



HIGH LINER FOODS

THIRD QUARTER REPORT TO SHAREHOLDERS

Thirty-nine weeks ended September 26, 2020



HIGH LINER FOODS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the thirteen and thirty-nine weeks ended September 26, 2020

(All amounts are in United States dollars unless otherwise stated)

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A"), dated November 6, 2020, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and thirty-nine weeks ended September 26, 2020, compared to the thirteen and thirty-nine weeks ended September 28, 2019. Throughout this discussion, "We", "Us", "Our", "Company" and "High Liner Foods" refer to High Liner Foods Incorporated and its businesses and subsidiaries.

This document should be read in conjunction with our 2019 Annual Report along with our Unaudited Condensed Interim Consolidated Financial Statements as at and for the thirteen and thirty-nine weeks ended September 26, 2020 ("Consolidated Financial Statements"), prepared in accordance with International Financial Reporting Standards ("IFRS"). The information contained in this document, including forward-looking statements, is based on information available to Management as of November 6, 2020, except as otherwise noted.

Non-IFRS Financial Measures

This document includes certain non-IFRS financial measures, which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes. These non-IFRS measures do not have any standardized meaning as prescribed by IFRS and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures in the *Non-IFRS Financial Measures* section starting on page 19 of this MD&A.

Currency

All amounts in this MD&A are in United States dollars ("USD"), unless otherwise noted. Although the functional currency of High Liner Foods' Canadian company (the "Parent") is the Canadian dollar ("CAD"), management believes the USD presentation better reflects the Company's overall business activities and improves investors' ability to compare the Company's consolidated financial results with other publicly traded businesses in the packaged foods industry (most of which are based in the United States ("U.S.") and report in USD) and should result in less volatility in reported sales and income on the conversion into the presentation currency.

For the purpose of presenting the Consolidated Financial Statements in USD, CAD-denominated assets and liabilities in the Parent's operations are converted using the exchange rate at the reporting date, and revenue and expenses are converted at the average exchange rate of the month in which the transaction occurs. As such, foreign currency fluctuations affect the reported values of individual lines on our balance sheet and income statement. When the USD strengthens (weakening CAD), the reported USD values of the Parent's CAD-denominated items decrease in the Consolidated Financial Statements, and the opposite occurs when the USD weakens (strengthening CAD).

In some parts of this document, balance sheet and operating items of the Parent are discussed in the CAD functional currency (the "domestic currency" of the Parent) to eliminate the effect of fluctuating foreign exchange rates used to translate the Parent's operations to the USD presentation currency.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements within the meaning of securities laws. In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. In addition, these statements and expectations concerning the performance of the business in general are based on a number of factors and assumptions including, but not limited to: availability, demand and prices of raw materials, energy and supplies; the condition of the Canadian and American economies; product pricing; foreign exchange rates, especially the rate of exchange of the CAD to the USD; the ability to attract and retain customers; operating costs and improvement to operating efficiencies; interest rates; continued access to capital; the competitive environment and related market conditions; and the general assumption that none of the risks identified below or elsewhere in this document will materialize.

Specific forward-looking statements in this document include, but are not limited to: statements with respect to: potential impact of the 2019 coronavirus pandemic on the Company's operations and performance; future growth strategies and their impact on the Company's market share and shareholder value; anticipated financial performance, including earnings trends and growth; achievement, and timing of achievement, of strategic goals and publicly stated financial targets, including to increase our market share, acquire and integrate other businesses and reduce operating and supply chain costs; and the ability to develop new and innovative products that result in increased sales and market share; increased demand for products whether due to the recognition of the health benefits of seafood or otherwise; changes in costs for seafood and other raw materials; any proposed disposal of assets and/or operations; increases or decreases in processing costs; the USD/CAD exchange rate; percentage of sales from the Company's brands; expectations with regards to sales volume, earnings, product margins, product innovations, brand development and anticipated financial performance; competitor reaction to Company strategies and actions; impact of price increases or decreases on future profitability; sufficiency of working capital facilities; future income tax rates; the expected amount and timing of integration activities related to acquisitions; expected leverage levels and expected Net Debt to Adjusted EBITDA; statements under the "outlook" heading including expected demand, sales of new product, the efficiency of plant production and U.S. tariffs on certain seafood products imported from China; expected amount and timing of cost savings related to the optimization of the Company's structure; decreased leverage in the future; estimated capital spending; future inventory trends and seasonality; market forces and the maintenance of existing customer and supplier relationships; availability of credit facilities; the projection of excess cash flow and minimum repayments under the Company's long-term loan facility; expected decreases in debt-to-capitalization ratio; dividend payments; the amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants; and expectations regarding the potential future impact of the 2019 coronavirus pandemic on operations, customer and consumer behavior and economic patterns.

Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "could", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective", "goal", "remain" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the *Risk Factors* section of our 2019 Annual Report and the *Risk Factors* section of our 2019 Annual Information Form. The risks and uncertainties that may affect the operations, performance, development and results of High Liner Foods' business include, but are not limited to, the following factors: compliance with food safety laws and regulations; timely identification of and response to events that could lead to a product recall; volatility in the CAD/USD exchange rate; competitive developments including increases in overseas seafood production and industry consolidation; availability and price of seafood raw materials and finished goods and the impact of geopolitical

events (and related economic sanctions) on the same; the impact of the U.S. Trade Representative's tariffs on certain seafood products; costs of commodity products and other production inputs, and the ability to pass cost increases on to customers; successful integration of acquired operations; potential increases in maintenance and operating costs; shifts in market demands for seafood; performance of new products launched and existing products in the market place; changes in laws and regulations, including environmental, taxation and regulatory requirements; technology changes with respect to production and other equipment and software programs; enterprise resource planning system risk; adverse impacts of cybersecurity attacks or breach of sensitive information; supplier fulfillment of contractual agreements and obligations; competitor reactions; High Liner Foods' ability to generate adequate cash flow or to finance its future business requirements through outside sources; credit risk associated with receivables from customers; volatility associated with the funding status of the Company's post-retirement pension benefits; adverse weather conditions and natural disasters; the availability of adequate levels of insurance; management retention and development; and the potential impact of a pandemic outbreak of a contagious illness, such as the 2019 coronavirus/COVID-19 pandemic, on general economic and business conditions and therefore the Company's operations and financial performance.

Forward-looking information is based on management's current estimates, expectations and assumptions, which we believe are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Except as required under applicable securities laws, we do not undertake to update these forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf, whether as a result of new information, future events or otherwise.

COMPANY OVERVIEW

High Liner Foods, through its predecessor companies, has been in business since 1899 and has been a publicly traded Canadian company since 1967, trading under the symbol 'HLF' on the Toronto Stock Exchange ("TSX"). We are a leading North American processor and marketer of value-added (i.e. processed) frozen seafood, producing a wide range of products from breaded and battered items to seafood entrées, that are sold to North American food retailers and foodservice distributors. In addition, we are a major supplier of commodity products in the North American market. The retail channel includes grocery and club stores and our products are sold throughout the U.S. and Canada under the **High Liner**, **Fisher Boy**, **Mirabel**, **Sea Cuisine** and **Catch of the Day** labels. The foodservice channel includes sales of seafood that is usually eaten outside the home and our branded products are sold through distributors to restaurants and institutions under the **High Liner**, **Mirabel**, **Icelandic Seafood**¹ and **FPI** labels. The Company is also a major supplier of private-label value-added frozen premium seafood products to North American food retailers and foodservice distributors.

We own and operate three food-processing plants located in Lunenburg, Nova Scotia ("N.S."), Portsmouth, New Hampshire, and Newport News, Virginia.

Although our roots are in the Atlantic Canadian fishery, we purchase all our seafood raw material and some finished goods from around the world. From our headquarters in Lunenburg, N.S., we have transformed our long and proud heritage into global seafood expertise. We deliver on the expectations of consumers by selling seafood products that respond to their demands for sustainable, convenient, tasty and nutritious seafood, at good value.

¹ In December 2011, as part of the acquisition of the U.S. subsidiary of Icelandic Group h.f, the Company acquired several brands and agreed to a seven year royalty-free licensing agreement with Icelandic Group for the use of the Icelandic Seafood brand in the U.S., Canada and Mexico. In April 2018, the Company executed a seven-year brand license agreement for the continued use of the Icelandic Seafood brand in the U.S. and Canada with royalty payments effective January 2019 (1.5% on net sales of products sold under the Icelandic Seafood brand).

Additional information relating to High Liner Foods, including our most recent Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com and in the Investor Center section of the Company's website at www.highlinerfoods.com.

OUTLOOK

Based on the consistent performance of the Company over the past quarters and steady recovery of its foodservice business, High Liner Foods remains confident that it can deliver Adjusted EBITDA growth in 2020.

High Liner Foods believes it is fully prepared to navigate the second wave of COVID-19 in North America. The Company is confident that its diverse and integrated North American business will continue to satisfy the needs of retail and foodservice customers and consumers through excellent fill rates, product innovation and creative solutions to help solve challenges facing foodservice operators looking for convenience-focused products.

The Company is confident in its liquidity position as a result of its prudent cash management and early refinancing of debt in late 2019. The Company does not have any impending debt maturities and will continue to utilize its \$150.0 million working capital credit facility if required. Borrowings on this facility, net of cash on hand, are currently approximately \$nil.

RECENT DEVELOPMENTS

COVID-19 Pandemic

In March 2020, the 2019 coronavirus disease outbreak ("COVID-19") was recognized as a pandemic by the World Health Organization ("WHO"). COVID-19 has continued to spread globally, including in the markets in which the Company operates, and is having a significant impact on general economic conditions on a global scale. In response to the WHO declaration and the continuing spread of COVID-19, several social distancing measures have been undertaken by the Company and third parties, including governments, regulatory authorities, businesses and the Company's customers, that could negatively impact the Company's operations and financial results in future periods.

Starting mid-March, High Liner Foods experienced a surge in demand from its retail customers tied to COVID-19 due to consumer trends shifting toward eating at home as a result of social distancing restrictions. As restrictions have lifted, the surge in demand has eased, however the overall impact of COVID-19 on the Company's retail business continues to be positive. The Company has been able to meet the increased demand and satisfy its customers by redirecting resources, inventory and production capacity across its integrated North American operations. Over the same time period, the Company has experienced a significant decline in its foodservice business, which represented approximately 65% of the total business in 2019, as a result of foodservice industry closures that include restaurants and schools across North America. Though the overall impact of COVID-19 on the Company's foodservice business has been negative, demand from the Company's institutional customers, such as long-term and health care facilities, has remained relatively stable. Since the initial impact of COVID-19 in March and April, foodservice demand has steadily improved and continues to improve as restrictions are lifted and the Company's foodservice customers re-open for business.

The impact of COVID-19 on the Company's overall supply chain has been minimal. There have been no significant issues with the procurement of raw materials and ingredients, and there have been limited interruptions in transportation and warehousing activities. The Company's three plants experienced some short-term manufacturing interruptions and operated fewer production lines throughout the second quarter of the year due to the impacts of COVID-19. However, late in the second quarter, the Company's plants increased production lines and have been operating at planned capacity throughout the third quarter in order to meet the increasing demand in the Company's retail and foodservice businesses as discussed above.

During the thirty-nine weeks ended September 26, 2020, the Company participated in the Canada Emergency Wage Subsidy government grant program ("wage subsidy"), which in general provides wage subsidies to eligible employers as a means of limiting job losses in Canada. During that period, the Company recognized \$2.1 million in income-related wage subsidies as a reduction of salaries and benefits expense recognized in cost of sales, distribution expenses and selling, general and administrative expenses in the consolidated statements of income (loss). See the *Accounting Estimates and Standards* section on page 23 of this MD&A for further detail on the Company's accounting policy for government grants. The Company does not have any unfulfilled conditions or contingencies related to the wage subsidies recognized.

Certain modifications made by the Company in response to COVID-19 include, but are not limited to: implementing a work from home policy for all salaried employees able to perform their duties at home; developing a gradual phased plan to support the safe return of employees to worksites; restricting employee business travel and implementing post-travel employee screening; limiting third-party access to the Company's facilities; strengthening clean workplace practices including enhanced frequency of deep cleaning; implementation of a COVID-19 Task Force comprised of employees and executive leadership; introduction of temporary extraordinary recognition pay for all employees working in critical operational roles in production and warehouse facilities; and other employee screening, hygiene and social distancing practices as recommended by health authorities including Health Canada, the U.S. Centers for Disease Control and Prevention, and the WHO. During the thirty-nine weeks ended September 26, 2020, the Company incurred \$1.9 million in incremental costs associated with the implementation of these additional measures. As the pandemic evolves, the Company will continue to implement measures designed to protect the health and safety of employees and prevent disruption to the Company's supply chain and operations.

See the *Risk Factors* section beginning on page 25 of this MD&A for further discussion of the impact of COVID-19 on the Company's risk assessment.

