused on integrating Icelandic USA into High Liner's operations. Going forward, we can now focus on capitalizing on our combined strengths and operations to continue to maximize synergies and further solidify our leadership position in the North American frozen seafood market. We expect to begin a TV and radio advertising campaign in the first quarter of 2013 for our *Sea Cuisine* product line, which should help increase sales volume but will also increase expenses during the quarter by an estimated $3.3 million followed by an additional $1.0 million in the second quarter of 2013. In Canada, we expect to continue the momentum of positive overall growth in both sales and profitability, by developing new products and promotional campaigns. In general, we believe that seafood input costs have stabilized at late-2012 levels, lower than the average for 2012.

With the amendments to the Term Loan B announced on February 8, which included a reduction in applicable interest rates, we estimate a $6.2-million reduction in financing costs in 2013 and an approximately $33-million reduction over the remaining term of the loan.

Our primary strategic objective in 2012 was profitable growth. We successfully achieved this as Icelandic USA Acquisition was accretive to our 2012 results on an adjusted basis. We look to identify future opportunities for profitable growth, while continuing to make our operations more efficient, to continue to create value for our shareholders.

6. Summary of Results for the Fourth Quarter ended December 29, 2012

Sales for the fourth quarter of fiscal 2012 were $218.3 million compared to $172.5 million for the fourth quarter of fiscal 2011. The weakened Canadian dollar in the fourth quarter of 2012 relative to the same period in the previous year increased sales of our Canadian operations. Total sales volume, including Icelandic USA, was 63.8 million pounds, an increase of 12.4 million pounds from the same period last year, which consists of an increase of 15.5 million pounds related to Icelandic USA.

(Amounts in $000s)	**2012 USD**	2011 USD	**2012 Domestic $**	2011 Domestic $	Change Over 2011 Domestic $
External Sales					
Canada	**$ 80,059**	$ 74,745	**$ 79,348**	$ 76,579	3.6%
USA	**138,221**	97,730	**138,221**	97,730	41.4%
	218,280	172,475	**217,569**	174,309	24.8%
Conversion	**–**	–	**711**	(1,834)	
	218,280	172,475	**218,280**	172,475	26.6%
Adjusted EBITDA					
Canada	**$ 9,116**	$ 6,332	**$ 9,039**	$ 6,476	39.6%
USA	**12,956**	7,979	**12,956**	7,979	62.4%
	22,072	14,311	**21,995**	14,455	52.2%
Conversion	**–**	–	**77**	(144)	
	22,072	14,311	**22,072**	14,311	54.2%
Adjusted EBITDA as % of sales					
In USD	**10.1%**	8.3%			
In domestic dollars			**10.1%**	8.3%	

Our Canadian operations had external sales of CAD$79.3 million, compared to CAD$76.6 million for the same period last year. Sales volume increased by 3.1% during the quarter to 18.3 million pounds compared to the fourth quarter of last year.

Our U.S. operations had sales of $138.2 million, compared to $97.7 million for the same period last year. U.S. operations sales volume for the quarter, including Icelandic USA, increased by 35.1% to 45.6 million pounds. Icelandic USA products increased sales by 47.1% with our pre-acquisition sales pounds decreasing by 12.0%.

The table below shows actual and pro forma results for the Company for the fourth quarter of 2011, compared to actual results for the fourth quarter of 2012. Sales of the Asian Trading business in 2012 and 2011 not intended to be continued by High Liner are excluded from the totals.

(Amounts in $000s)	Sales	Pounds Sold	Adjusted EBITDA*
2012 – 4th Quarter			
Actuals Excluding Icelandic USA	**$ 160,318**	**45,604**	**$ 14,103**
Actuals Icelandic USA	**57,962**	**18,181**	**7,621**
Actuals Including Icelandic USA	**218,280**	**63,785**	**21,724**
2011 – 4th Quarter			
Actuals Excluding Icelandic USA	$ 163,735	48,778	$ 13,140
Actuals Icelandic USA	58,457	18,817	6,320
Pro forma, Including Icelandic USA	222,192	67,595	19,460
Change, Excluding Icelandic USA	–2.1%	–6.5%	7.3%
Change, Icelandic USA	–0.8%	–3.4%	20.6%
Change Total, Including Icelandic USA	–1.8%	–5.6%	11.6%

*As the business is now substantially integrated, the determination of Adjusted EBITDA between Icelandic USA and our pre-acquisition operations is difficult to do, as costs and synergies achieved in bringing the two businesses together are intermingled. As such, the 2012 amounts were determined using management's best estimates.

This shows that sales dollars and pounds on a pro forma basis are lower than the fourth quarter of 2012. The volume reduction is exclusively in the U.S. (as the Canadian volume increased) and is due to the same reasons as discussed in the year to date analysis, as well as some softness in the acquired business on commodity shrimp and fillet products as well as some processed products facing competition from lower priced commodities.

Our consolidated Adjusted EBITDA in the fourth quarter of 2012 was $22.1 million compared to $14.3 million for the same period in 2011. The increase was due to the increased operating income from the Icelandic USA Acquisition and the realization of synergies.

(Amounts in $000s)	**13 Weeks Ended Dec. 29, 2012 Total**	13 Weeks Ended Dec. 31, 2011 Total
Net income	**$ (2,683)**	$ (2,941)
Add back		
Depreciation	**3,916**	2,095
Amortization	**201**	707
Financing costs	**14,349**	2,169
Income taxes	**(1,681)**	865
Standardized EBITDA	**14,102**	2,895
Add back (deduct)		
Business acquisition, integration and other expenses	**3,410**	10,036
Impairment of property, plant and equipment	**(495)**	–
Increase in cost of sales	**–**	235
Loss (gain) on disposal of assets	**(88)**	147
Adjusted EBITDA, including stock option expense	**16,929**	13,313
Non-cash stock option expense	**5,143**	995
Adjusted EBITDA	**$ 22,072**	$ 14,308

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% and the statutory rate in the U.S. of 39%. 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.

Despite an operating loss in the fourth quarter of 2011 due to one-time acquisition costs, the effective rate in the fourth quarter of 2011 was an expense of 41.7%, compared to the Canadian statutory rate of approximately 29%. The effective income tax rate was affected by the tax treatment of certain business acquisition costs that are only partly deductible or non-deductible for tax purposes, and an additional $0.8 million of non-deductible one-time withholding tax relating to the dividend that was paid in connection with the financing for the Viking Acquisition, as estimates were firmed up. These items reduced the overall tax recovery.

The table below shows the impact of non-operating, one-time acquisition costs, and stock option expense and other items excluded from Adjusted Net Income on our diluted earnings per share for the fourth quarter of 2011 and 2012.

	Q4 2012		Q4 2011	
	Diluted Earnings Per Share Based On:		Diluted Earnings Per Share Based On:	
	$000	**Average Shares Outstanding**	$000	Average Shares Outstanding
Net Income	**$ (2,683)**	**$ (0.18)**	$ (2,941)	$ (0.19)
Add back after-tax				
Business acquisition, integration, and other costs	**2,215**	**0.14**	7,775	0.51
Impairment of property, plant and equipment	**(355)**	**(0.02)**	–	–
Continued depreciation on property that is to be disposed as part of the acquisition	**376**	**0.02**	–	–
Increase in cost of sales		**–**	144	0.01
Embedded derivative	**(377)**	**(0.02)**	–	–
Interest rate swap on embedded derivative	**8**	**0.00**	–	–
Accelerated amortization of deferred financing costs	**6,380**	**0.41**	–	–
Intercompany dividend withholding tax	**–**	**–**	781	0.05
	5,564	**0.36**	5,759	0.38
Stock compensation expense	**5,072**	**0.33**	979	0.06
Adjusted Net Income	**$ 10,636**	**$ 0.68**	$ 6,738	$ 0.44
Average Shares for the period		**15,562**		15,290

7. Critical Accounting Estimates

The preparation of the Company's financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. Actual outcomes may differ from these estimates under different assumptions and conditions that could require a material adjustment to the reported carrying amounts in the future.

The most significant estimates made by management include the following:

Impairment of Non-Financial Assets

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

When calculations to determine the recoverable amount of the CGU are undertaken, management must estimate the expected future cash flows from the individual asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. The cash flows are derived from the budget for the next five years and, while permitted in the impairment assessment, do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. Further details, including a sensitivity analysis of key assumptions, are given in Note 5 and Note 3.

Share-Based Payments

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

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

Employee Future Benefits

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

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

Income Taxes

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

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

Fair Value of Financial Instruments

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

Sales and Marketing Accruals

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

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

8. Risk Factors and Risk Management

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

8.1 Board Accountability

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

We have identified 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 2012 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 as much as $400 million of these products annually. Seafood and other food inputs markets are global, with values expressed in U.S. dollars. 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 CAD/USD 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.

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

A strong Canadian dollar offsets increases in the U.S. dollar cost of raw materials for our Canadian operations, and conversely when the 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. Going into 2013, we expect to have lower average seafood costs than those experienced in 2012.

As we purchase all seafood that we sell, we have developed close relationships with key suppliers. We currently purchase significant quantities of frozen raw material and finished goods originating from all over the world. Our supplier base is diverse to ensure no over-reliance on any source. We also maintain strict *Supplier Approval and Audit Standards*. Through audit procedures, all food suppliers are required to meet our quality control and safety standards, which, in many instances, are higher than regulatory standards. All raw materials are inspected, to assure consumers that High Liner quality is consistent, regardless of source or origin.

We sometimes pay for finished goods upon shipment from Asia or we acquire 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 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 addition to helping us contain costs, the joint venture allowed us to better control quality and availability of products. 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:
Paul Snow, Executive Vice President Procurement

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 due to High Liner'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 22% of our sales come from an aquaculture source, and 4 of the top 7 species consumed in the USA (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 may be adversely affected.

8.4 Loss of Customer and Credit Risk

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

Board oversight accountability: Audit Committee

We sell the vast majority of our products to large food retailers, supercentres and club stores, and food service distributors in North America. The food distribution industry is consolidating. Our customers are getting larger, more sophisticated and want to conduct business with experienced, reliable suppliers. We are an important supplier to our customers because we can transact business on their terms 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. We have one customer that represents approximately 17% of our sales. We focus on ensuring that our supply chain management and technology infrastructure keep pace with the service delivery expectations of our customers.

We do not currently insure our accounts receivable risk as our bad debt expense has historically been nominal. Although economic conditions are not as positive as they were prior to the downturn, we believe the worst is behind us and expect most of our customers will see improvements in business results. As of the filing of this report, we are not aware of any customer that is in financial trouble that would result in a 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 & CFO

Board oversight accountability: Audit Committee

Overview

High Liner Foods now reports its results in U.S. dollars to reduce the volatility of changes in the CAD/USD exchange rates.
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 working capital requirements but can reduce shareholders' equity as discussed below. Conversely, a weakening Canadian dollar increases costs and working capital and decreases sales and related profit.

Income Statement Effects of Foreign Currency

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

Currency	Strength	Impact on High Liner
CAD	Strong	Results in a reduction in the cost of inputs for the Canadian operations in Canadian dollars. Competitive activity may result in some selling price declines on unprocessed product.
CAD	Weak	Results in an increase in the cost of inputs for the Canadian operations in Canadian dollars. 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 U.S. dollars.
Euro	Weak	Results in decreased demand from Europe for seafood supplies and may decrease prices in U.S. dollars.
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.
USD	Strong	As in most commodities, a strong U.S. dollar usually decreases input costs in U.S. dollars, as suppliers in countries not using the U.S. dollars need less U.S. dollars to receive the same amount in domestic currency. In Canadian operations, it increases input costs in Canadian dollars.
USD	Weak	As in most commodities a weak U.S. dollar usually increases input costs in U.S. dollars as suppliers in countries not using the U.S. dollars need more U.S. dollars to receive the same amount in domestic currency. In Canadian operations, it decreases input costs in Canadian dollars.

In addition to the above, the Canadian operations are translated to U.S. dollars for external reporting. The average value of the Canadian dollar in 2012 (at an exchange rate of $0.9891 for each U.S. dollar) has strengthened approximately 2% over the average of 2011. Approximately one-third of the consolidated Company's sales and some of the expenses are denominated in Canadian dollars. As such, fluctuations in exchange rates impact the translated value of the Canadian company's sales, costs and expenses when translated to U.S. dollars. Secondly, approximately 47% of the items we sell in Canada have Canadian dollar denominated labour, overheads and other costs as we produce them in our Canadian facilities. Thirdly, we produce approximately $5 million of items that we produce in the USA for Canada and this value is affected by exchange fluctuations.

Because we report our financial results in U.S. dollars, a strengthening Canadian dollar has the immediate effect of decreasing the U.S. dollar value of Canadian dollar denominated sales, costs and expenses. In 2012, Canadian dollar denominated sales comprised approximately 34% of our total sales in domestic currency. In 2013, our Canadian dollar denominated sales revenue is expected to be similar to that of 2012.

In looking at the effect on net income, the majority of sales in Canadian dollars, being those of the parent company, have U.S. dollar denominated input costs and, therefore, changes in exchange rate only affect the conversion to Canadian dollars denominated items to U.S. dollars. For products produced in Canada, raw material is also purchased in U.S. dollars. However, labour, packaging and overhead for these products are purchased in Canadian dollars and, therefore, a strengthening Canadian dollar decreases these costs in U.S. dollar terms and increases the related profit. Conversely, a weakening Canadian dollar increases these costs in U.S. dollar terms and decreases the related profit.

The value of the U.S. dollar compared to other world currencies has an impact on many commodities, including seafood, packaging, flour-based products, cooking oil and transportation costs that are either sold in U.S. dollars or have U.S. dollar input costs. This is because many producing countries do not use the U.S. dollar as their functional currency and, therefore, changes in the value of the U.S. dollar means that producers in other countries need less or more U.S. dollars to obtain the same amount in their domestic currency. Changes in the value of the Canadian dollar by itself against the U.S. dollar simply result in an increase or decrease in the Canadian dollar cost of inputs.

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

For 2013, approximately $300 million of the Canadian operation's external sales are expected to be in Canadian dollars. This exposure is estimated to decrease to pre-tax $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 U.S. dollars, our Canadian operations continue to be managed and accounted for in Canadian dollars, which is the functional currency of the Canadian company. Therefore, in accordance with the *Price Risk Management Policy*, we undertake hedging activities using various derivative products. The policy is approved and monitored by the Audit Committee. Our Treasury Team, under the direction of Chief Financial Officer and with oversight from the Audit Committee, manages foreign exchange risk. Commodity products, for the food service market such as raw and cooked shrimp and raw fish fillets, are not hedged under this program as the price in the marketplace moves up or down with changes in the Canadian dollar cost of the product. To reduce our exposure to the U.S. dollar on the more price inelastic items, our Policy allows us to hedge forward a maximum of 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. The lower end of these ranges are required to be hedged by the policy, with the upper ranges allowed if management believes the situation warrants a higher level of purchases to be hedged. Variations from policy, require the approval of the Audit Committee.

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

Details on the hedges in place on December 29, 2012 are included in Note 22 of our consolidated financial statements.

Balance Sheet Effects of Foreign Currency

As we have operations in Canada, and some monetary assets and liabilities in the United States that are denominated in Canadian dollars, assets and liabilities of the consolidated company change as exchange rates fluctuate. At December 29, 2012, the Canadian dollar strengthened by approximately 3% from its value at December 31, 2011. As such, the strengthened Canadian dollar has increased 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 United States that are denominated in Canadian dollars flow through the income statement, unless they are hedged.

