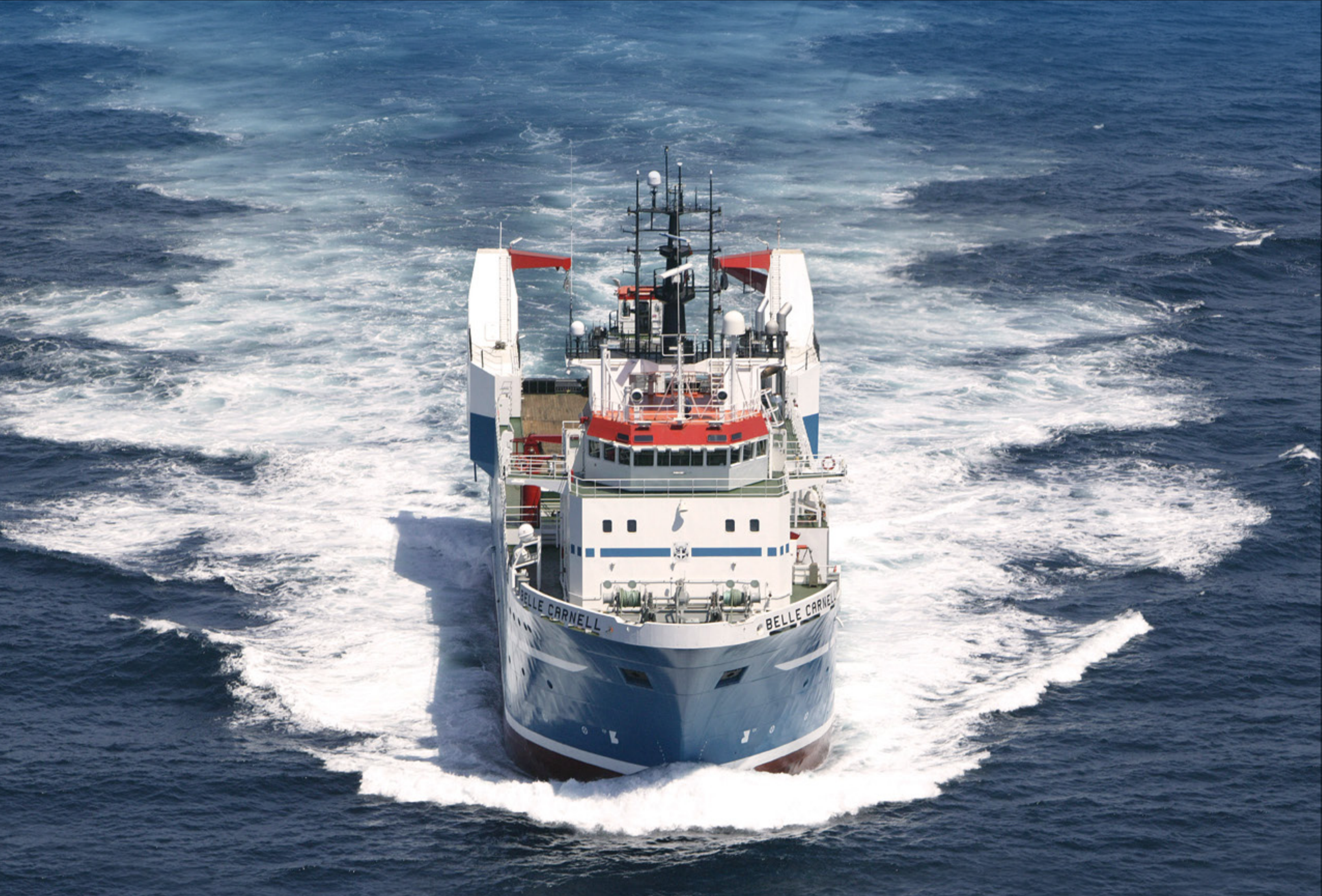


# Delivering On Our Promise

Clearwater

remarkable seafood, responsible choice

**CLEARWATER SEAFOODS INCORPORATED**
**2015 ANNUAL FINANCIAL STATEMENTS**

**KPMG LLP**
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Canada

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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, 2015 and December 31, 2014, the consolidated statements of operations, other comprehensive income, shareholders' 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 judgment, 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 in our audits 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 2015 and December 31, 2014, 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 Accountants
March 22, 2016
Halifax, Canada

**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. They have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

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

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

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

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

March 22, 2016

| | |
|---|---|
| *Ian Smith* | *Robert Wight* |
| *Chief Executive Officer* | *Vice-President, Finance and Chief Financial Officer* |

# CLEARWATER SEAFOODS INCORPORATED
## Consolidated Statements of Financial Position

*(In thousands of Canadian dollars)*

| As at December 31 | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash | **$ 51,106** | $ 47,598 |
| Trade and other receivables (Note 6) | **81,734** | 49,812 |
| Inventories (Note 7) | **65,022** | 40,056 |
| Prepaids and other (Note 8) | **9,587** | 5,508 |
| Derivative financial instruments (Note 13) | **3,788** | 5,312 |
| | **211,237** | 148,286 |
| Non-current assets | | |
| Long-term receivables (Note 9) | **10,076** | 3,872 |
| Other assets | **1,164** | 288 |
| Property, plant and equipment (Note 10) | **251,197** | 186,017 |
| Intangible assets (Note 11) | **201,846** | 98,742 |
| Investment in equity investee (Note 21) | **9,311** | 6,198 |
| Deferred tax assets (Note 17(c)) | **14,184** | 15,356 |
| Goodwill (Note 11) | **54,180** | 5,638 |
| | **541,958** | 316,111 |
| **TOTAL ASSETS** | **$ 753,195** | $ 464,397 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Trade and other payables | **$ 82,870** | $ 52,308 |
| Income tax payable (Note 17) | **454** | 1,367 |
| Current portion of long-term debt (Note 12) | **65,685** | 22,847 |
| Derivative financial instruments (Note 13) | **18,622** | 8,691 |
| | **167,631** | 85,213 |
| Non-current liabilities | | |
| Long-term debt (Note 12) | **415,084** | 250,194 |
| Other long-term liabilities | **2,088** | - |
| Deferred tax liabilities (Note 17(c)) | **19,317** | 1,003 |
| | **436,489** | 251,197 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 14) | **$ 157,161** | $ 97,267 |
| Contributed surplus | **547** | - |
| Retained earnings (deficit) | **(36,333)** | 11,084 |
| Cumulative translation account | **(1,625)** | (5,326) |
| | **119,750** | 103,025 |
| Non-controlling interest (Note 20) | **29,325** | 24,962 |
| | **149,075** | 127,987 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **$ 753,195** | $ 464,397 |

*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 Operations

*(In thousands of Canadian dollars)*

| Year ended December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Sales | $ | **504,945** | $ | 444,742 |
| Cost of goods sold | | **372,757** | | 341,908 |
| | | **132,188** | | 102,834 |
| Administrative and selling costs | | **51,363** | | 48,252 |
| Net finance costs (Note 13 (d)) | | **68,204** | | 35,240 |
| Losses on forward contracts (Note 13 (f)) | | **26,480** | | 6,636 |
| Other expense (income) (Note 15) | | **444** | | (5,031) |
| Research and development | | **1,981** | | 1,991 |
| | | **148,472** | | 87,088 |
| Earnings (loss) before income taxes | | **(16,284)** | | 15,746 |
| Income tax expense (Note 17) | | **4,387** | | 5,949 |
| Earnings (loss) for the year | $ | **(20,671)** | $ | 9,797 |
| Earnings (loss) attributable to: | | | | |
| Non-controlling interest | $ | **16,937** | $ | 12,702 |
| Shareholders of Clearwater | | **(37,608)** | | (2,905) |
| | $ | **(20,671)** | $ | 9,797 |
| Basic and diluted loss per share (Note 16) | $ | (0.65) | $ | (0.05) |

*See the accompanying notes to the consolidated financial statements*

# CLEARWATER SEAFOODS INCORPORATED
# Consolidated Statements of Other Comprehensive Income

*(In thousands of Canadian dollars)*

| Year ended December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Earnings (loss) | **$** | **(20,671)** | $ | 9,797 |
| Other comprehensive income (loss) - | | | | |
| Items that may be reclassified subsequently to income (loss): | | | | |
| Foreign currency translation differences of foreign operations | | **3,848** | | (1,188) |
| Total comprehensive income (loss) | **$** | **(16,823)** | $ | 8,609 |
| Total comprehensive income (loss) attributable to: | | | | |
| Non-controlling interest | **$** | **17,084** | $ | 11,370 |
| Shareholders of Clearwater | | **(33,907)** | | (2,761) |
| | **$** | **(16,823)** | $ | 8,609 |

*See the accompanying notes to the consolidated financial statements*

# CLEARWATER SEAFOODS INCORPORATED
## Consolidated Statements of Shareholders' Equity

*(In thousands of Canadian dollars)*

| | Common shares | Contributed surplus | Retained earnings (deficit) | Cumulative translation account | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2014 | **$ 64,780** | **$ -** | **$ 19,762** | **$ (5,470)** | **$ 24,669** | **$ 103,741** |
| **Total comprehensive income (loss) for the year** | - | - | (2,905) | 144 | 11,370 | 8,609 |
| **Transactions recorded directly in equity** | | | | | | |
| Issuance of common shares | 32,487 | - | - | - | - | 32,487 |
| Distributions to non-controlling interest | - | - | - | - | (11,077) | (11,077) |
| Dividends declared on common shares (Note 14) | - | - | (5,773) | - | - | (5,773) |
| Total transactions with owners | 32,487 | - | (5,773) | - | (11,077) | 15,637 |
| Balance at December 31, 2014 | **$ 97,267** | **$ -** | **$ 11,084** | **$ (5,326)** | **$ 24,962** | **$ 127,987** |
| **Total comprehensive (loss) income for the year** | - | - | (37,608) | 3,701 | 17,084 | (16,823) |
| **Transactions recorded directly in equity** | | | | | | |
| Issuance of common shares | 59,894 | - | - | - | - | 59,894 |
| Share-based compensation (Note 23) | - | 547 | - | - | - | 547 |
| Distributions to non-controlling interest | - | - | - | - | (12,721) | (12,721) |
| Dividend equivalent units on equity-settled share-based compensation (Note 23) | - | - | (14) | - | - | (14) |
| Dividends declared on common shares (Note 14) | - | - | (9,795) | - | - | (9,795) |
| Total transactions with owners | 59,894 | 547 | (9,809) | - | (12,721) | 37,911 |
| Balance at December 31, 2015 | **$ 157,161** | **$ 547** | **$ (36,333)** | **$ (1,625)** | **$ 29,325** | **$ 149,075** |