U.S. Tariffs

In September 2018, the U.S. Trade Representative ("USTR") commenced trade discussions with China which has resulted in the following actions related to additional tariffs on goods imported to the U.S.:

- Initial 10% tariff on certain Chinese imports effective September 24, 2018 ("first action") impacting most notably haddock (excluding block), tilapia and sole/flounder;
- Increase to a 25% tariff on Chinese imports covered by the first action effective May 10, 2019 for items entering the U.S. on or after June 10, 2019; and
- Initial 15% tariff proposed on Chinese imports falling under "List 4B" effective December 15, 2019 ("second action"), pending further negotiations between the U.S. and China.

The 15% tariff proposed on certain Chinese imports covered by the second action and the additional 25% tariff on certain species covered by the first action have been postponed indefinitely.

During December 2019, the Company received notice of approval of an exclusion request submitted to the USTR regarding tariffs on certain goods imported to the U.S. from China. The exclusion applies to tariffs already incurred, or that would otherwise be incurred, on specific goods from September 24, 2018 to August 7, 2020 and may result in the recovery of tariffs previously paid by the Company.

During August 2020, the Company received notice of approval of an exclusion extension request submitted to the USTR regarding tariffs on certain goods imported to the U.S. from China. The extension applies to tariffs that would otherwise be incurred on specific goods from August 8, 2020 to December 31, 2020.

The Company will continue to monitor these developments closely, particularly if further information becomes available regarding potential additional tariffs or exclusions, or how the previously announced tariffs and exclusions will impact the Company.

PERFORMANCE

This discussion and analysis of the Company's financial results focuses on the performance of the consolidated North American operations, the Company's single operating and reporting segment.

Seasonality

Overall, the first quarter of the year is historically the strongest for both sales and profit, and the second quarter is the weakest. Both our retail and foodservice businesses traditionally experience a strong first quarter due to retailers and restaurants promoting seafood during the Lenten period. As such, the timing of Lent can impact our quarterly results.

A significant percentage of advertising and promotional activity is typically done in the first quarter. Customer-specific promotional expenditures such as trade spending, listing allowances and couponing are deducted from "Sales" and non-customer-specific consumer marketing expenditures are included in selling, general and administrative expenses.

Inventory levels fluctuate throughout the year, most notably increasing to support strong sales periods such as the Lenten period. In addition, the timing of ordering raw materials is earlier than typically required in order to have adequate quantities available during the seasonal closure of plants in Asia during the Lunar New Year period. These events typically result in significantly higher inventories in December, January, February and March than during the rest of the year.

Consolidated Performance

The table below summarizes key consolidated financial information for the relevant periods.

(in \$000s, except sales volume, per share amounts, percentage amounts, and exchange rates)	Thirteen weeks ended			Thirty-nine weeks ended		
	September 26, 2020	September 28, 2019	Change	September 26, 2020	September 28, 2019	Change
Sales volume (millions of lbs)	54.7	60.2	(5.5)	181.3	199.1	(17.8)
Average foreign exchange rate (USD/CAD)	\$ 1.3330	\$ 1.3205	\$ 0.0125	\$ 1.3537	\$ 1.3295	\$ 0.0242
Sales	\$ 194,621	\$ 220,141	\$ (25,520)	\$ 629,038	\$ 720,599	\$ (91,561)
Gross profit	\$ 38,903	\$ 42,434	\$ (3,531)	\$ 134,404	\$ 141,358	\$ (6,954)
Gross profit as a percentage of sales	20.0%	19.3%	0.7%	21.4%	19.6%	1.8%
Distribution expenses	\$ 10,095	\$ 10,697	\$ (602)	\$ 33,711	\$ 34,375	\$ (664)
Selling, general and administrative expenses	\$ 17,734	\$ 25,429	\$ (7,695)	\$ 53,861	\$ 71,442	\$ (17,581)
Adjusted EBITDA ⁽¹⁾	\$ 19,068	\$ 16,455	\$ 2,613	\$ 66,860	\$ 66,553	\$ 307
Adjusted EBITDA as a percentage of sales	9.8%	7.5%	2.3%	10.6%	9.2%	1.4%
Net income (loss)	\$ 3,821	\$ (2,400)	\$ 6,221	\$ 21,430	\$ 13,308	\$ 8,122
Basic Earnings (Loss) per Share ("EPS")	\$ 0.11	\$ (0.07)	\$ 0.18	\$ 0.63	\$ 0.39	\$ 0.24
Diluted EPS	\$ 0.11	\$ (0.07)	\$ 0.18	\$ 0.63	\$ 0.39	\$ 0.24
Adjusted Net Income ⁽¹⁾	\$ 5,948	\$ 3,857	\$ 2,091	\$ 24,896	\$ 23,462	\$ 1,434
Adjusted Basic EPS	\$ 0.18	\$ 0.11	\$ 0.07	\$ 0.74	\$ 0.69	\$ 0.05
Adjusted Diluted EPS ⁽¹⁾	\$ 0.18	\$ 0.11	\$ 0.07	\$ 0.74	\$ 0.68	\$ 0.06
Total assets				\$ 776,381	\$ 810,069	\$ (33,688)
Total long-term financial liabilities				\$ 316,176	\$ 346,576	\$ (30,400)
Dividends paid per common share (in CAD)	\$ 0.050	\$ 0.050	\$ —	\$ 0.150	\$ 0.245	\$ (0.095)

⁽¹⁾ See the *Non-IFRS Financial Measures* section starting on page 19 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

COVID-19 Pandemic

The performance of the Company's consolidated North American operations, as discussed in the following sections, has been significantly impacted by COVID-19, and may continue to be impacted in future periods. See the *Recent Developments* section on page 4 of this MD&A for further information regarding the current and anticipated impacts of the COVID-19 pandemic and the Company's response.

Sales

Thirteen weeks

Sales volume for the third quarter of 2020 decreased by 5.5 million pounds, or 9.1%, to 54.7 million pounds compared to 60.2 million pounds in the same period in 2019. In our foodservice business, sales volume continued to be lower due to the impact of COVID-19 on our foodservice customers. In our retail business, sales volume continued to be higher due to the increased demand related to COVID-19, partially offset by lost business in the fourth quarter of Fiscal 2019 that continued to impact volume year-over-year. The decline in sales volume was partially offset by new business and new product sales.

Sales in the third quarter of 2020 decreased by \$25.5 million, or 11.6%, to \$194.6 million compared to \$220.1 million in the same period last year, reflecting the lower sales volumes discussed above and changes in sales mix. In addition, the weaker Canadian dollar in the third quarter of 2020 compared to the same quarter of 2019 decreased the value of USD sales from our CAD-denominated operations by approximately \$0.5 million relative to the conversion impact last year.

Thirty-nine weeks

Sales volume in the first three quarters of 2020 decreased by 17.8 million pounds, or 8.9%, to 181.3 million pounds compared to 199.1 million pounds in the same period last year. In our foodservice business, sales volume was lower due to the impact of COVID-19 on our foodservice customers beginning in late March and continuing throughout the second and third quarters of 2020. In our retail business, sales volume was higher primarily due to the surge in demand related to COVID-19 that began in late March and continued into the second quarter, partially offset by lost business in the fourth quarter of Fiscal 2019 that continued to impact volume year over year. The decline in sales volume was partially offset by new business and new product sales.

Sales in the first three quarters of 2020 decreased by \$91.6 million, or 12.7%, to \$629.0 million compared to \$720.6 million in the same period last year. The decrease in sales reflects the lower sales volumes mentioned above and changes in sales mix. In addition, the weaker Canadian dollar in the first three quarters of 2020 compared to the first three quarters of 2019 decreased the value of reported USD sales from our CAD-denominated operations by approximately \$2.6 million relative to the conversion impact last year.

Gross Profit

Thirteen weeks

Gross profit decreased in the third quarter of 2020 by \$3.5 million, or 8.3%, to \$38.9 million compared to \$42.4 million in 2019 and gross profit as a percentage of sales increased to 20.0% compared to 19.3%. The decrease in gross profit reflects the lower sales volume discussed above, partially offset by favorable changes in product mix reflected in the improved gross profit as a percentage of sales.

In addition, the weaker Canadian dollar decreased the value of reported USD gross profit from our Canadian operations in 2020 by approximately \$0.1 million relative to the conversion impact last year.

Thirty-nine weeks

Gross profit decreased in the first three quarters of 2020 by \$7.0 million, or 5.0%, to \$134.4 million compared to \$141.4 million in the same period last year and gross profit as a percentage of sales increased to 21.4% compared to 19.6% in the same period last year. The decrease in gross profit reflects the decrease in sales volume discussed above and the incremental costs associated with COVID-19, partially offset by favorable changes in product mix reflected in the improved gross profit as a percentage of sales, improved supply chain efficiencies related to the critical initiatives completed in Fiscal 2019 and reduced labour costs due to estimated wage subsidies that the Company was eligible for during the second and third quarters.

In addition, the weaker Canadian dollar decreased the value of reported USD gross profit from our Canadian operations in 2020 by approximately \$0.7 million relative to the conversion impact last year.

Distribution Expenses

Thirteen weeks

Distribution expenses, consisting of freight and storage, decreased in the third quarter of 2020 by \$0.6 million to \$10.1 million compared to \$10.7 million the same period in 2019, primarily reflecting the lower sales volume mentioned previously, partially offset by increased freight costs related to COVID-19. As a percentage of sales, these expenses increased to 5.2% in the third quarter of 2020 compared to 4.9% in the same period in 2019.

Thirty-nine weeks

Distribution expenses, consisting of freight and storage, decreased in the first three quarters of 2020 by \$0.7 million to \$33.7 million compared to \$34.4 million in 2019 primarily reflecting the lower sales volume mentioned previously and reduced labour costs due to estimated wage subsidies that the Company was eligible for during the second and third quarters, partially offset by the higher freight costs mentioned previously. As a percentage of sales, distribution expenses increased to 5.4% in the first three quarters of 2020 compared to 4.8% in the same period in 2019.

Selling, General and Administrative ("SG&A") Expenses

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
SG&A expenses, as reported	\$ 17,734	\$ 25,429	\$ 53,861	\$ 71,442
Less:				
Share-based compensation expense ⁽¹⁾	2,364	4,364	2,864	8,603
Depreciation and amortization expense ⁽¹⁾	2,666	2,683	7,922	8,135
SG&A expenses, net	\$ 12,704	\$ 18,382	\$ 43,075	\$ 54,704
SG&A expenses, net as a percentage of sales	6.5%	8.4 %	6.8%	7.6%

⁽¹⁾ Represents share-based compensation expense and depreciation and amortization expense that is allocated to SG&A only. The remaining expense is allocated to cost of sales and distribution expenses.

SG&A Expenses

Thirteen weeks

SG&A expenses decreased in the third quarter of 2020 by \$7.7 million to \$17.7 million compared to \$25.4 million in the same period last year. SG&A expenses included share-based compensation expense of \$2.4 million in the third quarter of 2020 compared to share-based compensation expense of \$4.4 million for the same period in 2019, primarily due to higher units outstanding in the prior year, partially offset by improved share price performance during the third quarter of 2020 as compared to the same period last year. SG&A expenses also included depreciation and amortization expense of \$2.7 million in the third quarter of 2020 and \$2.7 million in the same period of 2019.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the third quarter of 2020 by \$5.7 million to \$12.7 million compared to \$18.4 million in the same period last year, due to lower variable selling costs largely related to the lower sales volume mentioned previously and lower administrative expenses related to travel restrictions and other cost reductions related to COVID-19 and the estimated wage subsidies that the Company was eligible for in the third quarter. As a percentage of sales, SG&A excluding share-

based compensation and depreciation and amortization expense decreased to 6.5% in the third quarter of 2020 compared to 8.4% in the same period last year.

Thirty-nine weeks

SG&A expenses decreased by \$17.5 million to \$53.9 million in the first three quarters of 2020 as compared to \$71.4 million in the same period last year. SG&A expenses included share-based compensation expense of \$2.9 million in the first three quarters of 2020 compared to an expense of \$8.6 million in the same period last year, primarily due to higher units outstanding in the prior year and improved share price performance over the first three quarters of 2019 as compared to 2020, partially offset by the issuance of stock options and cash settled awards in the current year. SG&A expenses also included depreciation and amortization expense of \$7.9 million in the first three quarters of 2020 compared to \$8.1 million in the same period last year.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the first three quarters of 2020 by \$11.6 million to \$43.1 million compared to \$54.7 million in 2019, due to lower variable selling and marketing costs largely related to the lower sales volume mentioned previously and lower administrative expenses related to travel restrictions and other costs reductions related to COVID-19 and the estimated wage subsidies that the Company was eligible for in the second and third quarters of 2020. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense decreased to 6.8% in the first three quarters of 2020 compared to 7.6% in 2019.

Adjusted EBITDA

We refer to Adjusted EBITDA throughout this MD&A in discussing our results for the thirteen and thirty-nine weeks ended September 26, 2020. See the *Non-IFRS Financial Measures* section on page 19 for further explanation of this non-IFRS measure.

Thirteen weeks

Adjusted EBITDA increased in the third quarter of 2020 by \$2.6 million, or 15.8%, to \$19.1 million compared to \$16.5 million in the same period last year and as a percentage of sales, Adjusted EBITDA increased to 9.8% compared to 7.5%. The increase in Adjusted EBITDA reflects the decrease in distribution expenses and net SG&A expenses, partially offset by the decrease in gross profit, all discussed previously.

