




Clearwater®

2020 THIRD QUARTER FINANCIAL STATEMENTS





REMARKABLE SEAFOOD, RESPONSIBLE CHOICE

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. Management of Clearwater Seafoods Incorporated has prepared these condensed consolidated interim financial statements. Management has compiled the unaudited condensed consolidated interim Statements of Financial Position of Clearwater Seafoods Incorporated as at October 3, 2020 and the unaudited condensed consolidated interim Statements of Earnings (Loss), Comprehensive Income (Loss), Shareholders' Equity, and Cash Flows for the 13 and 39 weeks ended weeks ended October 3, 2020 and September 28, 2019. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the October 3, 2020 and September 28, 2019 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Financial Position

(unaudited)

(In thousands of Canadian dollars) As at		**October 3 2020**		December 31 2019
ASSETS				
Current assets				
Cash	**$**	**29,039**	$	32,368
Trade and other receivables		**70,866**		89,159
Inventories		**86,734**		72,587
Income tax receivable		**694**		760
Prepaids and other		**4,726**		5,095
Derivative financial instruments (Note 6)		**2,702**		7,005
		194,761		206,974
Non-current assets				
Long-term receivables		**6,231**		7,106
Derivative financial instruments (Note 6)		**10,375**		6,028
Other assets		**473**		383
Property, plant and equipment		**234,277**		239,963
Investment in equity investee		**8,641**		8,664
Deferred tax assets		**12,542**		12,805
Intangible assets (Note 7)		**186,215**		187,391
Goodwill		**48,163**		48,185
		506,917		510,525
TOTAL ASSETS	**$**	**701,678**	$	717,499
LIABILITIES				
Current liabilities				
Trade and other payables	**$**	**71,389**	$	71,390
Current portion of long-term debt (Note 8)		**11,614**		11,511
Derivative financial instruments (Note 6)		**2,490**		178
		85,493		83,079
Non-current liabilities				
Long-term debt (Note 8)		**425,587**		428,749
Derivative financial instruments (Note 6)		**178**		1,080
Other long-term liabilities		**266**		649
Deferred tax liabilities		**15,553**		16,492
		441,584		446,970
SHAREHOLDERS' EQUITY				
Share capital (Note 9)	**$**	**217,081**	$	216,986
Contributed surplus		**5,468**		4,164
Retained earnings (deficit)		**(24,842)**		(10,155)
Accumulated comprehensive loss ("ACL")		**(39,932)**		(40,213)
		157,775		170,782
Non-controlling interest		**16,826**		16,668
		174,601		187,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**701,678**	$	717,499

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED

Condensed Consolidated Interim Statements of Earnings (Loss)

(unaudited)

(In thousands of Canadian dollars)

	13 weeks ended		39 weeks ended	
	October 3 2020	September 28 2019	**October 3 2020**	September 28 2019
Sales	**$ 133,716**	$ 175,200	**$ 340,025**	$ 449,159
Cost of goods sold	**104,252**	137,433	**276,019**	358,252
Gross margin	**29,464**	37,767	**64,006**	90,907
Operating expenses				
Administrative and selling costs	**10,609**	14,678	**32,611**	43,232
Restructuring costs	**805**	-	**2,582**	-
Net finance costs	**7,488**	8,137	**22,307**	24,094
(Gains) losses on derivative financial instruments (Note 6 (c))	**(1,413)**	(486)	**10,652**	(10,037)
Foreign exchange (gains) losses on long-term debt and working capital (Note 6 (e))	**(1,598)**	715	**1,505**	(1,199)
Other (income) expense	**(466)**	(729)	**(3,499)**	(2,901)
Research and development	**643**	116	**1,305**	391
	16,068	22,431	**67,463**	53,580
Earnings (loss) before income taxes	**13,396**	15,336	**(3,457)**	37,327
Income tax (recovery) expense	**(1,487)**	3,682	**413**	3,550
Earnings (loss) for the period	**$ 14,883**	$ 11,654	**$ (3,870)**	$ 33,777
Earnings (loss) attributable to:				
Non-controlling interest	**$ 2,401**	$ 3,850	**$ 7,561**	$ 9,685
Shareholders of Clearwater	**12,482**	7,804	**(11,431)**	24,092
	$ 14,883	$ 11,654	**$ (3,870)**	$ 33,777
Basic earnings (loss) per share (Note 11)	**$ 0.19**	**$** 0.12	**$ (0.18)**	**$** 0.37
Diluted earnings (loss) per share (Note 11)	**$ 0.18**	**$** 0.12	**$ (0.18)**	**$** 0.37

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(unaudited)

(In thousands of Canadian dollars)	13 weeks ended		39 weeks ended	
	October 3 2020	September 28 2019	**October 3 2020**	September 28 2019
Earnings (loss) for the period	**$ 14,883**	$ 11,654	**$ (3,870)**	$ 33,777
Comprehensive income (loss)				
Items that may be reclassified subsequently to income (loss):				
Foreign currency translation differences of foreign operations	**2,296**	(2,874)	**(2)**	(11,316)
Cash flow hedges - effective portion of change in fair value, net of tax (Note 6 (d))	**(488)**	535	**501**	(999)
Cash flow hedges - reclassified to earnings (loss), net of tax (Note 6 (d))	**(115)**	(125)	**(207)**	(42)
	1,693	(2,464)	**292**	(12,357)
Comprehensive income (loss) for the period	**$ 16,576**	$ 9,190	**$ (3,578)**	$ 21,420
Comprehensive income (loss) attributable to:				
Non-controlling interest	**$ 2,301**	$ 3,854	**$ 7,572**	$ 9,643
Shareholders of Clearwater	**14,275**	5,336	**(11,150)**	11,777
	$ 16,576	$ 9,190	**$ (3,578)**	$ 21,420

