Second Quarter Report to Shareholders

Thirteen and Twenty-Six Weeks Ended June 29, 2013

Financial Results and
Management Discussion & Analysis
Thirteen and Twenty-Six Weeks Ended June 29, 2013

Introduction

This Management Discussion and Analysis ("MD&A") includes the operating and financial results of High Liner Foods Incorporated ("High Liner") for the second quarter of 2013. It provides management's perspective on our performance and operations. This document should be read in conjunction with our Unaudited Condensed Interim Consolidated Financial Statements for the period ended June 29, 2013, as well as our 2012 Annual Report, which is available on High Liner's website at www.highlinerfoods.com and SEDAR's website at www.sedar.com. This MD&A provides an update from the annual MD&A included in the 2012 Annual Report and from the MD&A for the first quarter ended March 30, 2013; since many factors described in those documents remain substantially unchanged, readers should refer to them as well.

Important Notes

We, us, our, Company, High Liner, High Liner Foods

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

Review and approval by the Board of Directors

The Board of Directors of the Company, on recommendation of the Audit Committee, approved the content of this MD&A on August 7, 2013. Disclosure contained in this document is current to this date, unless otherwise stated.

Quarterly comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the second quarter of 2013 are against results for the second quarter of 2012. Likewise, all comparisons of results for the first twenty-six weeks of 2013 are against results for the first twenty-six weeks of 2012.

Presentation currency

At the end of fiscal 2012, the Company changed its presentation currency from Canadian dollars ("CAD") to U.S. dollars ("USD"), effective retrospectively to January 3, 2010, and unless otherwise noted, all amounts in this document are in USD. Although the functional currency of the Canadian parent company is CAD, the USD presentation better reflects the total Company's business activities and improves investors' ability to compare the total Company's financial results with other publicly-traded businesses in

the packaged foods industry (most of which are based in the U.S. and report in USD) and should result in more stability in sales, earnings and on the balance sheet, as a large part of our financial statement items are functional USD.

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

In some parts of this document, we discuss balance sheet and operating items in domestic currency. This effectively means the operations of the Canadian parent company are discussed in CAD, which is the functional currency of that company. We do this to eliminate the effect of fluctuating foreign exchange rates, used to translate the Company's Canadian operations to the U.S. dollar presentation currency, on the Canadian parent company's financial performance.

Other important documents

High Liner also publishes year-end documents that include additional information of interest to investors, such as our 2012 annual MD&A, Annual Information Form and Management Information Circular. These documents are available on SEDAR's website at www.sedar.com, and in the Investor Information section of High Liner's website at www.highlinerfoods.com.

Non-IFRS financial measures

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

These non-IFRS financial measures are defined below and include: Adjusted Net Income; Adjusted Diluted Earnings per Share ("EPS"); Adjusted Earnings before Interest,

Depreciation and Amortization ("EBITDA"); Adjusted Earnings before Interest and Taxes ("EBIT"); and Standardized Free Cash Flow.

Adjusted Net Income

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

Adjusted Diluted EPS

Adjusted Diluted EPS is Adjusted Net Income, as defined above, divided by the average diluted number of shares. Adjusted EPS affects what the Company targets to pay out in dividends.

Adjusted EBITDA

Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Canadian Institute of Chartered Accountants and is earnings before interest, taxes, depreciation and amortization, excluding impairment of property, plant and equipment, business acquisition and integration expenses, stock compensation expense, gains or losses on disposal of assets, and the increase in cost of goods sold relating to inventory acquired from business acquisitions, above its book value, as part of the fair value requirements of purchase price accounting. For purposes of the leverage tests calculated under the Company's debt covenants, "EBITDA" is based on Adjusted EBITDA.

In 2013, we've changed our definition of Adjusted EBITDA to exclude: the non-cash stock-based compensation expense; and the increase in cost of goods sold relating to inventory acquired from the Icelandic USA and Viking acquisitions, above its historical cost, as part of the fair value requirements of purchase price accounting. Adjusted EBITDA for prior periods has been restated to conform with the changes made in 2013.

Adjusted EBIT

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

Standardized Free Cash Flow

Standardized Free Cash Flow follows the October 2008 “General Principles and Guidance for Reporting EBITDA and Free Cash Flow” issued by the Canadian Institute of Chartered Accountants and is cash flow from operating activities less purchase of property, plant and equipment (net of investment tax credits) as reported on the Consolidated Statement of Cash Flows.

Forward-looking statements

This MD&A contains forward-looking statements within the meaning of securities laws. In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. Specific forward-looking statements in this document include, but are not limited to: statements with respect to future growth strategies and impact on shareholder value; increased demand for our products whether due to the recognition of the health benefits of seafood or otherwise; increases in the disposable incomes of consumers; and economic recovery in both Canada and the U.S. markets; changes in costs for seafood and other raw materials; increases or decreases in processing costs; the exchange rate for the Canadian dollar relative to the U.S. dollar; percentage of sales from our brands; operating cost savings expected in 2013; expectations with regards to sales volumes, product innovations, brand development and anticipated financial performance; competitor reaction to Company strategies and actions; impact of price increases or decreases on future profitability; sufficiency of working capital facilities; future income tax rates; the anticipated additional synergies from the integration of the operations of Icelandic USA with High Liner operations and the timing thereof; decreased leverage in the future; estimated capital spending; future inventory trends and seasonality; market forces and the maintenance of existing customer relationships; availability of credit facilities; our projection of excess cash flow and minimum repayments under the Term Loan; expected synergies from acquisitions; expected decreases in debt to capitalization ratio; dividend payments; amount and timing of the annual ongoing reduction in operating costs; integration issues encountered in the first half of 2013 not recurring; and amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants.

Forward-looking statements can generally be identified by the use of the conditional tense, the words “may”, “should”, “would”, “could”, “believe”, “plan”, “expect”, “intend”, “anticipate”, “estimate”, “foresee”, “objective”, “goal”, “remain” or “continue” or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company’s materials filed with the Canadian securities regulatory authorities from time to time, including the “Risk Management” section of our 2012 MD&A and the

"Risk Factors" section of our 2012 Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: volatility in the U.S. / Canadian exchange rate; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods; costs of commodity products and other production inputs; successful integration of the operations of Icelandic USA; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the market place; changes in laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business requirements through outside sources; compliance with debt covenants; the availability of adequate levels of insurance; management retention and development; and successful resolution of issues experienced in the first half of 2013, including production challenges and higher distribution costs in Newport News, equipment relocation challenges, and lower throughputs on the increased production.

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

Company Overview

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

In late 2007, High Liner acquired the North American manufacturing and marketing business of FPI Limited, including FPI's prominent food service business headquartered in Danvers, Massachusetts. At the end of 2010, High Liner acquired the business of Viking Seafoods, Inc. (the "Viking Acquisition" or "Viking"). Viking is a value-added business serving the U.S. food service seafood market from Malden, Massachusetts. At the end of 2011, High Liner acquired the U.S. subsidiary and Asian procurement operations of Icelandic Group h.f., one of the largest suppliers of value-added seafood to the U.S. food service market. See the Business Acquisition Report filed on SEDAR on March 16, 2012 for more details on this important acquisition (the "Icelandic USA Acquisition" or the "Acquisition").

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

Performance Highlights

Financial and operational highlights for the second quarter of 2013 include (all comparisons are relative to the second quarter and first twenty-six weeks of 2012, unless otherwise noted):

- Sales for the second quarter were $204.9 million, compared with $216.8 million;
- Reported net income increased in the second quarter to $9.9 million (diluted earnings per share ("EPS") of $0.63), compared with $1.0 million (diluted EPS of $0.06) in the second quarter of 2012 ($15.1 million, or diluted EPS of $0.97, for the first twenty-six weeks of 2013, compared to $2.7 million, or $0.18 diluted EPS, for the first twenty-six weeks of 2012);
- Adjusted Net Income increased in the second quarter to $9.2 million (Adjusted Diluted EPS of $0.59), compared with $5.5 million (Adjusted Diluted EPS of $0.35) in the second quarter of 2012 ($19.0 million, or Adjusted Diluted EPS of $1.22, for the first twenty-six weeks of 2013, compared to $19.5 million, or Adjusted Diluted EPS of $1.26, for the first twenty-six weeks of 2012);
- Adjusted EBITDA for the second quarter was $19.3 million, compared with $16.4 million;
- Standardized Free Cash Flow was $82.3 million for the rolling fifty-two weeks ended June 29, 2013, compared with $41.0 million for the same period ended June 30, 2012; and
- Net interest-bearing debt to Adjusted EBITDA, calculated on a rolling fifty-two week basis, decreased to 3.15x at the end of the second quarter, compared to 3.40x at the end of fiscal 2012 and 3.74x at the end of the first quarter of 2013.

Liquidity and Capital Resources

Our balance sheet is affected by foreign currency fluctuations. The affect of foreign currency is discussed in this section and under the headings "Presentation Currency" and "Foreign Currency" under the Introduction and Risk Factors sections, respectively, of this report.

Net Working Capital

Net working capital balances, consisting of accounts receivable, inventory and prepaid expenses, less accounts payable and provisions, are lower at June 29, 2013 than they were on June 30, 2012.

At the end of the second quarter of 2013, accounts receivable and inventories were lower than their balances one year earlier by $56.9 million in aggregate, and accounts payable, including provisions, decreased by $11.4 million. The reduction in net working capital allowed us to reduce our bank loans by $57.4 million since the end of the second quarter of 2012, in spite of long-term debt payments totaling $17.1 million over that 12 month period.

Our inventories decreased at the end of the second quarter of 2013 relative to both the end of the second quarter of 2012 and at December 29, 2012. The Company had 60.4 million pounds of product inventory at the end of the second quarter of 2013, compared with 78.4 million pounds at the end of the second quarter of 2012, and 79.9 million at December 29, 2012. The decrease in inventories is due to a decision by management to reduce inventories during our busiest period beginning in the fall of the year and ending on Easter.

Accounts payable and provisions balances at the end of the second quarter of 2013 were $11.4 million lower than they were at the end of the second quarter of the prior period and year end of 2012 due to a lower accrual for employee incentives, the payment of severance costs accrued on the Icelandic USA Acquisition, a reduction for the estimate of the severance accrual, and a portion of the stock option liability related to stock appreciation rights (“SARs”), as explained in the following section, was transferred to contributed surplus.

Equity

We filed a normal course issuer bid in January 2013 to purchase up to 250,000 common shares. To date in 2013, we did not repurchase any shares under this normal course issuer bid.

In recent years, all stock options issued by the Company contained a tandem SAR which allowed the option holder, upon exercise, to receive cash instead of shares equal to the ‘appreciated’ value of such shares. Under IFRS, these stock options are accounted for as a liability and marked-to-market at each reporting period based on the value of the Company’s stock price. The liability increases when stock prices rise with a corresponding expense and conversely the liability decreases with an income recovery recorded when the stock declines in value.

As explained in our first quarter MD&A, recognizing the volatility of tandem SARs on the Company’s profit and loss and the potential cash outflow if a significant number of them were exercised for cash in a particular year, the stock options granted in the third

quarter of 2012 and the first quarter of 2013 did not contain a tandem SAR. As well, effective March 29, 2013 voluntary amendments were made to the stock options granted in early 2012 and prior years for certain of the Company's directors and senior management to eliminate the tandem SAR. Effective at that time, the liability for these individuals related to the tandem SARs was fixed and no future profit or loss impact will be necessary going forward related to the options that were vested at that time. Instead of a risk that the Company might be called upon for a cash payment equal to the value of the SARs, future exercises of these options will result in the issuance of common stock to the option holders who will then decide either to hold the stock or crystallize the value from the options by selling the stock in the market.

The remaining liability for the tandem SARs was $2.4 million at June 29, 2013, compared to $5.4 million on June 30, 2012 and $10.8 million on December 29, 2012.

