Note 20. Related party transactions

The ultimate parent

High Liner Foods Incorporated is the ultimate parent entity.

Key management personnel compensation

In addition to their salaries, the Company also provides benefits to the CEO, NEOs and certain senior executive officers in the form of contributions to post-employment benefit plans on their behalf, non-cash plans and various other short- and long-term incentive and benefit plans as described below.

The amounts in the table below are the amounts recognized as an expense during the reporting period related to key management personnel compensation and comprise of:

(Amounts in $000s)		**January 2, 2016**		January 3, 2015
Salaries and short-term incentive plans[1]	**$**	**3,672**	$	4,007
Post-employment benefits		**257**		114
Future employee benefits[2]		**361**		315
Share-based awards[3]		**2,589**		2,270
	$	**6,879**	$	6,706

1 Short-term incentive amounts were for those earned in 2015 and 2014.
2 Refer to *Note 13* for details of each plan.
3 Refer to *Note 17* for details regarding the Company's option and PSU plans.

Entity with significant influence over the company

As at January 2, 2016, Thornridge Holdings Limited owns 37.3% of the outstanding common shares in High Liner Foods (January 3, 2015: 37.6%).

Other related parties

Pier 17 Realty Trust Inc. ("Pier 17 Realty") was the lessor in the lease contract for the Company's processing plant in Malden, Massachusetts, which ceased production in the second quarter of 2015 as described in *Note 6*. As of December 13, 2015, the relationship between Pier 17 Realty and the Company ended and therefore Pier 17 Realty is no longer considered a related party. Total purchases from other related parties were $0.4 million for the years ended January 2, 2016 and January 3, 2015.

The Company had no sales to or amounts due from related parties throughout 2014 or 2015, nor did the Company have any transactions during 2014 or 2015 with entities who had significant influence over the Company or with members of the Board of Directors and their related interests.

Note 21. Fair value measurement

Fair value of financial instruments

Fair value is a market-based measurement, not an entity-specific measurement. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. Management is responsible for valuation policies, processes and the measurement of fair value within the Company.

The Company's loans and receivables, accounts payable and accrued liabilities, provisions and bank loans are carried at cost and their carrying values approximate fair value due to the short-term to maturity of these financial instruments. Financial liabilities carried at amortized cost are shown using the EIR method. Other financial assets and other financial liabilities represent the fair value of the Company's foreign exchange contracts as well as the fair value of its interest rate swaps on its debt.

The Company uses a fair value hierarchy, based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing inputs with the highest level of objectivity and Level 3 representing inputs with the lowest level of objectivity. The following table sets out the classification of the methodology used by the Company to fair value its financial instruments:

	January 2, 2016		January 3, 2015	
(Amounts in $000s)	Level 2	Level 3	Level 2	Level 3
Assets measured at fair value				
Foreign exchange contracts	$ 6,552	$ —	$ 4,139	$ —
Liabilities measured at fair value				
Interest rate swaps	755	—	951	—
Foreign exchange contracts	151	—	580	—
Long-term debt	—	287,783	—	293,958
Finance lease obligations	—	1,737	—	2,221

The Company's Level 2 derivatives are valued using valuation techniques such as forward pricing and swap models. These models incorporate various market-observable inputs including foreign exchange spot and forward rates, and interest rate curves.

The fair values of long-term debt instruments, classified as Level 3 in the fair value hierarchy, are estimated based on unobservable inputs including discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities, adjusted to reflect the Company's credit risk.

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the fifty-two weeks ended January 2, 2016 no such transfers have occurred.

The financial liabilities that are not measured at fair value on the consolidated statement of financial position consist of long-term debt (including current portion) and finance lease obligations. The carrying amount for these instruments are $292.8 million and $1.7 million, respectively, as at January 2, 2016 (January 3, 2015: $295.0 million and $2.2 million, respectively).

Amortized cost impact on interest expense

In the fifty-two weeks ended January 2, 2016, the Company expensed $0.2 million and $0.4 million (January 3, 2015: $0.2 million and $0.4 million) of short-term and long-term interest, respectively, relating to interest that was calculated using the EIR method relating to its transaction fees and its borrowings.

The fair values of other financial assets and liabilities at January 2, 2016 and January 3, 2015 are shown below.

