



**ANNUAL INFORMATION FORM
FOR 2000**

(All amounts are in Canadian Dollars unless otherwise expressed)

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Unless the context otherwise requires, references in this Annual Information Form to the "Company" or "High Liner Foods" include High Liner Foods Incorporated and its subsidiaries. Certain terms used in this Annual Information Form are defined in the Glossary.

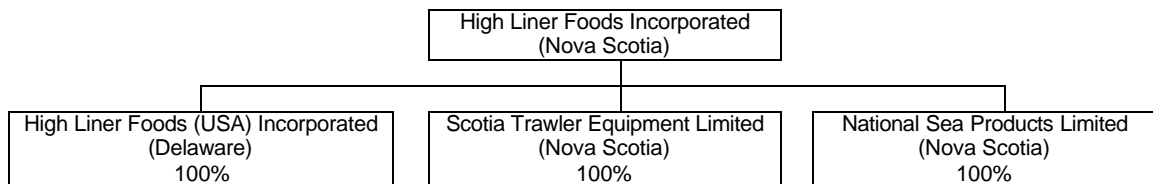
1. CORPORATE STRUCTURE

1.1 Name and Incorporation

High Liner Foods Incorporated is a Nova Scotia company, amalgamated under the Companies Act of Nova Scotia. Its 102-year history began in 1899 with the founding of W.C. Smith & Company Limited, a ships' chandlery and salt fish operation located in Lunenburg, Nova Scotia. In 1926, Lunenburg Sea Products Limited was formed by the same group of shareholders to diversify into fresh fish and cold storage. In 1938, these two companies merged, and in 1945 the merged companies, along with Maritime National Fish Company Limited of Halifax, and other related companies, were brought together under the ownership of National Sea Products Limited. The present company was formed by amalgamation of the related companies in 1967. On December 31, 1998, the Company changed its name to High Liner Foods Incorporated. High Liner Foods's registered and principal office is at 100 Battery Point, Lunenburg County, Nova Scotia, B0J 2C0.

1.2 Intercorporate Relationships

The Company's business is carried on through the parent company, High Liner Foods Incorporated, and three principal operating subsidiaries.



High Liner Foods (USA) Incorporated manufactures and distributes retail frozen seafood and pasta products throughout the United States and Mexico. The Company's scallop and groundfish harvesting businesses operate as divisions of High Liner Foods Incorporated, but are known by the names Scotia Trawler Equipment Limited and National Sea Products Limited, respectively.

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Three Year History

Due to fishing industry imperatives, principally the decline in Atlantic Canadian fish stocks in the early 90's, High Liner Foods now focuses more on its frozen food expertise. Its growth strategy and business plans are aimed at leveraging the Company's core strengths in food processing, marketing, procurement and logistics. In 1998, the Company posted its most profitable financial results since reformulating its business vision, earning \$6.5 million after tax, and \$0.59 per

Common Share (See Seven Year Financial Data, 2000 Annual Report, pages 25 and 26).

The Company's 1998 acquisition of the assets of Italian Village Ravioli & Pasta Products, Inc., ("Italian Village") a frozen pasta processing company in New Jersey, was the Company's first major acquisition as an element of its current growth strategy (see section 2.3 - Growth Strategy, below).

The Company purchased the Italian Village assets to add new food products and the Gina Italian Village® and Floresta® brands to the Company's product line. On July 18, 1998, the Company entered into an asset purchase agreement to purchase substantially all the assets of Italian Village and its sister company, Floresta Pasta Products, Inc. (collectively "Italian Village"), for a purchase price of \$59.8 million (US\$38.6 million). The transaction closed on September 18, 1998. The Vendors retained an economic interest in the business until payment of an earn out sum. Until 2003, the Company had the option (the "Call Option") to pay an earn out sum to buy out the vendors. In 1999, the earn out sum was calculated as 2.8 times audited EBITDA (earnings before interest, taxes, depreciation and amortization) for the six month period ending June 30, 1998. In March 1999, the Company exercised the Call Option and paid the earn out sum of \$15.0 million.

Due to the vendors' unusual activities in the pre-closing period, the Company sued the vendors of Italian Village in 1998. Italian Village's major New York customers purchased significant quantities of pasta products from the previous owners between mid-August, 1998, and September 18, 1998, the acquisition closing date. These sales were conducted on unusual terms, favorable to the retail chains, and Management believes these sales were conducted in contravention of the purchase and sale agreement dated July 18, 1998, constituting what is known as "channel stuffing." These sales, along with already high inventories owned by wholesalers and retailers in the New York area, resulted in substantially reduced sales by High Liner Foods to New York customers during most of 1999. In addition, to help move this inventory through to consumers, the Company spent additional promotional monies to promote the sale of inventory which High Liner had not sold and on which it had received no profit.

In addition to the vendors, the Company has sued the two key principals of the business, one of whom has provided his personal guarantee on the company's indemnity claims. The grounds include breach of contract, including breach of representations and warranties, breach of implied covenants of good faith and fair dealing, breach of the personal consulting, and employment agreements entered into by the vendors' principals, breach of fiduciary duty, and tortious interference with the Company's business relations. In response, the defendants filed a counter-claim against the Company, alleging misrepresentation, breach of contract, and breach of the consulting and employment agreements.

The Company has retained legal and financial accounting consultants to assist in the prosecution of its claims and defense of the counter claims against it. Based on the advice of consultants received to date, the Company is confident that its law suit is well-founded and that the counter claims against it are without merit. To date, a limited amount of discovery has taken place. The Court had referred the dispute to mandatory mediation, a court-supervised process which commenced and terminated in 2000 without a settlement.

For further information, see the section entitled "Italian Village" in the Management Discussion & Analysis in the Company's 2000 Annual Report.

Late in 1998, raw material seafood prices increased by as much as 60%, which reduced margins on the Company's seafood products significantly during 1999. Market prices of raw materials declined somewhat during 1999. At the end of 1999, prices were on average 7 to 20% lower than they had been at the end of 1998. During 2000, market prices for the company's principal raw materials again were stable at 1999 levels, and for some species or products were lower.

The dramatic price increases of 1998 did not appear to relate to identifiable supply issues, and world groundfish landings are predicted to be stable in the near term. Therefore the Company is of the view that prices in 2001 will continue to be relatively stable consistent with 2000. However, quality H&G haddock was not available to the Company in sufficient quantities in 1998, which forced the Company in that year to purchase too much haddock that was not up to its normal specifications. Processing this haddock in 1999 resulted in increased production costs and higher by-product production. This further reduced the margin on these products.

These impacts continued throughout 1999, when the Company incurred a loss. Higher seafood raw material costs, lower groundfish landings from the Company's own fleet, and the challenges associated with the acquisition of Italian Village, already discussed, added up to a disappointing year. Fishing results in 1999 were disappointing due to lower market prices for fresh fish. Lower prices caused some quotas, caught in 1998, to be uneconomical to catch in 1999. Analysis of the impact of seafood raw material supply and price issues is difficult, due to the variability of possible assumptions. It may seem contradictory to discuss high raw material costs in the same context as the challenge of having to sell the Company's fresh fish catches at lower market prices. It is important to keep in mind that seafood raw material is not a homogeneous product, and prices and trends vary by both species and form of product. The fresh fish market does not necessarily move in synchronization with the market for other products, such as frozen minced blocks of Alaskan pollock.

