



# HIGH LINER FOODS

## **UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the thirteen and thirty-nine weeks ended October 2, 2021  
With comparative figures as at and for the thirteen and thirty-nine weeks ended September 26, 2020**

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

	Notes	October 2, 2021	January 2, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 15,828	\$ 32,935
Accounts receivable		86,347	60,927
Income taxes receivable		3,550	2,609
Other financial assets	12	649	211
Inventories		257,918	250,861
Prepaid expenses		4,043	4,176
<b>Total current assets</b>		<b>368,335</b>	<b>351,719</b>
<b>Non-current assets</b>			
Property, plant and equipment		112,291	107,221
Right-of-use assets		11,897	15,018
Deferred finance costs	4	194	287
Deferred income taxes	9	23	2,401
Other receivables and assets	12	273	47
Intangible assets		136,495	142,168
Goodwill		157,768	157,697
<b>Total non-current assets</b>		<b>418,941</b>	<b>424,839</b>
<b>Total assets</b>	<b>4, 5</b>	<b>\$ 787,276</b>	<b>\$ 776,558</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		136,326	114,326
Contract liability		2,478	4,351
Provisions		1,922	3,327
Other current financial liabilities	12	1,081	2,735
Other current liabilities	8	4,604	2,731
Income taxes payable		35	41
Current portion of long-term debt	5	3,750	20,185
Current portion of lease liabilities		4,834	4,866
<b>Total current liabilities</b>		<b>155,030</b>	<b>152,562</b>
<b>Non-current liabilities</b>			
Long-term debt	5	246,611	268,048
Other long-term financial liabilities	12	77	329
Other long-term liabilities	8	6,935	6,510
Long-term lease liabilities		7,823	10,722
Deferred income taxes	9	31,637	31,071
Future employee benefits	6	12,600	16,314
<b>Total non-current liabilities</b>		<b>305,683</b>	<b>332,994</b>
<b>Total liabilities</b>		<b>460,713</b>	<b>485,556</b>
<b>Shareholders' equity</b>			
Common shares	7	113,527	112,739
Contributed surplus		17,304	16,551
Retained earnings		214,801	183,649
Accumulated other comprehensive loss		(19,069)	(21,937)
<b>Total shareholders' equity</b>		<b>326,563</b>	<b>291,002</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 787,276</b>	<b>\$ 776,558</b>

*See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements*

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

	Notes	Thirteen weeks ended		Thirty-nine weeks ended	
		October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
<b>Sales</b>	<b>11</b>	<b>\$ 214,302</b>	\$ 194,621	<b>\$ 647,526</b>	\$ 629,038
Cost of sales		<b>166,401</b>	155,718	<b>497,587</b>	494,634
<b>Gross profit</b>		<b>47,901</b>	38,903	<b>149,939</b>	134,404
Distribution expenses		<b>12,068</b>	10,095	<b>36,688</b>	33,711
Selling, general and administrative expenses		<b>19,970</b>	17,734	<b>66,523</b>	53,861
Impairment of property, plant and equipment		<b>42</b>	—	<b>42</b>	—
Business acquisition, integration and other expense		<b>1,230</b>	599	<b>2,370</b>	1,836
<b>Results from operating activities</b>		<b>14,591</b>	10,475	<b>44,316</b>	44,996
Finance costs	<b>5</b>	<b>3,617</b>	4,424	<b>3,790</b>	14,812
<b>Income before income taxes</b>		<b>10,974</b>	6,051	<b>40,526</b>	30,184
Income tax expense	<b>9</b>	<b>1,797</b>	2,230	<b>5,500</b>	8,754
<b>Net income</b>		<b>\$ 9,177</b>	\$ 3,821	<b>\$ 35,026</b>	\$ 21,430
<b>Earnings per common share</b>					
Basic		<b>\$ 0.27</b>	\$ 0.11	<b>\$ 1.03</b>	\$ 0.63
Diluted		<b>\$ 0.26</b>	\$ 0.11	<b>\$ 1.00</b>	\$ 0.62
<b>Weighted average number of shares outstanding</b>					
Basic		<b>33,758,911</b>	33,839,857	<b>33,883,108</b>	33,857,438
Diluted		<b>35,014,993</b>	33,839,857	<b>35,139,190</b>	33,857,438

*See accompanying notes to the Unaudited Condensed Interim Consolidated Financial Statements*

