



#### **CORPORATE PROFILE**

High Liner Foods is the leading North American processor and marketer of value-added frozen seafood. High Liner Foods' retail branded products are sold throughout the United States, Canada and Mexico under the High Liner, Fisher Boy, Mirabel, Sea Cuisine and C. Wirthy & Co. labels, and are available in most grocery and club stores. The Company also sells branded products under the High Liner, Icelandic Seafood, FPI, Viking, Mirabel, Samband of Iceland and American Pride Seafood labels to restaurants and institutions and is a major supplier of private-label value-added frozen seafood products to North American food retailers and foodservice distributors. High Liner Foods is a publicly-traded Canadian company, trading under the symbol HLF on the Toronto Stock Exchange.

### 2014 HIGHLIGHTS

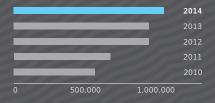
#### FINANCIAL HIGHLIGHTS (unaudited)

(Amounts in USD \$000s, except per share amounts)	2014	2013	% Change
Sales	1,051,613	947,301	11.0
Net income	30,300	31,356	(3.4)
Basic earnings per common share	0.99	1.03	(3.9)
Diluted earnings per common share	0.97	1.01	(4.0)
Adjusted net income <sup>1</sup>	38,781	41,281	(6.1)
Adjusted basic earnings per common share <sup>1</sup>	1.26	1.36	(7.4)
Adjusted diluted earnings per common share <sup>1</sup>	1.24	1.32	(6.1)
Adjusted EBITDA <sup>1</sup>	83,341	85,343	(2.3)
Total assets	705,328	677,499	4.1
Gross capital expenditures	28,076	15,419	82.1
Book value per common share	6.41	6.04	6.1
Shareholders' equity	196,974	184,649	6.7

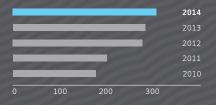
#### **OPERATING HIGHLIGHTS**

Sales volume (000s of pounds)	307,562	281,278	9.3
Number of employees	1,540	1,652	(6.8)

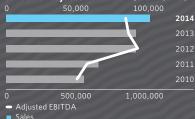




Sales Volume (000s of pounds)







#### Adjusted Diluted Earnings per Share (in USD)





### LETTER TO SHAREHOLDERS

In 2014, High Liner Foods moved closer to its vision to become the leading supplier of frozen seafood in North America, doubling its market share in value-added frozen salmon products, setting the stage for improved supply chain efficiency and embarking on a mission to radically simplify selecting, preparing and enjoying seafood at its best.

Reported sales in USD surpassed the billion dollar mark for the first time in our history, rising 11.0 percent to \$1.05 billion and resulting in compound annual sales growth of 16.7 percent since 2010. High Liner Foods' financial results, however, were below expectations. Excluding the impact of the Atlantic Trading acquisition in Q4 2014 and the American Pride acquisition in Q4 2013, sales in domestic currency increased by only \$16.1 million as we continued to face a soft sales environment in the U.S. foodservice sector along with significant increases in raw material costs and pricing pressure resulting from consolidation in the food retailing industry. Results were also adversely affected by a falling Canadian dollar which reduced reported sales by \$22.2 million relative to the conversion impact in 2013. As a result of the same factors, adjusted EBITDA decreased by \$2.0 million, as the positive impact of the Atlantic Trading and American Pride acquisitions, and lower distribution costs and higher margins in our U.S. business, were offset by lower sales volumes and lower margins in our Canadian business. Adjusted Net Income decreased by 6.1 percent to \$38.8 million and diluted EPS based on Adjusted Net Income was \$1.24 per share, reflecting a 2-for-1 split of High Liner Foods' common shares on May 30, 2014.

While U.S. restaurant industry sales increased modestly during the past year, the casual dining segment, which is a key sales driver for High Liner Foods, is in a period of intense competition with "fast-casual" restaurants broadening and improving their menus to attract time-pressed and health-conscious consumers.

Within this environment, we have been working closely with customers to develop innovative new products, reduce the complexity and cost of our operations and deliver better value to our customers and consumers every day. We are dedicated to nothing less than building a culture of operating excellence that is the best in the business. As in past years, we are measuring our progress in the context of High Liner Food's three most important strategic goals.



Henry Demone Chief Executive Officer



Record sales in excess of \$1 Billion for the first time



16.7%

Compound annual sales growth since 2010



#### PROFITABLE GROWTH

While challenging market conditions have slowed the pace of the Company's growth in the past two years, we remain focused on our aspirational goal of growing EBITDA to \$150 million by the end of 2016. To reach this number, we are focused on achieving internal growth through continued innovation and product expansion, lowering the cost of operations through optimization of our supply chain and will also continue to look for opportunities to further consolidate the frozen seafood industry in North America.

We are determined to achieve higher rates of internal sales growth by working closely with our customers, particularly those in the U.S. restaurant industry. Product innovation is the key to our efforts. High Liner Foods introduced several new products during the year, including Flame-Seared Guinness® BBQ-glazed Atlantic Salmon, which won the 2014 Best New Foodservice Award at the 2014 Seafood Expo North America. It is one of the offerings in the successful GUINNESS® Distinctive Seafood line, which blends some of our most popular Icelandic Seafood brand cuts with the delicious taste of real stout. On the retail side of the business, Pan-Sear™ Traditional, won Canadian Living's Best New Product Award for 2014 in the "Frozen Fish" category and High Liner Foods was voted the family favourite in the "Fish Fillets" (seasoned or breaded) and "Fish Sticks" categories in the 2014 Canadian Family Food Awards.

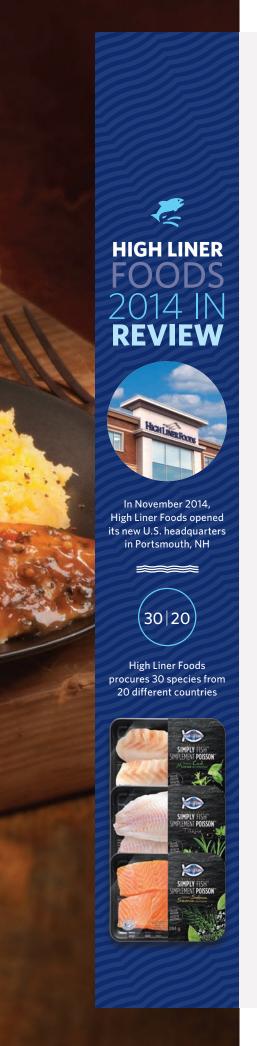
Our commitment to continued leadership in product innovation can also be seen in the opening of High Liner Foods' U.S. culinary research center in December 2014, part of the Company's new U.S. headquarters in Portsmouth, New Hampshire. Located in close proximity to one of our key manufacturing facilities, this state-of-the-art center will allow us to collaborate more effectively with corporate partners and customers on the research, development and testing of new products for both the foodservice and retail segments of our business.

Acquisitions that complement and strengthen our product line and leverage our scale have been at the heart of High Liner Foods' evolution into the largest value-added frozen seafood company in North America. This process continued in 2014 with the acquisition of the Atlantic Trading Company ("ATC"), one of the largest importers of Atlantic salmon in the U.S. With annual sales of \$75 million to \$80 million, ATC will more than double High Liner Foods' annual sales of frozen salmon products and has enhanced our product line with premium fillets and portions that are sustainably sourced from Chile and Norway. The acquisition was also immediately accretive to earnings.









Looking ahead, we believe further consolidation of the seafood industry is inevitable. It is driven in large part by the needs of retail and foodservice customers who prefer to deal with fewer trusted suppliers that can lower their cost, meet all product requirements and deliver the highest possible standards in on-time delivery, quality assurance, food safety, traceability and sustainable sourcing. High Liner Foods is uniquely positioned to meet those needs and also possesses the core acquisition and integration experience required to build on its leadership position in the industry.

#### SUPPLY CHAIN OPTIMIZATION

Our goal regarding supply chain optimization is to reduce operating costs by \$20 million to \$25 million annually through plant and supply chain efficiencies. In 2014, we selected and engaged the outside expertise required to succeed in this endeavour, given the significant scope of work to be undertaken. Cost savings will begin to be realized in 2015, with the full benefit being realized in 2016.

The project officially started in the third quarter of 2014, and we are pleased with the progress so far. A significant area of focus is on optimization at the individual plant level where areas such as labour productivity and yield improvement have been targeted. This work is well underway at all of our facilities, as are activities at the consolidated-entity level with a focus on the standardization and consolidation of ingredients and packaging, and the optimization of our global supply chain and procurement activities. As part of this process, we announced on January 9, 2015 our plans to cease operations in the second quarter of 2015 at our leased facility in Malden, Massachusetts, thereby reducing our production network to four owned plants in North America. This was a difficult but necessary decision to eliminate excess capacity and we have worked to redeploy as many people as possible within our other facilities.

All of these efforts reflect our corporate mission to radically simplify the seafood category for our customers so they can be confident in serving high-quality seafood products with consistently superior taste and value. At the most fundamental level, we are determined to make it easier than ever to do business with High Liner Foods. Thanks to our core values – customer-focused, responsible and innovative, we are building upon an already strong reputation with our customers.

In 2014, we received the Vendor of the Year Award from BJ's Wholesale Club. This coveted award is presented each year to only one supplier across all of the company's consumer goods departments in recognition of significant contributions to the continuing evolution of the quality, differentiation and value of the BJ's Wholesale Club shopping experience.

We were also honoured to receive the prestigious Pinnacle Supplier of the Year Award from Foodservice and Hospitality Magazine. Introduced in 1988, the Pinnacle Awards shine the spotlight on companies and individuals that have demonstrated excellence in the areas of leadership, initiative and business excellence. We are very proud that High Liner Foods' commitment to sustainability was a key driver behind this award as well as our receipt of McDonald's Canada's 2014 Sustainability Award. Other awards received during the year included the Supplier of the Year Award in the protein category from Flanagan Foodservice and the Supplier of the Year Award from ITWAL Limited in recognition of High Liner Foods' excellence in product innovation, breadth of product offering, market support and customer service.

#### SUCCESSION PLANNING

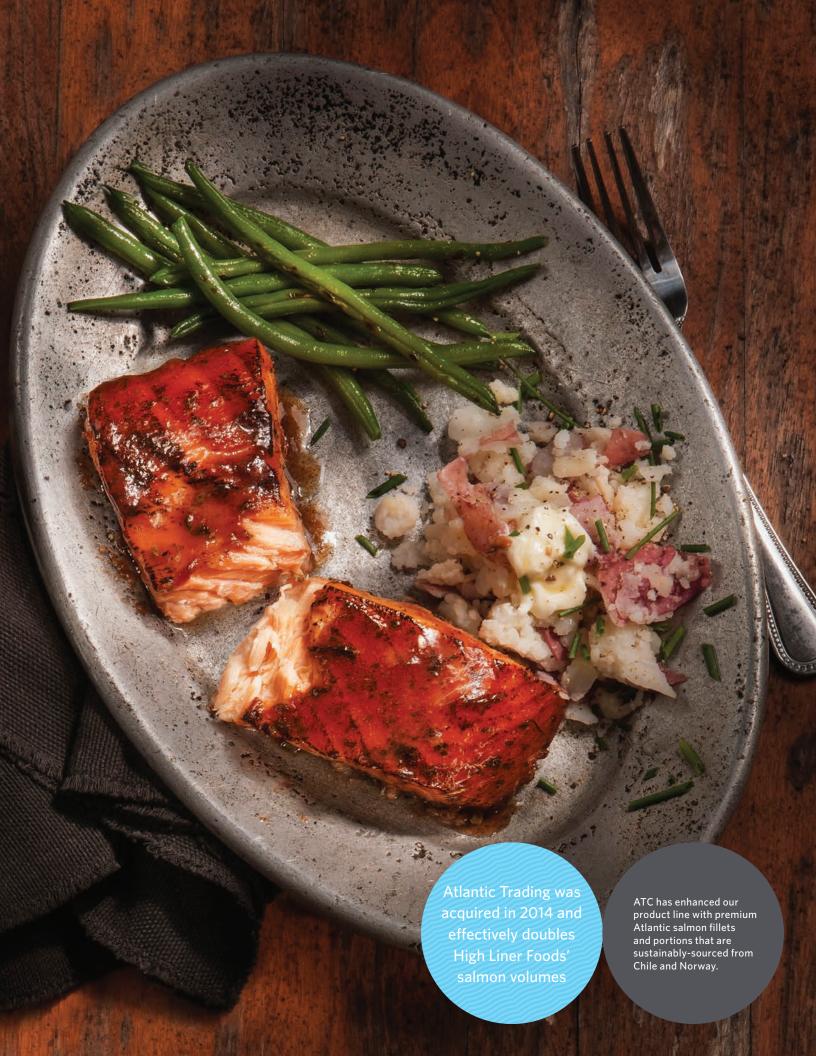
High Liner Foods adopted succession planning as a third strategic goal in 2014. Given the significant number of retirements expected in the next 10 years, a sustained focus is required to develop and recruit the next generation of leaders who will advance our growth strategies and ensure the successful integration of future acquisitions.

During the past year, we were pleased to announce the addition of two talented individuals to our senior management team. Paul Jewer joined the Company in February 2014 as Executive Vice President and Chief Financial Officer (CFO) to replace long-time CFO Kelly Nelson upon his retirement. Paul was most recently CFO with a leading Canadian retailer. Peter Brown also joined the Company as President and Chief Operating Officer of our U.S. operations to replace Keith Decker who was promoted to his current role as President and Chief Operating Officer of High Liner Foods in September 2013. Peter started in May 2014, and as expected, his 25-plus years of experience in the food industry and exceptional leadership capabilities have made for a very smooth onboarding process.



Keith Decker, President and Chief Operating Officer





In November, we announced that Mario Marino will be retiring from the Company as President and Chief Operating Officer of our Canadian operations. In accordance with our succession planning, and following a transition period of several months, we will fill the position internally with Jeff O'Neill, who will officially begin the role in May of this year. Jeff is currently Vice President, Sales and Marketing, Retail for the Canadian operations and has more than 20 years of experience with some of the world's largest food companies.

So far, we have made significant progress in planning for succession at the senior-most levels of the Company. Over the next year, we will be completing plans at the Vice President level as well as pivotal positions at other managerial levels throughout the Company.

#### **2015 OUTLOOK**

As for the year ahead, we see significant opportunity for growth, both organically and through acquisition. We are working with our customers more closely than ever to stimulate sales, reduce costs and simplify the process of selecting, preparing and enjoying seafood for everyone touched by our business. Ongoing product innovation and optimization of the supply chain will be key to these efforts. Acquisitions will also play an important role in our growth, as the frozen seafood business continues to consolidate in favour of industry leaders such as High Liner Foods.

In closing, I would like to extend my appreciation to all of our employees for their hard work and dedication over the past year. In particular, I wish to thank Mario Marino for his outstanding contributions to High Liner Foods' growth and success over the past 34 years. Mario has been a wonderful colleague and friend to many people at High Liner Foods and throughout the industry and we wish him the very best in his retirement.

I would also like to acknowledge Tom MacQuarrie and Matthew Hennigar, both of whom will not be standing for re-election to the Board at the Company's upcoming annual general meeting. Tom has served as a director of the Company since 1985 and Matthew since 2012 and I wish to thank them for their contributions to High Liner Foods' success.

Finally, I would like to thank the many valued customers, suppliers, business partners and investors whose support has been so vital to our growth and success. On behalf of all of us at High Liner Foods, I look forward to reporting on our continued progress in the year ahead.

(signed)

Henry Demone, Chief Executive Officer March 12, 2015

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#### MANAGEMENT'S DISCUSSION & ANALYSIS

#### Introduction

Management's Discussion and Analysis ("MD&A") provides management's perspective on High Liner Foods, our performance and our strategy for the future. This MD&A includes High Liner Foods' operating and financial results for Fiscal 2014 and Fiscal 2013, and should be read in conjunction with our Annual Audited Consolidated Financial Statements for the fifty-three weeks ended January 3, 2015, with comparative figures as at and for the fifty-two weeks ended December 28, 2013 ("Consolidated Financial Statements").

#### We, Us, Our, Company, High Liner Foods

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

#### Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on February 18, 2015. Disclosure contained in this document is current to this date, unless otherwise stated.

#### **International Financial Reporting Standards**

We adopted International Financial Reporting Standards ("IFRS") for our Fiscal 2011 year, with restatement of 2010 comparatives. Our transition date under IFRS was January 3, 2010, which was the beginning of our fiscal 2010 year.

Financial information contained in this MD&A for Fiscal 2014, 2013 and 2012 are comparative as they are in accordance with IFRS. Where historical information prior to 2010 is presented in this MD&A that has not been restated to IFRS, we have noted it as such.

#### **Other Important Documents**

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

#### **Comparability of Periods**

The Company's fiscal year end floats, and ends on the Saturday closest to December 31. Most of our fiscal years have fifty-two weeks, but from time to time, some fiscal years will have fifty-three weeks. Fiscal 2014 is a fifty-three week year, and therefore the year and fourth quarter contain one additional week compared to the corresponding periods in Fiscal 2013 and Fiscal 2012, which were fifty-two week years, and therefore, amounts presented are not entirely comparable.

#### Quarterly and Annual Comparisons in this MD&A

Unless otherwise indicated, all comparisons of results to the fourth quarter of 2014 are against results for the fourth quarter of 2013, and all comparisons of results for Fiscal 2014 are against results for Fiscal 2013. Reference to the Fiscal year 2014 is to the fifty-three weeks ended January 3, 2015 and Fiscal years 2013 and 2012 are to the fifty-two weeks ended December 28, 2013 and December 29, 2012, respectively.

#### **Accounting Estimates and Assumptions**

The preparation of consolidated financial statements under IFRS requires management to make critical judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities as at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. We base our judgments, estimates and assumptions on historical experience and various other factors believed to be reasonable under the given circumstances. If final amounts differ from estimates, it is expected to have little or no impact on our financial condition. In our judgment, none of the estimates discussed under the heading "Use of estimates and critical judgments" in *Note 2* to the Consolidated Financial Statements requires High Liner Foods to make assumptions about matters that are highly uncertain. None of the estimates is considered a critical accounting estimate, except as noted in Section 7 "Critical Accounting Estimates" of this MD&A.

#### **Presentation Currency**

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

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

Approximately 70% of our sales and related operations are denominated in USD; most of our debt is denominated in USD; our bank covenants are measured in USD; and some of the Parent company's input costs are denominated in USD. Reporting in USD reduces the volatility of currency changes; however, when the U.S. dollar strengthens (weakening Canadian currency), the reported values of CAD-denominated items of the Parent company decrease in the consolidated statements and the opposite occurs when the U.S. dollar weakens. CAD-denominated items in the Parent company's operations are converted to USD at the balance sheet date for balance sheet items and at the average exchange rate of the month the transaction occurs for income statement items. As such, foreign currency fluctuations affect the reported values of individual lines on our balance sheet and income statement.

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

#### Non-IFRS Financial Measures

The Company reports its financial results in accordance with IFRS. We include certain non-IFRS financial measures and ratios in our Quarterly and Annual Reports as management believes these non-IFRS financial measures provide useful information to both management and investors in measuring the financial performance and condition of the Company. These measures do not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS.

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

#### Adjusted Net Income

Adjusted Net Income is net income excluding the after-tax impact of: business acquisition, integration and other expenses; impairment of property, plant and equipment; non-cash expense (income) related to the embedded derivative associated with the LIBOR floor included in long-term debt and marking-to-market an interest rate swap related to the embedded derivative; accelerated amortization of deferred financing costs and other items resulting from debt refinancing and amendment activities; withholding tax related to inter-company dividends; and stock compensation expense.

#### Adjusted Diluted EPS

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

#### Adjusted EBITDA

Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Chartered Professional Accountants of Canada ("CPA Canada") and is earnings before interest, taxes, depreciation and amortization, excluding: business acquisition, integration and other expenses; gains or losses on disposal and impairment of assets; and stock compensation expense.

Management believes that Adjusted EBITDA is a useful performance measure as it approximates cash generated from operations, before capital expenditures and changes in working capital and excludes non-operating items associated with acquisitions, integration and supply chain optimization costs, along with market based compensation related to stock price. Adjusted EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by others. Also, for the purpose of our credit facilities, "EBITDA" is based on Adjusted EBITDA, with further adjustments as defined in the Company's credit agreements.

#### Adjusted EBIT

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

#### Standardized Free Cash Flow

Standardized Free Cash Flow follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the CPA Canada and is cash flow from operating activities less purchase of property, plant and equipment (net of investment tax credits) as reported in the Consolidated Statement of Cash Flows. The purchase of property, plant and equipment related to a business acquisition is not deducted from free cash flow.

#### Adjusted Standardized Free Cash Flow

As described in the Performance Section 5.2 "American Pride Seafoods Acquisition" of this MD&A, on October 1, 2013, High Liner Foods acquired the net assets of American Pride Seafoods ("American Pride") excluding its accounts receivable which, at that time, had an estimated value of \$15.5 million.

Adjusted Standardized Free Cash Flow is Standardized Free Cash Flow, as defined above, adjusted to exclude the impact of accounts receivable not acquired as part of the American Pride Seafoods Acquisition. Due to the exclusion of these receivables from the acquisition, the change in the Company's accounts receivables since October 1, 2013 includes a "build-up" of receivables related to American Pride sales that was reflected as an increase in non-cash working capital requirements and had the effect of decreasing net cash flows provided by operating activities reported in the Statement of Cash Flows for Fiscal 2013. Whereas, if High Liner Foods had purchased these receivables as part of the acquisition, the purchase price would have been approximately \$15.5 million higher and the amount paid for the receivables would have been reflected in the Statement of Cash Flows for Fiscal 2013 as cash used in investing activities. Consequently, Standardized Free Cash Flow calculated for the rolling fifty-two week period ended December 28, 2013 also reflects an increase in net non-cash working capital requirements related to these receivables.

#### 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 "Risk Factors and Risk Management" 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 "Forward-Looking Information" of this MD&A.

#### 1. VISION, CORE BUSINESSES AND STRATEGY

#### 1.1 Company Overview

High Liner Foods, through its predecessor companies, has been in business since 1899 and has been a Canadian publicly traded company since 1967, trading under the symbol "HLF" on the Toronto Stock Exchange. We operate in the North American packaged foods industry and our expertise is frozen seafood. We are the leading North American processor and marketer of value-added (i.e. processed) frozen seafood, producing a wide range of products from breaded and battered items to seafood entrees. We produce and market seafood products for the retail, foodservice and club store channels. The foodservice channel includes sales of seafood that are usually eaten outside the home and consists of sales through distributors to restaurant and institutional customers.

We own strong brands, but we are also an important supplier of private-label frozen seafood products for many North American food retailers, club stores and foodservice distributors. Our retail branded products are sold throughout the U.S., Canada and Mexico under the *High Liner*, *Fisher Boy*, *Mirabel*, *Sea Cuisine*, and effective October 7, 2014, *C. Wirthy & Co.* labels, and are available in most grocery and club stores. The Company also sells branded products to restaurants and institutions under the *High Liner*, *Icelandic Seafood*<sup>1</sup>, *FPI*, *Viking*, *Mirabel*, *Samband of Iceland* and *American Pride Seafood* labels. We are the foodservice industry's leading seafood company, as well as a major supplier of private-label, value-added, frozen premium seafood products to North American food retailers and foodservice distributors.

In recent years, High Liner Foods has made a number of strategic acquisitions, including:

- On October 7, 2014, we acquired the business of Atlantic Trading Company, LLC ("Atlantic Trading"), a large importer of frozen Atlantic salmon into the U.S. serving the U.S. retail and club store market. This acquisition (the "Atlantic Trading Acquisition") is described in detail in Section 5.1 of this MD&A.
- In October 2013, we purchased the American Pride Seafoods business (the "American Pride Acquisition") from American Seafoods Group LLC, a value-added frozen seafood and scallop processing business serving the U.S. foodservice seafood market from New Bedford, Massachusetts ("MA").
- In December 2011, we acquired the U.S. subsidiary and Asian procurement operations of Icelandic Group h.f., (the "Icelandic USA Acquisition" or "Icelandic USA") one of the largest suppliers of value-added seafood to the U.S. foodservice market, serving the market from Newport News, Virginia ("VA").

<sup>1</sup> As part of the Icelandic USA Acquisition in 2011 (described in Section 2.2), the Company acquired several brands and agreed to a seven year royalty-free licensing agreement with Icelandic Group for the use of the *Icelandic Seafood* brand in the U.S., Canada and Mexico.

- In December 2010, we acquired the business of Viking Seafoods, Inc. (the "Viking Acquisition" or "Viking"), a value-added business serving the U.S. foodservice seafood market from Malden, MA.
- In December 2007, we acquired the North American manufacturing and marketing business of FPI Limited ("FPI"), including FPI's prominent foodservice business headquartered in Danvers, MA.

Although our roots are in the Atlantic Canadian fishery, we purchase our seafood raw material and some finished goods from around the world, including Canada, the U.S., Europe, Asia and South America.

In 2014, High Liner Foods operated five manufacturing facilities in North America consisting of: four plants in the U.S. (in Portsmouth, New Hampshire ("NH"), Newport News, VA, Malden, MA, and New Bedford, MA) and one plant in Canada (in Lunenburg, Nova Scotia ("NS"). The Company owns these facilities, with the exception of the Malden plant which has been leased since the Viking Acquisition. The lease expires in December 2015 and the Company will cease production at this facility in the second quarter of 2015 (as explained in Section 3.3 "Events After the Reporting Period" of this MD&A). The facilities in Newport News and New Bedford were acquired as part of the Icelandic USA and American Pride acquisitions, respectively.

Finished product in North America is held in our modern cold storage facilities, located in: Lunenburg, NS; Peabody and New Bedford, MA; Portsmouth, NH; Newport News, VA; and at third party cold storage centers. From these centers, our products are distributed throughout North America.

From our headquarters in Lunenburg, we have transformed our long and proud heritage into global seafood expertise. Created in 1926, the *High Liner* brand is among the most recognized brands in Canada and is currently building recognition in the U.S. marketplace. We deliver on the expectations of consumers by selling seafood products that respond to their demands for sustainable, convenient, tasty and nutritious seafood, at good value.

#### 1.2 Strategy

#### Overview

Our overall business strategy is a simple one: we satisfy the seafood preferences of North American consumers. We need to be, and are, seafood experts. Our focus is on creating and marketing top quality frozen seafood and our reputation for delivering outstanding seafood products is an advantage in the competitive North American market.

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

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

The Corporate vision, mission statement and values support the business strategy. The vision sets our overall direction and is:

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

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

The seafood category is complex for both businesses and consumers. Procuring seafood is complex due to the global supply chain and the existence of more than a hundred commercial species, and many people believe preparing seafood is difficult. Our corporate mission statement focuses on removing this complexity for our customers and is:

"To radically simplify selecting, preparing and enjoying seafood at its best."

We are committed to simplifying the seafood category for our customers, from procurement through to preparation, enabling them to leverage our seafood expertise so they can be confident in serving quality seafood products, with superior taste and at good value.

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

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

In combination with our growth strategy described below, we believe this business strategy will help to achieve our vision and increase shareholder value in the long term.

#### **Growth Strategy**

High Liner Foods will pursue growth in two areas:

#### Organic Growth in Core Markets

We plan to continue growing our seafood business in North America, in traditional retail, club and foodservice channels. New product introductions, as well as the introduction of new species, are an integral part of this strategy. Gaining additional sales volume with existing customers by providing them with a wider range of seafood products is also a key component of this strategy.

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

We support our brands by conducting consumer research to determine what food products and formats appeal to consumers. We then focus product development to deliver on these expectations. North Americans want good taste, excellent value and high-quality products. They are looking for sustainable, healthier and more convenient foods and they want a variety of premium, restaurant quality food at home.

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

New product development in our U.S. retail business is focused on premium quality seafood products that are sold in the frozen, refrigerated, and fresh sections of seafood departments under the Sea Cuisine brand. In the club store channel, our innovation in value-added frozen seafood under the Sea Cuisine and High Liner brands has grown our share of the value-added frozen seafood business with all major club stores in the U.S.

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

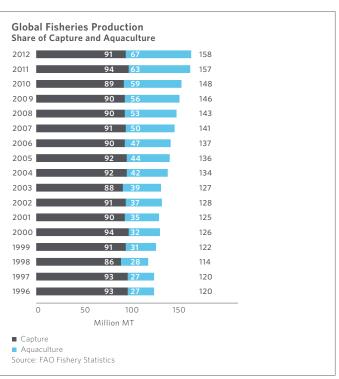
#### Acquisition of Frozen Seafood Businesses

Although organic growth is an important focus, our strength in the value-added frozen seafood business in North America creates a strategic opportunity for us to acquire businesses operating in the same markets. Our acquisition criteria are strict. Target businesses must be principally selling frozen seafood in North America. We must be able to achieve synergies upon integrating these businesses into ours as a result of the acquisitions leveraging some combination of our existing leading brands, customer relationships, procurement relationships, robust business systems and our expertise in marketing, frozen food logistics and product development. The acquisitions made since 2007 have been aligned with this criteria and following these acquisitions, High Liner Foods is:

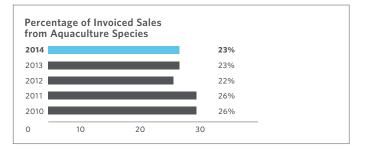
- The North American leader in value-added frozen seafood
- The clear market leader in both retail and foodservice channels in Canada
- A leading supplier of value-added (including private-label) frozen seafood products in retail and foodservice in the U.S.

#### **Global Seafood Supply and Demand**

As a consumer-driven sales and marketing company, we focus on matching supply to demand. Procuring seafood on global markets allows us to provide products based on consumer preferences. The global supply of seafood is expanding, and global consumer demand is increasing due to the recognized health benefits and taste of seafood and increased demand from emerging economies. The catch of wild fish has stabilized at around 90 million tonnes. per annum, which represents between 55% and 60% of the total supply, while aquaculture continues to increase as illustrated in the following chart reported by the Food & Agriculture Organization of the United Nations ("FAO") in 2014:



Globally, there has been considerable development in the aquaculture industry both in finfish and shellfish species. This trend is expected to continue. We currently procure aquaculture products, including warm water shrimp, tilapia, pangasius (basa), mussels, scallops and Atlantic salmon. Our strategy is to increase the procurement of aquaculture products in the future as we continue to expand shrimp, tilapia, pangasius and Atlantic salmon sales and investigate the feasibility and profitability of using more aquaculture species. Despite procuring aquaculture products, the vast majority of our seafood product sales are from wild caught fish. As illustrated in the following chart, excluding sales from Atlantic Trading, aquaculture accounted for 23% of our sales in 2014. On a pro forma basis, we expect the Atlantic Trading Acquisition will result in a slightly higher percentage of our sales coming from aquaculture products, as the Atlantic salmon sold by Atlantic Trading is farmed.



Globally, demand over time is expected to increase faster than supply, resulting in increases in seafood costs. These increases in demand come about as a result of increasing disposable incomes in countries like Russia, Brazil, India and China that result in increased consumption of seafood products. The trend of increasing demand was affected, at least temporarily, as a result of the global financial crisis and the changed relationship between currencies of producing and consuming countries. Demand from Europe, especially Southern European countries, decreased significantly due to the financial uncertainty surrounding the European Union. However, in the longer term, we expect demand to continue to increase, resulting in increases in seafood costs.

#### Strategic Goals

High Liner Foods uses a system of strategic goals to establish corporate priorities and align employee efforts on those initiatives it believes are most critical to the Company's overall success in the near term, but also in creating shareholder value in the longer term and bringing the Company closer to achieving its vision.

