



HIGH LINER FOODS

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the thirteen and thirty-nine weeks ended October 1, 2022
With comparative figures as at and for the thirteen and thirty-nine weeks ended October 2, 2021**

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

	Notes	October 1, 2022	January 1, 2022
ASSETS			
Current assets			
Cash		\$ 3,339	\$ 443
Accounts receivable		100,289	87,122
Income taxes receivable		2,983	5,870
Other financial assets	12	8,896	540
Inventories		402,497	308,183
Prepaid expenses	4	14,299	3,419
Total current assets		532,303	405,577
Non-current assets			
Property, plant and equipment		114,457	115,852
Right-of-use assets		8,109	11,041
Deferred income taxes	9	692	24
Other receivables and assets	12	4,736	1,008
Intangible assets		130,520	135,195
Goodwill		156,988	157,772
Total non-current assets		415,502	420,892
Total assets	5, 6	\$ 947,805	\$ 826,469
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank loans	5	\$ 59,358	\$ 4,388
Accounts payable and accrued liabilities		203,019	164,135
Contract liability		3,170	1,585
Provisions		1,236	172
Other current financial liabilities	12	91	1,269
Other current liabilities	8	4,720	5,499
Income taxes payable		498	35
Current portion of long-term debt	6	7,500	5,625
Current portion of lease liabilities		4,548	4,327
Total current liabilities		284,140	187,035
Non-current liabilities			
Long-term debt	6	240,109	244,994
Other long-term financial liabilities	12	27	23
Other long-term liabilities	8	5,193	7,874
Long-term lease liabilities		3,859	6,851
Deferred income taxes	9	40,422	34,179
Future employee benefits		8,827	12,989
Total non-current liabilities		298,437	306,910
Total liabilities		582,577	493,945
Shareholders' equity			
Common shares	7	113,058	113,458
Contributed surplus		17,865	17,477
Retained earnings		257,330	219,965
Accumulated other comprehensive loss		(23,025)	(18,376)
Total shareholders' equity		365,228	332,524
Total liabilities and shareholders' equity		\$ 947,805	\$ 826,469

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 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Sales	11	\$ 271,181	\$ 214,302	\$ 819,368	\$ 647,526
Cost of sales		214,434	166,401	644,278	497,587
Gross profit		56,747	47,901	175,090	149,939
Distribution expenses		14,707	12,068	45,921	36,688
Selling, general and administrative expenses		24,877	19,970	70,423	66,523
Impairment of property, plant and equipment		117	42	168	42
Business acquisition, integration and other expense (income)	3	648	1,230	(8,118)	2,370
Results from operating activities		16,398	14,591	66,696	44,316
Finance costs	6	4,710	3,617	12,310	3,790
Income before income taxes		11,688	10,974	54,386	40,526
Income taxes					
Income tax expense	9	1,711	1,797	10,787	5,500
Net income		\$ 9,977	\$ 9,177	\$ 43,599	\$ 35,026
Earnings per common share					
Basic		\$ 0.30	\$ 0.27	\$ 1.29	\$ 1.03
Diluted		\$ 0.28	\$ 0.26	\$ 1.24	\$ 1.00
Weighted average number of shares outstanding					
Basic		33,727,858	33,758,911	33,766,947	33,883,108
Diluted		35,102,009	35,014,993	35,141,098	35,139,190

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 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Net income	\$ 9,977	\$ 9,177	\$ 43,599	\$ 35,026
Other comprehensive income (loss), net of income tax				
Other comprehensive income (loss) to be reclassified to net income:				
(Loss) gain on hedge of net investment in foreign operations	(16,986)	(6,276)	(22,424)	2,443
Gain (loss) on translation of net investment in foreign operations	27,883	10,404	36,763	(2,854)
Translation impact on Canadian dollar denominated non-AOCI items	(20,436)	(7,618)	(27,105)	1,710
Translation impact on Canadian dollar denominated AOCI items	1,140	778	1,640	(172)
Total exchange (losses) gains on translation of foreign operations and Canadian dollar denominated items	(8,399)	(2,712)	(11,126)	1,127
Effective portion of changes in fair value of cash flow hedges	4,481	318	7,896	(339)
Net change in fair value of cash flow hedges transferred to carrying amount of hedged item	(237)	512	(193)	1,550
Net change in fair value of cash flow hedges transferred to income	(212)	81	(113)	454
Translation impact on Canadian dollar denominated AOCI items	(878)	(197)	(1,113)	76
Total exchange gains on cash flow hedges	3,154	714	6,477	1,741
Net other comprehensive (loss) gain to be reclassified to net income	(5,245)	(1,998)	(4,649)	2,868
Other comprehensive (loss) income not to be reclassified to net income				
Defined benefit plan actuarial (losses) gains	(947)	45	2,567	2,522
Other comprehensive (loss) income, net of income tax	(6,192)	(1,953)	(2,082)	5,390
Total comprehensive income	\$ 3,785	\$ 7,224	\$ 41,518	\$ 40,416