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED

Condensed Consolidated Interim Statements of Shareholders' Equity

(unaudited)

(In thousands of Canadian dollars)

			Accumulated comprehensive income (loss)				
	Common shares	Contributed surplus	Cash flow hedge	Cumulative translation account	Retained earnings (deficit)	Non-controlling interest	Total
Balance at January 1, 2019	**$ 215,506**	**$ 4,218**	**$ 2,019**	**$ (38,072)**	**$ (38,848)**	**$ 18,397**	**$ 163,220**
Comprehensive income (loss) for the period	-	-	(1,041)	(11,274)	24,092	9,643	21,420
Transactions recorded directly in equity							
Share-based compensation	99	859	-	-	-	-	958
Distributions to non-controlling interest	-	-	-	-	-	(11,482)	(11,482)
Dividends declared on common shares	-	-	-	-	(9,746)	-	(9,746)
Common shares issued under DRIP	993	-	-	-	-	-	993
Total transactions with owners	1,092	859	-	-	(9,746)	(11,482)	(19,277)
Balance at September 28, 2019	**$ 216,598**	**$ 5,077**	**$ 978**	**$ (49,346)**	**$ (24,502)**	**$ 16,558**	**$ 165,363**
Comprehensive income (loss) for the period	-	-	(588)	8,743	17,600	1,434	27,189
Transactions recorded directly in equity							
Share-based compensation	286	(913)	-	-	-	-	(627)
Distributions to non-controlling interest	-	-	-	-	-	(1,324)	(1,324)
Dividends declared on common shares	-	-	-	-	(3,253)	-	(3,253)
Common shares issued under DRIP	102	-	-	-	-	-	102
Total transactions with owners	388	(913)	-	-	(3,253)	(1,324)	(5,102)
Balance at December 31, 2019	**$ 216,986**	**$ 4,164**	**$ 390**	**$ (40,603)**	**$ (10,155)**	**$ 16,668**	**$ 187,450**
Comprehensive income (loss) for the period	**-**	**-**	**294**	**(13)**	**(11,431)**	**7,572**	**(3,578)**
Transactions recorded directly in equity							
Share-based compensation	**-**	**1,304**	**-**	**-**	**-**	**-**	**1,304**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(7,414)**	**(7,414)**
Dividends declared on common shares	**-**	**-**	**-**	**-**	**(3,256)**	**-**	**(3,256)**
Common shares issued under DRIP	**95**	**-**	**-**	**-**	**-**	**-**	**95**
Total transactions with owners	**95**	**1,304**	**-**	**-**	**(3,256)**	**(7,414)**	**(9,271)**
Balance at October 3, 2020	**$ 217,081**	**$ 5,468**	**$ 684**	**$ (40,616)**	**$ (24,842)**	**$ 16,826**	**$ 174,601**

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(In thousands of Canadian dollars)

	13 weeks ended October 3 2020	13 weeks ended September 28 2019	39 weeks ended October 3 2020	39 weeks ended September 28 2019
Operating				
Earnings (loss) for the period	**$ 14,883**	$ 11,654	**$ (3,870)**	$ 33,777
Adjustments for:				
Depreciation and amortization	**11,013**	10,327	**28,012**	31,324
Amortization of deferred financing costs	**416**	445	**1,259**	1,326
Accretion on long-term debt	**164**	301	**481**	918
Net changes in unrealized foreign exchange (gains) losses on financial assets and liabilities	**(3,515)**	(2,929)	**9,543**	(19,439)
Deferred tax expense (recovery)	**(1,737)**	2,103	**(708)**	685
Share-based compensation	**1,253**	834	**2,469**	1,725
(Gain) loss on disposal of property, plant, and equipment, and other assets	**(8)**	-	**45**	7
(Earnings) loss from equity investee	**(903)**	(687)	**(2,480)**	(3,507)
Foreign exchange and other	**(851)**	(320)	**(655)**	2,406
Cash from operating activities before changes in working capital	**20,715**	21,728	**34,096**	49,222
Change in non-cash operating working capital (Note 14)	**22,163**	999	**5,886**	(49,813)
Cash from (used in) operating activities	**$ 42,878**	$ 22,727	**$ 39,982**	$ (591)
Financing				
Repayment of long-term debt	**(101)**	(13,350)	**(1,588)**	(14,869)
Net (repayment of) proceeds from revolving credit facility	**(29,979)**	(11,533)	**(9,955)**	23,317
Repayment of lease liabilities	**(354)**	(378)	**(1,155)**	(1,082)
Net distributions paid to non-controlling interest	**(2,780)**	(5,329)	**(7,414)**	(12,164)
Repayments from (advances to) minority partners	**-**	(14)	**(93)**	553
Dividends paid on common shares, net of dividends reinvested	**-**	(3,171)	**(3,191)**	(8,753)
Cash from (used in) financing activities	**$ (33,214)**	$ (33,775)	**$ (23,396)**	$ (12,998)
Investing				
Purchase of property, plant and equipment	**(3,962)**	(2,929)	**(24,871)**	(16,821)
Proceeds on disposal of property, plant and equipment	**37**	202	**849**	2,010
Dividends received from equity investee	**2,490**	3,640	**2,490**	3,640
Net proceeds from sale (purchase) of other assets	**(30)**	-	**(179)**	(162)
Net proceeds (advances) from long term receivables	**107**	888	**992**	(302)
Cash from (used in) investing activities	**$ (1,358)**	$ 1,801	**$ (20,719)**	$ (11,635)
Effect of foreign exchange rate changes on cash	**$ 70**	$ (100)	**$ 804**	$ (959)
Increase (decrease) in cash	**8,376**	(9,347)	**(3,329)**	(26,183)
Cash, beginning of period	**20,663**	19,051	**32,368**	35,887
Cash, end of period	**$ 29,039**	$ 9,704	**$ 29,039**	$ 9,704
Supplemental disclosure of operating cash flows				
Cash interest paid	**$ (1,204)**	$ (1,713)	**$ (15,355)**	$ (16,462)
Cash income taxes paid	**$ (290)**	$ (1,371)	**$ (3,486)**	$ (3,908)