Debt

Our net cash position (cash less current bank loans, excluding deferred financing charges) on June 29, 2013 was a liability of $30.6 million, compared to a liability of $88.5 million on June 30, 2012. The net cash position improved by $57.9 million due to cash flow generated from operations that allowed us to reduce bank loans over this one year period.

During the second quarter of 2013, bank loans, comprised of our working capital credit and term loan facilities, decreased from their balance at the end of fiscal 2012 due to continued positive operating results and reductions in working capital.

In 2012 we entered into interest rate hedges to fix a portion of the rates on both the term loan and working capital facilities as more fully described in our 2012 annual financial statements.

Working capital credit facility

Of our working capital credit facility of $180 million, $55 million is allocated to our Canadian operations and $125 million is allocated to our U.S. operations. At the end of the second quarter of 2013, the Company had $103.0 million of unused borrowing capacity taking into account both margin calculations and the total line availability.

This facility was amended in February 2013 with reductions to interest rates and increased flexibility around acquisitions being the major changes. This working capital facility expires in 2016. At the end of the second quarter of 2013, we were borrowing at the following rates:

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

Excluding any large acquisitions, we believe the existing credit facility will be sufficient to fund all of the Company's current cash requirements for at least the next 12 months.

At the end of the second quarter of 2013, letters of credit were outstanding in the amount of $1.2 million (June 30, 2012; $1.4 million) to support raw material purchases. There were also standby letters of credit in the amount of $11.0 million (June 30, 2012; $9.4 million) to secure obligations under the Company's supplemental executive retirement plan and certain contractual obligations. Letters of credit reduce the availability under our working capital facility.

Term loan facility

We obtained a $250.0 million senior secured term loan facility ("Term Loan") in December 2011. This facility was also amended in February 2013 resulting in the following changes:

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

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

The Term Loan includes an annual mandatory prepayment of up to 50% of defined excess cash flow, depending on a leverage test. In March 2013, we paid 25% of our excess cash flow for 2012 which was $13.8 million. Due to the excess cash flow payment made in the first quarter of 2013, which, according to the terms of the debt agreement, are applied against the principal payments otherwise due in the year, there are no additional repayments expected for the remainder of the year.

Cash Flow

Cash flow from operating activities, excluding the change in non-cash working capital balances, improved from the second quarter of last year mainly due to improved results from operations and a reduction in inventories.

Standardized Free Cash Flow was $82.3 million for the rolling fifty-two weeks ended June 29, 2013, up from $41.0 million in the same period the previous year. Cash flow from operations, before changes in working capital, increased by $13.5 million and non-cash working capital decreased by $32.3 million, relative to the previous rolling fifty-two weeks, increasing free cash flow by approximately $45.8 million. After accounting for higher capital expenditures, Standardized Free Cash Flow increased $41.4 million over the prior period.

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

	Rolling fifty-two weeks ended	
	June 29, 2013	June 30, 2012
Amounts in ($000s)		
Net change in non-cash working capital	**$ 46,153**	$ 13,839
Cash flows from operations, including interest and income taxes	**49,159**	35,628
Cash flow from operating activities	**95,312**	49,467
Less: total capital expenditures, net of investment tax credits	**(12,980)**	(8,512)
Standardized Free Cash Flow	**$ 82,332**	$ 40,955

Capital Expenditures

Gross capital additions were $3.1 million in the second quarter of 2013. Estimated capital spending for all of 2013 is approximately $17 million to $20 million compared to $13.5 million in 2012, the increase primarily due to additional capital expenditures required to complete the integration of the Icelandic USA Acquisition and to bring its facilities to High Liner standards. We expect cash generated from operations and short-term borrowings will fund capital additions in 2013.

Capital Structure

Net interest-bearing debt at June 29, 2013 is 61% of total capitalization, down six percentage points from the end of fiscal 2012. This compares to 68% at June 30, 2012. The decrease in the net interest-bearing debt-to-capitalization ratio is due to cash flow generated from operations that allowed us to repay our current bank loans. As we continue to achieve synergies from the Icelandic USA Acquisition, the net interest bearing debt-to-capitalization ratio is expected to decrease further. We define capitalization as interest-bearing debt plus shareholders' equity, excluding foreign currency hedging gains and losses included in Accumulated Other Comprehensive Loss ("AOCI"), less cash balances, and excluding deferred financing charges as they are not interest bearing.

Amounts in ($000s)		**June 29, 2013**		June 30, 2012		December 29, 2012
Current bank loans per financial statements	**$**	**31,184**	$	88,564	$	59,704
Add back deferred charges on current bank loans		**835**		909		826
Total current bank debt		**32,019**		89,473		60,530
Long-term debt per financial statements		**226,157**		213,357		213,359
Current portion of long-term debt per financial statements		**-**		17,000		34,237
Add back deferred charges on long-term debt		**1,075**		12,745		370
Add back bifurcated embedded derivative		**5,488**		5,648		159
Total term loan debt		**232,720**		248,750		248,125
Current portion of finance lease obligation		**1,052**		1,006		1,039
Long-term portion of finance lease obligation		**1,935**		2,534		2,181
Total finance lease obligation		**2,987**		3,540		3,220
Less: cash		**(1,441)**		(936)		(65)
Net interest-bearing debt		**266,285**		340,827		311,810
Shareholders' equity		**173,716**		157,530		153,354
Unrealized (gains) losses on derivative financial instruments included in accumulated other comprehensive income		**(751)**		294		329
Total capitalization	**$**	**439,250**	$	498,651	$	465,493
Net interest-bearing as % of total capitalization		**61%**		68%		67%

Using our June 29, 2013 market capitalization of $450.1 million, based on a share price of CAD$31.14 ($29.62 USD equivalent) and shares outstanding of 15,195,406, instead of the book value of equity, net interest-bearing debt as a percentage of capitalization reduces to 37%.

Net interest-bearing debt to Adjusted EBITDA at the end of the second quarter of 2013 on a rolling-four quarter basis was 3.15 times compared to 3.40 times at fiscal 2012 year end. We expect this ratio will be reduced with the repayment of debt from free cash flow.

Amounts in ($000s)		
Net interest bearing debt June 2013 as above	**$**	**266,285**
Adjusted EBITDA, July 2012 to December 2012	**$**	**43,825**
Adjusted EBITDA, January 2013 to June 2013		**40,591**
Rolling 12 month Adjusted EBITDA	**$**	**84,416**
Net interest-bearing debt to Adjusted EBITDA ratio		**3.15x**

We have met all of our financial covenants under our debt facilities as expected.

Dividends

The Company paid a CAD$0.18 per share quarterly dividend on June 15, 2013 to common shareholders of record on June 1, 2013. This represents a 20% increase from the CAD$0.15 per share quarterly dividend paid on March 15, 2012, and the fourth

dividend increase over the last ten quarters, reflecting the Board's continued confidence in the Company's operations.

Today, the Board of Directors of the Company approved a quarterly dividend of CAD$0.18 per share payable on September 16, 2013 to shareholders of record on September 3, 2013.

Dividends are subject to restrictions in our credit agreements. Availability under the working capital facility needs to be $22.5 million or higher (actual availability on June 29, 2013 was $103.0 million). Under the term loan facility, capital distributions, including both normal course issuer bids and dividends, cannot exceed the greater of $15.5 million per year or the defined available amount based on excess cash flow accumulated over the term of the loan.

Governance

In accordance with Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, there has been no change in the Company's internal control over financial reporting during the period beginning on December 30, 2012 and ending June 29, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Other Items Important to Understanding our Results

Accounting Standards

During the first quarter of 2013 we adopted new accounting standards as disclosed in note 2 (d) to the Unaudited Condensed Interim Consolidated Financial Statements for the period ended June 29, 2013.

New Accounting Standards and Interpretations Issued But Not Yet Effective

We are evaluating the effect, if any, that new proposed standards and amendments will have on our financial results. We will determine and disclose the impact that these standards and amendments have on the Company closer to their effective dates.

Business Acquisition, Integration and Other Expenses

The following table shows financial impact of various items related to integration efforts and related impairments associated with the Icelandic USA Acquisition.

Amounts in ($000s)	**Thirteen weeks ended June 29, 2013**	Thirteen weeks ended June 30, 2012	**Twenty-six weeks ended June 29, 2013**	Twenty-six weeks ended June 30, 2012
		Pre-tax		
Impairment of property, plant and equipment	**$ -**	$ 271	**$ -**	$ 13,723
Business acquisition, integration and other expenses	**702**	2,886	**759**	5,232
Cost of sales:				
Additional depreciation for Impairment of property, plant & equipment	**-**	626	**-**	626
	$ 702	$ 3,783	**$ 759**	$ 19,581
		After-tax		
Impairment of property, plant and equipment	**$ -**	$ 174	**$ -**	$ 8,967
Business acquisition, integration and other expenses	**373**	1,843	**530**	3,305
Cost of sales				
Additional depreciation for Impairment of property, plant & equipment	**-**	409	**-**	409
	$ 373	$ 2,426	**$ 530**	$ 12,681

During the first half of 2012, we incurred substantial costs relating to the write-down of our Danvers and Burin plants that we had previously disclosed we would be closing. As well, we incurred costs associated with integrating the Icelandic USA Acquisition.

During the first half of 2013, we recorded some additional integration expenses and an insignificant loss relating to the sale of a primary processing plant in China that was acquired as part of the Icelandic USA Acquisition. The facility in China produces raw material and finished goods for our U.S. operations and was sold to the minority shareholder. However, we continue to procure the same volume of products from this facility as we did prior to the sale, at the same or similar prices. These items were partially offset by reversal of a portion of the estimated accrued severance costs deemed to no longer be required.

Amortization of Intangible Assets

This category consists of amortization of intangible assets, brands and customer relationships over their estimated useful lives. Amortization was $1.2 million in the second quarter of 2013 compared to $1.7 million in second quarter of 2012 and was $2.4 million for the first twenty-six weeks of 2013 compared to $3.6 million for the same period in the prior year. The decrease is due to the finalization of the Icelandic USA purchase price allocation for accounting purposes in the fourth quarter of 2012.

Adjustments to the original purchase price allocation for this acquisition resulted in lower amortization than what we recorded in the first half of 2012. Amortization of intangible assets is recorded on the income statement in “Selling, general and administrative expenses”.

Finance Costs

Interest expense in 2013 is lower than for the same period in 2012 as a result of lower average short-term and long-term debt levels, lower interest rates due to the debt amendments made in February of 2013, and lower amortization of deferred financing costs as the amortization of the majority of the deferred financing costs associated with the long-term debt obtained in late 2011 was accelerated in 2012.

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

	Thirteen weeks ended		**Twenty-six weeks ended**	
Amounts in ($000s)	**June 29, 2013**	June 30, 2012	**June 29, 2013**	June 30, 2012
Interest paid in cash during period	**$ 1,353**	$ 2,693	**$ 10,110**	$ 8,071
Change in cash interest accrued during the period	**2,053**	2,713	**(2,511)**	3,065
Total interest to be paid in cash	**3,406**	5,406	**7,599**	11,136
Deferred financing cost amortization	**134**	647	**610**	1,367
Amendment fees expensed	**(25)**	-	**1,064**	-
Valuation of embedded derivitive	**(1,262)**	1,526	**(706)**	1,741
Mark-to-market on interest rate swap	**(189)**	-	**(174)**	-
Total finance costs	**$ 2,064**	$ 7,579	**$ 8,393**	$ 14,244

Income Taxes

Our effective income tax rate for the second quarter of 2013 was 22.9% (27.4% for the first twenty-six weeks of 2013) compared to the applicable statutory rate in Canada of approximately 27% and the statutory rate in the U.S. of 39%. The lower effective income tax rate in the second quarter of 2013 relative to the Canadian statutory rate, and the recovery of income taxes in the second quarter of 2012, are due primarily to benefits associated with acquisition financing deductions.

Performance

Overview

The table below summarizes key financial information for the relevant period.

