



# **HIGH LINER FOODS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the thirteen and thirty-nine weeks ended September 30, 2023**

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

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## INTRODUCTION

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This Management's Discussion and Analysis ("MD&A"), dated November 8, 2023, relates to the financial condition and results of operations of High Liner Foods Incorporated for the thirteen and thirty-nine weeks ended September 30, 2023, compared to the thirteen and thirty-nine weeks ended October 1, 2022. 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 the Company's 2022 Annual Consolidated Financial Statements, 2022 Annual MD&A and Unaudited Condensed Interim Consolidated Financial Statements as at and for the thirty-nine weeks ended September 30, 2023 ("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 8, 2023, except as otherwise noted.

### 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

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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 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; the ability to develop new and innovative products that

result in increased sales and market share; increased demand for the Company's products whether due to the recognition of the health benefits of seafood or otherwise; inflation, 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 results from litigation and/or arbitration, including the net amounts that may be received by the Company; 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; economic and geopolitical conditions such as Russia's invasion of Ukraine and the implementation and/or expansion of related sanctions; impact of the inflationary environment, 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, valuation 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; and the amount and timing of the capital expenditures in excess of normal requirements to allow the movement of production between plants.

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 2022 Annual MD&A and the *Risk Factors* section of our 2022 Annual Information Form ("AIF"). 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, freight, storage 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; completion and/or advancement of sustainability initiatives, including, without limitation, initiatives relating to the carbon work plan, carbon reduction initiatives and potential failure to meet such carbon reduction targets; the uncertainty of final results related to litigation and/or arbitration, including net amounts to be received by the Company and whether such amounts may be subject to subrogation rights by applicable insurers; waste reduction and/or seafood sustainability and traceability initiatives; 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; economic and geopolitical conditions such as Russia's invasion of Ukraine and the implementation and/or expansion of related sanctions policies; and the potential impact of a pandemic outbreak of a contagious

illness, such as 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

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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**<sup>1</sup> 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.

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

## OUTLOOK

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The Company remains confident in the long-term outlook for the business and the Company's ability to navigate current macro-economic challenges. However, the Company anticipates that economic conditions impacting consumer spending patterns with respect to frozen seafood will continue to impact results in the short-term.

As a result, High Liner Foods no longer anticipates year-over-year Adjusted EBITDA growth for Fiscal 2023. The Company will continue to focus on improving working capital and generating cash flow from operations. The Company maintains its confidence in achieving the long-term leverage ratio of 3.0x.

The Company has a strong balance sheet and is well equipped to invest in organic growth, explore opportunities for transformative growth through potential M&A activities to build shareholder value and continue to grow the dividend.

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<sup>1</sup> 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).

## RECENT DEVELOPMENTS

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### Global Supply Chain and Economic Conditions

During Fiscal 2022 the Company was challenged by global supply chain disruptions and experienced shipping delays and raw material supply challenges, port congestion and shutdowns. These challenges improved during the fourth quarter of Fiscal 2022 and into the first quarter of Fiscal 2023, and have largely normalized to pre-pandemic levels during the second quarter of Fiscal 2023. To mitigate the impact on its performance and customers, the Company increased their investment in working capital in the second half of Fiscal 2022 which has carried over into the Fiscal 2023 and supported the strong service levels we deliver to our customers. These higher inventory levels have led to higher carrying costs, including higher costs related to raw material inventory and storage costs during Fiscal 2023. This has led to unfavorable impact on gross profit and gross profit as a percentage of sales, most notably during the second and third quarters of 2023.

The Company continues to navigate the impact of the prolonged inflationary environment and other macroeconomic factors including rising interest rates which are increasingly impacting consumer confidence and discretionary spending. The Company continued to take inflation-justified pricing actions on select products as needed during the first half of 2023 to manage the inflationary operating environment. The higher inventory levels across the frozen seafood industry experienced during the second quarter of Fiscal 2023 continued to impact the operating landscape in the third quarter of 2023 resulting in lower pricing during the quarter. While the Company's foodservice business continued to remain stable aided by the contract manufacturing business, the inflationary pressures have resulted in the retail business experiencing declines due to softer demand for protein, including seafood product as consumers switch to lower cost meal solutions.

See the risk sections in the Annual 2022 MD&A for further discussion of the impact of the geopolitical environment on the Company's risk assessment.

### U.S. Tariffs

In September 2018, the U.S. Trade Representative ("USTR") commenced trade discussions with China that resulted in various actions impacting the Company related to additional tariffs on goods imported to the U.S. During March 2022, 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 applied to tariffs already incurred, or that would otherwise have been incurred, on specific goods from October 12, 2021 to December 31, 2022. On December 16, 2022 the USTR announced that it will further extend this exclusion which will be applicable from January 1, 2023 to September 30, 2023. On September 6, 2023, this exclusion was further extended from September 30, 2023 to December 31, 2023 which will allow for further consideration under the statutory four-year review.

The estimated annual run-rate exposure of the 25% tariff would have been approximately \$8.0 million before the extended exclusion based on current volume and raw material costs; however, 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 and its customers.

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.

### **Resignation of President and Chief Executive Officer**

On August 29, 2023, the Board of Directors accepted the resignation of Rod Hepponstall, President and Chief Executive Officer of the Company who remained in his role until September 15, 2023. On September 15, 2023 the Board of Directors appointed Paul Jewer to serve as the Company's Interim Chief Executive Officer ("CEO") while the Board of Directors completes a comprehensive internal and external search for a President and CEO of the Company.

### **Litigation Update**

As reported in 2020, High Liner Foods instituted legal proceedings in California against Mr. Brian Wynn for making false representations and warranties in connection with the sale of Rubicon Resources, LLC to the Company. Following a two-week arbitration hearing, on September 28, 2023, a Panel of arbitrators found that Mr. Wynn made fraudulent representations associated with the transaction and issued an Interim Award of approximately \$15.5 million in damages against Mr. Wynn and in favor of High Liner Foods. The Interim Award provided that the Company is also entitled to its reasonable attorney's fees and costs, and the Company has made additional submissions in this regard. The arbitration proceedings remain ongoing and the Interim Amounts are subject to change in the final arbitration award. It is not possible at this time to determine the final impact of these proceedings or the timing of that impact.