8.6 Other (Non-Seafood) Commodities

Senior management accountability:
Mario Marino, President and Chief Operating Officer Canadian Operations; Keith Decker, President and Chief Operating Officer U.S. Operations, (Derivatives – Kelly Nelson, Executive Vice President & CFO); 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 four years. We do not plan to hedge fuel surcharges in 2013.

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 2011 and 2012, we have been able to deal with this risk to management's satisfaction using contracts with our suppliers. World commodity prices for flour, corn and soy and canola oils, important ingredients in the manufacture of many of the Company's products, increased in 2012 and are trending upward for 2013. Currently, we are still working with fixed price contracts with our suppliers and have most of 2013's commodities under contract.

8.7 Food Safety

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

Board oversight accountability: Board of Directors

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

In Canada, all seafood-processing plants are required to adopt a QMP (Quality Management Plan) covering the regulatory and safety aspects of food processing. High Liner's QMP has been approved by the Canadian Food Inspection Agency and has been in good standing since inception of this requirement. Canada's QMP is an accepted standard under the U.S. HACCP system. Our Lunenburg 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 Canadian Food Inspection Agency (CFIA) must inspect food that is procured outside of Canada. The Food and Drug Administration (FDA) inspects food that enters the United States. In addition, all purchases are subject to quality inspection by the Company's own quality inspectors. We have strict specifications for suppliers of both raw material and finished goods to ensure that procured goods are of the same quality as products made in our own plants, as indicated in our *Supplier Standards and Audit Manual*.

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

The Company has a Quality Steering Council, with all senior quality personnel in the Company involved. Their mission is to ensure that High Liner has the best policies, consistently applied throughout the Company, as well as implementing audit processes and ensuring quality personnel are adequately trained. Quality and food safety, including the implementation and maintenance of state-of-the-art product specification and traceability systems, were strategic goals of the Company in 2010 and progress was made on these initiatives in 2011 and 2012.

8.8 Growth (Other Than by Acquisition)

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

Board oversight accountability: Board of Directors

A key component of High Liner's 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 as well as its business processes, operations and other resources. High Liner's ability to manage growth will also depend in part on its ability to continue to grow and enhance its information systems in a timely fashion. Any inability to properly manage growth could result in cancellation of customer orders and correspondingly could have a material adverse effect on High Liner's financial results.

8.9 Acquisitions

Senior management accountability:
Henry Demone, President and Chief Executive Officer

Board oversight accountability: Board of Directors

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

8.10 Liquidity

Senior management accountability:
Kelly Nelson, Executive Vice President & CFO

Board oversight accountability: Audit Committee

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

We monitor risk of a shortage of funds using a detailed budgeting process that identifies financing needs for the next 12 months as well as models that look out 5 years. Working capital requirements are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable and finance leases. Our objective is that not more than 50% of borrowings should mature in the next 12-month period. Less than 15% of our debt will mature in less than one year at December 29, 2012 based on the carrying value of borrowings reflected in the financial statements. Our long-term debt is described in Note 13 of our financial statements and has annual required minimum principal payments of USD$3.75 million in 2013, plus 25% of the prior year's defined free cash flow estimated to be a payment of $12 million in March 2013. At December 29, 2012 and at the date of this document, we are in compliance with all covenants and terms of our banking facilities.

As a result of the volatile capital markets and the resulting widespread drop in public issuer valuations in the latter part of 2008, our defined benefit pension plans have experienced losses. However, the capital markets improved in 2011 and 2012, reducing the losses. The latest actuarial valuation of our largest defined benefit pension plan was as of July 2011 and showed a going concern deficit of CAD$1.7 million and a solvency deficit of CAD$6.1 million. Annual minimum special contributions of CAD$1.4 million are required to reduce the solvency deficit. 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:
Henry Demone, President and Chief Executive Officer

Board oversight accountability: Board of Directors

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

Major customers in all areas of the Company's business are requiring that seafood purchased by them will need to be certified as coming from a sustainable fish resource or from aquaculture farms that adhere to acceptable sustainability practices. In 2012, approximately 75% of our wild-caught seafood and almost all of our aquaculture purchases came from certified fisheries, representing substantial increases over 2011.

We made sustainability a strategic goal for 2013 once again and have dedicated resources at the senior level to develop the sustainability plan for the company. In the long-term, sustainability will need to include policies on green issues such as energy consumption, packaging, and the like. It will also involve our human resources practices and policies.

8.12 Industry Consolidation

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

Board oversight accountability: Board of Directors

Grocery retailers, wholesalers and food processors in North America have consolidated and continue to consolidate. In Canada, 5 major food retailers control in the aggregate more than 72.5%[4] of the retail food sales market. In the U.S., retailers are also consolidating. Ten retail operators now control approximately 66%[5] 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

4. Market share is estimated by ACNielsen® based on the TI Grocery Composite.

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

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;

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 for ways of reducing cost and investment.

8.14 Competition Risk

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

Board oversight accountability: Board of Directors

High Liner 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's competitors have greater financial and other resources than those of High Liner and/or may have access to labour or other products that are not available to High Liner. In addition, High Liner's competitors may be able to withstand market volatility better than it. There can be no assurance that High Liner's 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's suppliers or customers could become competitors of High Liner if they decide to distribute their own food products. Furthermore, if one or more of High Liner's competitors were to merge or partner with another of its competitors, the change in the competitive landscape could adversely affect High Liner and its results. Competitors may also establish or strengthen relationships with parties with whom High Liner has relationships, thereby limiting its ability to distribute certain products. Disruptions in High Liner's business caused by such events could have a material adverse effect on its results of operations and financial condition.

9. Forward-Looking Information

This MD&A contains forward-looking statements within the meaning of securities laws. In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. In addition, these statements and expectations concerning the performance of our business in general are based on a number of factors and assumptions including, but not limited to: availability, demand and prices of raw materials, energy and supplies; the condition of the Canadian and American economies; product pricing; foreign exchange rates, especially the rate of exchange of the Canadian dollar to the U.S. dollar; our ability to attract and retain customers; our operating costs; interest rates; continued access to capital; and the general assumption that none of the risks identified below or elsewhere in this document will materialize.

Specific forward-looking statements in this document include, but are not limited to: statements with respect to future growth strategies and its impact on shareholder value; increased demand for our products due to the recognition of the health benefits of seafood, increases in the disposable incomes of consumers, and economic recovery in both Canada and the U.S. markets; increasing costs for seafood and other raw materials; increasing processing costs in China, the exchange rate for the Canadian dollar relative to the U.S. dollar compared to previous years; percentage of sales from our brands; operating cost savings expected in 2013; expectations with regards to sales volumes, product innovations, brand development and anticipated financial performance; impact of price increases on future profitability; sufficiency of working capital facilities; future income tax rates; the anticipated efficient integration of the operations of Icelandic USA with High Liner operations; the increased market share anticipated due to the addition of Viking and Icelandic USA value-added seafood products; increased leverage attributable to the acquisitions of Viking and Icelandic USA; planned capital investments; future inventory trends and seasonality; market forces and the maintenance of existing customer relationships; expected changes in seafood costs; financial performance from the Viking and Icelandic USA Acquisitions; improved U.S. food service position from the Icelandic USA Acquisition; and availability of credit facilities.

Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risk Management" section of this MD&A and the "Risk Factors" section of our most recent Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: volatility in the CAD/USD exchange rate; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods; 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 statement of financial position as at December 29, 2012, December 31, 2011, and January 1, 2011 and the consolidated statements of income, comprehensive (loss) income, accumulated other comprehensive income, changes in shareholders' equity, and cash flows for the fifty-two weeks ended December 29, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of High Liner Foods Incorporated as at December 29, 2012, December 31, 2011, and January 1, 2011 and its financial performance and its cash flows for the fifty-two weeks ended December 29, 2012, and December 31, 2011 in accordance with International Financial Reporting Standards.

(Signed)

Ernst & Young, LLP
Chartered Accountants

Halifax, Canada,
February 20, 2013

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.

(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 29, 2012	December 31, 2011	January 1, 2011
			(Restated (note 26))	(Restated (note 26))
Assets				
Current:				
Cash		**$ 65**	$ 3,205	$ 601
Accounts receivable	9	**75,191**	83,590	50,724
Income taxes receivable		**5,145**	3,498	704
Other financial assets	22	**533**	1,323	895
Inventories	8	**222,313**	256,324	132,696
Prepaid expenses		**2,991**	2,969	1,899
Assets classifed as held for sale	7	**4,819**	–	–
Total current assets		**311,057**	350,909	187,519
Non-current:				
Property, plant and equipment	6	**89,268**	105,808	67,634
Deferred income taxes	20	**7,207**	1,667	2,416
Other receivables and miscellaneous assets		**1,847**	1,190	819
Investment in equity accounted investee		**96**	271	154
Employee future benefits	14	**92**	92	92
Intangible assets	4,5	**110,631**	116,594	31,409
Goodwill	4,5	**111,085**	110,816	40,036
Total non-current assets		**320,226**	336,438	142,560
Total assets		**$ 631,283**	$ 687,347	$ 330,079
Liabilities and Shareholders' Equity				
Current:				
Bank loans	12	**$ 59,704**	$ 118,958	$ 42,957
Accounts payable and accrued liabilities	10	**100,897**	106,856	60,380
Provisions	11	**1,614**	1,013	553
Other current financial liabilities	22	**550**	780	2,347
Income taxes payable		**1,165**	2,024	3,248
Current portion of long-term debt	13	**34,237**	2,500	4,450
Current portion of finance lease obligations	13	**1,039**	1,046	978
Liabilities directly associated with the assets held for sale	7	**1,604**	–	–
Total current liabilities		**200,810**	233,177	114,913
Non-current:				
Long-term debt	13	**213,359**	227,246	44,151
Other long-term financial liabilities	22	**2,662**	6,466	208
Long-term finance lease obligations	13	**2,181**	2,555	3,062
Deferred income taxes	20	**45,126**	47,991	9,949
Employee future benefits	14	**13,791**	11,085	9,682
Total non-current liabilities		**277,119**	295,343	67,052
Total liabilities		**477,929**	528,520	181,965
Shareholders' equity				
Common shares	16	**75,169**	73,931	74,196
Contributed surplus		**7,719**	7,969	8,493
Retained earnings		**66,373**	73,928	62,201
Accumulated other comprehensive income		**4,093**	2,999	3,224
Total shareholders' equity		**153,354**	158,827	148,114
Total liabilities and shareholders' equity		**$ 631,283**	$ 687,347	$ 330,079

Commitments *(note 15)*

See accompanying notes.

consolidated statement of income

(in thousands of U.S. dollars, except per share information)	Notes	Fifty-two weeks ended December 29, 2012	Fifty-two weeks ended December 31, 2011 (Restated (note 26))
Revenues		**$ 942,631**	$ 675,539
Cost of sales	8	**733,105**	522,009
Gross profit		**209,526**	153,530
Distribution expenses		**46,308**	35,382
Selling, general and administrative expenses		**101,891**	72,898
Impairment of property, plant and equipment	6	**13,230**	–
Business acquisition, integration and other expenses		**10,741**	11,049
Results from operating activities		**37,356**	34,201
Finance costs		**36,624**	6,019
Share of loss from equity accounted investee, net of income tax		**196**	52
Income before income taxes		**536**	28,130
Income taxes			
Current	20	**5,442**	5,762
Deferred	20	**(7,109)**	3,708
Total income tax (recovery) expense		**(1,667)**	9,470
Net income		**$ 2,203**	$ 18,660

Per Share Earnings

	Notes	December 29, 2012	December 31, 2011
Earnings per common share			
Basic	17	**$ 0.15**	$ 1.24
Diluted	17	**$ 0.14**	$ 1.22
Weighted average number of shares outstanding			
Basic	17	**15,118,752**	15,108,823
Diluted	17	**15,460,417**	15,340,963

See accompanying notes.

consolidated statement of comprehensive (loss) income

(in thousands of U.S. dollars)	**December 29, 2012**	December 31, 2011 (Restated (note 26))
		Fifty-two weeks ended
Net income for the period	**$ 2,203**	$ 18,660
Other comprehensive income (loss), net of income tax *(note 20)*		
Gain on hedge of net investment in foreign operations	**3,968**	2,435
Loss on translation of net investment in foreign operations	**(2,247)**	(4,229)
	1,721	(1,794)
Effective portion of changes in fair value of cash flow hedges	**(1,088)**	967
Net change in fair value of cash flow hedges tranferred to income	**265**	632
	(823)	1,599
Translation impact on Canadian dollar denominated AOCI items	**196**	(30)
Defined benefit plan actuarial losses	**(3,379)**	(1,021)
Other comprehensive loss, net of income tax	**(2,285)**	(1,246)
Total comprehensive (loss) income	**$ (82)**	$ 17,414

consolidated statement of accumulated other comprehensive income

(in thousands of U.S. dollars)	Foreign currency translation adjustments	Net exchange (losses)/gains on cash flow hedges	Total accumulated other comprehensive (loss) income
Balance as at December 31, 2011 *(Restated (note 26))*	**$ 2,701**	**$ 298**	**$ 2,999**
Exchange differences on translation of foreign operations	**1,721**	**–**	**1,721**
Cash flow hedges	**–**	**(627)**	**(627)**
Balance as at December 29, 2012	**$ 4,422**	**$ (329)**	**$ 4,093**
Balance as at January 1, 2011 *(Restated (note 26))*	$ 4,495	$ (1,271)	$ 3,224
Exchange differences on translation of foreign operations	(1,794)	–	(1,794)
Cash flow hedges	–	1,569	1,569
Balance as at December 31, 2011 *(Restated (note 26))*	$ 2,701	$ 298	$ 2,999

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 as at December 31, 2011						
(Restated (note 26))	**$ 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 as at December 29, 2012	**$ –**	**$ 75,169**	**$ 7,719**	**$ 66,373**	**$ 4,093**	**$ 153,354**
Balance as at January 1, 2011						
(Restated (note 26))	$ 13,701	$ 60,495	$ 8,493	$ 62,201	$ 3,224	$ 148,114
Other comprehensive (loss) income	–	–	–	(1,021)	(225)	(1,246)
Net income for the period	–	–	–	18,660	–	18,660
Common share dividends	–	–	–	(5,912)	–	(5,912)
Share-based payments	–	463	–	–	–	463
Shares repurchased	(728)	–	(524)	–	–	(1,252)
Balance as at December 31, 2011						
(Restated (note 26))	$ 12,973	$ 60,958	$ 7,969	$ 73,928	$ 2,999	$ 158,827

See accompanying notes.

consolidated statement of cash flows

(in thousands of U.S. dollars)	Fifty-two weeks ended December 29, 2012	December 31, 2011 (Restated (note 26))
Cash provided by (used in) operations:		
Net income for the period	**$ 2,203**	$ 18,660
Charges (credits) to income not involving cash from operations:		
Depreciation and amortization	**19,381**	9,821
Share-based payment expense	**10,255**	737
Loss on disposal of assets, and impairment	**13,589**	273
Payments of employee future benefits in excess of expense	**(1,728)**	(118)
Finance costs	**36,624**	6,019
Income tax expense	**(1,667)**	9,470
Share of loss of equity accounted investee, net of income taxes	**196**	52
Movement in provisions	**904**	412
Unrealized foreign exchange loss	**683**	209
Cash flow provided by operations before changes in non-cash working capital	**80,440**	45,535
Net change in non-cash working capital balances:		
Accounts receivable	**5,502**	5,126
Inventories	**35,258**	(34,126)
Prepaids	**(423)**	(356)
Accounts payable and accrued liabilities	**(15,118)**	4,336
Net change in non-cash working capital balances	**25,219**	(25,020)
Interest paid	**(19,145)**	(5,241)
Income taxes paid	**(7,530)**	(10,865)
Net cash flows provided by operating activities	**78,984**	4,409
Cash provided by (used in) financing activities:		
Increase (decrease) in current working capital facilities	**(59,673)**	75,852
Repayment of finance lease obligations	**(1,009)**	(903)
Long-term debt deferred charges	**–**	(14,721)
Proceeds from long-term debt	**–**	250,000
Repayment of long-term debt	**(1,875)**	(48,627)
Common share dividends paid	**(6,379)**	(5,912)
Shares repurchase	**(497)**	(1,252)
Stock options exercised	**650**	248
Net cash flows (used in) provided by financing activities	**(68,783)**	254,685
Cash provided by (used in) investing activities:		
Purchase of property, plant and equipment, net of investment tax credits	**(12,709)**	(7,047)
Net proceeds on disposal of assets	**232**	146
Acquisition of business, net of cash acquired	**–**	(249,665)
Change in other receivables and miscellaneous assets	**(247)**	(378)
Net cash flows used in investing activities	**(12,724)**	(256,944)
Foreign exchange increase on cash	**25**	166
Change in cash during the period	**(2,498)**	2,316
Translation adjustment	**63**	288
Less: cash directly associated with assets held for sale	**(705)**	–
Cash, beginning of period	**3,205**	601
Cash, end of period	**$ 65**	$ 3,205

See accompanying notes.

notes to the consolidated financial statements

1. Reporting entity

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 Road, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The consolidated financial statements of the Company as at and for the fifty-two week period ended December 29, 2012 comprise the Parent and its subsidiaries (herein together referred to as the "Company" and individually as "Company subsidiaries") and the Company's interest in associates and jointly controlled entities. The Company is primarily involved in the manufacturing and marketing of prepared and packaged frozen seafood products.

