

CLEARWATER SEAFOODS INCORPORATED

ANNUAL INFORMATION FORM

For the year ended December 31, 2019

March 3, 2020

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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, 2019, the last date of the most recently completed financial year of Clearwater Seafoods Incorporated ("**CSI**", "**Clearwater**" or the "**Company**", 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 licences 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, attacks or disruptions to CSI's systems, whether related to cyber or physical events 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 current 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, net earnings and cash provided by operating activities, these non-IFRS measures are useful terms from which to determine Clearwater's ability to generate cash for investment in working capital, capital expenditures, debt service, income tax and dividends.

The non-IFRS measures referred to in this AIF include earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted EBITDA, free cash flows and leverage.

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

Adjusted EBITDA is defined as EBITDA excluding extraordinary, non-operating, non-recurring or non-routine items that are unusual and are deemed not to be a part of normal operations of the business. Items that are excluded from adjusted EBITDA include restructuring and reorganization expenses, gains and losses on investment activities, costs associated with acquisitions to the extent not capitalized, financing and refinancing costs, net gains on insurance claims and share-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

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

Leverage

Leverage is defined as the ratio of adjusted EBITDA attributed to shareholders of Clearwater to total debt (excluding non-controlling interest) on the balance sheet adjusted for the hedged rate for certain foreign currency denominated debt and cash (excluding non-controlling interest).

Refer to Non-IFRS measures, definitions and reconciliations in Clearwater's Management Discussion and Analysis for further information.

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.

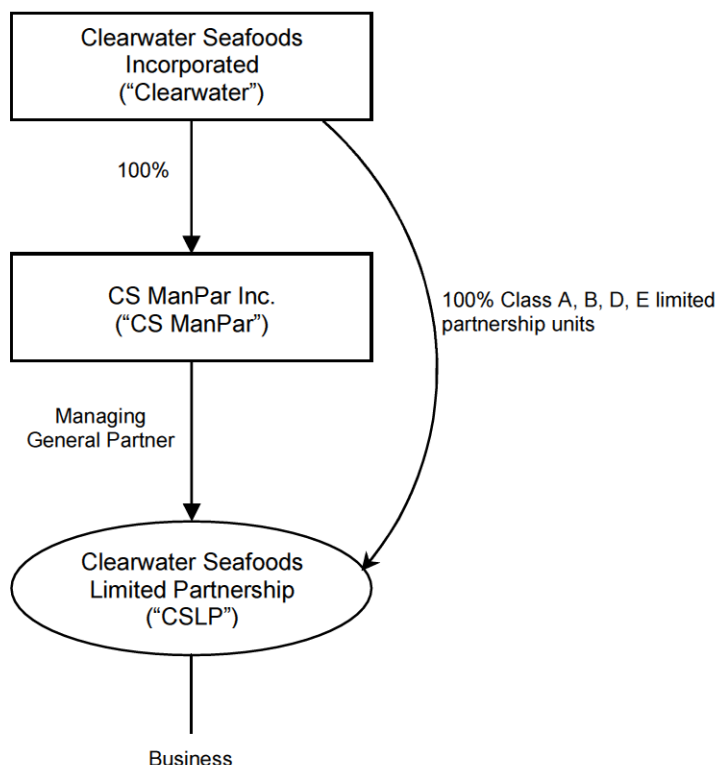
Unless otherwise specified in this AIF, references to "Clearwater" include CSI and CSLP (if referenced as at a date after the Effective Date) and include the Fund and CSLP (if referenced as at a date before the Effective Date).

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
Clearwater Ocean Prawns Venture	53.66%	Nova Scotia
Macduff Shellfish Group 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.

Changes in Management and the Board of Directors

In March 2019, Teresa Fortney, Vice President Finance and Chief Financial Officer, announced she will be leaving Clearwater. Ms. Fortney continues in her role while Clearwater searches for a replacement.

In May 2019, Larry Hood retired as Chair of the Audit Committee and from CSI's board of directors (the "**Board**" or "**Board of Directors**").

In May 2018, Vicki McKibbon was appointed to the Board to fill an open position following the retirement of Harold Giles.

In August 2018, Karl Smith was appointed to CSI's Board of Directors.

In the past three years, Clearwater engaged additional members to the executive management team and in 2017 following an organization restructure, Darren Bowen, Vice President, Global Supply Chain, Tony Jabbour, Vice President, Fleet Operations and Roy Cunningham, Vice President, Chief Operating Officer,

Macduff Shellfish Company (“Macduff”) joined Christine Penney, Vice President Sustainability and Public Affairs and Dieter Gautschi, Vice President Human Resources on the executive management team.

Landmark Agreement

In March 2019, Clearwater and fourteen First Nations communities in Nova Scotia and Newfoundland and Labrador reached a landmark reconciliation agreement in the Arctic Surf Clam fishery. Effective January 1, 2019, the landmark agreement began providing millions of dollars in benefits to First Nations through annual revenue sharing, training, leadership development, employment, as well as procurement of goods and services from Indigenous suppliers. The partners have also committed to work together to submit an Expression of Interest in the event of any future DFO process. The partnership provides a mechanism for significant Indigenous participation and stable long-term access in the clam fishery with providing protection for existing jobs in the fishery while also creating meaningful economic, employment and capacity building benefits for First Nations. Importantly, the partnership also expands Clearwater’s strategic business relationships with Indigenous partners and supports Clearwater’s commitment to diversity in the workplace while recognizing the value of Clearwater’s previous investment in science, technology and infrastructure. Refer to “*Business of Clearwater – Risk Factors – Political risks*” for further developments regarding the Arctic surf clam licence.

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, clams, lobster, coldwater shrimp, langoustines, whelk, crab and groundfish.

