



2020 SECOND QUARTER REPORT



REMARKABLE SEAFOOD, RESPONSIBLE CHOICE

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LETTER TO SHAREHOLDERS

- Second quarter sales and adjusted EBITDA¹ were \$106.0 million and \$18.9 million respectively, versus \$153.9 million and \$30.3 million in the prior year, due to the global impact of COVID-19.
- Year-to-date sales and adjusted EBITDA¹ were \$206.3 million and \$32.0 million respectively versus \$274.0 million and \$50.3 million in the prior year.
- Gross margin and adjusted EBITDA as a percentage of sales were 17.4% and 17.9% respectively in the second quarter compared to 20.5% and 19.7% in 2019.
- Leverage¹ increased modestly to 5.3x compared to 5.2x in the second quarter of 2019.
- The Company is continuing with the formal process to identify, review and evaluate a broad range of potential strategic alternatives.

Second Quarter and Year-to-date Results

As the impact of COVID-19 expanded globally in the second quarter to impact all of our sales regions and the majority of our species, the measures that we began implementing in the first quarter have been successful. We remain operational in our fleet and all plants with the exception of one seasonal shrimp secondary processing operation which we chose not to open due to weak demand. The impact of COVID-19 has been complex for our customers, our supply chain partners and our company. Clearwater has implemented measures to protect employee health and safety, and to align harvesting and processing to customer demand. Our ability to remain in continuous operation at sea, on land and around the globe when combined with our strong customer relationships has enabled specific COVID-19 responses tailored to these markets. While we expect retail strength and food service softness to continue in the near term, our demand is recovering. We remain focused on expanding global distribution, new products and formats, and increased promotional activity in channels that are experiencing heightened demand including retail and e-commerce. We are also continuing to prepare for the recovery in global food service.

Sales for second quarter and year-to-date 2020 were \$106.0 million and \$206.3 million as compared to \$153.9 million and \$274.0 million in the same periods of 2019. Sales volumes decreased across most species and regions in the first half due to lower demand in food service. Traditional retail and on-line consumer demand are thriving in this difficult market, whereas food service customers and their supply chain have been seriously affected by social distancing measures.

Adjusted EBITDA for second quarter and year-to-date 2020 were \$18.9 million and \$32.0 million as compared to \$30.3 million and \$50.3 million in 2019. In the quarter, lower demand for clam, lobster, and langoustines and higher costs related to COVID-19 were partially offset by lower harvesting costs for scallops and clam, lower fuel costs, continuous improvement programs savings, refined procurement strategies and government support programs.

Average foreign exchange rates realized on sales had a net positive impact of \$2.2 million and \$2.9 million for the second quarter and first half of 2020, respectively, as compared to the same periods of 2019.

Cash used in operations was \$6.9 million in the second quarter of 2020 as compared to \$35.6 million for the same period of 2019. Free cash outflow was \$18.8 million as compared to \$48.0 million in the second quarter of 2019, due to lower investments in working capital partially offset by lower cash earnings and higher capital expenditures. Measures that Clearwater has implemented will ensure continued generation of cash to support ongoing operations and capital expenditures as well as selective strategic initiatives that will generate future growth.

Liquidity, Debt and Leverage

Rigorous and disciplined cash preservation measures were implemented during the first half of the year. These included accessing government support programs and operational adjustments to several species that significantly improved cash flows while having minimal impact on species profitability. The quality of receivables remains high reflecting the strength of our customer base which enabled us to leverage the COVID-19 support of our Credit Insurance partners.

Leverage for the second quarter of 2020 was 5.3x compared to 5.2x for the same period of 2019. Disciplined working capital management and strong 2019 results in the trailing twelve-month calculation, largely offset the impact of lower COVID-19 demand resulting in lower net debt at the second quarter of 2020 compared to 2019.

Clearwater has strong access to liquidity and funding. Discipline and focus on cashflows from operations, working capital and capital expenditures will maintain liquidity throughout seasonal operations.

Dividends

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.

Seasonality

Clearwater's business experiences a predictable seasonal pattern in which sales, margins and adjusted EBITDA 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 normally results in lower cash flows, higher debt balances and higher leverage in the first half of the year and higher cash flows, lower debt balances and lower leverage in the second half.

OUTLOOK

Clearwater was directly impacted by COVID-19 in the first half of 2020 as we and our global customer base faced the implications of the growing pandemic through food service closures, social distancing and other measures targeted at reducing spread. As a vertically integrated seafood company, the impact to Clearwater, its customers, supply chain partners, operational protocols and employees is complex.

Traditional retail and on-line consumer demand are thriving whereas food service customers and their supply chains are experiencing interruptions.

Demand improved in the latter part of the second quarter and is expected to improve further as governments relax measures and markets continue to reopen. We have responded by placing extra focus and attention on the expansion of global distribution, new products and formats and increasing promotional activity in channels that are experiencing heightened demand including retail and e-commerce. We are also continuing to prepare for the recovery in the global food service channels.

As a business, Clearwater is considered an essential service and continues to harvest, process, and deliver seafood to customers globally.

Clearwater has taken immediate action in response to COVID-19 to ensure employee safety and security and business continuity including:

- Health screening protocols;
- Securing personal protective equipment for employees throughout our global supply chain;
- Implementing social distancing and enhanced cleaning protocols in our processing plants and on harvesting vessels;
- Supporting our essential workers with thank-you pay and adapting travel to and from harvest ports to maintain labour mobility; and
- Successfully transitioning approximately 98% of our office, sales and administrative staff to working remotely and in continued close coordination across three continents and 17 time zones.

Clearwater has strong access to liquidity and funding. Discipline and focus on cashflows from operations, working capital and capital expenditures preserved cash flow in the second quarter and will maintain liquidity for seasonal operations. Leverage is expected to increase in the near term as a direct impact of COVID-19.

While the short-term impact of COVID-19 has introduced additional forward-looking uncertainty, as a vertically integrated seafood company, with proprietary licences, advanced and year-round harvesting and processing capabilities, premium product quality, diversity of species, global sales and distribution footprint and an experienced, dedicated workforce, Clearwater is well-positioned to take advantage of future growth opportunities as global seafood demand recovers.

Clearwater's core strategies are built around these strengths, remain highly relevant and our long-term growth outlook beyond 2020 remains very positive.

Core Strategies

Expanding Access to Supply - Expanding access to supply of core species and other complementary, high demand, premium, wild and sustainably-harvested seafood through improved utilization and productivity of core licences as well as acquisitions, partnerships, joint ventures and commercial agreements.

Target Profitable and Growing Markets, Channels and Customers - Clearwater targets growing markets, consumers, channels, and customers on the basis of size, profitability and demand for eco-label seafood. Our focus is to win in key channels and with customers that are winning with consumers.

Innovate and Position Products to Deliver Superior Customer Satisfaction and Value - We continue to work with customers on new products and formats as we innovate and position our premium seafood to deliver superior satisfaction and value that is differentiated by relevant dimensions such as taste, quality, safety, sustainability, wellness, convenience and fair labour practices.

Increase Margins by Improving Price Realization and Cost Management - Clearwater leverages the scarcity of seafood supply and increasing global demand, in addition to continuing to invest in, innovate and adopt state-of-the-art technology, systems and processes.

Pursue and Preserve the Long-Term Sustainability of Resources on Land and Sea - As a leading global supplier of wild-harvested seafood, sustainability remains at the core of our business and our mission. Investing in the long-term health and the responsible harvesting of the oceans and its bounty is every harvester's responsibility and the only proven way to ensure access to a reliable, stable, renewable, and long-term supply of seafood. Sustainability is not just good business, like innovation it's in our DNA.

Build Organizational Capability, Capacity and Engagement - We attract, train, and retain the best talent to build business system and process excellence company-wide.

Ian Smith
Chief Executive Officer
Clearwater Seafoods Incorporated
August 11, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective August 11, 2020.

The Audit Committee and the Board of Directors of Clearwater Seafoods Incorporated ("Clearwater", or "the Company") have reviewed and approved the contents of this MD&A, the interim consolidated Financial Statements and the 2020 second quarter news release.

This MD&A should be read in conjunction with the 2020 second quarter interim consolidated Financial Statements, the 2019 annual consolidated Financial Statements, the 2019 annual MD&A and the 2019 Annual Information Form, which are available on SEDAR at www.sedar.com as well as Clearwater's website, www.clearwater.ca.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This report contains "forward-looking information" as defined under applicable Canadian securities legislation, including but not limited to, statements regarding future plans and objectives of Clearwater. Forward-looking information typically, but not always, contains statements with words such as "anticipate", "does not anticipate", "believe", "estimate", "forecast", "intend", "expect", "does not expect", "may", "will", "should", "plan", or other similar terms that are predictive in nature.

Forward-looking information is based on a number of factors and assumptions which have been used to develop such information, but which may prove to be incorrect due to various known and unknown risks, uncertainties, and other factors outside of managements' control. Examples may include, but are not limited to, total allowable catch levels, resource supply, selling prices, weather, exchange rates, fuel and other input costs as well as impacts of the COVID-19 pandemic and the resulting economic downturn.

For additional information with respect to risk factors applicable to Clearwater, reference should be made to those factors discussed under the heading "Risks and Uncertainties" in this management discussion and analysis and Clearwater's continuous disclosure materials filed from time to time with securities regulators, including, but not limited to, Clearwater's Annual Information Form.

The forward-looking information contained in this report is made as of the date of this release and Clearwater does not undertake to update publicly or revise the forward-looking information contained in this report, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

No regulatory authority has approved or disapproved the adequacy or accuracy of this report.

NON-IFRS MEASURES

This MD&A makes reference to non-IFRS measures to supplement the analysis of Clearwater's results. These measures are provided to enhance the reader's understanding of our current financial performance. They are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and to provide a consistent basis for comparison between periods. These non-IFRS measures are not recognized measures under IFRS, and therefore they may not be comparable to similar measures presented by other companies.

Management believes that in addition to sales, net earnings and cash provided by operating activities, these non-IFRS measures are useful terms from which to determine Clearwater's ability to generate cash for investment in working capital, capital expenditures, debt service, income tax and dividends.

These non-IFRS measures include adjusted EBITDA, adjusted earnings, free cash flows, leverage, and return on assets.

Refer to non-IFRS measures, definitions and reconciliations for further information.

CLEARWATER OVERVIEW

Clearwater is North America's largest vertically integrated harvester, processor and distributor of premium seafood. Clearwater is a **leading global provider of wild-caught shellfish** with harvesting operations in Canada, Argentina and the UK. Clearwater is recognized for its consistent high quality, wide diversity, and reliable delivery of premium, wild, sustainable seafood, including scallops, lobster, clams, coldwater shrimp, langoustine, whelk, crab and groundfish with approximately 99 million pounds sold in 2019.

Global demand for premium wild-caught seafood among aging boomers and a rising middle class in the Asia-Pacific region is outpacing resource supply creating **powerful industry fundamentals**. This, in combination with conservatively managing fisheries to protect the long-term health of the industry, is creating new opportunities from the rising demand for high-quality sustainable seafood.

Clearwater's **vertical integration, significant shellfish quota and licence holdings and global sales force combine to make Clearwater an industry leader in shellfish with sustainable competitive advantages**.

Clearwater maintains the widest selection of Marine Stewardship Council ("MSC")-certified species of any shellfish harvester worldwide. Regulatory authorities strictly control access to quota and rarely grant new licences.

Clearwater continues to maintain competitive advantage through investment in research and development, technology and intellectual property that has resulted in state-of-the-art factory vessels with harvesting and processing capabilities that enable high productivity and frozen-at-sea products that deliver superior taste and quality.

Clearwater maintains a global, direct sales force that interacts and sells directly to diverse markets worldwide. Our channel mix in retail, food service, and other food industries ensures a diverse community of customers and we had no single customer representing more than 7% of total annual sales in 2019.

Clearwater's **proven and experienced leadership team** continues to build upon its world class capabilities in quality assurance and control, food safety, operations, new product development and leadership. Through its deep industry knowledge and talent, our team will continue to deliver on our operational and financial growth opportunities.

Impact of COVID-19

Clearwater was directly impacted by COVID-19 in the first half of 2020 as we and our global customer base faced the implications of the growing pandemic through food service closures, social distancing and other measures targeted at reducing spread. As a vertically integrated seafood company, the impact to Clearwater, its customers, supply chain partners, operational protocols and employees is complex.

Traditional retail and on-line consumer demand are benefiting whereas food service customers and their supply chains are experiencing interruptions.

Demand improved in the latter part of the second quarter and is expected to improve further as governments relax measures and markets continue to reopen. We have responded by placing extra focus and attention on the expansion of global distribution, new products and formats and increasing promotional activity in channels that are experiencing heightened demand including retail and e-commerce. We are also continuing to prepare for the recovery in the global food service channels.

As a business, Clearwater is considered an essential service in food production and continues to deliver seafood to customers globally while keeping our employees safe.

Accordingly, we took immediate action in response to COVID-19 to ensure employee safety and security and business continuity including:

- Health screening protocols;
- Securing personal protective equipment for employees throughout our global supply chain;
- Implementing social distancing and enhanced cleaning protocols in our processing plants and on harvesting vessels;
- Supporting our essential workers with thank-you pay and adapting travel to and from harvest ports to maintain labour mobility;
- Promoting employee wellbeing with flexibility in work arrangements, enhanced communications and employee supports such as our employee assistance program; and
- Successfully transitioning approximately 98% of our office, sales and administrative staff to working remotely and in continued close coordination across three continents and 17 time zones.

