



# HIGH LINER FOODS

INCORPORATED



**A North American Leader in  
Frozen Seafood and Pasta Brands.**

**1999 ANNUAL REPORT**

## This Year's Highlights

(All amounts in thousands except per share amounts)

	Fiscal 1999 <sup>(1)</sup>	Fiscal 1998 <sup>(1)</sup> Restated (see note below)
Sales	\$ 302,392	\$ 291,655
Operating EBITDA	\$ 12,223	\$ 25,183
Net (loss) income for the period	\$ (4,067)	\$ 6,487
Basic (loss) earnings per Common Share	\$ (0.56)	\$ 0.63
Fully diluted (loss) earnings per Common Share	\$ (0.56)	\$ 0.59
Basic Operating EBITDA per Common Share	\$ 1.25	\$ 3.27
Fully diluted Operating EBITDA per Common Share	\$ 1.10	\$ 2.64
Total assets	\$ 219,901	\$ 241,500
Shareholders' equity	\$ 69,866	\$ 86,945

Note: In 1999 the Company changed its accounting policy for income taxes in accordance with new recommendations of the CICA. This change was accounted for retroactively and prior years were restated. See note 2 to the financial statements.

(1) Fiscal 1999 year end is 52 weeks ended January 1, 2000 and fiscal 1998 year end is 52 weeks ended January 2, 1999.



## Six Year Operating Statistics

Tonnage (Metric Tonnes) <sup>(1)</sup>	1999	1998	1997	1996	1995	1994
Groundfish fleet landings	7,834	10,110	6,413	8,945	7,477	11,794
Scallop fleet landings	847	860	821	663	767	1,168
Raw uncooked product processing - finished weight	11,083	13,666	11,770	10,816	10,128	10,925
Prepared foods processing - finished weight	33,671	35,472	35,423	33,158	29,334	29,529
Total production	44,754	49,138	47,193	43,974	39,462	40,454
Prepared foods processing as a % of total production	75.2%	72.2%	75.1%	75.4%	74.3%	73.0%
Number of employees	1,435	1,425	1,492	1,400	1,375	1,570
Capital expenditures (\$000)	\$ 5,107	7,084	6,273	2,237	4,799	5,478

(1) One metric tonne = 2204.6 lbs.

# Corporate Profile

High Liner Foods Incorporated is a Canadian publicly traded company in the business of processing and marketing superior quality seafood, frozen pasta, and other food products in North America under the High Liner®, Fisher Boy®, Gina Italian Village® and Floresta® brands.

With operations concentrated in North America, High Liner Foods' vision is to achieve above average returns for shareholders, relative to comparable food companies, by becoming a leader in our target markets through superior customer satisfaction. We also strive to provide challenging careers and quality employment for the committed, well-trained employees on whom we depend.

We pursue our vision while adhering to four underlying values: quality, integrity, involvement, and innovation. Throughout all aspects of its operations – from ocean harvesting to new product development – High Liner Foods ensures the highest quality of products and customer service. We believe integrity means building relationships of trust with all our stakeholders by clearly communicating expectations and results. Integrity also underpins our commitment to the sustainability of our fish resources. We encourage involvement in business improvements across our organization, and we will generate growth through product and service innovations.

*High Liner Foods Incorporated is a North American leader in frozen seafood and pasta brands:*

- *Gina Italian Village is the number one brand in New York City – frozen pasta's most important market.*
- *Fisher Boy is the number one fish stick brand in its core markets, and is poised to become the number two fish stick in the USA.*
- *High Liner leads the Canadian market with nearly 50% of the entire frozen seafood category.*



## Corporate Governance

Six years have passed since the TSE Special Committee on Corporate Governance issued its report, commonly known as the Dey Committee Report. In each of the last few years, the Board of Directors of High Liner Foods Incorporated has made substantial progress toward full compliance with the TSE Guidelines, improving both governance disclosure and the Company's underlying practices. High Liner's directors recognize that their independence and authority, together with their expectation that management will provide them with all the information and resources they need to fulfill their duties, are the underpinnings of a competitive but fair marketplace. The directors also know that corporate governance standards are always evolving. High Liner Foods will continue to enhance corporate governance, as long as new initiatives have the potential to create value for our stakeholders.

Please see p. 13 of the Information Circular of the Company, prepared for the Annual General Meeting of Shareholders to be held on April 28, 2000, in Halifax, Nova Scotia. The Circular is dated March 20, 2000, and is available on the Company's website at [www.highlinerfoods.com](http://www.highlinerfoods.com).

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## Director's Report

High Liner is marking the end of a century of tradition, innovation and growth. The Company is well positioned, as it begins its 101st year, to build on its history and its expertise.

The last year has been a pivotal and challenging period. We have faced our challenges by focusing on our strength as a brand leader in select frozen food categories. We have taken major strides forward in achieving our strategic goals for 1999, and have developed a comprehensive plan to move us beyond the unanticipated disappointments encountered this year. At the core of this plan is a dedicated and focused senior management team. Our 1999 report will introduce the management team and show how they have the combination of resources and skills to achieve our strategic goals.

### 1999 Challenges — Goals and Results

Our quarterly reports to shareholders indicated that the year did not unfold as was projected. The fish harvesting aspects of our business are unpredictable, and fleet landings and procurement issues affected results in our seafood business. Although we saw an increase in sales of 3.7% – due primarily to the addition of our new Italian Village Foods Division – overall the Company experienced a net loss of \$4.1million. This is not acceptable, and we must return to profitability in 2000 and beyond.

In our 1998 Annual Report, we stated that we aimed to improve the return on assets managed (“ROAM”) in our seafood business in 1999 by:

- increasing market share for Fisher Boy
- leveraging prices and exchange rates into increased income for National Sea Products Division
- maintaining High Liner's market leadership in Canada.

Henry E. Demone  
President & CEO

**To achieve the turnaround required for 2000, what goals have you set for your senior management team?**

*Restoring profitability is a must, but we cannot lose our focus on positioning the Company for future growth. In 2000, we need to do three things:*

- identify opportunities for growth in our business;
- continue to deliver customer satisfaction by achieving high case fill rates and on-time delivery;
- provide taste, convenience, value, and nutrition to consumers.

Going into the year, ROAM for the seafood business was 13%. We have not achieved an improvement in this performance, although we did accomplish two of our three stated objectives.

The Fisher Boy brand continues to grow and penetrate the U.S. market. For the thirteen weeks ended December 31, 1999, our national market share was up 4.5% to 22%. Fisher Boy is poised to become the number two fish stick brand in the U.S.

High Liner continues to be Canada's frozen seafood leader. Our High Liner food service division had a stellar year. Serving the restaurant and institutional sector, sales increased 15% over 1998. This is exceptional performance in light of huge increases in raw material prices.

The tremendous increase in the cost of raw materials seriously affected our earnings this year. The increases offset our market share achievements to the extent we could not improve ROAM. These prices will drop – some have already come down as much as 20% – but it is unlikely that they will reduce to

previous lows. We will be monitoring trends closely and adjusting our business plan accordingly.

### Italian Village Foods

One of our goals for 1999 was to integrate and grow Italian Village Foods. From an operations perspective, integration is complete. The potential synergies identified prior to the purchase are materializing. However, our sales were not as high as projected due to an excess of inventory in the marketplace. We have now resolved this issue and have put in place an aggressive strategy to bring performance in line with our goals. Next year, we expect the Italian Village business to show at least 20% sales growth. Our long-term goal is to expand in the frozen pasta market, based on our confidence in the potential of the category.

### Human Resources Development

Another of our strategic goals for 1999 was to strengthen our winning employee team by investing in human

resources development. We have put in place a competency-based model for recruitment and development to help us identify the skills we need now and in the future. We have identified our five desired core competencies:

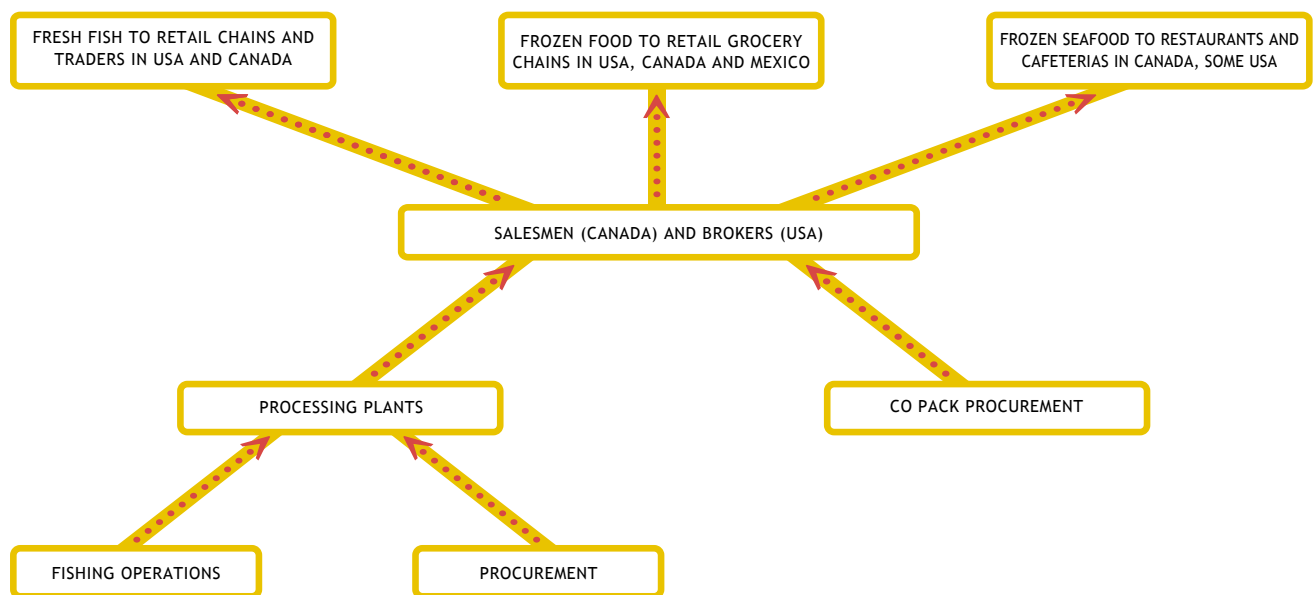
- Flexibility
- Innovation
- Results orientation
- Customer service
- Teamwork

### 1999 Accomplishments

The past year did include several important accomplishments, all aligned with our overall aim at strategic growth. Among our achievements:

- Maintaining – indeed growing – our retail market share in Canada in the face of an aggressive campaign by a national competitor. Canadian Marketing Online honoured our marketing efforts as among the top five in Canada in 1999.

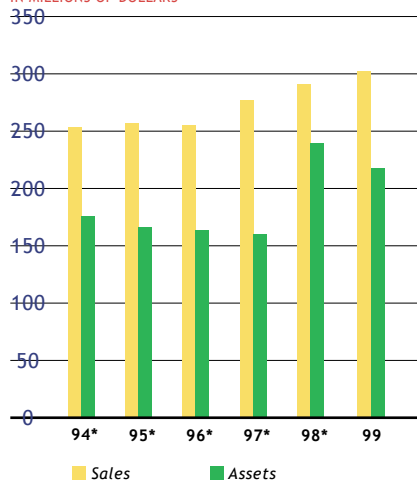
## The Business of High Liner Foods



- Selling three surplus trawlers and our interest in International Aqua Foods Limited, all at close to book value, for total net proceeds of \$6.4 million.
- Netting a \$1.8 million after-tax gain from the sale of Seabay Clam Company Inc.
- Achieving a reduction in current indebtedness of close to \$15 million.

### Consolidated Sales and Assets

IN MILLIONS OF DOLLARS



\* 1994 to 1998 have been restated to reflect the retroactive application of a change in accounting policies relating to income taxes.

- Receiving a Silver Penguin Award from the National Frozen Foods Association (USA) for Italian Village, recognizing creative merchandising; and a Blue Penguin for a first place honour in our most important market, New York City.
- A “Best in Show” award for Italian Village from the American Tasting Institute. The American Tasting Institute is an independent organization of world class chefs aimed at encouraging culinary excellence.
- A fourth quarter reorganization of our Lunenburg operations and Canadian sales and marketing, reducing ongoing annual operating costs by \$2.5 million.

That is what we faced – and what we accomplished – in 1999. In 2000, we will focus on a return to expected profitability, to increase cash flow and restore your confidence.

### Year 2000 Business Focus

- A return to pre-tax income of \$8.5 million, a turn around of \$11.8 million over 1999.
- An increase in Italian Village sales of at least 20%.
- An increase in Fisher Boy sales of 10%.
- A \$3.4 million turn around in income for our fishing operations, now known as National Sea Products Division.

We are committed to accomplishing these goals in 2000, based on the groundwork laid in 1999. We have the expertise, the team and the plan to execute our long term strategy: to be a brand leader in target markets.

Henry E. Demone  
President & CEO

D.J. Hennigar  
Chairman of the Board

# Our Goals for 2000

A return to pre-tax income of \$8.5 million, a turn around of \$11.8 million over 1999.

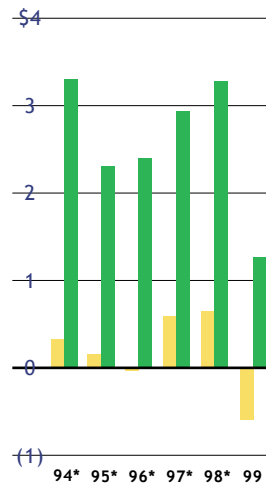
An increase in Italian Village sales of at least 20%.

An increase in Fisher Boy sales of 10%.

A \$3.4 million turn around in income for our fishing operations, now known as National Sea Products Division.

