



# National Sea Products Limited

## ANNUAL REPORT 1997





## This Year's Highlights

<i>(in thousands of dollars except as indicated+)</i>	53 weeks to Jan. 3, 1998	52 weeks to Dec. 28, 1996
Sales	\$ 277,770	252,795
Net income for the period	\$ 8,639	3,523
Basic earnings per Common Share	+ \$ 1.02	0.26
Fully diluted earnings per Common Share	+ \$ 0.96	—
Basic cash flow per Common Share	+ \$ 1.90	1.26
Fully diluted cash flow per Common Share	+ \$ 1.71	1.16
Total assets	\$ 143,565	143,970
Shareholders' equity	\$ 38,941	30,373

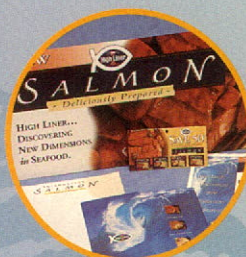
## Five-Year Operating Statistics

<i>Tonnage (Metric Tonnes) (1)</i>	1997	1996	1995	1994	1993
Groundfish fleet landings	6,413	8,945	7,477	11,794	20,713
Primary processing – finished weight	11,770	10,816	10,128	10,925	11,176
Secondary processing – finished weight	35,423	33,158	29,334	29,529	29,031
Total production	47,193	43,974	39,462	40,454	40,207
Secondary processing as a % of total production	75.1%	75.4%	74.3%	73.0%	72.2%
Number of employees	1,492	1,400	1,375	1,570	1,592
Gross capital expenditures (\$000)	\$ 6,273	2,237	4,799	5,478	3,103

(1) One metric tonne = 2204.6 lbs.



# Corporate Profile



**N**ational Sea Products Limited is a publicly traded Canadian company in business as a harvester, procurer, processor and marketer of superior quality fish and seafood.

With operations concentrated in North America, National Sea is a leader in the development of innovative strategies and technologies to meet the needs of its customers.

Throughout all aspects of its operations – from ocean harvesting to new product development – National Sea Products ensures the highest standards for quality and customer service, while maintaining a commitment to the protection of the resource on which it depends. To meet these standards, the Company relies heavily on the skills and commitment of its employees, and continues to provide the highest levels possible of quality employment.

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# Director's Report

**1997** was a year of significant achievements for National Sea Products – it was a year marked by growth in sales, net income and cash flow. This year saw us successfully refinance the Company's debt; significantly improve operating results in our prepared foods division, particularly in the United States; increase our investment in brand equity; and grow our sales and income in the food service division by significant amounts.

## Growing Sales and Profits

Having overcome the challenges imposed in the early 90's by the Atlantic groundfish crisis, our efforts to profitably grow our business are starting to pay off. 1997 marked a strong beginning for our two-year goal to increase sales and profits, and, in fact, consolidated sales for the year increased by 9.9% to \$278 million. Our growth in sales was a result of continued success in new product innovation, as well as a strong performance by the food service division.

Operating costs were reduced significantly during 1997 as a result of our continued investment in new equipment, process improvement and training across the Company's operations. As a result of this investment, our capital expenditures totaled \$6.3 million – this represents an increase of more than 100% over last year. In addition, our prepared foods division benefited from favourable raw material prices during the second half of 1997.

Henry E. Demone, President and CEO, takes a break with employees in the cafeteria of the Company's Lunenburg Processing plant.

At right: Salmon Nuggets, selling under the High Liner® label in the US, are performing well as a main meal or snack item.





The High Liner® prepared salmon product line continues to appeal to health-conscious adult consumers.



We were able to maintain the dominant position of our High Liner® brand in the Canadian marketplace by increasing our investment in marketing and advertising activities. That investment also allowed us to maintain the strength of our Fisher Boy® products in core US markets, where competition continues to increase.

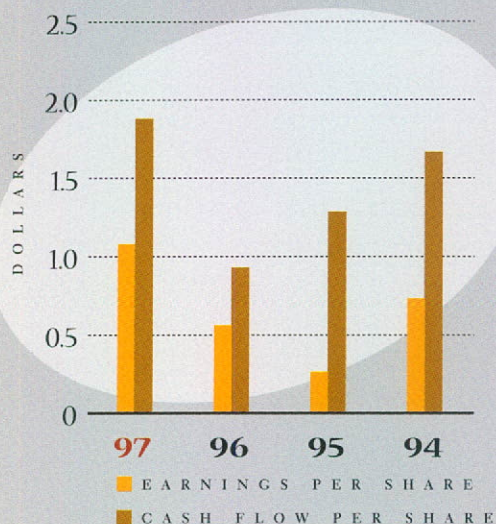
Improved landings and prices in the offshore scallop fishery had a positive impact on our Atlantic operations. However, groundfish landings in Atlantic Canada were a disappointment. After having registered the first increase in many years during 1996, we remained optimistic about 1997. Unfortunately, groundfish landings in 1997 were the lowest in the Company's history.

All of these factors, together with the great efforts of everyone at National Sea Products, allowed our consolidated net income for 1997 to grow by 145% to \$8.6 million, or \$1.02 per share. Operating cash flow increased 40% to \$15.0 million, or \$1.90 per share.

## Strengthening our Financial Position

National Sea Products' financial position was significantly strengthened during 1997 through the successful refinancing of its debt. The Company was able to refinance all of its long-term debt over eight years. In addition, we succeeded in refinancing working capital debt at increased levels of availability and more favorable interest rates.

### Per Share Data



## Looking Ahead

During 1998 our focus will remain on growth in both sales and profits. Our marketplace is characterized by consumers who demand taste and convenience in the food products they buy. This, in addition to consumer efforts to maintain a healthy diet in spite of hectic lifestyles, continues to provide the Company with further opportunities in product innovation and development.







National Sea Products' Food Technology Lab is where the product innovation process begins.

Supermarket chains and food service distributors have become increasingly powerful customers of National Sea Products, especially as consolidation continues in this industry. They demand increasingly higher quality products and levels of customer service, as well as more effective marketing support from their suppliers.

National Sea Products, now more than ever, is well-situated to meet the increasing needs of these customers because we continue to focus on building our strengths:

- our brands;
- our customer relationships;
- our people; and,
- our ability to innovate in order to meet changing needs.

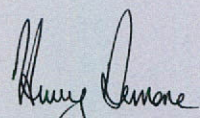
It is these strengths which will enable the Company to take advantage of the growing opportunities presented by our dynamic marketplace.

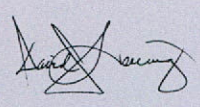
On behalf of the Company's Board of Directors and Management Team, we'd like to thank all employees of National Sea Products for their continued hard work and dedication — their efforts are clearly reflected in the Company's performance during 1997.

### Board Changes

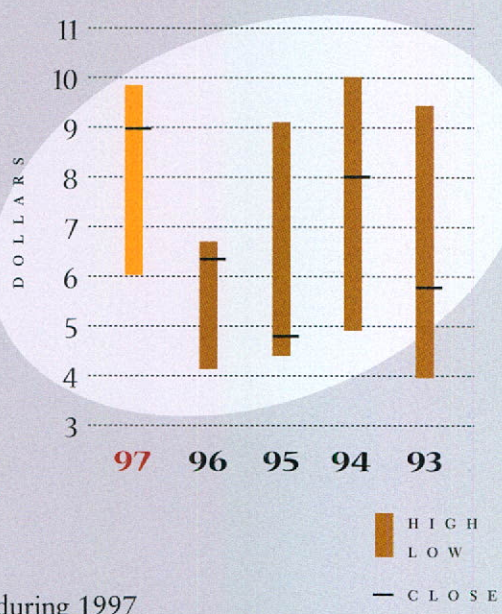
In December, the Government of Canada sold all of its common shares in National Sea Products. The Government had been a shareholder for 15 years and supported the Company by appointing forward-thinking, effective Directors. Their significant contributions through challenging times was greatly appreciated.

In addition, D. Gallivan resigned from his Board position during 1997 and we would like to express sincere appreciation for his contribution. We also welcomed R. Winters who was appointed a director in December of 1997.