Our modified approach to work enables us to adapt to changing protective measures across multiple jurisdictions. While the short-term impact of COVID-19 has introduced additional forward-looking uncertainty, Clearwater's purpose, core strategy and strategic plan remain unchanged.

2020 Strategic Update and Capability to Deliver Results

Clearwater's mission is to build the world's most extraordinary, wild seafood company, dedicated to sustainable seafood excellence. We continue to execute against our six core business strategies delivering on our customer and consumer brand promise of "Remarkable Seafood, Responsible Choice."

Refer to the annual MD&A for a comprehensive discussion of Clearwater's Strategies and Capability to Deliver Results.

Second quarter updates on activities impacting our strategic pillars and our capability to deliver results:

Strategies

1. **Expanding access to supply** – Clearwater expands access to supply of core species and other complementary, high demand, premium, wild and sustainably-harvested seafood through improved utilization and productivity of core licences as well as utilizing acquisitions, partnerships, joint ventures, supplier relationships, and long-term supply agreements.
2. **Target profitable & growing markets, channels & customers** – In the first half of 2020, global demand for seafood, primarily in food service, experienced a decline in many of Clearwater's major markets as a result of COVID-19. Clearwater has expanded distribution through retail channels, introduced new products, increased promotional activity and continues to focus on expanding distribution for clam, langoustine, crab and whelk.
3. **Innovate and position products to deliver superior customer satisfaction and value** – As consumer purchase behavior has shifted in regions impacted by COVID-19, Clearwater and our distributor partners have deployed more retail and on-line delivery friendly packaging in both chilled and frozen seafood formats for several species.

4. **Increase margins by improving price realization and cost management** – Clearwater made timely and prudent adjustments to our business to respond to changes in demand including changes in harvest plans, product types and production schedules. Margins will continue to benefit from a revitalized fleet, resulting in lower costs and higher value for certain harvested species. Improvements in procurement strategies and continuous improvement programs will manage costs. Clearwater also expects to benefit from strong catch rates and lower fuel costs for the remainder of 2020.
5. **Pursue and preserve the long-term sustainability of resources on land and sea** – As a leading global supplier of wild-harvested seafood, sustainability remains at the core of our business and our mission. Clearwater's company-wide sustainability framework and participation in industry initiatives to advance science and sustainable management of fisheries were not impacted by COVID-19.
6. **Build organizational capability, capacity & engagement** – From ocean-to plate, Clearwater has an employee presence in eleven countries around the world, providing global access to markets and distribution channels. Clearwater has taken immediate action in response to COVID-19 to ensure employee safety and security and business continuity.

Capability to Deliver Results

Food and fisheries sectors are deemed essential services during COVID-19 and therefore Clearwater has taken the appropriate measures to minimize the impact on our operations to ensure we can continue to deliver seafood to our customers globally. Existing capabilities supporting these measures include:

1. **Access to supply** – Clearwater has, with our First Nations partners, maintained access to the full Arctic Surf Clam quota for 2020. Access to our key fisheries remains unaffected by COVID-19.
2. **Harvesting capability** – Our vessel fleet includes traditional and state-of-the-art factory vessels operating in Canada, the United Kingdom and Argentina. In response to COVID-19, health screening and enhanced cleaning protocols were implemented to ensure the safety of employees and the continuation of harvesting operations.
3. **Liquidity and capital resources** – At the end of the second quarter of 2020, the Company's cash balance was \$20.7 million, with access to an additional \$111.5 million through an undrawn, committed revolving credit facility.

During the second quarter, Clearwater repaid \$1.4 million of long-term debt and \$17.3 million of the Company's revolving credit facility. Disciplined working capital management in the quarter resulted in a \$40.5 million improvement in working capital investment as compared to the second quarter of 2019.

The Company has no immediate debt or bond maturities of a material nature. Approximately 96% of Clearwater's long-term debt matures in 2024 or thereafter.

Clearwater has strong access to liquidity and funding. Discipline and focus on cash flows from operations, working capital and capital expenditures will maintain liquidity for seasonal operations.

EXPLANATION OF FINANCIAL RESULTS

Clearwater uses Key Performance Indicators (“KPIs”) and Financial Measures to assess progress against our six core strategies.

Key performance indicators and financial measures

In 000's of Canadian dollars	13 weeks ended		26 weeks ended	
	July 4 2020	June 29 2019	July 4 2020	June 29 2019
Profitability				
Sales	\$ 105,968	\$ 153,874	\$ 206,309	\$ 273,957
Sales growth (decline)	(31.1%)	3.9%	(24.7%)	2.1%
Gross margin	\$ 18,398	\$ 31,587	\$ 34,542	\$ 53,138
Gross margin (as a % of sales)	17.4%	20.5%	16.7%	19.4%
Adjusted EBITDA ^{1,2}	\$ 18,923	\$ 30,250	\$ 31,971	\$ 50,283
Adjusted EBITDA ^{1,2} (as a % of sales)	17.9%	19.7%	15.5%	18.4%
Adjusted EBITDA attributable to shareholders ^{1,2}	\$ 15,903	\$ 26,254	\$ 26,218	\$ 42,549
Adjusted EBITDA attributable to shareholders ^{1,2} (as a % of sales)	15.0%	17.1%	12.7%	15.5%
Earnings (loss) attributable to shareholders	\$ 10,555	\$ 8,011	\$ (23,914)	\$ 16,289
Basic earnings (loss) per share	\$ 0.16	\$ 0.12	\$ (0.37)	\$ 0.25
Diluted earnings (loss) per share	\$ 0.16	\$ 0.12	\$ (0.37)	\$ 0.25
Adjusted earnings (loss) attributable to shareholders ^{1,2}	\$ (1,057)	\$ 6,089	\$ (7,383)	\$ 5,055
Adjusted earnings (loss) per share	\$ (0.02)	\$ 0.09	\$ (0.11)	\$ 0.08
Cash Flows and Leverage				
Cash from (used in) operating activities	\$ (6,937)	\$ (35,632)	\$ (2,894)	\$ (23,318)
Cash from (used in) financing activities	(19,180)	26,640	9,818	20,777
Cash from (used in) investing activities	(9,317)	(7,473)	(19,361)	(13,435)
Free cash flows ¹	\$ (18,832)	\$ (48,019)	\$ (28,672)	\$ (43,402)
Leverage ^{1,3}	5.3x	5.2x	5.3x	5.2x
Returns				
Return on assets ^{1,4}	7.7%	8.0%	7.7%	8.0%
Total assets	714,296	750,037	714,296	750,037

¹ Refer to discussion on non-IFRS measures, definitions and reconciliations within the Management Discussion and Analysis.

² Adjusted earnings before interest, tax, depreciation and amortization.

³ Leverage is calculated as twelve month rolling adjusted EBITDA attributable to shareholders to net debt and differs from the calculation of leverage for covenant purposes.

⁴ Return on assets is calculated as twelve months rolling adjusted earnings before interest and taxes to total average quarterly assets.

Second quarter key highlights

The following are key highlights and developments based on Clearwater's KPIs and Financial Measures for the second quarter of 2020.

Profitability

Second quarter sales decreased \$47.9 million or 31.1% and adjusted EBITDA decreased \$11.3 million as compared to the prior year.

- Adjusted EBITDA as a percentage of sales decreased 180 basis points from 19.7% to 17.9% in the second quarter of 2020 reflecting the continued impact of COVID-19 on product demand, across multiple species.
- The key species affected were clam, lobster and langoustines. Reduced volumes for FAS shrimp was due to the timing of scheduled planned vessel maintenance in 2020.
- Lower demand was partially offset by the availability of smaller sized scallops, primarily used for ready-to-eat meals and timing of turbot landings.
- Margins benefited from cost containment activities, realignment of harvest, procurement, and production plans to satisfy customer needs and government support programs.
- Additional expense associated with COVID-19 of approximately \$5.8 million in the first half of 2020, were offset by a reduction of discretionary costs in operating expenses and government employment support programs of \$5.1 million. Government employee support programs have helped to keep our employees working or available to return to work as demand recovers.
- Earnings attributable to shareholders increased \$2.5 million in the second quarter of 2020 versus 2019, as higher gains on derivative financial instruments of \$7.2 million and lower operating costs offset lower gross margin.
- Adjusted earnings attributable to shareholders¹ decreased \$7.1 million in the second quarter as compared to 2019, primarily the result of lower gross margin, partially offset by lower operating expenses.

Cash flows and leverage

Leverage increased modestly to 5.3x as compared to 5.2x in the second quarter of 2019. Cash used in operations decreased \$28.7 million in the second quarter as compared to the same period of 2019.

- Leverage increased marginally, despite the reduction in demand as a result of COVID-19 in the first half of 2020. The decrease in adjusted EBITDA attributable to shareholders of \$16.3 million was partially offset by a reduction in net debt of \$30.0 million, primarily driven by disciplined working capital management.
- Free cashflow increased \$29.2 million in the second quarter of 2020 versus the prior year primarily due to lower investment in working capital, driven by inventory management strategies, partially offset by lower cash earnings, and higher capital expenditures that were in line with expectations.
- In the first half of 2020, Clearwater successfully closed an amendment to the financial covenants of its senior secured credit facility and extended the maturity of its revolving debt to 2024.

Returns

Return on assets¹ decreased to 7.7% for the second quarter of 2020 as compared to 8.0% in the prior year primarily due to lower annualized EBIT, partially offset by lower average inventory. Higher EBIT in 2019 was due to strong harvesting conditions for most species and favorable sales mix.

Developments

COVID-19 Pandemic

The novel coronavirus known as COVID-19 surfaced in late 2019 and has since been declared a global pandemic. Efforts to contain the outbreak have significantly changed our daily lives and disrupted the global economy. *Refer to Risks and Uncertainties* for further information related to Clearwater's operations.

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 St. Anthony Seafoods Limited Partnership plant. Closing of the transaction is subject to regulatory approval and customary conditions. Timelines have been impacted by delayed regulatory processes related to COVID-19.

EXPLANATION OF CHANGES IN EARNINGS

Overview

The condensed interim consolidated statement of earnings (loss) reflects the results of Clearwater for the 13 and 26 weeks ended July 4, 2020 and June 29, 2019. For supplemental non-IFRS measures, refer to discussion the non-IFRS measures, definitions and reconciliations section of this interim MD&A. Detailed discussion on the components of consolidated earnings (loss) follows.

In 000's of Canadian dollars	13 weeks ended			26 weeks ended		
	July 4 2020	June 29 2019	Change	July 4 2020	June 29 2019	Change
Sales	\$ 105,968	\$ 153,874	\$ (47,906)	\$ 206,309	\$ 273,957	\$ (67,648)
Cost of goods sold	87,570	122,287	(34,717)	171,767	220,819	(49,052)
Gross margin	18,398	31,587	(13,189)	34,542	53,138	(18,596)
Gross margin as a % of sales	17.4%	20.5%	(3.2%)	16.7%	19.4%	(2.7%)
Operating expenses						
Administrative and selling	9,879	15,045	5,166	22,002	28,553	6,551
Restructuring costs	-	-	-	1,776	-	(1,776)
Net finance costs	7,908	8,146	238	14,820	15,957	1,137
(Gains) losses on derivative financial instruments	(7,531)	(316)	7,215	12,065	(9,551)	(21,616)
Foreign exchange (gains) losses on long-term debt and working capital	(1,441)	(1,785)	(344)	3,101	(1,914)	(5,015)
Other (income) expense	(2,658)	(1,548)	1,110	(3,032)	(2,173)	859
Research and development	212	202	(10)	663	275	(388)
	6,369	19,744	13,375	51,395	31,147	(20,248)
Earnings (loss) before income taxes	12,029	11,843	186	(16,853)	21,991	(38,844)
Income tax expense (recovery)	(751)	504	1,255	1,900	(132)	(2,032)
Earnings (loss)	\$ 12,780	\$ 11,339	\$ 1,441	\$ (18,753)	\$ 22,123	\$ (40,876)
Earnings (loss) attributable to:						
Non-controlling interest	\$ 2,225	\$ 3,328	\$ (1,103)	\$ 5,161	\$ 5,834	\$ (673)
Shareholders of Clearwater	10,555	8,011	2,544	(23,914)	16,289	(40,203)
	\$ 12,780	\$ 11,339	\$ 1,441	\$ (18,753)	\$ 22,123	\$ (40,876)
Adjusted EBITDA attributed to:						
Non-controlling interest	\$ 3,020	\$ 3,996	\$ (976)	\$ 5,753	\$ 7,734	\$ (1,981)
Shareholders of Clearwater	15,903	26,254	(10,351)	26,218	42,549	(16,331)
Adjusted EBITDA ¹	\$ 18,923	\$ 30,250	\$ (11,327)	\$ 31,971	\$ 50,283	\$ (18,312)

Sales by species

In 000's of Canadian	13 weeks ended			26 weeks ended		
	July 4 2020	June 29 2019	Change	July 4 2020	June 29 2019	Change
Scallops	\$ 38,369	\$ 42,053	\$ (3,684)	\$ 70,784	\$ 78,753	\$ (7,969)
Clams	15,199	29,215	(14,016)	34,150	53,823	(19,673)
Lobster	9,720	20,702	(10,982)	22,900	39,884	(16,984)
Coldwater shrimp	6,568	13,904	(7,336)	24,341	35,263	(10,922)
Crab	9,549	14,311	(4,762)	10,872	16,227	(5,355)
Langoustine	3,930	11,653	(7,723)	11,495	22,072	(10,577)
Whelk	10,886	11,016	(130)	16,690	15,500	1,190
Groundfish and other species	11,747	11,020	727	15,077	12,435	2,642
	\$ 105,968	\$ 153,874	\$ (47,906)	\$ 206,309	\$ 273,957	\$ (67,648)

Sales by region

In 000's of Canadian	13 weeks ended			26 weeks ended		
	July 4 2020	June 29 2019	Change	July 4 2020	June 29 2019	Change
Europe	\$ 30,378	\$ 44,987	\$ (14,609)	\$ 70,429	\$ 86,857	\$ (16,428)
China	18,232	32,552	(14,320)	35,529	64,730	(29,201)
Japan	12,340	16,029	(3,689)	25,963	30,259	(4,296)
Other Asia	13,146	15,369	(2,223)	21,180	22,165	(985)
Asia	43,718	63,950	(20,232)	82,672	117,154	(34,482)
United States	15,910	19,350	(3,440)	30,790	36,639	(5,849)
Canada	15,960	25,580	(9,620)	22,412	33,294	(10,882)
North America	31,870	44,930	(13,060)	53,202	69,933	(16,731)
Other	2	7	(5)	6	13	(7)
	\$ 105,968	\$ 153,874	\$ (47,906)	\$ 206,309	\$ 273,957	\$ (67,648)

Clearwater reported sales for the second quarter of 2020 of \$106.0 million versus 2019 comparatives of \$153.9 million. Sales for the first half of 2020 were \$206.3 million versus 2019 comparatives of \$274.0 million.