#### 2014 Strategic Goals

Our strategic goals for 2014, along with commentary thereon, were:

#### 1. Supply Chain Optimization

This multi-year goal was first communicated in 2013 following a series of acquisitions that quadrupled the Company's sales. In addition to achieving the synergies expected from integrating these acquisitions, we believed further efficiencies and cost savings could be achieved across our supply chain by leveraging the much larger scale of business we had built through acquisitions.

The scope of this project ("Supply Chain Optimization Project" or "the Project") is significant and due to operational issues encountered in 2013 following the integration of the Icelandic USA Acquisition, it was 2014 before we were able to increase the organizational focus on this goal and gain the momentum necessary to achieve it. Outside expertise was engaged in the second quarter of 2014 to assist with the Project which officially kicked-off in the third quarter of 2014.

Significant focus is on optimization at the individual plant level where areas like labour productivity and yield improvement are being targeted. This individual plant work is now underway at all of our facilities. Concurrently, activities have begun that focus on optimization at the consolidated entity level. These activities are focused on standardizing and consolidating ingredients and packaging and optimizing our global supply chain and procurement activities. We estimate the annual ongoing cost savings that can be achieved from the Project is between \$20 and \$25 million and we expect net cost savings will begin to be realized in 2015, with the full benefit being achieved by the end of 2016.

#### 2. Profitable Growth

Like the supply chain optimization goal above, this goal is also a multi-year goal and focused on achieving profitable growth through a combination of internal growth and acquisitions.

High Liner Foods is recognized as a leader in the frozen seafood industry for introducing new and innovative products. We believe continued development of innovative product offerings which make it easy for customers to prepare and enjoy seafood are an important driver behind organic growth, not only to grow our market share but to increase the overall demand for frozen seafood products in North America. The soft U.S. restaurant sales we experienced in 2013 continued in 2014, particularly in the casual dining segment, which is a key area of our business. As a result, our innovation efforts in 2014 focused increasingly on the changing dynamics of the U.S. foodservice industry, where more consumer dollars are migrating from full-service casual dining to fast-casual restaurants that feature fast, high-quality food with a compelling value proposition, and we expect to introduce products to the marketplace throughout 2015 that will work in a fast-casual environment.

From an acquisition standpoint, profitable growth is expected from the Atlantic Trading Acquisition announced early in the fourth quarter of 2014 (see Section 5.1 of this MD&A). Atlantic Trading is a profitable and complementary business to High Liner Foods and is expected to more than double the Company's sales in Atlantic salmon products, with margins comparable to those achieved on similar products sold by the Company. This acquisition enhances the Company's product offerings to its customers to now include Atlantic Trading's high-quality Atlantic salmon products.

Lastly, progress on our profitable growth goal in 2014 includes the integration of American Pride, which was completed in the fourth quarter. The full impact of the expected synergies from this acquisition will be realized in 2015.

#### 3. Succession Planning

Succession planning is an ongoing activity at High Liner Foods, however, it was named the third strategic goal for 2014 to further elevate its importance across the organization as it plans for a large number of retirements over the next 10 years, with several of those to occur in key leadership and senior positions. Management recognizes the organization's success is ultimately attributed to the talent and experience of its employees and their ability to work well together as a team. To ensure success in the future, it is critical to both develop and hire talented people who elevate the organization when vacancies are created by retirements and concurrently to build the internal capacity necessary to integrate businesses acquired as part of the Company's growth strategy.

In 2014, significant progress was made in regards to succession planning at the executive level of the Company, including:

- In January, Mr. Paul Jewer, Executive Vice President ("EVP") & Chief Financial Officer ("CFO"), was announced as successor to Mr. Kelly Nelson, who retired in April with 29 years of service with High Liner Foods. Mr. Jewer joined High Liner Foods from Sobeys Inc., a leading Canadian grocery and food distributor, where he most recently held the position of Chief Financial Officer.
- In May, Mr. Peter Brown, President & Chief Operating Officer, USA, was announced as successor to Mr. Keith Decker, who was promoted to President & Chief Operating Officer ("COO") of High Liner Foods in September 2013. Mr. Brown joined High Liner Foods with more than 25 years of experience in the food industry, including 20 years with Cargill Inc., a global food conglomerate, where he held several positions of increasing responsibility, including VP positions with business, sales and operational responsibilities.
- In November, the retirement of Mr. Mario Marino, President & COO, Canadian Operations, was announced. Mr. Marino will step down from his position in April 2015 after more than 34 years of service with High Liner Foods and will remain with the Company in an advisory role until the end of 2015. Following a transition period, his position will be filled internally by Mr. Jeff O'Neill, who currently holds the position VP Sales & Marketing, Retail, Canadian Operations, and has been working with High Liner Foods since 2011 and has more than 20 years of experience in the food industry.

#### 2015 Strategic Goals

Our Corporate Strategic Goals will not change in 2015.

• The supply chain optimization activities discussed above will continue throughout 2015 and the Company expects net cost savings will begin to be realized in 2015, with the full benefit being realized before the end of 2016. The benefit of the Supply Chain Optimization Project goes beyond the savings expected to be achieved in the short term and is a catalyst to creating a culture of operating excellence at High Liner Foods, which the Company believes is key to achieving long-term value in the food business.

- The Company will continue to focus on achieving profitable growth through a combination of internal growth and acquisitions.
  - Development activities will continue to focus on high-quality products that can be used in the fast-casual dining segment and we also remain committed to working with our major foodservice customers to develop innovative seafood products to help drive increased sales.
  - Substantial profitable growth over the next several years must come from acquisitions and we believe opportunities continue to exist to consolidate the fragmented frozen seafood industry in North America.
- Succession planning activities will continue in 2015 and will primarily focus on the Vice President and Middle Management levels of the organization.

#### **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 shown in the table below:

	2014 Actual	2013 Actual
Returns		
On assets managed	11.3%	13.5%
On equity	20.0%	20.4%
Profitability		
Rolling twelve-month Adjusted EBIT		
as a percentage of sales	6.3%	7.4%
Financial strength		
Net interest-bearing debt to Adjuste	d	
EBITDA ratio (times)	4.4x	3.9x
Inventory management		
Inventory turns (times)*	4.0x	4.3x

<sup>\*</sup> Excluding Atlantic Trading in 2014

Each of these financial measures is discussed below.

Return on Assets Managed ("ROAM")

#### **ROAM** is calculated as follows:

**Adjusted EBITDA** as defined under the heading "Non-IFRS Financial Measures" in the Introduction section of this MD&A, *divided by:* 

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



ROAM was 11.3% at the end of Fiscal 2014 compared to 13.5% at the end of Fiscal 2013. In 2014, Adjusted EBITDA decreased by \$2.0 million, or 2.3%, compared to 2013 and the 13-month average net assets managed increased by \$64.0 million, or 12.2%. The combined impact of these changes was a decrease in ROAM for 2014 compared to 2013.

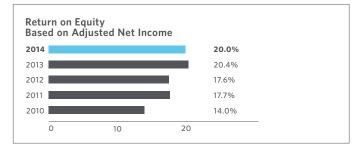
The decrease in Adjusted EBITDA in 2014 compared to 2013 is discussed in Section 5.3 of this MD&A and the increase in the net assets managed in 2014 compared to 2013 is primarily due to higher average inventories and capital expenditures in 2014 as explained in Section 5.5 of this MD&A, along with the Atlantic Trading Acquisition on October 7, 2014.

Return on Equity ("ROE")

#### **ROE** is calculated as follows:

Adjusted Net Income as defined under the heading "Non-IFRS Financial Measures" in the Introduction section of this MD&A, except including stock-based compensation expense, divided by:

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



ROE was 20.0% at the end of Fiscal 2014 compared to 20.4% at the end of Fiscal 2013. In 2014, Adjusted Net Income decreased by \$2.5 million, or 6.1%, compared to 2013 and the average common equity increased by \$23.4 million, or 13.7%. The combined impact of these changes resulted in a decrease in ROE for 2014 compared to 2013. The decrease in Adjusted Net Income in 2014 compared to 2013 is discussed in Section 5.3 of this MD&A.

Rolling Twelve-Month Adjusted EBIT as a Percentage of Sales

Rolling twelve-month Adjusted EBIT as a percentage of sales is calculated as follows:

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

Sales as disclosed on the consolidated statement of income

Rolling twelve-month Adjusted EBIT as a percentage of sales was 6.3% at the end of Fiscal 2014 compared to 7.4% at the end of Fiscal 2013. In 2014, Adjusted EBIT decreased by \$3.6 million, or 5.2%, compared to 2013 and sales increased by \$104.3 million, or 11.0%. The combined impact of these changes was a decrease in rolling twelve-month Adjusted EBIT as a percentage of sales for 2014 compared to 2013. The decrease in Adjusted EBIT as a percent of sales for 2014 compared to 2013 reflects lower gross profits as a percentage of sales in 2014 as discussed in Section 5.3 of this MD&A.

Net Interest-Bearing Debt to Rolling Twelve-Month Adjusted EBITDA

#### Net interest-bearing debt to rolling twelve-month Adjusted **EBITDA** is calculated as follows:

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

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

Net interest-bearing debt to rolling twelve-month Adjusted EBITDA was 4.4x at the end of Fiscal 2014 compared to 3.9x at the end of Fiscal 2013. This measure was calculated for 2014 and 2013 as shown in the following table.

	Twelve months ended					
(Amounts in \$000s,	J	anuary 3,	December 28			
except as otherwise noted)		2015		2013		
Net interest-bearing debt as calculated in Section 5.5	\$	364,763	\$	332,039		
Rolling twelve-month Adjusted EBITDA	\$	83,341	\$	85,343		
Net interest-bearing debt to Adjusted EBITDA ratio (times)		4.4x		3.9x		

During 2014, net interest-bearing debt increased by \$32.8 million and Adjusted EBITDA decreased by \$2.0 million. The combined impact of these changes was a decrease in net interest-bearing debt to rolling twelve-month Adjusted EBITDA for 2014 compared to 2013. The increase in net interest-bearing debt in 2014 compared to 2013 and the decrease in Adjusted EBITDA are discussed in Sections 5.5 and 5.3 of this MD&A, respectively. We expect this ratio to improve in 2015 as Adjusted EBITDA is expected to increase and free cash flow will be used to reduce debt.

#### Inventory turns is calculated as follows:

#### Cost of sales for the year, divided by:

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

Average inventory turns in 2014 were 4.0x (excluding Atlantic Trading), compared to 4.3x in 2013. In 2014, cost of sales increased by \$99.2 million compared to 2013 and average inventory increased by \$36.0 million. The increase in inventories reflects inventories being built up in early 2014 to minimize the risk of product shortages during the high-volume Lenten period, combined with lower than expected sales volume in the first three quarters of 2014. The combined impact of these changes was a decrease in average inventory turns in 2014 compared to 2013.

#### 1.3 Core Businesses

High Liner Foods is the leading North American processor and marketer of value-added frozen seafood. We own strong brands, and we are also an important supplier of private-label frozen seafood products for many North American food retailers, club stores and foodservice distributors.

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

#### **United States Operations**

#### Retail

Our U.S. subsidiary produces and sells value-added frozen seafood products under the Fisher Boy, High Liner, Sea Cuisine and C. Wirthy & Co. brands. The business distributes products throughout the U.S. and in Mexico through traditional grocery stores and club stores, among others. The club store channel is important to our growth strategy for the U.S. retail business, and we sell to all major U.S. club store chains. We have built business in this channel by introducing innovative premium products under the High Liner and Sea Cuisine brands. Our U.S. subsidiary is also one of the leading suppliers of retail private-label processed seafood in the U.S. We produce over 50 different labels for U.S. grocery retailers, primarily breaded and battered fish sticks and portions.

#### Foodservice

Customer channels in this business include foodservice operators in multiple restaurant segments, broad line foodservice distributors, specialty seafood distributors, and food processing companies. High Liner Foods is one of the largest seafood suppliers to this market especially in value-added products. We are particularly recognized for our innovative product development expertise. In recent years, acquisitions have added new products and brands to our foodservice offerings and have substantially increased High Liner Foods' share of the market for value-added seafood products in the U.S. foodservice industry. This division

also sells a full line of raw (unprocessed) and cooked uncoated seafood to the foodservice channel. Products in this channel are sold under the *Icelandic Seafood*, *FPI*, *Viking*, *Samband of Iceland* and *American Pride Seafood* brands.

#### **Canadian Operations**

#### Retail

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

#### Foodservice

Our Canadian foodservice business, also headquartered in the GTA, is growing due to our ability, through worldwide procurement, to provide foodservice customers with innovative products and new species. Foodservice specializes in delivering seafood and menu expertise to restaurant chains and Canada's leading foodservice distributors. Foodservice products are sold under the *High Liner*, *FPI* and *Mirabel* brands and include both value-added and raw, or cooked and unprocessed products. High Liner Foods is the largest frozen seafood supplier in the Canadian foodservice channel. Private labels are also produced for some of our larger customers.

#### 1.4 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 foodservice business where we are well known for our innovative, quality products and superior service.

High Liner is currently building brand awareness in the U.S., particularly in the retail sector. Well known in U.S. club stores for the launch of premium products under the High Liner brand, the umbrella branding of Fisher Boy and Sea Cuisine brands further strengthens our market position in traditional grocery outlets. Moreover, Fisher Boy already has independent brand recognition in certain regions of the U.S. and Mexico, and Sea Cuisine is expanding its all commodity volume ("ACV"). The ACV measure is discussed further in Section 2.1 of this MD&A.

In the U.S. foodservice market, the *FPI* and *Icelandic* brands are the most recognizable brands and, like the *High Liner* brand, are also well known for product innovation and quality. Combined with the *Viking* and *American Pride Seafood* brands, we are a leading supplier of value-added frozen seafood products to the U.S. foodservice 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, so 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 product, 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. In 2013, the American Pride Acquisition added a shore-based scallop processing operation that makes us one of the leading scallop processing companies in the U.S. and in 2014, the Atlantic Trading Acquisition added a significant source of premium quality, sustainably sourced Atlantic salmon fillets from Chile and Norway.

#### **Customer Relationships**

We have been supplying food products to major grocery retailers and foodservice 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 foodservice distributors in Canada and the U.S. We have ensured that our infrastructure is capable of meeting the exacting demands of these customers, for both excellent products and delivery service as well as meeting their ever increasing technological requirements.

#### Differentiated Innovative Products

Innovation is one of our core values and we exhibit this especially in our product line. We strive to develop and launch new products that are differentiated from others in the market. Our Pan Sear, Fire Roasters, Flame Savours, Upper Crust and Icelandic Seafood's Beer-Battered product lines are the most differentiated in the industry and are experiencing continued success across both retail and foodservice product lines, including our successful Sea Cuisine line in the U.S. In Canada, our Catch of the Day fillets, and a new product line named Captain's Crew that was launched in 2013 are very successful, as is the Flame Savours line, which won the Best New Product Award<sup>2</sup> in the "frozen fish" category in January 2013. In January 2014, High Liner Foods' Pan-Sear Traditional product won this award again, which was the fifth year in a row that one of our products won this award. Our premium products in the U.S. and Canada have been an excellent example of our innovation in seafood products. Increasing the depth of our product line by adding new species from aquaculture has allowed us to develop even more innovative products.

#### Low Break-Even Point, Scalable Operations

Our business model has a low break-even point. We are no longer in the capital-intensive fishing operations, but instead rely on our procurement expertise. Our business has relatively low fixed costs and proportionately more variable costs, which lowers our break-even point. Our sales more than tripled since 2007; however, our selling, general and administrative costs, that are primarily fixed costs, increased at a much slower pace. Specifically, our selling, general and administrative costs, excluding stock compensation and amortization expense, as a percentage of sales in 2007 were 14.3%, compared with 9.2% in 2014. The success in the attainment of the planned synergies has contributed significantly to this achievement. We are well positioned to continue to increase sales and profitability without significant increases in fixed costs.

#### Ability to Manage Margins

As we are a significant supplier to our customers, we are important to them. They value our brands, our differentiated products, and the continuity of supply of quality products. Likewise, we are a large and well-respected customer to our suppliers, and have significant procurement expertise and buy significant volumes. Combined, these strengths typically 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.

<sup>2</sup> The Best New Product Awards is an annual awards program focusing on everyday consumer packaged goods products in the food, personal care and household care categories. Winners are selected based on voting by over 90,000 Canadian consumers from coast-to-coast who participate in the annual independent market research survey conducted by BrandSpark International.

#### 1.5 Operational Resources

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

Our existing operational resources include:

#### **Plant Capacity**

As explained in Section 3.3 of this MD&A, the Company will cease operations at its leased production facility in Malden, MA in the second quarter of 2015 to reduce excess capacity across its manufacturing facilities in the U.S. Following cessation of operations at the Malden facility, the Company's manufacturing footprint in North America will consist of four owned and operated plants, three in the U.S. and one in Canada, and combined these 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 and we also expect additional capacity to be created at each of our production facilities as a result of the Supply Chain Optimization Project, described in Section 1.2 of this MD&A. Our ability to source new products is not limited to our own production. We purchase significant quantities of frozen fillets as finished goods, and some of our value-added products are purchased as finished goods.

#### **Distribution Centers**

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

#### **Technology**

Technology supports our growth strategy and our centralized computer systems enable us to make timely decisions. Our business is simplified through an enterprise-wide business management system and specifications management system. 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 2014, we completed the installation of a document management system to simplify and expedite supplier payments. We continue to budget significant capital dollars to ensure we continue to have state-of-the-art

systems to manage our Company and respond to customer requests. In 2015, we are implementing improved supply chain planning processes and software that will help to optimally allocate raw material and production capacity to better satisfy customer demand.

#### 2. PERFORMANCE MEASURES

Our performance against key metrics will tell us whether we are achieving our strategic objectives. We made considerable progress in 2014 by focusing on these metrics.

#### 2.1 Our Brands

#### Market Share

The market shares of our retail brands are significant, particularly in Canada. Foodservice market shares are hard to measure, as there is no independent source that tracks foodservice 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 including private-label, are the largest value-added frozen seafood supplier in the U.S.

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

#### Retail Availability

An important measure for retail availability is ACV. This is a measure of the volume of the traditional grocery stores as a percentage of total stores in a market (Canada or the U.S.) in which our products are sold. An increase in ACV generally 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 our branded products can be found in virtually all stores where frozen seafood is sold.
- In the U.S., our brands, which include Fisher Boy, High Liner and Sea Cuisine, have a smaller share of the "total frozen seafood" category than in Canada. ACV for all our branded products (excluding the C. Wirthy & Co. brand acquired as part of the Atlantic Trading Acquisition) was 84% at the end of 2014 compared to 82% at the end of 2013. This increase is due to a concerted effort on our part to increase distribution for our products, especially Sea Cuisine. In some regions in the U.S., this is substantially higher.

• In Mexico, although we do not track ACV, we are confident in our position as a leading breaded and battered seafood supplier in major centers.

In Canada, we use Nielsen® to track market share and ACV of our retail brands in grocery, mass merchandising, general merchandising, club stores, and distributors. In the U.S., we use Information Resources Inc. ("IRI") to track market share and ACV of our retail brands, where it tracks all grocery stores, super-centers (including Walmart) and club stores (excluding Costco). Since we are well represented at Costco, 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 from our branded products. We measure the percentage of sales from our brands over a rolling twelve-month period, with a target of 80%. Excluding Atlantic Trading, the percentage of sales from branded products decreased in 2014 to 76% compared to 79% in 2013, reflecting a full year of American Pride's operations. A higher percentage of American Pride's sales come from non-branded products than the average for the rest of the Company due to its significant number of U.S. national chain restaurant customers.

#### 2.2 Our Organization

#### **Productivity**

At the end of 2014, the Company's manufacturing footprint consisted of five manufacturing plants, including four that are owned by the Company and one that is leased. Subsequent to the reporting period, the Company announced it will cease production at the leased facility in Malden, MA, in the second quarter of 2015 to reduce excess capacity across its U.S. manufacturing facilities (see Section 3.3 of this MD&A). The lease of this facility expires in December 2015 and this plant is currently the Company's most underutilized facility with annual production of approximately 11.5 million pounds that is being transitioned to the Company's New Bedford and Portsmouth facilities.

In late 2012 and early 2013, as part of achieving synergies related to the Icelandic USA Acquisition, the Company permanently closed two of its processing facilities located in Burin, Newfoundland (Canada) and Danvers, MA. However, subsequent to these closures, in the fourth quarter of 2013, the Company acquired manufacturing facilities as part of the American Pride Acquisition that were not operating at and continue to not operate at optimal capacity. The Company's strategy to grow through acquisitions necessitates a continuous assessment of its manufacturing capabilities against its current and future production requirements to ensure its operations are being carried out in an efficient and cost-effective manner. Following the cessation of production at the leased Malden facility, we will continue to have adequate capacity for growth and will continue to invest in our manufacturing infrastructure.

Further examples of the continuous assessment following acquisitions were the decisions in the first quarter of 2013 to sell a primary processing operation that was acquired in December 2011 as part of the Icelandic USA Acquisition, and a joint venture, both of which were located in China. We continue to purchase products from these operations, however, 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.

To assess productivity across the Company's manufacturing facilities, we measure plant throughput, pounds produced per working hour and pounds of production on a rolling twelve-month basis. We are continually looking for opportunities to invest in projects at our manufacturing facilities that have a quick financial payback on capital invested with the goal of improving efficiency and reducing operating costs. As explained above, one of our current strategic goals is focused on supply chain optimization and as progress is made on this goal, we expect improvements in productivity measures across our manufacturing facilities.

#### **Customer Service**

Our strong customer relationships are a competitive strength. To preserve them, we must consistently strive to exceed customer expectations. To that end, we measure case-fill rates and strive to achieve at least 98.5% purchase order fulfillment, which is at the top of the industry. For 2014, excluding Atlantic Trading, our purchase order fulfillment, measured by number of cases of products shipped compared to what was ordered, was 97.6% (2013: 96.2%). This measure improved in 2014 reflecting that supply issues on certain species in 2013 did not continue to the same extent and resolution of distribution issues in the first quarter of 2013 related to the consolidation of our U.S. foodservice distribution. Also, higher average inventories throughout 2014 helped to improve this measure. Looking for opportunities to streamline operations at all of our facilities is a component of our current supply chain optimization goal and with the exception of any issues with supply, we would expect to hit our target in 2015.

#### People

We believe our greatest asset is our team of talented and passionate people and that investing in our people will help build a high-performance organization. We are focused on developing future leaders from within and on increasing individual capacity for leadership. We have learning and development plans for all employees that will continue to be a priority in 2015 and beyond, reflecting our ongoing commitment to employee development.

High Liner Foods was selected as one of Nova Scotia's and Atlantic Canada's Top Employers for 2011, 2012, 2013 and 2015. These awards are annual regional competitions organized by the editors of the national "Canada's Top 100 Employers" competition to recognize employers that lead their industries in offering exceptional places to work. In 2012, High Liner Foods was also selected as one of Canada's Top 100 Employers.

#### 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. The overall sales increases provide us with an indication on how successful our ideas are and we aim to achieve at least a 5.0% increase in sales year over year. The Company's total sales in domestic dollars increased in 2014 over the prior year by 13.3% and total sales volume increased by 9.3%. Excluding the impact of the American Pride and Atlantic Trading acquisitions, sales in domestic dollars increased in 2014 over the prior year by 1.8% and sales volume decreased by 2.5%. The 1.8% increase in sales in domestic dollars primarily reflects increased selling prices in 2014 to recover cost increases experienced on several species in 2014 and the 2.5% decrease in volume primarily reflects lower sales from our U.S. foodservice operations, particularly in the casual dining segment.

Innovation efforts in 2014 focused increasingly on the changing dynamics of the U.S. foodservice industry, where more consumer dollars are migrating from full-service casual dining to fast-casual restaurants that feature fast, high-quality food with a compelling value proposition. We expect to introduce products to the marketplace throughout 2015 that will work in fast-casual environments, which if successful, should help to improve the year-over-year sales increase in 2015 and bring it closer to our target.

Overall, in the U.S., per capita consumption of seafood is not growing and to counteract that we are targeting differentiated products and creative promotions to grow consumption and take market share from competitors.

#### Sales From New Products

Maintaining our benchmark sales from new products tells us that we are renewing our product line in a sustainable way. We measure annual sales and profits from new products to provide us with information as to our success in reaching consumers with new and consistently reliable food choices.

#### 3. PERFORMANCE HIGHLIGHTS

#### 3.1 Overall Performance

Financial and operational highlights for the **2014 Fiscal year** include (all comparisons are relative to fiscal year 2013, unless otherwise noted):

- Sales as reported increased by \$104.3 million, or 11.0%, to \$1,051.6 million compared to \$947.3 million;
- Sales in domestic currency increased by \$127.2 million, or 13.3%, to \$1,083.5 million compared to \$956.3 million;

- Adjusted EBITDA decreased by \$2.0 million, or 2.3%, to \$83.3 million compared to \$85.3 million;
- Adjusted EBITDA in domestic currency increased by \$0.3 million, or 0.3%, to \$86.6 million compared to \$86.3 million;
- Reported net income decreased by \$1.1 million, or 3.4%, to \$30.3 million (diluted EPS of \$0.97) compared to \$31.4 million (diluted EPS of \$1.01);
- Adjusted Net Income decreased by \$2.5 million, or 6.1%, to \$38.8 million (Adjusted Diluted EPS of \$1.24) compared to \$41.3 million (Adjusted Diluted EPS of \$1.32);
- Atlantic Trading was acquired on October 7, 2014 and in combination with American Pride Seafoods (acquired October 1, 2013), added \$150.8 million to sales compared to American Pride sales of \$39.7 million in 2013; and
- Net interest-bearing debt to Adjusted EBITDA, calculated on a rolling twelve-month basis, increased to 4.4x at the end of Fiscal 2014, compared to 3.9x at the end of Fiscal 2013.

The Company reported sales in excess of a billion dollars for the first time in its history. However, notwithstanding the achievement of this milestone, the Company's Adjusted EBITDA and Adjusted Net Income decreased in 2014 compared to 2013. Below is a summary of the events, trends and circumstances that impacted performance in 2014.

2014 is the first fiscal year to reflect a full year of operations from American Pride, which was acquired in October 2013. The Company acquired Atlantic Trading in October 2014 and in combination with American Pride, these acquisitions increased sales in 2014 by \$111.1 million compared to 2013, and increased sales volume by 33.0 million pounds compared to 2013. However, sales volume from the remaining business decreased by 6.7 million pounds, principally reflecting declines in our foodservice business during the year.

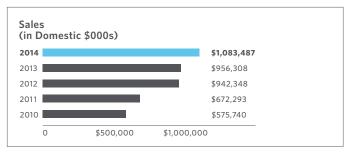
In addition, the cost of certain key species increased significantly in 2014 and resulted in lower product margins being achieved on certain products in 2014, particularly in our Canadian retail business, where due to a highly competitive marketplace and the magnitude of the increase in costs, the Company was not able to fully pass on the increased costs to its customers through price increases. Lower product margins on certain products and continued challenges in our U.S. foodservice business, along with a weaker Canadian dollar in 2014 resulted in a year-over-year decrease of \$2.0 million in Adjusted EBITDA.

Capital expenditures were higher in 2014 than in 2013 due to several non-routine capital expenditures which included: the purchase of a previously-leased cold storage distribution facility in Peabody, MA, for \$8.6 million; a payment of \$5.7 million to terminate obligations in connection with an operating lease acquired as part of the American Pride Acquisition; and \$3.0 million in leasehold improvements associated with the Company's new office facility in Portsmouth, NH.

During 2014, the Company's net interest-bearing debt increased by \$32.8 million as a result of elevated capital spending (described above), the Atlantic Trading Acquisition and increased working capital requirements. This increase in debt, combined with the impact of a \$2.0 million decrease in Adjusted EBITDA, resulted in the Company's net interest-bearing debt to rolling twelve-month Adjusted EBITDA being 4.4x at the end of Fiscal 2014, compared to 3.9x at the end of Fiscal 2013.

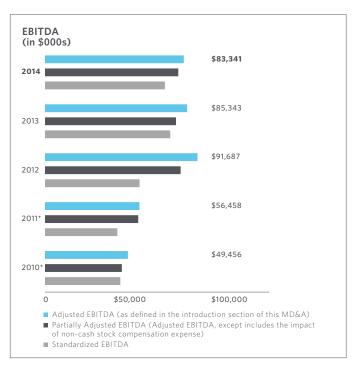
The remainder of this section provides comparative information for a five-year period for key financial measures. The Company's financial performance in 2014 is discussed in greater detail in Sections 5.3 and 5.4 of this MD&A.

#### Sales in domestic dollars increased \$127.2 million in 2014:



• The Atlantic Trading and American Pride acquisitions increased sales in domestic currency in 2014 by \$111.1 million compared to 2013 and excluding their impact, sales in domestic currency increased in 2014 by \$16.1 million.

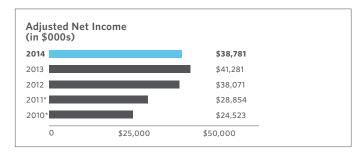
#### Adjusted EBITDA decreased by \$2.0 million in 2014:



 $^{\star}\,$  Restated as explained under the heading "Presentation Currency" in the Introduction section of this MD&A.

- In domestic currency, the Atlantic Trading and American Pride acquisitions increased Adjusted EBITDA in 2014 by \$3.4 million compared to 2013 and excluding their impact, Adjusted EBITDA in domestic currency decreased in 2014 by \$3.2 million.
- The impact of converting the Parent company's CAD-denominated operations to USD reduced Adjusted EBITDA by \$3.3 million in 2014 and by \$1.0 million in 2013, reflecting a weaker Canadian dollar in 2014.

Adjusted Net Income decreased by \$2.5 million, or 6.1%, and Adjusted Diluted EPS decreased by \$0.08 in 2014:





- \* Restated as explained under the heading "Presentation Currency" in the Introduction section of this MD&A.
- \*\* Amounts reflect the retrospective application of May 30, 2014 stock split (see Note 16 to the Consolidated Financial statements)

#### 3.2 Developments in 2014

#### **Atlantic Trading Acquisition**

On October 7, 2014, High Liner Foods acquired the business of Atlantic Trading for approximately \$17.9 million, including working capital and contingent consideration to be paid in each of the next two years on achieving certain EBITDA thresholds.

Atlantic Trading is a large importer of frozen Atlantic salmon into the U.S. and as a result of this acquisition, the Company has enhanced its product offerings to its customers to now include Atlantic Trading's high-quality Atlantic salmon products.

Please refer to Section 5.1 "The Atlantic Trading Acquisition" of this MD&A for additional information on this strategic acquisition.

#### Stock Split

At the Company's Annual General and Special Meeting held May 8, 2014, the shareholders of the Company approved a two-for-one share split (the "Split") of their outstanding common shares which was effective at the close of trading on May 30, 2014. Unless otherwise indicated, all references to the number of shares outstanding, per share amounts and share-based compensation information in this MD&A have been retrospectively restated to reflect the impact of the Split.

#### **Loan Amendments**

In April 2014, the Company refinanced its term loan ("Term Loan") and amended its working capital credit facilities, resulting in the following changes:

- The Term Loan facility was increased from \$250 million to \$300 million and its term extended from December 2017 to April 2021;
- The term of the working capital credit facility was extended from December 2016 to April 2019; and
- On both facilities, interest rates were reduced, with more flexibility for acquisitions, investments, distributions and operational matters.

The Company used the proceeds from the increase in the Term Loan facility to pay down a portion of the working capital credit facility.

These facilities, including the amended terms, are described in more detail in Section 5.5 "Liquidity and Capital Resources" section of this MD&A and in *Notes 12* and *13* to the Consolidated Financial Statements.