Recognizing that the Company's competitive edge will be enhanced by its ability to manage and react to raw material supply issues, the Chief Executive Officer reassigned a member of his senior management team in 2000 to the post of Vice President Procurement, as discussed in more detail below.

In 2000, the Company returned to profitability consistent with 1998 results. Despite the set backs of 1999, during the past three years the Company has consistently focussed on increasing the sales, profits and market share of its primary food brands, High Liner[®], Fisher Boy[®], Gina Italian Village[®], and Floresta[®], and it has posted several achievements consistent with these goals (see Section 4 – Selected Consolidated Financial Information commencing on page 22). For example, consolidated sales have increased year over year in each of 1998, 1999 and 2000. Fisher Boy[®] has steadily increased its market shares in key markets, High Liner[®] continues to dominant the Canadian retail frozen seafood category, and, notwithstanding the rocky beginnings for Italian Village, the Company's frozen pasta products are the number two brand nationally in the United States and the number one brand in their core markets.

The Company's decision to increase its focus on leveraging its frozen food expertise into brand leadership in its selected food categories lead to divestiture of non-core and non-strategic assets and investments. Over the last several years, all proceeds from these sales were used to reduce the Company's debt, which has resulted in lower short term interest expenses. In addition, the Company has reduced operating costs. Procurement (in the place of harvesting) of headed and gutted raw material for processing in active plants has increased utilization of facilities. The reduced operating costs, increased utilization of facilities, and recent higher market prices at which the Company's commodity products have been sold, has increased margins.

The Company's 2000 strategic plan resulted in significant improved operations in 2000. The Company's Canadian retail business increased prices in 2000 by as much as 10%, contributing to an increase in profitability. Scallop landings increased by more than 60% in 2000 over 1999, which also contributed an additional pre-tax income. Seafood raw material prices were also slightly lower than in 1999, improving operations. In addition, operating costs in 2000 were reduced by lower labour costs and depreciation as a result of a reorganization in late 1999. At that time Management elected to reduce its workforce and write down a surplus processing plant, resulting in ongoing annual savings of \$2.5 million in operating costs and \$1 million in depreciation. (See the Company's Management Discussion & Analysis included as part of its 2000 Annual Report for a detailed discussion of results for 2000.)

To ensure the US subsidiary can continue to post improved earnings and growth in both seafood and pasta under focussed leadership, a Chief Operating Officer of the US subsidiary was hired in July 2000. The responsibilities of the Canadian senior management team have also been re-aligned at the end of 2000, to

position the Company's leaders to execute the business plans of each division. Recognizing that strategic management of seafood raw material supply is crucial to profitability, a Vice President Procurement has been assigned to manage all purchasing activities of the Company. He will collaborate with the Company's sales and marketing personnel to identify customer needs, and he will nurture the Company's extensive and enduring supplier relationships around the globe to ensure that procurement is aligned with sales objectives. He will also develop a logistics network for procurement to provide the best customer service and allow suppliers and the Company to seamlessly minimize supply chain costs. He is also responsible for the success of the Company's business to business electronic commerce initiative, Seafood Alliance, discussed in the Report on Operations in the Company's 2000 Annual Report. A Vice President Canadian Operations now assumes leadership of secondary and wetfish processing, and the Company's harvesting operations. This will further harmonize production and fishing activities with consumer and customer demands – to maintain both optimum inventory levels and effective supply chain management.

2.2 Business Strategy

High Liner Foods' goal is to develop the number one or number two brand position either nationally or, in the case of the United States, regionally, in the product categories in which it operates. High Liner Foods has identified products, such as its current seafood and pasta lines, that meet its product criteria: good value, high quality, nutritious and convenient for North American consumers. In the retail sector, products must be ready to eat from the freezer to the table in less than twenty minutes to be appealing to the consumer. An important part of the Company's strategy is its focus on quality, and the Company consistently strives to improve its products to maintain and improve its market leadership position. Quality of the Company's customer service, including setting objectives for continuity of supply and on-time delivery, are also key elements in its strategy.

2.3 Growth Strategy

High Liner Foods has adopted a strategy to pursue growth in three areas:

- a) ***Growth in Core Markets:*** The continued growth of the Company's core seafood and pasta businesses in both Canada and the United States in retail and food service markets. New product introductions as well as the expansion of Fisher Boy[®] and Gina Italian Village[®] to markets adjacent to their core markets in the southwest of the United States and the greater New York City area are an integral part of this strategy. Gaining additional volume of sales through "club stores", such as Costco, Sam's and B.J.'s, is also key to achieving growth targets.

- b) **Expansion into New Markets:** Demographics of Latin America, showing a high percentage of population under 16, growing incomes and modernization of supermarket distribution channels, provide an opportunity for High Liner Foods to market its mature North American products, such as fish sticks and fish portions, to urban areas in Latin America. High Liner Foods markets its seafood products in Mexico and is currently the number one seafood supplier to the retail market in Mexico City. High Liner Foods is working to expand its presence in Mexico.
- c) **Acquisition of Frozen Food Businesses:** The Company's strength in the retail frozen food business in North America is an opportunity for the Company to move into other frozen food categories through acquisition. The Company's strengths in management, customer relations, its United States' experience, its new product development expertise, state of the art business systems, and marketing and frozen food logistics expertise, all provide the necessary infrastructure and skills to market, sell and distribute frozen food products throughout North America.

The Company has specific business acquisition criteria. Management will consider acquisitions only if the products of the business to be acquired can be sold through the retail frozen food channel, specifically supermarkets and club stores. Targeted frozen food businesses are those in categories with less than US\$300 million in annual retail sales for the North American market that would enable High Liner Foods to build a significant market position through growth or consolidation. A strong regional brand is also an important criterion.

2.4 Significant Acquisitions and Significant Dispositions during 2000

Prior to the most recently completed financial year, the Company had disposed of most of its non-core, non-strategic assets, including idle and surplus trawlers, a subsidiary company involved in scallop aquaculture, its interest in International Aqua Foods Ltd. (a company involved in salmon aquaculture), surplus land, and its investment in Seabay Clam Company Inc. (a joint venture harvesting and marketing deep-sea clams). As well, the 1999 reorganization resulted in the write down of a surplus production facility which is leased and a reduction in the Company's workforce.

At the end of 2000, the Company owns one surplus plant (Louisbourg), which is leased to a third party.

No other significant transactions took place during 2000.

2.5 Trends

There is no trend, commitment, event or uncertainty that is both presently known to Management and reasonably expected to have a material effect on the Company's business, financial condition or results of operations in 2001 or later years. However, there are a number of factors that might impact Company operations, either positively or negatively, depending on the Company's execution of its business and growth strategies. These factors are: customer consolidation, the inherent uncertainty of future global groundfish supply and costs, selling prices for commodity products, the Company's groundfish and scallop quotas, and rapid technological change.

With respect to customer consolidation, grocery retailers and wholesalers in North America have consolidated and continue to consolidate. Arising out of these consolidations, particularly in Canada, the Company has experienced demands from retailers for increased listing and promotional incentives. However, as a supplier of Canada's clear number one frozen seafood brand, the Company expects to remain an important supplier to Canadian grocery retailers. The U.S. company, too, is focussing its efforts on brand strength and superior customer service to ensure the Company grows in step with the consolidators.

