4.6 INCOME TAXES

High Liner's effective income tax rate in 2011 is 33.9%, compared to 38.7% for 2010. Our Canadian statutory rate for 2011 was approximately 29%. The effective rate in 2011 is higher than the statutory rate due to a higher U.S. statutory tax rate of 38.6%, and due to the tax treatment of certain business acquisition costs that are only partially deductible or non-deductible for tax purposes. During 2011, the Company recorded an additional $0.8 million of non-deductible one-time withholding tax relating to the dividend that was paid in connection with the financing for the Viking Acquisition.

The Canadian income tax rules changed in 2010 regarding the tax deductibility of stock option expense. The cash-settling of stock options by employees is no longer deductible to the employer if the employee is entitled to the stock option deduction. Generally, the stock option deduction is only available to employees where they acquire securities of their employer or if the employer makes an election to forgo the deduction for a cash payment. The Company reviewed the changes to these rules and elected in 2010 to forgo the tax deduction on any amount paid to the employee in respect of the employee's disposition of their rights under the Company's stock option program.

The effective rate in 2010 is also higher than our statutory rate as we declared and paid a dividend in December of 2010 from our U.S. subsidiary to High Liner. This dividend was in connection with the financing for the Viking Acquisition, and was subject to a 5% non-deductible one-time withholding tax of $1.0 million, which is recorded in our income tax expense for 2010. As well, we recorded $3.7 million of stock compensation expense, which increased our effective tax rate as it was not deductible for income tax purposes.

See Note 20 to the annual 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 2012 is approximately 28%.

4.7 CONTINGENCIES

We have no material contingencies that are outstanding.

4.8 CONTRACTUAL ARRANGEMENTS

As part of the FPI acquisition in 2007, the Company entered into an agreement with the Province of Newfoundland and Labrador with respect to its operations in Burin, Newfoundland, and relating to its U.S. operations. The Company has agreed to maintain specified volumes of production in the plant until December 2012. Failure to maintain these volumes will result in a payment to the Province of Newfoundland and Labrador of $0.07 per pound for each pound of volume shortfall. In addition, over the period ending in December 2012, the Company has committed to spend $3 million in product development activities in the Province of Newfoundland and Labrador and new equipment for Burin. Of these expenditures, 60% must be product development expenditures. In fiscal 2011 and 2010, the Company paid $0.7 million (relating to the production shortfall). If the Company ceases permanent operation of the plant in Burin it must pay the Province $12,500 for each unionized worker (who has been employed at Burin and is losing employment in the year of closure) to be used as a worker transition fund by the Province. Based on current employment levels this would be approximately $1.5 million. The Company has current operating plans for Burin but may or may not maintain the agreed-upon production levels.

The Company has also agreed not to sell its U.S. operations during the period ending December 2012 without making a payment to the Province of Newfoundland and Labrador of $5 million.

5. PERFORMANCE

5.1 THE ICELANDIC USA AND VIKING ACQUISITIONS

On December 19, 2011, High Liner acquired operations of U.S. subsidiary (Icelandic USA) 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. Since the acquisition was concluded late in the fiscal year, 2011 includes only 13 days of operations from the Icelandic USA Acquisition. The narrative in this section aims to assist the reader in understanding both the financial statements and the underlying performance of the business in 2011, together with our views on how the Icelandic USA Acquisition will contribute to High Liner in 2012 and beyond.

The Icelandic USA Acquisition is another milestone on our journey to becoming a larger company and in growing our EBITDA. It immediately increased our pro forma EBITDA by an estimated $29.6 million and synergies expected[1] to be realized in the future will further increase EBITDA. Moreover, it moves us closer to our vision to be the North American leader in frozen value-added seafood. The acquisition has brought to High Liner a complementary food service business in the U.S., adding to the strong business we acquired in 2007 from FPI and in 2010 from Viking. The Icelandic USA Acquisition will also continue to increase our competitive advantage in procuring raw material and finished goods.

Sales from the Icelandic USA Acquisition from the closing date of December 19, 2011 to December 31, 2011 were $9.0 million (US$8.7 million) and Adjusted EBITDA was $1.0 million (US$0.9 million). The table below shows the high level view of sales and Adjusted EBITDA as reported: