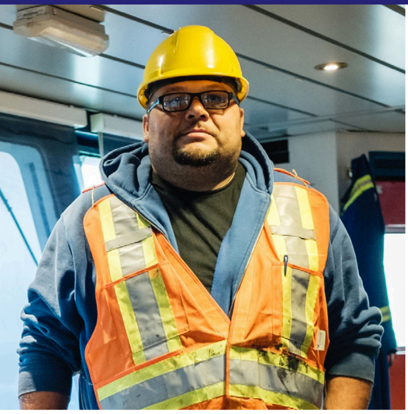
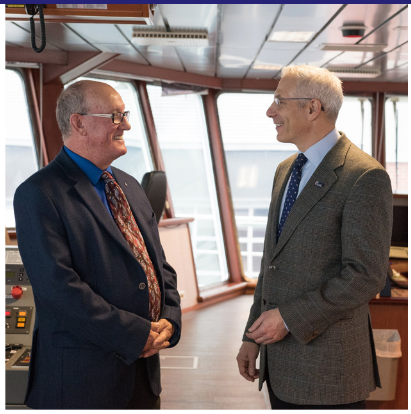
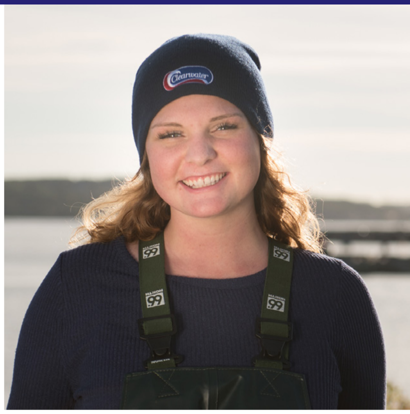
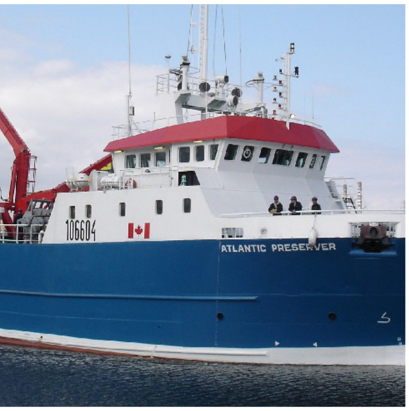
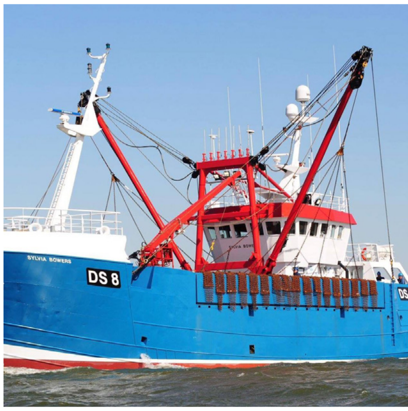




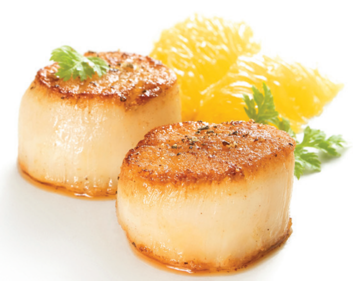


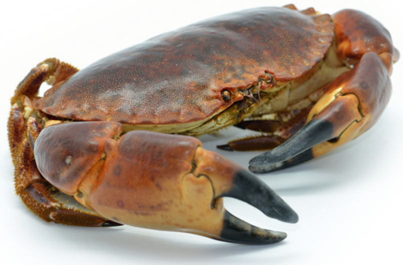


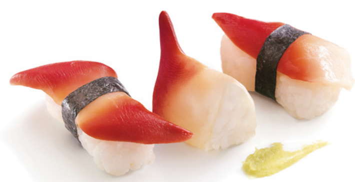


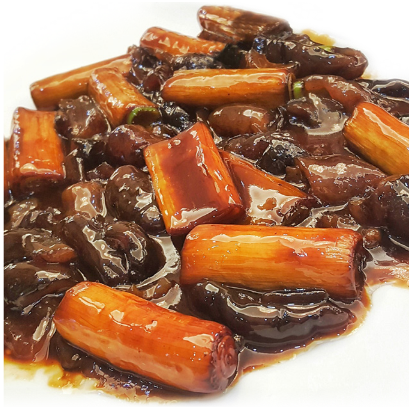


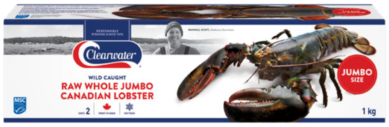

# 2019 ANNUAL REPORT

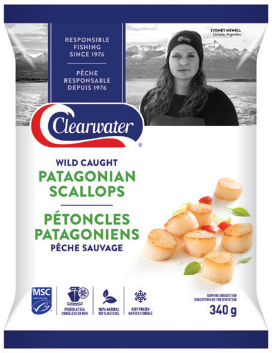


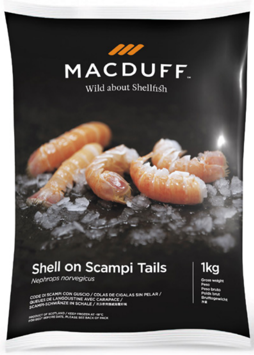


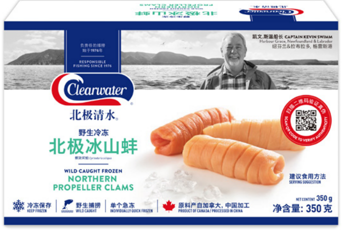







**REMARKABLE SEAFOOD, RESPONSIBLE CHOICE**

**Letter from the Chairman of Clearwater Seafoods Incorporated**

For the past 43 years, our people have been the key ingredient in making Clearwater a success. This includes every person, along every leg of our vertically integrated business – “from ocean to plate”. It is our peoples’ dedication, hard work and leadership that makes Clearwater an outstanding brand in the global seafood industry.