2. Basis of preparation

(a) Statement of compliance

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

These financial statements were authorized for issue in accordance with a resolution of the directors on February 20, 2013.

(b) Basis of measurement

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

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- liabilities for cash-settled share-based payment arrangements are measured at fair value;
- the defined benefit employee future benefit asset is recognized as the net total of the plan assets, plus unrecognized past service costs and the present value of the defined benefit obligation.

(c) Functional and presentation currency

The Company conducts its business in Canadian and U.S. dollars. During the current fiscal year, the Company changed its presentation currency from Canadian dollars to U.S. dollars, effective retrospectively *(note 27)*, and unless otherwise noted, all amounts in these consolidated financial statements are in U.S. dollars. Each of the Company's subsidiaries determines their own functional currency. The Parent Company's functional currency is Canadian dollars. The U.S. presentation currency has been 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 average Canadian to U.S. dollar exchange rate throughout the fifty-two week period ended December 29, 2012 was $1.0004 (December 31, 2011: $1.0110). The December 29, 2012 period end exchange rate was $1.0048 (December 31, 2011: $0.9833; January 1, 2011: $1.0054). All financial information presented in U.S. dollars has been rounded to the nearest thousand.

(d) Period end dates

The Company's fiscal year end is on the Saturday closest to December 31. This results in a fifty-three week fiscal year every five to seven years. Both the 2012 and the 2011 fiscal years are fifty-two week years. The Company's financial reporting periods each consist of thirteen weeks with the exception of the fourth quarter in a fifty-three week year, which consists of fourteen weeks.

(e) Use of estimates and critical judgments

The preparation of the Company's financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. Actual outcomes may differ from these estimates under different assumptions and conditions that could require a material adjustment to the reported carrying amounts in the future.

The most significant estimates made by management include the following:

Impairment of non-financial assets

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

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

Employee future benefits

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

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

Income taxes

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

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

Fair value of financial instruments

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

Sales and marketing accruals

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

(f) Seasonality of operations

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, which results in significantly higher inventories in December, January, February and March than during the rest of the year.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company's subsidiaries.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 29, 2012.

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

Interest in a joint venture

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement. The Company is entitled to a share of the outcome of the activities of the joint venture. The consolidated financial statements include the Company's share of the profit or loss of its joint ventures accounted for using the equity method, and the carrying amount of those interests.

Transactions eliminated on consolidation

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

Business combinations

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

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

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 income statement.

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 them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

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

Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company's subsidiaries at exchange rates at the dates of the transactions. Each subsidiary determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. 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 of a foreign operation (see (iii) below). These are recognized in other comprehensive income 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 other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are effectively translated using the exchange rate at the date of the transaction.

(ii) Translation of Parent Company to U.S. dollars for presentation currency

The assets and liabilities of High Liner Foods' Canadian company (the Parent) are translated to U.S. dollars, which is the Company's presentation currency, at the exchange rate as at the reporting date. The income and expenses of the parent are translated to U.S. dollars at the monthly average exchange rates of the reporting period. Foreign currency differences are recognized in other comprehensive income.

(iii) Hedge of net investment in foreign operation

The Company applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the parent entity's functional currency (Canadian dollars). Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the currency translation differences balance. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to profit or loss as part of the profit or loss on disposal.

Property, plant and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

Leases

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

Company as a lessee

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

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

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

Investment tax credits ("ITCs")

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

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

Provisions, contingent liabilities and contingent assets

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

Impairment of non-financial assets

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

The Company has three CGUs: the Canadian operations; the U.S. operations; and Dalian Three Star Seafood Co. Ltd. "Dalian".

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 income statement.

Goodwill

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

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

Intangible assets

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

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

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

Intangible assets with indefinite useful lives are tested for impairment annually at the 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 de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

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

Brands	2–8 years
Customer relationships	10–25 years
Land rights	15 years
Indefinite lived brands	Indefinite, subject to impairment testing annually

During the year the Company increased its estimated useful lives for customer relationships to 25 years.

Research and development costs

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

Operating segments

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

Employee future benefits

(i) Defined benefit plans

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

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

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

(ii) Defined contribution plans

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

(iii) Share-based payments

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

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

The Company accrues compensation expense with a corresponding increase in liabilities in the amount 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 cancelling the tandem SARs, share capital is increased by the sum of the consideration paid by the employee and the liability reversed, with any difference being recorded in income.

(iv) Short-term employee benefits

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or 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.

(v) Termination benefits

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

Income tax

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

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

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

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

Revenue recognition

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

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 High Liner products at the Company’s customers are recognized when coupons are issued as a reduction to sales. Certain customers require the payment of one-time listing allowances (slotting fees) in order to obtain space for a new product on its shelves. These fees are recognized as reductions of revenue at the earlier of the date the fees are paid in cash or on which a liability to the customer is created (usually on shipment of the new product). All other non-customer specific marketing costs (general advertising, etc.) are expensed as incurred as selling, general and administrative expense.

Borrowing costs

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.

Financial instruments

(i) Financial assets

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

Financial assets at fair value through profit or loss

Classification

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

Recognition and measurement

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

Loans and receivables

Classification

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

Recognition and measurement

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

(ii) Financial liabilities

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

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

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

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

(iii) Derivative instruments/hedging

All derivative instruments, including embedded derivatives 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:

Fair value hedges

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

Cash flow hedges

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

- amounts accumulated in other comprehensive income are recycled to the income statement in the period when the hedged item 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 income statement; and
- when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately recognized in the income statement.

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

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

Hedges of a net investment

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

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

Derivatives that do not qualify for hedge accounting

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

(iv) Fair value

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

(v) Impairment

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

Assets carried at amortized cost

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

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

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

(vi) Comprehensive income

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

New standards and interpretations issued but not yet effective

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012, and will therefore be applied in the Company's first annual report after becoming effective, which will be for fiscal 2013.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013, with retrospective application required. The Company's evaluation of the impact is ongoing.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements,* and IFRS 12 *Disclosure of Interests in Other Entities,* IAS 28 *Investments in Associates* has been renamed IAS 28 *Investments in Associates and Joint Ventures,* and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after January 1, 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems, which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after January 1, 2013.

IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set off and related arrangements (for example, collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation.* The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after January 1, 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures,* issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements: IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Company's evaluation of the impact is ongoing.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Company's evaluation of the impact is ongoing. This standard becomes effective for annual periods beginning on or after January 1, 2013, and is to be applied retrospectively.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Company's financial position or performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

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 Company is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Company's evaluation of the impact is ongoing.

4. Business combinations

Additional information on prior year acquisition

On December 19, 2011, the Company acquired Icelandic Group h.f.'s U.S. subsidiary, Icelandic USA Inc. and its Asian procurement operations ("Icelandic USA Acquisition").

The fair value of the identifiable assets and liabilities as at the date of acquisition, and adjustments to the provision recognized during the period, were:

(Amounts in $000s)	Initial fair value recognized on acquisition	Adjustments to the provision recognized during the period	Final fair value recognized
Assets			
Property, plant and equipment	$ 32,011	$ 7,581	$ 39,592
Trade receivables	28,830	23	28,853
Prepaid expenses	756	–	756
Inventories	89,048	(639)	88,409
Intangible assets	71,854	15,208	87,062
	$ 222,499	$ 22,173	$ 244,672
Liabilities			
Trade payables	(30,203)	(742)	(30,945)
Employee future benefit	(287)	–	(287)
Deferred income taxes	(27,251)	(7,580)	(34,831)
Total identifiable net assets at fair value	$ 164,758	$ 13,851	$ 178,609
Goodwill arising on acquisition	84,907	(13,851)	71,056
Purchase consideration recorded	$ 249,665	$ –	$ 249,665

The net assets recognized in the December 31, 2011 financial statements, and as adjusted during the period, were based on a provisional assessment of fair value for the equipment, real estate, intangible assets and residual goodwill acquired. The results of this valuation had not been received at the date the fiscal 2011 financial statements were approved for issue by management. This was subsequently completed in 2012.

During the fifty-two weeks ended December 29, 2012, $10.5 million (fifty-two weeks ended December 31, 2011: $10.3 million) of costs were expensed as business acquisition, integration and other expenses on the statement of income.

There were no amounts capitalized as deferred financing costs during the fifty-two weeks ended December 29, 2012 (fifty-two weeks ended December 31, 2011: $15.5 million were capitalized which reduced the value of debt on the statement of financial position to be amortized to interest expense). Subsequent to year-end, due to amendments to the Term Loan, the majority of these deferred financing costs were written off as at December 29, 2012.

During the 52 weeks ended December 31, 2011, the Icelandic USA Acquisition has contributed $8.5 million in net sales and $0.7 million to income before interest and taxes of the Company, excluding one-time business acquisition costs.

5. Goodwill and intangible assets

Goodwill is tested for impairment annually (as at the first day of the Company's fourth quarter) and when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill and intangible assets with indefinite useful lives was based on fair value less costs to sell as of the fiscal year end 2012. The method used to determine the Company's fair value less costs to sell uses a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash generating units for the most recently completed impairment calculations for fiscal 2012 and fiscal 2011 are discussed below. The Company has not identified any indicators of impairment at any other date and as such has not completed an additional impairment calculation.

The following table outlines the carrying amount and classification of the Company's intangible assets for the periods ending December 29, 2012, December 31, 2011, and January 1, 2011:

(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 January 1, 2011	$ 727	$ 22,265	$ –	$ 12,071	$ 35,063	$ 40,036	$ 75,099
Additions from acquisitions *(note 4)*	5,531	78,457	492	2,582	87,062	71,056	158,118
Translation adjustment of Canadian based assets	(13)	(21)	–	(23)	(57)	(276)	(333)
At December 31, 2011	$ 6,245	$ 100,701	$ 492	$ 14,630	$ 122,068	$ 110,816	$ 232,884
Additions from acquisitions *(note 4)*	–	–	–	–	–	–	–
Translation adjustment of Canadian based assets	13	31	–	22	66	269	335
At December 29, 2012	**$ 6,258**	**$ 100,732**	**$ 492**	**$ 14,652**	**$ 122,134**	**$ 111,085**	**$ 233,219**
Accumulated amortization							
At January 1, 2011	$ (349)	$ (3,305)	$ –	$ –	(3,654)	$ –	$ (3,654)
Amortization	(81)	(1,759)	–	–	(1,840)	–	(1,840)
Translation adjustment of Canadian based assets	8	12	–	–	20	–	20
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)**
Carrying value January 1, 2011	$ 378	$ 18,960	$ –	$ 12,071	$ 31,409	$ 40,036	$ 71,445
Carrying value December 31, 2011	$ 5,823	$ 95,649	$ 492	$ 14,630	$ 116,594	$ 110,816	$ 227,410
	4,880	91,099	458	14,652	111,089	111,085	222,174
Less: assets held for sale *(note 7)*	–	–	(458)	–	(458)	–	–
Carrying value December 29, 2012	**$ 4,880**	**$ 91,099**	**$ –**	**$ 14,652**	**$ 110,631**	**$ 111,085**	**$ 222,174**
Allocated to Canada:							
Carrying value January 1, 2011				$ 1,047		$ 12,542	
Carrying value December 31, 2011				$ 1,024		$ 12,265	
Carrying value December 29, 2012				**$ 1,046**		**$ 12,534**	
Allocated to U.S.:							
Carrying value January 1, 2011				$ 11,024		$ 27,494	
Carrying value December 31, 2011				$ 13,606		$ 98,551	
Carrying value December 29, 2012				**$ 13,606**		**$ 98,551**	

The Company has three CGUs: Canada, U.S., and Dalian. 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 CGU used for impairment testing is also an operating and reportable segment. The Dalian and U.S. CGUs constitute the U.S. operating and reportable segment.

Goodwill acquired through business combinations and brands with indefinite lives have been allocated to the Canadian and U.S. CGUs for impairment testing purposes. Dalian does not have goodwill nor brands with indefinite lives.

The recoverable amount of the cash generating units has been determined based on the fair value less costs to sell ("FVLCS"). In determining the FVLCS of each of the CGUs, we utilized a discounted cash flow methodology. The discounted cash flow technique provides the best assessment of what each CGU could be exchanged for in an arm's length transaction as fair value is represented by the present value of expected future cash flows of the business together with the residual value of the business at the end of the forecast period. The discounted cash flow was applied on an enterprise value basis, where the after-tax cash flows prior to interest expense is 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 30, 2012 valuation date	11.6%	2%	2%
October 2, 2011 valuation date	10.1%	2%	2–3%
October 3, 2010 valuation date	11.8%	2%	2–3%
U.S.			
September 30, 2012 valuation date	11.7%	2%	2%
October 2, 2011 valuation date	12.0%	2%	2–3%
October 3, 2010 valuation date	11.4%	2%	2–4%

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

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

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

Discount rate

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

Gross margins including raw material prices and currency fluctuations

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

Inflation

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

Market share during the projection period

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

Growth rate used to extrapolate cash flows beyond the projection period

Growth rates used to extrapolate the Company's projection were determined using published industry growth rates in combination with inflation assumptions and the input of each management group based on historical trend analysis and future expectations of growth.

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 a CGU, including legal costs, marketing costs, costs of removing assets and direct incremental costs incurred in preparing the CGU for sale.

