Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Sales and Marketing Accruals

The Company makes estimates to determine the costs associated with the sale of product to be allocated to certain of its variable sales and marketing expenses, including volume rebates and other sales volume discounts, coupon redemption costs and costs incurred related to damages. The Company's estimates include consideration of empirical data and trends combined with future expectations of sales volume, with estimates being reviewed on a monthly basis for reasonability.

8.2 Accounting Standards

High Liner Foods reports its financial results using IFRS. Our detailed accounting policies are included in the Notes to the Consolidated Financial Statements.

As disclosed in *Note 3* to the Consolidated Financial Statements for the period ended January 2, 2016, no new accounting standards have been adopted in Fiscal 2015.

New Accounting Standards and Interpretations Issued but not yet Effective

In addition to the existing IFRS standards adopted by the Company, the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC") have issued additional standards and interpretations with an effective date subsequent to Fiscal 2015. As disclosed in *Note 3* to the Consolidated Financial Statements, we are currently evaluating the effect, if any, that the new proposed standards, interpretations 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.

9. Transactions with Related Parties

The Company's business is carried on through the Parent company, High Liner Foods Incorporated, and wholly-owned operating subsidiaries, High Liner Foods (USA) Incorporated and Sjovik, h.f. High Liner Foods (USA) Incorporated whose wholly-owned subsidiaries include: ISF (USA), LLC; APS, LLC; and Atlantic Trading Company LLC. Sjovik, h.f. has a subsidiary in Thailand. These companies purchase and/or sell inventory between them, and do so in the normal course of operations. As well, the Parent company provides management, procurement and IT services to the subsidiaries. The companies lend and borrow money between them. Periodically, capital assets are transferred between companies. High Liner Foods Incorporated buys all of the seafood for all of the subsidiaries. On consolidation, revenue, costs, IT services, gains or losses, and all inter-company balances are eliminated.

In addition to transactions between the Parent and subsidiaries, High Liner Foods has entered into certain transactions and agreements in the normal course of business with certain other related parties, as disclosed in *Note 20* to the Consolidated Financial Statements. Transactions with these parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Risk Factors and Risk Management

High Liner Foods is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company takes a strategic approach to risk management. To achieve a superior return on investment, we have designed an enterprise-wide approach, overseen by the senior management of the Company and reported to the Board, to identify, prioritize and manage risk effectively and consistently across the organization.

10.1 Food Safety

Senior management accountability: Keith Decker, President and CEO, Jeff O'Neill, President and COO, Canadian Operations; Peter Brown, President and COO, U.S. Operations
Board oversight accountability: Audit Committee

At High Liner Foods, food safety is our top priority. Our brand equity and reputation are inextricably linked to the quality and safety of our food products. We must be vigilant in ensuring our products are safe and comply with all applicable laws and regulations. Consumers are also increasingly better informed about conscientious food choices.

All of our processing plants have the required State or Provincial and Federal licenses to operate. The U.S. requires its seafood processing plants to adopt a quality management system based on Hazard Analysis Critical Control Points ("HACCP") principles. Our plants in Portsmouth, New Bedford and Newport News are regularly inspected and meet or exceed all HACCP requirements.

In Canada, all seafood-processing plants are required to adopt a Quality Management Plan ("QMP") covering the regulatory and safety aspects of food processing. High Liner Foods' QMP has been approved by the Canadian Food Inspection Agency ("CFIA") and has been in good standing since inception of this requirement. Canada's QMP is an accepted standard under the U.S. HACCP system. Our Lunenburg facility falls under this regulation and meets or exceeds the related regulations.

Plants outside of North America must also pass HACCP audits to be able to export products to the U.S. All of the Company's non-North American suppliers operate HACCP approved plants. The CFIA must inspect food that is procured outside of Canada. The Food and Drug Administration ("FDA") inspects food that enters the U.S. In addition, all purchases are subject to quality inspection by the Company's own quality inspectors. We have strict specifications for suppliers of both raw material and finished goods to ensure that procured goods are of the same quality as products made in our own plants, as indicated in our "*Supplier Standards and Audit Manual*".

All of our plants in the U.S. and Canada are certified to Global Food Safety Initiative ("GFSI") standards, and we are recommending our global suppliers work to achieve this standard too. The Lunenburg, Portsmouth and New Bedford plants have Safe Quality Foods ("SQF") certifications and the Newport News plant is certified to British Retail Consortium ("BRC") standards.