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
<b>Net income</b>	\$ 9,177	\$ 3,821	\$ 35,026	\$ 21,430
<b>Other comprehensive income (loss), net of income tax</b>				
Other comprehensive income (loss) to be reclassified to net income:				
(Loss) gain on hedge of net investment in foreign operations	(6,276)	6,397	2,443	(7,562)
Gain (loss) on translation of net investment in foreign operations	10,404	(8,090)	(2,854)	9,883
Translation impact on Canadian dollar denominated non-AOCI items	(7,618)	4,667	1,710	(6,021)
Translation impact on Canadian dollar denominated AOCI items	778	(421)	(172)	644
<b>Total exchange (losses) gains on translation of foreign operations and Canadian dollar denominated items</b>	<b>(2,712)</b>	<b>2,553</b>	<b>1,127</b>	<b>(3,056)</b>
Effective portion of changes in fair value of cash flow hedges	318	(176)	(339)	(113)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	512	(235)	1,550	(464)
Net change in fair value of cash flow hedges transferred to income	81	232	454	368
Translation impact on Canadian dollar denominated AOCI items	(197)	175	76	(199)
<b>Total exchange gains (losses) on cash flow hedges</b>	<b>714</b>	<b>(4)</b>	<b>1,741</b>	<b>(408)</b>
<b>Net other comprehensive (loss) gain to be reclassified to net income</b>	<b>(1,998)</b>	<b>2,549</b>	<b>2,868</b>	<b>(3,464)</b>
Other comprehensive income (loss) not to be reclassified to net income				
Defined benefit plan actuarial gains (losses)	45	(1,976)	2,522	(1,991)
<b>Other comprehensive (loss) income, net of income tax</b>	<b>(1,953)</b>	<b>573</b>	<b>5,390</b>	<b>(5,455)</b>
<b>Total comprehensive income</b>	<b>\$ 7,224</b>	<b>\$ 4,394</b>	<b>\$ 40,416</b>	<b>\$ 15,975</b>

**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 January 2, 2021	\$ (20,648)	\$ (1,289)	\$ (21,937)
Total exchange gains on translation of foreign operations and Canadian dollar denominated items	1,127	—	1,127
Total exchange gains on cash flow hedges	—	1,741	1,741
<b>Balance at October 2, 2021</b>	<b>\$ (19,521)</b>	<b>\$ 452</b>	<b>\$ (19,069)</b>
Balance at December 28, 2019	\$ (23,122)	\$ (396)	\$ (23,518)
Total exchange losses 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)

*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 January 2, 2021	\$ 112,739	\$ 16,551	\$ 183,649	\$ (21,937)	\$ 291,002
Other comprehensive income	—	—	2,522	2,868	5,390
Net income	—	—	35,026	—	35,026
Common share dividends	—	—	(5,624)	—	(5,624)
Share-based compensation (Note 7, 8)	1,059	753	—	—	1,812
Common shares repurchased for cancellation (Note 7)	(271)	—	(772)	—	(1,043)
<b>Balance at October 2, 2021</b>	<b>\$ 113,527</b>	<b>\$ 17,304</b>	<b>\$ 214,801</b>	<b>\$ (19,069)</b>	<b>\$ 326,563</b>
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 (Note 7)	(148)	—	(141)	—	(289)
Balance at September 26, 2020	\$ 112,739	\$ 16,408	\$ 178,386	\$ (26,982)	\$ 280,551