In 2019, we extended this relationship with our people, to 14 Indigenous Communities through the signing of the Landmark Agreement. This partnership provides protection for existing jobs in the clam fishery while also creating meaningful economic, employment and capacity building benefits for First Nations.

Clearwater is responsible for the introduction of many innovative advancements in the industry, including, ocean bottom mapping, dryland pound lobster storage, automated shucking and frozen-at-sea scallops, to name a few. Perhaps our crowning achievement over the past four decades is the creation of the Arctic surf clam fishery. It started with scientific delineation of the resource, development of sustainable harvesting techniques and converting the raw material into a product suitable for sushi and ultimately creating a global market for the product. Clearwater has been a true pioneer in the industry. Clearwater continues to be a leader in market development for many of our products.

Clearwater’s unwavering commitment to responsible and sustainable management of our seafood resources has been recognized globally and is a testament to Clearwater’s investment in science, technology and infrastructure.

Colin MacDonald

**Letter from the Chief Executive Officer of Clearwater Seafoods Incorporated**

Clearwater 2019 - “Remarkable seafood, Responsible Choice”

In 2019, Clearwater grew volume, revenue and margins while significantly reducing our debt and leverage. In response to the rising tide of trade, economic and geo-political challenges in several major markets, our team responded with discipline, agility, entrepreneurial spirit and grit, expanding distribution to more than 58 countries, growing total adjusted EBITDA over 10% and reducing leverage by 0.6 points to 4.1 times earnings versus the prior year.

We achieved balanced growth across multiple species. Most notably, improved market and harvest conditions in Clam, Langoustines and our global Scallop portfolio led to better inventory positions and higher sales at favorable market prices. Reduced supply, prices and sales for our frozen-at-sea cold water shrimp only partially offset the strength of our results.

We successfully expanded our strategic relationships in the Canadian Sea Cucumber, Shrimp and Snow Crab fisheries, announced a new joint venture in Newfoundland and Labrador in early 2020 and signed a landmark agreement with 14 First Nations in the Arctic Surf Clam fishery. The landmark agreement, considered by many to be a model for Indigenous reconciliation, will see us work with our Indigenous partners to harvest, process, sell and distribute Arctic Surf Clams for the next fifty years. Clearwater remains proud and confident in our ability to protect existing jobs in the Surf Clam fishery, expand Indigenous employment and benefits, while strengthening our local coastal and indigenous communities and growing the Canadian export value of a remarkable and sustainable wild resource.

In 2020, we will continue to leverage our broad portfolio of species, global market reach and strong customer base to drive profitable growth while expanding our sales distribution into new markets and channels. At the same time, innovation in the application of artificial intelligence, machine learning and robotics will help us increase productivity, reduce cost and generate higher margins from our vertically integrated global supply chain.

Sustainability, as always, will remain at the forefront of our business as we strive to reduce waste and lower our environmental footprint while producing high quality food and making a difference in the workplace, marketplace and in our local communities. When you invest in Clearwater, you are investing in one of the most innovative, global and sustainable seafood companies in the world.

We want to thank you, our valued shareholders, for your continued support.

Ian D. Smith

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective March 3, 2020.

The Audit Committee and the Board of Directors of Clearwater Seafoods Incorporated ("Clearwater", or the "Company") have reviewed and approved the contents of this MD&A, the consolidated Financial Statements, the 2019 fourth quarter news release and 2019 Annual Information Form ("AIF").

This MD&A should be read in conjunction with the 2019 annual consolidated Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS") and the 2019 AIF, which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com as well as Clearwater's website, www.clearwater.ca.

### COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This report contains "forward-looking information" as defined under applicable Canadian securities legislation, including but not limited to, statements regarding future plans and objectives of Clearwater. 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.

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 due to various known and unknown risks, uncertainties, and other factors outside of managements' control. Examples may include, but are not limited to, total allowable catch levels, resource supply, selling prices, weather, exchange rates, fuel and other input costs. There can be no assurance that such information will prove to be accurate and actual results and future events could differ materially from those anticipated in such forward-looking information. There can be no assurance that such information will prove to be accurate and actual results and future events could differ materially from those anticipated in such forward-looking information.

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

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

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

## NON-IFRS MEASURES

This MD&A makes reference to non-IFRS measures to supplement the analysis of Clearwater's results. These measures are provided to enhance the reader's understanding of our current financial performance. They are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and to provide a consistent basis for comparison between periods. These non-IFRS measures are not recognized measures under IFRS, and therefore they may not be comparable to similar measures presented by other companies.

Management believes that in addition to sales, net earnings and cash provided by operating activities, these non-IFRS measures are useful terms from which to determine Clearwater's ability to generate cash for investment in working capital, capital expenditures, debt service, income tax and dividends.

These non-IFRS measures include adjusted EBITDA, adjusted earnings, free cash flows, leverage, and return on assets.

Refer to non-IFRS measures reconciliations for further information.

## CLEARWATER OVERVIEW

Clearwater is North America's largest vertically integrated harvester, processor and distributor of premium seafood. Clearwater is a **leading global provider of wild-caught shellfish** with harvesting operations in Canada, Argentina and the UK. Clearwater is recognized for its consistent high quality, wide diversity, and reliable delivery of premium, wild, sustainable seafood, including scallops, lobster, clams, coldwater shrimp, langoustine, whelk, crab and groundfish with approximately 99 million pounds sold in 2019.

Global demand for premium wild-caught seafood among aging boomers and a rising middle class in the Asia-Pacific region is outpacing resource supply creating **powerful industry fundamentals**. This, in combination with conservatively managing seafood fisheries to protect the long-term health of the industry, is creating new opportunities from the rising demand for high-quality sustainable seafood.

Clearwater's **vertical integration, significant shellfish quota and licence holdings and global sales force combine to make Clearwater an industry leader in shellfish with sustainable competitive advantages.**

Clearwater maintains the widest selection of Marine Stewardship Council ("MSC")-certified species of any shellfish harvester worldwide. Regulatory authorities strictly control access to quota and rarely grant new licences.