See the accompanying notes to the condensed consolidated interim financial statements

1. DESCRIPTION OF THE BUSINESS

Clearwater Seafoods Incorporated ("Clearwater") was incorporated on July 7, 2011 and is domiciled at 757 Bedford Highway, Bedford, Nova Scotia, Canada.

Clearwater's sole investment is the ownership of 100% of the partnership units of Clearwater Seafoods Limited Partnership ("CSLP"), which holds the underlying investments in subsidiaries and joint ventures.

The condensed consolidated interim financial statements of Clearwater as at and for the periods ended October 3, 2020 and September 28, 2019 comprise the company, its subsidiaries, and a joint venture. Clearwater's business includes the ownership and operation of assets and property in connection with the harvesting, processing, distribution, and marketing of seafood.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and should be read in conjunction with the annual audited financial statements and the accompanying notes for the year ended December 31, 2019 (included in Clearwater's 2019 Annual Report) which were prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorized for issue by Clearwater's Board of Directors on November 17, 2020.

The preparation of these condensed consolidated interim financial statements is based on accounting policies and practices consistent with those used in the preparation of the annual audited December 31, 2019 financial statements, except as described below.

(b) Critical judgements and estimates in applying accounting policies

We have considered the impact of COVID-19, which surfaced in late 2019 and has since been declared a pandemic, on our condensed consolidated interim financial statements.

Clearwater's condensed consolidated interim financial statements as at and for the 13 and 39 weeks ended October 3, 2020, have been negatively impacted by COVID-19. We expect the pandemic to have future impacts, the extent of which is uncertain and largely subject to the duration of response measures. These impacts could include but are not limited to risks and uncertainty related to shifts in demand between sales channels and regions, our ability to operate production facilities, and workforce availability in our supply chain.

Consequently, this may subject us to future risk of material goodwill, intangible and long-lived asset impairments, increased reserves for uncollectible accounts, adjustments for inventory and deferred taxes, and market volatility for items subject to fair value measurements such as derivatives and share-based compensation.

3. CHANGES IN ACCOUNTING POLICIES

New and amended accounting policies

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors

Effective January 1, 2020, the Company has adopted the amendments in *Definition of Material* (amendments to IAS 1 and IAS 8) as issued by the International Accounting Standards Board ("IASB"). The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The application of the amendment has been made on a prospective basis and did not have an impact on Clearwater.

IFRS 3 – Business Combinations

Effective January 1, 2020, the Company has applied the amendments to IFRS 3 which narrow and clarify the definition of a business. IFRS 3 introduces an optional simplified initial assessment of whether an acquired group of assets is a single identifiable group of assets, rather than a business which if applicable, eliminates the requirement for a detailed assessment of the definition. The application of the amendment has been made on a prospective basis and did not have an impact on Clearwater.

New accounting standards not yet adopted

The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective date falls within periods beginning subsequent to the current reporting period.

IAS 1 – Presentation of Financial Statements

On January 23, 2020, the IASB issued an amendment to IAS 1 *Presentation of Financial Statements* providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or non-current depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty.

The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively, with early adoption permitted. Clearwater is currently assessing the financial impact of the amendments and expects to apply the amendments at the effective date.

IAS 16 – Property, Plant and Equipment

On May 14, 2020, the IASB issued an amendment to IAS 16 *Property, Plant and Equipment* to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss.

The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. Clearwater is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued an amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts.

The amendments are effective for contracts for which the Company has not yet fulfilled all its obligations on or after January 1, 2022 with early adoption permitted. Clearwater is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IFRS 3 – Business Combinations

On May 14, 2020, the IASB issued an amendment to IFRS 3 *Business Combinations* adding an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. This exception specifies that for some assets and liabilities, an entity applying IFRS 3 should instead refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The application of this amendment is not expected to have a material impact to Clearwater.

