

CLEARWATER SEAFOODS INCORPORATED

ANNUAL INFORMATION FORM

For the year ended December 31, 2017

March 6, 2018

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PRELIMINARY NOTES AND CAUTIONARY STATEMENTS

Date of Information

All disclosure in this Annual Information Form ("AIF") is as of December 31, 2017, the last date of the most recently completed financial year of Clearwater Seafoods Incorporated ("CSI" or "Clearwater", also referred to as "we" or "us"), unless otherwise indicated.

Currency

All currency references in this AIF are in Canadian dollars unless otherwise indicated. References to "US dollars" or the use of the symbol "US\$" refers to United States dollars. The use of the symbol "£" refers to British pounds.

Forward-Looking Information

Included in this AIF, and the documents incorporated herein by reference, is "forward-looking information" as defined under applicable Canadian securities legislation. Forward-looking information typically, but not always, contains statements with words such as "anticipate", "does not anticipate", "believe", "estimate", "forecast", "intend", "expect", "does not expect", "may", "will", "should", "plan", or other similar terms that are predictive in nature, and forward-looking information in this AIF includes, among other things, statements regarding CSI's strategies, plans and expectations for its business, the development of its products and its capital expenditures, including those described under the heading "Business of Clearwater", and future declarations of dividends. These statements are not historical facts, but instead only represent management's expectations, estimates, assumptions, plans, and projections concerning the outcome of future events. Forward-looking information relies on certain underlying assumptions that, if not realized, can result in such forward-looking information not being achieved. There can be no assurance that such forward-looking information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such information. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of CSI to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Readers are therefore cautioned that management's expectations, estimates and assumptions, although considered reasonable, may prove to be incorrect and readers should not place undue reliance on forward-looking statements.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business and its corporate structure. Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect, including, but not limited to, assumptions in connection with the continuance of CSI and its subsidiaries as a going concern, general economic and market conditions, the ability of CSI to obtain or maintain fishing licenses and quotas, and the political and economic stability of countries where CSI has foreign operations.

Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, those factors discussed under the heading "Risk Factors" in this AIF, competitive conditions, whether related to new competitors or current competitors, general economic conditions, political conditions and events, and competitive pressures, changes in demographic trends, changes in consumer preferences and discretionary spending patterns, changes in national and local business and economic conditions, changes in legislation and governmental regulation, changes in accounting policies and practices, and the results of operations and financial condition of CSI, as well as

other factors identified throughout this AIF or in the documents incorporated by reference herein. For additional information with respect to risk factors applicable to CSI, reference should be made to the section in this AIF entitled “Risk Factors”, as well as CSI's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, including, but not limited to, CSI's annual and interim Management Discussion and Analysis.

Any financial outlook or future-oriented financial information in this AIF, as defined by applicable securities legislation, has been approved by management of CSI as of the date of this AIF. Such financial outlook or future-oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such outlook or information should not be used for purposes other than for which it is disclosed in this AIF.

The forward-looking information contained in this AIF represents the expectations of management as of the date of this AIF. However, CSI disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

Non-IFRS Measures

This AIF makes reference to several non-IFRS measures. These measures are provided to enhance the reader's understanding of Clearwater's financial performance. They are included to provide investors and management with an alternative method for assessing Clearwater's operating results in a manner that is focused on the performance of ongoing operations and to provide a consistent basis for comparison between periods. These non-IFRS measures are not recognized measures under International Financial Reporting Standards (“IFRS”), and therefore they are unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to sales, earnings and cash provided by operating activities, non-IFRS measures are useful terms from which to determine Clearwater's ability to generate cash for investment in working capital, capital expenditures, debt service, income tax and dividends.

The non-IFRS measures referred to in this AIF report include earnings before interest, taxes, depreciation and amortization (“EBITDA”), adjusted EBITDA, free cash flows and leverage. Refer to non-IFRS measures, definitions and reconciliations in Clearwater's Management Discussion and Analysis for further information.

Adjusted EBITDA is defined as EBITDA excluding extraordinary, non-operating, non-recurring or non-routine items that are unusual and are deemed not to be a part of normal operations of the business. Items that are excluded from adjusted EBITDA include restructuring and reorganization expenses, gains and losses on investment activities, costs associated with acquisitions to the extent not capitalized, financing and refinancing costs, net gains on insurance claims and stock based compensation. In addition, recurring accounting gains and losses on foreign exchange (other than realized gains and losses on forward exchange contracts), have been excluded from the calculation of Adjusted EBITDA. Unrealized gains and losses on forward exchange contracts relate to economic hedging on future operational transactions and by adjusting for them, the results more closely reflect the economic effect of the hedging relationships in the period to which they relate.

Free cash flow is defined as cash flows from operating activities, less planned capital expenditures (net of any borrowings of debt designated to fund such expenditures), scheduled payments on long-term debt and distributions to non-controlling interests. Items excluded from the free cash flow include items such as debt refinancing and repayment changes in the revolving loan and financing and investing activities. Clearwater's leverage measure is based on Clearwater's share of adjusted EBITDA, debt and cash balances.

Macduff Shellfish Company Limited's ("Macduff") adjusted EBITDA for purposes of the Earnout payments, related to Clearwater's acquisition of Macduff in 2015, will be calculated as set out in the instrument constituting earnout consideration loan notes dated October 30, 2015, a copy of which is filed on SEDAR under Clearwater's profile. Refer to section "General Development of Clearwater's Business" for further information related to the acquisition of Macduff and Earnout payment.

CORPORATE STRUCTURE

Name, Address and Incorporation

CSI was incorporated on July 7, 2011 under the name "Clearwater Seafoods Incorporated" pursuant to the *Canada Business Corporations Act* ("**CBCA**") to facilitate the reorganization of Clearwater Seafoods Income Fund (the "**Fund**") from an income trust structure to a corporate structure pursuant to a plan of arrangement under the CBCA (the "**Arrangement**"). The Arrangement was effective on October 2, 2011 (the "**Effective Date**") resulting with CSI as the successor to the Fund.

CSI's investments include the ownership of 100% of the limited partnership units of Clearwater Seafoods Limited Partnership ("**CSLP**") and 100% of the common shares of CS ManPar Inc. ("**CS ManPar**"), the general partner of CSLP. CSI's business, carried on through CSLP, includes the ownership, operation and lease of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

Unless otherwise specified in this AIF, references to "Clearwater" include CSI and CSLP (if referenced as at a date after the Effective Date) and include the Fund and CSLP (if referenced as at a date before the Effective Date).

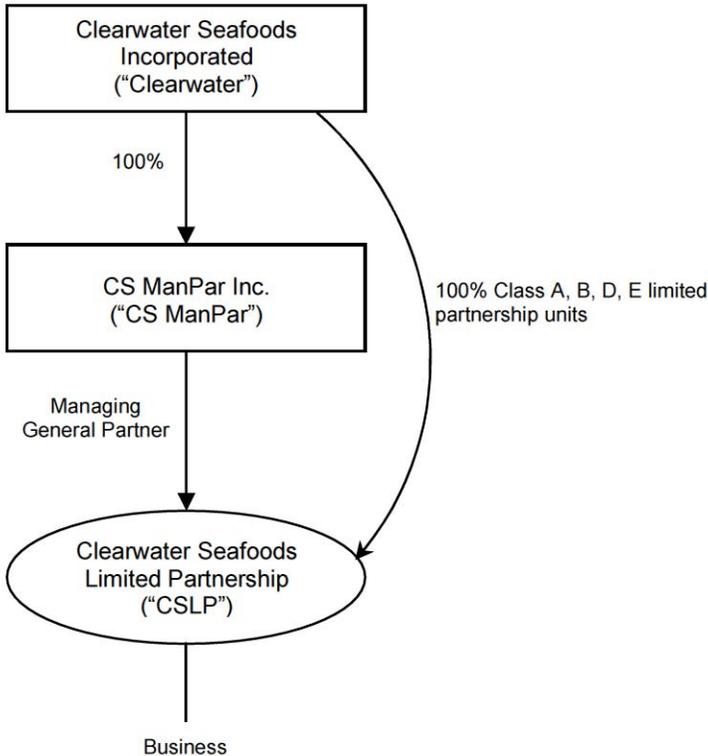
The registered and head office of Clearwater is located at 757 Bedford Highway, Bedford, Nova Scotia, B4A 3Z7.

Intercorporate Relationships

The following table provides the name, the percentage of voting securities owned by CSI directly or indirectly, and the jurisdiction of incorporation or formation of CSI's subsidiaries.

Name	Percentage of voting securities held by CSI (directly or indirectly)	Jurisdiction of Incorporation/Formation
Clearwater Seafoods Limited Partnership	100%	Nova Scotia
CS ManPar Inc.	100%	Canada
Clearwater Fine Foods (Europe) Limited	100%	United Kingdom
Clearwater Fine Foods (USA) Inc.	100%	Delaware, United States
Clearwater Seafoods Holdings Incorporated	100%	Canada
Macduff Shellfish Company Limited	100%	United Kingdom

The following diagram sets forth the organizational structure of Clearwater:



All joint ventures and any subsidiaries of CSI that represent less than 10% each (and less than 20% in the aggregate) of the consolidated assets or revenues of CSI are not shown above.

GENERAL DEVELOPMENT OF CLEARWATER’S BUSINESS

The following is a description of the general development of Clearwater’s business over the past three financial years. In addition, see “*Business of Clearwater - Facilities and Capital Expenditures*” for information regarding the development of Clearwater’s operations in the three most recently completed financial years.

Commencement of Dividend

On November 1, 2013, Clearwater announced the initiation of a quarterly dividend of \$0.025 per Common Share. On October 31, 2014, Clearwater announced a 20% increase in the dividend to \$0.03 per Common Share, on February 25, 2015 it announced a further 33% increase to \$0.04 per Common Share and on November 13, 2015 it announced a further 25% increase in the dividend to \$0.05 per Common Share. See *"Dividends and Distributions"* for more information.

Changes in Management and the Board of Directors

In March 2016 Teresa Fortney was appointed as Vice President Finance and Chief Financial Officer, following the retirement of Bob Wight.

In the past three years Clearwater engaged additional members to the executive management team and following an organization restructure in 2017, Darren Bowen, Vice President, Global Supply Chain, Tony Jabbour, Vice President, Fleet Operations and Roy Cunningham, Vice President, Chief Operating Officer joined Christine Penny, Vice President Sustainability and Public Affairs and Dieter Gautschi, Vice President Human Resources on the executive management team.

Equity Issuance

On February 4, 2014, Clearwater completed the issuance to the public of 4,029,400 Common Shares from the treasury of CSI. The Common Shares were offered at a price of \$8.50 per share, for gross proceeds of approximately \$34 million.

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

On June 21, 2016, Clearwater issued 2,895,700 Common Shares to the public at \$13.90 per share yielding gross proceeds of approximately \$40.3 million. Concurrently, Clearwater completed a non-brokered private placement with certain existing shareholders for 1,080,000 Common Shares at \$13.90 per share for gross proceeds of approximately \$15 million. The total gross proceeds from the public offering and private placement were approximately \$55.3 million and the net proceeds were \$53.1 million.

Macduff Acquisition

On October 30, 2015 Clearwater completed its acquisition of Macduff Shellfish Group Limited ("**Macduff**"), a United Kingdom-based vertically integrated shellfish company. The total fair value of the consideration paid or payable by Clearwater in connection with the acquisition as of the closing date was £81 million plus the repayment of Macduff outstanding debt facilities of £19 million and management fees of £1.6 million for a total of £102 million (\$206 million).

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

- cash paid on closing of £54 million (\$109 million);
- an unsecured deferred consideration obligation ("**Deferred Obligation**") with a fair value of £20.9 million (\$42 million); and

- unsecured additional consideration to be paid in the future dependent upon the future financial performance of Macduff (“**Earnout**”) with an estimated fair value of £6.1 million (\$12 million).

The Deferred Obligation applies to 33.75% of the shares acquired by Clearwater (the "**Earnout Shares**"), to be paid over the five to six years following closing, and had a fair value of £20.9 million (\$42 million) as of the acquisition date. In each year, the former holders of the Earnout Shares can elect to be paid up to 20% of the Deferred Obligation. Clearwater has the right to exercise the payout of 20% of the Deferred Obligation annually commencing two years after the date of closing. The percentage of the Deferred Obligation remaining unpaid will impact the fair value of the future performance component of the additional consideration, the Earnout.

The Earnout is unsecured additional consideration to be paid dependent upon the future financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid. The estimated fair value of the Earnout is £6.1 million (\$12 million) as of the acquisition date and is assumed to be paid over the five years following closing.

The first payment of the Earnout was made in the second quarter of 2017 in the amount of £0.8 million (\$1.3 million).

The amount of the total Earnout is calculated as the greater of:

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

Clearwater financed the cash portion of the acquisition, the repayment of Macduff’s outstanding debt facilities and the payment of management fees from existing cash resources and existing loan facilities, including a \$75 million increase in its Term Loan B facility, a \$25 million increase in its Revolving Loan Facility and \$23 million borrowing on its existing Revolving Loan Facility.