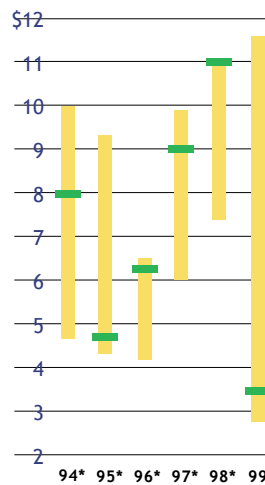
# Report on Operations

**Per Share Data**  
IN DOLLARS



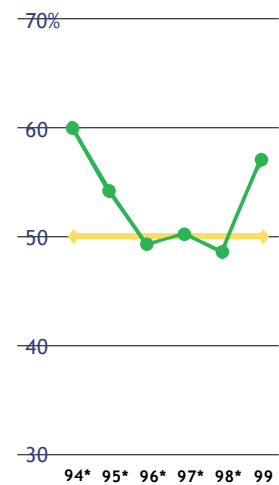
■ Basic Earnings per common share  
■ Basic Operating EBITDA per common share

**Common Stock Price**  
IN DOLLARS



■ High/Low ■ Close

**Long-Term Liabilities to Equity**  
IN PERCENT



■ Target ■ Actual

\* 1994 to 1998 have been restated to reflect the retroactive application of a change in accounting policy relating to income taxes.

## Kelly Nelson Vice President Corporate Services & Chief Financial Officer

In addition to his role as Chief Financial Officer, Kelly oversees all corporate administration, including corporate human resources and information systems requirements.

### How are you going to get pre-tax earnings back to \$8.5 million?

*Our operating team talks about our objectives and strategies for achieving this goal throughout this Report. Returning gross earnings to market expectations is a prerequisite to our growth strategy. And, of course, we have to improve cash flow to meet the expectations of our existing lenders, and minimize our cost of borrowing.*

## Key financial highlights of 1999:

1. Sales increased to \$302 million, up 3.7% from 1998.
2. Our share price responded to our quarterly releases, and was disappointing. We closed the year at \$3.50, down from a high of \$11.50 in January and lower than the book value of the company, \$4.91 per share at year end.
3. Working capital was reduced by more than \$20 million as a result of reducing inventory. Total operating lines of \$51 million are in place. At year end, short term borrowings were at \$16.4 million.
4. Current dividends on the 5<sup>1</sup>/<sub>2</sub>% Class C and D Preference Shares and the Second Preference Shares were paid in full in 1999, for a total of \$1.3 million.
5. In 1999, our 51% joint venture, Seabay Clam Company, sold its operating assets, the Company sold its 26% stake in International Aqua Foods and sold three redundant trawlers, realizing \$26.3 million in gross proceeds.
6. We adopted new income tax reporting rules required by the Canadian Institute of Chartered Accountants (CICA). As a result, losses experienced in 1999 decreased by \$2.8 million, while net income decreased in 1998 by \$3.9 million. Retained earnings and the foreign currency translation account increased by \$14.4 million and \$1.0 million respectively, as at January 2, 1999.
7. At year end, after adopting the new income tax accounting rules, our debt-equity ratio was 62%. Our goal is a 50/50 debt-equity position. The ratio was negatively affected in 1999 by the conversion, by its terms, of a \$9.9 million Income Bond from equity to debt.

(\*Note: Book value per common share is calculated before deducting undeclared dividends on preference shares.)



## Ron Whynacht

Vice President, National Sea Products

Ron Whynacht heads up the fishing fleet, the Arnold's Cove, Newfoundland primary processing plant, the commodity sales division, all operating under our former corporate name, National Sea Products, and our scallop harvesting business, operating as Scotia Trawler Equipment Limited.

### What is the outlook for groundfish and scallop quotas?

*The Canadian offshore quota for groundfish allocated to the Company has not increased in each of the last three years. We anticipate that groundfish quotas will be stable for 2000. The scallop fishery is healthy and our scallop quota is projected to increase by more than 300 metric tonnes for 2000.*

## Newfoundland Operations

The Newfoundland plant in Arnold's Cove is running at full capacity. In 1999, it processed 6,400 metric tonnes of seafood (finished weight). The biggest challenge for the Newfoundland plant in 2000 will be to improve profitability. Virtually all cod caught or procured by High Liner is processed in Arnold's Cove, and the cod business should be more profitable in 2000 than in the previous year. Improved imported and domestic supplies of cod should lower our costs and increase fresh fish sales.

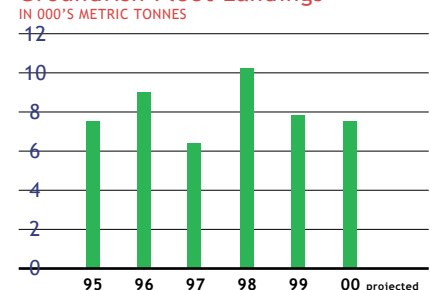
## Groundfish Fleet

In 1999, we operated five company-owned trawlers to fish perch, pollock, and cod. In addition, we contracted with several independent vessels to help in maximizing our available catch. Groundfish landings in 1999 were 7,834 metric tonnes. This figure is expected to be similar in 2000. Overall, we are predicting modest growth in landings over the next several years.

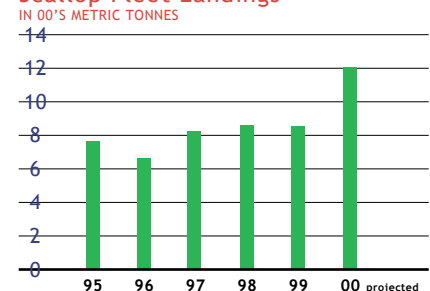
## Scotia Trawler - Scallop Fishery

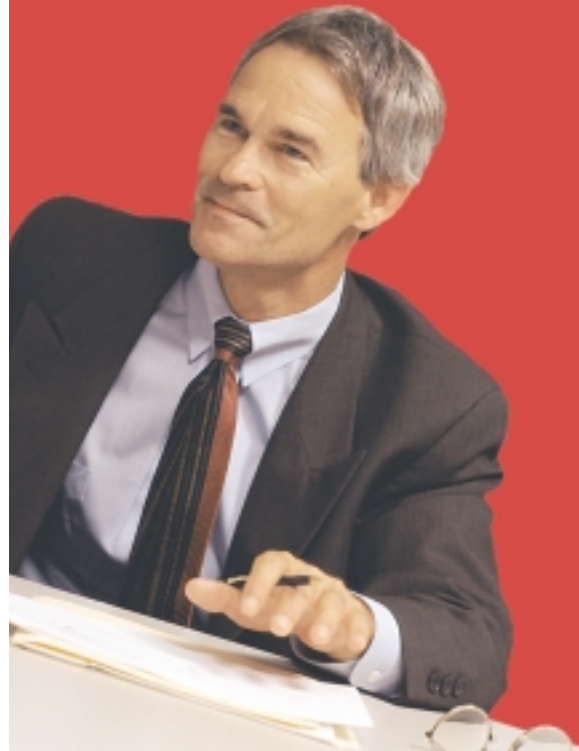
The scallop fishery did well in 1999, although landings were down slightly over 1998. Next year we are expecting a large increase in landings due to strong populations of maturing scallops. Our scallop fishery offers National Sea Products Division the best opportunity to contribute to a turnaround in overall profitability in 2000.

### Groundfish Fleet Landings



### Scallop Fleet Landings





## Fisher Boy

In 1999, Fisher Boy's market share grew in its core category – fish sticks:

- Our national share of the U.S. market on an annual basis was 18.9%, up 1.9 share points over 1998.
- In our core markets, our fish stick market share is 39.1% for the 52 weeks ended December 25, 1999, up 2.1 share points over 1998.

- Growth in Fisher Boy fish stick sales is expected to hit 10% in 2000, moving the brand from third place to second place in the U.S. fish stick category.

We have implemented a comprehensive distribution plan that will see Fisher Boy products introduced in more markets in



*Fisher Boy™ is the number one fish stick in its core markets – the central and southwestern United States and New York.*

## Dave Johnson Vice President, Sales & Marketing (USA)

Dave drives our growth strategy for our Fisher Boy, Gina Italia Village and Floresta brands, from our USA plants in Portsmouth, New Hampshire and Secaucus, New Jersey.

**How are you going to achieve a 20% increase in sales for Italian Village, over 1999?**

*The poor results for Italian Village in 1999 are directly related to unique circumstances surrounding our acquisition of the business, which have been largely overcome.*

the U.S. in 2000. At present the brand is sold in only 50% of the United States, which underscores the significance of our market share achievements, and of the potential for increased growth. We are also expanding our product line. In 1999, Fisher Boy introduced fish, salmon and crab cakes, and a “fish and chips” meal in a box option. Our updated logos and packaging designs are improving our shelf presence and consumer recognition.

## Mexico

Mexicans are telling us that they love Fisher Boy. Fisher Boy ended the year as the leading brand in Mexico City, with a market share of 48%, as measured by ACNielsen. In 1999 we introduced “RapiBarritas” and “RapiCocinados”, to correspond with our “Quik Stix” and “Quik Bake” products in the United States. We are also expanding our Mexican product line, to which we added cod fillets, “Filetes de Bacalao”, in 1999.

## Italian Village Foods

For reasons discussed throughout 1999, and in more depth in the Management Discussion & Analysis on p. 12 of this Report, sales of Italian Village products were disappointing in 1999. The frozen pasta business, which we acquired in late 1998, had an annualized market share of 15.6, down 1.5 share points over the previous year. Much of that decline can be attributed to the New York market – the largest pasta market in the U.S. accounting for 50% of all Italian Village sales.

The excess of inventory in the New York market is behind us. Indeed, the last two months of 1999 showed increased sales in this important market. For the thirteen weeks ended December 25, 1999, our market share in New York increased to 26.3%, up 5.2 share points over the same period last year. Italian Village is the number one frozen pasta brand in New York City.

Sales of Italian Village products are expected to experience at least 20% growth next year. Our marketing plan aims at encouraging first time consumer trials of our pasta products. Research tells us that customers tend to remain loyal to the pasta category once they have experienced its convenience and taste. We can also leverage our strong seafood distribution into opportunities for Italian Village in new markets.



*Mexicans are telling us that they love Fisher Boy™.  
Fisher Boy ended the year as the leading brand in Mexico City, with a market share of 48%.*



## Paul Snow Vice President, Operations

Paul directs all aspects of seafood production, including procurement and logistics, for our Lunenburg prepared foods and wetfish processing plant, and our prepared foods processing plant in Portsmouth, New Hampshire.

### **If raw material prices continue to be high, how will you control production costs to restore profitability?**

*Raw material prices for our principal seafood ingredients have already decreased by an average of 20% over the record highs in 1999. While we doubt that prices will reduce to pre-1999 levels, we can control other costs. We review all production processes to ensure we are using the best equipment for optimum raw material usage. Also, we reorganized our Lunenburg operation late in 1999. We analyzed human resource requirements in light of production volumes in the facility, to achieve an ongoing annual \$1.3 million reduction in costs.*

## Lunenburg Primary Operations

Primary operations depend on procured frozen-at-sea raw materials. Due to increases in the price of these raw materials, and the inability to obtain the size and quality of materials required, we were not able to recover our costs in the marketplace. Therefore we had to reduce our volume in Lunenburg, which negatively affected plant utilization.

The Lunenburg plant has the capacity to process 11,800 metric tonnes of finished seafood products per year. In 1999, however, it processed only 4,700 metric tonnes. Given current supply conditions, it is likely that 3,200 metric tonnes will be processed in 2000. Our focus in 1999 has been on improving direct costs to offset the decrease in utilization.



*High Liner RingOs™ have captured 5% of Canada's breaded seafood market.*

Due to 1999 improvements in weighing and packaging equipment, fish is now weighed and bagged automatically, which enables us to more efficiently produce individually quick-frozen products. Breeding and battering equipment was upgraded to help increase efficiency and volume accuracy. In Portsmouth, we successfully reduced costs by negotiating improved ingredient supply contracts for



breeding, batter and packaging, and we have increased automation in our Portsmouth facility.

Our production expertise and the relative strengths of the Lunenburg and Portsmouth plants allow us to assign production on a product by product basis to the plant best equipped to produce a particular product. We have eliminated a lot of duplication. We can also leverage product success in one market into distribution growth in other markets. For example, our Fisher Boy fish and chip product is produced in Lunenburg, together with our High Liner English Style chips and fish. Portsmouth produces the RingOs breaded fish rings for the Canadian market, and FisherBoy FishRings for the U.S. market.



## Mario Marino

Vice President, Canadian Sales and Marketing

Mario leads the High Liner brand in the Canadian seafood market.

**High Liner's Canadian market share is so strong, is it possible to improve on it?**

*Our goal for 1999 was to improve market share and fend off aggressive competition. We did both. In the extremely important battered and breaded category, which represents 72% of the frozen fish category, our market share increased by 3.7 share points over 1998.*



*High Liner Captain's Catch™, launched in 1999, is a delicious, economical alternative for consumers interested in the health benefits of seafood.*



Retail sales in Canada throughout the year were relatively flat. Due to price increases necessitated by higher raw material costs, sales volume decreased. However, our marketing strategy for 1999 paid off in our market share results. Improved packaging and increased television advertising in our core markets reinforced our brand identity with consumers. Canadians know and trust Captain High Liner, and we now feature him prominently in our advertising and packaging to invigorate our brand identity.

Market share gains are largely attributable to our product innovations. We introduced a Club Pack, which offers consumers a high quality breaded whole fillet product in family-size packages. In 2000, we will build on our success by introducing an English-style battered haddock in this format. We aggressively marketed RingOs, a fun, family-oriented fish ring first shipped to retailers in January. RingOs has already captured 5% of the breaded seafood market.

Late in 1999, we launched Captain's Catch™ – fillets in either breaded or battered individual por-

tions, and an economical alternative to minced fillet products for consumers interested in the health benefits of seafood. We also introduced salmon fillets in a 400 gram format, which quickly garnered 5% of the raw fillet segment in the seafood category. These products address consumers' growing desire for convenience, nutrition, value and taste.