IFRS 9 – Financial Instruments

On May 14, 2020, the IASB issued an amendment to IFRS 9 *Financial Instruments* clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included.

The amendment is effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. Clearwater is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IFRS 16 – Leases

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

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

The amendment is effective annual reports beginning on or after June 1, 2020 with early application permitted. Clearwater is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

4. SEASONALITY

Clearwater's business experiences a seasonal pattern in which sales and gross margins are lower in the first half of the year and higher in the second half. Investments in capital expenditures and working capital are typically higher in the first half of the year and lower in the second half. This results in lower cash flows in the first half of the year and higher in the second half.

5. GOVERNMENT GRANTS

For the 39 weeks ended October 3, 2020, Clearwater received government support related to employee wages in the amount of $17.3 million of which $9.8 million is recognized in the consolidated statement of earnings (loss) as a reduction to cost of goods sold and operating expenses. The remaining $7.5 million is recorded as a reduction to the cost of inventory. The amounts recorded within inventory will be recognized in the consolidated statement of earnings (loss) as product is sold.

The available government support programs are primarily designed to supplement employee wages to help prevent job losses and better position companies to resume normal operations. These support programs do not offer compensation to offset the impact of lost demand.

Clearwater also participated in a cost recovery government support program, of which Clearwater received $1.5 million.

6. FINANCIAL INSTRUMENTS

Clearwater classifies its financial assets and financial liabilities into three categories being subsequently measured at 1) fair value through profit or loss ("FVTPL"); 2) amortized cost; or 3) fair value through other comprehensive income ("FVTOCI"). The classification for financial assets depends on the Company's business model and management of the financial asset and the contractual terms of the cash flows.

Derivatives are classified as FVTPL unless they are designated as hedges. Clearwater has not designated any non-derivative financial liabilities to be recognized as FVTPL.

(Tabular amounts are in thousands of Canadian dollars)

The following tables set out Clearwater's classification, carrying amount and fair value for each type of financial asset and liability:

October 3, 2020	FVTPL	FVTOCI	Amortized cost	Total Carrying amount	Fair value
Assets:					
Cash	$ 29,039	$ -	$ -	**$ 29,039**	**$ 29,039**
Trade and other receivables	-	-	70,866	**70,866**	**70,866**
Long-term receivables	-	-	6,231	**6,231**	**6,231**
Derivative financial instruments	11,757	1,320	-	**13,077**	**13,077**
	$ 40,796	$ 1,320	$ 77,097	**$ 119,213**	**$ 119,213**
Liabilities:					
Trade and other payables[1]	$ -	$ -	$ (71,389)	**$ (71,389)**	**$ (71,389)**
Long-term debt	(1,243)	-	(435,958)	**(437,201)**	**(449,324)**
Derivative financial instruments	(2,668)	-	-	**(2,668)**	**(2,668)**
	$ (3,911)	$ -	$ (507,347)	**$ (511,258)**	**$ (523,381)**

[1] Trade and other payables includes share-based compensation of $4.5 million which is not recorded at amortized cost.

December 31, 2019	FVTPL	FVTOCI	Amortized cost	Total Carrying amount	Fair value
Assets:					
Cash	$ 32,368	$ -	$ -	**$ 32,368**	**$ 32,368**
Trade and other receivables	-	-	89,159	**89,159**	**89,159**
Long-term receivables	-	-	7,106	**7,106**	**7,106**
Derivative financial instruments	12,152	881	-	**13,033**	**13,033**
	$ 44,520	$ 881	$ 96,265	**$ 141,666**	**$ 141,666**
Liabilities:					
Trade and other payables[1]	$ -	$ -	$ (71,390)	**$ (71,390)**	**$ (71,390)**
Long-term debt	(2,431)	-	(437,829)	**(440,260)**	**(460,741)**
Derivative financial instruments	(976)	(282)	-	**(1,258)**	**(1,258)**
	$ (3,407)	$ (282)	$ (509,219)	**$ (512,908)**	**$ (533,389)**

[1] Trade and other payables includes share-based compensation of $3.4 million which is not recorded at amortized cost.

Fair value of financial instruments carried at amortized cost:

Except as detailed above, Clearwater considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements to approximate their fair values. For cash, trade and other receivables, and trade and other payables, the carrying value approximates their fair values due to the short-term maturity of these instruments. The fair values of the long-term receivables are not materially different from their carrying values.

The estimated fair value of Clearwater's long-term debt for which carrying value did not approximate fair value at October 3, 2020 was $352.3 million (December 31, 2019 - $351.6 million) and the carrying value was $340.2 million (December 31, 2019 - $331.1 million). The fair value of long-term debt has been classified as Level 2 in the fair value hierarchy (described below) and was estimated based on discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities.