We employ several experts in this area, including food scientists, quality technicians, raw material inspectors, and labeling and nutritional consultants. We also have a supplier code of conduct and retain independent auditors to monitor compliance.

The Company has a Quality Steering Council comprised of all senior quality and regulatory personnel in the Company. Their mission is to ensure that High Liner Foods has the best policies, consistently applied throughout the Company as well as implementing audit processes and ensuring all personnel are adequately trained. Quality and food safety activities also include state-of-the-art product specification and traceability systems.

10.2 Procurement

Senior management accountability: Paul Snow, Executive VP Procurement
Board oversight accountability: Audit Committee

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2015, the Company purchased approximately 195 million pounds of seafood, with an approximate value of $536 million. Seafood and other food input markets are global with values expressed in USD. We buy approximately 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, geopolitical issues including economic sanctions, 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 and U.S. exchange rates. A strong Canadian dollar offsets increases in the U.S. dollar cost of raw materials for our Canadian operations, and conversely when the Canadian dollar weakens, it increases our costs. We hedge exposures to currency changes and enter into annual supply contracts when possible. All foreign currency hedging activities are carried out in accordance with the Company's formal *Price Risk Management Policy*, under the oversight of the Audit Committee.

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

As we purchase all the seafood that we sell, we have developed close relationships with key suppliers. We currently purchase significant quantities of frozen raw material and finished goods originating from all over the world. Our supplier base is diverse to ensure no over-reliance on any source. Our strategy is to always have at least two suppliers of seafood products when we can. A very small percentage of our supply is single sourced. We also maintain strict *Supplier Approval and Audit Standards*. Through audit procedures, all food suppliers are required to meet our quality control and safety standards, which, in many instances, are higher than regulatory standards. All product is inspected, to assure consumers that High Liner Foods quality is consistent, regardless of source or origin.

We sometimes pay for finished goods upon shipment from Asia or we acquire unprocessed seafood raw material and negotiate processing arrangements with suppliers to convert that raw material into our finished goods or raw material for our North American plants. In some instances, this means the outlay of cash for inventory is 90 days or more. We are doing this to ensure we receive the high-quality seafood we require and are receiving better prices from suppliers as a result. Although this increases inventory on our balance sheet, it results in higher income and profitability due to the negotiated lower cost product.

10.3 Availability of Seafood

Senior management accountability: Keith Decker, President & CEO
Board oversight accountability: Audit Committee

Historically, North American markets have consumed less seafood per capita than certain Asian and European markets. If increased global seafood demand results 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 Foods due to its North American focus.

The Company expects demand for seafood to grow from current levels as the global economy, and particularly the BRIC and Southeast Asia economies, improve. 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, four of the top seven species consumed in the U.S. (shrimp, salmon, tilapia and pangasius) are partly or totally supplied by aquaculture and approximately 30% of the Company's procurement by value is related to aquaculture products. 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.

The Company has 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. As well, as a vertically integrated company, overall reduced returns to shareholders would likely result from subsidizing our North American operations with output from fishing efforts that could be sold in global markets at higher prices. 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 a low cost, large scale manufacturer of seafood products, and leveraging such position to buy seafood at reasonable prices and be the supplier of choice for North American customers and consumers. However, in the event supply shortages of certain seafood, or trade barriers to acquiring seafood as a result of economic sanctions or otherwise, results in difficulty procuring species, the financial results of High Liner Foods may be adversely affected.

10.4 Loss of Customer and Credit Risk

Senior management accountability: Paul Jewer, Executive VP & CFO; Jeff O'Neill, President & COO, Canadian Operations; Peter Brown, President & COO, U.S. Operations
Board oversight accountability: Audit Committee

We sell the vast majority of our products to large food retailers, including supercenters and club stores, and foodservice distributors in North America. The food distribution industry is consolidating. Our customers are getting larger, more sophisticated and want to conduct business with experienced, reliable suppliers. We are an important supplier to our customers because we can transact business on their terms and provide them a significant portion of their seafood requirements. We must continue to grow and stay ahead of customer expectations in order to continue to be important to them. We have one customer that represents approximately 16% (2014: 16%) of our sales and our top ten customers represent approximately 61% (2014: 58%) of our total sales. The increase in top ten customer concentration compared to a year ago represents the impact of the Atlantic Trading Acquisition which increased sales to a customer that already ranked as one of our top ten customers. Industry consolidation further emphasizes the importance we place on ensuring that our supply chain management and technology infrastructure keep pace with the service delivery expectations of our customers.