### Food Service

Our food service team had an outstanding year, increasing sales by 15%. The buoyant economy and increased consumer confidence means

Canadians are dining out, and are willing to pay for top quality seafood in restaurants.



An American Italian Eatery

During the year, we also combined forces with Burger King™ to promote its Big Fish™ burger, increasing sales of Big Fish by 25%. We also worked closely with Irving Big Stops™ across Eastern Canada to move sales of salmon and fish and chips at these service station restaurants. Sales to East Side Mario's®, the popular chain of dining establishments, grew 72% with increased sales of fish and chips dinners during 1999.

In 2000, the food service team will continue to focus on profitable growth. Justified price increases have been implemented in the food service sector, and therefore we have been better able to offset raw material prices and continue to grow.

We have new products in development, and are confident that High Liner will remain the number one choice for seafood in the Canadian food service industry.



# Management's Discussion and Analysis of 1999 Results

*This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. All amounts are in Canadian dollars unless indicated.*

## Overview

The Company continues to pursue its growth strategy, as more fully explained in the Annual Information Form, both through expanding its existing product lines and seeking new opportunities, principally in the North American frozen food business. The Company focused on integrating and growing Italian Village and strengthening its market position in seafood during 1999. Market share for the Company's seafood brands improved during 1999. The Company continues to strengthen its commodity sales efforts, and, by processing procured seafood raw material, maintains its facilities for the return of fish quotas in the future. Italian Village, marking the Company's first significant step beyond the seafood category, has not initially gone well. However, the integration of operations has been well managed, and the potential synergies identified by the Company in choosing the frozen pasta category will be achieved. The Company is committed to its strategy of providing North American consumers with branded frozen food products which meet their needs for taste, convenience, value and nutrition.

Operating results in 1999 were affected by six significant events discussed in more detail under Results of Operations. Changes in pre-tax income from 1998 are summarized as follows:

- \$3.5 million reduction in operating income due to increases in seafood raw material prices by 50-60% in late 1998 that affected results all through 1999, including increased processing costs related to the size and quality of raw material;
- \$3.2 million reduction in the operating income of Italian Village Foods, including \$1 million due to the elimination of fixed production costs from inventory valuation;
- \$3.4 million reduction in operating income due to a decline in groundfish landings in Atlantic Canada, combined with soft market prices for the catch in fresh fish markets;
- \$4.7 million of interest, depreciation and amortization of goodwill related to acquisition of Italian Village Foods for a full year compared to 107 days in 1998;
- \$4.8 million from the gain on sale of non strategic assets; and
- \$4.7 million of severance and asset write downs related to a reorganization of the Canadian operations.

## Results of Operations

Income before the gain on asset disposals and reorganization costs decreased from an income in 1998 of \$10.5 million to a loss of \$4.6 million for 1999. Net income was reduced from \$6.5 million to a loss of \$4.1 million. Included in the net loss for 1999 are pre-tax reorganization charges of \$4.7 million, as well as the net pre-tax gain of \$5.9 million on the sale during the year of businesses and assets not aligned with corporate objectives. Included in 1998 is a \$1.1 million pre-tax gain on the sale of land in Portsmouth, New Hampshire. The 1999 reorganization will result in ongoing annual reductions in cash expenses of \$2.5 million and a reduction of approximately \$1.0 million in annual depreciation in each of 2000, 2001 and 2002. During the fourth quarter of 1999, the Company adopted the new Canadian Institute of Chartered Accountants Handbook Section 3465 relating to "Income Taxes." This change has been applied retroactively and the Company's financial statements for fiscal 1999 and 1998 have been restated accordingly. See note 2 to the financial statements.

Market share for pounds, as reported by ACNielsen, of the Company's brands continues to be strong. Fisher Boy, at 20.5% of the total USA fish stick market, was up 1.9 points on a 13-week basis ended December 25, 1999. High Liner, measured on total Canadian frozen packaged seafood was at 47.6%, on a 12-week basis ended January 1, 2000. Gina Italian Village and Floresta, together at 15.2% for the 13 weeks ended December 25, 1999, is up 1 point compared to the same period last year. This represents the second largest share of the US frozen Italian style pasta market and the largest share of the New York market, the most important market in the USA.

## SALES

Sales increased in 1999 to \$302 million, up 3.7% from 1998. The increase is attributable to the inclusion of Italian Village sales for a full year, compared to only 107 days in 1998. Sales also increased in 1999 in the Food Service Division, attributable to an increase in sales prices and volume.

The sale by the Company's joint venture, Seabay Clam Company Inc., of its operating assets, resulted in no sales revenue from Seabay in 1999 versus \$7.9 million for the full year in 1998. Sales also decreased in the Company's US private label business. The division lost one major customer during the year and absorbed the full impact of volume losses which occurred in 1998. The private label business is not projected to lose additional volume in 2000.

Declines in groundfish landings during the year and soft fresh fish market prices, especially in the first half of 1999, also resulted in

decreased commodity sales. Branded sales of Fisher Boy and High Liner products were flat during the year. Price increases introduced in Canada to offset high raw material prices resulted in reduced volumes.

## GROSS PROFIT

Gross profit, after deducting variable sales and marketing expenses, at 15.7% was 4.9 percentage points lower than in 1998, a full \$12.5 million reduction. The most significant factors affecting gross profit were:

### (A) SEAFOOD RAW MATERIAL PRICES

Seafood raw material prices increased between 50 and 60 percent during 1998. Although these increases affected the 4th quarter of 1998 to a small extent, the full impact of the price increases affected 1999 income for most of the year. Minced pollock prices increased from US\$0.42 per pound in March 1998 to a high of US\$0.70 per pound in the second quarter of 1998.

Headless and gutted (H&G) haddock prices increased from US\$1,320 per metric tonne (MT) in the third quarter of 1998 to US\$2,500 per MT by the end of 1998. H&G cod prices increased from US\$1,900 per MT in March of 1998 to US\$2,450 per MT a year later.

Since the second quarter of 1999, raw material prices have declined 7 to 20%, depending on the form and species. It is expected that H&G cod will cost US\$2,250 per MT and haddock will be US\$2,000 per metric tonne during 2000. The price per MT at year end was US\$2,075 for cod and US\$2,000 for haddock. Current expectation on price for next year for minced pollock is US\$0.65 per pound. This was the year end price.

The Company averted the full impact of these increases in raw material costs on its income by (a) increasing prices to customers; (b) strategically buying raw material for inventory during the period; and (c) reducing unprofitable business. However, the higher raw material prices for H&G product, and the inability to obtain raw material in necessary quantities, forced the Company to acquire raw material that increased production costs. These increases in production costs, due to quality and the smaller size of fish processed, was approximately \$2.7 million. Also, due to the small size and quality of the fish, more by-products were produced than expected and this, with a concurrent decrease in the selling price of by-products, resulted in a further loss of approximately \$1.5 million. As a result, the Company announced mid-year that it would sell most of its H&G haddock raw material to Chinese processing plants. It is expected that haddock products processed in China and sold in North America by the Company will be profitable.

### (B) GROUND FISH LANDINGS AND SALES

Gross profit was also negatively affected by lower groundfish landings amounting to a decrease of 2,276 metric tonnes over 1998.

In 1999, the Company did not harvest perch in certain fishing areas off Newfoundland. Due to the low market price for perch during 1999, it was uneconomical to catch similar quantities and overall perch landings were down by 20%. Additionally, lower market prices for perch decreased profits.

### (C) VOLUME REDUCTIONS - PREPARED FOODS

Volume variances in the Company's prepared foods plants decreased gross profit. This was partly due to a decrease in sales of processed products in the US market in our private label business. Increased selling prices to customers, a result of increased raw material costs, had a negative effect on volume in the Company's plants. A shift in market demand towards raw fillets from processed product also caused a decrease in production of processed product. Production in the Canadian plant declined from 13,526 metric tonnes in 1998, to 12,233 metric tonnes in 1999, a 9.6% decrease. Production in the Portsmouth facility at 16,437 metric tonnes was down 17.1% from 1998.

### (D) ITALIAN VILLAGE

The poor performance of Italian Village, although adding gross profit in absolute dollars, had the effect of reducing gross profit as a percentage of sales. Please refer to the separate section below on Italian Village.

### (E) SEABAY CLAM COMPANY

In 1998 Seabay Clam accounted for gross profit of \$1.9 million. This business was sold in the first quarter of 1999.

## OTHER SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Other selling, general and administrative expenses increased by \$0.4 million over 1998, due to marketing expenses for the Company's Italian Village Division being expensed for a full year in 1999, versus 107 days in 1998. This was offset by decreases in these expenses in other areas. Lower general and administrative expenses reflect the Company's continued control of overheads.

## INTEREST AND EXCHANGE

Interest expense in 1999 increased \$2.7 million over 1998. The Company's acquisition of Italian Village on September 18, 1998, resulted in increased long term debt of US\$15.0 million (Cdn\$23.3 million). On March 31, 1999, the Company exercised its right to acquire the remaining 20% economic interest still held by the vendors of Italian Village by paying an earn-out sum of US\$9.9 million (Cdn\$15.0 million). This was financed by additional long term debt. This new long term debt increased interest expense by \$2.5 million. Interest expense was also increased due to the conversion on May 1,

1999, of the Convertible Income Debenture payable to the Province of Nova Scotia. Short term interest expense increased principally due to carrying higher inventories in 1999 than in 1998, and higher interest rates. In addition, the Company did not receive amounts owing by the vendors of Italian Village as required under the terms of the purchase agreement. The failure of the vendors to pay the Company's indemnity claims required the Company to finance \$5.5 million of indemnity claims for the entire year. The Company has sued to recover this amount, which is fully secured by an escrow account. Finally, interest expense was reduced by interest revenue received on funds invested by Seabay Clam Company Inc., awaiting final distribution of sale proceeds between the Company and its joint venture partner.

The Company recorded an exchange gain of \$177,000 in 1999, versus an exchange loss of \$1.3 million in 1998. The loss in 1998 was a result of the dramatic decline in the Canadian dollar compared to the US dollar in June and July of 1998 at the same time the Company was purchasing large quantities of seafood raw material in US dollars.

### OTHER

Amortization and depreciation increased by \$0.9 million in 1999 over 1998. A reduction in depreciation expense was offset by amortization of goodwill for Italian Village for a full year, versus 107 days in 1998. In addition, as a result of the earn out sum payment related to Italian Village, goodwill and amortization increased.

In November and December of 1999 the Company announced a reorganization of its Canadian sales force and its Lunenburg processing facility and the reduction of the carrying value of some production assets. An expense of \$4.7 million was recorded in December to finance severance and other related costs as well as provide for the write-down of production assets.

During the year, the Company's joint venture, Seabay Clam Company Inc., previously engaged in the harvesting of offshore clams in Atlantic Canada for market in Asian countries, sold its operating assets. In addition, the Company sold its 26% interest in International Aqua Foods Ltd. and three of its surplus groundfish vessels. Total proceeds recorded by High Liner Foods were \$26.3 million, with a pre-tax gain of \$5.9 million. The net gain after income taxes was \$1.9 million.

### ITALIAN VILLAGE

The Company purchased the Italian Village business assets, principally the Italian Village and Floresta brands, retail distribution, pasta making equipment and inventories, on September 18, 1998. The purchase is fully described in Note 3 of the Audited Financial Statements for the year ended January 1, 2000.

As reported in the Prospectus dated October 20, 1998, issued to raise equity for the purchase of Italian Village, proforma pre-tax income based on 1997 audited results for Italian Village was \$5.1 million, prior to the distribution of 20% of after-tax income to the ven-

dors as contemplated by the purchase agreement. Italian Village lost \$6.7 million before income taxes in 1999 due to:

1. Italian Village's three 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, favourable 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 Italian Village to these three New York customers during most of 1999. In addition, to help move this inventory through to consumers, the Company spent additional promotional dollars to promote the sale of inventory which it had not sold and on which it had received no profit.
2. Inventory levels of Company owned pasta products was higher at closing than ideal and, due to the channel stuffing, could not be brought back into line as planned. This resulted in higher storage and interest costs. Also, due to the high inventories, the Division incurred production downtime, resulting in unabsorbed overheads.
3. Pre-tax income was decreased by \$1.0 million due to the elimination of certain fixed costs from inventory value. On acquiring inventory at closing, generally accepted accounting principles for inventory dictated that inventory be recorded at its purchased value. As this inventory was replaced by internal production, the Company's policy of expensing certain fixed production costs as period costs, rather than including them as an inventory cost, resulted in an increase in cost of sales of \$1.0 million. As inventory is reduced in the future, some of this \$1.0 million will be brought back into income.
4. As a result of their actions, the Company sued the vendors. This resulted in legal costs and management time that was planned to be spent on growing the business. Legal costs were capitalized into goodwill until September 18, 1999, in accordance with generally accepted accounting principles. Future legal costs will be expensed until the law suit is concluded.
5. Additional interest and goodwill were incurred due to the unplanned exercise of the Company's option to pay the earn out sum, which eliminated the obligation to pay 20% of after-tax profit of the Division to the vendors. This latter amount would have been recorded as additional goodwill rather than as an expense.

The Company has sued the vendors of the Italian Village business and the two key principals of the business. 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 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, and the Court has referred the dispute to mandatory mediation, a court-supervised process which is expected to commence in March 2000. An escrow amount of \$7.9 million is in trust to settle any claims awarded, and the claims are personally guaranteed by the vendor's president.

The outlook for the Italian Village Foods Division for 2000 is positive. Sales are returning to acceptable levels with all New York customers, and in the rest of the country. However, due to the problems encountered in 1999 and their effect on the marketplace, it will take the Company longer than anticipated to return Italian Village back to expected profitability levels. Additional legal costs for the law suit to be expensed during 2000 will also decrease income. However, Italian Village is expected to show significant sales growth.