(Tabular amounts are in thousands of Canadian dollars)

(a) Fair value hierarchy

Assets and liabilities carried at fair value are classified using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The levels are defined as follows:

- Level 1: Fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The table below sets out fair value measurements of financial instruments carried at fair value through profit and loss and fair value hedging instruments using the fair value hierarchy:

October 3, 2020	Level 1	Level 2	Level 3
Financial Assets:			
Cash	$ 29,039	$ -	$ -
Derivative financial instruments	-	13,077	-
	$ 29,039	$ 13,077	$ -
Financial Liabilities:			
Derivative financial instruments	-	2,668	-
Earnout liability	-	-	1,243
	$ -	$ 2,668	$ 1,243

December 31, 2019	Level 1	Level 2	Level 3
Financial Assets:			
Cash	$ 32,368	$ -	$ -
Derivative financial instruments		13,033	
	$ 32,368	$ 13,033	$ -
Financial Liabilities:			
Derivative financial instruments	-	1,258	-
Earnout liability	-	-	2,431
	$ -	$ 1,258	$ 2,431

There were no transfers between levels during the periods ended October 3, 2020 and December 31, 2019.

Forward foreign exchange contracts are categorized as level 2 and measured using present value techniques. Future cash flows are estimated based on forward exchange rates (from observable exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of Clearwater and the various counterparties.

The Earnout liability relating to the Macduff acquisition is a financial liability categorized as Level 3 as the fair value measurement of this financial liability is based on significant inputs not observable in the market.

The fair value estimates are not necessarily indicative of the amounts that Clearwater will receive or pay at the settlement of the contracts.

(b) Derivative financial instruments

The Company periodically uses derivative instruments as part of an active risk management program. The Company designated certain forward foreign exchange contracts related to USD denominated interest payments as hedging instruments in a qualifying hedging relationship (cash flow hedge). Changes in the fair value of derivatives in a qualifying hedging relationship are recognized in other comprehensive income until the hedged risk affects income. The Company has elected not to use hedge accounting on the remaining derivative instruments and consequently, changes in their fair value are recorded in the consolidated statement of earnings (loss).

Clearwater has forward contracts maturing each month until October 2022 and forward contracts related to the USD Notes maturing May 2022 (Note 8).

(Tabular amounts are in thousands of Canadian dollars)

At October 3, 2020 Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency notional amount (in 000's)	Average contract exchange rate	Weighted average months to maturity		Fair value asset (liability)
Contracts in a current asset position					
Derivatives designated as hedging instruments					
USD	13,750	1.282	4	$	665
Derivatives not designated as hedging instruments					
Euro	6,590	1.572	8		34
USD	42,841	1.371	8		1,766
Yen	842,300	0.0128	6		131
Euro - GBP	5,930	0.918	4		106
				$	2,702
Contracts in a non-current asset position					
Derivatives designated as hedging instruments					
USD	13,750	1.283	16	$	655
Derivatives not designated as hedging instruments					
Euro	2,470	1.579	15		13
USD	209,934	1.288	19		9,612
Yen	370,000	0.0130	17		94
Euro - GBP	550	0.912	14		1
					10,375
Total contracts in an asset position				$	13,077
Contracts in a current liability position					
Derivatives not designated as hedging instruments					
Euro	17,078	1.515	6		(824)
USD	43,583	1.319	5		(460)
Yen	857,700	0.0125	5		(151)
Euro - GBP	19,263	0.875	4		(1,055)
				$	(2,490)
Contracts in a non-current liability position					
Derivatives not designated as hedging instruments					
Euro	1,900	1.547	13		(44)
USD	5,306	1.319	15		(54)
Yen	270,700	0.0126	16		(43)
Euro - GBP	1,580	0.897	13		(37)
					(178)
Total contracts in a liability position				$	(2,668)

(Tabular amounts are in thousands of Canadian dollars)

At December 31, 2019, Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency notional amount (in 000's)	Average contract exchange rate	Weighted average months to maturity		Fair value asset (liability)
Contracts in a current asset position					
Derivatives designated as hedging instruments					
USD	6,875	1.243	7	$	376
Derivatives not designated as hedging instruments					
Euro	27,783	1.531	6		1,630
USD	102,041	1.322	5		2,399
Yen	2,713,650	0.0124	6		962
Euro - GBP	23,073	0.893	6		1,638
				$	7,005
Contracts in a non-current asset position					
Derivatives designated as hedging instruments					
USD	10,313	1.250	22	$	505
Derivatives not designated as hedging instruments					
Euro	4,100	1.512	15		59
USD	114,640	1.263	26		4,889
Yen	1,056,400	0.013	17		432
Euro - GBP	2,850	0.888	15		143
					6,028
Total contracts in an asset position				$	13,033
Contracts in a current liability position					
Derivatives designated as hedging instruments					
USD	6,875	1.321	7	$	(152)
Derivatives not designated as hedging instruments					
Yen	28,000	0.0117	2		(8)
Euro - GBP	1,480	0.846	8		(18)
				$	(178)
Contracts in a non-current liability position					
Derivatives designated as hedging instruments					
USD	10,313	1.315	22	$	(130)
Derivatives not designated as hedging instruments					
USD	100,000	1.314	28		(942)
Euro - GBP	620	0.853	16		(8)
					(1,080)
Total contracts in a liability position				**$**	(1,258)

(Tabular amounts are in thousands of Canadian dollars)

(c) (Gains) losses on derivative financial instruments

	13 weeks ended		39 weeks ended	
	October 3 2020	September 28 2019	**October 3 2020**	September 28 2019
Realized (gain) loss				
Forward foreign exchange contracts	**$ 992**	$ 729	**$ 3,429**	$ 339
Change in unrealized (gain) loss				
Forward foreign exchange contracts	**(2,405)**	(1,215)	**7,223**	(10,376)
	$ (1,413)	$ (486)	**$ 10,652**	$ (10,037)

(d) Gains (losses) on derivatives designated as hedging instruments

Clearwater entered into USD forward foreign exchange contracts to hedge a portion of its USD interest payments, payable semi-annually in May and November each year.