  
Henry E. Demone,  
President & CEO

  
D. J. Hennigar,  
Chairman of the Board

### Common Stock Price





# Report on Operations

## Prepared Foods

### CANADIAN RETAIL

National Sea Products' retail division enjoyed increased sales over last year. We achieved this growth in a grocery retail sector that is under considerable pressure from competitive non-grocery outlets for a share of consumer grocery dollars. New products such as High Liner® Grilled Fillets and Homestyle Baked Fillets™ were introduced to meet the needs of consumers looking for flavourful and nutritious meal solutions for today's fast-paced lifestyle.

Advertising has and will continue to play a major role in building the retail business by increasing our consumer base both inside and outside the frozen seafood category. Our advertising is designed to position High Liner® products as healthy, convenient meal-time solutions. We will continue to communicate this product positioning during 1998 through a combination of advertising mediums, including outdoor billboards, as well as magazine and radio advertisements.

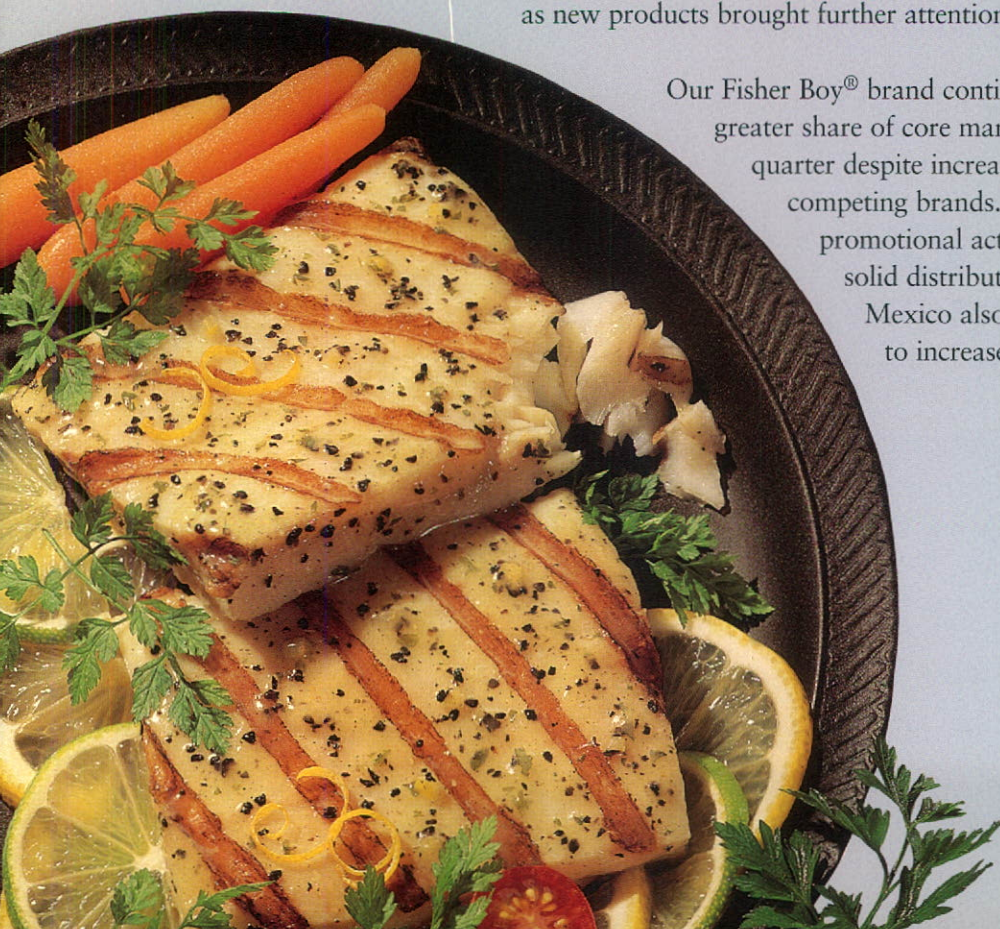
At right:  
Fisher Boy® brand products continued to strengthen their market share in the United States.

Below: Lemon Pepper Grilled Fillets - another new product introduced to the Canadian and US marketplaces.

### UNITED STATES RETAIL

During 1997, the United States frozen seafood market grew for the third consecutive year, finishing with an 8% gain over 1996 and a worth of \$900 million. All major industry competitors continued to invest in consumer marketing activities as new products brought further attention to the market.

Our Fisher Boy® brand continued to capture an increasingly greater share of core markets, finishing strong in the fourth quarter despite increased investment and efforts by competing brands. We achieved this through focused promotional activity, strong brand equity, and a solid distribution base. Fisher Boy® sales in Mexico also grew during 1997, in response to increased consumer marketing programs.







Our new Fisher Boy® products, *FisheRings™*, were enthusiastically accepted by retailers during their introduction in the second half of 1997. *FisheRings™ Fish Sticks* and *FisheRings™ Shrimp* scored very highly with test consumers on both family meal appeal and as a fun way to eat seafood — this together with retail response has positioned these new products for success. We'll be introducing *FisheRings™* into more markets during 1998. Two other new product lines, Grilled Fillets and Fisher Boy® Prepared Salmon, are also meeting expectations.

Our private label business had another record year in terms of sales. Our focus on providing high quality service and maintaining strong customer partnerships contributed to a solid business performance.

#### FOOD SERVICE

National Sea Products' food service division achieved outstanding sales growth during 1997, with a 26% increase over 1996. Several raw fillet categories, mainly Cod, Haddock and Patagonian silver hake, were instrumental in reaching these sales results. Raw scallop sales were also 20% higher than in the previous year.

Success in processed products sales were led by our strong custom label products, including Burger King, Zellers, The Bay, Golden Griddle and Kelsey's, to name a few. National Sea Products has been the sole fish supplier to Burger King Canada for 15 years and together both companies have enjoyed strong growth in 1997. Last year, our company sold over 1.1 million Big Fish® Sandwich portions to Burger King Canada, an increase of almost 7% over 1996.

The sales momentum built in our food service division during 1997 is expected to continue throughout 1998.

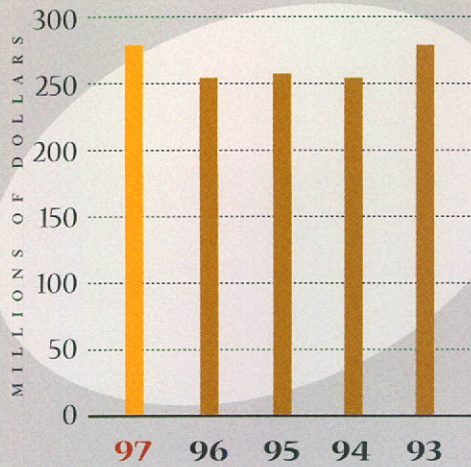


Top: Fisher Boy® *FisheRings™* continue to be well received by both retailers and consumers following the 1997 market rollout.

Above: Last year National Sea Products topped the 1 million unit mark supplying Burger King Canada with Big Fish® sandwiches.



## Consolidated Sales



## Processing and Logistics: North America

Investment, continuing improvement and solid results characterized the processing and logistics area of the North American prepared foods division. This part of our business also enjoyed favourable raw material supply and prices during 1997.

Within the area of processing, many operating improvements were implemented within the US operation. Automated packing of product continued to be a priority and by year-end almost all of the production in the Portsmouth facility was being packed by machine. Major infrastructure improvements were made in the areas of refrigeration, hydraulics and conveying systems. As well, the Portsmouth facility began production of our new products, *FisheRings™*, at the end of the year. Productivity enhancements and tighter cost controls made impressive contributions to operating income and cash flow for US operations.

Our Canadian operations achieved favourable operating results during the year. Over \$1 million was invested in upgrading equipment, adding new technology and automating current processes. As well, production volume was up approximately 5.9% over 1996.

The logistics area continued to benefit from the Company's new operating software and achieved considerable savings from a revamped purchasing process in the US.

## Atlantic Operations

Overall, 1997 proved to be an encouraging year for our Atlantic operations. While we were generally disappointed with groundfish landings, we did find good quantities of cod on the Southern Grand Banks. Despite tight supplies of imported raw material, our Arnold's Cove facility was able to significantly increase its processing volume.