In addition, the weaker Canadian dollar decreased the value of reported Adjusted EBITDA in USD from our Canadian operations in 2020 by approximately \$0.1 million relative to the conversion impact last year.

Thirty-nine weeks

Adjusted EBITDA increased in the first three quarters of 2020 by \$0.3 million, or 0.5%, to \$66.9 million compared to \$66.6 million in the same period last year and as a percentage of sales, Adjusted EBITDA increased to 10.6% compared to 9.2%. Adjusted EBITDA in 2019 includes \$5.5 million of the \$8.5 million recovery received from the ingredient supplier in the first quarter of 2019 that was associated with the 2017 product recall. Excluding the \$5.5 million recovery from the first quarter of 2019, Adjusted EBITDA increased by \$5.8 million, or 9.5%, in the first three quarters of 2020 as a result of the decrease in distribution and net SG&A expenses, partially offset by the decrease in gross profit, all discussed previously.

In addition, the weaker Canadian dollar decreased the value of reported Adjusted EBITDA in USD from our Canadian operations in 2020 by approximately \$0.4 million relative to the conversion impact last year.

Net Income (Loss)

We refer to Adjusted Net Income and Adjusted Diluted EPS throughout this MD&A. See the *Non-IFRS Financial Measures* section starting on page 19 for further explanation of these non-IFRS measures.

Thirteen weeks

Net income (loss) increased in the third quarter of 2020 by \$6.2 million, or 258.3%, to \$3.8 million (\$0.11 per diluted share) compared to a net loss of \$2.4 million (\$0.07 loss per diluted share) in the same period last year. The increase in net income reflects the increase in Adjusted EBITDA and decrease in share-based compensation expense, both discussed previously, a decrease in business acquisition, integration and other expense (income) as discussed below and a decrease in finance costs as discussed in the *Finance Costs* section on page 13 of this MD&A, partially offset by an increase in income tax expense as discussed in the *Income Taxes* section on page 13 of this MD&A.

In the third quarter of 2020, net income included an expense of \$0.6 million classified as "business acquisition, integration and other expense (income)" (as explained in the *Business Acquisition, Integration and Other Expense (Income)* section on page 12 of this MD&A) related to certain non-routine expenses. In 2019, net loss included an expense of \$3.4 million classified as "business acquisition, integration and other expense (income)" related to costs associated with the Company's critical initiatives and other non-routine expenses. Excluding the impact of these non-routine items, other non-cash expenses and share-based compensation, Adjusted Net Income in the third quarter of 2020 increased by \$2.0 million or 51.3% to \$5.9 million compared to \$3.9 million the same period last year.

Correspondingly, Adjusted Diluted EPS increased by \$0.07 to \$0.18 compared to \$0.11 in the same period last year.

Thirty-nine weeks

Net income increased in the first three quarters of 2020 by \$8.1 million, or 60.9%, to \$21.4 million (\$0.63 per diluted share) compared to \$13.3 million (\$0.39 per diluted share) in the same period last year. The increase in net income reflects the increase in Adjusted EBITDA and decrease in share-based compensation expense, both discussed previously, and a decrease in finance costs as discussed in the *Finance Costs* section on page 13 of this MD&A, partially offset by an increase in income tax expense as discussed in the *Income Taxes* section on page 13 of this MD&A and the additional \$3.0 million product recall recovery from the ingredient supplier that was excluded from Adjusted EBITDA in the first quarter of 2019.

In the first three quarters of 2020, net income included an expense of \$1.8 million classified as "business acquisition, integration and other expense (income)" (as explained in the *Business Acquisition, Integration and Other Expense (Income)* section on page 12 of this MD&A) related to certain non-routine expenses. In 2019, net income included a recovery of \$1.0 million classified as "business acquisition, integration and other expense (income)" related to the product recall recovery, partially offset by consulting fees as a result of the Company's critical initiatives, short-term termination benefits as a result of restructuring activities and other non-routine expenses. Excluding the impact of these non-routine items, other non-cash expenses and share-based compensation, but including only \$5.5 million of the \$8.5 million product recall recovery received during the first quarter of 2019, Adjusted Net Income in the first three quarters of 2020 increased by \$1.4 million, or 6.0%, to \$24.9 million compared to \$23.5 million in the same period last year.

Adjusted Diluted EPS increased \$0.06 in the first three quarters of 2020 to \$0.74 compared to \$0.68 in the same period last year.

RESULTS BY QUARTER

The following table provides summarized financial information for the last nine quarters:

(Amounts in \$000s, except per share amounts)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Sales	\$194,621	\$165,829	\$268,588	\$221,625	\$220,141	\$223,034	\$277,424	\$242,878	\$241,157
Adjusted EBITDA⁽¹⁾	\$ 19,068	\$ 17,087	\$ 30,705	\$ 18,771	\$ 16,455	\$ 17,883	\$ 32,215	\$ 11,968	\$ 14,235
Net Income (Loss)	\$ 3,821	\$ 3,382	\$ 14,227	\$ (3,019)	\$ (2,400)	\$ 946	\$ 14,762	\$ (810)	\$ 4,531
Adjusted Net Income⁽¹⁾	\$ 5,948	\$ 4,660	\$ 14,228	\$ 5,675	\$ 3,857	\$ 4,680	\$ 14,925	\$ 2,169	\$ 412
EPS, based on Net Income (Loss)									
Basic	\$ 0.11	\$ 0.10	\$ 0.42	\$ (0.09)	\$ (0.07)	\$ 0.03	\$ 0.44	\$ (0.02)	\$ 0.13
Diluted	\$ 0.11	\$ 0.10	\$ 0.41	\$ (0.09)	\$ (0.07)	\$ 0.03	\$ 0.43	\$ (0.02)	\$ 0.13
EPS, based on Adjusted Net Income⁽¹⁾									
Basic	\$ 0.18	\$ 0.14	\$ 0.42	\$ 0.17	\$ 0.11	\$ 0.14	\$ 0.44	\$ 0.07	\$ 0.01
Diluted ⁽¹⁾	\$ 0.18	\$ 0.14	\$ 0.42	\$ 0.17	\$ 0.11	\$ 0.13	\$ 0.44	\$ 0.07	\$ 0.01
Dividends paid per common share (CAD)									
	\$ 0.050	\$ 0.050	\$ 0.050	\$ 0.050	\$ 0.050	\$ 0.050	\$ 0.145	\$ 0.145	\$ 0.145
Net non-cash working capital⁽²⁾									
	\$199,569	\$234,348	\$252,323	\$239,176	\$201,289	\$209,791	\$230,412	\$227,223	\$233,916

⁽¹⁾ See the *Non-IFRS Financial Measures* section starting on page 19 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

⁽²⁾ Net non-cash working capital is comprised of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions.

BUSINESS ACQUISITION, INTEGRATION AND OTHER EXPENSE (INCOME)

The Company reports expenses associated with business acquisition and integration activities, and certain other non-routine costs separately in its consolidated statements of income (loss) as follows:

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Business acquisition, integration and other expense (income)	\$ 599	\$ 3,414	\$ 1,836	\$ (987)

Business acquisition, integration and other expense (income) for the thirty-nine weeks ended September 26, 2020 included certain non-routine expenses.

For the thirty-nine weeks ended September 28, 2019, business acquisition, integration and other expense (income) included the recognition of an \$8.5 million recovery associated with the 2017 product recall from the ingredient supplier, partially offset by short-term termination benefits as a result of the organizational realignment initiated in November 2018 of \$1.3 million, consulting fees related to the critical initiatives undertaken by the Company in 2019, and other non-routine expenses.

FINANCE COSTS

The following table shows the various components of the Company's finance costs:

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Interest paid in cash during the period	\$ 4,408	\$ 4,379	\$ 14,365	\$ 15,075
Change in cash interest accrued during the period	(577)	176	(514)	(362)
Total interest to be paid in cash	3,831	4,555	13,851	14,713
Interest expense on lease liabilities	289	256	880	1,071
Deferred financing cost & modification loss amortization	304	216	81	644
Total finance costs	\$ 4,424	\$ 5,027	\$ 14,812	\$ 16,428

Finance costs were \$0.6 million lower in the third quarter of 2020 and \$1.6 million lower in the thirty-nine weeks ended September 26, 2020 compared to the same periods last year. The decrease during the thirty-nine weeks ended September 26, 2020 was due to repayments of the term loan facility in October 2019 and during the first quarter of 2020 and a decrease in interest rates related to the economic impacts of COVID-19 (see the *Recent Developments* section on page 4 of this MD&A), partially offset by higher average short-term borrowings during the first three quarters of 2020 compared to the same period last year.

INCOME TAXES

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended September 26, 2020 was 28.2% (thirteen and thirty-nine weeks ended September 28, 2019: 29.2%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended September 26, 2020 was an expense of 36.9% and 29.0%, respectively (thirteen and thirty-nine weeks ended September 28, 2019: a recovery of 21.6% and an expense of 30.4%, respectively). The lower effective income tax rate for the first three quarters of 2020 compared to same period last year was primarily attributable to a decrease in the statutory rates of the Parent and its U.S. subsidiary.

CONTINGENCIES

The Company has no material outstanding contingencies.

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet is affected by foreign currency fluctuations, the effect of which is discussed in the *Introduction* section on page 1 of this MD&A (under the heading "*Currency*") and in the Foreign Currency risk discussion on page 26 (in the *Risk Factors* section).

Our capital management practices are described in Note 26 "*Capital management*" to the 2019 annual consolidated financial statements.

Working Capital Credit Facility

The Company entered into an amended \$150.0 million asset-based working capital credit facility (the "Facility") in October 2019 with the Royal Bank of Canada as Administrative and Collateral agent, which expires by its amended terms in April 2023. There were no changes to the terms during the first three quarters of 2020.

The rates provided by the working capital credit facility are noted in the following table, based on the "Average Adjusted Aggregate Availability" as defined in the credit agreement. The Company's borrowing rates as of September 26, 2020 are also noted in the following table.

Per Credit Agreement	As at September 26, 2020	
Canadian Prime Rate revolving loans, Canadian Prime Rate revolving and U.S. Prime Rate revolving loans, at their respective rates	plus 0.00% to 0.25%	plus 0.00%
Bankers' Acceptances ("BA") revolving loans, at BA rates	plus 1.25% to 1.75%	plus 1.25%
LIBOR revolving loans at LIBOR, at their respective rates	plus 1.25% to 1.75%	plus 1.25%
Letters of credit, with fees of	1.25% to 1.75%	1.25%
Standby fees, required to be paid on the unutilized facility, of	0.25%	0.25%

Average short-term borrowings outstanding during the first three quarters of 2020 were \$51.7 million compared to \$21.5 million in the same period last year. The \$30.2 million increase in average short-term borrowings primarily reflects increased working capital requirements during the first three quarters of 2020 as compared to the first three quarters of 2019, long-term debt repayments in the fourth quarter of Fiscal 2019 and the first quarter of Fiscal 2020, and increased short-term borrowings during Fiscal 2020 to support operations as a result of COVID-19 (see the *Recent Developments* section on page 4 of this MD&A). This was partially offset by payments on the Company's working capital credit facility during the second and third quarters of Fiscal 2020 due to increased cash flows from operations as discussed in the *Cash Flow* section on page 16 of this MD&A.

At the end of the third quarter of 2020, the Company had \$103.1 million (September 28, 2019: \$140.4 million) of unused borrowing capacity, taking into account both margin calculations and the total line availability. Included in this amount are letters of credit, which reduce the availability under the working capital credit facility. On September 26, 2020, letters of credit and standby letters of credit were outstanding in the amount of \$13.6 million (September 28, 2019: \$24.2 million) to support raw material purchases and to secure certain contractual obligations, including those related to the Company's Supplemental Executive Retirement Plan ("SERP").

The facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in North America, subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility. A second charge over the Company's property, plant and equipment is also in place. Additional details regarding the Company's working capital credit facility are provided in Note 4 "*Bank loans*" to the Consolidated Financial Statements.

We expect average short-term borrowings by the end of 2020 to be lower than the first three quarters of 2020 as cash from operations will be used to fund working capital and reduce short-term borrowings. We believe the asset-based working capital credit facility should be sufficient to fund all of the Company's anticipated cash requirements.

Term Loan Facility

As at September 26, 2020, the Company had a \$300.0 million term loan facility with an interest rate of LIBOR plus 4.25% (LIBOR floor of 1.00%), maturing in October 2026. There were no changes to the terms during the first three quarters of 2020.

Quarterly repayments of \$1.9 million are required on the term loan as regularly scheduled repayments. On an annual basis, based on a leverage test, additional prepayments ("mandatory excess cash flow prepayments") could be required of up to 50% of the previous year's defined excess cash flow. Per the loan agreement, mandatory excess

cash flow prepayments and voluntary repayments will be applied to future regularly scheduled principal repayments. During the thirty-nine weeks ended September 26, 2020, a regularly scheduled repayment of \$1.9 million was made and a mandatory prepayment of \$12.8 million was made due to excess cash flows in 2019. No additional regularly scheduled repayments are required for 2020.