## **PERFORMANCE**

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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 30, 2023	October 1, 2022	Change	September 30, 2023	October 1, 2022	Change
Sales volume (millions of lbs)	61.0	60.4	0.6	197.4	192.5	4.9
Average foreign exchange rate (USD/CAD)	\$ 1.3414	\$ 1.3063	\$ 0.0351	\$ 1.3456	\$ 1.2833	\$ 0.0623
Sales	\$ 259,699	\$ 271,181	\$ (11,482)	\$ 843,212	\$ 819,368	\$ 23,844
Gross profit	\$ 49,644	\$ 56,747	\$ (7,103)	\$ 170,032	\$ 175,090	\$ (5,058)
Gross profit as a percentage of sales	19.1%	20.9%	(1.8%)	20.2%	21.4%	(1.2%)
Distribution expenses	\$ 13,861	\$ 14,707	\$ (846)	\$ 45,194	\$ 45,921	\$ (727)
Selling, general and administrative expenses	\$ 20,707	\$ 24,877	\$ (4,170)	\$ 70,788	\$ 70,423	\$ 365
Adjusted EBITDA <sup>(1)</sup>	\$ 19,974	\$ 24,809	\$ (4,835)	\$ 73,205	\$ 78,484	\$ (5,279)
Adjusted EBITDA as a percentage of sales	7.7%	9.1%	(1.4%)	8.7%	9.6%	(0.9%)
Net income	\$ 5,486	\$ 9,977	\$ (4,491)	\$ 25,261	\$ 43,599	\$ (18,338)
Basic Earnings per Share ("EPS")	\$ 0.16	\$ 0.30	\$ (0.14)	\$ 0.75	\$ 1.29	\$ (0.54)
Diluted EPS	\$ 0.16	\$ 0.28	\$ (0.12)	\$ 0.73	\$ 1.24	\$ (0.51)
Adjusted Net Income <sup>(1)</sup>	\$ 4,906	\$ 14,292	\$ (9,386)	\$ 31,387	\$ 39,395	\$ (8,008)
Adjusted Basic EPS	\$ 0.15	0.42	\$ (0.27)	\$ 0.93	\$ 1.17	\$ (0.24)
Adjusted Diluted EPS <sup>(1)</sup>	\$ 0.14	0.41	\$ (0.27)	\$ 0.91	\$ 1.12	\$ (0.21)
Total assets				\$ 854,833	\$ 947,805	\$ (92,972)
Total long-term financial liabilities				\$ 249,946	\$ 252,822	\$ (2,876)
Dividends paid per common share (in CAD)	\$ 0.13	\$ 0.10	\$ 0.03	\$ 0.39	\$ 0.30	\$ 0.09

<sup>(1)</sup> See the *Non-IFRS Financial Measures* section starting on page 18 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

## Sales

### *Thirteen weeks*

Sales volume for the thirteen weeks ended September 30, 2023, or the third quarter of 2023, increased by 0.6 million pounds, or 1.0%, to 61.0 million pounds compared to 60.4 million pounds in the thirteen weeks ended October 1, 2022, due to higher volume in our foodservice business, partially offset by lower volume in our retail business. In our foodservice business, sales volume was higher due to increased contract manufacturing business, increased sales in newer product lines, and improved customer service levels. The Company achieved strong service levels during the third quarter of 2023, as compared to the third quarter of 2022 due to the increased investment in working capital in the latter part of Fiscal 2022 to mitigate the impact of the global supply chain challenges. This was partially offset by lower sales volume in our retail business due to the continued impact of inflation. This resulted from softer demand for protein, including seafood product as consumers switch to lower cost alternatives.

Sales in the third quarter of 2023 decreased by \$11.5 million, or 4.2%, to \$259.7 million compared to \$271.2 million in the same period last year, due to changes in sales mix and sharper pricing most notably on some of our commodity products during the third quarter of fiscal 2023 compared to the inflationary environment in the same period last year. This decrease was partially offset by higher sales volumes mentioned previously and some inflationary-pricing actions implemented during the last quarter of Fiscal 2022 and the first quarter of 2023 which remained in effect during the third quarter of Fiscal 2023.

The weaker Canadian dollar in the third quarter of 2023 compared to the same quarter of 2022 decreased the value of USD sales from our CAD-denominated operations by approximately \$1.7 million relative to the conversion impact last year.

### *Thirty-nine weeks*

Sales volume in the first three quarters of 2023 increased by 4.9 million pounds, or 2.5%, to 197.4 million pounds compared to 192.5 million pounds in the same period in the prior year. In our foodservice business, sales volume was higher due to increased contract manufacturing business, increased sales in newer product lines, new business, and improved customer service levels. The Company achieved strong service levels during the first three quarters of 2023, as compared to the first three quarters of 2022 due to the increased investment in working capital in the latter part of Fiscal 2022 to mitigate the impact of the global supply chain challenges. This was partially offset by lower sales volume in our retail business, including during the Lenten period, primarily due to consumers becoming more price-conscious, resulting in softer demand for protein, including seafood product as consumers switch to lower cost alternatives.

Sales in the first three quarters of 2023 increased by \$23.8 million, or 2.9%, to \$843.2 million compared to \$819.4 million in the same period in the prior year. The increase in sales reflects the higher sales volumes mentioned previously and pricing actions implemented during Fiscal 2022 and the first quarter of 2023 to mitigate inflationary increases on input costs, partially offset by changes in sales mix.

The weaker Canadian dollar in the first three quarters of 2023 compared to the first three quarters of 2022 however, decreased the value of reported USD sales from our CAD-denominated operations by approximately \$9.1 million relative to the conversion impact last year.

## Gross Profit

### *Thirteen weeks*

Gross profit decreased in the third quarter of 2023 by \$7.1 million, or 12.5%, to \$49.6 million compared to \$56.7 million in the same period in 2022, and gross profit as a percentage of sales decreased to 19.1% compared to 20.9%. The decrease in gross profit reflects changes in product mix, higher carrying costs associated with higher inventory including sharper pricing on some of our commodity products and some inefficiencies at our plants. The decrease in gross profit was partially offset by the increase in sales volume and inflationary-pricing actions on some products, both discussed previously.

In addition, the weaker Canadian dollar decreased the value of reported USD gross profit from our Canadian operations in 2023 by approximately \$0.3 million relative to the conversion impact last year.