The following table summarizes amounts recognized in the consolidated statements of comprehensive income (loss), the amounts reclassified from accumulated comprehensive income (loss) (“ACL”) within equity and the amount recorded in the consolidated statements of earnings (loss):

	Gain (loss) recognized in ACL		Gain (loss) reclassified from ACL to Net finance costs		Ineffectiveness recognized in Net finance costs	
	13 weeks ended		13 weeks ended		13 weeks ended	
Derivatives in cash flow hedging relationship	**October 3 2020**	September 28 2019	**October 3 2020**	September 28 2019	**October 3 2020**	September 28 2019
Forward foreign exchange contracts	**(703)**	769	**(166)**	(179)	**-**	-
Income tax recovery (expense)	**214**	(235)	**51**	54	**-**	-
Net gain (loss)	**$ (488)**	$ 535	**$ (115)**	$ (125)	**$ -**	$ -

	Gain (loss) recognized in ACL		Gain (loss) reclassified from ACL to Net Finance Costs		Ineffectiveness recognized in Net Finance Costs	
	39 weeks ended		39 weeks ended		39 weeks ended	
Derivatives in cash flow hedging relationship	**October 3 2020**	September 28 2019	**October 3 2020**	September 28 2019	**October 3 2020**	September 28 2019
Forward foreign exchange contracts	**721**	(1,437)	**(298)**	(60)	**-**	-
Income tax recovery (expense)	**(220)**	438	**91**	18	**-**	-
Net gain (loss)	**$ 501**	$ (999)	**$ (207)**	$ (42)	**$ -**	$ -

(Tabular amounts are in thousands of Canadian dollars)

(e) Foreign exchange (gains) losses on long-term debt and working capital

	13 weeks ended		39 weeks ended	
	October 3 2020	September 28 2019	**October 3 2020**	September 28 2019
Realized (gain) loss				
Long-term debt and working capital	**$ 2,911**	$ 1,103	**$ 3,268**	$ 2,320
Unrealized (gain) loss				
Long-term debt and working capital	**(9,725)**	3,706	**3,917**	(6,435)
Forward foreign exchange contracts	**5,216**	(4,094)	**(5,680)**	2,916
	(4,509)	(388)	**(1,763)**	(3,519)
	$ (1,598)	$ 715	**$ 1,505**	$ (1,199)

(f) Risk management

Clearwater is exposed to financial risks, including market risks related to foreign exchange rates, interest rates as well as credit risk and liquidity risk. Refer to Note 7 in Clearwater's 2019 Annual Financial Statements for detailed discussion of financial risks.

Liquidity risk

Clearwater manages its liquidity risk by ensuring that it has access to multiple sources of capital including cash and cash equivalents, cash from operating activities, and availability under its revolving credit facility. As at October 3, 2020, Clearwater had $29.0 million in cash and cash equivalents and $141.2 million available on its revolving credit facility.

Clearwater's financial results and operations have been negatively impacted by COVID-19. We expect COVID-19 to have future impacts, including but not limited to risks and uncertainty related to shifts in demand between sales channels and regions, our ability to operate production facilities, and workforce availability in our supply chain. As the duration and recovery trend is unknown, as part of the Company's financial risk mitigation strategy, the Company has amended the financial covenants of its senior credit facilities as disclosed in Note 8. We closely manage our working capital and inventory and remain focused on cash collection.

Clearwater is in compliance with all covenants associated with its debt facilities as of October 3, 2020.

7. INTANGIBLE ASSETS AND GOODWILL

The outbreak of COVID-19 resulted in a global economic environment that has impacted demand in the near term and reduced enterprise values in the market. With the increased operating uncertainty related to COVID-19 and BREXIT, we performed an impairment review of the Macduff cash-generating unit ("CGU") and determined that the recoverable amount of the CGU was in excess of the carrying value as at October 3, 2020. An increase in discount rates or a decrease in future cash flows of the CGU may result in an impairment charge in a future reporting period.

(Tabular amounts are in thousands of Canadian dollars)

8. LONG-TERM DEBT

As at		**October 3 2020**		December 31 2019
Senior debt (a):				
USD senior unsecured notes, due May 2025 (USD $250,000)	**$**	**327,757**	$	319,059
Term loan B, due November 2024		**33,491**		33,879
Revolving credit facility, due November 2024		**56,603**		66,183
Deferred obligation		**8,951**		8,471
Earnout liability		**1,243**		2,431
Term loan, due in 2091		**3,500**		3,500
Lease liabilities		**5,643**		6,680
Other loans		**13**		57
Total debt		**437,201**		440,260
Less: current portion [1]		**(11,614)**		(11,511)
Total Long-term Debt	**$**	**425,587**	$	428,749

[1]Current portion of long-term debt includes scheduled payments related to the Senior debt, scheduled payments on lease liabilities, Deferred obligation payments, less accretion during the period and minimum payment related to the Earnout liability.

