Note 3. Significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in business acquisition, integration and other expenses in the consolidated statement of income.

When the Company acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the Company will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of International Accounting Standard ("IAS") 39, "Financial Instruments: Recognition and Measurement," is measured at fair value with changes in fair value recognized either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Fair value measurement

The Company measures financial instruments, such as derivatives and non-financial assets, at fair value at each balance sheet date. Fair values of financial instruments measured at amortized cost are disclosed in *Note 21*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Non-current assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell ("FVLCS"). For the asset to be classified as held for sale, the sale must be highly probable and the asset or disposal group available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Cash

Cash includes cash on hand and demand deposits with initial and remaining maturity of three months or less. Cash does not include any restricted cash.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of manufactured inventories is based on the first-in first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of procured finished goods and unprocessed raw material inventory is weighted average cost. Inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing the inventories to their existing location and condition. In the case of manufactured inventories and semi-finished materials, cost includes an appropriate share of production overheads based on normal operating capacity. Cost may also include transfers from OCI of any gain or loss on qualifying cash flow hedges of foreign currency related to purchases of inventories.

Foreign currency

Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of the Company's subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Differences arising on settlement or translation of monetary items are recognized in the consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Company's net investment in a foreign operation. These are recognized in OCI, to the extent the hedge is effective, until the net investment is disposed of or the hedge is ineffective, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI. Non-monetary items that are measured in terms of historical cost in a foreign currency are effectively translated using the exchange rate at the date of the transaction.

Translation of parent company to usd for presentation currency

The Parent (High Liner Foods' Canadian company) has a CAD functional currency, however the presentation currency of the Company's consolidated financial statements is USD. The USD presentation currency is used because it better reflects the Company's overall business activities and improves investors' ability to compare the total Company's financial results with other publicly traded businesses in the packaged foods industry (most of which are based in the U.S. and report in USD) and should result in less volatility in reported sales on the conversion into the reporting currency.

The Company follows the requirements set out in IAS 21, "The Effects of Change in Foreign Exchange Rates." The assets and liabilities of the Parent are translated to USD at the exchange rate as at the reporting date. The income and expenses of the Parent are translated to USD at the monthly average exchange rates of the reporting period. Foreign currency differences are recognized in OCI.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset, including the present value of the expected cost for the decommissioning of the asset after its use, if the recognition criteria for a provision are met. The cost of self-constructed assets includes the cost of materials, direct labour, other costs directly attributable to bringing the assets to a working condition for their intended use, and costs of dismantling and removing the items and restoring the site on which they are located. Cost may also include transfers from OCI of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of additions, including betterments and replacements of parts of property, plant and equipment are included in "Property, plant and equipment." The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are expensed as incurred in the consolidated statement of income.

When parts of property, plant and equipment have different useful lives, they are accounted for separately (major components). A part of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss on the derecognition of an asset is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized on a net basis within the consolidated statement of income.

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in income on a straight-line basis over the estimated useful lives of each major component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Land and buildings	15–60 years
Furniture, fixtures and production equipment	10–25 years
Computer equipment	4–11 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset(s) or the arrangement conveys a right to use the asset(s).

Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of income.

Leased assets are depreciated over their useful lives. However, if there is no reasonable certainty that the Company will obtain ownership of a leased asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Provisions, contingent liabilities and contingent assets

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision and the amount initially recognized, less any amortization. Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

Impairment

Non-financial assets

The carrying amounts of CGUs, including goodwill, are tested for impairment annually and at other times when indicators of impairment arise. The Company estimates the non-financial asset's recoverable amount for the purpose of impairment testing using the higher of FVLCS and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and written down to its recoverable amount, with the write-down being recognized in the consolidated statement of income.

In determining FVLCS, an appropriate valuation model is used. These calculations are corroborated by the use of valuation multiples, quoted share prices and other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previous impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset or CGU does not exceed its recoverable amount, nor exceed its carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset or CGU in prior years. Such reversal is recognized in the consolidated statement of income.

Financial assets

The Company assesses at each financial reporting date whether a financial asset or group of assets is impaired.