BUSINESS OF CLEARWATER

General

Clearwater carries on the business of, and the ownership, operation and lease of assets and property in connection with the harvesting, processing, distribution and marketing of seafood. Clearwater is recognized for its consistent quality, wide diversity and reliable delivery of premium seafood including scallops, lobster, clams, coldwater shrimp, crab and groundfish. With the acquisition of Macduff on October 30, 2015, Clearwater has expanded its product offering to include langoustines and whelk.

Clearwater harvested, processed and sold approximately 94 million pounds of seafood in 2017. Its operations consist primarily of:

- harvesting premium shellfish in the fisheries off the coasts of Atlantic Canada, Argentina and the United Kingdom;

- processing shellfish on board state-of-the-art factory vessels or in modern shore-based processing plants in Atlantic Canada and the United Kingdom; and
- marketing and distributing premium shellfish to customers in North America, Europe and Asia.

Clearwater's business was established in 1976. Since then, it has been a pioneer and innovator in developing new fisheries, acquired other seafood enterprises and formed strategic alliances to build a profitable international seafood enterprise. Specie-related examples of Clearwater's innovative initiatives are found in the Research and Development section of the Annual Information Form. Today, Clearwater's unparalleled access to a diverse variety of premium shellfish provides it with a steady source of revenues. In addition, Clearwater's investments in its operations and focus on innovation have allowed it to develop an efficient infrastructure.

Clearwater currently has operations in Canada, the United States, Europe, United Kingdom, Asia and Argentina, employing approximately 2,190 people worldwide as of December 31, 2017. It currently operates nine factory vessels ranging in size up to 240 feet, plus 14 other non-factory vessels. Clearwater's factory vessels are able to harvest, process and freeze product while at sea, which results in higher quality and, as a result, higher prices for its seafood compared to seafood that is processed and frozen on land. Clearwater owns and operates eight modern shore-based processing plants, one distribution facility and subcontracting processing arrangements in the United States, Europe and China, enabling Clearwater to effectively service its international customer base in North America which represents 25.9% of sales (25.8% of sales in 2016), with Europe representing 39.2% of sales (40.4% of sales in 2016) and Asia representing 34.8% of sales in 2017 (33.8% of sales in 2016).

Products

Clearwater harvests and/or procures fifteen premium shellfish species, including: three species of scallops, lobster, three species of clams, coldwater shrimp, langoustines, whelk, three species of crab, and turbot. Through the creation and development of fisheries and acquisitions, it is the largest holder of quotas (or rights with respect thereto) in Canada for each of these shellfish species, except crab. The harvesting and processing systems are unique to each product and are the responsibility of distinct business units. Clearwater works closely with the Federal Department of Fisheries ("DFO") and conducts ongoing sampling and monitoring programs, which provide it with the information necessary to make informed resource management decisions. It also works with the responsible agencies in Europe and Argentina on resource management processes.

Clearwater's methods of production for its premium shellfish species are discussed below.

Scallops

In 2017, Clearwater had scallop sales of approximately \$200.3 million (2016 - \$188.4 million).

Canada

Clearwater holds quotas, directly and indirectly, for 49% of the total allowable catch ("TAC") in the Atlantic Canada offshore sea scallop fishery.

Many species of scallops are caught around the world. Those caught off the east coasts of Canada and the United States (*Placopectan magellanicus*), are the largest single source of their particular size range, which is larger and premium priced compared to smaller, competing species.

The harvesting part of Clearwater's sea scallop business is operated from the South Shore of Nova Scotia. Clearwater has two active factory freezer scallop vessels with an approximate aggregate cost of \$23 million. These two vessels contain facilities on board that permit the sea scallops to be harvested, processed and frozen while at sea. The vessels provide incremental contributions by enabling Clearwater to produce a higher quality frozen-at-sea scallop that sells for a premium in the market. In addition, the vessels have enabled Clearwater to increase the efficiency of its harvesting operations by reducing the number of vessels employed, thus lowering costs.

Sea scallops are processed and packaged at Clearwater's modern facility located in Lockeport, Nova Scotia. Major investments in the latest processing technologies at this facility have reduced production costs over the past number of years. Sophisticated, automated grading machines also enable Clearwater to offer customers more consistent and precise size grading.

The market for Canadian sea scallops has been diversified into Europe, which represented 43% of sea scallop sales in 2017, from a primarily North American market, which represented 44% of sea scallop sales in 2017.

Innovations in the Canadian scallop industry introduced by Clearwater include automatic shucking as well as ocean-bottom imaging technology and vessel tracking systems which have provided the industry and the DFO with the ability to better understand the resource and have permitted Clearwater to harvest its quota more efficiently. An example is the ability to identify particular beds of sea scallops and to target its harvesting operations more specifically. Clearwater is combining this technology with other resource information to identify areas where the sea scallops are not at full maturity so as to allow operators to defer harvesting in those areas until maturity is reached.

The Canadian scallop fishery has been MSC certified since March 2010.

Argentina

Participation in the Argentine scallop fishery is limited to four licenses that are held by two companies. Clearwater, through an 85% owned subsidiary, owns two of the four outstanding licenses and operates two vessels that remain at sea for several weeks at a time.

Argentina annually establishes a TAC on a geographic basis. The Argentine authorities have demonstrated a keen interest in prudent, scientifically-guided management principles and have introduced a regulatory regime designed to ensure the fishing effort is closely matched with sustainable catch levels. Clearwater is actively engaged in research activity with the National Institute of Fisheries Research and Development ("INIDEP"), the Argentine scientific authority, in carrying out research designed to determine biomass, growth rates and other resource parameters.

Argentine scallops (*Zygochlamys patagonica*) are recognized for their high quality and sweet taste in European and North American markets. They are processed mechanically and frozen on board factory harvesting vessels so as to preserve their quality and freshness. Argentine scallops are removed from the shell using sophisticated on-board processing techniques developed by Clearwater's subsidiary. Argentine scallops are graded, frozen and packaged on board the vessels. On landing in Argentina, the frozen product is loaded into containers ready for export either directly to the European market, which applies to the majority of the Argentine scallops, or to a United States processing facility where the product is repackaged for sale in North America. After landing, the vessels are re-fueled, the crew is changed and the vessel is typically back at sea within 36 hours.

Argentine small size scallops have found a ready market in the recipe dish processing sector and a robust market has been developed. The primary market for Clearwater's Argentine scallops is France which

represented 73% of sales in 2017, and other European countries, with 12% of 2017 sales, while North America represented 15% of Argentine scallop sales in 2017.

The Argentine scallop fishery was the first scallop fishery in the world to be Marine Stewardship Council (“MSC”) certified. The MSC certification comes with the privilege to display the blue eco-label on scallop products from this fishery. MSC certified products have growing demand in North America and European markets as a result of the increased interest in products from well-managed and sustainable fishery efforts. The logo is evidence that the fishery meets the strict environmental standards set by the MSC and the product originates from a sustainable and well-managed fishing resource.

United Kingdom

Participation in the UK scallop fishery is limited to licenses that hold a scallop entitlement. Clearwater owns 13 licences and operates 11 King scallop (*pecten maximus*) vessels ranging from 14 meters to 40 meters. Clearwater lands approximately 16% of the UK landings.

The UK government manages the EU Western Waters effort regime, which establishes the effort allocation for scallop vessels over 15 metres in length and applies to all UK waters except the North Sea. Scallop fisheries in the UK are managed under a combination of effort days, gear regulation and minimum landing size which may vary by area.

Total landings of King scallops in the UK amounted to just over 27,042 tonnes in 2017. King scallops are either frozen whole at sea or landed fresh in shell and processed in modern factories onshore in order to service the chilled or frozen, shell-on and roe on markets. Scallops are processed, graded, frozen and packaged at Clearwater’s plants in Mintlaw and Stornoway.

The market for King scallops is primarily Europe, which represented 100% of Clearwater’s sales in 2017 and 2016.

Lobster

There are eight Canadian offshore lobster fishing licenses, which in total have a quota of 720 metric tonnes, all of which are held by Clearwater. In addition, in 2017, Clearwater purchased approximately 3,195 metric tonnes of lobster from independent inshore harvesters. Clearwater’s inshore purchases represented approximately 4.5% of the total Canadian inshore catch. In 2017, Clearwater had lobster sales, including its live lobster and raw lobster product, of \$101.9 million (2016 - \$108.4 million).

The term “lobster” is used liberally to describe many varieties of the shellfish, some with large front claws, and some without. *Homarus americanus*, one of the large clawed varieties, with average individual animals weighing in excess of one pound are found only on the northeast coasts of the United States and Eastern Canada. According to the most recently available information, in 2015 catch volumes in Canada were approximately 90,800 metric tonnes and approximately 71,900 metric tonnes in the northeast United States.

Clearwater uses a non-invasive scanning device derived from a medical diagnostics technology when purchasing and grading incoming lobster shipments and identifying the highest quality lobsters from each shipment. The device, which was more than 15 years in the making, can determine meat content in each of the lobsters purchased and harvested each year. The measurements can be made on more than 100 individual lobsters every minute and determines lobster quality and health. To the consumer, this translates into a superior eating experience with fully meated lobsters 100% of the time.

Clearwater operates one long-term storage facility, or dryland pound. This innovative facility allows Clearwater to store up to 950 metric tonnes of lobsters in a live and healthy condition for periods up to six

months. Long-term storage techniques are important as the fishery has two major seasons, one in early spring and the other in late fall. This facility gathers lobster from Clearwater's own lobster vessel and the network of inshore fishermen from whom Clearwater purchases product. On arrival at the facility, lobsters are graded for their biological ability to withstand extended storage and are sized, sorted, stored and inventoried accordingly. This unique facility permits Clearwater to provide its customers with a consistent quality product year round and has enabled it to be a pioneer in the development of new markets for Canadian lobster around the world. From the facility, lobsters are sent to packing and distribution facilities.

Virtually all of Clearwater's live lobster is shipped to its customers by air or other overnight carriers. Clearwater's major lobster customers represent large distributors, grocery and restaurant chains and seafood specialty outlets in North America, Europe and Asia. The proximity of the facilities to the Halifax, Nova Scotia airport provides Clearwater with the ability to ensure maximum quality to its international customers.

In the offshore lobster industry, important stock indices such as those obtained from scientific surveys and at-sea sampling indicate a stable, well managed fishery. Like the offshore sea scallop fishery, ocean floor mapping contributes to an understanding of the lobster resource and its habitat. This knowledge is reducing operating costs through increased harvesting efficiency. In 2008 and 2009, Clearwater invested \$7.5 million in the conversion of a vessel for the lobster fleet. The new vessel is a larger, safer, more stable platform and is capable of fishing safely in all types of weather. This conversion included the addition of an on-board temperature controlled storage facility, a conveyor and weighing system similar to Clearwater's shore plants that minimizes handling in all areas of the operation, a semi-automatic trap handling system, and a more automated unloading system to ensure fast discharge and proper handling which minimizes damage and stress. This vessel improved operating efficiency and reliability of fishing efforts, significantly lowered fuel consumption and permitted greater stability in crewing. These operating efficiencies enabled Clearwater to reduce its lobster fleet from four to one vessel over a period of 2 years.

Since 2005, Clearwater has been producing and selling a premium quality raw lobster product from its plant in Lockeport, Nova Scotia. This product line is produced using a specialized high pressure (HP) extraction process, where raw lobster is released from its shell and frozen in a variety of familiar formats. Clearwater's raw lobster products are popular amongst foodservice operators offering the convenience of frozen storage and eliminating the need to pre-cook and shuck prior to usage. This premium format gives end-users the versatility to prepare lobster across a variety of cook methods, offering a superior taste and texture to pre-cooked lobster meat products. Clearwater's raw lobster meat product line complements Clearwater's quality live lobster offering and leverages its international reputation for lobster with value-added lobster products.

The offshore lobster fishery has been certified since June 2010 and the inshore fishery ranging from November 2014 to May 2015, depending on the fishery.

Clams

There were three offshore Arctic surf clam (*Mactromeris polynym*) fishing licences issued in the Canadian fishery, all of which were held by Clearwater, thereby providing Clearwater with a quota equal to 100% of the TAC. Clearwater's licences also permit it to land northern propeller clams and cockle clams taken as a by-catch during the harvesting operations for Arctic surf clams. Clearwater was a pioneer in the development of this fishery, which began in 1986. Clearwater purchased licences and quota to participate in this fishery. We have invested hundreds of millions of dollars to develop the fishery and the market, including \$156 million of investments in the last three years. In 2017, Clearwater had clam sales of \$109.2 million (2016 - \$91.9 million).

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

Clearwater's on-shore facilities include a plant in Grand Bank, Newfoundland and Labrador and a facility in Glace Bay, Nova Scotia. Clearwater contracts the production of other clam products to processors in China and the United States.

After a successful year harvesting with Clearwater's new vessel, the Belle Carnell in 2016, the Anne Risley was brought into the fishery in 2017. This investment completed Clearwater's fleet modernization program, creating one of the most modern and technologically advanced fishing fleets in the world.