## Adoption of New Accounting Standards

During the 4th quarter of 1999, the Company adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, "Income Taxes." Changes have been applied retroactively, and the Company's financial statements for fiscal 1999 and 1998 have been restated accordingly. This change is fully explained in the Audited Financial Statements for the year ended January 1, 2000.

Effective January 3, 1999, the Company adopted a presentation for Statements of Cash Flows as recommended by the CICA Handbook Section 1540, on a retroactive basis, with respect to the presentation of short term bank loans. The effect of the change is to reclassify the change in short term bank loans as a financing activity in the current and prior periods and the change in outstanding cheques as a change in non-cash working capital balances from operations.

The Company is planning on adopting the new CICA Handbook Section 3461, "Employee Future Benefits" in the first quarter of 2000. It is expected that approximately \$300,000 will be charged to opening retained earnings for 2000.

## Liquidity and Capital Resources

Cash flow from operations, before the net change in non-cash working capital balances, was \$1.7 million in 1999, down \$14.2 million from 1998. Working capital requirements decreased \$16.9 million during the year, principally as a result of reduced inventory levels. The Company was able to buy inventory during 1999 in a quantity that met its needs and, by mid-year, implemented an inventory reduction program that saw inventories decrease by \$25.4 million over 1998 levels. It is anticipated that these levels of inventory can be maintained in 2000.

As previously mentioned, the Company's Seabay Clam Company Inc. joint venture sold its assets, the Company sold its interest in International Aqua Foods Limited, and sold three surplus trawlers for aggregate proceeds of \$26.3 million during the year. Of this, \$5.7 million reduced long term indebtedness, \$4.5 million will be paid in income taxes in 2000, and the balance not already received will reduce current bank indebtedness, once the remaining proceeds of the Seabay disposition are distributed between the Company and its joint venture partner.

## FINANCING

In March, 1997, the Company entered a floating-to-fixed interest rate swap on a notional \$6.0 million to March 2001. The swap hedges the Company's \$5.8 million of Convertible Subordinated Debentures, and results in an effective interest rate on this debt of approximately 9.1%.

Long term debt proceeds in 1999 were \$14.9 million (1998 \$23.7 million). Substantially all of this debt in both years was used to purchase the business assets of Italian Village. Terms of this debt are described more fully in the Company's Audited Financial Statements for the year ended January 1, 2000. As at January 1, 2000, the principal amount of this debt is \$32.0 million. The interest rate is floating and varies with prime or LIBOR plus a spread, currently 2.5%. Other new long term debt in 1999 relates to capital leases for equipment purchases.

The working capital debt and the Italian Village term debt bear interest at floating rates. The \$35 million operating line in Canada is at no higher than prime plus 0.75% or LIBOR plus 0.75% or BA's plus 1.75%. The US\$11 million operating line in the US subsidiary is at prime or at LIBOR plus 2.5%. Total arranged operating lines for the Company are \$50.9 million and borrowings under these lines at year end were \$16.5 million.

The impact on interest expense of a 1% change in overall rates would be approximately \$0.5 million annually, based upon year end debt. The Company utilizes less expensive borrowing options, such as Bankers Acceptances (BA's) or LIBOR loans, whenever possible.

The Company's debt is subject to several financial covenants related to cash flow and debt to equity ratios. The Company's US subsidiary's bank debt covenants are measured on the US operations only, whereas covenants on other term debt are measured on consolidated results. During the year, due to a much lower cash flow than expected, the Company's US subsidiary did not meet all of its financial covenants. Subsequent to year end, new financial covenants have been negotiated with the Company's US subsidiary's lenders and the year end default was waived. As a result the Company's US subsidiary is no longer in default. The Company met all financial covenants on all other debt throughout 1999.

The Company's Canadian operations and its US operations carried on through a subsidiary company are independently financed for the purpose of working capital loans. There are no restrictions on transfers of funds between the two companies, as long as financial covenants are met, except on a loan of US\$15.7 million from the parent to the US company. This loan, made to finance the acquisition of Italian Village, is fully subordinated to the US bank's position. As well, there are no restrictions on the payment of dividends by the Company as long as there are no defaults on working capital loans and the dividend amount does not exceed the amount specified by long term debt agreements. This amount is tied to earnings and amounts to \$2.9 million at year end, after adjusting for the retroactive adoption of a change in accounting policies relating to income taxes. These restrictions are not expected to have any affect on the ability of the Company to meet its obligations.

Dividends on Class C&D Preference Shares of \$0.1 million were paid in full in 1999 and 1998. Dividends on the Second Preference Shares were paid in full in 1999 in the amount of \$1.2 million and in 1998 in the amount of \$1.3 million. Dividends on the Second Preference Shares in arrears at year end in the cumulative amount of \$8.2 million, which is unchanged from the previous year. These arrears must be paid before any dividends can be declared on the Common Shares. There are no current plans to pay the dividends in arrears.

The Convertible Income Debenture held by the Province of Nova Scotia of \$9.9 million matured on May 1, 1999. As permitted by its terms, the Company had expected to convert this Debenture to preference shares. However, due to complications with respect to the seniority of other classes of outstanding preference shares, this amount was converted to long term debt. The new long term debt bears interest at 7.5% and is being amortized with blended interest and principal payments over seven years to 2006.

The Company must make principal repayments in 2000 of \$5.2 million. This will increase in November 2001 by \$10 million, being the annual repayment on the Notes Payable. In addition, in July 2001, \$4.8 million of the Series I Subordinated Convertible Debentures, and in July 2002, \$1.0 million of Series 2 Subordinated Convertible Debentures, must be redeemed if they have not been converted to Common Shares at a conversion price of \$8.00 and \$9.40

respectively. By raising capital for new equipment through leases and other financing vehicles, combined with the projected improvements in operations, the Company expects it will meet all of its financial obligations as they come due.

## CAPITAL EXPENDITURES

Capital expenditures amounted to \$5.1 million during the year, \$2.0 million lower than in 1998. The 1998 capital expenditures included the purchase of the scallop freezer trawler, Cape Blomidon, for approximately \$3.0 million. Capital expenditures to maintain and upgrade existing facilities are budgeted to be \$5.7 million for 2000.

## Risk PROCUREMENT

Approximately \$40 million of the Company's sales are commodity in nature and have sales prices which fluctuate with market supply and demand. Approximately \$30 million of these sales are of products with relatively stable Canadian dollar costs, resulting in fluctuating gross margins. The remaining commodity sales involve raw materials priced in US dollars, which have more or less corresponding fluctuations in cost. This results in more predictable gross margins.

The Company is dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. The Company procures as much as \$70 million of commodity products either as raw material or finished goods each year. There is no formal commercial mechanism for hedging either sales or purchases of seafood products. The Company enters into contracts whenever possible, but in no case would these extend beyond a year and often are for quantities only, with prices being determined by market. The Company was able to purchase its requirements for all species in 1999 at prices only slightly lower than the peak high prices of 1998. This translated into a finished goods cost increase of between 5% and 35%, depending upon the product. In reaction to these higher raw material prices and supply constraints, the Company has increased prices to its customers and reduced production of commodity-type and other products. It is anticipated that these higher raw material prices will continue to affect the Company's operations in the foreseeable future, although currently the Company is experiencing prices, depending on species and form, 7-20% lower than their peak in 1998. It is expected that supply requirements will be met in 2000 at prices similar to those experienced in the latter part of 1999.

## FOREIGN CURRENCY

The Company recorded a gain on foreign currency of \$177,000 for 1999. The Company's foreign currency loss in 1998 was \$1.3 million. Most of the loss occurred in a two-month period of time when the US dollar exchange rate went from \$1.42 to \$1.58. Up to that point, the Company was not hedging purchases of raw material in US

dollars because the purchases were offset by US dollar sales. Increased raw material prices in US dollars increased the Company's exposure, which, combined with a swift devaluation of the Canadian dollar, resulted in the loss.

Approximately \$40 million of the Company's Canadian divisions' sales are in US dollars. In addition, up to \$70 million of purchases of raw material and finished goods are acquired with US funds. A portion of these US dollar purchases are also sold in US dollars. For 2000, sales in US dollars plus the conversion of the US subsidiary income will be substantially offset by purchases in US dollars. In 2000, the Company will actively hedge any net exposure to the US dollar. The net effect, before any hedging transactions, expected for 2000 is that a one cent change in the US dollar exchange rate to the Canadian dollar would change pre-tax income by approximately \$2,000.

The Canadian Company maintains US\$15 million long term debt as a hedge against its net investment in US operations. Any foreign currency gains or losses on this debt are offset against foreign currency gains or losses on the investment in its US subsidiary. Any net difference is recorded in the equity section of the balance sheet. As at year end, the net investment in US operations was US\$36.8 million.

## YEAR 2000

All of the Company's mission critical business systems which run on the Company's IBM AS/400 using JD Edwards software, are Year 2000 compliant. These systems have been thoroughly tested and operated uneventfully over the year end. The Company incurred no material incremental cost in connection with Year 2000 issues, as all of its business systems were upgraded over the past five years as part of the Company's normal operating plans.

The Company also formed an internal committee that, by the end of 1998, had ensured that substantially all minor software used by the Company in its planning, analysis and production functions were Year 2000 compliant. They contacted all of our critical suppliers and customers concerning their ability to conduct business. There have been no indications that any of them will not be able to carry on in the normal way. All of our internal process control systems, administrative systems, production hardware and other microprocessor controlled areas were evaluated. Where there were material issues, they were resolved. Our steering committee also considered contingency options in the event that some unplanned events take place, and plans are in place to mitigate problems if they should develop.

## Outlook

It is expected that the Company will return to profitability in 2000. The Company is proceeding with its long term growth strategy, which in 2000 will focus on improved sales for our core brands, particularly Fisher Boy and Italian Village. Profits are expected to increase as a result of improved operations in the Company's Italian

Village Division, due to the fact that inventory problems will be largely resolved. Seafood raw material prices are expected to be lower in 2000, and this, along with price increases and projected growth in the retail and food service businesses, will result in improved profitability. Finally, the Company undertook a reorganization of its Canadian sales and Lunenburg plant operations in the 4th quarter of 1999 resulting in a charge of \$4.7 million. This resulted in reduced staffing levels throughout the Company, reducing ongoing annual operating costs by \$2.5 million and a reduction of \$1.0 million in annual depreciation for the next three years.

Groundfish quotas for 2000 are expected to be similar to 1999. Landings should be 7,525 metric tonnes in 2000. Scallop landings in 2000 are expected to be up 353 metric tonnes from 1999 landings of 847 metric tonnes. The scallop stock continues to be conservatively managed by all stakeholders to ensure sustainability. Additional landings of scallops by the US harvesters on the USA side of George's Bank and the increased supply of scallops from the Canadian fishery may have a dampening effect on fresh market prices during 2000. However, management expects increased profits from scallops in 2000.

## Forward-looking Statements

Statements made in this document that are based on our current expectations, estimates and projections constitute forward-looking statements. Forward-looking statements arise out of our experience, our perception of trends, current conditions and expected future developments as well as other factors. By their nature, forward-looking statements involve uncertainties and risks that may cause the stated outcome to differ materially from the actual outcome.

Important factors that can cause anticipated outcomes to differ materially from actual outcomes include worldwide economic conditions; conditions in the fishing and other industries, including the supply and demand balance for seafood raw materials; actions of competitors and customers; changes in laws, regulations, or government policies; the ability to implement business strategies and pursue business opportunities; the risks attendant with food production and marketing, including operational disruption; the risks attendant with carrying out capital expenditure projects; raw material and other production costs; transportation costs; the ability to attract and retain qualified personnel; the risks associated with investments and operations in foreign jurisdictions, and other risks which the Company may describe in publicly available documents filed from time to time with securities commissions.

Having in mind these and other factors, many of which are described in this document, readers are cautioned not to place undue reliance on forward-looking statements. The Company does not guarantee that anticipated outcomes made in forward-looking statements will be realized.

## Management's Responsibility

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



K.L. Nelson  
*Vice President, Corporate Services  
and Chief Financial Officer*


## Auditors' Report

### TO THE SHAREHOLDERS OF HIGH LINER FOODS INCORPORATED

We have audited the consolidated balance sheets of High Liner Foods Incorporated as at January 1, 2000 and January 2, 1999 and the consolidated statements of income, retained earnings and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 1, 2000 and January 2, 1999 and the results of its operations and the changes in its cash flows for the periods then ended in accordance with accounting principles generally accepted in Canada.



Chartered Accountants  
*Halifax, Canada, February 4, 2000*

# Consolidated Balance Sheets

(in thousands of dollars)

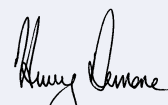
<b>Assets</b> (note 8)	<b>January 1, 2000</b>	January 2, 1999 Restated (note 2)
<b>Current:</b>		
Cash	\$ 7,474	\$ 359
Accounts receivable (note 5)	29,955	30,776
Inventories (note 5)	54,415	79,855
Prepaid expenses	1,836	1,234
Future income taxes (notes 2 and 13)	2,066	1,573
<b>Total current assets</b>	<b>95,746</b>	<b>113,797</b>
<b>Property, plant and equipment</b> (note 6)	<b>46,002</b>	<b>64,341</b>
<b>Other:</b>		
Deferred charges	1,053	2,743
Other receivable (note 3)	5,493	—
Goodwill (note 3)	54,515	42,804
Future income taxes (notes 2 and 13)	16,505	13,504
Sundry investments	587	4,311
	<b>78,153</b>	<b>63,362</b>
	<b>\$ 219,901</b>	<b>\$ 241,500</b>

## Liabilities and Shareholders' Equity

<b>Current:</b>		
Bank loans (note 7)	\$ 16,456	\$ 36,497
Accounts payable and accrued liabilities (note 7)	30,586	32,122
Income taxes payable	4,594	540
Current portion of long-term liabilities (note 8)	5,226	2,658
<b>Total current liabilities</b>	<b>56,862</b>	<b>71,817</b>
<b>Long-term liabilities</b> (note 8)	<b>92,302</b>	<b>81,859</b>
<b>Deferred compensation</b>	<b>871</b>	<b>879</b>
<b>Shareholders' Equity:</b>		
Convertible Income Debenture (note 8)	—	9,962
Share capital (note 9)	49,895	49,688
Retained earnings	20,448	25,871
Foreign currency translation account (note 10)	(477)	1,424
	<b>69,866</b>	<b>86,945</b>
	<b>\$ 219,901</b>	<b>\$ 241,500</b>

See accompanying notes to the financial statements.