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

Clearwater maintains a global, direct sales force that is capable of interacting with and selling directly to diverse markets worldwide. Our channel mix in food service, retail and other food industries ensures a diverse community of customers and we have no single customer representing more than 7% of total annual sales.

Clearwater's **proven and experienced leadership team** continues to build upon its world class capabilities in quality assurance and control, food safety, operations, new product development and leadership. Through its deep industry knowledge and talent, our team will continue to deliver on our operational and financial growth opportunities.

## CLEARWATER'S MISSION, VALUE PROPOSITION AND STRATEGIES

Clearwater's **mission** is to build the world's most **extraordinary**, **wild seafood** company, dedicated to **sustainable seafood excellence**.

We define:

- "**extraordinary**" as sustainable growth in revenue, margins, adjusted EBITDA, free cash flows and the creation of long-term shareholder value;
- "**wild seafood**" as premium wild shellfish, including our core species (scallops, clam, lobster, coldwater shrimp, crab and langoustines); and
- "**sustainable seafood excellence**" as delivering best-in-class quality, food safety, traceability and sustainability.

We believe that the fulfillment of this mission will result in extraordinary value creation for shareholders, customers, employees and the communities in which we work and live.

### Value Proposition

At Clearwater, we have a passion for wild seafood and strive to deliver a highly differentiated and competitively advantaged value proposition to a global customer base. Key elements of Clearwater's unique value proposition are:

- Great tasting, nutritious, highest quality, frozen-at-sea, premium shellfish.
- Expertise in premium shellfish science, harvesting, processing and logistics technology to ensure quality and safety from "ocean to plate".
- Sustainable fisheries, with expertise in fisheries science and management and a commitment to traceability and long-term health of our wild resources.
- Competitively advantaged global customer service with local market understanding and insight.
- Scale in licence and quota ownership guaranteeing exclusive and stable supply to service, the largest global retail and food service customers.

### Strategies

Clearwater's six core strategies are designed to strengthen our competitive and differentiated value proposition. They are:

1. **Expanding Access to Supply** – Expanding access to supply of core species and other complementary, high demand, premium, wild and sustainably-harvested seafood through improved utilization and productivity of core licences as well as acquisitions, partnerships, joint ventures, supplier relationships, and long-term supply agreements. Licencing, quotas and strategic procurement provide Clearwater with a consistent and renewable supply of premium, wild-caught, sustainably-harvested seafood for distribution around the globe. Clearwater's subsidiary in the United Kingdom is one of the largest processors of wild shellfish in the United Kingdom with opportunity for future growth.

Clearwater harvests and/or procures approximately sixteen core premium seafood species, including: three species of scallops, lobster, four species of clams, coldwater shrimp, langoustines, whelk, three species of crab, turbot and sea cucumber.

- ***Shellfish licences and quotas***
  Operating from ocean-to-plate, Clearwater harvests a large portion of their seafood supply through shellfish licence and quota holdings in Canada, Argentina and the United Kingdom. Held licences and quotas include Arctic surf clam, offshore lobster, Canadian sea scallops, Argentine scallops, UK scallops and coldwater shrimp.

- ***Expanding Access through Strategic Partnerships***
  Clearwater expands access to premium wild caught seafood through strategic partnerships including, supplier relationships with fishers, harvesting agreements with Indigenous groups and joint ventures. Clearwater brings unique value to these partnerships through its well-established global supply chain, extensive global distribution network and technical expertise in value-added processing.

2. **Target profitable & growing markets, channels & customers** – Clearwater targets growing markets, consumers, channels and customers based on size, profitability, demand for eco-label seafood and ability to win.

   - ***Global demand for shellfish remains strong***
     Sales grew 4.1% in 2019 as growth continued in Europe and Asia with annual sales increasing 6% and 7%, respectively. Clearwater utilized existing channels and customers to launch sea cucumber and continues to focus on expanding distribution for clam and UK products including langoustines, crab and whelk. Concurrently, Clearwater has successfully expanded sales and distribution in Brazil and Vietnam.

   - ***Showcasing Clearwater products***
     Globally, Clearwater participated in twenty trade shows and customer or distributor events promoting Arctic Surf and Cockle clam, Sea Cucumber, Canadian Sea Scallops, Lobster and a full range of Clearwater products.

3. **Innovate and position products to deliver superior customer satisfaction and value** – We continue to work with customers on new products and formats as we innovate and position our premium seafood to deliver superior satisfaction and value that is differentiated on the dimensions of taste, quality, safety, sustainability, convenience and fair labour practices.

   - ***Product development***
     In 2019, Clearwater launched a variety of new product offerings including cockle and quahog clams, live crab, hand peeled, de-veined langoustines and roe on scallops.

4. **Increase margins by improving price realization and cost management –** Leverage the scarcity of seafood supply and increasing global demand, in addition to continuing to invest in, innovate and adopt state-of-the-art technology, systems and processes.

   Clearwater realized top and bottom-line growth in 2019. Margins benefited from a revitalized fleet that resulted in lower costs and higher value for certain species, in addition to improvements in procurement strategies.

   - ***Position organization for price realization and cost management***
     Clearwater continues to leverage our state-of-the-art technology and systems to drive margin improvements through cost management. Our fleet and land-based operations maintain agility in processes across our diversified species to respond to fluctuations in capacity and resource supply.

Margins are actively managed through a robust demand planning system which considers current market conditions and pricing and allocates products to markets and customers to maximize margins while continuous improvement programs manage costs.

- ***Leveraging Intellectual Property ("IP") and Technology***
  Clearwater continues to leverage and further evolve its proprietary technology to reduce costs, strive to lower our environmental footprint and maximize the quality of our products.

  - **Ocean floor mapping** is utilized by our fleet, in combination with fishery-specific innovative gear and geographic positioning technology enabling us to continually increase the productivity of our fleet.
  - **Patented automatic shucking** technology and solutions deliver superior tasting and quality products to customers by enabling fresh frozen-at-sea products that are frozen within an hour of the catch.
  - **State-of-the-art IP protected clam dredging** technology achieves lower costs and improved productivity while managing the Company's environmental footprint.
  - **Live product storage and distribution –** technological expertise in the storage and distribution of live lobster; recently expanded to live crab.
  - **Automated defect detection technology –** improved food safety and quality of products, and reduced production costs.