Arctic surf clams are harvested through a dredging process and once on-board, the surf clams are immediately removed from the shell, blanched and frozen. The product from these vessels is landed and transferred to Clearwater's shore-based facilities where the product may be custom cut, graded and repackaged. Much of the equipment in use in these plants has been designed by Clearwater specifically to promote the efficient handling and processing of Arctic surf clams. This clam species is distinct from its American counterpart in that it turns a bright red when cooked. The cosmetic value of this colour change and its superior taste and quality makes the product ideal for the Japanese, Chinese and American markets. These markets value the frozen product, primarily used for sushi, at significantly higher prices than the value attributed to clams packaged in cans.

As Clearwater was the pioneer of this fishery and now is the controlling license holder, the database of scientific information regarding this resource is a collaborative responsibility with DFO. These clams are a slow growth species, taking 10 to 12 years to reach commercial size. Sustainable management practices are therefore crucial to a stable fishery. Clearwater continues to invest in research to improve understanding of the clam resources, and conducted a significant habitat mapping project on the Grand Banks in 2016.

The clam fishery has been MSC certified since July 2012.

Coldwater Shrimp

Clearwater holds and has rights to, through its 53.66% interest in a partnership, 19.17% of the TAC in the offshore coldwater shrimp (*Pandalus borealis*) fishery in Atlantic Canada. This combined with purchases of inshore shrimp, resulted in shrimp sales of \$78.0 million in 2017 (2016 - \$93.3 million). Clearwater has been harvesting coldwater shrimp with two factory freezer trawlers, the Ocean Prawns and the Atlantic Enterprise, which are owned by the above mentioned partnership.

The northern shrimp resource has been declining from record high levels and on July 15, 2016, the Government of Canada announced a decrease in the TAC for the Northern coldwater shrimp fishery area (SFA) 6. On March 30, 2017, the Government of Canada announced a further decrease in TAC for the same area.

Effective April 1, 2008, Clearwater renewed and expanded its partnership agreement for its shrimp harvesting operations. The key terms of this agreement included an extension of the partnership for a further 10 years, the contribution by the other partner of the factory vessel Ocean Prawns and the contribution by both partners of rights to fish shrimp and turbot fishing quotas. Each partner's ownership percentage in the partnership was adjusted to reflect the contribution of the vessel and use of quotas such that Clearwater's share of the partnership earnings increased from 50% to 53.66% as of April 1, 2008. This partnership has enabled Clearwater and its partner to combine shrimp harvesting assets and related shrimp and turbot quotas into a larger operating entity that has created efficiencies and improved profits for the

business with significantly less capital employed. The partners are currently negotiating a new partnership agreement with no expected material changes in terms.

In the past, the coldwater shrimp harvested in this Canadian offshore coldwater shrimp fishery was mostly sold into the Japanese market in raw format and into the European market as a cooked product, both of which are produced at sea on board the vessels that harvest the coldwater shrimp. However, in the last number of years, markets in China have opened and now represent a significant portion of the sales of this product.

In addition to its offshore coldwater shrimp harvesting business, Clearwater is a 75% partner in a coldwater shrimp processing plant in St. Anthony, Newfoundland and Labrador. This plant commenced operations in 1999 and produces cooked and peeled coldwater shrimp and snow crab and has a capacity to process 22 million pounds of coldwater shrimp annually. Leading retailers in the United Kingdom and North America, as well as the Danish brining industry have approved the facility. The United Kingdom and Denmark represent a significant percentage of the market for cooked and peeled coldwater shrimp.

The offshore coldwater shrimp fishery has been MSC certified since August 2008 and June 2011, depending on the fishery.

Langoustines

Clearwater purchases langoustines (*Nephrops norvegicus*), also known as Norway lobster or nephrops, from independent UK fishermen. The Norway lobster fishery is managed through a TAC set under the Common Fisheries Policy following scientific advice from the International Council for the Exploration of the Sea. The product is landed fresh and processed in Clearwater's modern factories in Mintlaw and Stornoway. In 2017 langoustines sales totaled \$43.1 million (2016 - \$47.6 million).

Turbot and Snow Crab

Clearwater has licenses to harvest turbot in Atlantic Canada. Turbot is harvested using one of the offshore partnership vessels during the turbot harvesting season. The vessel lands frozen ready-for-market products. In 2017, sales were \$13.5 million (2016 - \$16.5 million).

Clearwater's snow crab processing facilities are located in Glace Bay, Nova Scotia and St. Anthony, Newfoundland and Labrador. These plants operate on a seasonal basis when producing snow crab. In 2017 snow crab sales totaled \$28.0 million (2016 - \$23.7 million).

Turbot is primarily sold within Asia, whereas the majority of snow crab is sold within Canada, the United States and China.

Whelk and Crab

In the UK whelk and crab are purchased from independent fishermen. These products are processed in Clearwater's modern processing facility in Mintlaw. In 2017 whelk and crab sales totaled \$41.7 million (2016 - \$36.8 million).

Facilities and Capital Expenditures

Clearwater directly and through its subsidiaries currently operates nine factory vessels, 14 non-factory vessels and eight shore-based processing plants.

Clearwater maintains the largest, most modern fleet of factory freezer vessels in Canada together with a vessel that is used to harvest Clearwater's offshore lobster and a vessel that harvests sea scallops and completes research and development.

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

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

(In 000's)

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

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

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

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

In addition to the annual amounts capitalized above, Clearwater historically has spent and expensed on average about \$21.9 million a year over the past three years on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition, enabling it to harvest and process its allowable catch efficiently and providing sufficient capacity.

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

Of the nine factory vessels:

- Two are used to harvest shrimp and are on average 24 years old. These vessels have a capacity to harvest 14,000 to 18,000 metric tons of our 20,000 metric tons shrimp quota and our entire 1,900 metric ton turbot quota in a ready for market form. One of the vessels was built in 1985 and in 2014 Clearwater invested \$12.5 million in a late-life refit, thereby extending its useful life.
- Four are used to harvest sea and Argentine scallops with the sea scallop vessels being on average 19 years old and the Argentine scallop vessels being on average 22 years old. In 2014, one of the idle vessels was converted from harvesting sea scallops to harvesting Argentine scallops and began operations in early 2015.
- Three of Clearwater's vessels are used to harvest clams and are on average 12 years old. In 2017, Clearwater completed the construction of a new clam harvesting vessel, the Anne Risley, which replaced an existing vessel in the fourth quarter of 2017. These vessels have the capacity to harvest the entire clam quota.

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

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

Harvesting Vessels

The following table sets forth the vessels utilized in Clearwater's operations. Included are 9 factory vessels used in its sea scallop, Argentine scallop, clam and coldwater shrimp fisheries. Also included are 15 non-factory vessels used in its offshore lobster, sea and King scallop fishery and research and development.

Vessel ⁽¹⁾	Principal Products
Atlantic Preserver, Atlantic Protector	Sea scallops
Atlantic Surf III ⁽²⁾ , Capesante ⁽²⁾	Argentine scallops
Anne Risley ⁽³⁾ , Arctic Endurance, Belle Carnell	Clams
Atlantic Enterprise ⁽⁴⁾ , Ocean Prawns ⁽⁴⁾	Coldwater shrimp
Fundy Leader	Sea scallops and research vessel
Randell Dominaux	Offshore lobster
Albion, Sylvia Bowers, Isla S, Honeybourne, Clasina, Vertrouwen, Charity & Liberty, Lass O Doune, Glen Deveron, , Glen Alvah, Flowing Stream, Cornelis Get Jan, Tjeerd Jacoba	King scallops

Notes:

- (1) This list excludes one factory vessel and one non-factory vessel owned by a joint venture in which Clearwater has a 50% interest.
- (2) Owned by a subsidiary in which Clearwater has an 85% interest.
- (3) The Anne Risley replaced the Ocean Concord in December 2017.
- (4) Owned by a joint venture partnership in which Clearwater has a 53.66% interest.

Processing

The following table sets forth the location and principal products of Clearwater’s processing operations:

Location	Principal Products
Arichat, Nova Scotia	Lobster
Glace Bay, Nova Scotia ⁽¹⁾	Snow crab, clams
Grand Bank, Newfoundland and Labrador	Clams
Lockeport, Nova Scotia	Sea scallop, processed lobster
St. Anthony, Newfoundland and Labrador ⁽¹⁾⁽²⁾	Coldwater shrimp, snow crab
Ushuaia, Argentina	Scallops
Mintlaw, Scotland	Scallops, crab, langoustines and whelk
Stornoway, Scotland	Langoustine

Notes:

- (1) These facilities operate on a seasonal basis.
- (2) The plant at St. Anthony, Newfoundland and Labrador is operated by a partnership, which is 75% owned by Clearwater.

Sales, Marketing and Distribution Systems

Clearwater’s strategy has always been to sell its products to a broad range of customers, customer types and geographic markets. This strategy has been complemented by a clear objective to deal as far into the distribution chain as possible and to avoid dependence on any one or group of customers. Clearwater relies on its own sales force dedicated to selling only its products. This has required the creation and maintenance of an internal sales and service support function and the operation of sales offices in all its important markets. These offices are staffed by a multilingual sales group able to do business in the language of the customer. Clearwater has focused its business on developing long-term partnerships with its customers targeting customers whom share similar values in sustainability, premium quality, wild-caught and natural product. The food industry has been characterized by significant consolidation at all levels, in retail and food service distribution, in the growth of corporate and theme restaurant chains and in the institutional catering business. This consolidating customer base is demanding a reduction in the number of suppliers with whom it does business and is focused on those relationships, which provide stability, breadth and depth of product offerings in their respective categories. More and more it is becoming important to demonstrate leadership and investment in a respective field in order to build and maintain profitable and growing relationships with the preferred customer base.

Clearwater expanded the range of Clearwater products available for sale through an e-commerce platform with an arrangement with Alibaba in China. Clearwater also operates an e-commerce platform in North America.

It is these drivers which have led Clearwater to focus on ensuring that it has the capability to offer year-round supply in an industry characterized by seasonal features, the ability to offer stable pricing in an industry prone to price cycles and a commitment to consistency of quality in an industry where fragmentation often leads to the anonymity of supply sources and irregular quality and product specifications.

Examples of Clearwater’s leading role in developing new customer relationships include:

- the first Canadian seafood company to guarantee year-round delivery of quality live lobster to the European and Asian markets;
- the first Canadian seafood company to open a sales office in China, where it now has four;
- the first Canadian seafood company to offer customer education programs; and
- the first company in the world to obtain MSC certification for a scallop fishery (for the Argentine scallop fishery). Clearwater has since obtained MSC certification for its Canadian scallop fishery, Arctic surf clam fishery, Nova Scotia snow crab fishery, inshore and offshore Canadian lobster and shrimp.

Clearwater operates its own freight-forwarding department with in-house logistics expertise in both air and ocean freight distribution and is among the largest users of refrigerated containers in Atlantic Canada. Clearwater believes that this in-house logistics capability (which removes the need to deal with transportation brokers, like many of its competitors) provides the high level of service demanded by its sophisticated customers.

Customers

Clearwater’s customer base is diversified, both in terms of geographic markets and types of customer. Clearwater sells premium seafood products to retailers, food distributors and operators, processors, wholesalers, and importers. No one customer of Clearwater represents in excess of 8% of its revenues. Clearwater also sells its products to a broad geographic market, including North and South America, Europe, the Middle East, China, Japan and other parts of Asia. This diversification mitigates the effects on Clearwater of adverse market conditions or low prices in any particular segment of the seafood industry at a given time, thereby stabilizing Clearwater’s revenues.

Research and Development

Clearwater’s commitment to continuously introducing technological improvements has permitted it to improve product quality, reduce costs and enhance stewardship of the seafood resources that it harvests. These initiatives have secured Clearwater’s reputation as a market leader, a sustainability leader, and an innovator. In many cases, Clearwater shares its research and development with the DFO in Canada, INIDEP in Argentina and other industry participants in order to assist in building sustainable resource management regimes.

Clearwater’s innovations in technology have allowed it to develop major new businesses around several previously unexploited species, such as Arctic surf clams and Argentine scallops.

Clearwater took the lead in bringing other offshore sea scallop companies together with the Canadian Hydrographic Service in a partnership that has produced three-dimensional maps of much of Canada’s offshore sea scallop grounds. Since then advancements in ocean technology and Clearwater’s commitment to understand species and their habitats, through the efforts of its Harvest Science operation and their academic partnerships, Clearwater has advanced its capacity by creating suites of thematic maps of the ocean floor for many of its harvested species. Onboard Officers now use these images, multiple visualizations of the ocean floor and it’s attributes in conjunction with fishing patterns and catch histories to maximize harvesting performance. These advancements assist Clearwater in achieving its sustainability goals by reducing fishery footprints and minimizing impact of the ocean floor. Geographic Information Systems (“GIS”) applications and the onboard automated recording of harvest data elements, captured on

a granular basis have created applications that have resulted in improvements in our harvest performance. Measurement applications report onboard and onshore, shipboard and harvest activities in real-time, enabling continuous review. ESRI, the world leader in GIS software applications and a partner of Clearwater, has stated they are unaware of any similar application in the world, where a fishing company is utilizing technology and methods like Clearwater to advance sustainability goals while maximizing harvest potential. The quality of DFO's scientific advice on sustainable catch levels is being significantly enhanced through the sharing and use of Clearwater's thematic maps and catch performance during annual research surveys of the resources.

