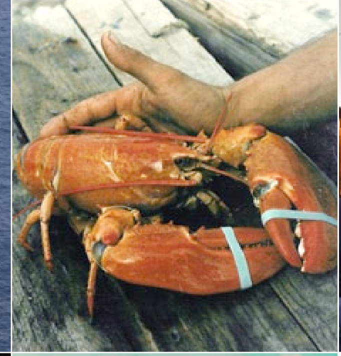
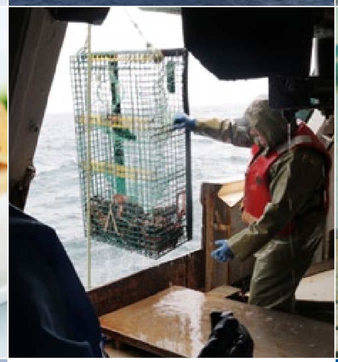
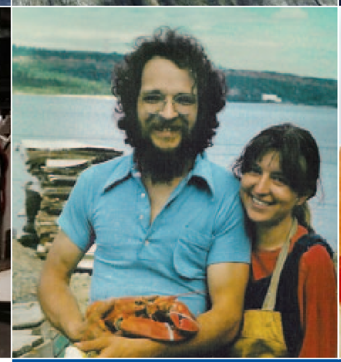


40 YEARS

Clearwater

CLEARWATER SEAFOODS INCORPORATED 2016 ANNUAL REPORT

& Growing



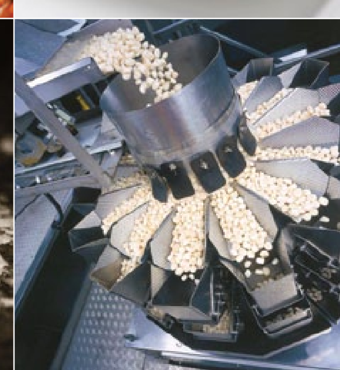












About Clearwater

Clearwater Seafoods is one of North America's largest vertically integrated seafood companies with over 1,900 employees in offices, plants and vessels around the world. The Bedford, Nova Scotia-based company is recognized globally for its superior quality, food safety and diversity of premium

From ocean-to-plate

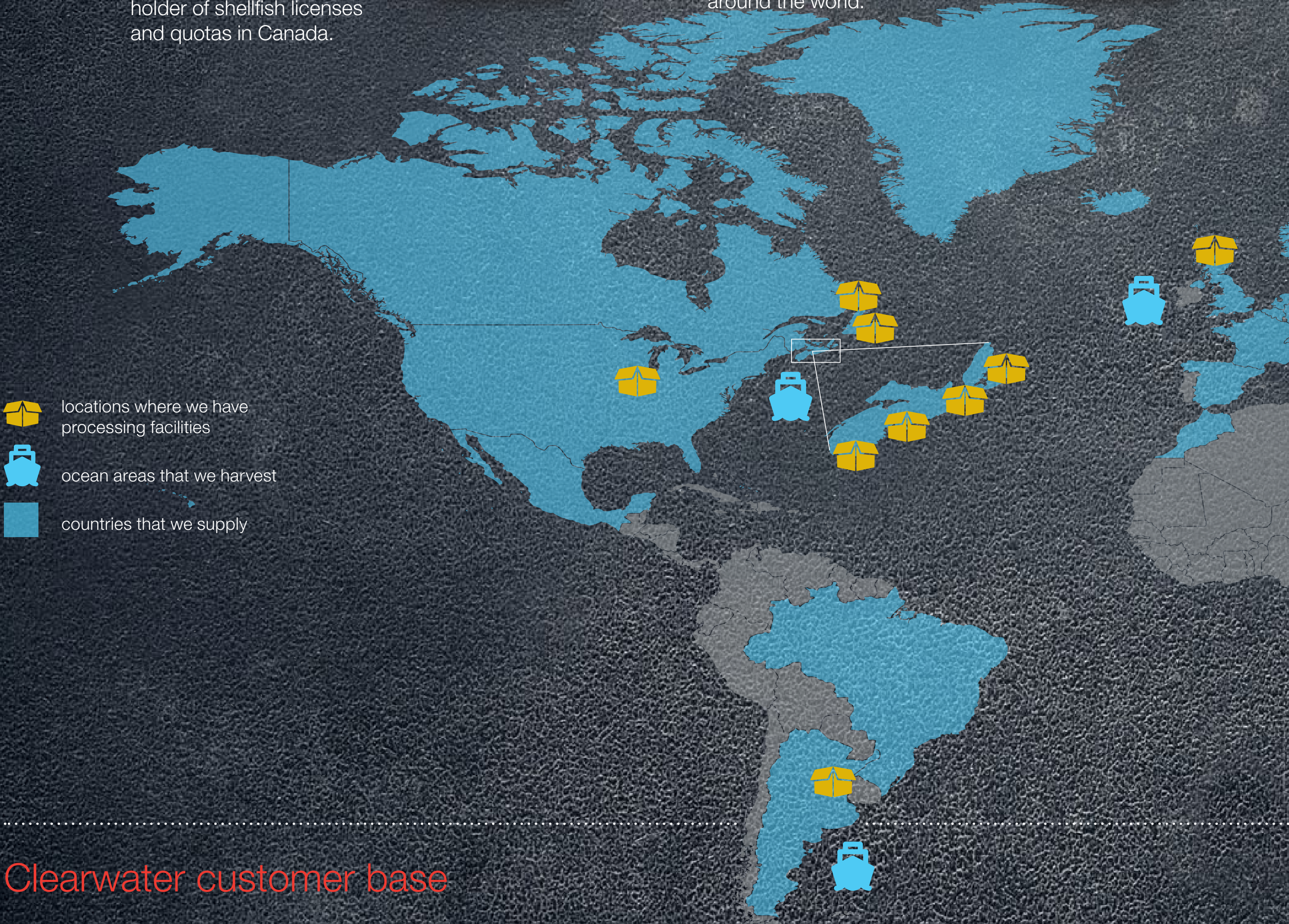
1 harvest

Together with Macduff, Clearwater owns 23 vessels and one research vessel.

Clearwater is the largest holder of shellfish licenses and quotas in Canada.

2 processing

Scallops, lobster, clams, coldwater shrimp, Norway lobster, crabs and whelk are processed in our nine processing facilities around the world.



Clearwater customer base

retail

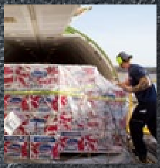
Clearwater-branded and private-label products sold globally to food retailers.

foodservice

Products sold through distributors and directly to national, regional and independent foodservice establishments.

wild-caught seafood. Since its founding in 1976, Clearwater has invested in its resource ownership and management to sustain and grow its wild resource. This commitment has established Clearwater as a global leader in sustainable seafood excellence.

3 logistics



Clearwater's global logistics team coordinates delivery to our customers worldwide. Products are shipped via ground, air and ocean to over 40 countries.

Clearwater uses 20 cold storage facilities around the world, enabling fast and efficient delivery of our products worldwide.

4 culinary

Clearwater's premium wild-caught seafood can be found on plates and stores around the world.

Our customer base includes retail, foodservice operators, food processors, and importers and wholesalers.

food processors

Products sold to food processors for further foodservice and value-added production.

importers/wholesalers

Relationships with importers and wholesalers to expand global reach.

Species

Argentine Scallops

Sweet-tasting, sustainably harvested and dry, Argentine Scallops are 100% natural and a cost-effective way to offer a premium scallop option for customers. Also featured in a value-added Scallops & Sauce format.

Canadian Sea Scallops

Clearwater's premium frozen-at-sea, wild Sea Scallops come from the cold, clear waters of the Canadian North Atlantic. 100% natural, dry and sustainably harvested, they consistently outperform fresh and frozen scallops on weight loss, yield, flavor, texture and shelf life. Also featured in a bacon-wrapped format.

Snow Crab

Clearwater's Snow Crab is 100% natural, wild-caught and sustainably harvested from the pristine waters of the Canadian North Atlantic. Prized for its sweet flavor, snow white meat and delicate texture, Snow Crab is ideal as an appetizer, buffet item or entrée dish.

Propeller Clams

As the exclusive offshore harvester of wild-caught Canadian Northern Propeller Clams, Clearwater offers ocean-to-customer quality control. Pre-blanched and distinctive yellow-white and red-orange colors present a truly unique shellfish delicacy. Also available in a convenient and ready-to-use canned format – Premium Wild Northern Propeller Clams.

Cockle Clams

Sustainably harvested from the deep, icy-cold waters of the North Atlantic, Cockle Clams add a fresh, delicate flavor to any recipe. Pre-blanched and 100% natural, they're sushi and sashimi ready.

Arctic Surf Clams

Popular in Asian cuisines, Clearwater Arctic Surf Clams are prized for their sweet taste and unique texture. Their brilliant red tongues make them visually appealing, particularly in sushi and sashimi dishes. Also available in two convenient and ready-to-use canned formats – Chopped, Wild Arctic Surf Clams and Premium Wild Blend Clams.

Lobster

The highest quality in live lobster, available year-round, Clearwater's Premium Hardshell Fresh™ Lobster is fully meated, wild-caught and sustainably harvested, yielding up to 50% more meat than soft shell lobster. Also available in a ready-to-cook, frozen raw format – Nova Scotia Prime Lobster. Through a specialized high-pressure extraction process, raw lobster meat is released from its shell and then frozen in both shell-on and shell-off formats.

Coldwater Shrimp

Clearwater Canadian Coldwater Shrimp are cooked, peeled and frozen at the company's processing facility closely located within a day of the world's best shrimp grounds. MSC-certified, wild-caught and ready-to-serve, Coldwater Shrimp offer more flavor, better texture and a brighter pink color than warm water varieties. Also available in a frozen-at-sea shell-on format, most popular in Asian cuisines.

Whelk

Harvested from the surrounding coasts of the UK, Whelk is often used as an alternative to the rare and expensive conch. It is also highly popular in Mediterranean countries and Korean and Japanese cuisines.

Brown Crab

Clearwater's Brown Crab is sweet and full, with delicate white meat, making them a true shellfish delicacy. Wild-caught from the cold, clear UK waters, Brown Crab is also available in a scored crab claw format.

Langoustines

Prized for their delicate flesh and sweet, succulent taste, Langoustines originate from the cold, clear waters surrounding the UK. Whole Langoustines are slim, with orange-pink shells and bodies growing up to 10 inches in length. The product range is available in a variety of formats.

King and Queen Scallops

Clearwater's King and Queen Scallops are harvested from the surrounding waters of the UK. With a sweet, delicate flavor and meaty texture, King and Queen Scallops are available in both fresh and frozen formats as whole, on the half shell or as meat only.

Highlights in 2016

Record sales and adjusted earnings before interest, tax, depreciation and amortization (EBITDA)

Record annual sales and adjusted EBITDA for 2016 of $611.6 million and $120.9 million, representing double-digit growth rates of 21.1% and 10.2%, respectively.

Growth in Sales
21.1%

Growth in Adjusted EBITDA
10.2%

40th anniversary

In August 2016 Clearwater celebrated 40 years! Our entrepreneurial zeal for growth, diversity and continuous improvements has been at the forefront of Clearwater's core mission to build the world's most extraordinary wild seafood company, dedicated to sustainable seafood excellence.

40 years

Anne Risley

Announced the $70 million replacement of a 28-year-old clam vessel with a state-of-the-art factory vessel that will deliver significant productivity and efficiency improvements.

$70 million

Macduff integration

It's been a full year since the acquisition of Macduff. The integration of the operations and our people has gone smoothly and we are extremely pleased with the continued performance of the business.

MACDUFF™

Vision 2020

We began implementation of our next five-year plan to 2020. In this plan, we will focus on attractive opportunities for future growth in wild-caught, sustainably harvested seafood and perform in the top quartile of our peer group.

20|20

Access to supply

For the first time, we harvested the entire quota for clams and higher volumes for lobster and langoustines, positioning us to be able to support growth opportunities in 2017.

Clearwater reported record sales and adjusted EBITDA[1] of $611.6 million and $120.9 million, respectively, for 2016 versus 2015 comparative results of $504.9 million and $109.7 million.

Sales and adjusted EBITDA were positively impacted by strong sales prices for scallops and higher sales volumes for clams, lobster, langoustine, whelk and crab. Higher average foreign exchange rates for the US dollar, Yen and the Euro had a net positive impact of $7.0 million, contributing to the improvement in sales.

Earnings increased $80.3 million to $59.6 million in 2016 primarily as a result of improvements in gross margin from strong sales prices for the majority of core species and the impact of lower average foreign exchange rates. The changes in foreign exchange rates resulted in non-cash unrealized foreign exchange gains on long-term debt and forward contracts as the Canadian dollar strengthened against the US dollar and the GBP.




This represents growth rates of 21.1% for sales and 10.2% for adjusted EBITDA marking Clearwater's seventh consecutive year of top and bottom line growth.

We faced challenges in several core species during the year that resulted in lower than expected sales and earnings.

The Total Allowable Catch ("TAC") for coldwater shrimp was reduced and reallocated in 2016, resulting in decline in our coldwater shrimp sales and margins. The decline in TAC from historic highs is in natural response to the decline of the coldwater shrimp biomass as the cod species return to the North Atlantic fishery.

The TAC for Canadian sea scallops was at its lowest level in 11 years, resulting in lower sales and earnings compared to 2015. Lower available supply enabled stronger prices for this high demand species.

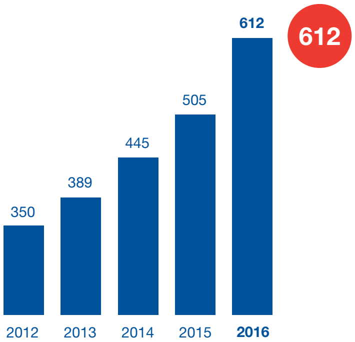
In the live lobster business, higher volumes resulted in increased sales. Margins were weaker in this species, however, due to poor quality received from the inshore fishery and an increase in low-priced competition in the China wholesale market as prices could not be increased quickly enough in the latter part of the year to offset higher procurement prices and mortality.

In Arctic Surf Clam, harvested volumes increased rapidly in the second half of the year with the resulting supply outstripping the capacity of our existing channels and customers. Heavier promotional activity resulted in higher sales. A smaller size mix in the clams and a reduction in selling prices to increase consumer demand resulted in an overall reduction in margins.

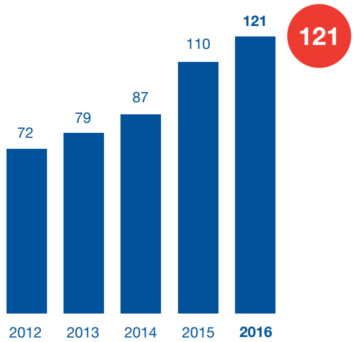
Our Argentine scallop species had its strongest year in recent history with increased volumes, higher selling prices and lower costs.

[1] Refer to discussion on non-IFRS measures, definitions and reconciliations in the 2016 Management's Discussion and Analysis.

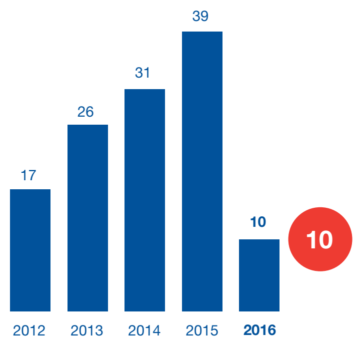
SALES
(in millions)



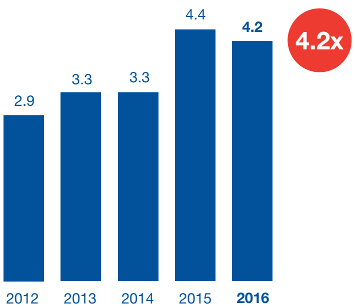
ADJUSTED EBITDA[1]
(in millions)



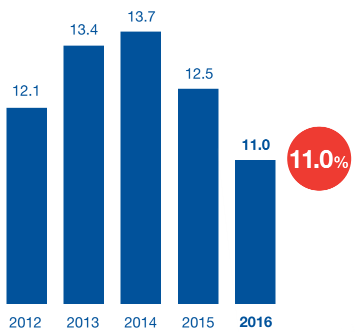
FREE CASH FLOWS[1]
(in millions)



LEVERAGE[1,2]



RETURN ON ASSETS[1]



[1] Refer to Non-IFRS measures, definitions and reconciliations in the 2016 Management's Discussion and Analysis.

[2] Leverage prior to 2013 excludes adjustments for non-controlling interest.

2016 represents a continued strong track record for both top and bottom line growth. By focusing on our six core strategies, including increasing access to supply, targeting profitable and growing markets, and building organizational capacity, we successfully reported another record year that builds our foundation for the next four years.

Our Macduff business also had its strongest year with high volumes, pricing and increased access to supply through procurement arrangements. The weaker Sterling versus Euro had a favorable impact on results although this was partially offset when translated to Canadian dollars. The higher proportion of procured products through the Macduff operations had a dilutive effect on margin as a percent of sales.

The combined effect of these items resulted in a decline in gross margin as a percent of sales of 2.6% for the 2016 year compared to 2015.

The reductions in coldwater shrimp and sea scallop TAC and poor live lobster quality, from the inshore fishery, combined with high shore prices resulted in lower margins. Lower average foreign exchange rates, as the Canadian dollar strengthened against the US dollar, Euro and GBP, resulted in a negative impact to sales of $5.2 million. Despite these challenges, our business fundamentals remain strong and we are positioned well for another year of significant growth in 2017.

Earnings in the fourth quarter of 2016 increased $16.2 million to $12.4 million primarily as a result of higher average foreign exchange rates as the US dollar and GBP had strengthened against the Canadian dollar in the fourth quarter of 2015, resulting in higher non-cash unrealized foreign exchange losses on US dollar and GBP denominated debt. In addition general and administrative expenses declined in the fourth quarter of 2016 as a result of a reduction in variable and share-based compensation expense as compared to the same period in 2015.

The cash flows used in working capital increased against 2015 by $2.3 million to use of $21.1 million for 2016. The increased level of working capital resulted primarily from high inventory levels for clams and certain procured species, partially offset by timing of collections of accounts receivable.

Inventory levels increased during the third and fourth quarters of 2016 to higher than anticipated levels following successful harvesting in our clam fleet. With the addition of the third vessel into the fishery in the latter part of 2015 combined with improved efficiency through the implementation of advanced harvesting technology and equipment, harvesting volumes increased significantly and therefore the Company was able to catch the full clam quota for the first time in 2016. Overall inventory levels increased through the second half of 2016, resulting in year-end clam inventories closing $23.9 million higher than 2015. Clam sales volumes increased 22.7% over the prior year with pricing adjustments, investments in marketing, promotion and distribution expansion initiated to increase sales. The benefits of these investments were not fully realized in 2016 as it will take time to effect expanded distribution of clams. Management anticipates the benefits will be realized through 2017 and inventories will return to normal levels by the end of the year.

Free cash flows[1] were $10.2 million in 2016 as compared to $39.1 million in 2015. Higher adjusted EBITDA was offset by higher working capital balances from inventory. Other contributing factors included higher interest expense that resulted from higher inventory balances and timing of payments to non-controlling interests, which reduced free cash flow balances by approximately $12.7 million in 2016. Cash taxes were also higher by $5.2 million as a result of a full year of Macduff operations.

Leverage[1] decreased to 4.2x adjusted EBITDA as at December 31, 2016 compared to 4.4x at the end of 2015 and was slightly higher than management's initial expectations as a result of higher working capital balances. Clearwater continues to have a long-term target for leverage of 3.0x or lower and plans to be in line with this target within the next two years.

Return on assets[1] ("ROA") declined from 13.8% in 2015 to 11.0% in 2016. The full year impact of the addition of Macduff diluted ROA due to the higher proportion of procured species sold at lower margins. Average total assets for 2016 versus 2015 also increased with the completion of the Belle Carnell vessel later in 2015 and the ERP system investment completed early in 2016. Growth in EBIT was modestly higher than the increase in depreciation expense of $8.9 million higher resulting from these additions.

2016 represents a continued strong track record for both top and bottom line growth despite our challenges. By focusing on our six core strategies, including increasing access to supply, targeting profitable and growing markets, and building organizational capacity, we successfully reported another record year that builds our foundation for the next four years.

[1] Refer to discussion on non-IFRS measures, definitions and reconciliations in the 2016 Management's Discussion and Analysis.

"Whether our people are at sea, in plants or offices or helping customers, their commitment to providing the finest quality seafood never wavers. Our dedication to responsible and sustainable harvesting, quality control processing and timely delivery is behind everything we do. "

We are all very proud of Clearwater's success over the past 40 years.

When John and I started Clearwater in August of 1976, it was in the old Navarro's restaurant on the Bedford Highway, Halifax, Nova Scotia. We started with an image of a retail lobster shop, coupled with enormous dedication, perseverance and desperation…and, yes, an unbridled sense of optimism, dreams of endless possibilities and a whole lot of courage and luck. In those humble beginnings, John and I were the packer, driver, foreman, sweeper, salesman, plumber, accountant and electrician. Today we have a dedicated global team of men and women harvesting, processing, administering our books, maintaining our plants and vessels and selling to over 40 countries proudly under the Clearwater name and logo.

The entrepreneurial zeal that John and I and our people have for growth, diversity and continuous improvement has been at the forefront of Clearwater's core mission to build the world's most extraordinary wild seafood company, dedicated to sustainable seafood excellence. It is that zeal that energized us to not only develop new markets for lobsters in Europe and the US, as well as Japan and China, but also to pioneer new fisheries in the late '80s and '90s as we became the first company to develop Arctic surf clam frozen-at-sea factory vessels for the use of an exploratory clam license. In the mid '80s, the year that the Canadian fishery was split between inshore and offshore, we were the first company to invest heavily in scallop licenses. Then, in 1995 we spearheaded the development and success of the Argentinean scallop resource – both at the harvest and market levels.

That energy and passion continues today as we now hold licenses in a multitude of diverse species globally and continue to develop technological improvements to reduce both waste and the impact of our global footprint on the resource and the environment by developing tools such as ocean bottom mapping, frozen-at-sea processing, Dryland Pound Lobster storage and automated shucking, plus many other innovations.

Most importantly, however, we are reminded daily that our greatest resource is our people. Although we harvest the richest bounty of the oceans off Atlantic Canada, Argentina and the UK, these valued seafood resources pale in comparison to the quality of our people. The success of Clearwater relates directly to its extremely dedicated workforce that has faced every new challenge with courage and determination and has allowed us to turn those challenges into opportunities and to grow our company into a world leader in the global seafood industry.

Colin MacDonald

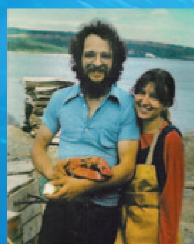
40 YEARS

On August 10, 1976, Clearwater opened for business when two young and innovative entrepreneurs started the company with just a pickup truck and

1976

1976

Founding

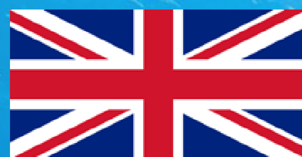


John Risley and Colin MacDonald founded Clearwater with a lobster retail shop on the Bedford Highway in Halifax.

1979

Developed and implemented the world's first Dryland Lobster Pound

Clearwater's Dryland Lobster Pound holds lobster in a stress-free environment, providing access to a year-round supply of fresh, live lobster.



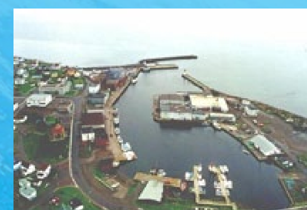
1981

Opened Clearwater UK Ltd. Lobster

Clearwater opened UK Ltd. Lobster after determining this marketplace was a strong fit for exporting lobster.

1986–1988

Added the 'Atlantic Surf I' to fleet and acquired Highland Fisheries in Glace Bay, NS and Pierce Fisheries in Lockeport, NS



1991

Opened Grand Bank

Clearwater opened Grand Bank Seafoods, located in Grand Bank, Newfoundland and Labrador, home of the company's clam processing operation.

1994–1996

Opened first sales offices in China and the US

Clearwater was the first Canadian seafood company to open a sales office in China.

tremendous vision. Forty years later, Clearwater remains dedicated to the same mission to build the world's most extraordinary wild seafood company, dedicated to Sustainable Seafood Excellence.

1999

Opened St. Anthony Seafoods

Clearwater opened St. Anthony Seafoods, located in St. Anthony, Newfoundland and Labrador, home of the company's shrimp processing operation.

2007

Modernized lobster fleet and replaced aging vessels with the 'Randell Dominaux'

The addition of the modern and efficient Randell Dominaux consolidated Clearwater's offshore lobster fishing fleet from five vessels to one.

2014–2015

Added the Capesante and Belle Carnell to fleet and acquired Macduff Shellfish Group

MACDUFF

Wild about Shellfish

The acquisition of Macduff brings together two of the world's leading and fastest-growing vertically integrated wild-shellfish harvesters.

2016

2002

Clearwater became a publicly traded company

Clearwater Seafoods Inc. is traded on the Toronto Stock Exchange under the symbol CLR.

Clearwater

2012

Marine Stewardship Council (MSC) certification of all core species

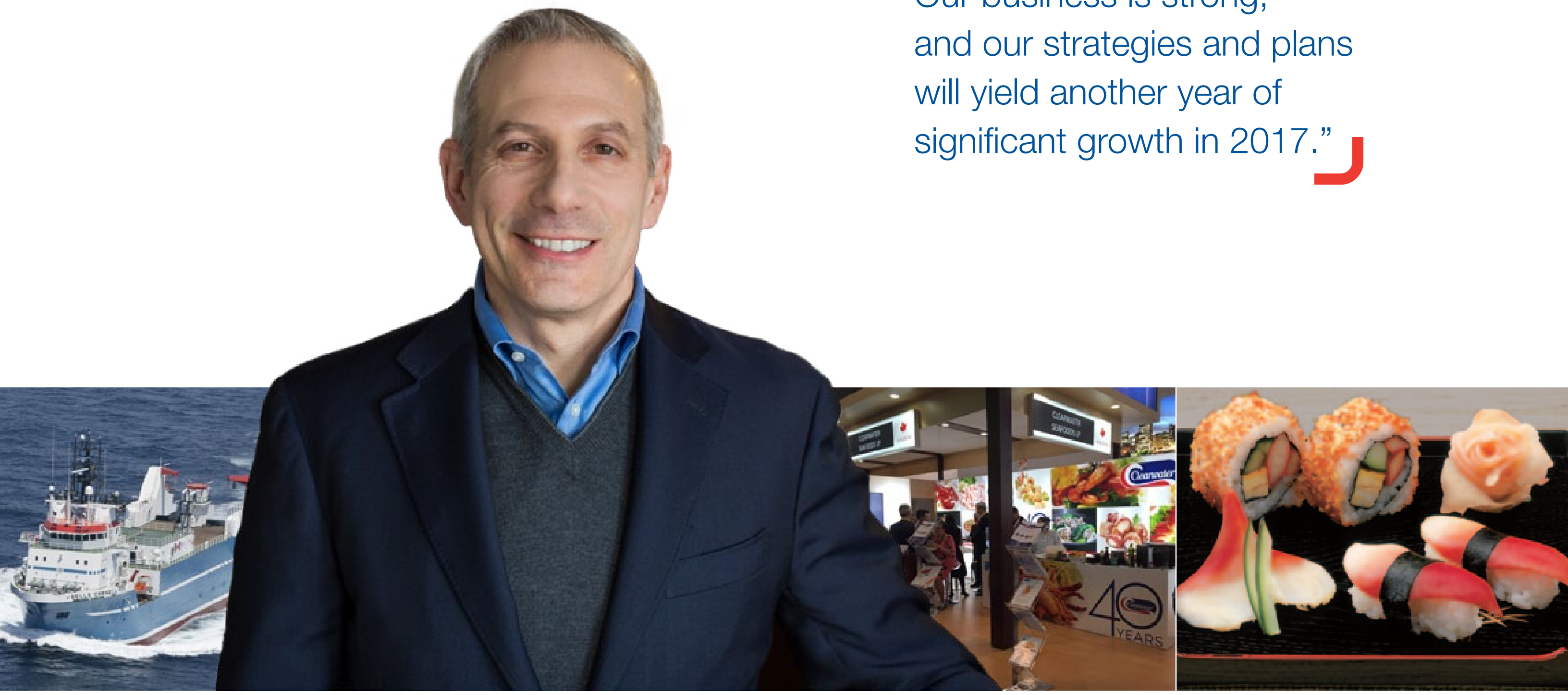
CERTIFIED SUSTAINABLE SEAFOOD MSC www.msc.org

Arctic surf clams, Nova Scotia snow crab, Canadian sea scallops, Argentine scallops, Canadian coldwater shrimps and Eastern Canadian offshore lobster are all MSC-certified.

2016

Participated in the first mobile TSX market close from Clearwater's Bedford, NS retail store

> "Our business is strong, and our strategies and plans will yield another year of significant growth in 2017."



2016 marked Clearwater Seafoods' first 40 years of continuous operation and the beginning of our fifth decade of sustainable seafood excellence.

Of the last 40 years, 2016 will be remembered as a year of firsts:

1. The first year since the acquisition of Macduff Shellfish in Scotland
2. The first year the Belle Carnell entered service in the Clearwater clam fleet
3. The first year of SAP implementation
4. The first e-commerce flagship store in China on Alibaba's T-Mall

We celebrated these milestones along with our highest sales revenue and adjusted EBITDA in history. We also faced challenges in several core species, particularly in the fourth quarter where a short-term dislocation between supply, costs and prices resulted in lower margins and profits.

A necessary reduction in northern shrimp TAC and the lowest annual TAC for sea scallops in 11 years contributed to weaker results than planned. We are proud to be one of the world's leading sustainable seafood harvesters but this responsibility sometimes requires taking less to ensure the long-term health of the resource.

