





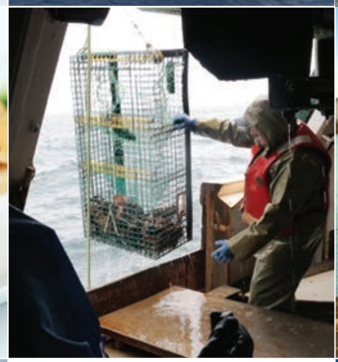


40 YEARS Clearwater

CLEARWATER SEAFOODS INCORPORATED
2016 ANNUAL FINANCIAL STATEMENTS

& Growing













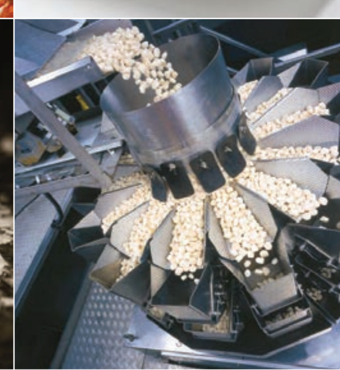

Clearwater Seafoods Incorporated
Management's Statement of Responsibility for Financial Reporting

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

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

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

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

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

March 8, 2017

Ian D Smith

Ian Smith
Chief Executive Officer

Teresa Fortney
Vice-President, Finance and Chief Financial Officer

KPMG LLP
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1959 Upper Water Street
Halifax NS B3J 3N2
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Clearwater Seafoods Incorporated

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

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

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

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

See the accompanying notes to the consolidated financial statements

Approved by the Board:

John Risley
Director

Colin MacDonald
Chairman

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Earnings (Loss)

(In thousands of Canadian dollars)

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

See the accompanying notes to the consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Other Comprehensive Income

(In thousands of Canadian dollars)

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

See the accompanying notes to the consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Changes in Equity

(In thousands of Canadian dollars)

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

See the accompanying notes to the consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

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

See the accompanying notes to the consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

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

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

The consolidated financial statements of Clearwater as at and for the years ended December 31, 2016 and 2015 comprise the company, its subsidiaries and a joint venture (see Note 22). Clearwater's business includes the ownership and operation of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

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

(b) Basis of Measurement

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

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

The fair value measurements have been described in the notes.

(c) Functional and presentation currency

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

(d) Critical judgments and estimates in applying accounting policies

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

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

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

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

i. Income taxes

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

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

ii. Goodwill and intangible assets

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

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

iii. Share-based compensation

Key sources of estimation uncertainty

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

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

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

iv. Derivative financial instruments

Key sources of estimation uncertainty

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

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

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

v. Earnout

Key sources of estimation uncertainty

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

i) Business Combinations and Goodwill

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

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

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

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

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

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

ii) Subsidiaries

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

iii) Joint venture

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

iv) Transactions eliminated on consolidation

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

(b) Inventories

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

(c) Property, plant and equipment

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

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

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

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

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

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

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

(d) Intangible Assets

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

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

i) Licenses, brand names and fishing rights

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

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

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

ii) Computer software

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

(e) Revenue recognition

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

(f) Government assistance

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

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

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

(g) Financial instruments

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

Financial instrument	**Category**	**Measurement Method**
Cash	Fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Initial: Fair Value Subsequent: Amortized cost through profit or loss
Long-term receivables	Loans and receivables	
Trade and other payables	Non-derivative financial liabilities	
Long-term debt	Non-derivative financial liabilities	
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.

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

Non-derivative financial liabilities

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

Derivative financial instruments

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

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

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

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

(h) Impairment

i) Financial assets

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

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

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

ii) Non-financial assets

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

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

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

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

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

(i) Translation of foreign currency

i) Foreign currency transactions

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

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

ii) Foreign operations

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

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

(j) Income taxes

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

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

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

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

(k) Borrowing costs

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

(l) Finance costs

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

(m) Share-based compensation

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

Share appreciation rights (“SARs”)

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

Deferred share units ("DSU")

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

Performance share units ("PSU")

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

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

Cash-settled PSU awards are recorded as liabilities at fair market value at each reporting period with changes in fair value recorded to profit and loss. Equity-settled PSU awards are measured at fair market value on the grant date of the awards. The fair value of the 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 and selling costs in the consolidated statement of earnings (loss) over the vesting period.