If there is objective evidence that an impairment loss on an asset or a group of assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's or group of assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's or group of assets' original effective interest rate ("EIR"), computed at initial recognition. The carrying amount of the asset or group of assets is reduced through use of an allowance account and the loss is recognized in the consolidated statement of income. Assets or group of assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset or group of assets does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are derecognized when they are assessed as uncollectible.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The Company's intangible assets consist of brands and customer relationships that have been acquired through a business combination.

The useful lives of intangible assets are assessed to be either finite or indefinite.

- Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.
- Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The estimated useful lives of the Company's intangible assets for the current and comparative periods are as follows:

Brands	2–8 years
Customer relationships	25 years
Indefinite lived brands	Indefinite, subject to impairment testing annually

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Gains or losses from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Future employee benefits

Defined benefit pension plans ("DBPP")

For DBPPs and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected-unit-credit method pro-rated on service and management's best estimate of expected salary escalation and retirement ages of employees.

The determination of benefit expense requires assumptions such as the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation increases and the expected mortality rate of pensioners. Actual results will differ from results which are estimated based on assumptions. The total past-service cost arising from plan amendments is recognized immediately in the consolidated statement of income. The present value of the DBO is determined by discounting the estimated future cash outflows using 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. All actuarial gains and losses that arise in calculating the present value of the DBO and the fair value of plan assets are recognized immediately in the statement of comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined contribution pension plans ("DCPP")

A DCPP is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to DCPPs are recognized as an employee benefit expense in the consolidated statement of income in the periods during which services are rendered by employees.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or incentive plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

The Company has entered into Change of Control Agreements (the "Agreements") between the Company with the Chief Executive Officer ("CEO") and other Named Executive Officers ("NEO"). The Agreements are automatically extended annually by one additional year unless the Company provides 90 days notice of its unwillingness to extend the agreements. The Agreements provide that in the event of a termination by the Company following a change of control, other than for cause or by the CEO or NEO for good reason as defined in the Agreements, the CEO and other NEOs are entitled to: (a) cash compensation equal to their final annual compensation (including base salary and short-term incentives) multiplied by three for the CEO and two for all other NEOs; (b) the automatic vesting of any options or other entitlements for the purchase or acquisition of shares in the capital of the Company which are not then exercisable, which shall be exercisable following termination for 3 years for the CEO and 2 years for all other NEOs; (c) continue to participate in certain benefit programs for 3 years for the CEO and 2 years for all other NEOs.

Share-based compensation plans

The Company's share-based compensation plans consist of a Share Option Plan ("Option Plan"), a Performance Share Units ("PSUs") Plan and a Deferred Share Units ("DSU") Plan which are described in *Note 17*. Compensation expense for share-based awards is recognized using the fair value method of accounting. Options issued may be awarded, at the discretion of the Board, with tandem Share Appreciation Rights ("SARs"), which allow employees to either exercise the options for shares or to exercise the SARs and thereby receive the value of the options in cash. Options with SARs, are accounted for as cash-settled transactions and options without SARs, are accounted for as equity-settled transactions.

The PSUs are designed to maximize long-term shareholder value by rewarding members of the Company's Leadership Team for performance, which are based on the market value of the Company's commons shares. The PSU plan is dilutive and can be settled in cash and/or shares. The Company estimates the fair value of the PSU by using the fair market value of a common share at the reporting date and the performance multiplier. The compensation expense is recognized over the three-year performance cycle, at which point the PSUs will vest if agreed upon performance measures are met.

The Company allocates DSUs to Directors of the Company who have elected to receive DSUs, which are based on the market value of the Company's common shares. Under the DSU plan, Directors may elect to receive their annual retainer and additional Board related fees in the form of DSUs in lieu of cash or options. DSUs entitle Directors to receive a cash payment for the value of the DSU held following cessation of all functions as a Director of the Company. These are considered cash-settled share-based payment awards and are non-dilutive.

(i) Cash-settled transactions
The cost of cash-settled transactions is measured initially at fair value at the award grant date using the Black-Scholes pricing model. The Company accrues compensation expense with a corresponding increase in liabilities in the amount which represents the fair value of the amount payable to employees over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date with any changes in the fair value recognized as employee benefits expense in the consolidated statement of income. In the case of options with SARs, if employees elect to exercise their options for shares, thereby cancelling the SARs, share capital is increased by the sum of the consideration paid by employees and the liability is reversed, with any difference being recorded in the consolidated statement of income.