#### 3.3 Events After the Reporting Period

On January 9, 2015, the Company publicly announced that it will cease production at its leased manufacturing facility in Malden, MA in the second quarter of 2015 to reduce excess capacity across its manufacturing facilities in the U.S. The lease of this facility expires in December 2015. This plant is currently the Company's most underutilized facility with annual production of approximately 11.5 million pounds that is being transitioned to the Company's New Bedford and Portsmouth facilities.

A pre-tax impairment loss of \$0.9 million was recorded in the Company's financial statements for the fourth quarter of 2014 to write-down equipment it owns at the Malden facility to its estimated net realizable value. See *Notes 6* and 27 to the Company's Consolidated Financial Statements. In addition, after-tax cash costs of approximately \$0.3 million related to the cessation of production activities are being expensed between January 2015 and cessation of employment at the plant.

The annual ongoing pre-tax reduction in operating costs (which represents an increase in earnings before interest, taxes, depreciation and amortization, or EBITDA) resulting from this consolidation is estimated to be approximately \$3.0 million.

## 4. OTHER ITEMS IMPORTANT TO UNDERSTANDING OUR RESULTS

#### 4.1 Accounting Standards

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

## New standards, interpretations and amendments thereof, adopted by the Company in 2014

The adoption of new standards and interpretations as of December 29, 2013, the first day of Fiscal 2014, that had an impact on the accounting policies, financial position or performance of the Company, are described in *Note 3* to the Consolidated Financial Statements.

### New Accounting Standards and Interpretations Issued But Not Yet Effective

In addition to the existing IFRS standards adopted by the Company, the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC") have issued additional standards and interpretations with an effective date applicable for High Liner Foods in reporting periods subsequent to Fiscal 2014. We are evaluating the effect, if any, that new proposed standards, interpretations and amendments will have on our financial results. We will determine and disclose the impact that these standards and amendments have on the Company closer to their effective dates.

#### 4.2 Governance

Our 2014 Management Information Circular, to be filed in connection with our Annual General Meeting of Shareholders on May 12, 2015, includes full details of our governance structures and processes.

We maintain a set of disclosure controls and procedures "DC&P" designed to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. In 2014, in accordance with National Instrument 52-109, our certifying officers had limited the scope of their design of DC&P, and our Company's internal control over financial reporting ("ICFR") to exclude controls, policies and procedures relating to: (a) the American Pride Acquisition, which occurred in October 2013; and (b) the Atlantic Trading Acquisition, which occurred in October 2014, as 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. The American Pride operation was

integrated with High Liner Foods' systems by the end of 2014 and the scope limitation related to it was removed for the Fiscal 2014 year-end certificates. The scope limitation related to the Atlantic Trading operation will be removed for the Fiscal 2015 year-end certificates. The Atlantic Trading Acquisition contributed \$13.6 million to sales in Fiscal 2014. Margins on Atlantic Trading products are comparable to those achieved on similar products sold by the Company. Information concerning assets and liabilities acquired as part of the Atlantic Trading Acquisition is provided in *Note 4* to the Consolidated Financial Statements.

Our Chief Executive Officer and Chief Financial Officer have evaluated the design and effectiveness of our DC&P as of January 3, 2015. They have concluded that our current DC&P are designed to provide, and do operate to provide, reasonable assurance that: (a) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods; and (b) material information regarding the Company is accumulated and communicated to the Company's management, including its CEO and CFO to allow timely decisions regarding required disclosure.

In addition, our CEO and CFO have designed or caused to be designed under their supervision, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Further, our CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the design and operation of ICFR at the fiscal year end and have concluded that our current ICFR was effective at the fiscal year-end based on that evaluation. There were no material changes to the Company's internal controls during 2014.

#### 4.3 Transactions with Related Parties

The Company's business is carried on through the Parent company, High Liner Foods Incorporated, and wholly-owned operating subsidiaries, High Liner Foods (USA) Incorporated and Sjovik, h.f. High Liner Foods (USA) Incorporated's wholly-owned subsidiaries include: Viking Seafoods, LLC; ISF (USA), LLC; APS, LLC; and Atlantic Trading Company LLC. Sjovik, h.f. has a subsidiary in Thailand. These companies purchase and/or sell inventory between them, and do so in the normal course of operations. As well, the Parent company provides management, procurement and IT services to the subsidiaries. The companies lend and borrow money between them. Periodically, capital assets are transferred between companies. High Liner Foods Incorporated buys all of the seafood for all of the subsidiaries. On consolidation, revenue, costs, IT services, gains or losses, and all 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 *Note 21* to the Consolidated

Financial Statements. Transactions with these parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During 2014, we leased our production facility in Malden, MA from Pier 17 Realty Trust Inc. where we pay a market-based rent. This facility is indirectly owned by Mr. James Covelluzzi, a Director of High Liner Foods. The lease on this facility expires in December 2015. As explained in Section 3.3 of this MD&A, subsequent to the reporting period, on January 9, 2015, the Company announced that it will cease production at this facility in the second quarter of 2015.

#### 4.4 Amortization of Intangible Assets

This category consists of amortization of intangible assets, brands, and customer relationships over their estimated useful lives. Amortization expense was \$4.9 million in 2014 and \$5.3 million in 2013. The lower amortization expense in 2014 primarily reflects an impairment charge of \$0.4 million recorded in 2013 relating to a brand acquired in 2007. Amortization of intangible assets is recorded in the income statement in "Selling, general and administrative expenses".

The final purchase price accounting for the American Pride Acquisition was completed in 2014 and there were no intangible assets resulting from the acquisition.

The purchase price accounting for the Atlantic Trading Acquisition will be finalized in 2015. Based on a provisional assessment of the identifiable assets and liabilities acquired (see Section 5.1 of this MD&A), amortization recorded in 2014 related to intangibles from this acquisition was nominal.

As required by accounting pronouncements, we performed goodwill and indefinite life intangible asset impairment tests in both Fiscal 2014 and 2013, which showed that goodwill is not impaired.

#### 4.5 Business Acquisition, Integration and Other Expenses

In 2014 and 2013, business acquisition, integration and other costs were incurred related to the Atlantic Trading, American Pride and Icelandic USA acquisitions. Also included in this category in 2014 are one-time costs incurred related to the Supply Chain Optimization Project and primarily consist of consulting fees paid for the engagement of external consultants to assist with this significant project, which is explained in Section 1.2 of this MD&A. These costs are recorded in the income statement in "Business acquisition, integration and other expenses".

As explained in Section 3.3 of this MD&A, subsequent to the reporting period, on January 9, 2015, the Company announced it will cease production at its leased facility in Malden, MA, in the second quarter of 2015. This resulted in the write-down of equipment at this facility to its net realizable value with the majority of the impairment loss being recorded in the fourth quarter of 2014. This impairment charge is recorded in the income statement in "Impairment of property, plant and equipment".

The impact of these items on net income is shown in the following table:

(Amounts in \$000s)	weel	fty-three cs ended nuary 3, 2015	Fifty-two weeks ended December 28, 2013		
Pre-tax basis:					
Impairment of property, plant and equipment	\$	852	\$	_	
Business acquisition, integration and other expenses		6,582		3,256	
	\$	7,434	\$	3,256	
After-tax basis:					
Impairment of property, plant and equipment	\$	520	\$	_	
Business acquisition, integration and other expenses		4,290		2,068	
	\$	4,810	\$	2,068	

#### 4.6 Finance Costs

Finance costs in 2014 were \$1.2 million higher than in 2013 primarily due to: higher average debt levels in 2014, and the increase in the Term Loan in April 2014 from \$250 million to \$300 million was used to pay down a portion of the working capital facility, which bears lower interest rates than the Term Loan.

E-C .

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

		fty-three ks ended	Fifty-two weeks ended		
	J	anuary 3,	Dece	mber 28,	
(Amounts in \$000s)		2015		2013	
Interest paid in cash during period	\$	15,112	\$	16,786	
Change in cash interest accrued during the period		883		(2,363)	
Total interest to be paid in cash		15,995		14,423	
Accelerated amortization of financing costs and other items resulting from refinancing and amendment activiting the cost of th	n deb	et <b>851</b>		1,063	
Mark-to-market loss (gain) on embe derivative and related accretion	dded	259		(149)	
Deferred financing cost amortization		577		888	
Mark-to-market gain (loss) on interest rate swaps		(113)		104	
Total finance costs	\$	17,569	\$	16,329	

As disclosed in the Section 3.2 "Developments in 2014" of this MD&A, the Company's long-term debt, or "Term Loan", was refinanced in April 2014 ("April 2014 Term Loan"). A portion of the proceeds of the April 2014 Term Loan were used to repay the Term Loan as previously amended in February 2013 ("February 2013 Term Loan") and in accordance with IFRS, the February 2013 Term Loan was derecognized in the first quarter of 2014. This "derecognition" resulted in accelerated amortization of net deferred financing costs and other items related to the February 2013 Term Loan being recognized in the first quarter of 2014. Accelerated amortization of net deferred financing costs and other items resulting from the derecognition of debt is included in the Company's "Finance costs". In 2014 and 2013, finance costs included \$0.9 million and \$1.1 million, respectively, of accelerated amortization of financing costs and other items resulting from debt refinancing and amendment activities. The \$0.9 million included in 2014's finance costs related to the debt refinancing activities in 2014 and is comprised of \$5.3 million in deferred finance costs and accelerated accretion of the bifurcated embedded derivative (discussed below), partially offset by a \$4.4 million mark-to-market gain related to the change in fair market value of the embedded derivative recognized in other long-term financial liabilities (also discussed below). The \$1.1 million included in 2013's finance costs related to refinancing activities in 2013 and was comprised of debt amendment fees that were expensed as incurred as required under IFRS due to the February Term Loan being accounted for as an  $\,$ amendment to the original Term Loan. Under IFRS, the April 2014 Term Loan was accounted for as new debt, extinguishing the February Term Loan, and the costs incurred to obtain the April 2014 Term Loan have been deferred and are being amortized over the term of the loans.

Finance costs include the net impact of mark-to-market adjustments and accretion expense related to an embedded derivative that was included in the February 2013 Term Loan. The embedded derivative related to the 1.25% LIBOR floor that, under IFRS Financial Instruments, had to be separated, or bifurcated, from long-term debt at inception and included in "other long-term financial liabilities" on the balance sheet, and then marked-to-market at each subsequent reporting date. At the time the debt was obtained, the 1.25% LIBOR floor was greater than the prevailing interest rates, resulting in the existence of an embedded derivative that required bifurcation. The LIBOR floor of 1.00% included in the April 2014 Term Loan is an embedded derivative but does not require bifurcation as it is closely related to the host instrument.

Also included in finance costs are charges for marking-to-market interest rate swaps that are not designated for hedge accounting.

The diluted earnings per share implications of the following items for 2014 and 2013 are disclosed in the table under the heading "Net Income" in Section 5.3 of this MD&A: accelerated amortization of financing costs and other items resulting from debt refinancing and amendment activities; non-cash expense (income) related to the embedded derivative; and marking-to-market interest rate swaps.

The increase in the Term Loan facility from \$250 million to \$300 million in April 2014 was used to pay down a portion of the working capital facility.

In the absence of any major acquisition or debt refinancing activities that result in the accelerated amortization of deferred financing costs, we are expecting bank loans to decrease during 2015 as free cash flows from operations are used to pay down debt and for interest expense to decrease.

#### 4.7 Income Taxes

High Liner Foods' effective income tax rate was 19.3% in 2014 and was lower than the applicable statutory rates of 28.9% in Canada and 39.6% in the U.S. due primarily to the benefit of financing deductions. The lower effective tax rate in 2014 was also driven by lower income before income taxes in the Company's U.S. subsidiary.

The effective tax rate in 2013 was 28.2%. The effective tax rate in 2014 was lower than in 2013 due to higher financing deductions, lower income before income taxes in the Company's U.S. subsidiary and lower non-deductible stock based compensation in 2014. Also contributing to the lower effective tax rate in 2014 compared to 2013 was tax on a non-recurring intercompany distribution that occurred in the third quarter of 2013.

See *Note 20* to the Consolidated Financial Statements for full information with respect to income taxes. Loss carry forwards are still available in the U.S. operations to reduce cash taxes for the next year or two.

#### 4.8 Contingencies

We have no material contingencies that are outstanding.

#### 5. PERFORMANCE

#### 5.1 Atlantic Trading Acquisition

On October 7, 2014, High Liner Foods acquired the business of Atlantic Trading. Atlantic Trading is a large importer of frozen Atlantic salmon into the U.S. and sells its products into the U.S. retail and club store market. Its premium quality Atlantic salmon fillets and portions are sustainably sourced from Chile and Norway and sold in frozen raw (unprocessed) and value-added formats.

Atlantic Trading's revenues range between \$75 million and \$80 million annually. High Liner Foods expects the acquisition to more than double its sales in salmon products and for the margins on Atlantic Trading products to be comparable to those achieved on similar products sold by the Company.

Acquiring profitable and complementary businesses like Atlantic Trading is a key component of our growth strategy towards our vision to be the leading frozen seafood supplier in North America. The primary reason for the business combination was to enhance the Company's product offerings to its customers to include Atlantic Trading's high-quality Atlantic salmon products.

High Liner Foods recorded a net purchase consideration of \$17.9 million (\$18.5 million estimated on the acquisition date, plus \$0.9 million in post-closing working capital adjustments, less \$1.5 million of cash acquired). This amount includes working capital and contingent consideration to be paid in each of the next two years on achieving certain EBITDA thresholds. The acquisition was financed within existing credit facilities. Additional information on the fair value of the identifiable assets and liabilities acquired and the contingent consideration to be paid is provided in *Note 4* to the Consolidated Financial Statements. The net assets recognized in the financial statements are based on a provisional assessment of fair value as the Company has sought an independent valuation to assist with the purchase price allocation.

Since this acquisition didn't occur until October 7, 2014, only one quarter of 2014's financial performance includes the impact of the Atlantic Trading Acquisition. A table is provided in the following section, Section 5.2, to assist the reader in understanding the combined impact of this acquisition and the American Pride Acquisition (acquired in October 2013) on the Company's consolidated financial performance in Fiscal 2014.

#### 5.2 American Pride Acquisition

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

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

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

After post-closing working capital adjustments, High Liner Foods paid \$31.8 million (\$34.5 million in cash proceeds paid on acquisition date, less \$2.7 million in post-closing working capital adjustments) to acquire American Pride's net assets, which principally included inventory, plant and equipment located in New Bedford, and excluded accounts receivable of approximately \$15.5 million. As part of the transaction, the Company also assumed certain operating lease obligations related to the acquired businesses. The acquisition was financed within existing credit

facilities. Additional information on the fair value of the identifiable assets and liabilities acquired is provided in *Note 4* to the Consolidated Financial Statements.

The integration of American Pride was completed in the fourth quarter of 2014 and as a result, realization of the full synergies expected from integrating American Pride will not be realized until 2015. While the operating margins of American Pride have traditionally been lower than those of High Liner Foods, the Company expects these margins will improve to levels closer to High Liner Foods' existing operating margins now that the integration is completed and the synergies expected from the transaction have been realized.

As noted above, as part of the American Pride Acquisition, the Company assumed certain operating lease obligations related to the acquired business. On October 1, 2014, the Company paid \$5.7 million to terminate its obligations in connection with one of these operating leases relating to a manufacturing plant in Gloucester, MA, that was not required for the Company's operations.

The information in the following table is intended to assist the reader in understanding the combined impact of the American Pride and Atlantic Trading acquisitions on the Company's consolidated financial performance in Fiscal 2014 compared to Fiscal 2013.

(Amounts in \$000s, except sales volume)	Sales Volume (millions of lbs)	Sales (USD)	Sales (Domestic \$)	Adjus	ted EBITDA (USD)
Fifty-three weeks ended January 3, 2015					
Excluding American Pride and Atlantic Trading	262.0	\$ 900,798	\$ 932,672	\$	78,407
American Pride and Atlantic Trading	45.6	150,815	150,815		4,934
Total Company	307.6	\$ 1,051,613	\$ 1,083,487	\$	83,341
Fifty-two weeks ended December 28, 2013					
Excluding American Pride and Atlantic Trading	268.7	\$ 907,601	\$ 916,608	\$	83,852
American Pride	12.6	39,700	39,700		1,491
Total Company	281.3	\$ 947,301	\$ 956,308	\$	85,343
Change, excluding American Pride and Atlantic Trading	(2.4)%	(0.7)%	1.7%		(6.4)%
Change due to American Pride and Atlantic Trading	11.7%	11.7%	11.6%		4.1%
Total change, including Atlantic Trading and American Price	de 9.3%	11.0%	13.3%		(2.3)%

#### 5.3 Consolidated Results

The discussion and analysis of the Company's financial results focuses on the performance of its two reportable segments as described in *Note 19* to the Consolidated Financial Statements: Canada Operations and U.S. Operations. Information is also

provided on a "Corporate" category which includes items that neither qualify as a component of another reportable segment nor as a separate reportable segment. Corporate includes expenses for corporate functions, share-based compensation costs and one-time business acquisition, integration and other expenses.

#### **Selected Annual Information**

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

(Amounts in \$000s, except sales volume, per share amounts and exchange rates)	January 3, 2015*	D	ecember 28, 2013**	D	ecember 29, 2012
Sales					
Canada	\$ 304,829	\$	303,587	\$	312,884
United States	746,784		643,117		626,989
Corporate	_		597		2,758
Total sales	\$ 1,051,613	\$	947,301	\$	942,631
Sales volume (millions of lbs)	307.6		281.3		275.2
Adjusted EBITDA	\$ 83,341	\$	85,343	\$	91,687
Net income					
Total	\$ 30,300	\$	31,356	\$	2,203
EPS – Basic†	\$ 0.99	\$	1.03	\$	0.08
EPS - Diluted <sup>†</sup>	\$ 0.97	\$	1.01	\$	0.07
Adjusted Net Income					
Total	\$ 38,781	\$	41,281	\$	38,071
EPS - Basic†	\$ 1.26	\$	1.36	\$	1.26
EPS - Diluted <sup>†</sup>	\$ 1.24	\$	1.32	\$	1.23
Total assets	\$ 705,328	\$	677,499	\$	631,827
Total long-term financial liabilities	\$ 303,808	\$	243,146	\$	231,993
Cash dividends per share†:					
Common shares (in CAD)	\$ 0.41	\$	0.35	\$	0.21
Non-voting equity shares (in CAD)	\$ _	\$	_	\$	0.075
Total capital expenditures, net of investment tax credits,					
financed by operations	\$ 27,296	\$	14,734	\$	12,709
Average foreign exchange rate (USD/CAD)	\$ 1.1044	\$	1.0295	\$	0.9996

 $<sup>^{\</sup>star}\,$  Includes the results of Atlantic Trading which was acquired October 7, 2014.

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

#### Fiscal 2014

(Amounts in \$000s,

except per share amounts)	F	First Quarter		ond Quarter	Т	Third Quarter		Fourth Quarter*		Full Year	
Sales	\$	302,645	\$	235,520	\$	246,553	\$	266,895	\$	1,051,613	
Adjusted EBITDA	\$	27,234	\$	16,692	\$	18,978	\$	20,437	\$	83,341	
Net income	\$	11,901	\$	5,188	\$	7,572	\$	5,639	\$	30,300	
Adjusted Net Income	\$	13,784	\$	7,538	\$	8,386	\$	9,073	\$	38,781	
EPS, based on Net Income†											
EPS - Basic	\$	0.39	\$	0.17	\$	0.25	\$	0.18	\$	0.99	
EPS - Diluted	\$	0.38	\$	0.17	\$	0.24	\$	0.18	\$	0.97	
EPS, based on Adjusted Net Income <sup>†</sup>											
EPS - Basic	\$	0.45	\$	0.25	\$	0.27	\$	0.29	\$	1.26	
EPS - Diluted	\$	0.44	\$	0.24	\$	0.27	\$	0.29	\$	1.24	
Dividends paid per common											
share (in CAD)†	\$	0.095	\$	0.105	\$	0.105	\$	0.105	\$	0.410	
Net working capital^	\$	259,027	\$	243,552	\$	257,482	\$	257,894	\$	257,894	

<sup>\*\*</sup> Includes the results of American Pride which was acquired October 1, 2013.

<sup>†</sup> Amounts reflect retrospective application of May 30, 2014 stock split (see Note 16 to the Consolidated Financial Statements)

Fiscal 2013

First Quarter	Sec	ond Quarter	T	hird Quarter	Fo	Fourth Quarter**		Full Year
\$ 275,161	\$	204,909	\$	216,486	\$	250,745	\$	947,301
\$ 21,282	\$	19,323	\$	22,055	\$	22,683	\$	85,343
\$ 5,264	\$	9,881	\$	7,444	\$	8,767	\$	31,356
\$ 9,788	\$	9,183	\$	10,366	\$	11,944	\$	41,281
\$ 0.17	\$	0.33	\$	0.24	\$	0.29	\$	1.03
\$ 0.17	\$	0.32	\$	0.24	\$	0.28	\$	1.01
\$ 0.32	\$	0.30	\$	0.34	\$	0.40	\$	1.36
\$ 0.31	\$	0.29	\$	0.33	\$	0.38	\$	1.32
\$ 0.075	\$	0.090	\$	0.090	\$	0.095	\$	0.350
\$ 205,848	\$	173,649	\$	184,815	\$	240,936	\$	240,936
\$ \$ \$ \$ \$ \$ \$ \$ \$	\$ 21,282 \$ 5,264 \$ 9,788 \$ 0.17 \$ 0.17 \$ 0.32 \$ 0.31 \$ 0.075	\$ 275,161 \$ \$ 21,282 \$ \$ 5,264 \$ \$ 9,788 \$ \$ \$ 0.17 \$ \$ \$ 0.17 \$ \$ \$ 0.17 \$ \$ \$ 0.32 \$ \$ 0.31 \$ \$ \$ 0.075 \$	\$ 275,161 \$ 204,909 \$ 21,282 \$ 19,323 \$ 5,264 \$ 9,881 \$ 9,788 \$ 9,183 \$ 0.17 \$ 0.33 \$ 0.17 \$ 0.32 \$ 0.32 \$ 0.30 \$ 0.31 \$ 0.29 \$ 0.075 \$ 0.090	\$ 275,161 \$ 204,909 \$ \$ 21,282 \$ 19,323 \$ \$ 5,264 \$ 9,881 \$ \$ 9,788 \$ 9,183 \$ \$ \$ 0.17 \$ 0.33 \$ \$ 0.17 \$ 0.32 \$ \$ \$ 0.31 \$ 0.29 \$ \$ \$ 0.075 \$ 0.090 \$	\$ 275,161 \$ 204,909 \$ 216,486 \$ 21,282 \$ 19,323 \$ 22,055 \$ 5,264 \$ 9,881 \$ 7,444 \$ 9,788 \$ 9,183 \$ 10,366 \$ 0.17 \$ 0.33 \$ 0.24 \$ 0.17 \$ 0.32 \$ 0.24 \$ 0.17 \$ 0.32 \$ 0.34 \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.075 \$ 0.090 \$ 0.090	\$ 275,161 \$ 204,909 \$ 216,486 \$ \$ 21,282 \$ 19,323 \$ 22,055 \$ \$ 5,264 \$ 9,881 \$ 7,444 \$ \$ 9,788 \$ 9,183 \$ 10,366 \$ \$ \$ 0.17 \$ 0.33 \$ 0.24 \$ \$ 0.17 \$ 0.32 \$ 0.24 \$ \$ \$ 0.17 \$ 0.32 \$ 0.24 \$ \$ \$ \$ 0.17 \$ 0.32 \$ 0.24 \$ \$ \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ \$ \$ 0.34 \$ \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ \$ \$ 0.34 \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ \$ \$ 0.34 \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ \$ \$ 0.34 \$ \$ 0.35 \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ 0.35 \$ \$ \$ 0.35 \$ \$ 0	\$ 275,161 \$ 204,909 \$ 216,486 \$ 250,745 \$ 21,282 \$ 19,323 \$ 22,055 \$ 22,683 \$ 5,264 \$ 9,881 \$ 7,444 \$ 8,767 \$ 9,788 \$ 9,183 \$ 10,366 \$ 11,944 \$ \$ 0.17 \$ 0.33 \$ 0.24 \$ 0.29 \$ 0.17 \$ 0.32 \$ 0.24 \$ 0.28 \$ \$ 0.17 \$ 0.32 \$ 0.34 \$ 0.28 \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.38 \$ \$ 0.34 \$ 0.40 \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.38 \$ 0.38	\$ 275,161 \$ 204,909 \$ 216,486 \$ 250,745 \$ \$ 21,282 \$ 19,323 \$ 22,055 \$ 22,683 \$ \$ 5,264 \$ 9,881 \$ 7,444 \$ 8,767 \$ \$ 9,788 \$ 9,183 \$ 10,366 \$ 11,944 \$ \$ \$ 0.17 \$ 0.33 \$ 0.24 \$ 0.29 \$ \$ 0.17 \$ 0.32 \$ 0.24 \$ 0.28 \$ \$ \$ 0.17 \$ 0.32 \$ 0.34 \$ 0.28 \$ \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.34 \$ 0.40 \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.38 \$ \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.38 \$ \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.38 \$ \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.38 \$ \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.38 \$ \$ \$ 0.31 \$ 0.29 \$ 0.33 \$ 0.38 \$ \$ \$ \$ 0.075 \$ 0.090 \$ 0.090 \$ 0.095 \$ \$ \$ \$ 0.095 \$ \$ \$ \$ \$ \$ 0.095 \$ \$ \$ \$ \$ \$ 0.095 \$ \$ \$ \$ \$ \$ 0.095 \$ \$ \$ \$ \$ \$ 0.095 \$ \$ \$ \$ \$ \$ \$ \$ 0.095 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ 0.095 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$

- \* Includes the results of Atlantic Trading which was acquired October 7, 2014
- \*\* Includes the results of American Pride which was acquired October 1, 2013
- † Amounts reflect retrospective application of May 30, 2014 stock split (see Note 16 to the Consolidated Financial Statements)
- Net working capital is comprised of accounts receivable, inventories and prepaid expenses less accounts payable and provisions

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

In our retail business, we spend significant amounts on consumer advertising and listing allowances for new product launches. Although the related activities benefit more than one period, the related costs must be expensed in the period when the initial promotional activity takes place or when new products are first shipped. A significant percentage of advertising is typically done in either the first or fourth quarter, however the accounting periods during which we incur these expenditures may vary from year to year and therefore, there may be fluctuations in income relating to these activities. Promotional expenditures such as trade spending, listing allowances and couponing are deducted from "Revenues" and consumer marketing expenditures are included in "Selling, general and administration expense".

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 trends in 2015 to be similar to 2014.

#### Sales

Sales increased in 2014 by \$104.3 million, or 11.0%, to \$1,051.6 million compared to \$947.3 million in 2013. Approximately 70% of the Company's operations, including sales, are denominated in USD and the remainder are denominated in CAD. The weaker Canadian dollar in Fiscal 2014 compared to Fiscal 2013 decreased the value of reported USD sales of our CAD-denominated operations by approximately \$22.2 million relative to the conversion impact in 2013.

Sales in domestic currency increased in 2014 by \$127.2 million, or 13.3%, to \$1,083.5 million compared to \$956.3 million in 2013. The Atlantic Trading and American Pride acquisitions (the "Acquisitions") increased sales in 2014 by \$111.1 million compared to 2013 and excluding their impact, sales in domestic currency increased in 2014 by \$16.1 million.

Sales volume increased in 2014 by 26.3 million pounds, or 9.3%, to 307.6 million pounds compared to 281.3 million pounds in 2013. The Acquisitions increased sales volume in 2014 by 33.0 million pounds compared to 2013 and excluding their impact, pounds sold decreased in 2014 by 6.7 million reflecting lower sales volume from our U.S. foodservice operations, partially offset by the impact of one additional week of sales in Fiscal 2014 (Fiscal 2014 reflects operations for fifty-three weeks compared to fifty-two weeks in Fiscal 2013).

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

#### **Gross Profit**

Gross profit in 2014 was \$220.4 million compared to \$215.3 million in 2013. Gross profit as a percentage of sales was 21.0% in 2014 compared to 22.7% in 2013.

Gross profit increased in 2014 by \$5.1 million relative to 2013 due to increased sales volume and higher product margins in the U.S. reflecting the impact of price increases and resolution of the operating issues experienced in 2013. Partially offsetting the favourable impact of these items was the effect of an unfavourable change in the USD/CAD exchange rate used to translate our CAD-denominated operations to USD and lower product margins in Canada primarily reflecting cost increases not fully recovered through price increases, partially offset by the impact of price increases in the U.S.

Gross profit as a percentage of sales was lower in 2014 than 2013 reflecting product margins on sales from the Acquisitions are lower than the overall average margin achieved on the remainder of the Company's sales and increased costs not fully recovered in Canada, partially offset by the impact of price increases in the U.S. and resolution of operating issues experienced in the U.S. in 2013.

#### **Distribution Expenses**

Distribution expenses, consisting of freight and storage, decreased in 2014 by \$0.8 million, or 1.5%, to \$52.6 million compared to \$53.4 million in 2013 due to lower distribution costs in the U.S. compared to last year when additional distribution costs were incurred related to the closure of the Danvers plant and relocation of the U.S. foodservice distribution, partially offset by higher sales volume. Distribution expenses as a percentage of sales decreased in 2014 to 5.0% compared to 5.6% in 2013, reflecting the additional distribution costs incurred in the U.S. in 2013.

#### Selling, General and Administrative Expenses

(Amounts in \$000s)	we	ifty-three eks ended January 3, 2015	wee	Fifty-two ks ended mber 28, 2013
SG&A expenses as reported	\$	105,313	\$	98,820
Less:				
Stock compensation expense*		3,289		6,061
Amortization expense		4,923		5,255
Net SG&A expenses	\$	97,101	\$	87,504
Net SG&A expenses as a % of sales		9.2%		9.2%

<sup>\*</sup> This is the stock compensation expense that is allocated to SG&A only. The percentage of stock compensation expense allocated between SG&A and cost of sales in 2014 was relatively consistent with 2013.

SG&A expenses as reported increased in 2014 by \$6.5 million to \$105.3 million compared to \$98.8 million in 2013.

Stock-based compensation expense recorded in SG&A expenses decreased in 2014 by \$2.8 million to \$3.3 million compared to \$6.1 million in 2013 reflecting a significant increase in the Company's stock price in 2013.

Amortization expense recorded in SG&A expenses decreased in 2014 by \$0.4 million to \$4.9 million compared to \$5.3 million in 2013 primarily reflecting an impairment charge in 2013 relating to a brand acquired in 2007.

Excluding stock-based compensation and amortization expenses, SG&A expenses increased in 2014 by \$9.6 million to \$97.1 million compared to \$87.5 million in 2013. The Acquisitions increased SG&A in 2014 by \$5.7 million compared to 2013 and the remaining \$3.9 million increase in 2014 reflects higher SG&A spending in the U.S. operations and higher expenses in Corporate. Excluding stock-based compensation and amortization expenses, SG&A expenses, as a percentage of sales was 9.2% in both 2014 and 2013.

#### Adjusted EBITDA

Consolidated Adjusted EBITDA decreased in 2014 by \$2.0 million, or 2.3%, to \$83.3 million compared to \$85.3 million in 2013. The weaker Canadian dollar in Fiscal 2014 compared to Fiscal 2013 decreased the value of the Adjusted EBITDA in USD from our CAD-denominated operations by approximately \$2.3 million relative to the conversion impact in 2013.