On behalf of the Board



H.E. Demone  
Director



D.J. Hennigar  
Director

# Consolidated Statements of Income

(In thousands of dollars)

For the fifty-two weeks ended January 1, 2000

(With comparative figures for the fifty-two weeks ended January 2, 1999)

	Fiscal 1999	Fiscal 1998
		Restated (note 2)
<b>Sales</b>	<b>\$ 302,392</b>	<b>\$ 291,655</b>
Cost of sales	225,235	209,024
<b>Gross margin</b>	<b>77,157</b>	<b>82,631</b>
Variable sales and marketing expenses	29,618	22,565
<b>Gross profit</b>	<b>47,539</b>	<b>60,066</b>
Other selling, general and administrative expenses	35,316	34,883
<b>Earnings before interest, taxes, depreciation, amortization and the undernoted (Operating EBITDA)</b>	<b>12,223</b>	<b>25,183</b>
Interest expense:		
Short-term	(1,578)	(1,136)
Long-term	(7,644)	(5,395)
Depreciation and amortization	(7,780)	(6,892)
Foreign exchange gains (losses)	177	(1,253)
<b>(Loss) income before the following items</b>	<b>(4,602)</b>	<b>10,507</b>
Gain on asset disposals (notes 4 and 11)	5,943	1,082
Reorganization costs (note 12)	(4,654)	—
<b>(Loss) income before income taxes</b>	<b>(3,313)</b>	<b>11,589</b>
<b>Income taxes (note 13)</b>		
Current	(4,517)	(1,427)
Future	3,763	(3,675)
	(754)	(5,102)
<b>Net (loss) income for the period</b>	<b>\$ (4,067)</b>	<b>\$ 6,487</b>

Earnings and Operating EBITDA per share (note 14)

See accompanying notes to the financial statements

# Consolidated Statements of Retained Earnings

(In thousands of dollars)

For the fifty-two weeks ended January 1, 2000

(With comparative figures for the fifty-two weeks ended January 2, 1999)

	Fiscal 1999	Fiscal 1998
		Restated (note 2)
<b>Balance, beginning of period, as previously reported</b>	<b>\$ 11,510</b>	<b>\$ 4,079</b>
Adjustment relating to future income taxes (note 2)	14,361	18,266
<b>Balance, beginning of period, as restated</b>	<b>25,871</b>	<b>22,345</b>
Net (loss) income for the period	(4,067)	6,487
Second Preference Share dividends	(1,243)	(1,260)
Class C and D Preference Share dividends	(106)	(106)
Convertible Income Debenture distributions	(7)	(250)
Share issue expenses	—	(1,345)
<b>Balance, end of period</b>	<b>\$ 20,448</b>	<b>\$ 25,871</b>

See accompanying notes to the financial statements

# Consolidated Statements of Cash Flows

(In thousands of dollars)

For the fifty-two weeks ended January 1, 2000

(With comparative figures for the fifty-two weeks ended January 2, 1999)

	Fiscal 1999	Fiscal 1998 Restated (note 2)
<b>Cash provided by (used in) operations:</b>		
Net (loss) income for the period	\$ (4,067)	\$ 6,487
<b>Charges (credits) to income not involving cash from operations:</b>		
Depreciation and amortization	7,957	6,868
Gain on asset disposals	(5,943)	(1,082)
Income taxes payable on sale of assets	4,459	—
Non-cash cost of reorganization	3,003	—
Deferred compensation	93	24
Future income taxes (recovery)	(3,763)	3,675
Cash flow from operations before changes in non-cash working capital	1,739	15,972
Net change in non-cash working capital balances, excluding business acquisitions	16,893	(24,535)
	<b>18,632</b>	<b>(8,563)</b>
<b>Cash provided by (used in) financing activities:</b>		
Change in bank loans	(19,349)	22,532
Long-term debt proceeds	14,899	23,651
Repayments of long-term debt	(9,094)	(1,014)
Payments of deferred compensation	(66)	—
Dividends paid	(1,349)	(1,366)
Convertible Income Debenture distributions (note 8)	(7)	(250)
Foreign exchange translation	(145)	—
Issue of equity shares	207	25,089
Share issue expenses	—	(1,345)
	<b>(14,904)</b>	<b>67,297</b>
<b>Cash provided by (used in) investing activities:</b>		
Purchase of property, plant and equipment	(5,107)	(7,084)
Proceeds on disposal of non-current assets	26,301	1,148
Decrease (increase) in other assets	(2,022)	803
Business acquisitions (note 3)	(15,785)	(59,809)
	<b>3,387</b>	<b>(64,942)</b>
<b>Increase (decrease) in cash during the period</b>	<b>7,115</b>	<b>(6,208)</b>
<b>Cash, beginning of period</b>	<b>359</b>	<b>6,567</b>
<b>Cash, end of period</b>	<b>\$ 7,474</b>	<b>\$ 359</b>

See accompanying notes to the financial statements

# Notes to Consolidated Financial Statements

## 1. Significant accounting policies

The accompanying consolidated financial statements have been prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada.

### (A) BASIS OF CONSOLIDATION

The accompanying financial statements consolidate the accounts of the Company and all its subsidiary companies.

Proportionate consolidation on a line by line basis is used to account for the Company's interest in a joint venture.

### (B) INVENTORY VALUATION

Inventories are valued at the lower of cost and net realizable value with cost determined principally on a FIFO (first-in, first-out) basis.

### (C) FOREIGN CURRENCY

Assets and liabilities of the US subsidiary operation, which is financially and operationally independent of the parent, are translated at exchange rates prevailing at the balance sheet date. The revenues and expenses are translated at average exchange rates prevailing during the year. The gains and losses on translation are deferred and included as a separate component of shareholders' equity titled "foreign currency translation account" until there is a realized reduction in the net investment.

The Company's net investment in its US subsidiary is partially hedged by long-term borrowings in US dollars in 1999 of US\$15 million (1998: US\$15 million). Gains and losses on the US dollar debt identified as a hedge against this investment are included in equity through the "foreign currency translation account" to offset gains and losses on the net investment in the US subsidiary.

Foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Gains or losses on translation are included in income.

Foreign exchange contracts are valued at rates prevailing at the balance sheet date. The resulting gains and losses on contracts acquired to hedge future foreign currency cash flows are deferred until the hedged cash flows are realized. At year end, the Company had foreign exchange contracts outstanding to purchase £108,000 against future commitments at an average exchange rate of \$2.38 (1998 - £308,000 at \$2.59), all with maturities of less than one year.

### (D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at the lower of cost net of accumulated depreciation and net recoverable amount. Depreciation is provided on the straight-line basis at the following rates per annum:

Brick buildings	2 1/2%
Other buildings	2 1/2% to 5%
Machinery and equipment	6 2/3%
Equipment under capital lease	Lease term
Vessels	6% for 5 years, 5% for the next 10 years, and 4% for the last 5 years

Assets held for sale are recorded at the lower of cost and estimated net realizable value.

### (E) DEFERRED CHARGES

Deferred charges represent bank financing costs, software maintenance fees, fishing license costs and foreign currency exchange losses related to long term debt. These are amortized over the remaining term of the item to which they relate. Deferred charges are stated at cost net of accumulated amortization. Amortization expense during the year amounted to \$375,000 (1998: \$225,000).

### (F) GOODWILL

Goodwill represents trademarks and goodwill on the purchase of new business ventures which are being written off over the expected life of 35 years. Goodwill is stated at cost net of accumulated amortization. Amortization expense during the year amounted to \$1,483,000 (1998: \$536,000).

### (G) SUNDRY INVESTMENTS

Portfolio investments are carried at cost. Investment in companies subject to significant influence are accounted for using the equity method. Investments are not reduced to market value unless it is determined that there has been a permanent impairment of value.

### (H) PENSION PLANS

The Company accounts for pension costs and obligations using the accrued benefit method and values its pension plan assets at current market values. Management's best estimate assumptions are used in valuing pension obligations. Experience gains and losses and any transitional surpluses are amortized over the expected average remaining service life of plan participants.

## 2. Adoption of New Accounting Standards

### INCOME TAXES (SEE ALSO NOTE 13)

During the fourth quarter of 1999 the Company adopted the new CICA Handbook Section 3465 "Income Taxes". This change has been applied retroactively and the Company's financial statements for fiscal 1999 and 1998 have been restated accordingly. The effect of adopting the new recommendations was to decrease net loss by \$2,772,000 (\$0.28 per share) for fiscal 1999 and to decrease net income by \$3,905,000 (\$0.51 per share) for fiscal 1998, and increase retained earnings and foreign currency translation account by \$18,266,000 and \$577,000, respectively, as at January 3, 1998.

Under the new recommendations, the asset and liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the rate in effect in the year the differences originated. Also, under the deferral method, tax benefits, related to accounting losses, could only be recognized in the period the loss was incurred unless there was virtual certainty of realizing these benefits.

## STATEMENTS OF CASH FLOWS

Effective January 3, 1999 the Company adopted the presentation for statements of cash flows as recommended by CICA Section 1540, on a retroactive basis, with respect to the presentation of short-term bank loans. The effect of this change is to reclassify the change in short-term bank loans as a financing activity in the current and prior periods and the change in outstanding cheques as a change in non-cash working capital balances from operations.

### 3. Acquisition

On September 18, 1998, the Company acquired the operations of Italian Village Ravioli & Pasta Products Inc. and Floresta Pasta Products Inc. (collectively Italian Village). The purchase price was \$59.8 million in cash representing equipment and leasehold improvements of \$7.8 million, goodwill of \$38.8 million and working capital of \$13.2 million. The purchase agreement included a provision for an earn-out sum based upon a formula representing a twenty percent economic interest in the business. The results of operations since September 18, 1998, have been included in the Consolidated Statements of Income.

The purchase was financed by net proceeds from Special Warrants in the amount of \$23.7 million, a new term loan of \$23.3 million and \$12.8 million from working capital. The Special Warrants were subsequently exercised during 1998 by the holders, without payment of any additional consideration, on a 1 for 1 basis into 2,500,000 Common Shares of the Company.

During 1999, the Company paid the earn-out sum in the amount of \$15.0 million. Payment of this amount ended the Company's obligation to the vendors. This amount was added to goodwill. The payment was funded from previously arranged financing and has extinguished an \$11.3 million letter of credit issued on the acquisition. As well, in conjunction with the payment of the earn-out sum, the purchase price allocation was finalized, bringing total goodwill, prior to any amortization, to \$61.6 million.

The Company has instituted legal action against the vendors for certain breach of contract claims and based on indemnity provisions in the purchase agreement. The Company expects to recover all indemnity claims, as well as to settle the earn-out as disclosed herein. There currently exists an escrow account of approximately \$7.9 million to cover these claims. At January 1, 2000, approximately \$5.5 million of such indemnity claims have been recorded as other receivables.

### 4. Joint Venture

On February 4, 1999, Seabay Clam Company Inc., a 50% joint venture interest, sold its assets and business, including a factory freezer trawler, on board equipment, fishing license, inventory and certain other assets. The Company recorded proceeds of \$19.8 million and a pre-tax gain on the sale of \$5.7 million after deducting its 50% of the book value of Seabay's assets and the Company's goodwill. The net proceeds, after payment of the vessel mortgage of \$5.4 million and income taxes of \$4.5 million, will be used to pay down bank debt once the remaining net proceeds are distributed to the joint venture partner.

The following amounts are included in the consolidated financial statements representing the Company's proportionate interest in the joint venture after the elimination of intercompany transactions:

	Fiscal 1999 (\$000)	Fiscal 1998 (\$000)
<b>Consolidated Balance Sheets</b>		
Current assets	\$ 6,825	\$ 2,061
Property, plant and equipment	—	7,204
Deferred charges	—	1,426
	\$ 6,825	\$ 10,691
Current liabilities	\$ 4,462	\$ 600
Long term debt	—	5,165
Future taxes	—	565
	4,462	6,330
Net investment in joint venture	\$ 2,363	\$ 4,361

### Consolidated Statements of Income

Sales	\$ —	\$ 7,887
Cost of sales	—	(6,763)
Interest income (expense)	377	(509)
Operating expenses	(43)	(723)
Gain on sale of business	5,686	—
Income taxes	(3,896)	(31)
Net income (loss)	\$ 2,124	\$ (139)

### Consolidated Statements of Cash Flows

Cash flow from operating activities	\$ 652	\$ 865
Cash flow from financing activities	\$ (13,266)	\$ (360)
Cash flow from investing activities	\$ 19,802	\$ 16

## 5. Current Assets

### (A) ACCOUNTS RECEIVABLE

	Jan. 1, 2000 (\$000)	Jan. 2, 1999 (\$000)
Canada Trade	\$ 13,793	\$ 10,353
US Trade (US\$9,949; 1998 US\$11,126)	14,360	17,026
Japan Trade	672	483
Affiliates	73	47
Other	1,057	2,867
	\$ 29,955	\$ 30,776

Terms range from 7 to 30 days with most amounts being collected in 35 days. No one customer represents more than 7% of outstanding amounts. The allowance for trade doubtful accounts amounts to 2.3% of the trade balance outstanding. The Company has experienced a bad debt expense of less than 0.1% of sales over the past five years.