There were no significant changes to long-term debt as at October 3, 2020, except as noted below. For details regarding long-term debt, refer to Note 13 in Clearwater's 2019 Annual Financial Statements.

(a) Senior debt

In February 2020, Clearwater amended the senior secured credit facility agreement to extend the maturity date for Term Loan B and the revolving credit facility from May 2022 to November 2024. Transaction costs were added to deferred financing costs and will be amortized over the remaining term of the loan and credit facility using the effective interest rate.

On May 13, 2020, the Company amended its senior secured credit facility to increase the total leverage covenant for the remaining quarters of 2020 and to incorporate a suspension of dividends for the balance of 2020. Transaction costs were added to deferred financing costs and will be amortized over the remaining term of the loan and credit facility using the effective interest rate.

(Tabular amounts are in thousands of Canadian dollars)

9. SHARE CAPITAL

Clearwater is authorized to issue an unlimited number of common shares.

Share capital movement:

As at		**October 3 2020**		December 31 2019
Share capital:	**#**	**$**	#	$
Balance at January 1	**65,128,253**	**216,986**	64,841,993	215,506
Shares issued under share-based compensation plans	**-**	**-**	69,426	385
Shares issued under dividend reinvestment plan	**19,895**	**95**	216,834	1,095
Closing balance	**65,148,148**	**217,081**	65,128,253	216,986

Clearwater reserved 2.5 million common shares (October 3, 2020 – 2.4 million remaining) for issuance under the share-based compensation plans and 3.0 million (October 3, 2020 – 1.9 million remaining) under the dividend reinvestment plan.

On May 15, 2020, to enhance liquidity and recognizing the uncertainty related to the duration and impact of COVID-19, the Company suspended dividends for the balance of 2020. This was incorporated into the amendment of the credit facility with secured lenders (Note 8). The dividend reinvestment program is also suspended.

10. OPERATING EXPENSES

	13 weeks ended		39 weeks ended	
	October 3 2020	September 28 2019	**October 3 2020**	September 28 2019
Salaries and benefits	**$ 7,138**	$ 10,417	**$ 23,113**	$ 31,507
Share-based incentive compensation	**1,253**	834	**2,469**	1,725
Employee compensation	**8,391**	11,251	**25,582**	33,232
Consulting and professional fees	**2,839**	3,379	**8,712**	9,577
Other[1]	**2,074**	2,709	**6,783**	9,687
Allocation to cost of goods sold[2]	**(2,695)**	(2,661)	**(8,466)**	(9,264)
Administrative and selling	**10,609**	14,678	**32,611**	43,232
Restructuring costs	**805**	-	**2,582**	-
Operating expenses	**11,414**	14,678	**35,193**	43,232

[1] Other includes, but is not limited to, selling costs, travel and occupancy, gains and losses on assets, depreciation on corporate assets and donations.

[2] Allocation to cost of goods sold reflects costs that are attributable to the production of goods and are included in the cost of inventory.

In the first quarter of 2020, Clearwater initiated an organizational restructuring within land-based operations to improve global integration, accelerate innovation and quality improvements and achieve efficiencies within the supply chain. The restructuring plan was completed in the third quarter of 2020.

11. EARNINGS (LOSS) PER SHARE

The earnings and weighted average number of shares used in the calculation of basic and diluted earnings (loss) per share is as follows:

In thousands except number of shares and per share data		13 weeks ended October 3 2020		September 28 2019		39 weeks ended October 3 2020		September 28 2019
Earnings (loss) attributable to shareholders - diluted	$	**12,482**	$	7,804	$	**(11,431)**	**$**	24,092
Adjustments for share-based compensation		**(269)**		-		**-**		-
Earnings (loss) attributable to shareholders - diluted		**12,213**		7,804		**(11,431)**		24,092
Weighted average number of shares outstanding - basic		**65,148,148**		65,047,676		**65,141,588**		64,974,262
Adjustment for share-based compensation plan shares		**1,632,063**		-		**-**		19,873
Weighted average number of shares outstanding - diluted		**66,780,211**		65,047,676		**65,141,588**		64,994,135
Earnings (loss) per share								
Basic	**$**	**0.19**	$	0.12	**$**	**(0.18)**	$	0.37
Diluted	**$**	**0.18**	$	0.12	**$**	**(0.18)**	$	0.37

Diluted weighted average number of shares outstanding are adjusted for the dilutive effect of share-based compensation. For the 39 weeks ended October 3, 2020, 1,628,973 (2019 – nil) potentially dilutive shares were excluded from the calculation of dilutive (loss) earnings per share as they were anti-dilutive.

12. SEGMENT INFORMATION

Clearwater has one reportable segment which includes its integrated operations for harvesting, processing, marketing, and the distribution of seafood products.