Continued capital investment in production equipment helped to offset the higher cost of raw material seen by both our Newfoundland and Nova Scotia processing plants. Healthy scallop stocks resulted in improved landings over last year, and scallop markets remain strong.

A memorandum of agreement was signed during 1997 to lease the idle plant in Louisbourg for a five-year period. In addition, efforts to sell non-essential vessels look positive at year-end.

Sales in Private Label products outperformed previous years' results and continued to increase throughout 1997.







#### COMMODITY SALES

An increase in demand for fresh fish, scallops and value-added cod products during 1997, along with increased raw material supply from internal and external sources, meant improved results in commodity sales.

#### INTERNATIONAL MARKETS

Export sales of Arctic surf clam products to Japan improved to near normal levels during 1997 following the E.coli outbreak of 1996.

In keeping with our efforts to enter markets in countries with higher populations of young people, plans were also finalized to enter the Brazil market with a line of prepared seafood under the High Liner® label. The Company is still working to build a leadership position in the Mexican market, where impressive growth rates point to a significant market. The large cities of Latin America will provide an exciting growth opportunity as consumers in these countries continue to increase their consumption of frozen food.

#### Outlook for 1998

Entering 1998, National Sea Products enjoys increasing financial strength and confidence in our ability to innovate in order to take advantage of a dynamic market place.

We believe that continued growth in sales is contingent upon producing and marketing high quality products that meet the needs of today's consumers for taste, convenience and a healthy lifestyle. This is an area in which National Sea Products excels.

In spite of the risk of higher raw material prices in the coming years, ongoing investment in process improvement, training and innovative equipment should result in continued growth in profitability and cash flow.

Brazilian and Mexican products for the Company's newest markets.





# Management's Discussion & Analysis

*This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report.*

## Results of Active and Continuing Operations

Net income increased to \$8.6 million in 1997 from \$3.5 million in 1996.

Sales in 1997 were \$25.0 million greater than in 1996. Sales were generally up in all markets due to new product introductions, and increased distribution. As well, clam sales of the Company's joint venture company were up \$0.5 million.

Gross profit increased to 19.5% of sales in 1997 from 18.3% in 1996 due to cost reductions in the Company's production facilities, good selling prices in commodity markets, and lower raw material costs for its prepared food operation. Variable sales and marketing expenses can change from year to year as a percentage of sales for a variety of reasons and therefore management focuses on the gross profit percentage rather than gross margin percentage.

	1997		1996	
	(000's)		(000's)	
Sales	\$ 277,770	100.0%	\$ 252,795	100%
Gross margin	73,135	26.3%	64,482	25.5%
Variable sales and marketing	19,079		18,104	
Gross profit	\$ 54,056	19.5%	\$ 46,378	18.3%

Selling and administrative expenses increased by \$4.8 million in 1997. This is due to increased fixed sales and marketing expenditures of \$3.9 million. Most of this increase was in the US markets where significant amounts were spent on launching new products and expanding markets for existing products. Variable sales and marketing expenses increased by \$1.0 million due to increased sales. These increases were partially offset by a \$0.1 million decrease in administration expenses.

Interest expense decreased \$0.9 million due to lower interest rates in 1997 than in 1996 as well as lower levels of borrowing.

The Company utilized tax losses carried forward and timing differences to reduce current income tax expense in 1997 and 1996 to minimum taxes payable in all but one subsidiary company.

Fishing operations were carried out during twelve months of the year, utilizing six groundfish vessels and four scallop vessels. In addition the Company utilized up to nine smaller independent vessels to help harvest the Company's quota. Groundfish landings in 1997 were 6,413 metric tonnes compared to 8,945 metric tonnes in 1996, a decrease of 28.3%. The scallop operation had higher landings in 1997, up 23.8% from 1996.

Fresh fish landings from the Company's groundfish trawler fleet were supplemented by procurement of frozen raw material. In 1997, the Company's primary processing plants produced 11,770 metric tonnes compared to 10,816 in 1996, an 8.8% increase. The Company's Lunenburg primary processing operation operated for ten months in 1997 and the Company's Newfoundland primary processing plant operated for the whole year.

Lunenburg's secondary processing plant operated for the whole year, producing 14,102 metric tonnes, as compared to the 13,314 metric tonnes in 1996, up 5.9%. The Company's plant in the US operated for the full year producing 21,321 metric tonnes in 1997, up from 19,844 metric tonnes in 1996, a 7.4% increase.

The primary processing plants' groundfish raw material came from the Company's offshore fleet (25%) and from procured frozen headless and gutted raw material (75%). Secondary processing operations utilized 90% procured raw material.

Total purchases of product, excluding co-packed shrimp, chicken and other speciality products was approximately \$63 million in 1997.

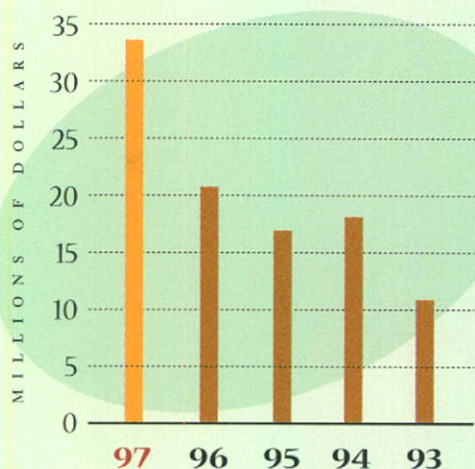


## Liquidity and Capital Resources

Cash flow from operations, before the net change in non-cash working capital balances and cash for restructuring charges, was a positive \$15.0 million, up \$4.3 million from 1996. Cash used for restructuring activities in 1997 was \$0.5 million compared with \$1.5 million in 1996. This amount will be nil in 1998, as the restructuring activities are now complete.

Working capital requirements decreased throughout 1997 as a result of decreases in inventory as the Company focused on increasing inventory turns and thereby reducing inventory. This effort to increase inventory turns will continue in 1998 and no significant increases in working capital are expected. Net working capital increased as a result of almost eliminating the current portion of long-term debt on the refinancing in 1997.

### Net Working Capital



## Financing

In March of 1997 the Company entered into an interest rate swap on a notional \$6.0 million at a fixed rate of 5.65%. The swap expires March, 2001, and hedges the Company's \$5.8 million of Convertible Subordinated Debentures. This results in an effective interest rate on this debt of approximately 9.1%.

Only the working capital debt bears floating rates. The working capital lines in both the Canadian and US Company were refinanced in 1997. The \$35.0 million operating line in Canada is at prime, or LIBOR plus .75% or BA's plus 1%. The US \$10 million operating line in the US Company is at prime or LIBOR plus 1%.

This brings the total operating lines for the Company to \$49.2 million and borrowings under both of these lines as at January 3, 1998 were \$13.3 million. The impact on interest expense of a 1% change in prime rates would be approximately \$0.1 million annually in 1998.

Long term debt proceeds in 1997 were \$48.2 million. This debt has an eight year term and a fixed average interest rate of 8.03%. Principal is due in five equal annual installments commencing in November, 2001. These funds were used to pay down substantially all existing long term debt. There were no long term debt proceeds in 1996.

The Company's Canadian operations and US operations, carried on through a subsidiary company, are independently financed for the purpose of working capital loans. There are no restrictions on transfers of funds between the two companies or on the payment of dividends to the Canadian Company as long as there are no defaults on working capital loans. This restriction is not expected to have any effect on the ability of the Company to meet its obligations.

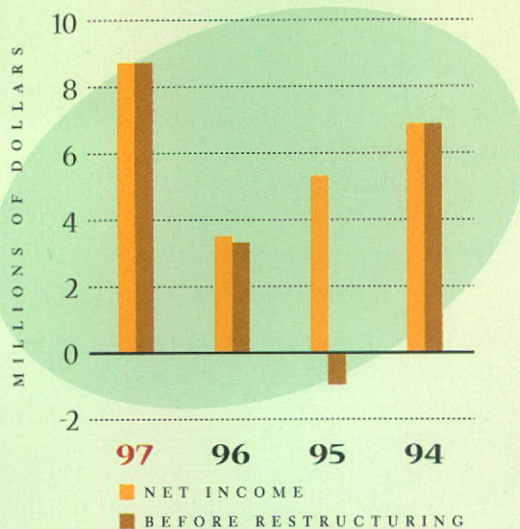
Dividends on the Company's class C & D Preference Shares were paid in full in 1997, but dividends continued to accumulate on the Second Preference Shares, and arrears at January 3, 1998 were \$8.2 million. These arrears must be paid before any dividends can be declared on the common shares. It is the Company's intention to pay dividends in the future in cash commencing with the first quarter of 1998 on the Second Preference Shares. There are currently no plans to pay the dividends in arrears.