Sales volumes decreased across most species and regions in the first half of 2020 due to lower demand in food service resulting from COVID-19. The species most impacted were clam, lobster, and langoustines. Species with higher retail sales were less impacted. Lower demand in food service was partially offset by strong catch rates. Certain species, including turbot and whelk were not significantly impacted.

Average foreign exchange rates realized on sales for the second quarter and first half of 2020 had a net positive impact to sales of \$2.2 million and \$2.9 million, respectively, as compared to the same periods in the prior year.

Scallops

- Demand for several scallop species weakened early in the quarter, as social distancing protocols implemented in key markets reduced sales in the food service segment.
- Later in the quarter, sales were weighted toward retail channels, as consumers turned to this segment to fulfill their needs.
- Strong demand and availability of supply for smaller sized scallops, primarily distributed through retail channels, increased sales volumes in the second quarter of 2020 as compared to 2019

Clams

- Clams sales volumes were lower in the second quarter and first half of 2020 due to reduced demand in the food service segment and unfavourable sales mix as compared to the same periods of 2019.
- Clam volumes started to recover at the end of the second quarter as economies began to open in certain regions.
- E-commerce sales increased in response to the shift in consumer behaviour.

Lobster

- Market demand for lobster declined, especially for processed product that is sold exclusively in the food service segment.
- Selling prices have been impacted by reduced demand and lower raw material costs.

Coldwater shrimp

- Coldwater shrimp sales decreased in the first half of 2020 as compared to the same period in 2019 due to planned maintenance on one shrimp vessel.
- An increase in global supply impacted pricing for certain sizes and formats in late 2019 which has continued into 2020.
- Demand has been steady for this product.

Crab

- Crab sales declined in the second quarter and first half of 2020 as compared to the same periods in 2019 primarily due to a shift in the opening of the harvesting season.
- Demand was strong for certain product types and market prices improved during the quarter.

Langoustine

- Langoustine sales volumes decreased in the second quarter and first half of 2020 as compared to the same period in 2019 due to market conditions in the European and UK food service segment.
- Selling prices were impacted by lower market demand.

Whelk

- Sales increased in the first half of 2020 as compared to the same period of 2019 due to increased availability of supply and strong demand, as major markets for whelk recovered earlier.

Groundfish and other species

- Sales increased in the second quarter and first half of 2020 as compared to the same periods of 2019 due to timing of turbot landings.

Europe

Clearwater's largest scallop market and a key market for coldwater shrimp, langoustines, crab and lobster products.

Sales for second quarter and year-to-date 2020 decreased \$14.6 million and \$16.4 million, respectively, as compared to the same periods of 2019.

The decline in sales was primarily due to the reduced demand for langoustines and certain sized scallops and product types and the availability of coldwater shrimp due to the planned maintenance on a FAS shrimp vessel in the second quarter of 2020. This was partially offset by strong demand for smaller sized scallops that are distributed in the retail segment as they are often consumed in ready-to-eat meals.

The Euro, USD and GBP strengthened against the Canadian dollar in the second quarter and year-to-date 2020 resulting in a net positive impact of \$0.5 million and \$0.1 million, respectively, as compared to the same periods in 2019.

China

Key market for clams, coldwater shrimp, lobster, crab and turbot.

Sales for second quarter and year-to-date 2020 decreased \$14.3 million and \$29.2 million, respectively, as compared to the same periods of 2019.

Market demand for multiple species, including clam and lobster was negatively impacted by lower demand in food service due to COVID-19. Volumes also decreased due to lower landings of FAS shrimp due to planned vessel maintenance and availability of supply of crab.

Sales in China are almost exclusively transacted in US dollars. Second quarter and year-to-date sales for 2020 were positively impacted by \$0.6 million and \$1.0 million, respectively, as compared to the same periods of the prior year.

Japan

Primary species are clams, lobster, coldwater shrimp and turbot.

Sales for second quarter and year-to-date 2020 decreased \$3.7 million and \$4.3 million, respectively, as compared to the same periods in 2019.

Sales decreased as a result of changes in production resulting in lower availability of lobster formats generally sold in this market and the timing of landings for FAS shrimp. This was partially offset by the timing of landings for turbot and favorable sales mix for clam.

Sales in Japan are typically transacted in yen. The yen continued to strengthen in second quarter and year-to-date 2020 as compared to the prior year resulting in a net positive impact of \$0.4 million and \$0.8 million respectively.

Other Asia

Region includes Korea, Australia, Taiwan, Singapore, Malaysia, Vietnam and other Asian countries. Whelk, clams, sea scallops and lobster are key products for these markets.

Sales for second quarter and year-to-date 2020 decreased \$2.2 million and \$0.1 million, respectively, as compared to the same periods in 2019 primarily due to a regional shift in sales for turbot, partially offset by an increase in available supply and timing of whelk sales in the first half of 2020.

United States

Primary species are scallops, lobster and clams.

Sales for second quarter and year-to-date 2020 decreased \$3.4 million and \$5.8 million, respectively, as compared to the same periods in 2019.

Market demand declined for certain species, including lobster and clam and was partially offset by offset by higher sales volumes for premium sized scallops early in the year. Lobster is primarily consumed in the food service segment and was negatively impacted by reduced demand as a result of COVID-19. Sales of scallops were more heavily weighted to the retail channel.

Sales for second quarter and year-to-date 2020 were positively impacted \$0.5 million and \$0.6 million, respectively, by average foreign exchange rates as compared to the same periods in the prior year.

Canada

Primary species are lobster, scallops, snow crab, clams and coldwater shrimp.

Sales for second quarter and year-to-date 2020 decreased \$9.6 million and \$10.9 million, respectively, as compared to the same periods in 2019.

Decrease in sales is primarily due to lower market demand for scallop, crab and clam in the food service segment and unfavorable mix in clams.

Average foreign exchange rates realized on sales

For second quarter and year-to-date 2020, foreign exchange rates were favourable across Clearwater's primary foreign currencies as compared to the same period of 2019, positively impacting sales by \$2.2 million and \$2.9 million, respectively.

			13 weeks ended						26 weeks ended	
			June 29						June 29	
			2019						2019	
			Average						Average	
			rate						rate	
Currency	% sales	July 4 2020 Average rate realized ¹	% sales	realized ¹	% sales	July 4 2020 Average rate realized ¹	% sales	realized ¹	% sales	realized ¹
US dollars	49.2%	1.372	48.6%	1.335	44.0%	1.366	46.2%	1.333		
Euros	22.6%	1.528	18.8%	1.500	22.9%	1.510	21.1%	1.503		
Canadian dollar and other	9.0%		12.7%		9.3%		11.3%			
UK pounds	13.6%	1.713	11.8%	1.707	12.9%	1.715	10.9%	1.717		
Japanese yen	5.5%	0.013	5.1%	0.012	8.2%	0.013	7.2%	0.012		
Danish kroner	0.1%	0.203	3.0%	0.201	2.7%	0.197	3.3%	0.202		
	100.0%		100.0%		100.0%		100.0%			

¹ Refer to discussion on risks and uncertainties.

Cost of goods sold

Cost of goods sold includes harvesting and procurement costs, manufacturing costs, depreciation, transportation and administration.

Cost of goods sold decreased \$34.7 million and \$49.1 million in the second quarter and year-to-date 2020 as compared to the same periods of 2019. As a percentage of sales, cost of goods sold increased 320 basis points in the second quarter and 270 basis points year-to-date as compared to the same periods of 2019.

Favourable input costs and strong harvest conditions were offset by demand related inventory adjustments and lower overhead absorption.

Harvesting and procurement include all costs incurred in the operation of the vessels including labour, fuel, repairs and maintenance, fishing gear, supplies, other costs and fees plus procured raw material costs for lobster, shrimp, scallops, crab, langoustine and whelk.

Gross margin

Gross margin was \$18.4 million and \$34.5 million for second quarter and year-to-date 2020, respectively, as compared to \$31.6 million and \$53.1 million in the same periods of 2019. Gross margin as a percentage of sales was 17.4% and 16.7% for the second quarter and first half of 2020, respectively, as compared to 20.5% and 19.4% in the prior year.

Gross margin decreased primarily due to lower demand for clam, scallop and langoustines as the food service segment in many of Clearwater's global markets were impacted by social distancing protocols. Availability of supply of FAS shrimp due to planned vessel maintenance impacted volumes in the quarter and first half of 2020. This was partially offset by lower harvesting costs for clam and strong catch rates for certain size scallops.

Margins include the cost of preventative measures implemented to ensure the safety of our employees, benefits from government support programs, the write-down in value of inventory intended for channels impacted by COVID-19 and lower overhead absorption due to adjustments to annual harvest and processing plans to accommodate the reduction in demand.

Average foreign exchange rates realized on sales had a net positive impact to gross margin of \$2.2 million and \$2.9 million for the second quarter and first half of 2020, respectively, as compared to the same periods of 2019.

Operating expenses

	13 weeks ended			26 weeks ended		
	July 4 2020	June 29 2019	Change	July 4 2020	June 29 2019	Change
In 000's of Canadian dollars						
Salaries and benefits	\$ 6,673	\$ 10,849	\$ 4,176	\$ 15,975	\$ 21,090	\$ 5,115
Share-based compensation	1,202	765	(437)	1,216	890	(326)
Employee compensation	7,875	11,614	3,739	17,191	21,980	4,789
Consulting and professional fees	2,787	2,797	10	5,874	6,199	325
Other ¹	1,857	3,744	1,887	4,708	6,975	2,267
Allocation to cost of goods sold ²	(2,640)	(3,110)	(470)	(5,771)	(6,603)	(832)
Administrative and selling	\$ 9,879	\$ 15,045	\$ 5,166	\$ 22,002	\$ 28,551	\$ 6,549
Restructuring costs	-	-	-	1,776	-	(1,776)
Operating expenses	\$ 9,879	\$ 15,045	\$ 5,166	\$ 23,778	\$ 28,551	\$ 4,773

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.

Operating expenses decreased \$5.2 million and \$4.8 million in the second quarter and year-to-date 2020, respectively, as compared to the same periods in 2019 due to active management of discretionary spend and employee compensation and supplemental government support. These savings were partially offset by non-recurring restructuring costs in the first half of 2020.

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

Net finance costs

In 000's of Canadian dollars	13 weeks ended			26 weeks ended		
	July 4 2020	June 29 2019	Change	July 4 2020	June 29 2019	Change
Interest and bank charges	\$ 7,335	\$ 7,395	\$ 60	\$ 13,659	\$ 14,459	\$ 800
Amortization of deferred financing charges	414	445	31	843	881	38
	7,749	7,840	91	14,502	15,340	838
Accretion on deferred consideration	159	306	147	318	617	299
	159	306	147	318	617	299
	\$ 7,908	\$ 8,146	\$ 238	\$ 14,820	\$ 15,957	\$ 1,137

Net finance costs decreased \$0.2 million and \$1.1 million in the second quarter and year-to-date 2020, respectively, as compared to the same periods in 2019. Interest and bank charges decreased \$0.8 million due to higher average revolving debt balances, partially offset by strengthening USD relative to the CDN dollar impacting interest on the USD senior unsecured notes.

(Gains) losses on derivative financial instruments

In 000's of Canadian dollars	13 weeks ended			26 weeks ended		
	July 4 2020	June 29 2019	Change	July 4 2020	June 29 2019	Change
Realized (gain) loss						
Forward foreign exchange contracts	\$ 2,949	\$ 237	\$ (2,712)	\$ 2,437	\$ (390)	\$ (2,827)
Changes in unrealized gains & losses						
Forward foreign exchange contracts	(10,480)	(553)	9,927	9,628	(9,161)	(18,789)
	\$ (7,531)	\$ (316)	\$ 7,215	\$ 12,065	\$ (9,551)	\$ (21,616)

Clearwater is primarily an export company with more than 90% of our sales denominated in foreign currencies. As part of our risk management strategy, we enter into short-term forward contracts to provide greater certainty regarding exchange rates and cash flows for a period of time. We recognize any realized gains and losses on these instruments as they mature and are settled.