### *Thirty-nine weeks*

Gross profit decreased in the first three quarters of 2023 by \$5.1 million, or 2.9%, to \$170.0 million compared to \$175.1 million in the same period in the prior year, and gross profit as a percentage of sales decreased by 120 basis points to 20.2%, compared to 21.4%. The decrease in gross profit reflects the change in product mix, higher carrying costs associated with higher inventory and some inefficiencies at our plants as a result of the Company slowing down production due to higher inventory levels and softer consumer demand, discussed previously. The decrease in gross profit was partially offset by the increase in sales volume and the inflationary-pricing actions both discussed previously.

The weaker Canadian dollar decreased the value of reported USD gross profit from our Canadian operations in 2023 by approximately \$1.8 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 2023 by \$0.8 million to \$13.9 million compared to \$14.7 million in the same period in the prior year reflecting lower freight costs in the third quarter of 2023 as compared to the third quarter of 2022 during which time freight costs were higher due to the impact of the global supply chain challenges. This was partially offset by higher sales volume and storage costs as a result of higher inventory levels during the third quarter of 2023. As a percentage of sales, distribution expenses decreased favorably to 5.3% in the third quarter of 2023 compared to 5.4% in the same period in 2022.

### *Thirty-nine weeks*

Distribution expenses, consisting of freight and storage of finished goods, decreased in the first three quarters of 2023 by \$0.7 million to \$45.2 million compared to \$45.9 million in the same period in the prior year reflecting lower freight costs in the first three quarters of 2023 as compared to the first three quarters of 2022 during which time, freight costs peaked as a result of the global supply chain challenges, most notably during the first half of 2022. This was partially offset by higher sales volume and higher storage costs as a result of higher inventory levels when compared to the same period last year. As a percentage of sales, distribution expenses decreased favourably to 5.4% in the first three quarters of 2023 compared to 5.6% in the same period in 2022.

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

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
SG&A expenses, as reported	\$ 20,707	\$ 24,877	\$ 70,788	\$ 70,423
Less:				
Share-based compensation expense <sup>(1)</sup>	(1,602)	1,476	801	2,176
Depreciation and amortization expense <sup>(1)</sup>	2,631	2,693	7,879	7,745
<b>SG&amp;A expenses, net</b>	<b>\$ 19,678</b>	<b>\$ 20,708</b>	<b>\$ 62,108</b>	<b>\$ 60,502</b>
<b>SG&amp;A expenses, net as a percentage of sales</b>	<b>7.6%</b>	<b>7.6 %</b>	<b>7.4%</b>	<b>7.4%</b>

<sup>(1)</sup> 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 2023 by \$4.2 million to \$20.7 million compared to \$24.9 million in the same period last year. SG&A expenses included share-based compensation recovery of \$1.6 million in the third quarter of 2023, compared to an expense of \$1.5 million in the third quarter of 2022 primarily due to fewer units outstanding and the decrease in the share price performance for the outstanding units as at September 30, 2023 compared to the same period last year. SG&A expenses also included depreciation and amortization expense of \$2.6 million in the third quarter of 2023, compared to \$2.7 million in the same period in the prior year.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses decreased in the third quarter of 2023 by \$1.0 million to \$19.7 million compared to \$20.7 million in the same period last year, due to lower consumer marketing expenses in our retail business in both U.S. and Canada, lower administrative expenses including lower salaries and benefits and information technology expenses. The decrease was partially offset by under absorption of overhead costs relating to reduction in raw material purchases compared to the same period in the prior year. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense was 7.6% in the third quarter of 2023 and 2022.

#### *Thirty-nine weeks*

SG&A expenses increased by \$0.4 million to \$70.8 million in the first three quarters of 2023 as compared to \$70.4 million in the same period in the prior year. SG&A expenses included share-based compensation expense of \$0.8 million in the first three quarters of 2023 compared to \$2.2 million in the same period in the prior year, primarily due to fewer units outstanding and the decrease in the share price performance for outstanding units as at September 30, 2023 compared to the same period last year. SG&A expenses also included depreciation and amortization expense of \$7.9 million in the first three quarters of 2023 compared to \$7.7 million in the same period in the prior year.

Excluding share-based compensation and depreciation and amortization expenses, SG&A expenses increased in the first three quarters of 2023 by \$1.6 million to \$62.1 million compared to \$60.5 million in 2022, due to higher consumer marketing expenses in our retail business in both U.S. and Canada during the Lenten period and higher administrative expenses including higher information technology expenses, travel costs, under absorption of overhead costs relating to reduction in raw material purchases, partially offset by lower salaries and benefits and consulting costs as compared to the same period in the prior year. As a percentage of sales, SG&A excluding share-based compensation and depreciation and amortization expense was 7.4% in the first three quarters of 2023 and 2022.

## Adjusted EBITDA

We refer to Adjusted EBITDA throughout this MD&A in discussing our results for the thirteen and thirty-nine weeks ended September 30, 2023. See the *Non-IFRS Financial Measures* section on page 18 for further explanation of this non-IFRS measure.

### *Thirteen weeks*

Adjusted EBITDA decreased in the third quarter of 2023 by \$4.8 million, or 19.4%, to \$20.0 million compared to \$24.8 million in the same period in the prior year, and as a percentage of sales, Adjusted EBITDA decreased to 7.7% compared to 9.1%. The decrease in Adjusted EBITDA reflects the decrease in gross profit, partially offset by the decrease in distribution costs and net SG&A expenses, all discussed previously.

The weaker Canadian dollar decreased the value of reported Adjusted EBITDA in USD from our Canadian operations in 2023 by approximately \$0.1 million relative to the conversion impact last year.

### *Thirty-nine weeks*

Adjusted EBITDA decreased in the first three quarters of 2023 by \$5.3 million, or 6.8%, to \$73.2 million compared to \$78.5 million in the same period in the prior year, while as a percentage of sales, Adjusted EBITDA decreased to 8.7% compared to 9.6%. The decrease in Adjusted EBITDA is a result of the decrease in gross profit and increase in net SG&A expenses, partially offset by the decrease in distribution costs, all discussed previously.

In addition, the weaker Canadian dollar decreased the value of reported Adjusted EBITDA in USD from our Canadian operations in 2023 by approximately \$0.5 million relative to the conversion impact last year.

## Net Income

We refer to Adjusted Net Income and Adjusted Diluted EPS throughout this MD&A. See the *Non-IFRS Financial Measures* section starting on page 18 for further explanation of these non-IFRS measures.

### *Thirteen weeks*

Net income decreased in the third quarter of 2023 by \$4.5 million, or 45.0%, to net income of \$5.5 million (\$0.16 per diluted share) compared to net income of \$10.0 million (\$0.28 per diluted share) in the same period in the prior year.