*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	
		October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
<b>Cash flows provided by (used in):</b>					
<b>Operating activities</b>					
Net income		\$ 9,177	\$ 3,821	\$ 35,026	\$ 21,430
Adjustments to net income not involving cash from operations:					
Depreciation and amortization		5,827	5,636	17,311	17,184
Share-based compensation expense	8	776	2,380	5,769	2,907
Loss on asset disposals and impairment		110	54	261	75
Future employee benefits contribution, net of expense		(83)	175	(246)	48
Finance costs		3,617	4,424	3,790	14,812
Income tax expense	9	1,797	2,230	5,500	8,754
Unrealized foreign exchange (gain) loss		(666)	634	(2)	988
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes refunded (paid)		20,555	19,354	67,409	66,198
Changes in non-cash working capital balances:					
Accounts receivable		(14,705)	(757)	(25,285)	17,117
Inventories		(23,605)	26,192	(6,781)	61,504
Prepaid expenses		1,154	186	115	(427)
Accounts payable and accrued liabilities		23,673	8,783	18,489	(46,794)
Provisions		36	1,366	(1,410)	2,338
Net change in non-cash working capital balances		(13,447)	35,770	(14,872)	33,738
Interest paid		(3,025)	(4,408)	(11,275)	(14,365)
Income taxes refunded (paid)		155	(4,374)	(4,533)	(4,878)
<b>Net cash flows provided by operating activities</b>		<b>4,238</b>	<b>46,342</b>	<b>36,729</b>	<b>80,693</b>
<b>Financing activities</b>					
Increase in bank loans	4	—	(20,000)	—	(7,745)
Repayment of lease liabilities		(1,242)	(1,430)	(3,919)	(4,192)
Repayment of long-term debt	5	—	—	(29,560)	(14,685)
Deferred finance costs	5	—	—	(1,017)	(54)
Common share dividends paid		(1,842)	(1,264)	(5,624)	(3,685)
Common shares repurchased for cancellation		(873)	—	(1,041)	(289)
<b>Net cash flows used in financing activities</b>		<b>(3,957)</b>	<b>(22,694)</b>	<b>(41,161)</b>	<b>(30,650)</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment, net of investment tax credits, and intangible assets		(4,621)	(3,396)	(13,387)	(6,476)
<b>Net cash flows used in investing activities</b>		<b>(4,621)</b>	<b>(3,396)</b>	<b>(13,387)</b>	<b>(6,476)</b>
Foreign exchange (decrease) increase on cash		(1,089)	513	712	(1,504)
Net change in cash during the period		(5,429)	20,765	(17,107)	42,063
Cash, beginning of period		21,257	24,442	32,935	3,144
<b>Cash, end of period</b>		<b>\$ 15,828</b>	<b>\$ 45,207</b>	<b>\$ 15,828</b>	<b>\$ 45,207</b>

*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 October 2, 2021, 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 16, 2021.

---

### 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 January 2, 2021, as set out in the 2020 Annual Report, available at [www.highlinerfoods.com](http://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 January 2, 2021, except for the adoption of the following standard and new amendments that were effective for annual periods beginning on January 1, 2021 and that the Company has adopted on January 3, 2021:

#### **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 a risk-free rate ("RFR"). The amendments are effective for annual periods beginning on or after January 1, 2021 and must be applied retrospectively, with early adoption permitted.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

---

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 3.75% (0.75% 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 interest rate swaps 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 October 2, 2021, there are four interest rate swap contracts with a maturity date subsequent to December 31, 2021. The terms of these contracts are disclosed in Note 12.

The amendments also introduce specific disclosure requirements for hedging relationships to which the reliefs are applied. The Company has adopted the amendments to IFRS 9, IAS 39 and IFRS 7 on a retrospective basis, which had no impact on the Consolidated Financial Statements.

### **IFRS 16, Leases**

On May 28, 2020, the IASB issued an amendment to IFRS 16, *Leases* intended to provide practical relief to lessees in accounting for rent concessions arising as a result of the COVID-19 pandemic. The amendments to IFRS 16 for COVID-19 related rent concessions are to:

- Provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification;
- Require lessees that apply the exemption to account for COVID-19 related rent concessions as if they were not lease modifications;
- Require lessees that apply the exemption to disclose the fact; and
- Require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require restatement of prior periods.

The amendment is effective annual periods beginning on or after June 1, 2020 with early application permitted. The Company has adopted the amendments to IFRS 16, which had no impact on the Consolidated Financial Statements.

### **IFRS 9, Financial Instruments**

In May 2020, the IASB issued annual improvements to IFRS Standards 2018-2020, which included amendments to IFRS 9 to clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company has adopted the amendments to IFRS 9, in relation to the March 2021 debt repricing (see Note 5).

### **Interpretations Committee Agenda Decision, *Attributing Benefit to Periods of Service***

In April 2021, the IASB issued Interpretations Committee agenda decision - *Attributing Benefit to Periods of Service* to address the periods of service to which an entity attributes benefit for a particular defined benefit plan that affects the application of IAS 19, *Employee Benefits*. The agenda decision specifically addresses the following:

- Employees are entitled to a lump sum benefit payment when they reach a specified retirement age provided they are employed by the entity when they reach that retirement age; and
- The amount of the retirement benefit to which an employee is entitled depends on the length of employee service with the entity before the retirement age and is capped at a specified number of consecutive years of service.