In live lobster, poor quality from the inshore fishery and an increase in low-priced competition in the China wholesale market resulted in sharply lower margins as we worked to offset higher procurement prices and mortality. In 2017, adjustments to our procurement, logistics and sales plans along with the expansion of our e-commerce program in China will help restore market-leading profitability to this hallmark business.

In Arctic surf clam, the reintroduction of a third clam vessel to the Grand Banks combined with our proprietary advancements in harvesting technology resulted in the complete harvest of the TAC for the first time in the history of the fishery. While this bodes well for a strong 2017, the rapid increase in supply was unexpected and outstripped the capacity of our existing channels and customers to the detriment of prices, margins and year-end inventory.

Despite these challenges, our business fundamentals remain strong and our strategies and plans will yield another year of significant growth in 2017 as Clearwater successfully navigates the combined forces of technological change, globalization and Mother Nature herself.

In this amazing sea of change, the one constant that matters most of all is our people. Working and leading with character, competence and teamwork to accomplish extraordinary things in the workplace, the marketplace and in our communities around the globe. They were the most important thing 40 years ago and they will always be what defines Clearwater Seafoods.

Ian D. Smith

Staying the Course

Clearwater continues to execute with excellence against its six core business strategies. Combined, these strategies focus on connecting a diverse global customer base with premium wild-caught seafood products and will continue guiding Clearwater toward becoming the world's most extraordinary shellfish company dedicated to sustainable seafood excellence.

→ Expanding Access to Supply

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

→ Target Profitable and Growing Markets, Channels and Customers

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

→ Innovate and Position Products to Deliver Superior Customer Satisfaction and Value

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

→ Increase Margins by Improving Price Realization and Cost Management

Leverage the scarcity of seafood supply and increasing global demand, in addition to continuing to invest in, innovate and adopt state-of-the-art technology, systems and processes.

→ Pursue and Preserve the Long-Term Sustainability of Resources on Land and Sea

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

→ Build Organizational Capability, Capacity and Engagement

We attract, train and retain the best talent to build business system and process excellence company-wide.

2016 Strategies in Action

Expanding Access to Supply

2016 marked the first year that Clearwater successfully harvested the full quota of Arctic surf clams on Grand Bank and Banquereau Bank.

This milestone was achieved through Clearwater's proprietary investments in innovative harvesting technologies and the launch of a new clam vessel, the Belle Carnell.

In September 2016, Clearwater announced the replacement of an existing clam vessel with a second $70 million state-of-the-art factory vessel.

The "Anne Risley" will join the fleet in late 2017, employ the same advanced proprietary technology as the Belle Carnell and deliver significant productivity and efficiency improvements.

Clearwater's acquisition of the UK-based Macduff Shellfish in 2015 has provided access to an incremental 15 million pounds of premium, wild-caught, safe, traceable and complementary shellfish species and significant opportunities for future growth in multiple fisheries.

Target Profitable and Growing Markets, Channels and Customers

Through the Macduff acquisition, Clearwater enhanced its access to key distribution channels, including foodservice and grocery retail in multiple markets, such as the UK, France, Italy, Spain and Portugal.

North American and Asian customers are also eager to enjoy Macduff products.

In the fall of 2016, Clearwater launched its e-commerce flagship store in China on Alibaba's T-Mall site.

China's e-commerce market is estimated at over USD $830 billion and is growing at over 38%.

"Clearwater has been a valuable and progressive partner in supplying Wegmans with high quality seafood. Clearwater's continued commitment to sustainability and traceability places them in the highest echelon of our confidence and trust, as we continue our partnership and expand our future business together."

– Dave Wagner, Vice President, Wegmans Seafood

Wegmans

SANTA MONICA
SEAFOOD®
Family Owned Since 1939

"Aligning with suppliers who understand our core beliefs and are able to create strategic partnerships has been instrumental to Santa Monica Seafood's success. Clearwater epitomizes these attributes, supplying sustainably sourced and premium-quality products in a manner that has helped our company grow sales significantly year-over-year and further deliver our mission."

– R. Logan Kock, VP Strategic Purchasing/Responsible Source, Santa Monica Seafood

"Macduff Shellfish is now the largest supplier of raw material to Yusung, with 80% of our sales turnover coming from canned whelk meat. Over the years, Macduff has made significant changes in business volume and the quality of whelk products. I am very proud of the business relationship we have developed and look forward to working together in the coming years."

– Seung-Mo, Chief Executive Officer, Yusung

유 동

Innovate and Position Products to Deliver Superior Customer Satisfaction and Value

In 2016, Clearwater announced a new investment in a ready-to-eat "prime-cut" Arctic surf clam line.

Trimmed, sliced and cleaned, Frozen Arctic Surf Clam Sushi-Ready Slices provide a ready-to-use format, while eliminating preparation time and cost for foodservice operators.

In 2016, Clearwater introduced a peeled and deveined Scottish Langoustine tail, also referred to as Norway Lobster, as a promotional item on the holiday menu of a major seafood chain restaurant in North America.

Sell-through was encouraging and Clearwater expects to make this format more broadly available in 2017.

Increase Margins by Improving Price Realization and Cost Management

In 2016, we continued the implementation of our "ocean to shelf" global supply chain with a focus on capturing cost savings through greater efficiency and improved productivity of our global operations.

In 2016, the development of proprietary gear and ocean bottom mapping technologies, combined with the launch of a new state-of-the-art clam harvesting vessel contributed to the successful harvest of the full total allowable catch (TAC) for the first time in the history of the Arctic surf clam fishery.

Patented automatic shucking technology (AST) has made Clearwater the most efficient and profitable large-scale, frozen-at-sea (FAS) scallop harvester in the industry globally.

Clearwater recently converted a surplus FAS trawler equipped with AST for a partner company in the Canadian Sea Scallop fishery, growing access to supply of FAS Sea Scallops by more than 20%.

Pursue and Preserve the Long-Term Sustainability of Resources on Land and Sea

Commitment to Sustainability

Together, Clearwater and Macduff continue to make investments in science and technology to ensure the sustainable harvesting of seafood. Clearwater offers the widest selection of Marine Stewardship Council (MSC) certified species of any shellfish harvester worldwide.

As awareness grows for sustainable seafood products, consumers can be assured that our products originate from fisheries that meet the MSC's strict environmental standards for sustainable and well-managed fisheries.

"Macduff is making great strides to promote and improve the management of shellfish stocks in and around the waters of the United Kingdom. Together with Clearwater, we are committed to working closely with government, scientists and external stakeholders across the UK to support the development of fisheries science and sustainable management strategies for the long-term health of our resources. We're also fully committed to social sustainability by promoting responsible fishing and ethical labour practices in the UK and anticipate that our fleet of 14 scallop vessels will be certified in 2017."

– Juliette Hatchman, Director, Sustainability and Public Affairs, Macduff Shellfish

MACDUFF™
Wild about Shellfish

The Marine Stewardship Council (MSC) conducted its 2016 consumer survey, resulting in the largest ever global analysis of attitudes to seafood consumption. Consumers in 21 countries were surveyed:

85%
of seafood purchasing households express a concern about ocean sustainability.

72%
of seafood consumers agree that to save the oceans, shoppers should only consume sustainably sourced seafood.

62%
of seafood consumers agree that eco-labels raise trust and confidence.

54%
of seafood consumers are prepared to pay more for certified sustainable products.

10%
of the world's wild-caught seafood comes from MSC-certified fisheries.

37%
of all consumers said that they have seen the blue MSC label.

Source: 2016 Seafood Consumer Survey, GlobeScan on behalf of MSC

Build Organizational Capability, Capacity and Engagement

In 2016, Clearwater continued to invest in talent and programs to build world-class capabilities throughout its organization.

Corporate Awards

In 2015, Clearwater introduced employee recognition awards highlighting individuals and teams who truly demonstrate and exemplify our company values of Character, Competence and Teamwork. Congratulations to the 2016 award winners:

Character Award – Catherine Boyd, Director, Sustainability and Public Affairs

Catherine Boyd exemplifies the Clearwater value of Character. Since joining the company in 2007, she continually acts with integrity in everything that she does. Catherine is a natural leader who inspires trust from both internal and external stakeholders, by developing thoughtful and fact-based direction and clearly communicating that direction in a manner that is credible and consistent.

Competence Award – Shaun Mitchelitis, General Manager, Scallops

Joining Clearwater nearly 10 years ago, Shaun has developed into a highly experienced General Manager of Clearwater's global Scallop portfolio. His market knowledge and leadership skills contribute to Clearwater's impressive business results worldwide. At the same time, Shaun continues to foster a culture of passion and extraordinary achievement, qualities appreciated by the many people he works with.

Competence Award – Darren Bowen, VP Global Supply Chain

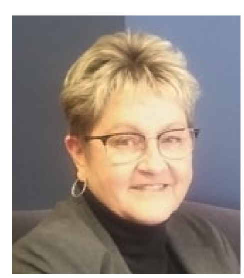
Darren joined the Clearwater team in February 2015. Over the past two years, his dedication, talent, determination and involvement in the implementation of SAP as well as the development of an ocean-to-plate Global Supply Chain organization have significantly contributed to the company's 2016 performance.

Teamwork Award – Growth: Macduff Shellfish

2016 marked the first full year of integration with Macduff, a company that truly demonstrates a shared set of core values, aiming to be leaders at sea, in the workplace and in the marketplace. Together, Clearwater and Macduff expect to deliver another year of record growth as part of our 2017 and five-year plan.

Teamwork Award – Safety: Global Supply Chain

Throughout 2016, Clearwater's Global Supply Chain focused on increasing safety awareness onboard our vessels and within our factories. These tremendous efforts, led by Lionel Enslow, Coordinator for Land Based Operations, and Becky Langille, Coordinator for Fleet Operations, resulted in significant improvements in all of Clearwater's safety KPIs.



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This Management's Discussion and Analysis ("MD&A") was prepared effective March 8, 2017.

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 financial statements and the 2016 fourth quarter news release.

This MD&A should be read in conjunction with the 2016 annual financial statements and the 2016 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 may contain "forward-looking information" as defined in applicable Canadian securities legislation. All statements other than statements of historical fact, including, without limitation, statements regarding future plans and objectives of Clearwater, constitute forward-looking information that involve various known and unknown risks, uncertainties, and other factors outside management's control.

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, including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

There can be no assurance that such information will prove to be accurate and actual results and future events could differ materially from those anticipated in such forward-looking information.

In addition, this report contains forward-looking information relating to Clearwater's acquisition of Macduff Shellfish Group Limited ("Macduff"), financing of the acquisition, enhancement of Clearwater's scale of operations and accelerated growth, as well as expectations regarding sales, adjusted EBITDA, adjusted earnings and leverage. This 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 including, but not limited to, Clearwater's ability to successfully integrate or grow the business of Macduff as planned, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs. There can be no assurance that such information will prove to be accurate and actual results and future events could differ materially from those anticipated in such forward-looking information. Risk factors that could cause actual results to differ materially from those indicated by forward-looking information include risks and uncertainties related to: (i) the timing and extent of changes in interest rates, prices and demand, and (ii) economic conditions and related uncertainties.

For additional information with respect to risk factors applicable to Clearwater, reference should be made to 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 several 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 gross margin, adjusted EBITDA, adjusted earnings, free cash flows, leverage, and return on assets.

Gross Margin

Gross margin consists of sales less cost of goods sold which includes harvesting, distribution, direct manufacturing costs, manufacturing overhead, certain administration expenses and depreciation related to manufacturing operations.

Adjusted Earnings Before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA")

Adjusted EBITDA is defined as EBITDA excluding extraordinary, non-operating, non-recurring or non-routine items that are unusual and are deemed not to 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 stock-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.

Adjusted Earnings

Adjusted Earnings is defined as earnings excluding items such as refinancing and reorganization costs, acquisition-related costs and recurring accounting gains and losses on foreign exchange (other than realized gains and losses on forward exchange contracts). 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. In addition adjustments to stock-based compensation have been excluded from Adjusted Earnings as they do not relate to the general operations of the business.

Free Cash Flow

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.

Leverage

Leverage calculations are calculated by dividing the current and preceding annual adjusted EBITDA (excluding non-controlling interest) by the total debt (excluding non-controlling interest) on the balance sheet adjusted for cash reserves (excluding non-controlling interest).

Return on Assets

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

Refer to non-IFRS measures reconciliations for further information.

CLEARWATER OVERVIEW

Leading Global Provider of Wild-Caught Shellfish

Clearwater is North America's largest vertically integrated harvester, processor and distributor of premium shellfish. With harvesting operations in Canada, Argentina and the UK, Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium, wild, eco-labeled seafood, including scallops, lobster, clams, coldwater shrimp, crab and groundfish with approximately 93 million pounds sold in 2016.

Powerful Industry Fundamentals

Global demand for premium wild-caught seafood among aging boomers and a rising middle class in the Asian-Pacific region is outpacing resource supply. This in combination with conservatively managing seafood 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 Creates Barriers to Entry and Sustainable Competitive Advantage

Clearwater is the largest holder of shellfish quotas and licenses within Canada and maintains the widest selection of Marine Stewardship Council ("MSC")-certified species of any shellfish harvester worldwide. These quotas are a key barrier to entry as regulatory authorities strictly control access and rarely grant new licenses. In addition, the financial resources to acquire and harvest fishing quotas create barriers to entry.

Clearwater continues to create competitive advantage through investment in R&D, technology and intellectual property that has resulted in state-of-the-art factory vessels with harvesting and processing technologies that enable high productivity and frozen-at-sea products that deliver superior tasting and higher quality products.

Clearwater maintains a global, direct sales force that is capable of interacting with and selling directly to diverse markets worldwide. Our channel mix in food service, retail and other food industries ensures a diverse community of customers and we have no single customer representing more than 5% of total sales.

The vertical integration of Clearwater's quotas and licences, sustainable fishing practices, at-sea processing of shellfish, onshore processing and distribution network and global sales forces combine to make Clearwater the industry leader in shellfish.

Proven and Experienced Leadership Team

Clearwater continues to build upon its world class capabilities in quality control and food safety, operations, new product development and leadership through the addition of key resources to complement its existing team. Through its deep industry knowledge and talent, our team will continue to deliver on our operational and financial growth opportunities.

CLEARWATER'S MISSION, VALUE PROPOSITION AND STRATEGIES

Mission

Clearwater's mission is to build the world's most **extraordinary**, **wild seafood** company, dedicated to **sustainable seafood excellence**.

We define:

- **"extraordinary"** as sustainable, growth in revenue, margins, adjusted EBITDA, free cash flows and the creation of long-term shareholder value;
- **"wild seafood"** as premium wild shellfish, including our core species (scallops, lobster, clams, langoustines and coldwater shrimp); and
- **"sustainable seafood excellence"** as delivering best-in-class quality, food safety, traceability and certified sustainability.

We believe that the fulfillment of this mission will result in extraordinary value creation for shareholders, customers, and employees and for the communities in which we work and live.

Value Proposition

At Clearwater, we have a passion for wild seafood and strive to deliver a highly differentiated and competitively advantaged value proposition to a global customer base. Key elements of Clearwater's unique value proposition are:

- Great tasting, nutritious, highest quality, frozen-at-sea, premium shellfish.
- Expertise in premium shellfish science, harvesting, processing and logistics technology to ensure quality and safety from "ocean to plate".
- Marine Stewardship Council ("MSC") certification for sustainability of species to ensure both the traceability and long-term health of our wild resource.
- Competitively advantaged global customer service with local market understanding and insight.
- Scale in license and quota ownership guaranteeing exclusive and stable supply to service even the largest global retail and food service customers.

Strategies

Clearwater's six core strategies are designed to strengthen a competitive and differentiated value proposition. They are:

1. **Expanding access to supply –** Expanding access to supply of core species and other complementary, high demand, premium, wild and sustainably harvested seafood through improved utilization and productivity of core licenses as well as acquisitions, partnerships, joint ventures and commercial agreements.

   - ***Modernizing our fleet***
     In 2016, Clearwater announced plans to invest $70 million in another new and innovative vessel for its Canadian clam fleet. Entering service in early 2018, The Anne Risley is a sister-ship to Clearwater's new clam vessel, the Belle Carnell and will replace a veteran clam vessel that has served the company well for 28 years. Like the "Belle," The Anne Risley will be a state-of-the-art harvest platform and frozen-at-sea factory providing significant productivity and efficiency improvements. This new investment completes Clearwater's fleet modernization program, positioning the company to execute its extraordinary growth plans over the next five years. Following the launch of the Anne Risley, Clearwater does not anticipate any major new vessel capital expenditures until 2021.

   - ***Largest holder of shellfish licenses and quotas in Canada***
     Operating from ocean-to-plate, Clearwater is the largest holder of shellfish licenses and quotas in Canada, including Arctic Surf Clam, Offshore Lobster, Canadian Sea Scallops and Coldwater Shrimp, in addition to Argentine Scallops in Argentina. Licensing, quotas and strategic procurement provide Clearwater with a consistent and renewable supply of premium, wild-caught, sustainably harvested seafood for distribution around the globe. In 2017, Clearwater expects to harvest all of its quotas and secure access to additional supply through harvest and procurement contracts, growing overall volumes, including Macduff, by more than 10 per cent versus 2016.

- ***Macduff Shellfish Group***

  Macduff is now fully integrated. Together, both companies will continue to grow as one of the world's leading vertically integrated harvesters, processors and distributors of premium, wild shellfish. Closely complementing Clearwater's product offerings, Macduff provides access to an additional 7,000 metric tons of premium, wild-caught, safe and traceable shellfish, including King and Queen Scallops, Langoustine, Brown Crab and Whelk. In addition to being a leading harvester, Macduff is one of the largest processors of wild shellfish in the UK with tremendous opportunity for future growth.

2. **Target profitable & growing markets, channels & customers –** Clearwater targets growing markets, consumers, channels and customers on the basis of size, profitability, demand for eco-label seafood and ability to win. Our focus is to win in key channels and with customers that are winning with consumers.

   - ***Growing globally – In every region***

     In Europe, Clearwater expects to benefit from increased sales of all Scallop species, Crab, Processed Lobster, Langoustine and the launch of Arctic Surf Clams into most major European markets. In addition, the early ratification of the Comprehensive European Trade Agreement ("CETA") by the European Parliament will remove millions of dollars of tariffs on Clearwater's Canadian seafood exports to the largest seafood import market in the world.

     In the Americas, Clearwater expects to continue to benefit from duty-free access to the US market by profitably growing volume in virtually every core Clearwater species and expanding the distribution of Macduff products, including Langoustine and Brown Crab. In Arctic Surf Clams, Clearwater will expand distribution within the sushi, Asian grocery and processor segments with new value-added formats.

     In Asia, Clearwater will continue to grow sales and distribution of all species with a particular emphasis on Arctic Surf Clam, Live Lobster, Brown Crab and Whelk. In China, Clearwater expects to benefit from the expansion of foodservice distribution to more Tier 2 cities, retail distribution expansion in Tier 1 cities, as well as the rapid growth of the company's China Ecommerce partnerships with Alibaba's Tmall and JD.com. Both ecommerce platforms represent a huge opportunity for Clearwater to capitalize on China's booming $830 billion online market (which is growing at over 38 per cent), while providing Chinese consumers with the ability to purchase authentic Clearwater products. As the number of online shoppers in China increases, Clearwater will continue to leverage ecommerce to target profitable and growing markets, channels and customers.

   - ***Channels and consumers***

     Clearwater boasts an experienced global sales force selling directly to a diverse group of customers in over 40 countries. Supplying to retailers, foodservice operators and distributors, processors, importers and wholesalers throughout the world, products are sold globally under Clearwater, Macduff and other popular private label brands, with no single customer representing more than seven per cent of total sales revenue.

3. **Innovate and position products to deliver superior customer satisfaction and value –** We continue to work with customers on new products and formats as we innovate and position our premium seafood to deliver superior satisfaction and value that's relevantly differentiated on the dimensions of taste, quality, safety, sustainability, wellness, convenience and fair labour practices.

   - ***Frozen Arctic Surf Clam sushi-ready slices***

     Clearwater announced a new investment in a ready to eat "prime cut" clam line to support expanded distribution and growth of the Arctic Surf Clam business in Europe and North America. Trimmed, sliced and cleaned, Frozen Arctic Surf Clam Sushi Ready Slices provide an ideal ready-to-use format for foodservice operators, while eliminating preparation time and cost. This innovative investment allows Clearwater to continue to diversify its markets to build the value of Arctic Surf Clam and grow its consumption globally.

4. **Increase margins by improving price realization and cost management –** Leverage the scarcity of seafood supply and increasing global demand, in addition to continuing to invest in, innovate and adopt state-of-the-art technology, systems and processes.

   - ***Ocean floor mapping***

     Clearwater continues to be a world leading shellfish harvester, with a fleet of vessels now fully equipped with habitat mapping, innovative gear and geographic positioning technology. Ocean floor mapping allows for increased productivity and more valuable use of Clearwater's fleet, targeting only those areas that can be fished most efficiently, while leaving sensitive habitats undisturbed.

- ***Fleet-based innovation – Automatic shucking technology***
  Clearwater continues to make investments in innovative technology and solutions to deliver superior products to customers around the globe. This includes Clearwater's patented onboard Automatic Scallop Shucking technology, enabling the production of fresh frozen-at-sea scallops. Harvested and frozen within an hour of catch, frozen-at-sea ("FAS") scallops deliver a superior tasting and higher quality product to Clearwater's discerning customers.

- ***Clam dredging technology***
  Clearwater has implemented a state-of-the-art clam dredging technology for its Canadian clam fleet, which has led to significantly higher catch rates, improved productivity and reduced the company's carbon footprint. This specialized technology also reduced Clearwater's number of clam vessels from 4 to 3, avoiding $70 million in capital expenditures and millions of dollars in operating costs.

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. Investing in the long-term health and the responsible harvesting of the oceans and the bounty is every harvester's responsibility and the only proven way to ensure access to a reliable, stable, renewable and long-term supply of seafood. Sustainability is not just good business, like innovation it's in our DNA. That's why Clearwater has been recognized by the Marine Stewardship Council ("MSC") as a leader in sustainable harvesting for wild fisheries and how Clearwater can offer the widest selection of sustainably certified species of any seafood harvester worldwide.

   - ***Commitment to sustainability***
     Together, Clearwater and Macduff continue to make investments in science and technology to ensure the sustainable harvesting of seafood. Clearwater offers the widest selection of MSC certified species of any shellfish harvester worldwide. As awareness grows for sustainable seafood products, consumers can be assured that our products originate from fisheries that meet MSC's strict environmental standards for sustainable and well-managed fisheries.

6. **Build organizational capability, capacity & engagement –** We attract, train and retain the best talent to build business system and process excellence company-wide.

   - In 2016, Clearwater continued to invest in talent and programs to build world-class capabilities through-out its organization.

CAPABILITY TO DELIVER RESULTS

Clearwater's revenues and earnings are dependent primarily on its ability to harvest, purchase, and market shellfish. Supply is dependent to a large extent on the annual total allowable catch ("TAC") for each species. The annual TAC is related to the health of the stock of the particular species as determined by the relevant government fishery management organizations. All stocks are managed sustainably providing assurance of the long-term availability of the resource, however annual fluctuations in supply of a natural resource are normal. Short term impacts of such fluctuations can normally be offset within Clearwater's species portfolio and/or by making adjustments within each business unit.

The primary shellfish stocks that Clearwater harvests are Canadian sea, Argentine and UK scallops, clams, lobster and coldwater shrimp, which are harvested in offshore fisheries that have a limited number of participants. Clearwater harvests scallops and clams with its own vessels. Clearwater obtains its lobster and coldwater shrimp through harvesting with its own vessels and through purchases from independent fishermen. Clearwater obtains its supply of crab, whelk, and langoustines through purchases from independent fishermen.

- The **Canadian sea scallop** resource typically fluctuates within a stable range. Clearwater anticipates TACs within the normal range in upcoming years. Clearwater lands virtually all its sea scallop quota each year and may from time to time harvest quotas for other industry participants or purchase raw material supply from other industry participants.

- The **Arctic surf clam** resource is stable. Clearwater has quota allocations on both Banquereau Bank and the Grand Banks in Canada. Total annual landings are based upon the harvesting capacity of our three vessels. 2016 marked the first time in the history of these fisheries that the company harvested the entire quota. This was achieved through its significant investments in a new factory-at-sea vessel which was launched in the fourth quarter of 2015 and proprietary investments in harvesting technologies.

- The **Argentine scallop** volumes are stable and are expected to be in line or modestly higher than recent years. Argentina is the first scallop fishery in the world to have earned the rigorous Marine Stewardship Council ("MSC") independent certification.

- **Coldwater shrimp** – The Northern shrimp TAC has declined from historic highs over the last five years and is expected to continue to decline at a similar rate over the next five years as the cod species, a natural predator of shrimp, return to this fishery. Clearwater holds access to quotas directly through licences and through long-term harvesting agreements. Clearwater procures shrimp from the inshore fishery for its cooked and peeled business and supplements this with raw material from its offshore vessels.
- The offshore Canadian **lobster** resource is healthy with a consistent offshore TAC. Clearwater harvests all of its lobster quota each year. During 2016, Clearwater purchased approximately 80% of its lobster from inshore lobster fishermen. The quality of lobster has seen a decline in this fishery as harvesters move further offshore, resulting in higher mortality.
- The **UK scallop** landings are stable, with total 2016 landings coming down slightly from the recent high levels. The fishery is managed under a combination of effort days, gear regulation and minimum landing size, which vary by area.

Clearwater maintains the largest, most modern fleet of factory freezer vessels in Canada together with vessels that are used to harvest Clearwater's offshore lobster and to complete research and development. The Company also operates a fleet of 13 scallop trawlers in the UK.

Clearwater grades investments in property, plant, equipment and licenses as either return on investment ("ROI") or maintenance capital. Significant expenditures that are expected to have a return in excess of the cost of capital are classified as ROI, and all refits and expenditures that are expected to return less than the average cost of capital are classified as maintenance.

Clearwater spent the following on capital expenditures and repairs and maintenance over the last three years:

(In 000s) For the years ended December 31	2016	2015	2014	Total
Vessels	$ 44,343	$ 49,748	$ 72,700	$ 166,791
Plants and other	11,989	13,642	10,609	36,240
	$ 56,332	$ 63,390	$ 83,309	$ 203,031
Return on investment capital	$ 31,913	$ 50,370	$ 60,417	$ 142,700
Maintenance capital	24,419	13,019	22,892	60,330
	$ 56,332	$ 63,389	$ 83,309	$ 203,030
Maintenance capital	$ 24,418	$ 13,019	$ 22,892	$ 60,329
Repairs and maintenance expense	24,135	19,714	14,149	57,998
	$ 48,553	$ 32,733	$ 37,041	$ 118,327
Depreciation/Amortization	$ 38,634	$ 29,732	$ 23,753	$ 92,119
Maintenance spending as a % of depreciation	125.7%	110.1%	155.9%	128.5%

In 2016 Clearwater invested $56.3 million in capital expenditures of which $25.9 million of investment capital related to a replacement clam harvesting vessel and $24.2 million of maintenance capital related to vessel refits and $6.2 million to improve operational efficiencies in our plants and information systems.

In 2015 Clearwater invested $63.4 million in capital expenditures, excluding the acquisition of Macduff. Of these amounts, $25.9 million related to the construction of the Belle Carnell, a new clam vessel, which had a total cost of approximately $65 million and was fully operational in late 2015, $7.1 million for the purchase and conversion of a research vessel, $18.7 million related to maintenance capital investments and $11.7 million to improve operational efficiencies in our plants and information systems.

In 2014 Clearwater had a record investment in capital expenditures of $83.3 million. Capital expenditures included $36.4 million related to the construction of the Belle Carnell vessel.

Also in 2014, Clearwater invested $16.7 million to complete the conversion of an Argentine scallop vessel which began harvesting early in the first quarter of 2015. Additional investments in 2014 included $7.3 million for an enterprise resource planning system, $18.2 million on refits including $12.5 million for a life extending refit of a shrimp vessel and $4.7 million on other planned maintenance.

In addition to the annual amounts capitalized above, Clearwater historically has spent and expensed on average about $19.3 million a year over the past three years on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition, enabling it to harvest and process its allowable catch efficiently and providing sufficient capacity.

Clearwater's largest fleet investments are in its nine factory vessels located within Canada and Argentina. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams.

Of the nine factory vessels:

- Two are used to harvest shrimp and are on average 23 years old. These vessels have a capacity to harvest 14,000 to 18,000 metric tons of our 20,000 metric ton quota and our entire 1,900 metric ton turbot quota in a ready-for-market form. One of the vessels was built in 1985 and in 2014 Clearwater invested $12.5 million in a late-life refit, thereby extending its useful life.

  Four are used to harvest sea and Argentine scallops with the sea scallop vessels being on average 18 years old and the Argentine scallop vessels being on average 21 years old. In 2014, an idle vessel was converted from harvesting sea scallops to harvesting Argentine scallops and began operations in early 2015.

- Three of Clearwater's vessels are used to harvest clams and are on average 15 years old. In 2015, Clearwater completed construction of a new clam harvesting vessel which was operational in the third quarter of 2015 with product reaching the market in the fourth quarter of 2015. In 2016, Clearwater began the construction of a new clam harvesting vessel which will replace an existing vessel and is expected to be added to the fleet in the first quarter of 2018.

With the acquisition of Macduff, Clearwater's fleet now includes 13 mid-shore scallop harvesting vessels within the UK with average useful lives between 5–15 years.

In 2017 Clearwater expects to invest approximately $90.0 million in capital projects with the most significant investments relating to the new clam harvesting vessel, refits and land-based processing capacity expansion.