## Capital Expenditures

Capital expenditures at \$6.3 million were higher than last year's \$2.2 million. The major capital projects undertaken in 1997 were all related to technology improvements in both the primary processing and prepared foods operations. During 1997, the Company continued to keep capital expenditures below depreciation. Capital expenditures are expected to be \$11.5 million for 1998 with \$3.0 million being paid to exercise the option to purchase the Cape Blomidon, a scallop vessel whose lease expires in 1998. The Company had been fishing this vessel under an operating lease for the past seven years. Most of the other projected expenditures relate to expansion of the Company's existing business and upgrades to facilities and equipment, as very little money has been spent on capital in the last five years.



## Consolidated Income



## Risk

Approximately \$57 million of the Company's sales in 1997 were commodity in nature. As well, the Company procured approximately \$63 million of commodity products either as raw material or finished goods. There is no formal mechanism for hedging either sales or purchases of seafood products.

The Company has become dependent upon the procurement of frozen raw materials and finished goods on world markets. The Company has been able to buy what it needs at acceptable prices in 1997 and it is expected that requirements will again be met in 1998 although at prices higher than in 1997.

The Company does not have a large exposure to changes in foreign exchange rates. Sales and purchases in US dollars tend to substantially offset each other so that a one cent change in the US dollar exchange rate to the Canadian dollar would impact income by less than \$61,000. The Company has hedged 55% of the estimated \$7 million sales in yen made through a joint venture, at an average of 89.14 yen to the Canadian dollar, so that a one yen change in the Canadian to yen exchange rate will impact net income by less than \$20,000.

The Company maintains \$15 million US long term debt and offsets any foreign currency gains or losses on this debt against foreign currency gains or losses on the investment in its US subsidiary.

All of the Company's mission critical business systems which run on the Company's IBM AS/400 using JD Edwards software are Year 2000 compliant. This includes general ledger, accounts payable, accounts receivable, fixed assets, inventory, sales order processing, pricing, materials requirement planning, distribution requirement planning, manufacturing and costing. The Company has incurred no incremental cost in connection with this issue as all of its business systems were upgraded over the past three years as part of the Company's normal operating plans. As well, the normal upgrade of hardware has ensured that the Company will face no problems in its own business systems in the Year 2000.

The Company has also struck an internal committee and has targeted the end of 1998 to ensure that all other minor software used by the Company in its planning and analysis functions are Year 2000 compliant. No significant problems are anticipated. This Committee will also be corresponding with suppliers and customers to ensure that we are kept aware of their progress towards a smooth, problem-free transition into the Year 2000.

## Outlook

The outlook with respect to quotas for 1998 is for more stability than in previous years. With the exception of cod, which is down slightly, all of the Company's groundfish quotas have increased by small amounts. Scallop quotas in 1998 should be comparable to 1997. The Company expects total landings in 1998 to be higher than 1997.

It is expected that the Company will continue to be as profitable in 1998 as it was in 1997 as it introduces new products to existing markets, opens new markets and continues to realize efficiencies and reduced costs in its production facilities. The purchase of the Cape Blomidon will increase income by \$1.3 million due to the reduction in lease payments.

New products such as shrimp and fish rings, and new types of grilled products are expected to have an impact on sales in 1998. The Company has plans to build on its current sales in Mexico through increased marketing and promotion to build brand awareness.

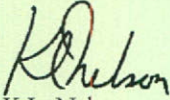


# Management's Responsibility

The Management of National Sea Products Limited includes corporate executives, operating and financial managers and other personnel working full-time on Company business. The statements have been prepared in accordance with generally accepted accounting principles consistently applied, using Management's best estimates and judgments, where appropriate. The financial information elsewhere in this report is consistent with the statements.

Management has established a system of internal control which it believes provides a reasonable assurance that, in all material respects, assets are maintained and accounted for in accordance with Management's authorization and transactions are recorded accurately on the Company's books and records. The Company's internal audit program is designed for constant evaluation of the adequacy and effectiveness of the internal controls. Audits measure adherence to established policies and procedures.

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



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

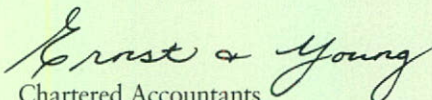
## Auditor's Report

### To the Shareholders of National Sea Products Limited

We have audited the consolidated balance sheets of National Sea Products Limited as at January 3, 1998 and December 29, 1996 and the consolidated statements of income, retained earnings and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 3, 1998 and December 29, 1996 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.



Chartered Accountants  
*Halifax, Canada, February 23, 1998*



# Consolidated Balance Sheets

National Sea Products Limited (Incorporated under the laws of the Province of Nova Scotia)  
(in thousands of dollars)

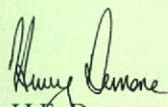
	January 3 1998	December 28 1996
<b>Assets (note 5)</b>		
<b>Current:</b>		
Cash (note 3a)	\$ 6,567	\$ 271
Accounts receivable (note 3b)	23,379	22,460
Inventories (note 3c)	46,494	56,836
Income taxes recoverable	78	130
Prepaid expenses	826	1,297
<b>Total current assets</b>	<b>77,344</b>	<b>80,994</b>
<b>Fixed (note 4)</b>	<b>54,998</b>	<b>55,671</b>
<b>Other:</b>		
Deferred charges and goodwill (note 2)	6,341	1,365
Note receivable (note 2)	—	1,138
Sundry investments	4,882	4,802
<b>Total other assets</b>	<b>11,223</b>	<b>7,305</b>
	<b>\$ 143,565</b>	<b>\$ 143,970</b>

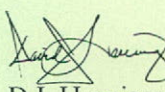
## Liabilities and Shareholders' Equity

<b>Current:</b>		
Bank indebtedness (note 3d)	\$ 16,863	\$ 21,600
Accounts payable and accrued liabilities (note 6)	26,231	33,370
Current portion of long-term liabilities (note 5)	760	5,506
<b>Total current liabilities</b>	<b>43,854</b>	<b>60,476</b>
<b>Long-term liabilities (note 5)</b>	<b>60,140</b>	<b>51,182</b>
Deferred income taxes	630	960
Minority interest (note 2)	—	979
<b>Shareholders' Equity:</b>		
Convertible Income Debenture (note 7)	9,962	9,962
Share capital (note 8)	24,600	24,546
Retained earnings (deficit)	4,079	(4,373)
Foreign currency translation account	300	238
<b>Total shareholders' equity</b>	<b>38,941</b>	<b>30,373</b>
	<b>\$ 143,565</b>	<b>\$ 143,970</b>

See accompanying notes

On behalf of the Board

  
H.E. Demone  
Director

  
D.J. Hennigar  
Director



## Consolidated Statements of Income

For the fifty-three weeks ended January 3, 1998  
(with comparative figures for the fifty-two weeks ended December 28, 1996)

<i>(in thousands of dollars)</i>	Fiscal 1997	Fiscal 1996
Sales	\$ 277,770	\$ 252,795
Cost of sales	204,635	188,313
Gross margin	73,135	64,482
Selling, general and administrative expenses	51,895	47,101
Interest expense:		
short-term	741	1,031
long-term	4,514	5,131
Amortization	6,828	7,235
Foreign exchange losses	259	8
Income before the following	8,898	3,976
Gain (loss) on asset disposal	104	(2)
Minority interest	203	(69)
Unusual Items (note 9)	—	87
Income before income taxes	9,205	3,992
Income taxes (note 10)		
Current	843	611
Deferred	(277)	(142)
	566	469
Net income for the period	\$ 8,639	\$ 3,523
Basic earnings per Common Share (note 11)	\$ 1.02	\$ 0.26
Fully diluted earnings per Common Share (note 11)	\$ 0.96	\$ —