Clearwater harvested, processed and sold approximately 99 million pounds of seafood in 2019. 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 the Americas, Europe and Asia.

Clearwater's business was established in 1976. Since then, it has been a pioneer and innovator in developing new fisheries, acquiring and forming strategic alliances to build a profitable international seafood enterprise. Species-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 seafood 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 focused on the long-term health and responsible harvesting of the oceans.

Clearwater currently has operations in Canada, America, Europe, the United Kingdom, Asia and Argentina, directly employing approximately 1,845 people worldwide as of December 31, 2019. It currently operates nine factory vessels ranging in size up to 240 feet, plus thirteen 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 nine modern shore-based processing plants and has subcontracting processing arrangements in Europe, China and the United States enabling Clearwater to effectively service its international customer base.

Products

Clearwater harvests and/or procures approximately fifteen core premium seafood species, including: three species of scallops, lobster, four species of clams, coldwater shrimp, langoustines, whelk, two species of crab, sea cucumber and turbot. Through the creation and development of fisheries and acquisitions, is a significant holder of quotas (or rights with respect thereto) in Canada for the Canadian harvested species. The harvesting and processing systems are unique to each product and are the responsibility of distinct business units. Clearwater works closely with the Department of Fisheries and Oceans in Canada 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

Canada

Clearwater holds quotas, directly and indirectly, 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 side of Clearwater's sea scallop business is operated from the South Shore of Nova Scotia. Clearwater has two active factory freezer scallop vessels. These two vessels contain facilities on board that permit the sea scallops to be harvested, processed using patented automated shucking machines and frozen while at sea. The vessels provide incremental benefit 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 improve working conditions and increase the efficiency of its harvesting operations by reducing the number of vessels employed, thus lowering costs and capital investment.

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 from a primarily North American market.

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. 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 Marine Stewardship Council ("**MSC**") certified since March 2010.

The MSC certification allows producers to display the blue eco-label on products from a certified fishery. Seafood products from well-managed and sustainable fisheries have growing demand in North America and European markets efforts. The MSC logo provides third party assurance that the fishery meets the standards set by the MSC and the product originates from a sustainable and well-managed fishing resource.

Argentina

Participation in the Argentine scallop fishery is limited to four licences that are held by two companies. Clearwater, through an 86% owned subsidiary, owns licences 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 to either the European Union or the United States for cleaning. After cleaning, the product is distributed either directly to the European market or to a United States processing facility where the product is repackaged for sale in North America.

Argentine small size scallops are primarily sold to the ready-to-eat processing sector and a robust market has been developed. The primary markets for Clearwater’s Argentine scallops is Europe and North America.

The Argentine scallop fishery was the first scallop fishery in the world to be MSC certified, securing the certification in 2006.

United Kingdom

Participation in the UK scallop fishery is limited to licences that hold a scallop entitlement. Clearwater owns and operates 10 King scallop (*pecten maximus*) vessels ranging from 14 meters to 40 meters.

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.

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.

Lobster

Clearwater holds Canadian offshore lobster fishing licences, which in total have a quota of 720 metric tonnes. In 2019, Clearwater purchased an additional 2,700 metric tonnes of lobster from independent inshore fishers. Clearwater’s inshore purchases represented less than 2.8% of the total Canadian inshore catch.

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.

Clearwater uses a non-invasive scanning device when grading incoming lobster shipments and identifying the highest quality lobsters from each shipment. To the consumer, this translates into a superior eating experience with fully meated lobsters.

Clearwater operates one long-term storage facility, or dryland pound. This innovative facility allows Clearwater to store 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 fishing seasons, one in early spring and the other in late fall. The facility gathers lobster from Clearwater's own lobster vessel and the network of inshore fishers from whom Clearwater purchases product. Lobsters are graded for their biological ability to withstand extended storage and are sized, sorted, stored and inventoried accordingly. This 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.

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. Ocean floor mapping contributes to an understanding of the lobster resource and its habitat. This knowledge reduces 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 live 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, improved working conditions, significantly lowered fuel consumption and permitted greater stability in crewing.

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.

Various areas of the Canadian lobster fishery were MSC certified between 2010 and 2015.

Clams

There are three offshore Arctic surf clam (*Mactromeris polynyma*) fishing licences issued in the Canadian fishery. Clearwater was a pioneer in the development of this fishery, which began in 1986. Clearwater purchased licences and quota at fair market value to participate in this fishery. Clearwater has invested hundreds of millions of dollars to develop the fishery and the market, including \$156 million in vessels and technology between 2015 to 2017.

Clearwater's on-shore facilities include a plant in Grand Bank, Newfoundland and Labrador and a facility in Glace Bay, Nova Scotia.

After a successful year harvesting with Clearwater's new vessel, the Belle Carnell in 2016, the Anne Risley was brought into the fishery at the end of 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 used in these plants is proprietary and 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.

Clearwater was the pioneer of this fishery and has invested collaboratively with the DFO to build scientific understanding of the resource. 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 licences and quotas in the offshore coldwater shrimp (*Pandalus borealis* and *Pandalus montagu*) fishery in Atlantic Canada and also purchases inshore shrimp. Clearwater has been harvesting coldwater shrimp with two factory freezer trawlers, the Ocean Prawns and the Atlantic Enterprise.

The Northern shrimp resource has declined from historic highs over the last five years. Recent quota changes have been minimal, with modest increases or decreases in certain fishing zones. Clearwater holds access to quotas directly through licences and through long-term harvesting agreements.

Effective April 1, 2018, Clearwater renewed its partnership agreement for its shrimp harvesting operations for a further 10 years. 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.