SELECTED ANNUAL INFORMATION

(In 000s except per share amounts) For the year ended December 31	2016	2015	2014
Sales	**$ 611,551**	$ 504,945	$ 444,742
Gross margin	**144,621**	132,188	102,834
Net earnings (loss)	**59,596**	(20,671)	9,797
Basic and diluted earnings (loss) per share	**0.71**	(0.65)	(0.05)
Adjusted EBITDA[1]	**120,937**	109,734	87,368
Adjusted earnings attributable to shareholders[1]	**23,766**	43,457	22,571
Adjusted earnings per share[1]	**0.38**	0.76	0.41
Total assets	**729,735**	753,195	464,397
Long-term debt	**$ 436,414**	$ 480,769	$ 273,041

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

2016 Financial Achievements

Clearwater reported record sales and adjusted EBITDA for 2016 of $611.6 million and $120.9 million, versus 2015 comparative figures of $504.9 million and $109.7 million, respectively. This represents double digit growth rates for sales of 21.1% and adjusted EBITDA of 10.2%, marking Clearwater's seventh consecutive year of top and bottom line growth.

Sales and adjusted EBITDA were positively impacted by strong selling prices for scallops, higher sales volumes for clams, lobster, langoustine, whelks and crab and higher average foreign exchange rates for the US dollar, Yen and the Euro.

Our Macduff Shellfish operation in the UK had a very successful year delivering strong volumes and earnings. Selling prices and foreign exchange were favorable for the operation and enabled delivery of the strongest financial performance in its history.

In Arctic Surf Clam, Clearwater harvested the Grand Banks for the first time since 2006. This was made possible with the addition of the Belle Carnell to our fleet. This when combined with our proprietary advancements in harvesting technology resulted in the complete harvest of the TAC for the first time in the history of the fishery and increased our sales volumes of this unique sushi and sashimi focused product.

Cash flows from working capital improved in the fourth quarter of 2016, by $31.3 million to $64.6 million, as compared to the same period in 2015, as several species finished harvesting Clearwater's quota earlier in the year and these inventories were sold in the normal course of business.

EXPLANATION OF 2016 FINANCIAL RESULTS

Overview

The following statements reflect the results of Clearwater for the 13 weeks and years ended December 31, 2016 and 2015:

	13 weeks ended December 31		Year ended December 31	
(In 000s of Canadian dollars)	**2016**	2015	**2016**	2015
Sales	**$ 165,690**	$ 165,503	**$ 611,551**	$ 504,945
Cost of goods sold[1]	**136,737**	122,404	**466,930**	372,757
Gross margin	**28,953**	43,099	**144,621**	132,188
	17.5%	*26.0%*	***23.6%***	*26.2%*
Administrative and selling	**9,814**	16,852	**58,492**	51,363
Net finance costs	**4,602**	1,105	**26,948**	21,634
(Gains) losses on contract derivatives	**(8,372)**	7,450	**(7,279)**	26,763
Foreign exchange (gains) losses on long-term debt	**4,449**	18,950	**(7,295)**	46,287
Other expense (income)	**(855)**	(147)	**(5,209)**	444
Research and development	**643**	822	**2,922**	1,981
	10,281	45,032	**68,579**	148,472
Earnings (loss) before income taxes	**18,672**	(1,933)	**76,042**	(16,284)
Income tax expense	**6,261**	1,860	**16,446**	4,387
Earnings (loss)	**$ 12,411**	$ (3,793)	**$ 59,596**	$ (20,671)
Earnings (loss) attributable to:				
Non-controlling interest	**$ 3,800**	$ 3,267	**$ 15,668**	$ 16,937
Shareholders of Clearwater	**8,611**	(7,060)	**43,928**	(37,608)
	$ 12,411	$ (3,793)	**$ 59,596**	$ (20,671)

1 In 2015 there was $2.1 million included in cost of goods sold related to fair value adjustment for inventory and depreciation that resulted from IFRS requirements on purchase price accounting on the acquisition of Macduff.

KEY PERFORMANCE INDICATORS[1]

(In 000s of Canadian dollars) As at December 31	2016	2015	2014
Profitability			
Adjusted EBITDA[1]	**$ 120,937**	$ 109,734	$ 87,368
Adjusted EBITDA (as a % of sales)	**19.8%**	21.7%	19.6%
Sales	**$ 611,551**	$ 504,945	$ 444,742
Sales growth	**21.1%**	13.5%	14.4%
Free Cash Flows and Leverage Targets			
Free cash flows[1]	**$ 10,242**	$ 39,089	$ 30,856
Leverage[1]	**4.2**	4.4	3.3
Returns			
Return on assets[1]	**11.0%**	13.8%	13.9%

2016 Financial Results

Clearwater reported record sales and adjusted EBITDA[1] of $611.6 million and $120.9 million respectively for 2016 versus 2015 comparative results of $504.9 million and $109.7 million. This represents growth rates of 21.1% for sales and 10.2% for adjusted EBITDA, marking Clearwater's seventh consecutive year of top and bottom line growth.

Sales and adjusted EBITDA were positively impacted by strong sales prices for scallops and higher sales volumes for clams, lobster, langoustine, whelk and crab. Higher average foreign exchange rates for the US dollar, Yen and the Euro had a net positive impact of $7.0 million, contributing to the improvement in sales.

Earnings for the year increased $80.3 million to $59.6 million in 2016 primarily as a result of improvements in gross margin from strong sales prices for the majority of core species and the impact of lower average foreign exchange rates. The changes in foreign exchange rates resulted in non-cash unrealized foreign exchange gains on long-term debt and forward contracts as the Canadian dollar strengthened against the US dollar and the GBP.

We faced challenges in several core species during the year that resulted in lower than expected sales and earnings.

The Total Allowable Catch ("TAC") for coldwater shrimp was reduced and reallocated in 2016, resulting in decline in our coldwater shrimp sales and margins. The decline in TAC from historic highs is in natural response to the decline of the coldwater shrimp biomass as the cod species return to the North Atlantic fishery.

The TAC for Canadian sea scallops was at its lowest level in 11 years, resulting in lower sales and earnings compared to 2015. Lower available supply enabled stronger prices for this high demand species.

In the live lobster business, higher volumes resulted in increased sales. Margins were weaker in this species however due to poor quality received from the inshore fishery and an increase in low-priced competition in the China wholesale market as prices could not be increased quickly enough in the latter part of the year to offset higher procurement prices and mortality.

In Arctic surf clam, harvested volumes increased rapidly in the second half of the year, with the resulting supply outstripping the capacity of our existing channels and customers. Heavier promotional activity resulted in higher sales. A smaller size mix in the clams and a reduction in selling prices to increase consumer demand resulted in an overall reduction in margins.

Our Argentine scallop species had its strongest year in recent history with increased volumes, higher selling prices and lower costs.

Our Macduff business also had its strongest year, with high volumes, pricing and increased access to supply through procurement arrangements. The weaker Sterling versus Euro had a favorable impact on results although this was partially offset when translated to Canadian dollars. The higher proportion of procured products through the Macduff operations had a dilutive effect on margin as a percent of sales.

The combined effect of these items resulted in a decline in gross margin as a percent of sales of 2.6% for the 2016 year compared to 2015.

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

Reductions in coldwater shrimp and sea scallop Total Allowable Catch ("TAC") and poor live lobster quality, from the inshore fishery, combined with high shore prices resulted in lower margins. Lower average foreign exchange rates as the Canadian dollar strengthened against the US dollar, Euro and GBP resulted in a negative impact to sales of $5.2 million. Despite these challenges, our business fundamentals remain strong and we are positioned well for another year of significant growth in 2017.

Earnings in the fourth quarter of 2016 increased $16.2 million to $12.4 million primarily as a result of higher average foreign exchange rates as the US dollar and GBP had strengthened against the Canadian dollar in the fourth quarter of 2015, resulting in higher non-cash unrealized foreign exchange losses on US dollar and GBP denominated debt. In addition general and administrative expenses declined in the fourth quarter of 2016 as a result of a reduction in variable and share-based compensation expense as compared to the same period in 2015.

The cash flows used in working capital increased against 2015 by $2.3 million to a use of $21.1 million for 2016. The increased level of working capital resulted primarily from high inventory levels for clams and certain procured species, partially offset by timing of collections of accounts receivable.

Inventory levels increased during the third and fourth quarters of 2016 to higher than anticipated levels following successful harvesting in our clam fleet. With the addition of the third vessel into the fishery in the latter part of 2015 combined with improved efficiency through the implementation of advanced harvesting technology and equipment, harvesting volumes increased significantly and therefore the Company was able to catch the full clam quota for the first time in 2016. Overall inventory levels increased through the second half of 2016 resulting in year end clam inventories closing $23.9 million higher than 2015. Clam sales volumes increased 22.7% over the prior year with pricing adjustments, investments in marketing, promotion and distribution expansion initiated to increase sales. The benefits of these investments were not fully realized in 2016 as it will take time to effect expanded distribution of clams. Management anticipates the benefits will be realized through 2017 and inventories will return to normal levels by the end of the year.

Free cash flows[1] were $10.2 million in 2016 as compared to $39.1 million in 2015. Higher adjusted EBITDA was offset by higher working capital balances from inventory. Other contributing factors included higher interest expense that resulted from higher inventory balances and timing of payments to non-controlling interests, which reduced free cash flow balances by approximately $12.7 million in 2016. Cash taxes were also higher by $5.2 million as a result of a full year of Macduff operations.

Leverage[1] decreased to 4.2x adjusted EBITDA as at December 31, 2016 compared to 4.4x at the end of 2015 and was slightly higher than management's initial expectations as a result of higher working capital balances. Clearwater continues to have a long-term target for leverage of 3.0x and plans to be in line with this target within the next two years or less.

Return on assets[1] ("ROA") declined from 13.8% in 2015 to 11.0% in 2016. The full year impact of the addition of Macduff diluted ROA due to the higher proportion of procured species sold at lower margins. Average total assets for 2016 versus 2015 also increased with the completion of the Belle Carnell vessel later in 2015 and the ERP system investment completed early in 2016. Growth in EBIT was modestly higher than the increase in depreciation expense of $8.9 million resulting from these additions.

2016 represents a continued strong track record for both top and bottom line growth despite our challenges. By focusing on our six core strategies, including increasing access to supply, targeting profitable and growing markets, and building organizational capacity, we successfully reported another record year that builds our foundation for the next four years.

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

EXPLANATION OF CHANGE IN EARNINGS

Overview

The following table reflects the changes in earnings for Clearwater for the 13 weeks ended and year ended December 31, 2016:

(In 000s of Canadian dollars)	13 weeks ended December 31 2016	Year ended December 31 2016
Earnings (loss) – 2015	$ (3,793)	$ (20,671)
Explanation of changes in earnings (loss) related to operations:		
Higher (lower) gross margin	(14,146)	12,433
Lower (higher) administrative and selling	7,038	(7,129)
Higher interest expense	(1,248)	(6,553)
Higher realized foreign exchange gains	6,343	3,689
	(2,013)	2,440
Explanation of changes in earnings (loss) related to non-operational items:		
Higher unrealized foreign exchange gains on long-term debt and working capital and forward contracts	23,095	88,869
Higher income tax expense	(4,401)	(12,059)
Accretion on deferred consideration	(821)	(3,562)
Higher fair value adjustments on embedded derivative	(1,051)	(766)
	16,822	72,482
All other	1,395	5,345
Earnings (loss) – 2016	$ 12,411	$ 59,596

Sales By Region

	13 weeks ended December 31			Year ended December 31		
(In 000s of Canadian dollars)	2016	2015	Change	2016	2015	Change
Europe	$ 75,830	$ 75,241	$ 589	$ 246,909	$ 183,881	$ 63,028
China	28,089	32,413	(4,324)	94,623	95,140	(517)
Japan	15,079	17,208	(2,129)	76,230	66,401	9,829
Other Asia	6,618	5,852	766	36,036	18,113	17,923
Asia	49,786	55,473	(5,687)	206,889	179,654	27,235
United States	23,661	21,265	2,396	85,385	80,668	4,717
Canada	16,381	12,799	3,582	72,275	58,696	13,579
North America	40,042	34,064	5,978	157,660	139,364	18,296
Other	32	725	(693)	93	2,046	(1,953)
	$ 165,690	$ 165,503	$ 187	$ 611,551	$ 504,945	$ 106,606

Summary

Clearwater reported sales and adjusted EBITDA[1] for 2016 of $611.6 million and $120.9 million, versus 2015 comparative figures of $504.9 million and $109.7 million, respectively.

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

Europe

Europe is Clearwater's largest scallop market and it is an important market for coldwater shrimp, langoustines, crab and lobster products.

European sales increased $63.0 million, or 34.3% to $246.9 million for 2016 versus 2015.

The increase in sales was primarily as a result of higher sales volumes for King and Queen scallops, langoustines and brown crab. Higher available supply for Argentine scallops also resulted in increased sales.

Lower available supply for sea scallops and coldwater shrimp reduced sales. Lower market demand that reduced average selling prices for cooked and peeled shrimp, a non-core species, partially offset the improvement in sales.

Sales that are primarily transacted in Euro, GBP and Danish Kroner were negatively impacted in 2016 by lower average foreign exchange rates[1] that had a net impact on sales of $4.9 million.

For the fourth quarter, higher sales volumes were offset by lower average foreign exchange rates of $5.5 million as the Canadian dollar strengthened against the Euro and the GBP in the last quarter of 2016 as compared to the same period of 2015.

China

China is a key market for clams, coldwater shrimp, lobster and turbot.

For the year, sales to customers in China remained consistent at $94.6 million as higher sales volumes for clams and lobster and higher average foreign exchange rates for the US dollar were offset by reductions in available supply for shrimp.

Sales in China are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar for 2016 contributing $1.8 million to the increase in sales.

Fourth quarter 2016 sales volumes were impacted negatively by lower TAC levels for both sea scallops and coldwater shrimp, resulting in lower sales in comparison to the same period of 2015.

Japan

Clams, lobster, coldwater shrimp and turbot are the main species sold in Japan.

Sales to customers in Japan increased $9.8 million, or 14.8% to $76.2 million for 2016 primarily as a result of higher sales volumes for clams, strong sales prices for shrimp and higher average foreign exchange rates as the Yen strengthened against the Canadian dollar.

Sales, which were primarily transacted in Yen, were positively impacted in 2016 by approximately $7.8 million related to an increase of 9.1% in foreign exchange rates[1] over the same period in 2015.

In the fourth quarter, sales to Japan declined $2.1 million primarily as a result of lower available supply for coldwater shrimp and average sales prices for clams, partially offset by higher sales volumes for clams and higher average Yen exchange rates.

Other Asia

The Other Asia region includes Korea, Taiwan, Singapore and other Asian countries. Whelk, clams and lobster are key products for these markets.

Sales in this region increased $17.9 million to $36.0 million for 2016 in comparison to 2015 primarily as a result of sales for Whelk.

United States

Scallops, coldwater shrimp, lobster and clams are the primary species sold in the United States.

Sales for 2016 and for the fourth quarter increased $4.7 million and $2.3 million, respectively, primarily as a result of higher sales volumes for lobster. Lower sales prices, resulting from a smaller size mix and volumes for scallops and clams partially offset the increase in sales.

Sales for 2016 were positively impacted by $1.5 million due to stronger foreign exchange rates as the US dollar strengthened against the Canadian dollar. Average foreign exchange rates[1] for the US dollar increased by 1.8% to 1.319 in 2016.

[1] Refer to discussion on risks and uncertainties.

Canada

Canada is a large market for lobster, scallops, snow crab, clams and coldwater shrimp.

Sales within Canada increased $13.6 million, or 23.1% to $72.3 million for 2016 primarily as a result of an increase in sales prices for snow crab and sea scallops as well as higher sales volumes for clams, scallops and lobster. Lower average sales prices for lobster and clams and timing of sales volumes for snow crab, partially offset the improvement in sales.

Sales within Canada increased $3.6 million for the fourth quarter of 2016 as compared to the same quarter in 2015 primarily as a result of an increase in sales volume for lobster.

Sales By Species[1]

	13 weeks ended December 31			Year ended December 31		
(In 000s of Canadian dollars)	**2016**	2015	Change	**2016**	2015	Change
Scallops	**$ 47,644**	$ 59,787	$ (12,143)	**$ 188,421**	$ 165,544	$ 22,877
Lobster	**29,022**	21,863	7,159	**108,402**	92,589	15,813
Coldwater shrimp	**29,126**	37,299	(8,173)	**93,250**	109,963	(16,713)
Clams	**30,846**	32,288	(1,442)	**91,918**	84,350	7,568
Langoustine	**13,441**	7,873	5,568	**47,572**	7,873	39,699
Crab	**11,154**	4,798	6,356	**38,243**	26,141	12,102
Whelks	**3,361**	878	2,483	**22,204**	878	21,326
Ground fish and other shellfish	**1,096**	717	379	**21,541**	17,607	3,934
	$ 165,690	$ 165,503	$ 187	**$ 611,551**	$ 504,945	$ 106,606

Sales increased $106.6 million for 2016 to $611.6 million versus sales of $504.9 million in 2015 primarily as a result of higher sales volumes for clams, lobster, scallops, langoustines and whelk. Higher average foreign exchange rates[1] had a $7.0 million positive impact on sales, as the US dollar, Yen and Euro strengthened against the Canadian dollar.

Sales volumes for coldwater shrimp decreased due to a necessary reduction in Total Allowable Catch ("TAC") to preserve the health of the species. The TAC and volumes are expected to continue to decline as the species comes into balance from historical levels with the return of its natural predator, the cod.

Canadian sea scallop volumes were below 2015 as the TAC was at its lowest annual level in 11 years. This is a normal natural cycle for the species and is expected to increase in the future. Strong sea scallops prices and expanded access to supply resulted in strong growth in sales.

Clearwater is a leader in sustainable seafood harvesters which is a responsibility that we take seriously. Clearwater maintains Marine Stewardship Council certification ("MSC") in all harvested species within North America and Argentina. This certification reflects our commitment to sustainability, environmental impact and good management practices. This responsibility sometimes requires taking less to ensure the long-term health of the resource, which has impacted sales in the short-term but provides for sustainable resources into the future.

Sales of clams increased following the reintroduction of a third clam vessel into the Grand Banks fishery. Clearwater successfully harvested the full TAC for the first time in the history of the fishery.

Cost of Goods Sold

Cost of goods sold includes harvesting and procurement costs, manufacturing costs, depreciation, transportation and administration. Cost of goods sold increased $94.2 million for 2016 and $14.3 million for the fourth quarter, as compared to the same periods of 2015, primarily due to higher sales volumes. Higher procurement prices for lobster, crab and shrimp and lower catch rates for frozen-at-sea shrimp resulted in higher average costs per pound, contributing to the increase in cost of goods sold.

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 and crab.

[1] Refer to discussion on risks and uncertainties.

Gross Margin

Gross margin increased $12.4 million in 2016 to $144.6 million as a result of higher sales volumes for clams, lobster, scallops, langoustines and whelk, partially offset by declines in sales volumes for shrimp.

Gross margins as a percentage of sales declined 2.6% for 2016 and 8.5% for the fourth quarter of 2016 in comparison to the same periods in 2015. The reduction in gross margin as a percentage of sales was primarily a result of lower sales prices for clams and lobster and higher procurement prices for both lobster and shrimp. Canadian sea scallop harvest occurred earlier in 2016 thus fewer sea scallops were available for sale for the year and for the fourth quarter. Lower volumes of coldwater shrimp due to quota reductions and reallocations also resulted in lower margins for the year and quarter. Increased volumes of new procured species including langoustine, whelk and crab which generate a lower gross margin further contributed to the decline in gross margin as a percentage of sales.

For the year, strong sales prices for scallops and higher average foreign exchange rates[1] as the US dollar and Yen strengthened against the Canadian dollar had a $10.8 million positive impact that partially offset the decline in margins.

				13 weeks ended December 31				Year ended December 31
		2016		2015		**2016**		2015
Currency	**% sales**	**Average rate realized[1]**	% sales	Average rate realized[1]	**% sales**	**Average rate realized[1]**	% sales	Average rate realized[1]
US dollars	**36.6%**	**1.336**	37.4%	1.35	**37.4%**	**1.319**	43.2%	1.296
Euros	**26.2%**	**1.428**	30.2%	1.475	**27.0%**	**1.459**	22.7%	1.438
Canadian dollar and other	**16.9%**		10.2%		**12.9%**		12.1%	
UK pounds	**11.3%**	**1.662**	7.3%	2.03	**10.0%**	**1.760**	5.6%	1.993
Japanese Yen	**7.5%**	**0.012**	8.8%	0.011	**9.6%**	**0.012**	10.0%	0.011
Danish Kroner	**1.5%**	**0.194**	6.1%	0.196	**3.1%**	**0.199**	6.4%	0.192
	100.0%		100.0%		**100.0%**		100.0%	

Administrative and Selling

			13 weeks ended December 31			Year ended December 31
(In 000s of Canadian dollars)	**2016**	2015	Change	**2016**	2015	Change
Salaries and benefits	**$ 6,677**	$ 10,645	$ (3,968)	**$ 39,346**	$ 34,941	$ 4,405
Share-based incentive compensation	**(2,303)**	3,004	(5,307)	**2,902**	5,270	(2,368)
Employee compensation	**4,374**	13,649	(9,275)	**42,248**	40,211	2,037
Consulting and professional fees	**4,594**	1,530	3,064	**13,135**	7,600	5,535
Other	**1,262**	1,158	104	**6,907**	4,815	2,092
Reorganizational costs	**833**	1,143	(310)	**986**	3,150	(2,164)
Selling costs	**929**	954	(25)	**2,857**	2,949	(92)
Travel	**1,074**	1,031	43	**3,906**	2,940	966
Occupancy	**423**	472	(49)	**1,947**	1,569	378
Allocation to cost of goods sold	**(3,675)**	(3,085)	(590)	**(13,494)**	(11,871)	(1,623)
	$ 9,814	$ 16,852	$ (7,038)	**$ 58,492**	$ 51,363	$ 7,129

Administrative and selling increased $7.1 million for 2016 and declined $7.0 million in the fourth quarter of 2016 in comparison to the same periods of 2015.

Salaries and benefits increased $4.4 million in 2016 primarily as a result of new hires in senior management and other staff to support the company's growth platform and to expand capabilities to deliver on market opportunities. The decline of $4.0 million in the fourth quarter of 2016 compared to 2015 is related to the timing of variable compensation expense.

[1] Refer to discussion on risks and uncertainties.

Share-based incentive compensation is primarily driven by changes in Clearwater's share price, performance against Clearwater's peer group and the number of outstanding share-based grants outstanding.

Share-based compensation expense decreased $2.4 million for 2016 and $5.3 million in the fourth quarter of 2016 primarily as a result of a lower share price for 2016 versus 2015 comparative periods. In addition there were fewer average share-based grants outstanding for 2016 versus 2015.

Consulting and professional fees include operations management, legal, audit and accounting, insurance and other specialized consulting services. Consulting and professional fees increased in 2016 as a result of specialized fees in support of the enterprise resource planning system ("ERP") implementation, higher consulting fees related to a full year of Macduff operations and higher audit fees.

Other includes a variety of administrative expenses such as communication, computing, service fees, depreciation, storage, gains or losses and write-downs of assets, all of which vary from year to year. Other increased in 2016 as a result of higher depreciation related to the ERP that was implemented in the first quarter of 2016 and increases in administrative expenses due to additional office space.

Selling costs include advertising, marketing, trade shows, samples, product development and bad debt expenses.

Reorganization costs for 2015 included a provision for severance related to certain executives and long-term employees affected by the reorganization.

Allocation to cost of goods sold reflects costs that are attributable to the production of goods and are allocated on a proportionate basis based on production volumes.

Net Finance Costs

	13 weeks ended December 31			Year ended December 31		
(In 000s of Canadian dollars)	**2016**	2015	Change	**2016**	2015	Change
Interest and bank charges	**$ 6,778**	$ 5,467	$ 1,311	**$ 24,776**	$ 19,002	$ 5,774
Amortization of deferred financing charges and accretion	**478**	541	(63)	**2,113**	1,334	779
	7,256	6,008	1,248	**26,889**	20,336	6,553
Interest rate swaps and caps	**(1,665)**	(2,550)	885	**(2,027)**	2,908	(4,935)
Accretion on deferred consideration	**821**	—	821	**3,562**	—	3,562
Fair value adjustment on embedded derivative	**(1,710)**	(2,761)	1,051	**(1,350)**	(2,118)	768
Debt refinancing fees and other	**(100)**	408	(508)	**(126)**	508	(634)
	$ 4,602	$ 1,105	$ 3,497	**$ 26,948**	$ 21,634	$ 5,314

Interest and bank charges increased $5.8 million for 2016 and $1.3 million for the fourth quarter of 2016 as compared to the same periods in 2015 due to higher average debt balances throughout the year, primarily resulting from the acquisition of Macduff on October 30, 2015. Higher US dollar denominated debt facilities resulted in an increase in foreign exchange expense, which contributed to the increase in interest expense for the year.

Higher **amortization of deferred financing charges and accretion** relates primarily to charges from the financing of the Macduff acquisition.

The **interest rate swaps and caps** relates to non-cash mark to market gains and losses on USD $100 million and CDN $24 million swaps and caps that were entered into in 2015. The change in the mark to market represents changes in relative expected future interest rates and foreign exchange impacts as the Canadian dollar strengthened against the US dollar in 2016.

The **accretion on deferred consideration** arises for the deferred consideration obligation associated with the acquisition of Macduff as the notes are non-interest bearing.

The **fair value adjustment on the embedded derivatives** in Term Loan B relates to a Libor floor provision in the loan agreement and the earnings impact represents the change in the estimated fair values.

(Gains) Losses[1] on Contract Derivatives

	13 weeks ended December 31			Year ended December 31		
(In 000s of Canadian dollars)	**2016**	2015	Change	**2016**	2015	Change
Realized loss						
Forward foreign exchange contracts	**$ 238**	$ 4,343	$ (4,105)	**$ 7,345**	$ 15,595	$ (8,250)
Unrealized loss (gain)						
Forward foreign exchange contracts	**(8,610)**	3,107	(11,717)	**(14,624)**	11,168	(25,792)
	$ (8,372)	$ 7,450	$ (15,822)	**$ (7,279)**	$ 26,763	$ (34,042)

Gains on forward contract derivatives in the fourth quarter of 2016 and for the year as compared to the same periods of 2015 primarily resulted from unrealized gains in 2016 related to USD contracts where the contracted rates are higher than the relative spot rate. In 2015, USD contracted rates were lower than the relative spot rate at the date of the financial statements.

Realized losses of $7.3 million for 2016 are primarily a result of the Yen, Euro and the USD contracts for which contracted rates were below spot rates at time of settlement.

Clearwater is primarily an export company with approximately 87.9% of our sales taking place outside Canada and in foreign currencies. We have a business model built on access to a limited resource and diversity of species, markets and customers and have operated successfully in a variety of exchange rate environments.

As part of our risk management strategy we enter into short-term currency and interest rate instruments and loan agreements to give us certainty regarding exchange rates and cash flows for a period of time. We recognize and include in our earnings any realized gains and losses on these instruments and loans as they mature and are settled.

We are also required to record and include any unrealized non-cash gains and losses on these instruments in our earnings by assuming the settlement of these currency and interest rate instruments prior to their maturity and at each period end. To reflect this accounting, we obtain estimates of the fair value of the hedging instruments and convert them, as well as any foreign currency denominated debt, to Canadian dollars at each balance sheet date.

This results in unrealized non-cash gains or losses that are included in earnings for the period. As these gains and losses do not relate to operating results of the period, we exclude these gains and losses when calculating Adjusted EBITDA, Adjusted Earnings Attributable to Shareholders of Clearwater and Free Cash Flows.

Foreign Exchange[1] (Gains) Losses on Long-Term Debt and Working Capital

	13 weeks ended December 31			Year ended December 31		
(In 000s of Canadian dollars)	**2016**	2015	Change	**2016**	2015	Change
Realized (gain) loss						
Working capital and other	**$ 776**	$ 3,900	$ (3,124)	**$ 7,803**	$ (1,690)	$ 9,493
Unrealized (gain) loss						
Foreign exchange on long-term debt and working capital	**5,881**	17,547	(11,666)	**(18,045)**	51,168	(69,213)
Cross currency swaps and cap	**(2,208)**	(2,497)	289	**2,947**	(3,191)	6,138
	$ 4,449	$ 18,950	$ (14,501)	**$ (7,295)**	$ 46,287	$ (53,582)

[1] Refer to discussion on risks and uncertainties.

Foreign exchange gains on long-term debt and working capital increased by $53.6 million from a loss of $46.3 million for 2015 to a gain of $7.3 million in 2016. The increase was primarily a result of non-cash unrealized gains on the translation of $183.8 million in US dollar denominated debt as the Canadian dollar strengthened against the US dollar by 3.0%.

Realized foreign exchange losses on working capital and other increased $9.5 million from a gain of $1.7 million for 2015 to a loss of $7.8 million for the same period of 2016 primarily as a result of realized losses on intercompany accounts to wholly owned subsidiaries classified as foreign operations for accounting purposes.

Also contributing to the increase in foreign exchange gains were non-cash unrealized gains on the translation of the deferred consideration and the earnout obligations denominated in GBP as the Canadian dollar also strengthened against the GBP in 2016.

For 2015 the US dollar and Sterling strengthened against the Canadian dollar.

Unrealized exchange gains on cross currency swaps declined in 2016 versus 2015 as a result of the changes in US dollar exchange rates.

In the fourth quarter of 2016 foreign exchange losses on long-term debt and working capital of $5.9 million compared to $17.5 million in 2015 were primarily a result of $183.8 million of US denominated debt as the average foreign exchange rates for the US dollar were higher and strengthened against the Canadian dollar in the fourth quarter of 2015.

Other Income

	13 weeks ended December 31			Year ended December 31		
(In 000s of Canadian dollars)	**2016**	2015	Change	**2016**	2015	Change
Acquisition-related costs	**$ 1,287**	$ 2,185	$ (898)	**$ 2,561**	$ 3,240	$ (679)
Share of earnings of equity-accounted investee	**(872)**	(623)	(249)	**(1,185)**	(2,591)	1,406
Royalties, interest and other fees	**(749)**	(129)	(620)	**(1,379)**	(664)	(715)
Other (income) fees	**(602)**	(1,580)	978	**(1,950)**	459	(2,409)
Fair value adjustment on earn-out liability	**150**	—	150	**(1,110)**	—	(1,110)
Export rebate income	**(69)**	—	(69)	**(2,146)**	—	(2,146)
	$ (855)	$ (147)	$ (708)	**$ (5,209)**	$ 444	$ (5,653)

Acquisition-related costs for 2015 and 2016 related to the acquisition and integration of Macduff Shellfish.