Substantially all tangible and intangible assets (excluding working capital) of the Company are pledged as collateral for the term loan.

During the thirty-nine weeks ended September 26, 2020, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility:

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
Designated in a formal hedging relationship:				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700%	\$ 20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150%	\$ 25.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700%	\$ 40.0
January 4, 2018	April 24, 2021	3-month LIBOR (floor 1.0%)	2.2200%	\$ 80.0
March 4, 2020	December 31, 2025	3-month LIBOR (floor 1.0%)	1.4950%	\$ 20.0

As of September 26, 2020, the combined impact of the outstanding interest rate swaps listed above effectively fix the interest rate on \$140.0 million of the \$300.0 million face value of the term loan and the remaining portion of the debt continues to be at variable interest rates. As such, we expect that there will be fluctuations in interest expense due to changes in interest rates when LIBOR is higher than the embedded floor of 1.0%.

Additional details regarding the Company's term loan are provided in Note 5 "Long-term debt" to the Consolidated Financial Statements.

Net Debt

The Company's Net Debt (as calculated in the *Non-IFRS Financial Measures* section on page 22 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs and modification losses) and lease liabilities, less cash. Net Debt decreased by \$26.3 million to \$286.0 million at September 26, 2020 compared to \$312.3 million at September 28, 2019, reflecting debt repayments in the fourth quarter of 2019 and the first three quarters of 2020 as explained previously, and a higher cash balance as at September 26, 2020 as compared to September 28, 2019. This was partially offset by increased short-term borrowings as discussed above, and higher lease liabilities in the first three quarters of 2020 as compared to the first three quarters of 2019.

Net Debt to rolling twelve-month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 19 of this MD&A for further discussion of Adjusted EBITDA) was 3.3x at September 26, 2020 compared to 3.9x at June 27, 2020 and 4.1x at the end of Fiscal 2019. We expect that at the end of Fiscal 2020 this ratio will be higher than the ratio as at September 26, 2020, due to increased seasonal working capital requirements in advance of the Lenten period.

(Amounts in \$000s, except as otherwise noted)	Twelve months ended	
	September 26, 2020	December 28, 2019
Net Debt	\$ 285,969	\$ 346,592
Adjusted EBITDA	\$ 85,631	\$ 85,324
Net Debt to Adjusted EBITDA ratio (times)	3.3x	4.1x

Capital Structure

At September 26, 2020, Net Debt was 50.4% of total capitalization compared to 53.6% at September 28, 2019.

(Amounts in \$000s)	September 26, 2020	December 28, 2019	September 28, 2019
Net Debt	\$ 285,969	\$ 346,592	\$ 312,268
Shareholders' equity	280,551	268,170	269,712
Unrealized losses on derivative financial instruments included in AOCI	804	396	278
Total capitalization	\$ 567,324	\$ 615,158	\$ 582,258
Net Debt as percentage of total capitalization	50.4%	56.3%	53.6%

Using our September 26, 2020 market capitalization of \$211.9 million, based on a share price of CAD\$8.53 (USD\$6.36 equivalent), instead of the book value of equity, Net Debt as a percentage of total capitalization increases to 57.4%.

Cash Flow

(Amounts in \$000s)	Thirteen weeks ended			Thirty-nine weeks ended		
	September 26, 2020	September 28, 2019	Change	September 26, 2020	September 28, 2019	Change
Net cash flows provided by operating activities	\$ 46,342	\$ 15,478	\$ 30,864	\$ 80,693	\$ 75,698	\$ 4,995
Net cash flows used in financing activities	(22,694)	(2,355)	(20,339)	(30,650)	(55,351)	24,701
Net cash flows used in investing activities	(3,396)	(2,189)	(1,207)	(6,476)	(4,757)	(1,719)
Foreign exchange increase on cash	513	513	0	(1,504)	(458)	(1,046)
Net change in cash during the period	\$ 20,765	\$ 11,447	\$ 9,318	\$ 42,063	\$ 15,132	\$ 26,931

Cash Flows from Operating Activities

Cash inflows from operating activities were \$5.0 million higher in the first three quarters of 2020 compared to the same period last year. The increase in the first three quarters of 2020 was due to favorable changes in net non-cash working capital and higher cash flows from operations, partially offset by higher income taxes paid. The favorable changes in net non-cash working capital are the result of favorable changes in accounts receivable, inventories and provisions, partially offset by unfavorable changes in accounts payable and accrued liabilities.

Cash Flows from Financing Activities

Cash outflows from financing activities were \$24.7 million lower in the first three quarters of 2020 compared to the same period last year. The decrease in the first three quarters of 2020 was due to increased short-term borrowings as discussed previously (see the *Liquidity and Capital Resources* section beginning on page 13 of this MD&A) and a decrease in common share dividends paid. This was partially offset by higher long-term debt repayments in the first three quarters of 2020 due to the mandatory excess cash flow prepayment and regularly scheduled repayments discussed previously.

Cash Flows from Investing Activities

Cash outflows from investing activities were \$1.7 million higher in the first three quarters of 2020 compared to the same period last year. The increase in the first three quarters of 2020 was due to increased capital expenditures.

Standardized Free Cash Flow

Standardized Free Cash Flow (see the *Non-IFRS Financial Measures* section on page 21 for further explanation of Standardized Free Cash Flow) for the rolling twelve months ended September 26, 2020 decreased by \$29.1 million to an inflow of \$48.3 million compared to an inflow of \$77.4 million for the twelve months ended September 28, 2019. This decrease reflects unfavorable changes in non-cash working capital, partially offset by higher cash flows from operating activities, including interest and income taxes during the twelve months ended September 26, 2020 as compared to the twelve months ended September 28, 2019.

Net Non-Cash Working Capital

(Amounts in \$000s)	September 26, 2020	December 28, 2019	Change
Accounts receivable	\$ 67,386	\$ 85,089	\$ (17,703)
Inventories	231,246	294,913	(63,667)
Prepaid expenses	4,723	4,322	401
Accounts payable and accrued liabilities	(101,129)	(144,819)	43,690
Provisions	(2,657)	(329)	(2,328)
Net non-cash working capital	\$ 199,569	\$ 239,176	\$ (39,607)

Net non-cash working capital consists of accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and provisions. Net non-cash working capital decreased by \$39.6 million to \$199.6 million at September 26, 2020 as compared to \$239.2 million at December 28, 2019, primarily reflecting lower accounts receivable, inventories and higher provisions, partially offset by lower accounts payable and accrued liabilities.

Our working capital requirements fluctuate during the year, usually peaking between December and March as our inventory is the highest at that time. Going forward, we expect the trend of inventory peaking between December and March to continue, and believe we have enough availability on our working capital credit facility to finance our working capital requirements throughout the remainder of 2020.

Capital Expenditures

Capital expenditures (including computer software) were \$3.4 million and \$6.5 million during the third quarter and the first three quarters of 2020, respectively, as compared to capital expenditures of \$2.2 million and \$4.8 million during the third quarter and the first three quarters of 2019, respectively.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2020 will be approximately \$9.0 million and funded by cash generated from operations and short-term borrowings.

Dividends

The Company paid a CAD\$0.050 per share quarterly dividend on September 15, 2020 to common shareholders of record on September 1, 2020.

On November 6, 2020, the Company's Board of Directors approved a quarterly dividend of CAD\$0.070 per share on the Company's common shares, payable on December 15, 2020 to holders of record on December 1, 2020. The quarterly dividend of CAD\$0.070 per share represents a 40.0% increase from the CAD\$0.050 per share quarterly dividend paid during the third quarter of 2020 and reflects the Board's continued confidence in the Company's operations. These dividends are considered "eligible dividends" for Canadian income tax purposes.

Dividends and Normal Course Issuer Bids ("NCIB"), if applicable, are subject to the following restrictions in our credit agreements:

- Under the working capital credit facility, Average Adjusted Aggregate Availability, as defined in the credit agreement, needs to be \$18.8 million or higher and was \$122.7 million on September 26, 2020, and 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; and
- Under the term loan facility, dividends cannot exceed \$17.5 million per year. This amount increases to the greater of \$25.0 million per year or 32.5% of EBITDA as defined in the loan agreement when the defined total leverage ratio is below 4.0x. The defined total leverage ratio was 3.3x on September 26, 2020. NCIBs are subject to an annual limit of \$10.0 million under the term loan facility with a provision to carry forward unused amounts subject to a maximum of \$20.0 million per annum.

Contractual Obligations

Contractual obligations relating to our bank loans, long-term debt, lease liabilities, and purchase obligations as at September 26, 2020 were as follows:

(Amounts in \$000s)	Payments Due by Period			
	Total	Less than 1 year	1–5 Years	Thereafter
Bank loans	\$ 30,000	\$ 30,000	\$ —	\$ —
Long-term debt	375,735	20,305	87,590	267,840
Lease liabilities	18,570	5,580	12,556	434
Purchase obligations	133,289	131,792	1,497	—
Total contractual obligations	\$ 557,594	\$ 187,677	\$ 101,643	\$ 268,274

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* risk section in the 2019 Annual Report and the Foreign Currency section on page 26 of this MD&A for further details.

Financial Instruments and Risk Management

The Company has exposure to the following risks as a result of its use of financial instruments: foreign currency risk, interest rate risk, credit risk and liquidity risk. The Company enters into interest rate swaps, foreign currency contracts, and insurance contracts to manage these risks that arise from the Company's operations and its sources of financing, in accordance with a written policy that is reviewed and approved by the Audit Committee of the Board of Directors. The policy prohibits the use of derivative financial instruments for trading or speculative purposes.

Readers are directed to Note 12 "*Fair value measurement*" of the Consolidated Financial Statements for a complete description of the Company's use of derivative financial instruments and their impact on the financial results, and to Note 27 "*Financial risk management objectives and policies*" of the 2019 annual consolidated financial statements for further discussion of the Company's financial risks and policies.

Disclosure of Outstanding Share Data

On November 6, 2020, 33,323,481 common shares and 1,794,242 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

RELATED PARTY TRANSACTIONS

The Company had no related party transactions, excluding key management personnel compensation, for the thirteen and thirty-nine weeks ended September 26, 2020. During the thirteen and thirty-nine weeks ended September 28, 2019, the Company had related party transactions with a company controlled by a strategic advisor of Rubicon Resources, LLC. Effective the beginning of the second quarter of 2019, this company ceased to be a related party in accordance with IFRS. Total sales to related parties for the thirteen and thirty-nine weeks ended September 28, 2019 were \$nil and \$0.3 million, respectively. The Company leased an office building from a related party at an amount which approximated the fair market value that would have been incurred if leased from a third party. Effective the beginning of the second quarter of 2019, the lessor ceased to be a related party in accordance with IFRS. The aggregate payments under the lease, which were measured at the exchange amount, for the thirteen and thirty-nine weeks ended September 28, 2019 were \$nil and \$0.2 million, respectively.

Refer to Note 23 "*Related party disclosures*" to the 2019 annual consolidated financial statements for a further description of the Company's related party transactions, which are substantially unchanged in 2020.

NON-IFRS FINANCIAL MEASURES

The Company uses the following non-IFRS financial measures in this MD&A to explain the following financial results: Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"); Adjusted Net Income; Adjusted Diluted Earnings per Share ("Adjusted Diluted EPS"); Standardized Free Cash Flow; and Net Debt.

Adjusted EBITDA

Adjusted EBITDA follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by the Chartered Professional Accountants of Canada ("CPA Canada") and is earnings before interest, taxes, depreciation and amortization adjusted for items that are not considered representative of ongoing operational activities of the business. The related margin is defined as Adjusted EBITDA divided by net sales ("Adjusted EBITDA as a percentage of sales"), where net sales is defined as "Sales" on the consolidated statements of income (loss).

We use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) as a performance measure as it approximates cash generated from operations before capital expenditures and changes in working capital, and it excludes the impact of expenses and recoveries associated with certain non-routine items that are not considered representative of the ongoing operational activities, as discussed above, and share-based compensation expense related to the Company's share price. We believe investors and analysts also use Adjusted EBITDA (and Adjusted EBITDA as a percentage of sales) to evaluate the performance of our business. The most directly comparable IFRS measure to Adjusted EBITDA is "Results from operating activities" on the consolidated statements of income (loss). Adjusted EBITDA is also useful when comparing companies, as it eliminates the differences in earnings that are due to how a company is financed. Also, for the purpose of certain covenants on our credit facilities, "EBITDA" is based on Adjusted EBITDA, with further adjustments as defined in the Company's credit agreements.

The following table reconciles our Adjusted EBITDA with measures that are found in our Consolidated Financial Statements.