In domestic currency, Adjusted EBITDA increased in 2014 by \$0.3 million to \$86.6 million compared to \$86.3 million in 2013. As a percentage of sales, Adjusted EBITDA in domestic currency was 8.0% in 2014, down from 9.0% in 2013. The Acquisitions increased Adjusted EBITDA in 2014 by \$3.4 million compared to 2013 and excluding their impact, Adjusted EBITDA in domestic currency decreased in 2014 by \$3.2 million due to lower overall sales volume, along with lower product margins in Canada and higher SG&A expenses in Canada and the U.S. and higher expenses in Corporate, partially offset by higher product margins and lower distribution costs in the U.S.

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

	Fifty-two weeks ended December 28, 2013							
(Amounts in \$000s)	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Net income (loss) \$	27,209 \$	43,314 \$	(40,223)\$	30,300 \$	32,596 \$	41,548 \$	(42,788) \$	31,356
Add back:								
Depreciation and								
amortization	2,304	13,409	1,084	16,797	2,997	11,182	980	15,159
Financing costs	_	_	17,569	17,569	_	_	16,329	16,329
Income tax	_	_	7,231	7,231	_	_	12,292	12,292
Standardized EBITDA	29,513	56,723	(14,339)	71,897	35,593	52,730	(13,187)	75,136
Add back (deduct):								
Business acquisition, integration and								
other expenses	_	_	6,582	6,582	_	_	3,256	3,256
Impairment of property, plant and equipment	_	852	_	852	_	_	_	_
Loss (gain) on disposal of assets	90	599	(8)	681	(88)	206	129	247
Adjusted EBITDA, including stock								
compensation expense	29,603	58,174	(7,765)	80,012	35,505	52,936	(9,802)	78,639
Stock compensation expense	_	_	3,329	3,329	_	_	6,704	6,704
Adjusted EBITDA \$	29,603 \$	58,174 \$	(4,436) \$	83,341 \$	35,505 \$	52,936 \$	(3,098) \$	85,343

We refer to Adjusted EBITDA throughout this MD&A, including in Section 5.4 "Performance by Segment" where Adjusted EBITDA is discussed for both our Canadian and U.S. operations. These are calculated in the same fashion as described above and can be reconciled to our operating segment information disclosed in *Note 19* to the Consolidated Financial Statements.

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

	January 3, 2015	D	ecember 28, 2013		January 3, 2015	D	ecember 28, 2013	% Change	
(Amounts in \$000s)	USD	USD		Domestic		Domestic \$		Domestic \$	
External Sales									
Canada	\$ 304,829	\$	303,587	\$	336,703	\$	312,595	7.7%	
USA	746,784		643,117		746,784		643,117	16.1%	
Corporate	_		597		_		596		
	1,051,613		947,301		1,083,487		956,308	13.3%	
Conversion	_		_		(31,874)		(9,007)		
	\$ 1,051,613	\$	947,301	\$	1,051,613	\$	947,301	11.0%	
Adjusted EBITDA									
Canada	\$ 29,603	\$	35,505	\$	32,705	\$	36,611	(10.7)%	
USA	58,174		52,936		58,174		52,936	9.9%	
Corporate	(4,436)		(3,098)		(4,266)		(3,210)	32.9%	
	83,341		85,343		86,613		86,337	0.3%	
Conversion	_		_		(3,272)		(994)		
	\$ 83,341	\$	85,343	\$	83,341	\$	85,343	(2.3)%	
Adjusted EBITDA as % of sales									
In USD	7.9%		9.0%						
In Domestic \$					8.0%		9.0%		

#### Net Income

Net income decreased in 2014 by \$1.1 million, or 3.4%, to \$30.3 million (\$0.97 per diluted share) compared to \$31.4 million (\$1.01 per diluted share) in 2013. The results for both 2014 and 2013 included unusual and one-time costs, including one-time acquisition, integration and other costs, impairment charges, stock compensation expense and other items relating to financing activities. The impact of these items on net income and diluted EPS for 2014 and 2013 are shown in the following table:

	Fifty-three weeks ended January 3, 2015				Fifty-two weeks ended December 28, 2013			
		\$000		Diluted EPS†	\$000		Diluted EPS†	
Net income	\$	30,300	\$	0.97	\$ 31,356	\$	1.01	
Add back (deduct), after-tax:								
Business acquisition, integration and other costs		4,290		0.14	2,068		0.07	
Impairment of property, plant and equipment		520		0.02	_		_	
Accelerated amortization of deferred financing costs and other items resulting from debt refinancing and amendment activities		605		0.02	776		0.02	
Mark-to-market loss (gain) on embedded derivative and related accretion		188		_	(105)		_	
Mark-to-market (gain) loss on interest rate swaps		(80)		_	76		_	
Tax on inter-company distribution		_		_	744		0.02	
		35,823		1.15	34,915		1.12	
Stock compensation expense		2,958		0.09	6,366		0.20	
Adjusted Net Income	\$	38,781	\$	1.24	\$ 41,281	\$	1.32	
Average shares for the period (000s)				31,317			31,186	

<sup>†</sup> Amounts reflect retrospective application of May 30, 2014 stock split (see Note 16 to the Consolidated Financial Statements).

The above table shows that excluding the impact of these unusual and one-time costs, Adjusted Net Income decreased by \$2.5 million, or 6.1%, and Adjusted Diluted EPS decreased by \$0.08 per share in 2014 compared to 2013.

#### 5.4 Performance by Segment

#### **Canadian Operations**

(All currency amounts in this section are in CAD)

External sales for our Canadian operations increased in 2014 by \$24.1 million, or 7.7%, to \$336.7 million compared to \$312.6 million in 2013. Sales volume was the same in 2014 at 72.8 million pounds as it was in 2013.

Adjusted EBITDA for our Canadian operations decreased in 2014 by \$3.9 million, or 10.7%, to \$32.7 million compared to \$36.6 million in 2013. This decrease primarily reflects lower product margins in 2014 compared to 2013 as a result of cost increases not fully recovered through price increases in 2014 and higher SG&A expense. Also, gross profit in 2013 benefited from higher product margins that reflected lower raw material input costs realized on certain products in advance of cost savings being passed on to customers.

#### U.S. Operations

(All currency amounts in this section are in USD)

External sales for our U.S. operations increased in 2014 by \$103.7 million, or 16.1%, to \$746.8 million, compared to \$643.1 million in 2013. Sales volume increased in 2014 by 26.3 million, or 12.6% to 234.8 million pounds compared to 208.5 million pounds in 2013. The Acquisitions increased sales in 2014 by \$111.1 million and sales volume by 33.0 million pounds compared to 2013. Excluding the impact of the Acquisitions, sales from our U.S. operations decreased in 2014 by \$7.4 million, or 1.2%, and sales volume decreased by 6.7 million pounds, or 3.4%, due to continued volume declines in our U.S. foodservice business, partially offset by increased U.S. retail sales and the impact of an additional week of sales in Fiscal 2014. In the first quarter of 2014, sales to our U.S. foodservice customers were negatively impacted by, among other things, particularly harsh winter weather in that same period.

Adjusted EBITDA for our U.S. operations increased in 2014 by \$5.3 million, or 10.0%, to \$58.2 million compared to \$52.9 million in 2013. The Acquisitions increased Adjusted EBITDA in 2014 by \$3.4 million compared to 2013 and excluding their impact, Adjusted EBITDA from our U.S. operations increased by \$1.8 million due to higher product margins reflecting the impact of price increases and lower distribution costs in 2014, partially offset by lower sales volume (excluding Atlantic Trading and American Pride) and higher SG&A expenses in 2014 compared to 2013.

#### Outlook

The Company's strategic goals will not change in 2015 and remain: profitable growth; supply chain optimization; and succession planning. The Company will continue to focus on increasing profitability, and in 2015 the full benefit of synergies resulting from the American Pride integration will be realized, and we expect to start realizing cost savings related to supply chain optimization initiatives, with the full benefit of these initiatives being achieved in 2016.

Organic growth in our U.S. foodservice business was challenging in 2014, however, to the extent our foodservice customers benefit from recent improvements in U.S. consumer spending, partially fueled by lower gas prices, we could begin to see some improvement in organic growth in this part of our business.

# 5.5 Liquidity and Capital Resources

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

#### **Net Interest-Bearing Debt**

Our net interest-bearing debt is comprised of our term loan and working capital credit facilities and finance leases, less cash. Our net interest-bearing debt position increased to a liability of \$364.8 million at January 3, 2015 compared to a liability of \$332.0 million at December 28, 2013. This \$32.8 million increase reflects the use of debt to acquire Atlantic Trading in October 2014, and to finance the \$5.7 million payment made on October 1, 2014 to close operating leases relating to the American Pride business acquired in October 2013, along with increased net non-cash working capital requirements and higher capital expenditures in 2014, partially offset by cash flow generated from operating activities in 2014.

#### Term Loan Facility

High Liner Foods entered into a \$250.0 million senior secured term loan facility ("Term Loan") in December 2011. This Term Loan was subsequently amended in February 2013 to reduce interest rates, and as disclosed in the Developments section of this MD&A, was refinanced again in April 2014. These most recent amendments resulted in the following changes:

- The facility was increased from \$250.0 million to \$300.0 million;
- The term was extended from December 2017 to April 2021;
- Interest rates decreased from LIBOR plus 3.50% subject to a LIBOR floor of 1.25%, to LIBOR plus 3.25% subject to a LIBOR floor of 1.00%;
- The leverage ratio financial covenant was removed; and
- Increased flexibility and capacity for acquisitions, investments, distributions, and operational matters.

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

Minimum repayments on the Term Loan are required to be paid on a quarterly basis, plus beginning in 2013, based on a leverage test, additional payments are required up to 50% of the previous year's defined cash flow. In March 2013, we paid 25% of our 2012 defined excess cash flow which was \$13.8 million. There were no excess cash flow payments in 2014 because the defined excess cash flow was negative in 2013 due primarily to the American Pride Acquisition described in Section 5.2 of this MD&A. We did not make any excess cash flow payments in 2014 and do not expect to make any payments in 2015 as there were no excess cash flows in 2014. Quarterly principal repayments of \$750,000 are required on the Term Loan (as amended in April 2014) beginning in June of 2014 and the first quarterly repayment was made on June 30, 2014. Debt repayments, including capital leases, were \$3.2 million in Fiscal 2014.

The original terms of the Term Loan required us to hedge 50% of the variable interest rate until December 2013. A derivative financial instrument was therefore purchased in the second quarter of 2012 which results in the LIBOR rate on \$125.0 million of the Term Loan being capped at 1.5% until April 2014. Also on May 3, 2012, we entered into an interest rate swap to exchange floating three-month LIBOR for a fixed rate on our Term Loan (with the embedded floor of 1.5%) for a notional amount of \$100.0 million for the period of April 4, 2014 until April 4, 2016. On a quarterly basis starting in 2014, we are required to pay the fixed swap rate and expect to receive the floating three-month LIBOR rate (but no less than 1.5%), effectively fixing the LIBOR rate of our Term Loan between 1.497% to 1.997%. The implication of these swaps on our financial results are discussed in Section 4.6 "Finance Costs" of this MD&A.

On December 29, 2014, we entered into an interest rate swap to exchange floating three-month LIBOR for a fixed rate on the Term Loan (with an embedded floor of 1.0%) for a fixed rate of 2.17% on a notional amount of \$20.0 million for the period of December 31, 2014 until December 31, 2019.

As the interest rates on the Term Loan are fixed on only a portion of the \$300.0 million face value of the debt, the other portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates if LIBOR is higher than the floor of 1.00%.

# Working Capital Credit Facility

We entered into a \$120.0 million asset-based working capital facility in November 2010 with the Royal Bank of Canada as collateral and administrative agent. There have been several amendments made to this facility:

- In December 2011, this facility was increased to \$180.0 million;
- In February 2013, the facility was amended concurrently with the Term Loan, with the major changes being to interest rates and increased flexibility around acquisitions; and
- In April 2014 (as disclosed in the Developments section of this MD&A), the term of the facility was extended from December 2016 to April 2019, with reduced interest rates and changes that increase flexibility and capacity for distributions, operational matters, acquisitions and investments.

After the April 2014 amendments, the working capital facility provides for the following based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement:

- Canadian Prime Rate loans denominated in CAD and Canadian Base Rate and U.S. Prime Rate loans denominated in USD at Prime or Base Rate plus 0.00% to 0.25%;
- Bankers' Acceptances (BA) loans at BA rates plus 1.25% to 1.75%;
- LIBOR advances at LIBOR plus 1.25% to 1.75%; and
- Unused line fees of 0.25% to 0.375%.

At the end of the fourth quarter of 2014, we were borrowing at the following rates:

- Canadian Prime Rate loans denominated in CAD and Canadian Base Rate and U.S. Prime Rate loans denominated in USD at Prime or Base Rate plus 0.00%;
- Bankers' Acceptances (BA) loans at BA rates plus 1.25%;
- LIBOR advances at LIBOR plus 1.25%; and
- Unused line fees of 0.375%.

Excluding any major acquisitions, we believe the asset-based working capital facility should be sufficient to fund all of the Company's current cash requirements for 2015.

We also entered into interest rate swaps to hedge a portion of our working capital loans. The swaps are for a notional \$50.0 million for the period of May 4, 2012 to March 4, 2014, and then for \$30.0 million for the period March 5, 2014 to March 4, 2015, effectively fixing the LIBOR rate on a portion of our working capital facility at an average rate of 0.719% and 0.726%, respectively.

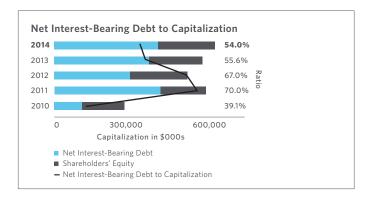
Full details of the Company's financing arrangements are provided in *Notes 12* and *13* to the Consolidated Financial Statements.

Average short-term borrowings were approximately \$69.4 million in 2014 compared to \$63.7 million in 2013. The increase in short-term borrowings in 2014 reflects the American Pride Acquisition in October 2013, the Atlantic Trading Acquisition in October 2014, and the \$5.7 million payment made on October 1, 2014 to close operating leases relating to the American Pride business, along with increased net non-cash working capital requirements during 2014 and higher capital expenditures in 2014 as explained under the heading "Capital Expenditures" below. This increase was partially offset by the Term Loan increase from \$250 million to \$300 million in April 2014, which was used to pay down a portion of the working capital facility.

On January 3, 2015, the Company had \$100.9 million (December 28, 2013: \$67.9 million) of unused borrowing capacity taking into account both margin calculations and the total line availability. On January 3, 2015, letters of credit and standby letters of credit were outstanding in the amount of \$13.1 million (December 28, 2013: \$12.6 million) to support raw material purchases and to secure certain contractual obligations, including those related to the Company's Supplemental Executive Retirement Plan ("SERP"). Letters of credit reduce the availability under our working capital

facility and are accounted for in the \$100.9 million of unused borrowing capacity disclosed above.

In the absence of any major acquisitions, we expect average short-term borrowings will decrease in 2015 with the repayment of debt from free cash flow.



# **Net Non-Cash Working Capital**

Net non-cash working capital balance, consisting of accounts receivable, inventories, prepaid expenses, less provisions and accounts payable, was \$257.9 million at the end of Fiscal 2014, compared to \$240.9 million a year ago. This \$17.0 million increase was primarily due to decreased accounts payable.

Our working capital requirements fluctuate during the year, usually peaking between December and April as our inventory is the highest at that time. Going forward, we expect the trend of inventory peaking between December and April to continue and we have enough availability on our working capital credit facility to finance our working capital requirements throughout 2015. However, if we were to do another acquisition, depending on the size, we may need to expand our working capital facility.

#### Cash Flow

Net cash flows provided by operating activities decreased in 2014 by \$5.1 million to \$22.2 million compared to \$27.3 million in 2013.

- Cash flow from operating activities, including interest and income taxes and before the change in non-cash working capital, decreased in 2014 by \$2.0 million to \$51.4 million compared to \$53.4 million in 2013, reflecting less favourable results from operations in 2014, partially offset by lower interest and income tax payments.
- Cash flow from changes in net non-cash working capital decreased in 2014 by \$3.1 million to \$(29.2) million compared to \$(26.1) million in 2013.

Standardized Free Cash Flow decreased by \$17.7 million to \$(5.1) million in 2014 compared to \$12.6 million in 2013 due to higher capital expenditures and less favourable results from operations in 2014, partially offset by lower interest and income tax payments. Excluding the impact in 2013 of American Pride's accounts receivable not purchased as part of the American Pride Acquisition, Adjusted Standardized Free Cash Flow decreased by \$33.2 million in Fiscal 2014.

The table below reconciles our Standardized Free Cash Flow and Adjusted Standardized Free Cash Flow, calculated on a rolling twelve-month basis, with measures that are in accordance with IFRS.

		Τv	velve-m	onths ended	
		January 3,	D	ecember 28,	
(Amounts in \$000s)		2015		2013	Change
Net change in non-cash working capital items*	\$	(29,188)	\$	(26,122)	\$ (3,066)
Cash flow from operating activities, including interest and income taxes*		51,401		53,433	(2,032)
Cash flow from operating activities*		22,213		27,311	(5,098)
Less: total capital expenditures, net of investment tax credits*		(27,296)		(14,734)	(12,562)
Standardized Free Cash Flow		(5,083)		12,577	(17,660)
Add back: accounts receivable of American Pride excluded from the acquisiti	ion**	_		15,500	(15,500)
Adjusted Standardized Free Cash Flow	\$	(5,083)	\$	28,077	\$ (33,160)

<sup>\*</sup> As reported in the Consolidated Statement of Cash Flows

We discuss liquidity risk in Section 8.8 below and Note 24 to the Consolidated Financial Statements.

#### Other Liquidity Items

# Stock Options, PSUs and DSUs

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

Stock-based compensation expense of \$3.3 million was recorded in 2014 compared to \$6.7 million in 2013, based on: the change in the Company's stock price for outstanding options with SARs; the issuance of stock options during the year valued using a trinomial method; and the increase in the valuation of Performance Stock Units ("PSUs") and Deferred Share Units ("DSUs"). Stock based compensation expense is non-cash until option holders exercise, and was higher in 2013 compared to 2014 due to a significant appreciation in the Company's stock price in 2013.

During 2014, holders exercised SARs and PSUs for cash in the amount of \$1.1 million (2013: \$5.3 million). The liability for SARs and PSUs at the end of Fiscal 2014 was \$2.9 million compared to \$4.2 million at the end of Fiscal 2013.

Any options exercised in shares are cash positive or cash neutral if the holder elects to use the cashless exercise method under the plan. Cash received from options exercised for shares during 2014 was \$0.3 million (2013: \$1.4 million).

Recognizing the volatility of SARs on the Company's profit and loss and the potential cash outflow if many of them were exercised for cash in a particular year, the stock options granted since the third quarter of 2011 have not contained a SAR. As well, in March 2013, amendments were made to eliminate the SAR on substantially all of

the stock options previously granted to the Company's directors and senior management in prior years. Effective at that time, the liability for these individuals on the SARs (\$7.6 million) was fixed and the liability was reclassified as Contributed surplus and no future profit and loss impact is necessary going forward.

#### Defined Benefit Pension Plans

The Company's defined benefits pension plans can impact the Company's cash flow requirements and affect its liquidity. In 2014, the defined benefit pension expense for accounting purposes was \$1.2 million. However, due to the fact that these pension plans were not fully funded, the annual cash contributions were \$1.0 million higher than the 2014 accounting expense (2013: \$0.9 million). For 2015, we expect cash contributions to decrease to approximately \$1.8 million based on new actuarial valuations completed in 2014 and for the defined benefit expense to be \$1.1 million. We have more than adequate availability under our working capital credit facility to make the required future cash contributions for our defined benefit pension plans. As well, we have a SERP liability for accounting purposes of \$7.6 million that is secured by a letter of credit in the amount of \$11.2 million. Only small amounts of pension benefits are currently being paid from the SERP liability.

# Capital Expenditures

Gross capital expenditures (including finance leases) for 2014 were \$28.1 million compared with \$15.4 million in the previous year. Capital expenditures were higher in 2014 as a result of purchasing a previously-leased cold storage distribution facility in Peabody, MA, for \$8.6 million in March 2014. This replaced an annual operating lease payment of \$1.0 million with depreciation and interest expense going forward. Also, in 2014, we incurred \$3.0 million in leasehold improvements related to our new U.S. office space in Portsmouth, NH. Employees were relocated to this new leased facility in the fourth quarter of 2014 and this facility now houses our U.S. executive, product development, supply chain, and sales and marketing offices, which were previously located in Danvers, MA.

<sup>\*\*</sup> Refer to the description of Adjusted Standardized Free Cash Flow in the Introduction section of this MD&A

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2015 will be between \$15 million and \$20 million. Capital additions in 2015 will be funded by cash generated from operations and short-term borrowings.

#### **Capital Structure**

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

Net interest-bearing debt at January 3, 2015 was 65.2% of total capitalization, compared to 64.3% at December 28, 2013. "Total capitalization" is defined as shown in the following table:

(Amounts in \$000s)	January 3, 2015	D	ecember 28, 2013
Current bank loans \$	65,130	\$	97,227
Add-back: deferred charges on current bank loans	721		672
Total current bank loans	65,851		97,899
Long-term debt	292,033		226,929
Current portion of long-term debt	3,000		_
Add-back: deferred charges on long-term debt	2,717		935
Add-back: bifurcated embedded derivative	_		4,856
Total term loan debt	297,750		232,720
Long-term portion of finance lease obligations	1,212		1,647
Current portion of finance lease obligations	994		979
Total finance lease obligation	2,206		2,626
Interest-bearing debt	365,807		333,245
Less: cash	(1,044)		(1,206)
Net interest-bearing debt	364,763		332,039
Shareholders' equity	196,974		184,649
Unrealized gains on derivative financial instruments included in accumulated other comprehensive loss	(2,175)		(451)
Total capitalization \$	559,562	\$	516,237
Net interest-bearing debt as % of total capitalization	65.2%		64.3%

Using our January 3, 2015 market capitalization of \$594.5 million, based on a share price of CAD\$22.70 (\$19.36 USD equivalent) and shares outstanding of 30,706,290, instead of the book value of equity, net interest-bearing debt as a percentage of capitalization decreased to 38.0%.

# Equity

The book value of our equity at the end of Fiscal 2014 was \$6.41 per share compared with \$6.04 per share at the end of Fiscal 2013. The increase in equity was substantially a result of operating profits.

We filed a NCIB in January 2013 ("2013 NCIB") to purchase up to 250,000 common shares. The 2013 NCIB terminated on January 30, 2014. In connection with this bid, the Company established an automatic securities purchase plan ("the 2013 Plan") for the common shares of the Company. The 2013 Plan was established to provide standard instructions regarding how High Liner Foods common shares were to be repurchased under the 2013 NCIB, and provided that High Liner Foods could repurchase its securities under the 2013 Plan on any trading day during the term of the 2013 NCIB, including during self-imposed trading blackout periods. The 2013 Plan was an annual plan and like the 2013 NCIB, also terminated on January 30, 2014. Under the 2013

Plan, the Company was also able to vary, suspend or terminate the 2013 Plan if it did not have material non-public information and the decision to vary, suspend or terminate the 2013 Plan was not taken during a self-imposed trading blackout period. The 2013 Plan constituted an "automatic plan" for purposes of applicable Canadian securities legislation and had been reviewed by the Toronto Stock Exchange ("TSX"). When the 2013 NCIB expired in January 2014, we had not purchased any shares under the bid.

In January 2014, we filed a new NCIB ("2014 NCIB") to purchase up to 250,000 common shares. The 2014 NCIB terminated on January 30, 2015 and in connection with this bid, the Company again established an automatic securities purchase plan ("2014 Plan") for the common shares of the Company that was identical to the 2013 Plan, except that this plan terminated on January 30, 2015, when the 2014 NCIB also terminated. Like the 2013 Plan, the 2014 Plan constituted an "automatic plan" for purposes of applicable Canadian Securities legislation and was reviewed by the TSX. When the 2014 NCIB expired in January 2015, the Company had purchased 32,200 common shares for aggregate consideration of CAD\$0.7 million, at an average price of CAD\$21.69 per share. The shares that were repurchased were cancelled.

In January 2015, we filed a new NCIB ("2015 NCIB") to purchase up to 150,000 common shares. The 2015 NCIB terminates on January 30, 2016. In connection with this latest bid, the Company again established an automatic securities purchase plan ("2015 Plan") for the common shares of the Company that is identical to the 2014 Plan, except this plan will terminate on January 30, 2016, when the 2015 NCIB will also terminate. Like the 2014 Plan, the 2015 Plan constitutes an "automatic plan" for purposes of applicable Canadian Securities legislation and has been reviewed by the TSX.

#### Dividends

As shown in the following table, the quarterly dividend on the Company's common shares increased three times during the last two fiscal years, reflecting the Company's confidence in its growth strategy. The quarterly dividend paid in the last two years were as follows:

Dividend Record Date	Quarterly Divider	id \$CAD†
December 1, 2014	\$	0.105
September 2, 2014	\$	0.105
June 2, 2014	\$	0.105
March 3, 2014	\$	0.095
December 2, 2013	\$	0.095
September 3, 2013	\$	0.090
June 1, 2013	\$	0.090
March 1, 2013	\$	0.075

 $<sup>\</sup>dagger$  Amounts reflect retrospective application of May 30, 2014 stock split (see Note 16 to the Consolidated Financial Statements)

Dividends and NCIBs are subject to restrictions in our credit agreements. Following the debt amendments completed in April 2014:

- Under the working capital facility, Adjusted Aggregate
   Availability, as defined in the credit agreement, needs to be
   \$22.5 million or higher and was \$122.1 million on January 3,
   2015; and
- Under the Term Loan facility, dividends cannot exceed \$17.5 million per year. This amount increases to the greater of \$25.0 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan when the defined total leverage ratio is below 4.5x and becomes unlimited when the defined total leverage ratio is below 3.75x. The defined total leverage ratio was 4.13x on January 3, 2015. NCIBs are subject to an annual limit of \$10.0 million under the Term Loan facility with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum.

On February 18, 2015, the Directors approved a quarterly dividend of CAD\$0.105 per share on the Company's common shares payable on March 16, 2015 to holders of record on February 27, 2015.

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

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

#### **Contractual Obligations**

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

			Paymei	nts Due l	by Period	
(Amounts in \$000s)	Total	Less	s than 1 year		1 - 3 Years	3 - 5 Years
Long-term debt	\$ 14,250	\$	3,000	\$	6,000	\$ 5,250
Finance lease obligations	2,206		994		1,212	_
Operating leases	23,623		5,524		9,385	8,714
Purchase obligations	244,392		242,839		1,553	_
Total contractual obligations	\$ 284,471	\$	252,357	\$	18,150	\$ 13,964

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 of this MD&A for more details.

#### **Financial Instruments**

#### Classification of Financial Instruments

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

We formally document all relationships between hedging instruments and hedged items, as well as risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and

liabilities on the balance sheet or to specific firm commitments or forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Any portion of hedge ineffectiveness has been recognized in the income statement as it has occurred.

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

#### Disclosure of Outstanding Share Data

On February 18, 2015, 30,692,990 common shares and 1,252,172 stock options were outstanding. The stock options are exercisable on a one-for-one basis for common shares of the Company.

# 6. SUMMARY OF RESULTS FOR THE FOURTH QUARTER ENDED JANUARY 3, 2015

#### Highlights

Financial and operational highlights for the fourth quarter of 2014 include (all comparisons are relative to the fourth quarter of 2013):

 Sales as reported increased by \$16.2 million, or 6.5%, to \$266.9 million compared to \$250.7 million;

- Sales in domestic currency increased by \$23.1 million, or 9.1%, to \$277.5 million compared to \$254.4 million;
- Adjusted EBITDA decreased by \$2.3 million, or 10.1% to \$20.4 million compared to \$22.7 million;
- Adjusted EBITDA in domestic currency decreased by \$1.5 million, or 6.5%, to \$21.6 million compared to \$23.1 million;
- Reported net income decreased by \$3.2 million, or 36.4%, to \$5.6 million (diluted EPS of \$0.18), compared with \$8.8 million (diluted EPS of \$0.28);
- Adjusted Net Income decreased by \$2.8 million, or 23.5%, to \$9.1 million (Adjusted Diluted EPS of \$0.29) compared to \$11.9 million (Adjusted Diluted EPS of \$0.38); and
- Atlantic Trading was acquired on October 1, 2014 and added \$13.6 million to sales in the fourth quarter of 2014.

#### **Consolidated Results**

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

(Amounts in \$000s, except sales volumes and per share amounts)		Amounts in \$000s, except sales volumes and per share amounts)		January 3, 2015*	D	ecember 28, 2013**	D	ecember 29, 2012
Sales								
Canada	\$	78,250	\$	75,922	\$	80,059		
United States		188,645		174,823		138,221		
Total sales	\$	266,895	\$	250,745	\$	218,280		
Sales volume (millions of lbs)		76.6		74.4		62.6		
Adjusted EBITDA	\$	20,437	\$	22,683	\$	22,070		
Net income (loss):								
Total	\$	5,639	\$	8,767	\$	(2,686)		
EPS – Basic <sup>†</sup>	\$	0.18	\$	0.29	\$	(0.09)		
EPS – Diluted <sup>†</sup>	\$	0.18	\$	0.28	\$	(0.09)		
Adjusted Net Income:								
Total	\$	9,073	\$	11,944	\$	10,633		
EPS – Basic†	\$	0.29	\$	0.40	\$	0.35		
EPS - Diluted <sup>†</sup>	\$	0.29	\$	0.38	\$	0.34		

<sup>\*</sup> Includes the results of Atlantic Trading which was acquired October 7, 2014.

#### Sales

Sales increased in the fourth quarter of 2014 by \$16.2 million, or 6.5%, to \$266.9 million, compared to \$250.7 million in 2013. Approximately 70% of the Company's operations, including sales, are denominated in USD and the remainder are denominated in CAD. The weaker Canadian dollar in the fourth quarter of 2014 compared to the same period last year decreased the value of reported USD sales of our CAD-denominated operations by approximately \$6.4 million relative to the conversion impact in 2013.

Sales in domestic currency increased in the fourth quarter of 2014 by \$23.1 million, or 9.1%, to \$277.5 million compared to \$254.4 million in 2013. Atlantic Trading added \$13.6 million to sales in the fourth quarter of 2014 and excluding this amount, sales in domestic currency increased by \$9.5 million in the fourth quarter of 2014 compared to the same period last year.

Sales volume increased in the fourth quarter of 2014 by 2.2 million pounds, or 3.0%, to 76.6 million pounds compared to 74.4 million pounds in 2013. Atlantic Trading added 1.9 million pounds to the fourth quarter of 2014 and excluding this amount, sales volume increased by 0.3 million pounds in the fourth quarter of 2014 compared to the same period last year. This increase is partially due to the impact of one additional week of sales in the fourth quarter of 2014 (the fourth quarter of 2014 reflects operations for fourteen weeks compared to thirteen weeks in the fourth quarter of 2013). Sales volume from our Canadian operations were higher in the fourth quarter of 2014 compared to the same period last year, but were partially offset by lower sales volume from our U.S. operations (excluding Atlantic Trading).

<sup>\*\*</sup> Includes the results of American Pride which was acquired October 1, 2013.

<sup>†</sup> Amounts reflect retrospective application of May 30, 2014 stock split (see Note 16 to the Consolidated Financial Statements)

# Adjusted EBITDA

Consolidated Adjusted EBITDA decreased in the fourth quarter of 2014 by \$2.3 million, or 10.1%, to \$20.4 million compared to \$22.7 million in 2013. The weaker Canadian dollar in Fiscal 2014 compared to Fiscal 2013 decreased the value of the Adjusted EBITDA in USD from our CAD-denominated operations by approximately \$0.8 million relative to the conversion impact in 2013.