Clearwater recognizes unrealized non-cash gains and losses on these instruments resulting from the change in fair value. Clearwater estimates the fair value of the derivative financial instruments based on forward prices and converts them to Canadian dollars at each balance sheet date. The unrealized non-cash gains or losses are excluded when calculating adjusted EBITDA and adjusted earnings attributable to shareholders of Clearwater (*Refer to Non-IFRS measures, definitions and reconciliations*).

Realized gains and losses on forward foreign exchange contracts are dependent on the average contracted rates relative to the foreign exchange rate on the settlement date.

Unrealized gains and losses on forward foreign exchange contracts are dependent on the average contracted rates as compared to forward rates based on maturity. Refer to *Foreign Exchange Management* for information regarding Clearwater's economic hedging program.

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

In 000's of Canadian dollars	13 weeks ended			26 weeks ended		
	July 4 2020	June 29 2019	Change	July 4 2020	June 29 2019	Change
Realized (gain) loss						
Long-term debt and working capital	\$ 1,126	\$ 534	\$ (592)	\$ 357	\$ 1,217	\$ 860
Changes in unrealized (gains) losses						
Long-term debt and working capital	(13,994)	(4,151)	9,843	13,641	(10,141)	(23,782)
Forward exchange contracts related to long-term debt	11,427	1,832	(9,595)	(10,897)	7,010	17,907
	(2,567)	(2,319)	248	2,744	(3,131)	(5,875)
	\$ (1,441)	\$ (1,785)	\$ (344)	\$ 3,101	\$ (1,914)	\$ (5,015)

Realized foreign exchange losses on long-term debt and working capital increased \$0.6 million in the second quarter and decreased \$ \$0.9 million year-to-date 2020, respectively, as compared to the same periods of 2019. Foreign exchange rates for GBP, USD and EUR weakened relative to the Canadian dollar resulting in unfavourable working capital settlements in the second quarter and year-to-date 2020.

Unrealized foreign exchange gains on long-term debt and working capital increased \$9.8 million and decreased \$23.8 million for the second quarter and year-to-date 2020, respectively, as compared to the same periods of 2019. The unrealized gains are primarily due to long-term debt denominated in USD which are translated into Canadian dollars at the period-end spot rate.

Partially offsetting unrealized gains on long-term debt and working capital, were unrealized losses related to forward foreign exchange contracts to hedge approximately 80% of the notional amount of the USD senior unsecured notes.

Other (income) expense

In 000's of Canadian dollars	13 weeks ended			26 weeks ended		
	July 4 2020	June 29 2019	Change	July 4 2020	June 29 2019	Change
Share of earnings of equity-accounted investee	\$ (1,066)	\$ (1,737)	\$ 671	\$ (1,577)	\$ (2,820)	\$ 1,243
Fair value adjustment on earn-out liability	31	47	(16)	77	132	(55)
Other (income) fees	(1,623)	142	(1,765)	(1,532)	515	(2,047)
	\$ (2,658)	\$ (1,548)	(1,110)	\$ (3,032)	\$ (2,173)	\$ (859)

Other income increased \$1.1 million and \$0.9 million in the second quarter and year-to-date 2020, respectively, as compared to the same periods in 2019 primarily due to quota royalties and selling commissions, partially offset by lower equity income due to a reduction in demand following COVID-19.

Research and development

Research and development relates to new harvesting, processing and storage technology and research into ocean habitats and fish stocks. Research and development can vary year to year depending on the scope, timing and volume of research completed and the number of initiatives shifting into the deployment phase.

Income taxes

Income taxes primarily relate to taxable subsidiaries in Argentina, the United States, the United Kingdom and Canada. Clearwater's consolidated effective tax rate is impacted by non-controlling interests in partnerships in which the income is taxed in the hands of the non-controlling interest partners.

Income tax expense decreased \$1.3 million and increased \$2.0 million in the second quarter and year-to-date 2020, respectively, as compared to the same periods in 2019.

Current tax expense increased \$0.1 million in the second quarter and \$0.4 million year-to-date 2020 primarily due to income in foreign tax jurisdictions and related foreign exchange impacts.

Deferred tax expense decreased \$1.3 million second quarter and increased \$2.4 million in the year-to-date. Deferred tax assets are being recognized based on management's estimate that it is more likely than not that Clearwater will earn sufficient taxable profit to utilize these losses.

Earnings (loss) attributable to shareholders

Earnings attributable to shareholders increased \$2.5 million in the second quarter of 2020 as compared to the same period in 2019. The increase is largely due to changes in gains on derivative financial instruments of \$7.2 million and lower operating costs, partially offset by lower gross margin as a result of reduction in demand. Gains on derivative financial instruments reflects the change in foreign exchange contracts, relative to the forward rate.

Earnings attributable to shareholders decreased \$40.2 million in the first half of 2020 as compared to the same period in 2019 primarily due to changes in losses on derivative financial instruments of \$21.6 million and lower gross margin as a result of reduction in demand.

Earnings (loss) attributable to non-controlling interest

Non-controlling interest relates to minority share of earnings from Clearwater's majority investments in a shrimp/turbot joint venture and subsidiaries in Argentina and Newfoundland and Labrador.

The decrease in earnings attributable to non-controlling interest of \$1.1 million and \$0.7 million in second quarter and year-to-date 2020, respectively as compared to the same periods of 2019 was primarily due to lower sales volumes.

It is important to note that the earnings attributable to non-controlling interest relates to the portion of Clearwater's partnerships owned by other parties. Income taxes are included in earnings attributable to shareholders for Clearwater's share of partnership earnings, whereas the earnings attributable to non-controlling interest are not tax affected as the income is taxed in the hands of the non-controlling interest partners.

Adjusted earnings attributable to shareholders

To assist readers in understanding our earnings we have included a calculation of adjusted earnings with Non-IFRS Measures, Definitions and Reconciliations. Management believes that in addition to earnings and cash provided by operating activities, adjusted earnings is a useful supplemental measure from which to determine Clearwater's earnings from operations and ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Adjusted earnings attributable to shareholders¹ decreased \$7.1 million and \$12.4 million in the second quarter and year-to-date 2020, respectively, as compared to the same periods in 2019. The decrease was primarily the result of lower gross margin following reduced demand, partially offset by lower operating expenses.

Refer to the section entitled "*Non-IFRS measures, definitions and reconciliations*" for the definition of adjusted earnings and a reconciliation of adjusted earnings to net earnings.

CAPITAL STRUCTURE AND LIQUIDITY

Clearwater's overall approach is to have a cost-effective capital structure that supports growth, while maintaining flexibility, reducing interest rate risk and reducing foreign exchange risk by borrowing in currencies other than the Canadian dollar, when appropriate.

Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts and multi-year business plans and modifying its debt and equity facilities on a proactive basis. These changes can include early repayment of debt, issuing or repurchasing shares, issuing new debt, utilizing surplus cash, extending the term of or amending existing debt facilities and, selling surplus assets to repay debt.

The following are key elements of our capital strategy:

- Maintain sufficient liquidity to enable continued access to capital to finance operations, including investments in innovation and technology and to fund growth;
- Target a long-term leverage ratio of 3.0x;
- Limit potential foreign exchange volatility in cash flows; and
- Generate strong cash flows from operations to fund scheduled loan payments, capital expenditures and distributions to non-controlling interest and to provide for sufficient free cash flow to fund growth-investments and pay a sustainable dividend to its shareholders.

Management continuously evaluates its capital structure in light of these policies and strategies.

Capital structure

Clearwater's capital structure includes a combination of equity and various types of debt facilities. Clearwater uses leverage, in particular USD senior unsecured notes, revolving and term debt to lower its cost of capital.

The amount of debt available to Clearwater under certain lending facilities is a function of adjusted EBITDA¹ attributable to shareholders, as defined by our senior credit facility. Adjusted EBITDA can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch, selling prices, weather, exchange rates, fuel and other input costs.

¹ – Refer to discussion on non-IFRS measures, definitions and reconciliations

Clearwater's capital structure was as follows as at July 4, 2020 and December 31, 2019:

In 000's of Canadian dollars	2020	2019
Equity		
Share capital	\$ 217,081	\$ 216,986
Contributed surplus	4,968	4,164
Deficit	(37,325)	(10,155)
Accumulated other comprehensive income (loss)	(41,672)	(40,213)
	143,052	170,782
Non-controlling interest	17,253	16,668
Total Equity	160,305	187,450
Long-term debt		
Senior debt, non-amortizing		
USD senior unsecured notes, due 2025 ¹	334,134	319,059
Revolving debt, due in 2024 ²	86,240	66,183
Term loan, due in 2091	3,500	3,500
	423,874	388,742
Senior debt, amortizing		
Term Loan B, due 2024 ³	33,561	33,879
Other loans	28	57
	33,589	33,936
Lease liabilities ⁴	5,908	6,680
Deferred obligation ⁵	8,635	8,471
Earnout liability ⁵	1,219	2,431
Total long-term debt	473,225	440,260
Total capital	\$ 633,530	\$ 627,710

1. USD senior unsecured notes with a US dollar coupon rate of 6.875% are net of unamortized deferred financing charges of \$5.3 million.

2. The revolving debt is net of unamortized deferred financing charges of \$2.3 million. As of July 4, 2020, subject to financial covenants, Clearwater may borrow up to an additional CDN \$111.5 million on the undrawn facility.

3. Term Loan B is net of unamortized deferred financing charges of \$0.3 million.

4. Lease liabilities represent the present value of remaining lease payments discounted using the Company's weighted average incremental borrowing rate.

5. The Deferred Obligation and Earnout Liability relate to the acquisition of Macduff in 2015.

Equity

In 2020, Clearwater has issued no common shares under its share-based compensation plans.

Clearwater reserved 2.5 million common shares (July 4, 2020 - 2.4 million remaining) for issuance under the share-based compensation plans and 3.0 million (July 4, 2020 - 1.9 million remaining) under the dividend reinvestment plan.

There are 65,148,148 shares outstanding as of July 4, 2020 (December 31, 2019 - 65,128,253).

Long-term debt

As at July 4, 2020 long-term debt includes:

- USD \$250 million senior unsecured notes, due 2025 with a US dollar coupon rate of 6.875% ("the USD Notes"). Forward foreign exchange contracts are in place to hedge approximately 80% of the notional value of the USD Notes at an average rate of 1.2844 and approximately 80% of the coupon payments at an average rate of 1.2826 through to 2022. Clearwater has applied hedge accounting to these forward foreign exchange contracts that hedge the coupon payments;
- Senior secured credit facilities consisting of a CDN \$200 million revolving credit facility and a CDN \$35 million amortizing secured term loan, each maturing in 2024 (the "Senior Secured Credit Facilities"). The revolver and Term Loan B are secured by a first charge on cash and cash equivalents, accounts receivable, inventory, marine vessels, licences and quotas, and Clearwater's investments in certain subsidiaries;
- A term loan maturing in 2091 with recourse limited to the asset financed; and
- Lease liabilities equal to the present value of remaining lease payments discounted at Clearwater's incremental borrowing rate. Clearwater currently leases office space, machinery, wharves, equipment and vehicles.

Also included in Clearwater's long-term debt is deferred consideration related to the acquisition of Macduff in 2015 comprised of a deferred obligation and an earnout liability.

- The Deferred Obligation consists of deferred payments for 33.75% of the shares of Macduff acquired by Clearwater (the "Earn Out Shares") in 2015. The principal outstanding balance as at July 4, 2020 is £5.2 million (CDN \$8.8 million) (December 31, 2019 - £5.2 million (CDN \$9.0 million)) and does not bear interest. The Deferred Obligation is recorded at the discounted amount based on estimated timing of payment and is being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 7.44%. On October 30th of each year, the holders of the Earn Out Shares can elect to be paid up to 20% of the original Deferred Obligation amount. Beginning in 2017, Clearwater had the right to exercise the payout of 20% of the Deferred Obligation annually.
- The holders of the Earn Out Shares elected to be paid 20% of the Deferred Obligation in 2016 through 2020 resulting in payments of £5.2 million each year.
- The Earnout liability is unsecured additional consideration to be paid dependent upon the financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment. The estimated fair value of the Earnout liability at July 4, 2020 is £0.7 million (CDN - \$1.2 million) (December 31, 2019 - £1.4 million, CDN - \$2.4 million). The Earnout liability is recorded at fair value on the consolidated statement of financial position. See the consolidated financial statements for terms and valuation of the Earnout liability.

Excluding deferred consideration and the related earnout liability, Clearwater has effectively fixed the interest rate on 73% percent of its debt as at July 4, 2020.

Clearwater's debt facilities are subject to certain financial and non-financial covenants. Clearwater is in compliance with all covenants associated with its debt facilities.

Liquidity

Capital Requirements

Clearwater's business experiences a predictable seasonal pattern in which sales, margins and adjusted EBITDA 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 typically results in lower cash flows, higher debt balances and higher leverage in the first half of the year and higher cash flows, lower debt balances and lower leverage in the second half.