Selected Consolidated Financial Information *All amounts in (000s), except per share amounts*	**Thirteen Weeks Ended**		**Twenty-Six Weeks Ended**	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
Sales				
Canada in CAD	**$ 77,976**	$ 81,404	**$ 154,292**	$ 159,012
Conversion of Canada to USD	**(1,720)**	(834)	**(2,395)**	(872)
United States	**128,652**	136,261	**328,173**	346,271
Total	**$ 204,908**	$ 216,831	**$ 480,070**	$ 504,411
Net income:				
Total	**$ 9,881**	$ 989	**$ 15,145**	$ 2,717
Diluted earnings per common share	**$ 0.63**	$ 0.06	**$ 0.97**	$ 0.18
Adjusted Net Income				
Total	**$ 9,184**	$ 5,450	**$ 18,970**	$ 19,460
Diluted earnings per common share	**$ 0.59**	$ 0.35	**$ 1.22**	$ 1.26
Total assets	**$ 565,853**	$ 631,821	**$ 565,853**	$ 631,821
Total long-term financial liabilites	**$ 287,679**	$ 282,842	**$ 287,679**	$ 282,842
Cash dividends per share:	**$ 0.18**	$ 0.10	**$ 0.33**	$ 0.20
Total capital expenditures financed by operations	**$ 2,836**	$ 2,607	**$ 4,603**	$ 4,332
Average foreign exchange spot rate (USD/CAD)	**1.0231**	1.0105	**1.0157**	1.0057

Seasonality

The first quarter of the year is historically stronger than the other three quarters for both sales and profits, depending on the timing of Lent (later Lents generally contribute to stronger financial results than earlier Lents), and correspondingly, the second quarter is the weakest. The Lenten period was earlier in 2013 than in 2012 with Good Friday falling on March 29, 2013 compared to April 6, 2012. This, combined with other issues in the first quarter of 2013 reduced income for that period, however the first quarter is historically stronger than the other three quarters and we expect this will be the case again next year.

Our U.S. retail and food service businesses traditionally experience a strong first quarter as retailers and restaurants promote seafood during the Lenten period. For the retail business, the second and third quarters are more challenging during the warmer months as consumers spend more time outdoors, travel, and use ovens less often, resulting in a decreased demand for our products. However, for the food service business, activities are usually elevated in the second and third quarters as consumers are on vacation and travel more than during other times of the year. The fourth quarter includes several festive occasions that increase demand for our products in both retail and food service.

In our retail businesses, we spend significant amounts on consumer advertising and listing allowances for new product launches. Although the related activities benefit more than one period, the related costs must be expensed when the initial promotional activity

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

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

The following table provides summarized information for our nine most recently completed quarters.

All amounts in 000s, except per share amounts

	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2
Sales	**$ 204,908**	$ 275,162	$ 218,280	$ 219,940	$ 216,831	$ 287,580	$ 172,475	$ 164,727	$ 158,399
Adjusted EBITDA	**$ 19,293**	$ 21,298	$ 22,072	$ 21,753	$ 16,372	$ 31,529	$ 14,308	$ 12,299	$ 11,227
Net income	**$ 9,881**	$ 5,264	$ (2,683)	$ 2,169	$ 989	$ 1,728	$ (2,941)	$ 6,784	$ 4,929
Adjusted Net Income	**$ 9,184**	$ 9,786	$ 10,636	$ 7,976	$ 5,450	$ 14,009	$ 6,738	$ 6,341	$ 5,637
EPS, based on Net income									
Basic	**$ 0.65**	$ 0.35	$ (0.18)	$ 0.14	$ 0.07	$ 0.11	$ (0.19)	$ 0.45	$ 0.33
Diluted	**$ 0.63**	$ 0.34	$ (0.18)	$ 0.14	$ 0.06	$ 0.11	$ (0.19)	$ 0.44	$ 0.32
EPS, based on Adjusted Net Income									
Basic	**$ 0.61**	$ 0.65	$ 0.70	$ 0.53	$ 0.36	$ 0.93	$ 0.45	$ 0.42	$ 0.37
Diluted	**$ 0.59**	$ 0.63	$ 0.68	$ 0.52	$ 0.35	$ 0.91	$ 0.44	$ 0.41	$ 0.37
Dividend per common and non-voting equity share in $CAD	**$ 0.18**	$ 0.15	$ 0.11	$ 0.11	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Net working capital ***(accounts receivable and inventories, less accounts payable and provisions)***	**$ 170,120**	$ 202,403	$ 193,205	$ 208,410	$ 215,641	$ 256,905	$ 232,045	$ 135,074	$ 149,804

Sales

Thirteen weeks

Sales for the second quarter of 2013 decreased 5.5% to $204.9 million from $216.8 million for the same quarter in 2012. Sales volume measured in pounds decreased by

4.1% to 58.8 million compared to 61.3 million the previous year. The decrease is due to lower U.S. food service and retail private label sales in Canada and the U.S. as explained in the "Performance by Segment" section later in this document, and from foreign exchange conversion.

Sales in domestic currency were $206.6 million compared to $217.7 million for the same period in the previous year, representing a decrease of 5.1%. Approximately one-third of the Company's sales are denominated in CAD and the effect of translating our Canadian parent company's CAD denominated sales to USD decreased the value of reported sales relative to the comparable period in 2012 by approximately $0.9 million.

Twenty-six weeks

Sales for the first half of fiscal 2013 decreased 4.8% to $480.1 million from $504.4 million for the same period in fiscal 2012. Sales volume measured in pounds decreased by 3.2% to 143.5 million compared to 148.2 million the previous year. The vast majority of the decline was attributable to U.S. food service sales. High Liner's U.S. food service sales decreased in the first half of 2013, consistent with reports published in the U.S. financial press during the first quarter of 2013[1], which indicated U.S. restaurants experienced one of the weakest sales performances in many years. In addition, an earlier Lent in 2013 resulted in a shorter selling period this year between Super Bowl and Good Friday when seafood is promoted (8% fewer selling days this year compared to last year) which had an adverse affect on our sales for the first half of 2013 compared to 2012.

In addition, a decrease in commodity seafood costs led to a reduction in selling prices on some products which has reduced sales in both Canadian and U.S. food service channels. Challenges, primarily in the first quarter, in developing and refining efficient production and logistics processes related to integrating the Icelandic USA Acquisition, and supply constraints on haddock and sole products, also resulted in reduced sales in the U.S. food service business.

Sales in domestic currency were $482.5 million compared to $505.3 million for the same period in the previous year, representing a decrease of 4.5%. Approximately one-third of the Company's sales are denominated in CAD. The effect of translating our Canadian Parent company CAD denominated sales to USD decreased the value of reported sales relative to the comparable period in 2012 by approximately $1.5 million.

More detail on specific changes in sales is found in the section called "Performance by Segment" later in this document.

[1] *See for example, "Americans Cut Restaurant Spending as Tax Bite: Eco Pulse", Bloomberg.com, March 20, 2013.*

Gross Profit

Thirteen weeks

Consolidated gross profit in the second quarter of 2013 was $47.5 million compared to $44.1 million in 2012. Gross profit as a percentage of sales was 23.2% compared to 20.4% the prior year. Despite the 5.5% decrease in sales, gross profit increased relative to the same period in the previous year due to a decrease in input costs and synergies realized on the Icelandic USA Acquisition.

Twenty-six weeks

Consolidated gross profit in the first half of 2013 was $108.8 million compared to $110.4 million in 2012. Gross profit in dollars decreased relative to the same period in the previous year due to the 4.8% decrease in sales volume, operating inefficiencies related to integrating the Icelandic USA Acquisition and competitive pressures in the first quarter of 2013 reducing commodity selling prices more rapidly than the applicable decline in cost for such products.

In particular, as a result of the closing of the Danvers production facility and related production increases in Newport News, as well as the relocation of food service distribution to the Newport News facility, production challenges and higher distribution costs in Newport News were incurred. These additional costs related principally to delays in hiring and training additional staff, equipment relocation challenges and lower throughputs on the increased production, all of which resulted in reduced deliveries to customers and higher costs during the first half of 2013.

Included in the first quarter of 2012 is a charge of $1.2 million relating to an increase in the cost of the finished goods inventory purchased as part of the Icelandic USA Acquisition above its historical cost, as part of the fair value reporting requirements of purchase price accounting. There was no similar amount in 2013.

Gross profit as a percentage of sales was 22.7% for the first half of the year compared to 21.9% the prior year due to a decrease in input costs and synergies realized on the Icelandic USA Acquisition.

Distribution Expenses

Thirteen weeks

Distribution expenses, consisting of freight and storage, for the second quarter of 2013 increased by $1.3 million to $11.3 million compared to $9.9 million for the prior year. Distribution expenses were 5.5% of sales, up from the 4.6% in the prior year. Storage cost in Newport News continued to be higher than last year as a percentage of sales as we continue to incur additional costs to establish and optimize our expanded food service distribution center.

Twenty-six weeks

Distribution expenses, consisting of freight and storage, for the first half of 2013 increased by $3.3 million to $26.8 million compared to $23.4 million for the prior year. Distribution expenses were 5.6% of sales, up from the 4.6% in the prior year.

The expedited integration of the Icelandic USA business into High Liner in 2012 resulted in some challenges in the first half of 2013 in our U.S. supply chain as it is taking us longer than expected to fully staff and train employees in our expanded food service distribution center in Newport News, and are incurring more overtime and some freight and handling operating inefficiencies as we focus on customer satisfaction. The additional distribution costs incurred in the first half of the year were approximately $3.0 million and had the effect of deferring some of the expected synergies related to the Icelandic USA Acquisition. Excluding these additional costs, distribution expense would have been 4.9% of sales.

Selling, General and Administrative Expense (SG&A)

	Thirteen weeks ended		**Twenty-six weeks ended**	
Amounts in ($000s)	**June 29, 2013**	June 30, 2012	**June 29, 2013**	June 30, 2012
SG&A, as reported	**$ 20,661**	$ 23,879	**$ 52,101**	$ 52,588
Less:				
Amortization expense	**1,203**	1,710	**2,408**	3,568
Stock-based compensation expense	**314**	891	**3,308**	2,350
Net SG&A	**$ 19,144**	$ 21,278	**$ 46,385**	$ 46,670
Net SG&A as a % of sales	**9.3%**	9.8%	**9.7%**	9.3%

Thirteen weeks

SG&A expense for the second quarter of 2013 decreased by $3.2 million to $20.7 million, compared to $23.9 million for the same period in fiscal 2012. Amortization expense recorded in SG&A decreased by $0.5 million to $1.2 million in the second quarter of 2013, compared to $1.7 million in the same quarter last year, and is related to the finalization of the Icelandic USA Acquisition purchase price allocation late in 2012, which resulted in lower amortization than originally estimated. Stock-based compensation expense recorded in SG&A decreased by $0.6 million in the second quarter of 2013 to $0.3 million, compared to $0.9 million in the same quarter last year. The decrease in stock-based compensation reflects a decrease in the Company's stock price since the end of the first quarter and the fact that a significant portion of the stock appreciation rights were amended.

Excluding stock-based compensation and amortization expenses, SG&A decreased by $2.1 million to $19.1 million in the second quarter of 2013 and was 9.3% of sales,

compared to 9.8% for the same period last year, as synergies were realized on the Icelandic USA Acquisition.

Twenty-six weeks

SG&A expense for the first half of 2013 decreased by $0.5 million to $52.1 million, compared to $52.6 million for the same period in fiscal 2012. The amortization expense recorded in SG&A in the first half of 2013 decreased by $1.2 million to $2.4 million, compared to $3.6 million in the same period last year, due to the finalization of the Icelandic USA Acquisition purchase price late in 2012 which resulted in lower amortization than originally estimated. On the other hand, the stock-based compensation expense recorded in SG&A in the first half of 2013 increased by $1.0 million to $3.3 million, compared to $2.4 million during the same period last year, reflecting an increase in the Company's stock price relative to the end of the previous fiscal year.

