




2020 THIRD QUARTER REPORT





REMARKABLE SEAFOOD, RESPONSIBLE CHOICE

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LETTER TO SHAREHOLDERS

- Third quarter sales and adjusted EBITDA[1] were $133.7 million and $30.9 million respectively, versus $175.2 million and $34.5 million in the prior year, due to the global impact of COVID-19.

- Year-to-date sales and adjusted EBITDA[1] were $340.0 million and $62.9 million respectively versus $449.2 million and $84.8 million in the prior year, due to the global impact of COVID-19.

- Gross margin and adjusted EBITDA as a percentage of sales were 22.0% and 23.1% respectively in the third quarter compared to 21.6% and 19.7% in 2019.

- Leverage[1] increased modestly to 5.0x compared to 4.9x in the third quarter of 2019 due to management's prudent cash preservation measures.

- Clearwater entered into an arrangement agreement, subject to conditions including shareholder approval, with a Mi'kmaq First Nations Coalition and Premium Brands Holdings Corporation to acquire all of the issued and outstanding common shares of Clearwater for $8.25 per share.

- Subsequent to the end of the third quarter, Clearwater sold two of its eight offshore lobster licences to Membertou First Nations for proceeds of $25 million, diversifying access to the fishery and strengthening the business relationship between Clearwater and Membertou.

Third Quarter and Year-to-date Results

The impact of COVID-19 has been complex for our customers, our supply chain partners and our company in 2020. We are proud of our ability to remain in continuous operation at sea, on land and around the globe, a testament to our employees' character and teamwork which resulted in strong third quarter margin realization and cashflow. Our customer relationships and demonstrated agility in responding to shifts in consumer demand have been successful in partially mitigating the impacts of COVID-19 on our business. We implemented measures in the first quarter of 2020 to protect employee health and safety and to align harvesting and processing to customer demand. These measures have allowed us to remain operational in our fleet and all plants. We experienced strong demand in the third quarter as certain markets re-opened and we continue to prepare for the recovery in the global food service segment. We remain focused on protecting the organization, our operations and meeting consumer needs.

Sales for third quarter and year-to-date 2020 were $133.7 million and $340.0 million as compared to $175.2 million and $449.2 million in the same periods of 2019. Demand rebounded as some markets re-opened in the third quarter of 2020. Year-to-date sales volumes decreased across most species and regions due to lower demand in food service in 2020. Traditional retail and on-line consumer demand continue to thrive in this difficult market, whereas food service customers and their supply chain have been more seriously affected by social distancing measures.

Adjusted EBITDA for third quarter and year-to-date 2020 were $30.9 million and $62.9 million as compared to $34.5 million and $84.8 million in 2019. In the quarter, lower, but improving, demand for clam, lower market prices for certain species and higher costs related to COVID-19 were partially offset by improved scallop, crab and live lobster demand and prices, lower harvesting costs for scallops and clam, lower fuel costs, continuous improvement programs savings, refined procurement strategies and government COVID-19 support programs.

Average foreign exchange rates realized on sales had a net positive impact of $3.4 million and $6.4 million for the third quarter and year-to-date 2020, respectively, as compared to the same periods of 2019.

Cash from operations and free cash flow increased $20.1 million and $20.0 million in the third quarter of 2020 as compared to the same period of 2019. Increase in free cash flow was due to favorable changes 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 as well as selective strategic initiatives that will generate future growth.

Liquidity, Debt and Leverage

Rigorous and disciplined cash preservation measures were implemented in 2020 to preserve liquidity. 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 third quarter of 2020 was 5.0x compared to 4.9x for the same period of 2019. Disciplined working capital management largely offset the impact of lower COVID-19 demand resulting in lower net debt at the third 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 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 continue to experience interruptions. Clearwater responded to this shift by placing extra focus and attention on the expansion of global distribution, new products and formats and shifting promotional activity to channels that are experiencing heightened demand.

Demand improved in the third quarter as government relaxed measures allowing certain markets and channels to reopen. For the balance of 2020, our focus will move to ensuring adequate supply of certain species, mix and formats to fulfill growing customer demand through the peak holiday periods in Europe, North America and Asia. Concurrently, Clearwater will continue our COVID-19 measures, as noted below, as we prepare for accelerated growth in 2021 associated with the recovery in global food service channels and our plans for increased business investment post-closing of the arrangement agreement. We will also position our United Kingdom operations for continued European Union market access and success regardless of the outcome of BREXIT negotiations.

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

Clearwater 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; 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 year-to-date and will maintain liquidity for seasonal operations. In the near term, leverage is expected to remain higher than the prior year 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.

Ian Smith
Chief Executive Officer
Clearwater Seafoods Incorporated
November 17, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective November 17, 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 third quarter news release.

This MD&A should be read in conjunction with the 2020 third 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, with 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 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 continue to experience interruptions. Clearwater responded to this shift by placing extra focus and attention on the expansion of global distribution, new products and formats and shifting promotional activity to channels that are experiencing heightened demand.

Demand improved in the third quarter as government relaxed measures, allowing certain markets and channels to reopen. Clearwater continues 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.

Clearwater 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 our office, sales and administrative staff to working remotely, coordinating across three continents and seventeen 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.

Third 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 nine months 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. In response to this, 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 purchasing 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, procurement, and production schedules. Margins 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 are

managing costs and inventory levels. Clearwater has benefited from strong catch rates and lower fuel costs in 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 seafood, markets and distribution channels. Clearwater took immediate action in response to COVID-19, to ensure employee safety and security.

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.

   On September 8, 2020, Clearwater and Membertou First Nation announced that they reached an agreement for the sale of two of Clearwater's eight offshore lobster licences to Membertou First Nation for $25 million and entered into an ongoing operating agreement. This transaction builds on and strengthens the business relationship between Clearwater and Membertou, which already includes operating agreements in other Clearwater species, Indigenous employment, and procurement commitments.

   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 third quarter of 2020, the Company's cash balance was $29.0 million, with access to an additional $141.2 million through an undrawn, committed revolving credit facility.

   During the third quarter, Clearwater repaid $30.0 million of the Company's revolving credit facility. Disciplined working capital management in the first nine months of 2020 resulted in a $55.7 million improvement in working capital investment as compared to the first nine months 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 **October 3 2020**		13 weeks ended September 28 2019		39 weeks ended **October 3 2020**		39 weeks ended September 28 2019
Profitability								
Sales	**$**	**133,716**	$	175,200	**$**	**340,025**	$	449,159
Sales growth (decline)		**(23.7%)**		6.7%		**(24.3%)**		3.9%
Gross margin	**$**	**29,464**	$	37,767	**$**	**64,006**	$	90,907
Gross margin (as a % of sales)		**22.0%**		21.6%		**18.8%**		20.2%
Adjusted EBITDA[1,2]	**$**	**30,909**	$	34,490	**$**	**62,878**	$	84,771
Adjusted EBITDA[1,2] (as a % of sales)		**23.1%**		19.7%		**18.5%**		18.9%
Adjusted EBITDA attributable to shareholders[1,2]	**$**	**27,970**	$	29,405	**$**	**54,187**	$	71,952
Adjusted EBITDA attributable to shareholders[1,2] (as a % of sales)		**20.9%**		16.8%		**15.9%**		16.0%
Earnings (loss) attributable to shareholders	**$**	**12,482**	$	7,804	**$**	**(11,431)**	$	24,092
Basic earnings (loss) per share	**$**	**0.19**	$	0.12	**$**	**(0.18)**	$	0.37
Diluted earnings (loss) per share	**$**	**0.18**	$	0.12	**$**	**(0.18)**	$	0.37
Adjusted earnings (loss) attributable to shareholders[1,2]	**$**	**8,502**	$	7,280	**$**	**1,120**	$	12,334
Adjusted earnings (loss) per share	**$**	**0.13**	$	0.11	**$**	**0.02**	$	0.19
Cash Flows and Leverage								
Cash from (used in) operating activities	**$**	**42,878**	$	22,727	**$**	**39,982**	$	(591)
Cash from (used in) financing activities		**(33,214)**		(33,775)		**(23,396)**		(12,998)
Cash from (used in) investing activities		**(1,358)**		1,801		**(20,719)**		(11,635)
Free cash flows[1]	**$**	**38,262**	$	18,258	**$**	**9,590**	$	(25,144)
Leverage[1,3]		**5.0x**		4.9x		**5.0x**		4.9x
Returns								
Return on assets[1,4]		**7.2%**		8.9%		**7.2%**		8.9%
Total assets		**701,678**		736,463		**701,678**		736,463

[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.

Third quarter key highlights

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

Profitability

Third quarter sales decreased $41.5 million or 23.7% and adjusted EBITDA decreased $3.6 million as compared to the prior year.

- Adjusted EBITDA decreased versus prior year as clam volumes were negatively impacted by COVID-19 related demand and lower pricing on certain species.
- Adjusted EBITDA as a percentage of sales increased 410 basis points from 16.8% to 20.9% reflecting a favourable sales mix and lower operating expenses.
- Scallops benefited from increased demand as sales were strong across all channels.
- Certain procured species saw improved results relative to the first half of 2020 as demand rebounded.
- Turbot was negatively impacted by the timing of landings.
- Margins benefited from cost containment activities, realignment of harvest, procurement, and production plans to satisfy customer needs and government COVID-19 support programs.
- Additional one-time expenses associated with COVID-19 of approximately $11.8 million year-to-date, were partially offset by a reduction in operating expenses and government COVID-19 support programs of $9.8 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 $4.7 million in the third quarter of 2020 versus 2019, due to lower income tax expense and operating expenses offset by lower gross margin.

Cash flows and leverage

Leverage increased modestly to 5.0x as compared to 4.9x in the third quarter of 2019. Cash from operations improved by $20.2 million in the third quarter as compared to the same period of 2019.

- The increase in leverage was marginal, despite the reduction in demand due to COVID-19. The decrease in adjusted EBITDA attributable to shareholders of $12.2 million was mostly offset by a reduction in net debt of $51.3 million, primarily driven by disciplined working capital management.
- Free cashflow increased $20.0 million in the third 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 and term debt to 2024.

Returns

Return on assets[1] decreased to 7.2% for the third quarter of 2020 as compared to 8.9% in the prior year, primarily due to lower annualized EBIT, partially offset by lower average inventory balances. Higher EBIT in 2019 was due to strong harvesting conditions for most species and favorable sales mix.

Developments

Clearwater to be acquired by Premium Brands Holdings Corporation and a Mi'kmaq First Nations Coalition

On November 9, 2020, Clearwater entered into a definitive arrangement agreement (the "Arrangement Agreement") with a coalition of Mi'kmaq First Nations and Premium Brands Holdings Corporation to acquire, through a new equally owned company, all of the issued and outstanding common shares of Clearwater for $8.25 per share (subject to adjustment) in a transaction valued at approximately $1.0 billion, including debt (the "Transaction").

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

The Transaction will be completed by way of a plan of arrangement under the *Canada Business Corporations Act*. Completion of the Transaction is subject to a number of conditions, including court and shareholder approvals and compliance with the *Competition Act (Canada).* The Transaction is not subject to a financing condition and is expected to close in the first half of 2021. A special meeting of Clearwater's shareholders is expected to be held in early January 2021 to approve the Transaction.

This strategic investment represents a transformational change in Canadian fisheries, catapulting First Nations into a leading global position in the seafood industry with the largest holdings of shellfish licences and quotas in Canadian fisheries. Refer to Clearwater's press release dated November 9, 2020 and a copy of the Arrangement Agreement available on SEDAR under Clearwater's profile for more information.

COVID-19 Pandemic

The novel coronavirus known as COVID-19 surfaced in late 2019 and has since been declared a 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.

St. Anthony, NL Shrimp Plant

On September 18, 2020, Clearwater and Quin-Sea Fisheries received regulatory approval from the Newfoundland and Labrador Minister of Fisheries, Forestry and Agriculture, to transfer the processing license for the St. Anthony fish plant. Following the close of the transaction in November 2020, Clearwater and Quin-Sea are working together with local stakeholders to ensure a smooth operational transition and work to position the plant for a successful 2021 season. This included establishing a new joint venture, in which Quin-Sea Fisheries Ltd will assume management responsibility for the plant. The new joint venture will enhance the economic viability of the St. Anthony operation and benefit the local community.

Offshore Lobster Fishery

On September 8, 2020, Clearwater entered into an agreement for the sale of two of Clearwater's eight offshore lobster licences to Membertou First Nation. The transaction closed in November 2020 following regulatory approval.

Membertou invested $25 million to purchase the licences, significantly increasing their presence in the commercial offshore fishery in Atlantic Canada. This transaction builds on and strengthens the business relationship between Clearwater and Membertou, which already includes operating agreements in other Clearwater species, Indigenous employment, and procurement commitments. Clearwater and Membertou First Nation will work collaboratively on our mutual objectives for the offshore lobster fishery: sustainable science based management of the resource, positive economic growth and increasing the value of the resource, continued research and development, benefits to local communities, and quality employment.