Share of earnings in equity-accounted investee declined in 2016 primarily as a result of lower total available catch ("TAC") for sea scallops which resulted in a decline in sales and earnings.

Royalties, interest and other fees includes income related to quota rental, commissions, processing fees and other miscellaneous income and expense that vary based upon the operations of the business.

The fair value adjustment on earn-out liability relates to the Macduff acquisition. The earn-out liability is an unsecured additional consideration to be paid dependent on the future financial performance of Macduff and is recognized using fair value, with adjustments included in profit and loss.

The export rebate income relates to incentives received and accrued by our Argentine subsidiary for exports from certain economic zones in Argentina. Late in 2016, the Argentina government announced a change to the export rebate program that will result in a reduction to the incentive program effective immediately. Management expects to receive all accrued balances in due course.

Research and Development

Research and development relates to new harvesting, processing and storage technology and research into ocean habitats and fishing grounds. Research and development can vary year to year depending on the scope, timing and volume of research completed. Clearwater's business plans expect a consistent investment in research and development for the 2017 fiscal year.

Income Taxes

Income taxes primarily relate to taxable subsidiaries in Argentina, the United States, the United Kingdom and Canada.

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. The increase in deferred tax expense for the year was a result of expected higher taxable income.

Earnings 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 $1.3 million for 2016 relates primarily to lower landings for shrimp as a result of lower quotas and difficult weather conditions in northern fishing zones. For the fourth quarter, earnings attributable to non-controlling interest increased by $0.5 million due to timing of landings.

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.

For those investors that would like to understand the breakdown of adjusted EBITDA attributable to non-controlling interest and shareholders please refer to the reconciliation of adjusted EBITDA within the non-IFRS measures, definitions and reconciliations section of the MD&A.

Earnings Attributable to Shareholders

Earnings increased $80.3 million to $59.6 million in 2016 primarily as a result of improvements in gross margin from strong sales prices for the majority of core species and the impact of lower average foreign exchange rates. The changes in foreign exchange resulted in non-cash unrealized foreign exchange gains on long-term debt and forward contracts as the Canadian dollar strengthened against the US dollar and the GBP.

Adjusted Earnings Attributable to Shareholders

To assist readers in understanding 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.

For those readers that would like to understand the calculation of adjusted earnings please refer to the reconciliation of adjusted earnings within the non-IFRS measures, definitions and reconciliations section of the MD&A.

Adjusted earnings attributable to shareholders declined $19.7 million to $23.8 million in 2016 primarily as a result of higher interest expense resulting from higher working capital balances and income tax expense.

Refer to the Management Discussion and Analysis for a breakdown of the non-IFRS measure and the related earnings attributable to shareholders.

CAPITAL STRUCTURE

Clearwater's capital structure includes a combination of equity and various types of debt facilities. Clearwater's goal is to have a cost effective capital structure that supports its growth plans, while maintaining flexibility, reducing interest rate risk and reducing exchange risk by borrowing when in currencies other than the Canadian dollar when appropriate.

Clearwater uses leverage, in particular revolving and term debt, to lower its cost of capital.

The amount of debt available to Clearwater under its lending facilities is a function of Adjusted EBITDA[1] less net earnings attributable to minority interest. 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 levels, selling prices, weather, exchange rates, fuel and other input costs.

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

Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts and multi-year business plans and making any required changes to 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 existing debt facilities and selling surplus assets to repay debt.

Clearwater's capital structure was as follows as at December 31, 2016 and 2015:

(In 000s of Canadian dollars) As at December 31	2016	2015
Equity		
Share capital	$ 210,860	$ 157,161
Contributed surplus	1,419	547
Deficit	(4,793)	(36,333)
Accumulated other comprehensive income	(38,931)	(1,625)
	168,555	119,750
Non-controlling interest	19,930	29,325
	188,485	149,075
Long-term debt		
Senior debt, non-amortizing		
Revolving debt, due in 2018	23,400	16,400
Term loan, due in 2017	13,459	13,953
Term loan, due in 2091	3,500	3,500
	40,359	33,853
Senior debt, amortizing		
Term Loan A, due 2018 (net of deferred financing charges of $0.4 million (December 31, 2015 – $0.7 million))	50,218	55,562
Term Loan B, due 2019 (including embedded derivative, net of deferred financing charges of $1.1 million)	307,210	335,024
Marine mortgage, due in 2017	—	457
Other loans	222	277
	357,650	391,320
Deferred Obligation	29,298	43,035
Earnout liability	9,107	12,561
Total long-term debt	436,414	480,769
Total capital	$ 624,899	$ 629,844

There are 63,934,698 shares outstanding as of December 31, 2016 (December 31, 2015 – 59,958,998).

On June 21, 2016, Clearwater issued 2,895,700 shares for $13.90 per share yielding gross proceeds of approximately $40.3 million. Concurrently, Clearwater completed a non-brokered private placement with certain existing shareholders for 1,080,000 shares at $13.90 per share for approximate gross proceeds of $15.0 million. The total approximate gross proceeds from the offering were $55.3 million and the approximate proceeds net of expenses were $53.1 million. Transactions costs were net of deferred taxes of $0.7 million.

On June 30, 2015, Clearwater issued 3,755,900 shares at $12.25 per share yielding gross proceeds of approximately $46 million. Concurrently, Clearwater completed a non-brokered private placement with certain existing shareholders for 1,225,000 shares at $12.25 per share for gross proceeds of approximately $15 million. The total gross proceeds from the offering were approximately $61 million and the proceeds net of expenses were $58.6 million.

Long-term debt consists of a revolving loan, and non-amortizing and amortizing senior debt:

- The revolving loan allows Clearwater to borrow a maximum of CDN $100 million (denominated in either Canadian or the US dollar equivalent) and it matures in June 2018. The balance was $23.4 million at December 31, 2016 (December 31, 2015 –

$16.4 million). The CDN balances bear interest at the banker's acceptance rate plus 3.25%. The USD balances bear interest at the US Libor rate plus 3.25%. The availability on this loan is reduced by the amount outstanding on a USD $10 million non-amortizing term loan and as such the availability as at December 31, 2016 was $63.1 million (December 31, 2015 – $69.6 million).

- Non-amortizing debt consists of a USD $10 million loan due in June 2017 and a CDN $3.5 million loan due in 2091.
- Amortizing senior debt consists of a Term Loan A and Term Loan B.

Term Loan A – has principal outstanding as at December 31, 2016 of CDN $50.6 million (December 31, 2015 – CDN $56.3 million). The balance is shown net of deferred financing charges of $0.4 million (December 31, 2015 – $0.7 million).

The initial portion of term loan A has a principal outstanding as at December 31, 2016 of CDN $24.2 million (December 31, 2015 – CDN $27.0 million). The balance is shown net of deferred financing charges of CDN $0.1 million (December 31, 2015 – $0.1 million). The loan is repayable in quarterly instalments of CDN $0.4 million from September 2015 to June 2017, and CDN $0.8 million from September 2017 to March 2018 with the balance due at maturity in June 2018. It bears interest at the applicable banker's acceptance rate plus 3.25%. As at December 31, 2016 this resulted in an effective rate of approximately 4.14%.

The second portion of the term loan A (a delayed draw portion) has a principal outstanding as at December 31, 2016 of CDN $26.4 million (December 31, 2015 – CDN $29.3 million). The balance is shown net of deferred financing charges of CDN $0.3 million (December 31, 2015 – $0.6 million). The loan is repayable in quarterly instalments of CDN $0.4 million. The facility matures in June 2018 and bears interest payable monthly at the banker's acceptance rate plus 3.25%.

Term Loan B – The principal outstanding as at December 31, 2016 was USD $178.5 million (December 31, 2015 – $189.7 million) and CDN $70.4 million (December 31, 2015 – $74.8 million).

The USD loan is repayable in quarterly instalments of USD $0.5 million with the balance due at maturity in June 2019. It bears interest payable monthly at US Libor plus 3.5% with a Libor interest rate floor of 1.25%. As of December 31, 2016 this resulted in an effective rate of 4.75%. The Libor interest rate floor of 1.25% is accounted for separately as embedded derivative and is recorded at the estimated fair market value. The change in fair market value of the embedded derivative is recorded through profit or loss.

The CDN loan is repayable in quarterly instalments of CDN $0.2 million with the balance due at maturity in June 2019. It bears interest payable monthly at the banker's acceptance rate plus 3.50%. As of December 31, 2016 this resulted in an effective rate of 4.39%.

- The Deferred Obligation and Earn out relate to the acquisition of Macduff in 2015 and work as follows:

The Deferred Obligation relates to 33.75% of the shares of Macduff Shellfish Group Limited acquired by Clearwater (the "Earn Out Shares"). The principal amount of the deferred obligation at December 31, 2016 was £21.0 million and is recorded at a discounted amount of £17.7 million (CDN $29.3 million) (December 31, 2015 – £20.9 million, CDN $43.0 million) 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 7.8%.

In each year, the holders of the Earn Out Shares can elect to be paid up to 20% of the Deferred Obligation. Clearwater has the right to exercise the payout of 20% of the Deferred Obligation annually commencing two years after the date of closing. The percentage of the Deferred Obligation remaining unpaid will impact the fair value of the future performance component of the additional consideration, the Earnout. The fair value of the Deferred Obligation was estimated as of the acquisition date based on discounting the projected future cash out flows.

On October 30, 2016 the holders of the Earn Out Shares elected to be paid 20% of the outstanding deferred obligation. As a result a payment £5.2 million (CDN – $8.7 million) was made on November 15, 2016.

The Earnout liability is unsecured additional consideration to be paid dependent upon the future financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The estimated fair value of the Earnout at December 31, 2016 was £5.5 million (CDN – $9.1 million) (December 31, 2015 – £6.1 million, CDN – $12.6 million) based on forecast earnings and probability assessments. The actual Earnout payments are to be paid over the next five years.

The amount of the total Earnout is calculated as follows:

The greater of:

i) £3.8 million; OR
ii) up to 33.75% (dependent upon the percentage of Deferred obligation remaining unpaid each year) of the increase in equity value of the business over five years calculated as 7.5x adjusted EBITDA less the outstanding debt of Macduff; and
iii) 10% of adjusted EBITDA above £10 million (dependent upon the percentage of Deferred obligation remaining unpaid each year)

The Earnout liability is recorded at fair value on the balance sheet at each reporting period until paid in cash, with changes in the estimated fair value being recorded as a component of other expense on the statement of operations.

Clearwater has entered into interest rate swap and cross-currency swap arrangements whereby:

- CDN $12 million of Term Loan A is fixed at 6.25% to June 2018.
- CDN $12 million of Term Loan A is capped at 5.85% to June 2018.
- USD $50 million of the Term Loan B is fixed at 6.15% to June 2019.
- USD $50 million of the Term Loan B is fixed at 6.49% to June 2019.
- USD $75 million of the Term Loan B debt has been swapped into Canadian dollars at an effective exchange rate of 1.32 until June 26, 2018.

Taking into account the above interest rate swaps and excluding revolving loans, deferred compensation and the related earnout, Clearwater has effectively fixed the interest rate on 46% of its debt.

Clearwater includes the change in market value for all interest rate swap and foreign exchange swap arrangements in earnings during the period in finance costs.

The revolver, term loan A and term loan B are secured by a first charge on cash and cash equivalents, accounts receivable, inventory, marine vessels, licenses and quotas, and Clearwater's investments in certain subsidiaries.

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.

Acquisition and Financing of Macduff Shellfish Group Limited

On October 30, 2015 Clearwater completed its acquisition of Macduff, one of Europe's leading wild shellfish companies. The total fair value of the consideration paid or payable by Clearwater in connection with the acquisition as of the closing was £81 million (CDN $164 million) plus the repayment of Macduff outstanding debt facilities of £19 million (CDN $39 million) and management fees of £1.6 million (CDN $3.2 million) for a total of £102 million (CDN $206 million).

Macduff was acquired for cash consideration and an unsecured deferred consideration obligation of £27.0 million (the "Deferred Consideration") (CDN – $54.7 million) with a contingent consideration component that will be a minimum of £3.8 million (CDN – $7.7 million).

Clearwater financed the cash portion of the acquisition from existing loan facilities including:

- CDN $75 million increase in Term Loan B facility
- CDN $25 million increase in Revolving Loan Facility
- CDN $51 million borrowing on existing Revolving Loan Facility and cash on hand

LIQUIDITY

Clearwater has a number of treasury management policies and objectives to promote strong liquidity and continued access to capital to fund its growth.

These include policies and strategies with respect to liquidity, leverage, foreign exchange management, free cash flows and dividends.

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

- **Liquidity –** As of December 31, 2016 Clearwater had $39.5 million in cash, and a $100.0 million revolving loan, of which $63.1 million was available for drawing upon. The cash balance, together with available credit on the revolving loan, is used to manage seasonal working capital demands, capital expenditures, and other commitments.

  Clearwater's operations experience a predictable seasonal pattern in which sales, margins and adjusted EBITDA are higher in the second half of the year whereas investments in capital expenditures and working capital are lower, resulting in higher free cash flows and lower leverage in the second half of the year. This typically results in lower free cash flow, higher debt balances and higher leverage in the first half of the year.

- **Leverage[1] –** Clearwater's long-term leverage target calculated as net debt to adjusted EBITDA is 3.0x or lower. Periodically, leverage may be higher due to planned investments, or lower due to seasonality but over time Clearwater manages to this target. As of December 31, 2016 leverage decreased to 4.2x from 4.4x as of December 31, 2015. The decrease is primarily due to a lower GBP exchange rate on the Deferred Obligation and Earnout Liability and the US dollar exchange rate on USD denominated debt compared to 2015.

  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 manages its leverage. In addition, as leverage is a measure frequently analyzed for public companies, Clearwater has calculated the amount in order to assist readers in this review. Leverage should not be construed as a measure of cash flows.

  Clearwater's leverage measure is based on the ratio of Clearwater's share of adjusted EBITDA to its outstanding debt, net of cash balances.

(In 000s of Canadian dollars) As at December 31	2016	2015	2014
Adjusted EBITDA[1,4] (excluding non-controlling interest)	$ 98,447	$ 101,310	$ 70,651
Debt[2,3] (excluding non-controlling interest)	436,834	475,685	272,554
Less cash (excluding non-controlling interest)	(25,110)	(32,938)	(40,712)
Net debt	$ 411,724	$ 442,747	$ 231,842
Leverage	4.2	4.4	3.3

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

2 Debt at December 31, 2016 has been adjusted to include the USD $75 million cross-currency swap at contracted rates of 1.3235 that was entered into in the third quarter 2015.

3 Debt is net of deferred financing charges of $2.0 million (December 31, 2015 – $2.3 million; December 31, 2014 – $0.6 million).

4 Adjusted EBITDA for 2015 includes an adjustment of $11.9 million to include the trailing earnings of Macduff which were acquired on October 3, 2015.

- **Foreign Exchange Management**[1]

  Clearwater's plan to mitigate foreign exchange risk is as follows:

  (1) Diversify sales geographically, which reduces the impact of any country-specific economic and exchange risks on its business.

  (2) Execute on pricing strategies so as to offset the impact of exchange rates.

  (3) Limit the amount of long-term sales contracts – Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than six months.

  (4) Use conservative exchange estimates – Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when managing its business.

  (5) Foreign exchange risk management – Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts to lock in exchange rates up to 15 months for sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows from changes in exchange rates.

  As of March 8, 2017 Clearwater had forward exchange contracts to be settled in 2017 and 2018 of:

  - USD $70.4 million at an average rate of 1.30;
  - 2.8 billion Yen at an average rate of .012;
  - 35.8 million Euro at an average rate of 1.47;
  - 11.8 million Euro to GBP at an average rate of 0.86;
  - USD $3.9 million to GBP at an average rate of 0.81; and
  - 2.6 million Euro to CDN at an average rate of 1.41.

  The purpose of these contracts is to give certainty to Clearwater on the exchange rates it receives on a portion of its foreign currency sales[1]. The foreign exchange contracts effectively adjust the cash proceeds received on sales receipts to the rates that Clearwater planned for and contracted for as part of this annual planning cycle and its foreign exchange management program. When spot exchange rates are above contract rates at the date of maturity of the contracts Clearwater realizes a loss and, conversely, when spot exchange rates are lower it realizes a gain. At the same time, given that Clearwater only hedges up to 75% of its net exposures and that higher or lower spot exchange rates are reflected in sales, any losses or gains on contracts are more than offset by the impact on sales.

- **Free cash flows**[2] – Clearwater has a goal to generate strong cash flows from operations in order to fund scheduled loan payments and capital expenditures and in turn to use this free cash flow to invest in growth investments. Clearwater's goal is to grow free cash flows such that it can fund growth, target leverage of approximately 3x Adjusted EBITDA and pay a sustainable dividend to its shareholders.

[1] Refer to discussion on risks and uncertainties.

[2] Refer to discussion on non-IFRS measures, definitions and reconciliations.

		13 weeks ended December 31			Year ended December 31
	2016	2015	**2016**	2015	2014
Adjusted EBITDA[1]	**$ 29,460**	$ 39,000	**$ 120,937**	$ 109,732	$ 87,368
Less:					
Cash interest	**(6,778)**	(5,471)	**(24,776)**	(19,006)	(14,938)
Cash taxes	**(2,349)**	736	**(7,078)**	(1,896)	(2,585)
Other income and expense items	**(5,591)**	(926)	**(4,955)**	(1,590)	(5,295)
Operating cash flow before changes in working capital	**14,742**	33,339	**84,128**	87,240	64,550
Changes in working capital	**64,745**	33,482	**(21,088)**	(18,746)	3,476
Cash flows from operating activities	**79,487**	66,821	**63,040**	68,494	68,026
Use of cash:					
Purchase of property, plant, equipment, quota and other assets	**(13,158)**	(4,292)	**(56,332)**	(63,390)	(83,309)
Disposal of fixed assets	**—**	4,517	**1,131**	4,584	5
Less: Designated borrowings[A]	**5,703**	230	**25,883**	35,097	63,431
Scheduled payments on long-term debt	**(1,519)**	(1,669)	**(6,475)**	(5,461)	(8,360)
Payments on long-term incentive plans	**—**	—	**5,670**	8,953	—
Distribution to non-controlling interests	**(5,097)**	(2,781)	**(24,560)**	(11,817)	(10,427)
Dividends received from joint venture	**—**	—	**—**	—	1,490
Other financing activities	**—**	676	**—**	676	—
Non-routine project costs	**684**	888	**1,885**	1,953	—
Free cash flows[1]	**$ 66,100**	$ 64,390	**$ 10,242**	$ 39,089	$ 30,856
Add/(less):					
Other debt borrowings (repayments) of debt, use of cash[B]	**(50,743)**	90,261	**(46,306)**	78,099	(60,398)
Issuance of equity	**(25)**	—	**53,024**	58,628	32,487
Payments on long-term incentive plans	**—**	—	**(5,670)**	(8,953)	—
Other investing activities[C]	**(2,203)**	(144,033)	**(2,513)**	(148,930)	1,805
Other financing activities	**(6,696)**	(5,555)	**(20,369)**	(14,425)	(3,611)
Change in cash flows for the period	**$ 6,433**	$ 5,063	**$ (11,592)**	$ 3,508	$ 1,139

[A] Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For 2016 the periods covered in this table includes the replacement of the Ocean Concord clam vessel. For the purpose of free cash flow calculations the amount invested (up to the total amount of the related financing) during the period on these projects is backed out of the calculation of free cash flows irrespective of the timing of the related borrowing.

[B] Other debt borrowings (repayments) of debt includes $25.9 million of cash invested in designated capital projects.

[C] Other investing activities for 2015 includes $151.1 million for the acquisition of Macduff, less cash acquired in the acquisition of $9.1 million.

Cash flow generated by Clearwater's operations along with cash on deposit and available credit on the revolving loan are used to fund current operations, seasonal operations, seasonal working capital demands, capital expenditures, and other commitments.

Free cash flows were $10.2 million for the year ended December 31 as compared to $39.1 million for the comparative period in 2015. Increase in distributions to non-controlling interests, increased investment in working capital, higher interest and taxes, partially offset by higher adjusted EBITDA resulted in lower free cash flows. Distributions to non-controlling interests were higher due to the timing of payments. Increases in working capital were due to increases in inventory primarily due to increased clam harvesting and the addition of the Macduff portfolio of products. Higher cash interest was due to increased loan facilities as a result of the Macduff acquisition in late 2015. Higher taxes were primarily due to higher income before tax.

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

Certain large investments in longer term assets, such as vessel conversion and/or acquisitions, are funded with long-term capital such as amortizing term loans. As a result Clearwater adds back the funding on those capital expenditures in the determination of free cash flows and deducts the related debt payments.

- **Changes in working capital**

	13 weeks ended December 31		Year ended December 31	
(In 000s of Canadian dollars)	**2016**	2015	**2016**	2015
Decrease (increase) in inventory	**$ 33,179**	$ 16,680	**$ (22,030)**	$ (7,297)
(Decrease) increase in accounts payable	**13,154**	3,291	**(7,786)**	5,025
Decrease (increase) in accounts receivable	**20,722**	17,562	**3,775**	(13,564)
(Increase) decrease in prepaids	**(2,309)**	(4,051)	**4,953**	(2,908)
	$ 64,746	$ 33,482	**$ (21,088)**	$ (18,744)

Working capital for the year ended December 31, 2016 was an investment of $21.1 million versus $18.7 million in the same period of 2015 primarily as a result of strong harvesting conditions for clams and procurement opportunities that increased inventory levels.

Clearwater is focused on managing its free cash flows through:

- Managing working capital – Clearwater manages its investment in 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. Clearwater manages its investment in inventories through tight review of supply and production plans versus sales forecasts, and through continuous improvements in the integration of its fleet and sales plans.
- Capital spending – Clearwater grades investments in property, plant, equipment and licences as either return on investment ("ROI") or maintenance capital and tracks each project. Significant expenditures that are expected to have a return in excess of the cost of capital are classified as ROI, 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 $15–$20 million a year in maintaining its fixed assets with a further $10–$15 million of repairs and maintenance expensed and included in the cost of goods sold.

  In 2017 Clearwater expects to invest approximately $90 million in capital expenditures with the largest portion relating to the purchase and conversion of the clam replacement vessel, vessel maintenance and refits.

- **Dividends –** On March 8, 2017 the Board of Directors approved and declared a dividend of $0.05 per share payable on April 3, 2017 to shareholders of record as of March 17, 2017.

  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 will continue to review the policy on a regular basis to ensure the dividend level remains consistent with Clearwater's long-term 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 favorable tax treatment applicable to such dividends.

COMMITMENTS

In the normal course of business, Clearwater is obligated to make future payments, including contractual obligations for non-derivative and derivative financial instruments, operating leases and other commitments. The table includes undiscounted cash flows of financial liabilities, operating lease and other commitments, interest and principal cash flows based on the earliest date on which Clearwater is required to pay.

December 31, 2016	Carrying amount	Total contractual cash flow	2017	2018	2019	2020	2021	>2022
Interest – long-term debt	$	$ 58,065	$ 16,674	$ 14,698	$ 6,893	$ 275	$ 275	$ 19,250
Principal repayments – long-term debt		435,711	67,005	58,463	295,172	9,608	1,963	3,500
Total long-term debt	436,414	493,776	83,679	73,161	302,065	9,883	2,238	22,750
Trade and other payables	75,953	75,953	75,953	—	—	—	—	—
Operating leases and other	—	16,912	7,687	3,100	2,204	1,934	905	1,081
Capital and maintenance projects	—	30,308	30,308	—	—	—	—	—
Derivative financial instruments – asset	(4,821)	(4,821)	(4,821)	—	—	—	—	—
Derivative financial instruments – liabilities	5,640	5,640	5,640	—	—	—	—	—
	$ 513,185	$ 617,767	$ 198,446	$ 76,261	$ 304,269	$ 11,817	$ 3,143	$ 23,831

OUTLOOK

Global demand for seafood is outpacing supply, creating favorable market dynamics for vertically integrated producers such as Clearwater which have strong resource access.

Demand has been driven by growing worldwide population, shifting consumer tastes towards healthier diets, and rising purchasing power of middle class consumers in emerging economies.

The supply of wild seafood is limited and is expected to continue to lag behind the growing global demand. This supply-demand imbalance has created a marketplace in which purchasers of seafood are increasingly willing to pay a premium to suppliers that can provide consistent quality and food safety, wide diversity and reliable delivery of premium, wild, sustainably harvested seafood.

Clearwater, like other vertically integrated seafood companies, is well positioned to take advantage of this opportunity because of its licenses, premium product quality, diversity of species, global sales footprint, and year-round harvest and delivery capability.

2016 will be the seventh consecutive year of record top and bottom line results for Clearwater. The single largest contributor to year over year growth was the addition of Macduff Shellfish, acquired in October 2015. Excluding Macduff, Clearwater's core business financial performance was below expectations as the company felt the combined effects of shortages of supply in northern shrimp and sea scallops. The addition of the Belle Carnell combined with our proprietary advancements in harvesting technology across the clam fleet resulted in the complete harvest of the Arctic surf clam Total Allowable Catch ("TAC") for the first time in the history of the fishery. While this bodes well for a strong 2017, the rapid increase in supply was not anticipated and outstripped the near term capacity of our existing channels and customers to the detriment of prices, margins and year-end inventory levels.

In 2017, we expect to deliver another year of record sales and adjusted EBITDA with growth in virtually every market, channel and species.

Harvest conditions challenged us in 2016 but our scale, access to supply, advanced harvesting and processing technology, diversity of species and breadth of markets, channels and customers position us well for sustainable and profitable growth in 2017 and beyond.

Core Strategies

Expanding access to supply – Clearwater will continue to actively invest in access to supply of core species and other complementary, high demand, premium, wild and sustainably harvested seafood through improved utilization and productivity of core licenses as well as acquisitions, partnerships, joint ventures and commercial agreements.

Target profitable & growing markets, channels & customers – In 2017, Clearwater will continue to target markets, consumers, channels and customers on the basis of size, profitability, demand for eco-label seafood and ability to win. Our focus is to win in key channels and with customers that are winning with consumers.

- In Europe, Clearwater expects to benefit from the early ratification of the Comprehensive European Trade Agreement ("CETA") by the European Parliament. As the largest seafood import market in the world, the millions of dollars of tariffs removed will enable expanded profitable growth for Clearwater and its customers.
- In Asia, Clearwater will continue to grow sales and distribution of all species with a particular emphasis on Arctic surf clam, live lobster, crab and whelk. In China, Clearwater expects to benefit from the expansion of foodservice distribution to more Tier 2 cities, retail distribution expansion in Tier 1 cities, as well as the rapid growth of the company's China Ecommerce partnerships with Alibaba's T-mall and JD.com. Both ecommerce platforms represent a large opportunity for Clearwater to capitalize on China's booming $830 billion online market, providing Chinese consumers with the ability to purchase authentic Clearwater products. As the number of online shoppers in China increases, Clearwater will continue to leverage ecommerce to target profitable and growing markets, channels and customers.

Innovate and position products to deliver superior customer satisfaction and value – Clearwater will continue to work with customers on new products and formats as we innovate and position our premium seafood to deliver superior satisfaction and value that is relevantly differentiated on the dimensions of taste, quality, safety, sustainability, wellness, convenience and fair labour practices.

Increase margins by improving price realization and cost management – In 2017, Clearwater will continue to expand our "ocean to shelf" global supply chain cost savings program to achieve greater efficiency and improved productivity throughout our global operations. This includes leveraging the scarcity of seafood supply versus increasing global demand to continuously improve price realization, revenue and margins. It also includes investing in innovative state-of-the-art technology, systems and processes that maximize value, minimize cost, reduce waste, increase yield and improve quality, reliability and safety of our products and people.

Pursue and preserve the long-term sustainability of resources on land and sea – Clearwater will continue to invest in science and sustainable harvesting technology and practices to add value to all fisheries in which we participate in Canada, Argentina and the United Kingdom.

Build organizational capability, capacity & engagement – A high level of performance can only be achieved by a talented, engaged and high performing global workforce at sea and on land, employing well communicated strategies and plans with measurable objectives. Clearwater will continue to invest in our talented and engaged global workforce to continue to deliver on the operational and growth opportunities available to us.

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. 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.

Foreign exchange risk

Clearwater's financial results are subject to volatility as a result of foreign exchange rate fluctuations.

The majority of Clearwater's sales are to locations outside Canada and are transacted in currencies other than the Canadian dollar whereas the majority of its expenses are in Canadian dollars. As a result, fluctuations in the foreign exchange rates of these currencies can have a material impact on the financial condition and operating results. In addition Clearwater has a subsidiary which operates in the offshore scallop fishery in Argentina which exposes Clearwater to changes in the value of the Argentine Peso.

Risks associated with foreign exchange are partially mitigated by the following strategies:

(1) Diversify sales internationally which reduces the impact of any country-specific economic risks.

(2) Execute on pricing strategies so as to offset the impact of exchange rates.

(3) Limit the amount of long-term sales contracts – Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations.

(4) Plan conservatively – Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when managing its business, and

(5) Foreign exchange hedging program – that focuses on using forward contracts to enable Clearwater to lock in exchange rates up to 15 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows through derivative contracts.

In 2016 approximately 37% of Clearwater's sales were denominated in US dollars.

Based on 2016 sales and excluding the impact of its hedging program,

- a change of 0.01 in the U.S. dollar rate converted to Canadian dollars would result in a $1.7 million change in sales.
- a change of 0.01 in the Euro rate as converted to Canadian dollars would result in a $1.1 million change in sales.
- a change of 0.001 in the Yen rate as converted to Canadian dollars would result in a change of $4.8 million in sales.