In terms of rapid technological change, the Company's leading edge enterprise wide computer software systems (principally JDEdwards®), and its investment in Internet enabling and connectivity, means that it is prepared and able to communicate with customers via the customer's mode of choice. As customers grow, they are centralizing and reducing costs to achieve merger synergies. The Company is positioned to be a supplier of choice due to its ability to meet customer requirements.

With respect to seafood raw material availability and cost, the Company anticipates that raw material will not decrease in cost and the global supply of groundfish will not increase over the next few years. Recent predictions delivered at the Groundfish Forum (an annual industry convention of global seafood companies), as illustrated in the chart on page 16, indicate a slight decline in aggregate landings of the ten most important groundfish species. The Company views the increasing effort on a global basis to observe sustainable management practices as a factor in the decrease. On a global basis, there is increased government response to the need to responsibly husband groundfish resources. These responses are driven by international legislation originating from the Food & Agriculture Organization of the United Nations ("FAO"). On a local level, the Company has endorsed the Canadian Code for Responsible Harvesting by incorporating the Code into its internal Fisheries Compliance Policy. This Code and the Company's Fisheries Compliance Policy are premised on the principle of sustainability.

The Company can manage the uncertainties of seafood supply and cost to some degree by adjusting product lines, and substituting species in certain products. The Company is also investigating the feasibility of using aquaculture raw materials, which it has not done to date. When certain raw material prices increase to an extent that erodes profitability of narrow margin products, the Company can increase promotion of a higher quality, premium product, such as its 1.5lb boxes of whole fillet items. In 2000, sales of these premium products in Canada doubled over 1999, and it is expected that they will continue to increase in popularity.

With respect to the Company's fishing division, recent government and industry consultations allow the Company to be reasonably optimistic that overall groundfish allocations to the Company will be relatively stable in the next one to five years. Haddock stocks from the Scotian Shelf and George's Bank, two of the division's prime fishing areas appear healthy and recruitment is excellent. Flatfish stocks on the Grand Banks are rebuilding and cod stocks in the same area are increasingly stable. On the other hand, a general decline in available perch is expected, and pollock stocks are not increasing. Overall, the improvements in haddock, flatfish and cod will offset the less positive news on perch and pollock stocks and the Company's present expectation is that overall allocations to the Company will be stable or conservatively increased over the next few years.

Raw material and quota issues, and trends expected with respect to scallops, are discussed in more detail in Section 3.3 of this document and under the section entitled "Risk" in the Management Discussion & Analysis in the Company's 2000 Annual Report.

3. NARRATIVE DESCRIPTION OF THE BUSINESS

3.1 General

High Liner Foods is one of North America's largest marketers of prepared, frozen, fresh and packaged seafood and frozen pasta. The Company is vertically integrated in all aspects of seafood harvesting, procuring, food processing and marketing.

Marketing

The Company sells its products, both directly and through distributors, to North American retail stores, club stores, hotels, restaurants and institutions, and to the fresh fish market. In Canada, High Liner Foods markets the majority of its seafood products under its High Liner[®] trademark, in the United States under the Fisher Boy[®] and High Liner[®] trademarks, and in Mexico under its Fisher Boy[®] trademark. The Company exports outside of North America, principally to Europe, typically under the High Liner[®] brand. High Liner Foods sells its frozen

Italian-style pasta products to retail stores throughout 50% of the United States under the Gina Italian Village® and Floresta® trademarks. High Liner Foods produces private label seafood products for retailers throughout North America.

High Liner Foods markets a diverse range of products under a variety of trademarks and brand names in Canada, the United States and Mexico, as illustrated in the following chart:

| | <u>Canada</u> | <u>United States</u> | <u>Mexico</u> |
|------------------------------------|--|---|---|
| Products: | Fresh and frozen groundfish fillets Scallops Shrimp Fresh fish Prepared seafoods Entrées Other pelagic species Processed chicken | Frozen groundfish fillets Shrimp Prepared seafoods Unsauced frozen pasta products | Prepared seafoods |
| Trademarks and Brand Names: | Captain High Liner® High Liner® Fisher Boy® Light Tonight® Healthy Bake® Bake and Broil® Captain's Table® Healthy Catch® Homestyle Baked Fillets® Captain's Catch® La Prise du Capitaine® RingOs™ Captain's Fish 'n Fries® Seafresh® Captain's Chicken® Captain Burger® Poulet du Capitaine® | Seafresh® Fisher Boy® QWIK BAKE™ QWIK STIX® Gina Italian Village® Floresta® FisheRings™ | Fisher Boy® RapiBarritas® RapiCocinados® PescAritos™ |

High Liner Foods sells to most major grocery store chains in the United States and Canada, and to food service and fresh fish distributors in Canada and the United States. Club stores, Mexican distributors, customers in Europe and Asia also account for some sales.

As mentioned, there has been a trend in the North American grocery business toward increased consolidation of grocery retailers and wholesalers. In Canada, two major food retailers control in the aggregate 54% of the retail food sales market ("*Food in Canada*", September 2000: Deloitte & Touche Benchmarking for Success Report). Grocery retailers typically charge suppliers "slotting fees" for shelf space on a per product basis, and also require money to support product advertising and special promotions. Arising out of consolidations, the

Company has experienced demands for increased levels of these expenditures to keep its products on store shelves. Consolidation has resulted in the Company now having one customer in Canada that accounts for slightly more than 10% of the Company's annual sales. Consolidation also makes it more important to achieve and maintain a brand leadership position, as consolidators move towards centralized buying and streamlined procurement. The Company is in a good position to meet these demands, since it offers quality, popular products using a good distribution system.

In the US, retailers are also consolidating, although there is less concentration than in Canada. High Liner (USA) is focussed on delivering the same quality and distribution expertise to the US consolidators. Given the Company's brand strategy, customer consolidation is an opportunity for the Company to grow in step with customer growth.

Approximately 17% of the Company's 2000 sales were private label products produced for a variety of retail grocery chains throughout North America. Although relationships with these private label customers have been substantially long term in nature, the loss of a significant private label customer would adversely affect the Company's results of operations. Management is not now aware of any fact or circumstance that would lead to an imminent loss of private label business.

Sales revenues from operating segments that accounted for 15% or more of total consolidated sales revenues in each of the last two fiscal years were:

| | <u>2000</u> | <u>1999</u> |
|-------------------|-------------|-------------|
| High Liner Canada | | |
| Domestic | 45% | 46% |
| Sales to the US | 15% | 16% |
| High Liner USA | | |
| Domestic | 36% | 34% |

See Note 15 - Segmented Information, in the Company's 2000 Financial Statements contained in its 2000 Annual Report for further details on operating segments.

Canadian Sales and Marketing – Domestic and Export

The Canadian retail frozen food market had consumer sales of \$3.24 billion in 2000, an increase of 8% over 1999 according to ACNielsen. Frozen seafood, the 4th largest category, had consumer sales of \$295 million in 2000, an increase of 13% over 1999. Frozen fish & chips, a \$6.3 million category, decreased by 4% in 2000 compared to 1999. The frozen pasta market is not tracked separately in Canada but is estimated by management to be less than \$8 million in annual retail sales. Frozen pasta is included in the largest frozen food category,

dinners/entrées, with 2000 consumer sales of \$838 million. This category grew by 12% in 2000 over 1999. To date, High Liner does not market its frozen pasta products in Canada, although it plans to introduce some pasta products to Canada in 2001.