We schedule ongoing capital expenditure programs to maintain the operating capacity of our assets at existing levels, referred to as maintenance capital, which are typically funded by operating cash flows.

Sources of Liquidity

Our primary sources of liquidity to fund current operations, seasonal operations, seasonal working capital demands, capital expenditures, and other commitments consists of:

- Cash flow from operating activities;
- Cash on deposit; and
- \$200 million revolving loan.

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, and as part of the Company's financial risk mitigation strategy, the Company arranged for amendments to the financial covenants of its senior secured credit facility in the first half of 2020 as noted below.

On May 13, 2020, the Company successfully closed an amendment to its senior secured credit facility to increase its total leverage covenant for the remaining quarters of 2020. This is expected to provide adequate access to liquidity, given near-term consumer demand uncertainty from COVID-19. We expect to remain cash flow positive for the fiscal year and in-compliance with our debt covenants.

In February 2020, Clearwater successfully extended the maturity date of its senior secured credit facility and have no loan or bond maturities before November 2024.

As of July 4, 2020, Clearwater had \$20.7 million in cash, and \$111.5 million available to draw down on its revolving facility.

In 000's of Canadian dollars

As at		July 4 2020		June 29 2019		June 30 2018
Cash	\$	20,664	\$	19,052	\$	27,180
Availability on revolving credit facility		111,454		57,288		70,155
Sources of liquidity		132,118		76,340		97,335

Leverage¹

Leverage as at July 4, 2020 was 5.3x compared to 5.2x for the same period in 2019 and 4.1x as at December 31, 2019. Leverage increased modestly in the second quarter of 2020 as compared to the same period of 2019 as disciplined working capital management and strong 2019 results in the trailing twelve-month calculation, largely offset the impact of lower COVID demand resulting in lower net debt at the second quarter of 2020 compared to 2019.

In 000's of Canadian dollars

As at	July 4 2020	December 31 2019	June 29 2019	June 30 2018
Adjusted EBITDA ¹ attributable to shareholders	\$ 82,916	99,245	\$ 89,641	\$ 90,885
Net Debt ^{2,3,4} (excluding non-controlling interest)	441,385	411,360	469,775	464,486
Leverage	5.3x	4.1x	5.2x	5.1x

¹ Refer to discussion on non-IFRS measures, definitions and reconciliations

² Lease liabilities of \$7.1 million were recognized upon adoption of IFRS 16 effective January 1, 2019.

³ Debt is net of unamortized deferred financing charges of \$7.9 million (December 31, 2019 - \$7.2 million; June 29, 2019 - \$8.2 million; June 30, 2018 - \$9.8 million).

⁴ Net debt is adjusted for cash attributable to shareholders.

Clearwater's leverage measure is based on the ratio of adjusted EBITDA attributable to shareholders to its outstanding debt, net of cash balances. Clearwater's longer-term goal is a leverage ratio of 3.0x.

Leverage is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes leverage to be a useful term when discussing liquidity and as a measure frequently analyzed for public companies, Clearwater has calculated the amount to assist readers in this review. Leverage should not be construed as a measure of cash flows.

Foreign Exchange Management

Clearwater has a foreign exchange risk management program which limits cash flow volatility arising from foreign currency cash flows. Clearwater currently uses forward contracts to lock in foreign exchange rates for anticipated sales (up to 24 months) and long-term debt related hedges (through to 2022). A reduction in volatility from currency exposures improves earnings predictability.

As of July 4, 2020, Clearwater had forward exchange contracts outstanding:

Currency	Forecasted transaction	Notional (millions)	Average rate
USD to CDN	Sales	106.5	1.3447
Yen to CDN	Sales	2,605.0	0.0126
Euro to CDN	Sales	29.2	1.5137
Euro to GBP	Sales	27.3	0.8864
CDN to USD	Debt	227.5	1.2842

Refer to the section entitled *Risks and Uncertainties*.

REVIEW OF CASH FLOWS

Clearwater endeavors to generate strong cash flows from operations to fund scheduled loan payments, capital expenditures and distributions to non-controlling interests and to provide sufficient free cash flow to fund growth investments and pay a sustainable dividend to its shareholders.

The following table summarizes information about Clearwater's cash flows:

In 000's of Canadian dollars	13 weeks ended		26 weeks ended	
	July 4 2020	June 29 2019	July 4 2020	June 29 2019
Cash from (used in) operating activities	\$ (6,937)	\$ (35,632)	\$ (2,894)	\$ (23,318)
Cash from (used in) financing activities	(19,180)	26,640	9,818	20,777
Cash from (used in) investing activities	(9,317)	(7,473)	(19,361)	(13,435)
Free cash flow ^{1,2}	\$ (18,832)	\$ (48,019)	\$ (28,672)	\$ (43,402)
Supplemental cash flow information				
Changes in working capital	\$ (14,497)	\$ (54,911)	\$ (16,280)	\$ (50,812)
(Increase) decrease in inventory	(11,536)	(44,550)	(15,282)	(49,699)
(Increase) decrease in trade and other receivables	(7,792)	(12,993)	14,467	(6,171)
(Increase) decrease in prepaids and other	2,857	2,129	(2,450)	1,541
Increase (decrease) in trade and other payables	1,606	1,322	(13,111)	4,767
(Increase) decrease in income taxes payable	368	(819)	96	(1,250)
Purchase of property, plant and equipment	\$ (10,191)	\$ (7,316)	\$ (20,909)	\$ (13,891)
Cash dividends paid on common shares ³	\$ -	\$ (5,581)	\$ (3,191)	\$ (5,581)

¹ Refer to discussion on non-IFRS measures, definitions and reconciliations.

² Free cash flow is defined as cash flows from operating activities, less planned capital expenditures (net of debt designated to fund such expenditures), scheduled payments on long-term debt and distributions to non-controlling interests. Discretionary items such as debt refinancing and repayments, changes in the revolving loan and discretionary financing and investing activities are excluded from free cash flow.

³ Net of the dividend reinvestment plan.

Cash flow from Operating Activities

Cash used in operations decreased \$28.7 million and \$20.4 million in the second quarter and year-to-date 2020 as compared to the same period of 2019 primarily due to a reduction of investment in working capital, partially offset by lower EBITDA. Lower investment in working capital is primarily due to inventory management strategies to address reduced demand.

Cash flow from Financing Activities

Cash from financing activities decreased \$45.8 million and \$11.0 million in the second quarter and year-to-date 2020 as compared to the same period of 2019. Drawings on the revolving credit facility decreased \$54.8 million and \$14.8 million in the second quarter and year-to-date following lower investments in inventory and suspension of dividend payments. Distributions to non-controlling interests were \$4.1 million and \$2.2 million lower in the second quarter and first half of 2020 as compared to 2019 due to timing.

Cash Flow from Investing Activities

Cash used in investing activities increased \$1.8 million and \$5.9 million in the second quarter and year-to-date 2020 as compared to the same periods in 2019 due to planned increased in capital expenditures.

Free Cash Flow¹

Free cash flow increased \$29.2 million and \$14.7 million in the second quarter and year-to-date 2020 as compared to the same period of 2019. The increase was due to lower investment in working capital, driven by inventory management strategies, partially offset by lower cash earnings, and higher capital expenditures. Measures that Clearwater has implemented will ensure continued generation of cash to support ongoing operations and capital expenditures and selective strategic initiatives that will generate future growth.

Changes in working capital

Clearwater manages working capital within cash from operations and free cash flow. Clearwater manages trade receivables through a combination of tight collection terms and, when appropriate, discounting. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer and country specific credit risk. As a result, Clearwater does not have any significant concentration of credit risk. From time-to-time, Clearwater enters into transactions to sell selected accounts receivables to a commercial partner without recourse. Sale of receivables during the period represented less than 5 percent of consolidated sales.

Clearwater manages its inventories through detailed review of supply, production plans and sales forecasts, and through continuous improvements in the integration of its fleet and sales plans. Inventory levels may fluctuate due to harvesting conditions and operations and the seasonal nature of our business. The Company takes advantage of favourable harvesting conditions and availability of supply to maintain profitable margins. During the first half of 2020, we have implemented additional inventory management measures to address changing demand characteristics from COVID-19.

Purchase of Property Plant and Equipment

Clearwater manages capital spending within cash from investing activities and free cash flow. Clearwater evaluates investments in property, plant, equipment and licences as either return on investment or maintenance capital and tracks each project accordingly. Significant expenditures that are expected to have a return in excess of the cost of capital are classified as return on investment, and all refits and expenditures that are expected to return less than the average cost of capital are classified as maintenance.

On average, Clearwater expects to invest approximately \$20-25 million a year in maintaining its fixed assets with repairs and maintenance capital. In 2020, Clearwater will continue to invest in capital projects relating to vessel refits and land-based supply chain infrastructure.

Dividends

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.

In making the determination of dividend levels, Clearwater's Board gives consideration to several key principles including:

- expected future earnings;
- free cash flows that should be retained to reinvest in the business;
- the assurance that all obligations can be met with respect to existing loan agreements; and
- the desire to increase the dividend in the future as the business continues to grow and expand.

The Board reviews Clearwater's dividends on a regular basis to ensure the dividend level remains consistent with Clearwater's dividend policy.

These dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the favourable tax treatment applicable to such dividends.

OUTLOOK

Clearwater was directly impacted by COVID-19 in the first half of 2020 as we and our global customer base faced the implications of the growing pandemic through food service closures, social distancing and other measures targeted at reducing spread. As a vertically integrated seafood company, the impact to Clearwater, its customers, supply chain partners, operational protocols and employees is complex.

Traditional retail and on-line consumer demand are thriving whereas food service customers and their supply chains are experiencing interruptions.

Demand improved in the latter part of the second quarter and is expected to improve further as governments relax measures and markets continue to reopen. We have responded by placing extra focus and attention on the expansion of global distribution, new products and formats and increasing promotional activity in channels that are experiencing heightened demand including retail and e-commerce. We are also continuing to prepare for the recovery in the global food service channels.

As a business, Clearwater is considered an essential service and continues to harvest, process, and deliver seafood to customers globally.

Clearwater has taken immediate action in response to COVID-19 to ensure employee safety and security and business continuity including:

- Health screening protocols;
- Securing personal protective equipment for employees throughout our global supply chain;
- Implementing social distancing and enhanced cleaning protocols in our processing plants and on harvesting vessels;
- Supporting our essential workers with thank-you pay and adapting travel to and from harvest ports to maintain labour mobility; and
- Successfully transitioning approximately 98% of our office, sales and administrative staff to working remotely and in continued close coordination across three continents and 17 time zones.

Clearwater has strong access to liquidity and funding. Discipline and focus on cashflows from operations, working capital and capital expenditures preserved cash flow in the second quarter and will maintain liquidity for seasonal operations. Leverage is expected to increase in the near term as a direct impact of COVID-19.

While the short-term impact of COVID-19 has introduced additional forward-looking uncertainty, as a vertically integrated seafood company, with proprietary licences, advanced and year-round harvesting and processing capabilities, premium product quality, diversity of species, global sales and distribution footprint and an experienced, dedicated workforce, Clearwater is well-positioned to take advantage of future growth opportunities as global seafood demand recovers.

Clearwater's core strategies are built around these strengths, remain highly relevant and our long-term growth outlook beyond 2020 remains very positive.

RISKS AND UNCERTAINTIES

The performance of Clearwater's business is susceptible to a number of risks which affect income, liquidity and cash flow, including risks related to resource supply, food processing and product liability, suppliers, customers, competition and foreign exchange exposure and lawsuits in the normal course of business.

The outbreak of COVID-19 surfaced in late 2019 and has since been declared a global pandemic. Actions to contain the outbreak have significantly disrupted the global economy and the pandemic continues to impact our customers, operations and communities in which we live and work. The pandemic has changed Clearwater's exposure to risk factors last updated in the 2019 Annual Information Form, including:

- Suppliers, customers and competition: Measures taken by governments and public health organizations around the world to contain the disease have resulted in reduced demand for our products, specifically in the food service segment and impacted our regular distribution channels.
- Business interruption, labour, employee safety, reputation and political risk: An outbreak in a community or facility where Clearwater or key suppliers operate or government imposed border controls could impact workforce availability and result in plant closures, an inability to harvest and/or disrupt our supply chain and could adversely affect demand for products in the seafood industry. Governments could impose additional restrictions, taxes or tariffs.
- Capital availability and liquidity: Reduced demand could cause strain on our available liquidity.

As an essential service in the global food supply chain, Clearwater has taken immediate action to ensure employee safety and security and business continuity and to mitigate any financial or business risk including:

- Secured personal protective equipment for employees throughout our global supply chain;
- Implemented health screening protocols and proactive self-isolation requirements;
- Implemented social distancing and enhanced cleaning protocols in our processing plants and on harvesting vessels;
- Supported our essential workers with thank-you pay and adapting travel to and from harvest ports to maintain labour mobility;
- Transitioned approximately 98% of our office staff to remote working and adopted a delayed return-to-office plan following the reduction of government restrictions;
- Temporarily adjusted certain harvesting and production operations;
- Arranged for amendments to the financial covenants of its senior secured credit facilities and extended the maturity date to 2024; and
- Participated in government employee support programs.

COVID-19 has negatively impacted Clearwater's financial results and operations. As the duration and recovery trend is unknown, it is not possible to reliably estimate the impact to Clearwater's customers, supply chain partners, operations and employees.