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 1, 2022	\$ (19,524)	\$ 1,148	\$ (18,376)
Total exchange losses on translation of foreign operations and Canadian dollar denominated items	(11,126)	—	(11,126)
Total exchange gains on cash flow hedges	—	6,477	6,477
Balance at October 1, 2022	\$ (30,650)	\$ 7,625	\$ (23,025)
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
Balance at October 2, 2021	\$ (19,521)	\$ 452	\$ (19,069)

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 1, 2022	\$ 113,458	\$ 17,477	\$ 219,965	\$ (18,376)	\$ 332,524
Other comprehensive loss	—	—	2,567	(4,649)	(2,082)
Net income	—	—	43,599	—	43,599
Common share dividends	—	—	(7,666)	—	(7,666)
Share-based compensation (Note 7, 8)	42	388	—	—	430
Common shares repurchased for cancellation (Note 7)	(442)	—	(1,135)	—	(1,577)
Balance at October 1, 2022	\$ 113,058	\$ 17,865	\$ 257,330	\$ (23,025)	\$ 365,228
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)
Balance at October 2, 2021	\$ 113,527	\$ 17,304	\$ 214,801	\$ (19,069)	\$ 326,563

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)

		Thirteen weeks ended		Thirty-nine weeks ended	
	Notes	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Cash flows provided by (used in):					
Operating activities					
Net income		\$ 9,977	\$ 9,177	\$ 43,599	\$ 35,026
Adjustments to net income not involving cash from operations:					
Depreciation and amortization		6,045	5,827	17,408	17,311
Share-based compensation expense	8	1,482	776	2,195	5,769
Loss on asset disposals and impairment		308	110	481	261
Future employee benefits contribution, net of expense		(77)	(83)	(330)	(246)
Finance costs		4,710	3,617	12,310	3,790
Income tax expense	9	1,711	1,797	10,787	5,500
Unrealized foreign exchange loss (gain)		1,279	(666)	459	(2)
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid		25,435	20,555	86,909	67,409
Changes in non-cash working capital balances:					
Accounts receivable		(13,670)	(14,705)	(14,875)	(25,285)
Inventories		(81,292)	(23,605)	(106,645)	(6,781)
Prepaid expenses		2,231	1,154	(11,375)	115
Accounts payable and accrued liabilities		62,474	23,673	40,079	18,489
Provisions		202	36	1,078	(1,410)
Net change in non-cash working capital balances		(30,055)	(13,447)	(91,738)	(14,872)
Interest paid		(3,446)	(3,025)	(9,856)	(11,275)
Income taxes (paid) refunded		(1,853)	155	(5,628)	(4,533)
Net cash flows (used in) provided by operating activities		(9,919)	4,238	(20,313)	36,729
Financing activities					
Increase in bank loans		29,032	—	55,892	—
Repayment of lease liabilities		(1,279)	(1,242)	(3,844)	(3,919)
Repayment of long-term debt	6	(1,925)	—	(3,809)	(29,560)
Deferred finance costs		(191)	—	(563)	(1,017)
Common share dividends paid		(2,495)	(1,842)	(7,666)	(5,624)
Common shares repurchased for cancellation	7	(546)	(873)	(1,577)	(1,041)
Net cash flows provided by (used in) financing activities		22,596	(3,957)	38,433	(41,161)
Investing activities					
Purchase of property, plant and equipment, net of investment tax credits, and intangible assets		(6,746)	(4,621)	(11,840)	(13,387)
Net cash flows (used in) provided by investing activities		(6,746)	(4,621)	(11,840)	(13,387)
Foreign exchange (decrease) increase on cash		(2,878)	(1,089)	(3,384)	712
Net change in cash during the period		3,053	(5,429)	2,896	(17,107)
Cash, beginning of period		286	21,257	443	32,935
Cash, end of period		\$ 3,339	\$ 15,828	\$ 3,339	\$ 15,828

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 thirty-nine weeks ended October 1, 2022, 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 9, 2022.

