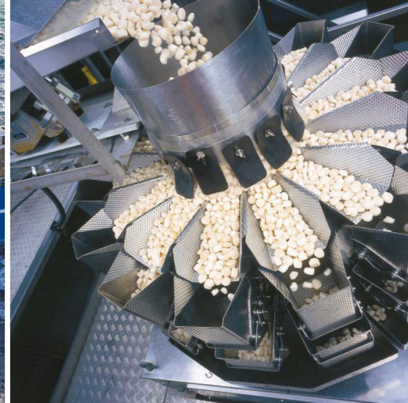


remarkable seafood, responsible choice

2017 Annual Report

Letter from the Chairman of Clearwater Seafoods Incorporated

We are all very proud of Clearwater's success over the past 41 years.

We are disappointed by the outcome of the Department of Fisheries decision to expropriate 25% of the total allowable catch ("TAC") for Arctic surf clams. This means middle class jobs will be lost and valuable full time jobs will be converted to temporary seasonal work in the Canadian fishery. This decision undermines the good faith capital investment decisions of the private sector as the Minister has destabilized the investment climate in the Canadian fisheries and the Canadian natural resource sector. Despite this failure of public policy we remain committed to Clearwater's core mission to build **the world's most extraordinary wild seafood company, dedicated to sustainable seafood excellence.**

Our entrepreneurial zeal for growth, diversity and continuous improvements that energized us to develop new markets and pioneer new fisheries continues to hold true today. It is why we have been successful for the last 41 years and while we will continue to be successful into the future.

Even more importantly, 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.

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

Colin MacDonald

Letter from the Chief Executive Officer of Clearwater Seafoods Incorporated

Clearwater 2017 - "Remarkable seafood, Responsible Choice"

For more than a decade, Clearwater has been recognized by the Marine Stewardship Council as a world leader in sustainable harvesting for wild fisheries offering the widest selection of certified sustainable seafood in more than forty countries. When you invest in Clearwater, you are subscribing to one of the world's most innovative, global and sustainable seafood companies. During 2017, as we faced significant challenges in Total Allowable Catch ("TAC") in Frozen-at-Sea ("FAS") shrimp, near term margin declines in Arctic Surf Clam as well as FX volatility across multiple currencies, we stayed true to our mission and our future.

While science-based TAC reductions had a negative impact on annual results, investing in the long-term health and the responsible harvesting of a renewable resource remains one of our primary responsibilities as an industry leader and is never the wrong choice. It is also the only proven way to ensure access to a reliable, stable, renewable and long-term supply of seafood and remains a core strategy at Clearwater.

While Arctic Surf Clam pricing incentives offered in Asia and the Americas in the latter half of 2016 have led to near term margin declines, we have successfully expanded global sales volumes by more than 70% and revenues by 30% over the last two years. In late 2017, the Chinese Ecommerce giant Alibaba honoured Clearwater and the Arctic Surf Clam as one of 58 Foods (from all food categories and from all countries) that have had an influence on Chinese consumers' tables. Clearwater also won Alibaba's "Best Partner" award for strategic cooperation. Clearwater was the only Canadian company to receive these honours from this global market leader.

The Minister of Fisheries and Oceans decision to expropriate 25% of the Arctic Surf Clam TAC was a disappointment. As a result, Clearwater will make necessary adjustments to our business to maintain shareholder value and protect the hundreds of remaining middle-class jobs related to this fishery in local coastal communities of Atlantic Canada. This failure of public policy will not deter Clearwater's resolve and fierce determination to continue to work with the Mi'kmaq, Qikiqtaaluk and other Indigenous partners in Atlantic Canada and the North to build a better model for economic cooperation and development in Canadian fisheries as well as long-term shareholder value.

For 2018, modest TAC reductions in clam and the announcement of a new entrant, potential TAC reductions in scallops, competitive market pressure associated with an anticipated significant increase in US scallop supply and foreign exchange headwinds are expected to offset progress in volume, pricing and margin on other core species. Significantly lower capital expenditures and further inventory reductions to historic levels, are expected to increase free cash flow which will result in lower debt and leverage. Combined with the seasonality of our business, we expect leverage to be higher during the first nine months of 2018 before improving by the end of the year.

Our core fisheries are managed for long-term sustainability, we have taken timely and carefully considered measures in response to these near-term challenges including adjustments to harvest plans, pricing and distribution strategies, cost and working capital reductions and a major organization restructuring completed in December 2017. We expect these measures will generate strong cash flows from operations,

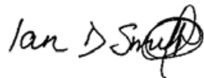
reduce debt and leverage, yield a higher return on assets and generate positive returns to shareholder value. Details include:

1) **Capital Spending and Working Capital Reductions**. With the successful completion of our five-year fleet renewal program in 2017, capital spending will decline by $60 to 70 million in 2018. In fact, with one of the youngest and best-maintained offshore fleets in Canada, we expect to be able to maintain these modest new capital spending limits for years to come. Inventory is expected to continue to decrease with further reductions of $10-20 million by the end of the year.

2) **Organization Restructuring and Improved Cost Management**. In the Third Quarter of 2017, we initiated a company-wide restructuring targeting annualized savings of a minimum of $10 million, incurring one-time charges of up to $8.0 million (with $6.7 million being recorded in the fourth quarter of 2017). While these changes to our organizational structure are significant, they will make us leaner, more agile and reflect our greater ability to leverage state-of-the-art technology and smarter systems to drive **margin improvement through increased price realization and improved cost management.**

In 2018, Clearwater will continue to navigate the combined forces of technological change, globalization and Mother Nature. Meanwhile, industry fundamentals of limited supply of wild capture seafood, growing population, demand and purchasing power of middle class consumers- especially in Asia, will remain in our favor strengthening our value proposition and creating long- term value for our customers, employees, communities and shareholders.

If you are already a customer or an investor, thank you for your continued support! If not, we encourage you to join us in our uniquely Canadian Mission to build the world's most extraordinary wild seafood company dedicated to sustainable seafood excellence!



Ian D. Smith

Table of Contents

Management discussion and analysis	Page#
Non-IFRS measures	6
Clearwater overview	8
Mission, value proposition and strategies	9
Capability to deliver results	12
Explanation of 2017 results	15
Capital structure	29
Liquidity	32
Commitments	38
Outlook	39
Risks and uncertainties	40
Critical accounting policies	45
Related party transactions	48
Summary of quarterly results	49
Non-IFRS measures, definitions and reconciliations	50
Clearwater Seafoods Incorporated - 2017 financial statements	59
Quarterly and share information	117
Selected annual information	118
Corporate information	119

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective March 6, 2018.

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 consolidated Financial Statements and the 2017 fourth quarter news release.

This MD&A should be read in conjunction with the 2017 annual consolidated Financial Statements and the 2017 Annual Information Form, which are available on Sedar at www.sedar.com as well as Clearwater's website, www.clearwater.ca.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This report contains "forward-looking information" as defined under applicable Canadian securities legislation. Forward-looking information typically, but not always, contains statements with words such as "anticipate", "does not anticipate", "believe", "estimate", "forecast", "intend", "expect", "does not expect", "may", "will", "should", "plan", or other similar terms that are predictive in nature. All statements other than statements of historical fact, including, without limitation, statements regarding future strategies, 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.

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

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

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

NON-IFRS MEASURES

This MD&A makes reference to 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 to 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 items such as debt refinancing and repayments changes in the revolving loan and financing and investing activities.

Leverage
Leverage is defined as the ratio of adjusted EBITDA attributed to Shareholders of Clearwater to 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 94 million pounds sold in 2017.

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. Regulatory authorities strictly control access to quota and rarely grant new licenses.

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

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 8% of total annual 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, coldwater shrimp, clams and langoustines); 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, 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.

- ***Completed fleet modernization program***
  In December 2017, Clearwater launched its new $70 million state-of-the-art factory clam vessel, the Anne Risley, replacing an existing 31 year-old clam vessel. It is expected to deliver significant productivity and efficiency improvements to the clam fleet. This investment follows the launch of the $65 million Belle Carnell in July 2015, which now completes Clearwater's fleet modernization program, creating one of the most modern and technologically advanced fishing fleets in the world.

- ***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.

- ***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.

   - ***Expanding channels and partnerships in key markets***
     In Asia, Clearwater grew sales through market expansion of traditional channels and forging new strategic channels, including signing an agreement with Alibaba in China to expand the range of products available for sale through ecommerce platforms.

     In North America, Clearwater continues to make inroads for Macduff species, expanding the product offering into well established markets.

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.

   - ***Increasing product variety and preventing imitation***
     Clearwater continues to offer new products and formats to consumers and foodservice customers, including bacon-wrapped sea scallops in Europe, pre-cooked and triple-scored rock crab claws and hand peeled and deveined Norway lobster tails in North America. In addition, new anti-counterfeit packaging for arctic surf clams has been introduced into the Chinese market, along with new clam formats for the Kaiten sushi markets in Japan.

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.

    - ***Position organization for price realization and cost management***
      In the fourth quarter of 2017, Clearwater initiated a company-wide restructuring that will result in net 2018 year-over-year savings in excess of $6 million and annualized savings of $10 million, incurring one-time charges of $6.7 million in the fourth quarter of 2017. While these changes to the organizational structure are significant, they will make Clearwater leaner, more agile and reflect a greater ability to leverage state-of-the-art technology and smarter systems to drive margin improvement through increased price realization and improved cost management.

    - ***Leveraging Intellectual Property and Technology***
      Clearwater continues to leverage and further evolve its proprietary technology to reduce costs, reduce carbon footprint and maximize the taste and quality of our products.
        - **Ocean floor mapping** is utilized on our fleet in combination with fishery specific innovative gear and geographic positioning technology enabling us to continually increase the productivity of our fleet.
        - **Patented automatic shucking** technology and solutions deliver superior products to customers by enabling fresh frozen-at-sea products that are frozen within an hour of catch that deliver a superior taste and quality product.
        - **Our state-of-the-art IP protected Clam dredging** technology was further refined and implemented on our newest fleet addition, the Anne Risley providing lower costs, improved productivity while reducing the Company's carbon footprint.

5. **Pursue and preserve the long-term sustainability of resources on land on 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***
      Clearwater, in collaboration with other industry participants, continues to invest in research to improve the understanding of resource dynamics and harvest strategies that support long term sustainability.

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

    - In 2017, Clearwater continued to invest in talent and programs to build world-class capabilities throughout 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, lobsters, coldwater shrimp and clams, 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 most of 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. The 2018 interim TAC is down year-over-year. Interim TAC is typically set conservatively with full year TAC being announced usually in July. 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.

- **Argentine scallop** volumes are normally stable. The regulator has announced a small reduction in TAC for 2018. Clearwater is working with the regulatory to expand investments in science. Argentina is the first scallop fishery in the world to have earned the rigorous Marine Stewardship Council independent certification.

- **UK King Scallop** landings are stable. The fishery is managed under a combination of effort days, gear regulation and maximum landing size which vary by area.

- The offshore Canadian **lobster** resource is healthy with a consistent offshore TAC. Clearwater harvests all of its lobster quota each year. During 2017, Clearwater purchased approximately 85% 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.

- **Coldwater shrimp** - The Northern shrimp TAC has declined from historic highs over the last five years and is expected to continue to decline over the near term 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 **Arctic surf clam** resource is stable. Clearwater has quota allocations on both Banquereau Bank and the Grand Banks in Canada. Effective 2018, the Department of Fisheries and Oceans announced a decline in TAC for Banqereau Bank, and the creation of a new surf clam license representing 25% of TAC for both banks. The Company has made significant investments in new factory-at-sea vessels as well as proprietary investments in harvesting technologies and will make adjustments to the business to maintain shareholder value, reduce overcapacity and protect the value of jobs in coastal communities.

For the species it harvests, Clearwater maintains the largest, most modern fleet of factory freezer vessels in Canada, as well as vessels used to harvest Clearwater's offshore lobster and to complete research and development. The Company also maintains a fleet of 13 scallop trawlers in the UK.

Clearwater classifies capital expenditures as either return on investment (“ROI”) or maintenance capital.

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

(In 000’s)

For the years ended December 31		**2017**		2016		2015		Total
Vessels	**$**	**59,655**	$	44,343	$	49,748	$	153,746
Plants and other		**25,776**		11,989		13,642		51,407
	$	**85,431**	$	56,332	$	63,390	$	205,153
Return on investment capital	**$**	**63,846**	$	31,913	$	50,370	$	146,129
Maintenance capital		**21,585**		24,419		13,019		59,023
	$	**85,431**	$	56,332	$	63,389	$	205,152
Maintenance capital	**$**	**21,585**	$	24,419	$	13,019	$	59,023
Repairs and maintenance expense		**21,971**		24,135		19,714		65,820
	$	**43,556**	$	48,554	$	32,733	$	124,843
Depreciation/Amortization	**$**	**45,428**	$	38,634	$	29,732	$	113,794
Maintenance spending as a % of depreciation		**95.9%**		125.7%		110.1%		109.7%

In 2017 Clearwater invested a record $85.4 million in capital expenditures: $39.2 million of investment capital related to the Anne Risley, a replacement clam vessel, completing Clearwater’s fleet modernization program; $21.6 million of maintenance capital largely related to vessel refits and $19.5 million to improve operational efficiencies in Clearwater’s land-based operations.

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. 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 addition to the annual amounts capitalized above, Clearwater historically has spent and expensed on average about $21.9 million a year over the past three years on the maintenance of its fleet and processing plants. Following the completion of the fleet revitalization repairs and maintenance are expected to be lower. These investment reflect 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 24 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 19 years old and the Argentine scallop vessels being on average 22 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 12 years old. In 2017, Clearwater completed the construction of a new clam harvesting vessel, the Anne Risley, which replaced an existing vessel in the fourth quarter of 2017. These vessels have the capacity to harvest the entire clam quota.

With the acquisition of Macduff, Clearwater's fleet includes 13 mid-shore scallop harvesting vessels within the UK with average useful lives between 5-16 years.

In 2018 Clearwater expects to see a reduction in capital spend, following the completion of a four-year fleet modernization program. Clearwater expects to invest approximately $18 million in capital projects relating to maintenance and vessel refits.

EXPLANATION OF 2017 FINANCIAL RESULTS

Overview

Clearwater uses Key Performance Indicators and Financial Measures to assess progress against our six strategic priorities. Refer to discussion on non-IFRS measures in the non-IFRS measures, definitions and reconciliations section of this interim MD&A.

Selected Annual Information and Key Performance Indicators

In 000's of Canadian dollars As at December 31		**2017**		2016		2015
Profitability						
Sales	**$**	**621,031**	$	611,551	$	504,945
Sales growth		**1.5%**		21.1%		15.7%
Gross margin[1]	**$**	**110,068**	$	144,621	$	132,188
Gross margin[1] (as a % of sales)		**17.7%**		23.6%		26.2%
Adjusted EBITDA[1]		**108,596**		120,937		109,734
Adjusted EBITDA attributable to shareholders[1]	**$**	**89,156**	$	98,446	$	86,905
Adjusted EBITDA attributable to shareholders (as a % of sales)[1]		**14.4%**		16.1%		17.2%
Adjusted earning per share [1]		**0.14**		0.38		0.76
Net earnings (loss)	**$**	**28,239**	$	59,596	$	(20,671)
Basic and diliuted earnings (loss) per share		**0.25**		0.71		(0.65)
Dividends paid on common shares		**0.20**		0.20		0.17
Earnings attributable to shareholders	**$**	**15,759**	$	43,928	$	(37,608)
Adjusted Earnings attributable to shareholders[1]		**8,690**		23,766		43,457
Cash Flows and Leverage						
Cash from operations	**$**	**58,141**	$	63,040	$	68,494
Free cash flows[1]		**(8,429)**		1,502		39,089
Leverage[1]		**5.0**		4.2		4.4
Returns						
Return on assets[1]		**8.1%**		11.0%		13.8%
Total assets	**$**	**770,880**	$	729,735	$	753,195
Long-term debt		**473,173**		436,414		480,769

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

2017 Financial Results

Clearwater reported sales and adjusted EBITDA[1] of $621.0 million and $108.6 million versus 2016 comparative results of $611.6 million and $120.9 million. The three-year compound annual growth rate for sales and adjusted EBITDA attributable to shareholders of Clearwater was 8% and 1%, respectively.

2017 sales growth was tempered by a 16% decline in coldwater FAS shrimp sales as a reduction in TAC lowered available supply, and slower market conditions for langoustines. Top line growth in 2017 was achieved through higher sales volumes for clams and both Argentine and sea scallops. Pricing and promotional incentives expanded distribution and were successful in growing clam volumes by 56%, resulting in an increase in clam sales of 25% for the year. These incentives were introduced in the third quarter of 2016 and continued into 2017.

Gross margin declined to 17.7%, as a percentage of sales, from 23.6% in 2016 as strong overall sales volumes were offset by the reduction of shrimp volumes and an overall product mix and size shift towards lower margin products. Price and promotional incentives on clam, while significantly increasing sales volume and distribution, contributed to lower margins. For the year, average foreign exchange rates were lower as the Canadian dollar strengthened against the US dollar, GBP and the Yen negatively impacting sales and gross margin by $12.0 million for all currencies. The unfavourable foreign exchange was partially offset through Clearwater's targeted foreign exchange risk management program with $3.1 million of realized gains on contract derivatives recognized below gross margin, within adjusted EBITDA.

Earnings for 2017 declined $31.4 million as lower gross margin, the one-time cost of an organization restructuring in the fourth quarter and higher net finance costs were partially offset by unrealized foreign exchange gains, higher earnings from the equity-accounted investee and reduction of the earnout liability.

For 2017 total cash generated from operations was $58.1 million, $4.9 million lower than 2016, including a decrease in inventory of $12.6 million, partially offset by a $22 million increase in accounts receivable. Net cash flow from the change in working capital improved $19.6 million in 2017 as compared to 2016.

Free cash flows[1] declined $9.9 million to a cash use of $8.4 million in 2017 primarily due to higher capital expenditures and lower adjusted EBITDA, partially offset by working capital improvements. Annual capital expenditures represent the successful completion of our five year fleet renewal program.

Leverage for the year ending December 31, 2017 increased to 5.0x adjusted EBITDA excluding non-controlling interest ("net adjusted EBITDA") from 4.2x on December 31, 2016 as a result of lower net adjusted EBITDA from a reduction in gross margin and higher debt balances.

For 2018, modest TAC reductions in clam and the announcement of a new entrant, potential TAC reductions in scallops, competitive market pressure associated with an anticipated significant increase in US scallop supply and foreign exchange headwinds are expected to offset progress in volume, pricing and margin on other core species. Combined with the seasonality of our business, we expect leverage to be higher during the first nine months of 2018 before improving by the end of the year. Significantly lower capital expenditures and further inventory reductions to historic levels, are expected to increase free cash flow which will result in lower debt and leverage.

Return on assets[1] ("ROA") declined from 11.0% in 2016 to 8.1% in 2017 primarily due to higher assets, nearing the end of Clearwater's five-year fleet modernization program, and lower adjusted EBIT from reductions in gross margin.