Clearwater's technology developments enables the delivery of a consistent, premium quality product to its customers around the world using increasingly more efficient, state of the art methods. As an example, Clearwater continues to be a leader in research and development of measures and systems to manage and reduce post-harvest lobster mortality, one of the single largest expenses in the lobster industry. Clearwater pioneered, and is the one of the only companies in Atlantic Canada to use an on-land "dryland pound" system to store lobster. The dryland pound keeps the lobster in premium condition for up to six months by reducing the lobster's metabolism naturally by simulating winter ocean conditions, resulting in significantly improved quality and lower mortality rates than traditional holding systems such as communal holding tanks, tidal pounds, or industry-standard crates. Clearwater's lobster biologists also add value throughout the supply chain with a trap to customer scorecard quality assurance program to ensure ideal conditions are maintained that preserve quality live lobster supply, and have designed a unique "Lobster University" program to educate staff, fishermen, shippers and customers on proper handling, husbandry and storage techniques for lobster. Further to this, in-house research and development has led to improved lobster quality using a proprietary, non-invasive lobster quality scanner technology as well as improved storage and shipping technologies that extract maximum value and quality that is beneficial for both the end consumer and for the lobster resource.

Clearwater is committed to developing improvements to enhance the sustainability of seafood resources, the quality of our products and the efficiency of our processes.

Competitive Conditions

All segments of the food supply industry are highly competitive. The primary seafood industry is highly fragmented representing minor share positions typically targeting price-conscious consumers. Although Clearwater has a number of competitors in each of its product categories, few of Clearwater's direct competitors offer the diversity of high quality seafood offered by Clearwater. Clearwater's diversity of its product mix mitigates the effects of fluctuations in the prices for any particular product at a given time, thereby stabilizing Clearwater's revenues in its customer's currencies.

Human Resources

Clearwater employed approximately 2,190 individuals as of December 31, 2017. The number of employees fluctuates throughout the year based on raw material availability and other seasonal factors.

Clearwater has five collective agreements covering approximately 370 employees. The plant workers in Glace Bay, Nova Scotia are represented by UNIFOR. Their three year collective agreement with this plant will expire October 31, 2019. The plant workers in the two Newfoundland and Labrador plants are represented by the Fish, Food and Allied Workers Union. The two year agreement for the plant in Grand Bank, Newfoundland and Labrador expires on June 30, 2018. The three year agreement with plant workers in St. Anthony, Newfoundland and Labrador expires on December 31, 2018. Clearwater has a five year collective agreement with the crew of its Canadian factory sea scallop vessels which will expire on May 31, 2018, and the Canadian lobster vessel crew which will expire on December 31st, 2021. Crew for both

sea scallop and lobster fleets are represented by the United Food and Commercial Workers. The rest of Clearwater's employees are not unionized.

Industry

Consumption of Seafood

Over the past several years there has been an increase in global demand for premium shellfish and per capita consumption due to general population growth, the shift to healthier eating choices among aging boomers and rising incomes and purchasing power of middle class consumers in emerging economies – especially in Asia.

Purchasers of seafood (such as retailers, food distributors and corporate restaurants) will pay a premium to a supplier of seafood who can provide consistent quality, sustainable, wide diversity and reliable delivery, together with value-added education and marketing of “easy to prepare” seafood. In fact, growth in the consumption rates of seafood is, in part, attributable to the recent commitment in the retail food industry to offer seafood in a more convenient form. Clearwater is well positioned to take advantage of this opportunity because of its premium quality, sustainable, wide diversity and year-round delivery capability.

There are no dominant suppliers or purchasers in the world wide seafood industry, but there is a continuing trend of consolidation. Clearwater, which is able to supply a large, diverse range of quality seafood, is well positioned to capitalize on the opportunities resulting from the consolidation of the purchasers of seafood (e.g., retailers, food distributors and corporate restaurants).

Harvesting of Seafood

The Atlantic Canada seafood harvesting industry, where Clearwater primarily operates, is one of the largest sources of premium shellfish in the world. The industry consists of two distinctive segments - the seasonal inshore fishery and the year-round offshore fishery.

The inshore (or smaller vessel) fishery is comprised of thousands of independent fishermen. These fishermen generally operate their own, relatively small fishing boats, harvesting one or two species of seafood in waters that are relatively close to the shore, and sell their harvest to seafood processors based in Atlantic Canada. The inshore fishery segment of the industry is highly fragmented across all species.

The offshore (or larger vessel) fishery, in which Clearwater operates, is comprised of a relatively small number of vertically integrated seafood enterprises. These enterprises generally operate large fishing vessels, harvest a variety of species of seafood in waters that are further from shore, process the seafood onboard the fishing vessels or at shore-based processing plants, and sell the products (directly or through distributors) in the international market. These enterprises also generally purchase product from inshore fishermen for processing and sale. Over the last number of years, there has been significant consolidation in the Atlantic Canadian fishing industry, as enterprises have grown organically and through acquisitions to become more efficient and competitive participants in the global seafood industry. Clearwater has been a leading participant in this consolidation and is now the largest harvester in Canada of sea scallops, lobster, Arctic surf clams and coldwater shrimp.

The Atlantic Canada offshore fishery is regulated by the Government of Canada through the DFO. The regulatory environment in Canada and other mature fisheries, such as those in Norway, Iceland, Argentina and New Zealand, are highly sophisticated, emphasizing sustainability of the resource as the priority. There are three primary aspects to regulation: licensing, total allowable catch and quotas.

Licensing - In order to harvest any species of seafood in the Atlantic Canada offshore fishery, an enterprise must be Canadian controlled and hold a licence to harvest that species. The DFO strictly controls the number of licensed enterprises in the fishery, rarely granting new licences until increases in the stock of a particular species evidences significant and sustainable growth.

Total Allowable Catch (“TAC”) - In order to ensure that the seafood stocks in Atlantic Canada are not over harvested, the DFO (in consultation with industry working groups) establishes on an annual basis the total allowable catch (by ocean region) of each species of seafood. This amount represents the maximum amount of the species that can be harvested by all enterprises participating in the fishery for that species. As described in greater detail below, shellfish resources have generally been increasing and, therefore, total allowable catches have generally been increasing over time.

Quotas and Enterprise Allocations - In order to increase the efficiency of the offshore fishery the DFO regulates the harvesting by holders of offshore licenses by way of a quota and Enterprise Allocation system. Under this system, each enterprise is permitted to harvest a specified and tradable percentage of the TAC of a particular species in specific offshore areas. As such, the enterprises are not competing with one another in the harvest of seafood and are at liberty to harvest their quotas in a rational and efficient manner. Enterprise Allocations can be transferred, traded and sold, thereby providing an important opportunity for efficiencies within the industry.

Supply of Seafood Resources

Canada is considered a global leader in the management of its fisheries. Clearwater has worked with the DFO and other industry players to build sustainable resource management regimes. In many instances, Clearwater has been the primary proponent of the adoption of these practices. Examples of the practices of Clearwater and the DFO to ensure sustainable resources include:

- ongoing joint investment in the DFO scientific research programs to ensure all fisheries are guided by the best possible scientific advice;
- regulated minimum size restriction in the sea scallop, lobster and crab fisheries so as to allow an opportunity for reproduction and growth to optimum size and value;
- closed fishing areas to protect concentrations of juvenile shellfish from premature harvest;
- continued modification and refinement of fishing gear to allow the release of juvenile shellfish and non-target species; and
- extensive research on the impact of harvesting technology on the environment to ensure decisions that support a healthy ecosystem.

As a result of the work done by the industry and the DFO in this area, total allowable catch levels of shellfish resources have been generally stable in Atlantic Canada.

Regulation

Licences

In Canada, the harvesting of seafood in the waters off Atlantic Canada is primarily regulated by the DFO through the Fisheries Act (Canada) and the Atlantic Fishery Regulations (1985) made under that act. These regulations provide for the registration of vessels and enterprises and for the issuance of licences to catch specified species of seafood. The licences set out conditions for harvesting that may include the species which may be caught, the type and quantity of gear to be used, the waters in which harvesting is permitted, the period during which harvesting is permitted, the vessel which may be used and the persons permitted to operate the vessel. The DFO grants renewable licences to participants in the various fisheries. In the Canadian offshore fishery, the licences permit the holder to catch a prescribed percentage of the TAC for the relevant fishing area. See “*Industry — Harvesting of Seafood*”.

The harvesting of scallops in Argentina is regulated by the National Federal Fishery Law (1998) and Resolution 150/96 of the Secretary of Agriculture, Livestock, Fishery and Food. These laws provide for the registration of vessels and enterprises and for the issuance of licences to catch specified species of seafood. The licences set out conditions for harvesting and include the species which may be caught, the type and quantity of gear to be used, the waters in which harvesting is permitted, the period during which harvesting is permitted, the vessel which may be used and the persons permitted to operate the vessel. The effect of these regulations and the related resource management plan is that it promotes the sustainability of the underlying Argentine scallop resource and creates barriers to entry for others who might otherwise seek to participate in this fishery.

In the UK overall responsibility for national fisheries policy and international responsibilities falls under the Ministry of Agriculture, Fisheries and Food (MAFF), although day-to-day management of fisheries under devolved administration is shared between the Agriculture and Fisheries Departments of the Scottish Executive, Welsh Assembly and of Northern Ireland.

Under the Sea Fish (Conservation) Act all fishers are required to register their vessels with the UK Ship Register before they can be issued with a fishing vessel licence from the appropriate UK Fisheries Administration. Vessels are registered under the Merchant Shipping Act 1995. A UK fishing vessel licence authorizes a registered fishing vessel to fish in specified sea areas for sea fish which are to be sold. The purpose of the licensing system is to restrict the size of the UK fleet and control UK fishing opportunities to stay within the quotas under the European Union Common Fisheries Policy. Different types of licence are required depending on the overall length of the vessel, the species fished and the waters the vessel will operate in. A further refinement of the fishing licence system is that to fish certain stocks, for example scallops with a dredge, a licence with a particular type of authority is required. The licence also allows the Fisheries Administrations to set specific conditions and requirements, such as arrangements for the landings of stocks like catch limits and closed areas.

Vessels

All vessels operated in connection with Clearwater’s harvesting operations are registered with, and subject to, inspection by Transport Canada, the Argentine Coast Guard or Maritime & Coastguard Agency.

Processing

All fish processing plants conducting business throughout Canada require a combination of provincial and federal licences to operate. The requirement to obtain and maintain a food processing license principally relates to food safety and labeling. All fish processing plants are required to implement a quality

management plan, or QMP, which is approved by the Canadian Food Inspection Agency (CFIA) covering the regulatory and safety aspects of food processing. Clearwater also maintains hazard analysis and critical control point (HACCP) quality management programs which focus on preventing hazards that could cause food-borne illnesses by applying science-based controls, from raw materials to finished products. In addition, Clearwater's facilities are independently certified by the British Retail Consortium (BRC) for food safety. BRC certification ensures that Clearwater's production facilities are meeting world-class standards for food safety and quality. See "*Business of Clearwater - Risk Factors*".

Environmental, Health and Safety Regulation

The harvesting, processing and transportation of seafood, seafood products and by-products and the operation of vessel discharge and maintenance facilities have been and are subject to extensive and increasingly stringent federal, provincial, municipal and local statutes, regulations and by-laws, permitting and other requirements with respect to workers' health and safety and environmental matters in Canada.

Environmental legislation, orders, permits, approvals, common law and other requirements impose obligations relating to, among other things: the release of substances into the natural environment; the production, processing, preparation, handling, storage, transportation, disposal, and management of substances (including liquid and solid, non-hazardous wastes and hazardous materials), and the prevention and remediation of environmental impacts such as the contamination of soil and water (including groundwater). See "*Business of Clearwater - Risk Factors – Environmental Regulations*" and "*Business of Clearwater – Risk Factors - Health and Safety Regulations*".

Risk Factors

The performance of Clearwater's business is susceptible to a number of risks which affect income, liquidity and cash flow, including risks related to resource supply, food processing and product liability, suppliers, customers, competition and foreign exchange exposure and lawsuits in the normal course of business. The primary risks applicable to Clearwater are described below.

Foreign Exchange Risk:

Our financial results are subject to volatility as a result of foreign exchange rate fluctuations.

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

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

1. Diversify sales internationally which reduces the impact of any country-specific economic risks.
2. Execute on pricing strategies so as to offset the impact of exchange rates.
3. Limit the amount of long-term sales contracts. Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations.

4. Plan conservatively - Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when preparing its business plans,
5. Utilize a foreign exchange hedging program - that focuses on using forward contracts to enable Clearwater to lock in exchange rates up to 15 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows through derivative contracts.

In 2017 approximately 40% of Clearwater's sales were denominated in US dollars.