Excluding stock-based compensation and amortization expenses, SG&A in the first half of 2013 decreased by $0.3 million and was 9.7% of sales, compared to 9.3% for the comparative period in 2012. The increase as a percentage of sales is due to lower sales achieved in 2013. In terms of dollars spent, synergies were realized on the Icelandic USA Acquisition, but these were partially offset by an increase in U.S. consumer advertising and other promotional costs spent in the first half of 2013 as we invested in increasing the distribution and sales for our *Sea Cuisine* brand in the US.

Adjusted EBITDA

Thirteen weeks

Consolidated Adjusted EBITDA in the second quarter of 2013 was up 18% to $19.3 million compared to $16.4 million in 2012. Adjusted EBITDA is higher than the same period in the previous year due to lower raw material costs in Q2 compared to last year, along with the realization of synergies resulting from the integration of the Icelandic USA Acquisition, partially offset by lower sales volumes and higher distribution costs. Adjusted EBITDA as a percentage of sales for the second quarter of 2013 is 9.4% compared to 7.6% in same period in the previous year.

Amounts in ($000s)	**Thirteen weeks ended June 29, 2013**			Thirteen weeks ended June 30, 2012		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Net income	**$ 5,105**	**$ 4,776**	**$ 9,881**	$ 2,357	$ (1,368)	$ 989
Add back:						
Depreciation	**843**	**1,508**	**2,351**	916	2,616	3,532
Amortization	**27**	**1,176**	**1,203**	54	1,656	1,710
Financing costs	**508**	**1,556**	**2,064**	308	7,271	7,579
Income taxes	**2,137**	**791**	**2,928**	968	(2,409)	(1,441)
Standardized EBITDA	**8,620**	**9,807**	**18,427**	4,603	7,766	12,369
Add back (deduct):						
Business acquisition, integration and other expenses	**(46)**	**748**	**702**	332	2,554	2,886
Impairment of property, plant and equipment	**-**	**-**	**-**	271	-	271
Loss (gain) on disposal of assets	**60**	**38**	**98**	(52)	(58)	(110)
Adjusted EBITDA, including stock compensation expense	**8,634**	**10,593**	**19,227**	5,154	10,262	15,416
Non-cash stock comp expense (recovery)	**260**	**(194)**	**66**	834	122	956
Adjusted EBITDA	**8,894**	**10,399**	**19,293**	5,988	10,384	16,372
Asset disposals	**(60)**	**(38)**	**(98)**	52	58	110
Less depreciation & amortization	**(870)**	**(2,684)**	**(3,554)**	(970)	(4,272)	(5,242)
Adjusted EBIT	**$ 7,964**	**$ 7,677**	**$ 15,641**	$ 5,070	$ 6,170	$ 11,240

Twenty-six weeks

Consolidated Adjusted EBITDA in the first half of 2013 was $40.6 million compared to $47.9 million in 2012. Adjusted EBITDA is lower than the same period in the previous year due primarily to issues encountered in the first quarter, including lower sales which reduced EBITDA, higher distribution expense, higher production cost, lower margins on certain food service commodity products as selling price declines were passed on to customers in advance of experiencing lower average costs, and higher *Sea Cuisine* marketing costs. These items were partially offset by lower raw material costs in Q2 compared to last year, along with realization of synergies resulting from the integration of the Icelandic USA Acquisition and. Adjusted EBITDA as a percentage of sales for the first half of 2013 is 8.5% compared to 9.5% in same period in the previous year.

Amounts in ($000s)	Twenty-six weeks ended June 29, 2013			Twenty-six weeks ended June 30, 2012		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Net income	**$ 6,426**	**$ 8,719**	**$ 15,145**	$ 2,219	$ 498	$ 2,717
Add back:						
Depreciation	**1,698**	**3,097**	**4,795**	1,860	4,510	6,370
Amortization	**55**	**2,354**	**2,409**	108	3,459	3,567
Financing costs	**803**	**7,590**	**8,393**	771	13,473	14,244
Income taxes	**3,846**	**1,865**	**5,711**	1,183	(2,719)	(1,536)
Standardized EBITDA	**12,828**	**23,625**	**36,453**	6,141	19,221	25,362
Add back (deduct):						
Business acquisition, integration and other expenses	**(29)**	**788**	**759**	510	4,721	5,231
Impairment of property, plant and equipment	**-**	**-**	**-**	4,900	8,823	13,723
Increase in cost of sales due to purchase price allocation to inventory *	**-**	**-**	**-**	-	1,149	1,149
Loss (gain) on disposal of assets	**16**	**44**	**60**	(154)	54	(100)
Adjusted EBITDA, including stock compensation expense	**12,815**	**24,457**	**37,272**	11,397	33,968	45,365
Non-cash stock comp expense	**3,002**	**317**	**3,319**	2,199	337	2,536
Adjusted EBITDA	**15,817**	**24,774**	**40,591**	13,596	34,305	47,901
Asset disposals	**(16)**	**(44)**	**(60)**	154	(54)	100
Less depreciation & amortization	**(1,753)**	**(5,451)**	**(7,204)**	(1,968)	(7,969)	(9,937)
Adjusted EBIT	**$ 14,048**	**$ 19,279**	**$ 33,327**	$ 11,782	$ 26,282	$ 38,064

* The increase in cost of goods sold relating to inventory acquired from the Icelandic USA and Viking acquisitions, above its historical cost, as part of the fair value reporting requirements of purchase price accounting.

Adjusted EBIT (Earnings before interest and taxes)

Adjusted earnings before interest and taxes as reconciled to Net income in the above table, was 7.6% of sales for the quarter (6.9% for the first twenty-six weeks of 2013) compared to the same quarter last year at 5.2% (7.5% for the first twenty-six weeks of 2012).

Net Income, Adjusted Net Income, EPS and Adjusted EPS

Net income for the second quarter of 2013 was $9.9 million ($0.63 per diluted share); $15.1 million ($0.97 per diluted share) for the first twenty-six weeks of 2013; compared to $1.0 million ($0.06 per diluted share) for the same quarter last year; $2.7 million ($0.18 per diluted share) for the first twenty-six weeks of 2012.

The tables below show the reconciliation of Adjusted Net Income and Adjusted Diluted EPS to reported net income.

Adjusted Net Income for the quarter increased by $3.7 million to $9.2 million in 2013, $0.59 Adjusted Diluted EPS, compared to $0.35 for the second quarter of 2012. For the first half of 2013, Adjusted Net Income decreased by $0.5 million to $19.0 million in 2013, $1.22 Adjusted Diluted EPS, compared to $1.26 in 2012.

	Q2 2013		**Q2 2012**	
	($000s)	Diluted EPS based on Average Shares Outstanding	($000s)	Diluted EPS based on Average Shares Outstanding
Net income	**$ 9,881**	**$ 0.63**	$ 989	$ 0.06
Add back (deduct)				
Business acquisition, integration, and other costs	**373**	**0.02**	1,843	0.12
Impairment of property, plant and equipment	**-**	**-**	583	-
Revaluation of embedded derivative on debt	**(921)**	**(0.06)**	1,109	-
Interest rate swap on embedded derivative	**(138)**	**(0.01)**	-	-
Debt amendment fees expensed	**(18)**	**(0.00)**	-	-
Increase in cost of sales due to purchase price allocation to inventory	-	**-**	-	-
Intercompany dividend withholding tax	-	**-**	-	-
	9,177	**0.59**	4,524	0.29
Stock compensation expense	**7**	**0.00**	926	0.06
Adjusted Net Income	**$ 9,184**	**$ 0.59**	$ 5,450	$ 0.35
Diluted weighted average shares outstanding (000s)		**15,575**		15,450

	YTD Q2 2013		**YTD Q2 2012**	
	($000s)	Diluted EPS based on Average Shares Outstanding	($000s)	Diluted EPS based on Average Shares Outstanding
Net income	**$ 15,145**	**$ 0.97**	$ 2,717	$ 0.18
Add back (deduct):				
Business acquisition, integration, and other costs	**530**	**0.03**	3,305	0.21
Impairment of property, plant and equipment	**-**	**-**	9,376	-
Revaluation of embedded derivative on debt	**(516)**	**(0.03)**	1,264	-
Interest rate swap on embedded derivative	**(127)**	**(0.01)**	-	-
Debt amendment fees expensed	**776**	**0.05**	-	-
Increase in cost of sales due to purchase price allocation to inventory	**-**	**-**	761	0.05
Intercompany dividend withholding tax	**-**	**-**	(402)	(0.03)
	15,808	**1.01**	17,021	1.10
Stock compensation expense	**3,162**	**0.20**	2,438	0.16
Adjusted Net Income	**$ 18,970**	**$ 1.22**	$ 19,459	$ 1.26
Diluted weighted average shares outstanding (000s)		**15,593**		15,419

Performance by Segment

Canadian Operations

(All currency amounts in this section are in CAD)

Thirteen weeks

For the quarter, our Canadian operations had external sales of $78.0 million, compared to $81.4 million for the second quarter of 2012. Sales volume decreased 1.3% to 18.5 million pounds compared to the second quarter of last year.

Our Canadian retail sales volume decreased by 5.1% in the second quarter relative to the same period last year. This was the result of a decrease in private label sales reflecting the trend of decreased private label seafood sales overall in the seafood market place. Excluding private label sales, our Canadian Retail branded sales in volume was unchanged from the prior year.

Food service sales pounds for the second quarter increased 2.2% relative to the same period last year. Sales dollars, however, declined slightly from last year due to reductions in the selling prices to customers on certain food service commodity products as a result of related cost declines.

Adjusted EBITDA for our Canadian operations for the second quarter of 2013 was $9.1 million compared to $6.1 million for the same period last year. Lower raw material cost and reduced marketing expenses contributed to the increase in EBITDA.

Twenty-six weeks

For the first half of 2013, our Canadian operations had external sales of $154.3 million, compared to $159.0 million for the comparable period last year. Sales volume decreased 0.6% to 37.1 million pounds compared to last year.

Our Canadian retail sales volume decreased by 2.2% in the first half relative to the same period last year due to lower private label sales in the quarter. Excluding private label sales, our Canadian Retail branded sales in volume increased 1.2%. 2012 included initial stocking sales of the newly launched *Flame Savours* that were not repeated in 2013.

Food service sales volumes increased by 1.3% in the first twenty-six weeks of 2013, relative to the same period last year. However, sales dollars declined from last year by $0.5 million due to reductions in the selling prices to customers on certain food service commodity products as a result of related cost declines.

Adjusted EBITDA for our Canadian operations for the first half of 2013 was $16.1 million compared to $13.7 million for the same period last year. Input costs decreased in the second quarter, increasing Adjusted EBITDA on a year to date basis.

U.S. Operations

With the closure of Danvers and the movement of logistics to Newport News in January 2013, the Icelandic USA integration was substantially completed. Further integration activities continued in 2013, including the conversion of certain products from one brand to another as we solidify our brand positioning. This means, however, that we can no longer report sales and operating results for the pre-Icelandic USA business separate from the post-Icelandic USA results.

Thirteen weeks

For the second quarter of 2013, our U.S. operations had external sales of $128.7 million, compared to $136.3 million for the second quarter of 2012, a decrease of 5.6%. Sales in volume decreased 5.3% to 40.6 million pounds. The decrease is due to soft food service and lower private label retail sales.