*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 | | 2015 | | 2014 |
|---|---|---|---|---|
| Operating | | | | |
| Earnings (loss) for the year | **$** | **(20,671)** | $ | 9,797 |
| Adjustments for: | | | | |
| Depreciation and amortization | | **29,732** | | 23,753 |
| Net finance costs and unrealized derivative gains and losses | | **78,457** | | 31,744 |
| Income tax expense | | **4,229** | | 5,949 |
| Share-based compensation | | **5,270** | | 8,948 |
| Impairment of property, plant and equipment and goodwill (Note 10 & 11) | | **-** | | 1,934 |
| (Gain) loss on disposal of property, plant, and equipment | | **(144)** | | 76 |
| Earnings in equity investee (Note 21) | | **(2,591)** | | (2,987) |
| Foreign exchange and other | | **15,352** | | 2,250 |
| | | **109,634** | | 81,464 |
| Change in non-cash operating working capital (Note 25) | | **(21,646)** | | 3,604 |
| Interest paid | | **(16,101)** | | (15,067) |
| Income tax paid | | **(3,393)** | | (1,975) |
| | **$** | **68,494** | $ | 68,026 |
| Financing | | | | |
| Repayment of long-term debt | | **(12,692)** | | (14,848) |
| Net proceeds from long-term debt (Note 12) | | **104,027** | | 11,207 |
| Net proceeds from common share issue (Note 14) | | **58,628** | | 32,487 |
| Net repayments of revolving credit facility | | **16,400** | | (31) |
| Distributions paid to non-controlling interest | | **(11,817)** | | (10,427) |
| Advances to non-controlling interests | | **(1,824)** | | (1,104) |
| Dividends paid on common shares | | **(9,795)** | | (5,773) |
| | **$** | **142,927** | $ | 11,511 |
| Investing | | | | |
| Purchase of property, plant and equipment, and other | | **(63,390)** | | (83,309) |
| Proceeds on disposal of property, plant and equipment | | **4,584** | | 5 |
| Dividends received from equity investee | | **-** | | 1,490 |
| Acquisition of subsidiary net of cash acquired (Note 4) | | **(142,404)** | | - |
| Purchase of other assets | | **(1,335)** | | (65) |
| Net receipts of long-term receivables | | **(3,366)** | | 2,695 |
| | **$** | **(205,911)** | $ | (79,184) |
| Effect of foreign exchange rate changes on cash | **$** | **(2,002)** | $ | 452 |
| **INCREASE IN CASH** | | **3,508** | | 805 |
| **CASH, BEGINNING OF PERIOD** | | **47,598** | | 46,793 |
| **CASH, END OF PERIOD** | **$** | **51,106** | $ | 47,598 |

*See the accompanying notes to the consolidated financial statements*

## 1. DESCRIPTION OF THE BUSINESS

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

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

The consolidated financial statements of Clearwater as at and for the years ended December 31, 2015 and 2014 comprise the company, its subsidiaries and a joint venture (see Note 19). 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 22, 2016.

(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 an Argentine Peso functional currency. All tabular financial information presented in Canadian dollars has been rounded to the nearest thousand except 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 could ultimately differ materially from these estimates.

The following are the most important accounting policies subject to such judgment and sources of key estimation uncertainty 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

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

Judgments made in relation to accounting policies applied

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

For further discussion on deferred income taxes refer to Note 17.

ii. Goodwill and intangible assets

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

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

iii. Share-based compensation

Key sources of estimation uncertainty

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

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

For further discussion on share-based compensation, refer to Note 23.

iv. Derivative financial instruments

Key sources of estimation uncertainty

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

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

For further discussion on derivative financial instruments, refer to Note 13.

v. Earnout

Key sources of estimation uncertainty

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

The inputs used in the fair value 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 forecasted earnings and probability assessments.

## 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

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 profit or loss.

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.

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.

ii) Subsidiaries

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

iii) Joint venture

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

iv) Transactions eliminated on consolidation

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

(b) Inventories

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

(c) Property, plant and equipment

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

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

Depreciation is provided 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) of property, plant and equipment. Estimated useful lives are the following:

| **Asset Component** | **Rate** |
| --- | --- |
| Buildings and wharves | 10 to 40 years |
| Plant and equipment | 3 to 20 years |
| Vessels | 5 to 30 years |
| Vessels equipment | 1 to 7 years |

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

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

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

(d) Intangible assets

i) Goodwill

Goodwill is the residual amount that results when the purchase of a business exceeds the sum of the amounts allocated to the net assets acquired based on their fair values. Goodwill is allocated to Clearwater’s cash generating units that are expected to benefit from the acquisition synergies.

Goodwill is measured at cost less impairment losses.

ii) Licenses, brand names and fishing rights

Licenses 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 value at the date of acquisition and are subsequently carried at cost.

Licenses that have indefinite lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Brand names represent intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill and are recorded at their fair value at the date of acquisition and are subsequently carried at cost. Brand names are not amortized.

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

(e) Revenue recognition

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

(f) Government assistance

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

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

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

(g) Financial instruments

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

| **Financial instrument** | **Category** | **Measurement Method** |
|---|---|---|
| Cash | Fair value through profit or loss | Fair value |
| Trade and other receivables | Loans and receivables | Initial: Fair Value<br>Subsequent: Amortized cost through profit or loss |
| Long-term receivables | Loans and receivables | |
| Trade and other payables | Non-derivative financial | |
| Long-term debt | Non-derivative financial | |
| Earnout liability | Derivative financial instruments | Fair value |
| Derivative financial instruments | Derivative financial instruments | |

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.

Non-derivative liabilities

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

Derivative financial instruments

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

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

The Earnout liability is unsecured additional consideration to be paid dependent upon the future financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment. Refer to Note 12 for further information.

Derivative financial instruments and embedded derivatives are recorded at fair value with mark-to-market adjustments recorded in profit or 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 cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" 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 to an entity's functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the entity's functional currency at the exchange rate at that date.

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

ii) Foreign operations

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

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

(j) Income taxes

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

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

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

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

(k) Borrowing costs

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

(l) Finance costs

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets and liabilities measured at fair value through profit or loss, gains and losses recognized on derivative financial assets and liabilities, gains and losses on financial instruments that are recognized in profit or loss, foreign exchange gains and losses, and refinancing and settlement fees. Borrowing costs determined to be period costs, or the amortization of such costs are recorded through profit or loss.

Foreign currency gains and losses are reported on a net basis.

(m) Share-based compensation

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

Share appreciation rights (“SARs”)

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

Deferred share units (“DSU”)

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

Performance share units (“PSU”)

On May 12, 2015, Clearwater amended the terms of its performance share unit (“PSU”) plan. Under the plan, holders of PSU units 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. Prior grants will continue to be cash-settled, and all future grants under the PSU plan, including the awards granted in the second quarter of 2015, 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 is included in trade and other payables in the consolidated statement of financial position. 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 expense in the statement of earnings over the vesting period.

(n) Earnings per share

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

Diluted earnings per share is calculated by dividing earnings 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, 2015. These changes were made in accordance with the applicable transitional provisions.

*Annual Improvements to IFRS (2010 – 2012) and (2011 – 2013) cycles*

On December 12, 2013 the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. These improvements had no impact on Clearwater.

(p) New accounting standards and interpretations

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have 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.

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

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

*IFRS 15 – Revenue from Contracts with Customers*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

*IFRS 9 Financial Instruments*

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

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

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Specifically, under the existing consolidation standard the parent recognises the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognised when the assets transferred do not meet the definition of a business, eve n if these assets are housed in a subsidiary.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

*Annual Improvements to IFRS (2012-2014) cycle*

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

*Disclosure Initiative*

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

*IFRS 16 Leases*

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 4. BUSINESS COMBINATIONS

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

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

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

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

The Company has incurred acquisition-related costs of $3.2 million for legal fees, due diligence, and other related costs. These costs have been recorded in other expenses.

Clearwater financed the cash portion of the acquisition from existing loan facilities and cash on hand including (refer to Note 12):

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

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

*(Tabular amounts are in thousands of Canadian dollars)*

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

*Deferred Obligation*

The Deferred Obligation applies to 33.75% of the shares acquired by Clearwater (the "Earn Out Shares"). The amount of £26.2 million will be paid over the next five to six years, depending on whether the holders of the Earn Out Shares elect to be paid in the first year (after which Clearwater has the right to exercise the payout). The fair value the Deferred Obligation was determined to be £20.9 million (CDN $42.3 million) as of the acquisition date based on the expected cash flow timing discounted at a rate of 7.75%. Refer to Note 12 for further information on the fair value of the deferred obligation at December 31, 2015.

*The Earnout*

The Earnout is unsecured additional consideration to be paid dependent upon the future financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The acquisition date estimated fair value of the Earnout is £6.1 million (CDN $12.4 million) based on forecast earnings and probability assessments. The actual Earnout payments are expected to be paid over the next five years. Refer to Note 12 for further information on the fair value of the Earnout at December 31, 2015.