Although we insure our accounts receivable risk, our bad debt expense has historically been nominal. As of the filing of this report, we are not aware of any customer that is in financial trouble that would result in a material loss to the Company and our receivables are substantially current at year-end.

10.5 Foreign Currency

Senior management accountability: Paul Jewer, Executive VP & CFO
Board oversight accountability: Audit Committee

Overview
High Liner Foods reports its results in USD to reduce volatility caused by changes in the USD to CAD exchange rate. The Company's income statement and balance sheet are both affected by foreign currency fluctuations in a number of ways. Generally, a stronger CAD is beneficial to earnings and shareholder's equity as discussed below. Conversely, a weakening CAD can decrease earnings.

Income Statement Effects of Foreign Currency
The Parent has a CAD functional currency, meaning that all transactions are recorded in CAD. However, as we report in USD, the results of the Parent are converted into USD for external reporting purposes. Therefore, the Canadian and U.S. exchange rates impact the results we report. Also, other currencies have an indirect effect on High Liner Foods' operations.

The table below summarizes the effects of foreign exchange on our operations in their functional currency.

Currency	Strength	Impact on High Liner Foods
CAD	Strong	Results in a reduction in the cost of inputs for the Canadian operations in CAD. Competitive activity may result in some selling price declines on unprocessed product.
CAD	Weak	Results in an increase in the cost of inputs for the Canadian operations in CAD. Justified cost increases are usually accepted by customers. If prices rise too sharply there may be a volume decline until consumers become accustomed to the new level of pricing.
Euro	Strong	Results in increased demand from Europe for seafood supplies and may increase prices in USD.
Euro	Weak	Results in decreased demand from Europe for seafood supplies and may decrease prices in USD.
Asian currencies	Strong	Results in higher cost for seafood related to Asian-domestic inputs such as labour and overheads of primary producers. As well, increased demand may result from domestic Asian markets increasing USD prices. Justified cost increases are usually accepted by customers. If prices rise too sharply, there may be a volume decline until consumers become accustomed to the new level of pricing.
Asian currencies	Weak	Results in lower cost for seafood related to Asian-domestic inputs such as labour and overheads of primary producers. As well, decreased demand may result from domestic Asian markets, decreasing USD prices. Competitive activity may result in some selling price declines on unprocessed product.
USD	Strong	As in most commodities, a strong USD usually decreases input costs in USD, as suppliers in countries not using the USD need less USD to receive the same amount in domestic currency. In Canadian operations, it increases input costs in CAD.
USD	Weak	As in most commodities a weak USD usually increases input costs in USD as suppliers in countries not using the USD need more USD to receive the same amount in domestic currency. In Canadian operations, it decreases input costs in CAD.

The value of the USD compared to other world currencies has an impact on many commodities, including seafood, packaging, flour-based products, cooking oil and transportation costs that are either sold in USD or have USD-input costs. This is because many producing countries do not use the USD as their functional currency, and therefore, changes in the value of the USD means that producers in other countries need less or more USD to obtain the same amount in their domestic currency. Changes in the value of the CAD by itself against the USD simply result in an increase or decrease in the CAD cost of inputs.

For products sold in Canada, raw material is purchased in USD and flour-based ingredients, cooking oils and transportation costs all have significant commodity components that are traded in USD. However, labour, packaging and ingredient conversion costs, overheads and SG&A costs are incurred in CAD. A strengthening CAD decreases the cost of these inputs and vice versa in the Canadian operation's domestic currency. When the value of the CAD changes, competitive factors on commodity products, primarily raw frozen shellfish and groundfish, especially in our Canadian foodservice business, force us to react when competitors use a lower CAD cost of imported products to decrease prices and, therefore, pass on the cost decrease to customers. An increasing CAD cost usually results in higher selling prices to Canadian customers.

The operations of the Parent are translated to USD for external reporting. Approximately 30% of the Company's consolidated sales and a portion of its expenses are denominated in CAD. As such, fluctuations in exchange rates impact the translated value of the Parent's sales, costs and expenses when translated to USD.

The average Canadian dollar in 2015 (at a USD/CAD exchange rate of 1.2791) has weakened approximately 15.8% over the average of 2014. Because we report our financial results in USD, a weakening CAD has the immediate effect of decreasing the USD value of CAD-denominated sales, costs and expenses. In 2015, CAD-denominated sales comprised approximately 31% of our total sales in domestic currency and we expect this to be relatively consistent in 2016.