As of March 8, 2017 Clearwater had forward exchange contracts to be settled in 2017 and 2018 of:

- USD $70.4 million at an average rate of 1.30;
- 2.8 billion Yen at an average rate of .012;
- 35.8 million Euro at an average rate of 1.47;
- 11.8 million Euro to GBP at an average rate of 0.86;
- USD $3.9 million to GBP at an average rate of 0.81; and
- 2.6 million Euro to CDN at an average rate of 1.41.

The purpose of these contracts is to give certainty to Clearwater on the exchange rates that it expects to receive on a portion of its foreign currency sales. The foreign exchange contracts effectively adjust the cash proceeds received on sales receipts to the rates that Clearwater planned for and contracted for as part of this annual planning cycle and its foreign exchange management program. When spot exchange rates are above contract rates at the date of maturity of the contracts Clearwater realizes a loss and, conversely, when spot exchange rates are lower it realizes a gain.

Political risk

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

Our operations and investments are subject to numerous risks, including fluctuations in foreign currency, exchange rates and controls, expropriation of our assets, nationalization, renegotiation, forced divestiture, modification or nullification of our contracts and changes in foreign laws or other regulatory policies of foreign governments and having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory.

Argentina

In December 2015 and largely the first half of 2016 our Argentine operation has been subject to fluctuations in foreign currency related to volatility with the Argentine Peso. Clearwater continues to monitor these fluctuations and any risks that the volatility in the exchange rates could cause Clearwater to report its Argentine operations using IAS 29 – Financial Reporting in Hyperinflationary Economies.

Our operations in Argentina and elsewhere may be negatively affected by both foreign exchange and expropriation losses as well as the increased cost and risks of doing business in developing markets.

We mitigate this risk through maintaining a policy of repatriating our share of the earnings from Argentina through dividends and we do not maintain any material financial assets that are surplus to our needs to operate the business outside of Canada. We do not carry financial assets in Pesos to mitigate exchange risk. In addition we have structured our operations in Argentina with an Argentine partner who owns 20% of the Argentine business and who is actively managing the business.

In certain previous years, Clearwater has been unable to repatriate dividends from Argentina.

To compensate for the potential restriction on dividend payouts Clearwater put in place domestic loan financing in Argentina related to the purchase of a replacement vessel. The replacement of this vessel will necessitate that some funds be used for the related domestic loan payments, thus alleviating the need for any material dividend payments for the short term.

No assurance can be given that our operations will not be adversely impacted as a result of existing or future legislation.

United Kingdom

On June 23, 2016, the United Kingdom ("UK") voted to leave the European Union ("EU"). Although the vote has taken place, our understanding is that this vote initiates a negotiation process between the UK and the EU over the terms of the withdrawal and the country's future relationship with the EU. This negotiation process is likely to take several years and as such it will take some time to develop the full details of the exit plan. With the acquisition of Macduff, Clearwater and Macduff are confident that we will see continued strength and growth in our business. We are confident in our ability to mitigate any negative impacts on the business and continue to monitor the impact on operations.

At this time we do not expect any material impacts on the business as a result of this decision. We will continue to analyze the detailed impacts on the business as the details of the exit agreement become known.

United States

NAFTA is a comprehensive trade agreement that sets the rules of trade and investment between Canada, the United States, and Mexico. Since the agreement entered into force on January 1, 1994, NAFTA has systematically eliminated most tariff and non-tariff barriers to free trade and investment between the three NAFTA countries. The current President of the United States has expressed his intent to change the existing NAFTA, however the specifics related to these changes are unknown at this time and therefore the impact to Canada and Clearwater is indeterminable. Approximately 14% of total sales for 2016 were in the United States.

Management continues to review, assess and monitor for any changes to NAFTA that could significantly impact Clearwater.

Europe

In February 2017, the European Union ("EU") approved a deal which will drop barriers between the EU and Canada (the "Comprehensive Economic and Trade Agreement" or "CETA"). Europe is one of the world's top consumption markets for seafood. The EU imported in excess of CDN $25 billion of seafood with exports of only CDN $5.7 billion. Europe is a major export market for Clearwater products, representing approximately 40% of total sales or $246 million in 2016. With CETA, Clearwater and its European customers expect to see a financial benefit through tariff reduction. Clearwater also anticipates the reduction in tariffs to lead to accelerated growth in the European market.

China and Japan

On January 30, 2017, the Government of the United States officially withdrew from the Trans-Pacific Partnership Agreement ("TPP"). As much of the TPP was negotiated around specific U.S. conditions, the status of the TPP is unknown and therefore, the impact to Canada and Clearwater is indeterminable. In the absence of TPP, the Governments of Canada, China and Japan have expressed interest in exploring bilateral free trade agreements. Ratified bilateral free trade agreements would be expected to have positive benefits to Clearwater's sales and margins through reductions of tariffs and duties.

Contingent liability

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.

Resource supply risk

A material change in the population and biomass of scallop, lobster, clam, langoustine, crab, whelk or coldwater shrimp stocks in the fisheries in which we operate would materially and adversely affect our business.

Clearwater's business is dependent on our allocated quotas of the annual Total Allowable Catch ("TAC") for the species of seafood we harvest. The annual TAC is generally related to the health of the stock of the particular species as measured by a scientific survey of the resource. The population and biomass of shellfish stocks are subject to natural fluctuations, some of which are beyond our control and which may be exacerbated by factors such as water temperatures, food availability, the presence of predators, disease, disruption in the food chain, reproductive problems or other biological issues. We are unable to fully predict the timing and extent of fluctuations in the population and biomass of the shellfish stocks we harvest and process, and we therefore may not be able to engage in effective measures to alleviate the adverse effects of these fluctuations. In addition, the population models utilized by scientists evaluating the fisheries in which we operate are constantly evolving. Certain changes in the population models could negatively impact future biomass estimates. Any material reduction in the population and biomass or TAC of the stocks from which we source seafood would materially and adversely affect our business. Any material increase in the population and biomass or TAC could dramatically reduce the market price of any of our products.

The source of all Clearwater's supply of products comes from fisheries in Canada, the United Kingdom and Argentina. The governments of Canada, the UK and EU and Argentina set the annual TAC and/or define fishing regulations for each species by reviewing scientific studies of the resource and then consulting with key stakeholders including ourselves and our competitors to determine acceptable catch levels. The potentially differing interests of our competitors may result in conflicting positions on issues around resource management, including the establishment of TACs and other management measures potentially limiting our ability to grow, to fully capitalize on our investments in harvesting capacity, or to achieve targeted yields from the resource, which may adversely affect our financial condition and results of operations.

Resource supply risk is managed through adherence with government policies and regulations related to fishing in Canada and Argentina and Clearwater's investment in science and technology, which enables Clearwater to understand the species that it harvests. Clearwater has invested in projects with the scientific community, such as ocean floor mapping and the resource assessment surveys to ensure access to the best available science information. Resource management plans, developed by DFO, are developed through an open and transparent process with strong input from industry participants. Clearwater engages in these processes to promote best in class, robust, and sustainable management of the resource. The Marine Stewardship Council certification of all of our core species demonstrates that the resources that Clearwater harvests meet the leading global standard for sustainable fisheries management practice. Clearwater further mitigates the risk associated with resource supply and competition through the diversification across species.

The northern shrimp resource is declining from record high levels and on July 15, 2016, the Government of Canada announced a decrease in the TAC for the Northern coldwater shrimp fishery area ("SFA") 6. The decline in the TAC reverses the tremendous growth in the resource and is a reversal that has been expected by scientists and industry participants. Clearwater will continue to pursue adjustments to the business as required to find additional efficiencies and market value to offset the volume declines. The diversity in Clearwater's species portfolio also helps to mitigate the impact of shrimp declines in the business.

Other risks

For further disclosure of additional risk factors please refer to the Annual Information Form.

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

Clearwater has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2016 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

The Management of Clearwater, with the participation of the CEO and the CFO (collectively "Management"), is responsible for establishing and maintaining adequate internal controls over financial reporting. Clearwater's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").

Management evaluated the design and effectiveness of Clearwater's internal controls over financial reporting as at December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report "Internal Control – Integrated Framework (2013)". This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion.

For the year ended December 31, 2016, Macduff Shellfish was incorporated into management's review and assessment of internal controls over financial reporting and in February 2016, Clearwater successfully completed the implementation of its new ERP system ("SAP"), including general ledger, sales distribution, supply chain and transportation modules, replacing its legacy systems.

Based on management's evaluation, the CEO and the CFO have concluded that as of December 31, 2016, Clearwater's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Adoption of New and Revised Standards

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

Foreign Currency Transactions and Advance Consideration ("IFRIC 22")

On December 6, 2016, the IASB issued IFRIC 22, Foreign Currency Transactions and Advance Consideration which clarifies the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, is the date on which an entity has received or paid advance consideration.

The Company intends to adopt IFRIC 22 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of IFRIC 22 has not yet been determined.

Disclosure Initiative (Amendments to IAS 7)

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities.

The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. To meet the disclosure requirement, the company will provide a reconciliation of the opening and closing balances of long-term debt.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments is not expected to have a material impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 – Financial Instruments

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets between an investor and its associate or joint venture (amendments to IFRS 10)

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Specifically, under the existing consolidation standard the parent recognises the full gain on the loss of control, whereas under the existing guidance on associates and joint ventures the parent recognises the gain only to the extent of unrelated investors' interests in the associate or joint venture. The main consequence of the amendments is that a full gain/loss is recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognised when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company will evaluate the impact if and when the IASB determines an effective date.

IFRS 2 Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments provide clarification on how to account for certain types of share-based payment transactions.

The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

RELATED PARTY TRANSACTIONS

Clearwater often transacts in the normal course of business with other related parties. The details are as follows for the year ended December 31, 2016 and 2015:

Clearwater rents office space to Clearwater Fine Foods Incorporated ("CFFI") (the controlling shareholder of Clearwater) and provides computer network support services to CFFI. The net amount due to CFFI in respect of these transactions was $0.04 million (December 31, 2015 – net amount due to CFFI of $0.05 million), is unsecured and due on demand.

In June 2016, Clearwater sold an idle vessel to the joint venture; the sales price of CDN $13.5 million was the book value at the time of the sale plus refit costs.

For the year ended December 31, 2016, Clearwater expensed approximately $0.4 million in factory and equipment rentals from companies related to a member of its management team (December 31, 2015 – $0.07 million). Clearwater incurred $0.04 million in legal fees paid to a law firm in which a Director of Clearwater is a partner (December 31, 2015 – $0.1 million).

In addition, for the year ended December 31, 2016, Clearwater expensed approximately $0.1 million for goods and services from companies related to its parent (December 31, 2015 – $0.2 million). The transactions are recorded at the exchange amount and the balance due to these companies was $0.05 million as at December 31, 2016 (December 31, 2015 – $0.01 million).

At December 31, 2016 Clearwater had a balance of $1.4 million (December 31, 2015 – $1.3 million), included in long-term receivables, for interest bearing loans made to a non-controlling interest shareholder in a subsidiary.

SUMMARY OF QUARTERLY RESULTS

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

(In 000s of Canadian dollars)	First quarter	Second quarter	Third quarter	Fourth quarter
Fiscal 2016				
Sales	**$ 116,225**	**$ 140,180**	**$ 189,457**	**$ 165,690**
Earnings	**15,812**	**13,514**	**17,859**	**12,411**
Earnings per share ("EPS")	**0.24**	**0.16**	**0.17**	**0.14**
Diluted earnings per share[1]	**0.24**	**0.16**	**0.17**	**0.14**
Weighted average shares outstanding	**59,958,998**	**60,439,577**	**63,934,698**	**63,934,698**
Fiscal 2015				
Sales	$ 75,362	$ 116,748	$ 147,332	$ 165,503
Earnings (loss)	(28,336)	9,739	1,717	(3,793)
Earnings (loss) per share ("EPS")	(0.57)	0.10	(0.08)	(0.07)
Diluted earnings (loss) per share	(0.57)	0.10	(0.09)	(0.07)
Fiscal 2014				
Sales	$ 77,771	$ 113,403	$ 134,069	$ 119,498
Earnings (loss)	(12,144)	18,850	2,959	130
Earnings (loss) per share ("EPS")	(0.27)	0.30	(0.02)	(0.07)
Diluted earnings (loss) per share	(0.27)	0.30	(0.02)	(0.07)

[1] Diluted earnings (loss) per share are anti-dilutive for the first nine months of 2016, for the fourth quarter of 2015 and for all periods in 2014.

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

In general, sales increase with each successive quarter with the highest revenues in the third and fourth quarter of each year which is consistent with Clearwater's seasonality.

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

Net loss in the first and fourth quarter of 2015 includes unrealized foreign exchange losses on the translation of the US dollar denominated debt.

Earnings in the second quarter of 2014 include unrealized foreign exchange gains of $17.7 million on the translation of long-term debt and marking forward contracts to market. This offsets the unrealized foreign exchange losses of $15.2 million on translation of long-term debt and marking forward contracts to market incurred in the first quarter of 2014.

NON-IFRS MEASURES, DEFINITIONS AND RECONCILIATIONS

Gross Margin

Gross margin consists of sales less cost of goods sold which includes harvesting, distribution, direct manufacturing costs, manufacturing overhead, certain administration expenses and depreciation related to manufacturing operations.

Adjusted Earnings Before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA")

Adjusted earnings before interest, tax, depreciation and amortization ("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 in order 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 not to 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 stock-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 weeks ended December 31, 2016 and 2015 and the years ended December 31, 2016, 2015 and 2014 is as follows:

	13 weeks ended December 31		Year ended December 31		
	2016	2015	**2016**	2015	2014
Earnings (loss)	**$ 12,411**	$ (3,793)	**$ 59,596**	$ (20,671)	$ 9,797
Add (deduct):					
Income taxes	**6,261**	1,860	**16,446**	4,387	5,949
Taxes and depreciation for equity investment	**530**	285	**960**	1,154	1,265
Depreciation and amortization	**9,781**	8,835	**33,501**	29,414	24,544
Interest on long-term debt and bank charges	**7,256**	6,008	**26,889**	20,336	15,716
Earnings before interest, taxes, depreciation and amortization	**$ 36,239**	$ 13,195	**$ 137,392**	$ 34,620	$ 57,271
Add (deduct) other items:					
Unrealized foreign exchange and derivative loss (income)	**(5,779)**	15,607	**(28,190)**	62,053	17,288
Fair market value on embedded derivative	**(1,710)**	(2,761)	**(1,350)**	(2,118)	(1,229)
Realized foreign exchange loss (gain) on working capital	**776**	3,900	**7,803**	(1,690)	1,172
Restructuring and refinancing costs	**2,237**	6,055	**2,380**	11,299	1,981
Stock-based compensation (recovery) expense	**(2,303)**	3,004	**2,902**	5,270	8,948
Loss (gain) on disposal of assets and quota	**—**	—	**—**	—	1,937
Loss on insurance claim	**—**	—	**—**	300	—
Adjusted EBITDA	**$ 29,460**	$ 39,000	**$ 120,937**	$ 109,734	$ 87,368
Adjusted EBITDA attributed to:					
Non-controlling interests	**$ 4,382**	$ 5,576	**$ 22,491**	$ 22,829	$ 16,718
Shareholders of Clearwater	**25,078**	33,424	**98,446**	86,905	70,650
	$ 29,460	$ 39,000	**$ 120,937**	$ 109,734	$ 87,368

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 weeks and years ended December 31, 2016 and 2015 is as follows:

	13 weeks ended December 31		Year ended December 31	
	2016	2015	**2016**	2015
Reconciliation of net earnings to adjusted earnings				
Earnings (loss)	**$ 12,411**	$ (3,793)	**$ 59,596**	$ (20,671)
Add (subtract)				
Restructuring and refinancing costs	**951**	1,551	**(182)**	5,821
Acquisition-related costs	**—**	2,338	**1,159**	3,403
Fair value impact of purchase price allocation	**—**	2,166	**—**	2,166
Stock-based compensation (recovery) expense	**(2,303)**	3,004	**2,902**	5,270
Insurance claim	**—**	—	**—**	300
Unrealized foreign exchange and derivative loss	**(6,603)**	15,607	**(31,753)**	62,053
Devaluation of peso on working capital	**—**	5,344	**5,199**	5,344
Fair value on long-term debt	**(888)**	(2,761)	**2,211**	(2,118)
	(8,843)	27,249	**(20,464)**	82,239
Adjusted earnings	**$ 3,568**	$ 23,456	**$ 39,132**	$ 61,568
Adjusted earnings attributable to:				
Non-controlling interests	**2,773**	4,486	**15,366**	18,111
Shareholders	**793**	18,970	**23,766**	43,457
	$ 3,566	$ 23,456	**$ 39,132**	$ 61,568
Adjusted earnings per share:				
Weighted average of shares outstanding	**63,935**	59,959	**62,050**	57,489
Adjusted earnings per share for shareholders	**0.01**	0.32	**0.38**	0.76
Reconciliation of adjusted earnings to adjusted EBITDA				
Adjusted earnings	**$ 3,567**	$ 23,456	**$ 39,132**	$ 61,568
Add (subtract)				
Cash and deferred taxes	**6,261**	1,860	**16,446**	4,387
Depreciation and amortization	**9,781**	8,835	**33,501**	29,414
Interest on long-term debt and bank charges	**7,256**	6,008	**26,889**	20,336
Taxes and depreciation on equity investment	**530**	285	**960**	1,154
Realized foreign exchange on working capital	**779**	(1,444)	**2,606**	(7,034)
Other reorganizational costs	**1,286**	—	**1,403**	(91)
	25,893	15,544	**81,805**	48,166
Adjusted EBITDA[1]	**$ 29,460**	$ 39,000	**$ 120,937**	$ 109,734

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

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 in order 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 of the non-financial and financial covenants associated with its debt facilities.

Reconciliation of adjusted EBITDA (excluding non-controlling interest) to debt (net of deferred financing charges) for the years ended December 31, 2016, 2015 and 2014 is as follows:

(In 000s of Canadian dollars) As at December 31		2016		2015		2014
Adjusted EBITDA[1,4] (excluding non-controlling interest)	$	**98,447**	$	101,310	$	70,651
Debt[2,3] (excluding non-controlling interest)		**436,834**		475,685		272,554
Less cash (excluding non-controlling interest)		**(25,110)**		(32,938)		(40,712)
Net debt	$	**411,724**	$	442,747	$	231,842
Leverage		**4.2**		4.4		3.3

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

2 Debt at December 31, 2016 has been adjusted to include the USD $75 million cross-currency swap at contracted rates of 1.3235 that was entered into in the third quarter 2015.

3 Debt is net of deferred financing charges of $2.0 million (December 31, 2015 – $2.3 million; December 31, 2014 – $0.6 million).

4 Adjusted EBITDA for 2015 includes an adjustment of $11.9 million to include the trailing earnings of Macduff which were acquired on October 3, 2015.

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 for the 13 weeks ended December 31, 2016 and 2015 and years ended December 31, 2016, 2015 and 2014 is as follows:

	13 weeks ended December 31		Year ended December 31		
	2016	2015	**2016**	2015	2014
Adjusted EBITDA[1]	**$ 29,460**	$ 39,000	**$ 120,937**	$ 109,732	$ 87,368
Less:					
Cash interest	**(6,778)**	(5,471)	**(24,776)**	(19,006)	(14,938)
Cash taxes	**(2,349)**	736	**(7,078)**	(1,896)	(2,585)
Other income and expense items	**(5,591)**	(926)	**(4,955)**	(1,590)	(5,295)
Operating cash flow before changes in working capital	**14,742**	33,339	**84,128**	87,240	64,550
Changes in working capital	**64,745**	33,482	**(21,088)**	(18,746)	3,476
Cash flows from operating activities	**79,487**	66,821	**63,040**	68,494	68,026
Use of cash:					
Purchase of property, plant, equipment, quota and other assets	**(13,158)**	(4,292)	**(56,332)**	(63,390)	(83,309)
Disposal of fixed assets	**—**	4,517	**1,131**	4,584	5
Less: Designated borrowings[A]	**5,703**	230	**25,883**	35,097	63,431
Scheduled payments on long-term debt	**(1,519)**	(1,669)	**(6,475)**	(5,461)	(8,360)
Payments on long-term incentive plans	**—**	—	**5,670**	8,953	—
Distribution to non-controlling interests	**(5,097)**	(2,781)	**(24,560)**	(11,817)	(10,427)
Dividends received from joint venture	**—**	—	**—**	—	1,490
Other financing activities	**—**	676	**—**	676	—
Non-routine project costs	**684**	888	**1,885**	1,953	—
Free cash flows[1]	**$ 66,100**	$ 64,390	**$ 10,242**	$ 39,089	$ 30,856
Add/(less):					
Other debt borrowings (repayments) of debt, use of cash[B]	**(50,743)**	90,261	**(46,306)**	78,099	(60,398)
Issuance of equity	**(25)**	—	**53,024**	58,628	32,487
Payments on long-term incentive plans	**—**	—	**(5,670)**	(8,953)	—
Other investing activities[C]	**(2,203)**	(144,033)	**(2,513)**	(148,930)	1,805
Other financing activities	**(6,696)**	(5,555)	**(20,369)**	(14,425)	(3,611)
Change in cash flows for the period	**$ 6,433**	$ 5,063	**$ (11,592)**	$ 3,508	$ 1,139

[A] Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For 2016 the periods covered in this table include the replacement of the Ocean Concord clam vessel. For the purpose of free cash flow calculations the amount invested (up to the total amount of the related financing) during the period on these projects is backed out of the calculation of free cash flows irrespective of the timing of the related borrowing.

[B] Other debt borrowings (repayments) of debt includes $25.9 million of cash invested in designated capital projects.

[C] Other investing activities for 2015 includes $151.1 million for the acquisition of Macduff, less cash acquired in the acquisition of $9.1 million.

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

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 twelve months ended December 31, 2016, 2015 and 2014 is as follows:

(In 000s of Canadian dollars) As at December 31		**2016**		2015		2014
Adjusted EBITDA[1]	**$**	**120,938**	$	109,734	$	87,368
Depreciation and amortization		**38,634**		29,732		23,753
Adjusted earnings before interest and taxes		**82,304**		80,002		63,615
Average quarterly total assets	**$**	**746,896**	$	581,253	$	456,628
		11.0%		13.8%		13.9%

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

Clearwater Seafoods Incorporated
Management’s Statement of Responsibility for Financial Reporting

The consolidated financial statements and all related financial information contained in the annual report, including Management’s Discussion and Analysis, are the responsibility of the Management of Clearwater Seafoods Incorporated. The statements have been prepared in accordance with generally accepted accounting principles, using management’s best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information contained in the annual report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of Clearwater Seafoods Incorporated is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of non-management directors. The Committee meets periodically with management and the auditors to satisfy itself that management’s responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board.

KPMG LLP, the independent auditors appointed by the Board, have audited Clearwater Seafoods Incorporated’s consolidated financial statements in accordance with generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

March 8, 2017

IAN SMITH
Chief Executive Officer

TERESA FORTNEY
Vice-President, Finance and Chief Financial Officer

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Clearwater Seafoods Incorporated

We have audited the accompanying consolidated financial statements of Clearwater Seafoods Incorporated, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of earnings (loss), other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Clearwater Seafoods Incorporated as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 8, 2017
Halifax, Canada

Clearwater Seafoods Incorporated
Consolidated Statements of Financial Position

(In thousands of Canadian dollars) As at December 31		2016		2015
ASSETS				
Current assets				
Cash	$	**39,514**	$	51,106
Trade and other receivables (Note 5)		**82,108**		81,734
Inventories (Note 6)		**91,831**		65,022
Prepaids and other (Note 7)		**5,414**		9,587
Derivative financial instruments (Note 8)		**4,821**		3,788
		223,688		211,237
Non-current assets				
Long-term receivables (Note 9)		**8,132**		10,076
Other assets		**81**		1,164
Property, plant and equipment (Note 10)		**233,807**		251,197
Investment in equity investee (Note 12)		**10,496**		9,311
Deferred tax assets (Note 13(c))		**6,429**		14,184
Intangible assets (Note 11)		**197,321**		201,846
Goodwill (Note 11)		**49,781**		54,180
		506,047		541,958
TOTAL ASSETS	$	**729,735**	$	753,195
LIABILITIES				
Current liabilities				
Trade and other payables	$	**75,953**	$	82,870
Income taxes payable (Note 13)		**4,303**		454
Current portion of long-term debt (Note 14)		**67,005**		65,685
Derivative financial instruments (Note 8)		**5,640**		18,622
		152,901		167,631
Non-current liabilities				
Long-term debt (Note 14)		**369,409**		415,084
Other long-term liabilities		**887**		2,088
Deferred tax liabilities (Note 13(c))		**18,053**		19,317
		388,349		436,489
SHAREHOLDERS' EQUITY				
Share capital (Note 15)	$	**210,860**	$	157,161
Contributed surplus		**1,419**		547
Deficit		**(4,793)**		(36,333)
Accumulated other comprehensive loss		**(38,931)**		(1,625)
		168,555		119,750
Non-controlling interest (Note 16)		**19,930**		29,325
		188,485		149,075
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	**729,735**	$	753,195

See the accompanying notes to the consolidated financial statements

Approved by the Board:

JOHN RISLEY
Director

COLIN MACDONALD
Chairman

Clearwater Seafoods Incorporated
Consolidated Statements of Earnings (Loss)

(In thousands of Canadian dollars) Year ended December 31		2016		2015
Sales	$	**611,551**	$	504,945
Cost of goods sold		**466,930**		372,757
		144,621		132,188
Administrative and selling costs		**58,492**		51,363
Net finance costs (Note 8 (d))		**26,948**		21,634
Foreign exchange (gains) losses on long-term debt and working capital (Note 8 (e))		**(7,295)**		46,287
(Gains) losses on contract derivatives (Note 8 (f))		**(7,279)**		26,763
Other (income) expense (Note 17)		**(5,209)**		444
Research and development		**2,922**		1,981
		68,579		148,472
Earnings (loss) before income taxes		**76,042**		(16,284)
Income tax expense (Note 13)		**16,446**		4,387
Earnings (loss) for the year	$	**59,596**	$	(20,671)
Earnings (loss) attributable to:				
Non-controlling interest	$	**15,668**	$	16,937
Shareholders of Clearwater		**43,928**		(37,608)
	$	**59,596**	$	(20,671)
Basic earnings (loss) per share (Note 19)	$	**0.71**	$	(0.65)
Diluted earnings (loss) per share (Note 19)	$	**0.71**	$	(0.65)

See the accompanying notes to the consolidated financial statements

Clearwater Seafoods Incorporated
Consolidated Statements of Other Comprehensive Income

(In thousands of Canadian dollars)

Year ended December 31		2016		2015
Earnings (loss) for the year	**$**	**59,596**	$	(20,671)
Other comprehensive income (loss) –				
Items that may be reclassified subsequently to income (loss):				
Foreign currency translation differences of foreign operations		**(37,154)**		3,848
Comprehensive income (loss) for the year	**$**	**22,442**	$	(16,823)
Comprehensive income (loss) attributable to:				
Non-controlling interest	**$**	**15,820**	$	17,084
Shareholders of Clearwater		**6,622**		(33,907)
	$	**22,442**	$	(16,823)

See the accompanying notes to the consolidated financial statements

Clearwater Seafoods Incorporated
Consolidated Statements of Changes in Equity

(In thousands of Canadian dollars)	Common shares	Contributed surplus	Retained earnings (deficit)	Other comprehensive income (loss)	Non-controlling interest	Total
Balance at January 1, 2015	$ 97,267	$ —	$ 11,084	$ (5,326)	$ 24,962	$ 127,987
Comprehensive (loss) income for the year	—	—	(37,608)	3,701	17,084	(16,823)
Transactions recorded directly in equity						
Issuance of common shares (Note 15)	59,894	—	—	—	—	59,894
Share-based compensation (Note 20)	—	547	—	—	—	547
Distributions to non-controlling interest	—	—	—	—	(12,721)	(12,721)
Dividend equivalent units on equity-settled share-based compensation (Note 20)	—	—	(14)	—	—	(14)
Dividends declared on common shares (Note 15)	—	—	(9,795)	—	—	(9,795)
Total transactions with owners	59,894	547	(9,809)	—	(12,721)	37,911
Balance at December 31, 2015	**$ 157,161**	**$ 547**	**$ (36,333)**	**$ (1,625)**	**$ 29,325**	**$ 149,075**
Comprehensive income (loss) for the year	**—**	**—**	**43,928**	**(37,306)**	**15,820**	**22,442**
Transactions recorded directly in equity						
Issuance of common shares (Note 15)	**53,699**	**—**	**—**	**—**	**—**	**53,699**
Share-based compensation (Note 20)	**—**	**872**	**—**	**—**	**—**	**872**
Distributions to non-controlling interest	**—**	**—**	**—**	**—**	**(25,215)**	**(25,215)**
Dividends declared on common shares (Note 15)	**—**	**—**	**(12,388)**	**—**	**—**	**(12,388)**
Total transactions with owners	**53,699**	**872**	**(12,388)**	**—**	**(25,215)**	**16,968**
Balance at December 31, 2016	**$ 210,860**	**$ 1,419**	**$ (4,793)**	**$ (38,931)**	**$ 19,930**	**$ 188,485**

See the accompanying notes to the consolidated financial statements

Clearwater Seafoods Incorporated
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars) Year ended December 31		2016		2015
Operating				
Earnings (loss) for the year	$	**59,596**	$	(20,671)
Adjustments for:				
Depreciation and amortization		**38,634**		29,732
Net finance costs (Note 8 (f))		**30,446**		19,002
Unrealized foreign exchange (gains) losses on financial instruments		**(30,881)**		59,455
Fair value adjustments to financial instruments		**(1,481)**		—
Income tax expense		**16,446**		4,229
Share-based compensation		**2,902**		5,270
(Gain) loss on disposal of property, plant, and equipment		**2**		(144)
Earnings in equity investee (Note 12)		**(1,185)**		(2,591)
Foreign exchange and other		**(3,038)**		15,352
		111,441		109,634
Change in operating working capital (Note 25)		**(19,429)**		(21,646)
Interest paid		**(26,434)**		(16,101)
Income taxes paid		**(2,538)**		(3,393)
	$	**63,040**	$	68,494
Financing				
Repayment of long-term debt (Note 14)		**(33,899)**		(12,692)
Net proceeds from long-term debt		**—**		104,027
Net proceeds from common share issue (Note 15)		**53,024**		58,628
Net proceeds from revolving credit facility		**7,000**		16,400
Distributions paid to non-controlling interest		**(24,560)**		(11,817)
Advances to minority partners		**(1,843)**		(1,824)
Dividends paid on common shares		**(12,388)**		(9,795)
	$	**(12,666)**	$	142,927
Investing				
Purchase of property, plant and equipment, and other		**(56,332)**		(63,390)
Proceeds on disposal of property, plant and equipment		**8,624**		4,584
Acquisition of subsidiary net of cash acquired (Note 4)		**—**		(142,404)
Purchase of other assets		**(7,692)**		(1,335)
Net receipts of long-term receivables		**(473)**		(3,366)
	$	**(55,873)**	$	(205,911)
Effect of foreign exchange rate changes on cash	$	**(6,093)**	$	(2,002)
(DECREASE) INCREASE IN CASH		**(11,592)**		3,508
CASH, BEGINNING OF PERIOD		**51,106**		47,598
CASH, END OF PERIOD	$	**39,514**	$	51,106

See the accompanying notes to the consolidated 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 consolidated financial statements of Clearwater as at and for the years ended December 31, 2016 and 2015 comprise the company, its subsidiaries and a joint venture (see Note 22). 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

The financial statements were authorized for issue by Clearwater's Board of Directors on March 8, 2017.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items measured at fair value through profit or loss:

- Derivative financial instruments
- Embedded derivative liability within long-term debt
- Earnout liability entered into as part of a business combination
- Liabilities for cash settled share-based compensation arrangements

The fair value measurements have been described in the notes.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of Clearwater and its Canadian subsidiaries. Clearwater's subsidiary in the United Kingdom has a functional currency of Pounds Sterling and the Argentine operations have a functional currency of Argentine Peso. All tabular financial information presented in Canadian dollars has been rounded to the nearest thousand except per share amounts, and as otherwise noted.