See accompanying notes

## Consolidated Statements of Retained Earnings

For the fifty-three weeks ended January 3, 1998  
(with comparative figures for the fifty-two weeks ended December 28, 1996)

<i>(in thousands of dollars)</i>	Fiscal 1997	Fiscal 1996
Balance, beginning of period	\$ (4,373)	\$ (7,492)
Net income for the period	8,639	3,523
Class C and D Preference Share dividends	(106)	(106)
Convertible Income Debenture distributions	(81)	(298)
Balance, end of period	\$ 4,079	\$ (4,373)

See accompanying notes



# Consolidated Statements of Cash Flows

For the fifty-three weeks ended January 3, 1998

(with comparative figures for the fifty-two weeks ended December 28, 1996)

<i>(in thousands of dollars)</i>	Fiscal 1997	Fiscal 1996
<b>Cash provided by (used in) operations:</b>		
Net income for the period	\$ 8,639	\$ 3,523
<b>Charges (credits) to income not involving cash from operations:</b>		
Amortization	6,944	7,352
(Gain) loss on asset disposal	(104)	2
Minority interest	(203)	69
Unusual items	—	(87)
Deferred income taxes	(277)	(142)
Cash flow from operations before changes in non-cash working capital	14,999	10,717
<b>Net change in non-cash working capital balances:</b>		
Related to operations	3,460	(7,875)
Cash for restructuring charges	(472)	(1,520)
	17,987	1,322
<b>Cash provided by (used in) financing activities:</b>		
Long-term debt proceeds	48,190	—
Repayments of long-term debt	(44,173)	(11,185)
Dividends paid	(106)	(106)
Convertible Income Debenture distributions	(81)	(298)
Purchase of minority interest	(776)	—
Deferred compensation	53	—
Issue of equity shares	53	—
	3,160	(11,589)
<b>Cash provided by (used in) investing activities:</b>		
Purchase of fixed assets	(6,273)	(2,237)
Proceeds on disposal of fixed assets	825	2,035
(Increase) decrease in other assets <i>(note 2)</i>	(4,666)	86
	(10,114)	(116)
Increase (decrease) in cash position during the period	11,033	(10,383)
Bank indebtedness less cash, beginning of period	(21,329)	(10,946)
Bank indebtedness less cash, end of period	\$ (10,296)	\$ (21,329)
Basic cash flow per Common Share <i>(note 11)</i>	\$ 1.90	\$ 1.26
Fully diluted cash flow per Common Share <i>(note 11)</i>	\$ 1.71	\$ 1.16

See accompanying notes



# Notes to Consolidated Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of consolidation

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

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

### (b) Inventory valuation

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

### (c) Foreign currency

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

The Company's net investment in its US subsidiary is substantially hedged by long-term borrowings in US dollars. Gains and losses on the US dollar debt identified as a hedge against this investment are included in equity through the "foreign currency translation account" to offset gains and losses on the net investment in the US subsidiary.

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

### (d) Fixed assets

Fixed assets are carried at the lower of cost net of accumulated depreciation and net recoverable amount. Depreciation on productive assets is provided on the straight-line basis at the following rates per annum:

Brick buildings	.....2 1/2%
Other buildings	.....2 1/2% to 5%
Machinery and equipment	.....6 2/3%
Vessels	.....6% for 5 years, 5% for the next 10 years, and 4% for the last 5 years

The Company changed the depreciation rates on machinery and equipment effective December 29, 1996 to increase the estimated useful life from ten years to fifteen years on some equipment and decrease the estimated useful life from twenty years to fifteen years on other equipment. This change is being accounted for prospectively. If depreciation rates had remained unchanged in 1997, the depreciation expense for the year would have been higher by approximately \$1.6 million. The Company also added back investment tax credits to assets resulting in an increase in depreciation expense of approximately \$1.2 million.

### (e) Deferred charges and goodwill

Deferred charges and goodwill represent goodwill on the purchase of new business ventures which are being written off over their expected life (20 years), and bank financing costs which are written off over the term of the loans. Deferred charges and goodwill are stated at cost net of accumulated amortization. Amortization expense during the year amounted to \$472,000 (1996; \$714,000).

### (f) Sundry investments

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

### (g) Pension plans

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

### (h) Financial Instruments

#### CONVERTIBLE INCOME DEBENTURE

The Convertible Income Debenture is classified as equity as the Company has the option to settle the obligation by the issuance of preference shares. Distributions to the holder of the Convertible Income Debenture are deducted from retained earnings as they effectively represent a residual interest in the Company's earnings.

#### CONVERTIBLE SUBORDINATED DEBENTURES

The Convertible Subordinated Debentures are classified as debt as these are convertible at the option of the holder.



## 2. JOINT VENTURE

During the year the company exercised its option to purchase the unowned 50% equity interest in a subsidiary company. The purchase was for cash and not shares as contemplated by the original joint venture agreement. The non-interest bearing note receivable of \$1,138,000 outstanding in 1996 was repaid as part of the purchase agreement. The Company previously had effective control of this subsidiary company and therefore had always fully consolidated its results. Therefore, the only effect of this transaction is to record the \$4.3 million purchase price as goodwill and to eliminate the minority interest on the balance sheet.

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

	Fiscal 1997 (\$000)	Fiscal 1996 (\$000)
<b>Consolidated Balance Sheets</b>		
Current assets	\$ 2,602	\$ 2,413
Fixed assets	7,589	7,949
Deferred charges	1,271	1,200
	11,462	11,562
Current liabilities	2,172	1,777
Long-term debt	5,002	5,478
Deferred taxes	630	960
	7,804	8,215
Net investment in joint venture	\$ 3,658	\$ 3,347
<b>Consolidated Statements of Income</b>		
Sales	\$ 7,232	\$ 6,679
Cost of sales	(5,641)	(4,519)
Interest	(615)	(665)
Amortization and other	(1,422)	(1,701)
Net income	\$ (446)	\$ (206)
<b>Consolidated Statements of Cash Flows</b>		
<i>Cash flow from:</i>		
Operating activities	\$ (302)	\$ (175)
Financing activities	\$ (447)	\$(1,687)
Investing activities	\$ 406	\$ (191)

## 3. CURRENT ASSETS AND LIABILITIES

### (a) Cash

As at January 3, 1998 \$3.0 million of cash was held in escrow for the purchase of a scallop vessel which was leased in 1997. This purchase was completed on January 5, 1998.

### (b) Accounts receivable

	Jan 3, 1998 (\$000)	Dec 28, 1996 (\$000)
Canada Trade	\$ 9,915	\$ 8,350
US Trade		
(\$7,535 USD, 1996 \$8,573)	10,737	11,742
Japan Trade	678	287
Affiliates	125	210
Other	1,924	1,871
	\$ 23,379	\$ 22,460

Terms range from 7 to 30 days with most amounts being collected in 28 days. No one customer represents more than 10% of outstanding amounts. The allowance for trade doubtful accounts amounts to 2.3% of the trade balance outstanding. The Company has experienced a bad debt expense of less than 0.1% of sales over the past 5 years.

### (c) Inventories

	Jan 3, 1998 (\$000)	Dec 28, 1996 (\$000)
Finished goods	\$ 25,794	\$ 24,900
Raw and semi-finished material	13,779	24,022
Retail stores	984	1,417
Supplies and repair parts	5,937	6,497
	\$ 46,494	\$ 56,836

### (d) Bank indebtedness

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



#### 4. FIXED ASSETS

	Jan 3, 1998 (\$000)	Dec 28, 1996 (\$000)
Land	\$ 407	\$ 400
<b>Productive assets:</b>		
Buildings and equipment	90,054	82,673
Vessels	46,858	47,019
<b>Non-productive assets:</b>		
Buildings and equipment	16,346	11,383
Vessels	11,354	11,074
Accrued investment tax credits <sup>(1)</sup>	2,460	11,933
	167,479	164,482
<i>Less accumulated depreciation:</i>		
<b>Productive assets:</b>		
Buildings and equipment	60,147	57,505
Vessels	33,460	33,300
<b>Non-productive assets:</b>		
Buildings and equipment	9,121	8,632
Vessels	9,753	9,374
	112,481	108,811
	\$ 54,998	\$ 55,671

(1) During the year \$9,473,000 of the accrued investment tax credits were added back, to the cost of the assets from which they were previously deducted. Depreciation is being provided on the amounts added back.