For 2016, approximately CAD$317 million of the Parent's external sales are expected to be in CAD. This exposure is estimated to decrease to $240 million after taking into account the CAD cost in labour, packaging, supplies and overheads. Holding all other factors constant, the net effect of a one-cent change in the USD/CAD, prior to hedging activities and price changes, is a change in after-tax income of approximately $1.8 million.

As mentioned, although High Liner Foods reports in USD, our Canadian operations continue to be managed in CAD, which is the functional currency of the Parent. Therefore, in accordance with the Company's "*Price Risk Management Policy*" (the "Policy"), we undertake hedging activities, buying USD forward, using various derivative products. To reduce our exposure to the USD on the more price inelastic items, the Policy allows us to hedge forward a maximum of 15 months of purchases; at 70-90% of exposure for the first three months, 55-85% for the next three months, 30-75% for the next three, 10-60% for the next three, and 0-60% for the last three months. The lower end of these ranges are required to be hedged by the Policy with the upper ranges allowed if management believes the situation warrants a higher level of purchases to be hedged. Variations from the Policy require the approval of the Audit Committee.

The Policy excludes certain products where the price in the marketplace moves up or down with changes in the CAD cost of the product. Approximately $70 million to $90 million of the USD purchases of the Parent are part of the hedging program annually and are usually hedged between 40-75% of the next 12 months of forecasted purchases. We are currently forecasting $74 million in items to be hedged in 2016 and of this amount, 67% are currently hedged.

Details on the hedges in place as at January 2, 2016 are included in *Note 21* to the Consolidated Financial Statements.

Balance Sheet Effects of Foreign Currency

As we have operations in Canada, and some monetary assets and liabilities in the U.S. that are denominated in CAD, assets and liabilities of the consolidated Company change as exchange rates fluctuate. At January 2, 2016, the CAD or USD/CAD exchange rate weakened by approximately 18.0% from its value at January 3, 2015. As such, the weakened CAD has decreased the carrying value of items such as accounts receivable, inventory, fixed assets and accounts payable of the Parent in our USD balance sheet. The net offset of those changes flow through accumulated other comprehensive income ("AOCI") in shareholders' equity on the balance sheet. Changes in monetary assets and liabilities in the U.S. that are denominated in CAD flow through the income statement, unless they are hedged.

10.6 Growth (Other than by Acquisition)

Senior management accountability: Jeff O'Neill, President & COO, Canadian Operations; Peter Brown, President & COO, U.S. Operations
Board oversight accountability: Board of Directors

A key component of High Liner Foods' growth strategy is organic or internal growth by (a) increasing sales and earnings in existing markets with existing products; and (b) expanding into new markets and products. There can be no assurance that the Company will be successful in growing its business or in managing its growth in a manner consistent with this strategy.

Furthermore, successful expansion may place a significant strain on key personnel of High Liner Foods, from a retention perspective, as well as on its operations, financial resources and other resources. The Company's ability to manage growth will also depend in part on its ability to continue to grow and enhance its information systems in a timely fashion. It must also manage succession planning for personnel across the organization to support such growth. Any inability to properly manage growth could result in cancellation of customer orders, as well as increased operating costs, and correspondingly, could have an adverse effect on High Liner Foods' financial results.

10.7 Acquisitions

Senior management accountability: Keith Decker, President & CEO
Board oversight accountability: Board of Directors

Our growth strategy includes growth by acquisition. The Company may not be able to carry out its strategy of acquisition of other frozen seafood companies, as that depends in part on the availability of suitable target companies. In addition, the Company may face competition for the acquisition of attractive processors from other consolidators in the frozen food industry who may be larger or better financed. Our ability to successfully integrate acquisitions into our existing operations could affect our financial results. We may seek to expand our business through acquisitions and may divest of under-performing or non-core businesses. Our success depends, in part, upon our ability to identify such acquisition and divestiture opportunities and to negotiate favourable contractual terms. The failure to obtain proper regulatory approvals could adversely affect our growth strategy.

10.8 Liquidity

Senior management accountability: Paul Jewer, Executive VP & CFO
Board oversight accountability: Audit Committee

Our primary sources of working capital are cash flows from operations and borrowings under our credit facilities. We actively manage our relationships with our lenders and have in place adequate credit facilities until December 2019 when the working capital credit facility is scheduled to be renewed.