For further disclosure of additional risk factors please refer to the Annual Information Form, which is available on Sedar at www.sedar.com as well as Clearwater's website at www.clearwater.ca.

CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and may require management to make judgments based on underlying estimates and assumptions about future events and their effects. These estimates can include but are not limited to estimates regarding inventory valuation, accounts receivable valuation allowances, estimates of expected useful lives of vessels and plant facilities, and estimates of future cash flows for impairment tests. Underlying estimates and assumptions are based on historical experience and other factors that are believed by management to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating environment changes. Clearwater has considered recent market conditions including changes to its cost of capital in making these estimates. Refer to the notes to the annual financial statements for a complete listing of critical accounting policies and estimates used in the preparation of the consolidated financial statements.

Disclosure controls and internal controls over financial reporting

The Management of Clearwater, with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") (collectively "Management"), is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*.

There have been no changes to controls during the quarter ended July 4, 2020 that have materially affected, or are reasonably likely to materially affect, Clearwater's ICFR.

Adoption of new and revised standards

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.

SUMMARY OF QUARTERLY RESULTS

The following table provides historical data for the twelve most recently completed quarters.

In 000's of Canadian dollars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2020				
Sales	\$ 100,341	\$ 105,968	\$ -	\$ -
Adjusted EBITDA ¹	13,048	18,923	-	-
Adjusted EBITDA attributable to shareholders ¹	10,315	15,903	-	-
Earnings (loss) attributable to shareholders	(34,469)	10,555	-	-
Earnings (loss) per share	(0.53)	0.16	-	-
Diluted earnings (loss) per share	(0.53)	0.16	-	-
Weighted average shares outstanding ²	65,129,091	65,148,148	-	-
Fiscal 2019				
Sales	\$ 120,082	\$ 153,874	\$ 175,200	\$ 167,085
Adjusted EBITDA ¹	20,033	30,250	34,490	30,131
Adjusted EBITDA attributable to shareholders ¹	16,297	26,254	29,405	27,293
Earnings (loss) attributable to shareholders	8,277	8,011	7,804	17,601
Earnings (loss) per share	0.13	0.12	0.12	0.27
Diluted earnings (loss) per share	0.13	0.12	0.12	0.27
Weighted average shares outstanding ²	64,842,209	65,031,433	65,047,676	65,077,500
Fiscal 2018				
Sales	\$ 120,072	\$ 148,142	\$ 164,225	\$ 159,807
Adjusted EBITDA ¹	19,114	30,501	30,686	24,090
Adjusted EBITDA attributable to shareholders ¹	14,933	26,147	25,373	21,722
Earnings (loss) attributable to shareholders	(13,758)	(923)	10,818	(12,340)
Earnings (loss) per share	(0.22)	(0.01)	0.17	(0.19)
Diluted earnings (loss) per share	(0.22)	(0.01)	0.17	(0.19)
Weighted average shares outstanding	63,935,153	64,154,263	64,417,905	64,676,360

¹ Refer to discussion on non-IFRS measures, definitions and reconciliations

² In 2018, Clearwater implemented a Dividend Reinvestment Plan and issued shares under the share-based compensation plans.

For a more detailed analysis of each quarter's results, please refer to our quarterly and annual reports.

Due to seasonality, sales generally increase with each successive quarter with the highest revenues in the second half of each year.

Volatility in exchange rates can have a significant impact on earnings. The volatility is partially offset by Clearwater's foreign exchange management program.

NON- IFRS MEASURES, DEFINITIONS AND RECONCILIATIONS

Adjusted earnings before interest, tax, depreciation and amortization (“adjusted EBITDA”)

Adjusted EBITDA is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net earnings and cash provided by operating activities, adjusted EBITDA is a useful supplemental measure from which to determine Clearwater’s ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends. In addition, as adjusted EBITDA is a measure frequently analyzed for public companies, Clearwater has calculated adjusted EBITDA to assist readers in this review. Adjusted EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as a measure of liquidity, or as a measure of cash flows.

Adjusted EBITDA is defined as EBITDA excluding extraordinary, non-operating, non-recurring or non-routine items that are unusual and are deemed to not be a part of normal operations of the business. Items that are excluded from adjusted EBITDA include restructuring and reorganization expenses, gains and losses on investment activities, costs associated with acquisitions to the extent not capitalized, financing and refinancing costs, net gains on insurance claims and share-based compensation. In addition, recurring accounting gains and losses on foreign exchange (other than realized gains and losses on forward exchange contracts), have been excluded from the calculation of Adjusted EBITDA. Unrealized gains and losses on forward exchange contracts relate to economic hedging on future operational transactions and by adjusting for them, the results more closely reflect the economic effect of the hedging relationships in the period to which they relate.

Reconciliation of net earnings (loss) to adjusted EBITDA for the 13 and 26 weeks ended July 4, 2020 and June 29, 2019 and rolling twelve months ended July 4, 2020 and June 29, 2019 is as follows:

	13 weeks ended		26 weeks ended		12 months Rolling	
	July 4 2020	June 29 2019	July 4 2020	June 29 2019	July 4 2020	June 29 2019
Earnings (loss)	\$ 12,780	\$ 11,339	\$ (18,753)	\$ 22,123	\$ 11,968	\$ 26,824
Income taxes	(751)	504	1,900	(132)	5,720	813
Taxes and depreciation for equity investment	523	816	740	1,281	915	634
Depreciation and amortization	8,937	10,961	17,000	20,997	40,625	45,824
Interest on long-term debt and bank charges	7,749	7,841	14,502	15,340	29,913	30,823
Earnings before interest, taxes, depreciation and amortization	\$ 29,238	\$ 31,461	\$ 15,389	\$ 59,609	\$ 89,141	\$ 104,918
Add (deduct) other items:						
Unrealized foreign exchange and derivative loss (income)	(13,045)	(2,872)	12,373	(12,291)	1,731	(4,999)
Fair market value adjustment on long-term debt	190	353	394	750	962	1,586
Realized foreign exchange on working capital	1,126	534	357	1,217	922	904
Restructuring and refinancing costs	212	9	2,242	108	2,279	255
Share-based compensation (recovery) expense	1,202	765	1,216	890	1,556	2,392
Adjusted EBITDA	\$ 18,923	\$ 30,250	\$ 31,971	\$ 50,283	\$ 96,591	\$ 105,056
Adjusted EBITDA attributed to:						
Non-controlling interests	\$ 3,020	\$ 3,996	\$ 5,753	\$ 7,734	\$ 13,675	\$ 15,415
Shareholders of Clearwater	15,903	26,254	26,218	42,549	82,916	89,641
	\$ 18,923	\$ 30,250	\$ 31,971	\$ 50,283	\$ 96,591	\$ 105,056

Adjusted earnings attributable to shareholders

To assist readers in estimating our earnings we have included a calculation of adjusted earnings. Management believes that in addition to earnings and cash provided by operating activities, adjusted earnings is a useful supplemental measure from which to determine Clearwater's earnings from operations and ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Reconciliation of net earnings to adjusted earnings for the 13 and 26 weeks ended July 4, 2020 and June 29, 2019 and rolling twelve months ended July 4, 2020 and June 29, 2019 is as follows:

	13 weeks ended		26 weeks ended		Rolling 12 months ended	
	July 4	June 29	July 4	June 29	July 4	June 29
	2020	2019	2020	2019	2020	2019
Reconciliation of earnings to adjusted earnings						
Earnings (loss)	\$ 12,780	\$ 11,339	\$ (18,753)	\$ 22,123	\$ 11,968	\$ 26,824
Add (subtract)						
Restructuring and refinancing costs	212	9	2,242	108	2,279	255
Share-based compensation (recovery) expense	1,202	765	1,217	890	1,557	2,392
Unrealized foreign exchange and derivative (gain) loss	(13,045)	(2,872)	12,373	(12,291)	1,731	(4,999)
Fair value adjustment on long-term debt	190	353	394	750	962	1,586
	(11,441)	(1,745)	16,226	(10,543)	6,529	(766)
Adjusted earnings	\$ 1,339	\$ 9,594	\$ (2,527)	\$ 11,580	\$ 18,497	\$ 26,058
Adjusted earnings attributable to:						
Non-controlling interests	2,396	3,505	4,856	6,525	10,217	12,496
Shareholders	(1,057)	6,089	(7,383)	5,055	8,280	13,562
	\$ 1,339	\$ 9,594	\$ (2,527)	\$ 11,580	\$ 18,497	\$ 26,058
Adjusted earnings per share:						
Weighted average of shares outstanding	65,148	65,031	65,138	64,937	65,071	64,742
Adjusted earnings per share for shareholders	(0.02)	0.09	(0.11)	0.08	0.13	0.21
Reconciliation of adjusted earnings to adjusted EBITDA						
Adjusted earnings	\$ 1,339	\$ 9,594	\$ (2,527)	\$ 11,580	\$ 18,497	\$ 26,058
Add (subtract)						
Income tax expense	(751)	504	1,900	(132)	5,720	813
Depreciation and amortization	8,937	10,961	17,000	20,997	40,625	45,824
Interest on long-term debt and bank charges	7,749	7,841	14,502	15,340	29,913	30,823
Taxes and depreciation for equity investment	523	816	740	1,281	915	634
Realized foreign exchange on working capital	1,126	534	356	1,217	921	904
	17,584	20,656	34,498	38,703	78,094	78,998
Adjusted EBITDA¹	\$ 18,923	\$ 30,250	\$ 31,971	\$ 50,283	\$ 96,591	\$ 105,056

Leverage

Leverage is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes leverage to be a useful term when discussing liquidity and does monitor and manage leverage. In addition, as leverage is a measure frequently analyzed for public companies, Clearwater has calculated the amount to assist readers in this review. Leverage should not be construed as a measure of liquidity or as a measure of cash flows.

Leverage for banking purposes differs from the below calculations as agreements require the exclusion of certain cash from the calculation and EBITDA excludes non-controlling interests and most significant non-cash and non-recurring items. Clearwater is in compliance with all non-financial and financial covenants associated with its debt facilities.

The calculation of adjusted EBITDA attributable to shareholders to debt (net of unamortized deferred financing charges) for the rolling twelve months ended July 4, 2020, December 31, 2019, June 29, 2019 and June 30, 2018 is as follows:

In 000's of Canadian dollars		July 4	December 31	June 29	June 30
Rolling 12 months ended		2020	2019	2019	2018
Adjusted EBITDA ¹ attributable to shareholders	\$	82,916	\$ 99,245	\$ 89,641	\$ 90,885
Long-term debt ²		473,224	440,259	491,423	495,327
Less: Cash		(20,664)	(32,368)	(19,052)	(27,180)
Adjust for:					
Hedging instruments ³		(14,667)	(2,847)	(5,646)	(5,867)
Cash attributed to non-controlling interest		3,492	6,316	3,050	2,206
Net debt	\$	441,385	\$ 411,360	\$ 469,775	\$ 464,486
Leverage		5.3x	4.1x	5.2x	5.1x

1 Refer to discussion on non-IFRS measures, definitions and reconciliations

2 Debt is net of unamortized deferred financing charges of \$7.9 million (December 31, 2019 - \$7.2 million; June 29, 2019 - \$8.2 million; June 30, 2018 - \$9.8 million).

3 Debt has been adjusted to include a USD \$200 million forward foreign exchange contract at an average contracted rate of 1.2844.

Free cash flows

Free cash flow is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net earnings and cash provided by operating activities, free cash flow is a useful supplemental measure from which to determine Clearwater's ability to generate cash available for debt service, working capital, capital expenditures and distributions. Free cash flow should not be construed as an alternative to net earnings determined in accordance with IFRS, as a measure of liquidity, or as a measure of cash flows.

Free cash flow is defined as cash flows from operating activities, less planned capital expenditures (net of any borrowings of debt designated to fund such expenditures), scheduled payments on long-term debt and distributions to non-controlling interests. Items excluded from the free cash flow include discretionary items such as debt refinancing and repayments changes in the revolving loan and discretionary financing and investing activities.