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 1, 2022, as set out in the 2021 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 January 1, 2022, except for the adoption of the following new amendment that was effective for annual periods beginning on January 1, 2022 and that the Company has adopted on January 2, 2022:

IFRS 3, Business Combinations

In May 2020, the IASB issued amendments to IFRS 3, *Business Combinations - Reference to the Conceptual Framework* to add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

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In addition, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments will promote consistency within financial reporting and will avoid potential confusion from having more than one version of the *Conceptual Framework* in use.

The amendments are effective for annual periods beginning on or after January 1, 2022 and must be applied prospectively. The Company has adopted the amendments to IFRS 3, which had no impact on the Consolidated Financial Statements.

3. Insurance proceeds

During Fiscal 2020, High Liner Foods filed a lawsuit in California Superior Court against Mr. Brian Wynn relating to misrepresentations the Company alleges Mr. Wynn made during the due diligence process for the acquisition of Rubicon Resources LLC ("Rubicon"). The Company is claiming a number of remedies, including rescission, disgorgement and damages. After filing the claim against Mr. Wynn, High Liner Foods also filed a claim under the Representations and Warranty insurance policy (the "Insurance Policy") that was procured by High Liner Foods to provide coverage for breaches of the representations made by Rubicon and Mr. Wynn when it acquired Rubicon. During Fiscal 2021, the Company filed its arbitration demand and the arbitration is proceeding. The Company cannot predict the outcome of the legal proceedings against Mr. Wynn, nor the amount of likely recovery from Mr. Wynn, however the insurer, under the Insurance Policy, has agreed that there were breaches of the representations made by Mr. Wynn resulting in damages in excess of the policy limit. Accordingly, during the thirty-nine weeks ended October 1, 2022, the Company received the total available amount under the Insurance Policy of \$10.0 million.

4. Prepaid expenses

<i>(Amounts in \$000s)</i>	October 1, 2022	January 1, 2022
Inventory prepayments	\$ 10,014	\$ —
Other prepaid expenses	4,285	3,419
	\$ 14,299	\$ 3,419

As at October 1, 2022 (October 2, 2021: \$nil), prepaid expenses included \$10.0 million of inventory prepayments the Company made for finished goods inventory.

5. Bank loans

<i>(Amounts in \$000s)</i>	October 1, 2022	January 1, 2022
Bank loans, denominated in CAD (average variable rate of 5.45%; January 1, 2022: 2.45%)	\$ —	\$ 2,038
Bank loans, denominated in USD (average variable rate of 4.51%; January 1, 2022: 3.32%)	60,000	2,513
	60,000	4,551
Less: deferred finance costs	(642)	(163)
	\$ 59,358	\$ 4,388

The Company has a \$150.0 million working capital facility (the "Facility"), with the Royal Bank of Canada as Administrative Agent, which was amended on April 28, 2022 to extend the term expiry from April 2023 to April 2027. The amendment also included a necessary update from LIBOR to Secured Overnight Financing Rate ("SOFR") based loans. The Facility was amended again subsequent October 1, 2022 to increase the borrowing limit from \$150.0 million to \$200.0 million (see Note 13 *Events after the reporting period* for further information on the amendment to the Facility). 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 6). A second

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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 1, 2022, the Company had \$45.8 million of borrowing availability (January 1, 2022: \$117.1 million). Taking into account the amendment on October 6, 2022 and the current borrowing base and letters of credit as at October 1, 2022, the Company had \$95.8 million of borrowing availability.