The Company's Canadian sales and marketing group includes the retail and food service businesses headquartered in Toronto, with regional sales offices in Calgary, Montreal and Halifax. As well, the commodity sales division, located in Lunenburg, Nova Scotia, sells fresh and frozen fish, principally to the United States. Canadian sales are managed by an in-house sales team, selling directly to customers. Logistics and distribution are managed from Lunenburg, Nova Scotia.

United States Sales and Marketing – Domestic and Export (High Liner Foods (USA))

The United States' retail frozen food market had consumer sales of US\$27.1 billion in 1999, up over US\$1.0 billion from 1998 according to Information Resources Inc. Sales of frozen seafood were US\$1.2 billion in 2000, an increase of 9.3% over the previous year, according to ACNielsen. The total frozen pasta market represented sales of US\$184.4 million for 2000, a decrease of 2.4% over the previous year, according to ACNielsen.

High Liner Foods (USA), headquartered in Portsmouth, New Hampshire, markets a full range of frozen fish fillets, breaded and battered fish sticks and frozen shrimp under the Fisher Boy® brand. High Liner Foods (USA) also produces a wide variety of seafood products which are sold as retail private label brands in United States' supermarkets. In 2000, approximately 50% of its United States' dollar seafood sales to the retail frozen food market were private label products.

High Liner Foods (USA) is a leading seafood supplier to Mexico, where it markets products under the Fisher Boy® brand and co-packs for other distributors.

High Liner Foods (USA) also produces and markets frozen unsauced pasta products, such as ravioli, tortellini, stuffed shells, manicotti, gnocchi and cavatelli, to the United States' retail market under the trademarks Gina Italian Village® and Floresta®.

There is still much room for growth in the frozen pasta/noodles category, as just 15% of consumer pasta dollar sales are spent on frozen pasta, with dry pasta accounting for 75% and refrigerated pasta making up the balance. Only about 32% of all households in the United States are consuming frozen pasta. Currently, Italian Village products are marketed in the United States to the same retail chains as are currently buying other products from High Liner.

High Liner Foods (USA) also imports both frozen and fresh fish directly to customers into the United States from its Canadian locations.

Export Sales

High Liner Foods, on a consolidated basis, sells less than \$10.0 million annually of seafood products into other international markets such as Great Britain, France, Denmark, Bermuda, Iceland, Sweden, Spain, Germany and Asia.

Production

High Liner Foods owns and operates two primary seafood processing plants and one secondary processing plant in Canada, and one secondary processing plant in the United States. The Company operates a leased pasta processing plant in the United States.

The following chart describes High Liner's major production facilities:

| Location ⁽³⁾ | Type of Production | Annual Capacity ⁽¹⁾ Metric Tonnes | Capacity Utilization |
|--------------------------------|---------------------------|---|-----------------------------|
| Nova Scotia | | | |
| Lunenburg | Primary | 11800 | 35% |
| | Prepared foods | 18150 | 70% |
| Louisbourg ⁽²⁾ | Leased | n/a | n/a |
| Newfoundland | | | |
| Arnold's Cove | Primary | 6350 | 100% |
| United States | | | |
| Portsmouth NH ⁽⁴⁾ | Prepared foods | 29500 | 65% |
| Secaucus NJ ⁽⁵⁾ | Prepared foods | 18150 | 15% |

- (1) Based on the production of finished pounds, on two shifts for 5 days per week.
- (2) In April 1998, High Liner Foods leased its Louisbourg plant for five years at an annual rental of \$100,000 per year with an irrevocable option for the lessee to buy the plant at the end of the five-year period for \$2.5 million.
- (3) Total insured value of the properties is \$172.0 million.
- (4) Building is leased by the Company subject to a 5-year lease expiring in 2005 with a 5-year renewal option.
- (5) Utilization in 2000 was lower than usual as the plant was closed for six months during the year to reduce inventory levels. Utilization in 2001 is expected to be approximately 30%.

All food processing plants conducting business throughout North America require a combination of State or Provincial and Federal licenses to operate. The requirement to obtain and maintain a food processing licence principally relates to food safety and quality, transportation of food and labeling. High Liner Foods possesses all necessary licenses and approvals to operate.

In Canada all seafood processing plants are required to adopt a QMP covering the regulatory and safety aspects of food processing. High Liner's QMP has been approved and in good standing since inception of this requirement.

The United States requires its seafood processing plants to adopt a quality management plan known as HACCP. High Liner Foods seafood processing plant in Portsmouth, New Hampshire was one of the first plants to have an approved Seafood HACCP plan in the USA and to pass a HACCP audit.

The Company's food processing plants and its trawlers are subject to Canadian Federal, Provincial and United States Federal and State legislation with respect to safety and environmental matters. In the United States, state labour laws and the Federal Occupational Safety & Health Act (OSHA) regulate how work must be conducted in the Company's plants. In Canada, provincial Departments of Labour and Worker's Compensation Boards play an active role in monitoring health and safety in the workplace. The Canadian Department of Transport regulates safety on the Company's vessels. All vessels are required to undergo regular Canadian Steamship Inspection. The Company's Environment and Safety Committee of the Board of Directors receives quarterly reports on the Company's safety and environmental management, and oversees efforts of the Company to maintain safe and environmentally compliant workplaces.

High Liner Foods owns a fleet of 10 fishing vessels, of which 5 groundfish trawlers and 4 scallop draggers are active. The tenth vessel is chartered to another scallop harvesting company. These vessels are operated in the Atlantic Canadian offshore sector, and the catches from these vessels account for approximately 15% of the Company's sales.

3.2 Competitive Conditions

High Liner Foods faces competition from other frozen food processors, including those which have larger sales and marketing organizations and greater financial resources than the Company.

In North America, High Liner Foods competes in many markets, each with diverse and unique characteristics. The Company's major competitors in the *retail seafood market* are national and regional producers of brand name and generic products, including Unilever Inc. (Gorton's[®] (U.S.) and BlueWater[®] (Canada) brands), Aurora Foods Inc. (Mrs. Paul's[®] and Van de Kamp's[®] brands (US)), Jane's Family Foods Ltd. (Canada), National Fish and Seafood Incorporated, and Fishery Products International Limited. Competitors in frozen unsauced pasta are Heinz (Rosetto[®] brand), Celentano[™] and many other smaller brands. Of these frozen pasta companies, Gina Italian Village[®] has the second largest national market share behind Rosetto[®], the leading and only truly national brand owned by Heinz. Private label products also compete with the Company's brands. Retail competition in North America is very intense. In the retail market, price, convenience, nutritional value and consumer brand recognition and loyalty, are the primary competitive factors. High Liner[®] in

Canada enjoys extremely high consumer brand recognition, and Fisher Boy[®] has increased its brand awareness in the U.S., particularly in its core markets.

The Company's major competitors in the *food service market* consist of vertically integrated fishing companies, regional food processing companies and seafood traders. Competitors include Fishery Products International Limited, Coldwater Seafood Corporation, Frionor USA Inc., Trident Seafoods Corporation, Icelandic Freezing Plants Corporation, and many smaller trading companies. In the food service market, continuity of supply, customer service, and price are the major aspects of competition. The *fresh seafood market* in the United States is characterized by many small local distributors with no single dominant company. The *international export market* is characterized by worldwide competition from a large variety of fishing and trading companies.