Reconciliation of cash from operating activities to free cash flows for the 13 and 26 weeks ended July 4, 2020 and June 29, 2019 and rolling twelve months ended July 4, 2020 and June 29, 2019 is as follows:

	13 weeks ended		26 weeks ended		12 months Rolling	
	July 4 2020	June 29 2019	July 4 2020	June 29 2019	July 4 2020	June 29 2019
Adjusted EBITDA	\$ 18,923	\$ 30,250	\$ 31,971	\$ 50,283	\$ 96,591	105,056
Less:						
Interest and bank charges	(7,335)	(7,395)	(13,659)	(14,894)	(28,182)	(29,514)
Current income tax expense	(456)	(382)	(870)	(1,287)	(2,249)	(4,477)
Other income and expense items	(3,571)	(3,194)	(4,059)	(6,608)	(6,958)	(8,180)
Operating cash flow before changes in working capital	7,561	19,279	13,383	27,494	59,202	62,885
Changes in working capital	(14,498)	(54,911)	(16,277)	(50,812)	24,956	(19,122)
Cash flows from operating activities	(6,937)	(35,632)	(2,894)	(23,318)	84,158	43,763
Sources (uses) of cash:						
Purchase of property, plant, equipment, quota and other assets	(10,192)	(7,316)	(20,911)	(13,891)	(34,996)	(19,023)
Proceeds from disposal of fixed assets	-	581	813	1,808	1,015	1,808
Scheduled payments on long-term debt ¹	(1,385)	(1,418)	(1,486)	(1,519)	(10,573)	(10,610)
Repayment of lease liabilities	(395)	(353)	(802)	(705)	(1,698)	(705)
Dividends received from joint venture	-	-	-	-	3,640	3,228
Distribution to non-controlling interests	-	(4,054)	(4,634)	(6,834)	(11,205)	(12,859)
Non-routine project costs	77	173	1,121	567	1,430	2,033
Payments on long-term incentive plans	-	-	121	490	383	490
Free cash flows	\$ (18,832)	\$ (48,019)	\$ (28,672)	\$ (43,402)	\$ 32,154	8,125
Reconciliation of change in cash						
Add/(less):						
Other debt borrowings (repayments) of debt, use of cash	(17,307)	37,468	20,023	34,850	(21,182)	(2,350)
Issuance of equity	-	912	95	912	278	3,686
Other investing activities	875	(740)	737	(1,355)	1,372	(2,385)
Other financing activities	(93)	(5,913)	(3,378)	(5,925)	(9,814)	(12,400)
Payments on long-term incentive plans	-	-	(121)	(490)	(383)	(490)
Non-routine project costs	(77)	(173)	(1,121)	(567)	(1,430)	(2,034)
Impact of foreign exchange on cash	(256)	(434)	733	(858)	618	(286)
Change in cash for the period	\$ (35,690)	\$ (16,899)	\$ (11,704)	\$ (16,835)	\$ 1,613	(8,134)

¹ Scheduled payments on long-term debt includes payments on Term Loan B, Deferred Obligation, Earnout liability and other loans.

Return on assets

Return on assets is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that return on assets measures the efficiency of the use of total assets to generate income. Return on assets should not be construed as an alternative to net earnings determined in accordance with IFRS.

Return on assets is defined as the ratio of rolling 12 month adjusted earnings before interest and taxes ("EBIT") to average total quarterly assets including all working capital assets.

The calculation of adjusted earnings before interest and taxes to total assets for the rolling twelve months ended July 4, 2020, June 29, 2019 and June 30, 2018 is as follows:

In (000's) of Canadian dollars		July 4 2020		June 29 2019		June 30 2018
Adjusted EBITDA ¹	\$	96,591	\$	105,056	\$	110,899
Depreciation and amortization		40,625		45,824		46,712
Adjusted earnings before interest and taxes		55,966		59,232		64,187
Average quarterly total assets	\$	729,504	\$	737,438	\$	778,616
		7.7%		8.0%		8.2%

¹ Refer to discussion on non-IFRS measures, definitions and reconciliations.

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 July 4, 2020 and the unaudited condensed consolidated interim Statements of Earnings (Loss), Comprehensive Income (Loss), Shareholders' Equity, and Cash Flows for the 13 and 26 weeks ended weeks ended July 4, 2020 and June 29, 2019. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the July 4, 2020 and June 29, 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	July 4 2020	December 31 2019
ASSETS		
Current assets		
Cash	\$ 20,664	\$ 32,368
Trade and other receivables	73,897	89,159
Inventories	89,591	72,587
Income tax receivable	655	760
Prepays and other	7,605	5,095
Derivative financial instruments (Note 6)	2,116	7,005
	194,528	206,974
Non-current assets		
Long-term receivables	6,255	7,106
Derivative financial instruments (Note 6)	16,159	6,028
Other assets	476	383
Property, plant and equipment	241,932	239,963
Investment in equity investee	10,228	8,664
Deferred tax assets	12,587	12,805
Intangible assets (Note 7)	184,700	187,391
Goodwill	47,431	48,185
	519,768	510,525
TOTAL ASSETS	\$ 714,296	\$ 717,499
LIABILITIES		
Current liabilities		
Trade and other payables	\$ 58,744	\$ 71,390
Current portion of long-term debt (Note 8)	11,010	11,511
Derivative financial instruments (Note 6)	4,027	178
	73,781	83,079
Non-current liabilities		
Long-term debt (Note 8)	462,215	428,749
Derivative financial instruments (Note 6)	314	1,080
Other long-term liabilities	271	649
Deferred tax liabilities	17,410	16,492
	480,210	446,970
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	\$ 217,081	\$ 216,986
Contributed surplus	4,968	4,164
Retained earnings (deficit)	(37,325)	(10,155)
Accumulated comprehensive loss ("ACL")	(41,672)	(40,213)
	143,052	170,782
Non-controlling interest	17,253	16,668
	160,305	187,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 714,296	\$ 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		26 weeks ended	
	July 4	June 29	July 4	June 29
	2020	2019	2020	2019
Sales	\$ 105,968	\$ 153,874	\$ 206,309	\$ 273,957
Cost of goods sold	87,570	122,287	171,767	220,819
Gross margin	18,398	31,587	34,542	53,138
Operating expenses				
Administrative and selling costs	9,879	15,045	22,002	28,553
Restructuring costs	-	-	1,776	-
Net finance costs	7,908	8,146	14,820	15,957
(Gains) losses on derivative financial instruments (Note 6 (c))	(7,531)	(316)	12,065	(9,551)
Foreign exchange (gains) losses on long-term debt and working capital (Note 6 (e))	(1,441)	(1,785)	3,101	(1,914)
Other (income) expense	(2,658)	(1,548)	(3,032)	(2,173)
Research and development	212	202	663	275
	6,369	19,744	51,395	31,147
Earnings (loss) before income taxes	12,029	11,843	(16,853)	21,991
Income tax (recovery) expense	(751)	504	1,900	(132)
Earnings (loss) for the period	\$ 12,780	\$ 11,339	\$ (18,753)	\$ 22,123
Earnings (loss) attributable to:				
Non-controlling interest	\$ 2,225	\$ 3,328	\$ 5,161	\$ 5,834
Shareholders of Clearwater	10,555	8,011	(23,914)	16,289
	\$ 12,780	\$ 11,339	\$ (18,753)	\$ 22,123
Basic earnings (loss) per share (Note 11)	\$ 0.16	\$ 0.12	\$ (0.37)	\$ 0.25
Diluted earnings (loss) per share (Note 11)	\$ 0.16	\$ 0.12	\$ (0.37)	\$ 0.25

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		26 weeks ended	
	July 4	June 29	July 4	June 29
	2020	2019	2020	2019
Earnings (loss) for the period	\$ 12,780	\$ 11,339	\$ (18,753)	\$ 22,123
Comprehensive income (loss)				
Items that may be reclassified subsequently to income (loss):				
Foreign currency translation differences of foreign operations	(5,298)	(8,177)	(2,298)	(8,442)
Cash flow hedges - effective portion of change in fair value, net of tax	(1,773)	(642)	989	(1,534)
Cash flow hedges - reclassified to earnings (loss), net of tax	429	159	(92)	83
	(6,642)	(8,660)	(1,401)	(9,893)
Comprehensive income (loss) for the period	\$ 6,138	\$ 2,679	\$ (20,154)	\$ 12,230
Comprehensive income (loss) attributable to:				
Non-controlling interest	\$ 2,018	\$ 3,303	\$ 5,219	\$ 5,788
Shareholders of Clearwater	4,120	(624)	(25,373)	6,442
	\$ 6,138	\$ 2,679	\$ (20,154)	\$ 12,230

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	-	-	(1,451)	(8,396)	16,289	5,788	12,230
Transactions recorded directly in equity							
Share-based compensation	99	528	-	-	-	-	627
Distributions to non-controlling interest	-	-	-	-	-	(6,168)	(6,168)
Dividends declared on common shares	-	-	-	-	(6,493)	-	(6,493)
Common shares issued under DRIP	912	-	-	-	-	-	912
Total transactions with owners	1,011	528	-	-	(6,493)	(6,168)	(11,122)
Balance at June 29, 2019	\$ 216,517	\$ 4,746	\$ 568	\$ (46,468)	\$ (29,052)	\$ 18,017	\$ 164,328
Comprehensive income (loss) for the period	-	-	(178)	5,865	25,403	5,289	36,379
Transactions recorded directly in equity							
Share-based compensation	286	(582)	-	-	-	-	(296)
Distributions to non-controlling interest	-	-	-	-	-	(6,638)	(6,638)
Dividends declared on common shares	-	-	-	-	(6,506)	-	(6,506)
Common shares issued under DRIP	183	-	-	-	-	-	183
Total transactions with owners	469	(582)	-	-	(6,506)	(6,638)	(13,257)
Balance at December 31, 2019	\$ 216,986	\$ 4,164	\$ 390	\$ (40,603)	\$ (10,155)	\$ 16,668	\$ 187,450
Comprehensive income (loss) for the period	-	-	897	(2,356)	(23,914)	5,219	(20,154)
Transactions recorded directly in equity							
Share-based compensation	-	804	-	-	-	-	804
Distributions to non-controlling interest	-	-	-	-	-	(4,634)	(4,634)
Dividends declared on common shares	-	-	-	-	(3,256)	-	(3,256)
Common shares issued under DRIP	95	-	-	-	-	-	95
Total transactions with owners	95	804	-	-	(3,256)	(4,634)	(6,991)
Balance at July 4, 2020	\$ 217,081	\$ 4,968	\$ 1,287	\$ (42,959)	\$ (37,325)	\$ 17,253	\$ 160,305

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		26 weeks ended	
	July 4	June 29	July 4	June 29
	2020	2019	2020	2019
Operating				
Earnings (loss) for the period	\$ 12,780	\$ 11,339	\$ (18,753)	\$ 22,123
Adjustments for:				
Depreciation and amortization	8,937	10,961	16,999	20,997
Amortization of deferred financing costs	414	445	843	881
Accretion on long-term debt	159	305	318	617
Net changes in unrealized foreign exchange (gains) losses on financial assets and liabilities	(14,935)	(5,089)	13,058	(16,510)
Deferred tax expense (recovery)	(1,208)	122	1,029	(1,418)
Share-based compensation	1,202	765	1,216	890
(Gain) loss on disposal of property, plant, and equipment, and other assets	12	(118)	53	7
(Earnings) loss from equity investee	(1,066)	(1,737)	(1,577)	(2,820)
Foreign exchange and other	1,265	2,286	200	2,727
Cash from operating activities before changes in working capital	7,560	19,279	13,386	27,494
Change in non-cash operating working capital (Note 14)	(14,497)	(54,911)	(16,280)	(50,812)
Cash from (used in) operating activities	\$ (6,937)	\$ (35,632)	\$ (2,894)	\$ (23,318)
Financing				
Repayment of long-term debt	(1,385)	(1,418)	(1,486)	(1,519)
Net (repayment of) proceeds from revolving credit facility	(17,307)	37,468	20,024	34,850
Repayment of lease liabilities	(395)	(353)	(802)	(705)
Net distributions paid to non-controlling interest	-	(4,054)	(4,634)	(6,835)
Repayments from (advances to) minority partners	(93)	578	(93)	567
Dividends paid on common shares, net of dividends reinvested	-	(5,581)	(3,191)	(5,581)
Cash from (used in) financing activities	\$ (19,180)	\$ 26,640	\$ 9,818	\$ 20,777
Investing				
Purchase of property, plant and equipment	(10,191)	(7,316)	(20,909)	(13,891)
Proceeds on disposal of property, plant and equipment	-	581	813	1,808
Net proceeds from sale (purchase) of other assets	(74)	(149)	(149)	(162)
Net proceeds (advances) from long term receivables	948	(589)	884	(1,190)
Cash from (used in) investing activities	\$ (9,317)	\$ (7,473)	\$ (19,361)	\$ (13,435)
Effect of foreign exchange rate changes on cash	\$ (256)	\$ (434)	\$ 733	\$ (859)
Increase (decrease) in cash	(35,690)	(16,899)	(11,704)	(16,835)
Cash, beginning of period	56,354	35,951	32,368	35,887
Cash, end of period	\$ 20,664	\$ 19,052	\$ 20,664	\$ 19,052
Supplemental disclosure of operating cash flows				
Cash interest paid	\$ (13,302)	\$ (13,252)	\$ (14,152)	\$ (14,750)
Cash income taxes paid	\$ (89)	\$ (1,201)	\$ (3,196)	\$ (2,537)

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 26 weeks ended July 4, 2020 and June 29, 2019

(unaudited)

(Tabular amounts are in thousands of Canadian dollars)

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 July 4, 2020 and June 29, 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 August 11, 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 the novel coronavirus known as COVID-19, which surfaced in late 2019 and has since been declared a global pandemic, on our condensed consolidated interim financial statements.

Clearwater's condensed consolidated interim financial statements as at and for the 13 and 26 weeks ended July 4, 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.

CLEARWATER SEAFOODS INCORPORATED

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 26 weeks ended July 4, 2020 and June 29, 2019

(unaudited)

(Tabular amounts are in thousands of Canadian dollars)

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.

CLEARWATER SEAFOODS INCORPORATED

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 26 weeks ended July 4, 2020 and June 29, 2019

(unaudited)

(Tabular amounts are in thousands of Canadian dollars)

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

CLEARWATER SEAFOODS INCORPORATED

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 26 weeks ended July 4, 2020 and June 29, 2019

(unaudited)

(Tabular amounts are in thousands of Canadian dollars)

- 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 period ended July 4, 2020, Clearwater received government support related to employee wages in the amount of \$5.1 million recognized in the consolidated statement of earnings (loss) and \$6.5 million recorded within inventory in the consolidated statement of financial position. 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.

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.