#### 5. LONG-TERM LIABILITIES

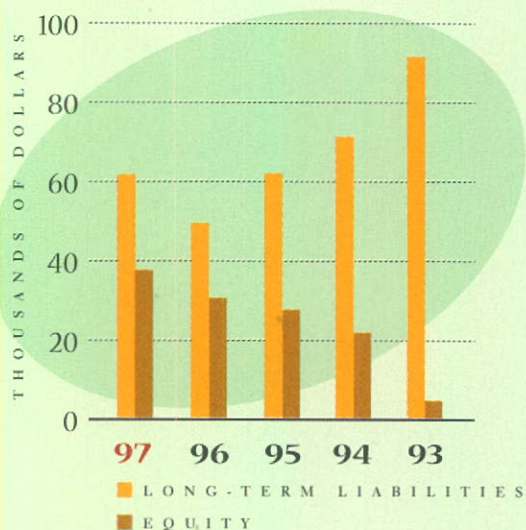
	Jan 3, 1998 (\$000)	Dec 28, 1996 (\$000)
<b>Long-term indebtedness:</b>		
Notes payable due to 2005 <sup>(1)</sup>		
at 8.28% (US \$17,000)	\$ 24,225	—
at 7.78%	24,106	—
<b>Bank indebtedness:</b>		
Not exceeding prime plus 1.25% due to 1998	—	\$ 17,695
Not exceeding US base rate plus 1.25% due to 1998	—	13,695
At US prime plus 1.0% due to 1999	—	4,206
<b>Property and trawler mortgages:</b>		
Average of 9.3% due to 2009	—	6,998
At US \$ LIBOR plus 1.5% due to 2005 (US \$ 4,000)	5,716	6,163
Capital leases at 10.4% due to 1997	—	100
<b>Industrial Development Revenue Bond:</b>		
At 7% due to 1998	—	986
<b>Convertible subordinated debentures:</b> <sup>(2) (3)</sup>		
At prime plus 2% due in 2001	4,848	4,848
At prime plus 2% due in 2002	1,000	1,000
Deferred compensation	812	759
Other loans	193	238
	\$ 60,900	\$ 56,688
Less current installments	760	5,506
	\$ 60,140	\$ 51,182

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

(2) The Company has entered into an interest rate swap agreement to fix the interest rate on \$6.0 million at an average of 5.65% to March, 2001. This swap hedges the Company's \$5.8 million Convertible Subordinated Debentures and results in an effective interest rate on this debt of approximately 9.1%.

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

#### Long-term Liabilities to Equity





The Convertible Subordinated Debentures are convertible at the option of the holder at any time before the maturity date of July 21, 2001 (May 5, 2002 with respect to \$1,000,000) at a conversion price of \$8.00 (\$9.40 with respect to \$1,000,000) per common share. After July 21, 1997 (May 5, 1998 with respect to \$1,000,000) the Debentures are redeemable at the Company's option for cash at par plus accrued and unpaid interest to the date of redemption. The equity element representing the holders' right to convert is not material. During the year \$200 of convertible debentures were converted to 25 shares.

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

The principal payments required on long-term debt in each of the next five fiscal periods are as follows: (\$000)

1998 .....	\$ 760
1999 .....	\$ 245
2000 .....	\$ 20
2001 .....	\$ 11,601
2002 .....	\$ 10,401

#### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Jan 3, 1998 (\$000)	Dec 28, 1996 (\$000)
<b>Accounts Payable:</b>		
Canadian Payables	\$ 12,826	\$ 18,878
US Payables		
(\$9,407 USD, 1996 \$10,583)	13,405	14,492
	<u>\$ 26,231</u>	<u>\$ 33,370</u>

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

#### 7. CONVERTIBLE INCOME DEBENTURE

The Convertible Income Debenture bears interest to April 30, 1999 (the "Conversion Date") at an annual rate of 10% of a defined cash flow calculation to a maximum of 7.5% of the principal amount outstanding. No principal payments are required prior to the Conversion Date. On the Conversion Date, the income debenture converts to a term loan to be amortized over 7 years by equal blended monthly payments of principal and interest at 7.5% per annum. At any time following the Conversion Date, the loan may, at the option of the Company, be converted

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

#### 8. SHARE CAPITAL

The share capital of the Company is as follows:

<i>Authorized</i>	Jan. 3, 1998	Dec. 28, 1996
Cumulative Redeemable Convertible Preference Shares of the par value of \$5 each, redeemable at par		
5 1/2% Class C	600,000	600,000
5 1/2% Class D	400,000	400,000
Cumulative Redeemable Second Preference Shares of the par value of \$100 each	200,000	200,000
Preference Shares of the par value of \$25 each, issuable in series	9,999,994	9,999,994
Subordinated Redeemable Preference Shares of the par value of \$1 each, redeemable at par	1,025,542	1,025,542
Common Shares without nominal or par value	11,191,305	11,191,305

	Jan. 3, 1998 Shares	(\$000)	Dec. 28, 1996 Shares	(\$000)
<b>Issued</b>				
Class C and D Preference Shares	385,875	<u>\$ 1,929</u>	385,875	<u>\$ 1,929</u>
Second Preference Shares	200,000	<u>20,000</u>	200,000	<u>20,000</u>
Common Shares (a)	7,300,635	3,842	7,290,510	3,789
Shares issued pursuant to non-recourse loans	(77,500)	(1,172)	(77,500)	(1,172)
	<u>7,223,135</u>	<u>2,670</u>	<u>7,213,010</u>	<u>2,617</u>
	<u>\$24,600</u>		<u>\$24,546</u>	

Common shares issued at January 3, 1998 are shown net of 94,000 shares (1996; 94,000 shares) in the amount of \$1,386,200 (1996; \$1,386,200) which are owned by a subsidiary company.



The non-recourse loans are due at the time shares are sold by the, employees or in any event by the year 2001.

(a) *Common Share transactions*

	Jan 3, 1998		Dec 28, 1996	
	Shares	(\$000)	Shares	(\$000)
Balance, beginning of period	7,290,510	\$3,789	7,290,510	\$3,789
Shares Issued:				
Employee stock options exercised	10,100	53	—	—
Convertible Subordinated Debentures converted	25	—	—	—
Balance, end of period	7,300,635	\$3,842	7,290,510	\$3,789

(b) *Preference Shares*

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

The Second Preference Shares are redeemable at their par value plus accrued and unpaid dividends. Cumulative dividends are payable quarterly at one-half the bank prime lending rate plus 3%. Dividends are in arrears at January 3, 1998 in the cumulative amount of \$8,237,592 (1996; \$7,152,083).

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

(c) *Share Option and Share Purchase Plans*

The Company has a common share option plan for designated directors, officers and certain managers of the Company and of subsidiary companies, with outstanding options not to exceed 10% of the issued Common Shares. Options totaling 450,850 (1996; 238,800) Common Shares have been granted and are still outstanding at year end, at prices of \$4.60 (1996; \$4.60) to \$15.90 (1996; \$20.50), to be exercised at various times through the year 2007. During the year 10,100 shares (1996; 0) were issued.

The Company has an employee and crew member share purchase plan whereby the Company will sell Treasury Common Shares to the participants at market price or the plan will purchase shares on the stock markets, for the benefit of participants. The Company contributes \$2.00 for each \$10.00 contributed by the plan participants. During the year no shares were issued from treasury as all shares required for the program were purchased on the open market.

The Company has a share purchase plan which provides that the Company loan funds, interest free, to designated officers to purchase Common Shares in the Company. The shares are held by a trustee for the officers until the loan is repaid. There were no Common Shares issued under the Plan during 1997 or 1996.

**9. UNUSUAL ITEMS**

In 1996, the Company brought into income \$2.2 million of restructuring costs which were originally expensed in 1993. This was as a result of several factors, including sales of vessels and other assets at prices higher than expected, disposing of assets earlier than expected and other payments for less than the amount estimated.