The decrease in net income was due to the decrease in Adjusted EBITDA, discussed previously and an increase in finance costs discussed in the *Finance Costs* section on page 12 on this MD&A and higher income taxes discussed below, partially offset by lower share-based compensation expense.

In the third quarter of 2023, net income included "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. Excluding the impact of these non-routine items or other non-cash expenses and share-based compensation, Adjusted Net Income in the third quarter of 2023 decreased by \$9.4 million, or 65.7%, to \$4.9 million compared to \$14.3 million in the same period in the prior year.

Correspondingly, Adjusted Diluted EPS was \$0.14 compared to \$0.41 in the the same period in the prior year.

**Thirty-nine weeks**

Net income decreased in the first three quarters of 2023 by \$18.3 million, or 42.0%, to \$25.3 million (\$0.73 per diluted share) compared to \$43.6 million (\$1.24 per diluted share) in the same period in the prior year. The decrease in net income reflects the \$10.0 million in insurance proceeds received during the second quarter of 2022 classified as "business acquisition, integration and other expense (income)", as well as higher finance costs, and lower Adjusted EBITDA during the first three quarters of 2023 compared to the same period in the prior year. The decrease in Net income was partially offset by lower share-based compensation expense and lower income taxes discussed below.

In the first three quarters of 2023 net income included "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 the first three quarters of 2022 net income included \$10.0 million of insurance proceeds classified as "business acquisition, integration and other expense (income)" 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 first three quarters of 2023 decreased by \$8.0 million, or 20.3%, to \$31.4 million compared to \$39.4 million in the same period in the prior year.

Adjusted Diluted EPS decreased \$0.21 in the first three quarters of 2023 to \$0.91 compared to \$1.12 in the same period in the prior year.

**RESULTS BY QUARTER**

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

(Amounts in \$000s, except per share amounts)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
<b>Sales</b>	\$259,699	\$254,349	\$329,164	\$250,346	\$271,181	\$253,452	\$294,735	\$227,879	\$214,302
<b>Adjusted EBITDA <sup>(1)</sup></b>	\$ 19,974	\$ 22,032	\$ 31,199	\$ 25,385	\$ 24,809	\$ 25,333	\$ 28,340	\$ 20,600	\$ 22,444
<b>Net Income</b>	\$ 5,486	\$ 5,887	\$ 13,888	\$ 11,131	\$ 9,977	\$ 18,977	\$ 14,645	\$ 7,223	\$ 9,177
<b>Adjusted Net Income <sup>(1)</sup></b>	\$ 4,906	\$ 10,044	\$ 16,437	\$ 12,318	\$ 14,292	\$ 10,034	\$ 15,068	\$ 9,079	\$ 11,281
<b>EPS, based on Net Income</b>									
Basic	\$ 0.16	\$ 0.18	\$ 0.41	\$ 0.33	\$ 0.30	\$ 0.56	\$ 0.43	\$ 0.22	\$ 0.27
Diluted	\$ 0.16	\$ 0.17	\$ 0.40	\$ 0.32	\$ 0.28	\$ 0.54	\$ 0.42	\$ 0.20	\$ 0.26
<b>EPS, based on Adjusted Net Income <sup>(1)</sup></b>									
Basic	\$ 0.15	\$ 0.30	\$ 0.49	\$ 0.37	\$ 0.42	\$ 0.30	\$ 0.44	\$ 0.27	\$ 0.33
Diluted <sup>(1)</sup>	\$ 0.14	\$ 0.29	\$ 0.48	\$ 0.35	\$ 0.41	\$ 0.29	\$ 0.43	\$ 0.26	\$ 0.32
<b>Dividends paid per common share (CAD)</b>									
	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.07
<b>Net non-cash working capital <sup>(2)</sup></b>									
	\$306,131	\$352,189	\$383,476	\$383,988	\$309,660	\$287,974	\$272,482	\$232,832	\$207,582

<sup>(1)</sup> See the *Non-IFRS Financial Measures* section starting on page 18 for further explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS.

<sup>(2)</sup> 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 as follows:

(Amounts in \$000s)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Business acquisition, integration and other expense (income)	\$ 1,044	\$ 648	\$ 6,660	\$ (8,118)

Business acquisition, integration and other expense (income) for the thirty-nine weeks ended September 30, 2023 and October 1, 2022 also included certain non-routine expenses, legal, and consulting fees, that are not representative of the Company's ongoing operational activities. During the thirty-nine weeks ended October 1, 2022 the Company received insurance proceeds of \$10.0 million in relation to the lawsuit High Liner Foods filed during Fiscal 2020 against Mr. Brian Wynn.

## 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 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Interest paid in cash during the period	\$ 6,131	\$ 3,446	\$ 19,077	\$ 9,856
Change in cash interest accrued during the period	(75)	832	(152)	1,122
<b>Total interest to be paid in cash</b>	<b>6,056</b>	<b>4,278</b>	<b>18,925</b>	<b>10,978</b>
Interest expense on lease liabilities	73	133	300	420
Deferred financing cost & net modification loss amortization	373	299	1,136	912
<b>Total finance costs</b>	<b>\$ 6,502</b>	<b>\$ 4,710</b>	<b>\$ 20,361</b>	<b>\$ 12,310</b>

Finance costs were \$1.8 million higher in the third quarter of 2023 and \$8.1 million higher in the thirty-nine weeks ended September 30, 2023 compared to the same periods last year. The increase during the thirty-nine weeks ended September 30, 2023 was due to increased interest expense on short-term and long-term borrowings due to higher interest rates and higher average short-term borrowings outstanding during the the first three quarters of 2023 compared to the same period last year.

## INCOME TAXES

The Company's statutory tax rate for the thirteen and thirty-nine weeks ended September 30, 2023 was 27.9% (thirteen and thirty-nine weeks ended October 1, 2022: 27.9%). The Company's effective income tax rate for the thirteen and thirty-nine weeks ended September 30, 2023 was 27.1% and 6.50%, respectively (thirteen and thirty-nine weeks ended October 1, 2022: an expense of 14.6% and an expense of 19.8%, respectively). The lower effective tax rate for the thirty-nine weeks ended September 30, 2023, was primarily attributable to the Company's tax-efficient financing structure and the recognition of previously unrecorded tax assets recognized during the thirty-nine weeks ended October 1, 2022.