The Company monitors its risk to a shortage of funds using a detailed budgeting process that identifies financing needs for the next 12 months as well as models that look out five years. Working capital and cash balances are monitored daily and a procurement system provides information on commitments. This process projects cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, letters of credit, bank loans, notes payable and finance leases. The Company's objective is that not more than 50% of borrowings should mature in the next twelve-month period.

At January 2, 2016, 4% of our debt will mature in less than one year based on the carrying value of borrowings reflected in the Consolidated Financial Statements. Our long-term debt is described in *Note 12* to the Consolidated Financial Statements and has a current principal repayment scheduled for 2016 in the amount of $11.8 million. We did not make any excess cash flow payments in 2015, but expect to make one in 2016 as there were excess cash flows in 2015. At January 2, 2016 and at the date of this document, we are in compliance with all covenants and terms of our banking facilities.

As a result of the volatile capital markets and the resulting widespread drop in public issuer valuations in the latter part of 2008, our defined benefit pension plans experienced losses. Since then, the asset mix of our defined benefit pension plans was changed with the objective of reducing the volatility of the plan's anticipated funded position. This has resulted in investing part of the portfolio in fixed income assets with a duration similar to that of the pension obligations. The change in the asset mix, additional Company contributions, and good investment returns, have improved the financial position of our two largest defined benefit pension plans. The latest actuarial valuations of these two plans were performed during Fiscal 2014 and showed: combined going concern surpluses of CAD$2.6 million; one plan had a solvency deficit of CAD$1.0 million; and the other plan had a solvency surplus of CAD$1.0 million.

10.9 Sustainability, Corporate Responsibility and Public Opinion

Senior management accountability: Keith Decker, President & CEO
Board oversight accountability: Board of Directors

The future success and growth of our business relies heavily upon our ability to protect and preserve the natural resources essential for our business and to make sustainability part of how we operate in every facet of our business.

High Liner Foods made a public sustainability commitment in late 2010 to source all of its seafood from "certified sustainable or responsible" fisheries and aquaculture by the end of 2013. The Company was successful in fulfilling the commitment it made in late 2010 and is now recognized as a global leader in driving best practice improvements in wild fisheries and aquaculture. Customers will continue to demand product solutions that are innovative, high-quality and responsibly sourced. To the extent we fail to meet these customer expectations, operational results and brand equity may be adversely affected. Credible sustainability certifications have become a required tool to validate industry-driven wild fishery and aquaculture improvements. Environmental advocacy groups will continue to promote use of credible certification schemes to define sustainable wild fisheries and aquaculture.

In 2015, the Company implemented a social compliance program with seafood suppliers which outlines acceptable standards for the treatment of all suppliers' employees involved in the production of seafood product for our Company.

In the long term, further enhancing policies related to sustainability, environmental and social compliance both within High Liner Foods and its supply chain may add to High Liner Foods' costs and reduce margins.

10.10 Industry Consolidation

Senior management accountability: Keith Decker, President & CEO; Peter Brown, President & COO, U.S. Operations; Jeff O'Neill, President & COO, Canadian Operations
Board oversight accountability: Board of Directors

Grocery retailers, wholesalers, food processors and foodservice distributors in North America have consolidated and continue to consolidate. Grocery retailers typically charge suppliers listing or "slotting" fees for shelf space on a per product basis for new products, and also require money to support product advertising and promotions. Arising out of these consolidations we have experienced demands from customers for increased listing and promotional incentives and improved payment terms. However, as a supplier of Canada's leading frozen seafood brand and a leading supplier to the U.S. foodservice channel, we expect to remain an important supplier to grocery retailers and foodservice distributors, although such consolidation may adversely affect the Company's financial results.

Consolidation of customers is expected to result in some consolidation of suppliers in the U.S. seafood industry. The supply of seafood, especially in the U.S. foodservice market, is highly fragmented. Consolidation is needed to reduce costs and increase service levels to keep pace with the expectation of customers. We are always looking for acquisition opportunities to leverage our current strengths.

We are focusing efforts on brand strength, new products, procurement activities and superior customer service to ensure we outperform competitors. Consolidation makes it more important to achieve and maintain a brand leadership position, as consolidators move towards centralized buying and streamlined procurement. We are in a good position to meet these demands, since we offer quality, popular products under leading brands and have the ability to meet the customer service expectations of the major retailers. Given our brand strategy, customer consolidation is an opportunity for High Liner Foods to grow in step with customer growth.