EXPLANATION OF CHANGES IN EARNINGS

Overview

The condensed interim consolidated statement of earnings (loss) reflects the results of Clearwater for the 13 and 39 weeks ended October 3, 2020 and September 28, 2019. For supplemental non-IFRS measures, refer to the discussion on non-IFRS measures, definitions and reconciliations section of this interim MD&A. Detailed discussion on the components of consolidated earnings (loss) follows.

	13 weeks ended			39 weeks ended		
In 000's of Canadian dollars	**October 3 2020**	September 28 2019	Change	**October 3 2020**	September 28 2019	Change
Sales	**$ 133,716**	$ 175,200	$ (41,484)	**$ 340,025**	$ 449,159	$ (109,134)
Cost of goods sold	**104,252**	137,433	(33,181)	**276,019**	358,252	(82,233)
Gross margin	**29,464**	37,767	(8,303)	**64,006**	90,907	(26,901)
Gross margin as a % of sales	***22.0%***	*21.6%*	*0.48%*	***18.8%***	*20.2%*	*(1.4%)*
Operating expenses						
Administrative and selling	**10,609**	14,678	4,069	**32,611**	43,232	10,621
Restructuring costs	**805**	-	(805)	**2,582**	-	(2,582)
Net finance costs	**7,488**	8,137	649	**22,307**	24,094	1,787
(Gains) losses on derivative financial instruments	**(1,413)**	(486)	927	**10,652**	(10,037)	(20,689)
Foreign exchange (gains) losses on long-term debt and working capital	**(1,598)**	715	2,313	**1,505**	(1,199)	(2,704)
Other (income) expense	**(466)**	(729)	(263)	**(3,499)**	(2,901)	598
Research and development	**643**	116	(527)	**1,305**	391	(914)
	16,068	22,431	6,363	**67,463**	53,580	(13,883)
Earnings (loss) before income taxes	**13,396**	15,336	(1,940)	**(3,457)**	37,327	(40,784)
Income tax expense (recovery)	**(1,487)**	3,682	5,169	**413**	3,550	3,137
Earnings (loss)	**$ 14,883**	$ 11,654	$ 3,229	**$ (3,870)**	$ 33,777	$ (37,647)
Earnings (loss) attributable to:						
Non-controlling interest	**$ 2,401**	$ 3,850	$ (1,449)	**$ 7,561**	$ 9,685	$ (2,124)
Shareholders of Clearwater	**12,482**	7,804	4,678	**(11,431)**	24,092	(35,523)
	$ 14,883	$ 11,654	$ 3,229	**$ (3,870)**	$ 33,777	$ (37,647)
Adjusted EBITDA attributed to:						
Non-controlling interest	**$ 2,939**	$ 5,085	$ (2,146)	**$ 8,691**	$ 12,819	$ (4,128)
Shareholders of Clearwater	**27,970**	29,405	(1,435)	**54,187**	71,952	(17,765)
Adjusted EBITDA[1]	**$ 30,909**	$ 34,490	$ (3,581)	**$ 62,878**	$ 84,771	$ (21,893)

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

Sales by species

In 000's of Canadian		**October 3 2020**		September 28 2019		Change 13 weeks ended		**October 3 2020**		September 28 2019		Change 39 weeks ended
Scallops	**$**	44,569	$	45,028	$	(459)	**$**	115,353	$	123,781	$	(8,428)
Clams		24,504		32,592		(8,088)		58,655		86,414		(27,759)
Lobster		14,843		27,259		(12,416)		37,744		67,141		(29,397)
Coldwater shrimp		10,299		16,145		(5,846)		34,640		51,407		(16,767)
Crab		18,198		21,003		(2,805)		29,070		37,230		(8,160)
Langoustine		8,716		12,735		(4,019)		20,211		34,806		(14,595)
Whelk		4,327		7,221		(2,894)		21,016		22,721		(1,705)
Groundfish and other species		8,260		13,217		(4,957)		23,336		25,659		(2,323)
	$	**133,716**	$	175,200	$	(41,484)	**$**	**340,025**	$	449,159	$	(109,134)

Sales by region

In 000's of Canadian		**October 3 2020**		September 28 2019		Change 13 weeks ended		**October 3 2020**		September 28 2019		Change 39 weeks ended
Europe	**$**	**47,738**	$	57,599	$	(9,861)	**$**	**118,166**	$	144,459	$	(26,293)
China		**28,013**		43,282		(15,269)		**63,542**		108,012		(44,470)
Japan		**12,214**		16,195		(3,981)		**38,177**		46,454		(8,277)
Other Asia		**6,362**		10,537		(4,175)		**27,542**		32,702		(5,160)
Asia		**46,589**		70,014		(23,425)		**129,261**		187,168		(57,907)
United States		**16,662**		18,944		(2,282)		**47,452**		55,583		(8,131)
Canada		**22,727**		28,640		(5,913)		**45,140**		61,934		(16,794)
North America		**39,389**		47,584		(8,195)		**92,592**		117,517		(24,925)
Other		**-**		3		(3)		**6**		15		(9)
	$	**133,716**	$	175,200	$	(41,484)	**$**	**340,025**	$	449,159	$	(109,134)

Clearwater reported sales for the third quarter of 2020 of $133.7 million versus 2019 comparatives of $175.2 million. Sales for the first nine months of 2020 were $340.0 million versus 2019 comparatives of $449.2 million.

Sales volumes decreased across most species and regions in the first nine months 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 as Clearwater's focus shifted to retail sales. Certain species, including turbot and whelk were not significantly impacted.

Average foreign exchange rates realized on sales for the third quarter and first nine months of 2020 had a net positive impact to sales of $3.4 million and $6.4 million, respectively, as compared to the same periods in the prior year.

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

Scallops
- Strong demand for scallops across all channels, increased sales volumes in the third quarter of 2020 as compared to 2019.
- Sales decreased marginally due to mix in the third quarter of 2020 as compared to 2019.
- Demand has shifted back to normal levels as retail remains strong and food service continues to improve.

Clams
- Clams sales volumes were lower in the third quarter and first nine months of 2020 due to reduced demand in the food service segment. Year-to-date was also impacted by unfavourable sales mix as compared to the same periods of 2019.
- Clam sales volumes improved at the end of the second quarter of 2020 as economies began to open in certain regions. Third quarter sales decreased 24.8% over the same period of 2019 versus a 32.1% decrease year-to-date.

Lobster
- Sales volumes decreased as market demand for processed product declined.
- Demand for live lobster recovered in markets where the food service segment re-opened.
- Selling prices have been impacted by reduced demand and lower raw material costs, however demand for live lobster was strong relative to industry supply.