It was concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to determine the periods to which the retirement benefit is attributed.

The Company has adopted the agenda decision related to IAS 19, which had no impact on the Consolidated Financial Statements.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

---

### **Interpretations Committee Agenda Decision, *Costs Necessary to Sell Inventories***

In June 2021, the IASB issued Interpretations Committee agenda decision - *Costs Necessary to Sell Inventories* to address the necessary costs to sell when determining the net realisable value of inventories that affects the application of IAS 2, *Inventories*.

It was concluded that, when determining the net realisable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business. An entity uses its judgement to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories.

The Company has adopted the agenda decision related to IAS 2, which had no impact on the Consolidated Financial Statements.

---

### **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 Fiscal 2020 and the thirty-nine weeks ended October 2, 2021 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 thirteen weeks ended April 3, 2021, 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 thirteen weeks ended April 3, 2021, the Company recognized \$0.9 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. During the twenty-six weeks ended October 2, 2021 the Company did not participate in this program. The Company does not have any unfulfilled conditions or material contingencies related to the government assistance received.

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>	<b>October 2, 2021</b>	<b>January 2, 2021</b>
Bank loans, denominated in CAD (average variable rate of 2.45%; January 2, 2021: 2.45%)	\$ —	\$ —
Bank loans, denominated in USD (average variable rate of 3.5%; January 2, 2021: 3.5%)	—	—
Less: deferred finance costs <sup>(1)</sup>	—	—
	<b>\$ —</b>	<b>\$ —</b>

<sup>(1)</sup> Total deferred finance costs as at October 2, 2021 and January 2, 2021 were \$0.2 million and \$0.3 million, respectively, and have been classified as non-current assets on the consolidated statements of financial position.

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. Taking into account the current borrowing base and letters of credit, as at October 2, 2021, the Company had \$106.8 million of borrowing availability (January 2, 2021: \$132.2 million).

As at October 2, 2021 and January 2, 2021, 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>	<b>October 2, 2021</b>	<b>January 2, 2021</b>
Term loan	\$ 256,463	\$ 294,212
Less: current portion	(3,750)	(20,185)
	<b>252,713</b>	<b>274,027</b>
Less: deferred finance costs	(6,102)	(5,979)
	<b>\$ 246,611</b>	<b>\$ 268,048</b>

In March 2021, the Company amended the \$300.0 million term facility to decrease the applicable interest rates for loans under the facility from LIBOR plus 4.25% (1.00% LIBOR floor) to LIBOR plus 3.75% (0.75% LIBOR floor). All other material terms of the facility remain unchanged, including the maturity date of October 2026. The amendments to the facility were not assessed as a substantial modification, and as a result, the deferred finance costs related to the original facility continue to be amortized over the remaining term. In addition, the Company incurred finance costs of \$0.9 million. As the net present value of the cash flows of the modified debt was lower than the carrying value of the original facility before the amendments, a modification gain of \$7.8 million was recorded in finance costs on the consolidated statements of income during the thirty-nine weeks ended October 2, 2021. Excluding the impact of the modification gain on the carrying value, the principal balance outstanding of term loan debt was \$255.8 million at October 2, 2021.

Quarterly principal repayments of \$1.9 million are required on the term loan as regularly scheduled repayments. During the thirty-nine weeks ended October 2, 2021, a regularly scheduled repayment of \$1.9 million and a voluntary repayment of \$7.5

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

million were made. A mandatory prepayment of \$20.2 million was also made due to excess cash flows in 2020. Any mandatory and voluntary repayments made prior to the time of refinancing were not applied to future regularly scheduled principal repayments. However, the \$7.5 million voluntary repayment made during the second quarter of 2021 was applied against future scheduled principal repayments, leaving \$3.8 million in regularly scheduled repayments remaining in the next 12 months.