As at October 1, 2022 and January 1, 2022, 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 1.50%
SOFR revolving loans at, Adjusted Term SOFR rates	plus 1.25% to 1.50%
Letters of credit, with fees of	1.25% to 1.50%
Standby fees, required to be paid on the unutilized facility, of	0.25%

6. Long-term debt

Long-term debt

<i>(Amounts in \$000s)</i>	October 1, 2022	January 1, 2022
Term loan	\$ 252,583	\$ 256,429
Less: current portion	(7,500)	(5,625)
	245,083	250,804
Less: deferred finance costs	(4,974)	(5,810)
	\$ 240,109	\$ 244,994

As at October 1, 2022, the Company had a \$300.0 million term facility with an interest rate of LIBOR plus 3.75% (0.75% LIBOR floor), maturing in October 2026. As part of the amendments to the term loan facility completed in March 2021, a modification gain of \$7.8 million decreased the carrying value of the term loan facility and was recorded in finance costs on the consolidated statements of income during the fifty-two weeks ended January 1, 2022 due to the net present value of the cash flows of the modified debt being lower than the carrying value of the original facility before amendments. Excluding the impact of the net modification gain on the carrying value, the principal balance outstanding of term loan debt was \$252.0 million at October 1, 2022. The term loan facility interest rate was amended subsequent to October 1, 2022 from LIBOR to Secured Overnight Financing Rate ("SOFR"). All other material terms remain unchanged (see Note 13 *Events after the reporting period*).

Quarterly principal repayments of \$1.9 million are required on the term loan as regularly scheduled repayments. During the thirty-nine weeks ended October 1, 2022, regularly scheduled repayments of \$3.8 million were made. A voluntary repayment of \$7.5 million was made during the fifty-two weeks ended January 1, 2022 that was applied against scheduled principal repayments in the last three quarters of 2021 and the first quarter of 2022. There are regularly scheduled repayments of \$7.5 million to be paid 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.

7. Share capital

Purchase of shares for cancellation

In June 2022, the Company announced that the Toronto Stock Exchange approved a Normal Course Issued Bid to repurchase up to 200,000 common shares. Purchases could commence on on June 7, 2022 and will terminate no later than June 6, 2023. During the thirty-nine weeks ended October 1, 2022, the Company purchased 135,568 common shares under this plan at an

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average price of \$9.51 (CAD\$12.32) per share for total cash consideration of \$1.3 million (CAD\$1.7 million). The excess of the purchase price over the book value of the shares in the amount of \$0.9 million was charged to retained earnings.

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 commenced on June 23, 2021 and were terminated early on June 7, 2022. During the fifty-two weeks ended January 1, 2022, the Company purchased 122,100 common shares under this plan. During the twenty-six weeks ended July 2, 2022, the Company purchased the remaining 27,900 common shares under this plan at an average price of \$10.04 (CAD\$12.71) per share for total cash consideration of \$0.3 million (CAD\$0.4 million). The excess of the purchase price over the book value of the shares in the amount of \$0.2 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.

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

	Thirty-nine weeks ended October 1, 2022		Thirty-nine weeks ended October 2, 2021	
	Shares	(\$000s)	Shares	(\$000s)
Common shares:				
Balance, beginning of period	33,329,710	\$ 113,458	33,323,481	\$ 112,739
Options exercised for shares via cashless exercise method (Note 8)	10,904	42	44,924	173
Shares issued on redemption of PSU/RSUs (Note 8)	—	—	83,405	886
Shares repurchased for cancellation	(163,468)	(442)	(97,100)	(271)
Balance, end of period	33,177,146	\$ 113,058	33,354,710	\$ 113,527

During the thirteen and thirty-nine weeks ended October 1, 2022, the Company distributed dividends per share of CAD\$0.10 and CAD\$0.30 respectively (thirteen and thirty-nine weeks ended October 2, 2021: CAD\$0.07 and CAD\$0.21 respectively).

On November 9, 2022, the Company's Board of Directors declared a quarterly dividend of CAD\$0.13 per share, payable on December 15, 2022 to shareholders of record as of December 1, 2022. The quarterly dividend of CAD\$0.13 per share represents a CAD\$0.03 per share increase from the CAD\$0.10 per share quarterly dividend paid during the third quarter of fiscal 2022 and reflects the Board's recognition of the Company's strong performance and 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 \$4.7 million and \$5.2 million, respectively, as at October 1, 2022 (January 1, 2022: \$5.5 million and \$7.9 million, respectively).