Based on 2017 sales and excluding the impact of Clearwater's hedging program,

- a change of 0.01 in the US dollar rate converted to Canadian dollars would result in a \$1.9 million change in sales and gross profit.
- a change of 0.01 in the Sterling rate converted to Canadian dollars would result in a \$0.4 million change in sales and gross profit.
- a change of 0.01 in the Euro rate as converted to Canadian dollars would result in a \$1.1 million change in sales and gross profit.
- a change of 0.001 in the Yen rate as converted to Canadian dollars would result in a change of \$5.4 million in sales and gross profit.

Political Risk

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

These risk include fluctuations in foreign exchange rates, expropriation of our assets, nationalization, renegotiation, forced divestiture, modification or nullification of our contracts and changes in foreign laws or other regulatory policies of foreign or domestic governments and having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory. Specific risks by country are described below.

Canada

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

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

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

Argentina

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

We mitigate this risk through maintaining a policy of repatriating our share of the earnings from Argentina through dividends and we do not maintain any material financial assets that are surplus to our needs to operate the business outside of Canada. We do not carry financial assets in Pesos to mitigate exchange risk. In addition we have structured our operations in Argentina with an Argentine partner who owns 15% of the Argentine business and who is actively managing the business.

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

United Kingdom

On June 23, 2016, the United Kingdom (“UK”) voted to leave the European Union (“EU”). On March 29, 2017, the Prime Minister of the United Kingdom filed notice of intention to leave the EU triggering the process to negotiate the terms of the withdrawal and the country’s future relationship with the EU. Under the Lisbon Treaty, the negotiations of the terms of departure are required to be concluded within two years from giving notice. Initial negotiations on the transition period have commenced however full discussions related to future trade arrangements have not yet begun. Any impacts to Clearwater are not yet known although the dialogue from both Brussels and the UK is that both sides are keen to establish a mechanism for free trade.

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

United States

NAFTA is a comprehensive trade agreement that sets the rules of trade and investment between Canada, the United States, and Mexico. Since the agreement entered into force on January 1, 1994, NAFTA has systematically eliminated most tariff and non-tariff barriers to free trade and investment between the three NAFTA countries. The current President of the United States has expressed his intent to change the existing NAFTA and in July 2017 the United States released their objectives. Since July 2017, there have been six rounds of discussion among the members however, as a result of the uncertainty of the outcome from these discussions, the impact to Canada and Clearwater is indeterminable. Approximately 14.0% of total sales for 2017 and 14.0% for 2016 were in the United States.

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

On December 22, 2017, new tax laws were enacted in the United States. The new laws include a permanent reduction in corporate income tax rate from 35% to 21%, repeal of the corporate alternative minimum tax, modifications to the rules for expensing capital investment, limitation of the deduction for interest expense, and a multitude of other changes to the corporate tax rules. These changes are effective January 1, 2018. These changes are not expected to have a material impact to Clearwater.

Europe

In February 2017, the European Union (“EU”) approved a deal which will drop barriers between the EU and Canada (the “Comprehensive Economic and Trade Agreement” or “CETA”). Canada and the EU agreed on September 21, 2017 as the date for provisional application of CETA however the deal is still required to be ratified by the 28 members of the EU and Canada.

Europe is one of the world’s top consumption markets for seafood. In 2012, the EU imported in excess of CAD \$25 billion of seafood worldwide with exports of only CAD \$5.7 billion. Europe is a major export market for Clearwater products, representing approximately 40% of total sales or \$243 million in 2017. With CETA, Clearwater and its European customers will continue to see a financial benefit through tariff reduction. Clearwater also anticipates the reduction in tariffs to lead to accelerated growth in the European market.

China and Japan

On January 30, 2017, the Government of the United States officially withdrew from the Trans-Pacific Partnership Agreement (“TPP”). As much of the TPP was negotiated around specific U.S. conditions, the status of the TPP is unknown and therefore, the impact to Canada and Clearwater is indeterminable.

In the absence of TPP, the Governments of Canada, China and Japan have expressed interest in exploring bilateral free trade agreements. Ratified bilateral free trade agreements would be expected to have positive benefits to Clearwater’s sales and margins through reductions of tariffs and duties.

Resource Supply Risk

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

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

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

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

The northern shrimp resource is declining from record high levels and on July 15, 2016, the Government of Canada announced a decrease in the TAC for the Northern coldwater shrimp fishery area (SFA) 6. On March 30, 2017, the Government of Canada announced a further decrease in TAC for the same area. The decline in the TAC reverses the tremendous growth in the resource and is a reversal that has been expected by scientists and industry participants. Clearwater will continue to pursue adjustments to the business, as required, to find additional quotas, efficiencies and market value to offset the volume declines. The diversity in Clearwater's species portfolio also helps to mitigate the impact of shrimp declines in the business.

Suppliers, Customers and Competition Risks

Consolidation among food retailers could result in increased pressure on pricing and trade terms for upstream harvesters, wholesalers, distributors and food processors. Clearwater's operating costs may be negatively affected by increases in input costs, such as energy, labour raw material and commodity prices.

Clearwater uses fuel, electricity, air and ocean freight and other materials in the production, packaging and distribution of its products. Fuel and freight are two significant components of the costs of Clearwater's products and the distribution thereof. The inability of any of Clearwater's suppliers to satisfy its requirements, or a material increase in the cost of these inputs, may have an adverse effect on Clearwater's financial condition and results of operations.

In addition, Clearwater typically does not have long term formal agreements with its customers. Accordingly, a customer may decide to terminate its relationship with Clearwater or a customer may terminate a supply arrangement on relatively short notice. The loss of major customers may have a material adverse effect on Clearwater's financial condition and results of operations.

The global seafood industry is highly competitive in all of the markets in which Clearwater participates. Some of Clearwater's competitors may have more significant market presence within the marketplace, a greater diversification of product lines and greater economic resources than Clearwater, and are well established as suppliers to the markets that Clearwater serves. Such competitors may be better able to withstand volatility within the seafood industry and throughout the economy as a whole while retaining greater operating and financial flexibility than Clearwater. There can be no assurance that Clearwater will be able to compete successfully against its current or future competitors, or that competition will not affect Clearwater's financial condition and results of operations.

Risk associated with suppliers is mitigated through diversification of suppliers. Risk associated with customers is mitigated through diversification of the customer base. Clearwater has approximately 950 customers worldwide with no individual customer representing more than 8% of sales. Clearwater uses a

combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate credit risk associated with its customers.

Our customers, such as grocery retailers, food processors and restaurant chains, have consolidated in recent years, and consolidation is expected to continue in our sales markets. These consolidations have produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories, opposing price increases, and demanding lower pricing and increased promotional programs. Further consolidation among our customer base may result in a loss of customers to our competitors, who may have advantageous pre-existing relationships with key consolidators or who may be able to supply similar products on more favorable terms. The loss of significant customers due to such consolidation could have a material adverse effect on our financial condition and results of operation.

Because we distribute a significant amount of our products and receive supplies and other provisions using maritime and air carriers, certain adverse conditions affecting these carriers and terminals at which they transfer cargo could have a material adverse effect on our business, financial condition or results of operations.

Our distribution and purchase channels depend on the services of maritime and air carriers who load and unload our products, supplies and other provisions at terminals in Canada, the United States, Europe, Asia and other regions. A strike, work slowdown, unfavorable weather conditions, changes in shipping routes or other factors adversely affecting such carriers or terminals could delay the delivery of our products and supplies. If this were to occur, it would negatively affect our sales and profitability.

Capital Availability and Liquidity Risk

There are risks associated with capital availability and liquidity including:

1. The ability of Clearwater to obtain sufficient financing for working capital, capital expenditures or acquisitions in the future or to repay loans as they become due;
2. Certain borrowings are at variable rates of interest, which exposes Clearwater to the risk of increased interest rates; and
3. Clearwater may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures if it has high leverage, debt coverage and limited liquidity.

Clearwater's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

Clearwater's credit facilities contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Clearwater to incur additional indebtedness, to pay dividends or make certain payments and to sell or otherwise dispose of assets. In addition, they contain a number of financial covenants that require Clearwater to meet certain financial ratios and financial condition tests. A failure to comply with the covenants could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Clearwater would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facilities would be able to be refinanced. As of December 31, 2017 Clearwater is not in violation of the restrictive covenants.

Clearwater mitigates capital availability and liquidity risk through a number of its treasury management policies and goals which promote strong liquidity and continued access to capital to fund its business. These include policies and goals with respect to leverage, foreign exchange, lending arrangements and free cash flows.

Business Interruption Risk

The fisheries in which we operate can be characterized by extreme sea conditions. Additionally, we purchase seafood from fishermen who harvest from inshore fisheries in Atlantic Canada. Unusual weather conditions in these fisheries could materially and adversely affect the quality and quantity of the products we produce and distribute.

Our vessels are expensive assets that are subject to substantial risks of serious damage or destruction from adverse weather conditions and other natural risks. The sinking or destruction of, or substantial damage to, any of our vessels would entail significant costs to us, including the loss of production while the vessel was being replaced or repaired. Our insurance coverage may prove to be inadequate or may not continue to be available to us and we do not have business interruption insurance on our vessels as it is not generally available in our industry. The sinking or destruction of, or substantial damage to, any of our vessels could have a material adverse effect on our business, financial condition or results of operations.

Clearwater mitigates the risk of business interruption in its fleet through planned maintenance programs, regularly scheduled refits of its vessels, replacement of vessels prior to the end of their useful period in the fishery and through regularly reviewing and updating the insured values of its vessels.

Business could also be interrupted by other negative events caused by other ocean users and fully outside Clearwater's control. Vessels sinking on productive fishing grounds or release of contaminants from vessels or offshore oil and gas developments could potentially temporarily disrupt Clearwater's operations. These impacts would be time bound and geographically bound to the duration and area of the event.

Food Processing Risks

Clearwater's food processing operations are subject to federal, provincial and local food processing controls, and may be impacted by consumer product liability claims, product tampering, and the possible unavailability and/or expense of liability insurance. A determination by applicable regulatory authorities that any of Clearwater's plants are not in compliance with any such controls in any material respect may allow regulators to shut down plant operations, require a recall on product from the market place and may have a material adverse effect on Clearwater's financial condition and results of operations. In addition, negative publicity, significant decreases in demand, or increased costs associated with any of these circumstances may have a material adverse effect on Clearwater's financial condition and results of operations. Clearwater's operation of its facilities involves some risks, including the failure or substandard performance of equipment, suspension of operations and new governmental statutes, regulations, guidelines and policies. There can be no assurance that as a result of past or future operations, there will be no claims or injury by employees or members of the public.

Food processing and product liability risks are reduced through Clearwater's satisfaction of all Canadian Food Inspection Agency guidelines and through strict implementation of quality control programs. These include Hazard Analysis Critical Control Point ("HACCP") programs which cover Clearwater's sea and land based facilities. Clearwater's plants have been approved by some of the largest seafood purchasers in the world. In addition, most of Clearwater's facilities are independently certified by the British Retail Consortium (BRC) for food safety. BRC certification ensures that Clearwater's production facilities are meeting world-class standards for food safety and quality. Clearwater also processes a large portion of its

products using frozen-at-sea technology, which mitigates food processing and product liability risks because many of these products undergo minimal handling.

Input Costs

The volatility of input costs related to harvesting and processing seafood and risks related to our suppliers could adversely affect our operating costs.

We use fuel, electricity, air and ocean freight and other materials in the production, packaging and distribution of our products. Fuel is a significant component of the costs of our products. Clearwater's vessels used approximately 31.6 million litres of fuel in 2017. Based on 2017 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately \$0.3 million. Clearwater uses Marine Diesel in its harvesting operations, the price of which does not correlate closely to publicly available measures such as the price of a barrel of oil. This is due to a number of factors including, but not limited to, the nature of the fuel used, the geographic locations in which Clearwater purchases fuel and the currency in which Clearwater purchases fuel.

We also purchase significant quantities of lobster, crab and inshore shrimp for processing and resale. Significant increases in fuel prices, freight prices, the prices of inshore lobster, crab or shrimp we purchase, or other input costs, to the extent not offset by increases in the selling prices of our products, would reduce our profitability.

In addition, the inability of any of our suppliers to satisfy our requirements for fuel, electricity, air and ocean freight or other materials, or our requirements for inshore lobster, crab or shrimp, may have an adverse effect on our financial condition and results of operation.

Licensing Risk

We rely on licences, quotas, and other approvals from the governments of Canada and Argentina and the responsible agencies in the UK to harvest our seafood products, and the revocation or nonrenewal of one or more of our licences by these governments could have a material adverse effect on our business.

Our business is dependent on permission to harvest seafood in fisheries in Canada, Argentina and the UK. We rely on fishing licences renewable annually by the DFO and the Marine Management Organization (“**MMO**”) and fishing licences renewable every two years by the Federal Fisheries Council (“**CFP**”). The licences are subject to certain restrictions and conditions, which may include the species which may be caught, the type and quantity of equipment to be used, the waters in which harvesting is permitted, the period during which harvesting is permitted, the vessel which may be used, the registration of vessels and the persons permitted to operate the vessel. We are also allocated quotas of the annual TAC set by the DFO and the Argentine regulators, respectively, for the species of seafood we harvest. It is possible that the DFO or other regulatory agencies could take the position that we have exceeded or otherwise violated our licences or quotas. If we were found to have violated the applicable restrictions or conditions it could result in revocation of the licences or quotas or the imposition of significant fines. A decision by the Canadian, Argentine or UK regulators not to renew a licence, to revoke a licence or to materially alter either the terms of a licence or our allocated quotas or effort days would reduce our ability to harvest the seafood products we sell and would have a material adverse effect on our business.