In the Canadian retail frozen seafood market, products sold under the High Liner[®] trademark enjoy a dominant market share position. According to ACNielsen, High Liner held 44.3% of the frozen packaged seafood market, as measured in tonnage, for the 52 weeks ended December 30, 2000. Management estimates that the Company's food service division enjoys a leading market position in the processed seafood category in Canada, although the category is not independently measured by market researchers. High Liner Foods carries on advertising and related activities to create, maintain and enhance brand loyalty. "Captain High Liner" is one of the most recognizable brand icons in Canada.

According to a 2000 frozen food study by ACNielsen, High Liner Foods is the 7th largest frozen food company in Canada, after Nestle Canada Inc., McCain Foods Ltd., Good Humor - Breyers Company, J.M. Schneider, the Pillsbury Company, and Coca-Cola Foods. High Liner represents \$77 million of the total retail frozen food market based on consumer sales revenue.

Market information on frozen food sales to the Canadian food service industry -- hotels, restaurants and institutions -- is not available.

In the US, Fisher Boy's[®] sales were principally fish sticks and, according to ACNielsen for the 52 weeks ended December 23, 2000, Fisher Boy[®] enjoyed 21.2% of the United States' national market, an increase of 2.3 share points over the previous year. In its core markets, principally the south-west of the United States plus New York, Fisher Boy's[®] market share for fish sticks was 42.4%, up 3.5 share points. Currently, Fisher Boy[®] is the leading brand in Mexico City, with a market share of 40.7% for the 52 weeks ended December 23, 2000, as measured by ACNielsen.

High Liner Foods (USA)'s pasta products enjoy a dominant market position in many cities, most notably New York City and Chicago. Gina Italian Village[®] is the number two brand nationally. Gina Italian Village[®] and Floresta[®] together

account for 15.0% of the United States' market for frozen unsauced pasta for the 52 weeks ended December 23, 2000, according to ACNielsen. This share rises to 28.0%, and the leadership position, of the New York market for the same period.

3.3 Procurement of Raw Material

Seafood raw material for primary processing is supplied by the inshore, offshore and foreign sectors, and, on a species by species basis, can be seasonal. Capacity utilization of some plants can vary depending on the time of year. The Company's primary processing facility in Lunenburg, Nova Scotia is operating significantly below capacity, as shown in the Table on page 12. Frozen fish is procured primarily from the Barents Sea and the Bering Sea for the primary processing plants to more fully utilize their capacity and meet demand requirements. Market prices and quality of raw material for these facilities are significant factors in determining at what level profitable production can be achieved. Increases in H&G raw material prices in 1998 resulted in reduced production volumes for the Lunenburg processing facility in that year.

In its prepared seafoods processing plants at Portsmouth, New Hampshire and Lunenburg, Nova Scotia, High Liner Foods processes frozen fish blocks and other seafood raw material, obtained from Canadian, European, Asian and Alaskan suppliers, into a wide variety of retail and food service processed products.

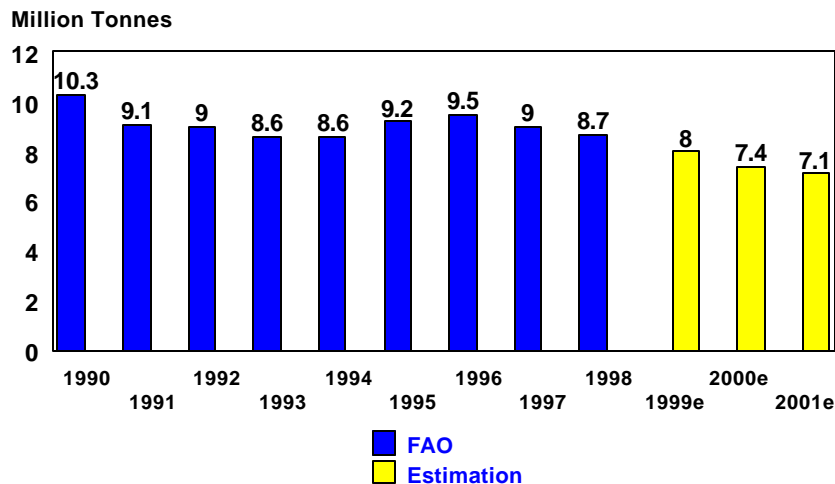
The Company has become more dependent on its seafood procurement activities, rather than harvesting, as a result of significant quota reductions in the early '90's imposed by DFO to conserve Atlantic Canadian fish stocks. With the exception of 1996, these quotas have been stable or increasing since 1995. The Company purchases a significant quantity of frozen raw material and finished goods, originating from Russia, China, Norway, the United States, the United Kingdom and Uruguay. The Company, with some constraints, can use different species in its processed products and can promote different species in the marketplace depending upon current market costs and supply. The Company procures as much as \$90 million of commodity seafood products, either as raw material or finished goods, each year. The Company now has a Vice President Procurement to lead its raw material procurement strategy.

The Company does not have significant long-term contracts to purchase raw seafood. There are no futures markets for seafood where forward purchases can be hedged. The Company's strategy for procurement of raw seafood is to build long term relationships with suppliers in the United States, Europe and Asia and to enter into agreements of up to one year in duration with these suppliers. These agreements can cover both price and quantity, but often provide for quantities only, with price being determined by the market at the time of shipment or on a quarterly basis. Purchases are in US dollars and are subject to quality

inspection by both the CFIA and the Company. From time to time, depending upon market conditions, the Company takes inventory positions to ensure that it has sufficient raw materials at acceptable cost for its requirements.

Global demand for fish and seafood is expected to steadily grow. However, wild fishery catches have begun to decline after peaking at 100 million tonnes per year in 1990. Canada has been particularly affected by this downturn. The following chart indicates catches of the 10 most important wild groundfish species, as reported by the FAO in 1999, along with estimates of panelists delivered at the 2000 Groundfish Forum. It should be noted that sustainability is now an important aspect of fisheries management for most developed countries, and some of the catch reduction is attributable to increased regulation and industry conservation measures aimed at protecting fish stocks for the long term. The decrease in fish available to seafood companies worldwide has increased the cost for High Liner's processed products, which are manufactured principally from procured raw material. This also affects our competitors. Reduced availability of seafood, together with the increase in global demand, should ensure that, if the Company's Atlantic Canadian quotas increase in the future, its fishing business will have considerable positive financial impact on the Company's performance.

GROUND FISH LANDINGS 10 MAJOR SPECIES



High Liner Foods also procures round fish (see Glossary) from inshore fishermen to augment production at its primary processing plants. There are no long term agreements with these inshore fishermen and the Company pays market prices at the time of purchase.

Globally, there has been considerable development of the aquaculture industry. The Company does not at present use raw material from aquaculture, but it is investigating the feasibility of this source of products and raw materials.

The two active primary seafood processing plants in Lunenburg and Arnold's Cove procure up to 60% of their raw material in a frozen headed and gutted form.

| Headed & Gutted Purchases (metric tonnes) | |
|---|--------|
| 2001 ^(P) | 9,050 |
| 2000 | 5,741 |
| 1999 | 6,987 |
| 1998 | 13,214 |
| 1997 | 10,500 |
| (P) Projected | |

The Company's two secondary seafood processing plants currently procure up to 90% of their raw material requirements, equal to 14,000 metric tonnes.