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

*(Tabular amounts are in thousands of Canadian dollars)*

| | | Provisional Fair value recognized on acquistion CDN ($) |
|---|---|---|
| **Assets** | | |
| Cash | $ | 9,119 |
| Accounts receivable | | 18,220 |
| Inventories | | 21,314 |
| Other assets | | 5,342 |
| Branding | | 12,474 |
| Property, plant and equipment | | 33,994 |
| Licenses and fishing rights | | 89,805 |
| | $ | 190,268 |
| **Liabilities** | | |
| Trade and other payables | | (13,237) |
| Capital leases | | (1,337) |
| Deferred tax liabilites | | (19,173) |
| | | (33,747) |
| | $ | 156,521 |
| Goodwill arising on acquisition | | 49,670 |
| Total purchase price consideration | $ | 206,191 |

The net assets recognized in the December 31, 2015 financial statements are based on provisional estimates of fair value. The Company has engaged an independent valuations advisor to value the acquired assets. The final valuation is not complete due to the timing of the acquisition and the inherent complexity associated with the valuations and thus has not been received as at the date of these financial statements were approved for issue. In addition, the Company has not finalized its measurement of the deferred taxes with respect to the acquired net assets. As a result, the financial information disclosed is based on management’s best estimates and is disclosed on a provisional basis.

Pending the finalization of the valuation reports note above and their impact on accounting for taxes, which are incomplete at this time, the Company is only able to provide provisional fair value for licenses and brands acquired as part of the acquisition based on preliminary information we have gathered during the due diligence phase of completing the acquisition and is subject to revisions in future periods resulting from the finalization of the purchase price accounting. The goodwill recognized is not expected to be deductible for income tax purposes.

*(Tabular amounts are in thousands of Canadian dollars)*

In the two month period from the date of the acquisition, Macduff has contributed $27 million in sales. If the acquisition had occurred on January 1, 2015, management estimates that the consolidated revenue of the Company would have been $589.7 million, and consolidated loss for the year would have been approximately $16.3 on a pro forma basis. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2015. This pro forma consolidated information is not intended to be indicative of the results that would actually have occurred, or the results expected in future periods.

## 5. EMPLOYEE COMPENSATION

Employee compensation is classified in the consolidated statement of earnings based on the related nature of the service performed. The following table reconciles Clearwater's compensation expense items to where the amounts are presented on the consolidated statement of earnings:

| Year ended December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Salaries and benefits | **$** | **121,730** | $ | 101,628 |
| Share-based compensation | | **5,269** | | 8,948 |
| | **$** | **126,999** | $ | 110,576 |
| | | | | |
| Cost of goods sold | **$** | **90,505** | $ | 74,428 |
| Administrative and selling | | **36,494** | | 36,148 |
| | **$** | **126,999** | $ | 110,576 |

## 6. TRADE AND OTHER RECEIVABLES

| As at December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Trade receivables | **$** | **72,234** | $ | 42,142 |
| Other receivables | | **9,500** | | 7,670 |
| | **$** | **81,734** | $ | 49,812 |

Included in other receivables is $4.7 million (December 31, 2014 - $5.0 million) of input tax credits receivable and $4.8 million (December 31, 2014 - $2.7 million) of other receivables.

## 7. INVENTORIES

| As at December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Goods for resale | **$** | **52,594** | $ | 30,010 |
| Supplies and other | | **12,428** | | 10,046 |
| | **$** | **65,022** | $ | 40,056 |

*(Tabular amounts are in thousands of Canadian dollars)*

In 2015 inventory costs of $341.6 million (2014 - $323.7 million) were recognized in cost of goods sold. Clearwater incurred $3.7 million (2014 - $3.2 million) in inventory write-downs included in cost of goods sold. Refer to Note 12 for assets pledged as security for long term debt.

## 8. PREPAIDS AND OTHER

| As at December 31 | | **2015** | | 2014 |
|---|---|---|---|---|
| Prepaids | **$** | **9,571** | $ | 5,479 |
| Due from related parties (Note 19) | | **16** | | 29 |
| | **$** | **9,587** | $ | 5,508 |

## 9. LONG-TERM RECEIVABLES

| As at December 31 | | **2015** | | 2014 |
|---|---|---|---|---|
| Notes receivable from non-controlling interest holder in subsidiary | **$** | **1,343** | $ | 1,012 |
| Advances to fishermen | | **8,733** | | 2,860 |
| | **$** | **10,076** | $ | 3,872 |

Notes receivable from non-controlling interest consists of funds that are advanced to a shareholder in an incorporated subsidiary. The notes bear interest at rates ranging from 0% - 12% (2014 – 0% - 12%), and they are unsecured and have no set terms of repayment.

Certain advances to fishermen are made for a fixed term, secured by an assignment of catch and are non-interest bearing unless there is no supply for 6 weeks, at which time the loans become repayable in installments and are interest bearing. Other advances to fishermen bear interest at prime plus 2% - 3% (2014 - prime plus 5% - 7.5%) are due on demand, and are secured by an assignment of catch, a marine mortgage on the related vessels, equipment and licenses. Advances to fiserhmen 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 13 (h)).

*(Tabular amounts are in thousands of Canadian dollars)*

## 10. PROPERTY, PLANT AND EQUIPMENT

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

| | Land | Building and wharves | Equipment | Vessels and vessel equipment | Construction in progress | Total PPE | Deferred Gov't Assistance | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at January 1, 2014 | $ 2,783 | $ 66,022 | $ 77,070 | $ 191,076 | $ 21,855 | $ 358,806 | $ (8,962) | $ 349,844 |
| Additions | 60 | 24 | 167 | 678 | 82,381 | 83,310 | - | 83,310 |
| Disposals | (43) | (5,869) | (1,476) | (11,787) | - | (19,175) | - | (19,175) |
| Reclassifications and replacement assets | - | 2,532 | (945) | 47,960 | (53,020) | (3,473) | - | (3,473) |
| Impairments | - | - | - | (590) | - | (590) | - | (590) |
| Effect of movements in exchange rates | (5) | (3) | (26) | (1,856) | (74) | (1,964) | - | (1,964) |
| Balance at December 31, 2014 | $ 2,795 | $ 62,706 | $ 74,790 | $ 225,481 | $ 51,142 | $ 416,914 | $ (8,962) | $ 407,952 |
| **Depreciation and impairment losses** | | | | | | | | |
| Balance at January 1, 2014 | $ 1,006 | $ 50,578 | $ 67,792 | $ 111,298 | $ - | $ 230,674 | $ (7,281) | $ 223,393 |
| Depreciation for the year | 11 | 1,766 | 1,852 | 18,668 | - | 22,297 | (387) | 21,910 |
| Disposals | (43) | (5,869) | (1,476) | (11,708) | - | (19,096) | - | (19,096) |
| Reclassifications and other adjustments | - | (502) | (2,971) | - | - | (3,473) | - | (3,473) |
| Impairments | - | - | - | (61) | - | (61) | - | (61) |
| Effect of movements in exchange rates | - | (4) | (20) | (714) | - | (738) | - | (738) |
| Balance at December 31, 2014 | $ 974 | $ 45,969 | $ 65,177 | $ 117,483 | $ - | $ 229,603 | $ (7,668) | $ 221,935 |
| **Carrying amounts** | | | | | | | | |
| At January 1, 2014 | $ 1,777 | $ 15,444 | $ 9,278 | $ 79,778 | $ 21,855 | $ 128,132 | $ (1,681) | $ 126,451 |
| At December 31, 2014 | $ 1,821 | $ 16,737 | $ 9,613 | $ 107,998 | $ 51,142 | $ 187,311 | $ (1,294) | $ 186,017 |

*(Tabular amounts are in thousands of Canadian dollars)*

Total depreciation and amortization expense related to property, plant and equipment and definite-life intangible assets for 2015 was $29.7 million (2014 - $23.8 million). In 2015, $29.2 million (2014 - $23.3 million) of depreciation and amortization expense for assets used in the harvesting and production of goods was classified as cost of goods sold and $0.5 million (2014 – $0.4 million) was recorded in administrative and selling costs for assets used in administrative activities. Refer to Note 12 for assets pledged as security for long-term debt.

## 11. INTANGIBLE ASSETS AND GOODWILL

| | | Intangible assets | | | | |
|---|---|---|---|---|---|---|
| | **Goodwill** | **Brand names** | **Indefinite life licenses** | **Fishing rights** | **Total** | **Goodwill and intangible asset total** |
| **Cost** | | | | | | |
| Balance at January 1, 2014 | $ **7,043** | $ - | $ 82,726 | $ 24,094 | $ **106,820** | $ **113,863** |
| Impairment of non-core species | **(1,405)** | - | - | - | **-** | **(1,405)** |
| Foreign currency exchange translation | **-** | - | (922) | - | **(922)** | **(922)** |
| Balance at December 31, 2014 | **5,638** | - | 81,804 | 24,094 | **105,898** | **111,536** |
| Acquisition through business combination | **47,857** | 12,474 | 89,790 | - | **102,264** | **150,121** |
| Additions | **-** | - | - | 2,644 | **2,644** | **2,644** |
| Foreign currency exchange translation | **685** | 206 | 585 | (660) | **131** | **816** |
| Balance at December 31, 2015 | $ **54,180** | $ 12,680 | $ 172,179 | $ 26,078 | $ **210,937** | $ **265,117** |
| **Accumulated amortization** | | | | | | |
| Balance at January 1, 2014 | $ **-** | $ - | $ - | $ 5,353 | **5,353** | $ **5,353** |
| Amortization expense | **-** | - | - | 1,803 | **1,803** | **1,803** |
| Balance at December 31, 2014 | **-** | - | - | 7,156 | **7,156** | **7,156** |
| Amortization expense | **-** | - | - | 1,975 | **1,975** | **1,975** |
| Foreign currency exchange translation | **-** | - | - | (40) | **(40)** | **(40)** |
| Balance at December 31, 2015 | $ **-** | $ - | $ - | $ 9,091 | **9,091** | $ **9,091** |
| **Carrying amounts** | | | | | | |
| As at December 31, 2014 | $ **5,638** | $ - | $ 81,804 | $ 16,938 | **98,742** | $ **104,380** |
| As at December 31, 2015 | $ **54,180** | $ 12,680 | $ 172,179 | $ 16,987 | **201,846** | $ **256,026** |

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

*(Tabular amounts are in thousands of Canadian dollars)*

| As at December 31 | **2015** | **2014** |
|---|---|---|
| **Scallops** | | |
| Goodwill - $ nil (December 31, 2014 $ nil) Indefinite life licenses - $57.6 million (December 31, 2014 $55.7 million) | $ 57,623 | $ 55,719 |
| **All other CGU's individually without significant carrying value** | | |
| Goodwill - $54.2 million (December 31, 2014 $5.6 million) Indefinite life licenses - $114.6 million (December 31, 2014 $26.1 million) Brand names - $12.7 million (December 31, 2014 - $ nil) | 181,416 | 31,723 |
| | $ 239,039 | $ 87,442 |

*Indefinite life licenses and Goodwill*

Annual impairment testing for indefinite life licenses and goodwill was performed using a value in use approach as of October 3, 2015. The recoverable amounts for all CGU's were determined to be higher than their carrying amounts and therefore no impairments were recorded during 2015.