In 1996, the Company determined that after several years of investing in scallop aquaculture it was still years away from developing a commercial operation. Accordingly, in 1996 the Company ceased operation of the scallop aquaculture business carried on by a subsidiary company, and wrote off its investment of \$2.1 million.

	1996 (\$000)
Reversal of restructuring costs	\$ 2,199
Write off of investment in scallop aquaculture	(2,112)
	\$ 87



## 10. INCOME TAXES

The Company has unrecorded potential income tax benefits resulting from non-capital losses of approximately US \$15 million relating to US subsidiaries which are available to reduce future income for tax purposes. These losses expire from 1988 through 2010. In addition, the company has income tax values of depreciable and other assets exceeding their corresponding net book values by approximately \$30 million with this excess being available in future years to reduce income for tax purposes. Any reduction in future income taxes resulting from the utilization of these amounts will be reflected as a reduction of the income tax expense for the year in which these benefits are realized.

The difference in the effective income tax rate reflected on the income statement in the current year from the prevailing corporate tax rate of 45% is primarily caused by the recognition of the benefit of losses and timing differences carried forward from prior years net of the effect of the large corporations tax.

The Company has investment tax credit carry-forwards of approximately \$13 million available to reduce federal income taxes, with these credits expiring from 1998 through 2007, of this amount, \$2.5 million (1996; \$12.0 million) has been recorded in the accounts.

## 11. EARNINGS AND CASH FLOW PER COMMON SHARE

Cash flow per Common Share is cash flow from operations before changes in non-cash working capital less Preference Share dividends, including those undeclared, and Convertible Income Debenture distributions. Income and cash flow available to Common shareholders has been reduced by dividends in arrears on Second Preference Shares of \$1,085,509 in 1997 (1996; \$1,227,260). Average shares outstanding for the year for basic earnings per share were 7,222,697 and 7,213,000 in 1996. Average shares used for calculation of fully diluted earnings per share were 8,463,430 in 1997 and 8,214,933 in 1996.

## 12. SEGMENTED INFORMATION

The Company is primarily engaged in the food processing industry in North America which involves the purchasing or harvesting, processing and marketing of food products, principally seafood. Operations and identifiable assets by geographic region for the periods indicated are as follows:

	Fiscal 1997 (\$000)	Fiscal 1996 (\$000)
<b>Segmented sales</b>		
<i>Canada:</i>		
Domestic	\$ 126,982	\$ 119,747
Export:		
United States	43,803	33,760
Europe and Pacific Rim	13,096	13,706
Inter-segment	5,337	1,883
	189,218	169,096
<i>United States:</i>		
Domestic	89,973	82,981
Export	3,916	2,600
Inter-segment	665	267
	94,554	85,848
	283,772	254,944
Less inter-segment sales	6,002	2,149
<b>Consolidated Sales</b>	<b>\$ 277,770</b>	<b>\$ 252,795</b>
<b>Segment contribution to income</b>		
Canada	\$ 2,872	\$ 3,002
United States	5,767	521
<b>Income for the period</b>	<b>\$ 8,639</b>	<b>\$ 3,523</b>
<b>Identifiable assets</b>		
Canada	\$ 110,909	\$ 107,351
United States	32,656	36,619
<b>Total assets</b>	<b>\$ 143,565</b>	<b>\$143,970</b>

Inter-segment sales are valued at market prices.

## 13. PENSION PLANS

The Company maintains a defined benefit pension plan for management employees, as well as other plans for salaried and non-salaried employees which provide benefits on a money purchase basis for the employees' contributions, with the Company providing a defined benefit based on years of membership in the plan.

The total market value of pension plan assets at January 3, 1998 is \$20.4 million (1996; \$19.3 million). As at January 3, 1998 the surplus in the various plans was approximately \$2.7 million in excess of the actuarial present value of accrued pension benefits attributed to services rendered.

## 14. COMMITMENTS

Operating lease commitments are less than \$1.5 million in 1997, and \$1.5 million in each of the following four years. They result principally from leases for office equipment, premises and production equipment.



## Five Year Financial Data

(All amounts in thousands  
except as indicated +)

	1997	1996	1995	1994	1993
<b>Sales</b>	\$ 277,770	252,795	254,234	252,254	279,999
Gross margin	73,135	64,482	69,029	72,201	66,128
Selling & administration expenses	(51,895)	(47,101)	(52,397)	(48,225)	(45,622)
<b>Income from continuing operations before interest, amortization and the undernoted</b>	<b>21,240</b>	<b>17,381</b>	<b>16,632</b>	<b>23,976</b>	<b>20,506</b>
Amortization	(6,828)	(7,235)	(7,794)	(7,553)	(7,063)
Interest expense	(5,255)	(6,162)	(8,008)	(8,216)	(9,572)
Exchange losses	(259)	(8)	(190)	(456)	(32)
<b>Income from operations before undernoted items</b>	<b>8,898</b>	<b>3,976</b>	<b>640</b>	<b>7,751</b>	<b>3,839</b>
Other gain (loss) on asset disposals	104	(2)	52	(46)	2,092
Minority interest	203	(69)	(663)	(247)	—
Other income	—	—	—	—	1,064
Recovery (expense) of restructuring costs	—	87	6,397	—	(48,975)
<b>Income (loss) from operations before income taxes</b>	<b>9,205</b>	<b>3,992</b>	<b>6,426</b>	<b>7,458</b>	<b>(41,980)</b>
Income tax (expense) recovery	(566)	(469)	(851)	(687)	1,865
<b>Income (loss) from operations</b>	<b>8,639</b>	<b>3,523</b>	<b>5,575</b>	<b>6,771</b>	<b>(40,115)</b>
Income (loss) and estimated loss on disposal of discontinued operations	—	—	—	—	(2,400)
<b>Net income (loss) for the period</b>	<b>\$ 8,639</b>	<b>3,523</b>	<b>5,575</b>	<b>6,771</b>	<b>(42,515)</b>
Basic earnings per Common Share	+ \$ 1.02	0.26	0.53	0.69	(6.08)
Fully diluted earnings per Common Share	+ \$ 0.96	—	—	—	—
Basic cash flow per Common Share	+ \$ 1.90	1.26	0.97	1.67	1.39
Fully diluted cash flow per Common Share	+ \$ 1.71	1.16	—	—	—
<b>Average number of Common Shares outstanding during the period</b>	<b>7,223</b>	<b>7,213</b>	<b>7,213</b>	<b>7,213</b>	<b>7,213</b>
<b>C &amp; D Preference Shares</b>					
Dividends declared and paid	\$ 106	106	106	106	106
Dividend per share	+ \$ 0.275	0.275	0.275	0.275	0.275
<b>Convertible Income Debenture</b>					
Distribution paid	\$ 81	298	208	453	—

Cash flow per Common Share is cash flow from operations before changes in non-cash working capital less preference share dividends (including those undeclared) and Convertible Income Debenture distributions.



## Five Year Financial Data

(All amounts in thousands  
except as indicated +)

	1997	1996	1995	1994	1993
Current assets	\$ 77,344	80,994	72,925	73,559	60,183
Net assets of discontinued operations	—	—	—	—	5,600
Property, plant & equipment	54,998	55,671	63,055	64,992	68,844
Intangibles	6,341	1,365	4,023	5,078	5,923
Other assets	4,882	5,940	5,975	6,045	6,124
<b>Total assets</b>	<b>\$ 143,565</b>	<b>143,970</b>	<b>145,978</b>	<b>149,674</b>	<b>146,674</b>
Bank debt	\$ 13,965	18,226	11,310	14,683	7,569
Current installments on long-term debt	760	5,506	10,150	3,206	1,717
Other current liabilities	29,129	36,744	34,616	37,745	40,174
<b>Total current liabilities</b>	<b>43,854</b>	<b>60,476</b>	<b>56,076</b>	<b>55,634</b>	<b>49,460</b>
Long-term liabilities	60,140	51,182	60,655	71,891	91,541
Minority interest	—	979	910	247	—
Deferred income taxes	630	960	1,074	716	400
Shareholders' equity	38,941	30,373	27,263	21,186	5,273
<b>Total liabilities and shareholders' equity</b>	<b>\$ 143,565</b>	<b>143,970</b>	<b>145,978</b>	<b>149,674</b>	<b>146,674</b>

## Quarterly Financial Data

(All amounts in thousands  
except as indicated +)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>Fiscal 1997</b>					
Sales	\$ 81,382	62,723	61,698	71,967	277,770
Net income	\$ 4,332	656	1,063	2,588	8,639
Basic earnings per Common Share	+\$ 0.56	0.03	0.12	0.31	1.02
Basic cash flow per Common Share	+\$ 0.79	0.29	0.29	0.53	1.90
<b>Fiscal 1996</b>					
Sales	\$ 75,559	55,508	60,434	61,294	252,795
Net income (loss)	\$ 2,848	(571)	226	1,020	3,523
Basic earnings per Common Share	+\$ 0.35	(0.13)	(0.01)	0.05	0.26
Basic cash flow per Common Share	+\$ 0.62	0.17	0.24	0.23	1.26

Cash flow per Common Share is cash flow from operations before changes in non-cash working capital less preference share dividends (including those undeclared) and Convertible Income Debenture distributions.