The New Jersey pasta plant purchases agricultural products, such as cheese, flour and eggs, from local suppliers in the United States. These ingredients are commodities and prices fluctuate from time to time. The Company has a co-pack supply agreement for the purchase of up to 1.2 million pounds finished pasta product in 2001 at agreed prices. The agreement is renewable.

The Company purchases all of its shrimp products from an independent processor in the United States. Shrimp prices are subject to significant, not altogether predictable, price fluctuations. Processed chicken products are purchased in Atlantic Canada and prices are more stable than for seafood products.

For a detailed description of the risk associated with currency and interest rate fluctuations in relation to procurement of raw materials, refer to the Management Discussion & Analysis in the Company's 2000 Annual Report.

High Liner's fleet of ten vessels continues to harvest raw material and fresh fish products. Of the eleven vessels owned in 2000, five are wetfish stern trawlers active in year round harvesting of High Liner's groundfish EA's in 2000. The remaining six are offshore scallop vessels, of which four were active in 2000 harvesting High Liner's scallop quota. The sixth scallop vessel was sold subsequent to the 2000 year end and the other is leased to another company. The Cape Blomidon, a scallop trawler, is capable of freezing at sea, and is the only freezer vessel currently operating in the Canadian scallop industry. It is anticipated that a competitor will commission a freezer trawler within the next one to two years, and the Company is building its sales and marketing efforts for its high quality frozen at sea scallop products.

In addition to its own fleet, High Liner Foods from time to time contracts with owners of smaller, privately owned vessels to harvest its EAs. During 2000,

seven independent vessels fished under the Company's licenses for at least part of the year.

The Atlantic Canadian fishing industry is managed by the Canadian Federal Government under DFO. The Canadian Federal Government establishes and enforces quotas for various countries, including Canada, and limits conditions under which Canadian and foreign vessels can fish within the Two Hundred Mile Economic Zone. The Zone includes within its boundaries all major fishing areas off the east coast of Canada, with the notable exception of areas called the Nose and Tail of the Grand Banks of Newfoundland. These areas are under the jurisdiction of NAFO which manages quotas of the fish stock in these areas for its member countries.

The Atlantic Canadian fishery is divided into the inshore and offshore sectors. The offshore sector has approximately 16 competitors of which the Company is one of the largest. Off shore operations are conducted year round. The inshore fishing operations in Atlantic Canada are conducted primarily by self-employed fishermen, from whom the Company, from time to time, purchases raw material, particularly in Newfoundland.

Based on scientific data and stakeholder consultation, DFO allocates on an annual basis the total allowable catch (TAC) for each species in each fishing area. For most stocks, the TAC is further allocated between the inshore and offshore sectors. The Fisheries Resource Conservation Council of Canada is an important stakeholder and participant in this process. The Council includes representatives from all sectors of the Atlantic Canadian fishing industry.

The Canadian offshore quota increased in 1997, 1998, 1999 and 2000 (annualized for 12 months, since 2000 was a 15 month quota year), as shown in the Table below. Perch quotas increased in 1997, remained the same in 1998 and increased in 1999 by 1,000 metric tonnes. Pollock quotas decreased by 8,000 metric tonnes for 1999, but the decrease had no impact on the amount of fish caught by the Company, as historic landings are still less than quotas. Catches of groundfish in 2000 were 11% higher than in 1999, due to higher landings of cod, haddock, perch and turbot.

Scallop quotas were reduced in 1996 but increased in 1997 and 1998. They then remained at the same level in 1999 and increased substantially in 2000, as new Year Classes supported a higher level of fishing. This trend of increased scallop quotas is expected to continue for the next several years, although 2000 is likely the highest quota level to be expected in the near term.

DFO has the authority to change the TACs and the share between the inshore and offshore sectors from time to time in consultation with the industry. The TAC for the offshore sector is allocated amongst eligible companies as Enterprise Allocations (EA) for each species and fishing area. EAs also apply to

the northern shrimp, scallop and clam fisheries. The Company does not harvest northern shrimp or clams.

High Liner Foods is one of the most significant participants in the Canadian offshore sector, holding an average of approximately 1/3 of the Canadian offshore groundfish quota.

| GROUND FISH | Canadian Offshore Quota (metric tonnes) | Company's Enterprise Allocation | Company's % of Canadian Offshore Quota ⁽³⁾ |
|------------------------------|---|---------------------------------|---|
| 2001-2002 ⁽¹⁾⁽²⁾ | 40,600 | 11,731 | 28.9% |
| 2000-2001 ⁽²⁾ | 39,856 | 12,171 | 30.5% |
| 1999-2000 ^{(3) (4)} | 46,319 | 16,506 | 35.6% |
| 1998 | 37,720 | 15,335 | 40.7% |
| 1997 | 32,739 | 14,782 | 45.2% |

(1) Projected

(2) Quota year is for the twelve months from April to March.

(3) In 1999, quota was for 15 months from January 1999 to March 2000.

(4) Quota changes affect some areas more than others resulting in the effect of varying the Company's overall percentage

Although the Company's Enterprise Allocations are expected to be reduced in 2001-2002 from 2000 levels, based primarily on DFO's reduction of TAC for pollock, this will not materially affect landings, as some pollock quotas have not been economical to catch in the past. The reduction in pollock quotas affects High Liner Foods more than other companies in the offshore sector since the Company utilizes the species to a greater degree. The reduction is the reason for the decrease in the overall percent allocated to the Company.

Regulations applicable to the Company provide for the registration of fishing vessels and fishers and for the issuance of licenses to catch specified species of fish. The Company's licenses that expired in 2000 have been renewed for 2001 and the Company expects that these licenses will continue to be renewed annually.

In 1996, the Federal Government put in place yearly access fees for the harvesting of various species. These are calculated on a per pound basis and must be paid prior to fishing. The total paid by the Company in 2000 for groundfish and scallops was approximately \$1.1 million and is estimated to be the same in 2001.

Since 1996, DFO has increased the TAC for scallops which peaked in 2000 as a result of a very strong 1996 Year Class. (Scallops are typically four years old when they reach a size appropriate for harvesting.) Growing conditions have been unusually good. The quota for 2000 increased over 60% from 1999. The 2000 quota for George's Bank, the Company's prime scallop harvesting area,

increased 2.5 times from 1999, and it is expected that the quota will be maintained at this higher level for the next several years. The fishery on Brown's Bank has also developed as a result of responsible fishing over the past several years by industry, and the intent of industry and DFO to develop this into a sustainable fishing area. Harvesting levels on Brown's Bank are improving with strong Year Classes recruiting to the fishery. The industry has voluntarily protected juvenile areas. Quota for Brown's Bank is expected to continue to increase into 2001.