On February 21, 2018 the DFO announced that Five Nations Clam Company is the recipient of a licence to harvest 25% of the total allowable catch ("TAC") for Arctic surf clams to be effective January 1, 2018. Clearwater had agreed to be the operational partner with thirteen Mi'kmaq bands from Nova Scotia in their proposal for the licence which was not successful. Clearwater was a pioneer in the development of the clam fishery, which began in 1986. Clearwater purchased its licences and quota with the consent of the Department of Fisheries and Oceans Canada ("DFO") and has invested hundreds of millions of dollars to develop this fishery and the market, including $156 million in the last three years. In this decision to expropriate investment value and undermine the good faith capital investment decisions of the private sector, the Minister has destabilized the investment climate in the Canadian fisheries and the Canadian natural resource sector. In 2018, we will be making necessary adjustments to our clam business to protect the hundreds of remaining jobs in the fishery and long-term shareholder value while we continue to pursue our legal options.

The Company expects continued headwinds in 2018 associated with TAC reductions and the announcement of a new entrant in clam. Since our core fisheries are managed for long-term sustainability, we have taken timely and carefully considered measures in response to these near-term challenges including adjustments to harvest plans, pricing and distribution strategies, cost and working capital reductions and a major organization restructuring completed in December 2017. We expect these measures will generate strong cash flows from operations, reduce debt and leverage, yield a higher return on assets and positive returns to shareholder value. Details include:

1) **Capital Spending and Working Capital Reductions.** With the successful completion of our five-year fleet renewal program in 2017, capital spending will decline by $60 to 70 million in 2018. In fact, with one of the youngest and best-maintained offshore fleets in Canada, we expect to be able to maintain these modest new capital spending limits for several years to come. Inventory is expected to continue to decrease with further reductions of $10 to 20 million by the end of the year.

2) **Organization Restructuring and Improved Cost Management**. In the fourth quarter of 2017, we initiated a company-wide restructuring targeting annualized savings in excess of $10 million, incurring one-time charges of $6.7 million in the fourth quarter of 2017. While these changes to our organizational structure are significant, they will make us leaner, more agile and reflect our greater ability to leverage state-of-the-art technology and smarter systems to drive **margin improvement through increased price realization and improved cost management.**

While reductions in TAC negatively impacts our current results, investing in the long-term health and the responsible harvesting of the oceans is our responsibility as an industry leader. It is the only proven way to ensure access to a reliable, stable, renewable and long-term supply of seafood and is a core strategy of Clearwater. It'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.

EXPLANATION OF CHANGES IN EARNINGS

Overview

The following statements reflect the results of Clearwater for the 13 weeks and years ended December 31, 2017 and 2016:

	13 weeks ended			Year ended		
In 000's of Canadian dollars	**December 31 2017**	December 31 2016	Change	December 31 2017	December 31 2016	Change
Sales	**$ 174,766**	$ 165,690	$ 9,076	**$ 621,031**	$ 611,551	$ 9,480
Cost of goods sold[1]	**145,315**	136,737	8,578	**510,963**	466,930	44,033
Gross margin	**29,451**	28,953	498	**110,068**	144,621	(34,553)
	16.9%	*17.5%*		***17.7%***	*23.6%*	
Operating expenses						
Administrative and selling	**14,061**	8,981	5,080	**55,551**	57,506	(1,955)
Restructuring costs	**6,677**	833	5,844	**6,856**	986	5,870
Net finance costs	**8,330**	4,602	3,728	**35,280**	26,948	8,332
(Gains) losses on contract derivatives	**2,275**	(8,372)	10,647	**(4,045)**	(7,279)	3,234
Foreign exchange (gains) losses on long term debt and working capital	**1,231**	4,449	(3,218)	**(14,263)**	(7,295)	(6,968)
Other (income) expense	**(1,540)**	(855)	(685)	**(7,576)**	(5,209)	(2,367)
Research and development	**507**	643	(136)	**2,368**	2,922	(554)
	31,541	10,281	21,260	**74,171**	68,579	5,592
Earnings (loss) before income taxes	**(2,090)**	18,672	(20,762)	**35,897**	76,042	(40,145)
Income tax expense	**4,461**	6,261	(1,800)	**7,658**	16,446	(8,788)
Earnings (loss)	**$ (6,551)**	$ 12,411	$ (18,962)	**$ 28,239**	$ 59,596	$ (31,357)
Earnings (loss) attributable to:						
Non-controlling interest	**$ 4,405**	$ 3,800	$ 605	**$ 12,480**	$ 15,668	$ (3,188)
Shareholders of Clearwater	**(10,956)**	8,611	(19,567)	**15,759**	43,928	(28,169)
	$ (6,551)	$ 12,411	$ (18,962)	**$ 28,239**	$ 59,596	$ (31,357)

Sales by region

In 000's of Canadian dollars	13 weeks ended December 31 2017	December 31 2016	Change	Year ended December 31 2017	December 31 2016	Change
Europe	**$ 74,696**	$ 75,830	$ (1,134)	**$ 243,640**	$ 246,909	$ (3,269)
China	**33,840**	28,812	5,028	**102,315**	96,518	5,797
Japan	**22,775**	15,079	7,696	**79,631**	76,230	3,401
Other Asia	**4,223**	5,895	(1,672)	**34,170**	34,141	29
Asia	**60,838**	49,786	11,052	**216,116**	206,889	9,227
United States	**23,395**	23,661	(266)	**86,813**	85,385	1,428
Canada	**15,712**	16,381	(669)	**73,888**	72,275	1,613
North America	**39,107**	40,042	(935)	**160,701**	157,660	3,041
Other	**124**	32	92	**574**	93	481
	$ 174,765	$ 165,690	$ 9,075	**$ 621,031**	$ 611,551	$ 9,480

Sales by species[1]

In 000's of Canadian dollars	13 weeks ended December 31 2017	December 31 2016	Change	Year ended December 31 2017	December 31 2016	Change
Scallops	**$ 53,857**	$ 47,644	$ 6,213	**$ 200,286**	$ 188,421	$ 11,865
Lobster	**24,720**	29,022	(4,302)	**101,883**	108,402	(6,519)
Clams	**34,955**	30,846	4,109	**109,170**	91,918	17,252
Coldwater shrimp	**29,963**	29,126	837	**77,964**	93,250	(15,286)
Crab	**13,378**	11,154	2,224	**45,468**	38,243	7,225
Langoustine	**14,330**	13,441	889	**43,099**	47,572	(4,473)
Whelks	**2,197**	3,361	(1,164)	**24,267**	22,204	2,063
Ground fish and other shellfish	**1,365**	1,096	269	**18,894**	21,541	(2,647)
	$ 174,765	$ 165,690	$ 9,075	**$ 621,031**	$ 611,551	$ 9,480

Clearwater reported annual sales of $621.0 million versus 2016 comparative results of $611.6 million and sales of $174.8 million for the fourth quarter of 2017 versus 2016 comparative results of $165.7 million, representing growth rates of 1.5% and 5.5%, respectively.

2017 sales growth was tempered by a 16% decline in coldwater FAS shrimp sales as a reduction in TAC lowered available supply, and slower market conditions for langoustines. Top line growth in 2017 was achieved through higher sales volumes for clams and both Argentine and sea scallops. Pricing and promotional incentives expanded distribution and were successful in growing clam volumes by 56%, resulting in an increase in clam sales of 25% for the year. These incentives were introduced in the third quarter of 2016 and continued into 2017.

For the year, average foreign exchange rates were lower as the Canadian dollar strengthened against the US dollar, GBP and the Yen negatively impacting sales and gross margin by $12.0 million for all currencies. The unfavourable foreign exchange was partially offset through Clearwater's targeted foreign exchange risk management program with $3.1 million of realized gains on contract derivatives recognized below gross margin, within adjusted EBITDA.

Sales prices in home currency for clams and turbot were down as compared to the prior year. Clam sales volumes increased 38% with pricing incentives that began late in the third quarter of 2016 and continued for all of 2017. These programs have been effective in expanding our channel, customer and geographic distribution bases for clams. Turbot pricing was down due to a higher available supply from the inshore fishery.

Coldwater shrimp

- Lower available supply of coldwater shrimp from a reduction in Total Allowable Catch ("TAC"), resulted in lower sales for 2017 as compared to the same period in 2016.
- Selling prices were higher than 2016 despite lower foreign exchange rates as a more valuable catch was harvested from northern fishing areas and the cooked and peeled market recovered due to overall lower industry volumes.

Clams

- Sales volumes increased 48% and 38% in the fourth quarter and for the year 2017. Harvesting and catch rates continue to be strong. Pricing and promotional incentives implemented late in the third quarter of 2016 continued throughout 2017 and have resulted in higher sales volumes. Inventory volumes dropped by 26% versus 2016 as higher sales volumes and the transition out of the fishery of the Ocean Concord to make way for the Anne Risley reduced inventory volumes.
- Sales prices for 2017 were negatively impacted by the clam price incentives and changes in sales mix weighted towards product with lower market prices.

Argentine Scallops

- Sales volumes increased for both the fourth quarter and the year as compared to the same periods in 2016 as a result of increased landings and production.
- Market demand continues to remain strong resulting in strong home currency prices within Europe, offset by sales mix weighted towards products with lower sales prices.

Sea Scallops

- Higher sales volumes resulted from strong catch rates and larger sizes during the year-to-date period. Market demand is stable and available supply has been allocated to higher yielding markets.
- For the fourth quarter, home currency sales prices were lower than prior year as prices come off of historical highs. Lower average foreign exchange rates, as the Canadian dollar strengthened against the US dollar, also contributed to a decline in sales.

Europe

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

Sales for the fourth quarter and the year declined $1.1 million and $3.3 million, to $75.0 million and $243.6 million, respectively as compared to the same period of 2016. The decline for both periods was a result of lower available supply, for FAS shrimp and slower market conditions that reduced sales prices for king scallops. In addition, lower average foreign exchange rates as the Canadian dollar strengthened against the GBP, resulting in a net negative impact of $1.0 million for the year. For the fourth quarter of 2017 the Canadian dollar weakened against the Euro and GBP partially offsetting the decline in sales for a net positive impact of $2.5 million.

In addition, higher scallop sales volumes partially offset the annual sales decline and improved market conditions for langoustines in the fourth quarter further offset the fourth quarter sales decline.

China

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

Sales for the fourth quarter and year ended December 31, 2017 increased $5.0 million and $5.8 million, respectively. Higher annual sales were primarily a result of a 38% increase in sales volumes for clams and higher available sea scallop supply, partially offset by clam pricing and promotional incentives and lower sales prices for turbot.

Higher sales for the fourth quarter of 2017 was primarily a result of timing of landings for shrimp.

Sales in China are almost exclusively transacted in US dollars. Both periods were negatively impacted by lower average foreign exchange rates as the Canadian dollar strengthened against the US dollar. For 2017 average foreign exchange rates declined 2.2% to a net negative impact to sales of $2.2 million, and $1.6 million for the fourth quarter of 2017.

Japan

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

Sales for the year and the fourth quarter of 2017 increased $3.4 million and $7.7 million respectively as compared to the same period of 2016 primarily as a result of higher sales volumes for clams. Lower available supply for coldwater shrimp and lower clam prices due to the continued use of pricing incentives partially offset the increase in sales for the year.

Sales in Japan are typically transacted in Yen. Both periods were negatively impacted by lower average foreign exchange rates as the Canadian dollar strengthened against the Yen. For the fourth quarter 2017 average foreign exchange rates declined 6.5% to a net negative impact to sales of $1.4 million. For 2017 average foreign exchange rates declined 6.8% to a net negative impact to sales of $4.6 million.

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 declined for the fourth quarter 2017 by $1.7 million as compared to the same periods for 2016 primarily as a result of timing of available supply of whelk.

United States

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

Sales for 2017 increased $1.4 million to $86.8 million primarily as a result of higher sales volumes for clams and higher available supply for Argentine scallops. Sales prices for clams were lower due to pricing incentives and changes in sales mix were weighted towards products with lower selling prices. The increase in sales was partially offset by lower available supply for sea scallops as available inventory was sent to higher yielding markets.

Sales for both 2017 and the fourth quarter were negatively impacted by lower average foreign exchange rates as the Canadian dollar strengthened against the US dollar. For the fourth quarter 2017 average foreign exchange rates declined 4.7% to a net negative impact to sales of $1.1 million. For 2017 average foreign exchange rates declined 2.0% to a net negative impact to sales of $1.6 million.

Canada

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

Sales for 2017 increased $1.6 million to $73.9 million primarily as a result of higher sales volumes for clams and snow crab. Sales prices for 2017 were negatively impacted by changes in sales mix weighted towards product with lower market prices.

Cost of Goods Sold

Cost of goods sold includes harvesting and procurement costs, manufacturing costs, depreciation, transportation and administration. Cost of goods sold increased for the year by $44.0 million and for the fourth quarter by $8.6 million primarily as a result of higher sales volumes, increased depreciation resulting from a higher asset base and lower TAC in several key species. Higher procurement costs for lobster, crab, whelk and langoustines also contributed to the increase in costs 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, crab, langoustines and whelks.

Gross margin

Gross margin for the year declined $34.6 million as compared to the same period for 2016 to $110.0 million. For the fourth quarter gross margin improved to $29.8 million as sales volumes increased for clams, sea scallops, Argentine scallops and crab.. Gross margin as a percentage of sales for the year and the fourth quarter of 2017 was 17.7% and 16.9%, respectively, versus 23.6% and 17.5% for the 2016 comparative periods.

Gross margin declined in 2017 primarily due to lower volumes of coldwater shrimp, a species that traditionally has had higher gross margins. The drop in volumes was due to lower TAC and catch rates. In the third quarter of 2016, pricing incentives were introduced to increase market penetration and expansion for clams. These remain in place and have been successful creating new distribution channels and markets that resulted in higher sales volumes but at lower margins and lower inventory. Weakness in langoustine demand persisted longer than expected. A stronger Canadian dollar also contributed to the decline. The Canadian dollar strengthened against the US dollar, GBP, Yen, negatively impacting sales and margins by $12.0 million for the year.

Currency	13 weeks ended December 31 2017 % sales	Average rate realized [1]	December 31 2016 % sales	Average rate realized [1]	Year ended December 31 2017 % sales	Average rate realized [1]	December 31 2016 % sales	Average rate realized [1]
US dollars	**40.5%**	**1.273**	36.6%	1.336	**40.0%**	**1.292**	37.4%	1.319
Euros	**27.9%**	**1.498**	26.2%	1.428	**26.3%**	**1.470**	27.0%	1.459
Canadian dollar and other	**10.1%**		16.9%		**11.5%**		12.9%	
UK pounds	**8.2%**	**1.692**	11.3%	1.662	**9.9%**	**1.672**	10.0%	1.760
Japanese Yen	**11.0%**	**0.011**	7.5%	0.012	**10.1%**	**0.012**	9.6%	0.012
Danish Kroner	**2.3%**	**0.201**	1.5%	0.194	**2.2%**	**0.197**	3.1%	0.199
	100.0%		100.0%		**100.0%**		100.0%	

Operating expenses

In 000's of Canadian dollars	13 weeks ended December 31 2017	December 31 2016	Change	Year ended December 31 2017	December 31 2016	Change
Salaries and benefits	**$ 10,064**	$ 6,677	$ 3,387	**$ 40,197**	$ 39,346	$ 851
Share-based incentive compensation	**116**	(2,303)	2,419	**409**	2,902	(2,493)
Employee compensation	**10,180**	4,374	5,806	**40,606**	42,248	(1,642)
Consulting and professional fees	**3,397**	4,594	(1,197)	**14,238**	13,135	1,103
Other	**1,895**	1,262	633	**6,625**	6,907	(282)
Selling costs	**806**	929	(123)	**2,816**	2,857	(41)
Travel	**777**	1,074	(297)	**3,089**	3,906	(817)
Occupancy	**381**	423	(42)	**1,548**	1,947	(399)
Allocation to cost of goods sold	**(3,375)**	(3,675)	300	**(13,371)**	(13,494)	123
Administrative and selling	**$ 14,061**	$ 8,981	$ 5,080	**$ 55,551**	$ 57,506	$ (1,955)
Restructuring costs	**6,677**	833	5,844	**6,856**	986	5,870
Operating expenses	**$ 20,738**	$ 9,814	$ 10,924	**$ 62,407**	$ 58,492	$ 3,915

Salaries and benefits increased $0.9 million and $3.4 million for the year and fourth quarter of 2017, respectively as compared to the same periods in 2016 due to the timing of variable compensation expense.

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

1 – Refer to discussion on risks and uncertainties

Consulting and professional fees include operations management, legal, audit and accounting, insurance, information technology support and other specialized consulting services. Consulting and professional fees increased year-to-date 2017 as a result of specialized fees in support of the enterprise resource planning system ("ERP") and international advisory services.

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.

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

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.

Restructuring costs in the fourth quarter of 2017 consisted of severance costs associated with the targeted restructuring of the Company's employee base and changes to Clearwater's distribution infrastructure.

Net Finance costs

	13 weeks ended			Year ended		
In 000's of Canadian dollars	**December 31 2017**	December 31 2016	Change	**December 31 2017**	December 31 2016	Change
Interest and bank charges	$ **7,426**	$ 6,778	$ 648	$ **28,205**	$ 24,776	$ 3,429
Amortization of deferred financing charges and accretion	**405**	478	(73)	**1,555**	2,113	(558)
	7,831	7,256	575	**29,760**	26,889	2,871
Interest rate swaps and caps [1]	**-**	(1,665)	1,665	**(4,347)**	(2,027)	(2,320)
Accretion on deferred consideration	**486**	821	(335)	**2,166**	3,562	(1,396)
Fair value adjustment on embedded derivative	**-**	(1,710)	1,710	**(703)**	(1,350)	647
Debt settlement[2] and refinancing fees	**13**	(100)	113	**8,404**	(126)	8,530
	499	(2,654)	3,153	**5,520**	59	5,461
	$ **8,330**	$ 4,602	$ 3,728	$ **35,280**	$ 26,948	$ 8,332

(1) Interest rate swaps and caps represents unrealized (gains) losses as a result of the change in fair value during the period. Realized amounts are reflected in interest expense and bank charges and debt settlement and refinancing fees.

(2) Debt settlement includes loss on settlement of existing interest rate swaps and cross currency swaps and cap, forward foreign exchange contracts, remaining unamortized deferred financing costs and accretion.

Interest and bank charges increased $2.9 million for 2017 as compared to the same periods in 2016 primarily as a result of higher average debt balances at the end of 2017. Debt balances increased primarily to fund the construction of the Anne Risley, the clam replacement vessel.

Variances in **amortization of deferred financing charges and accretion** resulted from the refinancing of the term loan facilities in the second quarter of 2017.