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. The United Kingdom and Denmark represent a significant percentage of the market for cooked and peeled coldwater shrimp. On January 15, 2020, Clearwater entered into an agreement to form a new joint venture which will take over the operations of the St. Anthony plant. Closing of the transaction is subject to regulatory approval and customary conditions and is expected to occur by March 31, 2020.

The Canadian coldwater shrimp fisheries have 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 fishers. 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.

Turbot and Snow Crab

Clearwater has licences and quotas to harvest turbot in Atlantic Canada. Turbot is harvested using one of the offshore shrimp partnership vessels during the turbot harvesting season. The vessel lands frozen ready-for-market products.

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.

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 fishers. These products are processed in Clearwater's modern processing facility in Mintlaw.

Sea Cucumber

In 2019 Clearwater began procuring sea cucumber from inshore harvesters that participate in the southern Newfoundland sea cucumber fishery. This product is processed at Clearwater's facility in Grand Bank, Newfoundland.

Facilities and Capital Expenditures

Clearwater directly and through its subsidiaries currently operates nine factory vessels, thirteen non-factory vessels and nine 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 offshore live 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	2019	2018	2017	Total
Vessels	\$ 17,230	\$ 13,659	\$ 59,655	\$ 90,544
Plants and other	10,746	5,465	25,776	41,987
	\$ 27,976	\$ 19,124	\$ 85,431	\$ 132,531
Return on investment capital	\$ 3,797	\$ 518	\$ 63,846	\$ 68,161
Maintenance capital	24,179	18,606	21,585	64,370
	\$ 27,976	\$ 19,124	\$ 85,431	\$ 132,531
Maintenance capital	\$ 24,179	\$ 18,606	\$ 21,585	\$ 64,370
Repairs and maintenance expense	18,098	18,281	21,971	58,350
	\$ 42,277	\$ 36,887	\$ 43,556	\$ 122,720
Depreciation/Amortization	\$ 44,622	\$ 48,826	\$ 45,252	\$ 138,700
Maintenance spending as a % of depreciation	94.7%	75.5%	96.3%	88.5%

In 2019, Clearwater invested \$28.0 million in capital expenditures primarily related to vessel refits and maintenance of land-based operations.

In 2018, Clearwater invested \$19.1 million in capital expenditures following the completion of its fleet modernization program in 2017. The majority of capital expenditures related to vessel refits.

In 2017, Clearwater invested \$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.

Clearwater's largest fleet investments are in its nine factory vessels located within Canada and Argentina.

Of the nine factory vessels:

- Four vessels harvest sea and Argentine scallops with average vessel ages of 22 years and 24 years old, respectively.
- Three of Clearwater's Canadian vessels are used to harvest clams and are on average 14 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.
- Two vessels harvest shrimp and are on average 26 years old. These vessels have the capacity to harvest our entire shrimp and turbot quota. 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.

Clearwater's fleet also includes a lobster vessel which harvests Clearwater's Canadian offshore lobster quota, ten mid-shore scallop harvesting vessels and one crab vessel operating within the UK with average estimated remaining useful lives between 2-16 years.

In 2020, Clearwater expects to invest \$35 - \$40 million in capital projects relating to vessel refits and land-based supply chain infrastructure.

Harvesting and Procurement

Clearwater harvests and/or procures approximately fifteen core premium seafood species. The diversity of Clearwater's harvested and procured species provides us with the flexibility to reduce impacts from short-term resource fluctuations in our core species.

Harvesting vessels

The following table sets forth the vessels utilized in Clearwater's operations. Included are nine factory vessels used in its sea scallop, Argentine scallop, clam and coldwater shrimp fisheries. Also included are thirteen non-factory vessels used in its offshore lobster, sea scallop, crab 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, Arctic Endurance, Belle Carnell	Clams
Atlantic Enterprise ⁽³⁾ , Ocean Prawns ⁽³⁾	Coldwater shrimp
Fundy Leader	Sea scallops and research vessel
Randell Dominaux	Offshore lobster
Albion, Sylvia Bowers, Isla S, Honeybourne, Charity & Liberty, Lass O Doune, Glen Deveron, Flowing Stream, Cornelis Get Jan, Tjeerd Jacoba	King scallops
Heather K	Crab

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 86% interest.

⁽³⁾ Owned by a joint venture partnership in which Clearwater has a 53.66% interest.

Procurement

Clearwater leverages long-term purchasing relationships and partnerships to augment our harvested species to acquire sufficient product quantities to satisfy our customer needs. Clearwater currently procures lobster, shrimp, sea cucumber, langoustine, crab and whelk. Procurement opportunities are planned with reference to current and expected future market conditions which allows for an efficient and profitable use of our facilities.

Processing

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

Location	Principal Products
Bedford, Nova Scotia	Lobster
Arichat, Nova Scotia	Lobster
Glace Bay, Nova Scotia ⁽¹⁾	Snow crab, clams
Grand Bank, Newfoundland and Labrador	Clams, sea cucumber
Lockeport, Nova Scotia	Sea scallop, processed lobster
St. Anthony, Newfoundland and Labrador ⁽¹⁾⁽²⁾	Coldwater shrimp, snow crab
Ushuaia, Argentina ⁽³⁾	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.
- (3) The plant in Ushuaia, Argentina is owned 86% by Clearwater.

Sales, Marketing and Distribution Systems

Clearwater's primary sales strategy is to sell its products to a broad range of customers, channels and geographic markets. The Company has a clear objective to sell as far into the distribution chain as possible, avoiding dependence on any one or group of customers. Clearwater maintains a global, direct sales force that is capable of interacting with and selling directly to diverse markets worldwide in all of its key markets.