### (B) INVENTORIES

	Jan. 1, 2000 (\$000)	Jan. 2, 1999 (\$000)
Finished goods	\$ 30,336	\$ 36,670
Raw and semi-finished material	17,973	36,340
Retail stores	1,023	987
Supplies and repair parts	5,083	5,858
	\$ 54,415	\$ 79,855

## 6. Property, Plant and Equipment

	Jan. 1, 2000 (\$000)	Jan. 2, 1999 (\$000)
Land	\$ 352	\$ 360
Buildings and equipment	98,886	102,335
Equipment under capital lease	1,819	693
Vessels	33,463	43,942
Other	2,460	2,460
	<b>136,980</b>	<b>149,790</b>
<b>Less accumulated depreciation:</b>		
Buildings and equipment	66,784	64,812
Equipment under capital lease	67	21
Vessels	26,543	29,284
	<b>93,394</b>	<b>94,117</b>
<b>Assets held for sale</b>	<b>2,416</b>	<b>8,668</b>
	<b>\$ 46,002</b>	<b>\$ 64,341</b>

## 7. Current Liabilities

### (A) BANK LOANS

	Jan. 1, 2000 (\$000)	Jan. 2, 1999 (\$000)
Canadian bank loans not exceeding prime plus 0.75%	\$ 6,504	\$ 23,697
US bank loans not exceeding prime plus 0.75% (US\$6,895; 1998 US\$8,363)	9,952	12,800
	<b>\$ 16,456</b>	<b>\$ 36,497</b>

The Company has pledged as collateral for its bank loans a general assignment of accounts receivable and inventory.

### (B) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Jan. 1, 2000 (\$000)	Jan. 2, 1999 (\$000)
Canadian payables	\$ 17,927	\$ 14,855
US payables (US\$8,771; 1998 US\$11,282)	12,659	17,267
	<b>\$ 30,586</b>	<b>\$ 32,122</b>

Accounts payable bear normal commercial credit terms and are non-interest bearing.

## 8. Long-Term Liabilities

	Jan. 1, 2000 (\$000)	Jan. 2, 1999 (\$000)
<i>Notes payable due to 2005</i> <sup>(i)</sup>		
At 8.28% (US\$17,000)	\$ 24,536	\$ 26,019
At 7.78%	24,106	24,106
<i>Note payable:</i>		
Not exceeding US prime due to 2005 (US\$22,150; 1998 US\$14,625) <sup>(ii)(iii)</sup>	31,969	22,383
<i>Vessel mortgages:</i>		
At US\$LIBOR plus 1.5% due to 2005 (US\$0; 1998; US\$3,500)	—	5,357
Due 2006 at 7.5% <sup>(iii)</sup>	9,314	—
<i>Convertible Subordinated Debentures</i> <sup>(iv)(v)</sup>		
At prime plus 2% due in 2001	4,804	4,838
At prime plus 2% due in 2002	1,000	1,000
Capital leases at 7.9% to 8.4% due 2001 to 2006	1,724	672
Other loans	75	142
	<b>97,528</b>	<b>84,517</b>
Less current portion	5,226	2,658
	<b>\$ 92,302</b>	<b>\$ 81,859</b>

(i) The Company has pledged as collateral for the notes payable a fixed charge on certain vessels, plants and equipment.

(ii) On January 1, 2000, the Company's US subsidiary was in default of certain of its financial covenants on this note payable. Subsequent to year end, new financial covenants were negotiated and the year end default was waived.

(iii) On May 1, 1999, the Convertible Income Debenture matured and converted to a term loan which is amortized over 7 years by equal blended monthly payments of principal and interest at 7.5% per annum. The debenture, previously recorded as equity, is now classified as long term debt on the balance sheet. Prior to May 1, 1999, the Convertible Income Debenture bore interest at an annual rate of 10% of a defined cash flow calculation to a maximum of 7.5% of the principal amount outstanding. No principal payments were required prior to April 30, 1999 (the "Conversion Date").

At any time following the Conversion Date, the loan may, at the option of the Company, be converted to redeemable Preference Shares bearing a dividend entitlement calculated in the same manner as interest on the income debenture provided that the 7.5% cap is removed on \$1.0 million of such Preference Shares each year to the extent not redeemed by the Company. The Company also has the option at any time to convert any or all of such Preference Shares back to a term loan at 7.5% per annum amortized over a term not exceeding 7 years.

(iv) The Company has entered into a floating-to-fixed interest rate swap agreement on a notional \$6.0 million to March, 2001. This swap hedges the Company's \$5.8 million Convertible Subordinated Debentures and results in an effective interest rate on this debt of approximately 9.1%.

(v) The Company has pledged as collateral for the Convertible Subordinated Debentures a second floating charge over the assets of the Company.

The Convertible Subordinated Debentures are convertible at the option of the holder before the maturity date of July 21, 2001 (May 5, 2002 with respect to \$1,000,000) at a conversion price of \$8.00 (\$9.40 with respect to \$1,000,000) per common share. The Debentures are redeemable at the Company's option for cash at par plus accrued and unpaid interest to the date of redemption. The equity element representing the holders' right to convert is not material. During the year \$34,000 (1998; \$10,000) of convertible debentures were converted to 4,299 shares (1998; 1,250).

(vi) The fair value of long-term liabilities, including interest rate swaps, approximate their carrying values.

(vii) The principal payments required on long-term debt in each of the next five fiscal periods are as follows:

	(\$000)
2000	\$ 5,226
2001	\$ 19,838
2002	\$ 15,863
2003	\$ 15,021
2004	\$ 14,927

## 9. Share Capital

The share capital of the Company at January 1, 2000 and January 2, 1999 is as follows:

### AUTHORIZED:

Cumulative Redeemable Convertible Preference Shares of the par value of \$5 each, redeemable at par	5½% Class C	<b>600,000</b>
	5½% Class D	<b>400,000</b>
Cumulative Redeemable Second Preference Shares of the par value of \$100 each		<b>200,000</b>
Preference Shares of the par value of \$25 each, issuable in series		<b>9,999,944</b>
Subordinated Redeemable Preference Shares of the par value of \$1 each, redeemable at par		<b>1,025,542</b>
Common Shares without nominal or par value <sup>(i)</sup>		<b>200,000,000</b>

Issued:	Jan. 1, 2000		Jan. 2, 1999	
	Shares	(\$000)	Shares	(\$000)
Class C and D Preference Shares <sup>(ii)</sup>	385,875	\$ 1,929	385,875	\$ 1,929
Second Preference Shares <sup>(iii)</sup>	200,000	20,000	200,000	20,000
Common Shares <sup>(iv)</sup>	9,845,009	29,138	9,814,460	28,931
Shares issued pursuant to non-recourse loans <sup>(v)</sup>	(77,500)	(1,172)	(77,500)	(1,172)
	<b>9,767,509</b>	<b>27,966</b>	<b>9,736,960</b>	<b>27,759</b>
		<b>\$49,895</b>		<b>\$49,688</b>

- (i) On December 16, 1998, the shareholders of the Company approved an increase in the authorized number of Common Shares by the creation of 188,808,695 Common Shares.
- (ii) 97,364 (1998; 81,644) Class C Preference Shares are owned by a subsidiary company.
- (iii) Dividends are in arrears for the period June 30, 1991 to December 31, 1997 in the amount of \$8,237,592 (1998; \$8,237,592).
- (iv) Common shares issued are shown net of 94,000 shares (1998; 94,000 shares) in the amount of \$1,386,200 (1998; \$1,386,200) which are owned by a subsidiary company.
- (v) The non-recourse loans are due at the time shares are sold by the employees or in any event by the year 2001.

### (A) COMMON SHARE TRANSACTIONS

Issued:	Jan. 1, 2000		Jan. 2, 1999	
	Shares	(\$000)	Shares	(\$000)
Balance, beginning of period	9,814,460	\$28,931	7,300,635	\$ 3,842
<i>Shares Issued:</i>				
Employee stock options exercised	26,250	173	12,575	79
Convertible subordinated Debentures converted	4,299	34	1,250	10
Conversion of special warrants	—	—	2,500,000	25,000
Balance, end of period	<b>9,845,009</b>	<b>\$29,138</b>	<b>9,814,460</b>	<b>\$28,931</b>

On August 7, 1998, the Company closed a special warrants issue on a private placement basis of 2,500,000 special warrants at a price of \$10.00 per special warrant for total proceeds of \$25,000,000 and net proceeds to the Company of \$23,750,000. The special warrants were subsequently exercised by the holders, without payment of any additional consideration, on a 1 for 1 basis into 2,500,000 common shares of the Company.

## B) PREFERENCE SHARES

The Class C and Class D Convertible Preference Shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects.

The Second Preference Shares are redeemable at their par value plus accrued and unpaid dividends. Cumulative dividends are payable quarterly at one-half a chartered bank's prime lending rate plus 3 percent.

The Class C and Class D Preference Shares and the Second Preference Shares will be redeemable in full in the event of any redemption or purchase for cancellation of any shares of the Company.

## C) SHARE OPTION AND SHARE PURCHASE PLANS

The Company has a common share option plan for designated directors, officers and certain managers of the Company and of subsidiary companies, with total options granted not to exceed 10 percent of the issued Common Shares.

The following options were outstanding at year end.

Exercise Price \$	Expiry	Jan. 1, 2000	Jan. 2, 1999
4.60	2002	<b>32,200</b>	39,000
4.75	2005	<b>35,000</b>	—
6.25	2003-2007	<b>115,000</b>	116,400
6.40	2000	<b>8,200</b>	11,300
7.60	1999	—	12,025
7.75	2003-2007	<b>100,000</b>	100,000
8.00	2001	<b>17,050</b>	20,250
8.25	2003-2004	<b>97,850</b>	104,100
8.75	2005	<b>73,800</b>	—
9.00	2000-2002	<b>106,900</b>	106,900
		<b>586,000</b>	509,975

Included in the above figures are options of 231,800, at an average exercise price of \$7.21, that were not exercisable on January 1, 2000, as they had not vested (January 2, 1999, 251,450 options at an average exercise price of \$7.42).

The Company had an employee and crew member share purchase plan whereby the plan purchased shares on the stock markets for the benefit of participants. The Company contributed \$2.00 for each \$10.00 contributed by the plan participants. This plan was discontinued subsequent to year end.

The Company had a share purchase plan which provides that the Company loan funds, interest free, to designated officers to purchase Common Shares in the Company. The shares are held by a trustee for the officers until the loan is repaid. This plan has been discontinued and there have been no Common Shares issued under the Plan since 1991. At year end 77,500 shares are issued under the Plan at an average price of \$15.12.

## 10. Foreign Currency Translation Account

	Fiscal 1999 (\$000)	Fiscal 1998 Restated (note 2) (\$000)
<b>Balance, beginning of period, as previously reported</b>	<b>\$ 398</b>	<b>\$ 300</b>
Adjustment relating to future income taxes (note 2)	<b>1,026</b>	577
<b>Balance, beginning of period, as restated</b>	<b>1,424</b>	<b>877</b>
Translation adjustments related to net assets of self-sustaining foreign operations	<b>(3,209)</b>	2,101
Effects of exchange rate variation on translation of items designated as hedges of net investment in self-sustaining foreign operation	<b>1,308</b>	(1,554)
<b>Balance, at end of period</b>	<b>\$ (477)</b>	<b>\$ 1,424</b>

## 11. Gain on Asset Disposals

In 1998 the Company sold land in Portsmouth, New Hampshire, that was surplus to its operation. In 1999, the Company sold three vessels, its 26% equity interest in International Aqua Foods Ltd. and its share of the business assets of a joint venture (note 4). The net gain on asset disposals is as follows:

	Fiscal 1999		Fiscal 1998	
	Proceeds (\$000)	Pre-tax gain (\$000)	Proceeds (\$000)	Pre-tax gain (\$000)
Seabay Clam Company Inc.	\$ 19,802	\$ 5,686	\$ —	\$ —
International Aqua Foods Ltd.	3,716	(119)	—	—
Vessels	2,694	372	—	—
Land	—	—	1,148	1,082
Other	89	4	—	—
	<b>\$ 26,301</b>	<b>\$ 5,943</b>	<b>\$ 1,148</b>	<b>\$ 1,082</b>

## 12. Reorganization Costs

A reorganization in November 1999 resulted in a pre-tax charge to income of \$1.7 million representing severances, early retirements and other costs. As well, property, plant and equipment was written down by \$3.0 million due to lower future cash flows expected from this property.

## 13. Income Taxes

During the fourth quarter of 1999 the Company retroactively adopted the CICA Handbook Section 3465 "Income Taxes". The cumulative effect of this accounting change is reported in the fiscal 1998 opening retained earnings and the fiscal 1998 future income tax assets, income tax expense and net income have been restated (see note 2).

Temporary differences and carry forwards which give rise to future income tax assets and liabilities are as follows:

	Jan. 1, 2000 (\$000)	Jan. 2, 1999 (\$000)
<b>Future income tax assets</b>		
Property, plant and equipment	\$ 9,722	\$ 7,702
Tax loss carry forwards	6,301	6,338
Deferred charges and other	4,084	2,636
Scientific research expenditures and development	2,096	2,096
Valuation allowance	(3,632)	(3,695)
	<b>18,571</b>	<b>15,077</b>
Less: current portion	2,066	1,573
Total long-term portion of future income tax asset	<b>\$ 16,505</b>	<b>\$ 13,504</b>

The Company has investment tax credit carry-forwards of approximately \$2.7 million available to reduce federal income taxes, with these credits expiring from 2000 through 2009.