Sensitivity to changes in assumptions

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

6. Property, plant and equipment

(Amounts in $000s)	Land	Production equipment	Building structures	Major building components	Computer hardware and peripherals	Software components	Furniture and fixtures	Equipment under finance lease	ITCs	Total
Cost										
At January 1, 2011	$ 2,213	$ 41,546	$ 10,129	$ 29,994	$ 3,884	$ 2,700	$ 1,185	$ 5,060	$ (894)	$ 95,817
Additions	–	3,520	66	1,632	631	1,430	26	628	(258)	7,675
Acquisition *(note 4)*	1,140	13,976	15,108	8,549	244	300	275	–	–	39,592
Disposals	–	(389)	–	(331)	(655)	(9)	(7)	(526)	–	(1,917)
Effect of exchange rates	(5)	(393)	(95)	(339)	(55)	(81)	(24)	(47)	23	(1,016)
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**
Accumulated depreciation										
At January 1, 2011	$ –	$ (7,032)	$ (2,721)	$ (13,677)	$ (2,200)	$ (1,543)	$ (658)	$ (767)	$ 415	$ (28,183)
Depreciation for the year	–	(4,868)	(221)	(1,371)	(609)	(377)	(64)	(514)	43	(7,981)
Disposals		111	–	255	653	6	7	392	–	1,424
Effect of exchange rates	–	100	29	179	36	34	11	18	(10)	397
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)**
Carrying amounts										
At January 1, 2011	$ 2,213	$ 34,514	$ 7,408	$ 16,317	$ 1,684	$ 1,157	$ 527	$ 4,293	$ (479)	$ 67,634
At December 31, 2011	$ 3,348	$ 46,571	$ 22,295	$ 24,891	$ 1,929	$ 2,460	$ 751	$ 4,244	$ (681)	$ 105,808
At December 29, 2012	**$ 2,126**	**$ 38,842**	**$ 19,366**	**$ 20,422**	**$ 1,977**	**$ 2,223**	**$ 617**	**$ 4,335**	**$ (640)**	**$ 89,268**

Please refer to *note 25* 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 (fifty-two weeks ended December 31, 2011: $nil) representing the write-down of certain property, plant and equipment due to the closure of the Burin and Danvers plants. This has been 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 has been allocated to the Canadian reportable operating segment, and the impairment loss relating to the Danvers closure of $8.8 million has been allocated to the U.S. reportable operating segment. The Company has not identified any additional indicators of impairment as at December 29, 2012.

7. Assets held for sale

As of December 29, 2012 the Company determined that the assets of its subsidiary, Dalian, met the criteria to be classified as held for sale. Accordingly, the major classes of assets and liabilities of Dalian classified as held for sale are as follows:

(Amounts in $000s)	**December 29, 2012**	December 31, 2011
Assets		
Cash	**$ 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**	$ –

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 $000s)	**December 29, 2012**	December 31, 2011	January 1, 2011
Finished goods – procured	**$ 78,116**	$ 86,517	$ 46,709
Finished goods – manufactured	**70,762**	84,913	36,125
Raw and semi-finished material	**43,517**	53,929	35,101
Supplies, repair parts and other	**14,868**	12,263	6,586
H&G, including H&G paid in advance	**7,170**	12,936	1,889
Inventory in transit, paid in advance	**8,376**	5,766	6,286
	222,809	256,324	132,696
Less: inventories held for sale *(note 7)*	**(496)**	–	–
	$ 222,313	$ 256,324	$ 132,696

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

(Amounts in $000s)	**December 29, 2012**	December 31, 2011
Inventory costs recognized as an expense during the year	**$ 734,594**	$ 522,274
Write-down of inventories recognized as an expense, during the year:		
Inventory reserves utilized	**(1,825)**	(964)
New inventory reserves created	**1,056**	1,109
Unused inventory reserves reversed	**(720)**	(410)
Total expenses recognized as cost of sales during the year	**$ 733,105**	$ 522,009

The value of inventory subject to a reserve was $2.4 million (December 31, 2011: $3.2 million; January 1, 2011: $4.1 million).

9. Accounts receivable

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

(Amounts in $000s)	**December 29, 2012**	December 31, 2011	January 1, 2011
Trade accounts receivable	**$ 73,470**	$ 78,203	$ 47,871
Other accounts receivable	**1,871**	5,387	2,853
	75,341	83,590	50,724
Less: accounts receivable held for sale *(note 7)*	**(150)**	–	–
	$ 75,191	$ 83,590	$ 50,724

As at December 29, 2012, trade receivables of an initial value of $0.2 million (December 31, 2011: $0.2 million; January 1, 2011: $0.2 million) were impaired and fully provided for. See below for the movements in the position for impairment of receivables.

(Amounts in $000s)	**Individually impaired**	**Collectively impaired**	**Total**
At January 1, 2011	$ 160	$ 22	$ 182
New impairment reserves charged	177	–	177
Impairment reserves utilized	(111)	–	(111)
Reserves arising from acquisition	123	–	123
Unused impairment reserves reversed	(158)	–	(158)
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**

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 31, 2011	95%	5%	0%
At January 1, 2011	93%	6%	1%

For the fifty-two weeks ended December 29, 2012 the Company has recognized $171.7 million (December 31, 2011: $114.1 million) of sales from one customer that represents more than 10% of the Company's total consolidated sales, arising from sales in both the Canadian and U.S. reportable operating segments in *note 19.*

10. Accounts payable and accrued liabilities

(Amounts in $000s)		**December 29, 2012**		December 31, 2011		January 1, 2011
Trade accounts payable and accrued liabilities	**$**	**77,743**	$	85,205	$	43,997
Employee accruals, including incentives and vacation pay		**14,403**		17,661		11,827
Share-based payments		**10,005**		3,990		4,556
		102,151		106,856		60,380
Less: accounts payable and accrued liabilities held for sale *(note 7)*		**(1,254)**		–		–
	$	**100,897**	$	106,856	$	60,380

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 a fifty-two week period. Share-based payments are settled within 0-5 years.

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

11. Provisions

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

(Amounts in $000s)		
Carrying amount, January 1, 2011	$	553
New provisions added		1,287
Provisions utilized		(827)
Carrying amount, December 31, 2011		1,013
New provisions added		1,622
Provisions utilized		(671)
		1,964
Less: provisions held for sale *(note 7)*		(350)
Carrying amount, December 29, 2012	**$**	**1,614**

The amounts recognized 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 29, 2012. The Company is not eligible for any reimbursement by third parties in this regard for these amounts.

12. Bank loans

(Amounts in $000s)	December 29, 2012	December 31, 2011	January 1, 2011
Bank loans, denominated in Canadian dollars, interest rates not exceeding Canadian prime rate plus 100 basis points or BA Equivalent plus 250 basis points (as at December 29, 2012 not exceeding Canadian prime rate plus 75 basis points), (average variable rate as at fiscal 2012 year end was 3.75%; fiscal 2011 year end was 3.83%; fiscal 2010 year end was 3.0%)	**$ 1,745**	$ 10,012	$ 4,761
Bank loans, denominated in U.S. dollars, interest rates not exceeding Canadian base rate plus 100 basis points, U.S. prime rate plus 100 basis points, or LIBOR plus 250 basis points (as at December 29, 2012 not exceeding Canadian base rate plus 75 basis points), (average variable rate as at fiscal 2012 year end was 2.84%; fiscal 2011 year end was 2.98%; fiscal 2010 year end was 2.2%)	**58,785**	109,924	38,500
	60,530	119,936	43,261
Less: financing costs	**(826)**	(978)	(304)
	$ 59,704	$ 118,958	$ 42,957

Subsequent to year end the Company amended its facility *(note 28)*. The amended facility 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 un-utilized line.

On December 19, 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 inventory and accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands and trade names and related intangibles under the long-term debt facilities. A second charge over the Company's plant and equipment is also in place. The facility allows borrowings by way of Prime Rate loans, Base Rate loans, LIBOR, or BA Equivalent at interest rates and spreads that depend on leverage, defined as Funded Debt to EBITDA. In certain circumstances, based on availability under the line, the Company must also maintain fixed charge coverage of 1.1 to 1. Fixed charges include interest and debt repayments, operating lease payments, capital lease payments and capital distributions, such as dividends or repurchase of shares under normal course issuer bids. This facility allows the Company to borrow Canadian dollar Prime Rate loans and U.S. dollar Prime or Base Rate at Prime or Base Rate plus 0.00% to 1.00%; BA Equivalent loans at BA rates plus 1.75% to 2.50%; and LIBOR advances at LIBOR plus 1.75% to 2.50%. Standby fees are also required to be paid on the un-utilized line.

13. Long-term debt and finance lease obligations

Long-term debt

(Amounts in $000s)	December 29, 2012	December 31, 2011	January 1, 2011
Notes Payable			
Series A at 6.31%	**–**	–	15,898
Series B at 6.012%	**–**	–	28,471
Series B at 6.012% (LIBOR plus 2.00% in 2010)	**–**	–	4,537
Term loan at 5.5% plus LIBOR (floor at 1.5%)	**248,125**	250,000	–
Less: financing charges	**(529)**	(20,254)	(305)
	247,596	229,746	48,601
Less: current portion	**(34,237)**	(2,500)	(4,450)
	$ 213,359	$ 227,246	$ 44,151

Subsequent to year end the Company amended its term loan *(note 28)*, which was deemed to be an extinguishment of the original placement. Net deferred financing costs of $8.7 million relating to the original placement have been expensed in fiscal 2012 as finance costs. The principal amendments to the term loan include: 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; leverage ratios; 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 amendment reduced the payment in the first quarter of fiscal 2013 from $30.8 million to $13.9 million.

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

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

Long-term debt

(Amounts in $000s)	Notes payable
2013 (1)	$ 34,237
2014	8,438
2015	7,500
2016	7,500
2017 (1)	190,450

(1) Amount reduced subsequent to year end to $17.3 million which increases 2017.

Finance lease obligations

(Amounts in $000s)	Finance lease payments	Imputed interest	Finance lease liabilities
2013	$ 1,200	$ 161	$ 1,039
2014	968	101	867
2015	706	55	651
2016	545	25	520
2017	144	1	143
			3,220
Less current portion:			(1,039)
			$ 2,181

14. Future employee benefits

Description of pension and non-pension benefit plans

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

The Company 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 United States, the Company maintains a defined contribution savings plan under the provisions of the Employment Retirement Income Security Act of 1974 (a 401(k) plan), which covers substantially all employees of the U.S. subsidiary Company, including U.S. NEOs. U.S. NEOs were permitted to contribute up to 20 percent of their base pay, to a maximum of $16,500 (employees over 50 years of age could contribute an additional $5,500). The Company also makes a Safe Harbour matching contribution equal to 100% of their salary deferrals that do not exceed 3% of their compensation plus 50% of salary deferrals between 3–5% of their salary compensation.

Defined benefit plans

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

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

Canadian management plan

The Company also sponsors a defined benefit plan specifically for Canadian management employees (the "Management Plan"). On December 29, 2012, 21 persons were enrolled as active members in the Management Plan including the NEOs who are Canadian residents and were employed prior to January 1, 2000. The objective of the Management Plan is to provide an annual pension (including Canada Pension Plan) of 2% of the average of a member's highest five years' regular earnings while a member of the Management Plan multiplied by the number of years of credited service. Incentive payments are not eligible earnings for pension purposes. The Management Plan 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 benefits. Full benefits are payable at age 65, or at age 60 if the executive has at least 25 years of service. The benefits are payable for life, and 60% is payable to their spouse upon their death with a guarantee of 60 months. Members can retire at age 55 with a reduction.

The Company also guarantees through its Supplemental Executive Retirement Plan (the "SERP") to extend pension plan benefits to Canadian NEOs that it would to others in the Management Plan who were not affected by income tax maximums. The annual pension amounts derived from the aggregate of Management Plan and SERP benefits represent 1.3% of the 5-year average YMPE plus 2% of the salary remuneration above the 5-year average YMPE. The combination of these amounts is multiplied by the years of service to determine the full annual pension entitlement from the two plans. Four of the Company's NEO's retirees 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 $000s)	**December 29, 2012**	December 31, 2011	January 1, 2011
Present value of unfunded obligations (1)	**$ 7,690**	$ 6,751	$ 5,845
Present value of funded obligations	**35,227**	27,376	26,447
Total present value of obligations	**42,917**	34,127	32,292
Fair value of plan assets	**29,218**	23,134	22,702
Net accrued defined benefit obligation	**13,699**	10,993	9,590
Total accrued defined benefit (asset)	**(92)**	(92)	(92)
Total accrued defined benefit obligation	**13,791**	11,085	9,682
Net accrued defined benefit obligation	**$ 13,699**	$ 10,993	$ 9,590

(1) The Company has a letter of credit outstanding as at December 29, 2012 relating to the securitization of the Company's unfunded benefit plans under the SERP in the amount of $11.1 million (December 31, 2011: $9.1 million and January 1, 2011: $7.5 million).

Plan assets comprise:

(Amounts in $000s)	**December 29, 2012**	December 31, 2011	January 1, 2011
Equity securities (1)	**$ 12,651**	$ 9,727	$ 10,370
Debt securities	**15,281**	12,364	11,649
Cash	**1,286**	1,043	683
Total	**$ 29,218**	$ 23,134	$ 22,702

(1) The plan assets include $3.9 million of the Company's own common shares at market value (December 31, 2011: $2.1 million and January 1, 2011: $1.7 million).

Movement in the present value of the defined benefit obligations

(Amounts in $000s)		Fiscal 2012		Fiscal 2011
Defined benefit obligations at the beginning of the year	$	**34,127**	$	32,292
Benefits paid by the plan		**(1,470)**		(2,294)
Effect of movements in exchange rates		**770**		(772)
Current service costs		**831**		743
Interest on obligation		**1,805**		1,798
Employee contributions		**134**		133
SERP acquired		**–**		304
Actuarial losses in other comprehensive income		**6,720**		1,923
Defined benefit obligations at the end of the year	$	**42,917**	$	34,127

Movement in the present value of plan assets

(Amounts in $000s)		Fiscal 2012		Fiscal 2011
Fair value of plan assets at the beginning of the year	$	**23,134**	$	22,702
Employee contributions paid into the plan		**134**		133
Employer contributions paid into the plan		**3,167**		1,288
Benefits paid by the plan		**(1,470)**		(2,294)
Effect of movements in exchange rates		**534**		(543)
	$	**25,499**	$	21,286
Actual return on plan assets				
Expected return on plan assets	$	**1,553**	$	1,416
Actuarial gains in other comprehensive income		**2,361**		644
Fees and expenses		**(195)**		(212)
		3,719		1,848
Fair value of plan assets at the end of the year	$	**29,218**	$	23,134

Expense recognized in profit or loss

(Amounts in $000s)		Fiscal 2012		Fiscal 2011
Current service costs	$	**831**	$	743
Interest on obligation		**1,806**		1,802
Expected return on plan assets		**(1,553)**		(1,416)
	$	**1,084**	$	1,129

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

(Amounts in $000s)		Fiscal 2012		Fiscal 2011
Cost of sales	$	**163**	$	187
Selling, general and administrative expenses		**921**		942
	$	**1,084**	$	1,129

Actuarial gains and losses recognized in other comprehensive income

(Amounts in $000s)		Fiscal 2012		Fiscal 2011
Cumulative amount at the beginning of the year	$	**3,778**	$	2,378
Recognized during the period		**4,559**		1,493
Effect of exchange rates		**103**		(93)
Cumulative amount at the end of the year	$	**8,440**	$	3,778

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

(Percentage Amounts)	**Fiscal 2012**	Fiscal 2011
Discount rate for the benefit cost for the fiscal year ended	**5.16**	5.56
Discount rate for the accrued benefit obligation as at year end (1)	**3.92**	5.16
Expected long-term rate on plan assets	**6.41**	6.40
Future compensation increases for the benefit cost for the fiscal year ended	**4.00**	3.09
Future compensation increases for the accrued benefit obligation as at year end	**4.00**	3.09

(1) Prior to 2012 management considered market prices and yields on high quality corporate bonds when determining appropriate discount rates. During 2012 management adopted the Canadian Institute of Actuaries (CIA) model for determining discount rates whereby discount rates for maturities under ten years are based on high quality corporate bond yields. High quality corporate bond yields for longer maturities are extrapolated based on provincial bond yields plus a spread as determined by the CIA.