## 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 section in the Annual 2022 MD&A.

Our capital management practices are described in Note 27 "*Capital management*" in the 2022 annual consolidated financial statements.

### Working Capital Credit Facility

The Company has a \$200.0 million asset-based working capital credit facility (the "Facility"), with the Royal Bank of Canada as Administrative and Collateral agent, which was amended on October 6, 2022 to increase the borrowing limit from \$150.0 million to \$200.0 million. Additionally, on April 28, 2022 the Facility was amended 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 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 30, 2023 are also noted in the following table.

Per Credit Agreement	As at September 30, 2023	
Canadian Prime Rate revolving loans, Canadian Base 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 1.50%	plus 1.25%
SOFR revolving loans at SOFR rates	plus 1.25% to 1.50%	plus 1.25%
Letters of credit, with fees of	1.25% to 1.50%	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 2023 were \$105.5 million compared to \$40.7 million in the same period in the prior year. The \$64.8 million increase in average short-term borrowings reflects higher working capital requirements during the second half of Fiscal 2022 which has carried over into the first three quarters of 2023, as compared to the same period in the prior years. This increase is primarily driven by the impact of inflation on raw material and an increased investment in inventory most notably during the second half of Fiscal 2022 to offset the impact of the global supply chain challenges.

As at September 30, 2023, the Company had 140.4 million of unused borrowing availability (October 1, 2022: 45.8 million), taking into account the current borrowing base and letters of credit, which reduce the availability under the working capital facility. On September 30, 2023, letters of credit and standby letters of credit were outstanding in the amount of \$8.8 million (October 1, 2022: \$44.6 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 3 "*Bank loans*" to the Consolidated Financial Statements.

We expect average short-term borrowings in Fiscal 2023 to be higher than Fiscal 2022, and 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 30, 2023, the Company had a \$300.0 million term loan facility with an interest rate of SOFR plus 3.75% (0.75% SOFR floor), maturing in October 2026.

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 could be required of up to 50% of the previous year's defined excess cash flow ("mandatory prepayments"). Per the loan agreement, mandatory prepayments and voluntary repayments will be applied to future regularly scheduled principal repayments. During the thirty-nine weeks ended September 30, 2023, regularly scheduled repayments of \$5.7 million were made. There are regularly scheduled repayments of \$7.5 million to be paid in the next 12 months. There are no mandatory prepayments in 2023 related to excess cash flows in 2022.

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 30, 2023, 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)
<b>Designated in a formal hedging relationship:</b>				
July 7, 2023	July 7, 2025	3-month SOFR (floor 0.75%)	4.9076 %	40.0
January 6, 2023	July 7, 2023	3-month SOFR (floor 0.75%)	0.4650 %	25.0
January 6, 2023	July 8, 2024	3-month SOFR (floor 0.75%)	0.6840% \$	25.0
January 6, 2023	July 6, 2026	3-month SOFR (floor 0.75%)	1.1500% \$	35.0
December 30, 2022	December 31, 2025	3-month SOFR (floor 0.75%)	1.0910% \$	20.0

As of September 30, 2023, the combined impact of the outstanding interest rate swaps listed above effectively fix the interest rate on \$120.0 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 SOFR is higher than the embedded floor of 0.75%.

Additional details regarding the Company's term loan are provided in Note 4 "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 23 of this MD&A) is comprised of the working capital credit and term loan facilities (excluding deferred finance costs and modification gains/losses) and lease liabilities, less cash. Net Debt decreased by \$80.7 million to \$304.8 million at September 30, 2023 compared to \$385.5 million at December 31, 2022, reflecting lower bank loans and lower long-term debt, partially offset by higher lease liabilities as at September 30, 2023, as compared to December 31, 2022.

Net Debt to Rolling Twelve-Month Adjusted EBITDA (see the *Non-IFRS Financial Measures* section on page 23 of this MD&A) was 3.1x at September 30, 2023 compared to 3.7x at December 31, 2022 and 3.2x at October 1, 2022. Net Debt to Rolling Twelve-Months Adjusted EBITDA increased during the second half of Fiscal 2022 primarily as a result of increased investment in working capital in Fiscal 2022 and inflation in raw materials. In the absence of any major acquisitions or unplanned capital expenditures in 2023, we expect this ratio to be in line with the Company's long-term target of 3.0x at the end of Fiscal 2023.

(Amounts in \$000s, except as otherwise noted)	Twelve months ended	
	September 30, 2023	December 31, 2022
Net Debt	\$ 304,788	\$ 385,538
Adjusted EBITDA	\$ 98,590	\$ 103,867
Net Debt to Adjusted EBITDA ratio (times)	3.1x	3.7x

### Capital Structure

At September 30, 2023, Net Debt was 44.5% of total capitalization compared to 47.0% at October 1, 2022.

(Amounts in \$000s)	September 30, 2023	December 31, 2022	October 1, 2022
Net Debt	\$ 304,788	\$ 385,538	\$ 317,074
Shareholders' equity	385,087	373,417	365,228
Unrealized gains on derivative financial instruments included in AOCI	(4,362)	(6,063)	(7,625)
<b>Total capitalization</b>	<b>\$ 685,513</b>	<b>\$ 752,892</b>	<b>\$ 674,677</b>
<b>Net Debt as percentage of total capitalization</b>	<b>44.5%</b>	<b>51.2%</b>	<b>47.0%</b>

Using our September 30, 2023 market capitalization of \$271.0 million, based on a share price of CAD\$11.00 (USD\$8.13 equivalent), instead of the book value of equity, Net Debt as a percentage of total capitalization increased to 52.9% (October 1, 2022: 50.3%).

### Cash Flow

(Amounts in \$000s)	Thirteen weeks ended			Thirty-nine weeks ended		
	September 30, 2023	October 1, 2022	Change	September 30, 2023	October 1, 2022	Change
Net cash flows provided by (used in) operating activities	\$ 54,048	\$ (9,919)	\$63,967	\$ 112,373	\$ (20,313)	\$132,686
Net cash flows (used in) provided by financing activities	(49,792)	22,596	(72,388)	(99,700)	38,433	(138,133)
Net cash flows used in investing activities	(4,047)	(6,746)	2,699	(12,862)	(11,840)	(1,022)
Foreign exchange decrease on cash	(113)	(2,878)	2,765	217	(3,384)	3,601
Net change in cash during the period	\$ 96	\$ 3,053	\$ (2,957)	\$ 28	\$ 2,896	\$ (2,868)

#### Cash Flows from Operating Activities

Cash flows from operating activities were \$132.7 million higher in the first three quarters of 2023 compared to the same period in the prior year. The increase in cash flows in the first three quarters of 2023 was due to favourable changes in non-cash working capital balances, partially offset by lower cash flows from operations primarily due to the \$10.0 million of insurance proceeds received in fiscal 2022, and higher interest paid. The favourable changes in non-cash working capital are due to favourable changes in inventories and prepaid expenses, partially offset by unfavorable changes in accounts payable and accrued liabilities and accounts receivable.