Clearwater focuses on building long-term partnerships with customers who share similar values in sustainability, high quality, wild-caught and natural products. With the food industry continuing to be characterized by significant consolidation at all levels, the marketplace demands a reduction in the number of suppliers with whom it does business and is increasingly focused on these broader relationships, which provide stability, breadth and depth of product offerings in their respective categories.

In 2019, the Company continued to expand its direct-to-consumer product range in Asia through e-commerce platforms with Alibaba and JD.com, as well as key retailers Hema, Metro and Sam's Club. Clearwater also operates its own e-commerce platform in North America delivering products directly to consumers in Canada and the US.

Clearwater differentiates itself by having the ability to offer year-round supply in a typically seasonal industry prone to price cycles and is focused on delivering consistently high-quality products 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
- offers MSC certified products

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 single customer of Clearwater represents in excess of 7% 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 continues to focus on introducing technological improvements that increase product quality, reduce operating costs and enhance stewardship of the seafood resources that it harvests. Clearwater leads the industry in sustainable harvesting, processing and data collection applications through research and development as well as investments in cutting edge technologies. Clearwater remains committed to being a transparent, forward-thinking and responsible company through technology and data sharing with partners and authorities that ensure it operates world-leading, effective and sustainable harvest strategies and plant operations. Clearwater's research and data sharing continues to provide value to its partners and regulatory bodies across the jurisdictions in which we operate in order to assist in maintaining sustainable resource management regimes.

Clearwater's innovations in technology have allowed it to develop new business opportunities around previously unexploited species and spatial areas, such as Arctic surf clams and Argentine scallops.

Clearwater continues its efforts to advance knowledge of the oceans and the species we harvest. Our academic partnerships are growing, proving valuable insights and applications for use onboard our vessels. Clearwater's goal is to be efficient in our harvesting while protecting the long-term health of shellfish populations and ocean sustainability.

We continue to advance onboard visualizations of population characteristics, including information related to spatial locations, habitat features of the ocean floor, information on size and condition of the target resource. Our understanding of growth and natural cycles of these species continue to advance. Nurturing these populations to create maximum value using optimal harvest strategies is a key component in our work. We are constantly striving to fish smarter, not harder.

Clearwater's maintains a research vessel to support our research and development initiatives. We provide and utilize our research vessel for annual surveys of key scallop habitats in Canada. In association with the DFO and on behalf of the Canadian scallop industry, we conduct annual surveys which are used in the annual TAC setting process. The vessel is also utilized to conduct camera surveys that provide a detailed, granular view of the ocean floor that provides detail of aggregations, densities and size characteristics. These images are used onboard to assist and support harvest strategies that optimize utilization of the available resource. With our academic partners, we are developing methods using machine learning applications that will increase speed and confidence in results. We have successfully moved our harvest operation from one that "Senses & Responds" to an effort that "Predicts and Acts".

In 2018, Clearwater, in association with our subsidiary in Argentina, conducted the first camera survey in Argentina with the objective of creating a higher degree of understanding related to the spatial distribution

and characteristics of the Patagonian scallop. This is a major step in developing a higher understanding of spatial populations that will be key drivers in formulating harvest strategy in this fishery.

Working in collaboration with industry partners and our regulators, Clearwater enhances our partnerships aimed at ensuring common goals and effort. Our success lies in increasing our knowledge and understanding, resulting in optimal harvest performance.

In our processing facilities both onboard and onshore, Clearwater's technology developments continue to enhance the consistent, premium quality of seafood products and services for its customers around the world. Advancements in proprietary, automated defect detection technology has led to improvements in food safety and reductions in quality defects at a higher throughput than traditional manual methods which has both improved the safety and quality of its products as well as reduced its production costs. Clearwater has leveraged its technological expertise in the live lobster distribution business in 2018 to expand its product line to include live UK Brown Crab shipped from Scotland. Our live lobster and brown crab quality and performance are setting new premium UK sourced live crustacean standards in the marketplace, taking advantage of expertise in research and development of measures and systems to manage and reduce costs while enhance husbandry and quality in the live crustacean industry. Clearwater pioneered, and is one of the only companies in the world 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 health of the animal relative to 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, fishers, shippers and customers on proper handling, husbandry and storage techniques for lobster. Our quality assurance biologists continuously monitor the health of the lobsters and condition of the life support systems to ensure consistently high quality, premium live lobster to the global marketplace.

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.

Human Resources

Clearwater employed approximately 1,845 individuals as of December 31, 2019. The number of employees fluctuates throughout the year based on raw material availability and other seasonal factors.

Clearwater has five collective agreements covering approximately 500 employees (see table below).

Plant location/Vessel	Union	Collective agreement term	Expiry Date
Glace Bay, Nova Scotia	UNIFOR	3 years	October 31, 2019 (currently being negotiated)
Grand Bank, Newfoundland and Labrador	Fish, Food and Allied Workers Union	2 years	June 30, 2020
St. Anthony, Newfoundland and Labrador ⁽¹⁾	Fish, Food and Allied Workers Union	3 years	December 31, 2019
Canadian factory sea scallop vessels crew	United Food and Commercial Workers	5 years	May 31, 2023
Canadian lobster vessel crew	United Food and Commercial Workers	5 years	December 31, 2021

⁽¹⁾ On January 15, 2020, Clearwater announced an agreement to form a new joint venture which will take over the operations of the St. Anthony plant.

Industry

Consumption of Seafood

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

Purchasers of seafood (such as retailers, food distributors and corporate restaurants) are willing to pay a premium to suppliers 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. 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 global seafood industry, but there is a continuing trend of consolidation. Clearwater, which supplies 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 fishers. These fishers 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 fishers 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, United Kingdom 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 licences 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 Fishery (General) Regulations and 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, 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 seafood 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 licence 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 covering the regulatory and safety aspects of food processing. Clearwater also maintains hazard analysis and critical control point 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, Argentina, and the UK.