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In United States dollars, unless otherwise noted

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

<i>(Amounts in \$000s)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Cost of sales resulting from:				
Equity-settled awards ⁽¹⁾	\$ 6	\$ 8	\$ 19	\$ 22
Selling, general and administrative expenses resulting from:				
Cash-settled awards ⁽¹⁾	1,406	659	1,896	5,453
Equity-settled awards ⁽¹⁾	70	109	280	294
Share-based compensation expense	\$ 1,482	\$ 776	\$ 2,195	\$ 5,769

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

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 1, 2022		October 2, 2021		October 1, 2022		October 2, 2021	
	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)	No.	WAEP (CAD)
Outstanding, beginning of period	1,536,320	\$ 10.24	1,386,259	\$ 10.04	1,447,096	\$ 10.18	1,748,843	\$ 10.65
Granted	—	—	60,837	13.50	151,325	12.70	155,532	13.45
Exercised for shares via cashless method ⁽¹⁾	—	—	—	—	(26,618)	7.49	(122,497)	8.02
Cancelled or forfeited	(6,637)	7.51	—	—	(6,637)	7.51	—	—
Expired	—	—	—	—	(35,483)	20.61	(334,782)	14.93
Outstanding, end of period	1,529,683	\$ —	1,447,096	\$ 10.18	1,529,683	\$ —	1,447,096	\$ 10.18
Exercisable, end of period	1,199,732	\$ 9.83	1,011,955	\$ 10.43	1,199,732	\$ 9.83	1,011,955	\$ 10.43

⁽¹⁾ For the thirty-nine weeks ended October 1, 2022, 10,904 shares were issued related to options exercised via the cashless method (thirty-nine weeks ended October 2, 2021: 44,924). The weighted average share price at the date of exercise for these options was CAD\$12.68 for the thirty-nine weeks ended October 1, 2022 (thirty-nine weeks ended October 2, 2021: CAD\$12.64).

Set forth below is a summary of the outstanding options to purchase common shares as at October 1, 2022:

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	522,604	\$ 7.48	1.90	447,666	\$ 7.47
\$ 10.01–15.00	1,007,079	11.69	2.29	752,066	11.24
	1,529,683			1,199,732	

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The fair value of options granted during the thirty-nine weeks ended October 1, 2022 and thirty-nine weeks ended October 2, 2021 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average inputs and assumptions:

	October 1, 2022	October 2, 2021
Dividend yield (%)	3.15	2.09
Expected volatility (%)	41.58	41.75
Risk-free interest rate (%)	1.43	1.32
Expected life (years)	7.00	7.00
Weighted average share price (CAD)	\$ 12.70	\$ 13.41
Weighted average fair value (CAD)	\$ 3.93	\$ 4.70

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.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Outstanding, beginning of period	593,693	613,701	628,844	604,940
Granted	3,499	13,089	185,224	156,038
Reinvested dividends	4,264	3,135	13,651	9,085
Released and paid in cash	—	—	(217,015)	(92,178)
Released and paid in shares	—	—	—	(38,312)
Forfeited	(953)	(2,261)	(10,201)	(11,909)
Outstanding, end of period	600,503	627,664	600,503	627,664

The expected performance multiplier used in determining the fair value of the liability and related share-based compensation expense for PSUs for the thirty-nine weeks ended October 1, 2022 was 85% (thirty-nine weeks ended October 2, 2021: 123%).

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Outstanding, beginning of period	466,670	431,688	479,880	512,740
Granted	3,499	46,164	138,400	155,924
Reinvested dividends	3,374	2,395	10,736	6,642
Released and paid in cash	—	—	(148,533)	(100,693)
Released and paid in shares	—	—	—	(87,355)
Forfeited	(953)	(585)	(7,893)	(7,596)
Outstanding, end of period	472,590	479,662	472,590	479,662

The share price at the reporting date was CAD\$13.01 (October 2, 2021: CAD\$13.00). 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.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Outstanding, beginning of period	384,477	307,692	317,103	267,559
Granted	4,889	—	66,626	37,184
Reinvested dividends	2,844	1,626	8,481	4,575
Outstanding, end of period	392,210	309,318	392,210	309,318

9. Income tax expense

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended October 1, 2022 was 27.9% (thirteen and thirty-nine weeks ended October 2, 2021: 27.8%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended October 1, 2022 was 14.6% and 19.8%, respectfully (thirteen and thirty-nine weeks ended October 2, 2021: 16.4% and 13.6%, respectfully). The higher effective tax rate for the thirty-nine weeks ended October 1, 2022, was primarily attributable to the recognition of previously unrecorded tax assets during the thirty-nine weeks October 2, 2021, partially offset by the Company's tax efficient financing structure.