(n) Earnings (loss) per share

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

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

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

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

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

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

Annual Improvements to IFRS (2012 – 2014) cycle

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

Disclosure Initiative

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

Measurement of deferred income taxes (IAS 12)

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

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

(p) New accounting standards not yet adopted

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

Foreign Currency Transactions and Advance Consideration (IFRIC 22)

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

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

Disclosure Initiative (Amendments to IAS 7)

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

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

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

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

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

IFRS 15 – Revenue from Contracts with Customers

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

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

IFRS 9 – Financial Instruments

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

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

IFRS 16 Leases

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

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

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

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

IFRS 2 Share-Based Payment

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

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

4. BUSINESS COMBINATIONS

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

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

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

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

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

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

- 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

(Tabular amounts are in thousands of Canadian dollars)

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

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

Deferred Obligation

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

The Earnout

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

5. TRADE AND OTHER RECEIVABLES

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

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

6. INVENTORIES

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

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

7. PREPAIDS AND OTHER

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

8. FINANCIAL INSTRUMENTS

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

(Tabular amounts are in thousands of Canadian dollars)

Summary of fair values of derivative financial instrument positions:

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

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)
Contracts in a liability position				
Euro	43,400	1.446	8	$ (3,153)
USD	65,200	1.279	7	(6,466)
Yen	3,356,000	0.011	8	(2,818)
				$ (12,437)

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

	Effective date	Expiry date	Contracted fixed interest rate	Currency	Notional amount (in 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)

	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	$ -
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)

(d) Net finance costs

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

(g) Credit risk:

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

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

(h) Foreign currency exchange rate risk

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

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

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

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

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

(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, 2016:

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

(i) Interest rate risk

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

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

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

- CDN $12 million of Term Loan A is effectively subject to an interest rate that is the 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, 2018 at an interest rate of 4.75% and then the rate is fixed at 6.49% to June 2019.

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

(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.

Clearwater's debt facilities are subject to certain financial and non-financial covenants. Clearwater is in compliance with all covenants associated with its debt facilities as of December 31, 2016.

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

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

(k) Fair value of financial instruments

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

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

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

Fair value of financial instruments carried at amortized cost:

(Tabular amounts are in thousands of Canadian dollars)

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

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

l) Fair value hierarchy:

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

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

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

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

- The embedded derivative is fair valued using a Bloomberg valuation model for interest rate floors.

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

- Payments dates: The Earnout will be payable for the periods ending December 31, 2017 through December 31, 2020, based on the expected pattern of the Deferred Obligation and the expected outstanding amount of Deferred Obligation at the end of each year.
- Forecasted EBITDA: Management's five year forecast
- Risk free rate: 0.759%
- Risk adjusted discount rates: 7.50%-10.00%
- Asset volatility: The estimated asset volatility of Macduff is based on the Merton option pricing model. In the context of calculating the asset volatility, the following inputs to derive the asset volatility were used:
    - Debt value: £19 million
    - Enterprise Value: £100 million
    - Equity value: £81 million
    - Equity volatility: 39%

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

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

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

9. LONG-TERM RECEIVABLES

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

10. PROPERTY, PLANT AND EQUIPMENT

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

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

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

11. INTANGIBLE ASSETS AND GOODWILL

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

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

(Tabular amounts are in thousands of Canadian dollars)

Indefinite life licenses, brand names and goodwill

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

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

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

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

The discounted cash flows used in determining the recoverable amounts for the Scallops, MacDuff and all other 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 2% - 2.5% (2015: 1%). Gross margins for all future periods were determined using a combination of forecasted and historical margins.

ii) Pre-tax discount rates ranging from 9% - 13% (2015: 13% - 18%) were applied in determining the recoverable amount of the 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 the management approved capital expenditure forecast, and terminal year capital expenditures were based on required refits over the period of the fishing license.

(Tabular amounts are in thousands of Canadian dollars)

The following assumptions were used for each individual CGU:

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

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

Definite life fishing rights

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

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

Enterprise resource planning system

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

(Tabular amounts are in thousands of Canadian dollars)

12. INVESTMENT IN EQUITY INVESTEE

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

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

13. INCOME TAXES

(a) Reconciliation of income tax expense

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

A reconciliation of the difference is as follows:

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

(Tabular amounts are in thousands of Canadian dollars)

(b) Income tax expense

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

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

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

		December 31 2016		**December 31 2015**
Deferred tax assets:				
Non-capital loss carry-forwards	**$**	17,144	**$**	17,327
Unrealized foreign exchange		250		4,524
Share issuance costs		1,192		905
Reserve for unpaid share-based compensation		2,001		2,969
Deferred tax liabilities:				
Licenses and intangibles		(18,200)		(21,376)
Property, plant and equipment		(13,004)		(9,198)
Long-term debt		(586)		1,272
Other		(431)		(1,556)
	$	(11,634)	$	(5,133)

Classified in the consolidated statement of financial position as:

Deferred tax asset		6,429		14,184
Deferred tax liability		(18,063)		(19,317)
	$	(11,634)	$	(5,133)

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

(Tabular amounts are in thousands of Canadian dollars)

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

Unrecognized deferred tax assets

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

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

Unrecognized deferred tax liabilities

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

(Tabular amounts are in thousands of Canadian dollars)

14. LONG-TERM DEBT

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

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

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

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

Term Loan B facility- The principal outstanding as at December 31, 2016 was USD $178.5 million (December 31, 2015 - $189.7 million) and CAD $70.4 million (December 31, 2015 - $74.8 million). 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, 2016 this resulted in an effective rate of 4.75% on the USD balance and 4.39% 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 was recorded through profit or loss as a component of net finance costs.

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

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

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

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

(i) Deferred Obligation - The Deferred Obligation relates to deferred payments for 33.75% of the shares of Macduff acquired by Clearwater (the "Earn Out Shares") in 2015. Excluding the fair value adjustment on acquisition, the principal balance outstanding as at December 31, 2016 is £21.0 million (CDN \$34.8 million) (December 31, 2015 - £26.2 million (CDN \$53.9 million)) and does not bear interest. The Deferred Obligation is recorded at the discounted amount based on estimated timing of payment and is being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 7.8%. The following is a reconciliation of the Deferred Obligation:

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

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

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

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

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

15. SHARE CAPITAL

Authorized:

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

Share capital movement:

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

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

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

Payment Date	# of Shares Outstanding	Dividends per Share
April 15, 2016	59,958,998	$ 0.050
June 10, 2016	59,958,998	$ 0.050
September 1, 2016	63,934,698	$ 0.050
December 2, 2016	63,934,698	$ 0.050

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

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

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

(Tabular amounts are in thousands of Canadian dollars)

16. NON-CONTROLLING INTEREST

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

(a) Summarized statements of financial position

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

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

(Tabular amounts are in thousands of Canadian dollars)

(b) Summarized statements of earnings

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

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

(c) Summarized statements of cash flows

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

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

17. OTHER EXPENSE (INCOME)

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

18. EMPLOYEE COMPENSATION

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

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

19. EARNINGS (LOSS) PER SHARE

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

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

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

20. SHARE-BASED COMPENSATION

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

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

As at December 31, 2016
In thousands

	Grant price	Number outstanding	Number vested	Grant Date
SARs	**$ 0.80**	**83**	**83**	**May 2010**
	1.00	**67**	**67**	**May 2010**
PSU - Tranche 3	**N/A**	**141**	**141**	**March 2014**
PSU - Tranche 4	**N/A**	**79**	**-**	**April 2015**
PSU - Tranche 5	**N/A**	**124**	**-**	**April 2016**
DSU	**N/A**	**391**	**313**	**June 2012 - December 2016**
Total		**885**	**604**	

As at December 31, 2015
In thousands

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

The following reconciles the share based awards outstanding for the year ended December 31, 2016:

In thousands of share units	PSU - Tranche 2	PSU - Tranche 3	PSU - Tranche 4	PSU - Tranche 5	DSU	SARS	Total
Outstanding at January 1, 2016	**204**	**190**	**105**	**-**	**448**	**150**	**1,097**
Granted	**-**	**-**	**-**	**127**	**-**	**-**	**127**
Granted from dividends	**-**	**2**	**1**	**1**	**50**	**-**	**54**
Forfeited	**-**	**(51)**	**(27)**	**(4)**	**-**	**-**	**(82)**
Exercised	**(204)**	**-**	**-**	**-**	**(108)**	**-**	**(312)**
Outstanding at December 31, 2016	**-**	**141**	**79**	**124**	**390**	**150**	**884**
Vested at January 1, 2016	**204**	**-**	**-**	**-**	**267**	**150**	**621**
Vested	**-**	**141**	**-**	**-**	**152**	**-**	**293**
Exercised	**(204)**	**-**	**-**	**-**	**(108)**	**-**	**(312)**
Vested at December 31, 2016	**-**	**141**	**-**	**-**	**311**	**150**	**602**

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

In thousands of share units	PSU - Tranche 1	PSU - Tranche 2	PSU - Tranche 3	PSU - Tranche 4	DSU	SARS	Total
Outstanding at January 1, 2015	424	219	208	-	398	150	1,399
Granted	-	3	3	112	6	-	124
Granted from dividends	-	-	-	1	44	-	45
Forfeited	-	(18)	(21)	(8)	-	-	(47)
Exercised	(424)	-	-	-	-	-	(424)
Outstanding at December 31, 2015	-	204	190	105	448	150	1,097
Vested at January 1, 2013	424	-	-	-	220	150	794
Vested	-	204	-	-	47	-	251
Exercised	(424)	-	-	-	-	-	(424)
Vested at December 31, 2015	-	204	-	-	267	150	621

(Tabular amounts are in thousands of Canadian dollars)

For the year ended December 31, 2016, there were 204 PSU awards exercised (2015 - 424). These awards were cash settled for total cash payments of $4.2 million (December 31, 2015 - $8.9 million).