U.S. retail operations experienced a 1.5% decrease in sales volume in the second quarter of 2013 compared to the second quarter of 2012, principally due to lower private label sales. Sales of our branded products to traditional grocery stores increased 8.3% arising from an 18% increase in sales volume of *Sea Cuisine* products, the result of additional advertising and other promotions. These promotions increased sales, but increased SG&A cost as the investment in the brand was expensed in the period. Likewise, *Fisher Boy* brand sales increased 10% due to strong sales performance for our fish sticks at a major retailer. *Icelandic Seafood* brand sales volume decreased 13% primarily reflecting the transition of many items formerly sold under this brand to the *Sea Cuisine* brand. On a combined basis, *Sea Cuisine* and *Icelandic Seafood* sales increased 12% by volume. Sales to club stores increased 16% in volume as a result of expanded distribution in our club chain and additional rotational items sold to another club store chain. Sales volume for our private label products was down 27% from the second quarter of 2012, reflecting the trend of decreased private label seafood sales overall in the market place and the loss of a private label customer. Excluding private label sales, our retail branded products increased 11.5% in the second quarter of 2013 compared to the same period in the prior year.

U.S. food service sales in pounds decreased 5.7% in the second quarter of 2013 compared to the same period in the prior year. This decrease is due to soft restaurant sales and lower sales to schools. Schools have chosen to reduce seafood items from their menus due to uncertainties created from the introduction of new nutritional requirements for these products.

Adjusted EBITDA for our U.S. operations in the second quarter was unchanged at $10.4 million compared to the same period in 2012.

Twenty-six weeks

For the first half of 2013, our U.S. operations had external sales of $328.2 million, compared to $346.3 million for the first half of 2012, a decrease of 5.2%. Sales in volume decreased 4.1% to 106.4 million pounds. As previously mentioned, an early Lent, among other factors decreased our sales in the first half. Additional explanation of such factors follows below.

U.S. retail operations sales volume in the first half of 2013 was unchanged from the first half of 2012. However, sales to traditional grocery stores increased 3.5% arising from a 19% increase in sales volume of *Sea Cuisine* products, the result of additional advertising and other promotions. These promotions increased sales, but reduced income as the investment in the brand was expensed in the period. Likewise, *Fisher Boy* branded sales increased 2.2%. *Icelandic Seafood* brand sales decreased 19%, but mainly because many of these items were transitioned to the *Sea Cuisine* brand. On a combined basis, *Sea Cuisine* and *Icelandic Seafood* sales increased 8.5%. Sales to club stores increased 15% in volume as a result of an increase in value-added sales at U.S. club customers, due to new product launches, increased distribution for existing products, and strong sales for seasonal products. Sales volume for our private label products was down 16% in volume from the first half of 2012, reflecting the trend of decreased private label seafood sales overall in the market place and the loss of a customer. Excluding private label, our retail branded products for the first half of 2013 increased 8%.

U.S. food service sales in pounds decreased 5.7% in the half quarter of 2013 compared to the same period in the prior year. This decrease is the result of an earlier Lent, plus the following items:

- According to reports published in the U.S. financial press (noted above), U.S. restaurants experienced one of the weakest sales performances in many years during the first quarter of 2013. Our distributor sales were particularly affected by this trend;
- A shortage of haddock and large sole fillets affected our ability to meet customers' demands and resulted in lower sales of these products in the U.S. market in the first quarter of 2013; and
- Sales for our school food service channel were down as schools chose to reduce seafood items from their menus due to uncertainties created from the introduction of new nutritional requirements for these products.

Adjusted EBITDA for our U.S. operations in the first half decreased to $24.8 million from $34.3 million for the same period in 2012. Profitability decreased as a result of lower sales volume; higher expenses due to challenges in developing and refining efficient production and logistics processes associated with the closure of our Danvers plant and the movement of production and distribution of food service products to Newport News, which increased our costs and hindered the delivery of products to our

customers; higher promotional costs for *Sea Cuisine*; and lower margins on some commodity prices as we sold through higher priced inventories.

Outlook

On a year-to-date basis, the strong second quarter results helped to partially offset the impact of what was a challenging first quarter. As expected, the lower margins on commodity products we faced in Q1 were primarily contained to the first quarter, however, shortages and related price increases for shrimp and haddock may have an adverse affect on our margins for certain products during the balance of 2013. Reduced sales volumes, primarily in our U.S. food service business, continued into the second quarter, but to the extent there are improvements in this sector of the U.S. economy, sales volumes should improve. Increased operating expenses experienced in Q1 related to an expedited Icelandic USA integration were reduced in Q2, and the Company is working on fully realizing synergies related to the integration, including further reducing distribution costs and increasing plant throughput.

The second quarter results reflect the impact of synergies related to the Icelandic USA Acquisition and in 2013 we continue to focus on identifying further operating efficiencies that leverage our scale of business and leadership position in value-added frozen seafood in North America. We remain committed to achieving our 2013 strategic goals, which as disclosed previously are: *profitable growth*, through organic sales growth, acquisitions and operating efficiencies; *supply chain excellence* through unlocking benefits from our fully integrated infrastructure, services and processes; and *sustainable sourcing*, though sourcing all our seafood from certified sustainable or responsible fisheries or aquaculture farms by the end of this year.

Risk Factors

While risk factors are described in detail in the MD&A found in our 2012 Annual Report and in our 2012 Annual Information Form, we have updated certain risk factors below for the first quarter of 2013. Readers should refer to the 2012 Annual Report and Annual Information Form for a more detailed description of risk factors applicable to the Company.

Foreign Currency

Foreign currency values affect our operations in a number of ways. As we translate the results of the Canadian Parent to USD, a fluctuating exchange rate affects the individual line items on our balance sheet and income statement. We have discussed the impact of foreign currency fluctuations on sales and earnings for the quarter in various sections of this document.

The Canadian dollar weakened approximately 3% as at June 29, 2013, compared to June 30, 2012 relative to the U.S. dollar. On our balance sheet, this decreases the carrying value of both assets and liabilities and increases the foreign exchange translation of our Canadian company included in accumulated other comprehensive income (AOCI) in shareholders' equity. As our Canadian operations are a net importer of seafood and other products, a stronger Canadian dollar reduces costs, and a weaker Canadian dollar increases costs.

In order to minimize foreign exchange risk, we undertake hedging activities using various derivative products in accordance with an internal policy on managing derivative usage and risk. We hedge a portion of our raw material requirements and retail commodity products as price increases on these products take more time to implement. We do not hedge commodity food service products as the prices to our customers change frequently enough so that we can take these changes into account. The policy is approved and monitored by the Audit Committee of the Board. During the quarter, our hedging activities resulted in an effective Canadian/U.S. exchange rate of 1.0181 for inventory purchased in USD by our Canadian Operations, compared to 1.0047 for the second quarter of 2012 (exchange rate of 1.0111 for the first twenty-six weeks of 2013, compared to 1.0034 in 2012).

Our risk management strategy with respect to exposure to the Canadian dollar is fully explained in our Management Discussion and Analysis, available in our 2012 Annual Report. These documents are available at www.sedar.com and at www.highlinerfoods.com.

Product Costs

We buy as much as $600 million of seafood, packaging, flour or corn based coatings, and cooking oils. Seafood and other food inputs markets are global with values expressed in USD. We buy 30 species of seafood from 20 countries around the world. There are no formal hedging mechanisms in the seafood market. Prices can change due to changes in the balance between supply and demand. Weather, quota changes, disease and other environmental impacts can affect supply. Changes in the relative values of currency can change the demand from a particular country whose currency has risen or fallen as compared to the U.S. dollar. The increasing middle class and government policies in emerging economies, as well as demand from health conscious consumers, affect the demand side as well. Costs in Canada are also affected by the Canadian / U.S. exchange rates.

Our broad product line and customer base and geographically diverse procurement operations help us mitigate changes in the cost of our raw materials. In addition, species substitution, product formulation changes, long term relationship with suppliers, and price changes to customers, are all important factors in our ability to manage margins to target.

Availability of Seafood

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

The Company expects demand for seafood to grow from current levels as the global economy, and particularly European economy, improves. We expect the supply of wild caught seafood to be stable over the long term, notwithstanding recent increases in quota in certain fisheries, in part due to sustainability efforts. We anticipate new demand will be supplied primarily from aquaculture. Currently 4 of the top 7 species consumed in the U.S. (shrimp, salmon, tilapia, and pangasius) are partly or totally supplied by aquaculture. To the extent aquaculture is unable to supply future demand, prices may increase materially which may have a negative impact on the Company's results.

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

Related Party Transactions

We refer to note 21 to our 2012 audited financial statements contained in our 2012 Annual Report. These are substantially unchanged in 2013.

Disclosure of Outstanding Share Data

On August 7, 2013, 15,195,406 common shares and 724,786 stock options were outstanding. The stock options are, upon vesting, exercisable on a one-for-one basis for common shares of the Company.

Dated: August 7, 2013.

Q2 2013 Unaudited Condensed Interim Consolidated Financial Statements

As at and for the thirteen and twenty-six weeks ended June 29, 2013
With comparative figures as at and for the thirteen and twenty-six weeks ended June 30, 2012

HIGH LINER FOODS INCORPORATED

(Incorporated under the laws of the Province of Nova Scotia)

UNAUDITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of U.S. dollars)

	Notes	June 29, 2013	June 30, 2012	December 29, 2012
ASSETS			*(Restated (note 14))*	*(note 14)*
Current:				
Cash		**$ 1,441**	$ 936	$ 65
Accounts receivable		**68,991**	74,129	73,947
Income taxes receivable		**2,818**	7,212	5,145
Other financial assets	12	**1,695**	1,015	533
Inventories		**172,580**	224,340	222,313
Prepaid expenses		**3,530**	3,135	2,991
Total current assets		**251,055**	310,767	304,994
Non-current:				
Property, plant and equipment		**83,682**	90,632	89,268
Deferred income taxes	10	**4,558**	3,517	7,207
Other receivables and miscellaneous assets		**1,710**	1,438	2,035
Intangible assets		**108,120**	113,023	110,631
Goodwill		**112,205**	112,444	112,873
Total non-current assets		**310,275**	321,054	322,014
Assets classified as held for sale	3	**4,523**	-	4,819
Total assets		**$ 565,853**	$ 631,821	$ 631,827
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current:				
Bank loans		**$ 31,184**	$ 88,564	$ 59,704
Accounts payable and accrued liabilities		**68,886**	76,278	101,441
Provisions	4	**2,566**	6,550	1,614
Other current financial liabilities	12	**636**	603	550
Income taxes payable		**134**	1,448	1,165
Current portion of long-term debt	5	**-**	17,000	34,237
Current portion of finance lease obligations		**1,052**	1,006	1,039
Total current liabilities		**104,458**	191,449	199,750
Non-current:				
Long-term debt	5	**226,157**	213,357	213,359
Other long-term financial liabilities	12	**6,456**	8,720	2,662
Long-term finance lease obligations		**1,935**	2,534	2,181
Deferred income taxes	10	**45,035**	47,051	45,126
Employee future benefits	6	**8,096**	11,180	13,791
Total non-current liabilities		**287,679**	282,842	277,119
Liabilities directly associated with the assets held for sale	3	**-**	-	1,604
Total liabilities		**392,137**	474,291	478,473
Shareholders' equity				
Common shares	7	**77,351**	74,864	75,169
Contributed surplus		**15,250**	7,698	7,719
Retained earnings		**80,013**	72,698	66,373
Accumulated other comprehensive income		**1,102**	2,270	4,093
Total shareholders' equity		**173,716**	157,530	153,354
Total liabilities and shareholders' equity		**$ 565,853**	$ 631,821	$ 631,827

See accompanying notes

HIGH LINER FOODS INCORPORATED

UNAUDITED
CONSOLIDATED STATEMENT OF INCOME
(in thousands of U.S. dollars, except per share information)