#### Cash Flows from Financing Activities

Cash flows from financing activities were \$138.1 million lower in the first three quarters of 2023 compared to the same period in the prior year due to repayments of short-term borrowings in the first three quarters of 2023 as compared to increased short-term borrowings during the first three quarters of 2022 (see the *Liquidity and Capital*

*Resources* on page 13 of this MD&A), higher repayments of long-term debt and higher common share dividends paid in the current year as compared to the same period in the prior year.

### ***Cash Flows from Investing Activities***

Cash outflows from investing activities were \$1.0 million higher in the first three quarters of 2023 compared to the same period last year due to higher capital expenditures (see the *Capital Expenditures* section beginning on page 16 of this MD&A).

### **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 twelve months ended September 30, 2023 increased by \$81.7 million to an inflow of \$34.6 million compared to an outflow of \$47.1 million for the twelve months ended October 1, 2022. This increase reflects favorable changes in non-cash working capital during the twelve months ended September 30, 2023 as compared to the twelve months ended October 1, 2022, partially offset by lower cash flows provided by operations, higher income taxes and interest paid during the last twelve months, as well as higher capital expenditures.

### **Net Non-Cash Working Capital**

<b>(Amounts in \$000s)</b>	<b>September 30, 2023</b>	<b>December 31, 2022</b>	<b>Change</b>
Accounts receivable	\$ 114,820	\$ 96,531	\$ 18,289
Inventories	303,776	472,311	(168,535)
Prepaid expenses	6,299	6,254	45
Accounts payable and accrued liabilities	(118,472)	(190,919)	72,447
Provisions	(292)	(189)	(103)
<b>Net non-cash working capital</b>	<b>\$ 306,131</b>	<b>\$ 383,988</b>	<b>\$ (77,857)</b>

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 \$77.9 million to \$306.1 million at September 30, 2023 as compared to \$384.0 million at December 31, 2022, primarily reflecting lower inventories, partially offset by higher accounts receivable and 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, as described in the "*Seasonality*" section on page 5 of this MD&A. Due to the global supply chain challenges in Fiscal 2022, the Company was proactive in securing inventory supply, most notably in the second half of Fiscal 2022 which has carried over into the first three quarters of 2023 as reflected in the higher inventories balances when compared to fiscal years prior to Fiscal 2022. As global supply chain challenges have normalized, we expect a decreased investment in inventory compared to Fiscal 2022. However, going forward we do expect the trend of inventory peaking between December and March to continue, and we believe we have sufficient availability on our working capital credit facility to finance our working capital requirements throughout the remainder of 2023.

### **Capital Expenditures**

Gross capital expenditures (including computer software) were \$4.0 million and \$13.1 million during the thirteen and thirty-nine weeks ended September 30, 2023, respectively, as compared to capital expenditures of \$6.7 million and \$11.8 million during the thirteen and thirty-nine weeks ended October 1, 2022, respectively. Capital expenditures in the first three quarters of 2023 are higher than the prior year reflecting the continued investment to modernize our asset base and maintain and upgrade our facilities.

Excluding strategic initiatives that may arise, management expects that capital expenditures in 2023 will be approximately \$22.0 million and funded by cash generated from operations and short-term borrowings.

## Dividends

The Company paid a CAD\$0.13 per share quarterly dividend on September 15, 2023 to common shareholders of record on September 1, 2023.

On November 8, 2023, the Company's Board of Directors approved a quarterly dividend of CAD\$0.15 per share on the Company's common shares, payable on December 15, 2023 to holders of record as of December 1, 2023. The quarterly dividend of CAD \$0.15 per share represents a CAD \$0.02 per share increase from the CAD \$0.13 per share quarterly dividend paid during the third quarter of 2023 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 \$25.0 million or higher and was \$163.4 million on September 30, 2023, 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 3.1x on September 30, 2023. 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 30, 2023 were as follows:

(Amounts in \$000s)	Total	Less than 1 year	1–5 Years	Thereafter
Bank loans	\$ 47,782	\$ 47,782	\$ —	\$ —
Long-term debt	310,015	34,677	275,338	—
Lease liabilities	14,257	5,657	8,600	—
Purchase obligations	127,493	106,376	21,117	—
<b>Total contractual obligations</b>	<b>\$ 499,547</b>	<b>\$ 194,492</b>	<b>\$ 305,055</b>	<b>\$ —</b>

Purchase obligations are for the purchase of seafood and other non-seafood inputs, including flour, paper products and frying oils. See the *Procurement* and *Foreign Currency* risk sections in the Annual 2022 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 9 "*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 28 *"Financial risk management objectives and policies"* of the 2022 annual consolidated financial statements for further discussion of the Company's financial risks and policies.

### **Disclosure of Outstanding Share Data**

On November 8, 2023, 33,307,318 common shares and 370,750 options were outstanding. The options are exercisable on a one-for-one basis for common shares of the Company.

## **RELATED PARTY TRANSACTIONS**

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The Company had no related party transactions, excluding key management personnel compensation, for the thirteen and thirty-nine weeks ended September 30, 2023 and October 1, 2022.

Refer to Note 24 *"Related party disclosures"* to the 2022 annual consolidated financial statements for a further description of the Company's related party transactions, which are substantially unchanged in 2023.

## **NON-IFRS FINANCIAL MEASURES**

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The Company uses the following non-IFRS financial measures and ratios (together, "measures") in this MD&A: Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"); Adjusted EBITDA as a Percentage of Sales; Adjusted Net Income; Adjusted Diluted Earnings per Share ("Adjusted Diluted EPS"); Standardized Free Cash Flow; Net Debt; and Net Debt to Rolling Twelve-Month Adjusted EBITDA. The Company believes these non-IFRS financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These 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.