The **interest rate swaps and caps** related to non-cash mark-to-market gains and losses on USD $100 million and CAD $24 million swaps and caps that were entered into in 2015. The change in the mark-to-market represented changes in relative expected future interest rates and foreign exchange impacts as the Canadian dollar strengthened against the US dollar in 2016. As part of the refinancing which occurred early in the second quarter of 2017, these instruments were settled and derecognized.

The **accretion on deferred consideration** arises from the deferred consideration obligation associated with the acquisition of Macduff as the notes are non-interest bearing. The reduction in accretion for 2017 relates to timing of non-cash adjustments in the first quarter of 2016, as well as changes in foreign spot rates as the Canadian dollar strengthened against the GBP in 2017.

The **fair value adjustment on the embedded derivative** on 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. In May 2017 the Term Loan B loan agreement was refinanced including the Libor floor provision, and related embedded derivative was extinguished at that time.

(Gains) losses[1] on contract derivatives

			13 weeks ended			Year ended
	December 31	December 31		**December 31**	December 31	
In 000's of Canadian dollars	**2017**	2016	Change	**2017**	2016	Change
Realized (gain) loss						
Forward foreign exchange contracts	**$ 2,461**	$ 238	2,223	**$ (3,065)**	$ 7,345	(10,410)
Unrealized (gain) loss						
Forward foreign exchange contracts	**(186)**	(8,610)	8,424	**(980)**	(14,624)	13,644
	$ 2,275	$ (8,372)	10,647	**$ (4,045)**	$ (7,279)	3,234

Clearwater is primarily an export company with more than 85% of our sales taking place outside Canada and in foreign currencies. As part of our risk management strategy we enter into short-term forward contracts 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 as they mature and are settled.

We also recognize and include in earnings unrealized non-cash gains and losses on these instruments by assuming the settlement of these instruments, prior to their maturity, at each period end. To reflect this accounting, Clearwater estimates the fair value of the financial derivative instruments and convert them to Canadian dollars at each balance sheet date. The unrealized non-cash gains or losses are excluded when calculating Adjusted EBITDA, Adjusted Earnings Attributable to Shareholders of Clearwater and Free Cash Flows.

Realized gains on settled forward contract derivatives increased $10.4 million for 2017 versus the same comparative period in 2016. The increase is primarily due to average contracted rates for USD and Yen being higher than the spot rate on the date of settlement in 2017. These gains partially offset the negative foreign exchange impacts on sales.

The decrease in unrealized gains of $13.7 million for the year and $8.4 million for the fourth quarter of 2017 as compared to the same period in 2016 is dependent on average contracted rates as compared to the forward rates based on maturity.

1 – Refer to discussion on risks and uncertainties

Foreign exchange [1] (gains) losses on long term debt and working capital

In 000's of Canadian dollars	13 weeks ended December 31 2017	December 31 2016	Change	Year ended December 31 2017	December 31 2016	Change
Realized (gain) loss						
Long-term debt and working	**$ (565)**	$ 776	$ (1,341)	**$ 3,547**	$ 7,803	$ (4,256)
Unrealized (gain) loss						
Foreign exchange on long-term debt and working capital	**3,400**	5,881	(2,481)	**(23,693)**	(18,045)	(5,648)
Forward exchange contracts, cross currency swaps and cap related to long-term debt	**(1,604)**	(2,208)	604	**5,883**	2,947	2,936
	1,796	3,673	(1,877)	**(17,810)**	(15,098)	(2,712)
	$ 1,231	$ 4,449	$ (3,218)	**$ (14,263)**	$ (7,295)	$ (6,968)

Realized foreign exchange losses on long-term debt and working capital for 2017 decreased $4.3 million compared to 2016 primarily as a result of the devaluation of the Peso against the Canadian and US dollar that occurred in 2016 that impacted working capital accounts and the translation of intercompany balances due related to wholly owned subsidiaries classified as foreign operations for accounting purposes.

Unrealized foreign exchange gains on long-term debt and working capital for 2017 and the fourth quarter of 2017 increased $2.7 million and $1.9 million, respectively. The increase in unrealized gains is primarily due to the translation of the USD Notes (USD $250.0 million) which replaced the existing USD term debt in Q2 2017 as the Canadian dollar strengthen against the USD in 2017.

In Q2 2017, the cross currency swaps and cap were unwound as part of the refinancing of long-term debt. In the second and third quarter of 2017, Clearwater entered into forward foreign exchange contracts to hedge approximately 80% of the notional amount of the USD Notes.

Other (income) expense

In 000's of Canadian dollars	13 weeks ended December 31 2017	December 31 2016	Change	Year ended December 31 2017	December 31 2016	Change
Share of earnings of equity-accounted investee	**754**	(872)	1,626	**(2,656)**	(1,185)	(1,471)
Export rebate income	**(179)**	(69)	(110)	**(1,190)**	(2,146)	956
Fair value adjustment on earn-out liability	**(2,103)**	150	(2,253)	**(2,769)**	(1,110)	(1,659)
Other (income) fees	**(354)**	(602)	248	**(994)**	(1,950)	956
Royalties, interest income and other fees	**(43)**	(749)	706	**(431)**	(1,379)	948
Acquisition related costs	**$ 385**	$ 1,287	(902)	**$ 464**	$ 2,561	(2,097)
	$ (1,540)	$ (855)	(685)	**$ (7,576)**	$ (5,209)	(2,367)

Share of earnings in equity-accounted investee increased in 2017 primarily as a result of timing of landings and higher catch rates in comparison with the same periods in 2016. The reduction in share of earnings in equity investee in the fourth quarter of 2017 resulted from timing of landings and available supply.

1 – Refer to discussion on risks and uncertainties

The export rebate income relates to incentives 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. Management expects to receive all accrued balances in due course.

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 the statement of earnings (loss).

Royalties, interest income 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.

Acquisition related costs for 2017 were associated with various explored opportunities and 2016 related to the acquisition and integration of Macduff Shellfish.

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.

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 decrease in income tax expense for the year and for the fourth quarter of 2017 of $8.8 million and $1.8 million, respectively as compared to the same period for 2016 is primarily due to a decrease in 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 $3.2 million for 2017 relates primarily to lower availability of shrimp from TAC and a vessel refit, partially offset by strong catch rates for Argentine scallops.

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 attributable to shareholders decreased $28.2 million and $19.6 million in 2017 and in the fourth quarter of 2017, respectively. For the year earnings attributable to shareholders declined due to lower margins for clams, shrimp and Argentine scallops, and higher reorganizational costs, partially offset by higher unrealized foreign exchange gains on long term debt and lower incentive base programs.

In the fourth quarter of 2017, the decline in earnings was primarily a result of higher reorganizational costs from the announced restructuring on November 9, 2017.

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.

Adjusted earnings attributable to shareholders[1] for 2017 and the fourth quarter of 2017 decreased $18.9 million and $2.6 million, respectively as lower margins and higher depreciation rates were partially offset by increased income from a joint venture which is accounted for under the equity method.

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

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 in currencies other than the Canadian dollar when appropriate.

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

The amount of debt available to Clearwater under its lending facilities is a function of Net Adjusted EBITDA[1] attributable to shareholders. 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.

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, 2017 and December 31, 2016:

In 000's of Canadian dollars As at		**December 31** **2017**		December 31 2016
Equity				
Share capital	**$**	**210,860**	$	210,860
Contributed surplus		**3,021**		1,419
Deficit		**(8,722)**		(4,793)
Accumulated other comprehensive income		**(39,730)**		(38,931)
		165,429		168,555
Non-controlling interest		**17,109**		19,930
		182,538		188,485
Long-term debt				
Senior debt, non-amortizing				
USD senior unsecured notes, due 2025[1]		**306,684**		-
Revolving debt, due in 2022[2]		**87,682**		-
Revolving debt, due in 2018[3]		**-**		23,400
Term loan, due in 2018		**12,215**		13,459
Term loan, due in 2091		**3,500**		3,500
		410,081		40,359
Senior debt, amortizing				
Term Loan B, due 2022[4]		**34,466**		-
Term Loan A, due 2018[5]		**-**		50,218
Term Loan B, due 2019[6]		**-**		307,210
Other loans		**167**		222
		34,633		357,650
Deferred Obligation[7]		**23,181**		29,298
Earnout liability[7]		**5,278**		9,107
Total long term debt		**473,173**		436,414
Total capital	**$**	**655,711**	$	624,899

[1] USD senior unsecured notes is net of unamortized deferred financing charges of $7.4 million with a US dollar coupon rate of 6.875%. This resulted in an effective rate of approximately 7.194%.

[2] The revolving loan availability, subject to financial covenants, allows Clearwater to borrow a maximum of approximately CDN $56 million and is net of unamortized deferred financing charges of $2.3 million. As of December 31, 2017, this resulted in an effective rate of approximately 3.97%. The availability on this loan is reduced by the amount outstanding on a USD $10 million non-amortizing term loan.

[3] The revolving loan allowed Clearwater to borrow a maximum of CDN $100 million and bears interest at the banker's acceptance rate plus 3.25%. The availability on this loan was reduced by the amount outstanding on a USD $10 million non-amortizing term loan.

[4] Term Loan B is net of unamortized deferred financing charges of $0.3 million. As of December 31, 2017, this resulted in an effective rate of approximately 3.74%.

[5] Term Loan A is net of unamortized deferred financing charges at December 31, 2016 of $0.4 million and bears interest at the applicable banker's acceptance rate plus 3.25%.

[6] Term Loan B is a USD loan, shown net of unamortized deferred financing charges at December 31, 2016 of $1.1 million and bears interest at US LIBOR plus 3.5% with a LIBOR floor of 1.25%.

[7] The Deferred Obligation and Earnout Liability relate to the acquisition of Macduff in 2015.

Equity

There are 63,934,698 shares outstanding as of December 31, 2017 (December 31, 2016 - 63,934,698).

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.

Long-term debt

On April 26, 2017, Clearwater completed an offering of USD $250 million senior unsecured notes, due 2025 with a US dollar coupon rate of 6.875% ("the Notes"). In 2017, Clearwater entered into forward foreign exchange contracts to hedge approximately 80% of the notional value of the Notes at an average rate of 1.2844 and approximately 80% of the coupon payments at an average rate of 1.2867.

Concurrently, Clearwater entered into new senior secured credit facilities in an aggregate principal amount of CDN $335 million, consisting of a CDN $300 million revolving credit facility and a CDN $35 million amortizing secured term loan, each maturing in 2022 (the "Senior Secured Credit Facilities"). The Senior Secured Credit Facilities bear interest ranging from LIBOR plus 1.50% to 2.25% for the revolving credit facility and LIBOR plus 2.50% to 3.25% for the secured term loan. The range is determined quarterly based on a ratio of Senior Secured indebtedness to EBITDA, with EBITDA calculated on a trailing twelve month basis.

Clearwater used the net proceeds from the sale of the Notes, together with the new borrowings under the Senior Secured Credit Facilities, to refinance existing senior secured credit facilities (Term Loan A, Term Loan B and revolving credit facility) and used the remainder for general corporate purposes.

Included in Clearwater's long-term debt is the Deferred Obligation and Earnout Liability related to the acquisition of Macduff in 2015. The terms of these liabilities are 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 original amount was £26.2 million (CDN $44.2 million) and the principal amount of the deferred obligation at December 31, 2017 was £15.7 million, recorded at a discounted amount of £13.7 million (CDN $23.2 million) (December 31, 2016 - £21.0 million, CDN $29.3 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 7.44%.

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 flows.

In both 2016 and 2017, 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 (2017 - CDN - $8.9 million; 2016 – CDN $8.7 million) was made in November of each year.

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, 2017 was £3.1 million (CDN - $5.3 million) (December 31, 2016 - £5.5 million, CDN - $9.1 million) based on forecast earnings and probability assessments. The actual Earnout payments are to be paid over the remaining four 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 (income) expense on the consolidated statement of earnings (loss).

The first payment was made in the second quarter of 2017 for £0.8M (CDN - $1.3 million).

Excluding deferred consideration and the related Earnout, Clearwater has effectively fixed the interest rate on 71 percent of its debt as at December 31, 2017.

Clearwater has applied hedge accounting to the forward foreign exchange contracts related to the coupon payments and a portion of the unrealized gain (loss) on the contracts will be included in Net Finance Costs on an accrual basis in the period. The change in fair value related to the forward foreign exchange contract on the notional will be recognized in Foreign exchange gain (loss) on long-term debt and working capital and is expected to offset a portion of the foreign exchange translation on long-term debt.

The revolver 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.

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, 2017 Clearwater had $35.5 million in cash, and a $300.0 million revolving loan, with approximately $56 million available to draw down. 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]

Leverage for the year ending December 31, 2017 increased to 5.0x adjusted EBITDA excluding non-controlling interest ("net adjusted EBITDA") from 4.2x on December 31, 2016 as a result of lower net adjusted EBITDA from a reduction in gross margin. Gross margin declined due to lower available supply of coldwater shrimp, lower clam margins and less favorable foreign exchange rates. Pricing incentives on clams that reduced sales prices were partially offset by higher sales volumes. Lower available supply from reductions in TAC for FAS shrimp and changes in fishing areas resulted in lower catch rates and differences in sales mix. As well, higher debt balances from the completion of the final year of our major capital expenditure program increased leverage. In the third quarter of 2017, the Company announced an organizational restructuring, which is anticipated to generate in excess of $6 million in year-over-year cost savings and $10 million annualized. Pro forma leverage of 4.8x for 2017 has been calculated using a conservative estimate of reorganizational cost savings that aligns to lender calculations.

For 2018, modest TAC reductions in clam and the announcement of a new entrant, potential TAC reductions in scallops, competitive market pressure associated with an anticipated significant increase in US scallop supply and foreign exchange headwinds are expected to offset progress in volume, pricing and margin on other core species. Combined with the seasonality of our business, we expect leverage to be higher during the first nine months of 2018 before improving by the end of the year. Significantly lower capital expenditures and further inventory reductions to historic levels, are expected to increase free cash flow which will result in lower debt and 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 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 000's of Canadian dollars		Pro forma[1]		Actual		Actual		Actual
As at December 31		**2017**		**2017**		2016		2015
Net Adjusted EBITDA[2,3] (excluding non-controlling interest)	$	**89,156**	$	**89,156**	$	98,446	$	101,310
Re-organizational savings		**4,000**						
Total Net adjusted EBITDA		**93,156**		**89,156**		98,446		101,310
Debt[5,4] (excluding non-controlling interest)		**478,747**		**478,747**		436,834		475,685
Less cash (excluding non-controlling interest)		**(31,976)**		**(31,976)**		(25,110)		(32,938)
Net debt	$	**446,771**	$	**446,771**	$	411,724	$	411,724
Leverage		**4.8**		**5.0**		4.2		4.2

1 - In the fourth quarter of 2017, the Company initiated an organizational restructuring, which is anticipated to generate in excess of $6 million in year-over-year cost savings and $10 million annualized. Pro forma re-organizational savings has been provided as a conservative fiscal estimate that aligns to lender calculations.

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

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

4 - Debt as at December 31, 2017 has been adjusted to include USD $200 million forward foreign exchange contract at an average contracted rate of 1.2844. (December 31, 2016 - USD $75 million cross-currency swap at contracted rates of 1.3235).

5 - Debt is net of unamortized deferred financing charges of $10.3 million (December 31, 2016 - $2.0 million; December 31, 2015 0 $2.3 million).

Foreign Exchange Management[1]

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 GBP), foreign denominated capital spend and foreign denominated debt thereby lowering the potential volatility in cash flows from changes in exchange rates.

As of December 31, 2017 Clearwater had forward exchange contracts outstanding:

Currrency	Forecasted transaction	Notional (millions)	Average rate
USD to CDN	Sales	90.0	1.2991
Yen to CDN	Sales	2,081.0	0.0117
Euro to CDN	Sales	26.1	1.5026
Euro to GBP	Sales	17.4	0.8850
USD to GBP	Sales	4.8	0.7658
CDN to USD	Debt	261.9	1.2842

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, capital expenditures and long-term debt[1]. The foreign exchange contracts effectively adjust the cash proceeds received on sales receipts and cash paid with respect to capital expenditures and interest and notional amounts for long-term debt, 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 estimated 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[1]

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 reduce debt or invest in growth investments. Clearwater's goal is to grow free cash flows such that it can fund growth, target leverage of approximately 3.0x Adjusted EBITDA over the long-term and pay a sustainable dividend to its shareholders.

1 – Refer to discussion on risks and uncertainties

	13 weeks ended December 31		Year Ended December 31		
	2017	2016	**2017**	2016	2015
Adjusted EBITDA[1]	**$ 28,490**	$ 29,460	**$ 108,596**	$ 120,937	$ 109,732
Less:					
Interest and bank charges	**(7,426)**	(6,778)	**(28,204)**	(24,776)	(19,006)
Current income tax expense	**(657)**	(2,349)	**(12,376)**	(7,078)	(1,896)
Other income and expense items	**(12,458)**	(4,899)	**(12,932)**	(9,496)	(1,590)
Operating cash flow before changes in working capital	**7,949**	15,434	**55,084**	79,587	87,240
Changes in working capital[A]	**34,714**	64,053	**3,057**	(16,547)	(18,746)
Cash flows from operating activities	**42,663**	**79,487**	**58,141**	**63,040**	**68,494**
Sources (uses) of cash:					
Purchase of property, plant, equipment, quota and other assets	**(25,350)**	(13,158)	**(85,431)**	(56,332)	(63,390)
Disposal of fixed assets	**2,400**	-	**2,408**	1,131	4,584
Less: Designated borrowings[B]	**14,513**	5,703	**39,206**	25,883	35,097
Scheduled payments on long-term debt[C]	**(8,901)**	(10,259)	**(11,948)**	(15,215)	(5,461)
Payments on long-term incentive plans	**177**	-	**1,618**	5,670	8,953
Distribution to non-controlling interests	**(6,642)**	(5,097)	**(19,154)**	(24,560)	(11,817)
Dividends received from joint venture	**-**	-	**3,340**	-	-
Other financing activities	**-**	-	**-**	-	676
Non-routine costs	**3,392**	684	**3,392**	1,885	1,953
Free cash flows[1]	**$ 22,252**	**$ 57,360**	**$ (8,428)**	**$ 1,502**	**$ 39,089**
Add/(less):					
Other debt borrowings (repayments) of debt, use of cash[C]	**(24,574)**	(42,003)	**27,792**	(37,566)	78,099
Issuance of equity	**-**	(25)	**-**	53,024	58,628
Payments on long-term incentive plans	**(177)**	-	**(1,618)**	(5,670)	(8,953)
Other investing activities[D]	**259**	(2,203)	**(5,832)**	(2,513)	(148,930)
Other financing activities	**(5,159)**	(6,696)	**(15,914)**	(20,369)	(14,425)
Change in cash flows for the period	**$ (7,399)**	$ 6,433	**$ (4,000)**	$ (11,592)	$ 3,508

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

A – Changes in working capital have been restated to align with the change in presentation of cash interest and cash income taxes paid in the consolidated statement of cash flows. This change had no impact on cash from operations.