During the year ended December 31, 2014, Clearwater recorded a $1.4 million impairment loss to goodwill associated with a processing facility within the cooked & peeled shrimp CGU (a non-core species) and the Canadian reportable segment, which was the result of estimated other than temporary reductions in margins for the cooked and peeled shrimp business. The recoverable amount of the cooked & peeled shrimp CGU was $12.7 million and was determined through the value in use approach with a pre-tax discount rate of 13.2%. Impairment losses are recognized within administrative and selling in the consolidated statements of operations.

The value in use approach was determined by discounting the projected future cash flows generated from the continuing earnings from operations for the applicable CGU. Unless otherwise indicated in notes i – iii, the assumptions used in the value in use approach for 2015 were determined similarly to those used in 2014.

The discounted cash flows used in determining the recoverable amounts for the Scallops and other CGU's 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 1% (2014: 1%). For some CGU's, this inflation rate is well below the actual current inflation for the country. Gross margins for all future periods were estimated using a combination of forecasted and consideration of historical margins.

ii) Pre-tax discount rates ranging from 13% - 18% (2014: 13% - 18%) 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 management's sustaining capital expenditure forecast, and terminal year capital expenditures were based on estimates of required refits over the period of the fishing license.

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

*Definite life fishing rights*

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

*Goodwill, indefinite life licenses and brand names resulting from the acquisition of Macduff*

At December 31, 2015, the initial accounting for the Macduff business combination was based on a preliminary allocation of the purchase price. Clearwater will perform a goodwill impairment test on the carrying value of goodwill and indefinite life intangible assets resulting from the acquisition of Macduff during the third quarter of 2016, once the allocation of the purchase price is complete and the amount of goodwill and indefinite life intangible assets resulting from the business combination are finalized. At December 31, 2015, there were no indications that any of the assets acquired in the Macduff business combination were impaired.

Refer to Note 12 for assets pledged as security for long term debt.

*(Tabular amounts are in thousands of Canadian dollars)*

## 12. LONG-TERM DEBT

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Term loans (a) | | |
| Term loan A, due June 2018 | **$ 26,889** | $ 28,950 |
| Delayed draw term loan A, due June 2018 | **28,673** | (608) |
| Term loan B, due June 2019 | **332,671** | 224,366 |
| Term loan B, embedded derivative | **2,353** | 3,845 |
| Revolving facility (a) | **16,400** | - |
| Deferred obligation (b) | **43,035** | - |
| Earnout liability (b) | **12,561** | - |
| Term loan, due June 2016 (c) | **13,953** | 11,595 |
| Multi-currency revolving facility (d) | **-** | 21 |
| Marine mortgage, due in 2017 | **457** | 1,030 |
| Term loan, due in 2091 (e) | **3,500** | 3,500 |
| Other loans | **277** | 342 |
| | **480,769** | **273,041** |
| Less: current portion | **(65,685)** | (22,847) |
| | **$ 415,084** | $ 250,194 |

(a) Term loans consist of a CDN $30.0 million Term Loan A facility, a CDN $30.0 million Delayed Draw Term Loan A facility, and a Term Loan B facility of USD $200.0 million and CDN $75.0 million.

Term Loan A - The principal outstanding as at December 31, 2015 was CDN $27.0 million (December 31, 2014 - $29.0 million). The balance is shown net of deferred financing charges of CDN $0.1 million (December 31, 2014 - nil million). The loan is repayable in quarterly installments of $0.4 million from September 2015 to June 2017 and $0.8 million from September 2017 to March 2018 with the balance due at maturity in June 2018. It bears interest at the applicable banker's acceptance rate plus 3.25%. As at December 31, 2015 this resulted in an effective rate of 4.09%.

Delayed Draw Term Loan A - The principal outstanding as at December 31, 2015 was $29.3 million. The balance is shown net of deferred financing charges of CDN $0.6 million (December 31, 2014 - $0.6 million). The facility is repayable in quarterly installments of $0.4 million. The facility matures in June 2018 and bears interest payable monthly at the banker's acceptance rate plus 3.25%. As at December 31, 2015 this resulted in an effective rate of 4.09%.

Term Loan B - The principal outstanding as at December 31, 2015 was USD $189.7 million (December 31, 2014 - $196.8 million) and CAD $74.8 million (December 31, 2014 $ nil). The loan is repayable in quarterly installments of USD $0.5 million and CAD $0.2 million, with the balance due at maturity in June 2019. The USD balance bears interest payable monthly at the US Libor plus 3.50% with a LIBOR interest rate floor of 1.25%, and the CAD balance bears interest at the banker's acceptance rate plus 3.50%. As of December 31, 2015 this resulted in an effective rate of 4.75% on the USD balance and 4.34% on the CAD balance. The embedded derivative represents the fair market value of the Libor interest rate floor of 1.25%. The change in fair market value of the embedded derivative is recorded through profit or loss as a component of net finance costs.

In addition, Clearwater has a CDN $100.0 million revolving facility that matures in June 2018. The facility can be denominated in Canadian and US dollars. As at December 31, 2015 the balances in Canadian dollars were $ $16.4 million (December 31, 2014 - $ nil) and in US dollars, $ nil (December 31, 2014 - $ nil). The Canadian dollar balances bear interest at the banker's acceptance rate plus 3.25%. The US dollar balances bear interest at the US Libor rate plus 3.25%. As of December 31, 2015 this results in effective rates of 4.09% for Canadian dollar balances and 3.86% for US dollar balances.

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

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

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

Refer to Note 13(b) for detail on interest rate caps and swaps that hedge interest rate risk on the term loans.

(b) Deferred obligation - The deferred obligation relates to deferred payments for 33.75% of the shares of Macduff Shellfish Group Limited (see Note 4) acquired by Clearwater (the "Earn Out Shares"). The amount of the deferred obligation is £26.2 million and does not bear interest. The estimated fair value at December 31, 2015 is measured using discounted cash flows and is £20.9 million (CDN $43.0 million).

In each year, the former 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. Refer to Note 13(l) for further information on the process and inputs used to determine fair value. The Deferred Obligation is being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 7.8%.

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

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

The greater of:

(i) £3.8 million; OR

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

(iii) 10% of adjusted EBITDA of Macduff above £10 million (dependent upon the percentage of Deferred obligation remaining unpaid each year)

Refer to Note 13(l) for further information on the process in which to determine fair value of the Earnout liability. The Earnout liability is recorded at fair value on the balance sheet at each reporting period until paid in cash, with changes in the estimated fair value being recorded as a component of other expense on the statement of operations.

(c) Term Loan - The principal outstanding as at December 31, 2015 was USD $10.0 million (December 31, 2014 - $10.0 million). The loan is held through a Clearwater subsidiary. The loan is non amortizing, repayable at maturity in June 2016 and bears interest payable monthly at 8.0%. Clearwater provides a guarantee on the term loan.

(d) On April 29, 2014, Clearwater entered into a multi-currency revolving facility agreement that allows Clearwater to borrow a maximum of DKK 53.0 million, which can be denominated in either DKK or Canadian and US dollar equivalents. The principal availability reduces by the equivalent of DKK 10.6 million per year on June 30, 2016 and each anniversary thereafter until the loan is fully repaid. As at December 31, 2015 the balance of the revolving facility is DKK nil million and a Canadian equivalent $ nil million (December 31, 2014 DKK 0.1 million and a Canadian equivalent of $0.02 million). The facility bears interest in the same currency as the currency in which the principal balance is denominated. The interest is payable on the last day of each fiscal quarter at the N-bor rate applicable to the currency of the facility plus 1.875%. The N-bor rate is a variable interest rate as designated by the lender.

*(Tabular amounts are in thousands of Canadian dollars)*

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

## 13. FINANCIAL INSTRUMENTS

The Company periodically enters into derivatives as part of an active economic hedging program to manage financial risks. The Company has elected not to use hedge accounting for these instruments and consequently changes in fair value are recorded in earnings as they occur:

Summary of derivative financial instrument positions:

| As at December 31 | | **2015** | | **2014** |
|---|---|---|---|---|
| **Derivative financial assets** | | | | |
| Forward foreign exchange contracts | **$** | **-** | $ | 4,678 |
| Interest rate caps, floors and cross-currency swap contracts | | **3,788** | | 634 |
| | **$** | **3,788** | $ | 5,312 |
| **Derivative financial liabilities** | | | | |
| Forward foreign exchange contracts | | **(12,437)** | | (5,469) |
| Interest rate swap contracts | | **(6,185)** | | (3,222) |
| | **$** | **(18,622)** | $ | (8,691) |

(a) Clearwater has forward contracts maturing each month until December 2016. At December 31, 2015 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) |
|---|---|---|---|---|---|
| ***Sell:*** | | | | | |
| Euro | 43,400 | 1.446 | 8 | $ | (3,153) |
| USD | 65,200 | 1.279 | 7 | | (6,466) |
| Yen | 3,356,000 | 0.011 | 8 | | (2,818) |
| | | | | $ | (12,437) |

*(Tabular amounts are in thousands of Canadian dollars)*

At December 31, 2014, 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) |
|---|---|---|---|---|
| ***Sell:*** | | | | |
| Euro | 48,500 | 1.463 | 8 | $ 2,892 |
| Yen | 3,155,000 | 0.010 | 8 | 1,786 |
| | | | | 4,678 |
| | | | | |
| ***Sell:*** | | | | |
| USD | 103,600 | 1.100 | 8 | $ (5,469) |
| | | | | $ (5,469) |

Certain USD forward contracts contain provisions that, subject to the spot rate being greater than the contract rate, the contract rate is adjusted by 50% or 25% (December 31, 2014 - 50%) of the excess of the spot rate over the contract rate at maturity. The notional amount of the forward contracts subject to the contract rate being adjusted by 25% in US dollars at December 31, 2015 was $13.2 million (December 31, 2014 - $ nil). The notional amount of the forward contracts subject to the contract rate being adjusted by 50% in US dollars at December 31, 2015 was $ nil million (December 31, 2014 - $ 35.6 million).