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, foreign exchange exposure and lawsuits in the normal course of business. The primary risks applicable to Clearwater are described below.

Foreign Exchange Risk:

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

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

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

- (1) Diversify sales internationally which reduces the impact of any country-specific economic risks.
- (2) Execute on pricing strategies so as to offset the impact of exchange rates.
- (3) Limit the amount of long-term sales contracts – Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations.
- (4) Plan conservatively - Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when managing its business, and
- (5) Foreign exchange hedging program – a portfolio of forward contracts enables Clearwater to lock in exchange rates for up to 24 months for key sales currencies (the US dollar, Euro, and Yen) thereby lowering the potential volatility in cash flows through derivative contracts.

In 2019 approximately 47% of Clearwater's sales and 75% of long-term debt were denominated in US dollars.

Based on 2019 sales and excluding the impact of its hedging program,

- a change of 0.01 in the US dollar rate converted to Canadian dollars would result in a \$2.2 million change in sales;
- a change of 0.01 in the GBP rate converted to Canadian dollars would result in a \$0.3 million change in sales;
- a change of 0.01 in the Euro rate as converted to Canadian dollars would result in a \$1.0 million change in sales; and
- a change of 0.0005 in the Yen rate as converted to Canadian dollars would result in a \$1.5 million change in sales.

Political Risk

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

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

Canada

Clearwater was a pioneer in the development of the clam fishery, which began in 1986. Clearwater purchased its licences and quota with the consent of the DFO and has invested hundreds of millions of dollars to develop the fishery and the market, including \$156 million from 2015 through 2017.

On September 6, 2017, the DFO announced the introduction of a fourth Arctic Surf Clam licence representing 25 percent of the existing TAC to be awarded to a new entrant. The announcement of the introduction of a fourth Arctic Surf Clam licence represented a departure from historical Canadian policy.

In 2018, the DFO canceled the process to issue the fourth licence. Clearwater was issued the remaining 25 percent of the clam quota for 2018, 2019 and 2020.

In March 2019, Clearwater and fourteen First Nations communities in Nova Scotia and Newfoundland and Labrador reached a landmark reconciliation agreement in the Arctic Surf Clam.

Argentina

Our operations in Argentina may be negatively affected by foreign exchange and restrictions on the repatriation of dividends as well as the increased cost and risks of doing business in developing markets. As part of our risk mitigation strategy, Clearwater has structured our operations in Argentina with an Argentine partner who owns 14% and is active in managing the business.

In September 2019, the Central Bank of Argentina implemented new foreign exchange regulations requiring government permission to transfer money overseas, sell Argentina Peso or buy foreign currency. To mitigate foreign currency risk Clearwater minimizes any cash or financial assets held in Argentina, outside of what is required to operate the business. Clearwater maintains a policy of repatriating our share of the earnings from Argentina through regular dividend payments.

United Kingdom

On January 31, 2020, the UK left the EU, signalling the beginning of an 11-month transition period during which the UK and EU relations operate as if the UK remained a member, complying with EU legislation and trade conditions.

During the transition period, the UK and the EU will negotiate their future relationship. The UK's stated objective is to agree to a Free Trade Agreement with the EU by the end of 2020. With UK legislation in place to prevent an extension of the transition period and an aggressive timeline for a comprehensive trade deal, there remains uncertainty around the nature of the UK-EU relationship beyond 2020.

As a business, we are taking an active and fully participative, leadership and advisory role in all preparatory government working groups for shellfish harvesting and processing, looking at trade, fisheries access and immigration/labour 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 was a comprehensive trade agreement that set the rules of trade and investment between Canada, the United States, and Mexico. The agreement entered into force on January 1, 1994 and systematically eliminated most tariff and non-tariff barriers to free trade and investment between the three NAFTA countries.

On September 30, 2018, NAFTA was replaced with a new tentative agreement named the United States-Mexico-Canada Agreement ("USMCA") which must be ratified by the member countries before coming into effect. The Agreement has now been ratified by the US and Mexico, and Canada is expected to ratify early in 2020. Clearwater is not expected to be impacted by the changes under the USMCA. Approximately 12.1% of total sales for 2019 were in the United States.

Management will continue to review, assess and monitor for any changes to USMCA that could significantly impact Clearwater until the agreement is ratified.

Asia Pacific

On March 8, 2018 the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") was signed. The CPTPP has created an eleven-country trading block including Canada, and representing 495 million people, with a combined gross domestic product of \$13.5 trillion or 13.5% of global GDP.

Resource Supply Risk

A material change in the population and biomass of seafood stocks in the fisheries in which we operate would materially and adversely affect our business.

Clearwater's business is dependent on the state of the targeted seafood stocks, with limitations on catch levels determined by annual TAC, effort restrictions and other technical measures. The annual TACs are generally related to the health of the stock of the particular species as measured by a scientific survey of the resources.

The population and biomass of seafood 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. Supply and quality of supply can also be influenced by man-made factors such as oil spills and pollution. We are unable to fully predict the timing and extent of fluctuations in the population and biomass of the seafood stocks we harvest and process, and we therefore may not be able to engage in effective measures to alleviate the adverse effects of these fluctuations. In addition, the population models utilized by scientists evaluating the fisheries in which we operate are constantly evolving. Certain changes in the

population models could negatively impact future biomass estimates. Any material reduction in the population and biomass or TAC of the stocks from which we source seafood would materially and adversely affect our business. Any material increase in the population and biomass or TAC could dramatically reduce the market price of any of our products.