Coldwater shrimp
- An increase in global shrimp supply impacted pricing for certain sizes and formats in late 2019 which has continued into 2020.
- Sale volumes decreased in 2020 as compared to 2019 due to planned maintenance on one shrimp vessel.
- Demand has been steady for this product with sales into new markets.

Crab
- Crab sales declined in the third quarter and first nine months of 2020 as compared to the same periods in 2019 primarily due to a shift in the opening of the harvesting season and the availability of supply.
- Demand was strong for certain product types and market prices have improved.

Langoustine
- Langoustine sales volumes decreased in the third quarter and first nine months 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 volumes decreased in the third quarter of 2020 as compared to the same period of 2019 due to timing of sales as additional volumes were sold in the first half of 2020.
- Year-to-date sales decreased due to reduced volumes and market price.

Groundfish and other species
- Sales decreased in the third quarter and first nine months 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 third quarter and year-to-date 2020 decreased $9.9 million and $26.3 million, respectively, as compared to the same periods of 2019.

1 – Refer to discussion on risks and uncertainties

The decline in sales in 2020 was primarily due to the reduced demand for langoustines, shifting sales of certain sized scallop to other markets and the availability of coldwater shrimp due to the scheduled 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, often consumed in ready-to-eat meals.

The Euro and GBP strengthened against the Canadian dollar in the third quarter and year-to-date 2020 resulting in a net positive impact of $2.6 million and $2.7 million, respectively, as compared to the same periods in 2019.

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

Sales for third quarter and year-to-date 2020 decreased $15.3 million and $44.5 million, respectively, as compared to the same periods of 2019.

Market demand for multiple species was negatively impacted by lower demand in food service due to COVID-19. Clam and lobster sales started to recover in the third quarter. Volumes decreased due to lower demand and 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. The US dollar strengthened against the Canadian dollar in the third quarter and year-to-date 2020, positively impacting sales by $0.1 million and $1.1 million, respectively, as compared to the same periods of the prior year.

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

Sales for third quarter and year-to-date 2020 decreased $4.0 million and $8.3 million, respectively, as compared to the same periods in 2019.

Sales decreased due to availability of lobster formats generally sold in this market and the timing of landings for FAS shrimp. Year-to-date, 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 third quarter and year-to-date 2020 as compared to the prior year resulting in a net positive impact of $0.2 million and $1.0 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 third quarter and year-to-date 2020 decreased $4.2 million and $5.2 million, respectively, as compared to the same periods in 2019 primarily due to a regional shift in sales for turbot and whelk.

United States
Primary species are scallops, lobster and clams.

Sales for third quarter and year-to-date 2020 decreased $2.3 million and $8.1 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 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 third quarter and year-to-date 2020 were positively impacted $0.1 million and $0.8 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 third quarter and year-to-date 2020 decreased $5.9 million and $16.8 million, respectively, as compared to the same periods in 2019.

The decrease in sales is primarily due to lower market demand for scallop and clam in the food service segment and unfavorable mix in clams. Crab was impacted by lower availability of supply.

Average foreign exchange rates realized on sales

For third 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 $3.4 million and $6.4 million, respectively.

				13 weeks ended				39 weeks ended
		October 3 2020		September 28 2019		**October 3 2020**		September 28 2019
Currency	**% sales**	**Average rate realized [1]**	% sales	Average rate realized[1]	**% sales**	**Average rate realized[1]**	% sales	Average rate realized[1]
US dollars	**52.7%**	**1.331**	51.7%	1.322	**47.4%**	**1.351**	48.3%	1.328
Euros	**25.9%**	**1.559**	23.4%	1.465	**24.1%**	**1.530**	22.0%	1.487
Canadian dollar and other	**7.6%**		9.5%		**8.7%**		10.6%	
UK pounds	**7.3%**	**1.722**	8.0%	1.622	**10.7%**	**1.717**	9.8%	1.686
Japanese yen	**5.2%**	**0.013**	4.4%	0.012	**7.0%**	**0.013**	6.1%	0.012
Danish kroner	**1.3%**	**0.210**	3.0%	0.196	**2.1%**	**0.200**	3.2%	0.200
	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 $33.2 million and $82.2 million in the third quarter and year-to-date 2020 as compared to the same periods of 2019. As a percentage of sales, cost of goods sold decreased 48 basis points in the third quarter and increased 142 basis points year-to-date as compared to the same periods of 2019.

Strong harvest conditions and lower procurement costs 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 $29.5 million and $64.0 million for third quarter and year-to-date 2020, respectively, as compared to $37.8 million and $90.9 million in the same periods of 2019. Gross margin as a percentage of sales was 22.0% and 18.7% for the third quarter and year-to-date 2020, respectively, as compared to 21.6% and 20.2% in the prior year.

Gross margin decreased, due to lower demand for clam, langoustines, and lobster 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 first half of 2020. This was partially offset by lower harvesting costs for clam, strong catch rates for certain size scallops and market prices for crab.

Margins include the cost of preventative measures implemented to ensure the safety of our employees, benefits from government COVID-19 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 $3.4 million and $6.4 million for the third quarter and first nine months of 2020, respectively, as compared to the same periods of 2019.

Operating expenses

	13 weeks ended			39 weeks ended		
In 000's of Canadian dollars	**October 3 2020**	September 28 2019	Change	**October 3 2020**	September 28 2019	Change
Salaries and benefits	**$ 7,138**	$ 10,417	$ 3,279	**$ 23,113**	$ 31,507	$ 8,394
Share-based compensation	**1,253**	834	(419)	**2,469**	1,725	(744)
Employee compensation	**8,391**	11,251	2,860	**25,582**	33,232	7,650
Consulting and professional fees	**2,839**	3,379	540	**8,712**	9,577	865
Other[1]	**2,074**	2,709	635	**6,783**	9,687	2,904
Allocation to cost of goods sold[2]	**(2,695)**	(2,661)	34	**(8,466)**	(9,264)	(798)
Administrative and selling	**$ 10,609**	$ 14,678	$ 4,069	**$ 32,611**	$ 43,232	$ 10,621
Restructuring costs	**805**	-	(805)	**2,582**	-	(2,582)
Operating expenses	**$ 11,414**	$ 14,678	$ 3,264	**$ 35,193**	$ 43,232	$ 8,039

[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 $3.3 million and $8.0 million in the third quarter and year-to-date 2020, respectively, as compared to the same periods in 2019 due to reduced discretionary spending and employee compensation and supplemental government support. These savings were partially offset by non-recurring restructuring costs of $2.6 million year-to-date 2020.