10.11 Increase in Seafood Production from Asia

Senior management accountability: Paul Snow, Executive VP Procurement
Board oversight accountability: Board of Directors

For more than a decade, many seafood companies, including High Liner Foods, have diverted production of certain primary produced products to Asia, and China in particular. Asian processing plants are able to produce many seafood products at a lower cost than is possible in North America and in other more developed countries. These plants are also able to achieve a better yield on raw material due to the use of more manual processes and they produce excellent quality. Land-based seafood primary processing plants in developed countries, such as Norway, Iceland and Canada, have found it extremely difficult to compete with Asian processors, especially when they compete with them for the raw material on global markets. We anticipated this trend ahead of our many competitors. It was part of our rationale for exiting the primary-processing and fishing businesses, and the trend allowed us to develop opportunities that are now contributing to our growth strategy. We chose to work closely with selected Asian suppliers to become an important customer, especially for cod and haddock supply. We have made it possible for these suppliers to meet our exacting quality and manufacturing standards and in turn we have access to the variety and volume of seafood products, including a significant amount of wild-caught product from the Atlantic and Pacific oceans that we need to fulfill our brand strategy. These suppliers are central to our supply chain operating efficiently, and thus any adverse changes in the operations of such suppliers, or our commercial relationships with such suppliers, may adversely affect the Company's results.

10.12 Competition Risk

Senior management accountability: Jeff O'Neill, President & COO, Canadian Operations; Peter Brown, President & COO, U.S. Operations
Board oversight accountability: Board of Directors

High Liner Foods competes with a number of food manufacturers and distributors and its competition varies by distribution method, product category and geographic market. Some of High Liner Foods' competitors have greater financial and other resources than it does and/or may have access to labour or products that are not available to High Liner Foods. In addition, High Liner Foods' competitors may be able to better withstand market volatility. There can be no assurance that High Liner Foods' principal competitors will not be successful in capturing, or that new competitors will not emerge and capture, a share of the Company's present or potential customer base and/or market share.

In addition, it is possible that some of High Liner Foods' suppliers or customers could become competitors of High Liner Foods if they decide to distribute or source their own food products. Furthermore, if one or more of High Liner Foods' competitors were to merge or partner with another of its competitors, the change in the competitive landscape could adversely affect High Liner Foods and its financial results. Competitors may also establish or strengthen relationships with parties with whom High Liner Foods has relationships, thereby limiting its ability to distribute certain products. Disruptions in High Liner Foods' business caused by such events could have a material adverse effect on its results of operations and financial condition.

10.13 Non-Seafood Commodities

Senior management accountability: Jeff O'Neill, President & COO, Canadian Operations; Peter Brown, President & COO, U.S. Operations; Derivatives – Paul Jewer, Executive VP & CFO;
Board oversight accountability: Audit Committee

Our operating costs are affected by price changes in commodities such as crude oil, wheat, corn, paper products and frying oils. To minimize our risk, the Company's *Price Risk Management Policy* dictates the use of fixed pricing with suppliers whenever possible but allows the use of hedging with derivative instruments if deemed prudent. Throughout 2015 and 2014, the Company has managed this risk through contracts with suppliers.

Crude oil prices, which influence fuel surcharges from freight suppliers, decreased significantly in the last half of 2015. World commodity prices for flour (wheat and corn) and oils (corn, soy and canola), important ingredients in many of the Company's products, decreased in 2015 after having decreased in 2014. The Company currently has fixed price contracts with suppliers covering a significant portion of the Company's 2016 commodity purchase requirements.

10.14 Board Accountability

The Board oversees risk management at High Liner Foods, and has delegated to the Audit Committee the task of providing reasonable assurance that we appropriately identify and manage risks. The Audit Committee reviews at least annually the Company's Business Risk Management policies, including the *Price Risk Management Policy*, and reviews and approves the disclosure of risk factors in this MD&A and in other public documents issued by High Liner Foods. Price and financial risks are reviewed at each Audit Committee meeting, including the Company's credit exposures. The Audit Committee also annually reviews the Company's insurance program.

We have identified the principal risks that could have a significant, adverse impact on our performance, reputation or ability to service our customers and have, in the absence of controls, a reasonable probability of occurring. Every principal risk is assigned to the Board and at least one member of our senior management team who has reporting, oversight and operational accountability for the risk. These risks are regularly reviewed by our senior management team, and by one or more internal committees or Board committees, which have governance and oversight accountability for the risk. This commentary is from a high-level perspective on the nature of each risk and describes the main practices in place to manage these risks. Additional discussion of some of these risks is included in our 2015 Annual Information Form, available at www.highlinerfoods.com or at www.sedar.com.