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

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

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. The inability of any of Clearwater's suppliers to satisfy its requirements, terminate a supply agreement on short notice or a material increase in the cost of these inputs, may have an adverse effect on Clearwater's financial condition and results of operations. Risk associated with suppliers is mitigated through diversification of suppliers.

Clearwater typically does not have long-term formal agreements with its customers. Accordingly, a customer may decide to terminate its relationship with Clearwater. In addition, Clearwater's customers have consolidated in recent years, and consolidation is expected to continue in our sales markets. Further consolidation among our customer base may result in loss of customers. The loss of significant customers due to such consolidation could have a material adverse effect on our financial condition and results of operation. 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 7% 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.

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.

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 these carriers and terminals at which they transfer cargo, 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 covenants, 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 the date of this AIF, Clearwater is not in violation of any such covenants.

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

Business Interruption and Cybersecurity Risk

Disruptions to our ability to harvest, produce and sell may come from a range of sources including adverse weather conditions, extreme sea conditions, damage to our vessels, plant or equipment, outbreak of epidemic disease, loss of key customers or suppliers and inability to access our information systems.

Unusual weather conditions where we harvest and within the inshore fisheries from which we purchase seafood 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 could result in significant costs, 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 Clearwater 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.

The efficient operation of Clearwater's business is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches by computer hackers and cyberterrorists. We rely on industry-accepted security measures and technology to securely maintain confidential and proprietary information stored on our information systems. We are frequently assessing the technology advancements in this area and adjusting our security measures accordingly. However, these measures and technology may not adequately prevent security breaches. There is a risk that any significant interruption or the failure of these systems to perform as anticipated for any reason could disrupt our business and could result in decreased performance, production or increased costs, or could have a material adverse effect on Clearwater's business, financial condition, results of operations and cash flow.

In the ordinary course of Clearwater's business, Clearwater collects and stores sensitive data, including intellectual property, proprietary business information and personally identifiable information of our employees. Despite Clearwater's security measures, Clearwater's information technology and infrastructure may be vulnerable to attacks by hackers and cyberterrorists or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise Clearwater's networks and the information Clearwater stores could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt Clearwater's operations and damage Clearwater's reputation, which could have a material effect on Clearwater's business, financial condition, results of operation and cash flow.

Food Processing Risks

Clearwater's food processing operations are subject to international, federal, provincial and local regulations, guidelines, licensing rules and policies aimed at promoting food safety. These operations may be impacted by new or changing requirements, 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. 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 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 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 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.

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.

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. One of our major costs is labour which is addressed under "Labour Risks".

Clearwater uses fuel, electricity, air and ocean freight and other materials in the production, packaging and distribution of our products, with fuel being the most significant component of cost. 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.

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

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 fluctuations and volatility as a result of global economic conditions and demand for such products.

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 first half of the year. 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 86%-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 a partner is unable or no longer willing to continue to support the business.

Risk of Disease - Supply

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 or other products 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 on 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 favourable labour relations. 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.

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. 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. 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.

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.

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 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, Argentina, UK, China and elsewhere.

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. 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.

DIVIDENDS AND DISTRIBUTIONS

In each of the last three financial years, Clearwater declared a dividend payable in quarterly installments of \$0.05 per common 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.

Decisions to make changes to the dividends on the Common Shares in the future will be made by the Board of Directors on the basis of a review of the above factors, as well as 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.

In 2018, the Board approved a Dividend Reinvestment Plan (“**DRIP**”) to provide shareholders of Clearwater who are resident in Canada with the option to have the cash dividends declared on the common shares of Clearwater reinvested automatically back into additional shares, without brokerage commissions or service charges. The DRIP program was effective for the payment of the fourth quarter 2017 dividend on April 2, 2018.

CAPITAL STRUCTURE

As of December 31, 2019, there were 65,128,253 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 2019 financial year are set forth in the following table:

Period	High	Low	Volume
2019	\$	\$	
January	5.75	4.80	460,300
February	5.36	4.80	442,900
March	5.55	4.92	657,300
April	5.25	4.95	358,100
May	5.44	4.53	411,300
June	5.30	4.96	317,600
July	5.45	4.99	251,182
August	5.89	4.94	1,082,800
September	6.17	5.50	315,400
October	5.67	4.88	556,500
November	5.75	4.68	3,267,700
December	5.89	5.45	659,460

Prior Sales

CSI granted 350,696 performance share units (“PSUs”) on March 27, 2019 that were elected by the Board to be settled in Common Shares, with the exception of 42,447 to be settled in cash, of which 342,330 are outstanding as of December 31, 2019. The service period for these units is from January 1, 2019 to December 31, 2021.

CSI also issued (as dividend equivalent units on PSUs previously granted) 8,080 PSUs on April 1, 2019, 8,204 PSUs on June 6, 2019, 7,284 PSUs on September 3, 2019 and 7,754 PSUs on December 2, 2019 that were elected by the Board to be settled in Common Shares. The service periods for these PSUs range from January 1, 2017 to December 31, 2021.

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 internal performance metrics for the units.