Global Economic Conditions

The sales volume and prices of our products are subject to volatility as a result of global economic conditions.

The sales volume and prices of our products are subject to fluctuations as a result of changes in global demand for such products. For example, the global recession that began in 2008 continued into 2009 and continued to impact the food industry in the latter half of 2009.

Seasonal Risk

Our harvesting operations are subject to seasonal variations that could have a material adverse effect on our business, financial condition or results of operations.

The fisheries in which we operate - the Atlantic Canada offshore fishery, the Argentine scallop fishery and the UK scallop fishery - are subject to adverse weather conditions. This seasonality affects our working capital as inventory reaches peak levels in the early summer. If we are not able to adequately finance our working capital requirements, there may be a material adverse effect on our financial condition and results of operations.

Business Partners Risk

A portion of our business is operated by subsidiaries not wholly-owned by us and certain joint ventures, and the actions of our business partners may affect our financial condition or results of operations.

We rely on our business partners in certain subsidiaries and joint ventures material to our operations, including our 85%-owned subsidiary operating the Argentine scallop business, our 75%-owned subsidiary operating a coldwater shrimp processing plant, a company in which we have a 50% interest holding licences and quotas to harvest Canadian sea scallops and a shrimp harvesting joint venture in which we have a 53.66% voting interest. If one of these investors or partners were to default on its obligations relating to a subsidiary or joint venture or if such an investor or partner were to take steps to delay or prevent the entity from distributing all of its available cash, there may be a material adverse effect on our financial condition and results of operations. The success of these businesses depends to some degree on the efforts of our partners and we have a succession risk in the event the partner is unable or no longer willing to continue to support the business.

Risk of Disease

Outbreaks of disease can significantly affect production, the supply of raw materials, demand for our products and our business.

Events beyond our control, such as the outbreak of disease, could adversely affect the quality and quantity of our live lobsters reaching our customers and significantly restrict our ability to conduct our operations. Furthermore, an outbreak of disease could result in governmental restrictions on the import and export of our live lobsters or other products to or from our suppliers, facilities or customers. This could result in the cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on our ability to market our products successfully and on our business, reputation and prospects.

Reliance of Management

If we are unable to retain qualified senior executives, our growth might be hindered, which could impede our ability to run our business and potentially reduce our sales and profitability.

Our success depends in part on our ability to attract, hire, train and retain qualified managerial personnel. We face competition for these types of personnel from other seafood processing companies. We may be unsuccessful in attracting and retaining the required personnel to conduct and expand our operations successfully. Our success also depends in part on the continued service of our senior management team. Key personnel may leave us and compete against us. The loss of members of our senior management team or the inability to recruit qualified personnel could impair our ability to execute our business plan and growth strategy and may have a material adverse effect on our financial condition and results of operations.

Labour Risks

Our operations are labour intensive, and disruptions in labour supply, including organized work stoppages or our failure to attract and retain qualified employees, may adversely affect us.

The segments of the harvesting and processing industry in which we compete are labour intensive and require an adequate supply of qualified production workers willing to work in rough weather and potentially dangerous operating conditions at sea. A substantial portion of our employees are represented by unions, and any failure to renew or extend the labour agreements to which we are subject could result in work stoppages or other disruptions that may affect our ability to harvest or process seafood products. Additionally, some of our operations have from time to time experienced a high rate of employee turnover and could experience high turnover in the future. Labour shortages, the inability to hire or retain qualified employees or increased labour costs could have a material adverse effect on our ability to control expenses and efficiently conduct our operations. We may not be able to continue to hire and retain the sufficiently skilled labour force necessary to operate efficiently and to support our operating strategies, or we may not continue to experience favorable labour relations. In addition, our labour expenses could increase as a result of a continuing shortage in the supply of personnel. Changes in applicable local and federal laws and regulations could increase labour costs, which could have a material adverse effect on our business, results of operations and financial condition.

General Regulatory Risks

The repeal of, or adverse amendments to, the Canadian Fisheries Act or the National Federal Fishery Law (1998) of Argentina, or the European Union Common Fisheries Policy or material adverse changes to related industry regulations would likely impair our profitability.

The Canadian Fisheries Act, the National Federal Fishery Law (1998) of Argentina (along with their related regulations) and the Common Fisheries Policy restrict the harvesting of seafood in the waters off Atlantic Canada, Argentina and the UK, respectively, by providing for the registration of vessels, the issuance of licences to catch specified species of seafood and the allocation to each licence of a specified percentage of the TAC for the species to which the licence applies. We and our joint ventures currently hold significant percentages of the TAC or allocation of effort days for the species we harvest, including 49% of the TAC in the Atlantic Canada offshore sea scallop fishery and 100% of the TAC in the Atlantic Canada offshore Arctic surf clam fishery (on February 21, 2018, the Department of Fisheries and Oceans Canada announced that Five Nations Clam Company is the recipient of a licence to harvest 25% of the total allowable catch ("TAC") for Arctic surf clams to be effective January 1, 2018). In the event any of these laws or policies or their related regulations were repealed or modified to permit the issuance of additional licences or the operation of additional vessels in the fisheries in which we operate, we could be subject to new competition

that could adversely affect our profitability. In addition, our harvesting rights and profitability would be adversely affected if any of these laws or policies or their related regulations were repealed or modified in a manner that decreases the percentage of the TAC allocated to the licences we hold, either directly or indirectly. A repeal or modification of these laws or policies, their related regulations or other industry regulations could result from changes in the political environment, a significant increase or decrease in the population or biomass of the species we harvest or other factors, all of which are difficult to predict and are beyond our control. Any such change or repeal could have an adverse effect on our existing harvesting rights, which would have a negative impact on our results of operations and financial condition.

If we and members of our crew fail to comply with applicable regulations, our vessels may become subject to liens, foreclosure risks and various penalties and our fishing rights could be revoked.

Our industry is subject to highly complex statutes, rules and regulations. For example, we are subject to limitations on the type and amount of seafood we may harvest, as well as restrictions as to where we may harvest within our fisheries. If we or members of our crew violate maritime law or otherwise become subject to civil and criminal fines, penalties and sanctions, our vessels could be subject to forfeiture and our fishing rights could be revoked. The violations that could give rise to these consequences include operating a vessel with expired or invalid vessel documentation or in violation of trading restrictions, violating international fishing treaties or fisheries laws or regulations, submitting false reports to a governmental agency or interfering with a fisheries observer. Because our vessels' harvesting and processing activities take place at sea, outside the day-to-day supervision of senior management, members of the crews of our vessels may have been guilty of infractions or violations that could subject them or us to significant penalties, which could have a material and adverse effect on our results of operations and financial condition.

In addition, our vessels may become subject to liens imposed by operation of maritime law in the ordinary course of business. These include liens for unpaid crew wages, liens for damages arising from maritime torts, liens for various services provided to the vessel and liens arising out of the operation, maintenance and repair of the vessel. The holders of these liens may have the right to foreclose on the vessel if the circumstances giving rise to the liens are not adequately addressed.

Regulations related to non-targeted ocean resources could limit the volume of seafood we catch, impose substantial costs on our operations and reduce our operational flexibility.

Regulatory agencies in our operating jurisdictions may impose various operational requirements aimed at managing the impact of fishing on species that are not the target of harvesting operations. Regulation regarding non-targeted ocean resources is from time to time debated in various forums, and is the subject of public campaigns by environmental groups. Any significant change in the rules imposed by DFO, MMO or CFP could materially limit the volume of fish we catch and seafood product that we produce, increase our costs or decrease the flexibility of our fishing operations.

Food Processing Regulations

Our food processing operations are subject to international, federal and local regulation, and the failure of our plants to meet current or future control standards may result in plant shutdowns that materially affect our financial condition and results of operations.

Our food processing operations are subject to international, federal, provincial and local food processing controls and may be impacted by consumer product liability claims, product tampering, and the implementation of new governmental statutes, regulations, guidelines, licensing rules and policies. A determination by applicable regulatory authorities that any of our plants are not in compliance with any

such controls in any material respect may allow regulators to shut down plant operations and may have a material adverse effect on our financial condition and results of operations. In addition, negative publicity, significant decreases in demand or increased costs associated with any of these circumstances may have a material adverse effect on our financial condition and results of operations.

Clearwater also uses third party co-packers to process and package some products. Clearwater performs quality reviews on third party co-packers to ensure they meet Clearwater's standards before any business is conducted. These reviews include site visits to assess food safety systems and to verify the information provided to Clearwater related to food safety.

Our plants are required to have licences under the Fish Inspection Act of Newfoundland and Labrador and the Fisheries and Coastal Resources Act in Nova Scotia. Licences must be renewed annually. In Newfoundland and Labrador, a Fish Processing Licensing Policy (2005) establishes a Licence Review Board that makes recommendations to the Minister regarding licensing applications and sets out licensing criteria including minimum processing thresholds for maintenance of a Fish Processing Licence. In Nova Scotia, the Nova Scotia Fish Processors and Fish Buyer Licence Policy (2004) applies to our plants. Changes to the applicable regulations or policy that results in the revocation or non-renewal of one or more of our licences by these governments would reduce our ability to process seafood and would have a material adverse effect on our business.

Harvesting and Processing Regulations

Our at-sea harvesting and processing operations are subject to regulatory control and political pressure from interest groups that may seek to materially limit our ability to harvest seafood.

Under relevant laws, statutes and regulations, various regulatory agencies, are endowed with the power to control our harvest of seafood in the fisheries. These regulators may decrease or eliminate our allocation of the seafood supply as a result of political pressure from a broad spectrum of lobbying interests, including other industry participants (harvesters or processors of these or other species) looking to increase their access to the resource or limit impacts on other species or environmental protection groups focused on the protection of the environment and marine life.

The laws and rules that govern the highly-regulated fishing industry could change in a manner that would have a negative impact on our operations, including a significant reduction in the TAC and our allocation thereof. In addition, protests and other similar acts of politically-motivated third party groups could cause substantial disruptions to the ability of our vessels to engage in harvesting activities. These factors are beyond our control and may affect a substantial portion of our harvesting and processing operations in any year, including a potential reduction in the TAC which could have a material adverse effect on our business, results of operations or financial condition.

Health and Safety Regulations

If we fail to comply with applicable health and safety regulations, we may be subject to significant liability or imposed fines and penalties that could materially affect our business.

Our past and present business operations, including the harvesting, processing and transportation of seafood, have been and are subject to extensive and increasingly stringent federal, provincial and local statutes, regulations and by-laws and other requirements with respect to workers' health and safety in Canada, the United States and elsewhere. In Nova Scotia, the principal workers' health and safety legislation is the Occupational Health and Safety Act (Nova Scotia). Similarly in Newfoundland and Labrador, employers and employees are subject to the Occupational Health and Safety Act (Newfoundland

and Labrador). Workers' health and safety on Canadian vessels is governed by the Canadian Department of Transportation pursuant to the Canada Shipping Act. In the United States, workplace health and safety standards are governed by the federal Occupational Safety and Health Act and comparable state statutes that regulate the protection of the health and safety of workers. In Argentina, workplace health and safety standards are governed by the Work Risks Regulation #24557 and the Labour Risks Insurance law. We provide work accident risk insurance for our Argentine crews and office staff as required by law.

Compliance with all such laws and future changes to them is material to our business. We have incurred and will continue to incur significant capital and operating expenditures to comply with such laws. As a result of our operations, we may occasionally be subject to orders, investigations, inquiries or other proceedings relating to health and safety matters, including issues of compliance with legislation, permits and other requirements. Changes or additions to such regulatory matters, or more rigorous enforcement, could result in additional material expenditures. Furthermore, no assurance can be given that additional workers' health and safety issues relating to presently known matters or to other matters will not require currently unanticipated liability or expenditures for investigation, assessment or remediation, or result in fines or other penalties.

Environmental Regulations

We are subject to foreign, federal, provincial, state and local environmental regulations, including those governing discharges to water, the management, treatment, storage and disposal of hazardous substances, and the remediation of contamination. As a result of such regulation, our operation, ownership, management and control of property carries an inherent risk of environmental liability, including with respect to the harvesting and processing of seafood, the disposal of waste and the ownership, management, control or use of vessels, transport vehicles and real estate. If we do not fully comply with environmental regulations, or if a release of hazardous substances occurs or has occurred at or from one of our facilities or vessels, we may be subject to potential civil or criminal actions, compliance orders, fines and other penalties and could be held liable for the cost of remediation. For example, an accident involving one of our vessels or the future discovery of contamination of property underlying or in the vicinity of our present or former properties or manufacturing facilities could result in significant fines and penalties and remediation costs. If we are subject to these penalties or costs, we may not be covered by insurance, or any insurance coverage that we do have may not cover the entire cost. Compliance with environmental regulations could require us to make material capital expenditures and could have a material adverse effect on our results of operations and financial condition.