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

Net finance costs

In 000's of Canadian dollars		October 3 2020		September 28 2019		Change		October 3 2020		September 28 2019		Change
						13 weeks ended						39 weeks ended
Interest and bank charges	$	**6,908**	$	7,391	$	483	$	**20,567**	$	21,850	$	1,283
Amortization of deferred financing charges		**416**		445		29		**1,259**		1,326		67
		7,324		7,836		512		**21,826**		**23,176**		1,350
Accretion on deferred consideration		**164**		301		137		**481**		918		437
		164		301		137		**481**		918		437
	$	**7,488**	$	8,137	$	649	$	**22,307**	$	24,094	$	1,787

Net finance costs decreased $0.6 million and $1.8 million in the third quarter and year-to-date 2020, respectively, as compared to the same periods in 2019. Interest and bank charges decreased $1.3 million year-to-date 2020 primarily due to lower borrowings on the revolving credit facility as compared to the prior year.

(Gains) losses on derivative financial instruments

In 000's of Canadian dollars		October 3 2020		September 28 2019		Change		October 3 2020		September 28 2019		Change
						13 weeks ended						39 weeks ended
Realized (gain) loss												
Forward foreign exchange contracts	$	**992**	$	729	$	(263)	$	**3,429**	$	339	$	(3,090)
Changes in unrealized gains & losses												
Forward foreign exchange contracts		**(2,405)**		(1,215)		1,190		**7,223**		(10,376)		(17,599)
	$	**(1,413)**	$	(486)	$	927	$	**10,652**	$	(10,037)	$	(20,689)

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. Changes in 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 foreign exchange hedging program.

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

	13 weeks ended			39 weeks ended		
In 000's of Canadian dollars	**October 3 2020**	September 28 2019	Change	**October 3 2020**	September 28 2019	Change
Realized (gain) loss						
Long-term debt and working capital	**$ 2,911**	$ 1,103	$ (1,808)	**$ 3,268**	$ 2,320	$ (948)
Changes in unrealized (gains) losses						
Long-term debt and working capital	**(9,725)**	3,706	13,431	**3,917**	(6,435)	(10,352)
Forward exchange contracts related to long-term debt	**5,216**	(4,094)	(9,310)	**(5,680)**	2,916	8,596
	(4,509)	(388)	4,121	**(1,763)**	(3,519)	(1,756)
	$ (1,598)	$ 715	$ 2,313	**$ 1,505**	$ (1,199)	$ (2,704)

Realized foreign exchange losses on long-term debt and working capital increased $1.8 million in the third quarter and $0.9 million year-to-date 2020, respectively, as compared to the same periods of 2019. Foreign exchange rates on the date of settlement weakened relative to the Canadian dollar on the transaction date, resulting in unfavourable working capital settlements in the third quarter and year-to-date 2020.

Changes in unrealized foreign exchange gains on long-term debt and working capital increased $13.4 million and decreased $10.4 million for the third 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

	13 weeks ended			39 weeks ended		
In 000's of Canadian dollars	**October 3 2020**	September 28 2019	Change	**October 3 2020**	September 28 2019	Change
Share of earnings of equity-accounted investee	**$ (903)**	$ (687)	$ (216)	**$ (2,480)**	$ (3,507)	$ 1,027
Fair value adjustment on earn-out liability	**3**	(24)	27	**79**	108	(29)
Other (income) fees	**434**	(18)	452	**(1,098)**	498	(1,596)
	$ (466)	$ (729)	263	**$ (3,499)**	$ (2,901)	$ (598)

Other income decreased $0.3 million and increased $0.6 million in the third quarter and year-to-date 2020, respectively, as compared to the same periods in 2019.

The decrease in the third quarter of 2020 is primarily due to costs incurred related to the strategic review. Year-to-date the increase is 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 $5.2 million and $3.1 million in the third quarter and year-to-date 2020, respectively, as compared to the same periods in 2019.

Current tax expense decreased $1.3 million in the third quarter and $1.7 million year-to-date 2020 primarily due to income in foreign tax jurisdictions and related foreign exchange impacts.

Deferred tax expense decreased $3.8 million third quarter and $1.4 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 $4.7 million in the third quarter of 2020 as compared to the same period in 2019. The increase is largely due to lower income tax expense and lower operating costs, partially offset by lower gross margin caused by lower demand.

Earnings attributable to shareholders decreased $35.5 million year-to-date 2020 as compared to the same period in 2019 primarily due to changes in losses on derivative financial instruments of $20.7 million and lower gross margin, partially offset by reduced operating costs of $10.6 million.

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 $1.4 million and $2.1 million in third quarter and year-to-date 2020, respectively as compared to the same periods of 2019 was primarily due to lower sales volumes, impacted by planned maintenance on one shrimp vessel and market prices.

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 within Non-IFRS Measures, Definitions and Reconciliations section. Management believes that in addition to earnings and cash provided by operating activities, adjusted earnings is a useful supplemental measure 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 shareholders[1] decreased $1.2 million and $11.2 million in the third 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 earnings and 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 EBITDA[1] 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 October 3, 2020 and December 31, 2019:

In 000's of Canadian dollars		**2020**		2019
Equity				
Share capital	**$**	**217,081**	$	216,986
Contributed surplus		**5,468**		4,164
Deficit		**(24,842)**		(10,155)
Accumulated other comprehensive income (loss)		**(39,932)**		(40,213)
		157,775		170,782
Non-controlling interest		**16,826**		16,668
Total Equity		**174,601**		187,450
Long-term debt				
Senior debt, non-amortizing				
USD senior unsecured notes, due 2025[1]		**327,757**		319,059
Revolving debt, due in 2024[2]		**56,603**		66,183
Term loan, due in 2091		**3,500**		3,500
		387,860		388,742
Senior debt, amortizing				
Term Loan B, due 2024[3]		**33,491**		33,879
Other loans		**13**		57
		33,504		33,936
Lease liabilities[4]		**5,643**		6,680
Deferred obligation[5]		**8,951**		8,471
Earnout liability[5]		**1,243**		2,431
Total long-term debt		**437,201**		440,260
Total capital	**$**	**611,802**	$	627,710

1. USD senior unsecured notes with a US dollar coupon rate of 6.875% are net of unamortized deferred financing charges of $4.9 million.

2. The revolving debt is net of unamortized deferred financing charges of $2.2 million. As of October 3, 2020, subject to financial covenants, Clearwater may borrow up to an additional CDN $141.2 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 (October 3, 2020 - 2.4 million remaining) for issuance under the share-based compensation plans and 3.0 million (October 3, 2020 - 1.9 million remaining) under the dividend reinvestment plan.

There are 65,148,148 shares outstanding as of October 3, 2020 (December 31, 2019 - 65,128,253).