5. **Pursue and preserve the long-term sustainability of resources on land and sea** – As a leading global supplier of wild-harvested seafood, sustainability remains at the core of our business and our mission. Investing in the long-term health and the responsible harvesting of the oceans is every harvester's responsibility and the only proven way to ensure access to a reliable, stable, renewable and long-term supply of seafood. Sustainability is not just good business, it's in our DNA. Clearwater has provided assurance of the sustainability of our fisheries through the third-party assurance programs of the MSC program. As a leader in sustainable harvesting for wild fisheries, Clearwater offers the widest selection of sustainably certified species of any seafood harvester worldwide.

- ***Commitment to sustainability***
  Clearwater undertakes key research initiatives to support the long-term sustainability of our fisheries including innovative ocean bottom mapping research and analysis, which Clearwater conducts in partnership with academic institutions. Our ocean bottom mapping data is exclusive intellectual property that contributes directly to harvest efficiency while reducing impact on the ocean habitat and improving sustainability.

  On an annual basis, Clearwater, in collaboration with other industry participants, continues to undertake video monitoring research in the Canadian and Argentina sea scallop fishery adding to our understanding of resource dynamics and development of harvest strategies that support long-term sustainability. In the UK, we are participating in collaborative industry initiatives to advance science and management of UK shellfish fisheries such as the recent UK Scallop Management Conference.

- ***Environmentally responsible***
  Seafood currently ranks lower than other proteins in terms of greenhouse gas emissions per gram of protein and Clearwater is focused on continuing to drive efficiency and lowering our costs and carbon consumption and lowering the impact of our operations on the environment by advancing our company-wide sustainability framework to improve economic, environmental and social outcomes on land and sea.

6. **Build organizational capability, capacity & engagement** – Clearwater invests in global talent and programs to build world-class capabilities and diversity throughout its organization. From ocean-to-plate, Clearwater has an employee presence in eleven countries around the world, providing global access to markets and distribution channels.

   In 2019, Clearwater increased employment for First Nations on our vessels and land-based operations, as part of our partnership with Indigenous communities.

## CAPABILITY TO DELIVER RESULTS

Clearwater's revenues and earnings are dependent primarily on its ability to harvest, purchase, and market seafood.

### Access to Supply

Supply is dependent to a large extent on the annual total allowable catch ("TAC") for each species. The annual TAC is related to the health of the stock of the species as determined by the relevant government fishery management organizations. All stocks are managed sustainably providing assurance of the long-term availability of the resource, however annual fluctuations in supply of a natural resource are normal. Short term impacts of such fluctuations can normally be offset within Clearwater's species portfolio and/or by making adjustments within each business unit. See *Risk and Uncertainties – Resource Supply Risk* and *Political Risk* for further information regarding Clearwater TAC.

The primary shellfish stocks that Clearwater harvests are Canadian sea, Argentine and UK scallops, clam, lobsters and coldwater shrimp, which are harvested in offshore fisheries. Clearwater harvests scallops, clams, coldwater shrimp and lobsters with its own vessels while supplementing supply of lobsters, coldwater shrimp and other species through purchases from independent fishermen.

- The **Canadian sea scallop** resource typically fluctuates within a stable range. Clearwater anticipates TACs within the normal range in upcoming years. Clearwater lands virtually all its sea scallop quota each year and may from time to time harvest quotas for other industry participants or purchase raw material supply from other industry participants.

- **Argentine scallop** volumes typically fluctuate within a stable range.

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

- The offshore Canadian **lobster** resource is healthy with a consistent offshore TAC. Clearwater harvests all its lobster quota each year and procures its remaining supply requirements from inshore fishers. Inshore lobster landings have been stable.

- **Coldwater shrimp** - 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.

- The **Arctic surf clam** resource is stable. Clearwater has quota allocations on both Banquereau Bank and the Grand Banks in Canada and anticipates TACs within the normal range in the upcoming years.

  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, committing to work together to submit an Expression of Interest in any future DFO process to issue a fourth clam licence.

Effective January 1, 2019, the 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 partnership provides a mechanism for significant Indigenous participation and stable long-term access in the clam fishery 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.

**Harvesting Capability**

For the species it harvests, Clearwater maintains the largest, most modern fleet of factory freezer vessels in Canada, as well as vessels used to harvest Clearwater's offshore lobster, UK scallops, UK crab and to complete research and development. Following a significant fleet revitalization investment period (2015 – 2017), Clearwater's harvesting fleet is well positioned to continue leveraging cutting-edge technologies to increase access to supply, optimize productive capacity, and drive margin expansion.

Clearwater classifies capital expenditures 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. Repairs and maintenance costs are expensed as incurred.

Clearwater invested 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 ten factory vessels located within Canada and Argentina.

Of the ten 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, 10 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 between $35-$40 million in capital projects relating to vessel refits and land-based supply chain infrastructure.

**Liquidity[1] and capital resources**

Clearwater maintains sufficient liquidity to enable continued access to capital to finance seasonal operations, investments in innovation and technology and to fund growth. See *Capital Structure and Liquidity* for further information regarding Clearwater's capital strategy and capital structure.

Leverage as at December 31, 2019 was 4.1x compared to 4.7x as at December 31, 2018. Leverage improved as adjusted EBITDA[1] attributable to shareholders increased following strong harvesting conditions and favourable sales mix across multiple species, partially offset by competitive market conditions for shrimp. Overall, net debt remained consistent as adjusted EBITDA growth was partially offset by higher receivables due to timing of sales and planned increase in capital expenditures.

## EXPLANATION OF FINANCIAL RESULTS

Clearwater uses Key Performance Indicators ("KPIs") and Financial Measures to assess progress against our six core strategies.

