Notes to the Consolidated Financial Statements

Note 1. Corporate information

High Liner Foods Incorporated (the "Company" or "High Liner Foods") is a company incorporated and domiciled in Canada. The address of the Company's registered office is 100 Battery Point, P.O. Box 910, Lunenburg, Nova Scotia, B0J 2C0. The consolidated financial statements of the Company as at and for the fifty-two weeks ended January 2, 2016, comprise High Liner Foods' Canadian company (the "Parent") and its subsidiaries (herein together referred to as the "Company" or "High Liner Foods"). The Company is primarily involved in the processing and marketing of prepared and packaged frozen seafood products. The Company's fiscal year ends on the Saturday closest to December 31. Most fiscal years have fifty-two weeks, but from time to time, fiscal years, including Fiscal 2014, have fifty-three weeks, and therefore, amounts presented are not entirely comparable.

These consolidated financial statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on February 17, 2016.

Note 2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company conducts its business in Canadian dollars ("CAD") and U.S. dollars ("USD"). Unless otherwise noted, all amounts in these consolidated financial statements are in USD and values are rounded to the nearest thousand ($000).

Basis of measurement

These consolidated financial statements have been prepared on the historical-cost basis except for the following material items in the statement of financial position, which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss ("FVTPL") and liabilities for cash-settled share-based compensation payment arrangements. The defined benefit employee future benefit liability is recognized as the net total of the plan assets, plus unrecognized past-service costs and the present value of the defined benefit obligation ("DBO").

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at January 2, 2016. Control is achieved when the Company is exposed, or has rights, to direct the activities that significantly affect the returns from its involvement with the investee. The Company re-assesses whether or not it controls an investee on an ongoing basis.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary are included in the statement of comprehensive income from the date the Company gains control of the subsidiary until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intercompany balances, equity, income, expenses and cash flows are eliminated in full on consolidation.

Use of estimates and critical judgments

The preparation of the Company's financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. Actual outcomes may differ from these estimates that could require a material adjustment to the reported carrying amounts in the future.

The most significant estimates and judgments made by management include the following:

Impairment of non-financial assets

The Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. Individual assets are grouped together as a cash generating unit ("CGU") for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other Company assets. The carrying amounts of CGUs, including goodwill, are tested for impairment annually and at other times when indicators of impairment arise. Management calculates the recoverable amount of each CGU based on the expected future cash flows from the individual asset or CGU and chooses a suitable discount rate in order to calculate the present value of those cash flows. Further details, including the manner in which the Company identifies its CGUs and key assumptions used in determining the recoverable amounts are disclosed in *Note 5*.

Future employee benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the DBO is determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rate, future salary increases, mortality rates and future pension increases. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate. Actual results will differ from results which are estimated based on assumptions. See *Note 13* for certain assumptions made with respect to future employee benefits.

Income taxes

Income taxes are accrued based on current taxes expected to be paid or recovered for the period, and deferred taxes applicable in respect of the temporary differences that will reverse in subsequent periods. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

Significant judgment is required in determining the global provision for taxation. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each balance sheet date. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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.