Long-term debt

As at October 3, 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 October 3, 2020 is £5.2 million (CDN $9.0 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. On October 31, 2020, the holders of the Earn Out Shares elected to be paid the final 20% of the Deferred Obligation.
- 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 October 3, 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 77% percent of its debt as at October 3, 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 continue to impact our business, 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 amended 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 October 3, 2020, Clearwater had $29.0 million in cash, and $141.2 million available to draw down on its revolving facility.

In 000's of Canadian dollars

As at	**October 3 2020**	September 28 2019	September 29 2018
Cash	$ **29,039**	$ 9,704	$ 25,963
Availability on revolving credit facility	**141,227**	86,401	76,255
Sources of liquidity	**170,266**	96,105	102,218

Leverage[1]

Leverage as at October 3, 2020 was 5.0x compared to 4.9x for the same period in 2019 (4.1x as at December 31, 2019). Leverage increased modestly in the third quarter of 2020 as compared to the same period of 2019 as disciplined working capital management lowered net debt balances, largely offsetting the impact of COVID-19 demand on adjusted EBITDA.

In 000's of Canadian dollars

As at		**October 3 2020**	December 31 2019		September 28 2019		September 29 2018
Adjusted EBITDA[1] attributable to shareholders	$	**81,480**	99,245	$	93,672	$	89,297
Net Debt[2,3,4] (excluding non-controlling interest)		**403,973**	411,360		455,274		448,080
Leverage		**5.0x**	4.1x		4.9x		5.0x

[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 $7.4 million (December 31, 2019 - $7.2 million; September 28, 2019 - $7.8 million; September 29, 2018 - $9.2 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 earnings and cash flow volatility arising from foreign currency cash flows. Clearwater 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 October 3, 2020, Clearwater had forward exchange contracts outstanding:

Currency	Forecasted transaction	Notional (millions)	Average rate
USD to CDN	Sales	101.7	1.3452
Yen to CDN	Sales	2,340.7	0.0127
Euro to CDN	Sales	28.0	1.5361
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:

		13 weeks ended		39 weeks ended
In 000's of Canadian dollars	**October 3 2020**	September 28 2019	**October 3 2020**	September 28 2019
Cash from (used in) operating activities	**$ 42,878**	$ 22,727	**$ 39,982**	$ (591)
Cash from (used in) financing activities	**(33,214)**	(33,775)	**(23,396)**	(12,998)
Cash from (used in) investing activities	**(1,358)**	1,801	**(20,719)**	(11,635)
Free cash flow[1,2]	**$ 38,262**	$ 18,258	**$ 9,590**	$ (25,144)
Supplemental cash flow information				
Changes in working capital	**$ 22,163**	$ 999	**$ 5,886**	$ (49,813)
(Increase) decrease in inventory	**4,283**	4,829	**(10,999)**	(44,869)
(Increase) decrease in trade and other receivables	**3,115**	(10,609)	**17,582**	(16,780)
(Increase) decrease in prepaids and other	**2,864**	(646)	**415**	895
Increase (decrease) in trade and other payables	**11,941**	7,413	**(1,169)**	12,180
(Increase) decrease in income taxes payable	**(40)**	12	**57**	(1,239)
Purchase of property, plant and equipment	**$ (3,962)**	$ (2,931)	**$ (24,871)**	$ (16,821)
Cash dividends paid on common shares[3]	**$ -**	$ (3,171)	**$ (3,191)**	$ (8,753)

[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 from operations increased $20.2 million and $40.6 million in the third quarter and year-to-date 2020 as compared to the same period of 2019, primarily due to favourable changes in working capital, partially offset by lower EBITDA. Lower investment in working capital is primarily due to inventory management strategies to address reduced demand, timing of sales and conscientious credit management.

Cash flow from Financing Activities

Cash used in financing activities decreased $0.6 million and increased $10.4 million in the third quarter and year-to-date 2020 as compared to the same period of 2019. Net repayments on the revolving credit facility and long-term debt increased $5.3 million and $20.0 million in the third quarter and year-to-date following lower investments in inventory and suspension of dividend payments. Distributions to non-controlling interests decreased $2.5 million and $4.8 million lower in the third quarter and year-to-date 2020 as compared to 2019 due to the impacts of reduced demand and lower landings.

Cash Flow from Investing Activities

Cash used in investing activities increased $3.2 million and $9.1 million in the third quarter and year-to-date 2020 as compared to the same periods in 2019 due to planned increased in capital expenditures and lower dividends from equity investment.

Free Cash Flow[1]

Free cash flow increased $20.0 million and $34.7 million in the third quarter and year-to-date 2020 as compared to the same period of 2019. The increase was due to favourable changes in working capital, driven by inventory management strategies, partially offset by lower cash earnings, higher capital expenditures and lower distributions to non-controlling interest. 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. In the first quarter of 2020, Clearwater implemented additional inventory management measures to address changing demand characteristics caused by 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 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 continue to experience interruptions. Clearwater responded to this shift by placing extra focus and attention on the expansion of global distribution, new products and formats and shifting promotional activity to channels that are experiencing heightened demand.

Demand improved in the third quarter as government relaxed measures allowing certain markets and channels to reopen. For the balance of 2020, our focus will move to ensuring adequate supply of certain species, mix and formats to fulfill growing customer demand through the peak holiday periods in Europe, North America and Asia. Concurrently, Clearwater will continue our COVID-19 measures, as noted below, as we prepare for accelerated growth in 2021 associated with the recovery in global food service channels and our plans for increased business investment post-closing of the arrangement agreement. We will also position our United Kingdom operations for continued European Union market access and success regardless of the outcome of BREXIT negotiations.

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

Clearwater 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; 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 year-to-date and will maintain liquidity for seasonal operations. In the near term, leverage is expected to remain higher than the prior year 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 implemented our 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.

Political risk

Our operations and investments are subject to economic and political risks, which could materially and adversely affect our business.

United Kingdom

On January 31, 2020, the UK left the EU, signalling the beginning of an 11-month transition period during which the UK and EU relations operate as if the UK remained a member, complying with EU legislation and trade conditions.

During the transition period, the UK and the EU will negotiate their future relationship. The UK's stated objective is to agree to a Free Trade Agreement with the EU by the end of 2020. With UK legislation in place to prevent an extension of the transition period and an aggressive timeline for a comprehensive trade deal, there remains uncertainty around the nature of the UK-EU relationship beyond 2020.

As a business, we are taking an active and fully participative, leadership and advisory role in all preparatory government working groups for shellfish harvesting and processing, looking at trade, fisheries access and immigration/labour related matters.