### Key performance indicators and financial measures

| In 000's of Canadian dollars<br>As at December 31 | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Profitability** | | | |
| Sales | **$ 616,244** | $ 592,246 | $ 621,031 |
| Sales growth | **4.1%** | (4.6%) | 1.5% |
| Gross margin | **$ 122,253** | $ 106,837 | $ 110,068 |
| Gross margin (as a % of sales) | **19.8%** | 18.0% | 17.7% |
| Adjusted EBITDA[1,2] | **114,902** | 104,391 | 108,596 |
| Adjusted EBITDA[1,2] (as a % of sales) | **18.6%** | 17.6% | 17.5% |
| Adjusted EBITDA attributable to shareholders[1,2] | **$ 99,245** | $ 88,175 | $ 89,156 |
| Adjusted EBITDA attributable to shareholders[1,2] (as a % of sales) | **16.1%** | 14.9% | 14.4% |
| Earnings (loss) attributable to shareholders | **$ 41,692** | $ (16,204) | $ 15,759 |
| Basic earnings (loss) per share | **0.64** | (0.25) | 0.25 |
| Diluted earnings (loss) per share | **0.64** | (0.25) | 0.25 |
| Dividends paid on common shares | **0.20** | 0.20 | 0.20 |
| Adjusted earnings (loss) attributable to shareholders[1] | **20,717** | 15,831 | 8,690 |
| Adjusted earnings (loss) attributable to shareholders[1] per share | **0.32** | 0.25 | 0.14 |
| **Cash flows and leverage** | | | |
| Cash from (used in) operating activities | **$ 63,731** | $ 76,487 | $ 58,141 |
| Cash from (used in) financing activities | **(43,235)** | (60,617) | 22,665 |
| Cash from (used in) investing activities | **(23,041)** | (16,701) | (85,516) |
| Free cash flows[1] | **17,419** | 45,206 | (8,428) |
| Leverage[1,3] | **4.1** | 4.7 | 5.0 |
| **Returns** | | | |
| Return on assets[1,4] | **9.6%** | 7.4% | 8.1% |
| Total assets | **$ 717,499** | $ 727,423 | $ 770,880 |

[1] Refer to discussion on non-IFRS measures, definitions and reconciliations.

[2] Adjusted earnings before interest, tax, depreciation and amortization.

[3] Leverage is calculated as adjusted EBITDA attributable to shareholders to net debt and differs from the calculation of leverage for covenant purposes. Net debt at December 31, 2019 includes lease liabilities of $6.7 million recognized upon transition to IFRS 16, effective January 1, 2019.

[4] Return on assets is calculated as adjusted earnings before interest and taxes to total average quarterly assets.

## 2019 Key Highlights

The following are key highlights and developments based on Clearwater's KPIs and Financial Measures for 2019.

**Profitability**
Annual sales grew 4.1% and adjusted EBITDA increased $10.5 million or 10.1% as compared to the prior year.

- Adjusted EBITDA as a percentage of sales increased 100 basis points from 17.6% in 2018 to 18.6% in 2019, reflecting strong harvest conditions and favourable sales mix weighted toward higher margin species.
- Gross margin as a percentage of sales increased 180 basis points from 18.0% to 19.8%. Strong harvest conditions and favourable mix in scallops and clams, partially offset by competitive conditions for shrimp, contributed to higher margins.
- Access to supply and customer demand in other procured species, including langoustine and crab, remained strong as compared to the prior year.
- Sales growth in 2019 is attributed to sales growth in Europe and Asia of 6% and 7% respectively. Sales in Europe benefited from favourable sales mix for scallops and available supply of scallops and langoustines. The expansion of distribution channels and market demand for clams fueled growth in Asia.
- Earnings attributable to shareholders increased $58.0 million as compared to the prior year primarily due to changes in unrealized foreign exchange gains on derivative contracts and long-term debt and higher gross margin.
- Adjusted earnings attributable to shareholders[1] increased $4.9 million as compared to the same period in 2018, as a result of higher gross margin partially offset by realized foreign exchange losses on working capital.

**Cash flows and leverage**
Leverage decreased to 4.1x as at December 31, 2019 compared to 4.7x as at December 31, 2018. In 2019, Clearwater repaid $23.9 million of long-term debt. Cash from operations and free cash flows[1] were $63.7 million and $17.4 million in 2019 as compared to $76.5 million and $45.2 million in 2018.

- Leverage decreased due to higher adjusted EBITDA attributable to shareholders following strong harvest conditions across multiple species and favourable sales mix in scallops and clams, partially offset by competitive market conditions for shrimp.
- Cash from operations decreased over prior year as EBITDA growth was offset by timing of sales, resulting in higher accounts receivable balances at year end, and other working capital changes. Free cash flow was further impacted by the increase in planned capital expenditures.

**Returns**
Return on assets[1] increased to 9.6% in 2019 as compared to 7.4% in 2018. The improvement was primarily due to higher EBIT and slightly lower average assets following a weakening GBP versus the Canadian dollar. Higher EBIT in 2019 is due to strong harvesting conditions and sales mix.

**Developments**

***Arctic Surf Clam***
The DFO confirmed that the remaining 25 percent of the clam quota would be issued to Clearwater and its First Nations partners for 2020.

***New joint venture***
On January 15, 2020, Clearwater entered into an agreement to form a new joint venture which will take over the operations of St. Anthony Seafoods Limited Partnership plant. Closing of the transaction is subject to regulatory approval and customary conditions and is scheduled for March 31, 2020.