The overall expected long-term rate of return on assets is 6.39%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Historical information

(Amounts in $000s)	**Fiscal 2012**	Fiscal 2011
Experience adjustments arising on plan liabilities	**$ 6,720**	$ 1,922
Experience adjustments arising on plan assets	**$ 2,161**	$ 429

The Company expects $2.4 million in contributions to be paid to its defined benefit plans and $2.2 million to its defined contribution plans in fiscal 2013.

Termination benefits

The Company has recognized severance and retention benefits that were dependent upon the continuing provision of services through to certain pre-defined dates, in the amount of $5.2 million (December 31, 2011: $0.2 million) in business acquisition, integration and other expenses on the income statement.

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 $000s)	**December 29, 2012**	December 31, 2011
Cost of sales	**$ –**	$ 135
Distribution expenses	**25**	–
Business acquisition, integration and other expenses	**582**	709
Selling, general and administrative	**627**	750
	$ 1,234	$ 1,594

15. Commitments

Operating lease commitments for the next five years are shown in the following table:

(Amounts in $000s)	Operating lease payments
2013	**$ 4,557**
2014	**3,060**
2015	**2,764**
2016	**2,210**
2017	**1,703**

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 $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 29, 2012, relating to the procurement of inventories and the security of obligations under a lease of $1.2 million (December 31, 2011: $1.5 million; January 1, 2011: $3.7 million) that are denominated in U.S. dollars. The Company also had a letter of credit outstanding as at December 29, 2012 relating to the securitization of the Company's SERP benefit plan *(note 14)* in the amount of $11.1 million denominated in Canadian dollars (translated at the balance sheet date rate) (December 31, 2011: $9.1 million; January 1, 2011: $7.5 million).

16. Share capital

The share capital of the Company is as follows:

	December 29, 2012	December 31, 2011	January 1, 2011
Authorized			
Preference shares of the par value of $25 CAD each, issuable in series	**5,999,994**	5,999,994	5,999,994
Subordinated redeemable preference shares of the par value of $1 CAD each, redeemable at par	**1,025,542**	1,025,542	1,025,542
Non-voting equity shares	**198,123,180**	199,911,242	200,000,000
Common shares, without par value	**200,000,000**	200,000,000	200,000,000

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

In Q2 2012, the Company repurchased 29,100 non-voting equity shares at an average price of $17.56 per share for a total cost of $0.5 million resulting in a decrease to non-voting equity shares and contributed surplus of $0.2 million and $0.3 million respectively.

On December 17, 2012 the Company redeemed all of its issued and outstanding non-voting equity shares, which totalled 1,758,962. The redemption price for each non-voting share was the issuance of one common share of the Company.

During 2011, the Company repurchased 88,758 non-voting equity shares at an average of $13.29 per share for a total cost of $1.2 million resulting in a decrease to contributed surplus of $0.5 million.

	December 29, 2012			December 31, 2011		
	Shares		**($000s)**	Shares		($000s)
Common shares:						
Balance, beginning of period	**13,298,784**	**$**	**60,958**	13,271,809	$	60,495
Stock options exercised	**71,023**		**1,464**	26,975		463
Share redemption (non-voting to common)	**1,758,962**		**12,747**	–		–
Balance, end of period	**15,128,769**	**$**	**75,169**	13,298,784	$	60,958
Non-voting equity shares:						
Balance, beginning of period	**1,788,062**	**$**	**12,973**	1,876,820	$	13,701
Shares repurchased	**(29,100)**		**(226)**	(88,758)		(728)
Share redemption (non-voting to common)	**(1,758,962)**		**(12,747)**	–		–
Balance, end of period	**–**	**$**	**–**	1,788,062	$	12,973

The following dividends were declared and paid by the Company:

	December 29, 2012				December 31, 2011			
Amounts:		**Per share ($)**		**($000s)**		Per share ($)		($000s)
Dividends on common and non-voting shares declared and paid during the period:	**$**	**0.42**	**$**	**6,379**	$	0.39	$	5,912
Dividends on common and non-voting shares proposed for approval after the respective reporting period (not recognized as a liability during the period):		**0.15**		**2,269**		0.10		1,509

17. Earnings per share

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

	December 29, 2012					December 31, 2011				
Fifty-two weeks ended		**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	**$**	**2,203**	**15,119**	**$**	**0.15**	$	18,660	15,109	$	1.24
Diluted Earnings per Share:										
Effect of dilutive securities:										
Stock options and performance share units		**–**	**342**		**–**		–	232		–
Income available to common shareholders and assumed conversions	**$**	**2,203**	**15,461**	**$**	**0.14**	$	18,660	15,341	$	1.22

For the fifty-two weeks ended December 29, 2012 and December 31, 2011 all options outstanding were dilutive.

18. Share-based payments

Common Share Option Plan

The Company has a common Share Option Plan for designated directors, officers and certain managers of the Company and of subsidiary companies. Stock options issued are awarded with Tandem Stock Appreciation Rights (SARs) at the discretion of the Board. 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.

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 management committee, and senior managers of the Company and subsidiaries of the Company. Shares to be optioned were not to exceed the aggregate number of 1,300,000 as of May 17, 2011, representing less than 10% 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 Share 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 Share Option Plan when granting options to purchase Common Shares. The term during which any option granted may be exercised is determined by the Committee at the time the option is granted but may not exceed ten years from the date of grant. The purchase price is payable in full at the time the option is exercised. The number of 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.

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

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

(Amounts in $000s)	**December 29, 2012**	December 31, 2011	January 1, 2011
Fair value of current liability	**$ 9,730**	$ 3,990	$ 4,556
Fair value of long-term liability	**1,059**	142	–
Compensation expense recognized	**9,615**	628	3,653

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

(Amounts in $000s)	**December 29, 2012**	December 31, 2011
Cost of sales resulting from:		
Cash-settled options	**$ 340**	$ 113
Equity-settled options	**63**	28
Changes in the fair value of the liability	**602**	(103)
Selling, general and administrative expenses resulting from:		
Cash-settled options	**1,834**	620
Equity-settled options	**753**	157
Changes in the fair value of the liability	**6,023**	(187)
	$ 9,615	$ 628

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

December 29, 2012	August 2012	March 2012	February 2012	August 2011	February 2011	August 2010	February 2010	February 2009	May 2008	February 2008	December 2007
Dividend yield (%)	1.36	1.42	1.42	1.42	1.42	1.42	1.42	1.42	1.42	1.42	1.42
Expected volatility (%)	35.55	35.67	35.67	36.32	36.32	29.63	27.90	26.63	25.43	24.00	22.97
Risk-free interest rate (%)	1.36	1.30	1.30	1.38	1.38	1.25	1.22	1.15	1.13	1.13	1.13
Expected life (years)	4.65	4.25	4.25	5.25	5.25	3.67	3.25	2.25	1.25	1.14	0.98
Weighted average fair value (CAD$)	5.32	14.03	14.10	17.20	16.07	19.22	20.53	24.00	21.90	21.45	21.27

December 31, 2011	August 2011	February 2011	August 2010	February 2010	February 2009	May 2008	February 2008	December 2007	February 2006
Dividend yield (%)	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45
Expected volatility (%)	38.29	38.29	40.36	37.34	38.57	29.30	29.43	29.71	30.42
Risk-free interest rate (%)	1.42	1.42	1.22	1.16	1.02	0.96	0.96	0.95	0.95
Expected life (years)	6.25	6.25	4.67	4.25	3.25	2.25	2.14	1.98	0.25
Weighted average fair value (CAD$)	5.58	5.03	6.62	6.91	9.40	7.01	6.60	6.44	7.62

January 1, 2011	August 2010	February 2010	February 2009	May 2008	February 2008	December 2007	February 2006	February 2005
Dividend yield (%)	2.09	2.09	2.09	2.09	2.09	2.09	2.09	2.09
Expected volatility (%)	38.45	39.63	42.35	39.07	39.12	39.75	29.23	23.96
Risk-free interest rate (%)	2.51	2.45	2.21	1.94	1.90	1.86	1.67	1.68
Expected life (years)	5.66	5.25	4.24	3.24	3.13	2.97	1.25	0.24
Weighted average fair value (CAD$)	7.03	7.64	9.67	7.82	7.47	7.34	7.41	6.46

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

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

	December 29, 2012			December 31, 2011		
Fifty-two weeks ended	**No.**		**WAEP**	No.		WAEP
Outstanding, beginning of period	**675,250**	**$**	**11.10**	665,500	$	9.51
Granted	**249,543**		**18.84**	148,250		16.44
Exercised for shares	**(71,023)**		**9.18**	(26,975)		9.01
Exercised for cash	**(135,377)**		**9.57**	(111,525)		9.23
Outstanding, end of period	**718,393**	**$**	**14.27**	675,250	$	11.10
Excercisable, end of period	**394,565**	**$**	**11.02**	538,000	$	9.75

The weighted average fair value of options granted during the year was $5.71 (2011: $5.65).

The range of exercise prices for options outstanding at the end of the year was $6.90–$19.68 (2011: $6.90–$16.50).

Performance share unit plan

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

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

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

The PSU plan shall be paid by one or 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 Share Option Plan or any other security based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares at any time; and (b) the issuance from treasury to insiders, within a 12-month period, of an aggregate number of shares under the PSU plan, the Share Option Plan and any other security based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares.

Performance share units

During the fifty-two weeks ended December 29, 2012, the Company issued 38,040 (December 31, 2011: 16,459) performance share units to certain executive officers with the performance measures being a combination of performance criteria and time to vest criteria. During the fifty-two weeks ended December 29, 2012, the Company also issued 15,975 (December 31, 2011: nil) performance share units with the sole measure being a time to vest criteria. Respectively, with re-invested dividends, the total performance share units outstanding at December 29, 2012 were 38,772 (December 31, 2011: 17,122) and 16,281 (December 31, 2011: nil).

The carrying amount of the liability and the compensation expense recognized relating to the performance share units is as follows:

(Amounts in $000s)	**December 29, 2012**	December 31, 2011
Fair value of current liability	**$ 275**	$ –
Fair value of long-term liability	**473**	101
Compensation expense recognized	**640**	109

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

	December 29, 2012		December 31, 2011
	February, 2012	**March, 2011**	March, 2011
Dividend yield (%)	**1.4**	**1.4**	2.4
Expected life of the PSU (years)	**2.0**	**1.0**	3.0
Expected life of the PSU (years) single criteria	**1.0**	**–**	–
Expected vesting (%)	**100.0**	**110.0**	110.0
Forfeiture rate (%)	**0.0**	**0.0**	0.0
Share price at reporting date ($)	**31.00**	**31.00**	16.35

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:

			Fifty-two weeks ended December 29, 2012			Fifty-two weeks ended December 31, 2011
(Amounts in $000s)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Sales within geographic region*	**$ 311,843**	**$ 625,176**	**$ 937,019**	$ 299,255	$ 370,747	$ 670,002
Sales outside of geographic region*	**9,172**	**16,345**	**25,517**	7,195	13,707	20,902
	321,015	**641,521**	**962,536**	306,450	384,454	690,904
Intercompany sales outside of geographic region*	**(8,131)**	**(11,774)**	**(19,905)**	(7,195)	(8,170)	(15,365)
Revenue, excluding intercompany sales	**312,884**	**629,747**	**942,631**	299,255	376,284	675,539
Cost of sales, excluding intercompany sales	**(243,670)**	**(489,435)**	**(733,105)**	(230,892)	(291,117)	(522,009)
Gross profit	**69,214**	**140,312**	**209,526**	68,363	85,167	153,530
Distribution expenses	**(14,588)**	**(31,720)**	**(46,308)**	(14,912)	(20,470)	(35,382)
Selling, general and administrative expenses	**(38,354)**	**(63,537)**	**(101,891)**	(31,640)	(41,258)	(72,898)
Impairment of property, plant and equipment	**(4,407)**	**(8,823)**	**(13,230)**	–	–	–
Business acquisition, integration and other expenses	**(2,321)**	**(8,420)**	**(10,741)**	(1,238)	(9,811)	(11,049)
Financing costs	**(1,512)**	**(35,112)**	**(36,624)**	(1,095)	(4,924)	(6,019)
Loss from equity accounted investee	**(98)**	**(98)**	**(196)**	(26)	(26)	(52)
Income (loss) before income tax	**7,934**	**(7,398)**	**536**	19,452	8,678	28,130
Income tax (expense) recovery	**(3,668)**	**5,335**	**1,667**	(5,632)	(3,838)	(9,470)
Net income	**$ 4,266**	**$ (2,063)**	**$ 2,203**	$ 13,820	$ 4,840	$ 18,660
Add back:						
Depreciation included in:						
Cost of sales	**2,369**	**8,428**	**10,797**	2,340	3,849	6,189
Distribution	**164**	**1,206**	**1,370**	182	287	469
Selling, general and administrative expenses	**1,304**	**359**	**1,663**	1,159	164	1,323
Total depreciation	**3,837**	**9,993**	**13,830**	3,681	4,300	7,981
Amortization included in:						
Selling, general and administrative expenses	**190**	**5,361**	**5,551**	232	1,608	1,840
Total depreciation and amortization	**4,027**	**15,354**	**19,381**	3,913	5,908	9,821
Financing costs	**1,512**	**35,112**	**36,624**	1,095	4,924	6,019
Income tax expense (recovery)	**3,668**	**(5,335)**	**(1,667)**	5,632	3,838	9,470
Income before depreciation, amortization, financing and income taxes	**$ 13,473**	**$ 43,068**	**$ 56,541**	$ 24,460	$ 19,510	$ 43,970

*Geographic regions include Canada, U.S. and Mexico.

(Amounts in $000s)	Fifty-two weeks ended December 29, 2012 Canada	U.S.	Total	Fifty-two weeks ended December 31, 2011 Canada	U.S.	Total
Capital Expenditures						
Financed by operations	**$ 3,965**	**$ 8,744**	**$ 12,709**	$ 3,384	$ 3,663	$ 7,047
Financed by finance leases	**738**	**–**	**738**	628	–	628
Total capital expenditures	**$ 4,703**	**$ 8,744**	**$ 13,447**	$ 4,012	$ 3,663	$ 7,675

	As at December 29, 2012 Canada	U.S.	Total	As at December 31, 2011 Canada	U.S.	Total
Total assets	**$ 147,286**	**$ 483,997**	**$ 631,283**	$ 157,596	$ 529,751	$ 687,347
Goodwill	**12,534**	**98,551**	**111,085**	12,265	98,551	110,816
Liabilities	**307,825**	**170,104**	**477,929**	312,311	216,209	528,520

	As at January 1, 2011 Canada	U.S.	Total
Total assets	$ 123,675	$ 206,404	$ 330,079
Goodwill	12,542	27,494	40,036
Liabilities	56,104	125,861	181,965

20. Income tax expense

The major components of income tax expense (recovery) for the fifty-two week periods ended December 29, 2012 and December 31, 2011 are as follows:

Consolidated income statement

(Amounts in $000s)	December 29, 2012	December 31, 2011
Current tax expense:		
Current period	**$ 5,442**	$ 5,762
Deferred income tax:		
Origination and reversal of temporary differences	**(6,983)**	3,726
Change in tax rate applicable to reversal of temporary differences	**154**	(18)
Recognition of previously unrecognized tax asset	**(280)**	–
	(7,109)	3,708
Income tax (recovery) expense reported in the income statement	**$ (1,667)**	$ 9,470

Consolidated statement of other comprehensive loss

(Amounts in $000s)	December 29, 2012	December 31, 2011
Income tax (recovery) expense related to items charged or credited directly to other comprehensive income and retained earnings during the period:		
Gain on hedge of net investment in foreign operations	**$ 609**	$ (17)
Loss on translation of net investment in foreign operations	**(157)**	–
Effective portion of changes in fair value of cash flow hedges	**(437)**	411
Net change in fair value of cash flow hedges tranferred to income	**96**	173
Defined benefit plan actuarial recovery (loss)	**(1,230)**	(371)
Income tax (recovery) expense directly to other comprehensive income and retained earnings	**$ (1,119)**	$ 196

The reconciliation between tax expense and the product of accounting profit multiplied by the Company's statutory tax rate for the fifty-two week periods ended December 29, 2012 and December 31, 2011 are as follows:

(Amounts in $000s)	**Fiscal 2012**	Fiscal 2011
Accounting profit before tax at statutory income tax rate of 27.3% (2011 – 28.8%)	**$ 146**	$ 8,105
Non-deductible expenses for tax purposes:		
Withholding tax on dividends	**(402)**	781
Non-deductible share-based compensation	**2,209**	187
Non-deductible business acquisition costs	**–**	1,535
Other non-deductible items	**225**	168
Effect of higher income tax rates of U.S. subsidiary	**2,750**	868
Acquisition financing deduction	**(6,813)**	(2,187)
Other	**218**	13
Income tax (recovery) expense	**$ (1,667)**	$ 9,470

During the year the Company's statutory rate declined by approximately 1.5% primarily as a result of previously enacted tax rate reductions.