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:

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	<b>October 2, 2021</b>	September 26, 2020	<b>October 2, 2021</b>	September 26, 2020
<b>Termination benefits</b>				
Cost of sales	<b>12</b>	—	<b>12</b>	—
Distribution expenses	\$ —	\$ —	\$ —	\$ 55
Selling, general and administrative expenses	<b>124</b>	309	<b>767</b>	1,221
	<b>\$ 136</b>	\$ 309	<b>\$ 779</b>	\$ 1,276
<b>Short-term benefits</b>				
Business acquisition, integration and other (income) expense	\$ (25)	\$ 53	\$ 40	\$ (19)
Selling, general and administrative expenses	—	—	—	32
	<b>\$ (25)</b>	\$ 53	<b>\$ 40</b>	\$ 13

## 7. Share capital

### Purchase of shares for cancellation

In June 2021, the Company announced that the Toronto Stock Exchange approved a Normal Course Issuer Bid to repurchase up to 150,000 common shares. Purchases could commence on June 23, 2021 and will terminate no later than June 22, 2022. During the thirty-nine weeks ended October 2, 2021, the Company purchased 97,100 common shares under this plan at an average price of CAD\$13.42 per share for total cash consideration of CAD\$1.3 million. The excess of the purchase price over the book value of the shares in the amount of \$0.8 million was charged to retained earnings.

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 terminated on March 9, 2021. During the thirty-nine weeks ended October 2, 2021, the Company did not purchase common shares under this plan prior to the expiry date. 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.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

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

	Thirty-nine weeks ended		Thirty-nine weeks ended	
	October 2, 2021		September 26, 2020	
	Shares	(\$000s)	Shares	(\$000s)
Balance, beginning of period	33,323,481	\$ 112,739	33,383,481	\$ 112,887
Options exercised for shares via cashless exercise method (Note 8)	44,924	173	—	—
Shares issued on redemption of PSU/RSUs (Note 8)	83,405	886	—	—
Shares repurchased for cancellation	(97,100)	(271)	(60,000)	(148)
<b>Balance, end of period</b>	<b>33,354,710</b>	<b>\$ 113,527</b>	<b>33,323,481</b>	<b>\$ 112,739</b>

During the thirteen and thirty-nine weeks ended October 2, 2021, the Company distributed dividends per share of CAD\$0.07 and CAD\$0.21 respectively (thirteen and thirty-nine weeks ended September 26, 2020: CAD\$0.05 and CAD\$0.15 respectively).

On November 16, 2021, the Company's Board of Directors declared a quarterly dividend of CAD\$0.10 per share, payable on December 15, 2021 to shareholders of record as of December 1, 2021. The quarterly dividend of CAD\$0.10 per share represents a 3.0 cents increase from the CAD\$0.07 per share quarterly dividend paid during the third quarter of 2021 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 \$4.6 million and \$6.9 million, respectively, as at October 2, 2021 (January 2, 2021: \$2.7 million and \$6.5 million, respectively).

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
<i>(Amounts in \$000s)</i>				
<b>Cost of sales resulting from:</b>				
Equity-settled awards <sup>(1)</sup>	\$ 8	\$ 16	\$ 22	\$ 43
<b>Selling, general and administrative expenses resulting from:</b>				
Cash-settled awards <sup>(1)</sup>	659	2,270	5,453	2,531
Equity-settled awards <sup>(1)</sup>	109	94	294	333
<b>Share-based compensation expense</b>	<b>\$ 776</b>	<b>\$ 2,380</b>	<b>\$ 5,769</b>	<b>\$ 2,907</b>

<sup>(1)</sup> Cash-settled awards may include 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			
	October 2, 2021		September 26, 2020		October 2, 2021		September 26, 2020	
	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)
Outstanding, beginning of period	1,386,259	\$ 10.04	1,806,142	\$ 10.77	1,748,843	\$ 10.65	1,717,416	\$ 12.53
Granted	60,837	13.50	—	—	155,532	13.45	271,276	7.51
Exercised for shares via cashless method <sup>(1)</sup>	—	—	—	—	(122,497)	8.02	—	—
Expired	—	—	(11,900)	15.30	(334,782)	14.93	(194,450)	22.04
<b>Outstanding, end of period</b>	<b>1,447,096</b>	<b>\$ 10.18</b>	1,794,242	\$ 10.74	<b>1,447,096</b>	<b>\$ 10.18</b>	1,794,242	\$ 10.74
<b>Exercisable, end of period</b>	<b>1,011,955</b>	<b>\$ 10.43</b>	1,199,226	\$ 12.14	<b>1,011,955</b>	<b>\$ 10.43</b>	1,199,226	\$ 12.14

<sup>(1)</sup> For the thirty-nine weeks ended October 2, 2021, 44,924 shares were issued related to options exercised via the cashless method (thirty-nine weeks ended September 26, 2020: nil shares). The weighted average share price at the date of exercise for these options was CAD\$12.64 for the thirty-nine weeks ended October 2, 2021 (thirty-nine weeks ended September 26, 2020: \$nil).