(b) During the year ended December 31, 2015, Clearwater entered into an interest rate floor contract and a cross-currency swap contract in order to mitigate the risk of currency fluctuations relating to its USD debt obligations.

At December 31, 2015 Clearwater had cross-currency swap contracts and interest rate cap, floor and swap contracts outstanding as follows:

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

*(Tabular amounts are in thousands of Canadian dollars)*

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

(c) At December 31, 2014 Clearwater had interest rate cap and swap contracts outstanding as follows:

| | Effective date | Expiry date | Contracted capped interest rate | Currency | Notional amount (in 000's) | Fair value asset |
|---|---|---|---|---|---|---|
| Term Loan A - Interest rate cap | December 2015 | June 2018 | 6.25% | CAD | 12,000 | $ 6 |
| Term Loan A - Interest rate cap | March 2014 | December 2015 | 4.50% | CAD | 12,000 | 18 |
| Term Loan B - Interest rate cap | March 2014 | December 2015 | 4.75% | USD | 50,000 | 16 |
| Term Loan B - Interest rate cap | September | June 2016 | 4.75% | USD | 50,000 | 594 |
| | | | | | | 634 |

| | Effective date | Expiry date | Contracted fixed interest rate | Currency | Notional amount (in 000's) | Fair value (liability) |
|---|---|---|---|---|---|---|
| Term Loan A - Interest rate swap | December 2013 | December 2015 | 5.38% | CAD | 12,000 | $ (95) |
| Term Loan A - Interest rate swap | December 2015 | June 2018 | 5.85% | CAD | 12,000 | (253) |
| Term Loan B - Interest rate swap | December 2015 | June 2019 | 6.15% | USD | 50,000 | (1,231) |
| Term Loan B - Interest rate swap | June 2016 | June 2019 | 6.49% | USD | 50,000 | (1,643) |
| | | | | | | $ (3,222) |

*(Tabular amounts are in thousands of Canadian dollars)*

(d) Net finance costs

| Year ended December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Interest expense on financial liabilities | $ | **19,002** | $ | 14,938 |
| Amortization of deferred financing charges and accretion | | **1,334** | | 778 |
| | | **20,336** | | 15,716 |
| Fair value adjustment on embedded derivative | | **(2,118)** | | (1,229) |
| Foreign exchange loss on debt and working capital(Note 13 (e)) | | **49,478** | | 20,653 |
| Debt refinancing fees | | **508** | | 100 |
| | $ | **68,204** | $ | 35,240 |

(e) Foreign exchange on long-term debt and working capital per Note 13 (d)

| Year ended December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Realized (gain) loss | | | | |
| Working capital and other | **$** | **(1,690)** | $ | 1,172 |
| Unrealized loss | | | | |
| Foreign exchange on long term debt and working capital | | **51,168** | | 19,481 |
| | **$** | **49,478** | $ | 20,653 |

*(Tabular amounts are in thousands of Canadian dollars)*

(f) Losses on contract derivatives

| Year ended December 31 | | **2015** | | **2014** |
|---|---|---|---|---|
| Realized loss | | | | |
| Forward foreign exchange contracts | **$** | **15,595** | $ | 8,829 |
| Unrealized loss (gain) | | | | |
| Forward foreign exchange contracts | | **11,168** | | (4,782) |
| Interest rate and cross-currency swaps, caps and floors | | **(283)** | | 2,589 |
| | | **10,885** | | (2,193) |
| | **$** | **26,480** | $ | 6,636 |

(g) Credit risk:

Credit risk refers to the risk of losses due to failure of Clearwater's customers or other counterparties to meet their contractual obligations. Clearwater is exposed to credit risk in the event of non-performance by 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, United States, Europe and Asia. Significant portions of Clearwater's customers from a sales dollar perspective have been transacting with Clearwater in excess of five years and bad debt losses have been minimal. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk. As a result Clearwater does not have any significant concentration of credit risk.

As at December 31, 2015, Clearwater's trade accounts receivable aging based on the invoice due date was as follows: 83.2% 0-30 days, 8.6% 31-60 days, and 8.2% over 60 days. As at December 31, 2014, Clearwater's trade accounts receivable aging based on the invoice due date was as follows: 98.9% 0-30 days, 0.1% 31-60 days, and 1% over 60 days. The change in Clearwater's trade accounts receivable aging from the year ended December 31, 2014 is a result of trade accounts receivable acquired in the business combination discussed in Note 4.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $ 0.6 million (2014 - $0.3 million). Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. Accounts are only written off completely when it becomes virtually certain that collection will not occur. Changes in the allowance for doubtful accounts are summarized in the table below:

*(Tabular amounts are in thousands of Canadian dollars)*

| As at December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Balance at January 1 | $ | 278 | $ | 393 |
| Acquisition through business combination | | 406 | | |
| Allowance recognized | | - | | 549 |
| Amounts recovered | | (44) | | (487) |
| Amounts written off as uncollectible | | (103) | | (117) |
| Foreign exchange | | 18 | | (60) |
| Balance at December 31 | $ | 555 | $ | 278 |

(h) Foreign currency exchange rate risk

Foreign currency exchange rate risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. Approximately 88% 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.

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

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

The carrying amounts of Clearwater’s foreign currency denominated monetary assets and monetary liabilities (excluding derivative financial instruments) as at December 31, 2015 and December 31, 2014 were as follows (as converted to Canadian dollars):

| As at December 31 | | 2015 | | 2014 |
|---|---|---|---|---|
| Cash | $ | 48,272 | $ | 13,031 |
| Trade receivables | | 65,348 | | 34,685 |
| Other receivables | | 4,288 | | 3,481 |
| Long-term receivables | | 9,235 | | 5,356 |
| Trade and other payables | | (24,132) | | (6,759) |
| Long-term debt | | (330,937) | | (241,440) |
| Other long-term liabilities | | (1,422) | | - |
| Net exposure to consolidated statements of financial position | $ | (229,348) | $ | (191,646) |

*(Tabular amounts are in thousands of Canadian dollars)*

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

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

The components of this net exposure by currency are as follows (in foreign currency '000's) at December 31, 2014:

| December 31, 2014 | GBP | USD | Yen | Euros | RMB | DKK | Argentine Peso |
|---|---|---|---|---|---|---|---|
| Cash | 101 | 8,553 | 32 | 313 | 681 | 12,068 | 103 |
| Trade receivables | 1,463 | 12,243 | 333,748 | 9,284 | - | 7,737 | 178 |
| Other receivables | 22 | 159 | - | 897 | - | 3 | 14,685 |
| Long term receivables | - | 2,151 | - | - | - | - | 21,102 |
| Trade and other payables | (227) | (534) | - | (1,227) | 608 | (2,352) | (27,030) |
| Long-term debt | - | (207,252) | (69,457) | - | - | (1,989) | - |
| Net exposure to consolidated statements of financial position | 1,359 | (184,680) | 264,323 | 9,267 | 1,289 | 15,467 | 9,038 |

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 to the consolidated statements of financial position.

*(Tabular amounts are in thousands of Canadian dollars)*

| | 2015 | 2014 |
|---|---|---|
| GBP | (4,897) | 245 |
| USD | (25,356) | (21,415) |
| Yen | 539 | 257 |
| Euros | 3,312 | 1,309 |
| RMB | 39 | 24 |
| DKK | 3,370 | 293 |
| Argentine Peso | 58 | 123 |

(i) Interest rate risk

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

Clearwater manages its interest rate risk exposure by using a mix of fixed and variable rate debt. At December 31, 2015, excluding the interest rate swap, approximately 3.6% (2014 – 5.5%) of Clearwater's debt of $480.8 million (2014 - $273.0 million) was fixed rate debt with a weighted average interest rate of 4.0% (2014 – 4.8%). A 1% change in interest rates for variable rate borrowings would result in a $5.5 million increase (or decrease) in interest expense.

Clearwater enters into interest rate swap, cap and floor arrangements to hedge interest rate risk on its variable rate debt. As at December 31, 2015, Clearwater has entered into interest rate swap arrangements on its CDN $30 million Term Loan A facility and its USD $200 million Term loan B facility whereby:

- CDN $12 million of Term Loan A is effectively subject to an interest rate that is the lessor of the floating rate of interest on the loan or a maximum fixed rate of interest of 6.25% to June 2018.
- CDN $12 million of Term Loan A is subject to a fixed interest rate of 5.85% to June 2018.
- USD $50 million of Term Loan B is subject to a fixed interest rate of 6.15% to June 2019.
- USD $50 million of Term Loan B is capped to June 30, 2016 at an interest rate of 4.75% and then the rate is fixed at 6.49% to June 2019.

The fair value of interest rate swaps and interest rate caps at the end of the reporting period is determined by discounting the future cash flows using the yield curves at the end of the reporting period. For the year ended December 31, 2015, this resulted in a $2.1 million unrealized loss (2014 - $2.6 million unrealized loss). Clearwater accounts for these swap arrangements and the change in market value through profit and loss.