Foreign Ownership Regulations

If we do not comply with rules regulating foreign ownership and control of fishing vessels, we could lose our eligibility to participate in the fisheries in which we operate.

The DFO Commercial Licensing Policy requires that fishing licences and vessels engaged in fisheries be owned by entities that are at least 51% Canadian citizen owned and controlled. If we do not comply with these rules and regulations, we could lose our eligibility to harvest certain species, which would have a material adverse effect on our business, financial condition or results of operations.

We rely on our Argentine minority partner in our Argentine scallop subsidiary for its operational expertise and local experience. We have no control over our Argentine minority partner and if such partner was unable to operate our Argentine subsidiary we may be unable to operate in Argentina until we found a new Argentine minority partner. There is no assurance that a new minority partner would have the same level of expertise or that their interests would align with ours.

Contingent Liability

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

DIVIDENDS AND DISTRIBUTIONS

On October 31, 2014, Clearwater announced a 20% increase in the dividend to \$0.12 per Common Share, payable in quarterly installment of \$0.03 per Common Share, on February 25, 2015 it announced a 33% increase to \$0.04 per Common Share and on November 13, 2015 it announced a 25% increase to \$0.05 per share.

Central to the Board of Directors' decision to announce a dividend was their confidence in the future and their belief that it could be set at a level that is not only sustainable but that provides some opportunity for growth. In making the determination of dividend levels, the Board gave consideration to a number of key principles including the expected future earnings and the amount of free cash flows that should be retained to reinvest in the business, the assurance that all obligations can be met with respect to existing loan agreements and the desire to provide room for the dividend to increase in the future as the business continues to grow and expand. The Board will review these same factors on a periodic basis, and at least annually, when reviewing opportunities to adjust or increase the dividend.

Decisions to pay dividends on the Common Shares in the future will be made by the Board of Directors on the basis of Clearwater's earnings, financial requirements, restrictions under credit facilities, the requirements of the Canadian Business Corporations Act for the declaration of dividends and other conditions existing at such time.

CAPITAL STRUCTURE

As of December 31, 2017 there were 63,934,698 common shares in the capital of CSI (the "**Common Shares**") outstanding.

The authorized capital of CSI consists of an unlimited number of Common Shares. Holders of Common Shares are entitled to one (1) vote per share at meetings of shareholders of Clearwater, to receive dividends if, as and when declared by the Board and to receive *pro rata* the remaining property and assets of CSI upon its dissolution or winding-up, subject to the rights of shares having priority over Common Shares, if any.

In order to harvest any species of seafood in the Atlantic offshore fisheries, Clearwater must be Canadian controlled. The significant shareholders of Clearwater, all of whom are Canadian residents or Canadian controlled, beneficially own a majority of the outstanding Common Shares. Clearwater reviews the level of Canadian ownership of Common Shares by monitoring changes in the holdings of these significant shareholders through insider reports filed with securities regulators and internal reporting by directors of Clearwater who control these significant shareholdings.

MARKET FOR SECURITIES

The outstanding Common Shares are listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “CLR”.

The monthly volume of trading and price ranges on the TSX of the Common Shares during the 2017 financial year are set forth in the following table:

Period	High	Low	Volume
2017	\$	\$	
January	11.80	10.10	2,362,292
February	11.31	9.97	2,437,508
March	10.93	9.85	3,037,026
April	10.67	10.15	1,287,321
May	11.95	10.16	2,888,037
June	11.85	11.65	1,378,536
July	12.03	10.90	600,439
August	11.34	10.00	1,250,855
September	11.17	8.93	2,886,277
October	9.43	8.56	1,642,550
November	9.35	6.90	3,439,025
December	7.93	7.10	1,677,770

Prior Sales

CSI granted 157,379 performance share units ("PSUs") on May 31, 2017 that were elected by the Board to be settled in Common Shares of which 109,062 are outstanding. The service period for these units is from January 1, 2017 to December 31, 2019. CSI also issued (as dividend equivalent units on PSUs previously granted) 984 PSUs on April 3, 2017, 921 PSUs on June 2, 2017, 1,668 PSU's on September 1, 2017 and 1,725 PSUs on December 2, 2017 that were elected by the Board to be settled in Common Shares. The service period for these PSUs range from January 1, 2015 to December 31, 2019. The number of PSUs that may vest at the end of the applicable service period and, accordingly, the number of Common Shares that may be issued on vesting of the PSUs may be increased or decreased (from a range of nil to 150% of the granted PSUs) from the number of PSUs originally granted on the grant date based on the relative performance of CSI versus a peer group.

DIRECTORS AND MANAGEMENT

Name, Occupation and Security Holding

The names, province or state and country of residence and principal occupations of the directors of Clearwater as of the date of this AIF are set out below. All directors are elected at Clearwater's annual meeting of shareholders to hold office until the next annual meeting of shareholders or until their successors are duly elected or appointed. Except as set forth below, none of the directors or executive officers of Clearwater have a principal occupation as an officer of a person or company other than Clearwater.

Name, Province and Country of Residence and Positions and Office Held	Date Elected or Appointed	Principal occupation during last five years
Colin E. MacDonald Nova Scotia, Canada <i>Director and Chairman</i>	October 2, 2011	Mr. MacDonald is the Chairman of CSI. Mr. MacDonald's principal occupation is that of Chairman and was formerly the Chairman and Chief Executive Officer of CS ManPar. Mr. MacDonald has been a director of CSI, CS ManPar and its predecessors since 2002.
John C. Risley Nova Scotia, Canada <i>Director</i>	October 2, 2011	Mr. Risley is a director of CSI and the President of CFFI Ventures Inc., whose principal business is a holdings company. Mr. Risley has been a director of CSI since 2011 and its predecessors and CS ManPar since 2002. Mr. Risley has been a member of the CSI's Finance Committee since December 2012.
Larry Hood Nova Scotia, Canada <i>Director</i>	October 17, 2011	Mr. Hood is a director of CSI, Chair of the Audit Committee and a member of the Corporate Governance Committee. Mr. Hood was a Partner at KPMG LLP for 24 years and retired in 2005. Mr. Hood has been a director of CSI and CS ManPar since 2011.
Harold Giles Ontario, Canada <i>Director</i>	October 2, 2011	Mr. Giles is a director of CSI. Mr. Giles is a former senior executive with General Electric Company and Bell Canada and retired in 2005. Since retiring he has provided operations and leadership consulting to corporations in Canada and in Europe and to not for profit organizations. Mr. Giles has been a director of CSI since 2011 and served as a trustee of the Fund from 2010 to 2011. He has been director of CS ManPar and its predecessors since 2011.
Brendan Paddick Grand Bahama Island, Bahamas <i>Director</i>	October 2, 2011	Mr. Paddick is a director of CSI and a member of the Audit, Human Resource Development and Compensation, Corporate Governance and Finance Committees. Since 2005, his principal occupation is Chairman of Columbus Capital Corp. and the founder and past Chief Executive Officer of Columbus International Inc. Columbus. Mr. Paddick has been a director of CSI since 2011 and a director of CS ManPar since 2006.

Name, Province and Country of Residence and Positions and Office Held	Date Elected or Appointed	Principal occupation during last five years
Mickey MacDonald Nova Scotia, Canada <i>Director</i>	October 2, 2011	Mr. MacDonald is a director of CSI and a member of the Human Resources Development and Compensation Committee. Mr. MacDonald is President of Micco Companies, whose principal business is residential land development and automotive leasing. Mr. MacDonald has been a director of CSI since 2011 and a director of CS ManPar since 2009.
Stan Spavold California, USA <i>Director and Assistant Secretary</i>	October 2, 2011	Mr. Spavold is a director of CSI, the Chair of the Finance Committee and a member of both the Audit and Corporate Governance Committees. Mr. Spavold is the Executive Vice President of CFFI Ventures Inc., whose principal business is a holdings company. Mr. Spavold has been a director of CSI since 2011 and a director of CS ManPar since 2009.
Jim Dickson Nova Scotia, Canada <i>Director and Corporate Secretary</i>	June 20, 2012	Mr. Dickson is a director of CSI and Chair of the Corporate Governance Committee and a member of the Audit Committee. Mr. Dickson was a former Partner with the law firm Stewart McKelvey and is also a professional engineer. Mr. Dickson has been a director and Corporate Secretary of CSI since 2012 and a director of CS ManPar since 2012.
Jane Craighead Ontario, Canada <i>Director</i>	May 12, 2015	Ms. Craighead is a director of CSI and Senior Vice President in Global Human Resources at Scotiabank. Ms. Craighead is a director of CSI and Chair of Human Resources Development and Compensation Committee and a member of the Finance Committee.

The names, province or state and country of residence and principal occupations of the executive officers of Clearwater as of the date of this AIF are set out below.

Name, Province and Country of Residence and Positions and Office Held	Principal occupation during last five years
IAN SMITH Nova Scotia, Canada <i>Chief Executive Officer</i>	Mr. Smith has been Chief Executive Officer of CSI since May 2010. Prior to his appointment as CEO, Mr. Smith held senior leadership positions at Campbell Soup Company and Colgate-Palmolive.
TERESA FORTNEY Nova Scotia, Canada <i>Vice President, Finance and Chief Financial Officer</i>	Ms. Fortney has been Vice President Finance and Chief Financial Officer of CSI since March 2016. Ms. Fortney held senior leadership positions at Maple Leaf Foods, Schneider Foods, McCormick and most recently Wescast Industries Inc.
DARREN BOWEN Nova Scotia, Canada <i>Vice President, Global Supply Chain</i>	Mr. Bowen is the Vice President, Global Supply Chain of CSI. Prior to joining Clearwater in 2015, he was Vice President, Product Supply at Clorox Canada Ltd.
DIETER GAUTSCHI Nova Scotia, Canada <i>President, Human Resources</i>	Mr. Gautschi is Vice President, Human Resources of CSI. Prior to joining Clearwater in 2015, he was Vice President of Leadership Planning and National Director of Human Resources for Sobeys Inc.
TONY JABBOUR Nova Scotia, Canada <i>Vice President, Fleet Operations</i>	Mr. Jabbour is the Vice President, Fleet Operations of CSI. Prior to this appointment in 2015, he was Director, Canadian Fleet Operations. Mr. Jabbour has held many positions since joining Clearwater in 1993.
CHRISTINE PENNEY Nova Scotia, Canada <i>Vice President, Sustainability and Public Affairs</i>	Ms. Penney is Vice President Sustainability and Public Affairs of CSI and has been with Clearwater since 1996.
ROY CUNNINGHAM Mintlaw, Scotland, United Kingdom <i>Vice President and Chief Operations Officer</i>	Mr. Cunningham is the Vice President and Chief Operations Officer of Macduff Shellfish Group Limited. Prior to this appointment in 2017, he was Vice President, Global Supply Chain of Macduff.

As of the date of this AIF, all directors and executive officers of Clearwater, as a group, beneficially own, directly or indirectly, or exercise control or direction over, 38,104,557 Common Shares, representing approximately 60% of the outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Corporate Cease Trade Orders

To the knowledge of Clearwater, no director or executive officer of Clearwater is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that (i) was subject to an Order that was issued while such director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes of the foregoing, "**Order**" means a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days

Bankruptcies

To the knowledge of Clearwater, no director or executive officer of Clearwater or a shareholder of Clearwater holding a sufficient number of securities to affect materially the control of Clearwater:

- a) is, as the date of this AIF, or has been within 10 years before the date of this AIF, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director executive officer, or shareholder.

Penalties or Sanctions

To the knowledge of Clearwater, no director or executive officer of Clearwater or a shareholder of Clearwater holding a sufficient number of securities to affect materially the control of Clearwater:

- a) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- b) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

Clearwater is not aware of any existing or potential material conflicts of interest between Clearwater or a subsidiary of Clearwater and any director or officer of Clearwater or a subsidiary of Clearwater.

LEGAL PROCEEDINGS

During the year ended December 31, 2017, Clearwater is not and has not been a party to, and none of its property is or was the subject of, any legal proceedings which Clearwater has determined to be material to its business or operations, nor is Clearwater aware that any legal proceedings material to its business and operations are contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer or principal shareholder of Clearwater, nor any associate or affiliate of any of the foregoing, has any material interest, direct or indirect, in any transaction which has materially affected Clearwater in the past three financial years or the current financial year (or in any transactions or proposed transaction which is reasonably expected to materially affect Clearwater in the future), except as disclosed herein under "General Development of Clearwater" or as disclosed in the Management Information Circular relating to the most recent annual meeting of shareholders of Clearwater.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its office in Toronto, Ontario.