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 1, 2022 and October 2, 2021.

11. Geographic information

Sales earned outside of Canada for the thirteen and thirty-nine weeks ended October 1, 2022 were \$201.6 million and \$620.9 million, respectively (October 2, 2021: \$155.7 million and \$482.2 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 1, 2022	January 1, 2022
Property, plant and equipment	\$ 87,265	\$ 86,104
Right-of-use assets	5,778	8,126
Intangible assets	116,691	121,584
Goodwill	147,916	147,916
	\$ 357,650	\$ 363,730

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

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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>	October 1, 2022		January 1, 2022	
	Level 2	Level 3	Level 2	Level 3
Fair value of financial assets				
Cash	\$ —	\$ —	\$ —	\$ —
Interest rate swaps	\$ 7,666	\$ —	\$ 988	\$ —
Foreign exchange contracts	5,966	—	560	—
Fair value of financial liabilities				
Interest rate swaps	—	—	443	—
Foreign exchange contracts	118	—	849	—
Long-term debt	—	230,037	—	249,533

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 October 1, 2022, 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 \$247.6 million as at October 1, 2022 (January 1, 2022: \$250.6 million).

Hedging activities

Interest rate swaps

During the thirty-nine weeks ended October 1, 2022, the Company had the following interest rate swaps outstanding to hedge interest rate risk resulting from the term loan facility (see Note 6):

Effective date	Maturity date	Receive floating rate	Pay fixed rate	Notional amount (millions)
Designated in a formal hedging relationship:				
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 effective for the thirteen and thirty-nine weeks ended October 1, 2022 and October 2, 2021, 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 gains of \$2.2 million and \$5.3 million, respectively (thirteen and thirty-nine weeks ended October 2, 2021: after-tax net losses of \$0.1 million and nominal after-tax net losses, 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 1, 2022 and October 2, 2021. There were nominal amounts recognized in the consolidated statements of income resulting from hedge ineffectiveness during the thirteen and thirty-nine weeks ended October 1, 2022 (thirteen and thirty-nine weeks ended October 2, 2021: \$nil and \$0.1 million, respectively).

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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 1, 2022, the Company had outstanding notional amounts of \$48.1 million (October 2, 2021: \$31.4 million) in foreign currency average-rate forward contracts that were formally designated as a hedge and no outstanding notional amounts in foreign currency single-rate forward contracts that were formally designated as a hedge (October 2, 2021: \$3.7 million). With the exception of \$1.0 million (October 2, 2021: \$2.8 million) average-rate forward contracts with maturities ranging from October 2023 to March 2024, 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 1, 2022 and October 2, 2021, and therefore the change in fair value was recorded in OCI as after-tax net gains of \$2.2 million and \$2.6 million, respectively (thirteen and thirty-nine weeks ended October 2, 2021: after-tax net gains \$0.4 million and after-tax net losses \$0.3 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 1, 2022 and October 2, 2021.

As at October 1, 2022, the Company had \$61.0 million (October 2, 2021: \$23.0 million) 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 October 1, 2022 were net gains of \$4.1 million and \$4.5 million, respectively (thirteen and thirty-nine weeks ended October 2, 2021: net gains of \$0.4 million, respectively).

Hedge of net investment in foreign operations

As at October 1, 2022, a total borrowing of \$270.0 million (\$20.0 million included in accounts payable, \$2.4 million included in bank loans, \$7.5 million included in the current portion of long-term debt and \$240.1 million included in long-term debt (January 1, 2022: a total borrowing of \$255.6 million (\$5.0 million included in accounts payable, \$5.6 million included in the current portion of long-term debt and \$245.0 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 thirteen and thirty-nine weeks ended October 1, 2022 and October 2, 2021.

13. Events after the reporting period

Amendment of working capital facility and term loan facility

On October 6, 2022, the Company amended its working capital facility (see Note 5) to increase the revolving limit on its secured asset-based credit facility from \$150.0 million to \$200.0 million. The term loan facility interest rate (see Note 6) was amended from LIBOR to Secured Overnight Financing Rate ("SOFR"). All other material terms of the working capital facility and term loan facility remain unchanged.