In domestic currency, Adjusted EBITDA decreased in the fourth quarter of 2014 by \$1.5 million to \$21.6 million compared to \$23.1 million in 2013 and as a percentage of sales, Adjusted EBITDA in domestic currency was 7.8% in the fourth quarter of 2014, down from 9.1% in the same period last year. Adjusted EBITDA in domestic currency decreased in the fourth quarter of 2014 due to lower product margins in both Canada and the U.S. and higher SG&A expense in the U.S., partially offset by higher sales volume and lower distribution costs in the U.S.

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

				weeks ended nuary 3, 2015				weeks ended ber 28, 2013
(Amounts in \$000s)	Canada	U.S	6. Corporate	Total	Canada	U.S.	Corporate	Total
Net income (loss) \$	6,877	\$ 9,18	5 \$ (10,423)	\$ 5,639	\$ 8,879	\$ 11,949	\$ (12,061)	\$ 8,767
Add back:								
Depreciation and								
amortization	570	3,59	8 292	4,460	621	3,093	252	3,966
Financing costs	_	-	- 4,549	4,549	_	_	3,592	3,592
Income tax expense	_	-	- 378	378	_	_	2,212	2,212
Standardized EBITDA	7,447	12,78	3 (5,204)	15,026	9,500	15,042	(6,005)	18,537
Add back (deduct):								
Business acquisition, integration and								
other expenses	_	-	- 3,200	3,200	_	_	1,964	1,964
Impairment of property, plant and equipment	_	85	2 –	852	_	_	_	_
Loss (gain) on disposal of assets	84	29	5 20	399	(21)	) 67	21	67
Adjusted EBITDA, including stock								
compensation expense	7,531	13,93	0 (1,984)	19,477	9,479	15,109	(4,020)	20,568
Stock compensation expens	se <b>–</b>	-	- 960	960	_		2,115	2,115
Adjusted EBITDA \$	7,531	\$ 13,93	0 \$ (1,024)	\$ 20,437	\$ 9,479	\$ 15,109	\$ (1,905)	\$ 22,683

The following table shows the impact of foreign currency on the conversion of our Canadian operations and Corporate into USD for the fourth quarter of 2014 and 2013:

	January 3, 2015	D	ecember 28, 2013	January 3, 2015	ecember 28, 2013	% Change
(Amounts in \$000s)	USD		USD	Domestic \$	Domestic \$	Domestic \$
External Sales						
Canada	\$ 78,250	\$	75,922	\$ 88,888	\$ 79,607	11.7%
USA	188,645		174,823	188,645	174,823	7.9%
	266,895		250,745	277,533	254,430	9.1%
Conversion	_		_	(10,638)	(3,685)	
	\$ 266,895	\$	250,745	\$ 266,895	\$ 250,745	6.4%
Adjusted EBITDA						
Canada	\$ 7,531	\$	9,479	\$ 8,551	\$ 9,951	(14.1)%
USA	13,930		15,109	13,930	15,109	(7.8)%
Corporate	(1,024)		(1,905)	(878)	(1,975)	(55.5)%
	20,437		22,683	21,603	23,085	(6.5)%
Conversion	_		_	(1,166)	(402)	
	\$ 20,437	\$	22,683	\$ 20,437	\$ 22,683	(9.9)%
Adjusted EBITDA as % of sales						
In USD	7.7%		9.0%			
In Domestic \$				7.8%	9.1%	

#### Net Income

Net income for the fourth quarter of 2014 decreased by \$3.2 million to \$5.6 million (\$0.18 per diluted share) compared to \$8.8 million (\$0.28 per diluted share) in 2013. The results for both

the fourth quarter of 2014 and 2013 included unusual and one-time costs, including one-time acquisition, integration and other costs, impairment charges, stock compensation expense and other items relating to financing activities.

The impact of these items on net income and diluted EPS for the fourth quarters of 2014 and 2013 are shown in the following table:

	Fou	 weeks ended nuary 3, 2015	Т	Thirteen w Decembe	
	\$000	Diluted EPS†	\$000		Diluted EPS†
Net income	\$ 5,639	\$ 0.18	\$ 8,767	\$	0.28
Add back, after-tax:					
Business acquisition, integration, and other costs	2,131	0.07	1,216		0.04
Impairment of property, plant and equipment	520	0.02	_		_
Mark-to-market gain on embedded derivative and related activities	_	_	(129)		_
Mark-to-market (gain) loss on interest rate swaps	(63)	_	71		_
Tax on inter-company distribution	_	_	50		_
	8,227	0.27	9,975		0.32
Stock compensation expense	846	0.02	1,969		0.06
Adjusted Net Income	\$ 9,073	\$ 0.29	\$ 11,944	\$	0.38
Average shares for the period (000s)		30,805			31,289

<sup>†</sup> Amounts reflect retrospective application of May 30, 2014 stock split (see Note 16 to the Consolidated Financial Statements).

The above table shows that excluding the impact of these unusual and one-time costs, Adjusted Net Income for the fourth quarter of 2014 decreased by \$2.8 million, or 23.5%, and Adjusted Diluted EPS decreased by \$0.09 per share, compared to the same period last year.

#### **Income Taxes**

The effective income tax rate for the fourth quarter of 2014 was 6.3% compared to the applicable statutory rate in Canada of approximately 28.9% and the statutory rate in the U.S. of 39.6%. The effective income tax rate for the fourth quarter of 2013 was 20.1% compared to the applicable statutory rate in Canada of approximately 27.9% and the statutory rate in the U.S. of 38.9%. The effective income tax rate in the fourth quarters of 2014 and 2013 is lower than the statutory rate due primarily to the benefit of acquisition financing deductions.

# Performance by Segment

# **Canadian Operations**

(All currency amounts in this section are in CAD)

External sales for our Canadian operations increased in the fourth quarter of 2014 by \$9.3 million, or 11.7%, to \$88.9 million compared to \$79.6 million for the same period last year and sales volume increased by 1.1 million pounds, or 6.4%, to 18.8 million pounds compared to 17.7 million pounds due to increased retail sales and the impact of an additional week of sales in the fourth quarter of Fiscal 2014.

Adjusted EBITDA for our Canadian operations decreased in the fourth quarter of 2014 by \$1.4 million, or 14.1%, to \$8.6 million compared to \$10.0 million for the same period last year. This decrease reflects lower product margins in 2014 compared to 2013 as a result of cost increases not fully recovered through price increases in 2014. Also, gross profit in the fourth quarter of 2013 benefited from higher product margins that reflected lower raw material input costs.

#### U.S. Operations

(All currency amounts in this section are in USD)

External sales for our U.S. operations increased in the fourth quarter of 2014 by \$13.8 million, or 7.9%, compared to \$174.8 million for the same period last year and sales volume increased by 1.1 million pounds, or 1.9%, to 57.8 million compared to 56.7 million. The Atlantic Trading Acquisition added \$13.6 million to sales and 1.9 million pounds in the fourth quarter of 2014, and excluding Atlantic Trading, sales from our U.S. operations increased in the fourth quarter of 2014 by \$0.2 million, or 0.1%, and sales volume decreased by 0.8 million pounds, or 1.5%, due primarily to lower U.S. retail sales, partially offset by the impact of an additional week of sales in Fiscal 2014.

Adjusted EBITDA for our U.S. operations decreased in the fourth quarter of 2014 by \$1.2 million, or 7.8%, to \$13.9 million compared to \$15.1 million in the same period last year. This decrease is due to lower product margins reflecting cost increases not fully recovered through price increases and higher SG&A costs, partially offset by higher sales volumes and lower distribution costs.

#### 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

The Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. Individual assets are grouped together as a cash generating unit ("CGU") for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other Company assets. The carrying amount of CGUs, including goodwill, are tested for impairment annually and at other times when indicators of impairment arise. Management calculates the recoverable amount of each CGU based on the expected future cash flows from the individual asset or CGU and chooses a suitable discount rate in order to calculate the present value of those cash flows. Further details, including the manner in which the Company identifies its CGUs and a sensitivity analysis of key assumptions are disclosed in *Note 5* to the Consolidated Financial Statements.

# **Share-Based Payments**

The Company measures the cost of cash-settled transactions with employees initially at fair value at the grant date; the liability is re-measured at each balance sheet date with changes in fair value recorded in the consolidated statement of income.

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

#### **Future Employee Benefits**

The cost of the defined benefit pension plan and other postemployment benefits and the present value of the defined benefit obligation is determined using actuarial valuations. An actuarial valuation involves making various assumptions that include the discount rate, future salary increases, mortality rates, and future pension increases. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. See *Note 14* to the Consolidated Financial Statements for certain assumptions made with respect to future employee benefits.

#### **Income Taxes**

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

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

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

#### Fair Value of Financial Instruments

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

# Sales and Marketing Accruals

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

#### 8. RISK FACTORS AND RISK MANAGEMENT

High Liner Foods is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company takes a strategic approach to risk management. To achieve a superior return on investment, we have designed an enterprise-wide approach, overseen by the senior management of the Company and reported to the Board of Directors, to identify, prioritize and manage risk effectively and consistently across the organization.

#### 8.1 Food Safety

Senior management accountability: Mario Marino, President and COO Canadian Operations; Peter Brown, President and COO, U.S. Operations.

Board oversight accountability: Board of Directors

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

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

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

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

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

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

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

#### 8.2 Procurement

Senior management accountability: Paul Snow, Executive VP 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 uses as much as \$220 million and the U.S. operation buys more than \$440 million of these products annually. Seafood and other food inputs markets are global with values expressed in USD. We buy approximately 30 species of seafood from 20 countries around the world. There are no formal hedging mechanisms in the seafood market. Prices can change due to changes in the balance between supply and demand. Weather, quota changes, geopolitical issues including economic sanctions, disease and other environmental impacts can affect supply. Changes in the relative values of currency can change the demand

from a particular country whose currency has risen or fallen as compared to the U.S. dollar. The increasing middle class and government policies in emerging economies, as well as demand from health conscious consumers, affect the demand side as well. Costs in Canada are also affected by the Canadian and U.S. exchange rates. We hedge exposures to currency changes and enter into annual supply contracts when possible. All foreign currency hedging activities are carried out in accordance with the Company's formal *Price Risk Management Policy*, under the oversight of the Audit Committee.

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 relationships with suppliers, and price changes to customers, are all important factors in our ability to manage margins to target.

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

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

We sometimes pay for finished goods upon shipment from Asia or we acquire unprocessed seafood raw material and negotiate processing arrangements with suppliers to convert that raw material into our finished goods or raw material for our North American plants. In some instances, this means the outlay of cash for inventory is 90 days or more. We are doing this to ensure we receive the high-quality seafood we require and are receiving better prices from suppliers as a result. Although this increases inventory on our balance sheet, it results in higher income and profitability due to the negotiated lower cost product.

In 2010, we established a joint venture between High Liner Foods and a European raw material supplier. The joint venture, along with an Asian company, established a processing facility in China and began operations in 2010. This facility processes products from raw material primarily sourced from the European joint venture partner and sold to us. In early 2013, we sold our interest in the joint venture to our European joint venture partner. We continue procuring the same volume of products from this company as we did prior to the sale, at the same or similar prices.

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

#### 8.3 Availability of Seafood

Senior management accountability: Keith Decker, President & COO Board oversight accountability: Audit Committee

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

The Company expects demand for seafood to grow from current levels as the global economy, and particularly European economy, improves. We expect the supply of wild caught seafood to be stable over the long term, notwithstanding recent increases in quota in certain fisheries, in part due to sustainability efforts. We anticipate new demand will be supplied primarily from aquaculture. In 2014, approximately 23% of our sales come from an aquaculture source, and four of the top seven species consumed in the U.S. (shrimp, salmon, tilapia, and pangasius) are partly or totally supplied by aquaculture. To the extent aquaculture is unable to supply future demand, prices may increase materially which may have a negative impact on the Company's results.

The Company has made the strategic decision not to be vertically integrated for a number of reasons, including the large amount of capital that would be involved and expected returns on such capital. 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 leveraging such position to buy seafood at reasonable prices and be the supplier of choice for North American customers and consumers. However, in the event supply shortages of certain seafood, or trade barriers to acquiring seafood as a result of economic sanctions or otherwise, results in difficulty procuring species, the financial results of High Liner Foods may be adversely affected.

#### 8.4 Loss of Customer and Credit Risk

Senior management accountability: Paul Jewer, Executive VP & CFO; Mario Marino, President & COO, Canadian Operations; Peter Brown, President & COO, U.S. Operations.

Board oversight accountability: Audit Committee

We sell the vast majority of our products to large food retailers, including supercenters and club stores, and foodservice distributors in North America. The food distribution industry is consolidating. Our customers are getting larger, more sophisticated and want to conduct business with experienced, reliable suppliers. We are an important supplier to our customers because we can transact business on their terms and provide them a significant portion of their seafood requirements. We must continue to grow and stay ahead of customer expectations in order to continue to be important to them. Excluding the Atlantic Trading Acquisition, we have one customer that represents approximately 16% (2013: 17%) of our sales and our top ten customers represent approximately 57% (2013: 63%) of our total sales. Two of our larger customers, Sysco and US Foods, announced merger plans in 2013 and if this merger receives regulatory approval, we expect the consolidation in our customer base will increase. In 2014, four of our larger customers (Loblaws and Shoppers Drug Mart; Sobeys and Canada Safeway) completed mergers, and while these mergers did consolidate our customer base, the impact of the American Pride Acquisition has served to dilute our customer concentration. Industry consolidation further emphasizes the importance we place on ensuring that our supply chain management and technology infrastructure keep pace with the service delivery expectations of our customers.

Although we insure our accounts receivable risk, our bad debt expense has historically been nominal. As of the filing of this report, we are not aware of any customer that is in financial trouble that would result in a material loss to the Company and our receivables are substantially current at year end.

#### 8.5 Foreign Currency

Senior management accountability: Paul Jewer, Executive VP & CFO Board oversight accountability: Audit Committee

#### Overview

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

#### **Income Statement Effects of Foreign Currency**

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

The table below summarizes the effects of foreign exchange on our operations in their functional currency:

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

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

For products sold in Canada, raw material is purchased in USD and flour-based ingredients, cooking oils and transportation costs all have significant commodity components that are traded in USD. However, labour, packaging and ingredient conversion costs, overheads and selling, general and administrative costs are incurred in CAD. A strengthening Canadian dollar decreases the cost of these inputs and vice versa in the Canadian operation's domestic currency. When the value of the Canadian dollar changes, competitive factors on commodity products, primarily raw frozen shellfish and groundfish, especially in our Canadian foodservice business, force us to react when competitors use a lower Canadian-dollar cost of imported products to decrease prices and, therefore, pass on the cost decrease to customers. Increasing Canadian dollar costs usually result in higher selling prices to customers.

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

The average Canadian dollar in 2014 (at a USD/CAD exchange rate of 1.1044) has weakened approximately 7.3% over the average of 2013. Because we report our financial results in USD, a weakening Canadian dollar has the immediate effect of decreasing the U.S. dollar value of CAD-denominated sales, costs and expenses. In 2014, CAD-denominated sales comprised approximately 30% of our total sales in domestic currency and in 2015, we expect this percentage to be slightly lower as 2015 will include a full year of sales from the Atlantic Trading Acquisition, which are denominated in USD.

For 2015, approximately \$320 million of the Canadian operation's external sales are expected to be in CAD. This exposure is estimated to decrease to \$250 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 \$1.8 million.

As mentioned, although High Liner Foods reports in USD, our Canadian operations continue to be managed and accounted for in CAD, which is the functional currency of the Canadian company.

Therefore, in accordance with the Company's "Price Risk Management Policy" (the "Policy"), we undertake hedging activities, buying USD forward, using various derivative products. To reduce our exposure to the U.S. dollar on the more price inelastic items, the Policy allows us to hedge forward a maximum of fifteen months; at 70-90% of exposure for the first three months, 55-85% for the next three months, 30-75% for the next three, 10-60% for the next three, and 0-60% for the last three months. The lower end of these ranges are required to be hedged by the Policy with the upper ranges allowed if management believes the situation warrants a higher level of purchases to be hedged. Variations from the Policy require the approval of the Audit Committee.

The Policy excludes certain products where the price in the marketplace moves up or down with changes in the Canadian dollar cost of the product. Approximately \$85 million of the U.S. dollar purchases of the Canadian company are part of the hedging program and are usually hedged between 45–55% of the next twelve months of forecasted purchases. We are currently forecasting \$83 million in items to be hedged in 2015 and of this amount, 70% are currently hedged.

Details on the hedges in place as at January 3, 2015 are included in *Note 22* to the Consolidated Financial Statements.

#### **Balance Sheet Effects of Foreign Currency**

As we have operations in Canada, and some monetary assets and liabilities in the U.S. that are denominated in CAD, assets and liabilities of the consolidated Company change as exchange rates fluctuate. At January 3, 2015, the Canadian dollar weakened by approximately 8.8% from its value at December 28, 2013. As such, the weakened Canadian dollar has decreased the carrying value of items such as accounts receivable, inventory, fixed assets, and accounts payable of the Canadian operations in our USD balance sheet. The net offset of those changes flow through Other Comprehensive Income in shareholders' equity on the balance sheet. Changes in monetary assets and liabilities in the U.S. that are denominated in CAD flow through the income statement, unless they are hedged.

#### 8.6 Growth (Other than by Acquisition)

Senior management accountability: Mario Marino, President & COO, Canadian Operations; Peter Brown, President & COO, U.S. Operations.

Board oversight accountability: Board of Directors

A key component of High Liner Foods' growth strategy is organic or internal growth by (a) increasing sales and earnings in existing markets with existing products; and (b) expanding into new markets and products. There can be no assurance that the Company will be successful in growing its business or in managing its growth in a manner consistent with this strategy. Furthermore, successful expansion may place a significant strain on key personnel of High Liner Foods, from a retention perspective, as well as on its operations, financial resources and other resources. High Liner

Foods' ability to manage growth will also depend in part on its ability to continue to grow and enhance its information systems in a timely fashion. The Company must also manage succession planning for personnel across the organization to support such growth. Any inability to properly manage growth could result in cancellation of customer orders, as well as increased operating costs, and correspondingly could have a material adverse effect on High Liner Foods' financial results.

# 8.7 Acquisitions

Senior management accountability: Henry Demone, CEO Board oversight accountability: Board of Directors

Our growth strategy includes growth by acquisition. The Company may not be able to carry out its strategy of acquisition of other frozen seafood companies, as that depends in part on the availability of suitable target companies. 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 it is. Our ability to successfully integrate acquisitions into our existing operations could affect our financial results. We may seek to expand our business through acquisitions and may divest of under-performing 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.

#### 8.8 Liquidity

Senior management accountability: Paul Jewer, Executive VP & 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 2019 when the working capital credit facility is scheduled to be renewed.

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next 12 months as well as models that look out five years. Working capital 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 January 3, 2015, less than 2% of our debt will mature in less than one year based on the carrying value of borrowings reflected in the financial statements. Our long-term debt is described in

Note 13 to the Consolidated Financial Statements and has a current principal repayment scheduled for 2015 in the amount of \$3.0 million. We did not make any excess cash flow payments in 2014 and do not expect to make any payments in 2015 as there were no excess cash flows in 2014. At January 3, 2015 and at the date of this document, we are in compliance with all covenants and terms of our banking facilities.

As a result of the volatile capital markets and the resulting widespread drop in public issuer valuations in the latter part of 2008, our defined benefit pension plans experienced losses. Since then, the asset mix of our defined benefit pension plans was changed with the objective of reducing the volatility of the plan's anticipated funded position. This has resulted in investing part of the portfolio in fixed income assets with a duration similar to that of the pension obligations. The change in the asset mix, additional Company contributions, and good investment returns, have improved the financial position of our two largest defined benefit pension plans. The latest actuarial valuations of these two plans were performed during Fiscal 2014 and showed: combined going concern surpluses of CAD\$2.6 million; one plan had a solvency deficit of CAD\$1.0 million; and the other plan had a solvency surplus of CAD\$1.0 million.

#### 8.9 Sustainability, Corporate Responsibility and Public Opinion

Senior management accountability: Keith Decker, President & COO Board oversight accountability: Board of Directors

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

High Liner Foods made a public sustainability commitment in late 2010 to source all of its seafood from "certified sustainable or responsible" fisheries and aquaculture by the end of 2013. The Company was successful in fulfilling the commitment it made in late 2010 and is now recognized as a global leader in driving best practice improvements in wild fisheries and aquaculture. Customers will continue to demand product solutions that are innovative, high-quality and responsibly sourced. To the extent we fail to meet these customer expectations, operational results and brand equity may be adversely affected. Credible sustainability certifications have become a required tool to validate industry-driven wild fishery and aquaculture improvements. Environmental advocacy groups will continue to promote use of credible certification schemes to define sustainable wild fisheries and aquaculture.

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

# 8.10 Industry Consolidation

Senior management accountability: Keith Decker, President & COO; Peter Brown, President & COO, U.S. Operations; Mario Marino, President & COO, Canadian Operations
Board oversight accountability: Board of Directors

Grocery retailers, wholesalers, food processors, and foodservice distributors in North America have consolidated and continue to consolidate. 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. foodservice channel, we expect to remain an important supplier to grocery retailers and foodservice distributors, although such consolidation may adversely affect the Company's financial results.

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

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

#### 8.11 Increase in Seafood Production from Asia

Senior management accountability: Paul Snow, Executive VP Procurement

Board oversight accountability: Board of Directors

For more than a decade, many seafood companies, including High Liner Foods, have diverted production of certain primary produced products to Asia, and China in particular. Asian processing plants are able to produce many seafood products at a lower cost than is possible in North America and in other more developed countries. These plants are also able to achieve a better yield on raw material due to the use of more manual processes and they produce excellent quality. Land-based seafood primary processing plants in developed countries, such as Norway, Iceland and Canada, have found it extremely difficult to compete with Asian processors, especially when they compete with them for the raw material on global markets. We anticipated this trend ahead of our many competitors. It was part of our rationale for exiting the primary processing and fishing businesses, and the trend allowed us to

develop opportunities that are now contributing to our growth strategy. We chose to work closely with selected Asian suppliers to become an important customer, especially for cod and haddock supply. 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. These suppliers are central to our supply chain operating efficiently, and thus any adverse changes in the operations of such suppliers, or our commercial relationships with such suppliers, may adversely affect the Company's results.

#### 8.12 Competition Risk

Senior management accountability: Mario Marino, President & COO, Canadian Operations; Peter Brown, President & COO, U.S. Operations.

Board oversight accountability: Board of Directors

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

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

#### 8.13 Non-Seafood Commodities

Senior management accountability: Mario Marino, President & COO, Canadian Operations; Peter Brown, President & COO, U.S. Operations; Derivatives – Paul Jewer, Executive VP & CFO; Rick Barnhardt, VP US Supply Chain

Board oversight accountability: Audit Committee

Our operating costs are affected by price changes in commodities such as crude oil, wheat, corn, paper products, and frying oils. To minimize our risk, the Company's *Price Risk Management Policy* dictates the use of fixed pricing with suppliers whenever possible but allows the use of hedging with derivative instruments if deemed prudent. Throughout 2014 and 2013 the Company has managed this risk through contracts with suppliers.

Crude oil prices, which influence fuel surcharges from freight suppliers, decreased significantly in the last quarter of 2014. World commodity prices for flour (wheat and corn) and oils (corn, soy and canola), important ingredients in many of the Company's products, decreased further in 2014 after having decreased in 2013. The Company currently has fixed price contracts with suppliers covering a significant portion of the Company's 2015 commodity purchase requirements.

# 8.14 Board Accountability

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

We have identified the principal risks that could have a significant, adverse impact on our performance, reputation or ability to service our customers and have, in the absence of controls, a reasonable probability of occurring. Every principal risk is assigned to at least one member of our senior management team or to the 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 2014 Annual Information Form, available at www.highlinerfoods.com or at www.sedar.com.

# 9. FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements within the meaning of securities laws. In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. In addition, these statements and expectations concerning the performance of our business in general are based on a number of factors and assumptions including, but not limited to: availability, demand and prices of raw materials, energy and supplies; the condition of the Canadian and American economies; product pricing; foreign exchange rates, especially the rate of exchange of the Canadian dollar to the U.S. dollar; our ability to attract and retain customers; our operating costs and improvement to operating efficiencies; interest rates; continued access to capital; the competitive environment and related market conditions; and the general

assumption that none of the risks identified below or elsewhere in this document will materialize.

Specific forward-looking statements in this document include, but are not limited to: statements with respect to: future growth strategies and their impact on the Company's market share and shareholder value; achievement, and timing of achievement, of strategic goals and publicly stated financial targets, including to increase our market share, acquire and integrate other businesses and reduce our operating and supply chain costs; and our ability to develop new and innovative products that result in increased sales and market share; increased demand for our products whether due to the recognition of the health benefits of seafood or otherwise; changes in costs for seafood and other raw materials; increases or decreases in processing costs; the CAD/USD exchange rate; percentage of sales from our brands; expectations with regards to sales volume, product margins, product innovations, brand development and anticipated financial performance; competitor reaction to Company strategies and actions; impact of price increases or decreases on future profitability; sufficiency of working capital facilities; future income tax rates; the expected amount and timing of cost savings related to supply chain optimization initiatives; the expected amount and timing of integration activities and synergies related to acquisitions; decreased leverage in the future; estimated capital spending; future inventory trends and seasonality; market forces and the maintenance of existing customer and supplier relationships; availability of credit facilities; our projection of excess cash flow and minimum repayments under the Company's long-term loan facility; expected decreases in debt-to-capitalization ratio; dividend payments; non-recurrence and successful resolution of plant throughput declines experienced following the closure of our plant in Danvers, Massachusetts, in the first quarter of 2013; and amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants.

Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "could", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective", "goal", "remain" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forwardlooking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forwardlooking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risk Factors and Risk Management" section of this MD&A and the "Risk Factors" section of our most recent Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: volatility in the CAD/USD exchange rate; competitive developments including

increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of geopolitical events (and related economic sanctions) on same; costs of commodity products and other production inputs, and the ability to pass cost increases on to customers; successful integration of the operations of acquisitions; 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 fulfilment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business

requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; and management retention and development.

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

# MANAGEMENT'S RESPONSIBILITY

#### To the Shareholders of High Liner Foods Incorporated

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

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

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

Dated February 18, 2015

(signed)

P.A. Jewer, FCA Executive Vice President and Chief Financial Officer

# INDEPENDENT AUDITORS' REPORT

#### To the Shareholders of High Liner Foods Incorporated

We have audited the accompanying consolidated financial statements of High Liner Foods Incorporated, which comprise the consolidated statements of financial position as at January 3, 2015 and December 28, 2013, and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the fifty-three weeks ended January 3, 2015 and fifty-two weeks ended December 28, 2013, and a summary of significant accounting policies and other explanatory information.

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

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

#### Auditors' responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of High Liner Foods Incorporated as at January 3, 2015 and December 28, 2013, and its financial performance and its cash flows for the fifty-three week and fifty-two week periods then ended in accordance with International Financial Reporting Standards.

(signed)

Chartered Accountants Halifax, Canada February 18, 2015

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of U.S. dollars)	Notes		January 3, 2015	De	ecember 28, 2013
ASSETS					(Note 26)
Current:					(Note 26,
Cash		\$	1,044	\$	1,206
Accounts receivable	9	Ψ	81,772	Ψ	90,113
Income taxes receivable	,		7,381		3,509
Other financial assets	22		4,139		1,524
Inventories	8		261,900		252,960
Prepaid expenses	Ü		2,568		2,361
Total current assets			358,804		351,673
Non-current:			330,004		331,073
Property, plant and equipment	6		114,231		101,470
Deferred income taxes	20		3,372		4,656
Other receivables and miscellaneous assets	20		1,678		1,906
Intangible assets	5		100,218		105,253
Goodwill	5		126,510		111,999
Total non-current assets			346,009		325,284
Assets classified as held for sale	7		515		542
Total assets	,	\$	705,328	\$	677,499
		- T		Ψ	0,,,,,,,
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current:	10		45.400	¢	07.007
Bank loans	12	\$	65,130	\$	97,227
Accounts payable and accrued liabilities	10		87,847		104,258
Provisions	11		499		240
Other current financial liabilities	22		580		459
Income taxes payable	10		20		2,543
Current portion of long-term debt	13		3,000		070
Current portion of finance lease obligations	13		994		979
Total current liabilities  Non-current:			158,070		205,706
Long-term debt	13		202 022		226 020
Other long-term financial liabilities	22		292,033 951		226,929 5,597
Other long-term infalicial habilities  Other long-term liabilities	22		745		1,044
Long-term finance lease obligations	13		1,212		1,044
Deferred income taxes	20		46,476		43,998
Future employee benefits	14		8,867		7,929
Total non-current liabilities	14		350,284		287,144
Total liabilities			508,354		492,850
Shareholders' equity:					., _,
Common shares	16		82,658		80,260
Contributed surplus	10		14,056		13,781
Retained earnings			107,908		90,792
Accumulated other comprehensive loss			(7,648)		(184
			196,974		184,649
Total shareholders' equity			T/0,//T		

Commitments (Note 15)

See accompanying notes

# CONSOLIDATED STATEMENT OF INCOME

(in thousands of U.S. dollars, except per share amounts)	Notes	Fifty-three weeks ended January 3, 2015	Fifty-two weeks ended ecember 28, 2013
Revenues		\$ 1,051,613	\$ 947,301
Cost of sales		831,208	731,966
Gross profit		220,405	215,335
Distribution expenses		52,558	53,368
Selling, general and administrative expenses		105,313	98,820
Impairment of property, plant and equipment	6	852	_
Business acquisition, integration and other expenses		6,582	3,256
Results from operating activities		55,100	59,891
Finance costs		17,569	16,329
Income from equity accounted investee, net of income tax		_	(86)
Income before income taxes		37,531	43,648
Income taxes			
Current	20	3,906	12,378
Deferred	20	3,325	(86)
Total income tax expense		7,231	12,292
Net income		\$ 30,300	\$ 31,356
PER SHARE EARNINGS			
Earnings per common share*	16		
Basic	17	\$ 0.99	\$ 1.03
Diluted	17	\$ 0.97	\$ 1.01
Weighted average number of shares outstanding*	16		
Basic	17	30,665,183	30,367,494
Diluted	17	31,316,842	31,186,332

See accompanying notes

<sup>\*</sup> Amounts reflect retrospective application of May 30, 2014 stock split (Note 16)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in thousands of U.S. dollars)	weeks	y-three s ended nuary 3, 2015	 Fifty-two eeks ended cember 28, 2013
Net income for the period	\$	30,300	\$ 31,356
Other comprehensive income (loss), net of income tax (Note 20)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Loss on hedge of net investment in foreign operations	(	18,877)	(10,730)
Gain on translation of net investment in foreign operations		25,753	17,450
Translation impact on Canadian dollar denominated non-AOCI items	(	16,379)	(11,931)
Translation impact on Canadian dollar denominated AOCI items		315	(10)
Total exchange losses on translation of foreign operations		(9,188)	(5,221)
Effective portion of changes in fair value of cash flow hedges		3,164	1,170
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item		(1,321)	(260)
Net change in fair value of cash flow hedges transferred to income		(23)	45
Translation impact on Canadian dollar denominated AOCI items		(96)	(11)
Total exchange gains on cash flow hedges		1,724	944
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(7,464)	(4,277)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Defined benefit plan actuarial (losses) gains		(1,554)	3,368
Other comprehensive loss, net of income tax		(9,018)	(909)
Total comprehensive income	\$	21,282	\$ 30,447