(Amounts in \$000s)	Thirteen weeks ended	
	September 26, 2020	September 28, 2019
Net income (loss)	\$ 3,821	\$ (2,400)
Add back (deduct):		
Depreciation and amortization expense	5,636	5,717
Financing costs	4,424	5,027
Income tax expense (recovery)	2,230	(663)
Standardized EBITDA	16,111	7,681
Add back (deduct):		
Business acquisition, integration and other expenses ⁽¹⁾	562	3,414
Impairment of property, plant and equipment	—	930
Loss on disposal of assets	15	55
Share-based compensation expense	2,380	4,375
Adjusted EBITDA	\$ 19,068	\$ 16,455

(Amounts in \$000s)	Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019
Net income	\$ 21,430	\$ 13,308
Add back (deduct):		
Depreciation and amortization expense	17,184	16,777
Financing costs	14,812	16,428
Income tax expense	8,754	5,824
Standardized EBITDA	62,180	52,337
Add back (deduct):		
Business acquisition, integration and other expenses ⁽¹⁾	1,799	4,547
Impairment of property, plant and equipment	—	968
(Gain) loss on disposal of assets	(26)	68
Share-based compensation expense	2,907	8,633
Adjusted EBITDA	\$ 66,860	\$ 66,553

⁽¹⁾ See the *Business Acquisition, Integration and Other Expense (Income)* section on page 12 of this MD&A for further explanation of the changes in business acquisition, integration and other expenses for the thirteen and thirty-nine weeks ended September 26, 2020 and September 28, 2019. As noted earlier in the *Performance* section starting on page 6, Adjusted EBITDA for the thirty-nine weeks ended September 28, 2019 reflects the inclusion of \$5.5 million of the \$8.5 million recovery received from the ingredient supplier in the first quarter of 2019 that was associated with the 2017 product recall.

Adjusted Net Income and Adjusted Diluted EPS

Adjusted Net Income is net income adjusted for the after-tax impact of items which are not representative of ongoing operational activities of the business and certain non-cash expenses or income. Adjusted Diluted EPS is Adjusted Net Income divided by the average diluted number of shares outstanding.

We use Adjusted Net Income and Adjusted Diluted EPS to assess the performance of our business without the effects of the above-mentioned items, and we believe our investors and analysts also use these measures. We

exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. The most comparable IFRS financial measures are net income and EPS.

The table below reconciles our Adjusted Net Income with measures that are found in our Consolidated Financial Statements:

	Thirteen weeks ended September 26, 2020		Thirteen weeks ended September 28, 2019	
	\$000s	Diluted EPS	\$000s	Diluted EPS
Net income (loss)	\$ 3,821	\$ 0.11	\$ (2,400)	\$ (0.07)
Add back (deduct):				
Business acquisition, integration and other expenses ⁽¹⁾	562	0.02	3,414	0.10
Impairment of property, plant and equipment	—	—	930	0.03
Share-based compensation expense	2,380	0.07	4,375	0.13
Tax impact of reconciling items	(815)	(0.02)	(2,462)	(0.08)
Adjusted Net Income	\$ 5,948	\$ 0.18	\$ 3,857	\$ 0.11
Average shares for the period (000s)		33,840		33,807

	Thirty-nine weeks ended September 26, 2020		Thirty-nine weeks ended September 28, 2019	
	\$000s	Diluted EPS	\$000s	Diluted EPS
Net income	\$ 21,430	\$ 0.63	\$ 13,308	\$ 0.39
Add back (deduct):				
Business acquisition, integration and other expenses ⁽¹⁾	1,799	0.05	4,547	0.13
Impairment of property, plant and equipment	—	—	968	0.03
Share-based compensation expense	2,907	0.09	8,633	0.25
Tax impact of reconciling items	(1,240)	(0.03)	(3,994)	(0.12)
Adjusted Net Income	\$ 24,896	\$ 0.74	\$ 23,462	\$ 0.68
Average shares for the period (000s)		33,857		34,257

⁽¹⁾ See the *Business Acquisition, Integration and Other Expense (Income)* section on page 12 of this MD&A for further explanation of the changes in business acquisition, integration and other expenses for the thirteen and thirty-nine weeks ended September 26, 2020 and September 28, 2019. As noted earlier in the *Performance* section starting on page 6, Adjusted Net Income for the thirty-nine weeks ended September 28, 2019 reflects the inclusion of \$5.5 million of the \$8.5 million recovery received from the ingredient supplier in the first quarter of 2019 that was associated with the 2017 product recall.

Standardized Free Cash Flow

Standardized Free Cash Flow follows the October 2008 "General Principles and Guidance for Reporting EBITDA and Free Cash Flow" issued by CPA Canada and is cash flow from operating activities less capital expenditures (net of investment tax credits) as reported in the consolidated statements of cash flows. The capital expenditures related to business acquisitions are not deducted from Standardized Free Cash Flow.

We believe Standardized Free Cash Flow is an important indicator of financial strength and performance of our business because it shows how much cash is available to pay dividends, repay debt (including lease liabilities) and reinvest in the Company. We believe investors and analysts use Standardized Free Cash Flow to value our business

and its underlying assets. The most comparable IFRS financial measure is "cash flows from operating activities" in the consolidated statements of cash flows.

The table below reconciles our Standardized Free Cash Flow calculated on a rolling twelve-month basis, with measures that are in accordance with IFRS and as reported in the consolidated statements of cash flows.

(Amounts in \$000s)	Twelve months ended		
	September 26, 2020	September 28, 2019	Change
Net change in non-cash working capital items	\$ (3,453)	\$ 31,582	\$ (35,035)
Cash flow from operating activities, including interest and income taxes	60,054	54,080	5,974
Cash flow from operating activities	56,601	85,662	(29,061)
Less: total capital expenditures, net of investment tax credits	(8,288)	(8,294)	6
Standardized Free Cash Flow	\$ 48,313	\$ 77,368	\$ (29,055)

Net Debt

Net Debt is calculated as the sum of bank loans, long-term debt (excluding deferred finance costs and modification losses) and lease liabilities, less cash.

We consider Net Debt to be an important indicator of our Company's financial leverage because it represents the amount of debt that is not covered by available cash. We believe investors and analysts use Net Debt to determine the Company's financial leverage. Net Debt has no comparable IFRS financial measure, but rather is calculated using several asset and liability items in the consolidated statements of financial position.

The following table reconciles Net Debt to IFRS measures reported as at the end of the indicated periods.

(Amounts in \$000s)	September 26, 2020	December 28, 2019	September 28, 2019
Current bank loans	\$ 29,680	\$ 37,546	\$ —
Add-back: deferred finance costs included in current bank loans	320	410	—
Total current bank loans	30,000	37,956	—
Long-term debt	288,376	289,020	323,118
Current portion of long-term debt	—	14,511	—
Add-back: deferred finance costs included in long-term debt	6,273	7,073	1,113
Less: loss on modification of debt ⁽¹⁾	(9,334)	(10,604)	—
Total term loan debt	285,315	300,000	324,231
Long-term portion of lease liabilities	11,654	7,198	8,111
Current portion of lease liabilities	4,207	4,582	4,626
Total lease liabilities	15,861	11,780	12,737
Less: cash	(45,207)	(3,144)	(24,700)
Net Debt	\$ 285,969	\$ 346,592	\$ 312,268

⁽¹⁾ Long-term debt reflects a loss on the modification of debt related to the debt refinancing completed in October 2019 that has been excluded from the calculation of Net Debt as it does not represent the expected cash outflows from the term loan facility.

GOVERNANCE

In accordance with National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*", our certifying officers have evaluated the design effectiveness of Disclosure Controls and Procedures ("DC&P"), and our Company's Internal Control over Financial Reporting ("ICFR"). There were no changes in the Company's ICFR during the period beginning on June 28, 2020 and ending on September 26, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

ACCOUNTING ESTIMATES AND STANDARDS

Critical Accounting Estimates

Critical accounting judgments and estimates used in preparing our Consolidated Financial Statements are described in the Company's 2019 Annual Report. The preparation of the Company's Consolidated Financial Statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of sales, 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. The potential impacts on the Company's most significant estimates and judgements of COVID-19 (see the *Recent Developments* section on page 4 of this MD&A) include, but are not limited to, increased risk of potential impairment charges to the carrying amounts of goodwill, indefinite-lived intangible assets and long-lived assets; and, increased volatility in fair value measurements and future employee benefits, as a result of fluctuating market inputs. Actual outcomes may differ from these estimates under different assumptions and conditions that could require a material adjustment to the reported carrying amounts in the future.

Accounting Standards

The accounting policies used in the preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended December 28, 2019, except for the adoption of the following standard and new amendments that were effective for annual periods beginning on January 1, 2020 and that the Company adopted on December 29, 2019:

Government Grants

Government grants include assistance by government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating conditions of the entity. Government grants are measured at fair value and are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The Company recognizes income-related government grants in the consolidated statements of income (loss) as a deduction to the related expenses on a systematic basis over the periods in which the related expenses are recognized. The Company recognizes asset-related government grants as a reduction to the carrying amount of the asset in the consolidated statements of financial position.

IFRS 3, *Business Combinations*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The amendments are intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments apply to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after January 1, 2020, with early adoption permitted. The Company has adopted the amendments to IFRS 3 on a prospective basis, which had no impact on the Consolidated Financial Statements.

IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures, Interest Rate Benchmark Reform*

In September 2019, the IASB issued *Interest Rate Benchmark Reform* which included amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, and concludes phase one of its work to respond to the effects of the Interbank Offered Rates ("IBOR") reform on financial reporting. The amendments focus on the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free rate ("RFR") and provide temporary reliefs which enable hedge accounting to continue during that period of uncertainty. The amendments are effective for annual periods beginning on or after January 1, 2020 and must be applied retrospectively.

The amendments include a number of reliefs that apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or hedging instrument. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable;
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss; and
- The assessment of the economic relationship between the hedged item and the hedging instrument.

The Company holds interest rate swaps (see Note 12, *Fair value measurement* to the Consolidated Financial Statements) to hedge the interest rate risk resulting from the term loan facility (see Note 5, *Long-term debt* to the Consolidated Financial Statements). The term loan facility has an applicable interest rate for loans under the facility of LIBOR plus 4.25% (1.00% LIBOR floor). The Company is actively managing the process to transition existing contracts using LIBOR to an alternative RFR and to ensure that upon transition, hedge effectiveness will be maintained. The Company has not applied significant judgement in applying these amendments as the impact of the IBOR reform on the Company's hedge accounting is assessed as low.

The Company has assessed any interest rate swap with a maturity date subsequent to December 31, 2021 as being directly impacted by the IBOR reform and therefore subject to the amendments. As at September 26, 2020, there is one interest rate swap contract with a maturity date subsequent to December 31, 2021. The terms of this contract are disclosed in Note 12, *Fair value measurement* to the Consolidated Financial Statements.

IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Amendments to the Definition of Material*

In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and must be applied prospectively, with early adoption permitted. The Company has adopted the amendments to IAS 1 on a prospective basis, which had no impact on the Consolidated Financial Statements.

Accounting pronouncements issued, but not yet effective

The standards, amendments 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*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, *Interest Rate Benchmark Reform*

On August 27, 2020, the IASB issued *Interest Rate Benchmark Reform - Phase 2* which includes amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*, and concludes phase two of its work to respond to the effects of IBOR reform on financial reporting. The amendments address the issues that affect financial reporting at the time that an existing interest rate benchmark is replaced with an RFR. The amendments are effective for annual periods beginning on or after January 1, 2021 and must be applied retrospectively, with early adoption permitted.

The Company is currently evaluating the impact of these amendments on the Consolidated Financial Statements and will apply the amendments from the effective date.

RISK FACTORS

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.

Readers should refer to the 2019 Annual Report and AIF for a more detailed description of risk factors applicable to the Company, which are available at www.sedar.com and at www.highlinerfoods.com. We have updated certain risk factors below for the first three quarters of 2020.

COVID-19 Pandemic

In March 2020, the COVID-19 outbreak was recognized as a pandemic by the WHO. COVID-19 has continued to spread globally, including in the markets in which the Company operates, and is having a significant impact on general economic conditions on a global scale. In response to the WHO declaration and continuing spread of COVID-19, several social distancing measures have been taken by the Company and third parties including governments, regulatory authorities, businesses and the Company's customers, that could negatively impact the Company's operations and financial results in future periods.

The COVID-19 pandemic has resulted in governmental authorities implementing various measures including, but not limited to: travel bans and restrictions; social distancing measures; quarantines; increased border and port controls and closures and shutdowns. There is significant uncertainty regarding these measures and potential future measures, all of which could reduce customer demand, and/or impact the Company's ability to meet customer demand.

The full extent and impact of the COVID-19 pandemic on the Company's operations is unknown. Potential material adverse impacts of the COVID-19 pandemic include, but are not limited to:

- An increased risk of supply chain disruption, including suspension of plant operations, as a result of positive COVID-19 tests or government orders or other externally imposed restrictions on suppliers, third-party seafood processing facilities, or at the Company's facilities;
- An increased risk of availability and price volatility of seafood and non-seafood goods used in the Company's production of seafood products;
- An increased risk of a material reduction in demand for the Company's products, particularly related to the Company's foodservice business that has been impacted by social distancing regulations;
- An increase in geopolitical risk related to governmental and market responses to COVID-19, including the impacts on operations of social distancing regulations, fluctuating currency exchange rates, and volatile market conditions;
- An increase in risk related to employment matters and the Company's workforce including, but not limited to, increased employee absences related to the COVID-19 pandemic and temporary or permanent layoffs as a result of reduction in product demand;
- An increase in credit risk due to impact of COVID-19 on the liquidity of the Company's customers;
- An increase in liquidity risk for the Company associated with the anticipated negative impact of COVID-19 on cash flows from operations due to expected decline in sales volume; and,
- An increased risk related to the Company's financial estimates and judgments that rely on microeconomic and/or macroeconomic factors due to the uncertain impact of COVID-19 on various inputs (see Note 3, *COVID-19 pandemic* to the Consolidated Financial Statements).