CLEARWATER SEAFOODS INCORPORATED

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 26 weeks ended July 4, 2020 and June 29, 2019

(unaudited)

(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:

July 4, 2020		FVTPL	FV Hedging	Amortized cost		Total Carrying amount	Fair value
Assets:							
Cash	\$	20,664	\$ -	\$ -	\$	20,664	\$ 20,664
Trade and other receivables		-	-	73,897		73,897	73,897
Long-term receivables		-	-	6,255		6,255	6,255
Derivative financial instruments		16,252	2,023	-		18,275	18,275
	\$	36,916	\$ 2,023	\$ 80,152	\$	119,091	\$ 119,091
Liabilities:							
Trade and other payables ¹	\$	-	\$ -	\$ (58,744)	\$	(58,744)	\$ (58,744)
Long-term debt		(1,219)	-	(472,006)		(473,225)	(472,097)
Derivative financial instruments		(4,341)	-	-		(4,341)	(4,341)
	\$	(5,560)	\$ -	\$ (530,750)	\$	(536,310)	\$ (535,182)

¹ Trade and other payables includes share-based compensation of \$3.7 million which is not recorded at amortized cost.

December 31, 2019		FVTPL	FV Hedging	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 July 4, 2020 was \$345.2 million (December 31, 2019 - \$351.6 million) and the carrying value was \$346.3 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.

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(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:

July 4, 2020	Level 1	Level 2	Level 3
Recurring measurements			
Financial Assets:			
Cash	\$ 20,664	\$ -	\$ -
Derivative financial instruments	-	18,275	-
	\$ 20,664	\$ 18,275	\$ -
Financial Liabilities:			
Derivative financial instruments	-	4,341	-
Earnout liability	-	-	1,219
	\$ -	\$ 4,341	\$ 1,219
December 31, 2019			
Recurring measurements			
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 July 4, 2020 and December 31, 2019.

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Clearwater used the following techniques to value financial instruments categorized in Level 2:

- Forward foreign exchange contracts are 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 hedging accounting, qualifying hedging relationship (cash flow hedge). Changes in the fair value of derivatives in a qualifying hedging relationship are recognized in 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).

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At July 4, 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				
<i>Derivatives designated as hedging instruments</i>				
USD	13,750	1.282	7	\$ 1,011
<i>Derivatives not designated as hedging instruments</i>				
Euro	5,410	1.558	8	139
USD	17,990	1.398	8	755
Yen	699,100	0.0128	7	93
Euro - GBP	5,867	0.916	6	118
				\$ 2,116
Contracts in a non-current asset position				
<i>Derivatives designated as hedging instruments</i>				
USD	13,750	1.283	19	\$ 1,012
<i>Derivatives not designated as hedging instruments</i>				
Euro	2,905	1.557	15	45
USD	212,900	1.291	21	14,978
Yen	412,900	0.0130	17	107
Euro - GBP	1,275	0.917	15	17
				16,159
Total contracts in an asset position				\$ 18,275
Contracts in a current liability position				
<i>Derivatives not designated as hedging instruments</i>				
Euro	18,853	1.493	5	(677)
USD	68,734	1.323	5	(2,229)
Yen	1,247,900	0.0124	4	(254)
Euro - GBP	16,866	0.873	5	(867)
				\$ (4,027)
Contracts in a non-current liability position				
<i>Derivatives not designated as hedging instruments</i>				
Euro	2,005	1.525	14	(29)
USD	6,900	1.334	14	(144)
Yen	245,100	0.0125	15	(41)
Euro - GBP	3,315	0.890	15	(100)
				(314)
Total contracts in a liability position				\$ (4,341)

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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				
<i>Derivatives designated as hedging instruments</i>				
USD	6,875	1.243	7	\$ 376
<i>Derivatives not designated as hedging instruments</i>				
Euro	-	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				
<i>Derivatives designated as hedging instruments</i>				
USD	10,313	1.250	22	\$ 505
<i>Derivatives not designated as hedging instruments</i>				
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				
<i>Derivatives designated as hedging instruments</i>				
USD	6,875	1.321	7	\$ (152)
<i>Derivatives not designated as hedging instruments</i>				
Yen	28,000	0.0117	2	(8)
Euro - GBP	1,480	0.846	8	(18)
				\$ (178)
Contracts in a non-current liability position				
<i>Derivatives designated as hedging instruments</i>				
USD	10,313	1.315	22	\$ (130)
<i>Derivatives not designated as hedging instruments</i>				
USD	100,000	1.314	28	(942)
Euro - GBP	620	0.853	16	(8)
				(1,080)
Total contracts in a liability position				\$ (1,258)

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(c) (Gains) losses on derivative financial instruments

	13 weeks ended		26 weeks ended	
	July 4	June 29	July 4	June 29
	2020	2019	2020	2019
Realized (gain) loss				
Forward foreign exchange contracts	\$ 2,949	\$ 237	\$ 2,437	\$ (390)
Change in unrealized (gain) loss				
Forward foreign exchange contracts	(10,480)	(553)	9,628	(9,161)
	\$ (7,531)	\$ (316)	\$ 12,065	\$ (9,551)

(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	
	July 4	June 29	July 4	June 29	July 4	June 29
	2020	2019	2020	2019	2020	2019
Derivatives in cash flow hedging relationship						
Forward foreign exchange contracts	(2,550)	(923)	617	228	-	-
Income tax recovery (expense)	778	282	(188)	(69)	-	-
Net gain (loss)	\$ (1,773)	\$ (642)	\$ 429	\$ 159	\$ -	\$ -

	Gain (loss) recognized in ACL		Gain (loss) reclassified from ACL to Net Finance Costs		Ineffectiveness recognized in Net Finance Costs	
	26 weeks ended		26 weeks ended		26 weeks ended	
	July 4	June 29	July 4	June 29	July 4	June 29
	2020	2019	2020	2019	2020	2019
Derivatives in cash flow hedging relationship						
Forward foreign exchange contracts	1,424	(2,206)	(132)	119	-	-
Income tax recovery (expense)	(434)	673	40	(36)	-	-
Net gain (loss)	\$ 989	\$ (1,534)	\$ (92)	\$ 83	\$ -	\$ -

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

	13 weeks ended		26 weeks ended	
	July 4	June 29	July 4	June 29
	2020	2019	2020	2019
Realized (gain) loss				
Long-term debt and working capital	\$ 1,126	\$ 534	\$ 357	\$ 1,217
Unrealized (gain) loss				
Long-term debt and working capital	(13,994)	(4,151)	13,641	(10,141)
Forward foreign exchange contracts	11,427	1,832	(10,897)	7,010
	(2,567)	(2,319)	2,744	(3,131)
	\$ (1,441)	\$ (1,785)	\$ 3,101	\$ (1,914)

(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 July 4, 2020, Clearwater had \$20.7 million in cash and cash equivalents and \$111.5 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 arranged for amendments to 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 July 4, 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 and determined that the recoverable amount of the CGU was in excess of the carrying value as at July 4, 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.

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8. LONG-TERM DEBT

As at	July 4 2020	December 31 2019
Senior debt (a):		
USD senior unsecured notes, due May 2025 (USD \$250,000)	\$ 334,134	\$ 319,059
Term loan B, due November 2024	33,561	33,879
Revolving credit facility, due November 2024	86,240	66,183
Deferred obligation	8,635	8,471
Earnout liability	1,219	2,431
Term loan, due in 2091	3,500	3,500
Lease liabilities	5,908	6,680
Other loans	28	57
Total debt	473,225	440,260
Less: current portion ¹	(11,010)	(11,511)
Total Long-term Debt	\$ 462,215	\$ 428,749

¹Current 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 July 4, 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.

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9. SHARE CAPITAL

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

Share capital movement:

As at		July 4 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 (July 4, 2020 – 2.4 million remaining) for issuance under the share-based compensation plans and 3.0 million (July 4, 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	
	July 4 2020	June 29 2019	July 4 2020	June 29 2019
Salaries and benefits	\$ 6,673	\$ 10,849	\$ 15,975	\$ 21,090
Share-based incentive compensation	1,202	765	1,216	890
Employee compensation	7,875	11,614	17,191	21,980
Consulting and professional fees	2,787	2,797	5,874	6,199
Other ¹	1,857	3,744	4,708	6,975
Allocation to cost of goods sold ²	(2,640)	(3,110)	(5,771)	(6,603)
Administrative and selling	9,879	15,045	22,002	28,551
Restructuring costs	-	-	1,776	-
Operating expenses	9,879	15,045	23,778	28,551

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 completed an organizational restructuring within land-based operations to improve global integration, accelerate innovation and quality improvements and achieve efficiencies within the supply chain.

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(Tabular amounts are in thousands of Canadian dollars)

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		26 weeks ended	
	July 4 2020	June 29 2019	July 4 2020	June 29 2019
Earnings (loss) attributable to shareholders - diluted	\$ 10,555	\$ 8,011	\$ (23,914)	\$ 16,289
Adjustments for share-based compensation	(205)	-	-	-
Earnings (loss) attributable to shareholders - diluted	10,350	8,011	(23,914)	16,289
Weighted average number of shares outstanding - basic	65,148,148	65,031,433	65,138,414	64,937,350
Adjustment for share-based compensation plan shares	1,555,409	-	-	29,864
Weighted average number of shares outstanding - diluted	66,703,557	65,031,433	65,138,414	64,967,214
Earnings (loss) per share				
Basic	\$ 0.16	\$ 0.12	\$ (0.37)	\$ 0.25
Diluted	\$ 0.16	\$ 0.12	\$ (0.37)	\$ 0.25

Diluted weighted average number of shares outstanding are adjusted for the dilutive effect of share-based compensation. For the 26 weeks ended July 4, 2020, 1,560,604 (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		26 weeks ended	
	July 4 2020	June 29 2019	July 4 2020	June 29 2019
Scallops	\$ 38,369	\$ 42,053	\$ 70,784	\$ 78,753
Clams	15,199	29,215	34,150	53,823
Lobster	9,720	20,702	22,900	39,884
Coldwater shrimp	6,568	13,904	24,341	35,263
Crab	9,549	14,311	10,872	16,227
Langoustine	3,930	11,653	11,495	22,072
Whelk	10,886	11,016	16,690	15,500
Groundfish and other species	11,747	11,020	15,077	12,435
	\$ 105,968	\$ 153,874	\$ 206,309	\$ 273,957

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*(unaudited)**(Tabular amounts are in thousands of Canadian dollars)***(b) Sales by Geographic Region of the Customer**

	13 weeks ended		26 weeks ended	
	July 4	June 29	July 4	June 29
	2020	2019	2020	2019
China	\$ 18,232	\$ 32,552	\$ 35,529	\$ 64,730
Japan	12,340	16,029	25,963	30,259
Other	13,146	15,369	21,180	22,165
Asia	43,718	63,950	82,672	117,154
Canada	15,960	25,580	22,412	33,294
United States	15,910	19,350	30,790	36,639
North America	31,870	44,930	53,202	69,933
France	18,818	16,275	34,967	34,508
UK	3,859	7,370	9,889	13,419
Scandinavia	918	6,140	7,361	11,544
Other	6,783	15,202	18,212	27,386
Europe	30,378	44,987	70,429	86,857
Other	2	7	6	13
	\$ 105,968	\$ 153,874	\$ 206,309	\$ 273,957

(c) Non-current Assets by Geographic Region

As at	July 4 2020	December 31 2019
Property, plant and equipment, licenses, fishing rights and goodwill		
Canada	\$ 293,619	\$ 291,813
Argentina	10,491	10,770
Scotland	169,009	171,891
Other	944	1,065
	\$ 474,063	\$ 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.

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14. ADDITIONAL CASH FLOW INFORMATION

	13 weeks ended		26 weeks ended	
	July 4	June 29	July 4	June 29
Changes in operating working capital	2020	2019	2020	2019
(Increase) decrease in inventory	\$ (11,536)	(44,550)	\$ (15,282)	(49,699)
(Increase) decrease in trade and other receivables	(7,792)	(12,993)	14,467	(6,171)
(Increase) decrease in prepaids and other	2,857	2,129	(2,450)	1,541
Increase (decrease) in trade and other payables	1,606	1,322	(13,111)	4,767
Increase (decrease) in income taxes payable	368	(819)	96	(1,250)
	\$ (14,497)	\$ (54,911)	\$ (16,280)	\$ (50,812)

	13 weeks ended		26 weeks ended	
	July 4	June 29	July 4	June 29
Changes in liabilities arising from financing activities	2020	2019	2020	2019
Current and long-term debt - beginning of period	\$ 508,280	\$ 460,908	\$ 440,261	\$ 463,417
Repayment of long-term debt	(1,385)	(1,418)	(1,486)	(1,519)
Repayment of lease liabilities	(395)	(353)	(802)	(704)
Net (repayment of) proceeds from revolving credit facility	(17,307)	37,468	20,024	34,850
Non-cash changes in long-term debt:				
Accretion on deferred obligation	159	305	318	617
Fair market value adjustment on earnout liability	32	47	77	132
Amortization of deferred financing costs	414	445	843	881
Foreign exchange (gain) loss on long-term debt	(16,573)	(6,815)	13,923	(14,180)
Additions to lease liabilities	-	836	67	836
Lease liability transition adjustment ¹	-	-	-	7,093
Current and long-term debt - end of period	\$ 473,225	\$ 491,423	\$ 473,225	\$ 491,423

¹Upon 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.