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

## EXPLANATION OF CHANGES IN EARNINGS

The following consolidated statements of earnings (loss) reflects the results of Clearwater for the 13 weeks and years ended December 31, 2019 and 2018. For supplemental non-IFRS measures, refer to discussion on non-IFRS measures in the non-IFRS measures, definitions and reconciliations section of this MD&A. Detailed discussion on the components of consolidated earnings (loss) follows:

| In 000's of Canadian dollars | **December 31 2019** (13 weeks ended) | December 31 2018 (13 weeks ended) | Change (13 weeks ended) | **December 31 2019** (Year ended) | December 31 2018 (Year ended) | Change (Year ended) |
|---|---|---|---|---|---|---|
| Sales | **$ 167,085** | $ 159,807 | $ 7,278 | **$ 616,244** | $ 592,246 | $ 23,998 |
| Cost of goods sold | **135,739** | 133,340 | 2,399 | **493,991** | 485,409 | 8,582 |
| Gross margin | **31,346** | 26,467 | 4,879 | **122,253** | 106,837 | 15,416 |
| Gross margin as a % of sales | ***18.8%*** | *16.6%* | *2.2%* | ***19.8%*** | *18.0%* | *1.8%* |
| Operating expenses | | | | | | |
| Administrative and selling | **14,020** | 12,675 | (1,345) | **57,253** | 53,509 | (3,744) |
| Restructuring costs | **-** | - | - | **-** | 482 | 482 |
| Net finance costs | **7,786** | 7,847 | 61 | **31,880** | 31,966 | 86 |
| (Gains) losses on derivative financial instruments | **(6,620)** | 15,008 | 21,628 | **(16,658)** | 15,798 | 32,456 |
| Foreign exchange (gains) losses on long-term debt and working capital | **(3,253)** | 1,681 | 4,934 | **(4,453)** | 9,061 | 13,514 |
| Other (income) expense | **(113)** | 102 | 215 | **(3,014)** | (3,737) | (723) |
| Research and development | **321** | 331 | 10 | **713** | 1,724 | 1,011 |
| | **12,141** | 37,644 | 25,503 | **65,721** | 108,803 | 43,082 |
| Earnings (loss) before income taxes | **19,205** | (11,177) | 30,382 | **56,532** | (1,966) | 58,498 |
| Income tax expense (recovery) | **139** | (621) | (760) | **3,689** | 1,740 | (1,949) |
| Earnings (loss) | **$ 19,066** | $ (10,556) | $ 29,622 | **$ 52,843** | $ (3,706) | $ 56,549 |
| Earnings (loss) attributable to: | | | | | | |
| Non-controlling interest | **$ 1,467** | $ 1,784 | $ (317) | **$ 11,151** | $ 12,498 | $ (1,347) |
| Shareholders of Clearwater | **17,599** | (12,340) | 29,939 | **41,692** | (16,204) | 57,896 |
| | **$ 19,066** | $ (10,556) | $ 29,622 | **$ 52,843** | $ (3,706) | $ 56,549 |
| Adjusted EBITDA attributed to: | | | | | | |
| Non-controlling interest | **$ 2,838** | $ 2,368 | $ 470 | **$ 15,657** | $ 16,216 | $ (559) |
| Shareholders of Clearwater | **27,293** | 21,722 | 5,571 | **99,245** | 88,175 | 11,070 |
| Adjusted EBITDA[1] | **$ 30,131** | $ 24,090 | $ 6,041 | **$ 114,902** | $ 104,391 | $ 10,511 |

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

## Sales by species

| In 000's of Canadian | 13 weeks ended<br>**December 31 2019** | December 31 2018 | Change | Year ended<br>**December 31 2019** | December 31 2018 | Change |
|---|---|---|---|---|---|---|
| Scallops | **$** 50,460 | $ 43,410 | $ 7,050 | **$** 174,240 | $ 171,373 | $ 2,867 |
| Clams | 42,309 | 37,349 | 4,960 | 128,723 | 120,235 | 8,488 |
| Lobster | 22,432 | 22,208 | 224 | 89,573 | 88,387 | 1,186 |
| Coldwater shrimp | 16,004 | 14,039 | 1,965 | 67,411 | 70,951 | (3,540) |
| Crab | 15,074 | 23,665 | (8,591) | 52,304 | 51,656 | 648 |
| Langoustine | 15,080 | 14,061 | 1,019 | 49,886 | 42,026 | 7,860 |
| Whelk | 2,528 | 1,737 | 791 | 25,249 | 24,291 | 958 |
| Groundfish and other species | 3,198 | 3,338 | (140) | 28,858 | 23,327 | 5,531 |
| | **$ 167,085** | $ 159,807 | $ 7,278 | **$ 616,244** | $ 592,246 | $ 23,998 |

## Sales by region

| In 000's of Canadian | 13 weeks ended<br>**December 31 2019** | December 31 2018 | Change | Year ended<br>**December 31 2019** | December 31 2018 | Change |
|---|---|---|---|---|---|---|
| Europe | **$ 73,245** | $ 63,747 | $ 9,498 | **$ 217,702** | $ 205,653 | $ 12,049 |
| China | **46,863** | 44,223 | 2,640 | **154,875** | 130,402 | 24,473 |
| Japan | **13,378** | 16,265 | (2,887) | **59,832** | 73,325 | (13,493) |
| Other Asia | **5,410** | 4,494 | 916 | **38,112** | 33,014 | 5,098 |
| Asia | **65,651** | 64,982 | 669 | **252,819** | 236,741 | 16,078 |
| United States | **19,195** | 19,251 | (56) | **74,778** | 85,871 | (11,093) |
| Canada | **8,993** | 11,825 | (2,832) | **70,927** | 63,892 | 7,035 |
| North America | **28,188** | 31,076 | (2,888) | **145,705** | 149,763 | (4,058) |
| Other | **1** | 2 | (1) | **18** | 89 | (71) |
| | **$ 167,085** | $ 159,807 | $ 7,278 | **$ 616,244** | $ 592,246 | $ 23,998 |

Clearwater reported sales for the fourth quarter of 2019 of $167.1 million and $159.8 million in 2018. Annual sales were $616.2 million and $592.2 million in 2018.

Strong harvest conditions, landings and higher available supply in clam, scallops, crab and langoustines were partially offset by competitive market conditions for certain scallop sizes. Sales benefited from the introduction of sea cucumber in 2019, while frozen-at-sea ("FAS") shrimp was impacted by timing of landings and unfavourable sales mix.

Average foreign exchange rates realized on sales for the fourth quarter and full year 2019 had a net negative impact to sales of $2.3 million and $1.3 million, respectively, as compared to the same periods in the prior year.