During the thirty-nine weeks ended September 26, 2020, the Company has experienced no material impact associated with the above risks, with the exception of the reduced demand for products in the foodservice business, which has been partially offset by increased demand in the Company's retail business. The current economic, operating and capital market environment has led to an increased emphasis on liquidity and capital management. Management remains focused on ensuring sufficient liquidity exists, and through the Company's strengthened balance sheet, the Company has significant excess liquidity at September 26, 2020. However, due to the uncertainty surrounding the duration and potential outcomes of the COVID-19 pandemic, including the results of measures taken to slow the spread and the broader impact COVID-19 may have on the North American and global economies or financial markets, we are unable at this time to accurately predict the overall impact on our operations, liquidity, financial condition, or results. Any future epidemic, pandemic, or other public health crisis that occurs in the future may pose similar risks to the Company.

Foreign Currency

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. The Company's shares are traded in CAD and reports its results in USD, therefore, investors are reminded to take this into consideration for purposes of calculating financial ratios, including dividend payout and share price-to-earnings ratios.

The Canadian dollar weakened relative to the U.S. dollar approximately 1.2% as of September 26, 2020 compared to September 28, 2019. The change in the Canadian dollar relative to the U.S. dollar is in part reflective of the impact of the COVID-19 pandemic on global markets. The future impact of COVID-19 on foreign currency is uncertain as the situation continues to unfold. On our balance sheet, this decreases the USD carrying value of both CAD-denominated assets and liabilities and increases the foreign exchange translation impact of our Canadian company included in accumulated other comprehensive income ("AOCI") in shareholders' equity. As our Canadian

operations are a net importer of seafood and other products purchased in USD, a stronger CAD reduces its costs and a weaker CAD increases its costs in its CAD functional currency.

In order to minimize foreign exchange risk, we undertake hedging activities using various derivative products in accordance with the Company's "Price Risk Management Policy", which is approved and monitored by the Audit Committee. We hedge the USD costs of a portion of our raw material requirements and retail commodity products as sales price increases on these products take more time to implement. We generally do not hedge certain commodity foodservice products as the sales prices to our customers change frequently enough to capture foreign exchange fluctuations, but may do so from time to time. During the third quarter of 2020, our hedging activities resulted in an effective USD/CAD exchange rate of 1.3297 for inventory purchased in USD by our Canadian operations, compared to 1.3221 for the third quarter of 2019.

Our risk management strategy with respect to exposure to the Canadian dollar is fully explained in the MD&A in our 2019 Annual Report.

Geopolitical Risk

The Company's operations are currently conducted in North America and, as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary for each country and include, but are not limited to: fluctuations in currency exchange rates; inflation rates; labour unrest; terrorism; civil commotion and unrest; global pandemic (including COVID-19); changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions and social unrest; changes in trade agreements; economic sanctions, tariffs and other trade barriers.

Changes, if any, in trade agreements or policies, or shifts in political attitude, could adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations including, but not limited to, export controls, income taxes, foreign investment, and environmental legislation.

In 2017, the U.S. Tax Reform resulted in significant changes to tax legislation in the United States and certain aspects of the U.S. Tax Reform are still subject to interpretation which could impact the results of operations, financial condition and cash flows of the Company (see the *Income Taxes* section on page 13 of this MD&A).

In 2018, the USTR commenced certain trade actions, including imposing tariffs on certain goods imported from China, including some of the species the Company imports from China. The Company has implemented plans, including pricing actions and other supply chain initiatives, to mitigate the impact of these tariffs and reduce the estimated impact to the Company's operations. However, the Company cannot control the duration or depth of such actions, which may increase product costs and reduce profitability, and potentially decrease the competitiveness of its products.

During December 2019, the Company received notice of approval of an exclusion request submitted to the USTR regarding tariffs on certain goods imported to the U.S. from China. The exclusion applies to tariffs already incurred, or that would otherwise be incurred, on specific goods from September 24, 2018 to August 7, 2020 and may result in the recovery of tariffs previously paid by the Company. It is not practicable at this time to estimate the timing or amount of future recoveries. Trade discussions between the USTR and China are ongoing, which may impact the timing and amount of recoveries related to these exclusions and may have a material, adverse effect on results of operations, financial condition and cash flows of the Company.

During August 2020, the Company received notice of approval of an exclusion extension request submitted to the USTR regarding tariffs on certain goods imported to the U.S. from China. The extension applies to tariffs that would otherwise be incurred on specific goods from August 8, 2020 to December 31, 2020.

The Company will continue to monitor these developments closely, particularly if further information becomes available regarding potential additional tariffs or exclusions, or how the previously announced tariffs and exclusions will impact the Company.

The occurrence and the extent of these various factors and uncertainties cannot be accurately predicted and could have a material adverse effect on the Company's operations and profitability.



HIGH LINER FOODS

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the thirteen and thirty-nine weeks ended September 26, 2020
With comparative figures as at and for the thirteen and thirty-nine weeks ended September 28, 2019**

HIGH LINER FOODS INCORPORATED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited, in thousands of United States dollars)

	Notes	September 26, 2020	December 28, 2019
ASSETS			
Current assets			
Cash		\$ 45,207	\$ 3,144
Accounts receivable		67,386	85,089
Income taxes receivable		2,124	3,494
Other financial assets	12	681	236
Inventories		231,246	294,913
Prepaid expenses		4,723	4,322
Total current assets		351,367	391,198
Non-current assets			
Property, plant and equipment		106,367	108,986
Right-of-use assets		15,418	11,792
Deferred income taxes	9	2,395	2,134
Other receivables and assets	12	93	34
Intangible assets		143,523	148,893
Goodwill		157,218	157,457
Total non-current assets		425,014	429,296
Total assets	4, 5	\$ 776,381	\$ 820,494
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank loans	4	\$ 29,680	\$ 37,546
Accounts payable and accrued liabilities		97,893	141,238
Contract liability		3,236	3,581
Provisions		2,657	329
Other current financial liabilities	12	1,846	861
Other current liabilities		2,201	4,881
Income taxes payable		332	2,102
Current portion of long-term debt	5	—	14,511
Current portion of lease liabilities		4,207	4,582
Total current liabilities		142,052	209,631
Non-current liabilities			
Long-term debt	5	288,376	289,020
Other long-term financial liabilities	12	375	292
Other long-term liabilities		4,170	3,031
Long-term lease liabilities		11,654	7,198
Deferred income taxes	9	33,432	30,182
Future employee benefits		15,771	12,970
Total non-current liabilities		353,778	342,693
Total liabilities		495,830	552,324
Shareholders' equity			
Common shares	7	112,739	112,887
Contributed surplus		16,408	16,028
Retained earnings		178,386	162,773
Accumulated other comprehensive loss		(26,982)	(23,518)
Total shareholders' equity		280,551	268,170
Total liabilities and shareholders' equity		\$ 776,381	\$ 820,494

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

HIGH LINER FOODS INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(unaudited, in thousands of United States dollars, except per share amounts)

	Notes	Thirteen weeks ended		Thirty-nine weeks ended	
		September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Sales	11	\$ 194,621	\$ 220,141	\$ 629,038	\$ 720,599
Cost of sales		155,718	177,707	494,634	579,241
Gross profit		38,903	42,434	134,404	141,358
Distribution expenses		10,095	10,697	33,711	34,375
Selling, general and administrative expenses		17,734	25,429	53,861	71,442
Impairment of property, plant and equipment		—	930	—	968
Business acquisition, integration and other expense (income)	6	599	3,414	1,836	(987)
Results from operating activities		10,475	1,964	44,996	35,560
Finance costs		4,424	5,027	14,812	16,428
Income (loss) before income taxes		6,051	(3,063)	30,184	19,132
Income tax expense (recovery)	9	2,230	(663)	8,754	5,824
Net income (loss)		\$ 3,821	\$ (2,400)	\$ 21,430	\$ 13,308
Earnings (loss) per common share					
Basic		\$ 0.11	\$ (0.07)	\$ 0.63	\$ 0.39
Diluted		\$ 0.11	\$ (0.07)	\$ 0.63	\$ 0.39
Weighted average number of shares outstanding					
Basic		33,839,857	33,806,527	33,857,438	33,812,287
Diluted		33,839,857	33,806,527	33,857,438	34,257,131

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

HIGH LINER FOODS INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited, in thousands of United States dollars)

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income (loss)	\$ 3,821	\$ (2,400)	\$ 21,430	\$ 13,308
Other comprehensive income (loss), net of income tax				
Other comprehensive income (loss) to be reclassified to net income:				
Gain (loss) on hedge of net investment in foreign operations	6,397	(3,931)	(7,562)	9,480
(Loss) gain on translation of net investment in foreign operations	(8,090)	5,012	9,883	(11,446)
Translation impact on Canadian dollar denominated non-AOCI items	4,667	(2,799)	(6,021)	6,084
Translation impact on Canadian dollar denominated AOCI items	(421)	268	644	(665)
Total exchange gains (losses) on translation of foreign operations and Canadian dollar denominated items	2,553	(1,450)	(3,056)	3,453
Effective portion of changes in fair value of cash flow hedges	(176)	22	(113)	(1,615)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	(235)	114	(464)	(686)
Net change in fair value of cash flow hedges transferred to income	232	(88)	368	(472)
Translation impact on Canadian dollar denominated AOCI items	175	(104)	(199)	280
Total exchange losses on cash flow hedges	(4)	(56)	(408)	(2,493)
Net other comprehensive gain (loss) to be reclassified to net income	2,549	(1,506)	(3,464)	960
Other comprehensive loss to not be reclassified to net income				
Defined benefit plan actuarial losses	(1,976)	(854)	(1,991)	(2,829)
Other comprehensive income (loss), net of income tax	573	(2,360)	(5,455)	(1,869)
Total comprehensive income (loss)	\$ 4,394	\$ (4,760)	\$ 15,975	\$ 11,439

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS
(unaudited, in thousands of United States dollars)

	Foreign currency translation differences	Net exchange differences on cash flow hedges	Total accumulated other comprehensive (loss) income
Balance at December 28, 2019	\$ (23,122)	\$ (396)	\$ (23,518)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	(3,056)	—	(3,056)
Total exchange losses on cash flow hedges	—	(408)	(408)
Balance at September 26, 2020	\$ (26,178)	\$ (804)	\$ (26,982)
Balance at December 29, 2018	\$ (27,977)	\$ 2,215	\$ (25,762)
Total exchange losses on translation of foreign operations and Canadian dollar denominated items	3,453	—	3,453
Total exchange losses on cash flow hedges	—	(2,493)	(2,493)
Balance at September 28, 2019	\$ (24,524)	\$ (278)	\$ (24,802)

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

HIGH LINER FOODS INCORPORATED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited, in thousands of United States dollars)

	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
Balance at December 28, 2019	\$ 112,887	\$ 16,028	\$ 162,773	\$ (23,518)	\$ 268,170
Other comprehensive loss	—	—	(1,991)	(3,464)	(5,455)
Net income	—	—	21,430	—	21,430
Common share dividends	—	—	(3,685)	—	(3,685)
Share-based compensation	—	380	—	—	380
Common shares repurchased for cancellation <i>(Note 7)</i>	(148)	—	(141)	—	(289)
Balance at September 26, 2020	\$ 112,739	\$ 16,408	\$ 178,386	\$ (26,982)	\$ 280,551
Balance at December 29, 2018	\$ 112,887	\$ 15,357	\$ 161,377	\$ (25,762)	\$ 263,859
Other comprehensive loss	—	—	(2,829)	960	(1,869)
Net income	—	—	13,308	—	13,308
Common share dividends	—	—	(6,154)	—	(6,154)
Share-based compensation	—	568	—	—	568
Balance at September 28, 2019	\$ 112,887	\$ 15,925	\$ 165,702	\$ (24,802)	\$ 269,712

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

HIGH LINER FOODS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands of United States dollars)

	Notes	Thirteen weeks ended		Thirty-nine weeks ended	
		September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Cash flows provided by (used in):					
Operating activities					
Net income (loss)		\$ 3,821	\$ (2,400)	\$ 21,430	\$ 13,308
Adjustments to net income not involving cash from operations:					
Depreciation and amortization		5,636	5,717	17,184	16,777
Share-based compensation expense	8	2,380	4,375	2,907	8,633
Loss on asset disposals and impairment		54	1,029	75	1,177
Future employee benefits contribution, net of expense		175	87	48	54
Finance costs		4,424	5,027	14,812	16,428
Income tax expense (recovery)	9	2,230	(663)	8,754	5,824
Unrealized foreign exchange loss		634	182	988	925
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes refunded (paid)		19,354	13,354	66,198	63,126
Changes in non-cash working capital balances:					
Accounts receivable		(757)	(3,710)	17,117	6,422
Inventories		26,192	(5,381)	61,504	39,679
Prepaid expenses		186	(235)	(427)	(948)
Accounts payable and accrued liabilities		8,783	16,093	(46,794)	(15,765)
Provisions		1,366	(264)	2,338	(1,341)
Net change in non-cash working capital balances		35,770	6,503	33,738	28,047
Interest paid		(4,408)	(4,379)	(14,365)	(15,075)
Income taxes paid		(4,374)	—	(4,878)	(400)
Net cash flows provided by operating activities		46,342	15,478	80,693	75,698
Financing activities					
Decrease in bank loans		(20,000)	—	(7,745)	(31,443)
Repayment of lease liabilities		(1,430)	(1,093)	(4,192)	(4,059)
Repayment of long-term debt	5	—	—	(14,685)	(13,695)
Deferred finance costs		—	—	(54)	—
Common share dividends paid		(1,264)	(1,262)	(3,685)	(6,154)
Common shares repurchased for cancellation		—	—	(289)	—
Net cash flows used in financing activities		(22,694)	(2,355)	(30,650)	(55,351)
Investing activities					
Purchase of property, plant and equipment, net of investment tax credits, and intangible assets		(3,396)	(2,189)	(6,476)	(4,757)
Net cash flows used in investing activities		(3,396)	(2,189)	(6,476)	(4,757)
Foreign exchange increase (decrease) on cash		513	513	(1,504)	(458)
Net change in cash during the period		20,765	11,447	42,063	15,132
Cash, beginning of period		24,442	13,253	3,144	9,568
Cash, end of period		\$ 45,207	\$ 24,700	\$ 45,207	\$ 24,700

See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements

HIGH LINER FOODS INCORPORATED

Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

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 Unaudited Condensed Interim Consolidated Financial Statements ("Consolidated Financial Statements") of the Company as at and for the thirteen and thirty-nine weeks ended September 26, 2020, 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.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on November 6, 2020.