	Other financial assets		Other financial liabilities	
(Amounts in $000s)	January 2, 2016	January 3, 2015	January 2, 2016	January 3, 2015
Financial instruments at fair value through OCI				
Foreign exchange forward contracts	$ 5,133	$ 4,121	$ 151	$ 580
Interest rate swap	—	—	504	185
Financial instruments at fair value through profit or loss:				
Foreign exchange contracts not designated in hedge relationships	1,419	18	—	—
Interest rate swaps not designated in hedge relationships	—	—	251	766
	$ 6,552	$ 4,139	$ 906	$ 1,531

Hedging activities

Interest Rate Swaps

As at January 2, 2016, the Company had the following interest rate swaps outstanding that were designated in a formal hedging relationship to hedge interest rate risk resulting from the term loan facility:

- An interest rate swap to receive a floating three-month LIBOR for a fixed rate of 2.17%, with an embedded floor of 1.0%, on a notional amount of $20.0 million, for the period of December 31, 2014 until December 31, 2019.
- An interest rate swap to receive a floating three-month LIBOR for a fixed rate of 1.915%, with an embedded floor of 1.0%, on a notional amount of $25.0 million, for the period of March 4, 2015 until March 4, 2020.

The cash flow hedge of interest expense variability was assessed to be highly effective for the year ended January 2, 2016, and therefore, the change in fair value, an after-tax net loss of $0.3 million, was included in OCI.

As at January 2, 2016, the Company had the following interest rate swap outstanding to hedge interest rate risk resulting from the term loan facility that was not designated in a formal hedging relationship:

- An interest rate swap to receive a floating three-month LIBOR for a fixed rate of 1.997%, with an embedded floor of 1.5%, on a notional amount of $100.0 million, for the period of April 4, 2014 until April 4, 2016. The change in fair value for the year ended January 2, 2016, a net gain of $0.5 million, was recorded in income (January 3, 2015: net gain of $0.1 million).

Foreign currency contracts

Foreign currency forward contracts are used to hedge foreign currency risk resulting from expected future purchases in USD, which the Company has qualified as highly probable forecasted transactions, and to hedge foreign currency risk resulting from USD monetary assets and liabilities, which are not covered by natural hedges.

As at January 2, 2016, the Company had outstanding notional amounts of $50.8 million in foreign currency average-rate forward contracts, and $3.0 million foreign currency single-rate forward contracts that were formally designated as a hedge. With the exception of $1.3 million average-rate forward contracts with maturities ranging from January 2017 to December 2017, all foreign currency forward contracts have maturities that are less than one year.

The cash flow hedges of the expected future purchases were assessed to be highly effective for the year ended January 2, 2016 and January 3, 2015, and therefore, the change in fair value, an after-tax net gain of $7.2 million and an after-tax net gain of $3.2 million, respectively, was included in OCI. Amounts recognized in income resulting from hedge ineffectiveness during the year ended January 2, 2016 were a net gain of $0.3 million (January 3, 2015: net gain of $0.1 million).

As at January 2, 2016, the Company had outstanding notional amounts of $13.0 million foreign currency single-rate forward contracts outstanding to hedge foreign currency exchange risk on its USD monetary assets and liabilities. These contracts were not formally designated as a hedge. The change in fair value for the year ended January 2, 2016 and January 3, 2015, a net gain of $0.5 million and a nominal gain, respectively, was recorded in income.

Hedge of net investment in foreign operations

As at January 2, 2016, a borrowing of $237.3 million included in long-term debt (January 3, 2015: $27.5 million in bank loans and $237.3 million included in long-term debt) has been designated as a hedge of the net investment in the U.S. subsidiary and is being used to hedge the Company's exposure to foreign exchange risk on this net investment. Gains or losses on the re-translation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investment in the U.S. subsidiary. There was no ineffectiveness recognized in the fifty-two weeks ended January 2, 2016 or the fifty-three weeks ended January 3, 2015.

Note 22. Capital management

The primary objective of the Company's capital management policy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company defines capital as: funded debt, letters of credit, and common shareholder equity, including AOCI, except for gains and losses on derivatives used to hedge interest and foreign exchange cash flow exposures.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, purchase its capital stock under a NCIB or issue new shares. Capital distributions, including purchases of stock, are subject to availability under the Company's working capital debt facilities. The consolidated average adjusted aggregate availability under the working capital debt facility must be greater than $22.5 million. The Company currently has average adjusted aggregate availability of $134.1 million as at January 2, 2016. The Company also has restrictions on capital distributions, where the aggregate amount for dividends are subject to an annual limit of $17.5 million with a provision to increase this amount subject to leverage and excess cash flow tests. NCIBs are subject to an annual limit of $10.0 million with a provision to carry forward unused amounts subject to a maximum of $20.0 million per annum. For the fifty-two weeks ended January 2, 2016 and fifty-three weeks ended January 3, 2015, the Company paid $11.0 million and $11.3 million in dividends, respectively, and $0.6 million and $0.4 million under the NCIB, respectively. The Company monitors capital (excluding letters of credit) using the ratio of net interest-bearing debt to capitalization, which is net interest-bearing debt, divided by total capital plus net interest-bearing debt. The Company's objective is to keep this ratio between 35% and 50%. Seasonal working capital debt may result in the Company exceeding the ratio at certain times throughout the fiscal year. The Directors of the Company have also decided that this range can be exceeded on a temporary basis as a result of the recent acquisitions.