Set forth below is a summary of the outstanding options to purchase common shares as at October 2, 2021:

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	555,860	\$ 7.48	2.66	276,251	\$ 7.47
\$ 10.01–15.00	855,754	11.51	2.28	700,222	11.08
\$ 20.01–25.00	35,482	20.61	0.24	35,482	20.61
	<b>1,447,096</b>			<b>1,011,955</b>	

The fair value of options granted during the thirty-nine weeks ended October 2, 2021 and thirty-nine weeks ended September 26, 2020 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average inputs and assumptions:

	October 2, 2021	September 26, 2020
Dividend yield (%)	2.08	2.66
Expected volatility (%)	41.96	42.28
Risk-free interest rate (%)	1.23	1.22
Expected life (years)	7.00	5.00
Weighted average share price (CAD)	\$ 13.36	\$ 7.51
<b>Weighted average fair value (CAD)</b>	<b>\$ 4.69</b>	<b>\$ 2.26</b>

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	
	<b>October 2, 2021</b>	September 26, 2020	<b>October 2, 2021</b>	September 26, 2020
Outstanding, beginning of period	<b>613,701</b>	646,681	<b>604,940</b>	953,483
Granted	<b>13,089</b>	1,625	<b>156,038</b>	268,902
Reinvested dividends	<b>3,135</b>	3,240	<b>9,085</b>	11,794
Released and paid in cash	—	—	<b>(92,178)</b>	(476,079)
Released and paid in shares	—	—	<b>(38,312)</b>	—
Forfeited	<b>(2,261)</b>	(1,047)	<b>(11,909)</b>	(107,601)
<b>Outstanding, end of period</b>	<b>627,664</b>	650,499	<b>627,664</b>	650,499

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 October 2, 2021 was 123% (thirty-nine weeks ended September 26, 2020: 110%).

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	<b>October 2, 2021</b>	September 26, 2020	<b>October 2, 2021</b>	September 26, 2020
Outstanding, beginning of period	<b>431,688</b>	518,323	<b>512,740</b>	383,777
Granted	<b>46,164</b>	1,625	<b>155,924</b>	187,264
Reinvested dividends	<b>2,395</b>	2,205	<b>6,642</b>	9,851
Released and paid in cash	—	—	<b>(100,693)</b>	(39,608)
Released and paid in shares	—	—	<b>(87,355)</b>	—
Forfeited	<b>(585)</b>	(1,359)	<b>(7,596)</b>	(20,490)
<b>Outstanding, end of period</b>	<b>479,662</b>	520,794	<b>479,662</b>	520,794

The share price at the reporting date was CAD\$13.00 (September 26, 2020: CAD\$8.53). PSUs will vest at the end of a three-year period, if agreed-upon performance measures are met 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	
	<b>October 2, 2021</b>	September 26, 2020	<b>October 2, 2021</b>	September 26, 2020
Outstanding, beginning of period	<b>307,692</b>	278,719	<b>267,559</b>	199,989
Granted	—	1,481	<b>37,184</b>	76,629
Reinvested dividends	<b>1,626</b>	1,734	<b>4,575</b>	5,316
Redeemed	—	(1,813)	—	(1,813)
<b>Outstanding, end of period</b>	<b>309,318</b>	280,121	<b>309,318</b>	280,121

## 9. Income tax expense

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended October 2, 2021 was 27.8% (thirteen and thirty-nine weeks ended September 26, 2020: 28.2%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended October 2, 2021 was 16.4% and an expense of 13.6%, respectively (thirteen and thirty-nine weeks ended September 26, 2020: 36.9% and 29.0%, respectively). The lower effective tax rate for the thirty-nine weeks ended October 2, 2021 was

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

primarily attributable to the Company's tax-efficient financing structure, lower statutory rates in both Canada and the U.S, and the benefit of previously unrecorded tax assets.

## 10. Related party transactions

The Company had no related party transactions, excluding key management personnel compensation, for the thirteen and thirty-nine weeks ended October 2, 2021 and September 26, 2020.