Deferred income tax relates to the following:

Deferred income tax

	Consolidated statement of financial position as at:			Consolidated statement of income for the fifty-two weeks ended:	
(Amounts in $000s)	**December 29, 2012**	December 31, 2011	January 1, 2011	**December 29, 2012**	December 31, 2011
Accelerated depreciation for tax purposes on property, plant and equipment	**$ (11,289)**	$ (16,511)	$ (9,211)	**$ (5,237)**	$ (142)
Inventory	**(7,647)**	(7,755)	(4,890)	**(107)**	3,111
Intangible assets	**(36,996)**	(38,589)	(6,397)	**(1,583)**	(317)
Pension	**3,849**	3,099	2,878	**422**	(16)
Revaluation of cash flow hedges	**150**	(156)	445	**(183)**	415
Losses available for offset against future taxable income	**7,195**	11,223	6,939	**4,029**	354
Deferred charges and other	**6,819**	2,365	2,703	**(4,450)**	303
Deferred income tax (recovery) expense	**$ –**	$ –	$ –	**$ (7,109)**	$ 3,708
Net deferred income tax liability	**$ (37,919)**	$ (46,324)	$ (7,533)	**$ –**	$ –
Reflected in the balance sheet as follows:					
Deferred income tax assets	**7,207**	1,667	2,416		
Deferred income tax liabilities	**(45,126)**	(47,991)	(9,949)		
Net deferred income tax liability	**$ (37,919)**	$ (46,324)	$ (7,533)		

Reconciliation of deferred income tax (liabilities) assets, net

	Fifty-two weeks ended	
(Amounts in $000s)	**December 29, 2012**	December 31, 2011
Opening balance, beginning of year	**$ (46,324)**	$ (7,533)
Deferred income tax recovery (expense) during the period recognized in income	**7,109**	(3,708)
Deferred income tax arising from an acquisition *(note 4)*	**–**	(34,831)
Deferred income tax recovery during the period recognized in retained earnings	**1,230**	371
Deferred income tax recovery (expense) during the period recognized in other comprehensive income	**66**	(623)
Closing balance, end of year	**$ (37,919)**	$ (46,324)

The Company has net operating losses in its U.S. subsidiaries of $9.7 million (December 31, 2011: $26.3 million; January 1, 2011: $18.2 million) that are available for use from 2013–2028. 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 total to $0.3 million (December 31, 2011: $0.2 million; January 1, 2011: $0.2 million).

There are no income tax consequences attached to the payment of dividends in either 2012 or 2011 by the Company to its shareholders.

21. Related party transactions

The ultimate parent

High Liner Foods Incorporated is the ultimate parent entity.

Key management personnel compensation

In addition to their salaries, the Company also provides benefits to the Chief Executive Officer ("CEO"), Named Executive Officers ("NEOs") and Directors in the form of contributions to post-employment benefit plans on their behalf, non-cash plans and various other short- and long-term incentive and benefit plans as described below:

Employee future benefits

Please refer to *note 14* for details of each plan as applicable to the Company's NEOs.

Termination and change of control benefits

The Company has entered into Change of Control Agreements (the "Agreements") between the Company and the CEO and NEOs. The Agreements are automatically extended annually by one additional year unless the Company provides 90 days notice of its unwillingness to extend the agreements.

The change of control agreements provide that, in the event of a termination by the Company following a change of control, other than for cause, or by the executive for good reason, the NEO is entitled to: (a) cash compensation equal to the final annual compensation (including base salary and short-term incentives) multiplied by 3 for the CEO and 2 for all other NEOs; (b) the automatic vesting of any options or other entitlements for the purchase or acquisition of shares in the capital of the Company which are not then exercisable, which shall be exercisable following termination for 3 years for the CEO and 2 years for all other NEOs; (c) continue to participate in certain benefit programs for 3 years for the CEO and 2 years for all other NEOs.

Short-term incentive 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 Share Option Plan and the Company's PSU plan. Details regarding the Share Option and PSU plans are detailed in *note 18* above.

Key management personnel compensation is comprised of:

(Amounts in $000s)	**December 29, 2012**	December 31, 2011
Salaries	**$ 1,958**	$ 1,833
Short-term incentive plans	**1,087**	1,180
Employee future benefits	**496**	289
Share-based awards	**1,659**	489
	$ 5,200	$ 3,791

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 29, 2012, Thornridge Holdings Limited owns 38.1% of the outstanding common shares in High Liner Foods Inc. (December 31, 2011: 38.2% of combined equity shares).

Associates of the Company

Clearwater Seafood Limited Partnership ("Clearwater") ceased to be a related party effective June 16, 2011: therefore, disclosing transactions and outstanding balances after this date is not required. For the period January 2, 2011 to June 16, 2011, purchases from Clearwater were $3.2 million and amounts owed to Clearwater of $0.1 million, which were subsequently paid.

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, Massachusetts where the Company pays market-based rent.

Joint venture in which the Company is a venturer

The Company's equity accounted for investee represents a 50% interest in HighKan Holdings Limited, a holding company with an 80% interest in Dencan Seafood Limited, which operates in the business of processing frozen seafood products. The Company regularly purchases raw materials and finished goods from Dencan Seafood Limited. The Company uses the raw materials in production for sale to its customers. Subsequent to year end the Company sold its 50% interest in HighKan *(note 28)*.

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

(Amounts in $000s)	**December 29, 2012**	December 31, 2011
Other related parties:		
Crystal Cold Storage & Warehousing Inc.		
Services from related party	**$ 637**	$ 359
Amounts owed to related party*	**231**	16
Pier 17 Realty Trust Inc.		
Rent paid to related party	**400**	422
Amounts owed to related party*	**–**	–
Joint venture in which the Company is a venturer:		
Qingdao Dencan Seafoods Ltd.		
Purchases from related party	**19,478**	24,013
Amounts owed to related party*	**–**	–
Total purchases from related parties	**$ 20,515**	$ 24,794
Total amounts owed to related parties*	**230**	16

* Amounts are classified as accounts receivable/accounts payable respectively.

The Company had no sales to or amounts due from related parties throughout 2011 or 2012, nor did the Company have any transactions during 2011 or 2012 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 twelve months of the reporting date. None of the balances are secured. There have been no guarantees provided or received for any related party receivables or payables. As at December 29, 2012 and December 31, 2011 the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

22. Financial instruments

	Other financial assets:			Other financial liabilities:		
(Amounts in $000s)	**December 29, 2012**	December 31, 2011	January 1, 2011	**December 29, 2012**	December 31, 2011	January 1, 2011
Financial instruments at fair value through other comprehensive income						
Cash flow hedges:						
Foreign exchange forward contracts	**$ 533**	$ 1,323	$ 895	**$ 550**	$ 780	$ 2,347
Interest rate swap	**–**	–	–	**412**	–	208
Financial instruments at fair value through profit and loss						
Embedded derivative	**–**	–	–	**–**	6,223	–
Interest rate swaps not designated in hedge relationships	**–**	–	–	**718**	–	–
	$ 533	$ 1,323	$ 895	**$ 1,680**	$ 7,003	$ 2,555

Hedging activities

Foreign currency hedge

At December 29, 2012 the Company held foreign currency forward contracts designated as hedges of expected future purchases from suppliers transacting in U.S. dollars, which the Company has qualified as highly probable forecasted transactions. The foreign currency forward contracts are being used to hedge the foreign currency risk of the highly probable forecasted transactions.

At the end of the fifty-two week period ended December 29, 2012, the cash flow hedges of the expected future purchases in the future quarters of 2013 were assessed to be highly effective and were therefore included in other comprehensive loss in respect of these contracts as follows:

(Amounts in $000s)	**December 29, 2012**	December 31, 2011
Unrealized (loss) gain	**$ (16)**	$ 543
Deferred tax recovery (expense)	**6**	(156)

Amounts recognized in income resulting from hedge ineffectiveness during the fifty-two week period ended December 29, 2012 was $0.01 million (December 31, 2011: $0.05 million).

The amount removed from other comprehensive loss, net of tax, during the fifty-two week period ended December 29, 2012 and included in the carrying amount of the hedging items was $0.3 million (December 31, 2011: $0.6 million).

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 will pay the fixed swap rate and will receive 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 of the term loan. 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, thus, effectively fixing the rate at 1.5%.

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

Hedge of net investment in foreign operations

As at December 29, 2012 there was a borrowing of $170.0 million included in long-term debt (December 31, 2011: $170.0 million included in long-term debt and $15.0 million included in current bank loans), which have been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this investment. Gains or losses on the retranslation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness recognized in the fiscal years ended December 29, 2012 or December 31, 2011.

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

In 2011 the Company secured a $250 million long-term loan, bearing interest at LIBOR plus 5.5%, with a LIBOR floor of 1.5%. This interest rate floor represents an embedded interest rate derivative that requires bifurcation.

This embedded interest rate derivative has been bifurcated and carried at fair value, with changes going though profit or loss. The fair value of the embedded derivative at December 29, 2012 was nominal (December 31, 2011: $6.2 million), with the change recorded in finance costs. The fair value of the embedded derivative was substantially reduced as a result of the extinguishment of the original term loan *(note 28)*.

Classification of financial instruments

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

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

The following table identifies all of the Company's financial instruments and their carrying values recorded at the balance sheet date and their fair values at the balance sheet. The carrying values of the Company's loans and receivables (which only 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 effective interest rate method. Items accounted as hedges represent fair value of the Company's foreign exchange contracts as well as the fair value of its interest rate swap on its long-term debt.

(Amounts in $000s) **As at December 29, 2012**	**Financial assets at fair value through profit and loss**	**Financial liabilities at fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at amortized cost**	**Items accounted for as hedges**	**Total carrying amount**
Cash	**$ 65**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 65**
Accounts receivable	**–**	**–**	**75,191**	**–**	**–**	**75,191**
Other financial assets	**–**	**–**	**–**	**–**	**533**	**533**
Bank loans	**–**	**–**	**–**	**59,704**	**–**	**59,704**
Accounts payable and accrued liabilities	**–**	**–**	**–**	**100,897**	**–**	**100,897**
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**	**–**	**1,532**	**412**	**2,662**
Long-term debt	**–**	**–**	**–**	**213,359**	**–**	**213,359**

As at December 31, 2011						
Cash	$ 3,205	$ –	$ –	$ –	$ –	$ 3,205
Accounts receivable	–	–	83,590	–	–	83,590
Other financial assets	–	–	–	–	1,323	1,323
Bank loans	–	–	–	118,958	–	118,958
Accounts payable and accrued liabilities	–	–	–	106,856	–	106,856
Provisions	–	–	–	1,013	–	1,013
Other current financial liabilities	–	–	–	–	780	780
Current portion of long-term debt	–	–	–	2,500	–	2,500
Other long-term financial liabilities	–	6,223	–	243	–	6,466
Long-term debt	–	–	–	227,246	–	227,246

As at January 1, 2011						
Cash	$ 601	$ –	$ –	$ –	$ –	$ 601
Accounts receivable	–	–	50,724	–	–	50,724
Other financial assets	–	–	–	–	895	895
Bank loans	–	–	–	42,957	–	42,957
Accounts payable and accrued liabilities	–	–	–	60,379	–	60,379
Provisions	–	–	–	553	–	553
Other current financial liabilities	–	–	–	–	2,347	2,347
Current portion of long-term debt	–	–	–	4,450	–	4,450
Other long-term financial liabilities	–	–	–	–	208	208
Long-term debt	–	–	–	44,151	–	44,151

Interest rates used for determining fair value

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

	December 29, 2012	December 31, 2011	January 1, 2011
Bank loans	**2.86%**	3.10%	2.27%
Long-term debt	**4.75%**	7.00%	2.30%
Capital lease obligations	**6.04%**	5.90%	5.62%

Amortized cost impact on interest expense

In the fifty-two week period ended December 29, 2012, the Company expensed $0.3 million and $2.5 million (December 31, 2011: $0.1 million and $0.1 million) of short-term and long-term interest respectively relating to interest that was calculated using the effective interest rate method relating to its transaction fees and its borrowings.

Subsequent to year end the Company amended its term loan *(note 28),* and a net deferred financing cost of $8.7 million relating to the original placement has been expensed as finance costs.

Forward exchange contracts

The Company systematically enters into foreign exchange contracts, with maturities of 15 months or less, to hedge future cash outflows for the purchase of raw materials. The Company uses hedge accounting to account for these foreign exchange contracts.

At period end, the Company had the following total foreign exchange forward single rate contracts outstanding:

	December 29, 2012	
	Sell CAD$	**Receive US$**
Forward rate	**$ 5,259,698**	**$ 5,290,429**

The forward single rate contracts at December 29, 2012 have a rate of $0.9942 with maturities ranging from January 2013 to September 2013.

For the fifty-two week period ended December 29, 2012, the Company had the following foreign exchange "average rate" purchase contracts outstanding:

		December 29, 2012	
Average rate forwards	**Weighted Average Put Rate**	**Weighted Average Call Rate**	**Total US$ Value**
Average rate	**$ 1.0009**	**$ 1.0009**	**$ 33,243,821**

With the exception of $2,420,604 average rate forward contracts with maturities ranging from January 2014 to June 2015, all foreign exchange purchase contracts have maturities that are less than one year.

Average rate forward purchase contracts

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

Estimated fair value of financial instruments

The estimated fair values of financial instruments as at December 29, 2012, December 31, 2011, and January 1, 2011 are based on relevant market prices and information available at that time. The fair value estimates are not necessarily indicative of the amounts that the Company might receive or pay in actual market transactions. The total fair value of all of the foreign exchange future contracts as at December 29, 2012 was an asset of $0.5 million and a liability of $0.5 million (December 31, 2011: an asset of $1.4 million and a liability of $0.8 million). The fair value of the interest rate swaps at December 29, 2012 was a liability of $0.4 million (December 31, 2011: $nil).