(a) Sales by Species

		13 weeks ended October 3 2020		September 28 2019		39 weeks ended October 3 2020		September 28 2019
Scallops	**$**	**44,569**	$	45,028	**$**	**115,353**	$	123,781
Clams		**24,504**		32,592		**58,655**		86,414
Lobster		**14,843**		27,259		**37,744**		67,141
Coldwater shrimp		**10,299**		16,145		**34,640**		51,407
Crab		**18,198**		21,003		**29,070**		37,230
Langoustine		**8,716**		12,735		**20,211**		34,806
Whelk		**4,327**		7,221		**21,016**		22,721
Groundfish and other species		**8,260**		13,217		**23,336**		25,659
	$	**133,716**	$	175,200	**$**	**340,025**	$	449,159

(Tabular amounts are in thousands of Canadian dollars)

(b) Sales by Geographic Region of the Customer

	13 weeks ended October 3 2020	September 28 2019	39 weeks ended October 3 2020	September 28 2019
China	**$ 28,013**	$ 43,282	**$ 63,542**	$ 108,012
Japan	**12,214**	16,195	**38,177**	46,454
Other	**6,362**	10,537	**27,542**	32,702
Asia	**46,589**	70,014	**129,261**	187,168
Canada	**22,727**	28,640	**45,140**	61,934
United States	**16,662**	18,944	**47,452**	55,583
North America	**39,389**	47,584	**92,592**	117,517
France	**24,140**	23,114	**59,108**	57,622
UK	**6,605**	8,885	**16,493**	22,304
Scandinavia	**3,390**	6,864	**10,751**	18,408
Other	**13,603**	18,736	**31,814**	46,125
Europe	**47,738**	57,599	**118,166**	144,459
Other	**-**	3	**6**	15
	$ 133,716	$ 175,200	**$ 340,025**	$ 449,159

(c) Non-current Assets by Geographic Region

As at	October 3 2020	December 31 2019
Property, plant and equipment, licenses, fishing rights and goodwill		
Canada	**$ 286,281**	$ 291,813
Argentina	**10,745**	10,770
Scotland	**170,771**	171,891
Other	**858**	1,065
	$ 468,655	$ 475,539

13. CONTINGENT LIABILITIES

From time to time Clearwater is subject to claims and lawsuits arising in the ordinary course of operations. In the opinion of management, the ultimate resolution of such pending legal proceedings will not have a material effect on Clearwater's consolidated financial position.

(Tabular amounts are in thousands of Canadian dollars)

14. ADDITIONAL CASH FLOW INFORMATION

Changes in operating working capital	13 weeks ended October 3 2020	13 weeks ended September 28 2019	39 weeks ended October 3 2020	39 weeks ended September 28 2019
(Increase) decrease in inventory	$ **4,283**	4,829	$ **(10,999)**	(44,869)
(Increase) decrease in trade and other receivables	**3,115**	(10,609)	**17,582**	(16,780)
(Increase) decrease in prepaids and other	**2,864**	(646)	**415**	895
Increase (decrease) in trade and other payables	**11,941**	7,413	**(1,169)**	12,180
Increase (decrease) in income taxes payable	**(40)**	12	**57**	(1,239)
	$ **22,163**	$ 999	$ **5,886**	$ (49,813)

Changes in liabilities arising from financing activities	13 weeks ended October 3 2020	13 weeks ended September 28 2019	39 weeks ended October 3 2020	39 weeks ended September 28 2019
Current and long-term debt - beginning of period	$ **473,225**	$ 491,423	$ **440,261**	$ 463,417
Repayment of long-term debt	**(101)**	(13,350)	**(1,588)**	(14,869)
Repayment of lease liabilities	**(354)**	(378)	**(1,155)**	(1,082)
Net (repayment of) proceeds from revolving credit facility	**(29,979)**	(11,533)	**(9,955)**	23,317
Non-cash changes in long-term debt:				
Accretion on deferred obligation	**164**	301	**481**	918
Fair market value adjustment on earnout liability	**2**	41	**79**	173
Amortization of deferred financing costs	**416**	445	**1,259**	1,326
Foreign exchange (gain) loss on long-term debt	**(6,172)**	2,740	**7,752**	(11,440)
Additions to lease liabilities	**-**	458	**67**	1,294
Lease liability transition adjustment[1]	**-**	-	**-**	7,093
Current and long-term debt - end of period	$ **437,201**	$ 470,147	$ **437,201**	$ 470,147

[1]Upon transition to IFRS 16, the Company recognized a lease liability representing the present value of the remaining lease payments and reclassified finance leases previously classified in Other liabilities to Long-term debt.

15. SUBSEQUENT EVENTS

Deferred obligation

On October 31, 2020, the holders of the Earn Out Shares elected to be paid 20% of the Deferred Obligation. As a result, a final payment of £5.2 million (CDN - $8.9 million) will be paid in the fourth quarter of 2020.

Sale of lobster licence

On September 8, 2020, Clearwater entered into an agreement to sell two of Clearwater's eight offshore lobster licences for proceeds of $25.0 million. The transaction closed in November 2020 following regulatory approval.

New joint venture

On January 15, 2020, Clearwater entered into an agreement to form a new joint venture which will take over the operations of the St. Anthony Limited Partnership plant. The transaction closed in October 2020, following regulatory approval received in September 2020.