4.5 Financing Costs

Interest expense in 2013 was lower than in 2012 as a result of: lower average short-term and long-term debt levels; lower interest rates as a result of the debt amendments made in February of 2013; 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; a lower expense associated with the valuation of an embedded derivative included in the long-term debt; and a lower mark-to-market loss related to an interest rate swap that does not qualify for hedge accounting.

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

	Fifty-two weeks ended	
(Amounts in $000s)	**December 28, 2013**	December 29, 2012
Interest paid in cash during period	**$ 16,786**	$ 19,145
Change in cash interest accrued during the period	**(2,363)**	2,579
Total interest to be paid in cash	**14,423**	21,724
Deferred financing cost amortization	**888**	2,775
Accelerated deferred cost amortization	**1,063**	8,755
Mark-to-market on embedded derivative	**(149)**	2,605
Mark-to-market on interest rate swap	**104**	726
Total finance costs	**$ 16,329**	$ 36,585

Included in finance costs is the value of marking-to-market an embedded derivative that is included in long-term debt at year-end. The embedded derivative relates to a LIBOR floor of 1.25% (2012; 1.50%) on our term debt that, under IFRS Financial Instruments, must be separated, or bifurcated, from the long-term debt and presented as "Other long-term financial liabilities" on the balance sheet on inception, and then marked-to-market at each reporting date. The embedded derivative increases as interest rates decrease and vice versa. This "floor" is currently greater than the prevailing interest rates. As the derivative gets revalued, the mark-to-market amount is accounted for as a non-cash expense or income in finance costs, which creates volatility in this expense. The associated non-cash amortization of the original value of the option is charged to income as financing costs using the effective interest method on the associated debt. The revaluation of the embedded derivative as it is marked-to-market at each reporting date, and the related amortization of deferred financing charges, are non-cash as they will never result in a cash payment above actual interest expense and principal payments. As the principal of the term loan is repaid, the expense or income charged to finance costs on the embedded derivative in a prior period will be reversed so that over the remaining term that the loan is outstanding it will have no effect on earnings. However, as interest rates fluctuate the timing of these two items will not perfectly offset one another and non-cash volatility will result in fluctuating financing costs from period to period.

As a result of amendments made to our long-term debt in the first quarter of 2013, accounting practices required us to accelerate the amortization of the deferred financing costs less the recovery of amounts previously expensed related to the embedded derivative in 2012 year-end financial results due to the significantly favourable changes in the future cash flows under the amendments which resulted in the amendment being accounted for as an extinguishment of debt in fiscal 2013. Previously deferred fees were expensed over the revised remaining life of the original debt resulting in increased amortization in 2012 of $8.7 million. The amended long-term debt also contains an embedded derivative related to a LIBOR floor of 1.25%. The value of the new embedded derivative was $6.0 million on inception. The cost of obtaining the amendments to the loan in the first quarter, that on a new debt would be deferred and amortized, was required to be expensed as incurred in the amount of $1.0 million.

Also included in finance costs is a charge for marking-to-market an interest rate swap containing an embedded floor entered into in 2012 related to long-term debt. Due to the requirement to bifurcate the value of the embedded floor from the long-term debt, this swap does not qualify for hedge accounting.

The earnings per share implications for 2013 and 2012 of marking-to-market the embedded derivative and the interest rate swap are disclosed in the table in Section 5.3 of this document.

We expect our short-term bank loans in 2014 to be higher than those of 2013 due to the American Pride Acquisition in the fourth quarter of 2013. However, we expect lower interest rates on our short-term and long-term debt due to the to amendments made in February 2013. Overall, we expect interest expense in 2014 to be similar to that of 2013.

4.6 Income taxes

High Liner Foods' effective income tax rate in 2013 is 28.2% compared to a recovery of income taxes in 2012 despite having pre-tax income. Our Canadian statutory rate for 2013 was 27.9%. The higher effective income tax rate is due to higher net income, non-deductible stock compensation expense and a higher U.S. statutory tax rate of 38.9%. The recovery in 2012 is due primarily to the benefit of acquisition financing deductions in connection with the Viking and Icelandic USA acquisitions and integrations, partially offset by non-deductible stock compensation expense and a higher U.S. statutory tax rate. In 2012, the non-deductible withholding tax relating to a dividend that was paid in connection with the financing for the Viking Acquisition was reduced by $0.4 million once the liability was finalized after the income tax return for 2011 was filed.

See *note 20* to the Consolidated Financial Statements for full information with respect to income taxes. Loss carry forwards are still available in the U.S. operations to reduce cash taxes for the next year or two. The Canadian statutory income tax rate for 2014 is 28.8%.

4.7 Contingencies

We have no material contingencies that are outstanding.