B – 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 2017 and 2016, the periods covered in this table includes the replacement of the Ocean Concord clam vessel. For 2015, the period covered in this table includes a conversion of a vessel for Argentina, the addition of a third clam vessel, a late life refit on a shrimp vessel and the conversion of a new research 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.

C – Scheduled payments on long-term debt has been updated to include the Deferred Consideration payment made in Q4 2017 of $8.9 million (Q4 2016 of $8.7 million) and the Earnout payment in Q2 2017 of $1.3 million.

D - 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.

The fourth quarter of 2017 generated cash from operations of $42.7 million driven by working capital improvements of $34.7 million of which $48.1 million was related to inventory, with the timing of accounts receivable and payables partially offsetting the improvements. For 2017 total cash generated from operations was $58.1 million of which $22.0 million was related to inventory and timing of payables.

Free cash flows[1] declined to a use of cash of $9.9 million in 2017 primarily as a result of higher capital expenditures with working capital improvements of $19.6 million partially offsetting the decline in free cash. Annual capital expenditures represent the successful completion our five year fleet renewal program in 2017. Capital spending is expected to decline by $60 to 70 million in 2018.

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 000's of Canadian dollars	**2017**	2016	**2017**	2016
Decrease (increase) in inventory	**$ 48,116**	$ 33,179	**$ 12,615**	$ (22,030)
(Decrease) increase in accounts payable	**(2,487)**	13,154	**9,369**	(7,785)
Decrease (increase) in accounts receivable	**(11,177)**	20,722	**(22,043)**	3,775
(Increase) decrease in prepaids	**1,838**	(2,309)	**188**	4,953
(Decrease) increase in income tax payable	**(1,575)**	(693)	**2,928**	4,540
	$ 34,715	$ 64,053	**$ 3,057**	$ (16,547)

Clearwater is focused on managing its free cash flows through:

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

- Capital spending - Clearwater evaluates 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 approximately $20-25 million a year in maintaining its fixed assets with repairs and maintenance expense declining with the completion of the fleet modernization program.

  In 2018 Clearwater expects to invest approximately $18 million in capital expenditures for land based operations, vessel maintenance and refits.

Dividends
On March 6, 2018 the Board of Directors approved and declared a dividend of $0.05 per share payable on April 2, 2018 to shareholders of record as of March 15, 2018.

On February 15, 2018 the Board approved a Dividend Reinvestment Plan (DRIP) effective February 23, 2018 to provide shareholders of Clearwater who are resident in Canada with the option to have the cash dividends declared on the common shares of Clearwater reinvested automatically back into additional shares, without the payment of brokerage commissions or service charges. The DRIP program will be effective for the fourth quarter dividend payment. It is the intention of certain insiders and major shareholders to participate in the DRIP which management believes shows their commitment and belief in the long term value and strategies of the company by supporting cash reinvestment into the business.

Enrollment for the April dividend commenced on February 23rd and will end on March 8th

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, 2017		Carrying Amount	Total Contractual Cash Flow	2018	2019	2020	2021	2022	>2023
Interest - long-term debt	$	- $	198,248 $	26,502 $	26,251 $	26,238 $	26,225 $	23,321 $	69,711
Principal repayments - long-term debt		-	473,173	21,025	9,761	9,761	1,695	120,748	310,183
Total long-term debt		473,173	671,421	47,527	36,012	35,999	27,920	144,069	379,894
Trade and other payables		80,411	80,411	80,411	-	-	-	-	-
Operating leases and other		-	14,670	5,625	4,011	3,281	820	555	379
Derivative financial instruments - asset		5,938	5,938	5,797	88	47	6	-	-
Derivative financial instruments - liabilities		9,120	9,120	1,978	485	436	395	5,826	-
	$	568,642 $	781,560 $	141,338 $	40,596 $	39,763 $	29,141 $	150,450 $	380,273

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 2020 for vehicle and office leases, which aggregate approximately $0.07 million (2016 - $0.04 million).

OUTLOOK

For 2018, modest TAC reductions in clam and the announcement of a new entrant, potential TAC reductions in scallops, competitive market pressure associated with an anticipated significant increase in US scallop supply and foreign exchange headwinds are expected to offset progress in volume, pricing and margin on other core species. Significantly lower capital expenditures and further inventory reductions to historic levels, are expected to increase free cash flow which will result in lower debt and leverage. Combined with the seasonality of our business, we expect leverage to be higher during the first nine months of 2018 before improving by the end of the year.

Our core fisheries are managed for long-term sustainability, we have taken timely and carefully considered measures in response to these near-term challenges including adjustments to harvest plans, pricing and distribution strategies, cost and working capital reductions and a major organization restructuring completed in December 2017. We expect these measures will generate strong cash flows from operations, reduce debt and leverage, yield a higher return on assets and positive returns to shareholder value. Details include:

1) **Capital Spending and Working Capital Reductions.** With the successful completion of our five-year fleet renewal program in 2017, capital spending will decline by $60 to 70 million in 2018. In fact, with one of the youngest and best-maintained offshore fleets in Canada, we expect to be able to maintain these modest new capital spending limits for several years to come. Inventory is expected to continue to decrease with further reductions of $10 to 20 million by the end of the year.

2) **Organization Restructuring and Improved Cost Management**. In the fourth quarter of 2017, we initiated a company-wide restructuring targeting annualized savings in excess of $10 million, incurring one-time charges of $6.7 million in the fourth quarter of 2017. While these changes to our organizational structure are significant, they will make us leaner, more agile and reflect our greater ability to leverage state-of-the-art technology and smarter systems to drive **margin improvement through increased price realization and improved cost management.**

In 2018, Clearwater will continue to navigate the combined forces of technological change, globalization and Mother Nature. Meanwhile, industry fundamentals of limited supply of wild capture seafood, and growing population, demand and purchasing power of middle class consumers, especially in Asia, will remain in our favor strengthening our value proposition and creating long-term value for our customers, employees, communities and shareholders.

Global demand for seafood 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 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.

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. In 2015 and 2016 our Argentine operation was subject to foreign currency volatility related to the Argentine Peso. Clearwater continues to monitor these fluctuations and any risk that the exchange rate volatility could cause Clearwater to report its Argentine operations using IAS 29 – Financial Reporting in Hyperinflationary Economies.

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 – a portfolio of forward contracts enable Clearwater to lock in exchange rates for 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 2017 approximately 40% of Clearwater's sales were denominated in US dollars.

Based on 2017 sales and excluding the impact of its hedging program,

- a change of 0.01 in the US dollar rate converted to Canadian dollars would result in a $1.9 million change in sales and gross profit.
- a change of 0.01 in the Sterling rate converted to Canadian dollars would result in a $0.4 million change in sales and gross profit.
- a change of 0.01 in the Euro rate as converted to Canadian dollars would result in a $1.1 million change in sales and gross profit.

- a change of 0.001 in the Yen rate as converted to Canadian dollars would result in a change of $5.4 million in sales and gross profit.

Political risk

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

These risks include fluctuations in foreign exchange rates, 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 or domestic 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. Specific risks by country are described below.

Canada

Clearwater was a pioneer in the development of the clam fishery, which began in 1986. Clearwater purchased its licences and quota with the consent of the Department of Fisheries and Oceans Canada (“DFO”) and has invested hundreds of millions of dollars to develop the fishery and the market, including $156 million in the last three years.

On September 6, 2017, the DFO announced the introduction of a fourth Arctic Surf Clam licence representing 25% of the existing TAC to be awarded to an Indigenous group effective 2018. With the announcement of the recipient of the new licence on February 21, 2018, the Minister has effectively expropriated value. Clearwater will be pursuing legal options to address this failure in public policy and abuse of power by the Minister. This announcement, in combination with the suspension of the shrimp LIFO arrangement in 2016, represent departures from historical Canadian policy.

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

Argentina

Our operations in Argentina 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 15% of the Argentine business and who is actively managing the business.

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"). On March 29, 2017, the Prime Minister of the United Kingdom filed notice of intention to leave the EU triggering the process to negotiate the terms of the withdrawal and the country's future relationship with the EU. Under the Lisbon Treaty, the negotiations of the terms of departure are required to be concluded within two years from giving notice. Initial negotiations on the transition period have commenced however full discussions related to future trade arrangements have not yet begun. Any impacts to Clearwater are not yet known although the dialogue from both Brussels and the UK is that both sides are keen to establish a mechanism for free trade.

As a business, we are taking a fully participative, active and advisory role in all preparatory government working groups for Shellfisheries and processing, looking at trade, fisheries access and immigration/labor related matters. The Company expects to be able to assess, manage and plan for any impacts to the business through our involvement in the negotiations and their outputs.

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 and in July 2017 the United States released their objectives. Since July 2017, there have been six rounds of discussion among the members however, as a result of the uncertainty of the outcome from these discussions, the impact to Canada and Clearwater is indeterminable. Approximately 14.0% of total sales for 2017 and 14.0% for 2016 were in the United States.

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

On December 22, 2017, new tax laws were enacted in the United States. The new laws include a permanent reduction in corporate income tax rate from 35% to 21%, repeal of the corporate alternative minimum tax, modifications to the rules for expensing capital investment, limitation of the deduction for interest expense, and a multitude of other changes to the corporate tax rules. These changes are effective January 1, 2018. These changes are not expected to have a material impact to 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"). Canada and the EU agreed on September 21, 2017 as the date for provisional application of CETA however the deal is still required to be ratified by the 28 members of the EU and Canada.

Europe is one of the world's top consumption markets for seafood. In 2012, the EU imported in excess of CAD $25 billion of seafood worldwide with exports of only CAD $5.7 billion. Europe is a major export market for Clearwater products, representing approximately 40% of total sales or $243 million in 2017. With CETA, Clearwater and its European customers will continue 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.

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 Clearwater and its 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. On March 30, 2017, the Government of Canada announced a further decrease in TAC for the same area. 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 quotas, 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.

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.

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, 2017 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, 2017. 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.

Based on management's evaluation, the CEO and the CFO have concluded that as of December 31, 2017, Clearwater's internal controls over financial reporting were 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.

Effective January 1, 2018

IFRS 15 – Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognizing 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 Company will adopt IFRS 15 for the annual period beginning on January 1, 2018. The Company has elected to apply the modified retrospective method on transition which means that comparative periods will not be restated, instead the cumulative impact will be recognized in opening retained earnings on transition, January 1, 2018. Based on Clearwater's analysis of its existing contracts and arrangements, Clearwater is not expected to be materially impacted by the new standard.

Under the new standard, the Company is required to disclose information related to the disaggregation of revenues, performance obligations, significant judgements, contract balances and costs to obtain contracts. The additional disclosures are not expected to have a significant impact to Clearwater's information gathering processes or systems.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, 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 and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 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 permit 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 is required to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. Based on Clearwater's analysis of its existing financial instruments, Clearwater is not materially impacted by the new standard. Changes related to general hedge accounting will not have a significant impact to Clearwater.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

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 will adopt IFRIC 22 in its financial statements for the annual period beginning on January 1, 2018. This standard is not expected to have a material impact to Clearwater.

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 will adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The amendments do not have a material impact to Clearwater based on existing share-based payment transactions.

Effective January 1, 2019

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 is required to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. Clearwater expects to see an impact as a result of the new lease standard on its key performance measures, including earnings before interest, tax, depreciation and amortization. The extent of the impact of adoption of the standard has not yet been determined and quantified. Clearwater expects to have completed its analysis by the third quarter of 2018.

No Effective Date

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

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, 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 recognizes the full gain on the loss of control, whereas under the existing guidance on associates and joint ventures the parent recognizes 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 recognized 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 resolves the inconsistencies and determines an effective date.

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, 2017 and 2016:

Clearwater rents office space to and provides computer support network services to CFFI Ventures Inc. ("CVI"), a related party. The net amount due from CVI in respect of these transactions was $0.04 million (December 31, 2016 – net amount due from CVI of $0.04 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 dollars was the book value at the time of the sale plus refit costs.

For the year ended December 31, 2017, Clearwater recorded net revenue of approximately $0.06 million for providing computer support network services to and receiving goods and services from companies related to CVI (December 31, 2016 - $0.1 million). The transactions are recorded at the exchange amount and the balance due from these companies was $0.07 million as at December 31, 2017 (December 31, 2016 - $0.05 million due to).

In the second quarter of 2017, interest bearing loans of $1.3 million (December 31, 2016 - $1.4 million) made to a non-controlling interest shareholder in a subsidiary were repaid and $0.1 million was forgiven.

SUMMARY OF QUARTERLY RESULTS

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

In 000's of Canadian dollars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2017				
Sales	$ 128,367	$ 154,302	$ 163,597	$ 174,765
Earnings (loss) attributable to shareholders	2,172	9,489	15,054	(10,956)
Earnings per share ("EPS")	0.03	0.15	0.24	(0.17)
Diluted earnings per share[1]	0.03	0.15	0.24	(0.17)
Weighted average shares outstanding	63,934,698	63,934,698	63,934,698	63,934,698
Fiscal 2016				
Sales	$ 116,225	$ 140,180	$ 189,457	$ 165,690
Earnings (loss) attributable to shareholders	14,507	9,962	10,847	8,611
Earnings (loss) per share ("EPS")	0.24	0.16	0.17	0.14
Diluted earnings (loss) per share	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) attributable to shareholders	(31,398)	5,616	(4,768)	(7,060)
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)
Weighted average shares outstanding	54,978,098	55,197,039	59,958,998	59,958,998

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

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

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

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

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

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, 2017 and December 31, 2016 and year ended December 31, 2017, December 31, 2016 and December 31, 2015 is as follows:

	13 weeks ended		Year Ended		
	December 31 2017	December 31 2016	December 31 2017	December 31 2016	December 31 2015
Earnings (loss)	$ (6,551)	$ 12,411	$ 28,239	$ 59,596	$ (20,671)
Add (deduct):					
Income taxes	4,461	6,261	7,659	16,446	4,387
Taxes and depreciation for equity investment	(57)	530	2,112	960	1,154
Depreciation and amortization	15,850	9,781	45,252	33,501	29,413
Interest, bank charges, amortization of deferred financing costs	7,831	7,256	29,759	26,889	20,338
Earnings before interest, taxes, depreciation and amortization	$ 21,534	$ 36,239	$ 113,021	$ 137,392	$ 34,621
Add (deduct) other items:					
Unrealized foreign exchange and derivative loss (income)	1,609	(6,603)	(23,136)	(31,753)	62,052
Fair market value on long-term debt	(1,617)	(888)	(1,307)	2,211	(2,118)
Realized foreign exchange loss (gain) on working capital	(564)	778	3,547	7,805	(1,690)
Restructuring, refinancing costs and acquisition related costs	7,412	2,237	16,062	2,380	11,299
Stock based compensation (recovery) expense	116	(2,303)	409	2,902	5,270
Loss on insurance claim	-	-	-	-	300
Adjusted EBITDA	**$ 28,490**	**$ 29,460**	**$ 108,596**	**$ 120,937**	**$ 109,734**
Adjusted EBITDA attributed to:					
Non-controlling interests	$ 5,538	$ 4,382	$ 19,440	$ 22,491	22,829
Shareholders of Clearwater	22,952	25,078	89,156	98,446	86,905
	$ 28,490	**$ 29,460**	**$ 108,596**	**$ 120,937**	**$ 109,734**

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 ended December 31, 2017 and December 31, 2016 and year ended December 31, 2017, December 31, 2016 and December 31, 2015 is as follows:

	13 weeks ended		Year ended		
	December 31 2017	December 31 2016	December 31 2017	December 31 2016	December 31 2015
Reconciliation of net earnings to adjusted earnings					
Earnings (loss)	$ (6,551)	$ 12,411	$ 28,239	$ 59,596	$ (20,671)
Restructuring and refinancing costs	7,411	951	16,059	(182)	5,821
Acquisition related costs	-	-	-	1,159	3,403
Fair value impact of purchase price allocation	-	-	-	-	2,166
Stock based compensation (recovery) expense	116	(2,303)	409	2,902	5,270
Insurance claim	-	-	-	-	300
Unrealized foreign exchange and derivative (gain) loss	1,609	(6,603)	(23,136)	(31,753)	62,053
Devaluation of peso on working capital	-	-	-	5,199	5,344
Fair value on long-term debt	(1,617)	(888)	(1,307)	2,211	(2,118)
	7,519	(8,843)	(7,975)	(20,464)	82,239
Adjusted earnings	**$ 968**	**$ 3,568**	**$ 20,264**	**$ 39,132**	**$ 61,568**
Adjusted earnings attributable to:					
Non-controlling interests	2,554	2,773	11,574	15,366	18,111
Shareholders	(1,585)	795	8,690	23,766	43,457
	$ 969	$ 3,568	$ 20,264	$ 39,132	$ 61,568
Adjusted earnings per share:					
Weighted average of shares outstanding	63,935	63,935	63,935	61,434	61,947
Adjusted earnings per share for shareholders	(0.02)	0.01	0.14	0.38	0.70
Reconciliation of adjusted earnings to adjusted EBITDA					
Adjusted earnings	$ 968	$ 3,568	$ 20,264	$ 39,132	$ 61,568
Add (subtract)					
Income tax expense	4,461	6,261	7,659	16,446	4,387
Depreciation and amortization	15,850	9,781	45,252	33,501	29,414
Interest on long-term debt and bank charges	7,831	7,256	29,759	26,889	20,336
Taxes and depreciation on equity investment	(57)	530	2,112	960	1,154
Realized foreign exchange on working capital	(563)	780	3,550	2,608	(7,034)
Other reorganizational costs	-	1,286	-	1,403	(91)
	27,522	25,894	88,332	81,807	48,166
Adjusted EBITDA[1]	**$ 28,490**	**$ 29,462**	**$ 108,596**	**$ 120,939**	**$ 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 unamortized deferred financing charges) for the year ended December 31, 2017, December 31, 2016 and December 31, 2015 is as follows:

In 000's of Canadian dollars	**Pro forma[1]**	**Actual**	Actual	Actual
As at December 31	**2017**	**2017**	2016	2015
Net Adjusted EBITDA[2,3] (excluding non-controlling interest)	$ **89,156**	$ **89,156**	$ 98,446	$ 101,310
Re-organizational savings	**4,000**			
Total Net adjusted EBITDA	**93,156**	**89,156**	98,446	101,310
Debt[5,4] (excluding non-controlling interest)	**478,747**	**478,747**	436,834	475,685
Less cash (excluding non-controlling interest)	**(31,976)**	**(31,976)**	(25,110)	(32,938)
Net debt	$ **446,771**	$ **446,771**	$ 411,724	$ 411,724
Leverage	**4.8**	**5.0**	4.2	4.2

1 - In the fourth quarter of 2017, the Company initiated an organizational restructuring, which is anticipated to generate in excess of $6 million in year-over-year cost savings and $10 million annualized. Pro forma re-organizational savings has been provided as a conservative fiscal estimate that aligns to lender calculations.

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

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

4 - Debt as at December 31, 2017 has been adjusted to include USD $200 million forward foreign exchange contract at an average contracted rate of 1.2844. (December 31, 2016 - USD $75 million cross-currency swap at contracted rates of 1.3235).