*(Tabular amounts are in thousands of Canadian dollars)*

(j) Liquidity risk

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

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, 2015 | Carrying Amount | Total Contractual Cash Flow | 2016 | 2017 | 2018 | 2019 | 2020 | >2021 |
|---|---|---|---|---|---|---|---|---|
| Interest - long-term debt | | 81,183 | 18,845 | 17,940 | 16,560 | 7,763 | 275 | 19,800 |
| Principal repayments - long-term debt | | 503,405 | 65,685 | 19,061 | 63,507 | 339,265 | 9,875 | 6,012 |
| Total long-term debt | 480,769 | 584,588 | 84,530 | 37,001 | 80,067 | 347,028 | 10,150 | 25,812 |
| Trade and other payables | 82,870 | 82,870 | 82,870 | - | - | - | - | - |
| Operating leases and other | - | 25,822 | 7,677 | 6,059 | 3,467 | 2,795 | 2,750 | 3,074 |
| Derivative financial instruments - asset | (3,788) | (3,788) | (3,788) | - | - | - | - | - |
| Derivative financial instruments - liability | 18,622 | 18,622 | 18,622 | - | - | - | - | - |
| | $ 578,473 | $ 708,114 | $ 189,911 | $ 43,060 | $ 83,534 | $ 349,823 | $ 12,900 | $ 28,886 |

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

Also included in commitments for operating leases and other, are (i) amounts to be paid to a company controlled by a director of Clearwater over a period of years ending in 2018 for vehicle and office leases, which aggregate approximately $0.05 million (2014 - $0.1 million); and (ii) amounts to be paid to a company related to a member of its management team who is a former shareholder of Macduff for $1.9 million. These amounts relate to the lease of a production plant and will be paid over a period of 6 years.

(k) Fair value of financial instruments

For cash, trade and other receivables, and trade and other payables, the carrying value approximates their fair value due to the short-term maturity of these instruments. The fair value of the long term receivables is not materially different from their carrying value.

*(Tabular amounts are in thousands of Canadian dollars)*

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, 2015 | Through profit or loss | Derivatives | Loans and receivables | Non-derivative financial liabilities | Carrying amount | Fair value |
| **Assets:** | | | | | | |
| Cash | $ 51,106 | $ - | $ - | $ - | **$ 51,106** | **$ 51,106** |
| Trade and other receivables | - | - | 81,734 | - | **81,734** | **81,734** |
| Long-term receivables | - | - | 10,076 | - | **10,076** | **10,076** |
| Interest rate caps, floors and cross-currency swap | - | 3,788 | - | - | **3,788** | **3,788** |
| | $ 51,106 | $ 3,788 | $ 91,810 | $ - | **$ 146,704** | **$ 146,704** |
| **Liabilities:** | | | | | | |
| Trade and other payables [1] | $ - | $ - | $ - | $ (71,464) | **$ (71,464)** | **$ (71,464)** |
| Long-term debt | - | - | - | (465,855) | **(465,855)** | **(466,614)** |
| Forward foreign exchange contracts | - | (12,437) | - | - | **(12,437)** | **(12,437)** |
| Embedded derivative | - | (2,353) | - | - | **(2,353)** | **(2,353)** |
| Interest rate swaps | - | (6,185) | - | - | **(6,185)** | **(6,185)** |
| Earnout liability | (12,561) | | | | **(12,561)** | **(12,561)** |
| | $ (12,561) | $ (20,975) | $ - | $ (537,319) | **$ (570,855)** | **$ (571,614)** |

| | **Fair Value** | | **Amortized cost** | | **Total** | |
|---|---|---|---|---|---|---|
| December 31, 2014 | Through profit or loss | Derivatives | Loans and | Non-derivative financial liabilities | Carrying amount | Fair value |
| **Assets:** | | | | | | |
| Cash | $ 47,598 | $ - | $ - | $ - | **$ 47,598** | **$ 47,598** |
| Trade and other receivables | - | - | 49,812 | - | **49,812** | **49,812** |
| Long-term receivables | - | - | 3,872 | - | **3,872** | **3,872** |
| Forward foreign exchange contracts | - | 4,678 | - | - | **4,678** | **4,678** |
| Interest rate cap | - | 634 | - | - | **634** | **634** |
| | $ 47,598 | $ 5,312 | $ 53,684 | $ - | **$ 106,594** | **$ 106,594** |
| **Liabilities:** | | | | | | |
| Trade and other payables [1] | $ - | $ - | $ - | $ (36,366) | **$ (36,366)** | **$ (36,366)** |
| Long-term debt | - | - | - | (269,196) | **(269,196)** | **(269,058)** |
| Forward foreign exchange contracts | - | (5,469) | - | - | **(5,469)** | **(5,469)** |
| Embedded derivative | - | (3,845) | - | - | **(3,845)** | **(3,845)** |
| Interest rate swaps | - | (3,222) | - | - | **(3,222)** | **(3,222)** |
| | $ - | $ (12,536) | $ - | $ (305,562) | **$ (318,098)** | **$ (317,960)** |

1 - Trade and other payables excludes the liability for share based compensation of $11.4 million at December 31, 2015 (December 31, 2014 - $15.9 million).

Fair value of financial instruments carried at amortized cost:

Except as detailed below Clearwater considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements materially approximate their fair values:

*(Tabular amounts are in thousands of Canadian dollars)*

The estimated fair value of Clearwater's long term debt for which carrying value did not approximate fair value at December 31, 2015 was $18.9 million (December 31, 2014 - $16.3 million) and the carrying value was $18.2 million (December 31, 2014 – $16.5 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.

The fair value of the Deferred Obligation is estimated based on discounting the projected future cash out flows. Key assumptions that were used included discount rates ranging from 6.6% to 8.8% to represent changes in sensitivity for the payout periods, and an estimated fixed annual payment over the next five years. The estimated fair value of the Deferred Obligation ranged from £20 million to £22 million.

l) Fair value hierarchy:

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

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

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

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

*(Tabular amounts are in thousands of Canadian dollars)*

| December 31, 2014 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Recurring measurements** | | | |
| **Financial Assets:** | | | |
| Cash | $ 47,598 | $ - | $ - |
| Forward foreign exchange contracts | - | 4,678 | - |
| Interest rate caps | - | 634 | - |
| | $ 47,598 | $ 5,312 | $ - |
| **Financial Liabilities:** | | | |
| Forward foreign exchange contracts | $ - | $ (5,469) | $ - |
| Embedded derivative | - | (3,845) | - |
| Interest rate swaps | - | (3,222) | - |
| | $ - | $ (12,536) | $ - |

There were no transfers between levels during the years ended December 31, 2015 and December 31, 2014.

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, interest rate swaps and caps are measured using present value techniques that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs.

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

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

- Payments dates: The Earnout will be payable for the periods ending December 31, 2016 through December 31, 2020, based on the expected pattern of the Deferred Obligation and the expected outstanding amount of Deferred Obligation at the end of each year.
- Forecasted EBITDA: Management's five year forecast

*(Tabular amounts are in thousands of Canadian dollars)*

- Risk free rate: 1.5%
- Risk adjusted discount rates: 8%-10.5%
- Asset volatility: The estimated asset volatility of Macduff is based on the Merton option pricing model. In the context of calculating the asset volatility, the following inputs to derive the asset volatility were used:
  - Debt value: £19 million
  - Enterprise Value: £100 million
  - Equity value: £81 million
  - Equity volatility: 39%

A risk adjusted payout is calculated at each time period and discounted at the risk-free rate to the valuation date. This process is simulated 100,000 times and the expected value of the Earnout is retrieved. Based on the range of risk adjusted discount rates (per above) the range in fair values determined was between £5.6 million and £6.3 million.

The change in the fair value of the Earnout from October 30, 2015 (the acquisition date) to December 31, 2015 was not significant.

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

## 14. SHARE CAPITAL

*Authorized:*

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

*Share capital movement:*

| As at | **December 31, 2015** | | **December 31, 2014** | |
|---|---|---|---|---|
| Share capital: | **#** | **$** | # | $ |
| Balance at January 1 | **54,978,098** | **97,267** | 50,948,698 | 64,780 |
| Issuance of common shares | **4,980,900** | **59,894** | 4,029,400 | 32,487 |
| Balance at December 31 | **59,958,998** | **157,161** | 54,978,098 | 97,267 |

On June 30, 2015 Clearwater completed the issuance of 4,980,900 common shares at $12.25 per common share for gross proceeds of $61 million. Transaction costs associated with the equity issue were $2.4 million and have been deducted from the recorded amount for the common shares. In addition, Clearwater recorded $1.2 million in deferred tax assets relating to equity issuance costs. These deferred tax assets were added to the net proceeds from the issuance.

Total common shares outstanding as at December 31, 2015 were 59,958,998 common shares.

On February 4, 2014 Clearwater completed the issuance of 4,029,400 common shares at $8.50 per common share for gross proceeds of $34.2 million. Transaction costs associated with the equity issue were $1.8 million and deducted from the recorded amount for the common shares.

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

| Payment Date | # of Shares Outstanding | Dividends per Share |
|---|---|---|
| March 24, 2015 | 54,978,098 | $ 0.040 |
| May 28, 2015 | 54,978,098 | $ 0.040 |
| September 2, 2015 | 59,958,998 | $ 0.040 |
| December 15, 2015 | 59,958,998 | $ 0.050 |

During the year ended 2014, dividends of $5.8 million were declared and paid as follows:

| Payment Date | # of Shares Outstanding | Dividends per Share |
|---|---|---|
| March 24, 2014 | 54,978,098 | $ 0.025 |
| May 28, 2014 | 54,978,098 | $ 0.025 |
| September 2, 2014 | 54,978,098 | $ 0.025 |
| December 15, 2014 | 54,978,098 | $ 0.030 |

On March 22, 2016, Clearwater declared a quarterly dividend of $0.05 per share, payment to be made on April 15, 2016 to shareholders of record on March 31, 2016.