See accompanying notes

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

(in thousands of U.S. dollars)	Foreign currency translation (losses) gains		Net exchange gains (losses) on cash flow hedges		Total accumulated other comprehensive (loss) income	
Balance at December 28, 2013	\$	(635)	\$	451	\$	(184)
Exchange losses on translation of foreign operations and Canadian dollar denominated items		(9,188)		_		(9,188)
Cash flow hedges				1,724		1,724
Balance at January 3, 2015	\$	(9,823)	\$	2,175	\$	(7,648)
Balance at December 29, 2012	\$	4,586	\$	(493)	\$	4,093
Exchange losses on translation of foreign operations and Canadian dollar denominated items		(5,221)		_		(5,221)
Cash flow hedges		_		944		944
Balance at December 28, 2013	\$	(635)	\$	451	\$	(184)

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of U.S. dollars)	Common shares	Contributed surplus	Retained earnings	con	llated other oprehensive oss) income	Total
Balance at December 28, 2013	\$ 80,260	\$ 13,781	\$ 90,792	\$	(184)	\$ 184,649
Other comprehensive loss, net of income tax	_	_	(1,554)		(7,464)	(9,018)
Net income	_	_	30,300		_	30,300
Common share dividends paid	_	_	(11,285)		_	(11,285)
Share-based payments	2,438	275	_		_	2,713
Common shares repurchased for cancellation (Note 16)	(40)	_	(345)		_	(385)
Balance at January 3, 2015	\$ 82,658	\$ 14,056	\$ 107,908	\$	(7,648)	\$ 196,974
Balance at December 29, 2012	\$ 75,169	\$ 7,719	\$ 66,373	\$	4,093	\$ 153,354
Other comprehensive income (loss)	_	_	3,368		(4,277)	(909)
Net income	_	_	31,356		_	31,356
Common share dividends paid	_	_	(10,305)		_	(10,305)
Share-based payments	5,091	(1,518)	_		_	3,573
Conversion of SARs (Note 18)	_	7,580	_		_	7,580
Balance at December 28, 2013	\$ 80,260	\$ 13,781	\$ 90,792	\$	(184)	\$ 184,649

See accompanying notes

# CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of U.S. dollars)	Notes	W	Fifty-three eeks ended January 3, 2015		Fifty-two reeks ended cember 28, 2013
Cash provided by (used in) operations:	140103		2013		2013
Net income		\$	30,300	\$	31,356
Charges (credits) to income not involving cash from operations:		7	30,000	Ψ	01,000
Depreciation and amortization			16,797		15,159
Share-based payment expense	18		3,329		6,704
Loss (gain) on asset disposals, and impairment			1,484		(126
Payments of future employee benefits in excess of expense			(1,007)		(948
Finance costs			17,569		16,329
Income tax expense			7,231		12,292
Income from equity accounted investee, net of income taxes			· _		(86
Unrealized foreign exchange loss			884		700
Cash flow provided by operations before changes in non-cash working capital,					
interest and income taxes paid:			76,587		81,380
Net change in non-cash working capital balances:					
Accounts receivable			10,217		(15,157
Inventories			(15,519)		(3,162
Prepaids			(244)		841
Provisions			838		(1,23
Accounts payables and accrued liabilities			(24,480)		(7,40
Net change in non-cash working capital balances			(29,188)		(26,122
Interest paid			(15,112)		(16,786
Income taxes paid			(10,074)		(11,16)
Net cash flows provided by operating activities			22,213		27,31
Cash provided by (used in) financing activities:					,
(Decrease) increase in current working capital facilities			(30,971)		37,77
Repayment of finance lease obligations			(939)		(1,052
Proceeds of long-term debt			300,000		_
Repayment of long-term debt			(234,970)		(15,406
Deferred finance costs			(3,517)		(1,423
Common share dividends paid			(11,285)		(10,30
Shares repurchased and cancelled			(385)		_
Stock options exercised			291		1,395
Net cash flows provided by financing activities			18,224		10,980
Cash provided by (used in) investing activities:			·		,
Purchase of property, plant and equipment, net of investment tax credits	6		(27,296)		(14,734
Net proceeds on disposal of assets			368		7,124
Acquisition of business, net	4		(13,699)		(30,312
Change in other receivables and miscellaneous assets			337		249
Net cash flows used in investing activities			(40,290)		(37,673
Foreign exchange decrease on cash			(309)		(182
Change in cash during the period			(162)		436
Add-back: cash directly associated with assets held for sale	7		_		705
Cash, beginning of period	,		1,206		65
Cash, end of period		\$	1,044	\$	1,206

See accompanying notes

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1 **CORPORATE INFORMATION**

High Liner Foods Incorporated (the "Company" or "High Liner Foods") is a company incorporated and domiciled in Canada. The address of the Company's registered office is 100 Battery Point, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The consolidated financial statements of the Company as at and for the fifty-three weeks ended January 3, 2015 comprise the Parent and its subsidiaries (herein together referred to as the "Company" or "High Liner Foods"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products. The Company's fiscal year ends on the Saturday closest to December 31. Most fiscal years have fifty-two weeks, but from time to time, fiscal years, including fiscal 2014, have fifty-three weeks, therefore, amounts presented are not entirely comparable.

These financial statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on February 18, 2015.

#### Note 2 BASIS OF PREPARATION

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

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

#### **Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position, which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss ("FVTPL"), and liabilities for cash-settled share-based payment arrangements. The defined benefit employee future benefit liability is recognized as the net total of the plan assets, plus unrecognized past service costs and the present value of the defined benefit obligation.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at January 3, 2015. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

# 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

The Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. Individual assets are grouped together as a cash generating unit ("CGU") for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other Company assets. The carrying amount of CGUs, including goodwill, are tested for impairment annually and at other times when indicators of impairment arise. Management calculates the recoverable amount of each CGU based on the expected future cash flows from the individual asset or CGU and chooses a suitable discount rate in order to calculate the present value of those cash flows. Further details, including the manner in which the Company identifies its CGUs and a sensitivity analysis of key assumptions are disclosed 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 recorded in the consolidated statement of income.

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

#### Future employee benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the defined benefit obligation is determined using actuarial valuations. An actuarial valuation involves making various assumptions that include the discount rate, future salary increases, mortality rates, and future pension increases. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. See *Note 14* for certain assumptions made with respect to future employee benefits.

#### Income taxes

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

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

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

#### Fair value of financial instruments

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

#### Sales and marketing accruals

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

#### Note 3 SIGNIFICANT ACCOUNTING POLICIES

# Business combinations and goodwill

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

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

#### Fair value measurement

The Company measures financial instruments, such as derivatives and non-financial assets, at fair value at each balance sheet date. Fair values of financial instruments measured at amortized cost are disclosed in *Note 22*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

#### Non-current assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. For the asset to be classified as held for sale, the sale must be highly probable and the asset or disposal group 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 consolidated statement of income.

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

#### Cash

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

#### Inventories

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

# Foreign currency

#### Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of the Company's subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting 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 the consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Company's net investment in a foreign operation. These are recognized in OCI, to the extent the hedge is effective, until the net investment is disposed or the hedge is ineffective, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI. Non-monetary items that are measured in terms of historical cost in a foreign currency are effectively translated using the exchange rate at the date of the transaction.

#### Translation of Parent Company to USD for presentation currency

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

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

#### Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset, including the present value of the expected cost for the decommissioning of the asset after its use, if the recognition criteria for a provision are met. The cost of self-constructed assets includes the cost of materials, direct labour, other costs directly attributable to bringing the assets to a working condition for their intended use, the costs

of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Cost also may include transfers from OCI of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of additions, including betterments and replacements of units of property, plant and equipment are included in "Property, plant and equipment." The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are expensed as incurred.

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

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

Land and buildings 15-60 years
Furniture, fixtures and production equipment 10-25 years
Computer equipment 4-11 years

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in income on a straight-line basis over the estimated useful lives of each major 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.

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

#### **Borrowing costs**

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

#### Leases

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

# Company as a lessee

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

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

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

# Provisions, contingent liabilities and contingent assets

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

#### Impairment

#### Non-financial assets

When annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of 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.

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 consolidated statement of income.

#### Financial assets

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

If there is objective evidence that an impairment loss on an asset, or a group of assets, carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's, or group of assets' 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 ("EIR"), computed at initial recognition. The carrying amount of the asset, or group of assets, is reduced through use of an allowance account and the loss is recognized in the consolidated statement of income. Assets, or group of 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, or group of assets, does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income.

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

#### Intangible assets

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

The Company's intangible assets consist of brands and customer relationships that have been acquired through a business combination.

The useful lives of intangible assets are assessed to be either finite or indefinite.

- Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.
- 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 estimated useful lives of the Company's intangible assets for the current and comparative periods are as follows:

Brands 2-8 years Customer relationships 25 years

 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 consolidated statement of income in the expense category consistent with the function of the intangible asset.

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

#### **Future employee benefits**

#### Defined benefit plans

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

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

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.

#### 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 the consolidated statement of income in the periods during which services are rendered by employees.

#### Short-term employee benefits

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

# **Termination benefits**

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

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

#### Share-based payments

The Company has a Common Share Option Plan ("Option Plan"), which is described in *Note 18* and recognizes compensation expense for option awards using the fair value method of accounting. Stock options issued may be awarded, at the discretion of the Board, with tandem Share Appreciation Rights ("SARs"), which allows employees to either exercise the share option for shares, or to exercise the SARs and thereby receive the value of the share option in cash. When the holder is awarded stock options with SARs, the Company accounts for them as cash-settled transactions and when the holder is awarded stock options without SARs, the Company accounts for them as an equity-settled transaction:

#### (i) Cash-settled transactions

The cost of cash-settled share-based transactions is measured initially at fair value at the grant date using the Black Scholes pricing model in 2014 and a trinomial model for prior periods. As the SARs are an option for the holder, the Company applies the cash settled share-based payments rules in its accounting for the Option 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 employee benefits expense in the respective functional area in the consolidated statement of income. When employees exercise their share options for shares, thereby canceling the tandem SARs, share capital is increased by the sum of the consideration paid by employees and the liability is reversed, with any difference being recorded in the consolidated statement of income.

# (ii) Equity-settled transactions

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

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

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

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

#### Income taxes

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future and the timing of the reversal of the temporary differences can be controlled. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill which is not deductible for tax purposes. Deferred

income tax assets and liabilities are measured at the enacted or substantively enacted rate that is expected to apply when the related temporary differences reverse. Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the entity intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

#### Revenue recognition

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

Marketing programs provided to customers and operators, including volume rebates, cooperative advertising and other trade marketing programs, are all customer-specific programs to promote the Company's products. Consequently, sales are recorded net of these estimated marketing costs, which are recognized at the time of sale. Consumer coupons used to encourage consumers to purchase the Company's products through the Company's customers are recognized as a reduction to sales in the period the coupons are issued. Certain customers require the payment of one-time listing allowances (slotting fees) in order to obtain space for a new product in their stores. 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.

#### Financial instruments

All financial assets and liabilities are recognized initially at fair value and, in the case of financial assets and liabilities not recorded at FVTPL, net of directly attributable transaction costs. After initial recognition, loans and receivables, loans and borrowings, payables, and held-to-maturity investments are subsequently measured at amortized cost and derivatives designated as hedging instruments in an effective hedge are measured as appropriate. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading or designated at FVTPL. The Company's financial liabilities include accounts payables, accrued liabilities, bank loans, derivative financial instruments and long-term debt. The Company's financial assets includes loans, trade and other receivables, and cash.

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

#### (i) Fair value through profit or loss

Financial assets and liabilities at FVTPL include financial instruments held-for-trading and financial instruments designated upon initial recognition at FVTPL. Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments as defined by IAS 39. Gains or losses on liabilities held-for-trading are recognized in the consolidated statement of income. The Company has not designated any financial assets or liabilities at FVTPL. Financial instruments at FVTPL are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of income.

Embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statement of income. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset or financial liability out of the FVTPL.

# (ii) Loans and receivables

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

#### (iii) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the EIR amortization process. Loans and borrowings generally apply to interest-bearing loans and borrowings. For more information refer *Notes* 12 and 13.

A financial asset is derecognized when the Company transfers its contractual rights to receive cash flows without retaining control or substantially all the risks and rewards of ownership of the asset or the Company enters into a pass-through arrangement. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

#### Derivative instruments/hedging

All derivative instruments, including embedded derivatives that are not closely related to the host contract, are recorded in the statement of financial position at fair value, on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the hedge designation. The Company designates certain derivatives as either:

#### (i) Fair value hedges

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

#### (ii) Cash flow hedges

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

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

The Company uses forward currency contracts as hedges of its exposure to the foreign currency risk of expected future purchases from suppliers transacting in USD.

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

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

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

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

# (iv) Derivatives that do not qualify for hedge accounting

Certain of the Company's derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized as finance costs in the consolidated statement of income consistent with the underlying nature and purpose of the derivative instruments.

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

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

#### IFRIC 21 "Levies"

In May 2013, the IASB issued IFRIC 21, "Levies", which is an interpretation of IAS 27, "Provisions, Contingent Liabilities and Contingent Assets". IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company adopted the amendments to IFRIC 21 on January 1, 2014. The adoption of IFRIC 21 resulted in no material change to the Company's financial position or performance.

#### Future accounting policies not yet adopted

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

#### IFRS 9 "Financial Instruments: Classification and Measurement"

In 2013, the IASB issued amendments to IFRS 9, "Financial Instruments" ("IFRS 9"), issued in 2010, which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

#### IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18, "Revenue", IAS 11 "Construction Contracts" and various revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

The Company is currently evaluating the impact of these new standards, interpretations and amendments on its consolidated financial statements.

# Note 4 **BUSINESS COMBINATIONS**

#### **Acquisition of Atlantic Trading Company**

On October 7, 2014, the Company acquired the net assets and operations of a business operating as Atlantic Trading Company, LLC ("Atlantic Trading"), based in Miami, Florida, specializing in frozen and fresh Atlantic salmon that is sourced from Chile and Norway.

The primary reason for the business acquisition was to enhance the Company's product offerings to include Atlantic Trading's Atlantic salmon products.

After working capital adjustments and cash acquired as part of the acquisition, the purchase price is estimated to be approximately \$17.9 million. This amount includes an estimate for contingent consideration to be paid in each of the next two years on reaching EBITDA thresholds.

The results of the purchase price allocation have not been finalized as at the date these financial statements were approved for issue. The Company expects there to be value assigned to intangible assets acquired, changes in fair value and certain acquired assets and liabilities, and recognition of deferred taxes which will change the amount allocated to goodwill recognized on a provisional basis. As a result, the purchase price allocation is based on management's best estimates and is disclosed on a provisional basis.

From the date of acquisition, the Atlantic Trading Acquisition contributed \$13.6 million of revenue and \$0.8 million of earnings before interest and taxes, excluding one-time business acquisition costs. Had the acquisition occurred as of the beginning of the annual reporting period, December 30, 2013, the revenue for the combined entity including Atlantic Trading would have been \$1.1 billion and earnings before tax, excluding one-time business acquisition costs, for the combined entity would have been \$64.8 million.

The provisional fair value of the identifiable assets and liabilities acquired as at the date of the acquisition was:

#### (Amounts in \$000s)

(Amounts in \$6005)	
Assets	
Accounts receivable	\$ 3,807
Prepaid expenses	38
Inventories	1,694
Goodwill	15,535
	21,074
Liabilities	
Accounts payable and accruals	(3,139)
Total identifiable net assets at fair value	\$ 17,935
Agreed upon purchase price based on average working capital	\$ 14,300
Estimated fair value of contingent consideration	4,236
Net post closing working capital adjustments	892
Cash acquired	(1,493)
Net purchase consideration recorded	\$ 17,935

#### Contingent consideration

The Securities Purchase Agreement ("SPA") contains contingent consideration clauses as follows:

- 1. The agreement provides for a \$1.15 million additional payment for each of the two years following the acquisition if the entity generates \$4.0 to \$4.5 million annually of Earnings Before Income, Taxes, Depreciation, and Amortization ("EBITDA"). If the generated EBITDA is higher than \$4.5 million, then the payment will be \$1.15 million annually plus 12.5% of the EBITDA in excess of \$4.5 million. If the generated EBITDA is less than \$4.0 million, then the \$1.15 million annual payment will be prorated by the achieved EBITDA over the target EBITDA of \$4.0 million.
- 2. In addition, contingent consideration will be paid in an amount equal to 20% of incremental EBITDA for High Liner Foods' Synergized Incremental Business, as defined in the SPA.

As at the acquisition date, the fair value of the contingent consideration was estimated to be \$4.2 million. The fair value was determined using the discounted cash flow method at a discount rate of 8.8% and included probability-adjusted forecasted EBITDA of Atlantic Trading for each of the two years following the acquisition. Management assumed an annual EBITDA range of \$3.75 million to \$5.25 million for the contingent payments in clause 1 above and annual incremental EBITDA range for clause 2 above of \$nil to \$1.5 million. Based on this assumption, management estimated the range of outcomes to be \$4.4 million to \$5.6 million. The maximum contingent consideration is unlimited.

# Additional information on prior year acquisition

# American Pride Seafoods

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

The Company paid \$31.8 million (\$34.5 million in cash proceeds paid on the acquisition date, less \$2.7 million in post-closing working capital adjustments) to acquire American Pride's net assets, which principally included inventory, property, plant and equipment located in New Bedford, Massachusetts, and excluded accounts receivable of \$15.5 million, for a total enterprise value of \$50.0 million. As part of the transaction, the Company assumed certain operating leases related to the acquired business, which it paid \$5.7 million to close on October 1, 2014 and incurred above-market lease costs from October 2013 to September 2014 of \$0.6 million that were charged against the above-market lease liability.

The final fair value of the identifiable assets and liabilities recognized on the American Pride Acquisition was:

(Amounts in \$000s)	Provisional fair value recognized on acquisition		Adjustments to the provision allocation		Final fair value recognized	
Assets						
Accounts receivable	\$	_	\$	255	\$	255
Property, plant and equipment (Note 6)		10,280		3,932		14,212
Prepaid expenses		661		(375)		286
Inventories		33,665		(1,328)		32,337
		44,606		2,484		47,090
Liabilities						
Accounts payable and accruals		(9,094)		97		(8,997)
Above-market lease		(5,200)		(1,106)		(6,306)
		(14,294)		(1,009)		(15,303)
Total identifiable net assets at fair value	\$	30,312	\$	1,475	\$	31,787
Agreed upon purchase price based on average working capital	\$	34,500	\$	_	\$	34,500
Net post closing working capital adjustments		(4,195)		1,475		(2,720)
Cash acquired		7		_		7
Net purchase consideration recorded	\$	30,312	\$	1,475	\$	31,787

The net assets recognized in the December 28, 2013 statement of financial position were based on a provisional assessment of fair value as the results of the valuation had not been finalized at the date the fiscal 2013 financial statements were approved for issue by management. This was subsequently completed in 2014. The Company has retroactively restated the statement of financial position as at December 28, 2013 to record the adjustments to the provision for the working capital adjustment.

#### Note 5 GOODWILL AND INTANGIBLE ASSETS

Goodwill is tested for impairment annually (as at the first day of the Company's fourth quarter) or when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill and intangible assets with indefinite useful lives was based on fair value less costs to sell at September 28, 2014. The method used to determine the Company's fair value less costs to sell uses a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different CGUs for the most recently completed impairment calculations for fiscal 2014 and fiscal 2013 are discussed following the table below. The Company has not identified any indicators of impairment at any other date and as such has not completed an additional impairment calculation.

The following table outlines the carrying amount and classification of the Company's intangible assets for the periods ending January 3, 2015 and December 28, 2013:

	Brands re	Customer lationships	Land rights	Indefinite lived	Total intangible	g	Total oodwill and intangible
(Amounts in \$000s)	2-8 Yrs	25 Yrs	15 Yrs	brands	assets	Goodwill	assets
Cost							
December 29, 2012	\$ 6,258 \$	100,732 \$	492 \$	14,652	122,134 \$	112,873 \$	235,007
Disposals relating to sale of subsidiary	_	_	(492)	_	(492)	_	(492)
Translation adjustment of Canadian based assets	(42)	(100)	_	(41)	(183)	(874)	(1,057)
December 28, 2013	\$ 6,216 \$	100,632 \$	<b>-</b> \$	14,611 \$	121,459 \$	111,999 \$	233,458
Additions from acquisitions	_	_	_	_	_	15,535	15,535
Translation adjustment of Canadian based assets	(51)	(127)	_	(48)	(226)	(1,025)	(1,251)
January 3, 2015	\$ 6,165 \$	100,505 \$	<b>-</b> \$	14,563 \$	121,233 \$	126,509 \$	247,742
Accumulated amortization							
December 29, 2012	\$ (1,378) \$	(9,633)\$	(34) \$	- \$	(11,045)\$	— \$	(11,045)
Amortization	(951)	(3,866)	_	(441)	(5,258)	_	(5,258)
Disposals relating to sale of subsidiary	_	_	34	_	34	_	34
Translation adjustment of Canadian based assets	33	30	_	_	63	_	63
December 28, 2013	\$ (2,296)\$	(13,469)\$	- \$	(441) \$	(16,206)\$	<b>-</b> \$	(16,206)
Amortization	(999)	(3,924)	_	_	(4,923)	_	(4,923)
Translation adjustment of Canadian based assets	48	67	_	_	115	_	115
January 3, 2015	\$ (3,247) \$	(17,326) \$	<b>-</b> \$	(441) \$	(21,014) \$	<b>-</b> \$	(21,014)
Net carrying value							
December 28, 2013	\$ 3,920 \$	87,163 \$	- \$	14,170 \$	105,253 \$	111,999 \$	217,252
January 3, 2015	\$ 2,918 \$	83,179 \$	- \$	14,122 \$	100,219 \$	126,509 \$	226,728

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

The Company has two CGUs: Canada and the U.S. The Company has determined these CGUs as the smallest identifiable group of assets that generate, or could generate, cash inflows that are largely independent of the cash inflows from the other assets.

Goodwill acquired through business combinations and brands with indefinite lives have been allocated to the Canadian and U.S. CGUs, which are also operating and reportable segments (*Note 19*), for impairment testing.

The following table shows the carrying amount of goodwill and brands with indefinite lives allocated to each of the CGUs:

			Canada			U.S.
	January 3,	De	ecember 28,	January 3,	D	ecember 28,
(Amounts in \$000s)	2015		2013	2015		2013
Goodwill	\$ 10,636	\$	11,661	\$ 115,873	\$	100,338
Indefinite lived brands	\$ 516	\$	542	\$ 13,606	\$	13,628

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

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

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

- Discount rates (WACC);
- Gross margins, including raw material cost;
- Market share during the projection period;
- Growth rate used to extrapolate cash flows beyond the projection period; and
- Costs to sell.

#### Discount rate

The discount rate (WACC) reflects the current market assessment of the risk specific to comparable companies. The discount rate was based on the weighted average cost of equity and cost of debt for comparable companies within the industry. The cost of equity was calculated using the capital asset pricing model. The debt component of the WACC was determined by using an after-tax cost of debt. The pre-tax discount rate applied to the Canadian CGU and U.S. CGU cash flow projections was 11.6% and 10.6%, respectively, at September 28, 2014.

#### Gross margins including raw material cost and currency fluctuations

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

### Inflation

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

# Market share during the projection period

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

## Growth rate used to extrapolate cash flows beyond the projection period

Growth rates used to extrapolate the Company's projection were determined using published industry growth rates in combination with inflation assumptions and the input of each CGU's management group based on historical trend analysis and future expectations of growth. The growth rate applied to both the Canadian CGU and U.S. CGU cash flow projections was 2.0% at September 28, 2014.

# Costs to sell

Each CGU's costs to sell have been estimated to approximate 3.0% of the CGU's enterprise value. The costs to sell reflect the incremental costs, excluding finance costs and income taxes, that would be directly attributable to the disposal of the CGU, including legal costs, marketing costs, costs of removing assets and direct incremental costs incurred in preparing the CGU for sale.

# Sensitivity to changes in assumptions

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

Note 6 PROPERTY, PLANT AND EQUIPMENT

			ure, fixtures, d production	Computer equipment	
(Amounts in \$000s)	Land a	nd buildings	equipment	and vehicles(1)	Total
Cost					
At December 29, 2012	\$	69,852	\$ 63,622	\$ 16,099	\$ 149,573
Additions		6,297	6,194	2,928	15,419
Acquisition (Note 4)		7,715	6,433	64	14,212
Disposals		(13,636)	(8,003)	(2,067)	(23,706)
Effect of exchange rates		(1,410)	(1,291)	(522)	(3,223)
Assets held for sale		_	(1,349)	_	(1,349)
At December 28, 2013	\$	68,818	\$ 65,606	\$ 16,502	\$ 150,926
Additions		16,658	8,500	2,917	28,075
Disposals		(603)	(1,839)	(172)	(2,614)
Effect of exchange rates		(1,752)	(1,783)	(714)	(4,249)
At January 3, 2015	\$	83,121	\$ 70,484	\$ 18,533	\$ 172,138
Accumulated depreciation					
At December 29, 2012	\$	(27,938)	\$ (24,803)	\$ (7,564)	\$ (60,305)
Depreciation for the year		(1,986)	(6,051)	(1,864)	(9,901)
Disposals		11,139	4,483	2,479	18,101
Effect of exchange rates		910	607	325	1,842
Assets held for sale		_	807	_	807
At December 28, 2013	\$	(17,875)	\$ (24,957)	\$ (6,624)	(49,456)
Depreciation for the year		(2,838)	(7,552)	(1,484)	(11,874)
Disposals		501	1,379	145	2,025
Effect of exchange rates		1,073	829	348	2,250
Write-downs		_	(852)	_	(852)
At January 3, 2015	\$	(19,139)	\$ (31,153)	\$ (7,615)	\$ (57,907)
Carrying amounts					
At December 28, 2013	\$	50,943	\$ 40,649	\$ 9,878	\$ 101,470
At January 3, 2015	\$	63,982	\$ 39,331	\$ 10,918	\$ 114,231

<sup>(1)</sup> The carrying value of equipment held under finance leases at January 3, 2015 was \$5.6 million (2013: \$5.1 million) and additions during the year include \$0.8 million (2013: \$0.3 million).

For the fifty-three weeks ended January 3, 2015, the Company recorded a pre-tax impairment loss of \$0.9 million representing the write-down of certain equipment due to the decision to cease operations at the Malden, Massachusetts plant (see *Note 27*). This has been recognized in the consolidated statement of income in line item "Impairment of property, plant and equipment." The fair value for the Malden plant's equipment was determined through future cash flow analysis and the impairment loss was allocated to the U.S. reportable operating segment.

## Note 7 ASSETS HELD FOR SALE AND DISPOSALS

In March 2013, \$5.5 million of the plant, property and equipment in Danvers, Massachusetts was reclassified as assets held for sale. In December 2013 the Company sold its plant in Danvers and certain equipment for net proceeds of \$5.0 million, resulting in a nominal loss which has been recorded in the U.S. reportable operating segment. The remaining \$0.5 million consists of equipment that met the criteria to be classified as assets held for sale.

Also in March 2013, the Company sold its subsidiary, Dalian Three Star Seafood Co. Ltd., for \$3.2 million, resulting in a pre-tax net loss of \$0.1 million included in business acquisition, integration and other expenses on the consolidated statement of income. This loss has been allocated to the U.S. reportable operating segment.

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

#### Note 8 **INVENTORIES**

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

(Amounts in \$000s)	Janu	ary 3, 2015	December 28, 2013
Finished goods	\$ 16	3,184 \$	154,345
Raw and semi-finished material	9	8,716	98,615
Total inventories	\$ 26	1,900 \$	252,960

During 2014, \$831.5 million (2013: \$731.9 million) was recognized as an expense for inventories in cost of sales on the consolidated statement of income. Of this, \$3.6 million (2013: \$1.0 million) was written-down during the year including a reversal for unused impairment reserves of \$1.2 million (2013: \$1.8 million). The value of inventory subject to a reserve was \$20.7 million (December 28, 2013: \$12.9 million).

# Note 9 **ACCOUNTS RECEIVABLE**

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

(Amounts in \$000s)	January 3, 2015	D <sub>1</sub>	ecember 28, 2013
Trade accounts receivable	\$ 79,067	\$	84,793
Other accounts receivable	2,705		5,320
	\$ 81,772	\$	90,113

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

(Amounts in \$000s)	Total
At December 29, 2012	\$ 214
New impairment reserves charged	212
Unused impairment reserves reversed	(157)
At December 28, 2013	\$ 269
New impairment reserves charged	349
Impairment reserves utilized	(136)
Unused impairment reserves reversed	(95)
At January 3, 2015	\$ 387

The aging analysis of trade receivables, based on the invoice date is as follows:

	0-30 days	31-60 days	over 60 days
At December 28, 2013	88%	12%	-%
At January 3, 2015	89%	11%	-%

#### Note 10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(Amounts in \$000s)	January 3, 2015	De	ecember 28, 2013
Trade accounts payable and accrued liabilities <sup>(1)</sup>	\$ 74,647	\$	90,464
Employee accruals, including incentives and vacation pay	10,941		10,481
Share-based payments (Note 18)	2,259		3,313
	\$ 87,847	\$	104,258

<sup>(1)</sup> Includes contingent consideration of \$4.2 million as described in Note 4

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

Employee accruals, including incentives and vacation pay, are non-interest bearing and settle within fifty-two weeks. Share-based payments included in the above are settled within fifty-two weeks.

#### Note 11 **PROVISIONS**

All provisions are considered current. The carrying amounts are analyzed as follows: (Amounts in \$000s) December 28, 2013 240 New provisions added 8,061 Provisions utilized (3,790)Reclassified to accounts payable and accrued liabilities (4,538)Unused amounts reversed 526 January 3, 2015 499

The amounts recognized in provisions include the Company's coupon redemption costs, termination benefits (Note 14) and miscellaneous other items. Employee incentives are included as other provisions in the first, second and third quarters of the year only until the amounts can be estimated with certainty at the end of the fourth quarter. Provision amounts are usually settled within eleven months from initiation, and are immaterial to the Company on an individual basis. Management does not expect the outcome of any of the recorded amounts will give rise to any significant expense beyond the amounts recognized at January 3, 2015. The Company is not eligible for any reimbursement by third parties for these amounts.

#### Note 12 BANK LOANS

(Amounts in \$000s)	January 3, 2015	De	ecember 28, 2013
Bank loans, denominated in CAD (average variable rate 2.62% (December 28, 2013: 3.58%)).	\$ 3,131	\$	6,784
Bank loans, denominated in USD (average variable rate 1.64% (December 28, 2013: 2.73%)).	62,720		91,115
	65,851		97,899
ess: deferred finance costs	(721)		(672)
	\$ 65,130	\$	97,227

In April 2014, the Company amended its five year \$180.0 million working capital facility entered into with Royal Bank of Canada as Administrative and Collateral Agent to extend the term from December 2016 to April 2019 (the "Facility"). The Facility is asset-based and is collateralized by the Company's inventories and accounts receivable and other personal property in Canada and the U.S., subject to a first charge on brands and trade names and related intangibles under the long-term debt facilities. A second charge over the Company's plant and equipment is also in place. The Facility allows the Company to borrow Canadian Prime Rate revolving loans, Canadian Base Rate revolving loans, and U.S. Prime Rate revolving loans at their respective rates plus 0.00% to 0.25% (December 28, 2013: 0.00% to 0.75%); BA Equivalent revolving loans, LIBOR revolving loans at their respective rates plus 1.25% to 1.75% (December 28, 2013: 1.75% to 2.25%) and letter of credit fees of 1.25% to 1.75% (December 28, 2013: 1.75% to 2.25%). Standby fees are 0.25% to 0.375% and are required to be paid on the un-utilized line. As at January 3, 2015, the Company had \$100.9 million of un-drawn borrowing facility (2013: \$63.9 million).