	Notes	Thirteen weeks ended		Twenty-six weeks ended	
		June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
			(Restated (note 14))		*(Restated (note 14))*
Revenues		**$ 204,908**	$ 216,831	**$ 480,070**	$ 504,411
Cost of sales		**157,410**	172,686	**371,293**	394,048
Gross profit		**47,498**	44,145	**108,777**	110,363
Distribution expenses		**11,262**	9,922	**26,754**	23,421
Selling, general and administrative expenses		**20,661**	23,879	**52,101**	52,588
Impairment of property, plant and equipment		**-**	271	**-**	13,723
Business acquisition, integration and other expenses		**702**	2,886	**759**	5,231
Results from operating activities		**14,873**	7,187	**29,163**	15,400
Finance costs		**2,064**	7,579	**8,393**	14,244
Loss (income) from equity accounted investee, net of income tax		**-**	60	**(86)**	(25)
Income before income taxes		**12,809**	(452)	**20,856**	1,181
Income taxes					
Current	10	**3,645**	(496)	**4,738**	492
Deferred	10	**(717)**	(945)	**973**	(2,028)
Total income tax expense (recovery)		**2,928**	(1,441)	**5,711**	(1,536)
Net income		**$ 9,881**	$ 989	**$ 15,145**	$ 2,717
PER SHARE EARNINGS					
Earnings per common share					
Basic		**$ 0.65**	$ 0.07	**$ 1.00**	$ 0.18
Diluted		**$ 0.63**	$ 0.06	**$ 0.97**	$ 0.18
Weighted average number of shares outstanding					
Basic		**15,159,075**	15,131,254	**15,149,006**	15,117,601
Diluted		**15,574,670**	15,449,522	**15,592,703**	15,419,094

See accompanying notes

HIGH LINER FOODS INCORPORATED

UNAUDITED
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of U.S. dollars)

	Non-voting equity	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
Balance as at December 29, 2012	**$ -**	**$ 75,169**	**$ 7,719**	**$ 66,373**	**$ 4,093**	**$ 153,354**
Other comprehensive income (loss)	**-**	**-**	**-**	**3,405**	**(2,991)**	**414**
Net income for the period	**-**	**-**	**-**	**15,145**	**-**	**15,145**
Common share dividends	**-**	**-**	**-**	**(4,910)**	**-**	**(4,910)**
Share-based payments	**-**	**2,182**	**(49)**	**-**	**-**	**2,133**
Conversion of SARs (*note 8*)	**-**	**-**	**7,580**	**-**	**-**	**7,580**
Balance as at June 29, 2013	**$ -**	**$ 77,351**	**$ 15,250**	**$ 80,013**	**$ 1,102**	**$ 173,716**

	Non-voting equity	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
Balance as at December 31, 2011	$ 12,973	$ 60,958	$ 7,969	$ 73,928	$ 2,999	$ 158,827
Other comprehensive loss	-	-	-	(957)	(729)	(1,686)
Net income for the period	-	-	-	2,717	-	2,717
Common share dividends	-	-	-	(2,990)	-	(2,990)
Share-based payments	-	1,159	-	-	-	1,159
Shares repurchased	(226)	-	(271)	-	-	(497)
Balance as at June 30, 2012 (*Restated* (*note 14*))	$ 12,747	$ 62,117	$ 7,698	$ 72,698	$ 2,270	$ 157,530

See accompanying notes

HIGH LINER FOODS INCORPORATED

UNAUDITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands of U.S. dollars)

	Thirteen weeks ended		Twenty-six weeks ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
		(Restated (note 14))		*(Restated (note 14))*
Net income for the period	**$ 9,881**	$ 989	**$ 15,145**	$ 2,717
Other comprehensive (loss) income, net of income tax (*note 10*)				
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:				
Loss on hedge of net investment in foreign operations	**(4,639)**	(3,599)	**(8,145)**	(400)
Gain on translation of net investment in foreign operations	**2,080**	1,937	**4,074**	263
Translation impact on Canadian dollar denominated AOCI items	**5**	4	**(18)**	66
	(2,554)	(1,658)	**(4,089)**	(71)
Effective portion of changes in fair value of cash flow hedges	**829**	(264)	**1,081**	(518)
Net change in fair value of cash flow hedges transferred to income	**(84)**	148	**35**	(155)
Translation impact on Canadian dollar denominated AOCI items	**(21)**	3	**(18)**	15
	724	(113)	**1,098**	(658)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(1,830)**	(1,771)	**(2,991)**	(729)
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:				
Defined benefit plan actuarial gains (losses)	**1,895**	(910)	**3,405**	(957)
Other comprehensive income (loss), net of income tax	**65**	(2,681)	**414**	(1,686)
Total comprehensive income (loss)	**$ 9,946**	$ (1,692)	**$ 15,559**	$ 1,031

UNAUDITED
CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME
(in thousands of U.S. dollars)

	Foreign currency translation adjustments	**Net exchange gains/(losses) on cash flow hedges**	**Total accumulated other comprehensive income**
Balance as at December 29, 2012	**$ 4,422**	**$ (329)**	**$ 4,093**
Exchange differences on translation of foreign operations	**(4,089)**	**-**	**(4,089)**
Cash flow hedges	**-**	**1,098**	**1,098**
Balance as at June 29, 2013	**$ 333**	**$ 769**	**$ 1,102**
Balance as at December 31, 2011	$ 2,701	$ 298	$ 2,999
Exchange differences on translation of foreign operations	(71)	-	(71)
Cash flow hedges	-	(658)	(658)
Balance as at June 30, 2012 *(Restated (note 14))*	$ 2,630	$ (360)	$ 2,270

See accompanying notes

HIGH LINER FOODS INCORPORATED

UNAUDITED
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands of U.S. dollars)

	Thirteen weeks ended		Twenty-six weeks ended	
	June 29, 2013	June 30, 2012 *(Restated (note 14))*	**June 29, 2013**	June 30, 2012 *(Restated (note 14))*
Cash provided by (used in) operations:				
Net income for the period	**$ 9,881**	$ 989	**$ 15,145**	$ 2,717
Charges (credits) to income not involving cash from operations:				
Depreciation and amortization	**3,554**	5,242	**7,204**	9,937
Share-based payment expense	**65**	956	**3,319**	2,536
Loss (gain) on disposal of assets, and impairment	**97**	19	**(316)**	13,633
Payments of employee future benefits in excess of expense	**(438)**	(845)	**(776)**	(865)
Finance costs	**2,064**	7,579	**8,393**	14,244
Income tax expense (recovery)	**2,928**	(1,441)	**5,711**	(1,536)
Loss (income) from equity accounted investee, net of income taxes	**-**	60	**(86)**	(25)
Unrealized foreign exchange gain	**(208)**	(163)	**(22)**	(88)
Cash flow provided by operations before changes in non-cash working capital	**17,943**	12,396	**38,572**	40,553
Net change in non-cash working capital balances:				
Accounts receivable	**26,433**	25,418	**4,234**	3,894
Inventories	**18,313**	16,275	**46,390**	32,008
Prepaids	**(151)**	185	**(614)**	(179)
Provisions	**(252)**	3,665	**594**	5,568
Accounts payable and accrued liabilities	**(15,363)**	(9,494)	**(22,234)**	(32,951)
Net change in non-cash working capital balances	**28,980**	36,049	**28,370**	8,340
Interest paid	**(1,353)**	(2,693)	**(10,110)**	(8,071)
Income taxes paid	**(2,948)**	(2,047)	**(3,457)**	(3,775)
Net cash flows provided by operating activities	**42,622**	43,705	**53,375**	37,047
Cash provided by (used in) financing activities:				
Decrease in current working capital facilities	**(37,832)**	(38,830)	**(28,278)**	(30,544)
Repayment of finance lease obligations	**(282)**	(237)	**(533)**	(489)
Repayment of long-term debt	**-**	(625)	**(15,406)**	(1,250)
Finance costs	**(11)**	-	**(1,423)**	-
Common share dividends paid	**(2,682)**	(1,476)	**(4,910)**	(2,990)
Shares repurchase	**-**	(497)	**-**	(497)
Stock options exercised	**638**	131	**900**	551
Net cash flows used in financing activities	**(40,169)**	(41,534)	**(49,650)**	(35,219)
Cash provided by (used in) investing activities:				
Purchase of property, plant and equipment, net of investment tax credits	**(2,836)**	(2,607)	**(4,603)**	(4,332)
Net proceeds on disposal of assets	**1,039**	61	**1,527**	209
Change in other receivables and miscellaneous assets	**204**	-	**191**	-
Net cash flows used in investing activities	**(1,593)**	(2,546)	**(2,885)**	(4,123)
Foreign exchange (decrease) increase on cash and cash equivalents	**(3)**	1	**(169)**	26
Change in cash during the period	**857**	(374)	**671**	(2,269)
Add-back: cash directly associated with assets held for sale at December 29, 2012	**-**	-	**705**	-
Cash, beginning of period	**584**	1,310	**65**	3,205
Cash, end of period	**$ 1,441**	$ 936	**$ 1,441**	$ 936

See accompanying notes

1. Reporting entity

High Liner Foods Incorporated (the "Company") is a company incorporated and domiciled in Canada. The address of the Company's registered office is 100 Battery Point Road, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The unaudited condensed interim consolidated financial statements of the Company as at and for the thirteen and twenty-six weeks ended June 29, 2013 comprise the Parent and its subsidiaries (herein together referred to as the "Company") and the Company's interest in associates and jointly controlled entities. The Company is primarily involved in the manufacturing and marketing of prepared and packaged frozen seafood products.

2. Basis of preparation

(a) Statement of compliance
These unaudited condensed interim consolidated financial statements are in compliance with IAS 34 – Interim Financial Reporting. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the fifty-two weeks ended December 29, 2012 as set out in the 2012 Annual Report, available at www.highlinerfoods.com.

These financial statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on August 7, 2013.

(b) Functional and presentation currency
The Company conducts its business in Canadian and U.S. dollars ("USD"), and unless otherwise noted, all amounts in these unaudited condensed interim consolidated financial statements are in USD. Each of the Company's subsidiaries determines its own functional currency. The Parent Company's functional currency is Canadian dollars. The USD presentation currency has been chosen because it better reflects the Company's consolidated business activities and improves investors' ability to compare the Company's financial results with other publicly traded businesses in the packaged foods industry, which are based in the U.S. and report in USD.

(c) Seasonality of operations
Inventory levels fluctuate throughout the year, being higher to support strong sales periods such as for the Lenten period. In addition to the sales demands, the timing of ordering raw materials is earlier than typically required in order to have adequate quantities available during the seasonal closure of plants in Asia during the Lunar New Year period. This results in higher inventories in December, January, February and March than during the rest of the year.

(d) New standards, interpretations and amendments thereof, adopted by the Company
The accounting policies adopted in the preparation of the interim unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 29, 2012, except for the adoption of new standards and interpretations as of January 1, 2013, which had an impact on the accounting policies, financial position or performance of the Company, noted below:

IAS 19 *Employee Benefits (Revised)*
On January 1, 2013, the Company adopted the amendments to IAS 19 with retrospective application. These range from fundamental changes in the standard such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The impact this amendment had on the Company is described in *note 6*.

IFRS 13 *Fair Value Measurement*
On January 1, 2013, the Company adopted IFRS 13 on a prospective basis. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The impact this amendment had on the Company was nominal.

3. Assets held for sale

In the first quarter of 2013, the Company determined that its plant and equipment in Danvers, Massachusetts, met the criteria to be classified as assets held for sale. Accordingly, $4.5 million of the Danvers plant's property, plant and equipment was re-classified as assets held for sale, and as of June 29, 2013, the sale is still assessed as highly probable and the assets are still classified as current.

4. Provisions

(Amounts in $000s)		
Carrying amount, December 29, 2012	$	1,614
New provisions added		3,659
Provisions utilized		(2,240)
Unused amounts reversed		(467)
Carrying amount, June 29, 2013	**$**	**2,566**

5. Long-term debt

Long-term debt *(Amounts in $000s)*		**June 29, 2013**		December 29, 2012
Term loan at 3.5% plus LIBOR (floor at 1.25%); (December 29, 2012: 5.5% plus LIBOR (floor at 1.5%))	**$**	**232,720**	$	248,125
Less: current portion		**-**		(34,237)
		232,720		213,888
Less: bifurcated embedded derivative at initial recognition of $6.0 million (December 29, 2012: $6.2 million) less accretion		**(5,488)**		(159)
		227,232		213,729
Less: financing charges		**(1,075)**		(370)
	$	**226,157**	$	213,359

The LIBOR floor of 1.25% represents an embedded interest rate derivative that requires bifurcation, where the bifurcated amount is carried at fair value (*note 12*).