The fair value of the Company's long-term debt as of December 29, 2012 was estimated to be $275.4 million (December 31, 2011: $254.2 million). The fair value of the Company's capital lease obligations at December 29, 2012 is estimated to be $3.2 million (December 31, 2011: $3.6 million; January 1, 2011: $4.0 million). These fair values are calculated by discounting the future cash flows of each loan at the estimated yield to maturity based on publicly available information. Since the Company does not intend to settle its long-term debt or capital lease obligations prior to maturity, the fair values do not represent an actual liability and, therefore, does not include exchange or settlement costs.

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

Fair value hierarchy

All financial instruments carried by the Company at fair value are categorized as:

Level 2: Other techniques that use inputs other than quoted market prices included within Level 1 that are observable, either directly (as prices) or indirectly (derived from prices).

(Amounts in $000s)	**December 29, 2012 Level 2**	December 31, 2011 Level 2	January 1, 2011 Level 2
Assets measured at fair value			
Foreign exchange contracts; hedged	**$ 533**	$ 1,323	$ 895
Liabilities measured at fair value			
Foreign exchange contracts; hedged	**550**	780	2,347
Interest rate swaps	**1,130**	–	208
Embedded derivative	**–**	6,223	–

During the fifty-two week periods ended December 29, 2012, December 31, 2011 and January 1, 2011 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

23. Capital management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, purchase its capital stock under a Normal Course Issuer Bid ("NCIB") or issue new shares. Capital distributions, including purchases of stock, are subject to a fixed charge coverage ratio under the Company's working capital debt facilities. This ratio is only operative if the consolidated adjusted aggregated availability under the working capital debt facility is less than $22.5 million. The Company currently has availability in excess of $100.0 million as at December 29, 2012. The Company also has restrictions on their capital distributions, where the aggregate amount cannot exceed the greater of $8.0 million per year and the available excess cash flow as defined in its credit agreement. For the fifty-two weeks ended December 29, 2012 the Company has paid $6.4 million in dividends and $0.5 million in NCIB. The Company monitors capital (excluding letters of credit) using the ratio of funded debt to capitalization, which is net interest bearing debt, divided by total capital plus net interest bearing debt. The Company's objective is to keep this ratio between 35% and 50%. Seasonal working capital debt may result in the Company exceeding the ratio at certain times throughout the fiscal year. The Directors of the Company have also decided that this range can be exceeded on a temporary basis as a result of the Icelandic USA Acquisition.

(Amounts in $000s)	**December 29, 2012**	December 31, 2011	January 1, 2011
Current bank loans	**$ 59,704**	$ 118,958	$ 42,957
Add-back: deferred charges on current bank loans	**826**	978	304
Long-term debt	**213,359**	227,246	44,151
Current portion of long-term debt	**34,237**	2,500	4,450
Add-back: deferred charges on long-term debt	**370**	14,031	305
Add-back: bifurcated embedded derivative	**159**	6,223	–
Long-term portion of finance lease obligations	**2,181**	2,555	3,062
Current portion of finance lease obligations	**1,039**	1,046	978
Cross currency swap market-to-market	**–**	–	208
Less: cash	**(65)**	(3,205)	(601)
Total funded debt	**311,810**	370,332	95,814
Shareholders' equity	**153,354**	158,827	148,114
Unrealized losses on derivative financial instruments included in accumulated other comprehensive loss	**329**	(298)	1,271
Total capitalization	**$ 465,493**	$ 528,861	$ 245,199
Debt as % of capitalization	**67%**	70%	39%

24. Financial risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, letters of credit, notes payable, finance leases, and trade payables. The only purpose of these financial liabilities is to finance the Company's operations. The Company has various financial assets such as trade receivables, other accounts receivable, 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 2012 and 2011 that no speculative trading in derivatives shall be undertaken.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Audit Committee of the Board of Directors reviews and approves policies for managing each of these risks, which are summarized below.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates arises out of the Company's debt obligations with floating interest rates. For both of fiscal 2012 and 2011 the Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Company's objective is to keep between 35% and 55% of its borrowings at fixed rates of interest. To manage this, the Company enters into fixed rate debt facilities or interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Interest rate Options that effectively fix the maximum rate of interest that the Company will pay may also be used to manage this exposure. At December 29, 2012, 50% of the outstanding long-term debt was hedged and 57% (December 31, 2011: 1%; January 1, 2011: 50%) of the Company's borrowings are either hedged or at a fixed rate of interest.

The following table demonstrates the sensitivity of the Company's profit before tax to a change in interest rates, with all other variables held constant (through the impact on floating rate borrowings). There is no impact on the Company's equity except through changes in income.

(Amounts in $000s)		US$		CAD$	Increase/ (decrease) in basis points	Annualized (decrease)/ increase on profit before tax ($000s)
December 29, 2012						
Current bank loans:	**$**	**58,784**	**$**	**–**	**25/(25)**	**(147)/147**
		1,745		**1,737**	**25/(25)**	**(4)/4**
Long-term debt:		**248,125**		**–**	**25/(25)**	**(620)/620**
December 31, 2011						
Current bank loans:	$	109,924	$	–	25/(25)	(275)/275
		10,012		10,182	25/(25)	(25)/25
Long-term debt:		250,000		–	25/(25)	(625)/625
January 1, 2011						
Current bank loans:	$	38,500	$	–	25/(25)	(96)/96
		4,761		4,735	25/(25)	(12)/12

Foreign currency risk

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

In looking at the effect on net income, the majority of sales in Canadian dollars, being those of the Parent company, have U.S. dollar denominated input costs and, therefore, changes in exchange rate only affect the conversion of Canadian dollar items translated to U.S. dollars. For products produced in Canada, raw material is also purchased in U.S. dollars and flour-based ingredients, cooking oils and transportation costs all have significant commodity components that are traded in U.S. dollars. However, labour, packaging and ingredient conversion costs and overheads for these products are purchased in Canadian dollars and, therefore, a strengthening Canadian dollar decreases these costs in U.S. dollar terms and increases the related profit. Conversely, a weakening Canadian dollar increases these costs in U.S. dollar terms and decreases the related profit.

The Canadian company hedges forecasted cash flows for purchases of products for its Canadian operations where the purchase price is substantially known in advance. The policy dictates that cash flows out 15 months are hedged between a minimum and maximum percent that declines by quarter the further in the future the cash flows. The Company does not hedge cash flows on certain seafood purchases in which the ultimate selling prices charged to the Company's 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 breading and batters, and soya and canola bean based cooking oils. The Company does not actively hedge these inputs, relying where possible on fixed price contracts in Canadian dollars, from 3 to 12 months with suppliers.

At December 29, 2012, the Canadian company had hedged 56% (December 31, 2011: 55%; January 1, 2011: 60%) of its targeted foreign currency seafood purchases, extending to December, 2013.

For the last three years, approximately 80% of the Canadian company's cost of sales was based on currencies other than the Company's functional currency, while more than 90% of the Canadian operation's sales were denominated in the Company's functional currency.

As we have operations in Canada, and some assets and liabilities in Canada that are denominated in Canadian dollars, 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 U.S. dollars. The net offset of those changes flow through Other Comprehensive Income in shareholders' equity on the balance sheet. Based on the equity of the Canadian company as of December 29, 2012 a one cent increase/(decrease) in the U.S. exchange rate will (decrease)/increase equity by approximately $0.8 million (December 31, 2011: $0.8 million; January 1, 2011: $0.7 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 account for 55% (December 31, 2011: 47%; January 1, 2011: 57%) of the trade receivables at year end with the largest customer accounting for 14% (December 31, 2011: 15%; January 1, 2011: 13%). Five out of ten for the current, and the preceding two periods (December 31, 2011 and January 1, 2011), of the customers have investment grade ratings with three being substantial private enterprises. The Company does not purchase credit insurance on its trade accounts receivable.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and 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 twelve 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 29, 2012, approximately 13% (December 31, 2011: 1%; January 1, 2011: 10%) of the Company's debt will mature in less than one year based on the carrying value of borrowings reflected in the financial statements. Based on amended credit agreements *(note 28)*, approximately 6% of the Company's debt will mature in less than one year. At December 29, 2012, 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 prior to amendments entered into subsequent to year end.

(Amounts in $000s) **As at December 29, 2012**	**Bank loans**	**Accounts payable**	**Other long-term financial liabilities**	**Long-term debt**	**Finance lease obligations**	**Total**
Due within 1 year	**$ –**	**$ 100,897**	**$ –**	**$ 34,237**	**$ 1,039**	**$ 136,173**
Due in 1–3 years	**–**	**–**	**1,532**	**15,938**	**1,518**	**18,988**
Due in 3–5 years	**60,530**	**–**	**–**	**197,950**	**663**	**259,143**
	$ 60,530	**$ 100,897**	**$ 1,532**	**$ 248,125**	**$ 3,220**	**$ 414,304**
As at December 31, 2011						
Due within 1 year	$ –	$ 106,856	$ –	$ 2,500	$ 1,046	$ 110,402
Due in 1–3 years	–	–	243	11,250	1,386	12,879
Due in 3–5 years	119,936	–	–	15,000	1,027	135,963
Thereafter	–	–	–	221,250	143	221,393
	$ 119,936	$ 106,856	$ 243	$ 250,000	$ 3,602	$ 480,637
As at January 1, 2011						
Due within 1 year	$ –	$ 60,380	$ –	$ 4,450	$ 978	$ 65,808
Due in 1–3 years	–	–	–	44,151	1,897	46,048
Due in 3–5 years	43,261	–	–	–	1,166	44,427
	$ 43,261	$ 60,380	$ –	$ 48,601	$ 4,041	$ 156,283

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 million of this product annually. A 1% change in the price of frozen raw seafood materials would increase/decrease the Company's procurement costs by $6 million. Prices can fluctuate and there is no formal commercial mechanism for hedging either sales or purchases. Purchases of seafood on global markets are principally in U.S. dollars. We hedge exposures to a portion of our currency exposures, and we enter into longer-term supply contracts when possible. All foreign currency hedging activities are carried out in accordance with our formal *Price Risk Management Policy*, under the oversight of the Audit Committee.

The Company has multiple strategies to manage seafood costs. Wherever possible, the Company minimizes the percentage of seafood that is being supplied by a single source and tries to have at least two suppliers for our seafood product purchases.

The Company focuses on the development of close relationships with key suppliers. The Company currently purchases significant quantities of frozen raw material and finished goods originating from all over the world. The Company's supplier base is diverse to ensure no over-reliance on any one source or species. The Company maintains a strict policy of *Supplier Approval and Audit Standards*.

Over time, the company is also able to increase selling prices to its customer 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 four years.

Other commodities, whose fluctuating market prices may affect financial results, are flour, paper products and frying oils. The Company's *Price Risk Management Policy* dictates the use of fixed pricing with suppliers whenever possible but allows the use of hedging with costless tunnels or swaps if deemed prudent. Throughout 2012 and 2011 the Company has managed this risk through contracts with our suppliers. World commodity prices for flour, and soy and canola oils, important ingredients in the manufacture of many of the Company's products increased in 2012 after the decreases seen in 2011. The Company currently has fixed price contracts with suppliers covering a significant portion of the Company's 2013 commodity purchase requirements.

25. Supplemental information

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

(Amounts in $000s)

Included in finance costs:	**December 29, 2012**	December 31, 2011
Interest expense on bank loans	**$ 3,565**	$ 1,859
Interest expense on long-term debt	**18,028**	3,675
Interest rate hedge	**720**	–
Deferred financing charges	**2,775**	329
Revaluation of embedded derivative	**2,605**	–
Writedown of deferred financing charges and bifurcated embedded derivative on long-term debt	**8,755**	–
Interest on letter of credit for SERP	**250**	182
Foreign exchange gain	**(74)**	(26)
Total finance costs	**$ 36,624**	$ 6,019

Foreign exchange gains included in:		
Cost of sales	**$ (345)**	$ 210
Finance costs	**(75)**	(26)
Total foreign exchange (loss) gains	**$ (420)**	$ 184

Losses (gains) on disposal of assets included in:		
Cost of sales	**$ 235**	$ 210
Distribution expenses	**35**	1
Selling, general and administrative expenses	**(461)**	(20)
Total losses (gains) on disposal of assets	**$ (191)**	$ 191

Employee compensation and benefit expense:		
Wages and salaries (including payroll benefits)	**$ 95,785**	$ 74,767
Future employee benefit costs	**3,428**	2,819
Share-based payment transaction expense	**10,255**	737
Termination benefits	**6,447**	953
Total employee compensation and benefit expense	**$ 115,915**	$ 79,276

26. Comparative figures

Certain comparative figures in the consolidated financial statements have been restated. This is due to adjustments made upon finalization of the Icelandic USA Acquisition business combination purchase price allocation *(note 4)*, and change in presentation currency from Canadian dollars to U.S. dollars *(note 27)*.

27. Change in presentation currency

The Company changed its presentation currency from Canadian dollars to U.S. dollars, as significant portions of the Company's revenues, expenses and cash flows are denominated in U.S. dollars. The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the packaged foods industry. In making this change in presentation currency, the Company followed the requirements set out in IAS 21, *The Effects of Change in Foreign Exchange Rates.* In accordance with IAS 21, the financial statements for all years and periods presented have been translated into the new presentation currency according to the current Company policy for foreign currency described in *note 3.*

Comparative financial information has been retroactively restated to reflect the Company's results as if they had been historically reported in U.S. dollars.

28. Events after the reporting period

Loan amendments

In February 2013 the Company amended its term loan and asset-based revolving loan facility (as described in *notes 12* and *13* respectively). The amendment to the term loan was deemed to be an extinguishment of the original placement. The net impact of the refinancing was $8.7 million, which has been expensed in fiscal 2012 as finance costs. The remaining $0.5 million of deferred charges will be amortized in fiscal 2013 up to the date of the amendment.