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

Fair value of share based awards

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

The PSU Tranche 3 are fully vested as of December 31, 2016 and are recorded as a liability of $1.6 million. This is expected to be cash settled in the first quarter of 2017.

PSU Tranches 4 and 5 are expected to be equity settled.

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

2016	PSU Tranche 4	PSU Tranche 5	DSU
Weighted average fair value per award	$ 18.19	$ 17.78	$ 11.65
Weighted average risk-free interest rate	0.10% - 3.46%	1.01% - 2.28%	0.479% - 0.64%
Weighted average expected volatility	20.38% - 74.54%	18.66% - 43.43%	33.78% - 38.12%
Expected life of awards (years)	1	2	1 - 3.25

2015	PSU Tranche 3	PSU Tranche 4	DSU
Weighted average fair value per award	$ 14.94	$ 18.19	$ 11.99
Weighted average risk-free interest rate	0.06% - 1.85%	0.10% - 3.46%	0.479% - 0.64%
Weighted average expected volatility	15.88% - 35.50 %	20.38% - 74.54%	33.78% - 38.12%
Expected life of awards (years)	1	2	2.5 - 4.25

(Tabular amounts are in thousands of Canadian dollars)

Share-based compensation expense included in the consolidated statements of earnings (loss) for the year ended December 31, 2016 is $2.9 million (December 31, 2015 - $5.3 million).

The liability for share based compensation is $7.6 million at December 31, 2016 (December 31, 2015 - $11.4 million). The vested portion of the liability for share based compensation is $6.9 million at December 31, 2016 (December 31, 2015 – $8.5 million).

21. SEGMENT INFORMATION

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

(a) Sales by Species

Year ended December 31		**2016**		2015
Scallops	**$**	**188,421**	$	165,544
Coldwater shrimp		**93,250**		109,963
Lobster		**108,402**		92,589
Clams		**91,918**		84,350
Crab		**38,243**		26,141
Ground fish and other shellfish		**43,745**		18,485
Langoustine		**47,572**		7,873
	$	**611,551**	$	504,945

(Tabular amounts are in thousands of Canadian dollars)

(b) Sales by Geographic Region of the Customer

Year ended December 31	**2016**	2015
France	**$ 102,806**	$ 85,974
Scandinavia	**32,529**	35,931
UK	**17,632**	24,615
Other	**93,942**	37,361
Europe	**246,909**	183,881
China	**94,623**	95,140
Japan	**76,230**	66,401
Other	**36,036**	18,113
Asia	**206,889**	179,654
United States	**85,385**	80,668
Canada	**72,275**	58,696
North America	**157,660**	139,364
Other	**93**	2,046
	$ 611,551	$ 504,945

(c) Non-current Assets by Geographic Region

As at December 31	**2016**	2015
Property, plant and equipment, licenses, fishing rights and goodwill		
Canada	**$ 298,517**	$ 291,644
Argentina	**24,055**	27,751
Scotland	**158,077**	187,620
Other	**260**	208
	$ 480,909	$ 507,223

(Tabular amounts are in thousands of Canadian dollars)

22. RELATED PARTY TRANSACTIONS

(a) Subsidiaries, partnerships, and joint venture

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

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

(b) Key management personnel

Clearwater has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2016 and 2015.

Year ended December 31		**2016**		**2015**
Wages and salaries	**$**	**3,998**	$	3,651
Share-based compensation		**2,702**		4,764
Bonuses		**-**		1,473
Other benefits		**1,442**		717
	$	**8,142**	$	10,605

c) Transactions with other related parties

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

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

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

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

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

23. CAPITAL MANAGEMENT

Clearwater's objectives when managing capital are as follows:

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

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

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

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

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

(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)*		**2016**		**2015**
Increase in inventory	**$**	**(22,030)**	$	(7,297)
Increase (decrease) in accounts payable		**(6,127)**		2,123
(Increase) in accounts receivable		**3,775**		(13,564)
Decrease (increase) in prepaids		**4,953**		(2,908)
	$	**(19,429)**	$	(21,646)

26. COMPARATIVE INFORMATION

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