The Company is actively preparing for the transition of a new trade relationship between the EU and UK, including internally accessing, planning and managing the implications of the future relationship, to mitigate any impacts to the business.

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 October 3, 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	$ 133,716	$ -
Adjusted EBITDA[1]	13,048	18,923	30,909	-
Adjusted EBITDA attributable to shareholders[1]	10,315	15,903	27,970	-
Earnings (loss) attributable to shareholders	(34,469)	10,555	12,482	-
Earnings (loss) per share	(0.53)	0.16	0.19	-
Diluted earnings (loss) per share	(0.53)	0.16	0.18	-
Weighted average shares outstanding[2]	65,129,091	65,148,148	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 39 weeks ended October 3, 2020 and September 28, 2019 and rolling twelve months ended October 3, 2020 and September 28, 2019 is as follows:

		13 weeks ended		**39 weeks ended**		**12 months Rolling**	
		October 3 2020	September 28 2019	**October 3 2020**	September 28 2019	**October 3 2020**	September 28 2019
Earnings (loss)	$	**14,883**	$ 11,654	$ **(3,870)**	$ 33,777	$ **15,198**	$ 23,219
Income taxes		**(1,487)**	3,682	**413**	3,550	**552**	2,929
Taxes and depreciation for equity investment		**451**	350	**1,191**	1,631	**1,016**	756
Depreciation and amortization		**11,013**	10,327	**28,012**	31,323	**41,311**	43,803
Interest on long-term debt and bank charges		**7,325**	7,836	**21,826**	23,176	**29,401**	30,672
Earnings before interest, taxes, depreciation and amortization	$	**32,185**	$ 33,849	$ **47,572**	$ 93,457	$ **87,478**	$ 101,379
Add (deduct) other items:							
Unrealized foreign exchange and derivative loss (income)		**(6,913)**	(1,606)	**5,459**	(13,899)	**(3,577)**	1,888
Fair market value adjustment on long-term debt		**166**	276	**561**	1,026	**852**	1,468
Realized foreign exchange on working capital		**2,911**	1,103	**3,268**	2,320	**2,730**	1,660
Restructuring and refinancing costs		**1,307**	34	**3,549**	142	**3,552**	244
Share-based compensation (recovery) expense		**1,253**	834	**2,469**	1,725	**1,974**	2,220
Adjusted EBITDA	**$**	**30,909**	**$** 34,490	**$ 62,878**	**$** 84,771	**$ 93,009**	**$** 108,859
Adjusted EBITDA attributed to:							
Non-controlling interests	$	**2,939**	$ 5,085	$ **8,691**	$ 12,819	$ **11,529**	$ 15,187
Shareholders of Clearwater		**27,970**	29,405	**54,187**	71,952	**81,480**	93,672
	$	**30,909**	**$** 34,490	**$ 62,878**	**$** 84,771	**$ 93,009**	**$** 108,859

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 39 weeks ended October 3, 2020 and September 28, 2019 and rolling twelve months ended October 3, 2020 and September 28, 2019 is as follows:

	13 weeks ended		39 weeks ended		Rolling 12 months ended	
	October 3 2020	September 28 2019	**October 3 2020**	September 28 2019	**October 3 2020**	September 28 2019
Reconciliation of earnings to adjusted earnings						
Earnings (loss)	$ **14,883**	$ 11,654	$ **(3,870)**	$ 33,777	$ **15,198**	$ 23,219
Add (subtract)						
Restructuring and refinancing costs	**1,307**	34	**3,549**	142	**3,552**	244
Share-based compensation (recovery) expense	**1,253**	834	**2,470**	1,725	**1,976**	2,220
Unrealized foreign exchange and derivative (gain) loss	**(6,913)**	(1,606)	**5,459**	(13,899)	**(3,577)**	1,888
Fair value adjustment on long-term debt	**166**	276	**561**	1,026	**852**	1,468
	(4,187)	(462)	**12,039**	(11,006)	**2,803**	5,820
Adjusted earnings	**$ 10,696**	**$** 11,192	**$ 8,169**	**$** 22,771	**$ 18,001**	**$** 29,039
Adjusted earnings attributable to:						
Non-controlling interests	**2,194**	3,912	**7,049**	10,437	**8,498**	11,917
Shareholders	**8,502**	7,280	**1,120**	12,334	**9,503**	17,122
	$ **10,696**	$ 11,192	$ **8,169**	$ 22,771	$ **18,001**	$ 29,039
Adjusted earnings per share:						
Weighted average of shares outstanding	**65,148**	65,048	**65,142**	64,974	**65,071**	64,742
Adjusted earnings per share for shareholders	**0.13**	0.11	**0.02**	0.19	**0.15**	0.26
Reconciliation of adjusted earnings to adjusted EBITDA						
Adjusted earnings	$ **10,696**	$ 11,192	$ **8,169**	$ 22,771	$ **18,001**	$ 29,039
Add (subtract)						
Income tax expense	**(1,487)**	3,682	**413**	3,550	**552**	2,929
Depreciation and amortization	**11,013**	10,327	**28,012**	31,323	**41,311**	43,803
Interest on long-term debt and bank charges	**7,325**	7,836	**21,826**	23,176	**29,401**	30,672
Taxes and depreciation for equity investment	**451**	350	**1,191**	1,631	**1,016**	756
Realized foreign exchange on working capital	**2,911**	1,103	**3,267**	2,320	**2,728**	1,660
	20,213	23,298	**54,709**	62,000	**75,008**	79,820
Adjusted EBITDA[1]	**$ 30,909**	**$** 34,490	**$ 62,878**	**$** 84,771	**$ 93,009**	**$** 108,859

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 October 3, 2020, December 31, 2019, September 28, 2019 and September 29, 2018 is as follows:

In 000's of Canadian dollars Rolling 12 months ended		**October 3 2020**		December 31 2019		September 28 2019		September 29 2018
Adjusted EBITDA[1] attributable to shareholders	**$**	**81,480**	$	99,245	$	93,672	$	89,297
Long-term debt[2]		**437,201**		440,259		470,147		472,076
Less: Cash		**(29,039)**		(32,368)		(9,704)		(25,963)
Adjust for:								
Hedging instruments[3]		**(9,267)**		(2,847)		(8,087)		(1,187)
Cash attributed to non-controlling interest		**5,078**		6,316		2,918		3,153
Net debt	**$**	**403,973**	$	411,360	$	455,274	$	448,080
Leverage		**5.0x**		4.1x		4.9x		5.0x

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

2 Debt is net of unamortized deferred financing charges of $-11.2 million (December 31, 2019 - $7.2 million; September 28, 2019 - $7.8 million; September 29, 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 39 weeks ended October 3, 2020 and September 28, 2019 and rolling twelve months ended October 3, 2020 and September 28, 2019 is as follows:

	13 weeks ended		39 weeks ended		12 months Rolling	
	October 3 2020	September 28 2019	**October 3 2020**	September 28 2019	**October 3 2020**	September 28 2019
Adjusted EBITDA	**$ 30,909**	$ 34,490	**$ 62,878**	$ 84,771	**$ 93,009**	$ 108,859
Less:						
Interest and bank charges	**(6,908)**	(7,391)	**(20,567)**	(21,850)	**(27,699)**	(28,911)
Current income tax expense	**(250)**	(1,578)	**(1,120)**	(2,865)	**(921)**	(4,125)
Other income and expense items	**(3,036)**	(3,793)	**(7,095)**	(10,834)	**(6,207)**	(9,979)
Operating cash flow before changes in working capital	**20,715**	21,728	**34,096**	49,222	**58,182**	65,844
Changes in working capital	**22,163**	999	**5,886**	(49,813)	**46,120**	(20,598)
Cash flows from operating activities	**42,878**	22,727	**39,982**	(591)	**104,302**	45,246
Sources (uses) of cash:						
Purchase of property, plant, equipment, quota and other assets	**(3,962)**	(2,931)	**(24,871)**	(16,821)	**(36,028)**	(19,460)
Proceeds from disposal of fixed assets	**37**	202	**849**	2,010	**850**	2,010
Scheduled payments on long-term debt[1]	**(101)**	(101)	**(1,587)**	(1,620)	**(10,573)**	(10,610)
Repayment of lease liabilities	**(354)**	(378)	**(1,155)**	(1,083)	**(1,673)**	(1,083)
Dividends received from joint venture	**2,490**	3,640	**2,490**	3,640	**2,490**	3,640
Distribution to non-controlling interests	**(2,780)**	(5,329)	**(7,414)**	(12,163)	**(8,656)**	(14,017)
Non-routine project costs	**54**	166	**1,175**	732	**1,318**	1,029
Payments on long-term incentive plans	**-**	262	**121**	752	**121**	752
Free cash flows	**$ 38,262**	$ 18,258	**$ 9,590**	$ (25,144)	**$ 52,151**	$ 7,507
Reconciliation of change in cash						
Add/(less):						
Other debt borrowings (repayments) of debt, use of cash	**(29,979)**	(24,781)	**(9,956)**	10,069	**(26,380)**	(9,931)
Issuance of equity	**-**	81	**95**	993	**197**	2,374
Other investing activities	**77**	887	**813**	(466)	**562**	(2,191)
Other financing activities	**-**	(3,265)	**(3,378)**	(9,192)	**(6,548)**	(12,434)
Payments on long-term incentive plans	**-**	(262)	**(121)**	(752)	**(121)**	(752)
Non-routine project costs	**(54)**	(166)	**(1,175)**	(733)	**(1,318)**	(1,031)
Impact of foreign exchange on cash	**70**	(100)	**803**	(958)	**788**	196
Change in cash for the period	**$ 8,376**	$ (9,348)	**$ (3,329)**	$ (26,183)	**$ 19,331**	$ (16,262)

[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 October 3, 2020, September 28, 2019 and September 29, 2018 is as follows:

In (000's) of Canadian dollars	**October 3 2020**	September 28 2019	September 29 2018
Adjusted EBITDA[1]	$ **93,009**	$ 108,859	$ 108,789
Depreciation and amortization	**41,311**	43,803	47,414
Adjusted earnings before interest and taxes	**51,698**	65,056	61,375
Average quarterly total assets	$ **720,807**	$ 735,032	$ 762,871
	7.2%	8.9%	8.0%

[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 October 3, 2020 and the unaudited condensed consolidated interim Statements of Earnings (Loss), Comprehensive Income (Loss), Shareholders' Equity, and Cash Flows for the 13 and 39 weeks ended weeks ended October 3, 2020 and September 28, 2019. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the October 3, 2020 and September 28, 2019 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Financial Position

(unaudited)

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

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Earnings (Loss)

(unaudited)

(In thousands of Canadian dollars)

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

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(unaudited)

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

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Shareholders' Equity
(unaudited)
(In thousands of Canadian dollars)

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

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Cash Flows
(unaudited)
(In thousands of Canadian dollars)

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

See the accompanying notes to the condensed consolidated interim financial statements

1. DESCRIPTION OF THE BUSINESS

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

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

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

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

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

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

(b) Critical judgements and estimates in applying accounting policies

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

New and amended accounting policies

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

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

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

IFRS 3 – Business Combinations

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

New accounting standards not yet adopted

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

IAS 1 – Presentation of Financial Statements

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

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

IAS 16 – Property, Plant and Equipment

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

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

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

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

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

IFRS 3 – Business Combinations

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

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

IFRS 9 – Financial Instruments

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

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

IFRS 16 – Leases

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

- Provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification;
- Require lessees that apply the exemption to account for COVID-19 related rent concessions as if they were not lease modifications;
- Require lessees that apply the exemption to disclose the fact; and

- Require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require restatement of prior periods.

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

4. SEASONALITY

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

5. GOVERNMENT GRANTS

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

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

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

6. FINANCIAL INSTRUMENTS

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

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

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

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

Fair value of financial instruments carried at amortized cost:

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

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

(Tabular amounts are in thousands of Canadian dollars)

(a) Fair value hierarchy

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

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

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

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

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

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

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

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

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

(b) Derivative financial instruments

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

(Tabular amounts are in thousands of Canadian dollars)

(c) (Gains) losses on derivative financial instruments

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

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

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

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

(f) Risk management

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

Liquidity risk

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

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

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

7. INTANGIBLE ASSETS AND GOODWILL

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

(Tabular amounts are in thousands of Canadian dollars)

8. LONG-TERM DEBT

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

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

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

(a) Senior debt

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

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

9. SHARE CAPITAL

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

Share capital movement:

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

10. OPERATING EXPENSES

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

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

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

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

11. EARNINGS (LOSS) PER SHARE

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

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

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

12. SEGMENT INFORMATION

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

(a) Sales by Species

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

(Tabular amounts are in thousands of Canadian dollars)

(b) Sales by Geographic Region of the Customer

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

(c) Non-current Assets by Geographic Region

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

13. CONTINGENT LIABILITIES

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

(Tabular amounts are in thousands of Canadian dollars)

14. ADDITIONAL CASH FLOW INFORMATION

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

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

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

15. SUBSEQUENT EVENTS

Deferred obligation

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

Sale of lobster licence

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

New joint venture

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