### **Adjusted EBITDA and Adjusted EBITDA as Percentage of Sales**

Adjusted EBITDA is defined as 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, Adjusted EBITDA as a Percentage of Sales, is defined as Adjusted EBITDA divided by net sales, where net sales is defined as "Sales" on the consolidated statements of income.

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. For the thirty-nine weeks ended October 1, 2022, Adjusted EBITDA also excludes the \$10.0 million in insurance proceeds. 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 "Net income" on the consolidated statements of income. Adjusted EBITDA is also useful when comparing to other 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 Adjusted EBITDA with measures that are found in our Consolidated Financial Statements, and calculates Adjusted EBITDA as a Percentage of Sales.

(Amounts in \$000s)	Thirteen weeks ended	
	September 30, 2023	October 1, 2022
<b>Net income</b>	\$ 5,486	\$ 9,977
Add back (deduct):		
Depreciation and amortization expense	6,367	6,045
Finance costs	6,502	4,710
Income tax expense	2,044	1,711
<b>Standardized EBITDA</b>	<b>20,399</b>	<b>22,443</b>
Add back (deduct):		
Business acquisition, integration and other expenses (income)	1,044	648
Impairment of property, plant and equipment	—	117
Loss on disposal of assets	133	119
Share-based compensation (recovery) expense	(1,602)	1,482
<b>Adjusted EBITDA</b>	<b>\$ 19,974</b>	<b>\$ 24,809</b>
<b>Net Sales</b>	<b>\$ 259,699</b>	<b>\$ 271,181</b>
<b>Adjusted EBITDA as Percentage of Sales</b>	<b>7.7%</b>	<b>9.1%</b>

(Amounts in \$000s)	Thirty-nine weeks ended	
	September 30, 2023	October 1, 2022
<b>Net income</b>	\$ 25,261	\$ 43,599
Add back (deduct):		
Depreciation and amortization expense	18,396	17,408
Finance costs	20,361	12,310
Income tax expense	1,768	10,787
<b>Standardized EBITDA</b>	<b>65,786</b>	<b>84,104</b>
Add back (deduct):		
Business acquisition, integration and other expenses (income) <sup>(1)</sup>	6,660	(8,118)
Impairment of property, plant and equipment	—	168
(Gain) loss on disposal of assets	(42)	135
Share-based compensation expense	801	2,195
<b>Adjusted EBITDA</b>	<b>\$ 73,205</b>	<b>\$ 78,484</b>
<b>Net Sales</b>	<b>\$ 843,212</b>	<b>\$ 819,368</b>
<b>Adjusted EBITDA as a Percentage of Sales</b>	<b>8.7%</b>	<b>9.6%</b>

<sup>(1)</sup> The business acquisition, integration and other expenses (income) for the thirty-nine weeks ended October 1, 2022, includes insurance proceeds of \$10.0 million which is excluded in Adjusted EBITDA.

**Rolling Twelve-Month Adjusted EBITDA**

(Amounts in \$000s)	Rolling twelve months ended		
	September 30, 2023	December 31, 2022	October 1, 2022
<b>Net income</b>	\$ 36,392	\$ 54,730	\$ 50,822
Add back (deduct):			
Depreciation and amortization expense	24,566	23,578	23,178
Finance costs	26,312	18,261	16,014
Income tax expense	2,075	11,094	12,120
<b>Standardized EBITDA</b>	<b>89,345</b>	107,663	102,134
Add back (deduct):			
Business acquisition, integration and other expenses (income) <sup>(1)</sup>	7,605	(7,173)	(7,597)
Impairment of property, plant and equipment	164	332	168
(Gain) loss on disposal of assets	(12)	163	200
Share-based compensation expense	1,488	2,882	4,177
<b>Rolling Twelve-Month Adjusted EBITDA</b>	<b>\$ 98,590</b>	<b>\$ 103,867</b>	<b>\$ 99,082</b>

<sup>(1)</sup> The business acquisition, integration and other expenses (income) for the rolling twelve months ended December 31, 2022 and October 1, 2022, included insurance proceeds of \$10.0 million which was excluded in Adjusted EBITDA

**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. For the thirty-nine weeks ended October 1, 2022, Adjusted Net Income also excludes the \$10.0 million in insurance proceeds. 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 and calculates Adjusted Diluted EPS.

	September 30, 2023				Thirteen weeks ended	
					October 1, 2022	
	\$000s	Adjusted Diluted EPS	\$000s	Adjusted Diluted EPS	\$000s	Adjusted Diluted EPS
<b>Net income</b>	\$ 5,486	\$ 0.16	\$ 9,977	\$ 0.28		
Add back (deduct):						
Business acquisition, integration and other expenses (income)	1,044	0.03	648	0.02		
Impairment of property, plant and equipment	—	—	117	—		
Share-based compensation (recovery) expense	(1,602)	(0.05)	1,482	0.05		
Tax impact of reconciling items <sup>(1)</sup>	(22)	—	2,068	0.06		
<b>Adjusted Net Income</b>	\$ 4,906	\$ 0.14	\$ 14,292	\$ 0.41		
<b>Average shares for the period (000s)</b>		<b>34,001</b>		<b>35,102</b>		

<sup>1)</sup>The tax impact of reconciling items includes the tax impact of the insurance proceeds of \$10.0 million received during the second quarter of fiscal 2022 which is excluded in Adjusted Net Income.

	September 30, 2023				Thirty-nine weeks ended	
					October 1, 2022	
	\$000s	Adjusted Diluted EPS	\$000s	Adjusted Diluted EPS	\$000s	Adjusted Diluted EPS
<b>Net income</b>	\$ 25,261	\$ 0.73	\$ 43,599	\$ 1.24		
Add back (deduct):						
Business acquisition, integration and other expenses (income) <sup>(1)</sup>	6,660	0.19	(8,118)	(0.23)		
Impairment of property, plant and equipment	—	—	168	—		
Share-based compensation expense	801	0.02	2,195	0.06		
Tax impact of reconciling items <sup>(2)</sup>	(1,335)	(0.03)	1,551	0.05		
<b>Adjusted Net Income</b>	\$ 31,387	\$ 0.91	\$ 39,395	\$ 1.12		
<b>Average shares for the period (000s)</b>		<b>34,092</b>		<b>35,141</b>		

<sup>(1)</sup>The business acquisition, integration and other expenses (income) for the thirteen and thirty-nine weeks ended October 1, 2022, includes insurance proceeds of \$10.0 million which is excluded in Adjusted Net Income.