(d) Critical judgments and estimates in applying accounting policies

The preparation of financial statements requires management to make estimates, judgments and assumptions that materially affect the amounts reported in the consolidated financial statements and accompanying notes. Management bases assumptions, estimates and judgments on historical experience, current trends and events, and all available information that management believes is relevant at the time it prepares the financial statements. Actual results may differ materially from these estimates.

The following are the accounting policies that are subject to judgments and estimates that Clearwater believes could have the most significant impact on the reported results and financial position.

The information in this note is grouped by accounting policy to include:

- Key sources of estimation uncertainty
- Judgments management made in the process of applying Clearwater's accounting policies (where applicable)

i) Income taxes

Key sources of estimation uncertainty

Accounting for income taxes is based upon evaluation of income tax rules in all jurisdictions where Clearwater operates. In determining the provision for current and deferred income taxes, Clearwater makes assumptions about temporary and permanent differences between accounting and taxable income, and substantively enacted income tax rates. Changes in tax law and the level and geographical mix of earnings will impact the effective tax rate. With respect to deferred taxes, Clearwater makes assumptions about when deferred tax assets are likely to reverse, the extent to which it is probable that temporary differences will reverse and whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. Clearwater recognizes deferred tax assets only to the extent that it considers it probable that those assets will be recoverable.

Judgments made in relation to accounting policies applied

Clearwater makes judgments about whether to recognize the benefit of deferred tax assets. In making this judgment Clearwater continually evaluates all positive and negative evidence. Clearwater's evaluation includes the magnitude and duration of any past losses, current profitability and whether it is sustainable, and earnings forecasts.

For further discussion on deferred income taxes refer to Note 13.

ii) Goodwill and intangible assets

Key sources of estimation uncertainty

Clearwater conducts impairment testing on its goodwill and intangible assets annually in the third quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Clearwater determines the fair value of each cash-generating unit ("CGU") to which goodwill and intangible assets are allocated using the value in use method, which estimates fair value using a discounted five-year forecasted cash flow estimate with a terminal value. The determination of the recoverable amount involves estimates and assumptions for future sales, product margins, market conditions, allowable catch rates, and appropriate discount rates.

Judgments made in relation to accounting policies applied

In performing its impairment testing, Clearwater makes judgments in determining its CGUs, and the allocation of working capital assets and liabilities and corporate assets to these CGUs.

For further discussion on goodwill and intangible assets, refer to Note 11.

iii) Share-based compensation

Key sources of estimation uncertainty

Clearwater determines compensation expense for share-based compensation using market-based valuation techniques. Clearwater determines the fair value of the market-based and performance-based non-vested share awards at the date of grant using Black-Scholes and Monte Carlo simulation valuation models. Certain performance-based share awards require Clearwater to make estimates of the likelihood of achieving company and corporate peer group performance goals.

Clearwater makes assumptions in applying valuation techniques including estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future option exercise behaviours and corporate performance. Such assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

For further discussion on share-based compensation, refer to Note 20.

iv) Derivative financial instruments

Key sources of estimation uncertainty

Clearwater records the fair value of certain financial asset and liabilities using valuation models where the fair value cannot be determined in active markets.

The inputs used in the fair value models contain inherent uncertainties, estimates and use of judgment. Fair value is taken from observable markets where possible and estimated as necessary. Assumptions underlying the valuations require estimation of costs and prices over time, discount rates, inflation rates, defaults and other relevant variables such as foreign exchange volatility.

For further discussion on derivative financial instruments, refer to Note 8.

v) Earnout

Key sources of estimation uncertainty

Clearwater determines the fair value measurement of the Earnout based on significant inputs not observable in the market.

The inputs used in the fair value model contain inherent uncertainties, estimates and use of judgment. Fair value is taken from observable markets where possible and estimated as necessary. Assumptions underlying the valuations require estimation of forecasted earnings and probability assessments.

For further discussion on the fair value measurement of the Earnout, refer to Note 8(l).

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

i) Business combinations and goodwill

Clearwater measures goodwill as the excess of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in consolidated earnings (loss).

Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized and is tested for impairment annually in the third quarter and as required if events occur that indicate that its carrying amount may not be recoverable. Goodwill is tested for impairment at the CGU group level by comparing the carrying amount to its recoverable amount, consistent with the methodology outlined in Note 3 (h).

Clearwater elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Any contingent consideration payable is measured at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration are recognized in consolidated earnings (loss).

When the initial accounting for a business combination has not been finalized by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting has not been finalized. These provisional amounts are adjusted during the measurement period, which does not exceed one year from the acquisition date, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Transaction costs, other than those associated with the issue of debt or equity securities, that Clearwater incurs in connection with a business combination are expensed as incurred and included in other (income) expense in the consolidated statement of earnings (loss).

ii) Subsidiaries

Subsidiaries are entities controlled by Clearwater. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

iii) Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The results and assets and liabilities of the joint venture are incorporated into these consolidated financial statements using the equity method of accounting. Under the equity method a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize Clearwater's share of the profit or loss and other comprehensive income of the joint venture.

iv) Transactions eliminated on consolidation

Intercompany balances and transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Inventories

Inventories consist primarily of finished goods and are stated at the lower of cost and net realizable value. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overheads, administration and depreciation, determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(c) Property, plant and equipment

Property, plant and equipment is measured at cost, less government assistance received, accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and location, and borrowing costs.

Additions are depreciated commencing in the month that they are available for use. Vessel refits are capitalized when incurred and amortized over the period between scheduled refits. Construction in progress assets are capitalized during the construction period and depreciation commences when the asset is available for use.

Depreciation is recognized on a straight-line basis to depreciate the cost of each of the components of an item of property, plant and equipment over its estimated useful life. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components). Estimated useful lives are the following:

Asset component	Rate
Buildings and wharves	10 to 50 years
Plant and equipment	5 to 15 years
Vessels	15 to 25 years
Vessels equipment	1 to 7 years

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Clearwater and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between the proceeds from disposal and the carrying amount of the item, and are recognized net within administrative and selling costs in profit or loss.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively if appropriate.

(d) Intangible assets

Intangible assets include licenses, brand names, fishing rights and computer software. Definite life intangible assets are measured at cost less accumulated amortization and any net accumulated impairment losses. Amortization is recognized in the consolidated statements of earnings (loss) on a straight-line basis over their estimated useful lives as follows:

Intangible asset	Rate
Fishing rights	10 to 15 years
Computer software	3 to 8 years

i) Licenses, brand names and fishing rights

Licenses and brand names represent intangible assets acquired directly or in a business combination that meet the specified criteria for recognition apart from goodwill and are recorded at their fair values at the date of acquisition and are subsequently carried at cost.

Indefinite life intangibles, including licenses and brand names, are not amortized and are tested for impairment annually in the third quarter or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Fishing rights arise from contractual rights to fish quotas; they have definite lives and are amortized over the term of the related operating agreement.

ii) Computer software

Computer software represents intangible assets developed during the enterprise resource planning ("ERP") system conversion including all costs directly attributable to bringing the asset to the location and condition necessary for its intended use. The computer software has a definite life and is amortized over the estimated useful life.

(e) Revenue recognition

Clearwater sells seafood in a fresh or frozen state to customers. These sales are evidenced by purchase orders or invoices, which set out the terms of the sale, including pricing and shipping terms. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of allowance for returns and discounts.

(f) Government assistance

Government assistance received by Clearwater relates to items of property, plant and equipment.

Government assistance is deducted from the carrying amount of the related asset and amortized over the same estimated useful life of the particular asset to which it relates.

Clearwater does not have any government assistance that could potentially be required to be repaid, nor any forgivable loans.

(g) Financial instruments

Clearwater has the following non-derivative and derivative financial assets and liabilities that are classified into the following categories:

Financial instrument	Category	Measurement method
Cash	Fair value through profit or loss	Fair value
Trade and other receivables Long-term receivables Trade and other payables Long-term debt	Loans and receivables Loans and receivables Non-derivative financial liabilities Non-derivative financial liabilities	Initial: Fair value Subsequent: Amortized cost through profit or loss
Earnout liability Derivative financial instruments	Derivative financial instruments Derivative financial instruments	Fair value

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at their fair values, plus any attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in profit or loss in the period in which they arise.

From time-to-time, Clearwater enters into transactions to sell selected accounts receivables to a commercial partner without recourse. The amount of receivables sold is recorded as a sale of financial asset and balances are removed from the consolidated statement of financial position at the time of sale. The difference between the carrying amount and the proceeds on sale of receivables is recorded in net finance costs in the consolidated statement of earnings (loss). Sale of receivables during the year represent less than 5 percent of consolidated sales.

Non-derivative financial liabilities

Non-derivative financial liabilities are debt securities and subordinated liabilities that are initially measured at fair value, plus attributable transaction costs, and are subsequently measured at amortized cost, with gains and losses recognized in profit or loss in the period in which they arise.

Derivative financial instruments

Clearwater enters into a variety of derivative financial instruments to manage its exposure to foreign exchange and interest rate risks, including foreign exchange forward contracts, interest rate swaps, caps, and floors.

Embedded derivatives are contained in non-derivative host contracts and are treated as separate derivatives when they meet the definition of a derivative and their risks and characteristics are not closely related to those of the host contracts.

The Earnout liability is unsecured additional consideration to be paid dependent upon the future financial performance of Macduff Shellfish Company Limited ("Macduff"), a subsidiary of Clearwater, and the percentage of Deferred Obligation remaining unpaid at the time of payment. Refer to Note 14 for further information.

Derivative financial instruments and embedded derivatives are recorded at fair value with changes in fair value recorded in consolidated earnings (loss).

(h) Impairment

i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to Clearwater on terms that Clearwater would not consider otherwise or indications that a debtor will enter bankruptcy.

Clearwater considers evidence of impairment for receivables on a specific customer basis.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

Clearwater reviews non-financial assets at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives an annual impairment test is performed.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGU. Goodwill and the intangible assets acquired in a business combination are allocated to the CGU, or the group of CGUs, that are expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that asset is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying value of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the unit on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates and assumptions used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Translation of foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the company or component's functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the company or component's functional currency at the exchange rate at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) Foreign operations

The assets and liabilities of foreign operations with a functional currency different from Clearwater's presentation currency, including goodwill, other intangible assets and fair value adjustments arising on acquisition, are translated into Canadian dollars at exchange rates at the reporting date. Foreign currency differences resulting from this translation are recognized in other comprehensive income in the cumulative translation account. The income and expenses of foreign operations are translated to Canadian dollars at average exchange rates.

When a foreign operation is disposed of, all relevant amounts in the cumulative translation account are transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that does not result in loss of control the relevant proportion of such cumulative translation account is reattributed to non-controlling interest and not recognized in profit or loss.

(j) Income taxes

Income tax expense is comprised of current and deferred income tax. Current tax and deferred income tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Taxable earnings differs from earnings as reported in the consolidated statement of earnings (loss) because of items of income or expense that are taxable or deductible in years other than the current reporting period or items that are never taxable or deductible.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: differences relating to investments in subsidiaries and joint venture to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which it can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Borrowing costs

Clearwater capitalizes borrowing costs attributable to the acquisition, or construction of its qualifying assets, which are assets that necessarily take a substantial period of time to ready for their intended use, as they are being constructed. Other borrowing costs are recognized as an expense in the period in which they are incurred.

(l) Finance costs

Finance costs comprise interest expense on borrowings, gains and losses on financial instruments that are recognized in profit or loss, accretion on deferred consideration and refinancing and settlement fees. Borrowing costs determined to be period costs, or the amortization of such costs, are recorded through profit or loss.

(m) Share-based compensation

Clearwater has share-based compensation plans, which are described below.

Share appreciation rights ("SARs")

The share appreciation rights plan is a phantom share plan that provides the holder a cash payment equal to the fair market value of Clearwater's shares, less the grant price. SARs vest over a three-year period and have no expiry.

Deferred share units ("DSU")

There are two deferred share unit plans that provide the holder a cash payment equal to the fair market value of Clearwater's shares on the date of settlement. The retention DSU plan awards vest once the holder reaches the age of 65 with continued employment by Clearwater, or death. The director DSU plan allows non-employee directors to receive, in the form of deferred share units, all or a percentage of director's fees, which would be otherwise payable in cash. Each director DSU vests at the grant date.

Performance share units ("PSU")

On May 12, 2015, Clearwater amended the terms of its PSU plan. Under the plan, holders of PSUs receive settlement amounts measured based upon the relative performance of Clearwater shares to its pre-defined peer group. Performance is based on the total return to shareholders over the defined period.

Under the original terms of the PSU plan, vested units were to be settled in cash at the end of the performance period. Under the amended terms of the PSU plan, vested units are to be settled in cash or shares or by a combination thereof as determined by the company. Prior grants will continue to be cash-settled, and all future grants under the PSU plan will be settled by the issuance of shares.

Cash-settled PSU awards are recorded as liabilities at fair market value at each reporting period with changes in fair value recorded to profit and loss. Equity-settled PSU awards are measured at fair market value on the grant date of the awards. The fair value of the PSUs are calculated using a Monte Carlo simulation model. Compensation expense is recognized based on the fair value of the awards that are expected to vest and remain outstanding at the end of the reporting period. Clearwater estimates the expected forfeiture rate for each plan and adjusts for actual forfeitures in the period.

The share-based compensation liability related to cash-settled PSUs is included in trade and other payables in the consolidated statement of financial position. Compensation expense related to the equity-settled PSUs is recorded as contributed surplus in equity. The related compensation expense for both cash-settled and equity-settled PSUs is recorded in administrative and selling costs in the consolidated statement of earnings (loss) over the vesting period.

(n) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing earnings (loss) for the year attributable to the shareholders of Clearwater by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per share is calculated by dividing earnings (loss) for the year attributable to the shareholders of Clearwater, adjusted for the change in the fair market value of the cash-settled PSUs, by the weighted average number of common shares outstanding and the voting rights attributable to the PSUs outstanding during the year. The calculation of the potential dilutive common shares assumes all outstanding PSUs are contingently issuable shares.

(o) Application of new and revised International Financial Reporting Standards ("IFRS")

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

Business combination accounting for interests in a joint operation (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. These amendments had no impact on Clearwater.

Annual Improvements to IFRS (2012 – 2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. These amendments had no impact on Clearwater.

Disclosure Initiative

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice. These amendments had no impact on Clearwater.

Measurement of deferred income taxes ("IAS 12")

Following the November 2016 publication of the IFRS Interpretations Committee's agenda decision addressing the expected manner of recovery of intangible assets with indefinite useful lives for the purposes of measuring deferred tax, we have retrospectively changed our related accounting policy. The IFRS Interpretations Committee observed that in applying IAS 12, an entity determines its expected manner of recovery of the carrying amount of the intangible asset with an indefinite useful life, and reflects the tax consequences that follow from that expected manner of recovery.

Previously, we measured deferred taxes on temporary differences arising from indefinite-life intangible assets using the tax rate applied to taxable income based upon the notion that recovery would result from use of the assets. Consequently, we have adopted an accounting policy to measure deferred taxes on temporary differences arising from indefinite-life intangible assets based upon the tax consequences that follow from the expected manner of recovery of the assets. Application of this policy resulted in no change to the tax rates used to calculate deferred taxes and therefore, no retrospective adjustments were required.

(p) New accounting standards not yet adopted

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

Foreign Currency Transactions and Advance Consideration ("IFRIC 22")

On December 6, 2016, the IASB issued IFRIC 22, Foreign Currency Transactions and Advance Consideration which clarifies the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, is the date on which an entity has received or paid advance consideration.

The Company intends to adopt IFRIC 22 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of IFRIC 22 has not yet been determined.

Disclosure Initiative (Amendments to IAS 7)

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities.

The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. To meet the disclosure requirement, the company will provide a reconciliation of the opening and closing balances of long-term debt.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments is not expected to have a material impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 – Financial Instruments

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets between an investor and its associate or joint venture (amendments to IFRS 10)

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Specifically, under the existing consolidation standard the parent recognises the full gain on the loss of control, whereas under the existing guidance on associates and joint ventures the parent recognises the gain only to the extent of unrelated investors' interests in the associate or joint venture. The main consequence of the amendments is that a full gain/loss is recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognised when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company will evaluate the impact if and when the IASB determines an effective date.

IFRS 2 Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments provide clarification on how to account for certain types of share-based payment transactions.

The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

4. BUSINESS COMBINATIONS

On October 30, 2015 Clearwater acquired 100% of all outstanding shares of Macduff Shellfish Group Limited ("Macduff"), a wild shellfish company based in Scotland, pursuant to the terms and conditions set forth in a share purchase agreement dated October 9, 2015 (the "Acquisition"). Macduff expands Clearwater's access to shellfish supply and diversifies Clearwater's access in wild shellfish complementary species including King and Queen scallops, langoustine, brown crab and whelk, the majority of which is sold within the European market. The transaction will allow Clearwater to integrate its vessel management and sustainable harvesting practices and innovative processing technologies along with its global sales, marketing and distribution into Macduff, a company that holds resource assets, 13 mid-shore scallop trawlers, and a strong presence in the European Union.

The total fair value of the consideration paid or payable by Clearwater in connection with the Acquisition as of the closing was £81 million (CDN $164 million) plus the repayment of Macduff outstanding debt facilities of £19 million (CDN $39.0 million) and management fees of £1.6 million (CDN $3.2 million) for a total of £102 million (CDN $206 million).

The fair value of the consideration of approximately £81 million is comprised of:

- cash paid on closing to shareholders of £54 million (CDN $109.2 million);
- an unsecured £26.2 million deferred consideration obligation ("Deferred Obligation") with a fair value of £20.9 million (CDN $42.3 million); and
- unsecured additional consideration to be paid in the future dependent upon the future financial performance of Macduff ("Earnout") with an acquisition date estimated fair value of £6.1 million (CDN $12.4 million).

The Company has incurred acquisition-related costs of $3.2 million for legal fees, due diligence, and other related costs in 2015, which were recorded in other (income) expenses in the consolidated statement of earnings (loss).

Clearwater financed the cash portion of the acquisition from existing loan facilities and cash on hand including (refer to Note 14):

- CDN $75 million increase in its Term Loan B facility
- CDN $25 million increase in its Revolving Loan Facility
- CDN $51 million borrowing on its existing Revolving Loan Facility

(Tabular amounts are in thousands of Canadian dollars)

The following table summarizes the purchase price for the Macduff acquisition as of October 30, 2015:

		Fair value in Sterling (£)		Fair value in CDN ($)
Cash paid to settle outstanding shareholder loans	£	28,228	$	57,181
Cash paid to settle preferred shares and dividends		20,144		40,806
Cash paid to acquire common shares		5,542		11,226
	£	53,914	$	109,214
Repayment of loans:				
Repayment of Macduff bank loans and revolver		19,275		39,045
Payment of Management fees		1,599		3,239
	£	20,874	$	42,284
Deferred Obligation:				
Fair value of unsecured Deferred Obligation (Refer to Note 14)		20,900		42,337
Fair value of unsecured Earnout (Refer to Note 14)		6,100		12,357
	£	27,000	$	54,694
Total purchase price consideration	£	101,788	$	206,192

Deferred Obligation

The Deferred Obligation applies to 33.75% of the shares acquired by Clearwater (the "Earn Out Shares"). The amount of £26.2 million (CDN $53.0 million) will be paid over the next five to six years, depending on whether the holders of the Earn Out Shares elect to be paid in the first year (after which Clearwater has the right to exercise the payout). The fair value the Deferred Obligation was determined to be £20.9 million (CDN $42.3 million) as of the acquisition date based on the expected cash flow timing discounted at a rate of 7.75%. Refer to Note 14 for further information on the fair value of the Deferred Obligation at December 31, 2016.

The Earnout

The Earnout is unsecured additional consideration to be paid dependent upon the future financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The acquisition date estimated fair value of the Earnout is £6.1 million (CDN $12.4 million) based on forecast earnings and probability assessments at that time. The actual Earnout payments are expected to be paid over the next five years. Refer to Note 14 for further information on the fair value of the Earnout at December 31, 2016.

The initial estimates of the fair value of the identifiable assets and liabilities of the acquisition as at the date of the acquisition were as follows:

	Initial fair value recognized on acquisition CDN ($)	Adjustments to the provision during the period CDN ($)	Final fair value recognized on acquisition CDN ($)
Assets			
Cash	$ 9,119	$ —	$ 9,119
Accounts receivable	18,220	—	18,220
Inventories	21,314	—	21,314
Other assets	5,342	—	5,342
Branding	12,474	—	12,474
Property, plant and equipment	33,994	—	33,994
Licenses and fishing rights	89,805	—	89,805
	$ 190,268	$ —	$ 190,268
Liabilities			
Trade and other payables	(13,237)	—	(13,237)
Capital leases	(1,337)	—	(1,337)
Deferred tax liabilities	(19,173)	(2,129)	(21,302)
	(33,747)	(2,129)	(35,876)
	$ 156,521	$ (2,129)	$ 154,392
Goodwill arising on acquisition	49,670	2,129	51,799
Total purchase price consideration	$ 206,191	$ —	$ 206,191

The net assets recognized in the December 31, 2015 consolidated financial statements were based on provisional estimates of fair value. The Company engaged an independent valuations advisor to value the acquired assets. The final valuation is now complete and fair value at the end of December 31, 2016 remained consistent with December 31, 2015, with the exception of an increase in deferred tax liability and goodwill of CDN $2.1 million related to a temporary difference of the tax and accounting basis of the fair value of the deferred consideration.

5. TRADE AND OTHER RECEIVABLES

As at December 31	**2016**	2015
Trade receivables	**$ 66,874**	$ 72,234
Other receivables	**15,234**	9,500
	$ 82,108	$ 81,734

Included in other receivables is $6.4 million (December 31, 2015 – $4.7 million) of input tax credits receivable and $8.8 million (December 31, 2015 – $4.8 million) of other receivables.

(Tabular amounts are in thousands of Canadian dollars)

6. INVENTORIES

As at December 31	2016	2015
Goods for resale	$ 81,796	$ 52,594
Supplies and other	10,035	12,428
	$ 91,831	$ 65,022

In 2016 inventory costs of $440.4 million (2015 – $341.6 million) were recognized in cost of goods sold. Clearwater incurred $2.9 million (2015 – $3.7 million) in inventory write-downs which was recognized in cost of goods sold. Refer to Note 14 for assets pledged as security for long-term debt.

7. PREPAIDS AND OTHER

As at December 31	2016	2015
Prepaids	$ 5,268	$ 9,571
Due from related parties (Note 22)	146	16
	$ 5,414	$ 9,587

8. FINANCIAL INSTRUMENTS

The Company periodically uses derivative instruments as part of an active risk management program. The Company has elected not to use hedge accounting for these instruments and consequently changes in fair value are recorded in earnings as they occur.

Summary of fair values of derivative financial instrument positions:

As at December 31	2016	2015
Derivative financial assets		
Forward foreign exchange contracts	$ 4,637	$ —
Interest rate caps, floors and swap contracts	184	3,788
	$ 4,821	$ 3,788
Derivative financial liabilities		
Forward foreign exchange contracts	$ (1,356)	$ (12,437)
Interest rate and cross-currency swap contracts	(4,284)	(6,185)
	$ (5,640)	$ (18,622)

(a) Clearwater has forward contracts maturing each month until December 2017. At December 31, 2016 Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency notional amount (in 000s)	Average contract exchange rate	Weighted average months to maturity	Fair value asset (liability)
Contracts in asset position				
Euro	**35,995**	**1.472**	**6**	**$ 1,677**
USD	**30,800**	**1.322**	**3**	**574**
Yen	**2,863,100**	**0.012**	**6**	**2,386**
				$ 4,637
Contracts in liability position				
USD	**41,050**	**1.309**	**3**	**$ (1,356)**
				$ (1,356)

At December 31, 2015, Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency notional amount (in 000s)	Average contract exchange rate	Weighted average months to maturity	Fair value asset (liability)
Contracts in a liability position				
Euro	43,400	1.446	8	$ (3,153)
USD	65,200	1.279	7	(6,466)
Yen	3,356,000	0.011	8	(2,818)
				$ (12,437)

Certain USD forward contracts contain provisions that, subject to the spot rate being greater than the contract rate, the contract rate is adjusted by 50% or 25% (December 31, 2015 – 50% or 25%) of the excess of the spot rate over the contract rate at maturity. The notional amount of the forward contracts subject to the contract rate being adjusted by 50% in US dollars at December 31, 2016 was nil (December 31, 2015 – nil). The notional amount of the forward contracts subject to the contract rate being adjusted by 25% in US dollars at December 31, 2016 was nil (December 31, 2015 – $13.2 million).

(b) At December 31, 2016 Clearwater had interest rate cap, floor and swap contracts and cross-currency swap contracts outstanding as follows:

	Effective date	Expiry date	Contracted interest rate	Currency	Notional amount (in 000s)	Fair value (liability)
Term Loan A – Interest rate cap	**December 2015**	**June 2018**	**6.25%**	**CDN**	**12,000**	**$ —**
Term Loan B – Interest rate floor	**October 2015**	**June 2018**	**LIBOR + 1.25%**	**USD**	**75,000**	**184**
						$ 184

	Effective date	Expiry date	Contracted interest rate	Currency	Notional amount (in 000s)	Fair value asset
Term Loan A – Interest rate swap	**December 2015**	**June 2018**	**5.85%**	**CDN**	**12,000**	**$ (274)**
Term Loan B – Interest rate swap	**December 2015**	**June 2019**	**6.15%**	**USD**	**50,000**	**(1,785)**
Term Loan B – Interest rate swap	**June 2016**	**June 2019**	**6.49%**	**USD**	**50,000**	**(2,225)**
Term Loan B – Cross-currency swap	**October 2015**	**June 2018**	**CDN Banker's Acceptance + 4.41%**	**CDN**	**99,263**	**—**
						$ (4,284)

(c) At December 31, 2015 Clearwater had interest rate cap and floors and swap contracts outstanding as follows:

	Effective date	Expiry date	Contracted fixed interest rate	Currency	Notional amount (in 000s)	Fair value (liability)
Term Loan A – Interest rate swap	December 2015	June 2018	5.85%	CDN	12,000	$ (495)
Term Loan B – Interest rate swap	December 2015	June 2019	6.15%	USD	50,000	(2,702)
Term Loan B – Interest rate swap	June 2016	June 2019	6.49%	USD	50,000	(2,988)
						$ (6,185)

	Effective date	Expiry date	Contracted capped interest rate	Currency	Notional amount (in 000s)	Fair value asset
Term Loan A – Interest rate cap	December 2015	June 2018	6.25%	CDN	12,000	$ —
Term Loan B – Interest rate cap	September 2014	June 2016	4.75%	USD	50,000	710
Term Loan B – Interest rate floor	October 2015	June 2018	LIBOR + 1.25%	USD	75,000	750
Term Loan B – Cross-currency swap	October 2015	June 2018	CDN Banker's Acceptance + 4.41%	CDN	99,263	2,328
						$ 3,788

(d) Net finance costs

Year ended December 31	2016	2015
Interest expense on financial liabilities	$ 24,776	$ 19,002
Amortization of deferred financing charges and accretion	2,113	1,334
	26,889	20,336
Fair value adjustment on embedded derivative	(1,350)	(2,118)
Accretion on deferred consideration (Note 14)	3,562	—
Interest rate swap and caps	(2,027)	2,908
Debt refinancing fees	(126)	508
	$ 26,948	$ 21,634

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

Year ended December 31	2016	2015
Realized (gain) loss		
Working capital and other	$ 7,803	$ (1,690)
Unrealized (gain) loss		
Foreign exchange on long-term debt and working capital	(18,045)	51,168
Cross currency swaps and caps	2,947	(3,191)
	$ (7,295)	$ 46,287

(f) Losses (gains) on forward exchange contract derivatives

Year ended December 31	2016	2015
Realized loss		
Forward foreign exchange contracts	$ 7,345	$ 15,595
Unrealized loss (gain)		
Forward foreign exchange contracts	(14,624)	11,168
	$ (7,279)	$ 26,763

(g) Credit risk

Credit risk refers to the risk of losses due to failure of Clearwater's customers or other counterparties to meet their contractual obligations. Clearwater is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not anticipate non-performance of any of the counterparties as Clearwater only deals with highly rated financial institutions.