## 15. OTHER EXPENSE (INCOME)

| Year ended December 31 | | **2015** | | **2014** |
|---|---|---|---|---|
| Royalties, interest, and other fees | $ | **(664)** | $ | (844) |
| Share of earnings of equity-accounted investee | | **(2,591)** | | (2,987) |
| Acquisition related costs | | **3,240** | | - |
| Other fees | | **459** | | (1,200) |
| Other expense (income) | **$** | **444** | $ | **(5,031)** |

## 16. EARNINGS PER SHARE

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

| | | **2015** | | **2014** |
|---|---|---|---|---|
| Basic and diluted | | | | |
| Loss for the period attributed to shareholders | **$** | **(37,608)** | $ | (2,905) |
| Weighted average number of shares outstanding | | **57,489,017** | | 54,786,510 |
| Earnings (loss) per share | **$** | **(0.65)** | $ | (0.05) |

*(Tabular amounts are in thousands of Canadian dollars)*

The revaluation adjustment on the cash-settled share-based payments is anti-dilutive to loss per share for the year ended December 31, 2015. As a result, for the period ended December 31, 2015, 473,288 potential issuable shares were not included in the calculation of the weighted average number of common shares for the purpose of diluted earnings per share.

## 17. 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 | | **2015** | | **2014** |
|---|---|---|---|---|
| Earnings (loss) before income taxes | $ | **(16,284)** | $ | 15,745 |
| Combined tax rates | | **30.5%** | | 30.5% |
| Income tax provision at statutory rates | $ | **(4,967)** | $ | 4,802 |
| | | | | |
| Add (deduct): | | | | |
| Income of partnerships taxed in the hands of partners | $ | **(5,605)** | $ | (3,064) |
| Permanent differences | | **6,255** | | 3,047 |
| Benefit of capital loss not recognized | | **6,021** | | 2,807 |
| Recognition of previously unrecorded deferred tax assets | | **(3,864)** | | |
| (Income) of foreign subsidiary not subject to tax | | **5,890** | | (1,257) |
| Other | | **657** | | (386) |
| Actual provision | $ | **4,387** | $ | 5,949 |

(b) Income tax expense

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

| Year ended December 31 | | **2015** | | **2014** |
|---|---|---|---|---|
| Current | $ | 1,896 | $ | 2,585 |
| Deferred recovery | | 2,491 | | 3,364 |
| | $ | 4,387 | $ | 5,949 |

*(Tabular amounts are in thousands of Canadian dollars)*

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | December 31 2015 | December 31 2014 |
|---|---|---|
| Deferred tax asset: | | |
| Non-capital loss carry-forwards | $ 17,327 | $ 13,898 |
| Unrealized foreign exchange | 4,524 | 1,031 |
| Long-term debt | 1,272 | 2,460 |
| Share issuance costs | 905 | - |
| Reserve for unpaid share-based compensation | 2,969 | 4,356 |
| | | |
| Licenses | (21,376) | (3,199) |
| Property, plant and equipment | (9,198) | (4,152) |
| Other | (1,556) | (41) |
| | $ (5,133) | $ 14,353 |

Classified in the consolidated statement of financial position as:

| | | |
|---|---|---|
| Deferred tax asset - non-current | 14,184 | 15,356 |
| Deferred tax liability - non-current | (19,317) | (1,003) |
| | $ (5,133) | $ 14,353 |

The net change in deferred income taxes is reflected in deferred income tax expense of $2.5 million (2014 - $3.1 million), the foreign exchange effect of deferred taxes of foreign subsidiaries totaling $0.1 million (2014 - $0.2 million), the effect of which was recorded through foreign exchange, the effect of financing costs capitalized against equity of $1.2 million, and the following deferred tax liabilities acquired on acquisition, being $17.3 million for licenses and intangibles $0.5 million related of inventory and $0.3 million of fixed assets.

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 statements of financial position.

*(Tabular amounts are in thousands of Canadian dollars)*

| | Clearwater Seafoods Inc. | Subsidiary Corporations | Total | Expiry |
|---|---|---|---|---|
| Non-capital losses | $ - | $ 8,263 | $ 8,263 | 2015 - 2035 |
| Investment tax credits | 12,316 | 590 | 12,906 | 2023 - 2035 |
| Capital losses | 10,345 | 380 | 10,725 | No Expiry |
| Long term debt | | 63,228 | 63,228 | N/A |
| Fixed Asset | | 293 | 293 | 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, 2015 for the Company's subsidiaries was $47.4 million (December 31, 2014 - $87.3 million).

## 18. SEGMENTED 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 | **2015** | **2014** |
|---|---|---|
| Scallops | **$ 165,544** | $ 163,705 |
| Coldwater shrimp | **109,963** | 93,742 |
| Lobster | **92,589** | 78,186 |
| Clams | **84,350** | 72,774 |
| Crab | **26,141** | 20,985 |
| Ground fish and other shellfish | **18,485** | 15,350 |
| Langoustine | **7,873** | - |
| | **$ 504,945** | $ 444,742 |

*(Tabular amounts are in thousands of Canadian dollars)*

(b) Sales by Geographic Region of the Customer

| Year ended December 31 | **2015** | 2014 |
|---|---|---|
| France | **$ 85,974** | $ 54,418 |
| Scandinavia | **35,931** | 30,442 |
| UK | **24,615** | 19,639 |
| Other | **37,361** | 45,117 |
| Europe | **183,881** | 149,616 |
| China | **95,140** | 73,308 |
| Japan | **66,401** | 57,496 |
| Other | **18,113** | 15,494 |
| Asia | **179,654** | 146,298 |
| United States | **80,668** | 84,943 |
| Canada | **58,696** | 61,668 |
| North America | **139,364** | 146,611 |
| Other | **2,046** | 2,217 |
| | **$ 504,945** | $ 444,742 |

(c) Non-current Assets by Geographic Region

| As at December 31 | **2015** | **2014** |
|---|---|---|
| **Property, plant and equipment, licenses, fishing rights and goodwill** | | |
| Canada | **$ 291,644** | $ 255,398 |
| Argentina | **27,751** | 34,807 |
| Scotland | **187,620** | - |
| Other | **208** | 192 |
| | **$ 507,223** | $ 290,397 |

*(Tabular amounts are in thousands of Canadian dollars)*

## 19. RELATED PARTY TRANSACTIONS

(a) Subsidiaries, partnerships, and joint venture

Clearwater's consolidated financial statements include the accounts of the Corporation and its material subsidiaries, partnerships and joint venture, as follows:

| **Entity** | **Ownership %** | **Accounts** |
|---|---|---|
| Clearwater Seafoods Limited Partnership | 100% | Consolidated |
| Macduff Shellfish Group Limited | 100% | Consolidated |
| Clearwater Ocean Prawns Venture | 53.66% | Consolidated |
| St. Anthony Seafoods Limited Partnership | 75% | Consolidated |
| Adams and Knickle Limited | 50% | Equity method |
| Clearwater Seafoods Holdings Incorporated | 100% | Consolidated |
| Clearwater Fine Foods Europe Limited | 100% | Consolidated |
| Clearwater Fine Foods USA Incorporated | 100% | Consolidated |
| Glaciar Pesquera S.A. | 80% | Consolidated |

(b) Key management personnel

Clearwater has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2015 and 2014.

| Year ended December 31 | **2015** | **2014** |
|---|---|---|
| Wages and salaries | $ 3,651 | $ 3,408 |
| Share-based compensation | 4,764 | 8,740 |
| Bonuses | 1,473 | 1,539 |
| Other benefits | 717 | 1,829 |
| | $ 10,605 | $ 15,516 |

*(Tabular amounts are in thousands of Canadian dollars)*

c) Transactions with other related parties

Clearwater rents office space to Clearwater Fine Foods Incorporated (“CFFI”) (the controlling shareholder of Clearwater) and provides computer network support services to CFFI. The net amount due to CFFI in respect of these transactions was $0.05 million (December 31, 2014 – net amount due from CFFI of $0.03 million), is unsecured and due on demand. As such the account has been classified as a current. The balance bears interest at a rate of 5%.

In September 2015, Clearwater entered into an agreement to sell an idle vessel to a joint venture which is accounted for under the equity method in Clearwater’s consolidated financial statements. The estimated sales price of CDN $11.8 million dollars is the estimated book value at the time of the sale. This amount includes estimated costs for a refit on the vessel, which is to be completed by the Company prior to the sale to the joint venture. The sale is expected to close in the first quarter of 2016.

For the year ended December 31, 2015, Clearwater expensed approximately $0.2 million for goods and services from companies related to its parent (December 31, 2014 - $0.2 million). The transactions are recorded at the exchange amount and the balance due to these companies was $0.01 million as at December 31, 2015 (December 31, 2014 - $ nil million).

For the year ended December 31, 2015, Clearwater expensed approximately $0.07 million in factory and equipment rentals from companies related to a member of its management team (December 31, 2014 $ nil). Clearwater incurred $0.1 million in legal fees paid to a law firm in which a Director of Clearwater is a partner (December 31, 2014 - $0.02 million).

At December 31, 2015 Clearwater had a balance of $1.3 million (December 31, 2014 - $1.0 million), included in long term receivables, for interest bearing loans made to a non-controlling interest shareholder in a subsidiary.