# Note 13 LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS

Long-term debt (Amounts in \$000s)	January 3, 2015	D	ecember 28, 2013
Term loan at 3.25% plus LIBOR (floor at 1.00%); (December 28, 2013: 3.5% plus LIBOR (floor at 1.25%))	\$ 297,750	\$	232,720
Less: current portion	(3,000)		_
	294,750		232,720
Less: bifurcated embedded derivative at initial recognition of \$6.0 million less accretion	_		(4,856)
	294,750		227,864
Less: deferred finance costs	(2,717)		(935)
	\$ 292,033	\$	226,929

In April 2014, the Company refinanced its term loan, which was concluded to be an extinguishment of the original debt placement. Deferred finance costs and accelerated accretion of the bifurcated embedded derivative relating to the original placement were expensed in 2014. The principal amendments to the term loan included: a reduction in applicable interest rates resulting in a reduced interest rate for loans under the facility from LIBOR plus 3.50% (with a 1.25% LIBOR floor) to LIBOR plus 3.25% (with a 1.00% floor); a total leverage ratio financial covenant was removed; increased capacity for capital expenditures was provided, distributions and repurchases were added; and increased flexibility and capacity for permitted investments and acquisitions by the Company were obtained. The principal amount increased from \$232.7 million to \$300.0 million and the maturity and amortization terms changed from December 19, 2017 to April 24, 2021.

A LIBOR floor of 1.25% represented the original embedded interest rate derivative that required bifurcation, where the bifurcated amount was carried at fair value. The new term loan executed in April 2014 also has an embedded derivative related to a 1.00% LIBOR floor, however, bifurcation is not required as it was concluded to be closely related to the host instrument.

The principal payments required on finance leases are as follows:

Finance lease obligations (Amounts in \$000s)	miı	Future nimum lease payments	Impute	d interest	Fii	nance lease liabilities
2015	\$	1,111	\$	117	\$	994
2016		926		55		871
2017		355		14		341
						2,206
Less: current portion						(994)
Long-term finance lease obligation					\$	1,212

#### Note 14 FUTURE EMPLOYEE BENEFITS

#### Pension and non-pension benefit plans

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

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

# **Defined contribution plans**

Effective December 31, 1999, the Company introduced a defined contribution pension plan for all Canadian salaried employees including new NEOs.

In the U.S., the Company maintains a defined contribution savings plan under the provisions of the Employment Retirement Income Security Act of 1974 (a 401(k) plan), which covers substantially all employees of the Company's U.S. subsidiary, including U.S. NEOs. In fiscal 2014, NEOs were permitted to contribute up to 20% of their base pay, to a maximum of \$17.5 thousand (employees over 50 years of age could contribute an additional \$5.5 thousand). The Company also makes a safe harbor matching contribution equal to 100% of their salary deferrals (contributions to the plan) that do not exceed 3% of their compensation plus 50% of salary deferrals between 3% and 5% of their salary compensation.

Total expense and cash contributions for the Company's defined contribution plans was \$2.5 million for the fifty-three weeks ended January 3, 2015 (December 28, 2013: \$2.1 million).

## Defined benefit plans

The Company sponsors two active funded and one non-funded defined benefit pension plans in Canada. No Company pension plans provide indexation in retirement.

One of the funded defined benefit pension plans is for the Nova Scotia Union employees and provides a flat-dollar plan with negotiated increases.

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

#### Canadian management plan

The Company sponsors a defined benefit plan specifically for Canadian management employees (the "Management Plan"). On January 3, 2015, 12 persons were enrolled as active members in the Management Plan including the CEO and NEOs who are Canadian residents and were employed prior to January 1, 2000. The objective of the Management Plan is to provide an annual pension (including Canada Pension Plan) of 2% of the average of a member's highest five years' regular earnings while a member of the Management Plan, multiplied by the number of years of credited service. Incentive payments are not eligible earnings for pension purposes. The Management Plan was grandfathered and no new entrants are permitted. All members contribute 3.25% of their earnings up to the Years Maximum Pensionable Earnings ("YMPE") and 5% in excess of the YMPE to the maximum that a member can contribute based on income tax rules. The credited service under the Management Plan for each Canadian NEO is twenty years.

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

The Company also guarantees through its Supplemental Executive Retirement Plan (the "SERP") to extend the same pension plan benefits to Canadian NEOs that it provides to others in the Management Plan who were not affected by income tax maximums. The annual pension amounts derived from the aggregate of Management Plan and SERP benefits represent 1.3% of the 5-year average YMPE plus 2% of the salary remuneration above the 5-year average YMPE. The combination of these amounts is multiplied by the years of service to determine the full annual pension entitlement from the two plans. As at January 3, 2015, three of the Company's NEOs are members of the SERP.

#### U.S. management plans

The Company also has three small defined benefit pension plans in the U.S. that cover 3 former employees and one current employee. These plans cease to accrue benefits to employees.

Information regarding the Company's defined benefit plans, in aggregate, is as follows:

Funded status	January 3,	De	cember 28,
(Amounts in \$000s)	2015		2013
Total present value of obligations <sup>(1)</sup>	\$ 40,825	\$	39,344
Fair value of plan assets	31,958		31,415
Net accrued defined benefit obligation	\$ 8,867	\$	7,929

(1) The Company has a letter of credit outstanding as at January 3, 2015 relating to the securitization of the Company's unfunded benefit plans under the SERP in the amount of \$11.2 million (December 28, 2013; \$11.2 million).

Movement in the present value of the defined benefit obligations (Amounts in \$000s)	January 3, 2015	D	ecember 28, 2013
Defined benefit obligations at the beginning of the year	\$ 39,344	\$	42,917
Benefits paid by the plans	(1,860)		(2,221)
Effect of movements in exchange rates	(3,713)		(2,922)
Current service costs	822		1,028
Interest on obligations	1,777		1,670
Employee contributions	104		116
Effect of changes in demographic assumptions	(814)		3,040
Effect of changes in financial assumptions	4,101		(4,284)
Effect of changes in experience adjustments	1,064		_
Defined benefit obligations at the end of the year	\$ 40,825	\$	39,344

Movement in the present value of plan assets (Amounts in \$000s)		January 3, 2015	De	ecember 28, 2013
Fair value of plan assets at the beginning of the year	\$	31,415	\$	29,218
Employee contributions paid into the plans		264		116
Employer contributions paid into the plans		2,098		2,732
Benefits paid by the plans		(1,860)		(2,221)
Effect of movements in exchange rates		(2,970)		(2,195)
	\$	28,947	\$	27,650
Actual return on plan assets:				
Expected return on plan assets	\$	1,433	\$	1,116
Actuarial gains in OCI		1,671		2,749
Fees and expenses		(93)		(100)
		3,011		3,765
Fair value of plan assets at the end of the year	\$	31,958	\$	31,415
Expense recognized in the consolidated statement of income (Amounts in \$000s)		January 3, 2015	De	ecember 28, 2013
Current service costs	\$	822	\$	1,028
Interest on obligation		1,777		1,670
Expected return on plan assets		(1,433)		(1,116)
	\$	1,166	\$	1,582
Expense recognized in the following line items in the consolidated statement of income (Amounts in \$000s)		January 3, 2015	De	ecember 28, 2013
Cost of sales	\$	212	\$	436
Selling, general and administrative expenses		954		1,146
	\$	1,166	\$	1,582
Plan assets comprise: (Amounts in \$000s)		January 3, 2015	De	ecember 28, 2013
Equity securities <sup>(1)</sup>	\$	13,870	\$	14,395
Debt securities		16,906		15,890
Cash and cash equivalents		1,182		1,130
Total	\$	31,958	\$	31,415
(1) The plan assets include CAD\$4.2 million of the Company's own common shares at market value at January 3, 2015 (	December 28	3, 2013: CAD\$5.9 m	llion).	
Actuarial (gains) losses recognized in OCI (Amounts in \$000s)		January 3, 2015	De	ecember 28, 2013
Cumulative amount at the beginning of the year	\$	3,879	\$	8,440
Recognized during the period		2,680		(4,159)
Effect of exchange rates		(486)		(402)
Cumulative amount at the end of the year	\$	6,073	\$	3,879

	January 3, 2015	December 28, 2013
Principal actuarial assumptions at the reporting period date (expressed as weighted averages)	%	%
Discount rate for the benefit cost for the year ended	4.64	3.92
Discount rate for the accrued benefit obligation as at year-end	3.95	4.64
Expected long-term rate on plan assets as at year-end	4.64	3.92
Future compensation increases for the benefit cost for the year ended	4.00	4.00
Future compensation increases for the accrued benefit obligation as at year-end	4.00	4.00

A quantitative sensitivity analysis for significant assumptions as at January 3, 2015 is shown below:

## Assumptions

(Amounts in \$000s)			Dis	count Rate			Mo	rtality Rate
Sensitivity level	0.5	% increase	0.59	% decrease	One ye	ear increase	One ye	ar decrease
(Decrease) increase on defined benefit obligation	\$	(3,130)	\$	2,804	\$	1,139	\$	(1,157)

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

Historical information	January 3,	D	ecember 28,
(Amounts in \$000s)	2015		2013
Experience losses (gains) arising on plan liabilities	\$ 4,351	\$	(1,244)
Experience gains arising on plan assets	\$ (1,671)	\$	(2,749)

The Company expects CAD\$1.8 million in contributions to be paid to its defined benefit plans and CAD\$2.6 million to its defined contribution plans in fiscal 2015.

# Short-term employee benefits

The Company has recognized severance and retention benefits that were dependent upon the continuing provision of services through to certain pre-defined dates, which for the fifty-three weeks ended January 3, 2015 was an expense of \$1.2 million (December 28, 2013: \$0.3 million recovery) in business acquisition, integration and other expenses on the consolidated statement of income.

## **Termination benefits**

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

	J.	anuary 3,	De	cember 28,
(Amounts in \$000s)		2015		2013
Cost of sales	\$	396	\$	20
Business acquisition, integration and other expenses		130		964
Selling, general and administrative expenses		432		474
	\$	958	\$	1,458

# Note 15 **COMMITMENTS**

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

(Amounts in \$000s)	Operating lease payments
2015	\$ 5,524
2016	4,823
2017	4,562
2018	4,402
2019	4,312

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 fifty-three weeks ended January 3, 2015 were \$5.3 million (December 28, 2013: \$4.7 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 January 3, 2015, relating to the procurement of inventories and the security of certain contractual obligations of \$1.9 million (December 28, 2013: \$1.4 million). The Company also had a letter of credit outstanding as at January 3, 2015 relating to the securitization of the Company's SERP benefit plan (Note 14) in the amount of \$11.2 million (December 28, 2013: \$11.2 million).

#### Note 16 SHARE CAPITAL

At the Company's Annual General and Special Meeting held on May 8, 2014, the shareholders of the Company approved an increase in authorized capital for both the common shares and non-voting equity shares to an unlimited number of each, and also approved a two-forone share split (the "Split") of the outstanding common shares which was effective at the close of trading on May 30, 2014. All references, unless otherwise indicated, to the number of shares outstanding, per share amounts and share-based compensation information in these consolidated financial statements have been retrospectively restated to reflect the impact of the Split.

The share capital of the Company is as follows:

	January 3, 2015	December 28, 2013
Authorized:	2015	2013
Preference shares, par value of CAD\$25 each, issuable in series	5,999,994	5,999,994
Subordinated redeemable preference shares, par value of CAD\$1 each, redeemable at par	1,025,542	1,025,542
Non-voting equity shares	Unlimited	396,246,360
Common shares, without par value	Unlimited	400,000,000

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

# **Purchase of Shares for Cancellation**

On January 29, 2014, the Company announced that the Toronto Stock Exchange ("TSX") approved the Company's renewal of its Normal Course Issuer Bid ("NCIB") to repurchase for cancellation up to 250,000 common shares. The bid commenced on January 31, 2014.

For the fifty-three weeks ended January 3, 2015, the Company purchased 18,900 common shares under this bid at an average price of CAD\$21.66 per share for total cash consideration of \$0.4 million. The excess of the purchase price over the book value of the shares in the amount of \$0.3 million was charged to retained earnings.

		January 3, 2015		December 28, 2013
	Shares*	(\$000s)	Shares*	(\$000s)
Common shares:				_
Balance, beginning of period	30,571,420	\$ 80,260	30,257,538	\$ 75,169
Stock options exercised (Note 18)	153,770	291	313,882	1,395
Equity-settled reclassified from contributed surplus or liability	_	2,147	_	3,696
Canceled shares reclassified to retained earnings	(18,900)	(40)	_	
	134,870	2,398	313,882	5,091
Balance, end of period	30,706,290	\$ 82,658	30,571,420	\$ 80,260

<sup>\*</sup> Amounts reflect retrospective application of May 30, 2014 stock split (Note 16)

The Company distributed dividends per share of CAD\$0.41 during the fifty-three weeks ended January 3, 2015 and CAD\$0.35 during the fifty-two weeks ended December 28, 2013.

On February 18, 2015, the Company's Board of Directors declared a quarterly dividend of CAD\$0.105 per share payable on March 16, 2015 to shareholders of record as of February 27, 2015.

#### Note 17 EARNINGS PER SHARE

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

				January 3,		De	cember 28,
				2015			2013
	N	et income (\$000s)	Weighted average shares* (000s)	Per share* (\$)	Net income (\$000s)	Weighted average shares* (000s)	Per share*
Basic Earnings	\$	30,300	30,665 \$	0.99 \$	31,356	30,367 \$	1.03
Diluted Earnings:							
Dilutive stock options and performance share units		_	652	_	_	818	_
	\$	30,300	31,317 \$	0.97 \$	31,356	31,185 \$	1.01

 $<sup>^{\</sup>star}$  Amounts reflect retrospective application of May 30, 2014 stock split (Note 16)

All stock options outstanding were dilutive for the fifty-three weeks ended January 3, 2015 and the fifty-two weeks ended December 28, 2013.

#### Note 18 SHARE-BASED PAYMENTS

#### **Common Share Option Plan**

The Company has a Common Share Option Plan ("Option Plan") for designated directors, officers and certain managers of the Company and of subsidiary companies. Stock options issued may be awarded, at the discretion of the Board, with SARs. If awarded, the SARs have the same vesting, expiry and exercise terms and conditions as the underlying options. The option holder has the choice to either exercise the option or forfeit the option and receive a cash payment equal to the difference between the market value of the shares on the date of exercise and the exercise price. When the holder is awarded stock options with SARs, the Company accounts for this Option Plan as a cash-settled plan. Stock options issued also may be awarded a cashless exercise option, at the discretion of the Board, where the holder may elect to receive, without payment of any additional consideration, optioned shares equal to the value of the option as computed by the Option Plan. When the holder is not awarded stock options with SARs, or if the holder elects to receive the cashless exercise option, the Company accounts for this plan as an equity-settled plan.

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

Under the terms of the plan, the Company may grant options to eligible participants, including directors, members of the Company's management committee, and senior managers of the Company. Shares to be optioned were not to exceed the aggregate number of 3,800,000 as of May 7, 2013 (adjusted for the two-for-one stock split that was effective May 30, 2014), representing 12.4% of the then issued and outstanding authorized shares. The option price for the shares cannot be less than the fair market value (as defined further in the Option Plan of the Company) of the optioned shares as of the date of grant. The term during which any option granted may be exercised may not exceed ten years from the date of grant. The purchase price is payable in full at the time the option is exercised. Options are not transferable or assignable.

The carrying amount of the share-based compensation arrangements including PSUs, stock options (including SARS) and deferred share units ("DSUs"), recognized as total liabilities on the consolidated statement of financial position was \$2.9 million and \$4.2 million as at January 3, 2015 and December 28, 2013, respectively.

Share-based payment expense is recognized in the consolidated statement of income as follows:

	January 3,	De	ecember 28,
(Amounts in \$000s)	2015		2013
Cost of sales resulting from:			
Cash-settled options <sup>(1)</sup>	\$ (148)	\$	505
Equity-settled options	188		138
Selling, general, administrative expenses resulting from:			
Cash-settled options <sup>(1)</sup>	1,288		4,793
Equity-settled options	2,001		1,268
Share-based payment expense	\$ 3,329	\$	6,704

<sup>(1)</sup> Includes PSUs and DSUs

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

			December 28, 2013			
	No.* WAEP (CAD\$)*		No.*	WAEP (CAD\$)*		
Total options:						
Outstanding, beginning of period	1,123,980	\$	10.47	1,436,786	\$	7.14
Granted	380,726		22.97	322,992		17.39
Exercised for shares <sup>(1)</sup>	(196,847)		6.80	(356,160)		6.55
Exercised for cash	(52,691)		8.13	(279,638)		6.34
Canceled or forfeited	(3,000)		23.01	_		_
Outstanding, end of period	1,252,168	\$	14.90	1,123,980	\$	10.47
Exercisable, end of period	608,128	\$	10.55	481,214	\$	7.00

<sup>(1)</sup> January 3, 2015, 153,778 shares received for exercise of options: 134,822 options exercised for 91,753 shares via the cashless method, and 62,025 options exercised for 62,025 (December 28, 2013: 156,941 shares received for exercise of options: 79,490 options exercised for 58,351 shares via the cashless exercise method and 98,590 options exercised for 98,590 shares).

The weighted average fair value of options granted during the fifty-three weeks ended January 3, 2015, was CAD\$5.36 (fifty-two weeks ended December 28, 2013; CAD\$4.96).

The range of exercise prices for options outstanding at the end of the period was CAD\$3.45 - CAD\$23.01 (December 28, 2013: CAD\$3.45 - CAD\$17.39).

The fair value of options granted during the fifty-three weeks ended January 3, 2015 and fifty-two weeks ended December 28, 2013 was estimated on the date of grant using the trinomial option pricing model with the following weighted average inputs and assumptions:

	January 3,	December 28,
	2015	2013
Dividend yield (%)	1.68	1.71
Expected volatility (%)	30.05	35.51
Risk-free interest rate (%)	1.62	1.47
Expected life (years)	4.82	4.75
Weighted average share price (CAD\$)*	22.97	17.39

<sup>\*</sup> Amounts reflect retrospective application of May 30, 2014 stock split (Note 16)

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.

# Performance Share Unit ("PSU") Plan

The Company is permitted to issue up to 400,000 shares from treasury in settling bonus entitlements under the PSU Plan.

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. Directors who are not full-time employees of the Company may not participate in the PSU Plan. The PSU Plan is expected to reward the Company's management committee members for performance, which is expected to drive long-term shareholder value.

<sup>\*</sup> Amounts reflect retrospective application of May 30, 2014 stock split (Note 16)

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

The PSU Plan shall be paid by one or both of the following forms: (i) cash; or (ii) common shares. Issuances of PSUs also may not result in the following limitations being exceeded: (a) the aggregate number of shares issuable to insiders pursuant to the PSU Plan, the Plan or any other security based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares at any time; and (b) the issuance from treasury to insiders, within a 12-month period, of an aggregate number of shares under the PSU Plan, the Option Plan and any other security based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares.

The following table illustrates the number ("No") of, and movements in, PSUs during the year:

	January 3,	December 28,
	2015	2013
(Amounts in units)	No.*	No.*
Outstanding, beginning of period	156,400	144,348
Granted	57,004	43,278
Re-invested dividends	3,760	3,684
Released and paid in cash	(68,365)	(26,880)
Expired	(44,235)	(8,030)
Outstanding, end of period	104,564	156,400

<sup>\*</sup> Amounts reflect retrospective application of May 30, 2014 stock split (Note 16)

The assumptions used in determining the fair value of the liability and related share-based payment expense for the PSUs granted during the fifty-three weeks ended January 3, 2015 were as follows:

	January 3, 2015	December 28, 2013
Dividend yield (%)	1.85	1.65
Expected life of the PSU (years) multiple criteria	2.00	2.00
Expected life of the PSU (years) single criteria	2.00	_
Expected vesting (%)	60	54
Share price at reporting date (CAD\$)*	22.70	23.02

 $<sup>^{\</sup>star}$  Amounts reflect retrospective application of May 30, 2014 stock split (Note 16)

#### **Deferred Share Unit Plan**

The Deferred Share Unit Plan allows a director to receive all or any portion of their annual retainer, additional fees and equity value ("Elected Amount") in DSUs in lieu of cash or options. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. At January 3, 2015 there were 14,557 DSUs outstanding (December 28, 2013: 4,408).

## Note 19 **OPERATING SEGMENT INFORMATION**

The Company operates in one dominant industry segment, the manufacturing and marketing of prepared and packaged frozen seafood. The Company evaluates performance of the reportable segments on a geographical basis using net income before financing and taxes from continuing operations. The Company also reports a "Corporate" category which does not qualify as a component of another reportable segment nor as a separate reportable segment. Corporate includes expenses for corporate functions, share-based compensation costs and one-time business acquisition, integration and other expenses. 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-three weeks endedFifty-two weJanuary 3, 2015Decembe							eks ended r 28, 2013			
(Amounts in \$000s)		Canada		U.S.		Corporate	Total	Canada	U.S.	Corporate	Total
Revenue (excluding intercompany sales) Cost of sales (excluding	\$	304,829	\$	746,784	\$	- \$	1,051,613	\$ 303,587 \$	643,117 \$	597 \$	947,301
intercompany sales)		237,800		593,408		_	831,208	229,809	500,524	1,633	731,966
Gross profit	\$	67,029	\$	153,376	\$	<b>-</b> \$	220,405	\$ 73,778 \$	142,593 \$	(1,036)\$	215,335
Income (loss) before income taxes Add back: Depreciation and	\$	27,209	\$	43,314	\$	(32,992) \$	37,531	\$ 32,596 \$	41,548 \$	(30,496)\$	43,648
Amortization included Cost of sales Distribution expens		1,571 157		7,169 1,241		_	8,740 1,398	1,761 161	5,192 1,170	29	6,982 1,331
Selling, general and administrative expenses		576		4,999		1,084	6,659	1,075	4,820	951	6,846
Total depreciation and amortization		2,304		13,409		1,084	16,797	2,997	11,182	980	15,159
Finance costs		_		_		17,569	17,569	_	_	16,329	16,329
Income (loss) before dep amortization, finance		,									
costs and income taxe	s \$	29,513	\$	56,723	\$	(14,339) \$	71,897	\$ 35,593 \$	52,730 \$	(13,187) \$	75,136
						As at Janua	ary 3, 2015			As at Decembe	r 28, 2013
(Amounts in \$000s)		Canada		U.S.		Corporate	Total	Canada	U.S.	Corporate	Total
Total assets	\$	123,998	\$	557,507	\$	23,699 \$	705,328	\$ 135,971 \$	522,011 \$	19,516 \$	677,499
Total liabilities	\$	25,108	\$	58,303	\$	424,427 \$	508,354	\$ 22,974 \$	76,006 \$	393,869 \$	492,850

For the fifty-three weeks ended January 3, 2015 the Company has recognized \$176.9 million (December 28, 2013: \$171.5 million) of sales from one customer that represents more than 10% of the Company's total consolidated sales, arising from sales in both the Canada and U.S. reportable operating segments.

## Note 20 INCOME TAX EXPENSE

The Company's statutory tax rate for the fifty-three weeks ended January 3, 2015 is 28.9% (December 28, 2013: 27.9%). The Company's effective income tax rate for the fifty-three weeks ended January 3, 2015 is 19.3% compared to 28.2% for the fifty-two weeks ended December 28, 2013. The lower effective income tax rate in fiscal 2014 is due to higher financing deductions and lower income before income taxes in the Company's U.S. subsidiary, lower non-deductible stock-based compensation and a non-recurring intercompany distribution.

The major components of income tax expense are as follows:

Consolidated statement of income (Amounts in \$000s)	January 3, 2015	De	ecember 28, 2013
Current income tax expense:			
Current period	\$ 3,906	\$	12,378
Deferred income tax expense:			
Origination and reversal of temporary differences	2,617		189
Change in tax rate applicable to reversal of temporary differences	767		(275)
Recognition of previously unrecognized tax asset	(59)		_
	3,325		(86)
Income tax expense reported in the consolidated statement of income	\$ 7,231	\$	12,292
Consolidated statement of comprehensive income (Amounts in \$000s)	January 3, 2015	De	ecember 28, 2013
Income tax expense (recovery) related to items charged or credited directly to OCI during the period:			
Loss on hedge of net investment in foreign operations	\$ (2,497)	\$	(1,675)
Gain on translation of net investment in foreign operations	2,330		1,306
Effective portion of changes in fair value of cash flow hedges	1,560		480
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	(540)		(96)
Net change in fair value of cash flow hedges transferred to income	(14)		19
Defined benefit plan actuarial (loss) gain	(642)		1,041
Income tax expense directly to OCI and retained earnings	\$ 197	\$	1,075

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

(Amounts in \$000s)		January 3, 2015	De	cember 28, 2013	
Accounting profit before tax at statutory income tax rate of 28.9% (2013: 27.9%)	\$	10,847	\$	12,178	
Non-deductible expenses for tax purposes:					
Withholding tax on dividends		_		771	
Non-deductible share-based compensation		535		1,205	
Other non-deductible items		315		198	
Effect of higher income tax rates of U.S. subsidiary		2,691		3,832	
Acquisition financing deduction		(7,404)		(5,981)	
Other		247		89	
Income tax expense	\$	7,231	\$	12,292	

Deferred income tax				statement of osition as at:	Consolidated statement of income for the years ended:			
(Amounts in \$000s)		January 3, 2015	D	ecember 28, 2013	January 3, 2015	De	ecember 28, 2013	
Accelerated depreciation for tax purposes on property, plant and equipment	\$	(15,631)	\$	(14,802)	\$ 802	\$	3,490	
Inventory		(1,367)		(908)	459		(6,741)	
Intangible assets		(35,052)		(35,155)	(157)		(1,797)	
Pension		2,697		2,399	529		157	
Revaluation of cash flow hedges		(1,022)		(257)	(808)		2	
Losses available for offset against future taxable inco	me	3,815		2,369	(1,448)		4,826	
Deferred charges and other		3,456		7,012	3,948		(23)	
Deferred income tax recovery	\$	_	\$	_	\$ 3,325	\$	(86)	
Net deferred income tax liability	\$	(43,104)	\$	(39,342)	\$ _	\$	_	

# Reflected in the consolidated statement of financial position as follows:

Deferred income tax assets	\$ 3,372	\$ 4,656
Deferred income tax liabilities	(46,476)	(43,998)
Net deferred income tax liability	\$ (43,104)	\$ (39,342)

Reconciliation of net deferred income tax liabilities (Amounts in \$000s)	January 3, 2015	D	ecember 28, 2013
Opening balance, beginning of year	\$ (39,342)	\$	(37,919)
Deferred income tax (expense) recovery during the period recognized in income	(3,325)		86
Deferred income tax recovery (expense) during the period recognized in retained earnings	642		(1,041)
Deferred income tax expense during the period recognized in OCI	(1,079)		(468)
Closing balance, end of year	\$ (43,104)	\$	(39,342)

The Company has net operating losses in its U.S. subsidiaries of \$8.4 million (December 28, 2013: \$6.6 million) that are available for use from 2015–2028. A deferred income tax asset has been recognized for the amount that is probable to be realized.

The Company has unused capital losses of \$19.5 million (2013: \$3.1 million) which have an indefinite carryforward period. A deferred tax asset has only been recognized to the extent of the benefit that is probable to be realized.

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

The temporary difference associated with investments in subsidiaries, for which a deferred tax liability has not been recognized totals \$nil at January 3, 2015 (December 28, 2013: \$0.3 million).

There are no income tax consequences attached to the payment of dividends in either 2014 or 2013 by the Company to its shareholders.

## Note 21 RELATED PARTY TRANSACTIONS

#### The ultimate parent

High Liner Foods Incorporated is the ultimate parent entity.

## Key management personnel compensation

In addition to their salaries, the Company also provides benefits to the CEO, NEOs and certain senior executive officers 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.

The amounts in the table below are the amounts recognized as an expense during the reporting period related to key management personnel compensation and are comprised of:

(Amounts in \$000s)	January 3, 2015	De	cember 28, 2013
Salaries	\$ 3,182	\$	2,017
Short-term incentive plans <sup>(3)</sup>	939		318
Future employee benefits <sup>(1)</sup>	315		382
Share-based awards <sup>(2)</sup>	2,270		1,381
	\$ 6,706	\$	4,098

- (1) Refer to Note 14 for details of each plan.
- (2) Refer to Note 18 for details regarding the Company's share option and PSU plans.
- (3) These were for amounts earned in 2014.

# Entity with significant influence over the Company

As at January 3, 2015, Thornridge Holdings Limited owns 37.6% of the outstanding common shares in High Liner Foods Inc. (December 28, 2013: 37.7% of outstanding common shares).

# Other related parties

Crystal Cold Storage & Warehousing Inc. provides a cold storage facility for the Company to which the Company pays a market-based price for the products stored. The Company did not use Crystal Cold Storage & Warehousing in 2014.

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. Subsequent to the reporting period, it was announced this plant will cease production in the second quarter of 2015 as described in detail in *Note 27*.

Total purchases from other related parties were \$0.4 million for the fifty-three weeks ended January 3, 2015 and \$0.6 million for the fifty-two weeks ended December 28, 2013.

#### Joint venture in which the Company is a venturer

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

Total purchases of a joint venture in which the Company was a venturer for the fifty-two weeks ended December 28, 2013 was \$2.0 million. The Company did not have any purchases from a joint venturer during 2014.

The Company had no sales to or amounts due from related parties throughout 2013 or 2014, nor did the Company have any transactions during 2013 or 2014 with entities who had significant influence over the Company or with members of the Board of 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 one year of the reporting date. None of the balances are secured. There have been no guarantees provided or received for any related party payables.

#### Note 22 FINANCIAL INSTRUMENTS

#### Fair value of financial instruments

Fair value is a market-based measurement, not an entity-specific measurement. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. Management is responsible for valuation policies, processes and the measurement of fair value within the Company.

The Company's loans and receivables, accounts payable and accrued liabilities, provisions and bank loans are carried at cost and their carrying values approximate fair value due to the short-term to maturity of these financial instruments. Financial liabilities carried at amortized cost are shown using the EIR method. Other financial assets and other financial liabilities represent fair value of the Company's foreign exchange contracts as well as the fair value of its interest rate swaps on its debt.

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

		December 28, 2013				
(Amounts in \$000s)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value						
Cash	\$ 1,044 \$	— \$	<b>-</b> \$	1,206 \$	— \$	_
Foreign exchange contracts	_	4,139	_	_	1,524	_
Receivables	_	_	81,772	_	_	90,113
Liabilities measured at fair value						
Interest rate swaps	_	951	_	_	1,021	_
Embedded derivative	_	_	_	_	4,576	_
Total interest rate swaps and embedded derivative	_	951	_	_	5,597	_
Foreign exchange contracts	_	580	_	_	459	_
Accounts payable and accrued liabilities	_	_	87,847	_	_	104,258
Contingent consideration liability (Note 4)	_	_	4,236	_	_	_
Long-term debt	_	_	293,958	_	_	241,941
Finance lease obligations	_	_	2,221	_	_	2,752

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

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the fifty-three weeks ended January 3, 2015, and the fifty-two weeks ended December 28, 2013 no such transfers have occurred

The financial liabilities that are not measured at fair value on the consolidated statement of financial position consist of long-term debt (including current portion) and finance lease obligations. The carrying amounts for these instruments are \$295.0 million and \$2.2 million, respectively, as at January 3, 2015 (December 28, 2013: \$226.9 million and \$2.6 million).

The fair values of long-term debt instruments, classified as Level 3 in the fair value hierarchy, are estimated based on unobservable inputs including discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities which are adjusted to reflect the Company's credit risk. The interest rates used to discount the estimated cash flows, when applicable, are based on the LIBOR yield curve at the reporting date plus an adequate credit spread.