Clearwater has significant accounts receivable from customers operating in Canada, the United States, Europe and Asia. Significant portions of Clearwater's customers from a sales dollar perspective have been transacting with Clearwater in excess of five years and bad debt losses have been minimal. 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 specific credit risk and country specific credit risk. No single customer of Clearwater represents more than 5% of total sales. As a result Clearwater does not have any significant concentration of credit risk.

As at December 31, 2016, Clearwater's trade accounts receivable aging based on the invoice due date was as follows: 93.6% 0–30 days, 5.3% 31–60 days, and 1.1% over 60 days. As at December 31, 2015, Clearwater's trade accounts receivable aging based on the invoice due date was as follows: 83.2% 0–30 days, 8.6% 31–60 days, and 8.2% over 60 days.

(Tabular amounts are in thousands of Canadian dollars)

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $0.4 million (2015 – $0.6 million). Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. Accounts are only written off completely when it becomes virtually certain that collection will not occur. Changes in the allowance for doubtful accounts are summarized in the table below:

As at December 31	2016	2015
Balance at January 1	$ 555	$ 278
Acquisition through business combination	—	406
Allowance recognized	311	—
Amounts recovered	—	(44)
Amounts written off as uncollectible	(394)	(103)
Foreign exchange	(48)	18
Balance at December 31	$ 424	$ 555

(h) Foreign currency exchange rate risk

Foreign currency exchange rate risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. Approximately 87% of Clearwater's sales are in currencies other than Canadian dollars, whereas the majority of expenses are in Canadian dollars. As a result fluctuations in foreign exchange rates may have a material impact on Clearwater's financial results. In addition Clearwater has subsidiaries which operate in the scallop fishery in Argentina and United Kingdom which exposes Clearwater to changes in the value of the Argentine Peso and Pound Sterling.

Risks associated with foreign exchange are partially mitigated by the fact that Clearwater (i) diversifies sales internationally which reduces the impact of any country-specific economic risks; (ii) executes on pricing strategies so as to offset the impact of exchange rates; (iii) limits the amount of long-term sales contracts; (iv) regularly reviews economist estimates of future exchange rates; and (v) has implemented a foreign exchange program that focuses on using forward contracts to lock in exchange rates for up to 18 months.

In 2015, Clearwater entered into a cross-currency swap whereby USD $75 million of Term Loan B was swapped into Canadian dollars at a fixed rate of 1.32. This arrangement has a maturity date of June 26, 2018.

The carrying amounts of Clearwater's foreign currency denominated monetary assets and monetary liabilities (excluding derivative financial instruments) as at December 31, 2016 and December 31, 2015 were as follows (presented in Canadian dollars):

As at December 31	2016	2015
Cash	$ 35,578	$ 48,272
Trade receivables	50,238	65,348
Other receivables	8,462	4,288
Long-term receivables	9,705	9,235
Trade and other payables	(19,570)	(24,132)
Long-term debt	(289,184)	(330,937)
Other long-term liabilities	(887)	(1,422)
Net exposure to consolidated statements of financial position	$ (205,658)	$ (229,348)

The components of this net exposure by currency are as follows (in foreign currency 000s) at December 31, 2016:

December 31, 2016	GBP	USD	Yen	Euros	RMB	NOK	DKK	Argentine Peso
Cash	**1,165**	**3,618**	**56**	**1,668**	**(604)**	**—**	**138,856**	**1,590**
Trade receivables	**5,769**	**8,688**	**87,874**	**19,639**	**—**	**—**	**819**	**1,151**
Other receivables	**554**	**2,054**	**—**	**1,001**	**1**	**—**	**(19)**	**39,944**
Long-term receivables	**1,307**	**3,705**	**—**	**—**	**—**	**—**	**—**	**30,204**
Trade and other payables	**(4,939)**	**(2,986)**	**(6,187)**	**(408)**	**1,792**	**(37)**	**(2,541)**	**(77,603)**
Long-term debt	**(23,151)**	**(186,564)**	**—**	**—**	**—**	**—**	**—**	**—**
Other long-term liabilities	**(534)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net exposure to consolidated statements of financial position	**(19,829)**	**(171,485)**	**81,743**	**21,900**	**1,189**	**(37)**	**137,115**	**(4,714)**

The components of this net exposure by currency are as follows (in foreign currency 000s) at December 31, 2015:

December 31, 2015	GBP	USD	Yen	Euros	RMB	DKK	Argentine Peso
Cash	3,605	5,077	13	1,540	756	154,038	113
Trade receivables	5,301	10,593	508,598	20,321	—	14,636	398
Other receivables	520	413	—	704	—	(14)	14,787
Long-term receivables	1,289	2,851	—	—	—	—	24,510
Trade and other payables	(6,807)	(3,628)	(219)	(703)	1,048	(2,713)	(34,416)
Long-term debt	(27,000)	(197,937)	(39,690)	—	—	—	—
Other long-term liabilities	(690)	—	—	—	—	—	—
Net exposure to consolidated statements of financial position	(23,782)	(182,631)	468,702	21,862	1,804	165,947	5,392

The following table details Clearwater's sensitivity to a 10% change in the exchange rates against the Canadian dollar. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency exchange rates. The change below is calculated based on the net exposure in the consolidated statements of financial position.

	2016	2015
GBP	**(3,289)**	(4,897)
USD	**(23,049)**	(25,356)
Yen	**94**	539
Euros	**3,096**	3,312
RMB	**23**	39
NOK	**(1)**	—
DKK	**2,608**	3,370
Argentine Peso	**(40)**	58

(i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flow associated with the instrument will fluctuate due to changes in market interest rates. Clearwater's interest rate risk arises from long-term borrowings issued at fixed rates that create fair value interest rate risk and from variable rate borrowings that create cash flow interest rate risk. Clearwater's debt is carried at amortized cost with the exception of the embedded interest rate floor in Term Loan B. The interest rate floor is a derivative instrument and is recorded at fair value through profit or loss.

Clearwater manages its interest rate risk exposure by using a mix of fixed and variable rate debt. As at December 31, 2016, excluding the impact of interest rate swap derivative instruments, approximately 3.9% (2015 – 3.6%) of Clearwater's debt of $436.4 million (2015 – $480.8 million) was fixed rate debt with a weighted average interest rate of 4.0% (2015 – 4.0%). A 1% change in interest rates for variable rate borrowings, including the impact of interest rate swaps derivative instruments, would result in a $2.1 million increase (or decrease) in interest expense.

Clearwater enters into interest rate swap, cap and floor arrangements to hedge interest rate risk on its variable rate debt. As at December 31, 2016, Clearwater has entered into interest rate swap arrangements to economically hedge interest rates on its CDN $30 million Term Loan A facility and its USD $200 million Term Loan B facility whereby:

- CDN $12 million of Term Loan A is effectively subject to an interest rate that is the lesser of the floating rate of interest on the loan or a maximum fixed rate of interest of 6.25% to June 2018.
- CDN $12 million of Term Loan A is subject to a fixed interest rate of 5.85% to June 2018.
- USD $50 million of Term Loan B is subject to a fixed interest rate of 6.15% to June 2019.
- USD $50 million of Term Loan B is capped to June 30, 2018 at an interest rate of 4.75% and then the rate is fixed at 6.49% to June 2019.

Clearwater accounts for these swap arrangements at fair value and records the change in fair value through consolidated earnings (loss). The fair value of interest rate swaps and interest rate caps at the end of the reporting period is determined by discounting the future cash flows using the yield curves at the end of the reporting period. For the year ended December 31, 2016, this resulted in a $2.0 million unrealized gain (2015 – $2.9 million unrealized loss).

(j) Liquidity risk

Liquidity risk is the risk that Clearwater will encounter difficulty in meeting obligations associated with financial liabilities. Clearwater manages liquidity risk by monitoring forecasted and actual cash flows, minimizing reliance on any single source of credit, maintaining sufficient undrawn committed credit facilities and matching the maturity profiles of financial assets and financial liabilities.

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 as of December 31, 2016.

The following are the contractual maturities of non-derivative financial liabilities, derivative financial instruments, operating leases and other commitments. The table includes undiscounted cash flows of financial liabilities, operating leases and other commitments, interest and principal cash flows based on the earliest date on which Clearwater is required to pay.

December 31, 2016	Carrying amount	Total contractual cash flow	2017	2018	2019	2020	2021	>2022
Interest – long-term debt		$ 58,065	$ 16,674	$ 14,698	$ 6,893	$ 275	$ 275	$ 19,250
Principal repayments – long-term debt		435,711	67,005	58,463	295,172	9,608	1,963	3,500
Total long-term debt	436,414	439,776	83,679	73,161	302,065	9,883	2,238	22,750
Trade and other payables	75,953	75,953	75,953	—	—	—	—	—
Operating leases and other	—	16,912	7,687	3,100	2,204	1,934	905	1,081
Capital and maintenance projects	—	30,308	30,308	—	—	—	—	—
Derivative financial instruments – asset	(4,821)	(4,821)	(4,821)	—	—	—	—	—
Derivative financial instruments – liabilities	5,640	5,640	5,640	—	—	—	—	—
	$ 513,185	$ 617,767	$ 198,446	$ 76,261	$ 304,269	$ 11,817	$ 3,143	$ 23,831

Included in the above commitments for "operating leases and other" are amounts to which Clearwater is committed directly – and indirectly through its partnerships – for various licenses and lease agreements, office, machinery and vehicle leases, and vessel and equipment commitments. These commitments require approximate minimum annual payments in each of the next five years as shown above.

Also included in commitments for operating leases and other are (i) amounts to be paid to a company controlled by a director of Clearwater over a period of years ending in 2018 for vehicle and office leases, which aggregate approximately $0.04 million (2015 – $0.05 million); and (ii) annual amounts to be paid to a company related to a member of its management team who is a former shareholder of Macduff for $1.6 million (December 31, 2015 – $1.9 million). These amounts relate to the lease of a production plant and will be paid over a period of 5 years.

(Tabular amounts are in thousands of Canadian dollars)

(k) Fair value of financial instruments

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

	Fair value		Amortized cost		Total	
December 31, 2016	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount	Fair value
Assets:						
Cash	$ 39,514	$ —	$ —	$ —	**$ 39,514**	**$ 39,514**
Trade and other receivables	—	—	82,108	—	**82,108**	**82,108**
Long-term receivables	—	—	8,132	—	**8,132**	**8,132**
Forward foreign exchange contracts	—	4,637	—	—	**4,637**	**4,637**
Interest rate caps, floors and cross-currency swap	—	184	—	—	**184**	**184**
	$ 39,514	$ 4,821	$ 90,240	$ —	**$ 134,575**	**$ 134,575**
Liabilities:						
Trade and other payables	$ (7,588)	$ —	$ —	$ (68,365)	**$ (75,953)**	**$ (75,953)**
Long-term debt	—	—	—	(426,604)	**(426,604)**	**(426,975)**
Forward foreign exchange contracts	—	(1,356)	—	—	**(1,356)**	**(1,356)**
Embedded derivative	—	(703)	—	—	**(703)**	**(703)**
Interest rate swaps	—	(4,284)	—	—	**(4,284)**	**(4,284)**
Earnout liability	(9,107)	—	—	—	**(9,107)**	**(9,107)**
	$ (16,695)	$ (6,343)	$ —	$ (494,969)	**$ (518,007)**	**$ (518,378)**

	Fair value		Amortized cost		Total	
December 31, 2015	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount	Fair value
Assets:						
Cash	$ 51,106	$ —	$ —	$ —	$ 51,106	$ 51,106
Trade and other receivables	—	—	81,734	—	81,734	81,734
Long-term receivables	—	—	10,076	—	10,076	10,076
Interest rate cap, floors and cross-currency swap	—	3,788	—	—	3,788	3,788
	$ 51,106	$ 3,788	$ 91,810	$ —	$ 146,704	$ 146,704
Liabilities:						
Trade and other payables	$ (11,406)	$ —	$ —	$ (71,464)	$ (82,870)	$ (82,870)
Long-term debt	—	—	—	(465,855)	(465,855)	(466,614)
Forward foreign exchange contracts	—	(12,437)	—	—	(12,437)	(12,437)
Embedded derivative	—	(2,353)	—	—	(2,353)	(2,353)
Interest rate swaps	—	(6,185)	—	—	(6,185)	(6,185)
Earnout liability	(12,561)	—	—	—	(12,561)	(12,561)
	$ (23,967)	$ (20,975)	$ —	$ (537,319)	$ (582,261)	$ (583,020)

Fair value of financial instruments carried at amortized cost

Except as detailed below, Clearwater considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements materially approximate their fair values. For cash, trade and other receivables, and trade and other payables, the carrying values approximate 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 value.

The estimated fair value of Clearwater's long-term debt for which carrying value did not approximate fair value at December 31, 2016 was $46.8 million (December 31, 2015 – $18.9 million) and the carrying value was $46.5 million (December 31, 2015 – $18.2 million). The fair value of long-term debt has been classified as level 2 in the fair value hierarchy and was estimated based on discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities.

l) Fair value hierarchy

Assets and liabilities carried at fair value must be 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 using the fair value hierarchy:

December 31, 2016	Level 1	Level 2	Level 3
Recurring measurements			
Financial Assets:			
Cash	$ 39,514	$ —	$ —
Forward foreign exchange contracts	—	4,637	—
Interest rate caps, floors and cross-currency swaps	—	184	—
	$ 39,514	$ 4,821	$ —
Financial Liabilities:			
Forward foreign exchange contracts	$ —	$ (1,356)	$ —
Embedded derivative	—	(703)	—
Interest rate swaps and cross-currency swaps	—	(4,284)	—
Earnout liability	—	—	9,107
	$ —	$ (6,343)	$ 9,107

(Tabular amounts are in thousands of Canadian dollars)

December 31, 2015		Level 1		Level 2		Level 3
Recurring measurements						
Financial Assets:						
Cash	$	51,106	$	—	$	—
Interest rate caps, floors and cross-currency swaps		—		3,788		—
	$	51,106	$	3,788	$	—
Financial Liabilities:						
Forward foreign exchange contracts	$	—	$	(12,437)	$	—
Embedded derivative		—		(2,353)		—
Interest rate swaps		—		(6,185)		—
Earnout liability		—		—		(12,561)
	$	—	$	(20,975)	$	(12,561)

There were no transfers between levels during the years ended December 31, 2016 and December 31, 2015.

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

- Forward foreign exchange contracts are measured using present value techniques. Future cash flows are estimated based on forward exchange rates (from observable exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of Clearwater and the various counterparties and the risk-free yield curves of the respective currencies.
- The embedded derivative is fair valued using a Bloomberg valuation model for interest rate floors.
- Interest rate swaps, caps and floors and cross-currency swaps are measured using present value techniques that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs.

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

To determine the fair value of the Earnout liability three primary sources of risk are assessed: (i) the risk associated with the underlying performance of Macduff's EBITDA ("Earnings before interest, taxes, depreciation and amortization"), (ii) the risk associated with the functional form of the Earnout payments; and (iii) the credit risk associated with the future Earnout payments. The fair value of the Earnout payments is estimated based on a Monte Carlo simulation under a risk-neutral framework. The preliminary fair value of the Earnout is estimated based on discounted expected future EBITDA cash flows for Macduff for the five-year period ending December 31, 2020 using a Geometric Brownian Motion model. The following inputs and assumptions were used in calculating the fair value of the Earnout including:

- Payments dates: The Earnout will be payable for the periods ending December 31, 2017 through December 31, 2020, based on the expected pattern of the Deferred Obligation and the expected outstanding amount of Deferred Obligation at the end of each year.
- Forecasted EBITDA: Management's five-year forecast
- Risk-free rate: 0.759%
- Risk-adjusted discount rates: 7.50%–10.00%

- Asset volatility: The estimated asset volatility of Macduff is based on the Merton option pricing model. In the context of calculating the asset volatility, the following inputs to derive the asset volatility were used:
  - Debt value: £19 million
  - Enterprise Value: £100 million
  - Equity value: £81 million
  - Equity volatility: 39%

A risk-adjusted payout is calculated at each time period and discounted at the risk-free rate to the valuation date. This process is simulated 100,000 times and the expected value of the Earnout is retrieved. Based on the range of risk-adjusted discount rates (per above) the range in fair values determined was between £5.2 million and £5.7 million.

The change in the fair value of the Earnout from December 31, 2015 to December 31, 2016 was a decrease of £0.6 million.

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

9. LONG-TERM RECEIVABLES

As at December 31	2016	2015
Notes receivable from non-controlling interest holder in subsidiary	$ 1,368	$ 1,343
Advances to fishermen	6,481	8,733
Other	283	—
	$ 8,132	$ 10,076

Notes receivable from non-controlling interest consists of funds that are advanced to a shareholder in an incorporated subsidiary. The notes bear interest at rates ranging from 0%–12% (2015 – 0%–12%), and they are unsecured and have no set terms of repayment.

Certain advances to fishermen are made for a fixed term, secured by an assignment of catch and are non-interest bearing unless there is no supply for 6 weeks, at which time the loans become repayable in installments and are interest bearing. Other advances to fishermen bear interest at prime plus 2%–3% (2015 – prime plus 2%–3%), are due on demand, and are secured by an assignment of catch, a marine mortgage on the related vessels, equipment and licenses. Advances to fishermen are presented as non-current as the entire balances are not expected to be repaid in the current year and it is not Clearwater's intention to demand payment unless the terms of the advance agreements are not met. Certain advances to fishermen are denominated in Pounds Sterling (see Note 8 (h)).

(Tabular amounts are in thousands of Canadian dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and wharves	Equipment	Vessels and vessel equipment	Construction in progress	Total PPE	Deferred gov't assistance	Total
Cost								
Balance at January 1, 2016	$ 2,823	$ 67,235	$ 74,667	$ 328,017	$ 21,612	$ 494,354	$ (8,962)	$ 485,392
Additions	—	567	939	23,035	38,531	63,072	—	63,072
Disposals	—	(32)	(436)	(1,547)	—	(2,015)	—	(2,015)
Reclassifications and other adjustments	—	1,003	948	(11,677)	(23,986)	(33,712)	—	(33,712)
Effect of movements in exchange rates	(4)	(1,671)	(3,094)	(12,745)	(114)	(17,628)	—	(17,628)
Balance at December 31, 2016	**$ 2,819**	**$ 67,102**	**$ 73,024**	**$ 325,083**	**$ 36,043**	**$ 504,071**	**$ (8,962)**	**$ 495,109**
Accumulated depreciation								
Balance at January 1, 2016	$ 989	$ 47,871	$ 59,740	$ 133,648	$ —	$ 242,248	$ (8,053)	$ 234,195
Depreciation for the year	16	2,466	3,020	29,013	—	34,515	(187)	34,328
Disposals	—	—	(332)	(1,547)	—	(1,879)	—	(1,879)
Reclassifications and other adjustments	—	(14)	5	325	7	323	—	323
Effect of movements in exchange rates	—	(628)	(2,113)	(2,924)	—	(5,665)	—	(5,665)
Balance at December 31, 2016	**$ 1,005**	**$ 49,695**	**$ 60,320**	**$ 158,515**	**$ 7**	**$ 269,542**	**$ (8,240)**	**$ 261,302**
Carrying amounts								
At January 1, 2016	$ 1,834	$ 19,364	$ 14,927	$ 194,369	$ 21,612	$ 252,106	$ (909)	$ 251,197
At December 31, 2016	**$ 1,814**	**$ 17,407**	**$ 12,704**	**$ 166,568**	**$ 36,036**	**$ 234,529**	**$ (722)**	**$ 233,807**

	Land	Building and wharves	Equipment	Vessels and vessel equipment	Construction in progress	Total PPE	Deferred gov't assistance	Total
Cost								
Balance at January 1, 2015	$ 2,795	$ 62,706	$ 74,790	$ 225,481	$ 51,142	$ 416,914	$ (8,962)	$ 407,952
Acquisition through business combinations	—	3,559	4,898	25,433	—	33,890	—	33,890
Additions	—	111	569	3,786	60,220	64,686	—	64,686
Disposals	—	(8)	(616)	(18,995)	—	(19,619)	—	(19,619)
Reclassification and other adjustments	33	1,239	(5,235)	98,892	(89,748)	5,181	—	5,181
Effect of movements in exchange rates	(5)	(372)	261	(6,580)	(2)	(6,698)	—	(6,698)
Balance at December 31, 2015	$ 2,823	$ 67,235	$ 74,667	$ 328,017	$ 21,612	$ 494,354	$ (8,962)	$ 485,392
Accumulated depreciation								
Balance at January 1, 2015	$ 974	$ 45,969	$ 65,177	$ 117,483	$ —	$ 229,603	$ (7,668)	$ 221,935
Depreciation for the year	15	1,906	1,931	24,319	—	28,171	(385)	27,786
Disposals	—	(8)	(590)	(13,698)	—	(14,296)	—	(14,296)
Reclassifications and other adjustments	—	—	(6,954)	7,073	—	119	—	119
Effect of movements in exchange rates	—	4	176	(1,529)	—	(1,349)	—	(1,349)
Balance at December 31, 2015	$ 989	$ 47,871	$ 59,740	$ 133,648	$ —	$ 242,248	$ (8,053)	$ 234,195
Carrying amounts								
At January 1, 2015	$ 1,821	$ 16,737	$ 9,613	$ 107,998	$ 51,142	$ 187,311	$ (1,294)	$ 186,017
At December 31, 2015	$ 1,834	$ 19,364	$ 14,927	$ 194,369	$ 21,612	$ 252,106	$ (909)	$ 251,197

Total depreciation and amortization expense related to property, plant and equipment and definite-life intangible assets for 2016 was $38.6 million (2015 – $29.7 million). In 2016, $37.1 million (2015 – $29.2 million) of depreciation and amortization expense for assets used in the harvesting and production of goods was classified as cost of goods sold and $1.6 million (2015 – $0.5 million) was recorded in administrative and selling costs for assets used in administrative activities. Refer to Note 14 for assets pledged as security for long-term debt.

(Tabular amounts are in thousands of Canadian dollars)

11. INTANGIBLE ASSETS AND GOODWILL

		Intangible assets					
	Goodwill	Brand names	Computer software	Indefinite life licenses	Fishing rights	Total	Goodwill and intangible asset total
Cost							
Balance at January 1, 2015	$ 5,638	$ —	$ —	$ 81,804	$ 24,094	$ 105,898	$ 111,536
Acquisition through business combination (Note 4)	49,670	12,474	—	89,790	—	102,264	151,934
Additions	—	—	—	—	2,644	2,644	2,644
Foreign currency exchange translation	(1,128)	206	—	585	(660)	131	(997)
Balance at December 31, 2015	54,180	12,680	—	172,179	26,078	210,937	265,117
Acquisition through business combination (Note 4)	2,129	—	—	—	—	—	2,129
Additions	—	—	21,078	—	—	21,078	21,078
Foreign currency exchange translation	(6,528)	(2,464)	—	(18,453)	(414)	(21,331)	(27,859)
Balance at December 31, 2016	**$ 49,781**	**$ 10,216**	**$ 21,078**	**$ 153,726**	**$ 25,664**	**$ 210,684**	**$ 260,465**
Accumulated amortization							
Balance at January 1, 2015	$ —	$ —	$ —	$ —	$ 7,156	$ 7,156	$ 7,156
Amortization	—	—	—	—	1,975	1,975	1,975
Foreign currency exchange translation	—	—	—	—	(40)	(40)	(40)
Balance at December 31, 2015	—	—	—	—	9,091	9,091	9,091
Amortization	—	—	2,392	—	1,914	4,306	4,306
Foreign currency exchange translation	—	—	—	—	(34)	(34)	(34)
Balance at December 31, 2016	**$ —**	**$ —**	**$ 2,392**	**$ —**	**$ 10,971**	**$ 13,363**	**$ 13,363**
Carrying amounts							
As at December 31, 2015	$ 54,180	$ 12,680	$ —	$ 172,179	$ 16,987	$ 201,846	$ 256,026
As at December 31, 2016	**$ 49,781**	**$ 10,216**	**$ 18,686**	**$ 153,726**	**$ 14,693**	**$ 197,321**	**$ 247,102**

Clearwater maintains fishing licenses and rights to ensure continued access to the underlying resource. Except for fishing rights, licenses have an indefinite life as they have nominal annual renewal fees, which are expensed as incurred, and the underlying stocks of the species are healthy. The licenses and goodwill are tested for impairment annually and when circumstances indicate the carrying value may be impaired.

Indefinite life licenses, brand names and goodwill

Annual impairment testing for each CGU was performed using a value in use ("VIU") approach as of October 1, 2016. The recoverable amount is the higher of the VIU and fair value less cost of disposal. The VIU for all CGUs were determined to be higher than their carrying amounts and therefore no impairments were recorded during 2016.

The value in use approach was determined by discounting the projected future cash flows generated from earnings from operations for the applicable CGU. Unless otherwise indicated in notes i–iii, the assumptions used in the value in use approach for 2016 were determined similarly to those used in 2015.

The carrying value of Clearwater's significant CGUs is as follows:

As at December 31	2016	2015
Scallops		
Indefinite life licenses	$ 55,458	$ 57,623
Macduff		
Goodwill	44,143	48,542
Indefinite life licenses	73,544	91,286
Brand names	10,216	12,680
All other CGUs individually without significant carrying value		
Goodwill	5,638	5,638
Indefinite life licenses	24,724	23,270
	$ 213,723	$ 239,039

The discounted cash flows used in determining the recoverable amounts for the Scallops, Macduff and all other CGUs were based on the following key assumptions:

i) Cash flows from operations were projected for a period of five years based on a combination of past experience, actual operating results and forecasted earnings. Terminal values and forecasts for future periods were extrapolated using inflation rates of 2%–2.5% (2015: 1%). Gross margins for all future periods were determined using a combination of forecasted and historical margins.

ii) Pre-tax discount rates ranging from 9%–13% (2015: 13%–18%) were applied in determining the recoverable amount of the CGUs. The discount rates were estimated based upon weighted average cost of capital, and associated risk for the CGU.

iii) Cash flow adjustments for capital expenditures were based upon the management approved capital expenditure forecast, and terminal year capital expenditures were based on required refits over the period of the fishing license.

(Tabular amounts are in thousands of Canadian dollars)

The following assumptions were used for each individual CGU:

	Inflation		Pre-tax discount rates	
	2016	2015	**2016**	2015
Argentine scallops	**2.0%**	1.0%	**13.0%**	13.0%
Clams	**2.0%**	1.0%	**9.5%**	10.5%
Turbot	**2.0%**	1.0%	**9.5%**	12.8%
CDN scallops	**2.0%**	1.0%	**9.5%**	10.5%
FAS shrimp	**2.0%**	1.0%	**9.5%**	10.5%
Lobster	**2.0%**	1.0%	**10.0%**	10.5%
Macduff	**2.5%**	1.0%	**11.0%**	11.6%
Other	**2.0%**	1.0%	**9.0%**	12.8%

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both internal and external sources.

Definite life fishing rights

Amortization relates to fishing rights. Amortization is allocated to the cost of inventory and is recognized in cost of goods sold as inventory is sold. In 2015, Clearwater acquired fishing rights for CDN $2.6 million. These fishing rights relate to the Scallop CGU, are valid for 15 years and are amortized over that period. In 2016, there have been no disposals.

Refer to Note 14 for assets pledged as security for long-term debt.

Enterprise resource planning system

During the year ended December 31, 2016, the new enterprise resource planning system ("ERP") was put into use and reclassified from construction in progress (property, plant and equipment) to intangible assets. The amount reclassified was $21.1 million and is being amortized on a straight line basis over 3–8 years, beginning in the second quarter.

12. INVESTMENT IN EQUITY INVESTEE

The following table summarizes the financial information of Adams and Knickle Limited, a joint venture in which Clearwater owns 50% and is accounted for using the equity method:

Year ended December 31		2016		2015
Carrying amount of interest in joint venture	$	10,496	$	9,311
Share of:				
Earnings for the year		1,185		2,591
Commissions paid to joint venture	$	11,341	$	8,598

13. INCOME TAXES

(a) Reconciliation of income tax expense

The effective rate on Clearwater's earnings before income taxes differs from the expected amount that would arise using the combined Canadian federal and provincial statutory income tax rates.