<sup>(2)</sup>The tax impact of reconciling items includes the tax impact of the insurance proceeds of \$10.0 million received during the second quarter of fiscal 2022 which is excluded in Adjusted Net Income.

### Standardized Free Cash Flow

Standardized Free Cash Flow is cash flow provided by 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 provided by 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 30, 2023	October 1, 2022	Change
Cash flows provided by operations before changes in non-cash working capital, interest and income taxes paid	\$ 89,309	\$ 108,840	\$ (19,531)
Net change in non-cash working capital balances	1,024	(117,551)	118,575
Interest paid	(23,962)	(12,902)	(11,060)
Income taxes paid	(9,843)	(6,744)	(3,099)
Cash flows provided by operating activities	56,528	(28,357)	84,885
Less:			
Purchase of property, plant and equipment, net of investment tax credits, and intangible assets	(21,940)	(18,772)	(3,168)
<b>Standardized Free Cash Flow</b>	<b>\$ 34,588</b>	<b>\$ (47,129)</b>	<b>\$ 81,717</b>

### Net Debt and Net Debt to Rolling Twelve-Month Adjusted EBITDA

Net Debt is calculated as the sum of bank loans, long-term debt (excluding deferred finance costs and modification gains/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.

Net Debt to Rolling Twelve-Month Adjusted EBITDA is calculated as Net Debt divided by Rolling Twelve-Month Adjusted EBITDA (see page 18). We consider Net Debt to Rolling Twelve-Month Adjusted EBITDA to be an important indicator of our ability to generate earnings sufficient to service our debt, that enhances understanding of our financial performance and highlights operational trends. This measure is widely used by investors and rating agencies in the valuation, comparison, rating and investment recommendations of companies; however, the calculations of Adjusted EBITDA may not be comparable to those of other companies, which limits their usefulness as comparative measures.

The following table reconciles Net Debt to IFRS measures reported as at the end of the indicated periods in the consolidated statements of financial position and calculates Net Debt to Rolling Twelve-Month Adjusted EBITDA.

(Amounts in \$000s)	September 30, 2023	December 31, 2022	October 1, 2022
Bank loans	\$ 47,307	\$ 127,554	\$ 59,358
Add-back: Deferred finance costs included in bank loans <sup>(1)</sup>	475	574	642
<b>Total bank loans</b>	<b>47,782</b>	128,128	60,000
Long-term debt	233,490	238,200	240,109
Current portion of long-term debt	7,500	7,500	7,500
Add-back: Deferred finance costs included in long-term debt <sup>(2)</sup>	3,945	4,972	4,974
Less: Net loss on modification of debt <sup>(3)</sup>	(430)	(542)	(577)
<b>Total term loan debt</b>	<b>244,505</b>	250,130	252,006
Long-term portion of lease liabilities	7,893	2,813	3,859
Current portion of lease liabilities	4,791	4,622	4,548
<b>Total lease liabilities</b>	<b>12,684</b>	7,435	8,407
Less: Cash	(183)	(155)	(3,339)
<b>Net Debt</b>	<b>\$ 304,788</b>	\$ 385,538	\$ 317,074
<b>Rolling Twelve-Month Adjusted EBITDA</b>	<b>\$ 98,590</b>	\$ 103,867	\$ 99,082
<b>Net Debt to Rolling Twelve-Month Adjusted EBITDA</b>	<b>3.1x</b>	<b>3.7x</b>	<b>3.2x</b>

<sup>(1)</sup> Represents deferred finance costs that are included in "Bank loans" in the consolidated statements of financial position. See Note 3 to the Consolidated Financial Statements.

<sup>(2)</sup> Represents deferred finance costs that are included in "Long-term debt" in the consolidated statements of financial position. See Note 4 to the Consolidated Financial Statements.

<sup>(3)</sup> The net gain/loss on modification of debt related to the refinancing completed in March 2021 and October 2019, has been excluded from the calculation of Net Debt as it does not represent the expected cash outflows from the term loan facility. See Note 4 to the Consolidated Financial Statements.

## 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 July 2, 2023 and ending on September 30, 2023 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 2022 Annual Consolidated Financial Statements. 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. 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 31, 2022, except for the adoption of the following new amendment that was effective for annual periods beginning on January 1, 2023 and that the Company adopted on January 1, 2023:

#### **IAS 1, *Disclosure of Accounting Policies***

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statements 2 Making Materiality Judgements, to help entities provide accounting policy disclosures that are more useful by replacing the requirement to disclose "significant" accounting policies with a requirement to disclose "material" accounting policies.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has adopted these amendments which are not material to its Consolidated Financial Statements. As a result the changes related to the amendments will be presented in its annual consolidated financial statements for the year ended December 30, 2023.

#### **IAS 12, *Deferred tax related to Assets and Liabilities arising from a Single Transaction***

In May 2021, the IASB issued amendments to IAS 12, *Income Taxes* to require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has adopted these amendments which had no impact on its Consolidated Financial Statements.

## **RISK FACTORS**

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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.

In addition to the risk factor noted below, readers should refer to the 2022 Annual Consolidated Financial Statements, MD&A and AIF for a more detailed description of risk factors applicable to the Company, which are available at [www.sedarplus.ca](http://www.sedarplus.ca) and at [www.highlinerfoods.com](http://www.highlinerfoods.com).

### **Sustainability Risks**

The Company has publicly committed to reducing greenhouse gas ("GHG") emissions in its operations by 30% by 2030 (versus a 2021 baseline) and food waste by 50% by 2030 (versus a 2018 baseline). While the Company has taken steps to assess the commercial feasibility of these initiatives, there is no assurance that the ongoing costs of these initiatives will continue to be economically sustainable. There are several potential risks that could undermine or delay meeting these goals, including that the energy savings and carbon reduction initiatives in Scope 1 and 2 and food waste reduction initiatives may not be implemented, due to capital or technical constraints, or such projects fail to achieve the intended benefits. In addition, to the extent of the applicable laws, regulations and industry standards related to emission reductions change, it is possible that the Company's practices, processes and facilities will require significant modifications in order to comply. Additionally, it is possible that the changes necessary to reduce emissions will not be feasible or that the costs will be material, either of which could have a material adverse effect on the Company's operations and financial position. Should these risks materialize, contingencies such as installation of onsite renewable power generation and purchasing renewable energy credits could be utilized to mitigate these risks. The Company has developed and implemented process and controls to ensure data integrity.