5 - Debt is net of unamortized deferred financing charges of $10.3 million (December 31, 2016 - $2.0 million; December 31, 2015 0 $2.3 million).

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, 2017 and December 31, 2016, and year ended December 31, 2017, December 31, 2016 and December 31, 2015 is as follows:

	13 weeks ended December 31		Year Ended December 31		
	2017	2016	**2017**	2016	2015
Adjusted EBITDA[1]	**$ 28,490**	$ 29,460	**$ 108,596**	$ 120,937	$ 109,732
Less:					
Interest and bank charges	**(7,426)**	(6,778)	**(28,204)**	(24,776)	(19,006)
Current income tax expense	**(657)**	(2,349)	**(12,376)**	(7,078)	(1,896)
Other income and expense items	**(12,458)**	(4,899)	**(12,932)**	(9,496)	(1,590)
Operating cash flow before changes in working capital	**7,949**	15,434	**55,084**	79,587	87,240
Changes in working capital[A]	**34,714**	64,053	**3,057**	(16,547)	(18,746)
Cash flows from operating activities	**42,663**	**79,487**	**58,141**	**63,040**	**68,494**
Sources (uses) of cash:					
Purchase of property, plant, equipment, quota and other assets	**(25,350)**	(13,158)	**(85,431)**	(56,332)	(63,390)
Disposal of fixed assets	**2,400**	-	**2,408**	1,131	4,584
Less: Designated borrowings[B]	**14,513**	5,703	**39,206**	25,883	35,097
Scheduled payments on long-term debt[C]	**(8,901)**	(10,259)	**(11,948)**	(15,215)	(5,461)
Payments on long-term incentive plans	**177**	-	**1,618**	5,670	8,953
Distribution to non-controlling interests	**(6,642)**	(5,097)	**(19,154)**	(24,560)	(11,817)
Dividends received from joint venture	**-**	-	**3,340**	-	-
Other financing activities	**-**	-	**-**	-	676
Non-routine costs	**3,392**	684	**3,392**	1,885	1,953
Free cash flows[1]	**$ 22,252**	**$ 57,360**	**$ (8,428)**	**$ 1,502**	**$ 39,089**
Add/(less):					
Other debt borrowings (repayments) of debt, use of cash[C]	**(24,574)**	(42,003)	**27,792**	(37,566)	78,099
Issuance of equity	**-**	(25)	**-**	53,024	58,628
Payments on long-term incentive plans	**(177)**	-	**(1,618)**	(5,670)	(8,953)
Other investing activities[D]	**259**	(2,203)	**(5,832)**	(2,513)	(148,930)
Other financing activities	**(5,159)**	(6,696)	**(15,914)**	(20,369)	(14,425)
Change in cash flows for the period	**$ (7,399)**	$ 6,433	**$ (4,000)**	$ (11,592)	$ 3,508

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

A – Changes in working capital have been restated to align with the change in presentation of cash interest and cash income taxes paid in the consolidated statement of cash flows. This change had no impact on cash from operations.

B – 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 2017 and 2016, the periods covered in this table includes the replacement of the Ocean Concord clam vessel. For 2015, the period covered in this table includes a conversion of a vessel for Argentina, the addition of a third clam vessel, a late life refit on a shrimp vessel and the conversion of a new research 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.

C – Scheduled payments on long-term debt has been updated to include the Deferred Consideration payment made in Q4 2017 of $8.9 million (Q4 2016 of $8.7 million) and the Earnout payment in Q2 2017 of $1.3 million.

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

Return on Assets

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

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

The calculation of adjusted earnings before interest and taxes to total assets for the rolling twelve months ended December 31, 2017 and December 31, 2016 and December 31, 2015 is as follows:

In (000's) of Canadian dollars		**December 31 2017**		December 31 2016		December 31 2015
Adjusted EBITDA[1]	$	**108,596**	$	120,937	$	109,734
Depreciation and amortization		**45,428**		38,634		29,732
Adjusted earnings before interest and taxes		**63,168**		82,303		80,002
Average quarterly total assets	$	**775,783**	$	746,774	$	581,253
		8.1%		11.0%		13.8%

(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.

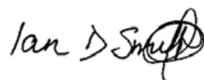
Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information contained in the annual report. In the preparation of these statements, estimates are sometimes necessary because a 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.

March 6, 2018



Ian Smith
Chief Executive Officer

Teresa Fortney
Vice-President, Finance and Chief Financial Officer

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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, 2017 and December 31, 2016, the consolidated statements of earnings (loss), 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, 2017 and December 31, 2016, 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 6, 2018
Halifax, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Financial Position

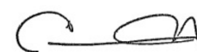
(In thousands of Canadian dollars)

As at December 31		2017		2016
ASSETS				
Current assets				
Cash	**$**	**35,514**	$	39,514
Trade and other receivables (Note 4)		**103,096**		82,108
Inventories (Note 5)		**79,124**		91,831
Prepaids and other (Note 6)		**4,781**		5,414
Derivative financial instruments (Note 7)		**5,797**		4,637
		228,312		223,504
Non-current assets				
Long-term receivables (Note 8)		**5,077**		8,132
Derivative financial instruments (Note 7)		**141**		184
Other assets		**102**		81
Property, plant and equipment (Note 9)		**272,071**		233,807
Investment in equity investee (Note 11)		**9,817**		10,496
Deferred tax assets (Note 12(c))		**11,349**		6,429
Intangible assets (Note 10)		**193,815**		197,321
Goodwill (Note 10)		**50,196**		49,781
		542,568		506,231
TOTAL ASSETS	**$**	**770,880**	$	729,735
LIABILITIES				
Current liabilities				
Trade and other payables	**$**	**80,411**	$	75,953
Income taxes payable (Note 12)		**7,182**		4,303
Current portion of long-term debt (Note 13)		**21,025**		67,005
Derivative financial instruments (Note 7)		**1,978**		1,356
		110,596		148,617
Non-current liabilities				
Long-term debt (Note 13)		**452,148**		369,409
Derivative financial instruments (Note 7)		**7,142**		4,284
Other long-term liabilities		**616**		887
Deferred tax liabilities (Note 12(c))		**17,840**		18,053
		477,746		392,633
SHAREHOLDERS' EQUITY				
Share capital (Note 14)	**$**	**210,860**	$	210,860
Contributed surplus		**3,021**		1,419
Retained earnings (deficit)		**(8,722)**		(4,793)
Accumulated comprehensive loss ("ACL")		**(39,730)**		(38,931)
		165,429		168,555
Non-controlling interest (Note 15)		**17,109**		19,930
		182,538		188,485
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**770,880**	$	729,735

Subsequent events (Note 27)

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		2017		2016
Sales	**$**	**621,031**	$	611,551
Cost of goods sold		**510,963**		466,930
		110,068		144,621
Operating expenses (Note 16)				
Administrative and selling costs		**55,551**		57,506
Restructuring costs		**6,856**		986
Net finance costs (Note 13 (f))		**35,280**		26,948
Foreign exchange (gains) losses on long-term debt and working capital (Note 7 (d))		**(14,263)**		(7,295)
(Gains) losses on contract derivatives (Note 7 (e))		**(4,045)**		(7,279)
Other (income) expense (Note 17)		**(7,576)**		(5,209)
Research and development		**2,368**		2,922
		74,171		68,579
Earnings (loss) before income taxes		**35,897**		76,042
Income tax expense (Note 12)		**7,658**		16,446
Earnings (loss) for the year	**$**	**28,239**	$	59,596
Earnings (loss) attributable to:				
Non-controlling interest (Note 15)	**$**	**12,480**	$	15,668
Shareholders of Clearwater		**15,759**		43,928
	$	**28,239**	$	59,596
Basic earnings (loss) per share (Note 19)	**$**	0.25	$	0.71
Diluted earnings (loss) per share (Note 19)	**$**	0.25	$	0.71

See the accompanying notes to the consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Comprehensive Income

(In thousands of Canadian dollars)

Year ended December 31		**2017**		**2016**
Earnings (loss) for the year	**$**	**28,239**	$	59,596
Comprehensive income (loss) -				
Items that may be reclassified subsequently to income (loss):				
Foreign currency translation differences of foreign operations		**255**		(37,154)
Cash flow hedges - effective portion of change in fair value, net of tax		**(1,238)**		-
Cash flow hedges - reclassified to earnings, net of tax		**49**		-
		(934)		**(37,154)**
Comprehensive income (loss) for the year	**$**	**27,305**	$	22,442
Comprehensive income (loss) attributable to:				
Non-controlling interest (Note 15)	**$**	**12,077**	$	15,820
Shareholders of Clearwater		**15,228**		6,622
	$	**27,305**	$	22,442

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	Accumulated Comprehensive Loss: Cash flow hedge	Accumulated Comprehensive Loss: Cumulative translation adjustment	Retained earnings (deficit)	Non-controlling interest	Total
Balance at January 1, 2016	**$ 157,161**	**$ 547**	**$ -**	**$ (1,625)**	**$ (36,333)**	**$ 29,325**	**$ 149,075**
Comprehensive (loss) income for the year	-	-		(37,306)	43,928	15,820	22,442
Transactions recorded directly in equity							
Issuance of common shares (Note 14)	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 14)	-	-		-	(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**	**$**	**$ (38,931)**	**$ (4,793)**	**$ 19,930**	**$ 188,485**
Comprehensive income (loss) for the year	-	-	(1,189)	658	15,759	12,077	27,305
Transactions recorded directly in equity							
Share-based compensation (Note 20)	-	1,602		-	-	-	1,602
Distributions to non-controlling interest	-	-		-	-	(15,343)	(15,343)
Dividends declared on common shares (Note 14)	-	-		-	(12,787)	-	(12,787)
Acquisition of non-controlling interest (Note 15)				(268)	(6,901)	445	(6,724)
Total transactions with owners	-	1,602	-	(268)	(19,688)	(14,898)	(33,252)
Balance at December 31, 2017	**$ 210,860**	**$ 3,021**	**$ (1,189)**	**$ (38,541)**	**$ (8,722)**	**$ 17,109**	**$ 182,538**

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		2017		2016
Operating				
Earnings (loss) for the year	**$**	**28,239**	$	59,596
Adjustments for:				
Depreciation and amortization		**45,428**		38,634
Accretion on long-term debt(Note 13 (e))		**2,166**		3,556
Amortization of deferred financing costs(Note 13 (e))		**1,555**		2,113
Net unrealized foreign exchange (gains) losses on financial assets and liabilities		**(14,156)**		(30,881)
Loss on debt refinancing		**3,787**		-
Fair value adjustments to financial instruments		**(694)**		(1,481)
Deferred tax expense (recovery)(Note 12)		**(4,717)**		9,367
Share-based compensation		**232**		2,902
(Gain) loss on disposal of property, plant, and equipment and other assets		**(216)**		2
(Earnings) loss in equity investee (Note 11)		**(2,656)**		(1,185)
Foreign exchange and other		**(3,884)**		(3,036)
Cash from operating activities before changes in working capital		**55,084**		79,587
Change in operating working capital (Note 25)		**3,057**		(16,547)
Cash from (used in) operating activities	**$**	**58,141**	$	63,040
Financing				
Repayment of long-term debt(Note 13)		**(425,949)**		(33,899)
Net proceeds from long-term debt		**364,916**		-
Net proceeds from common share issuance(Note 14)		**-**		53,024
Net proceeds from revolving credit facility		**116,082**		7,000
Settlement of derivative contracts on refinancing		**(4,209)**		-
Distributions paid to non-controlling interest		**(19,154)**		(24,560)
Repayments from (advances to) minority partners		**3,766**		(1,843)
Dividends paid on common shares(Note 9)		**(12,787)**		(12,388)
Cash from (used in) financing activities	**$**	**22,665**	$	(12,666)
Investing				
Purchase of property, plant and equipment, and other		**(85,431)**		(56,332)
Proceeds on disposal of property, plant and equipment		**2,407**		8,624
Dividends received from equity investee(Note 11)		**3,340**		-
Acquisition of non-controlling interest(Note 15)		**(6,724)**		-
Purchase of other assets		**(44)**		(7,692)
Net advances in long-term receivables		**936**		(473)
Cash from (used in) investing activities	**$**	**(85,516)**	$	(55,873)
Effect of foreign exchange rate changes on cash	**$**	**710**	$	(6,093)
(DECREASE) INCREASE IN CASH		**(4,000)**		(11,592)
CASH, BEGINNING OF PERIOD		**39,514**		51,106
CASH, END OF PERIOD	**$**	**35,514**	$	39,514
Supplemental disclosure of operating cash flows				
Cash interest paid		**(25,518)**		(26,434)
Cash income taxes paid		**(9,447)**		(2,538)

See the accompanying notes to the consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

Clearwater Seafoods Incorporated ("Clearwater" or the "Company") 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 a joint venture.

The consolidated financial statements of Clearwater as at and for the years ended December 31, 2017 and 2016 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 6, 2018.

(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. 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 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 12.

ii. Goodwill and intangible assets

Key sources of estimation uncertainty

Clearwater conducts impairment testing on its goodwill and intangible assets annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To better align with Clearwater's internal budgeting cycle, the date as of which annual testing is performed was changed from the third quarter to the fourth quarter, beginning in 2017.

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 of 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 10.

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 corporate performance.

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 assets and liabilities using valuation techniques where the fair value cannot be observed 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 discount rates, inflation rates, defaults and other relevant variables such as foreign exchange volatility.

For further discussion on derivative financial instruments, refer to Note 7.

v. Earnout liability

Key sources of estimation uncertainty

Clearwater determines the fair value measurement of the Earnout liability 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. Inputs are taken from observable markets where possible and estimated as necessary. Assumptions include forecasted earnings and probability assessments.

For further discussion on the fair value measurement of the Earnout liability, refer to Note 7(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 fourth quarter and as required if events occur that indicate that its carrying amount may not be recoverable. Goodwill is tested for impairment at the cash generating unit ("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 net earnings (loss) and comprehensive income (loss) 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 raw materials and 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 10 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 net earnings (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 changes to estimates are adjusted prospectively.

(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 intangible assets, including licenses and brand names, are not amortized and are tested for impairment annually in the fourth 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 or research and development expenses.

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

Government assistance related to expenses are presented in Other (income) expense.

Clearwater does not have any government assistance that is 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:

<table>
<tr><th>Financial instrument</th><th>Category</th><th>Measurement Method</th></tr>
<tr><td>Cash</td><td>Fair value through profit or loss</td><td>Fair value</td></tr>
<tr><td>Trade and other receivables</td><td>Loans and receivables</td><td rowspan="4">Initial: Fair Value
Subsequent: Amortized cost through profit or loss</td></tr>
<tr><td>Long-term receivables</td><td>Loans and receivables</td></tr>
<tr><td>Trade and other payables</td><td>Non-derivative financial liabilities</td></tr>
<tr><td>Long-term debt</td><td>Non-derivative financial liabilities</td></tr>
<tr><td>Earnout liability</td><td>Derivative financial instruments</td><td rowspan="2">Fair value</td></tr>
<tr><td>Derivative financial instruments</td><td>Derivative financial instruments</td></tr>
</table>

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 net earnings (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 13 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 ("VIU") 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 amount 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 into the respective functional currency of the Company and its' subsidiaries at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the Company's functional currency at the exchange rate as at the reporting 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 comprehensive income in the cumulative translation adjustment 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 adjustment 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 adjustment 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 temporary 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 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 three share-based compensation plans including share appreciation rights, deferred share units and performance share units (“PSU”). Refer to Note 20 for a description of the plans.

On May 12, 2015, Clearwater amended the terms of the PSU plan. 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. Grants settled in 2017 have been 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 PSU’s 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 PSU’s was recorded in trade and other payables in the consolidated statement of financial position. The cumulative compensation expense related to the equity-settled PSU’s is recorded as contributed surplus in equity. The related compensation expense for both cash-settled and equity-settled PSU’s 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 PSU’s, by the weighted average number of common shares outstanding and the voting rights attributable to the PSU’s outstanding during the year. The calculation of the potential dilutive common shares assumes all outstanding PSU’s 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, 2017. These changes were made in accordance with the applicable transitional provisions.

Disclosure Initiative (Amendments to IAS 7)

On January 7, 2016 the International Accounting Standards Board ("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 adopted 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 provided a reconciliation of the opening and closing balances of liabilities arising from financing activities in Note 25.

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 adopted the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. These amendments had no impact to Clearwater.

(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.

Effective January 1, 2018

IFRS 15 – Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognizing 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 Company will adopt IFRS 15 for the annual period beginning on January 1, 2018. The Company has elected to apply the modified retrospective method on transition which means that comparative periods will not be restated, instead the cumulative impact will be recognized in opening retained earnings on transition, January 1, 2018. Based on Clearwater's analysis of its existing contracts and arrangements, Clearwater is not expected to be materially impacted by the new standard.

Under the new standard, the Company is required to disclose information related to the disaggregation of revenues, performance obligations, significant judgements, contract balances and costs to obtain contracts. The additional disclosures are not expected to have a significant impact to Clearwater's information gathering processes or systems.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, 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 and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 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 permit 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 is required to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. Based on Clearwater's analysis of its existing financial instruments, Clearwater is not materially impacted by the new standard. Changes related to general hedge accounting will not have a significant impact to Clearwater.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

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 will adopt IFRIC 22 in its financial statements for the annual period beginning on January 1, 2018. This standard is not expected to have a material impact to Clearwater.

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 will adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The amendments do not have a material impact to Clearwater based on existing share-based payment transactions.

<u>Effective January 1, 2019</u>

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 is required to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. Clearwater expects to see an impact as a result of the new lease standard on its key performance measures, including earnings before interest, tax, depreciation and amortization. The extent of the impact of adoption of the standard has not yet been determined and quantified. Clearwater expects to have completed its analysis by the third quarter of 2018.

No Effective Date

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

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, 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 recognizes the full gain on the loss of control, whereas under the existing guidance on associates and joint ventures the parent recognizes 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 recognized 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 resolves the inconsistencies and determines an effective date.

4. TRADE AND OTHER RECEIVABLES

As at December 31		**2017**		2016
Trade receivables	**$**	**86,636**	$	66,874
Other receivables		**16,460**		15,234
	$	**103,096**	$	82,108

Included in other receivables is $9.2 million (December 31, 2016 - $6.4 million) of input tax credits receivable and $7.3 million (December 31, 2016 - $8.8 million) of other receivables.

5. INVENTORIES

As at December 31		**2017**		2016
Seafood inventory	**$**	**68,696**	$	81,796
Supplies and other		**10,428**		10,035
	$	**79,124**	$	91,831

In 2017 inventory costs of $467.7 million (2016 - $440.4 million) were recognized in cost of goods sold. Clearwater incurred $1.8 million (2016 - $2.9 million) in inventory write-downs which was recognized in cost of goods sold. For inventories pledged as security for long term debt, refer to Note 13.