MATERIAL CONTRACTS

The only material contracts entered into by Clearwater or its subsidiaries during the 2017 financial year or entered into prior to the most recently completed financial year, but after January 1, 2002, and that are still in effect, other than in the ordinary course of business, are as follows:

- a) the amended and restated limited partnership agreement dated July 31, 2002 among CS ManPar, Clearwater Seafoods Holdings Trust, Clearwater Fine Foods Incorporated ("CFFI"), Atlantic Shrimp Company Limited and 2348800 Nova Scotia Limited, as amended, relating to the formation of CSLP;
- b) the indenture dated April 26, 2017 among CSI and each of the guarantors party thereto, 6.875% USD Senior Notes (the "Notes") due 2025 and Wilmington Trust, National Association as Trustee;
- c) the purchase agreement dated April 21, 2017 among CSI and Wells Fargo Securities, LLC and each of the initial purchasers of the Notes due 2025;
- d) the amended and restated credit agreement dated April 26, 2017 among CSLP, the other credit parties signatory hereto, as credit parties, the lenders signatory hereto from time to time, as lenders, Wells Fargo Bank, N.A., Canadian Branch, as agent and lender, Wells Fargo Securities, LLC., and as lead arranger, Wells Fargo Securities, LLC, BMO Capital Markets, and Merrill Lynch, Pierce, Fenner & Smit Incorporated as joint bookrunners, as providing for (i) a senior secured term loan B term credit facility, and (ii) a senior secured revolving credit facility;

- e) the amended and restated arrangement agreement dated July 25, 2011 among Clearwater, the Fund, Clearwater Seafoods Holding Trust, CSLP, CS ManPar and 7914091 Canada Inc. providing for the conversion from an income trust to corporate structure; and
- f) the share purchase agreement dated October 9, 2015 in connection with the acquisition of Macduff, as well as the instrument constituting deferred consideration loan notes dated October 30, 2015 in respect of the Deferred Obligation and the instrument constituting earnout consideration loan notes dated October 30, 2015 in respect of the Earnout. See “*General Development of Clearwater’s Business – Macduff Acquisition*”.

INTERESTS OF EXPERTS

Names of Experts

The only persons or companies who are named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by CSI during, or relating to, CSI's most recently completed financial year, and whose profession or business gives authority to the statement, report or valuation made by the person or company, is KPMG LLP Chartered Accountants.

Interests of Experts

KPMG LLP Chartered Accountants has advised that it is independent in accordance with the Rules of Professional Conduct as outlined by Chartered Professional Accountants of Nova Scotia.

AUDIT COMMITTEE

The purpose of the Audit Committee, which is comprised, as of December 31, 2017, of Messrs. Hood (Chair), Spavold, Paddick and Ms. Craighead, is to assist the Board in fulfilling its responsibilities of oversight and supervision of the:

- accounting and financial reporting practices and procedures of CSI and its subsidiaries;
- adequacy of internal accounting controls and procedures of CSI and its subsidiaries; and
- quality and integrity of financial statements of CSI.

In addition, this committee is responsible for directing the examination into specific areas by the auditors of CSI. A copy of the Audit Committee's charter is attached hereto as Schedule "A". In addition to each member's general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee are set forth below. Each of the Audit Committee members is financially literate and Larry Hood, Brendan Paddick and Jim Dickson are considered to be independent. Stan Spavold is not considered independent as he serves as an officer of CFFI Ventures Inc. (“CVI”), which is an indirect significant shareholder of CSI. The Board has determined that Mr. Spavold can serve on the Audit Committee and that he is exempt from the independence requirement set forth in Section 3.1(3) of National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”), in accordance with Sections 3.3(2) and 3.7 of NI 52-110. In reaching this conclusion, the Board considered that: (i) Mr. Spavold would be independent but for his role with CVI,

(ii) the Board is satisfied that he is able to exercise the impartial judgment necessary for him to fulfill his responsibilities as an Audit Committee member, (iii) his appointment is in the best interests of CSI and its shareholders, and (iv) all other conditions set forth on Sections 3.3(2) and 3.7 of NI 52-110 are met.

Audit Committee Members and Relevant Education and Experience

The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee, including any education or experience that has provided the member financial literacy, that is, an understanding of the accounting principles used by Clearwater to prepare its annual and interim financial statements:

Larry Hood (Chair): Mr. Hood is a retired assurance partner, having spent his entire 35 year career, with the accounting firm KPMG. Larry holds a Bachelor of Commerce from Saint Mary's University and is a Chartered Professional Accountant. Larry served many clients during his career, gaining extensive experience in the fishing industry. Larry has been involved with many community projects and has recently retired from the Board of Governors of Saint Mary's University.

Stan Spavold: Mr. Spavold is the Executive Vice President of Clearwater Fine Foods Incorporated. Mr. Spavold holds a Bachelor of Commerce (Honours) degree from Dalhousie University. He received his Chartered Accountant designation in 1983 and his Fellow Chartered Accountant designation in 2011. After 8 years in public accounting with KPMG, Stan joined McCain Foods Limited and was appointed Vice President Finance in 1998. He joined Clearwater Fine Foods Incorporated as Executive Vice President in 2002. Stan is a former director and member of the Audit Committee of High Liner Foods Incorporated. He is also a former board member and Audit Committee Chair of General DonLee Income Fund, Royal Host Real Estate Trust and Halterm Income Fund. Stan also served as Board Chairman of General Donlee Income Fund and Halterm Income Fund. He is a past member of the Board of Governors of Dalhousie University and was Chair of their investment committee. He is currently Chairman of Norvista Capital Limited, and Chairman of the Audit Committee of Biox Corporation.

Brendan Paddick: Mr. Paddick is the Chairman of Columbus Capital Corp. and the founder and past Chief Executive Officer of Columbus International Inc. Columbus provides digital video broadband internet, wholesale capacity and IP services, as well as cloud-based corporate data solutions and data center hosting throughout 42 countries in the greater Caribbean, Central American and Andean region. He is a member of the Board of Directors and Audit Committee of Nasdaq-listed Liberty Latin America and is the Chair of the Board of Nalcor Energy. He holds a Bachelor of Commerce and a Master of Business Administration from Memorial University of Newfoundland and graduated from the Advanced Management Program at Harvard University.

Jim Dickson: Mr. Dickson is Counsel with the law firm Stewart McKelvey practicing primarily in the areas of mergers & acquisitions and corporate finance and securities. In addition to practicing law, Mr. Dickson is a professional engineer and a Registered Trade-mark Agent. Mr. Dickson is a member of the Canadian Bar Association, Nova Scotia Barristers' Society and the Association of Professional Engineers of Nova Scotia. Mr. Dickson is Chair of the Board of Directors of Empire Company Limited. He is past Chair of the Board of Regents of Mount Allison University and is also a past Chair of the IWK Health Centre Foundation.

Auditors' Fees

The table below provides disclosure of the fees approved for services provided by Clearwater's external auditor, KPMG LLP, over the two most recently completed fiscal years, dividing the services into the three categories of work performed:

Type of Work	Fees – Fiscal 2017	Fees – Fiscal 2016
Audit fees	\$772,538	\$829,015
Audit related fees	\$81,500	\$167,300
Tax fees	\$93,200	\$472,197
All other fees	\$25,000	\$91,321
Total	\$972,238	\$1,559,833

Audit Services

Audit services relate to professional services rendered by the auditors for the audit of Clearwater's annual consolidated financial statements as well as services provided in connection with statutory audits of certain subsidiaries, regulatory filings, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.

Audit Related Services

Audit related services includes accounting consultations and research.

Tax Services

Tax fees related to the review of tax returns, the review of proposed reorganizations of certain subsidiaries, assistance with review of foreign tax filings and assistance in completing routine tax schedules and calculations.

Other

Other includes permitted valuation services provided to the Company.

Any non-audit services to be provided by the external auditors are required to be reviewed and approved in advance by the Chair of the Audit Committee. In addition, on a quarterly basis all fees paid to the external auditors, audit and non-audit, are reviewed in detail by the Audit Committee.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of securities of Clearwater and securities authorized for issuance under equity compensation plans, is contained in Clearwater's Management Information Circular relating to the most recent annual meeting of shareholders of the Clearwater. Additional financial information is contained in our financial statements and management discussion and analysis for the year ended December 31, 2016. Additional information relating to Clearwater may also be found on SEDAR at www.sedar.com. Copies of all of these documents may be obtained upon request from the Investor Relations department of Clearwater, 757 Bedford Highway, Bedford, Nova Scotia, B4A 3Z7.

SCHEDULE CLEARWATER'S AUDIT COMMITTEE CHARTER

"A"

Audit Committee Mandate

The Canadian Securities Administrators' (CSA) National Instrument 52-110 has defined specific requirements for Audit Committees to meet. One of these requirements is that the Company's Audit Committee will have a written charter that sets out its mandate and responsibilities. It also requires the text of the charter to be included in the annual information form along with other specified information on the Audit Committee members.

Purpose:

The Audit Committee is ultimately responsible for the policies and practices relating to integrity of financial and regulatory reporting as well as internal controls to achieve the objectives of safeguarding of corporate assets; reliability of information; and compliance with policies and laws. The Committee will also be responsible for identifying principal risks of the business and ensuring appropriate risk management techniques are in place.

The Audit Committee charges management with developing and implementing procedures to:

- ensure internal controls are appropriately designed, implemented and monitored
- ensure reporting and disclosure of required information is complete, accurate, and timely.

The Audit Committee will make recommendations to the Board of Directors regarding items relating to financial and regulatory reporting and the system of internal controls, following the execution of the Committee's responsibilities as described in this mandate.

Composition of Committee:

The Committee will be composed of not less than 3 independent members of the Board of Directors. The independence of the Board members will be determined in accordance with all applicable rules of securities laws and regulatory authorities. The Board may also approve the appointment of a non-independent Director as a member of the Audit Committee, provided that such appointment is recommended by the Governance Committee and meets the requirements under all applicable security laws and regulatory rules for membership on the Committee.

All members of the Committee will be financially literate as defined by applicable legislation. If a member upon appointment to the Committee is not financially literate as required, the person will be provided a three month period in which to achieve the desired level of literacy.

Any independent member who loses their independent status will be required to resign from the Committee within three months of becoming non-independent. The Board will replace the member within such three month period with an independent director who is recommended by the Governance Committee. If it is the Chair of the Committee who loses independent status, the Governance Committee shall immediately designate another member of the Committee to act as Chair.

Authority:

The Committee has the authority to engage independent counsel and other advisors as it deems necessary to carry out its duties and the Committee will set the compensation for such advisors.

The Committee has the authority to communicate directly and meet with the external auditor, without management involvement. The external auditor reports directly to the Audit Committee.

Responsibilities:

1. The Audit Committee will recommend to the Board of Directors;
 - a) the external auditor to be nominated for purposes of preparing or issuing the Auditor's Report or performing other audit, review or attest services for the Company.
 - b) the compensation of the external auditor.
2. The Audit Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing the Auditor's Report or performing other review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting. The Audit Committee will also ensure that the external auditor is in good standing with the Canadian Public Accountability Board and will enquire if there are any sanctions imposed by the CPAB on the external auditor. The Audit Committee will also ensure that the external auditor meets the rotation requirements for partners and staff on the Company's audit.
3. The Audit Committee must pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the Company's external auditor. The Audit Committee may delegate to the Chair or any other independent member of the Committee the authority to pre-approve non-audit services, with such pre-approved services to be presented to the Audit Committee at the next scheduled Audit Committee meeting following such pre-approval.
4. The Audit Committee will review and discuss with management and the external auditors the annual audited financial statements, including discussion of material transactions with related parties, accounting policies, and the external auditor's written communications to the Committee and to management.
5. The Audit Committee reviews the Company's financial statements, MD&A as well as annual and interim earnings press releases and recommends the approval of same to the Board prior to public disclosure of such information.
6. The Audit Committee ensures that adequate procedures are in place for the review of financial information extracted or derived from the Company's financial statements as contained in the Company's other public disclosures, and must periodically assesses the adequacy of those procedures.
7. The Audit Committee establishes procedures for:
 - a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
8. The Audit Committee reviews and approves the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company. The Committee will ensure that the policies prohibits hiring any partners, employees and former partners and employees of the present and former external auditor of the Company until the passage of three years subsequent to the date of their last employment by the present or former external auditor of the Company.

9. The Audit Committee will, with respect to ensuring the integrity of disclosure controls and internal controls over financial reporting, understand the process utilized by the Chief Executive Officer and the Chief Financial Officer to comply with National Instrument 52-109. This will also involve the assessment of internal controls and any disagreements between management and the auditor regarding the state of internal controls.
10. The Audit Committee will undertake a process to identify the principal risks of the business and ensure appropriate risk management techniques are in place. This will involve enquiry of management regarding how risks are managed and the effectiveness of the risk mitigation strategies.
11. The Audit Committee will annually assess the effectiveness of the Committee and the contribution of individual members of the Committee.

Reporting:

The reporting obligations of the Committee will include:

- Reporting to the Board on the proceedings of each Audit Committee meeting and on the Audit Committee's recommendations at the next regularly scheduled Board meeting.
- Reviewing the disclosure required in the Company's Annual Information Form as Form 52-110FI.
- Reviewing the disclosure required in the Company's Management Information Circular;
- Reviewing any other filings as required pursuant to securities regulatory requirements from time to time.

Meetings:

The Committee will meet at least four times per year and at least once every fiscal quarter.

Notice of meetings shall be given to the external auditor of the Company, and meetings can be convened at the request of the external auditor.