2. Basis of preparation

(a) Statement of compliance

These Consolidated Financial Statements are in compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These Consolidated Financial Statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 28, 2019, as set out in the 2019 Annual Report, available at www.highlinerfoods.com.

(b) Functional and presentation currency

The Company determines its functional currency based on the currency of the primary economic environment in which it operates. The Parent's functional currency is the Canadian dollar ("CAD"), while the functional currencies of its subsidiaries is the CAD and the United States dollar ("U.S. dollar" or "USD"). The Company has chosen a USD presentation currency for its financial statements because the USD better reflects the Company's overall business activities and improves investors' ability to compare the Company's consolidated financial results with other publicly traded businesses in the packaged foods industry (most of which are based in the United States ("U.S.") and report in USD) and should result in less volatility in reported sales and income on the conversion to the presentation currency.

(c) Seasonality of operations

The Company's operating results are affected by the timing of holidays. Inventory levels fluctuate throughout the year, and are at their highest in the first quarter to support strong sales during the Lenten period. In addition, the timing of ordering raw materials is earlier than typically required in order to have adequate quantities available during the seasonal closure of plants in Asia during the Lunar New Year period. These events typically result in significantly higher inventories in December, January, February and March than during the rest of the year.

(d) New standards, interpretations and amendments thereof, adopted by the Company

The accounting policies used in the preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended December 28, 2019, except for the adoption of the following standard and new amendments that were effective for annual periods beginning on January 1, 2020 and that the Company has adopted on December 29, 2019:

Government grants

Government grants include assistance by government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating conditions of the entity. Government grants are measured at fair value and are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The Company recognizes income-related government grants in the consolidated statements of income (loss) as a deduction to the related expenses on a systematic basis over the periods in which the related expenses are recognized. The Company recognizes asset-related government grants as a reduction to the carrying amount of the asset in the consolidated statements of financial position.

HIGH LINER FOODS INCORPORATED

Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

IFRS 3, *Business Combinations*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The amendments are intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments apply to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after January 1, 2020, with early adoption permitted. The Company has adopted the amendments to IFRS 3 on a prospective basis, which had no impact on the Consolidated Financial Statements.

IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures, Interest Rate Benchmark Reform*

In September 2019, the IASB issued *Interest Rate Benchmark Reform* which included amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, and concludes phase one of its work to respond to the effects of the Interbank Offered Rates ("IBOR") reform on financial reporting. The amendments focus on the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free rate ("RFR") and provide temporary reliefs which enable hedge accounting to continue during that period of uncertainty. The amendments are effective for annual periods beginning on or after January 1, 2020 and must be applied retrospectively.

The amendments include a number of reliefs that apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or hedging instrument. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable;
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss; and
- The assessment of the economic relationship between the hedged item and the hedging instrument.

The Company holds interest rate swaps (see Note 12) to hedge the interest rate risk resulting from the term loan facility (see Note 5). The term loan facility has an applicable interest rate for loans under the facility of LIBOR plus 4.25% (1.00% LIBOR floor). The Company is actively managing the process to transition existing contracts using LIBOR to an alternative RFR and to ensure that upon transition, hedge effectiveness will be maintained. The Company has not applied significant judgement in applying these amendments as the impact of the IBOR reform on the Company's hedge accounting is assessed as low.

The Company has assessed any interest rate swap with a maturity date subsequent to December 31, 2021 as being directly impacted by the IBOR reform and therefore subject to the amendments. As at September 26, 2020, there is one interest rate swap contract with a maturity date subsequent to December 31, 2021. The terms of this contract are disclosed in Note 12.

IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Amendments to the Definition of Material*

In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and must be applied prospectively, with early adoption permitted. The Company has adopted the amendments to IAS 1 on a prospective basis, which had no impact on the Consolidated Financial Statements.

(e) Accounting pronouncements issued, but not yet effective

The standards, amendments 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.

HIGH LINER FOODS INCORPORATED

Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures, Interest Rate Benchmark Reform*

On August 27, 2020, the IASB issued *Interest Rate Benchmark Reform - Phase 2* which includes amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*, and concludes phase two of its work to respond to the effects of IBOR reform on financial reporting. The amendments address the issues that affect financial reporting at the time that an existing interest rate benchmark is replaced with an RFR. The amendments are effective for annual periods beginning on or after January 1, 2021 and must be applied retrospectively, with early adoption permitted.

The Company is currently evaluating the impact of these amendments on the Consolidated Financial Statements and will apply the amendments from the effective date.

3. COVID-19 pandemic

In March 2020, the 2019 coronavirus disease outbreak ("COVID-19") was recognized as a pandemic by the World Health Organization ("WHO"). COVID-19 has continued to spread globally, including in the markets in which the Company operates, and is having a significant impact on general economic conditions on a global scale. In response to the WHO declaration and continuing spread of COVID-19, several social distancing measures have been taken by the Company and third parties including governments, regulatory authorities, businesses and the Company's customers, that have impacted financial results during the thirteen and thirty-nine weeks ended September 26, 2020 and could impact future financial results.

The preparation of the Company's Consolidated Financial Statements requires management to make critical judgements, estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. The potential impacts on the Company's most significant estimates and judgements of COVID-19 include, but are not limited to, increased risk of potential impairment charges to the carrying amounts of goodwill, indefinite-lived intangible assets and long-lived assets; and, increased volatility in fair value measurements and future employee benefits, as a result of fluctuating market inputs. Other potential impacts of COVID-19 on the Company's financial position include, but are not limited to, increased concentration risk, particularly related to the Company's foodservice business; increased liquidity risk associated with the anticipated impacts on cash flows from operations of expected declines in sales volumes; increased credit risk resulting in increased expected credit losses on trade accounts receivable; increased risk of write-downs of inventories to net realizable value; and, increased product return liabilities associated with revenue from contracts with customers.

During the thirty-nine weeks ended September 26, 2020, the Company participated in the Canada Emergency Wage Subsidy government grant program, which in general provides wage subsidies to eligible employers as a means of limiting job losses in Canada. During the thirty-nine weeks ended September 26, 2020, the Company recognized \$2.1 million in income-related wage subsidies as a reduction of salaries and benefits expense recognized in cost of sales, distribution expenses and selling, general and administrative expenses in the consolidated statements of income (loss). The Company does not have any unfulfilled conditions or material contingencies related to the wage subsidies recognized.

Actual future results may differ materially from the Company's current estimates as the scope of COVID-19 evolves or if the duration of business disruption is longer than currently anticipated.

HIGH LINER FOODS INCORPORATED
Notes to the Consolidated Financial Statements
In United States dollars, unless otherwise noted

4. Bank loans

<i>(Amounts in \$000s)</i>	September 26, 2020	December 28, 2019
Bank loans, denominated in CAD (average variable rate of 2.45%; December 28, 2019: 3.95%)	\$ —	\$ 815
Bank loans, denominated in USD (average variable rate of 1.41%; December 28, 2019: 3.65%)	30,000	37,141
	30,000	37,956
Less: deferred finance costs	(320)	(410)
	\$ 29,680	\$ 37,546

The Company has a \$150.0 million working capital facility (the "Facility"), with the Royal Bank of Canada as Administrative Agent, which expires in April 2023. The Facility is asset-based and collateralized by the Company's inventories, accounts receivable and other personal property in North America, subject to a first charge on brands, trade names and related intangibles under the Company's term loan facility (see Note 5). A second charge over the Company's property, plant and equipment is also in place. As at September 26, 2020, the Company had \$103.1 million of undrawn borrowing facility (December 28, 2019: \$99.4 million).

As at September 26, 2020 and December 28, 2019, the Facility allowed the Company to borrow:

Canadian Prime Rate revolving loans, Canadian Prime Rate revolving and U.S. Prime Rate revolving loans, at their respective rates	plus 0.00% to 0.25%
Bankers' Acceptances ("BA") revolving loans, at BA rates	plus 1.25% to 1.75%
LIBOR revolving loans at LIBOR, at their respective rates	plus 1.25% to 1.75%
Letters of credit, with fees of	1.25% to 1.75%
Standby fees, required to be paid on the unutilized facility, of	0.25%

5. Long-term debt

<i>(Amounts in \$000s)</i>	September 26, 2020	December 28, 2019
Term loan	\$ 294,649	\$ 310,604
Less: current portion	—	(14,511)
	294,649	296,093
Less: deferred finance costs	(6,273)	(7,073)
	\$ 288,376	\$ 289,020

As at September 26, 2020, the Company had a \$300.0 million term facility with an interest rate of LIBOR plus 4.25% (1.00% LIBOR floor), maturing in October 2026. As a part of the amendments to the term loan facility completed in October 2019, a modification loss of \$11.0 million increased the carrying value of the term loan facility and was recorded in finance costs on the consolidated statements of income (loss) during the fifty-two weeks ended December 28, 2019 due to the net present value of the cash flows of the modified debt exceeding the carrying value of the original facility before amendments. Excluding the impact of the modification loss on the carrying value, the principal balance outstanding of term loan facility was \$285.3 million at September 26, 2020.

Quarterly principal repayments of \$1.9 million are required on the term loan as regularly scheduled repayments. During the thirty-nine weeks ended September 26, 2020, a regularly scheduled repayment of \$1.9 million was made and a mandatory prepayment of \$12.8 million was made due to excess cash flows in 2019. Any mandatory and voluntary repayments are applied to future regularly scheduled repayments, and as such, no additional regularly scheduled principal repayments are required for 2020.

HIGH LINER FOODS INCORPORATED
Notes to the Consolidated Financial Statements
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Substantially all tangible and intangible assets (excluding working capital) of the Company are pledged as collateral for the term loan facility.

6. Employee benefits

Employee benefits relating to the termination of employees ("termination benefits") are expensed during the period and are recorded as of the date a committed plan is in place and communication to employees has occurred. Termination benefits relate to severance which is not based on a future service requirement. Severance and retention benefits that are dependent upon the continuing provision of services through to certain predefined dates, are recognized as short-term employee benefits.

Termination and short-term employee benefits are included on the following line items in the consolidated statements of income (loss):

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Termination benefits				
Distribution expenses	\$ —	\$ —	\$ 55	\$ —
Business acquisition, integration and other expense (income)	—	54	—	164
Selling, general and administrative expenses	309	167	1,221	283
	\$ 309	\$ 221	\$ 1,276	\$ 447
Short-term benefits				
Business acquisition, integration and other expense (income)	\$ 53	\$ —	\$ (19)	\$ 1,378
Selling, general and administrative expenses	—	—	32	—
	\$ 53	\$ —	\$ 13	\$ 1,378

7. Share capital

Purchase of shares for cancellation

In March 2020, the Company announced that the Toronto Stock Exchange approved a Normal Course Issuer Bid to repurchase up to 200,000 common shares. Purchases could commence on March 10, 2020 and will terminate no later than March 9, 2021. During the thirty-nine weeks ended September 26, 2020, the Company purchased 60,000 common shares under this plan at an average price of CAD\$6.65 per share for total cash consideration of CAD\$0.4 million. The excess of the purchase price over the book value of the shares in the amount of \$0.1 million was charged to retained earnings.