Scallop landings in 2000 were 1,414 metric tonnes, compared to landings of 847 metric tonnes in 1999. Landings for 2001 are forecasted to be slightly below 2000 landings at 1,305 metric tonnes.

| SCALLOPS | Canadian Offshore Quota (metric tonnes) | Company's Enterprise Allocation | Company's % of Canadian Offshore Quota |
|---------------------|---|---------------------------------|--|
| 2001 ⁽¹⁾ | 8,150 | 1,330 | 16.3% |
| 2000 | 8,750 | 1,428 | 16.3% |
| 1999 | 5,350 | 873 | 16.3% |
| 1998 | 5,350 | 869 | 16.3% |
| 1997 | 5,075 | 828 | 16.3% |

(1) Projected

The future of George's Bank and Brown's Bank looks promising, as recruitment of juvenile scallops continues. Industry participants and DFO share common goals of developing sustainable fisheries for the long term and are continuing to develop improved management plans to achieve these goals. Recruitment on these banks, and therefore quotas, is expected to continue to improve beyond the year 2000. Resource management of scallops is less problematic than for groundfish, since their populations are easier to study.

Although DFO's method of allocating groundfish and scallop quotas, and the Company's annual share, has been largely stable since its introduction in 1983 and 1987 respectively, the Minister of Fisheries and Oceans has the right to make changes in either the TAC or the Enterprise Allocations, after consultations with industry participants and stakeholders. Since the introduction of the above-mentioned moratorium in the early 1990's, successive fisheries ministers have reaffirmed that historic fleet sector shares will be respected.

3.4 Employee Relations

The operations of High Liner Foods involve 1,435 active full-time employees. Approximately 313 of these employees are employed on a salaried basis, 972 on an hourly basis; 150 are vessel captains and crew.

High Liner Foods has 986 unionized employees in Canada who are represented under the following collective agreements:

| Province | Union | Number of Employees | Contract Expiry Date |
|--------------------|---------------------------------|---------------------|----------------------|
| Newfoundland Plant | Fisherman Food & Allied Workers | 412 | Dec. 31, 2003 |
| Nova Scotia Plants | Canadian Auto Workers | 418 | Dec. 31, 2001 |
| Trawler Fleet | Canadian Auto Workers | 65 | Dec. 31, 2002 |
| Scallop Fleet | Canadian Auto Workers | 60 | Dec. 31, 2001 |
| Cape Blomidon | Canadian Auto Workers | 31 | Dec. 31, 2001 |

Management of High Liner Foods believes it has reasonably good relationships with its employees and does not anticipate any major disruptions in operations caused by labour disputes. The Canadian operations employ 811 hourly employees, 115 vessel captains and crew, and 239 salaried employees. The US company employs 74 salaried people and 154 non-unionized hourly people.

3.5 Environmental Management

The Company, its operations and properties are subject to extensive federal, provincial, state, municipal and local environmental laws and requirements in both Canada and the United States relating to, among other things, air emissions, the management of contaminants including hazardous material (including the generation, handling, storage, transportation and disposal of such contaminants), discharges and the remediation of environmental impacts (such as the contamination of soil and water, including ground water), just as is any manufacturing operation. A risk of environmental liabilities is inherent in food processing operations, activities associated with such operations, and the ownership, management or control of real estate.

All of High Liner Foods' plants contain substantial freezing equipment, most of which utilize ammonia systems. Any release of ammonia in the operation of this equipment would result in environmental hazards and remediation requirements, and therefore maintenance of the freezers is a priority, the Company has a comprehensive emergency response plan in all facilities, and personnel are well-trained and, where required, certified in hazardous materials handling.

Certain of the Company's wharf operations provide full maintenance service and fuel facilities for vessels. Each wharf has a series of operational systems that have been implemented to control environmental impacts relating to the operation of that wharf. The fuel facilities are registered and licensed by provincial authorities. Each facility has a preventative maintenance program which is monitored and upgraded as required.

As part of financing initiatives in 1997, phase one environmental assessments of the Company's Canadian and United States' processing facilities indicated that there are no significant environmental issues to be addressed by the Company.

The Company has an employee environment committee and an Environment & Safety Committee of its Board of Directors. The mandate of the Environment & Safety Committee is as follows:

- a) to review and report to the Board on the Company's compliance with all environmental and safety regulations and laws in the areas where it carries on business;
- b) to assist management in developing action plans to deal with environmental and safety issues; and
- c) to monitor management's progress at rectifying any situations identified as potential risks.

The Company's environmental protection requirements are integrated into its overall enterprise-wide risk management programs. In 2001, and in the near future years, management anticipates no material impact of such requirements on capital expenditures, earnings and competitive position.

3.6 Reorganization and Write-Downs

In November and December of 1999 the Company reorganized its Canadian sales forces and its Lunenburg processing facility. This resulted in a pre-tax charge to income of \$1.7 million, representing severances, early retirement and other costs. As well, the carrying value of property, plant and equipment in Louisbourg was written down by \$3.0 million due to lower future cash flows expected from this property.

This reorganization, which resulted in reduced staffing levels in Canada, reduced ongoing annual operating costs by \$2.5 million. As well, the asset write-down reduced depreciation expense for each of 2001 to 2003 by \$1.0 million.

4. SELECTED CONSOLIDATED FINANCIAL INFORMATION

4.1 Annual Information

Reference should be made to the Seven Year Financial Data and Quarterly Financial Data tables in the Company's 2000 Annual Report, which include sales, income from operations, net income, total assets, long term financial liabilities, dividends and other items for 1998 to 2000.

With respect to the most recent fiscal year ended December 30, 2000, reference should be made to the Company's Management's Discussion and Analysis of Financial Condition and results of operations and the Company's consolidated financial statements and notes thereto included in that same Annual Report to Shareholders.

The following selected financial information for the fiscal years ended 1999 and 1998, has been derived from the Company's audited consolidated financial statements and the notes thereto. See the Company's Management Discussion and Analysis and consolidated financial statements in the 2000 Annual Report for a comparison of 2000 with 1999.

4.2 Factors Affecting Comparability

52 Weeks Ended January 1, 2000 Compared to 52 Weeks Ended January 2, 1999

Sales increased in fiscal 1999 over fiscal 1998 by 3.7% due primarily to the inclusion of Italian Village sales for a full year, compared to only 107 days in 1998. As well, sales increased in fiscal 1999 in the food service division due to an increase in sales prices and volume. These sales increases were partially offset by the sale of the Company's joint venture, Seabay Clam Company Inc., and declines in groundfish landings. Gross profit was 15.7% in fiscal 1999, 4.9 percentage points lower than fiscal 1998. The decrease was due primarily to higher seafood raw material prices, lower groundfish landings and volume reductions in the Company's prepared foods plants. Other selling, general and administrative expenses increased by \$0.4 million due to the inclusion of the Company's Italian Village division for a full year in fiscal 1999.

Interest expense increased \$2.7 million, again due primarily to the inclusion of the operating results of the Company's Italian Village division for a full year in fiscal 1999 compared to only 107 days in 1998. As well, interest expense was also increased due to the conversion of a Convertible Income Debenture in 1999 to long term debt. Short-term interest also increased due to higher inventories and higher interest rates than fiscal 1998.

The financial results for fiscal 1999 include an unusual item of \$4.7 million, which is the cost of severance and other related costs as well as write-down of production assets as a result of a reorganization which occurred during the year. Also included in the results for fiscal 1999 is a pre-tax gain of \$5.9 million on the sale of non-strategic assets, principally the sale of the assets of Seabay Clam Company Inc.