#### Amortized cost impact on interest expense

In the fifty-three weeks ended January 3, 2015, the Company expensed \$0.2 million and \$0.4 million (December 28, 2013: \$0.3 million and \$0.6 million) of short-term and long-term interest, respectively, relating to interest that was calculated using the EIR method relating to its transaction fees and its borrowings.

The fair values of other financial assets and liabilities at January 3, 2015 and December 28, 2013 are shown below:

		Ot	her finan	Other financial liabilities:							
(Amounts in \$000s)		January 3, 2015	De	cember 28, 2013	January 3, 2015		December 28, 2013				
Financial instruments at fair value through OCI											
Foreign exchange forward contracts	\$	4,121	\$	1,524	\$ 580	\$	459				
Interest rate swap		_		_	185		188				
Financial instruments at fair value through profit or loss:											
Embedded derivative		_		_	_		4,576				
Foreign exchange contracts not designated in hedge relationships		18		_	_		_				
Interest rate swaps not designated in hedge relationships		_		_	766		833				
	\$	4,139	\$	1,524	\$ 1,531	\$	6,056				

#### **Hedging activities**

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the statement of financial position or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Any portion of hedge ineffectiveness has been recognized in the consolidated statement of income as it occurs.

#### Interest rate swaps

As at January 3, 2015, the Company had the following interest rate swap outstanding that was designated in a formal hedging relationship:

• On December 29, 2014, the Company entered into an interest rate swap to exchange floating 3-month LIBOR for a fixed rate on the term loan credit facility, with an embedded floor of 1.0% for a fixed rate of 2.17% on a notional amount of \$20.0 million for the period of December 31, 2014 until December 31, 2019. On a quarterly basis starting in 2015, the Canadian company pays the fixed swap rate and receives the floating 3-month LIBOR rate (but no less than 1.0%).

At the end of the fifty-three weeks ended January 3, 2015, the cash flow hedge of interest expense variability was assessed to be highly effective and was therefore included in OCI as an after-tax loss of \$0.2 million.

As at January 3, 2015, the Company had the following interest rate swaps outstanding that were not designated in a formal hedging relationship:

- On May 3, 2012, the Company entered into an interest rate swap to exchange floating 3-month LIBOR for a fixed rate on the 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 pays the fixed swap rate and receives the floating 3-month LIBOR rate (but no less than 1.5%). The change in fair value for the fifty-three weeks ended January 3, 2015, was a net gain of \$0.1 million and was recorded in the consolidated statement of income.
- On March 22, 2012, the Company entered into interest rate swaps to exchange floating 1-month LIBOR for a fixed rate on its working capital credit facility, on a notional amount of \$50.0 million for the period of May 4, 2012 to March 4, 2014 with an average LIBOR rate of 0.719% and \$30.0 million for the period March 4, 2014 to March 4, 2015, with an average LIBOR rate of 0.726%. The change in fair value for the fifty-three weeks ended January 3, 2015, was a loss of \$0.1 million and was recorded in the consolidated statement of income.

#### Foreign currency contracts

Foreign currency forward contracts are used to hedge foreign currency risk resulting from expected future purchases from suppliers transacting in USD, which the Company has qualified as highly probable forecasted transactions.

As at January 3, 2015, the Company had notional amounts of \$68.6 million in foreign currency average rate forward contracts, \$2.9 million foreign currency single rate forward contracts outstanding and \$0.4 million in forward contracts that were not formally designated as a hedge. With the exception of \$3.4 million average rate forward contracts with maturities ranging from January 2016 to December 2016, all foreign currency forward contracts have maturities that are less than one year.

At the end of the fifty-three weeks ended January 3, 2015, the cash flow hedges of the expected future purchases were assessed to be highly effective and were therefore included in OCI as an after-tax gain of \$3.2 million (December 28, 2013: a gain of \$1.2 million). Amounts recognized in income resulting from hedge ineffectiveness during the fifty-three weeks ended January 3, 2015 and the fifty-two weeks ended December 28, 2013 were a gain of \$0.1 million and a gain of \$0.1 million, respectively.

#### Hedge of net investment in foreign operations

As at January 3, 2015, borrowings of \$27.5 million included in bank loans and \$237.3 million included in long-term debt (December 28, 2013: \$15.0 million included in bank loans and \$170.0 million included in long-term debt), have been designated as a hedge of the net investment in the U.S. subsidiary and are being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the re-translation of these borrowings are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There was no ineffectiveness recognized in the fiscal years ended January 3, 2015 and December 28, 2013.

# Note 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. The Company defines capital as: funded debt, letters of credit, and common shareholder equity, including AOCI, except for gains and losses on derivatives used to hedge interest and foreign exchange cash flow exposures.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, purchase its capital stock under a NCIB or issue new shares. Capital distributions, including purchases of stock, are subject to availability under the Company's working capital debt facilities. The consolidated adjusted aggregate availability under the working capital debt facility must be greater than \$22.5 million. The Company currently has adjusted aggregate availability in excess of \$122.1 million as at January 3, 2015. The Company also has restrictions on capital distributions, where the aggregate amount for dividends are subject to an annual limit of \$17.5 million with a provision to increase this amount subject to leverage and excess cash flow tests. NCIBs are subject to an annual limit of \$10.0 million with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum. For the fifty-three weeks ended January 3, 2015, the Company has paid \$11.3 million in dividends and \$0.4 million under the NCIB. The Company monitors capital (excluding letters of credit) using the ratio of net interest-bearing debt to capitalization, which is net interest bearing debt, divided by total capital plus net interest-bearing debt. The Company's objective is to keep this ratio between 35% and 50%. Seasonal working capital debt may result in the Company exceeding the ratio at certain times throughout the fiscal year. The Directors of the Company have also decided that this range can be exceeded on a temporary basis as a result of the recent acquisitions.

(Amounts in \$000s)		January 3, 2015	D	ecember 28, 2013
Total bank loans (Note 12)	\$	65,851	\$	97,899
Total term loan debt (Note 13)		297,750		232,720
Total finance lease obligation		2,206		2,626
Interest-bearing debt		365,807		333,245
Less: cash		(1,044)		(1,206)
Net interest-bearing debt		364,763		332,039
Shareholders' equity		196,974		184,649
Unrealized gains on derivative financial instruments included in accumulated other comprehensive loss	;	(2,175)		(451)
Total capitalization	\$	559,562	\$	516,237
Net interest-bearing debt as % of total capitalization		65%		64%

No changes were made in the objectives, policies or processes for managing capital for the fiscal years ended January 3, 2015 and December 28, 2013.

#### Note 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 is exposed to interest rate risk, liquidity risk, foreign currency risk and credit risk. The Company enters into interest rate swaps, foreign currency contracts, and insurance contracts to manage these types of risks from the Company's operations and its sources of financing. The Company's policy is that no speculative trading in derivatives shall be undertaken. 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 2014 and 2013, the Company's policy was to manage interest cost using a mix of fixed and variable rate debts. The Company's objective is to keep between 35% and 55% of its borrowings at fixed rates of interest. To manage this, the Company enters into fixed rate debt facilities or interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional 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 January 3, 2015, 40% of the outstanding long-term debt was hedged (December 28, 2013: 54%) and 42% of the Company's borrowings, including the asset-based facility, are either hedged or at a fixed rate of interest (December 28, 2013: 53%).

#### Interest rate sensitivity

The Company's profit before tax is sensitive to a change in interest rates on that portion of debt obligations with floating interest rates, with all other variables held constant. As at the fifty-three weeks ended January 3, 2015 the Company's current bank loans were \$65.9 million (2013: \$97.9 million) and long-term debt was \$294.8 million (2013: \$232.7 million). An increase of 25 basis points on the bank loans would have reduced earnings before tax by \$0.1 million (2013: \$0.1 million). An increase of 25 basis points above the LIBOR floor on the long-term debt would have reduced earnings before tax by \$0.4 million (2013: \$0.3 million). A corresponding decrease in respective interest rates would have an approximately equal and opposite effect. There is no impact on the Company's equity except through changes in income.

## Foreign currency risk

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

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

The Canadian company hedges forecasted cash flows for purchases of products for its Canadian operations where the purchase price is substantially known in advance (purchases identified for hedging). At January 3, 2015, the Canadian company hedged 81% (December 28, 2013: 64%) of these purchases identified for hedging, extending to December 2015. 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 hedges these inputs on a small scale, however, relying where possible on fixed price contracts in CAD from 3 to 12 months with suppliers.

Fifty-three weeks ended January 3, 2015, approximately 69% of the Canadian company's costs were denominated in U.S. dollars, while almost 93% of the Canadian operation's sales were denominated in the Company's functional currency.

As the Company has some assets and liabilities that are denominated in CAD, assets and liabilities of the consolidated company change as exchange rates fluctuate. A stronger Canadian dollar has the effect of increasing the carrying value of assets and liabilities such as accounts receivable, inventory, fixed assets, and accounts payable of the Canadian operations when translated to USD. The net offset of those changes flow through OCI. Based on the equity of the Canadian company as of January 3, 2015 a one cent increase/(decrease) in the USD/CAD exchange rate will (decrease)/increase equity by approximately \$0.1 million (December 28, 2013: \$0.3 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, the Company holds credit insurance on its trade accounts receivable and all 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 64% (December 28, 2013: 59%) of the trade receivables at year-end with the largest customer accounting for 15% (December 28, 2013: 14%).

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty. The Company manages this by dealing with financially creditworthy counterparties, such as Chartered Canadian banks and U.S. banks with investment grade ratings.

The maximum exposure to credit risk is equal to the carrying value of accounts receivable and its derivative instruments.

# Liquidity risk

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next 12 months as well as the models that look out five years. Working capital and cash balances are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable, and finance leases. The Company's objective is that not more than 50% of borrowings should mature in the next twelve-month period. At January 3, 2015 less than 2% (December 28, 2013: less than 1%) of the Company's debt will mature in less than one year based on the carrying value of borrowings reflected in the financial statements. At January 3, 2015, the Company was in compliance with all covenants and terms of its debt facilities.

The table below shows the maturities of the Company's non-derivative financial liabilities:

(Amounts in \$000s)	Due within 1 year		Due	in 1-3 years	Due	in 3-5 years	Total
As at January 3, 2015							·
Bank loans	\$	_	\$	65,851	\$	_	\$ 65,851
Accounts payable		87,847		_		_	87,847
Other long-term liabilities		_		745		_	745
Long-term debt		3,000		6,000		5,250	14,250
Finance lease obligations		994		1,212		_	2,206
	\$	91,841	\$	73,808	\$	5,250	\$ 170,899
As at December 28, 2013							
Bank loans	\$	_	\$	97,899	\$	_	\$ 97,899
Accounts payable		104,258		_		_	104,258
Other long-term liabilities		_		1,044		_	1,044
Long-term debt				11,470		221,250	232,720
Finance lease obligations		979		1,494		153	2,626
	\$	105,237	\$	111,907	\$	221,403	\$ 438,547

## Seafood price risk

The Company is dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. The Company buys as much as \$600.0 million of this product annually. A 1% change in the price of frozen raw seafood materials would increase/decrease the Company's procurement costs by \$6.0 million. Prices can fluctuate and there is no formal commercial mechanism for hedging either sales or purchases. Purchases of seafood on global markets are principally in USD. The Company hedges exposures to a portion of our currency exposures, and enters into longer-term supply contracts when possible. All foreign currency hedging activities are carried out in accordance with our formal Price Risk Management Policy, under the oversight of the Audit Committee.

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

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

# Commodity risk

The Company's financial results are influenced by price changes in commodities such as crude oil, wheat, corn, 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 derivative instruments if deemed prudent. Throughout 2014 and 2013 the Company has managed this risk through contracts with our suppliers.

Crude oil prices, which influence fuel surcharges from freight suppliers, decreased significantly in the last quarter of 2014. World commodity prices for flour, soy and canola oils, important ingredients in many of the Company's products, decreased further in 2014 after the decreases seen in 2013. The price of corrugated and folding carton, which is used in packaging, was constant in 2014 after having increased in 2013. The Company currently has fixed price contracts with suppliers covering a significant portion of the Company's 2015 commodity purchase requirements.

#### Note 25 SUPPLEMENTAL INFORMATION

Components of income and expenses included in the consolidated statement of income: January 3, December 28, (Amounts in \$000s) 2015 2013 Included in finance costs: Interest expense on bank loans \$ 2,325 \$ 2,248 Interest expense on long-term debt 13,203 11,997 Interest rate hedge (103)142 Deferred financing charges 577 888 Revaluation of embedded derivative 259 (149)Accelerated amortization of financing costs and other items resulting from debt refinancing and amendment activities 851 1,063 Interest on letter of credit for SERP 285 39 Foreign exchange loss 172 101 \$ 16,329 Total finance costs \$ 17,569 Foreign exchange (gain) loss included in: \$ 232 Cost of sales \$ (27)Finance costs 172 101 Total foreign exchange loss \$ 145 \$ 333 Losses (gains) on disposal of assets included in: \$ \$ 210 Cost of sales 586 Distribution expenses 61 42 Selling, general and administrative expenses (91)(4) Total losses on disposal of assets \$ 556 \$ 248 Employee compensation and benefit expense:

\$

\$

116,161

3,596

3,329

(1,188)

122,856

958

\$

\$

105,394

3,777

6,704

1,458

117,051

(282)

## Note 26 **COMPARATIVE FIGURES**

Wages and salaries (including payroll benefits)

Total employee compensation and benefit expense

Future employee benefit costs

Share-based payment expense

Short-term employee benefits

Termination benefits

Comparative information on the consolidated statement of financial position have been reclassified to reflect adjustments made to the American Pride Seafoods business combination purchase price allocation (*Note 4*). The January 3, 2015 and December 28, 2013 number of shares outstanding, per share amounts, and share-based compensation information have also been restated to reflect the retrospective change of the two-for-one stock split that was effective on May 30, 2014.

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

## Note 27 EVENTS AFTER THE REPORTING PERIOD

On January 9, 2015, the Company publicly announced that it will cease production at its leased manufacturing facility in Malden, Massachusetts in the second quarter of 2015 to reduce excess capacity across its manufacturing facilities in the U.S. A write-down of certain equipment has been reflected in these financial statements and *Note* 6 for the fifty-three weeks ended January 3, 2015.

# HISTORICAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

Cash Accounts receivable Income taxes receivable Other financial assets Inventories	\$ 1,044 81,772 7,381	\$ 1,206	\$ 65	\$ 3,205	¢ (01	A 1000				
Income taxes receivable Other financial assets		00 110		p 3,203	\$ 601	\$ 1,866	\$ 5,808	\$ 7,219	\$ 206	\$ 497
Other financial assets	7 381	90,113	73,947	83,590	50,724	56,901	52,758	70,171	26,792	24,099
	7,001	3,509	5,145	3,498	704	1,231	37	2,467	138	9
Inventories	4,139	1,524	533	1,323	895	_	_	_	_	_
	261,900	252,960	222,313	256,324	132,696	114,261	121,304	112,949	37,834	50,843
Prepaid expenses	2,568	2,361	2,991	2,969	1,899	1,934	1,472	1,750	588	547
Future income taxes	_	_	_	_	_	3,675	1,266	1,331	253	468
Total current assets	358,804	351,673	304,994	350,909	187,519	179,868	182,645	195,887	65,811	76,463
Property, plant and equipment	114,231	101,470	89,268	105,808	67,634	56,878	48,745	58,779	22,344	23,117
Deferred income taxes	3,372	4,656	7,207	1,667	2,416	333	688	1,714	2,579	3,981
Investment in equity accounted investee	_	_	96	271	154	_	_	_	_	_
Other receivables and miscellaneous assets	1,678	1,906	1,847	1,190	819	232	109	66	931	1,012
Future employee benefits	_	_	92	92	92	7,062	2,872	6,908	5,458	4,573
Intangible assets	100,218	105,253	110,631	116,594	31,409	18,904	19,877	_	_	_
Goodwill	126,510	111,999	112,873	110,816	40,036	27,423	25,413	_	_	_
Intangible assets and goodwill	_	_	_	_	_	_	_	43,702	_	_
Assets classified as held for sale	515	542	4,819			_		_		
Total assets	\$ 705,328	\$ 677,499	\$ 631,827	\$ 687,347	\$ 330,079	\$ 290,700	\$ 280,349	\$ 307,056	\$ 97,123	\$ 109,146
Bank loans - actual amounts owing	\$ 65,851	\$ 97,899	\$ 60,530	\$ 119,936	\$ 43,261	\$ 22,084	\$ 33,500	\$ 63,506	\$ 8,680	\$ 21,278
Bank loans - deferred charges	(721)	(672)	(826)	(978)	(304)	(312)	(518)	(880)	_	_
Accounts payable and accrued liabilities	85,588	100,945	91,436	102,623	55,821	52,431	60,800	52,190	23,244	25,223
Stock compensation payable - current	2,259	3,313	10,005	4,233	4,559	_	_	_	_	_
Provisions	499	240	1,614	1,013	553	_	_	_	_	_
Other current financial liabilities	580	459	550	780	2,347	_	_	_	_	_
Income taxes payable	20	2,543	1,165	2,024	3,248	28	2,018	447	_	136
Current portion of long-term debt	3,000	_	34,237	2,500	4,450	4,378	_	_	_	_
Current portion of finance lease obligations	994	979	1,039	1,046	978	826	378	616	481	451
Total current liabilities	158,070	205,706	199,750	233,177	114,913	79,435	96,178	115,879	32,405	47,088
Long-term debt – actual amounts owing	294,750	232,720	213,888	247,500	44,456	48,996	53,366	53,522	_	_
Long-term debt - deferred charges										
and market valuations	(2,717)	(5,791)		(20,254)		(412)	(554)	(677)	_	_
Other long-term financial liabilities	951	5,597	1,130	6,223	208	1,198	1,744	_	_	_
Other long-term liabilities	125	175	- 4 500	-	_	_	_	_	_	_
Stock compensation payable - long-term	620	869	1,532	243	-		-	-	-	
Long-term finance lease obligations	1,212	1,647	2,181	2,555	3,062	2,580	424	265	409	543
Deferred income taxes	46,476	43,998	45,126	47,991	9,949	4,479	465	4 220	2 170	2 (02
Future employee benefits	8,867	7,929	13,791	11,085	9,682	4,338	465	4,320	3,178	2,692
Liabilities directly associated with the assets held for sale	_	_	1,604	_	_	_	_	_	_	_
Shareholders' equity	196,974	184,649	153,354	158,827	148,114	150,086	128,726	133,747	61,131	58,823
Total liabilities and shareholders' equity	•	\$ 677,499	\$ 631,827					\$ 307,056		<u>·</u>

# HISTORICAL CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(Amounts in \$000s, except per share amounts)	2014*	2013*	2012*	2011*	2010*	2009*	* 2008*	* 2007**	2006*	* 2005**
Revenues	\$1,051,613 \$	947,301	\$947,301	\$ 675,539	\$ 567,572	\$ 549,922	\$ 578,844	\$ 256,180	\$ 230,702	\$ 206,326
Gross profit	220,405	215,335	206,661	153,530	133,169	117,953	124,282	66,293	60,486	55,276
Distribution expenses	52,558	53,368	44,511	35,382	29,149	28,383	34,816	18,781	18,931	17,825
Selling, general and administrative expenses	105,313	98,820	100,862	72,898	66,565	58,787	61,604	36,729	32,288	31,817
Impairment of property, plant and equipment	852	_	13,230	_	_	_	_	_	_	_
Business acquisition, integration and other expenses	6,582	3,256	10,741	11,049	870	403	4,585	1,197	_	_
Finance costs	17,569	16,329	36,585	6,019	5,025	4,895	6,061	46	810	344
(Income) loss from equity accounted investee, net of income tax	_	(86)	196	52	(16)	_	_	_	_	_
Non-operating items and gain (loss) on disposal of assets	_	_	_	_	_	808	79	(311)	152	(438)
Income before income taxes	37,531	43,648	536	28,130	31,576	24,677	17,137	9,851	8,305	5,728
Income taxes										
Current	3,906	12,378	5,442	5,762	6,220	2,234	2,822	2,331	2,188	859
Deferred	3,325	(86)	(7,109)	3,708	6,057	5,130	980	1,082	1,600	1,688
Total income tax expense (recovery)	7,231	12,292	(1,667)	9,470	12,277	7,364	3,802	3,413	3,788	2,547
Net income from continuing operations	30,300	31,356	2,203	18,660	19,299	17,313	13,335	6,438	4,517	3,181
Net income (loss) from discontinued operations, net of income taxes	_	_	_	_	_	_	_	346	(699)	(36,565)
Net income (loss)		\$ 31,356	\$ 2,203	\$ 18,660	\$ 19,299	\$ 17,313	\$ 13,335	\$ 6,784	\$ 3,818	\$ (33,384)
Reconciliation to EBITDA:	7 20,200	+/	<del>+</del> -/	+/	+/	+	+ ==/===	+ -/	+ -/	+ (/)
Net income (loss) Add-back:	\$ 30,300	\$ 31,356	\$ 2,203	\$ 18,660	\$ 19,299	\$ 17,313	\$ 13,335	\$ 6,784	\$ 3,818	\$ (33,384)
Net (income) loss from discontinued operations, net of income taxes	_	_	_	_	_	_	_	(346)	699	36,565
Income tax expense (recovery)	7,231	12,292	(1,667)	9,470	12,277	7,364	3,802	3,413	3,788	2,547
Financing costs	17,569	16,329	36,585	6,019	5,025	4,895	6,061	46	810	344
Amortization of intangible assets	4,923	5,258	5,551	1,840	1,169	1,314	1,300	7	11	1
Depreciation	11,874	9,901	13,830	7,981	7,094	5,796	6,079	2,865	2,649	2,525
Standardized EBITDA	\$ 71,897	\$ 75,136	\$ 56,502	\$ 43,970	\$ 44,864	\$ 36,682	\$ 30,577	\$ 12,769	\$ 11,775	\$ 8,598
Add-back:										
Business acquisition, integration and other expenses	6,582	3,256	10,741	11,049	870	403	4,585	1,197	_	_
Impairment of property, plant and equipment	852	_	13,230	_	_	_	_	_	_	_
Increase in cost of sales due to purchase price allocation to inventory	_	_	1,149	510	55	_	927	_	_	_
Loss (gain) on disposal of assets	681	247	(190)	192	14	431	378	_	194	101
Stock-based compensation expense	3,329	6,704	10,255	737	3,653	320	(102)		29	_
Non-operating items	-	-	-	-	-	504	51	(210)	148	466
Adjusted EBITDA	\$ 83,341	\$ 85,343	\$ 91,687	\$ 56,458	\$ 49,456	\$ 38,340	\$ 36,416	\$ 13,882	\$ 12,146	\$ 9,165
Reconciliation to Adjusted Net Income:	4 20 200	¢ 24.254	¢ 2.202	£ 10.660	# 10.000	¢ 47.040	¢ 10.005	¢ 4704	¢ 2.010	¢ (22.20.4)
Net income (loss) Add-back:	\$ 30,300	\$ 31,356	\$ 2,203	\$ 18,660	\$ 19,299	\$ 17,313	\$ 13,335	\$ 6,784	\$ 3,818	\$ (33,384)
Net (income) loss from discontinued operations, net of income taxes	_	_	_	_	_	_	_	(346)	699	36,565
Stock-based compensation expense	2,958	6,366	10,025	703	3,653	219	(67)		18	
Impairment of property, plant and equipment	520	_	8,635	_			_	_	_	_
Additional depreciation on property that is to be disposed as part of the acquisition	_	_	1,146	_	_	_	_	_	_	_
Business acquisition, integration and other expenses	4,290	2,068	6,895	8,397	541	497	3,853	821	_	_
Non-operating items	_	_		_	_	504	53	(209)	148	464
Increase in cost of sales due to purchase price allocation to inventory	_	_	761	312	34	_	575	_	_	_
Mark-to-market loss (gain) on embedded derivative and related accretion	188	(105)	1,899	_	_	_	_	_	_	_
Mark-to-market (gain) loss on interest rate swaps	(80)	76	529	_	_	_	_	_	_	_
Accelerated amortization of deferred financing costs and other items resulting from debt refinancing and	125									
financing costs and other items	605	776 744	6,380 (402)	— 782	– 996	_	_	_	_	_

(Amounts in \$000s, except per share amounts)		2014	2	2013	2012	2011	2010*	2009*	+	2008*	*	2007**	*	2006*	*	2005**
Book value per common share†	\$	6.41	\$	6.04	\$ 5.07	\$ 5.27	\$ 4.89	\$ 3.76	\$	3.97	\$	2.80	\$	2.19	\$	1.95
Gross capital expenditures from continuing operations		28,076	15	,419	13,447	7,675	5,134	11,107		6,051		3,620		3,186		3,423
Per share information:																
Basic info per common share†																
Based on net income	\$	0.99	\$	1.03	\$ 0.08	\$ 0.62	\$ 0.60	\$ 0.47	\$	0.45	\$	0.27	\$	0.14	\$	(1.62)
Based on income from continuing operations		0.99		1.03	0.08	0.62	0.60	0.47		0.45		0.25		0.17		0.11
Based on adjusted net income		1.26		1.36	1.26	0.91	0.76	0.51		0.59		0.29		0.18		0.13
Diluted info per common share†																
Based on net income		0.97		1.17	0.07	0.61	0.60	0.47		0.36		0.27		0.14		(1.62)
Based on income from continuing operations		0.97		1.17	0.07	0.61	0.60	0.47		0.36		0.25		0.17		0.11
Based on adjusted net income		1.24		1.32	1.23	0.94	0.76	0.51		0.49		0.29		0.18		0.13
Common shares† (000s)																
Outstanding at year end		30,706	30	,571	30,258	30,174	30,298	36,662		36,942		26,762		20,630		20,568
Average outstanding for the year:																
Basic		30,665	30	,367	30,238	30,218	32,192	36,770		30,118		20,886		20,612		21,134
Diluted		31,317	31	,186	30,920	30,682	32,490	36,792		36,406		21,184		20,742		21,134
Amounts in this section are in CAD\$:																
Second preference shares																
Dividends declared and paid	\$	_	\$	_	\$ _	\$ _	\$ _	\$ _	\$	166	\$	1,210	\$	1,174	\$	1,036
Dividends per share		_		_	_	_	_	_		0.83		6.05		5.87		5.18
Series A preference shares																
Dividends declared and paid		_		_	_	_	_	_		774		_		_		_
Dividends per share		_		_	_	_	_	_		0.39		_		_		_
Common shares																
Dividends declared and paid		11,285	10	,305	6,379	5,891	5,238	4,959		3,244		2,073		2,027		2,147
Dividends per share†		0.41		0.35	0.21	0.195	0.165	0.135		0.11		0.10		0.10		0.10

<sup>\*</sup> Amounts for 2010 and onward are based on International Financial Reporting Standards (IFRS), amounts for previous years are based on Canadian Generally Accepted Accounting Principles.

<sup>\*\*</sup>Commencing in 2012 the Company has changed its presentation currency from CAD to USD. The numbers for 2010, 2011 and 2012 have been fully restated. Historical information for 2009 and prior has been converted by taking the previously reported Canadian dollar amounts and converting it at the annual average exchange rate for that year.

<sup>†</sup> Amounts reflect retrospective application of May 30, 2014 stock split.

# **CORPORATE INFORMATION (AS AT JANUARY 3, 2015)**

#### **Honourary Directors**

D.R. Sobey

#### **Board of Directors**

A. Bell<sup>3</sup>

D.H.L. Buntain<sup>3,4,5</sup>

J.G. Covelluzzi<sup>3</sup>

H.E. Demone<sup>4</sup>

R.P. Dexter, Q.C. $^{3,4,5}$ 

D.J. Hennigar (Chair)4,5

M.R. Hennigar<sup>2</sup>

S.L. Jamieson<sup>3</sup>

J.T. MacQuarrie, Q.C.<sup>2,4</sup>

M.J. Mahody<sup>2</sup>

R.A. Miller<sup>2</sup>

R.L. Pace<sup>2,4,5</sup>

F.B.H. van Schaayk<sup>3</sup>

#### Officers and Canadian Management

D.J. Hennigar Chairman of the Board

H.E. Demone

Chief Executive Officer
K.A. Decker<sup>1</sup>

President & Chief Operating Officer

M.P. Marino<sup>1</sup>
President & Chief Operating
Officer, Canadian Operations

P.A. Jewer, FCA<sup>1</sup>
Executive Vice President & CFO

J.E. Brown, CHRP<sup>1</sup> Executive Vice President, Human Resources

P.W. Snow<sup>1</sup> Executive Vice President, Global Procurement

T. Rorabeck Vice President, Corporate Affairs and General Counsel

G.W. LeBlanc, CA Corporate Controller

J.J. Amlinger

Vice President, Sales & Marketing Food Service

J. J. O'Neill

Vice President, Retail Sales & Marketing

L.C. Obritsch

Vice President, Canadian Plant Operations

Operations
K.E. Galbraith

Vice President Marketing

#### Officers and Canadian Management

S.Y.J. Brown

Director Product Development

R. Sharma

Director Financial Planning & Analysis

L.C. Beaumont

Human Resources, Business Partner

#### U.S. Management

P.B. Brown<sup>1</sup>

President & Chief Operating Officer

S.J. Prusank

Senior Vice President, Food Service Sales & Marketing

C.M. Trosin

Vice President, Sales & Marketing, Retail

R.H. Barnhardt

Vice President, US Supply Chain

M.E. Sirois

Vice President, Technical Services

M.D. Leslie

Vice President Integration & Special Projects

K.L. Corcoran

Director Financial Planning & Analysis

M.T. Delcambre
Director Human Resources

#### Plants and Warehouse Facilities

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

# **Operating Subsidiary Companies**

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

- <sup>1</sup> Management Committee
- <sup>2</sup> Audit Committee (R.L. Pace, Chair)
- <sup>3</sup> Human Resources & Governance Committee (D.H.L. Buntain, Chair)
- <sup>4</sup> Executive Committee (D.J. Hennigar, Chair)
- <sup>5</sup> Nominating Committee

#### Auditors

Ernst & Young LLP, Chartered Accountants

#### Transfer agent

For help with:

- Changes of address
- Transfer of shares
- Loss of share certificates
- Consolidation of multiple mailings to one shareholder
- Estate settlements

CST Trust Company

#### Contact:

AnswerLineTM: 1-800-387-0825 (toll-free in North America) or (416) 682-3860 Fax: 1-888-249-6189 E-mail inquiries: inquiries@canstockta.com www.canstockta.com

#### Mailing Address:

P.O. Box 700 Station B Montreal, QC H3B 3K3

# Banks

The Royal Bank of Canada JPMorgan Chase Bank, N.A Bank of Montreal Canadian Imperial Bank of Commerce

#### **Investor Relations**

For:

- Additional financial information
- Industry and Company developments
- Additional copies of this report

#### Contact:

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Tel.: (902) 421-7100 Fax: (902) 634-6228

E-mail:

investor@highlinerfoods.com

Investor relations website: www.highlinerfoods.com

#### Mailing Address:

100 Battery Point P.O. Box 910 Lunenburg, NS BOJ 2C0

Common Shares listed on The Toronto Stock Exchange Trading Symbol - HLF

# Annual General and Special Meeting of Shareholders

Tuesday, May 12, 2015 11:30 a.m. Marriott Harbourfront Hotel,

Halifax, Nova Scotia



# **VOTED #1 BY BUSY CANADIAN FAMILIES**

Canadian Family magazine asked its readers to vote for their favourite brands in 60 food categories that are essential to daily meal preparation. The results? High Liner Foods received double honours in the Sixth Annual Canadian Family Food Awards, earning the top prize in both the Fish Fillets (Seasoned or Breaded) and Fish Sticks categories. Helping busy families eat well is all part of our mission to radically simplify selecting, preparing and enjoying seafood at its best.