(ii) Equity-settled transactions
The cost of equity-settled transactions is determined by the fair value of the equity instrument at the award grant date made appropriate using the valuation model. The fair value estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life, volatility, and dividend yield, and making assumptions about these inputs, which are fully described in *Note 17*. That cost is recognized in employee benefits expense, together with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to payment. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The credit or expense in the consolidated statement of income for any given period represents the movement in cumulative expense recognized as at the beginning and at the end of that period.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based compensation payments or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding share-based awards is reflected as additional share dilution in the computation of diluted earnings per share (*Note 16*).

Income taxes

Income tax expense is comprised of current and deferred income taxes. Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to a business combination or to items recognized directly in equity or OCI.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates that are enacted or substantively enacted at the reporting date and any adjustment to taxes payable or receivable in respect of previous years. Current income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity or on different taxable entities but the entity intends to settle current income tax assets and liabilities on a net basis or their income tax assets and liabilities will be realized simultaneously.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: a) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and b) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future and the timing of the reversal of the temporary differences can be controlled. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill which is not deductible for tax purposes. Deferred income tax assets and liabilities are measured at the enacted or substantively enacted rate that is expected to apply when the related temporary differences reverse. A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent it is probable future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable the related tax benefit will be realized.

Revenue recognition

The Company recognizes sales in income when the risks and rewards of the underlying products have been substantially transferred to the customer (usually on delivery of the goods). The Company experiences very few product returns and collection of its invoices is consistently high.

Marketing programs provided to customers and operators, including volume rebates, cooperative advertising and other trade marketing programs, are all customer-specific programs to promote the Company's products. Consequently, sales are recorded net of these estimated marketing costs, which are recognized at the time of sale. Consumer coupons used to encourage consumers to purchase the Company's products through the Company's customers are recognized as a reduction to sales in the period the coupons are issued. Certain customers require payment of one-time listing allowances (or "slotting fees") in order to obtain space for a new product in their stores. These fees are recognized as reductions of revenue at the earlier of the date the fees are paid in cash or on which a liability to the customer is created (usually on shipment of the new product). All other non-customer-specific marketing costs (general advertising, etc.) are expensed as incurred as selling, general and administrative expense.

Financial instruments

All financial assets and liabilities are recognized initially at fair value and in the case of financial assets and liabilities not recorded at FVTPL, net of directly attributable transaction costs. After initial recognition, loans and receivables, loans and borrowings, payables and held-to-maturity investments are subsequently measured at amortized cost, and derivatives designated as "hedging instruments in an effective hedge" are measured as appropriate. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not "held-for-trading" ("HFT") or designated at FVTPL. The Company's financial assets include cash and trade and other receivables. The Company's financial liabilities include accounts payables, accrued liabilities, bank loans, derivative financial instruments and long-term debt.

For purposes of subsequent measurement, financial assets and liabilities are classified into the following categories:

(i) Fair value through profit or loss
Financial assets and liabilities at FVTPL include financial instruments which are HFT or designated upon initial recognition. Financial instruments are classified as HFT if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments as defined by IAS 39. The Company has not designated any financial assets or liabilities upon initial recognition at FVTPL. Financial instruments at FVTPL are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of income.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

(iii) Loans and borrowings
Loans and borrowings generally apply to interest-bearing loans and borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the EIR amortization process. For more information refer to *Notes 11* and *12*.

A financial asset is derecognized when the Company transfers its contractual rights to receive cash flows without retaining control or substantially all the risks and rewards of ownership of the asset or the Company enters into a pass-through arrangement. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Derivative instruments/hedging

All derivative instruments, including embedded derivatives that are not closely related to the host contract, are recorded in the statement of financial position at fair value on the date a contract is entered into and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the hedge designation. The Company designates certain derivatives as either:

(i) Embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statement of income. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset or financial liability out of FVTPL.