6. PREPAIDS AND OTHER

As at December 31		**2017**		**2016**
Prepaids	**$**	**4,781**	$	5,268
Due from related parties (Note 22)		**-**		146
	$	**4,781**	$	5,414

7. FINANCIAL INSTRUMENTS

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

Summary of fair value of derivative financial instrument positions:

As at		**December 31 2017**		December 31 2016
Derivative financial assets				
Forward foreign exchange contracts	**$**	**5,938**	$	4,637
Interest rate caps, floors and swap contracts		**-**		184
	$	**5,938**	$	4,821
Derivative financial liabilities				
Forward foreign exchange contracts		**(9,120)**		(1,356)
Interest rate and cross-currency swap contracts		**-**		(4,284)
	$	**(9,120)**	$	(5,640)

(a) Forward Foreign Exchange Contracts

Clearwater has forward contracts maturing each month until December 2018 and forward contracts related to the USD Notes maturing April 2022 (Note 13). At December 31, 2017 Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency notional amount (in 000's)	Average contract exchange rate	Weighted average months to maturity		Fair value asset (liability)
Contracts in a current asset position					
Derivatives designated as hedging instruments					
USD	6,875	1.237	7	$	122
Derivatives not designated as hedging instruments					
Euro	4,700	1.560	12		84
USD	62,600	1.323	6		4,178
Yen	1,461,000	0.012	6		1,012
Euro - GBP	9,500	0.904	8		134
USD - GBP	5,220	0.766	5		267
				$	5,797
Contracts in a non-current asset position					
Derivatives designated as hedging instruments					
USD	17,188	1.243	28	$	141
				$	141
Total contracts in an asset position					5,938
Contracts in a current liability position					
Derivatives designated as hedging instruments					
USD	6,875	1.336	7	$	(541)
Derivatives not designated as hedging instruments					
Euro	27,700	1.497	6		(750)
USD	27,400	1.245	9		(270)
Yen	715,000	0.011	9		(21)
Euro - GBP	9,400	0.866	4		(395)
				$	(1,978)
Contracts in a non-current liability position					
Derivatives designated as hedging instruments					
USD	30,938	1.305	38	$	(1,504)
Derivatives not designated as hedging instruments					
USD	200,000	1.284	52		(5,639)
				$	(7,142)
Total contracts in a liability position					(9,120)

At December 31, 2016, Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency notional amount (in 000's)	Average contract exchange rate	Weighted average months to maturity	Fair value asset (liability)	
Contracts in an asset position					
Derivatives not designated as hedging instruments					
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 a liability position					
Derivatives not designated as hedging instruments					
USD	41,050	1.309	3	$	(1,356)
				$	(1,356)

(b) Cash Flow Hedges

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

The following table summarizes the pre-tax amounts recognized in the Consolidated Statement of Comprehensive Income, the amounts reclassified from Accumulated Comprehensive Income (loss) within equity and the amount recorded in the Consolidated Statement of Earnings (Loss):

	Gain (loss) recognized in ACI		Gain (loss) reclassified from ACI to Net Finance Costs		Ineffectiveness recognized in Net Finance Costs	
		Year ended		Year ended		Year ended
Derivatives in cash flow hedging relationship	**December 31 2017**	December 31 2016	**December 31 2017**	December 31 2016	**December 31 2017**	December 31 2016
Forward foreign exchange contacts [1]	$ **(1,781)**	$ -	$ **(71)**	$ -	$ -	$ -

[1] Income tax recovery recorded in ACL was $0.5 million and $0.02 million reclassified from ACI to Net Earnings (Loss).

(c) Interest Rate Swaps, Caps and Floors

On April 26, 2017, Clearwater refinanced its long-term debt and simultaneously settled the outstanding interest rate caps and swap contracts and cross currency swaps.

At December 31, 2017 Clearwater had no interest rate caps and swap contracts or cross-currency swap contracts outstanding. The Term Loan B interest rate floor noted below has nil value as of December 31, 2017.

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

	Effective date	Expiry date	Contracted fixed interest rate	Currency	Notional amount (in 000's)	Fair value asset (liability)
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)
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

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

Year ended December 31	2017	2016
Realized (gain) loss		
Working capital and other	$ 3,547	$ 7,803
Unrealized (gain) loss		
Long term debt and working capital	(23,693)	(18,045)
Foreign exchange contracts, cross currency swaps and caps related to long-term debt	5,883	2,947
Total unrealized (gain) loss	(17,810)	(15,098)
	$ (14,263)	$ (7,295)

(e) (Gains) losses on contract derivatives

Year ended December 31	2017	2016
Realized (gain) loss		
Forward foreign exchange contracts	$ (3,065)	$ 7,345
Unrealized (gain) loss		
Forward foreign exchange contracts	(980)	(14,624)
	$ (4,045)	$ (7,279)

(f) 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 counter parties to its derivative financial instruments but does not anticipate non-performance of any of the counter parties 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 using 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 8% of total sales. As a result Clearwater does not have any significant concentration of credit risk.

Clearwater's trade accounts receivable aging based on the invoice due date was as follows:

As at December 31	**2017**	2016
0-30 days	**92.8%**	93.6%
31-60 days	**5.7%**	5.3%
over 60 days	**1.5%**	1.1%
	100.0%	100.0%

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $ 0.1 million (2016 - $0.4 million). Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. Accounts are 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		**2017**		**2016**
Balance at January 1	**$**	**424**	$	555
Allowance recognized		**263**		311
Amounts recovered		**(12)**		-
Amounts written off as uncollectible		**(247)**		(394)
Foreign exchange		**(281)**		(48)
Balance at December 31	**$**	**147**	$	424

(g) 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 88% (2016 - 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 that operate in Argentina and the United Kingdom which exposes the Company 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 15 months.

On April 26, 2017, Clearwater completed an offering of USD $250 million senior unsecured notes, due 2025 with a US dollar coupon rate of 6.875% ("the Notes"). In 2017, Clearwater entered into forward foreign exchange contracts to hedge approximately 80% of the notional value of the Notes at an average rate of 1.2844 and approximately 80% of the coupon payments at an average rate of 1.2837.

The carrying amounts of Clearwater's foreign currency denominated monetary assets and monetary liabilities (excluding derivative financial instruments) as at December 31, 2017 and December 31, 2016 were as follows (presented in Canadian dollars):

As at December 31	2017	2016
Cash	**$ 9,685**	$ 35,578
Trade receivables	**78,075**	50,238
Other receivables	**9,618**	8,462
Long-term receivables	**3,672**	9,705
Trade and other payables	**(31,506)**	(19,570)
Long-term debt	**(347,026)**	(289,184)
Other long-term liabilities	**(616)**	(887)
Net exposure to consolidated statements of financial position	**$ (278,098)**	$ (205,658)

The components of this net exposure by currency are as follows (in foreign currency '000's) at December 31, 2017:

December 31, 2017	**GBP**	**USD**	**Yen**	**Euros**	**RMB**	**DKK**	**Argentine Peso**
Cash	**285**	**2,517**	**13,949**	**414**	**1,551**	**24,583**	**212**
Trade receivables	**475**	**20,610**	**567,467**	**29,313**	**-**	**7,950**	**154**
Other receivables	**2,032**	**1,333**	**660**	**2,547**	**-**	**(3,432)**	**21,873**
Long term receivables	**1,400**	**-**	**-**	**-**	**-**	**-**	**19,958**
Trade and other payables	**(11,023)**	**(1,745)**	**(14,702)**	**(2,588)**	**2,290**	**(2,595)**	**(100,333)**
Long-term debt	**(16,835)**	**(253,879)**	**-**	**40**	**-**	**-**	**-**
Other long-term liabilities	**(365)**	**-**	**-**	**-**	**-**	**-**	**-**
Net exposure to consolidated statements of financial position	**(24,031)**	**(231,164)**	**567,374**	**29,726**	**3,841**	**26,506**	**(58,136)**

The components of this net exposure by currency are as follows (in foreign currency '000's) 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 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.

(In '000 of Canadian dollars)	**2017**	**2016**
GBP	**(4,059)**	(3,289)
USD	**(28,968)**	(23,049)
Yen	**630**	94
Euros	**4,459**	3,096
RMB	**74**	23
NOK	**-**	(1)
DKK	**534**	2,608
Argentine Peso	**(381)**	(40)

(h) 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 until its refinancing on April 26, 2017. The interest rate floor was a derivative instrument and recorded at fair value through profit or loss until the settlement of the Term Loan B.

Clearwater manages its interest rate risk exposure by using a mix of fixed and variable rate debt. In 2017, Clearwater replaced its long-term debt with fixed rate USD Notes and variable rate Revolving Credit facility and Term Loan B facility (Note 13). As at December 31, 2017, approximately 68% (2016 – 3.9%) of Clearwater's debt of $473.2 million (2016 - $436.4 million) was fixed rate debt with a weighted average interest rate of 5.8% (2016 – 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 $1.2 million increase (or decrease) in interest expense.

As at December 31, 2016, Clearwater had 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 was effectively subject to an interest rate that was 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 was subject to a fixed interest rate of 5.85% to June 2018.
- USD $50 million of Term Loan B was subject to a fixed interest rate of 6.15% to June 2019.
- USD $50 million of Term Loan B was capped to June 30, 2018 at an interest rate of 4.75% and then the rate was fixed at 6.49% to June 2019.

Clearwater accounted for these swap arrangements at fair value and recorded the change in fair value through the consolidated statement of earnings (loss). The fair value of interest rate swaps and interest rate caps at the end of the reporting period was 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. These economic hedges were unwound in April 2017 when Clearwater completed its refinancing.

(i) 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, 2017.

Clearwater's financing needs follow a seasonal pattern with working capital and debt increasing in the second and third quarter of the year as inventories are built up over the primary fishing seasons with sales typically increasing in the third and fourth quarters of the year, reducing leverage over those periods. Management has structured its financing facilities reflecting this pattern and works with its lenders to set financial covenants which consider seasonal liquidity requirements.

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, 2017	Carrying Amount	Total Contractual Cash Flow	2018	2019	2020	2021	2022	>2023
Interest - long-term debt	$ -	$ 198,248	$ 26,502	$ 26,251	$ 26,238	$ 26,225	$ 23,321	$ 69,711
Principal repayments - long-term debt	-	473,173	21,025	9,761	9,761	1,695	120,748	310,183
Total long-term debt	473,173	671,421	47,527	36,012	35,999	27,920	144,069	379,894
Trade and other payables	80,411	80,411	80,411	-	-	-	-	-
Operating leases and other	-	14,670	5,625	4,011	3,281	820	555	379
Derivative financial instruments - asset	5,938	5,938	5,797	88	47	6	-	-
Derivative financial instruments - liabilities	9,120	9,120	1,978	485	436	395	5,826	-
	$ 568,642	$ 781,560	$ 141,338	$ 40,596	$ 39,763	$ 29,141	$ 150,450	$ 380,273

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 2020 for vehicle and office leases, which aggregate approximately $0.07 million (2016 - $0.04 million).

(j) 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, 2017	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount	Fair value
Assets:						
Cash	$ 35,514	$ -	$ -	$ -	**$ 35,514**	**$ 35,514**
Trade and other receivables	-	-	103,096	-	**103,096**	**103,096**
Long-term receivables	-	-	5,077	-	**5,077**	**5,077**
Forward foreign exchange contracts	-	5,938	-	-	**5,938**	**5,938**
	$ 35,514	$ 5,938	$ 108,173	$ -	**$ 149,625**	**$ 149,625**
Liabilities:						
Trade and other payables	$ (4,703)	$ -	$ -	$ (75,708)	**$ (80,411)**	**$ (80,411)**
Long-term debt[1]	(5,278)	-	-	(467,895)	**(473,173)**	**(491,079)**
Forward foreign exchange contracts	-	(9,120)	-	-	**(9,120)**	**(9,120)**
	$ (9,981)	$ (9,120)	$ -	$ (543,603)	**$ (562,704)**	**$ (580,610)**

[1] Earnout liability is recorded at fair value through profit or loss.

	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 cap, 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[1]	(9,107)	-	-	(426,604)	**(435,711)**	**(436,082)**
Forward foreign exchange contracts	-	(1,356)	-	-	**(1,356)**	**(1,356)**
Embedded derivative	-	(703)	-	-	**(703)**	**(703)**
Interest rate swaps	-	(4,284)	-	-	**(4,284)**	**(4,284)**
	$ (16,695)	$ (6,343)	$ -	$ (494,969)	**$ (518,007)**	**$ (518,378)**

[1] Earnout liability is recorded at fair value through profit or loss.

Fair value of financial instruments carried at amortized cost:

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

The estimated fair value of Clearwater's long-term debt for which carrying value did not approximate fair value at December 31, 2017 was $363.5 million (December 31, 2016 - $46.8 million) and the carrying value was $345.7 million (December 31, 2016 – $46.5 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.

(k) 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, 2017	Level 1	Level 2	Level 3
Recurring measurements			
Financial Assets:			
Cash	$ 35,514	$ -	$ -
Forward foreign exchange contracts	-	5,938	-
	$ 35,514	$ 5,938	$ -
Financial Liabilities:			
Forward foreign exchange contracts	$ -	$ 9,120	$ -
Earnout liability	-	-	(5,278)
	$ -	$ 9,120	$ (5,278)

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 in Term Loan B (Note 13 (a))	-	(703)	-
Interest rate swaps	-	(4,284)	-
Earnout liability	-	-	(9,107)
	$ -	$ (6,343)	$ (9,107)

There were no transfers between levels during the periods ended December 31, 2017 and December 31, 2016.

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 was fair valued using a Bloomberg valuation model for interest rate floors.

- Interest rate swaps, caps and floors and cross-currency swaps were measured using present value techniques that used a variety of inputs, being quoted prices and market-corroborated inputs.

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

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 fair value of the Earnout is estimated based on discounted expected future EBITDA cash flows for Macduff for the four year period ending December 31, 2020. The following inputs and assumptions were used in calculating the fair value of the Earnout liability 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 forecast for the remaining period;
- Risk-free rate: 1.8%

- Risk adjusted discount rate: 7.5%
- Asset volatility: The estimated asset volatility of Macduff is based on its observable historical EBITDA volatility. In the context of calculating the asset volatility, the following inputs to derive the asset volatility were used:
  - Debt value: 1.8x EBITDA
  - Enterprise Value: 7.5x EBITDA
  - EBITDA volatility: 21%

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 method stated above, the fair value of the Earnout was determined to be £3.1 million (CDN $5.2 million).

The change in the fair value of the Earnout for the year ended December 31, 2017 was a decrease of £1.6 million (CDN $2.7 million) (2016 - decrease of £0.6 million (CDN $1.1 million)).

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

8. LONG-TERM RECEIVABLES

As at December 31		**2017**		2016
Advances to fishermen	**$**	**5,077**		6,481
Notes receivable from non-controlling interest holder in subsidiary		**-**	$	1,368
Other		**-**		283
	$	**5,077**	$	8,132

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% (2016 - 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 7 (h)).

Notes receivable from non-controlling interest consisted of funds that were advanced to a shareholder in an incorporated subsidiary. The notes were interest bearing at rates ranging from 0% - 12% and were unsecured and had no set terms of repayment. In the second quarter of 2017, the interest bearing loans were repaid and $0.1 million was forgiven.

9. 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, 2017	$ 2,819	$ 67,102	$ 73,024	$ 325,083	$ 36,043	$ 504,071	$ (8,962)	$ 495,109
Additions	-	47	254	6,428	78,702	85,431	-	85,431
Disposals	-	(11)	(15)	(26,952)	-	(26,978)	-	(26,978)
Reclassifications and other adjustments	62	2,293	14,407	12,923	(28,998)	687	(1,160)	(473)
Effect of movements in exchange rates	(4)	(219)	208	(5,033)	128	(4,920)	-	(4,920)
Balance at December 31, 2017	$ 2,877	$ 69,212	$ 87,878	$ 312,449	$ 85,875	$ 558,291	$ (10,122)	$ 548,169
Accumulated depreciation								
Balance at January 1, 2017	$ 1,005	$ 49,695	$ 60,320	$ 158,515	$ 7	$ 269,542	$ (8,240)	$ 261,302
Depreciation for the year	30	2,532	5,082	33,037	-	40,681	(377)	40,304
Disposals	-	(11)	(15)	(24,760)	-	(24,786)	-	(24,786)
Reclassifications and other adjustments	-	-	(7)	630	(7)	616	-	616
Effect of movements in exchange rates	-	7	163	(1,520)	-	(1,350)	12	(1,338)
Balance at December 31, 2017	$ 1,035	$ 52,223	$ 65,543	$ 165,902	$ -	$ 284,703	$ (8,605)	$ 276,098
Carrying amounts								
At January 1, 2017	$ 1,814	$ 17,407	$ 12,704	$ 166,568	$ 36,036	$ 234,529	$ (722)	$ 233,807
At December 31, 2017	$ 1,842	$ 16,989	$ 22,335	$ 146,547	$ 85,875	$ 273,588	$ (1,517)	$ 272,071

	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)
Reclassification 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

Total depreciation and amortization expense related to property, plant and equipment and definite-life intangible assets for 2017 was $45.4 million (2016 - $38.6 million). In 2017, $42.3 million (2016 - $31.9 million) of depreciation and amortization expense for assets used in the harvesting and production of goods was classified as cost of goods sold and $3.0 million (2016 – $1.6 million) was recorded in administrative and selling costs for assets used in administrative activities. For property, plant and equipment pledged as security for long-term debt, refer to Note 13.

10. 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, 2016	$ **54,180**	$ 12,680	$ -	$ 172,179	$ 26,078	$ **210,937**	$ **265,117**
Acquisition through business combination	**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**
Additions	**-**	-	996	-	-	**996**	**996**
Foreign currency exchange translation	**415**	186	-	727	(356)	**557**	**972**
Balance at December 31, 2017	$ **50,196**	$ 10,402	$ 22,074	$ 154,453	$ 25,308	$ **212,237**	$ **262,433**
Accumulated amortization							
Balance at January 1, 2016	$ **-**	$ **-**	$ **-**	$ -	$ 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**
Amortization	**-**	-	3,224	-	1,900	**5,124**	**5,124**
Foreign currency exchange translation	**-**	-	-	-	(65)	**(65)**	**(65)**
Balance at December 31, 2017	$ **-**	$ -	$ 5,616	$ -	$ 12,806	**18,422**	$ **18,422**
Carrying amounts							
As at December 31, 2016	$ **49,781**	$ 10,216	$ 18,686	$ 153,726	$ 14,693	**197,321**	$ **247,102**
As at December 31, 2017	$ **50,196**	$ 10,402	$ 16,458	$ 154,453	$ 12,502	**193,815**	$ **244,011**

Clearwater maintains fishing licenses and rights to ensure continued access to the underlying resource. Fishing 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 VIU approach as of December 31, 2017. The recoverable amount is the higher of the VIU and fair value less cost of disposal. The VIU for all CGU's were determined to be higher than their carrying amounts and therefore no impairments were recorded during 2017.