The effective income tax rate for fiscal 1999 was 22.8% versus 44.0% in fiscal 1998. The 22.8% in fiscal 1999 is a tax expense which results in a loss before income tax due to a capital transaction which was not deductible for tax.

Working capital requirements decreased throughout 1999 due to a conscious effort during the year to reduce inventory. Capital expenditures were lower than the previous year by \$2.0 million.

52 Weeks Ended January 2, 1999 Compared to 53 Weeks Ended January 3, 1998

Sales increased 5.0% in fiscal 1998 over fiscal 1997 due primarily to the sales of pasta products as a result of the purchase of the assets of Italian Village in September 1998. As well, sales increased due to higher sales of commodity products. Gross profit was 20.6% in 1998 versus 19.5% in 1997. This increase was due to good selling prices in commodity markets, lower production costs in our United States' facility and the addition of pasta products in the United States. Other selling, general and administrative expenses increased by \$2.1 million due primarily to increased marketing in the Canadian retail business as well as the addition of the pasta business for 107 days.

Interest expense increased by \$1.3 million due to higher levels of short-term borrowing to finance increased inventory, higher interest payments on debt denominated in United States dollars and interest on long-term borrowings to finance the purchase of Italian Village, expensed for 107 days in 1998.

In 1998, the Company sold land in Portsmouth, New Hampshire that was surplus to its operations at a pre-tax gain of \$1.1 million.

The Company recorded income taxes on its operations for fiscal 1998 of 44.0% compared to 41.5% in 1997.

Working capital requirements increased throughout 1998 as a result of increases in both accounts receivables and inventory, partly due to the purchase of Italian Village and partly due to inventory positions taken on seafood raw material. Capital expenditures were higher than the previous year by \$0.8 million.

4.3 Dividend Policy

Dividends on the Company's Class C & D Preference Shares of \$0.1 million were paid in full in 2000 and 1999. Dividends on the Second Preference Shares were also paid in full in the amount of \$1.3 million for both 2000 and 1999. Dividends on the Second Preference Shares are in arrears at December 30, 2000 in the cumulative amount of \$8.2 million, representing accrued dividends for the period June 30, 1991 to December 31, 1997. These arrears must be paid before any dividends can be declared on the Common Shares. Subject to cash flow, it is the Company's intention to pay current dividends in 2001 on all Preference Shares. There are at present no plans to pay dividends in arrears on Second Preference Shares or on Common Shares.

5. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of financial conditions and results of operations is contained on pages 13 to 16 of the 2000 Annual Report and is incorporated by reference herein.

6. MARKET FOR SECURITIES

The Company's Common Shares are listed for trading on The Toronto Stock Exchange under the symbol "HLF". The Company's Convertible Subordinated Debentures trade on The Toronto Stock Exchange under the symbol HLF.DB.

7. DIRECTORS AND OFFICERS

Information concerning directors and officers is contained under the heading "Election of Directors" in the Company's Information Circular accompanying the Notice of the Annual Meeting of Shareholders to be held on April 27, 2001. All directors but one proposed for nomination in 2001 were directors at the Company's fiscal year end on December 30, 2000. Directors and executive officers as a group own 391,354 common shares of the Company, representing 4% of the total issued and outstanding voting shares of the Company.

The Board Committees and appointments to those committees are set out in the above referenced Information Circular.

8. ADDITIONAL INFORMATION

Additional information, including additional copies of this Annual Information Form, the 2000 Annual Report containing the comparative consolidated financial statements and accompanying report of the auditor, the most recent interim financial statements and the 2000 Management Information Circular for the Company's Annual General Meeting to be held on April 27, 2001, may be obtained upon request from the Corporate Secretary of the Company at investor@highlinerfoods.com, or on the Company's Internet website at www.highlinerfoods.com, or by writing to the Corporate Secretary at High Liner Foods Incorporated, PO Box 910, Lunenburg, Nova Scotia B0J 2C0.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and options to purchase securities is contained in the Company's 2000 Management Information Circular, and additional financial information is provided in the Company's consolidated financial statements for 2000, contained in the Company's 2000 Annual Report.

GLOSSARY

CFIA: The Canadian Food Inspection Agency, a department of the Canadian Federal Government.

DFO: Canadian Federal Department of Fisheries and Oceans.

ENTERPRISE ALLOCATION (EA): A percentage share of the offshore quota of a fish stock allocated to a fishing enterprise by DFO.

FISH BLOCK: A 7.5 kilogram block of frozen fish fillets, 6 centimetres thick, 25 centimetres wide and 48 centimetres long. The blocks are further processed by cutting into portions, and either breaded or battered, and packaged as fish portions, sticks or nuggets.

FREEZER TRAWLER: An offshore fishing vessel with facilities for freezing scallops or headed and gutted fish, with the capability of remaining at sea for extended periods.

GROUND FISH: The species of fish which feed near the ocean bottom. The main species of groundfish harvested in Atlantic Canadian waters are cod, haddock, pollock, turbot, ocean perch (redfish) and a variety of flatfish such as American plaice, yellowtail, witch and sole.

HACCP: Hazard Analysis Critical Control Point, the underlying concept of the quality assurance program of the United States Government affecting food processing facilities.

HEADED AND GUTTED (H&G): Groundfish that has the head and entrails removed. It is often frozen and transported to other locations for further processing.

INSHORE SECTOR: The sector of the Atlantic Canadian fishing industry relating to the harvest of fish in waters 19 kilometres (12 miles) or less from the coast by vessels less than 30 metres (100 feet) in length.

NAFO: Northwest Atlantic Fisheries Organization.

OFFSHORE SECTOR: The sector of the Atlantic Canadian fishing industry relating to the harvest of fish in waters more than 19 kilometres (12 miles) from the coast, usually by vessels over 30 metres (100 feet) in length.

PELAGIC: The species of fish which feed near the surface of the ocean. The main pelagic species harvested in Atlantic Canadian waters are capelin, herring and mackerel.

PRIMARY PROCESSING: The processing of fish (filleting and skinning) into marketable seafood products without the addition of non-seafood ingredients.

PRIVATE LABEL: The in-store or “house” brands of grocery retailers.

QMP: Quality Management Program, a quality program of the Canadian Federal Government equivalent to HACCP.

QUOTA: An allocation of the total allowable catch to various fishing sectors, such as each of the offshore, inshore and foreign sectors.

RECRUITMENT: The age at which fish are old enough to be harvested.

ROUND FISH: A loose term in fisheries statistics meaning either the weight of the fish when caught, when referring to total allowable catch, or to the gutted weight when used in plant yield calculations (the latter is also called landed weight).

SECONDARY PROCESSING: The adding of value to primary seafood and other food products through the addition of batter, breading and other non-seafood ingredients, such as vegetables and cheeses. (Also called Prepared Foods Processing.)

TOTAL ALLOWABLE CATCH (TAC): The annual determination of the total catch level made by DFO for each species of fish based upon the advice of scientists according to management criteria that seek to ensure the size and stability of the fish population.

TWO HUNDRED MILE ECONOMIC ZONE: The area of exclusive jurisdiction exercised by Canada over the fisheries resources of its coastal waters, as recognized by the United Nations Law of the Sea Convention since January 1, 1977.

WETFISH TRAWLER: An offshore fishing vessel that preserves its catch for up to two weeks by storage in ice.

YEAR CLASS: Identifies fish and scallops by year in which they were spawned.