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 December 31, 2019 are set out below. All directors will 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 Chairman and CEO 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 is a member of the Finance Committee.
Brendan Paddick Grand Bahama Island, Bahamas <i>Director</i>	October 2, 2011	Mr. Paddick is a director of CSI and a member of the Human Resource Development and Compensation ("HRDCC"), Corporate Governance, Audit 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.
Mickey MacDonald Nova Scotia, Canada <i>Director</i>	October 2, 2011	Mr. MacDonald is a director of CSI and a member of the HRDCC. Mr. MacDonald is President of Micco Companies, whose principal business is residential land development and automotive leasing.
Stan Spavold Washington, USA <i>Director</i>	October 2, 2011	Mr. Spavold is a director of CSI, the Chair of the Finance Committee and a member of the Corporate Governance Committee and HRDCC. Mr. Spavold is the President of CFFI Ventures Inc., whose principal business is a holdings company and Vice Chairman of Cognition Financial.
Jim Dickson Nova Scotia, Canada <i>Director</i>	June 20, 2012	Mr. Dickson is the Lead Director of CSI and a member of the Corporate Governance and the Audit Committee. Mr. Dickson is a former Partner with the law firm Stewart McKelvey and is also a professional engineer.
Jane Craighead Ontario, Canada <i>Director</i>	May 12, 2015	Ms. Craighead is a director of CSI, the Chair of the HRDCC and a member of the Finance Committee. Ms. Craighead is the former Senior Vice President in Global Human Resources at Scotiabank (retired in 2019).
Vicki McKibbon New Brunswick, Canada <i>Director</i>	May 30, 2018	Ms. McKibbon is a director of CSI, the Chair of the Corporate Governance Committee and a member of both the Audit and Finance Committees. Ms. McKibbon is President of Transportation at Armour Transportation Systems, a transportation and warehousing company.

Karl Smith Newfoundland, Canada <i>Director</i>	August 7, 2018	Mr. Smith is a director of CSI, the Chair of the Audit Committee and a member of the Finance and HRDCC Committees. Mr. Smith is the former Executive Vice President and Chief Financial Officer of Fortis Inc., an international diversified electric utility company.
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The names, province or state and country of residence and principal occupations of the executive officers of Clearwater as of December 31, 2019 are set out below.

Name, Province and Country of Residence and Position and Office Held	Principal occupation during the 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 Ontario, 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 is a Chartered Professional Accountant (FCPA, FCMA) and held senior leadership positions at Maple Leaf Foods, Schneider Foods, McCormick and Westcast 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, Global 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, Macduff</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, 41,640,210 Common Shares, representing approximately 63.9% 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.

On January 28, 2020, a Belgium court issued a bankruptcy judgment against a non-operating subsidiary of the Company, in which Ian Smith and Teresa Fortney are Directors, as a result of an outstanding debt in the amount of EUR 27,989.90 for unpaid tax filings payable, and a receiver was appointed for the company. The outstanding debt has since been paid in full and the company is seeking to oppose the judgment.

Penalties or Sanctions

To the knowledge of Clearwater, except as noted below, 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.

On July 13, 2018, two holding companies (directly or indirectly) controlled by John Risley, entered into a settlement agreement with the United States Securities and Exchange Commission with respect to a failure to timely file a report under the reporting provisions of Section 13(d) of the Securities Exchange Act of 1934. The settlement agreement included a cease and desist order and a fine of \$92,383 for each entity.

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, 2019, 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 involved a claim for damages exceeding 10% of Clearwater's current assets, nor is Clearwater aware that any such legal proceedings 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 offices in Montreal, Quebec and Toronto, Ontario.

MATERIAL CONTRACTS

The only material contracts entered into by Clearwater or its subsidiaries during the 2019 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 February 14, 2020 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 deferred consideration payable to the vendors and the instrument constituting earn out consideration loan notes dated October 30, 2015 in respect additional earn out consideration payable to the vendors dependent upon future financial performance.

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.

Interests of Experts

KPMG LLP 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, 2019, of Messrs. Smith (Chair), Dickson, Paddick and Ms. McKibbon 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 considered to be independent.

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:

Karl Smith (Chair): Mr. Smith is the former Executive Vice President and Chief Financial Officer of Fortis Inc. Mr. Smith's career with the Fortis Group spanned nearly 30 years working in various capacities for FortisAlberta, Newfoundland Power and Fortis Inc. Mr. Smith earned a Bachelor of Commerce (Honours) from Memorial University of Newfoundland and is retired from the Association of Chartered Professional Accountants of Newfoundland and Labrador. He has served on the boards of CH Energy, FortisOntario, FortisAlberta, Caribbean Utilities, UNS Energy and FortisBC, all Fortis utilities. He is Chair of the Memorial University of Newfoundland Faculty of Business Administration's Advisory Board and Chair of the Board of Directors of Junior Achievement. He also serves on the Board of Directors of CSA Group.

Jim Dickson: Mr. Dickson is Counsel with the law firm Stewart McKelvey, with over 30 years of experience practicing primarily in the areas of mergers and acquisitions, 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 and serves as a Director of Sobeys Inc., and as a Trustee of Crombie REIT. 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.

Brendan Paddick: Mr. Paddick is Chairman of Columbus Capital Corp. and the founder and past Chief Executive Officer of Columbus International Inc. He is the Chair of Nalcor Energy and a Director of NASDAQ-listed Liberty Latin America. Mr. Paddick 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. Mr. Paddick has extensive capital market experience and was selected as one of Canada's Top 40 under 40 in 2000. He was named Ernst & Young's Atlantic Canadian Business-to-Business Entrepreneur of the Year in 2011, is a member of the Atlantic Business Hall of Fame and the JA Newfoundland Business Hall of Fame. He was also honoured as Memorial University's Alumnus of the Year in 2013.

Vicki McKibbon: Ms. McKibbon is the President of Transportation with Armour Transportation Systems, based in Moncton, New Brunswick. She is a Chartered Professional Accountant (CPA, CA), with several years of experience in the negotiation and execution of acquisitions, as well as post-transaction integration. Ms McKibbon has helped lead many change management initiatives, including significant system implementations and most recently a corporate-wide transportation management software transition. Ms. McKibbon holds a Bachelor of Science, First Class Honors in Chemistry from Mount Allison University, in addition to a Masters of Business Administration (MBA) from Queen's University. Ms. McKibbon is Director on the Board of the Canadian Trucking Alliance, Director and Past Chair on the Board of the Atlantic Provinces Trucking Association and an independent member of the Audit Committee for Mount Allison University.