The value in use was determined by discounting the projected future cash flows generated from operations for the applicable CGU. Unless otherwise indicated in notes i – iii, the assumptions used in the Goodwill and indefinite life Intangible assets value in use for 2017 were determined similarly to those used in 2016.

The carrying value of Clearwater's significant CGU's are as follows:

As at	September 30 2017	December 31 2016
Scallops		
Indefinite life licenses	**$ 54,456**	$ 55,458
MacDuff		
Goodwill	**44,558**	44,143
Indefinite life licenses	**74,886**	73,544
Brand names	**10,402**	10,216
All other CGU's individually without significant carrying value		
Goodwill	**5,638**	5,638
Indefinite life licenses	**25,111**	24,724
	$ 215,051	$ 213,723

The discounted cash flows used in determining the recoverable amounts 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% (2016: 2% - 2.5%).

ii) Pre-tax discount rates ranging from 9% - 13% (2016: 9% - 13%) were applied in determining the recoverable amount of the CGU's. 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 a management approved capital expenditure forecast, and terminal year capital expenditures were based on required refits over the period of the fishing license.

The following assumptions were used for each individual CGU:

	Inflation		Pre-tax discount rates	
	2017	2016	**2017**	2016
Argentine scallops	**2.0%**	2.0%	**13.0%**	13.0%
Clams	**2.0%**	2.0%	**9.5%**	9.5%
Turbot	**2.0%**	2.0%	**9.5%**	9.5%
CDN scallops	**2.0%**	2.0%	**9.5%**	9.5%
FAS shrimp	**2.0%**	2.0%	**9.5%**	9.5%
Lobster	**2.0%**	2.0%	**10.0%**	10.0%
MacDuff	**2.5%**	2.5%	**11.0%**	11.0%
Other	**2.0%**	2.0%	**9.0%**	9.0%

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 2017 and 2016, there have been no additions or disposals.

Refer to Note 13 for assets pledged as security for long term debt.

Computer software

Clearwater implemented a new enterprise resource planning system ("ERP") in 2016 and began amortizing on a straight line basis over 3 - 8 years, beginning in the second quarter of 2016.

11. 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	**2017**	**2016**
Carrying amount of interest in joint venture	**$ 9,817**	$ 10,496
Share of:		
Earnings for the year	**2,656**	1,185
Dividends from joint venture	**3,340**	-

12. 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		2017		2016
Earnings (loss) before income taxes	$	**35,897**	$	76,042
Combined tax rates		**30.5%**		30.5%
Income tax provision at statutory rates	$	**10,949**	$	23,193
Add (deduct):				
Income of partnerships taxed in the hands of the partners	$	**(2,458)**	$	(4,022)
Permanent differences		**(2,565)**		(1,265)
Benefit of non-capital loss not recognized		**5,451**		-
Recognition of previously unrecognized deferred tax assets		**(2,970)**		(1,425)
Effect of rate differences		**639**		(1,581)
Income of foreign subsidiary not subject to tax		**(50)**		2,304
Other		**(1,338)**		(758)
Actual provision	$	**7,658**	$	16,446

(b) Income tax expense

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

Year ended December 31		2017		2016
Current income tax expense	$	**12,375**	$	7,079
Deferred tax expense (recovery)		**(4,717)**		9,367
	$	**7,658**	$	16,446

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

		December 31 2017		December 31 2016
Deferred tax assets:				
Non-capital loss carry-forwards	**$**	**18,198**	**$**	17,144
Unrealized foreign exchange		**1,472**		250
Share issuance costs		**805**		1,192
Reserve for unpaid share-based compensation		**1,094**		2,001
Capital Losses		**3,590**		-
Other		**656**		-
Deferred tax liabilities:				
Licenses and intangibles		**(22,932)**		(18,200)
Property, plant and equipment		**(5,227)**		(13,004)
Long-term debt		**(4,147)**		(586)
Other		**-**		(421)
	$	**(6,491)**	$	(11,624)

Classified in the consolidated statement of financial position as:

Deferred tax asset		**11,349**		6,429
Deferred tax liability		**(17,840)**		(18,053)
	$	**(6,491)**	$	(11,624)

The net change in deferred income taxes is reflected in deferred income tax recovery of $4.7 million (2016 - expense of $9.4 million), plus $0.5 million (2016 – nil) of deferred tax recovery recorded through other comprehensive loss (Note 7 (b)), less the foreign exchange effect of deferred taxes of foreign subsidiaries totaling $0.1 million (2016 - $4.3 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 than 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	$ 17,872	$ 7,960	$ 25,832	2026 - 2037
Investment tax credits	13,095	590	13,685	2023 - 2037
Capital losses	44,550	380	44,930	No expiry
Accounts receivable	-	15,798	15,798	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, 2017 for the Company's subsidiaries was $84.2 million (December 31, 2016 - $49.8 million).

13. LONG-TERM DEBT

As at December 31	**2017**	2016
Senior debt (a):		
USD senior unsecured notes, due May 2025 (USD $250,000)	**$ 306,684**	$ -
Term loan B, due May 2022	**34,466**	-
Revolving credit facility, due May 2022	**87,682**	-
Term loan A, due June 2018	-	50,218
Term loan B, due June 2019	**-**	306,507
Term loan B, embedded derivative	**-**	703
Revolving credit facility	**-**	23,400
Deferred obligation (b)	**23,181**	29,298
Earnout liability (b)	**5,278**	9,107
Term loan, due June 2018 (c)	**12,215**	13,459
Term loan, due in 2091 (d)	**3,500**	3,500
Other loans	**167**	222
Total Debt	**473,173**	436,414
Less: current portion [1]	**(21,025)**	(67,005)
Total Long-term Debt	**$ 452,148**	$ 369,409

[1] Current portion of long-term debt includes scheduled payments related to the Senior debt; Deferred Obligation payments, less accretion during the period and minimum payment related to the Earnout Liability.

(a) Senior debt

In April 2017, Clearwater refinanced its senior debt facilities. The Company issued USD $250 million of 6.875% Senior Notes due May 2025 (the "Notes Offering"). Concurrent with the Notes Offering, Clearwater entered into new senior secured credit facilities in an aggregate availability of CDN $335 million, consisting of a CDN $300 million revolving credit facility and a CDN $35 million amortizing secured term loan ("Term Loan B"), each maturing in 2022 (the "Senior Secured Credit Facilities"). Clearwater used the net proceeds from the sale of the Notes, together with the new borrowings under the Senior Secured Credit Facilities, to refinance existing senior secured credit facilities (Term Loan A was due June 2018, Term Loan B was due June 2019 and revolving credit facility) and for general corporate purposes.

The refinancing was accounted for as a settlement of the prior facilities and consequently $4.2 million of unamortized deferred financing costs and refinancing costs were recorded with Net Finance Costs (refer to Note 13 (e)). Financing costs related to the USD Notes and Senior Secured Credit Facilities of $12.0 million have been deferred and amortized into interest using the effective interest method over the term of the debt.

As at December 31, 2017, Senior debt consists of USD senior unsecured notes (the "Notes"), a Term Loan B facility and revolving debt facility. As of December 31, 2016, senior debt consisted of a Term Loan A facility, Term Loan B facility and a revolving credit facility.

Senior Notes, due 2025 – The USD $250.0 million (CDN $314.1 million) Senior Notes have a coupon rate of 6.875%, with coupon payments payable in semi-annual installments of USD $8.6 million (CDN $10.8 million) in May and November each year. The balance is shown net of unamortized deferred financing charges of USD $5.9 million (CDN $7.4 million) which resulted in an effective interest rate of 7.194%.

Refer to Note7 for details on forward foreign exchange contracts used to economically hedge a portion of the foreign exchange risk related to the notional and coupon payments for the Senior Notes.

Term Loan B facility, due 2022 – The Term Loan B consists of an initial term loan of CDN $35.0 million. The principal outstanding as at December 31, 2017 was CDN $34.7 million. The loan is repayable in annual installments of $0.35 million, with the balance due at maturity in May 2022. The facility bears interest ranging from LIBOR plus 2.50% to 3.25%. The range is determined quarterly based on a ratio of Senior Secured indebtedness to EBITDA, with EBITDA calculated on a trailing twelve month basis. The balance is shown net of deferred financing charges of CDN $0.3 million resulting in an effective interest rate of 3.74%.

Revolving credit facility, due 2022 – The CDN $300 million revolving credit facility can be drawn in CDN, USD, EUR, YEN or GBP. As at December 31, 2017 the balances were drawn in CDN and bear interest ranging from LIBOR plus 1.50% to 2.25%. The range is determined quarterly based on a ratio of Senior Secured indebtedness to EBITDA, with EBITDA calculated on a trailing twelve month basis. The balance is shown net of deferred financing charges of CDN $2.3 million, resulting in effective rates of 3.97% for CDN balances. The availability of this facility, subject to financial covenants, is further reduced by the term loan outstanding in note (c), as such the availability as at December 31, 2017 was approximately CDN $56 million. The facility has standby fees ranging from 0.25% to 0.30% based upon the Senior Secured Indebtedness to EBITDA ratio as of the last day of the immediately preceding fiscal quarter.

The Revolving Credit Facility and Term Loan B, due 2022, are secured by a first charge on cash, trade and other receivables, inventories, marine vessels, licenses and quotas, and Clearwater's investments in certain subsidiaries.

In addition to the minimum principal payments for Term Loan 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 less principal debt repayments (excluding revolver payments), less interest expense, less capital expenditures funded through operating cash flows, less certain tax expenses), be used to repay the principal based on the previous fiscal year's results upon approval of the annual consolidated financial statements. During the period ended December 31, 2017, Clearwater repaid nil in principal relating to this requirement.

Term Loan A facility (repaid April 2017) – The Term Loan A consisted 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. The balance is shown net of deferred financing charges of CDN $0.1 million. The loan was interest bearing 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 CDN $26.4 million. The balance is shown net of deferred financing charges of CDN $0.3 million. Interest was 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 (repaid April 2017) - The principal outstanding as at December 31, 2016 was USD $178.5 million and CDN $70.4 million. Interest on the USD balance was payable monthly at the US LIBOR plus 3.50% with a LIBOR interest rate floor of 1.25%, and the CDN balance 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 represented 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.

In 2016, a payment similar to those under the new Term Loan B discussed above were required under the Term Loan A and B loan agreements. In 2016, Clearwater paid $18.6 million in principal on Term Loan A and B and payments were allocated amongst the term loans on a pro rata basis.

Revolving credit facility (repaid April 2017) - Clearwater had a CDN $100.0 million revolving facility. The availability of this facility was reduced by the term loan outstanding in note (c). The facility could be drawn in CDN and/or USD. As at December 31, 2016 the balance was CDN $23.4 million. The CDN balance was interest bearing at the banker's acceptance rate plus 3.25%. As of December 31, 2016 this resulted in an effective rate of 4.14%. The facility had standby fees of 0.375%.

(b) Deferred Obligation and Earnout Liability

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, 2017 is £15.8 million (CDN $26.5 million) (December 31, 2016 - £21.0 million (CDN $34.8 million)) and does not bear interest. The Deferred Obligation is recorded at the discounted amount based on estimated timing of payment and is being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 7.44%. The following is a reconciliation of the Deferred Obligation:

		GBP		CDN
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
Accretion - 2017		**1.3**		**2.2**
Principal repayment		**(5.2)**		**(8.8)**
Effect of movement in foreign exchange		**-**		**0.5**
Balance - December 31, 2017	£	**13.8**	**$**	**23.2**

On October 30th of each year, the holders of the Earn Out Shares can elect to be paid up to 20% of the original Deferred Obligation amount. 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, 2017 and 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 - $8.8 million) was made in November 2017 and £5.2 million (CDN - $8.7 million) in November 2016.

(ii) Earnout liability - The Earnout liability is unsecured additional consideration to be paid dependent upon the financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The estimated fair value of the Earnout liability at December 31, 2017 is £3.1 million (CDN - $5.3 million) (December 31, 2016 - £5.5 million, CDN - $9.1 million) based on forecast earnings and probability assessments. The actual Earnout payments are expected to be paid over a five year period ending 2021.

The first payment was made in the second quarter of 2017 for £0.8M (CDN - $1.3 million).

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 7(l) for further information on the process by which Clearwater determines 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, with changes in the estimated fair value being recorded as a component of other expense on the Consolidated Statement of Earnings (Loss). The change in fair value for the period ended December 31, 2017 was a decrease of £1.6 million (CDN $2.7 million) (December 31, 2016 - £0.6 million (CDN $1.1 million)).

(c) Term Loan

The principal outstanding as at December 31, 2017 was USD $10.0 million (CDN $12.2 million) (December 31, 2016 - USD $10.0 million; CDN $13.5 million). The loan is held through a Clearwater subsidiary. The loan is non-amortizing, repayable at maturity in June 2018 and bears interest payable monthly at 3.9% per annum.

(d) Term Loan, due in 2091

In connection with this term loan, Clearwater makes a royalty payment of CDN $0.3 million per annum in lieu of interest. This equates to an effective interest rate of approximately 8.0% per annum.

(e) Net finance costs

Year ended December 31		**2017**		2016
Interest expense on financial liabilities	$	**28,205**	$	24,776
Amortization of deferred financing charges and accretion		**1,555**		2,113
		29,760		26,889
Fair value adjustment on embedded derivative (Note 13 (a))		**(703)**		(1,350)
Accretion on deferred consideration (Note 13 (b))		**2,166**		3,562
Interest rate swap and caps [1]		**(4,347)**		(2,027)
Debt settlement [2] & refinancing fees		**8,404**		(126)
	$	**35,280**	$	26,948

(1) Interest rate swaps and caps represents unrealized (gains) losses as a result of the change in fair value during the year. Realized gains and losses are reflected in interest expense and bank charges and debt settlement and refinancing fees.

(2) Debt settlement includes loss on settlement of existing interest rate swaps and cross currency swaps and cap, forward foreign exchange contracts, remaining unamortized deferred financing costs and accretion.

14. SHARE CAPITAL

Authorized:

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

Share capital movement:

As at December 31	**2017**		2016	
Share capital:	#	$	#	$
Balance at January 1	**63,934,698**	**210,860**	59,958,998	157,161
Issuance of common shares	**-**	**-**	3,975,700	53,699
Balance at December 31	**63,934,698**	**210,860**	63,934,698	210,860

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.

Common shares outstanding as at December 31, 2017 totaled 63,934,698.

During the year ended 2017, dividends of $12.8 million were declared and paid as follows:

Payment Date	# of Shares Outstanding	Dividends per Share
April 3, 2017	63,934,698	$ 0.050
June 2, 2017	63,934,698	$ 0.050
September 1, 2017	63,934,698	$ 0.050
December 1, 2017	63,934,698	$ 0.050

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

Subsequent to the end of the year, on March 6, 2018 the Board of Directors declared a quarterly dividend of $0.05 per share payable on April 2, 2018 to shareholders of record as of March 15, 2018 for a total of $3,196,735.

15. NON-CONTROLLING INTEREST

On May 29, 2017, Clearwater acquired an additional 5% interest in its Argentina subsidiary for USD $5.0 million (CDN $6.7 million), increasing Clearwater's ownership from 80% to 85%. The carrying value of the subsidiary's net assets in the consolidated financial statements on the date of acquisition was a deficit of $8.9 million, including the cumulative translation adjustment account. The acquisition resulted in a reduction to retained earnings attributable to shareholders of Clearwater of $7.2 million.

Carrying amount of net deficit	$	(8,895)
Non-controlling interest acquired (deficit)		(445)
Consideration paid to non-controlling interest		6,725
Decrease in retained earnings attributable to shareholders of Clearwater	**$**	**7,170**

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

As at December 31	Coldwater shrimp 2017	2016
NCI Percentage	**46.34%**	46.34%
Current assets	$ **21,763**	$ 38,772
Current liabilities	**(11,359)**	(14,018)
	10,404	24,754
Non-current assets	**17,192**	22,838
Net assets	**27,596**	47,592
Accumulated non-controlling interests	**$ 17,473**	$ 24,941

As at December 31	Argentine Scallops 2017	2016
NCI Percentage	**15.0%**	20.0%
Current assets	$ **10,961**	$ 9,505
Current liabilities	**(25,404)**	(34,030)
	(14,443)	(24,525)
Non-current assets	**18,203**	23,914
Non-current liabilities	**(391)**	(1,154)
	17,812	22,760
Net assets	**3,369**	(1,765)
Accumulated non-controlling interests	**$ (1,801)**	$ (1,485)

(b) Summarized statements of earnings

Year ended December 31		Coldwater shrimp 2017		2016
Sales	$	**74,199**	$	100,161
Earnings and comprehensive income for the year		**19,004**		29,524
Total comprehensive income		**19,004**		29,524
Earnings allocated to non-controlling interest		**10,605**		15,842
Dividends paid to non-controlling interest		**18,073**		24,560

Year ended December 31		Argentine Scallops 2017		2016
Sales	$	**60,850**	$	41,637
Earnings for the year		**18,231**		1,282
Other comprehensive income		**(2,119)**		1,300
Total comprehensive income		**16,112**		2,582
Earnings allocated to non-controlling interest		**2,632**		437
Dividends paid to non-controlling interest		**1,962**		-

(c) Summarized statements of cash flows

Year ended December 31		Coldwater shrimp 2017		2016
Cash flow from operating activities	$	**19,957**	$	45,677
Cash flow used in financing activities		**(39,000)**		(53,500)
Cash flow used in investing activities		**(4,142)**		-
Net increase (decrease) in cash		**(23,185)**		(7,823)

Year ended December 31		Argentine Scallops 2017		2016
Cash flow from operating activities	$	**13,522**	$	6,500
Cash flow used in financing activities		**(10,977)**		-
Cash flow used in investing activities		**(2,666)**		(6,377)
Net increase (decrease) in cash		**(121)**		123

16. OPERATING EXPENSES

Year ended December 31		2017		2016
Salaries and benefits	**$**	**40,197**	$	39,346
Share-based incentive compensation		**409**		2,902
Employee compensation		**40,606**		42,248
Consulting and professional fees		**14,238**		13,135
Other		**6,625**		6,907
Selling costs		**2,816**		2,857
Travel		**3,089**		3,906
Occupancy		**1,548**		1,947
Total administrative and selling costs before allocation		**28,316**		28,752
Allocation to cost of goods sold		**(13,371)**		(13,494)
Total administrative and selling costs		**55,551**		57,506
Restructuring costs		**6,856**		986
Operating expenses	**$**	**62,407**	$	58,492

In the fourth quarter of 2017, Clearwater recognized $6.7 million in restructuring expenses. These expenses consisted of severance costs associated with the targeted restructuring of the Company's employee base and changes to Clearwater's distribution infrastructure.