(ii) Fair value hedges are hedges of the fair value of recognized assets, liabilities or a firm commitment. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the consolidated statement of income together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

(iii) Cash flow hedges are hedges of highly probable forecasted transactions. The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges are recognized as OCI. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income. Additionally:

- Amounts accumulated in OCI are recycled to the consolidated statement of income in the period when the hedged item affects profit and loss;
- When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that was reported in OCI remains in AOCI and is recognized in the consolidated statement of income when the forecasted transaction ultimately affects profit and loss; and
- When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately recognized in the consolidated statement of income.

The Company uses forward currency contracts to hedge the Parent's exposure to the foreign currency risk of expected future purchases from suppliers transacting in USD.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedge instrument, the hedged item of the transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

(iv) Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in OCI while any gains or losses relating to the ineffective portion are recognized in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in AOCI is transferred to the consolidated statement of income.

The Company uses a loan as a hedge of its exposure to foreign exchange risk on its investment in a foreign subsidiary. Refer to *Note 22* for more detail.

(v) Derivatives that do not qualify for hedge accounting

Certain of the Company's derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized as finance costs in the consolidated statement of income consistent with the underlying nature and purpose of the derivative instruments.

New standards, interpretations and amendments thereof, adopted by the Company

There have been no new standards and interpretations adopted during the year ended January 2, 2016, which had an impact on the accounting policies, financial position or performance of the Company.

Future accounting policies not yet adopted

The standards and interpretations that have been issued, but are not yet effective, up to the date of issuance of these financial statements are disclosed below. The Company intends to adopt these standards when they become effective.

IFRS 9 "Financial Instruments: Classification and Measurement"
In 2013, the IASB issued amendments to IFRS 9, "Financial Instruments" ("IFRS 9"), issued in 2010, which will ultimately replace IAS 39. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers"
In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18, "Revenue", IAS 11 "Construction Contracts" and various revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 allows for early adoption, but the Company does not intend to do so at this time. The new revenue standard is effective for annual periods beginning on or after January 1, 2018.

The Company is currently evaluating the impact of these new standards, interpretations and amendments on its consolidated financial statements.

Note 4. Business combinations

Acquisition of Atlantic Trading Company

On October 7, 2014, the Company acquired the net assets and operations of a business operating as Atlantic Trading Company, LLC ("Atlantic Trading") based in Miami, Florida, and specializing in frozen and fresh Atlantic salmon sourced from Chile and Norway.

The primary reason for the business acquisition was to enhance the Company's product offerings to include Atlantic Trading's Atlantic salmon products.

The Company paid $17.9 million after working capital adjustments and cash acquired as part of the acquisition. This amount included an estimate for contingent consideration to be paid in each of the two years from closing of the acquisition based on reaching certain earnings before interest, taxes, depreciation and amortization ("EBITDA") thresholds.

The final fair value of the identifiable assets and liabilities recognized on the acquisition was:

(Amounts in $000s)	Provisional fair value recognized on acquisition	Adjustments to the provisional allocation	Final fair value recognized
Assets			
Accounts receivable	$ 3,807	$ —	$ 3,807
Prepaid expenses	38	—	38
Inventories	1,694	—	1,694
Intangibles	—	7,486	7,486
Goodwill	15,535	(7,240)	8,295
	21,074	**246**	**21,320**
Liabilities			
Accounts payable and accrued liabilities	(3,139)	—	(3,139)
Deferred income taxes	—	(246)	(246)
	(3,139)	**(246)**	**(3,385)**
Total identifiable net assets at fair value	**$ 17,935**	**$ —**	**$ 17,935**
Agreed upon purchase price based on average working capital	$ 14,300	$ —	$ 14,300
Estimated fair value of contingent consideration[1]	4,236	—	4,236
Net post-closing working capital adjustments	892	—	892
Cash acquired	(1,493)	—	(1,493)
Net purchase consideration recorded	**$ 17,935**	**$ —**	**$ 17,935**

1 Refer to the Company's January 3, 2015 Audited Consolidated Financial Statements for additional details on the contingent consideration negotiated as part of this business combination. As at January 2, 2016, $2.3 million has been paid in contingent consideration, representing the first of two annual installments.