Clearwater recorded sales commissions, management and administration fees, storage fees and sales to a non-controlling interest holder in a consolidated partnership. These sales commissions, management and administration fees, storage fees and sales are at negotiated prices and are settled on normal trade terms:

| | **December 31, 2015** | **December 31, 2014** |
|---|---|---|
| Sales commissions | $ 3,957 | $ 2,379 |
| Management and administration | 1,403 | 1,425 |
| Storage fees | 1,424 | 1,390 |
| Sales | 80 | 6,694 |

*(Tabular amounts are in thousands of Canadian dollars)*

## 20. NON-CONTROLLING INTEREST

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

*(a) Summarized statements of financial position*

| | Coldwater shrimp | |
|---|---|---|
| Year ended December 31 | **2015** | **2014** |
| **NCI Percentage** | **46.34%** | 46.34% |
| Current assets | $ **53,408** | $ 28,881 |
| Current liabilities | **(15,364)** | (10,684) |
| | **38,044** | 18,197 |
| Non-current assets | **33,139** | 39,312 |
| Non-current liabilities | **(114)** | (386) |
| | **33,025** | 38,926 |
| Net assets | **71,069** | 57,123 |
| Accumulated non-controlling interests | **$ 33,660** | $ 25,737 |

| | Scallops | |
|---|---|---|
| Year ended December 31 | **2015** | **2014** |
| **NCI Percentage** | **20.0%** | 20.0% |
| Current assets | $ **7,371** | $ 5,428 |
| Current liabilities | **(38,803)** | (28,753) |
| | **(31,432)** | (23,325) |
| Non-current assets | **27,084** | 33,345 |
| | **27,084** | 33,345 |
| Net assets | **(4,348)** | 10,020 |
| Accumulated non-controlling interests | **$ (1,922)** | $ 1,019 |

*(Tabular amounts are in thousands of Canadian dollars)*

*(b) Summarized statements of earnings*

| | Coldwater shrimp | |
|---|---|---|
| Year ended December 31 | **2015** | **2014** |
| Sales | **$ 111,051** | $ 89,792 |
| Net earnings | **39,446** | 21,558 |
| Total comprehensive income | **39,446** | 21,558 |
| **Earnings allocated to non-controlling interest** | **19,740** | 11,533 |
| **Dividends paid to non-controlling interest** | **11,817** | 10,427 |

| | Scallops | |
|---|---|---|
| Year ended December 31 | **2015** | **2014** |
| Sales | **$ 31,642** | $ 38,407 |
| Net earnings | **(15,814)** | 5,272 |
| Other comprehensive income | **(1,445)** | 505 |
| Total comprehensive income | **(17,259)** | 5,777 |
| **Earnings allocated to non-controlling interest** | **(2,941)** | 1,097 |

*(c) Summarized statements of cash flows*

| | Coldwater shrimp | |
|---|---|---|
| Year ended December 31 | **2015** | **2014** |
| Cash flow from operating activities | **$ 54,194** | $ 32,387 |
| Cash flow used in financing activities | **(26,095)** | (23,331) |
| Cash flow used in investing activities | **(4,000)** | (12,482) |
| Net increase (decrease) in cash | **24,099** | (3,426) |

| | Scallops | |
|---|---|---|
| Year ended December 31 | **2015** | **2014** |
| Cash flow from operating activities | **$ 5,092** | **$** 8,626 |
| Cash flow from (used in) financing activities | **-** | - |
| Cash flow used in investing activities | **(5,094)** | (8,641) |
| Net (decrease) in cash | **(2)** | (15) |

*(Tabular amounts are in thousands of Canadian dollars)*

## 21. INVESTMENT IN EQUITY INVESTEE

The following table summarizes the financial information of Clearwater's joint venture accounted for using the equity method:

| Year ended December 31 | 2015 | 2014 |
|---|---|---|
| **Carrying amount of interest in joint venture** | **$ 9,311** | $ 6,198 |
| **Share of:** | | |
| Earnings for the year | **2,591** | 2,987 |
| Dividends from joint venture | **-** | 1,490 |
| Commissions paid to joint venture | **8,598** | 9,424 |

## 22. CAPITAL MANAGEMENT

Clearwater's objectives when managing capital are as follows:

- Ensure liquidity
- Minimize cost of capital
- Support business functions and corporate strategy

Clearwater's capital structure includes a combination of equity and various types of debt facilities. Clearwater's objective when managing its capital structure is to obtain the lowest cost of capital available, while maintaining flexibility and reducing exchange risk by borrowing when appropriate in currencies other than the Canadian dollar.

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

The amount of debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

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

## 23. 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 12, 2015.

The number of share-based awards outstanding and vested as of December 31, 2015 and 2014 were as follows:

As at December 31, 2015
In thousands

| | Grant price | Number outstanding | Number vested | Grant Date |
|---|---|---|---|---|
| SARs | $ 0.80 | 83 | 83 | May 2010 |
| | 1.00 | 67 | 67 | May 2010 |
| PSU - Tranche 2 | N/A | 204 | 204 | March 2013 |
| PSU - Tranche 3 | N/A | 190 | - | March 2014 |
| PSU - Tranche 4 | N/A | 105 | - | April 2015 |
| DSU | N/A | 448 | 268 | June 2012 - December 2015 |
| Total | | 1,097 | 622 | |

As at December 31, 2014
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 1 | N/A | 424 | 424 | May 2012 |
| PSU - Tranche 2 | N/A | 219 | - | March 2013 |
| PSU - Tranche 3 | N/A | 208 | - | March 2014 |
| DSU | N/A | 398 | 220 | June 2012 - December 2014 |
| Total | | 1,399 | 794 | |

The following reconciles the share based awards outstanding for the year ended December 31, 2015:

| In thousands of share units | PSU - Tranche 1 | PSU - Tranche 2 | PSU - Tranche 3 | PSU - Tranche 4 | DSU | SARS | Total |
|---|---|---|---|---|---|---|---|
| Outstanding at January 1, 2015 | 424 | 219 | 208 | - | 398 | 150 | 1,399 |
| Granted | - | 3 | 3 | 112 | 6 | - | 124 |
| Granted from dividends | - | - | - | 1 | 44 | - | 45 |
| Forfeited | - | (18) | (21) | (8) | - | - | (47) |
| Exercised | (424) | - | - | - | - | - | (424) |
| Outstanding at December 31, 2015 | - | 204 | 190 | 105 | 448 | 150 | 1,097 |
| | | | | | | | |
| Vested at January 1, 2015 | 424 | - | - | - | 220 | 150 | 794 |
| Vested | - | 204 | - | - | 47 | - | 251 |
| Exercised | (424) | - | - | - | - | - | (424) |
| Vested at December 31, 2015 | - | 204 | - | - | 267 | 150 | 621 |

The following reconciles the number of share based awards outstanding for the year ended December 31, 2014:

| In thousands of share units | PSU - Tranche 1 | PSU - Tranche 2 | PSU - Tranche 3 | DSU | SARS | Total |
|---|---|---|---|---|---|---|
| Outstanding at January 1, 2014 | 424 | 214 | - | 443 | 150 | 1,231 |
| Granted | 37 | 18 | 206 | 51 | - | 312 |
| Granted from dividends | 5 | 3 | 2 | 5 | - | 15 |
| Forfeited | (42) | (16) | - | (101) | - | (159) |
| Outstanding at December 31, 2014 | 424 | 219 | 208 | 398 | 150 | 1,399 |
| | | | | | | |
| Vested at January 1, 2013 | - | - | - | 167 | 150 | 317 |
| Vested | 424 | - | - | 53 | - | 477 |
| Vested at December 31, 2014 | 424 | - | - | 220 | 150 | 794 |

For the year ended December 31, 2015, there were 424 PSU awards exercised (2014 - nil). These awards were cash settled for total cash payments of $8.9 million.

The total cash payment for share based awards exercised during the year ended December 31, 2014 was $ nil.

*(Tabular amounts are in thousands of Canadian dollars)*

When cash dividends are paid to shareholders of Clearwater, dividend equivalent PSUs and DSUs are granted to the Participants which are equal to the greatest number of whole share units having a market value, as of the payment date of the dividend, equal to the product of the cash dividend paid per share multiplied by the number of PSU and DSU share units outstanding. The additional PSUs and DSUs granted are subject to the same terms and conditions as the corresponding PSU or DSU Grant.

Fair value of share based awards

The SARS issued and outstanding are fully vested and are expected to be cash settled on the exercise date; therefore, vested awards are recorded as liabilities at the intrinsic value of the SARS.

The PSU Tranche 2 are fully vested as of December 31, 2015 and are recorded as a liability of $3.7 million. This is expected to be cash settled in the first quarter of 2016.

Measurement inputs for the remaining plans include the fair value of the 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:

**2015**

| Number of awards | **PSU Tranche 3** | **PSU Tranche 4[1]** | **DSU** |
|---|---|---|---|
| Weighted average fair value per award | $ 14.94 | $ 18.19 | $ 11.99 |
| Weighted average risk-free interest rate | 0.06% - 1.85% | 0.10% - 3.46% | 0.479% - 0.64% |
| Weighted average expected volatility | 15.88% - 35.50 % | 20.38% - 74.54% | 33.78% - 38.12% |
| Expected life of awards (years) | 1 | 2 | 2.5 - 4.25 |

1 - PSU Tranche 4 is accounted for as equity-settled PSU awards

**2014**

| Number of awards | **PSU Tranche 2** | **PSU Tranche 3** | **DSU** |
|---|---|---|---|
| Weighted average fair value per award | $ 17.11 | $ 17.47 | $ 11.86 |
| Weighted average risk-free interest rate | 1.19% - 3.69% | 0.75% - 3.69% | 1.01% - 1.35% |
| Weighted average expected volatility | 17.81% - 44.88% | 17.8% - 44.88 % | 52.33% - 52.89% |
| Expected life of awards (years) | 1 | 2 | 4.5 - 5.25 |

Share-based compensation expense included in the income statement for the year ended December 31, 2015 is $5.3 million (December 31, 2014 - $8.9 million).

The liability for share based compensation is $11.4 million at December 31, 2015 (December 31, 2014 - $15.9 million). The vested portion of the liability for share based compensation is $8.5 million at December 31, 2015 (December 31, 2014 – $11.8 million).

*(Tabular amounts are in thousands of Canadian dollars)*

## 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)* | | **December 31, 2015** | | **December 31, 2014** |
|---|---|---|---|---|
| (Increase) decrease in inventory | **$** | **(7,297)** | $ | 6,237 |
| Increase in accounts payable | | **2,123** | | 2,685 |
| (Increase) in accounts receivable | | **(13,564)** | | (4,605) |
| (Increase) in prepaids | | **(2,908)** | | (713) |
| | **$** | **(21,646)** | $ | 3,604 |

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