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

6. Employee future benefits

For the thirteen and twenty-six weeks ended June 29, 2013 and June 30, 2012, the expected return on plan assets was calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amended standard increased the estimated fiscal 2013 net benefit expense to $1.7 million, of which $0.5 million and $0.9 million was recorded in the thirteen and twenty-six weeks ended June 29, 2013. The adjustment required for the thirteen and twenty-six weeks ended June 30, 2012 was nominal.

Short-term employee benefits
The Company has recognized severance and retention benefits that were dependent upon the continuing provision of services through to certain pre-defined dates, which for the thirteen and twenty-six weeks ended June 29, 2013 was a nominal recovery and $0.3 million recovery, respectively (June 30, 2012: an expense of $1.6 million and $2.9 million respectively) in business acquisition, integration and other expenses on the income statement.

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

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**June 29, 2013**	June 30, 2012 *(Restated (note 14))*	**June 29, 2013**	June 30, 2012 *(Restated (note 14))*
Business acquisition, integration and other expenses	**$ 61**	$ 420	**$ 61**	$ 617
Selling, general and administrative	**26**	115	**19**	155
Cost of sales	**-**	-	**20**	-
Distribution expenses	**-**	-	**-**	30
	$ 87	$ 535	**$ 100**	$ 802

7. Share capital

	Thirteen weeks ended				Twenty-six weeks ended			
	June 29, 2013		June 30, 2012 *(Restated (note 14))*		**June 29, 2013**		June 30, 2012 *(Restated (note 14))*	
	Shares	**($000s)**	Shares	($000s)	**Shares**	**($000s)**	Shares	($000s)
Common shares:								
Balance, beginning of period	**15,145,244**	**$ 75,711**	13,344,506	$ 61,817	**15,128,769**	**$ 75,169**	13,298,784	$ 60,958
Stock options exercised	**50,162**	**1,640**	15,500	300	**66,637**	**2,182**	61,222	1,159
Balance, end of period	**15,195,406**	**$ 77,351**	13,360,006	$ 62,117	**15,195,406**	**$ 77,351**	13,360,006	$ 62,117
Non-voting equity shares:								
Balance, beginning of period	**-**	**$ -**	1,788,062	$ 12,973	**-**	**$ -**	1,788,062	$ 12,973
Shares repurchased	**-**	**-**	(29,100)	(226)	**-**	**-**	(29,100)	(226)
Balance, end of period	**-**	**$ -**	1,758,962	$ 12,747	**-**	**$ -**	1,758,962	$ 12,747
	15,195,406	**77,351**	15,118,968	74,864	**15,195,406**	**77,351**	15,118,968	74,864

The following dividends were declared and paid by the Company:

Amounts:	**June 29, 2013** Per share ($)	**June 29, 2013** ($000s)	June 30, 2012 Per share ($)	June 30, 2012 ($000s)
			(Restated (note 14))	
Dividends on common and non-voting shares declared and paid during the period:				
Thirteen weeks ended	**$ 0.18**	**$ 2,682**	$ 0.10	$ 1,476
Twenty-six weeks ended	**0.33**	**4,910**	0.20	2,990
Dividends on common and non-voting shares proposed for approval after the respective reporting period (not recognized as a liability during the period):	**0.18**	**2,602**	0.11	1,704

8. Share-based payments

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

The carrying amount of the liability recognized relating to the options were as follows:

(Amounts in $000s)	**June 29, 2013**	December 29, 2012
Fair value included in accounts payable and accrued liabilities	**$ 2,373**	$ 9,730
Fair value included in other long-term financial liabilities	**65**	1,059
Total liability	**$ 2,438**	$ 10,789

The continuity of the total liability is as follows:

(Amounts in $000s)	**Total fair value of liability**
Balance, June 30, 2012 *(Restated (note 14))*	$ 5,449
Expense	7,238
Equity settled exercises	(208)
Redeemed in cash	(1,774)
Translation adjustment	84
Balance, December 29, 2012	10,789
Expense	2,172
Equity settled exercises	(634)
Redeemed in cash	(1,917)
Reclassified to contributed surplus	(7,580)
Translation adjustment	(392)
Balance, June 29, 2013	**$ 2,438**

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

(Amounts in $000s)	Thirteen weeks ended **June 29, 2013**	Thirteen weeks ended June 30, 2012 *(Restated (note 14))*	Twenty-six weeks ended **June 29, 2013**	Twenty-six weeks ended June 30, 2012 *(Restated (note 14))*
Cost of sales resulting from:				
Cash-settled options	**$ -**	$ 36	**$ 24**	$ 36
Equity-settled options	**-**	-	**-**	15
Changes in the fair value of the liability and contributed surplus	**(248)**	28	**(13)**	135
Selling, general and administrative expenses resulting from:				
Cash-settled options	**641**	57	**1,893**	364
Equity-settled options	**1,003**	170	**1,282**	593
Changes in the fair value of the liability and contributed surplus	**(1,539)**	566	**(418)**	1,215
Share-based payment (recovery) expense	**$ (143)**	$ 857	**$ 2,768**	$ 2,358

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

Options granted between Dec 2007 and February 2013	**June 29, 2013**	June 30, 2012
Dividend yield (%)	**1.25 - 2.31**	2.00
Expected volatility (%)	**25.65 - 37.53**	27.14 - 37.48
Risk-free interest rate (%)	**1.00 - 1.92**	1.03 - 1.33
Expected life (years)	**0.48 - 6.00**	1.48 - 5.75
Weighted average fair value (CAD$)	**5.31 - 28.60**	5.83 - 12.94

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

	Thirteen weeks ended				Twenty-six weeks ended			
	June 29, 2013		June 30, 2012		**June 29, 2013**		June 30, 2012	
	No.	**WAEP (CAD$)**	No.	WAEP (CAD$)	**No.**	**WAEP (CAD$)**	No.	WAEP (CAD$)
Options with Tandem SARs:								
Outstanding, beginning of period	**216,803**	**$ 14.30**	831,043	$ 13.45	**702,643**	**$ 14.14**	675,250	$ 11.10
Granted	**-**	**-**	-	-	**-**	**-**	233,793	18.78
Exercised for shares	**(23,375)**	**16.42**	(15,500)	8.79	**(39,850)**	**16.25**	(61,222)	9.06
Exercised for cash	**(28,750)**	**11.04**	(11,000)	12.17	**(88,466)**	**12.14**	(43,278)	9.83
Reinvested as options without Tandem SARs	**-**	**-**	-	-	**(409,649)**	**14.20**	-	-
Outstanding, end of period	**164,678**	**14.57**	804,543	13.56	**164,678**	**14.57**	804,543	13.56
Excercisable, end of period	**129,445**	**13.77**	492,631	10.67	**129,445**	**13.77**	492,631	10.67
Options without Tandem SARs:								
Outstanding, beginning of period	**586,895**	**$ 20.01**	-	$ -	**15,750**	**$ 19.68**	-	$ -
Granted	**-**	**-**	-	-	**161,496**	**34.77**	-	-
Exercised for shares	**(26,787)**	**10.47**	-	-	**(26,787)**	**10.47**	-	-
Options reinvested without Tandem SARs	**-**	**-**	-	-	**409,649**	**14.20**	-	-
Outstanding, end of period	**560,108**	**20.46**	-	-	**560,108**	**20.46**	-	-
Excercisable, end of period	**272,125**	**13.44**	-	-	**272,125**	**13.44**	-	-
Total options:								
Outstanding, beginning of period	**803,698**	**$ 18.47**	831,043	$ 13.45	**718,393**	**$ 14.27**	675,250	$ 11.10
Granted	**-**	**-**	-	-	**161,496**	**34.77**	233,793	18.78
Exercised for shares	**(50,162)**	**13.24**	(15,500)	8.79	**(66,637)**	**13.93**	(61,222)	9.06
Exercised for cash	**(28,750)**	**11.04**	(11,000)	12.17	**(88,466)**	**12.14**	(43,278)	9.83
Outstanding, end of period	**724,786**	**19.12**	804,543	13.56	**724,786**	**19.12**	804,543	13.56
Excercisable, end of period	**401,570**	**13.55**	492,631	10.67	**401,570**	**13.55**	492,631	10.67

The weighted average fair value of options granted during the twenty-six weeks ended June 29, 2013, was CAD$34.77 (twenty-six weeks ended June 30, 2012: CAD$18.78).

The range of exercise prices for options outstanding at the end of the period was CAD$6.90 – CAD$34.77 (June 30, 2012: CAD$6.90 – CAD$18.88).

Performance share units (PSUs)

	Thirteen weeks ended		Twenty-six weeks ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
PSU, multiple criteria				
Outstanding, beginning of period	**77,868**	55,144	**55,892**	16,798
Granted	**-**	-	**21,639**	38,040
Re-invested dividends	**463**	272	**799**	577
Outstanding, end of period	**78,330**	55,415	**78,330**	55,415
PSU, single criteria				
Outstanding, beginning of period	**16,353**	16,064	**16,282**	-
Granted	**-**	-	**-**	15,975
Re-invested dividends	**97**	79	**168**	168
Outstanding, end of period	**16,450**	16,143	**16,450**	16,143

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

(Amounts in $000s)		**June 29, 2013**		December 29, 2012
Fair value included in accounts payable and accrued liabilities	**$**	**342**	$	275
Fair value included in other long-term financial liabilities		**906**		473
Total liability	**$**	**1,248**	$	748

The share-based payment expense recognized in the thirteen and twenty-six weeks ended June 29, 2013 was $0.2 million and $0.5 million respectively (thirteen and twenty-six weeks ended June 30, 2012: $0.1 million and $0.2 million respectively).

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

PSUs granted between March 2011 and February 2013	**June 29, 2013**	June 30, 2012
Dividend yield (%)	**2.3**	2.1
Expected life of the PSU (years) multiple criteria	**0.50 - 2.50**	1.50 - 2.50
Expected life of the PSU (years) single criteria	**1.5**	2.5
Expected vesting (%)	**81 -100**	100 - 110
Forefeiture rate (%)	**0**	0
Share price at reporting date (CAD$)	**31.14**	20.00

Deferred share units (DSUs)

In the first quarter of 2012, a new long-term incentive arrangement, Deferred Share Unit Plan, was adopted by the Board of Directors. A director may elect to receive all or any portion of their annual retainer, additional fees and equity value ("Elected Amount") in DSUs in lieu of cash or options. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. At June 29, 2013 there were 1,307 DSUs outstanding (June 30, 2012: nil). During the twenty-six weeks ended June 29, 2013, the share-based payment expense was nominal.