A summary of the Company's common share transactions is as follows:

	Thirty-nine weeks ended		Thirty-nine weeks ended	
	September 26, 2020		September 28, 2019	
	Shares	(\$000s)	Shares	(\$000s)
Balance, beginning of period	33,383,481	\$ 112,887	33,383,481	\$ 112,887
Shares repurchased for cancellation	(60,000)	(148)	—	—
Balance, end of period	33,323,481	\$ 112,739	33,383,481	\$ 112,887

HIGH LINER FOODS INCORPORATED

Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

During the thirteen and thirty-nine weeks ended September 26, 2020, the Company distributed dividends per share of CAD\$0.050 and CAD\$0.150, respectively (thirteen and thirty-nine weeks ended September 28, 2019: CAD\$0.050 and CAD\$0.245, respectively).

On November 6, 2020, the Company's Board of Directors declared a quarterly dividend of CAD\$0.070 per share, payable on December 15, 2020 to shareholders of record as of December 1, 2020. The quarterly dividend of CAD\$0.070 per share represents a 40.0% increase from the CAD\$0.050 per share quarterly dividend paid during the third quarter of 2020 and reflects the Board's continued confidence in the Company's operations.

8. Share-based compensation

The Company has a Share Option Plan (the "Option Plan") for designated directors, officers and certain managers of the Company, a Performance Share Unit ("PSU") Plan for eligible employees which includes the potential issuances of restricted share units ("RSU"), and a Deferred Share Unit ("DSU") Plan for directors of the Company.

Issuances of options, RSUs and PSUs may not result in the following limitations being exceeded: (a) the aggregate number of shares issuable to insiders pursuant to the PSU Plan, the Option Plan or any other share-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares at any time; and (b) the issuance from treasury to insiders, within a twelve-month period, of an aggregate number of shares under the PSU Plan, the Option Plan and any other share-based compensation arrangement of the Company exceeding 10% of the aggregate of the issued and outstanding shares.

The carrying amount of cash-settled share-based compensation arrangements recognized in other current liabilities and other long-term liabilities on the consolidated statements of financial position was \$2.2 million and \$4.2 million, respectively, as at September 26, 2020 (December 28, 2019: \$4.9 million and \$3.0 million, respectively).

Share-based compensation expense is recognized in the consolidated statements of income (loss) as follows:

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Cost of sales resulting from:				
Equity-settled awards ⁽¹⁾	\$ 16	\$ 11	\$ 43	\$ 30
Selling, general and administrative expenses resulting from:				
Cash-settled awards ⁽¹⁾	2,270	4,222	2,531	8,067
Equity-settled awards ⁽¹⁾	94	142	333	536
Share-based compensation expense	\$ 2,380	\$ 4,375	\$ 2,907	\$ 8,633

⁽¹⁾ Cash-settled awards may include options with PSUs, RSUs and DSUs. Equity-settled awards include options.

HIGH LINER FOODS INCORPORATED

Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

The following table illustrates the number ("No.") and weighted average exercise prices ("WAEP") of, and movements in, options during the period:

	Thirteen weeks ended				Thirty-nine weeks ended			
	September 26, 2020		September 28, 2019		September 26, 2020		September 28, 2019	
	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)
Outstanding, beginning of period	1,806,142	\$ 10.77	1,879,015	\$ 12.63	1,717,416	\$ 12.53	1,624,681	\$ 15.03
Granted	—	—	—	—	271,276	7.51	444,844	7.46
Cancelled or forfeited	—	—	(19,968)	17.63	—	—	(29,968)	16.36
Expired	(11,900)	15.30	(43,729)	18.13	(194,450)	22.04	(224,239)	20.85
Outstanding, end of period	1,794,242	\$ 10.74	1,815,318	\$ 12.44	1,794,242	\$ 10.74	1,815,318	\$ 12.44
Exercisable, end of period	1,199,226	\$ 12.14	961,260	\$ 14.98	1,199,226	\$ 12.14	961,260	\$ 14.98

Set forth below is a summary of the outstanding options to purchase common shares as at September 26, 2020:

Option price (CAD)	Options outstanding			Options exercisable	
	Number outstanding	Weighted average exercise price	Average life (years)	Number exercisable	Weighted average exercise price
\$ 7.25–10.00	665,424	\$ 7.48	3.75	131,383	\$ 7.46
\$ 10.01–15.00	808,785	11.38	2.45	747,810	11.35
\$ 15.01–20.00	284,551	15.30	0.52	284,551	15.30
\$ 20.01–25.00	35,482	20.61	1.51	35,482	20.61
	1,794,242			1,199,226	

The fair value of options granted during the thirty-nine weeks ended September 26, 2020 and September 28, 2019 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average inputs and assumptions:

	September 26, 2020	September 28, 2019
Dividend yield (%)	2.66	7.77
Expected volatility (%)	42.48	40.44
Risk-free interest rate (%)	1.22	1.86
Expected life (years)	5.00	5.00
Weighted average share price (CAD)	\$ 7.51	\$ 7.46
Weighted average fair value (CAD)	\$ 2.26	\$ 1.34

The expected life of the options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

HIGH LINER FOODS INCORPORATED
Notes to the Consolidated Financial Statements
In United States dollars, unless otherwise noted

The following table illustrates the movements in the number of PSUs during the period:

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Outstanding, beginning of period	646,681	984,442	953,483	879,757
Granted	1,625	2,020	268,902	242,875
Reinvested dividends	3,240	4,115	11,794	29,886
Released and paid in cash	—	—	(476,079)	—
Forfeited	(1,047)	(35,916)	(107,601)	(197,857)
Outstanding, end of period	650,499	954,661	650,499	954,661

The expected performance multiplier used in determining the fair value of the liability and related share-based compensation expense for PSUs for the thirteen and thirty-nine weeks ended September 26, 2020 was 110% (September 28, 2019: 121%).

The following table illustrates the movements in the number of RSUs during the period:

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Outstanding, beginning of period	518,323	429,495	383,777	280,562
Granted	1,625	2,020	187,264	162,971
Reinvested dividends	2,205	1,746	9,851	12,725
Released and paid in cash	—	(23,195)	(39,608)	(25,846)
Forfeited	(1,359)	(14,830)	(20,490)	(35,176)
Outstanding, end of period	520,794	395,236	520,794	395,236

The share price at the reporting date was CAD\$8.53 (September 28, 2019: CAD\$10.91). PSUs will vest at the end of a one to three-year period, if agreed-upon performance measures are met (if applicable) and the RSUs will vest in accordance with the terms of the agreement.

The following table illustrates the movements in the number of DSUs during the period:

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Outstanding, beginning of period	278,719	210,843	199,989	153,425
Granted	1,481	—	76,629	61,059
Reinvested dividends	1,734	907	5,316	5,195
Redeemed	(1,813)	—	(1,813)	(7,929)
Outstanding, end of period	280,121	211,750	280,121	211,750

HIGH LINER FOODS INCORPORATED
Notes to the Consolidated Financial Statements
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9. Income tax expense

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended September 26, 2020 was 28.2% (thirteen and thirty-nine weeks ended September 28, 2019: 29.2%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended September 26, 2020 was an expense of 36.9% and 29.0%, respectively (thirteen and thirty-nine weeks ended September 28, 2019: a recovery of 21.6% and an expense of 30.4%, respectively). The lower effective tax rate for the thirty-nine weeks ended September 26, 2020 was primarily attributable to a decrease in the statutory rates of the Parent and its U.S. subsidiary.

10. Related party transactions

The Company had no related party transactions, excluding key management personnel compensation, for the thirteen and thirty-nine weeks ended September 26, 2020. During the thirty-nine weeks ended September 28, 2019, the Company had related party transactions with a company controlled by a strategic advisor of Rubicon Resources, LLC. Effective the beginning of the second quarter of 2019, this company ceased to be a related party in accordance with IFRS. Total sales to related parties for the thirteen and thirty-nine weeks ended September 28, 2019 were \$nil and \$0.3 million, respectively. The Company leased an office building from a related party at an amount which approximated the fair market value that would have been incurred if leased from a third party. Effective beginning of the second quarter of 2019, the lessor ceased to be a related party of the Company in accordance with IFRS. The aggregate payments under the lease, which were measured at the exchange amount, for the thirteen and thirty-nine weeks ended September 28, 2019 were \$nil and \$0.2 million, respectively.

11. Geographic information

Sales earned outside of Canada for the thirteen and thirty-nine weeks ended September 26, 2020 were \$142.3 million and \$476.6 million, respectively (September 28, 2019: \$163.3 million and \$545.7 million, respectively). Sales by geographic area are determined based on the shipping location. The Company disaggregates revenue from contracts with customers based on its single operating segment, North America.

The non-current assets outside of Canada are as follows:

(Amounts in \$000s)	September 26, 2020	December 28, 2019
Property, plant and equipment	\$ 83,200	\$ 85,037
Right-of-use assets	12,532	8,577
Intangible assets	129,852	134,214
Goodwill	147,916	147,916
	\$ 373,500	\$ 375,744

HIGH LINER FOODS INCORPORATED
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12. Fair value measurement

Fair value of financial instruments

The Company uses a fair value hierarchy, based on the relative objectivity of the inputs used to measure the fair value of financial instruments, 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 Company's financial assets and liabilities by level within the fair value hierarchy:

<i>(Amounts in \$000s)</i>	September 26, 2020			December 28, 2019	
	Level 2	Level 3		Level 2	Level 3
Fair value of financial assets					
Interest rate swaps	\$ —	\$ —	\$ 39	\$ —	
Foreign exchange contracts	774	—	231	—	
Fair value of financial liabilities					
Interest rate swaps	1,458	—	536	—	
Foreign exchange contracts	763	—	617	—	
Long-term debt	—	279,963	—	302,831	

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 thirty-nine weeks ended September 26, 2020, no such transfers occurred.

The financial liabilities not measured at fair value on the consolidated statements of financial position consist of long-term debt (including current portion). The carrying amount for these instruments is \$288.4 million as at September 26, 2020 (December 28, 2019: \$303.5 million).

Hedging activities

Interest rate swaps

During the thirty-nine weeks ended September 26, 2020, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (see Note 5):

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
Designated in a formal hedging relationship:				
December 31, 2014	December 31, 2019	3-month LIBOR (floor 1.0%)	2.1700 %	\$ 20.0
March 4, 2015	March 4, 2020	3-month LIBOR (floor 1.0%)	1.9150 %	\$ 25.0
April 4, 2016	April 24, 2021	3-month LIBOR (floor 1.0%)	1.6700 %	\$ 40.0
January 4, 2018	April 24, 2021	3-month LIBOR (floor 1.0%)	2.2200 %	\$ 80.0
March 4, 2020	December 31, 2025	3-month LIBOR (floor 1.0%)	1.4950 %	\$ 20.0

The cash flow hedge of interest expense variability was assessed to be highly effective for the thirteen and thirty-nine weeks ended September 26, 2020 and September 28, 2019, and therefore the change in fair value for those interest rate swaps designated in a hedging relationship was included in OCI as nominal after-tax net losses and after-tax net losses of \$0.8 million, respectively, and after-tax net losses of \$0.1 million and \$1.4 million, respectively.

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Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

The Company did not hold any interest rate swaps that were not designated in a formal hedging relationship during the thirteen and thirty-nine weeks ended September 26, 2020 and September 28, 2019.

Foreign currency contracts

Foreign currency forward contracts are used to hedge foreign currency risk resulting from expected future purchases denominated 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 September 26, 2020, the Company had outstanding notional amounts of \$38.8 million (September 28, 2019: \$24.9 million) in foreign currency average-rate forward contracts that were formally designated as a hedge and \$0.2 million in foreign currency single-rate forward contracts that were formally designated as a hedge (September 28, 2019: \$0.3 million). With the exception of \$2.6 million (September 28, 2019: \$0.8 million) average-rate forward contracts with maturities ranging from September 2021 to March 2022, 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 effective for the thirteen and thirty-nine weeks ended September 26, 2020 and September 28, 2019, and therefore the change in fair value was recorded in OCI as an after-tax net loss of \$0.2 million and an after-tax net gain of \$0.7 million, respectively, and an after-tax net gain of \$0.1 million and an after-tax net loss \$0.2 million, respectively. There were nominal amounts recognized in the consolidated statements of income (loss) resulting from hedge ineffectiveness during the thirteen and thirty-nine weeks ended September 26, 2020 respectively, and no amounts recognized during the thirteen and thirty-nine weeks ended September 28, 2019.

As at September 26, 2020, the Company had no outstanding notional amounts (September 28, 2019: \$nil) of foreign currency single-rate forward contracts to hedge foreign currency exchange risk on USD monetary assets and liabilities that were not formally designated as a hedge. The change in fair value for the thirteen and thirty-nine weeks ended September 26, 2020 were net losses of \$0.3 million and \$0.7 million, respectively, and the change for the thirteen and thirty-nine weeks ended September 28, 2019 were net losses of \$0.2 million and \$0.1 million, respectively.

Hedge of net investment in foreign operations

As at September 26, 2020, a total borrowing of \$288.1 million (\$288.1 million included in long-term debt) (December 28, 2019: a total borrowing of \$303.5 million (\$14.5 million included in the current portion of long-term debt and \$289.0 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 hedge ineffectiveness recognized during the thirty-nine weeks ended September 26, 2020 and September 28, 2019.