17. OTHER (INCOME) EXPENSE

Year ended December 31		2017		2016
Acquisition related costs	**$**	**464**	$	2,561
Share of earnings of equity-accounted investee		**(2,656)**		(1,185)
Royalties, interest income and other fees		**(431)**		(1,379)
Other (income) fees		**(994)**		(1,950)
Fair value adjustment on earn-out liability		**(2,769)**		(1,110)
Export rebates		**(1,190)**		(2,146)
Other (income) expense	**$**	**(7,576)**	$	(5,209)

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		**2017**		2016
Salaries and benefits	**$**	**151,410**	$	155,533
Share-based compensation		**409**		2,902
	$	**151,819**	$	158,435
Cost of goods sold	**$**	**114,570**	$	119,669
Administrative and selling costs		**37,249**		38,766
	$	**151,819**	$	158,435

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 number of shares and per share data):

		2017		**2016**
Earnings (loss) attributable to shareholders - basic	**$**	**15,759**	$	43,928
Adjustment for stock-based compensation plan shares		**-**		203
Earnings (loss) attributable to shareholders - diluted	**$**	**15,759**	$	44,131
Weighted average number of shares outstanding - basic		**63,934,698**		62,050,325
Adjustment for stock-based compensation plan shares		**60,344**		143,218
Weighted average number of shares outstanding - diluted		**63,995,042**		62,193,543
Earnings per share				
Basic	**$**	**0.25**	$	0.71
Diluted	**$**	**0.25**	$	0.71

Diluted earnings (loss) for the period is calculated based on earnings attributable to the shareholders of Clearwater after the adjustment for any potentially dilutive cash-settled share-based payments. There was no revaluation adjustment related to cash-settled share-based payments for the year ended December 31, 2017. The revaluation adjustment on cash-settled share-based payments for the year ended December 31, 2016 resulted in a dilutive impact on earnings (loss) per share.

Diluted weighted average number of shares outstanding are adjusted for the dilutive effect of share-based compensation.

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 May 30, 2017.

Clearwater has the following share-based compensation plans:

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 or equity-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.

The number of share-based awards outstanding and vested as of December 31, 2017 and 2016 were as follows:

As at December 31, 2017 (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 4	N/A	61	61	April 2015
PSU - Tranche 5	N/A	85	-	April 2016
PSU - Tranche 6	N/A	110	-	May 2017
DSU	N/A	465	465	June 2012 - December 2017
Total		871	676	

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	390	313	June 2012 - December 2016
Total		884	604	

The following reconciles the share based awards outstanding for the year ended December 31, 2017:

(In thousands of share units)	**PSU - Tranche 3**	**PSU - Tranche 4**	**PSU - Tranche 5**	**PSU - Tranche 6**	**DSU**	**SARS**	**Total**
Outstanding at January 1, 2017	**141**	**79**	**124**	**-**	**390**	**150**	**884**
Granted	**-**	**-**	**-**	**157**	**69**	**-**	**226**
Granted from dividends	**-**	**2**	**2**	**2**	**6**	**-**	**12**
Exercised	**(141)**	**(20)**	**(41)**	**(49)**	**-**	**-**	**(251)**
Outstanding at December 31, 2017	**-**	**61**	**85**	**110**	**465**	**150**	**871**
Vested at January 1, 2017	**141**	**-**	**-**	**-**	**313**	**150**	**604**
Vested	**-**	**81**	**41**	**49**	**152**	**-**	**323**
Exercised	**(141)**	**(20)**	**(41)**	**(49)**	**-**	**-**	**(251)**
Vested at December 31, 2017	**-**	**61**	**-**	**-**	**465**	**150**	**676**

The following reconciles the number of 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	44	-	171
Granted from dividends	-	2	1	1	6	-	10
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	-	-	-	269	150	623
Vested	-	141	-	-	152	-	293
Exercised	(204)	-	-	-	(108)	-	(312)
Vested at December 31, 2016	-	141	-	-	313	150	604

The following units were settled in the year ended December 31, 2017:

As at December 31, 2017	**Grant price**	**Number exercised In thousands**	**Exercise date**	**Share price at exercise date**
PSU - Tranche 3	**N/A**	**141**	**April 2017**	**$10.37**
PSU - Tranche 4	**N/A**	**20**	**November 2017**	**$7.14**
PSU - Tranche 5	**N/A**	**41**	**November 2017**	**$7.14**
PSU - Tranche 6	**N/A**	**49**	**November 2017**	**$7.14**
Total		**251**		

These awards were cash settled during 2017 FOR $1.7 million, after taking into consideration the performance factor as described in Note 3 (m).

The following units were settled in the year ended December 31, 2016:

As at December 31,2016	Grant price	Number exercised In thousands	Exercise date	Share price at exercise date
PSU - Tranche 2	N/A	204	April 2016	$12.79
Total		204		

These awards were cash settled during 2016 for $4.2 million, after taking into consideration the performance factor as described in Note 3 (m).

The PSU Tranche 4 awards are fully vested as of December 31, 2017 and the total expense recorded over the vesting period was $1.3 million recognized within contributed surplus. These awards will be equity settled in the first quarter of 2018.

PSU Tranches 5 and 6 are expected to be equity settled.

The retention DSUs awards have fully vested as of December 31, 2017.

Dividend equivalents

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 PSUs and DSUs 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.

Retention DSU awards have fully vested. Awards may be redeemed up to one year following retirement and therefore recorded at the share price at the end of the reporting period. Awards for which redemption notices have been received but are still outstanding as of December 31, 2017, are recorded at the share price at the time of the election.

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:

						2017
		PSU Tranche 5		**PSU Tranche 6**		**DSU**
Weighted average fair value per award	**$**	**17.78**	**$**	**11.85**	**$**	**9.05**
Weighted average risk-free interest rate		**1.01% - 2.28%**		**1.11% - 2.31%**		**N/A**
Weighted average expected volatility		**18.66% - 43.43%**		**16.60% - 33.83%**		**N/A**
Expected life of awards (years)		**1**		**2**		**1**

						2016
		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

Share-based compensation expense included in the Consolidated Statements of Earnings (Loss) for the year ended December 31, 2017 is $0.4 million (December 31, 2016 - $2.9 million).

The liability for share-based compensation is $4.7 million at December 31, 2017 (December 31, 2016 - $7.6 million). The vested portion of the liability for share based compensation is $4.7 million at December 31, 2017 (December 31, 2016 - $6.9 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		**2017**		2016
Scallops	**$**	**200,286**	$	188,421
Clams		**109,170**		91,918
Lobster		**101,883**		108,402
Coldwater shrimp		**77,964**		93,250
Crab		**45,468**		38,243
Langoustine		**43,099**		47,572
Whelk		**24,267**		22,204
Ground fish and other shellfish		**18,894**		21,541
	$	**621,031**	$	611,551

(b) Sales by Geographic Region of the Customer

Year ended December 31		**2017**		2016
France	**$**	**108,650**	$	102,806
Scandinavia		**28,606**		32,529
UK		**14,921**		17,632
Other		**91,463**		93,942
Europe		**243,640**		246,909
China		**102,315**		96,518
Japan		**79,631**		76,230
Other		**34,170**		34,141
Asia		**216,116**		206,889
United States		**86,813**		85,385
Canada		**73,888**		72,275
North America		**160,701**		157,660
Other		**574**		93
	$	**621,031**	$	611,551

(c) Non-current Assets by Geographic Region

As at		**December 31 2017**		December 31 2016
Property, plant and equipment, licenses, fishing rights and goodwill				
Canada	**$**	**327,432**	$	298,517
Argentina		**18,984**		24,055
Scotland		**169,362**		158,077
Other		**304**		260
	$	**516,082**	$	480,909

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 and a joint venture, as follows:

Entity	**Ownership %**	**Accounts**
Adams and Knickle Limited	50%	Equity method
Clearwater Fine Foods (Europe) Limited	100%	Consolidated
Clearwater Fine Foods (USA) Incorporated	100%	Consolidated
Clearwater Ocean Prawns Venture	53.66%	Consolidated
Clearwater Seafoods Holdings Incorporated	100%	Consolidated
Clearwater Seafoods Limited Partnership	100%	Consolidated
Glaciar Pesquera S.A.	85%	Consolidated
Macduff Shellfish Group Limited	100%	Consolidated
St. Anthony Seafoods Limited Partnership	75%	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, 2017 and 2016.

Year ended December 31		**2017**		2016
Wages and salaries	**$**	**3,623**	$	3,998
Share-based compensation		**(108)**		2,702
Severance		**1,624**		292
Other benefits		**364**		1,150
	$	**5,503**	$	8,142

c) Transactions with other related parties

Clearwater rents office space to and provides computer support network services to CFFI Ventures Inc. ("CVI"), a related party. The net amount due from CVI in respect of these transactions was $0.04 million (December 31, 2016 – net amount due from CVI of $0.04 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 dollars was the book value at the time of the sale plus refit costs.

For the year ended December 31, 2017, Clearwater recorded net revenue of approximately $0.06 million for providing computer support network services to and receiving goods and services from companies related to CVI (December 31, 2016 - $0.1 million). The transactions are recorded at the exchange amount and the balance due from these companies was $0.07 million as at December 31, 2017 (December 31, 2016 - $0.05 million due to).

In the second quarter of 2017, interest bearing loans of $1.3 million (December 31, 2016 - $1.4 million) made to a non-controlling interest shareholder in a subsidiary were repaid and $0.1 million was forgiven.

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 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 in currencies other than the Canadian dollar when appropriate

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

The amount of debt available to Clearwater under its lending facilities is a function of Net Adjusted EBITDA attributable to shareholders, as defined in the credit agreement. Net Adjusted EBITDA attributable to shareholders 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, 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, 2017 and December 31, 2016:

In 000's of Canadian dollars As at		**December 31 2017**		December 31 2016
Equity				
Share capital	**$**	**210,860**	$	210,860
Contributed surplus		**3,021**		1,419
Deficit		**(8,722)**		(4,793)
Accumulated other comprehensive income		**(39,730)**		(38,931)
		165,429		168,555
Non-controlling interest		**17,109**		19,930
		182,538		188,485
Long-term debt				
Senior debt, non-amortizing				
USD senior unsecured notes, due 2025[1]		**306,684**		-
Revolving debt, due in 2022[2]		**87,682**		-
Revolving debt, due in 2018[3]		**-**		23,400
Term loan, due in 2018		**12,215**		13,459
Term loan, due in 2091		**3,500**		3,500
		410,081		40,359
Senior debt, amortizing				
Term Loan B, due 2022[4]		**34,466**		-
Term Loan A, due 2018[5]		**-**		50,218
Term Loan B, due 2019[6]		**-**		307,210
Other loans		**167**		222
		34,633		357,650
Deferred Obligation[7]		**23,181**		29,298
Earnout liability[7]		**5,278**		9,107
Total long term debt		**473,173**		436,414
Total capital	**$**	**655,711**	$	624,899

[1] USD senior unsecured notes is net of unamortized deferred financing charges of $7.4 million with a US dollar coupon rate of 6.875%. This resulted in an effective rate of approximately 7.194%.

[2] The revolving loan availability, subject to financial covenants, allows Clearwater to borrow a maximum of approximately CDN $56 million and is net of unamortized deferred financing charges of $2.3 million. As of December 31, 2017, this resulted in an effective rate of approximately 3.97%. The availability on this loan is reduced by the amount outstanding on a USD $10 million non-amortizing term loan.

[3] The revolving loan allowed Clearwater to borrow a maximum of CDN $100 million and bears interest at the banker's acceptance rate plus 3.25%. The availability on this loan was reduced by the amount outstanding on a USD $10 million non-amortizing term loan.

[4] Term Loan B is net of unamortized deferred financing charges of $0.3 million. As of December 31, 2017, this resulted in an effective rate of approximately 3.74%.

[5] Term Loan A is net of unamortized deferred financing charges at December 31, 2016 of $0.4 million and bears interest at the applicable banker's acceptance rate plus 3.25%.

[6] Term Loan B is a USD loan, shown net of unamortized deferred financing charges at December 31, 2016 of $1.1 million and bears interest at US LIBOR plus 3.5% with a LIBOR floor of 1.25%.

[7] The Deferred Obligation and Earnout Liability relate to the acquisition of Macduff in 2015.

The Company’s share capital is discussed in Note 14 and long-term debt, including the Deferred Obligation and Earnout liability in Note 13.

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)*		**2017**		**2016**
(Increase) decrease in inventory	**$**	**12,615**	$	(22,030)
Increase (decrease) in accounts payable		**9,369**		(7,785)
(Increase) in accounts receivable		**(22,043)**		3,775
Decrease (increase) in prepaids		**188**		4,953
Increase (decrease) in income tax payable		**2,928**		4,540
	$	**3,057**	$	(16,547)

Changes in liabilities arising from financing activities		**2017**		2016
Current and long-term debt - beginning of period	**$**	**436,414**	$	480,769
Scheduled repayments of long-term debt		**(11,953)**		(33,903)
Repayment of long-term credit facilities		**(361,519)**		-
Repayment of revolving credit facility		**(52,400)**		-
Net proceeds from long-term debt, net of financing costs		**330,015**		-
Net proceeds from long-term credit facilities, net of financing costs		**34,901**		-
Net proceeds from revolving credit facility, net of financing costs		**116,082**		7,000
Realized foreign exchange on settlement of long-term debt		**4,172**		-
Non-cash changes in long-term debt:				
Accretion of Term Loan B and Deferred Obligation		**(1,352)**		2,877
Fair market value adjustment on embedded derivative		**(694)**		274
Fair market value adjustment on earnout liability		**(2,736)**		(1,105)
Amortization of deferred financing costs		**7,384**		722
Write-off unamortized deferred financing costs		**1,477**		-
Foreign exchange gain on long-term debt		**(26,616)**		(20,221)
Current and long-term debt - end of period	**$**	**473,173**	$	436,414

26. COMPARATIVE INFORMATION

These consolidated financial statements contain certain reclassifications of prior year amounts to be consistent with the current period presentation. Significant reclassifications are discussed below.

In the Consolidation Statements of Financial Position, prior year derivative financial instruments have been reclassified as current and non-current assets and liabilities. This is a change in presentation only and has no impact on earnings (loss) for the year.

In the Consolidated Statement of Cash Flows, cash interest paid and cash income tax paid are now disclosed separately as supplemental information. This change in presentation has no impact on cash from operating activities.

27. SUBSEQUENT EVENTS

Department of Fisheries decision on Arctic surf clam

On February 21, 2018, the Department of Fisheries and Oceans Canada announced that Five Nations Clam Company is the recipient of a licence to harvest 25% of the total allowable catch ("TAC") for Arctic surf clams to be effective January 1, 2018.

Clearwater previously held three licences covering 100% of the TAC for Arctic surf clams. While the loss of direct access to 25% of the TAC for this species is expected to impact Clearwater's operations and financial performance, the extent of that impact is not ascertainable at this time. The Company will continue to explore strategies to mitigate any negative impacts of this decision.

Dividend Reinvestment Plan ("DRIP")

On February 15, 2018, Clearwater announced that it approved a DRIP effective February 23, 2018. At the election of Clearwater, shares may be either newly issued from treasury or purchased on the open market. Clearwater may from time to time, in its sole discretion, offer a discount of up to 5% of the average market price for shares purchased from treasury. Clearwater will provide a discount of 3% from the average market price for shares purchased under the plan until further notice. Clearwater has applied to the TSX to conditionally reserve for issuance an additional 3,000,000 shares to accommodate the purchase of shares. The DRIP program will be effective for the fourth quarter dividend payment.

Quarterly and share information

Clearwater Seafoods Incorporated ($000's except per share amounts)

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	174,765	163,597	154,302	128,367	165,690	189,457	140,180	116,225
Earnings attributable to:								
Non-controlling interests	4,405	4,526	2,503	1,046	3,800	7,012	3,551	1,305
Shareholders of Clearwater	(10,176)	15,054	9,489	2,172	8,610	10,848	9,963	14,507
	(5,771)	19,580	11,992	3,218	12,410	17,860	13,514	15,812
Per share data								
Basic net earnings (loss)	(0.17)	0.24	0.15	0.03	0.13	0.17	0.16	0.24
Diluted net earnings (loss)	(0.17)	0.24	0.15	0.03	0.13	0.17	0.16	0.24
Adjusted earnings (loss)	(0.02)	0.13	0.00	0.03	0.01	0.31	0.02	0.04

Trading information, Clearwater Seafoods Incorporated, symbol CLR

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of shares (board lots)								
High	9.43	12.03	11.95	11.80	14.55	14.85	14.85	13.63
Low	6.90	8.93	10.15	9.85	10.69	13.50	12.05	9.95
Close	7.33	8.99	11.42	10.48	11.65	14.33	13.98	12.68
Trading volumes (000's)								
Total	6,759	4,738	5,554	7,837	5,688	2,747	3,995	3,051
Average daily	109	80	88	124	92	44	63	49
Shares outstanding at end of quarter	63,934,698	63,934,698	63,934,698	63,934,698	63,934,698	63,934,698	59,958,998	59,958,998

Selected Annual Information

	2017	2016	2015	2014	2013
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Sales	$ 621,031	$ 611,551	$ 504,945	$ 444,742	$ 388,659
Costs of goods sold	510,963	466,930	372,757	341,908	301,291
Gross margin	110,068	144,621	132,188	102,834	87,368
Operating expenses					
Administrative and selling	55,551	57,506	48,213	46,369	38,931
Restructuring	6,856	986	3,150	1,883	74
Net finance costs	35,617	26,948	444	(5,031)	(3,240)
Foreign exchange (gains) losses on long-term debt and working capital	(14,262)	(7,295)			
(Gains) losses on forward contracts	(4,382)	(7,279)	1,981	1,991	1,659
Other income	(7,576)	(5,209)	-	-	-
Research and development	2,368	2,922	-	-	-
Gain on change of control of joint venture	-	-	148,472	87,088	80,171
Earnings before income taxes	35,897	76,042	(70,072)	(29,466)	(30,227)
Income taxes expense (recovery)	7,658	59,596	(20,671)	9,797	15,298
Earnings before non-controlling interest	28,238	59,596	(20,671)	9,797	15,298
Non-controlling interest	12,480	15,668	16,937	12,702	8,965
Earnings attributable to shareholders	$ 15,759	$ 43,928	$ (37,608)	$ (2,905)	$ 6,333

CORPORATE INFORMATION

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Colin E. MacDonald, Chairman of the Board

John C. Risley
President, CFFI Ventures Inc.

Harold Giles
Independent Consultant

Larry Hood, Chair of Audit Committee
Former Audit Partner, KPMG

Jane Craighead, Chair of HRDCC
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, CFFI Ventures Inc.

Jim Dickson, Chair of Corporate Governance Committee
Former Counsel, Stewart McKelvey

EXECUTIVE OF CLEARWATER SEAFODS INCORPORATED

Ian Smith
Chief Executive Officer

Teresa Fortney
Vice-President, Finance and Chief Financial Officer

Christine Penney
Vice-President, Sustainability & Public Affairs

Dieter Gautschi
Vice-President, Human Resources

Roy Cunningham
Vice-President, Land Based Operations

Tony Jabbour
Vice-President, Fleet Operations

Darren Bowen
Vice President, Global Supply Chain

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Halifax, Nova Scotia

SHARES LISTED

Toronto Stock Exchange
SHARE Symbol: CLR

TRANSFER AGENT

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