Sale of joint venture

In February 2013 the Company sold its 50% interest in its joint venture HighKan Holdings Limited for $0.1 million, equal to its carrying value.

historical income statement

(Unaudited)

(Amounts in $000s, except per share amounts)	**2012***	2011*	2010*	2009**	2008**	2007**	2006**	2005**	2004**	2003**
Sales	**$ 942,631**	$ 675,539	$ 567,572	$ 549,922	$ 578,844	$ 256,180	$ 230,702	$ 206,326	$ 199,252	$ 214,032
Gross profit	**209,526**	153,530	133,169	117,953	124,282	66,293	60,486	55,276	56,479	60,789
Distribution expenses	**(46,308)**	(35,382)	(29,149)	(28,383)	(34,816)	(18,781)	(18,931)	(17,825)	(15,496)	(14,512)
Other selling, general and administrative expenses	**(101,891)**	(72,898)	(66,565)	(58,787)	(61,604)	(36,729)	(32,288)	(31,817)	(28,709)	(31,820)
Impairment of property, plant and equipment	**(13,230)**	–	–	–	–	–	–	–	–	–
Business acquisition, integration and other costs	**(10,741)**	(11,049)	(870)	(403)	(4,585)	(1,197)	–	–	–	–
Interest expense on loans	**(21,805)**	(5,690)	(4,413)	(4,478)	(5,629)	(46)	(810)	(345)	(271)	(1,296)
Other financing costs	**(14,819)**	(329)	(612)	(416)	(431)	–	–	–	–	–
Share of income of equity accounted investee (net of income tax)	**(196)**	(52)	16	–	–	–	–	–	–	–
Non-operating items and gain (loss) on disposal of assets	**–**	–	–	(808)	(79)	311	(152)	438	688	29,413
Income before income taxes	**536**	28,130	31,576	24,677	17,137	9,851	8,305	5,728	12,692	42,574
Income tax expense										
Current	**(5,442)**	(5,762)	(6,220)	(2,234)	(2,821)	(2,331)	(2,187)	(860)	(556)	(457)
Future	**7,109**	(3,708)	(6,057)	(5,130)	(980)	(1,082)	(1,600)	(1,688)	(2,710)	(2,222)
Total income taxes	**1,667**	(9,470)	(12,277)	(7,364)	(3,801)	(3,413)	(3,788)	(2,547)	(3,265)	(2,679)
Net income from continuing operations for the period	**2,203**	18,660	19,299	17,313	13,335	6,438	4,517	3,180	9,427	39,895
Net loss from discontinued operations, net of income taxes	**–**	–	–	–	–	346	(699)	(36,564)	(3,154)	(4,962)
Net income (loss) for the period	**$ 2,203**	$ 18,660	$ 19,299	$ 17,313	$ 13,335	$ 6,784	$ 3,818	$ (33,384)	$ 6,273	$ 34,933
Reconciliation to EBITDA:										
Add back:										
Net loss from discontinued operations, net of income taxes	**–**	–	–	–	–	(346)	699	36,564	3,154	4,962
Income tax expense	**(1,667)**	9,470	12,277	7,364	3,801	3,413	3,788	2,547	3,265	2,679
Financing costs	**36,624**	6,019	5,025	4,894	6,061	46	810	345	271	1,296
Amortization of intangible assets	**5,551**	1,840	1,169	1,314	1,300	7	11	1	7	–
Depreciation	**13,830**	7,981	7,094	5,796	6,079	2,865	2,649	2,525	2,382	2,540
Standardized EBITDA	**$ 56,541**	$ 43,970	$ 44,864	$ 36,681	$ 30,576	$ 12,769	$ 11,775	$ 8,598	$ 15,351	$ 46,410
Add back:										
Business acquisition costs	**10,741**	11,049	870	403	4,585	1,197	–	–	–	–
Increase in cost of sales due to the acquisition	**1,149**	510	55	–	927	–	–	–	–	–
Impairment of property, plant and equipment	**13,230**	–	–	–	–	–	–	–	–	–
Loss (gain) on disposals of assets	**(190)**	192	14	431	378	–	194	101	(5)	(93)
Stock-based compensation	**10,255**	737	3,653	320	(102)	126	29	–	52	154
Non-operating items	**–**	–	–	504	53	(209)	148	465	(463)	(31,586)
Adjusted EBITDA	**$ 91,726**	$ 56,458	$ 49,456	$ 38,340	$ 36,416	$ 13,882	$ 12,146	$ 9,165	$ 14,936	$ 14,885

Reconciliation to Adjusted Net Income:										
Net income	**$ 2,203**	$ 18,660	$ 19,299	$ 17,313	$ 13,335	$ 6,784	$ 3,818	$ (33,384)	$ 6,273	$ 34,933
Add back after tax:										
Net loss from discontinued operations, net of income taxes	**–**	–	–	–	–	(346)	699	36,564	3,154	4,962
Stock-based compensation	**10,025**	703	3,653	219	(67)	80	18	–	52	154
Impairment of property, plant and equipment	**9,781**	–	–	–	–	–	–	–	–	–
Business acquisition costs	**6,895**	8,397	541	497	3,853	821	–	–	–	–
Non-operating items	**–**	–	–	504	53	(209)	148	465	(463)	(31,586)
Increase in cost of sales due to the acquisition	**761**	312	34	–	575	–	–	–	–	–
Embedded derivatives	**1,899**	–	–	–	–	–	–	–	–	–
Interest rate swap on embedded derivative	**529**	–	–	–	–	–	–	–	–	–
Accelerated amortization of deferred financing charges	**6,380**	–	–	–	–	–	–	–	–	–
Withholding taxes	**(402)**	782	996	–	–	–	–	–	–	–
Adjusted Net Income	**$ 38,071**	$ 28,854	$ 24,523	$ 18,533	$ 17,749	$ 7,130	$ 4,683	$ 3,645	$ 9,016	$ 8,463

(Amounts in $000s, except per share amounts)	**2012***	2011*	2010*	2009**	2008**	2007**	2006**	2005**	2004**	2003**
Book value per common share at year end	**$ 10.13**	$ 10.53	$ 9.78	$ 7.51	$ 7.93	$ 5.59	$ 4.38	$ 3.89	$ 7.10	$ 7.10
Gross capital expenditures from continuing operations	**13,447**	7,675	5,134	11,107	6,051	3,620	3,186	3,423	4,072	5,108
Per share information										
Basic info per common share										
Based on net income	**$ 0.15**	$ 1.24	$ 1.20	$ 0.94	$ 0.89	$ 0.65	$ 0.37	$ (3.16)	$ 0.58	$ 3.51
Based on income from continuing operations	**0.15**	1.24	1.20	0.94	0.89	0.62	0.44	0.30	0.87	4.01
Based on adjusted net income	**2.52**	1.82	1.52	1.01	1.18	0.68	0.45	0.34	0.83	0.85
Diluted info per common share										
Based on net income	**0.14**	1.22	1.19	0.94	0.72	0.53	0.27	(3.24)	0.50	3.13
Based on income from continuing operations	**0.14**	1.22	1.19	0.94	0.72	0.50	0.34	0.22	0.78	3.58
Based on adjusted net income	**2.46**	1.88	1.51	1.01	0.97	0.57	0.35	0.26	0.75	0.71
Common shares										
Outstanding at year end	**15,129**	15,087	15,149	18,331	18,471	13,381	10,315	10,284	10,710	10,794
Average outstanding for the year	**15,119**	15,109	16,096	18,385	15,059	10,443	10,306	10,567	10,863	9,945
Amounts in this section are in Canadian dollars:										
Second preference shares										
Dividends declared and paid										
Current	**$ –**	$ –	$ –	$ –	$ 166	$ 1,210	$ 1,174	$ 1,036	$ 992	$ 1,078
Arrears	**–**	–	–	–	–	–	–	–	–	6,260
Dividends per share	**–**	–	–	–	0.83	6.05	5.87	5.18	5.02	36.65
Series A preference shares										
Dividends declared and paid	**–**	–	–	–	774	–	–	–	–	–
Dividend per share	**–**	–	–	–	0.39	–	–	–	–	–
Common shares										
Dividends declared and paid	**6,378**	5,891	5,238	4,959	3,244	2,073	2,027	2,147	2,176	537
Dividend per share	**0.42**	0.39	0.33	0.27	0.22	0.20	0.20	0.20	0.20	0.05
C&D preference shares										
Dividends declared and paid	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	65
Dividend per share	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	–

* Amounts for 2012–2010 are based on International Financial Reporting Standards (IFRS), amounts for previous years are based on Canadian Generally Accepted Accounting Principles.

** Commencing in 2012 the Company has changed its presentation currency from Canadian dollars to U.S. dollars. The numbers for 2012, 2011 and 2010 have been fully restated. Historical information for 2009 to 2003 has been converted by taking the previously reported Canadian dollar amounts and converting it at the annual average exchange rate for that year.

historical balance sheet

(Unaudited)

(Amounts in $000s, except per share amounts)	**2012***	2011*	2010*	2009**	2008**	2007**	2006**	2005**	2004**	2003**
Cash	**$ 65**	$ 3,205	$ 601	$ 1,866	$ 5,808	$ 7,219	$ 206	$ 497	$ 420	$ 718
Accounts receivable	**75,191**	83,590	50,724	56,901	52,757	70,171	26,792	24,097	23,053	24,682
Income tax receivable	**5,145**	3,498	704	1,231	37	2,467	138	9	–	–
Inventories	**222,313**	256,324	132,696	114,261	121,304	112,949	37,834	50,843	38,005	38,659
Prepaid expenses	**2,991**	2,969	1,899	1,934	1,472	1,750	588	547	533	1,164
Other financial assets	**553**	1,323	895	–	–	–	–	–	–	–
Asset classified as held for sale	**4,819**	–	–	–	–	–	–	–	–	–
Future income taxes	**–**	–	–	3,675	1,266	1,331	253	468	6,134	5,833
Total current assets	**311,057**	350,909	187,519	179,868	182,645	195,887	65,811	76,463	68,145	71,057
Property, plant and equipment	**89,268**	105,808	67,634	56,878	48,745	58,779	22,344	23,117	22,579	21,312
Intangible assets	**110,631**	116,594	31,409	18,904	19,877	–	–	–	–	–
Goodwill	**111,085**	110,816	40,036	27,423	25,413	–	–	–	35,749	35,495
Intangibile assets and goodwill	**–**	–	–	–	–	43,702	–	–	–	–
Investment in equity accounted investee	**96**	271	154	–	–	–	–	–	–	–
Deferred income taxes	**7,207**	1,667	2,416	–	–	–	–	–	–	–
Future income taxes	**–**	–	–	333	688	1,714	2,579	3,981	5,528	5,916
Other receivables and miscellaneous assets	**1,847**	1,190	819	232	110	67	930	1,011	6,607	4,274
Employee future benefits	**92**	92	92	7,062	2,872	6,908	5,458	4,573	2,777	1,319
Total assets	**$ 631,283**	$ 687,347	$ 330,079	$ 290,700	$ 280,349	$ 307,056	$ 97,123	$ 109,146	$ 141,385	$ 139,372
Bank loans – actual amounts owing	**$ 60,560**	$ 119,936	$ 43,261	$ 22,084	$ 33,500	$ 63,506	$ 8,680	$ 21,278	$ 6,083	$ 7,947
Bank loans – deferred charges	**(856)**	(978)	(304)	(312)	(518)	(880)	–	–	–	–
Accounts payable and accrued liabilities	**89,360**	102,623	55,821	52,433	60,800	52,190	23,245	25,223	27,071	29,975
Stock compensation payable	**11,537**	4,233	4,559	–	–	–	–	–	–	–
Provisions	**1,614**	1,013	553	–	–	–	–	–	–	–
Other current financial liabilities	**550**	780	2,347	–	–	–	–	–	–	–
Income taxes payable	**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	**1,039**	1,046	978	826	378	616	481	451	369	254
Liabilities directly associated with assets held for sale	**1,604**	–	–	–	–	–	–	–	–	–
Total current liabilities	**200,810**	233,177	114,913	79,435	96,178	115,879	32,405	47,088	33,523	38,177
Long-term debt – actual amounts owing	**213,888**	247,500	44,456	48,996	53,366	53,522	–	–	–	–
Long-term debt – deferred charges and market valuations	**(529)**	(20,254)	(305)	(412)	(554)	(677)	–	–	–	–
Long-term finance lease obligations	**2,181**	2,555	3,062	2,580	424	265	409	543	649	655
Employee future benefits	**13,791**	11,085	9,682	4,338	465	4,320	3,177	2,691	2,348	2,205
Other long-term financial liabilities	**2,662**	6,466	208	1,198	1,744	–	–	–	–	–
Deferred income taxes	**45,126**	47,991	9,949	–	–	–	–	–	–	–
Future income taxes	**–**	–	–	4,479	–	–	–	–	6,038	4,923
Shareholders' equity	**153,354**	158,827	148,114	150,086	128,726	133,747	61,131	58,823	98,828	93,412
Total liabilities and shareholders' equity	**$ 631,283**	$ 687,347	$ 330,079	$ 290,700	$ 280,349	$ 307,056	$ 97,123	$ 109,146	$ 141,385	$ 139,372

* Amounts for 2012–2010 are based on International Financial Reporting Standards (IFRS), amounts for previous years are based on Canadian Generally Accepted Accounting Principles.

** Commencing in 2012 the Company has changed its presentation currency from Canadian dollars to U.S. dollars. The numbers for 2012, 2011 and 2010 have been fully restated Historical information for 2009 to 2003 has been converted by taking the previously reported Canadian dollar amounts and converting it at the period end exchange rate for that year.

financial highlights

(Unaudited)

(Amounts in $000s, except per share amounts)	**2012**	2011[1]	% Change
Sales	**$ 942,631**	$ 675,539	39.5%
Net income for the period	**2,203**	18,660	–88.2%
Basic earnings per Common Share	**0.15**	1.24	–87.9%
Diluted earnings per Common Share	**0.14**	1.22	–88.5%
Adjusted Net Income[2]	**38,071**	28,854	31.9%
Basic earnings per Common Share	**2.52**	1.82	38.3%
Diluted earnings per Common Share	**2.46**	1.88	30.9%
Adjusted EBITDA[3]	**91,726**	56,458	62.5%
Total assets	**631,283**	687,347	–8.1%
Book value per common share	**10.13**	10.53	–3.7%
Shareholders' equity	**153,354**	158,827	–3.4%
Operating highlights			
Product sales volumes in pounds (000)[4]			
Produced in High Liner facilities	**188,158**	138,638	35.7%
Procured	**88,072**	59,566	47.9%
	276,230	198,205	39.4%
Number of employees	**1,652**	1,903	–13.2%
Gross capital expenditures ($000)	**13,447**	7,675	75.2%

(1) Includes the operating results from the Icelandic USA Acquisition from December 19, 2011 to the end of the fiscal year.

(2) Adjusted Net Income is net income excluding the after-tax impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, the increase in cost of goods sold relating to inventory acquired from business acquisitions over its book value, non-cash expense from revaluing an embedded derivative associated with the long-term debt LIBOR floor, marking-to-market an interest rate swap related to the embedded derivative, the writeoff of deferred financing charges on the amendment to the Term Loan and withholding tax related to inter-company dividends.

(3) Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization, excluding impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, gains or losses on disposal of assets, and the increase in cost of goods sold relating to inventory acquired from business acquisitions, above its book value, as part of the fair value requirements of purchase price accounting.

(4) One metric tonne = 2,204.6 lbs.

shareholder information

Honourary Director

D.R. Sobey

Board of Directors

L. A. Bebo[3]
D.H.L. Buntain[3,4]
J.G. Covelluzzi[3]
H.E. Demone[4]
R.P. Dexter, Q.C.[2,4]
D.J. Hennigar (Chair)[4]
M.R. Hennigar[2]
S.L. Jamieson
J.T. MacQuarrie, Q.C.[3,4]
R.A. Miller[2]
R.L. Pace[3]
R.E. Shea[2]
S.W.L. Spavold, CA[2]

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Chairman of the Board

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President & Chief Executive Officer

M.P. Marino[1]
President & Chief Operating Officer, Canadian Operations

K.L. Nelson, FCA[1]
Executive Vice President & CFO

J.E. Brown, CHRP[1]
Vice President, Human Resources

P.W. Snow[1]
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.

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President & Chief Operating Officer

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Senior Vice President, US Plant Operations

S.J. Prusank
Senior Vice President, Sales & Marketing, Food Service

R.H. Barnhardt
Vice President, US Supply Chain

M.E. Sirois
Vice President, Technical Services

C.M. Trosin
Vice President, Sales & Marketing, Retail

M.D. Leslie
Vice President, Integration & Special Projects

Plants

Massachusetts: Malden
New Hampshire: Portsmouth
Virginia: Newport News
Nova Scotia: Lunenburg

Operating Subsidiary Companies

High Liner Foods (USA), Incorporated
Viking Seafoods, LLC
ISF (USA), LLC
High Liner Foods (Thailand) Co., Ltd.

Auditors

Ernst & Young LLP, Chartered Accountants

Transfer Agent

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Common Shares Listed on The Toronto Stock Exchange
Trading Symbols – HLF

Annual General and Special Meeting of Shareholders

Tuesday, May 7, 2013
11:30 a.m.
World Trade & Convention Centre,
Halifax, Nova Scotia

1 Management Committee
2 Audit Committee (R.P. Dexter, Chair)
3 Human Resources & Governance Committee (D.H.L. Buntain, Chair)
4 Executive Committee (D.J. Hennigar, Chair)

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