***Scallops***

- Strong harvesting conditions and strong demand for premium scallops resulted in higher sales in fourth quarter and full year 2019.
- Market conditions improved in the fourth quarter of 2019, especially for smaller sized scallops, resulting in increased volumes. Competitive market conditions remained in 2019, primarily associated with higher US and Peruvian scallops supply.

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

***Clams***

- Favourable mix and harvest conditions increased sales and volumes in fourth quarter and full year 2019. Net foreign exchange positively impacted annual sales as compared to the prior year.
- Clearwater continues to drive volume, revenue and profitability through expanded customer and channel penetration and geographic distribution.

***Lobster***

- Steady market demand, particularly in Asia, increased sales prices in fourth quarter and full year 2019.
- Volumes improved in the second half of 2019 as our competitively advantaged live storage capability enabled Clearwater to target profitable market opportunities for our premium hard-shell lobster.

***Coldwater shrimp***

- Sales increased in the fourth quarter and decreased full year 2019 as unfavourable sales mix and competitive market conditions were partially offset by timing of landings in the fourth quarter.
- An increase in global supply impacted pricing for certain sizes and formats in 2019 as compared to 2018.

***Crab***

- Full year sales increased slightly over the prior year while timing of sales resulted in lower sales volume in the fourth quarter of 2019.
- Strong global access to supply was offset by high customer inventories in key markets.

***Langoustine***

- Langoustine sales increased in fourth quarter and full year 2019 as compared to the same periods in 2018, as higher overall industry landings increased available supply.

**Whelk**

- Sales increased modestly in fourth quarter and full year 2019 as compared to the same periods in 2018 due to higher available supply.

**Groundfish and other**

- Sales decreased in the fourth quarter as compared to the same period of 2018 due to timing of landings of turbot, partially offset by the introduction of sea cucumber in 2019. Annual sales also benefited from the introduction of sea cucumber.

**Europe**

*Clearwater's largest scallop market and a key market for coldwater shrimp, langoustines, crab and lobster products.*

Sales for fourth quarter and full year 2019 increased $9.5 million and $12.0 million respectively, as compared to the same periods in 2018.

Increase in both periods was the result of higher available supply and favourable sales mix for scallops with the fourth quarter benefiting from price stabilization as compared to 2018. Higher available supply for langoustine was partially offset by competitive market conditions for frozen-at-sea ("FAS") shrimp.

The Euro, GBP and DKK weakened against the Canadian dollar in the fourth quarter and full year 2019 resulting in a net negative impact of $2.2 million and $6.8 million, respectively, as compared to the same periods in 2018.

**China**
*Key market for clams, coldwater shrimp, lobster, crab and turbot.*

Sales for fourth quarter and full year 2019 increased $2.6 million and $24.5 million, respectively, as compared to the same periods of 2018.

Demand increased in China across multiple species in 2019. Higher clam sales with favourable product mix weighted towards higher sales prices, higher available supply of langoustines and introduction of sea cucumber contributed to increased sales, partially offset by the availability of certain crab offerings.

Sales in China are almost exclusively transacted in US dollars. Fourth quarter and full year sales for 2019 were negatively impacted by $0.3 million and positively impacted by $2.5 million, respectively, as compared to the same periods of the prior year.

**Japan**
*Primary species are clams, lobster, coldwater shrimp and turbot.*

Sales for fourth quarter and full year 2019 decreased $2.9 million and $13.5 million, respectively, as compared to the same periods in 2018.

Decrease in sales in 2019 was largely due to a regional shift of clam sales into other Asian markets, partially offset by favorable mix and pricing for lobster.

Sales in Japan are typically transacted in yen. The yen continued to strengthen in fourth quarter and full year 2019 as compared to the prior year resulting in a net positive impact of $0.3 million and $1.3 million respectively.

**Other Asia**
*Region includes Korea, Australia, Taiwan, Singapore, Malaysia, Vietnam and other Asian countries. Whelk, clams, sea scallops and lobster are key products for these markets.*

Sales for fourth quarter and full year 2019 increased $0.9 million and $5.1 million, respectively, as compared to the same periods in 2018 primarily as a result of growth in sales for turbot and FAS shrimp and whelk.

**United States**
*Primary species are scallops, lobster and clams.*

Sales remained flat for fourth quarter 2019 and decrease $11.1 million for the full year as compared to the same periods in 2018.

Decrease in sales is largely a result of sales shifting to markets with increasing consumer demand for the same product offerings.

Sales for fourth quarter and full year 2019 were negatively impacted $0.1 million and positively impact by $1.3 million, respectively, by average foreign exchange rates as compared to the same periods in the prior year.

**Canada**
*Primary species are lobster, scallops, snow crab, clams and coldwater shrimp.*

Sales for fourth quarter of 2019 decreased $2.8 million and increased $7.0 million for full year 2019, as compared to the same periods in 2018.

Fourth quarter was impacted by the timing of landings for snow crab while year-to-date results benefited from strong landings in 2019. Strong harvesting conditions for scallops contributed to increased sales for full year 2019.

## Average foreign exchange rates realized on sales

For fourth quarter of 2019, unfavourable foreign exchange rates for Euro, USD, DKK and GBP were partially offset by favourable foreign exchange rates for JPY as compared to the same period of 2018, negatively impacting sales by $2.3 million.