The reconciliation of the Company's effective income tax rate is as follows:

	Fiscal 1999 %	Fiscal 1998 %
Federal income tax rate (recovery)	(38.0)	38.0
Provincial income taxes, net of federal abatement	(5.2)	5.2
Applicable tax rate (recovery)	(43.2)	43.2
Tax incentives for manufacturing and processing and active income	4.6	(4.6)
Canadian surtax and large corporation tax	5.1	3.7
US minimum tax	—	4.8
Goodwill not deductible for tax (capital transaction)	50.0	—
Other non-deductible (non-taxable) items	6.3	(5.4)
Other items	—	2.3
	<b>22.8</b>	<b>44.0</b>

## 14. Earnings and Operating EBITDA Per Share

	Fiscal 1999 (\$000)	Fiscal 1998 Restated (note 2) (\$000)
<b>Earnings (loss) per Common Share</b>		
Basic	\$ (0.56)	\$ 0.63
Diluted	\$ (0.56)	\$ 0.59
<b>Operating EBITDA per Common Share</b>		
Basic	\$ 1.25	\$ 3.27
Diluted	\$ 1.10	\$ 2.64
<b>Average shares outstanding for the period</b>		
Basic	9,763,071	7,698,138
Diluted	11,074,375	9,547,229

## 15. Segmented Information

The Company is primarily engaged in the food processing industry in North America which involves the purchasing or harvesting, processing and marketing of food products, principally frozen seafood and pasta and fresh seafood. The reportable segments are geographic regions and are managed separately. The Company evaluates performance of the reportable segments based on income. Operations and identifiable assets by reportable segment for the periods indicated are as follows:

	Fiscal 1999 (\$000)	Fiscal 1998 Restated (note 2) (\$000)
<b>Segmented sales</b>		
Canada:		
Domestic	\$ 138,900	\$ 131,830
Export:		
United States	47,704	46,824
Europe and Pacific Rim	9,349	13,496
Inter-segment	4,167	5,225
	<b>200,120</b>	<b>197,375</b>
United States:		
Domestic	103,902	95,359
Mexico	2,537	4,146
Inter-segment	1,318	357
	<b>107,757</b>	<b>99,862</b>
	<b>307,877</b>	<b>297,237</b>
Less inter-segment sales	5,485	5,582
<b>Consolidated sales</b>	<b>\$ 302,392</b>	<b>\$ 291,655</b>

*Inter-segment sales are valued at market prices*

	Fiscal 1999 (\$000)	Fiscal 1998 Restated (note 2) (\$000)
<b>Segment contribution to income:</b>		
Canada	\$ (4,679)	\$ 2,060
United States	77	8,447
	<b>(4,602)</b>	10,507
<i>Unallocated</i>		
Reorganization charges	<b>(4,654)</b>	—
Gain on asset sales	<b>5,943</b>	1,082
Income tax expense	<b>(754)</b>	(5,102)
<b>(Loss) income for the period</b>	<b>\$ (4,067)</b>	<b>\$ 6,487</b>
<b>Identifiable assets:</b>		
Canada	<b>\$ 114,981</b>	\$ 137,321
United States	<b>104,920</b>	104,179
<b>Total Assets</b>	<b>\$ 219,901</b>	<b>\$ 241,500</b>
	<b>Fiscal 1999 (\$000)</b>	<b>Fiscal 1998 Restated (note 2) (\$000)</b>
<b>Other Significant Items</b>		
<b>Depreciation and Amortization</b>		
Canada	<b>\$ 4,394</b>	\$ 5,082
United States	<b>3,386</b>	1,810
	<b>\$ 7,780</b>	\$ 6,892
<b>Interest expense</b>		
Canada	<b>\$ 5,687</b>	\$ 5,844
United States	<b>3,535</b>	687
	<b>\$ 9,222</b>	\$ 6,531
<b>Income tax expense</b>		
Canada	<b>\$ 353</b>	\$ 801
United States	<b>401</b>	4,301
	<b>\$ 754</b>	\$ 5,102
<b>Capital expenditures</b>		
Canada	<b>\$ 4,391</b>	\$ 5,875
United States	<b>716</b>	1,209
	<b>\$ 5,107</b>	\$ 7,084

## 16. Supplemental Cash Flow Information

Cash interest and cash taxes paid in 1998 and 1999 are as follows:

	Fiscal 1999 (\$000)	Fiscal 1998 (\$000)
Interest	\$ 9,556	\$ 6,776
Income and capital taxes	\$ 844	\$ 1,282

## 17. Pension Plans

The Company maintains a defined contribution plan for all employees hired after January 1, 2000, as well as all future contributions for certain salaried employees after January 1, 2000. The Company also maintains a defined benefit pension plan for management employees hired before January 1, 2000, as well as other plans for salaried and non-salaried employees which provide benefits on a money purchase basis for the employees' contributions, with the Company providing a defined benefit based on years of membership in the plan.

The total market value of pension plan assets at January 1, 2000 is \$21.3 million (1998: \$18.0 million). As at January 1, 2000 the deficiency in the various plans was approximately \$1.0 million, being the excess of the actuarial present value of accrued pension benefits attributed to services rendered, over pension plan assets.

## 18. Commitments

Operating lease commitments are less than \$1.5 million for each of the next five years. They result principally from leases for automobiles, office equipment, premises and production equipment.

## 19. Comparative Figures

Certain 1998 comparative figures have been restated to conform with the presentation adopted in the current year.

# Six Year Financial Data

(All amounts in thousands except per share amounts)

	1999	1998	1997	1996	1995	1994
				Restated - see note 1 below		
<b>Sales</b>	\$ 302,392	\$ 291,655	\$ 277,770	\$ 252,795	\$ 254,234	\$ 252,254
<b>Gross profit</b>	47,539	60,066	54,055	46,378	48,304	55,351
Other selling, general and administrative expenses	(35,316)	(34,883)	(32,815)	(28,997)	(31,672)	(31,375)
<b>Earnings before interest, taxes, depreciation, amortization, and the undemoted (Operating EBITDA)</b>	12,223	25,183	21,240	17,381	16,632	23,976
Interest expense	(9,222)	(6,531)	(5,255)	(6,162)	(8,008)	(8,216)
Depreciation and amortization	(7,780)	(6,892)	(6,828)	(7,235)	(7,794)	(7,553)
Foreign exchange gain (loss)	177	(1,253)	(259)	(8)	(190)	(456)
<b>(Loss) income before the following</b>	(4,602)	10,507	8,898	3,976	640	7,751
Gain (loss) on asset disposals	5,943	1,082	104	(2)	52	(46)
Reorganization costs	(4,654)	—	—	—	—	—
Minority interest	—	—	203	(69)	(663)	(247)
Recovery of restructuring costs	—	—	—	87	6,397	—
<b>(Loss) income before income taxes</b>	(3,313)	11,589	9,205	3,992	6,426	7,458
<b>Income taxes</b>						
Current	(4,517)	(1,427)	(843)	(611)	(407)	(353)
Future	3,763	(3,675)	(2,979)	(1,826)	(3,137)	(3,157)
	(754)	(5,102)	(3,822)	(2,437)	(3,544)	(3,510)
<b>Net (loss) income for the period</b>	\$ (4,067)	\$ 6,487	\$ 5,383	\$ 1,555	\$ 2,882	\$ 3,948

<b>Book value per Common Share</b>	\$ 4.91	5.65	3.58	2.81	2.65	2.21
(See note 2 below)						
<b>Basic (loss) earnings per Common Share</b>	\$ (0.56)	0.63	0.57	(0.01)	0.16	0.30
<b>Fully diluted (loss) earnings per Common Share</b>	\$ (0.56)	0.59	0.57	(0.01)	0.16	0.30
<b>Basic Operating EBITDA per Common Share</b>	\$ 1.25	3.27	2.94	2.41	2.31	3.32
<b>Fully diluted Operating EBITDA per Common Share</b>	\$ 1.10	2.64	2.51	2.22	2.31	3.32
<b>Common Shares outstanding at year end</b>	9,768	9,737	7,223	7,213	7,213	7,213
<b>Average number of Common Shares outstanding during the year</b>	9,763	7,698	7,223	7,213	7,213	7,213
<b>Second Preference Shares</b>						
Dividends declared and paid	\$ 1,243	1,260	—	—	—	—
Dividend per share	\$ 6.22	6.30	—	—	—	—
<b>C&amp;D Preference Shares</b>						
Dividends declared and paid	\$ 106	106	106	106	106	106
Dividend per share	\$ 0.275	0.275	0.275	0.275	0.275	0.275
<b>Convertible Income Debenture</b>						
Distribution paid	\$ 7	250	81	298	208	453

Note 1: In the fourth quarter of 1999 the Company changed its accounting policy for income taxes in accordance with new recommendations of the CICA. This change was accounted for retroactively and prior quarters and years were restated. See note 2 to the financial statements.

Note 2: Book value per common share is calculated before deducting undeclared dividends on preference shares.

# Six Year Financial Data

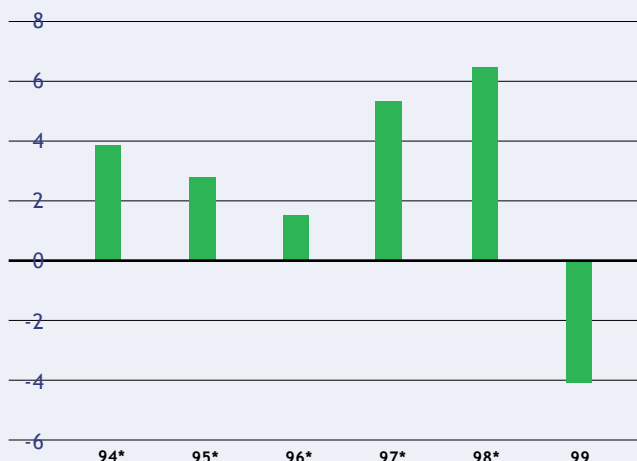
(All amounts in thousands)

	1999	1998	1997	1996	1995	1994
			Restated - see note below			
Cash	\$ 7,474	\$ 359	\$ 6,567	\$ 271	\$ 1,806	\$ 1,402
Accounts receivable	29,955	30,776	23,379	22,460	22,876	21,344
Inventories	54,415	79,855	46,494	56,836	47,184	49,169
Prepaid expenses	1,836	1,234	826	1,297	957	1,456
Future income taxes	2,066	1,573	1,610	1,285	2,224	4,956
Total current assets	95,746	113,797	78,876	82,149	75,047	78,327
Property, plant & equipment	46,002	64,341	54,998	55,671	63,055	64,992
Goodwill and deferred charges	55,568	45,547	6,341	1,365	4,023	5,078
Future income taxes	16,505	13,504	16,681	19,672	20,530	21,174
Other assets	6,080	4,311	4,882	5,940	5,975	6,045
<b>Total assets</b>	<b>\$ 219,901</b>	<b>\$ 241,500</b>	<b>\$ 161,778</b>	<b>\$ 164,797</b>	<b>\$ 168,630</b>	<b>\$ 175,616</b>
Bank loans	\$ 16,456	\$ 36,497	\$ 13,965	\$ 18,226	\$ 11,310	\$ 14,683
Accounts payable and accrued liabilities	30,586	32,122	28,659	35,956	34,090	36,987
Income taxes payable	4,594	540	470	788	526	253
Current portion of long-term liabilities	5,226	2,658	760	5,506	10,150	3,711
Total current liabilities	56,862	71,817	43,854	60,476	56,076	55,634
Long-term liabilities	93,173	82,738	60,140	51,182	60,655	71,891
Minority interest	—	—	—	979	910	247
Shareholders' equity	69,866	86,945	57,784	52,160	50,989	47,844
<b>Total liabilities and shareholders' equity</b>	<b>\$ 219,901</b>	<b>\$ 241,500</b>	<b>\$ 161,778</b>	<b>\$ 164,797</b>	<b>\$ 168,630</b>	<b>\$ 175,616</b>

Note: In 1999 the Company changed its accounting policy for income taxes in accordance with new recommendations of the CICA. This change was accounted for retroactively and prior quarters and years were restated. See note 2 to the financial statements.

## Consolidated Net Income

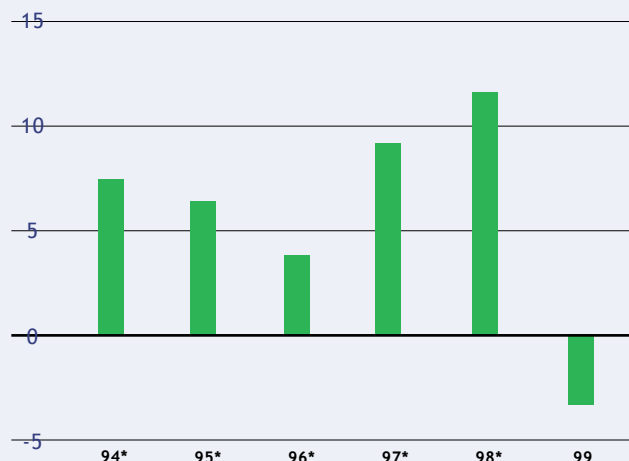
IN MILLIONS OF DOLLARS



\* 1994 to 1998 have been restated to reflect the retroactive application of a change in accounting policy relating to income taxes.

## Consolidated Income before Taxes

IN MILLIONS OF DOLLARS



\* 1994 to 1998 have been restated to reflect the retroactive application of a change in accounting policy relating to income taxes.

# Quarterly Financial Data

(All amounts in thousands except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>Fiscal 1999</b>	<i>(Restated - see note below)</i>				
Sales	\$ 90,632	63,768	72,864	75,128	<b>302,392</b>
Operating EBITDA	\$ 6,367	376	1,629	3,851	<b>12,223</b>
Income (loss) before tax (i)	\$ 8,183	(3,860)	(2,591)	(5,045)	<b>(3,313)</b>
Net income (loss)	\$ 2,872	(2,385)	(1,734)	(2,820)	<b>(4,067)</b>
Basic earnings (loss) per Common Share	\$ 0.26	(0.28)	(0.20)	(0.34)	<b>(0.56)</b>
Basic operating EBITDA per Common Share	\$ 0.65	0.04	0.17	0.39	<b>1.25</b>

(i) Included in income before tax are gains on the sale of non-current assets of \$5.7 million in the first quarter and \$0.2 million in the fourth quarter. As well, a reorganization charge of \$4.7 million was recorded in the fourth quarter.