# Corporate Governance

The By-Laws of the Toronto Stock Exchange and the rules of the Montreal Exchange require corporate governance disclosure to be made with reference to the guidelines adopted by each of the Exchanges (the "Guidelines"). The Company's Board of Directors and management have reviewed the Company's corporate governance structures and procedures in reference to the Guidelines and are satisfied that the Company's approach to corporate governance is consistent with the Guidelines.

The Board of Directors of the Company has responsibility for the stewardship of the Company including the strategic planning process, the identification of principal risks and implementation of systems to manage these risks, succession planning, communications and the integrity of the Company's internal control and management information systems. The Board has mandated its Human Resources and Corporate Governance Committee, which is composed entirely of outside directors, with the responsibility for developing the Company's approach to governance issues and to review and report to the Board on all matters of Corporate Governance.

The Board of Directors functions independently of management. This is achieved in a number of ways including the structure and mandates of the standing committees of the Board, the large number of outside and unrelated directors and the separation of the position of Chairman of the Board from management.

The Board is comprised of 15 members, a majority of whom are unrelated and a majority of whom are outside directors as such terms are defined in the Guidelines. The Board has determined that there is no significant shareholder of the Company within the meaning of the Guidelines. Scotia Investments Limited owns directly or indirectly 39% of the outstanding voting shares of the Company and both D.J. Hennigar and G.E. Bishop are directors of Scotia Investments Limited.

The Board of Directors meets four times a year to review the financial performance of the Company, to compare financial performance to approved budgets, to approve quarterly reporting to shareholders and to review and approve major operating decisions including new capital expenditures and assets disposals. In addition, the Board meets in December of each year to approve an annual budget and strategic initiatives for the next operating year. Through its committees, the Board reviews and adopts procedures to deal with major business issues and risks including environmental concerns, internal financial controls, reporting of information to the public, the appointment and compensation of senior officers and the overseeing of management of the Company's pension plans. The Board, both directly and through its committees, regularly reviews and redefines the objectives of the Company which the Chief Executive Officer and management are responsible for achieving.

Shareholders are encouraged to communicate directly with senior management and the Company's Head Office address is published each quarter with its financial statements. Management maintains relationships with any analysts that follow the industry on a regular basis.

There are four standing committees of the Board, namely; Executive Committee, Audit Committee, Environment Committee and Human Resources and Corporate Governance Committee. The majority of members on each standing committee are Canadian residents and unrelated directors, as defined in the Guidelines. All of the members of the Audit, Environment and Human Resources and Corporate Governance Committees and all members of the Executive Committee except the Chief Executive Officer, are outside directors.

## Executive Committee

The mandate of the Executive Committee is to serve in an advisory capacity to management, and during intervals between Board meetings the Committee may exercise the power of the Board.

## Audit Committee

The mandate of the Audit Committee is as follows:

- To review the quarterly and annual consolidated financial statements of the Company and all financial filings required by security regulators.
- To ensure that appropriate internal financial controls are in place.
- To review and approve changes in accounting policies.
- To meet with the independent auditors and with the Company's internal auditor to discuss the Company's system of internal control and annual financial statements.

The Committee meets four times during each fiscal year. The Company's internal auditor attends each meeting while the independent auditors attend at least two meetings a year.

## Environment Committee

The mandate of the Environment Committee is as follows:

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

This Committee meets at least four times per year.

## Human Resources and Corporate Governance Committee

The mandate of the Human Resources and Corporate Governance Committee is as follows:

- To review and approve all compensation issues related to the Chief Executive Officer and senior management.
- To review and approve all changes to the Company's stock option plan as well as the granting of options.
- To review and approve any material changes to the Company's pension plans or changes that affect senior management's pensions.
- To review corporate governance issues on a regular basis to ensure the Company's compliance with the Guidelines.
- To determine suitable candidates for nominees as Directors as well as periodically reviewing the mandate of all Committees of the Board.
- To review the Management Information Circular.
- To develop and implement a process for assessing the effectiveness of the Board, its committees and their members.



# Corporate Directory

## Directors

C.R. Bell<sup>4</sup>  
*St. John's, Nfld.*  
G.E. Bishop<sup>4</sup>  
*Hantsport, N.S.*  
K.V. Cox<sup>3</sup>  
*Saint John, N.B.*  
H.E. Demone<sup>1,4</sup>  
*Lunenburg, N.S.*  
R.P. Dexter<sup>2</sup>  
*Halifax, N.S.*  
D.J. Hennigar<sup>1,3</sup>  
*Bedford, N.S.*  
H.W. MacLauchlan  
*Charlottetown, P.E.I.*  
J.T. MacQuarrie, Q.C.<sup>3,4</sup>  
*Halifax, N.S.*  
W.O. Morrow<sup>1</sup>  
*Halifax, N.S.*  
D.E. Read<sup>1,3</sup>  
*Halifax, N.S.*  
M.J. Regan<sup>2</sup>  
*Toronto, Ont.*  
R.E. Shea<sup>2</sup>  
*Boston, Mass.*  
D.R. Sobey<sup>1</sup>  
*Stellarton, N.S.*  
W.F.S. Wade<sup>1,2</sup>  
*New Minas, N.S.*  
J.R. Winters  
*Truro, N.S.*

## Honourary Directors

H.P. Connor  
J.B. Estey  
C.R. MacFadden  
J.B. Morrow  
Hon. H.J. Robichaud, P.C.  
F.W. Russell, C.M.

## Officers and Other Canadian Management

D.J. Hennigar  
*Chairman of the Board*  
H.E. Demone<sup>5</sup>  
*President and Chief Executive Officer*  
M.P. Marino<sup>5</sup>  
*Canadian Vice President, Sales and Marketing*  
K.L. Nelson<sup>5</sup>  
*Vice President, Corporate Services, and Chief Financial Officer*  
P.W. Snow<sup>5</sup>  
*Vice President, North American Prepared Foods Processing and Logistics*  
R.G. Whynacht<sup>5</sup>  
*Vice President and General Manager, Atlantic Operations*  
A.B. Wareham  
*Vice President, Newfoundland Operations*  
M.R. Donelle  
*Corporate Controller*  
F.D. McGee, Q.C.  
*Corporate Secretary*  
C.E. Milton  
*Treasurer*

## United States Management

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

## Plants

Nova Scotia  
• *Lunenburg*  
Newfoundland  
• *Arnold's Cove*  
New Hampshire  
• *Portsmouth*

## Subsidiary Companies

National Sea Products Incorporated  
Scotia Trawler Equipment Limited  
Seabay Clam Company Inc.  
Nautilus Industrial Relations Services Incorporated

## Auditors

Ernst & Young  
Chartered Accountants

## Transfer Agent

Montreal Trust Company

## Bankers

The Royal Bank of Canada  
Hongkong Bank of Canada  
KeyBank National Association

- 1 Member, Executive Committee
- 2 Member, Audit Committee
- 3 Member, Human Resources & Corporate Governance Committee
- 4 Member, Environment Committee
- 5 Member, Management Committee



**National Sea Products Limited**

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LUNenburg  
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