## 11. Geographic information

Sales earned outside of Canada for the thirteen and thirty-nine weeks ended October 2, 2021 were \$155.7 million and \$482.2 million, respectively (September 26, 2020: \$142.3 million and \$476.6 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)	October 2, 2021		January 2, 2021	
Property, plant and equipment	\$	84,747	\$	82,609
Right-of-use assets		8,827		11,494
Intangible assets		123,206		128,108
Goodwill		147,916		147,916
	\$	364,696	\$	370,127

## 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:

(Amounts in \$000s)	October 2, 2021			January 2, 2021	
	Level 2	Level 3	Level 2	Level 3	
<b>Fair value of financial assets</b>					
Interest rate swaps	\$ 183	\$ —	\$ —	\$ —	
Foreign exchange contracts	739	—	258	—	
<b>Fair value of financial liabilities</b>					
Interest rate swaps	475	—	1,077	—	
Foreign exchange contracts	683	—	1,987	—	
Long-term debt	—	249,616	—	289,744	

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.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

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 October 2, 2021, 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 of these instruments was \$250.4 million as at October 2, 2021 (January 2, 2021: \$288.2 million).

### Hedging activities

#### Interest rate swaps

During the thirty-nine weeks ended October 2, 2021, 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)
<b>Designated in a formal hedging relationship:</b>				
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	June 30, 2021	3-month LIBOR (floor 1.0%)	1.4950 %	\$ 20.0
April 26, 2021	July 7, 2023	3-month LIBOR (floor 0.75%)	0.8250 %	\$ 25.0
April 26, 2021	July 8, 2024	3-month LIBOR (floor 0.75%)	0.9700 %	\$ 25.0
April 26, 2021	July 6, 2026	3-month LIBOR (floor 0.75%)	1.3385 %	\$ 35.0
June 30, 2021	December 31, 2025	3-month LIBOR (floor 0.75%)	1.3610 %	\$ 20.0

The cash flow hedge of interest expense variability was assessed to be highly effective for the thirteen and thirty-nine weeks ended October 2, 2021 and September 26, 2020, and therefore the change in fair value for those interest rate swaps designated in a hedging relationship was included in OCI as after-tax net losses of \$0.1 million and nominal after-tax net losses respectively, and nominal after-tax net losses and after-tax net losses of \$0.8 million, respectively.

The Company did not hold any interest rate swaps that were not designated in a formal hedging relationship during the thirty-nine weeks ended October 2, 2021 and September 26, 2020. There was \$0.1 million and \$nil recognized in the consolidated statements of income resulting from hedge ineffectiveness during the thirteen and thirty-nine weeks ended October 2, 2021 and \$nil and \$0.8 million during the thirteen and thirty-nine weeks ended September 26, 2020.

#### 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 October 2, 2021, the Company had outstanding notional amounts of \$31.4 million (September 26, 2020: \$38.8 million) in foreign currency average-rate forward contracts that were formally designated as a hedge and \$3.7 million in foreign currency single-rate forward contracts that were formally designated as a hedge (September 26, 2020: \$0.2 million). With the exception of \$2.8 million (September 26, 2020: \$2.6 million) average-rate forward contracts with maturities ranging from October 2022 to March 2023, 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 October 2, 2021 and September 26, 2020, and therefore the change in fair value was recorded in OCI as after-tax net gains of \$0.4 million and after-tax net losses of \$0.3 million, respectively, and after-tax net losses of \$0.2 million and after-tax net gains of \$0.7 million, respectively. There were nominal amounts recognized in the consolidated statements of income resulting from hedge ineffectiveness during the thirteen and thirty-nine weeks ended October 2, 2021 and nominal amounts recognized during the thirteen and thirty-nine weeks ended September 26, 2020.

# HIGH LINER FOODS INCORPORATED

## Notes to the Consolidated Financial Statements

In United States dollars, unless otherwise noted

---

As at October 2, 2021, the Company had \$23.0 million (September 26, 2020: \$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 related to hedging foreign currency exchange risk on USD monetary assets and liabilities, recognized in the consolidated statements of income for the thirteen and thirty-nine weeks ended, were net gains of \$0.4 million and the change for the thirteen and thirty-nine weeks ended September 26, 2020 were net losses of \$0.3 million and \$0.7 million, respectively.

### ***Hedge of net investment in foreign operations***

As at October 2, 2021, a total borrowing of \$250.4 million (\$3.8 million included in the current portion of long-term debt and \$246.6 million included in long-term debt (January 2, 2021: a total borrowing of \$288.2 million (\$20.2 million included in the current portion of long-term debt and \$268.0 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 October 2, 2021 and September 26, 2020.

---