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 2019	Fees – Fiscal 2018
Audit fees	\$649,125	\$600,800
Audit related fees	\$69,750	\$73,500
Tax fees	\$169,241	\$92,864
Total	\$888,116	\$767,164

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 relate 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.

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. 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, 2019. 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' National Instrument 52-110, *Audit Committees* defines specific requirements for Audit Committees of reporting issuers which applies to Clearwater Seafoods Incorporated (the "**Corporation**" or "**Clearwater**"). One of these requirements is that the Corporation's Audit Committee (the "**Committee**") have a written charter that sets out its mandate and responsibilities.

1. Purpose

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

The Committee charges management with developing and implementing procedures to:

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

The Committee will make recommendations to the board of directors of the Corporation (the "**Board**") 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.

2. Composition

The Committee will consist of at least 3 directors, all of whom shall qualify as independent directors pursuant to applicable securities laws. The Board may approve the appointment of a non-independent director as a member of the Committee if such appointment is recommended by the Corporate Governance Committee and meets the requirements under all applicable securities laws and regulatory rules for membership on the Committee.

All members of the Committee will be financially literate as defined by applicable securities laws. If a member upon appointment to the Committee is not financially literate as required, the person must become financially literate within a reasonable period of time following their appointment, as determined by the Board.

Any independent member who loses their independence status will be required to resign from the Committee within the applicable period of time required under applicable securities laws.

The Board will replace the member within such period with an independent director recommended by the Corporate Governance Committee. If it is the Chair of the Committee who loses independent status, the Corporate Governance Committee shall immediately designate another member of the Committee to act as Chair.

Members of the Committee and its Chair will be appointed annually by the Board, on the recommendation of the Corporate Governance Committee.

Committee members may be removed or replaced at any time by the Board, upon the recommendation of the Corporate Governance Committee, and will, in any event, cease to be a member of the Committee upon ceasing to be a member of the Board. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board upon the recommendation of the Corporate Governance Committee.

3. Procedures

The Committee will meet at least four times per year and at least once every fiscal quarter or more frequently as it deems necessary to fulfill its responsibilities.

A majority of Committee members, present in person, by telephone, or by other permissible communication facilities will constitute a quorum. Attendance for the meetings will be recorded and any materials that are intended to be reviewed or discussed will be distributed in advance. The Committee will appoint a secretary, who need not be a member of the Committee or a director of the Corporation, to keep minutes, which will document the actions, decisions and recommendations from each meeting. Minutes will be sent to all Committee members on a timely basis.

The Committee shall report to the Board following each meeting.

The Committee shall act only on the affirmative vote of a majority of the members at a meeting or by unanimous written consent. The Committee may establish subcommittees consisting of one or more members to carry out such duties as the Committee may delegate.

The Chair will have a vote on all matters but will not have any casting or tie-breaking vote. The Chair will call the meetings and set an agenda in consultation with management and the Chair of the Board.

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

4. Authority

The Committee has the authority to engage and set the compensation of independent counsel and other advisors, at the Corporation's expense, as it determines necessary to carry out its duties.

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

5. Specific Duties & Responsibilities

(a) The 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 audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting. As part of this, the Committee will:

- i. Recommend to the Board 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 Corporation and the compensation of the external auditor;
- ii. Review the audit plan;
- iii. Confirm auditor independence;
- iv. 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;
- v. Ensure that the external auditor meets the rotation requirements for partners and staff on the Corporation's audit;
- vi. 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;
- vii. Meet with the auditors separate from management;
- viii. Review the performance of the auditors; and

- ix. Pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the external auditor. The Committee may delegate to the Chair (provided the Chair is an independent member of the Committee) 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 Committee at the next scheduled Committee meeting following such pre-approval.

(b) In addition, the Committee will review:

- i. The Corporation's annual and interim financial statements, MD&A as well as annual and interim earnings press releases and recommend the approval of same to the Board prior to public disclosure of such information;
- ii. The financial disclosure provided in the Corporation's Annual Information Form;
- iii. The disclosure provided in the Corporation's Management Information Circular; and
- iv. Any other filings as required pursuant to securities laws from time to time.

(c) The Committee ensures that adequate procedures are in place for the review of financial information extracted or derived from the Corporation's financial statements as contained in the Corporation's other public disclosures, and must periodically assesses the adequacy of those procedures.

(d) The Committee establishes procedures for:

- i. The receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
- ii. The confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

(e) The Committee reviews and approves the Corporation'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 prohibit hiring any partners, employees and former partners and employees of the present and former external auditor of the Corporation until the passage of three years subsequent to the date of their last employment by the present or former external auditor of the Corporation.

(f) The Committee will, with respect to ensuring the integrity of disclosure controls and internal controls over financial reporting, understand the process utilized by the CEO and CFO to comply with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. This will also involve the assessment of internal controls and any disagreements between management and the auditor regarding the state of internal controls.

(g) The Committee will obtain and review reports on the Corporation's state of compliance with policies, laws and regulations, review findings of regulatory and auditor examinations, review processes for communicating code of conduct violations and monitoring for compliance and obtain regular updates from legal counsel regarding compliance matters.

(h) The 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, including those related to fraud prevention and detection processes.

(i) The Committee will annually assess the effectiveness of the Committee and the contribution of individual members of the Committee.

(j) The Committee will annually review this mandate and provide recommendations to the Board on any proposed amendments resulting from such review.