<b>Fiscal 1998</b> <i>(Restated - see note below)</i>					
Sales	\$ 86,588	60,655	71,750	72,662	<b>291,655</b>
Operating EBITDA	\$ 9,305	4,255	4,877	6,746	<b>25,183</b>
Income before tax (i)	\$ 6,030	851	1,946	2,762	<b>11,589</b>
Net income	\$ 3,376	477	1,090	1,544	<b>6,487</b>
Basic earnings per Common Share	\$ 0.39	0.02	0.10	0.12	<b>0.63</b>
Basic operating EBITDA per Common Share (ii)	\$ 1.29	0.59	0.67	0.74	<b>3.27</b>

(i) Included in income before tax is a gain on the sale of non-current assets of the \$1.1 million in the third quarter.

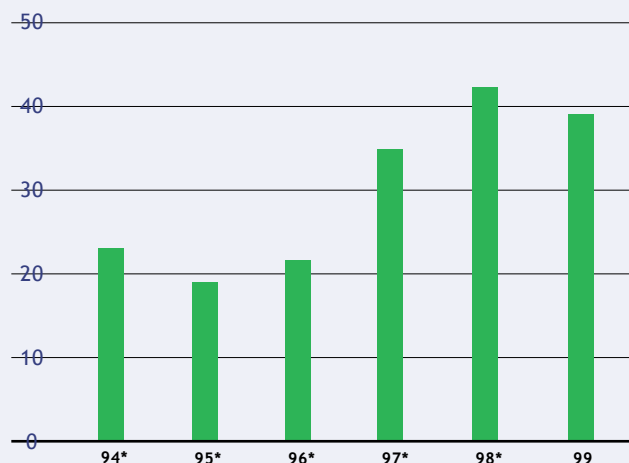
(ii) Total for the year does not add to the sum of the quarters due to rounding and the use of average shares outstanding for the periods.

<b>Fiscal 1997</b> <i>(Restated - see note below)</i>					
Sales	\$ 81,382	62,723	61,698	71,967	<b>277,770</b>
Operating EBITDA	\$ 7,464	3,944	3,917	5,915	<b>21,240</b>
Income before tax	\$ 4,242	957	1,360	2,646	<b>9,205</b>
Net income	\$ 2,481	560	795	1,547	<b>5,383</b>
Basic earnings per Common Share	\$ 0.30	0.02	0.08	0.17	<b>0.57</b>
Basic operating EBITDA per Common Share	\$ 1.03	0.55	0.54	0.82	<b>2.94</b>

Note: In the fourth quarter of 1999 the Company changed its accounting policy for income taxes in accordance with new recommendations of the CICA. This change was accounted for retroactively and prior quarters and years were restated. See note 2 to the financial statements.

## Net Working Capital

IN MILLIONS OF DOLLARS



\* 1994 to 1998 have been restated to reflect the retroactive application of a change in accounting policy relating to income taxes.

# Employee Profiles

*It is through the dedication and long-term commitment of its employees that High Liner Foods has become the internationally recognized company that it is today. The following eight individuals featured on this page have each been with the Company for at least 35 years and have contributed 296 years of service collectively. High Liner Foods is proud to recognize the service of its employees and to honour these special members of the corporate family.*



**Captain  
Lynn Corkum**

Fleet  
Lunenburg, NS

*38 years*



**David  
Whynacht**

Wetfish  
Lunenburg, NS

*36 years*

**Captain  
Alex Green**

Fleet  
Lunenburg, NS

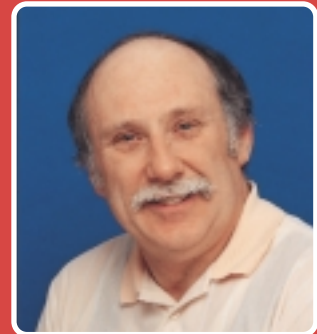
*37 years*



**Rhodes  
Mercer**

Wetfish  
Lunenburg, NS

*36 years*



**Sherman  
Corkum**

Wetfish  
Lunenburg, NS

*37 years*



**Captain  
Roy Dagley**

Fleet  
Lunenburg, NS

*38 years*



**Rick  
Crouse**

Maritime Retail Sales  
Halifax, NS

*38 years*



**Tom  
Lohnes**

Work Study  
Lunenburg, NS

*36 years*



## DIRECTORS *(left to right)*

J.T. MacQuarrie, Q.C.<sup>3, 4</sup>  
Halifax, NS  
*Partner, Stewart McKelvey Stirling Scales*

R.E. Shea<sup>2</sup>  
Boston, MA  
*Chairman and President,  
Shea Financial Group Inc.*

R.L. Pace<sup>2</sup>  
Halifax, NS  
*President and Chief Executive Officer  
The Pace Group Limited*

F.B. Ladly<sup>3</sup>  
Fallbrook, ON  
*Deputy Chairman, Extencicare Inc.*

W.F.S. Wade<sup>1, 2</sup>  
New Minas, NS  
*President, F.E. Wade Holdings Ltd.*

D.E. Read<sup>1, 3</sup>  
Halifax, NS  
*President, Read Restaurants Limited*

C.R. Bell<sup>4</sup>  
St. John's, NF  
*President, Charles R. Bell Ltd.*

H.E. Demone<sup>1, 4</sup>  
Lunenburg, NS  
*President and Chief Executive Officer,  
High Liner Foods Incorporated*

D.R. Sobey<sup>1</sup>  
Stellarton, NS  
*Chairman, Empire Company Limited*

J.R. Winters, Q.C.<sup>1</sup>  
Truro, NS  
*Chairman and President,  
Napwick Holdings Limited*

D.J. Hennigar<sup>1, 3</sup>  
Bedford, NS  
*Chairman of the Board  
Chairman, Extencicare Inc.*

R.P. Dexter, Q.C.<sup>2</sup>  
Halifax, NS  
*Chairman and Chief Executive Officer  
Maritime Travel Group Limited*

G.E. Bishop<sup>4</sup>  
Hantsport, NS  
*President, Scotia Investments Limited*

## Corporate Directory

**C.R. Bell**  
*Director since 1991.*  
Chairman of the Bell Group of Companies, of St. John's, Newfoundland, which includes a distribution company, a 33 store retail furniture chain, real estate holdings, and investment management. Director of St. John's Health Care Corporation and Salvation Army Advisory Board member.

**G.E. Bishop**  
*Director since 1992.*  
President, Scotia Investments Limited, and Chairman and Chief Executive Officer of Minas Basin Pulp and Power Company Limited. Director of Ben's Limited, CKF Inc., Maritime Paper Products limited, Crown Fibre Tube Inc., and several other companies. Chairman of the Board of Governors of Acadia University, and Governor of Junior Achievement of Nova Scotia.

**H.E. Demone**  
*Director since 1989.*  
President of High Liner Foods Incorporated since 1989, and President and Chief Executive Officer since 1992. Member and former chairman of the Atlantic Canada Chapter of the Young Presidents' Organization, and a director of the IWK Grace Health Centre Foundation.

**R.P. Dexter, Q.C.**  
*Director since 1992.*  
Chairman and CEO of Maritime Travel (Group) Limited, operating 60 travel shops in the Atlantic Provinces under the trade names "Maritime Marlin Travel" and "LeGrow's Travel". Partner of Stewart McKelvey Stirling Scales, and director of Aliant Inc., CorporaTel, Empire Company Limited, The Maritime Life Assurance Company, Sobeys Canada Inc., and Wajax Limited. Member of the Atlantic Advisory Committee to Black and MacDonald Limited.

**D.J. Hennigar**  
*Chairman of the Board. Director since 1984.*  
Chairman of Annapolis Group Inc., of Acadian Securities Inc., and of Extencicare Inc. Director of various other companies, including Scotia Investments Limited. Chairman of the Oceans Institute of Canada. Director of the International Oceans Institute, and a member of the Dalhousie University School of Business Advisory Committee.

**F.B. Ladly**  
*Director since 1998.*  
Deputy Chairman of Extencicare Inc., a health care and financial services company based in Markham, Ontario, Vice Chairman of Crown Life Insurance Company and director of UBS Bank (Canada), UBS Trust (Canada), and Knudsen Engineering Limited.

**J.T. MacQuarrie, Q.C.**  
*Director since 1985.*  
Senior Partner at Stewart McKelvey Stirling Scales. Director of Minas Basin Pulp & Power Co. Ltd., and Extencicare Inc., and several other public and private corporations.

**R.L. Pace**  
*Director since 1998.*  
President and CEO of The Pace Group Ltd., a private holding company. Chairman of Maritime Broadcasting System, owners and operators of 23 radio stations in the Maritimes. Director of Canadian National, Green Waste Systems Inc., Evergreen Landscaping Limited, MBS Realty Ltd., the International Centre for Human Rights and Democratic Development, Green Outdoor Signs Ltd., and the Atlantic Salmon Federation.

**D.E. Read**  
*Director since 1985.*  
President, Read Restaurants Limited, and a director of several private companies in Atlantic Canada. Member of the Executive Committee of the Dalhousie Medical Research Foundation, and former Vice Chairman of the Board of Regents of Mount Allison University.

**R.E. Shea**  
*Director since 1982.*  
President, Shea Financial Group, and director of Shea Insurance Group, Inc., Balcam & Shea Insurance Agency, Inc., and Consultants and Risk Managers, Inc., all of Boston, MA.

**D.R. Sobey**  
*Director since 1984.*  
Chairman, Empire Company Limited, director of Alliance Atlantis Communications Inc., Aliant Telecommunications, the Canadian Tennis Association, National Gallery of Canada, Paribas Participations Limitee PPL, Sobeys Inc., Toronto-Dominion Bank, and Wajax Limited. Governor of the Olympic Trust of Canada, Chairman QEII Foundation, and a member of the Advisory Council, Queen's University.

**W.F.S. Wade**  
*Director since 1994.*  
President, F.E. Wade Holdings Ltd., director of Coldbrook Developments Ltd., Sinova Learning Centres Limited, and several other private companies. Former chairman of the Canadian Federation of Independent Grocers, a member of the Board of Governors of Kings Edgell School, and of Acadia University.

**J.R. Winters, Q.C.**  
*Director since 1997.*  
Counsel to Burchell MacDougall, Barristers & Solicitors of Truro, NS, and Chairman of Napwick Holdings Limited, a private holding company. Member of the Executive Committee of the Board of Regents of Mount Allison University, the Investment Committee of Dalhousie University, and Chair of the GI Smith Memorial Trust. Chair of the Colchester Park Development Society and Chair of the Board of Halifax Cablevision Limited.

1 Executive Committee

2 Audit Committee

3 Human Resources and Corporate Governance Committee

4 Environment and Safety Committee



### Honourary Directors

H.P. Connor  
J.B. Estey  
J.B. Morrow  
Hon. H.J. Robichaud, P.C.  
F.W. Russell, C.M.  
W.O. Morrow  
(Honourary Chairman)  
K.V. Cox  
M.J. Regan  
H.W. MacLauchlan

### Officers and Canadian Management

D.J. Hennigar  
*Chairman of the Board*  
H.E. Demone<sup>5</sup>  
*President and Chief Executive Officer*  
M.P. Marino<sup>5</sup>  
*Vice President, Canadian Sales and Marketing*  
K.L. Nelson<sup>5</sup>  
*Vice President Corporate Services and Chief Financial Officer*  
P.W. Snow<sup>5</sup>  
*Vice President, Operations*  
R.G. Whynacht<sup>5</sup>  
*Vice President National Sea Products*  
C.E. Milton  
*Corporate Secretary & Treasurer*  
G.W. LeBlanc  
*Corporate Controller*

### United States Management

E.K. Conrad  
*Vice President, Operations*  
J.D. Coxwell  
*Vice President, Sales*  
D.H. Johnson<sup>5</sup>  
*Vice President, Sales & Marketing*  
J.K. McGinn  
*Vice President, Finance*  
<sup>5</sup> Member, Management Committee

### Plants

Nova Scotia: Lunenburg  
Newfoundland: Arnold's Cove  
New Hampshire: Portsmouth  
New Jersey: Secaucus

### Subsidiary Companies and Divisions

- High Liner Foods (USA) Incorporated
- National Sea Products Limited
- Scotia Trawler Equipment Limited
- Italian Village Foods

### Auditors

Ernst & Young, LLP  
Chartered Accountants

### Transfer Agent

Montreal Trust Company

### For help with:

- changes of address
- transfer of shares
- loss of share certificates
- consolidation of multiple mailings to one shareholder
- estate settlements

### Please call:

1-800-663-9097  
(toll free in North America)  
1-902-420-2211  
1465 Brenton Street  
P.O. Box 36012  
Halifax, NS B3J 3S9

### email inquiries:

[inquire@montrealtrust.com](mailto:inquire@montrealtrust.com)

### Banks

The Royal Bank of Canada  
HSBC  
KeyBank National Association  
Fleet National Bank

### Investor Relations

#### For:

- additional financial information
- industry and company developments
- additional copies of this report

#### Call:

C.E. Milton,  
Corporate Secretary & Treasurer  
902-634-8811  
Facsimile: 902-634-4785  
e-mail:

[investor@highlinerfoods.com](mailto:investor@highlinerfoods.com)  
<http://www.highlinerfoods.com>

100 Battery Point  
P.O. Box 910  
Lunenburg, NS B0J 2C0

Common Shares and  
Convertible Subordinated  
Debentures listed on The  
Toronto Stock Exchange  
Trading Symbols:  
Common Shares: HLF  
Debentures: HLF.DB

### Annual General Meeting of Shareholders

Friday, April 28, 2000  
11:00 a.m.  
World Trade &  
Convention Centre  
Halifax, Nova Scotia

### Consumer website:

<http://www.highliner.com>



**High Liner Foods Incorporated**

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PO Box 901, Lunenburg, Nova Scotia B0J 2C0  
(902) 634-8811  
[www.highlinerfoods.com](http://www.highlinerfoods.com)