A reconciliation of the difference is as follows:

Year ended December 31		2016		2015
Earnings (loss) before income taxes	$	76,042	$	(16,284)
Combined tax rates		30.5%		30.5%
Income tax provision at statutory rates	$	23,193	$	(4,967)
Add (deduct):				
Income of partnerships taxed in the hands of partners	$	(4,022)	$	(5,605)
Permanent differences		(1,265)		6,255
Benefit of capital loss not recognized		(1,425)		6,021
Recognition of previously unrecorded deferred tax assets		—		(3,864)
Effect of rate differences		(1,581)		(1,557)
Income of foreign subsidiary not subject to tax		2,304		5,890
Other		(758)		2,214
Actual provision	$	16,446	$	4,387

(Tabular amounts are in thousands of Canadian dollars)

(b) Income tax expense

The components of the income tax expense (recovery) for the year are as follows:

Year ended December 31	2016	2015
Current	$ 7,079	$ 1,896
Deferred recovery	9,367	2,491
	$ 16,446	$ 4,387

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Non-capital loss carry-forwards	$ 17,144	$ 17,327
Unrealized foreign exchange	250	4,524
Share issuance costs	1,192	905
Reserve for unpaid share-based compensation	2,001	2,969
Deferred tax liabilities:		
Licenses and intangibles	(18,200)	(21,376)
Property, plant and equipment	(13,004)	(9,198)
Long-term debt	(586)	1,272
Other	(431)	(1,556)
	$ (11,634)	$ (5,133)
Classified in the consolidated statement of financial position as:		
Deferred tax asset	6,429	14,184
Deferred tax liability	(18,063)	(19,317)
	$ (11,634)	$ (5,133)

The net change in deferred income taxes is reflected in deferred income tax expense of $9.4 million (2015 – $2.5 million), plus $2.1 million of adjustments in relation to the 2015 business combination less $0.7 million as an adjustment to equity, less the foreign exchange effect of deferred taxes of foreign subsidiaries totaling $4.3 million (2015 – $0.1 million), the effect of which was recorded through foreign exchange.

The deferred tax asset recorded for non-capital loss carry-forwards is recognized based on Clearwater's estimate that it is more likely than not that it will earn sufficient taxable profits to utilize these losses before they expire.

Unrecognized deferred tax assets

Clearwater has the following deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the consolidated statements of financial position.

	Clearwater Seafoods Inc.	Subsidiary corporations	Total	Expiry
Non-capital losses	$ —	$ 7,954	$ 7,954	2026–2035
Investment tax credits	12,421	590	13,011	2023–2036
Capital losses	13,131	380	13,511	No Expiry
Long-term debt	—	51,100	51,100	N/A
Accounts receivable	—	16,956	16,956	N/A

Unrecognized deferred tax liabilities

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2016 for the Company's subsidiaries was $49.8 million (December 31, 2015 – $47.4 million).

14. LONG-TERM DEBT

As at December 31	2016	2015
Senior debt:		
Term loan A, due June 2018 (a)	$ 50,218	$ 55,562
Term loan B, due June 2019 (a)	306,507	332,671
Term loan B, embedded derivative	703	2,353
Revolving facility (a)	23,400	16,400
Deferred obligation (b)	29,298	43,035
Earnout liability (b)	9,107	12,561
Term loan, due June 2017 (c)	13,459	13,953
Marine mortgage	—	457
Term loan, due in 2091 (d)	3,500	3,500
Other loans	222	277
	436,414	480,769
Less: current portion	(67,005)	(65,685)
	$ 369,409	$ 415,084

(a) Senior debt consists of a Term Loan A facility, a Term Loan B facility and a revolving debt facility.

Term Loan A facility – The Term Loan A consists of an initial term loan of CDN $30.0 million and a delayed draw facility of CDN $30.0 million. The principal outstanding on the initial term as at December 31, 2016 was CDN $24.2 million (December 31, 2015 – $27.0 million). The balance is shown net of deferred financing charges of CDN $0.1 million (December 31, 2015 – $0.1 million). The loan is repayable in quarterly installments of $0.4 million to June 2017 and $0.8 million from September 2017 to March 2018 with the balance due at maturity in June 2018. It bears interest at the applicable banker's acceptance rate plus 3.25%. As at December 31, 2016 this resulted in an effective rate of 4.14%.

The principal outstanding on the Term Loan A delayed draw facility as at December 31, 2016 was $26.4 million (December 31, 2015 – $29.3 million). The balance is shown net of deferred financing charges of CDN $0.3 million (December 31, 2015 – $0.6 million). The facility is repayable in quarterly installments of $0.4 million. The facility matures in June 2018 and bears interest payable monthly at the banker's acceptance rate plus 3.25%. As at December 31, 2016 this resulted in an effective rate of 4.14%.

Term Loan B facility – The principal outstanding as at December 31, 2016 was USD $178.5 million (December 31, 2015 – $189.7 million) and CDN $70.4 million (December 31, 2015 – $74.8 million). The loan is repayable in quarterly installments of USD $0.5 million and CDN $0.2 million, with the balance due at maturity in June 2019. The USD balance bears interest payable monthly at the US Libor plus 3.50% with a LIBOR interest rate floor of 1.25%, and the CDN balance bears interest at the banker's acceptance rate plus 3.50%. As of December 31, 2016 this resulted in an effective rate of 4.75% on the USD balance and 4.39% on the CDN balance. The embedded derivative represents the fair market value of the Libor interest rate floor of 1.25%. The change in fair market value of the embedded derivative was recorded through profit or loss as a component of net finance costs.

Revolving debt facility – Clearwater has a CDN $100.0 million revolving facility that matures in June 2018. The availability of this facility is reduced by the term loan outstanding in note (c), as such the availability as at December 31, 2016 was $63.1 million (December 31, 2015 – $69.6 million). The facility can be drawn in Canadian and/or US dollars. As at December 31, 2016 the balances were Canadian $23.4 million (December 31, 2015 – $16.4 million) and US dollars of $ nil (December 31, 2015 – nil). The Canadian dollar balances bear interest at the banker's acceptance rate plus 3.25%. The US dollar balances bear interest at the US Libor rate plus 3.25%. As of December 31, 2016 this results in effective rates of 4.14% for Canadian dollar balances and 4.28% for US dollar balances. The facility has standby fees of 0.375%.

The revolver, Term Loan A, delayed draw and Term Loan B are secured by a first charge on cash and cash equivalents, accounts receivable, inventories, marine vessels, licenses and quotas, and Clearwater's investments in certain subsidiaries.

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.

In addition to the minimum principal payments for Term Loans A and B, the loan agreement requires that between 0% and 50% of excess cash flow (defined in the loan agreement as EBITDA, excluding non-controlling interest in EBITDA and the most significant non-cash and non-recurring items less certain scheduled principal payments, certain capital expenditures and certain cash taxes) be used to repay the principal based on the previous fiscal year's results upon approval of the annual financial statements. Payments are allocated amongst the term loans on a pro rata basis. During the year ended December 31, 2016, Clearwater repaid $18.6 million in principal relating to this requirement (2015 – $7.3 million).

Refer to Note 8 for detail on interest rate caps and swaps that economically hedge interest rate risk on the term loans.

(b) In connection with the 2015 acquisition of Macduff, there are two components of the purchase price that are to be paid in future periods as discussed below:

i) Deferred Obligation – The Deferred Obligation relates to deferred payments for 33.75% of the shares of Macduff acquired by Clearwater (the "Earn Out Shares") in 2015. Excluding the fair value adjustment on acquisition, the principal balance outstanding as at December 31, 2016 is £21.0 million (CDN $34.8 million) (December 31, 2015 – £26.2 million (CDN $53.9 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 7.8%. The following is a reconciliation of the Deferred Obligation:

		GBP		CDN
Principal balance on acquisition	£	26.2	$	53.0
Fair value adjustment		(5.3)		(10.7)
Fair value of Deferred Obligation – October 2015		20.9		42.3
Effect of movement in foreign exchange		—		0.6
Balance – December 31, 2015		20.9		42.9
Accretion – 2016		**2.0**		**3.6**
Principal repayment		**(5.2)**		**(8.7)**
Effect of movement in foreign exchange		**—**		**(8.5)**
Balance – December 31, 2016	**£**	**17.7**	**$**	**29.3**

On October 30th of each year, the holders of the Earn Out Shares can elect to be paid up to 20% of the Deferred Obligation. Clearwater has the right to exercise the payout of 20% of the Deferred Obligation annually commencing two years after the date of closing. The percentage of the Deferred Obligation remaining unpaid will impact the fair value of the future performance component of the additional consideration, the Earnout.

On October 30, 2016 the holders of the Earn Out Shares elected to be paid 20% of the outstanding Deferred Obligation. As a result a payment of £5.2 million (CDN – $8.7 million) was made on November 15, 2016.

ii) Earnout liability – The Earnout liability is unsecured additional consideration to be paid dependent upon the future financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The estimated fair value of the Earnout liability at December 31, 2016 is £5.5 million (CDN – $9.1 million) (December 31, 2015 – £6.1 million, CDN – $12.6 million) based on forecast earnings and probability assessments. The actual Earnout payments are expected to be paid over the next five years. Refer to Note 4 for further information.

The amount of the total Earnout liability is calculated as follows:

The greater of:

i) £3.8 million; OR
ii) up to 33.75% (dependent upon the percentage of Deferred Obligation remaining unpaid each year) of the increase in equity value of the business over five years calculated as 7.5x adjusted EBITDA of Macduff less the outstanding debt of Macduff; and
iii) 10% of adjusted EBITDA of Macduff above £10 million (dependent upon the percentage of Deferred Obligation remaining unpaid each year)

Refer to Note 8(l) for further information on the process in which to determine the fair value of the Earnout liability. The Earnout liability is recorded at fair value on the consolidated statement of financial position at each reporting period until paid in cash, with changes in the estimated fair value being recorded as a component of other expense on the statement of earnings (loss). The change in fair value for the year ended December 31, 2016 was a decrease (gain) of £0.6 million (CDN $1.1 million).

(Tabular amounts are in thousands of Canadian dollars)

(c) Term Loan – The principal outstanding as at December 31, 2016 was USD $10.0 million (December 31, 2015 – $10.0 million). The loan is held through a Clearwater subsidiary. The loan is non amortizing, repayable at maturity in June 2017 and bears interest payable monthly at 8.0%.

(d) Term Loan – due in 2091. In connection with this term loan, Clearwater makes a royalty payment of $0.3 million per annum in lieu of interest. This equates to an effective interest rate of approximately 8.0%.

15. SHARE CAPITAL

Authorized

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

Share capital movement

As at	**December 31, 2016**		December 31, 2015	
Share capital:	**#**	**$**	#	$
Balance at January 1	**59,958,998**	**157,161**	54,978,098	97,267
Issuance of common shares	**3,975,700**	**53,699**	4,980,900	59,894
Balance at December 31	**63,934,698**	**210,860**	59,958,998	157,161

On June 21, 2016 Clearwater completed the issuance of 3,975,700 common shares at $13.90 per common share for gross proceeds of $55.3 million. Transaction costs associated with the equity issue were $2.2 million and have been deducted, net of deferred taxes of $0.6 million, from the recorded amount for the common shares.

Total common shares outstanding as at December 31, 2016 were 63,934,698 common shares.

On June 30, 2015 Clearwater completed the issuance of 4,980,900 common shares at $12.25 per common share for gross proceeds of $61 million. Transaction costs associated with the equity issue were $2.4 million and were deducted, net of deferred taxes of $1.2 million, from the recorded amount for the common shares.

During the year ended 2016, dividends of $12.4 million were declared and paid as follows:

Payment date	# of shares outstanding		Dividends per share
April 15, 2016	59,958,998	$	0.050
June 10, 2016	59,958,998	$	0.050
September 1, 2016	63,934,698	$	0.050
December 2, 2016	63,934,698	$	0.050

During the year ended 2015, dividends of $9.8 million were declared and paid as follows:

Payment date	# of shares outstanding		Dividends per share
March 24, 2015	54,978,098	$	0.040
May 28, 2015	54,978,098	$	0.040
September 2, 2015	59,958,998	$	0.040
December 15, 2015	59,958,998	$	0.050

Subsequent to the end of the year, on March 8, 2017 the Board of Directors declared a quarterly dividend of CDN $0.05 per share payable on April 3, 2017 to shareholders of record as of March 17, 2017.

16. NON-CONTROLLING INTEREST

Summarized financial information in respect of Clearwater's subsidiaries that have non-controlling interests ("NCI") is set out below.

(a) Summarized statements of financial position

	Coldwater shrimp	
Year ended December 31	**2016**	2015
NCI Percentage	**46.34%**	46.34%
Current assets	**$ 38,772**	$ 53,408
Current liabilities	**(14,018)**	(15,364)
	24,754	38,044
Non-current assets	**22,838**	33,139
Non-current liabilities	**—**	(114)
	22,838	33,025
Net assets	**47,592**	71,069
Accumulated non-controlling interests	**$ 24,941**	$ 33,660

	Scallops	
Year ended December 31	**2016**	2015
NCI Percentage	**20.0%**	20.0%
Current assets	**$ 9,505**	$ 7,371
Current liabilities	**(34,030)**	(38,803)
	(24,525)	(31,432)
Non-current assets	**23,914**	27,084
Non-current liabilities	**1,154**	—
	25,068	27,084
Net assets	**543**	(4,348)
Accumulated non-controlling interests	**$ (1,485)**	$ (1,922)

(Tabular amounts are in thousands of Canadian dollars)

(b) Summarized statements of earnings

	Coldwater shrimp	
Year ended December 31	**2016**	2015
Sales	**$ 100,161**	$ 111,051
Earnings and comprehensive income for the year	**29,524**	39,446
Earnings allocated to non-controlling interest	**15,842**	19,740
Dividends paid to non-controlling interest	**24,560**	11,817

	Scallops	
Year ended December 31	**2016**	2015
Sales	**$ 41,637**	$ 31,642
Earnings (loss) for the year	**1,282**	(15,814)
Other comprehensive income	**1,300**	(1,445)
Total comprehensive income	**2,582**	(17,259)
Earnings (loss) allocated to non-controlling interest	**437**	(2,941)

(c) Summarized statements of cash flows

	Coldwater shrimp	
Year ended December 31	**2016**	2015
Cash flow from operating activities	**$ 45,677**	$ 54,194
Cash flow used in financing activities	**(53,500)**	(26,095)
Cash flow used in investing activities	**—**	(4,000)
Net increase (decrease) in cash	**$ (7,823)**	$ 24,099

	Scallops	
Year ended December 31	**2016**	2015
Cash flow from operating activities	**$ 6,500**	$ 5,092
Cash flow from (used in) financing activities	**—**	—
Cash flow used in investing activities	**(6,377)**	(5,094)
Net increase (decrease) in cash	**$ 123**	$ (2)

17. OTHER EXPENSE (INCOME)

Year ended December 31		2016		2015
Acquisition-related costs	$	2,561	$	3,240
Share of earnings of equity-accounted investee		(1,185)		(2,591)
Royalties, interest income and other fees		(1,379)		(664)
Other (income) fees		(1,950)		459
Fair value adjustment on earn-out liability		(1,110)		—
Export rebates		(2,146)		—
Other expense (income)	$	(5,209)	$	444

18. EMPLOYEE COMPENSATION

Employee compensation is classified in the consolidated statement of earnings (loss) based on the related function. The following table reconciles Clearwater's compensation expense items to the functions where the amounts are presented on the consolidated statement of earnings (loss):

Year ended December 31		2016		2015
Salaries and benefits	$	155,533	$	121,730
Share-based compensation		2,902		5,269
	$	158,435	$	126,999
Cost of goods sold	$	119,669	$	90,505
Administrative and selling costs		38,766		36,494
	$	158,435	$	126,999

19. 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 per share data):

		2016		2015
Basic				
Earnings (loss) for the period	$	43,928	$	(37,608)
Weighted average number of shares outstanding		62,050,325		57,489,017
Earnings (loss) per share	$	0.71	$	(0.65)
Diluted				
Earnings (loss) for the period	$	44,131	$	(37,608)
Weighted average number of shares outstanding		62,193,543		57,489,017
Earnings (loss) per share	$	0.71	$	(0.65)

The revaluation adjustment on the cash-settled share-based payments for the year ended December 31, 2016 results in a dilutive impact on earnings (loss) per share. As a result, for the period ended December 31, 2016, 145,622 potential ordinary shares were included in the calculation of the weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share.

20. SHARE-BASED COMPENSATION

Clearwater's share-based compensation plans are disclosed in Note 3 (m). An aggregate amount of 2,500,000 Common Shares of Clearwater are issuable under the PSU Plan which was approved by the shareholders with the most recent management information circular dated June 13, 2016.

The number of share-based awards outstanding and vested as of December 31, 2016 and 2015 were as follows:

As at December 31, 2016 (In thousands)		Grant price	Number outstanding	Number vested	Grant date
SARs	$	**0.80**	**83**	**83**	**May 2010**
		1.00	**67**	**67**	**May 2010**
PSU – Tranche 3		**N/A**	**141**	**141**	**March 2014**
PSU – Tranche 4		**N/A**	**79**	**—**	**April 2015**
PSU – Tranche 5		**N/A**	**124**	**—**	**April 2016**
DSU		**N/A**	**391**	**313**	**June 2012–December 2016**
Total			**885**	**604**	

As at December 31, 2015 (In thousands)		Grant price	Number outstanding	Number vested	Grant date
SARs	$	0.80	83	83	May 2010
		1.00	67	67	May 2010
PSU – Tranche 2		N/A	204	204	March 2013
PSU – Tranche 3		N/A	190	—	March 2014
PSU – Tranche 4		N/A	105	—	April 2015
DSU		N/A	448	268	June 2012–December 2015
Total			1,097	622	

The following reconciles the share-based awards outstanding for the year ended December 31, 2016:

(In thousands of share units)	PSU – Tranche 2	PSU – Tranche 3	PSU – Tranche 4	PSU – Tranche 5	DSU	SARs	Total
Outstanding at January 1, 2016	**204**	**190**	**105**	**—**	**448**	**150**	**1,097**
Granted	**—**	**—**	**—**	**127**	**—**	**—**	**127**
Granted from dividends	**—**	**2**	**1**	**1**	**50**	**—**	**54**
Forfeited	**—**	**(51)**	**(27)**	**(4)**	**—**	**—**	**(82)**
Exercised	**(204)**	**—**	**—**	**—**	**(108)**	**—**	**(312)**
Outstanding at December 31, 2016	**—**	**141**	**79**	**124**	**390**	**150**	**884**
Vested at January 1, 2016	**204**	**—**	**—**	**—**	**267**	**150**	**621**
Vested	**—**	**141**	**—**	**—**	**152**	**—**	**293**
Exercised	**(204)**	**—**	**—**	**—**	**(108)**	**—**	**(312)**
Vested at December 31, 2016	**—**	**141**	**—**	**—**	**311**	**150**	**602**

The following reconciles the number of share-based awards outstanding for the year ended December 31, 2015:

(In thousands of share units)	PSU – Tranche 1	PSU – Tranche 2	PSU – Tranche 3	PSU – Tranche 4	DSU	SARs	Total
Outstanding at January 1, 2015	424	219	208	—	398	150	1,399
Granted	—	3	3	112	6	—	124
Granted from dividends	—	—	—	1	44	—	45
Forfeited	—	(18)	(21)	(8)	—	—	(47)
Exercised	(424)	—	—	—	—	—	(424)
Outstanding at December 31, 2015	—	204	190	105	448	150	1,097
Vested at January 1, 2013	424	—	—	—	220	150	794
Vested	—	204	—	—	47	—	251
Exercised	(424)	—	—	—	—	—	(424)
Vested at December 31, 2015	—	204	—	—	267	150	621

For the year ended December 31, 2016, there were 204 PSU awards exercised (2015 – 424). These awards were cash settled for total cash payments of $4.2 million (December 31, 2015 – $8.9 million).

When cash dividends are paid to shareholders of Clearwater, dividend equivalent PSUs and DSUs are granted to the Participants which are equal to the greatest number of whole share units having a market value, as of the payment date of the dividend, equal to the product of the cash dividend paid per share multiplied by the number of PSU and DSU share units outstanding. The additional PSUs and DSUs granted are subject to the same terms and conditions as the corresponding PSU or DSU Grant.

Fair value of share-based awards

The SARs issued and outstanding are fully vested and are expected to be cash settled on the exercise date; therefore, vested awards are recorded as liabilities at the intrinsic value of the SARs.

The PSU Tranche 3 are fully vested as of December 31, 2016 and are recorded as a liability of $1.6 million. This is expected to be cash settled in the first quarter of 2017.

PSU Tranches 4 and 5 are expected to be equity settled.

Measurement inputs for the remaining plans include the fair value of Clearwater's shares, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected remaining life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds), as follows:

				2016
		PSU Tranche 4		**PSU Tranche 5**		**DSU**

		PSU Tranche 4		**PSU Tranche 5**		**DSU**
Weighted average fair value per award	**$**	**18.19**	**$**	**17.78**	**$**	**11.65**
Weighted average risk-free interest rate		**0.10%–3.46%**		**1.01%–2.28%**		**0.479%–0.64%**
Weighted average expected volatility		**20.38%–74.54%**		**18.66%–43.43%**		**33.78%–38.12%**
Expected life of awards (years)		**1**		**2**		**1–3.25**

2015

		PSU Tranche 3		PSU Tranche 4		DSU
Weighted average fair value per award	$	14.94	$	18.19	$	11.99
Weighted average risk-free interest rate		0.06%–1.85%		0.10%–3.46%		0.479%–0.64%
Weighted average expected volatility		15.88%–35.50%		20.38%–74.54%		33.78%–38.12%
Expected life of awards (years)		1		2		2.5–4.25

(Tabular amounts are in thousands of Canadian dollars)

Share-based compensation expense included in the consolidated statements of earnings (loss) for the year ended December 31, 2016 is $2.9 million (December 31, 2015 – $5.3 million).

The liability for share-based compensation is $7.6 million at December 31, 2016 (December 31, 2015 – $11.4 million). The vested portion of the liability for share-based compensation is $6.9 million at December 31, 2016 (December 31, 2015 – $8.5 million).

21. SEGMENT INFORMATION

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

(a) Sales by species

Year ended December 31	2016	2015
Scallops	$ 188,421	$ 165,544
Coldwater shrimp	93,250	109,963
Lobster	108,402	92,589
Clams	91,918	84,350
Crab	38,243	26,141
Ground fish and other shellfish	43,745	18,485
Langoustine	47,572	7,873
	$ 611,551	$ 504,945

(b) Sales by geographic region of the customer

Year ended December 31	2016	2015
France	$ 102,806	$ 85,974
Scandinavia	32,529	35,931
UK	17,632	24,615
Other	93,942	37,361
Europe	246,909	183,881
China	94,623	95,140
Japan	76,230	66,401
Other	36,036	18,113
Asia	206,889	179,654
United States	85,385	80,668
Canada	72,275	58,696
North America	157,660	139,364
Other	93	2,046
	$ 611,551	$ 504,945

(c) Non-current assets by geographic region

As at December 31	2016	2015
Property, plant and equipment, licenses, fishing rights and goodwill		
Canada	$ 298,517	$ 291,644
Argentina	24,055	27,751
Scotland	158,077	187,620
Other	260	208
	$ 480,909	$ 507,223

22. RELATED PARTY TRANSACTIONS

(a) Subsidiaries, partnerships, and joint venture

Clearwater's consolidated financial statements include the accounts of the Corporation and its material subsidiaries, partnerships and joint venture, as follows:

Entity	Ownership %	Accounts
Clearwater Seafoods Limited Partnership	100%	Consolidated
Macduff Shellfish Group Limited	100%	Consolidated
Clearwater Ocean Prawns Venture	53.66%	Consolidated
St. Anthony Seafoods Limited Partnership	75%	Consolidated
Adams and Knickle Limited	50%	Equity method
Clearwater Seafoods Holdings Incorporated	100%	Consolidated
Clearwater Fine Foods Europe Limited	100%	Consolidated
Clearwater Fine Foods USA Incorporated	100%	Consolidated
Glaciar Pesquera S.A.	80%	Consolidated

(b) Key management personnel

Clearwater has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2016 and 2015.

Year ended December 31	2016	2015
Wages and salaries	$ 3,998	$ 3,651
Share-based compensation	2,702	4,764
Bonuses	—	1,473
Other benefits	1,442	717
	$ 8,142	$ 10,605

(c) Transactions with other related parties

Clearwater rents office space to Clearwater Fine Foods Incorporated ("CFFI") (the controlling shareholder of Clearwater) and provides computer network support services to CFFI. The net amount due to CFFI in respect of these transactions was $0.04 million (December 31, 2015 – net amount due to CFFI of $0.05 million), is unsecured and due on demand.

In June 2016, Clearwater sold an idle vessel to the joint venture, the sales price of CDN $13.5 million was the book value at the time of the sale plus refit costs.

For the year ended December 31, 2016, Clearwater expensed approximately $0.4 million in factory and equipment rentals from companies related to a member of its management team (December 31, 2015 – $0.07 million). Clearwater incurred $0.04 million in legal fees paid to a law firm in which a Director of Clearwater is a partner (December 31, 2015 – $0.1 million).

In addition, for the year ended December 31, 2016, Clearwater expensed approximately $0.1 million for goods and services from companies related to its parent (December 31, 2015 – $0.2 million). The transactions are recorded at the exchange amount and the balance due to these companies was $0.05 million as at December 31, 2016 (December 31, 2015 – $0.01 million).

At December 31, 2016 Clearwater had a balance of $1.4 million (December 31, 2015 – $1.3 million), included in long-term receivables, for interest bearing loans made to a non-controlling interest shareholder in a subsidiary.

(Tabular amounts are in thousands of Canadian dollars)

23. CAPITAL MANAGEMENT

Clearwater's objectives when managing capital are as follows:

- Ensure liquidity
- Minimize cost of capital
- Support business functions and corporate strategy

Clearwater's capital structure includes a combination of equity and various types of debt facilities. Clearwater's objective when managing its capital structure is to obtain the lowest cost of capital available, while maintaining flexibility and reducing exchange risk by borrowing when appropriate in currencies other than the Canadian dollar.

Clearwater uses leverage, in particular revolving and term debt to lower its cost of capital.

The amount of debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

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

24. 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.

25. ADDITIONAL CASH FLOW INFORMATION

Changes in non-cash operating working capital *(excludes change in accrued interest)*	**2016**	2015
Increase in inventory	**$ (22,030)**	$ (7,297)
Increase (decrease) in accounts payable	**(6,127)**	2,123
(Increase) in accounts receivable	**3,775**	(13,564)
Decrease (increase) in prepaids	**4,953**	(2,908)
	$ (19,429)	$ (21,646)

26. COMPARATIVE INFORMATION

These consolidated financial statements contain certain reclassifications of prior year amounts to be consistent with the current period presentation.

Selected Annual Information

	2016	2015	2014[1]	2013[1]	2012[1]
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Sales	$ 611,551	$ 504,945	$ 444,742	$ 388,659	$ 350,302
Costs of goods sold	466,930	372,757	341,908	301,291	277,777
Gross margin	144,621	132,188	102,834	87,368	72,525
Administrative and selling	58,492	51,363	48,252	39,005	32,536
Net finance costs	26,948	21,634	37,829	33,935	29,041
Foreign exchange (gains) losses on long-term debt and working capital	(7,295)	46,287	—	—	—
(Gains) losses on contract derivatives	(7,279)	26,763	4,047	8,812	(4,654)
Other income	(5,209)	444	(5,031)	(3,240)	(3,399)
Research and development	2,922	1,981	1,991	1,659	1,759
	68,579	148,472	87,088	80,171	55,283
Earnings before income taxes	76,042	(16,284)	15,746	7,197	17,242
Income taxes expense (recovery)	16,446	4,387	5,949	(8,101)	(5,462)
Earnings before non-controlling interest	59,596	(20,671)	9,797	15,298	22,704
Non-controlling interest	15,668	16,937	12,702	8,965	7,695
Earnings attributable to shareholders	$ 43,928	$ (37,608)	$ (2,905)	$ 6,333	$ 15,009

[1] 2014, 2013 and 2012 have not been updated to reflect the current presentation of net finance costs, foreign exchange (gains) losses on long-term debt and working capital and (gains) losses on contract derivatives.

Clearwater Seafoods Incorporated
Quarterly and Share Information

($000s except per share amounts)

	2016				2015			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales	**165,690**	**189,457**	**140,180**	**116,225**	165,503	165,503	116,748	75,362
Earnings attributable to:								
Non-controlling interests	**3,800**	**7,012**	**3,551**	**1,305**	3,267	6,485	4,123	3,062
Shareholders of Clearwater	**8,611**	**10,847**	**9,963**	**14,507**	(7,060)	(4,768)	5,616	(31,398)
Per share data								
Basic net (loss) earnings	**0.13**	**0.28**	**0.16**	**0.24**	(0.12)	(0.08)	0.10	(0.57)
Diluted net (loss) earnings	**0.13**	**0.28**	**0.16**	**0.24**	(0.12)	(0.09)	0.10	(0.57)

Clearwater Seafoods Incorporated, Trading Information symbol CLR

	2016				2015		
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q1
Trading price range of shares (board lots)							
Low	**14.55**	**14.85**	**14.85**	**13.63**	13.13	14.42	15.24
Close	**10.69**	**13.50**	**12.05**	**9.95**	9.22	11.66	10.93
Trading volumes (000s)							
Average daily	**5,688**	**2,747**	**3,995**	**3,051**	3,030	3,100	3,690

Corporate Information

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Directors of Clearwater Seafoods Incorporated

Colin E. MacDonald
Chairman of the Board

John C. Risley
President, Clearwater Fine Foods Inc.

Harold Giles
Chair of Human Resource Development and Compensation ("HRDCC") Committee
Independent Consultant

Larry Hood
Chair of Audit Committee
Former Audit Partner, KPMG

Jane Craighead
Senior Vice President, Scotiabank

Mickey MacDonald
President, Micco Companies

Brendan Paddick
Chief Executive Officer, Columbus Capital Corporation

Stan Spavold
Chair of Finance Committee
Executive Vice President, Clearwater Fine Foods Inc.

Jim Dickson
Chair of Governance Committee
Counsel, Stewart McKelvey

Executive of Clearwater Seafoods Incorporated

Ian Smith
Chief Executive Officer

Teresa Fortney
Vice-President, Finance and Chief Financial Officer

Ronald van der Giesen
President, Global Supply Chain

Greg Morency
President, Global Markets and Chief Commercial Officer

Christine Penney
Vice-President, Sustainability & Public Affairs

David Kavanagh
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Shares listed

Toronto Stock Exchange
SHARE Symbol: CLR

Transfer agent

Computershare Investor Services Inc.

Designed by Bryan Mills Ltd. www.bryanmills.com

Clearwater

remarkable seafood, responsible choice

www.clearwater.ca