9. Operating segment information

Operations and identifiable assets and liabilities by reporting segment are as follows:

	Thirteen weeks ended June 29, 2013			Thirteen weeks ended June 30, 2012 *(Restated (note 14))*			**Twenty-six weeks ended June 29, 2013**			Twenty-six weeks ended June 30, 2012 *(Restated (note 14))*		
(Amounts in $000s)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Revenues within geographic region*	**$ 76,256**	**$ 128,422**	**$ 204,678**	$ 80,570	$ 135,298	$215,868	**$151,896**	**$ 327,700**	**$ 479,596**	$ 158,141	$ 344,810	$502,951
Revenues outside of geographic region*	**74**	**3,564**	**3,638**	1,419	4,286	5,705	**492**	**6,637**	**7,129**	3,389	7,802	11,191
	76,330	**131,986**	**208,316**	81,989	139,584	221,573	**152,388**	**334,337**	**486,725**	161,530	352,612	514,142
Intercompany revenues outside of geographic region*	**(74)**	**(3,334)**	**(3,408)**	(1,419)	(3,323)	(4,742)	**(492)**	**(6,163)**	**(6,655)**	(3,389)	(6,342)	(9,731)
Revenue, excluding intercompany revenues	**76,256**	**128,652**	**204,908**	80,570	136,261	216,831	**151,896**	**328,174**	**480,070**	158,141	346,270	504,411
Cost of sales, excluding intercompany revenues	**(57,485)**	**(99,925)**	**(157,410)**	(63,779)	(108,907)	(172,686)	**(115,223)**	**(256,070)**	**(371,293)**	(123,157)	(270,891)	(394,048)
Gross profit	**18,771**	**28,727**	**47,498**	16,791	27,354	44,145	**36,673**	**72,104**	**108,777**	34,984	75,379	110,363
Distribution expenses	**(3,631)**	**(7,631)**	**(11,262)**	(3,638)	(6,284)	(9,922)	**(7,310)**	**(19,444)**	**(26,754)**	(7,466)	(15,955)	(23,421)
Selling, general and administrative expenses	**(7,436)**	**(13,225)**	**(20,661)**	(8,886)	(14,993)	(23,879)	**(18,360)**	**(33,741)**	**(52,101)**	(17,946)	(34,642)	(52,588)
Impairment of property, plant and equipment	**-**	**-**	**-**	(271)	-	(271)	**-**	**-**	**-**	(4,900)	(8,823)	(13,723)
Business acquisition, integration and other expenses	**46**	**(748)**	**(702)**	(332)	(2,554)	(2,886)	**29**	**(788)**	**(759)**	(510)	(4,721)	(5,231)
Financing costs	**(508)**	**(1,556)**	**(2,064)**	(308)	(7,271)	(7,579)	**(803)**	**(7,590)**	**(8,393)**	(771)	(13,473)	(14,244)
(Loss) income from equity accounted investee	**-**	**-**	**-**	(30)	(30)	(60)	**43**	**43**	**86**	12	13	25
Income (loss) before income tax	**7,242**	**5,567**	**12,809**	3,325	(3,777)	(452)	**10,272**	**10,584**	**20,856**	3,402	(2,221)	1,181
Income tax (expense) recovery	**(2,137)**	**(791)**	**(2,928)**	(968)	2,409	1,441	**(3,846)**	**(1,865)**	**(5,711)**	(1,183)	2,719	1,536
Net income (loss)	**$ 5,105**	**$ 4,776**	**$ 9,881**	$ 2,357	$ (1,368)	$ 989	**$ 6,426**	**$ 8,719**	**$ 15,145**	$ 2,219	$ 498	$ 2,717
Add back:												
Depreciation included in:												
Cost of sales	**449**	**1,103**	**1,552**	580	2,165	2,745	**908**	**2,333**	**3,241**	1,164	3,595	4,759
Distribution	**39**	**346**	**385**	38	375	413	**82**	**647**	**729**	83	757	840
Selling, general and administrative expenses	**355**	**59**	**414**	298	76	374	**708**	**117**	**825**	613	158	771
Total depreciation	**843**	**1,508**	**2,351**	916	2,616	3,532	**1,698**	**3,097**	**4,795**	1,860	4,510	6,370
Amortization included in:												
Selling, general and administrative expenses	**27**	**1,176**	**1,203**	54	1,656	1,710	**55**	**2,354**	**2,409**	108	3,459	3,567
Total depreciation and amortization	**870**	**2,684**	**3,554**	970	4,272	5,242	**1,753**	**5,451**	**7,204**	1,968	7,969	9,937
Financing costs	**508**	**1,556**	**2,064**	308	7,271	7,579	**803**	**7,590**	**8,393**	771	13,473	14,244
Income tax expense (recovery)	**2,137**	**791**	**2,928**	968	(2,409)	(1,441)	**3,846**	**1,865**	**5,711**	1,183	(2,719)	(1,536)
Income before depreciation, amortization, financing and income taxes	**$ 8,620**	**$ 9,807**	**$ 18,427**	$ 4,603	$ 7,766	$ 12,369	**$ 12,828**	**$ 23,625**	**$ 36,453**	$ 6,141	$ 19,221	$ 25,362

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

	Thirteen weeks ended June 29, 2013			Thirteen weeks ended June 30, 2012 *(Restated (note 14))*			**Twenty-six weeks ended June 29, 2013**			Twenty-six weeks ended June 30, 2012 *(Restated (note 14))*		
(Amounts in $000s)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Capital Expenditures												
Financed by:												
Operations	**$ 1,249**	**$ 1,587**	**$ 2,836**	$ 1,251	$ 1,356	$ 2,607	**$2,263**	**$2,340**	**$4,603**	$ 2,174	$2,158	$ 4,332
Finance leases	**234**	**-**	**234**	269	-	269	**421**	**-**	**421**	585	-	585
Total capital expenditures	**$ 1,483**	**$ 1,587**	**$ 3,070**	$ 1,520	$ 1,356	$ 2,876	**$2,684**	**$2,340**	**$5,024**	$ 2,759	$2,158	$ 4,917

	As at June 29, 2013			As at June 30, 2012 *(Restated (note 14))*		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Total assets	**$ 129,837**	**$ 436,016**	**$ 565,853**	$ 143,241	$488,580	$631,821
Goodwill	**11,867**	**100,338**	**112,205**	12,241	100,203	112,444
Liabilities	**272,721**	**119,416**	**392,137**	305,501	168,790	474,291

	As at December 29, 2012 *(note 14)*		
	Canada	U.S.	Total
Total assets	$ 147,286	$484,541	$631,827
Goodwill	12,535	100,338	112,873
Liabilities	307,721	170,752	478,473

10. Income tax expense

The Company's statutory tax rate for the thirteen and twenty-six weeks ended June 29, 2013 is 27.26% (June 30, 2012: 27.26%).

The major components of income tax expense (recovery) in the unaudited interim consolidated statement of other comprehensive income for the thirteen and twenty-six weeks ended June 29, 2013 and June 30, 2012 were as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**June 29, 2013**	June 30, 2012	**June 29, 2013**	June 30, 2012
Income tax expense (recovery) related to items charged or credited directly to other comprehensive income and retained earnings during the period:		*(Restated (note 14))*		*(Restated (note 14))*
Loss on hedge of net investment in foreign operations	**$ (798)**	$ (480)	**$ (1,271)**	$ (55)
Gain on translation of net investment in foreign operations	**632**	324	**902**	37
Effective portion of changes in fair value of cash flow hedges	**311**	(58)	**414**	(230)
Net change in fair value of cash flow hedges transferred to income	**(43)**	55	**(1)**	(63)
Defined benefit plan actuarial recovery (loss)	**665**	(360)	**1,179**	(355)
Income tax expense (recovery) directly to other comprehensive income and retained earnings during the period:	**$ 767**	$ (519)	**$ 1,223**	$ (666)

11. Related party transactions

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

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**June 29, 2013**	June 30, 2012	**June 29, 2013**	June 30, 2012
		(Restated (note 14))		*(Restated (note 14))*
Other Related Parties:				
Crystal Cold Storage & Warehousing Inc.				
Services from related party	**$ -**	$ 76	**$ 224**	$ 92
Amounts owed to related party	**-**	106	**-**	213
Pier 17 Realty Trust Inc.				
Rent paid to related party	**100**	100	**200**	200
Joint venture in which the Company is a venturer:				
Dencan Seafoods Ltd. [1]				
Purchases from related party	**-**	5,201	**1,980**	10,703
Total purchases from related parties	**$ 100**	$ 5,377	**$ 2,404**	$ 10,995
Total amounts owed to related parties	**-**	106	**-**	213

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

12. Financial instruments

Hedging activities

Cash flow hedges

At June 29, 2013, the Company held foreign currency forward contracts designated as hedges of expected future purchases from suppliers transacting in USD, which the Company has qualified as highly probable forecasted transactions. The foreign currency forward contracts are being used to hedge the foreign currency risk of the highly probable forecasted transactions.

At the end of the thirteen week period ended June 29, 2013, the cash flow hedges of the expected future purchases were assessed to be highly effective and were therefore included in other comprehensive income in respect of these contracts as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(Amounts in $000s)	**June 29, 2013**	June 30, 2012	**June 29, 2013**	June 30, 2012
		(Restated (note 14))		*(Restated (note 14))*
Unrealized gain	**1,081**	502	**1,396**	60
Deferred tax expense	**(292)**	(136)	**(377)**	(12)

The amount removed from other comprehensive loss, net of tax, during the thirteen and twenty-six weeks ended June 29, 2013, and included in the carrying amount of the hedging items, was a loss of $0.1 million and a nominal loss, respectively (June 30, 2012: a gain of $0.1 million and loss of $0.2 million).

Hedge of net investment in foreign operations
As at June 29, 2013, there was a borrowing of $170.0 million included in long-term debt (December 29, 2012: $170.0 million), which has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this investment. Gains or losses on the translation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investments in the U.S. subsidiary. There is no ineffectiveness recognized in the periods ended June 29, 2013 nor June 30, 2012.

Embedded derivatives
As described in *note 5*, the Company's long-term loan bears interest at LIBOR plus 3.5%, with a LIBOR floor of 1.25%. This interest rate floor represents an embedded interest rate derivative that requires bifurcation, where the bifurcated amount is carried at fair value with changes going though profit or loss. The fair value of the embedded derivative at June 29, 2013, was $4.6 million (December 29, 2012: nil) with the change in value recorded in finance costs.

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

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

	June 29, 2013	
	Sell	**Receive**
(Amounts in $000s)	**CAD$**	**US$**
Forward rate	**$3,246**	**$3,218**

The forward single rate contracts at June 29, 2013, have a rate of $1.0085 with maturities ranging from July 2013 to November 2013.

For the thirteen week period ended June 29, 2013, the Company had the following foreign exchange "average rate" purchase contracts outstanding:

			June 29, 2013
Average rate forwards	**Weighted Average Put Rate**	**Weighted Average Call Rate**	**Total value ($000s)**
Average rate	**$ 1.0172**	**$ 1.0172**	**$ 36,941**

With the exception of $1.2 million average rate forward contracts with maturities ranging from July 2014 to June 2015, all foreign exchange purchase contracts have maturities that are less than one year.

13. Fair value measurement

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

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

(Amounts in $000s)	**June 29, 2013 Level 2**	December 29, 2012 Level 2
Assets measured at fair value		
Foreign exchange contracts; hedged	**$ 1,695**	$ 533
Liabilities measured at fair value		
Foreign exchange contracts; hedged	**636**	550
Interest rate swaps	**838**	1,130
Embedded derivative	**4,646**	-

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

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2, and Level 3 fair value measurements. During the thirteen week period ended June 29, 2013, and June 30, 2012 no such transfers have occurred.

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

The financial assets and liabilities included on the Statement of Financial Position that are not measured at fair value consisted of the following:

	June 29, 2013		December 29, 2012	
(Amounts in $000s)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Long-term debt (including current portion)	**$ 226,157**	**$ 223,769**	$ 247,596	$ 275,744

The fair values of long-term debt instruments, classified as Level 2 in the fair value hierarchy, are estimated based on discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities.

14. Comparative figures

Comparative information for the thirteen and twenty-six weeks ended June 30, 2012 in the unaudited condensed interim consolidated financial statements has been restated to reflect adjustments made upon finalization of the purchase price allocation during the fourth quarter of 2012, relating to the acquisition of Icelandic USA Inc. in 2011. The June 30, 2012 information has also been restated to reflect the retrospective change in presentation currency from Canadian dollars to USD implemented by the Company in its December 29, 2012 annual financial statements.

Additionally, $1.8 million was reclassified to goodwill from accounts receivable and accounts payable in the Company's December 29, 2012 comparative balances.

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