Year-to-date 2019, unfavourable foreign exchange rates for Euro, GBP and DKK were partially offset by favourable foreign exchange rates for USD and JPY, as compared to the same period of 2018, negatively impacting sales by $1.3 million.

| | | | | 13 weeks ended | | | | Year ended |
|---|---|---|---|---|---|---|---|---|
| | | **December 31** | | December 31 | | **December 31** | | December 31 |
| | | **2019** | | 2018 | | **2019** | | 2018 |
| Currency | **% sales** | **Average rate realized [1]** | % sales | Average rate realized[1] | **% sales** | **Average rate realized[1]** | % sales | Average rate realized[1] |
| US dollars | **42.2%** | **1.318** | 44.2% | 1.326 | **46.7%** | **1.326** | 44.8% | 1.303 |
| Euros | **33.8%** | **1.456** | 30.7% | 1.508 | **25.2%** | **1.476** | 24.9% | 1.525 |
| Canadian dollar and other | **8.5%** | | 8.3% | | **10.0%** | | 9.1% | |
| UK pounds | **7.4%** | **1.695** | 7.3% | 1.698 | **9.1%** | **1.688** | 8.8% | 1.732 |
| Japanese yen | **6.1%** | **0.012** | 7.8% | 0.012 | **6.1%** | **0.012** | 8.6% | 0.012 |
| Danish kroner | **2.0%** | **0.196** | 1.7% | 0.203 | **2.9%** | **0.199** | 3.8% | 0.207 |
| | **100.0%** | | 100.0% | | **100.0%** | | 100.0% | |

[1] Refer to discussion on risks and uncertainties.

## Cost of goods sold

Cost of goods sold includes harvesting and procurement costs, manufacturing costs, depreciation, transportation and administration.

Cost of goods sold increased in the fourth quarter and year-to-date 2019 by $2.4 million and $8.6 million respectively, as compared to the same period of 2018 primarily due to increased sales volumes across multiple species, including procured, partially offset by strong harvest conditions and landings. As a percentage of sales, cost of goods sold decreased 2 percent as compared to full year 2018.

Harvesting and procurement include all costs incurred in the operation of the vessels including labour, fuel, repairs and maintenance, fishing gear, supplies, other costs and fees plus procured raw material costs for lobster, shrimp, scallops, crab, langoustine and whelk.

## Gross margin

Gross margin for the fourth quarter and full year 2019 increased $4.9 million and $15.4 million, respectively, as compared to the same periods of 2018. Gross margin as a percentage of sales expanded to 19.8% in 2019 compared to 18.0% in the prior year.

Gross margin increased due to strong harvest conditions in clam and scallops and favourable mix for scallops. This was partially offset by competitive market conditions for shrimp impacting pricing for certain sizes and formats in 2019. Overall access to supply and customer demand in procured species remained strong as compared to the prior year.

Average foreign exchange rates realized on sales had a net negative impact to gross margin of $2.3 million in the fourth quarter and $1.3 million full year 2019, as compared to the same periods of 2018.

## Operating expenses

| In 000's of Canadian dollars | 13 weeks ended December 31 2019 | December 31 2018 | Change | Year ended December 31 2019 | December 31 2018 | Change |
|---|---|---|---|---|---|---|
| Salaries and benefits | $ **10,329** | $ 10,493 | $ 164 | $ **41,836** | $ 41,308 | $ (528) |
| Share-based compensation | **(494)** | 495 | 989 | **1,230** | 1,289 | 59 |
| Employee compensation | **9,835** | 10,988 | 1,153 | **43,066** | 42,597 | (469) |
| Consulting and professional fees | **3,295** | 3,189 | (106) | **12,872** | 12,827 | (45) |
| Other[1] | **3,996** | 2,029 | (1,967) | **13,685** | 11,524 | (2,161) |
| Allocation to cost of goods sold[2] | **(3,106)** | (3,531) | (425) | **(12,370)** | (13,439) | (1,069) |
| Administrative and selling | $ **14,020** | $ 12,675 | $ (1,345) | $ **57,253** | $ 53,509 | $ (3,744) |
| Restructuring costs | **-** | - | - | **-** | 482 | 482 |
| Operating expenses | $ **14,020** | $ 12,675 | $ (1,345) | $ **57,253** | $ 53,991 | $ (3,262) |

[1] *Other includes, but is not limited to, selling costs, travel and occupancy, gains and losses on assets, depreciation on corporate assets and donations.*
[2] *Allocation to cost of goods sold reflects costs that are attributable to the production of goods and are included in the cost of inventory.*

Operating expenses increased $1.3 million and $3.3million for the fourth quarter and full year 2019 as compared to the same periods of 2018. Full year 2019 increase was primarily due to net loss on sale or write-down of assets in 2019 as compared to a net gain in 2018.

## Net finance costs

| In 000's of Canadian dollars | 13 weeks ended December 31 2019 | December 31 2018 | Change | Year ended December 31 2019 | December 31 2018 | Change |
|---|---|---|---|---|---|---|
| Interest and bank charges | $ **7,132** | $ 7,061 | $ (71) | $ **28,982** | $ 28,551 | $ (431) |
| Amortization of deferred financing charges | **443** | 435 | (8) | **1,769** | 1,695 | (74) |
| | **7,575** | 7,496 | (79) | **30,751** | **30,246** | (505) |
| Accretion on deferred consideration | **211** | 351 | 140 | **1,129** | 1,720 | 591 |
| | **211** | 351 | 140 | **1,129** | 1,720 | 591 |
| | $ **7,786** | $ 7,847 | $ 61 | $ **31,880** | $ 31,966 | $ 86 |

Net finance costs remained consistent for the fourth quarter and full year 2019 as compared to the same periods in 2018. The decrease in 2019 interest and bank charges of $0.4 million is due to lower average revolving debt balances, partially offset by the USD strengthening against the CDN dollar.

## (Gains) losses on derivative financial instruments

| In 000's of Canadian dollars | 13 weeks ended December 31 2019 | December 31 2018 | Change | Year ended December 31 2019 | December 31 2018 | Change |
|---|---|---|---|---|---|---|
| Realized (gain) loss | | | | | | |
| Forward foreign exchange contracts | $ **(300)** | $ 1,565 | $ 1,865 | $ **39** | $ 1,321 | $ 1,282 |
| Changes in unrealized gains & losses | | | | | | |
| Forward foreign exchange contracts | **(6,320)** | 13,443 | 19,763 | **(16,697)** | 14,477 | 31,174 |
| | $ **(6,620)** | $ 15,008 | $ 21,628 | $ **(16,658)** | $ 15,798 | $ 32,456 |

Clearwater is primarily an export company with more than 90% of our sales denominated in foreign currencies. As part of our risk management strategy, we enter into short-term forward contracts to provide greater certainty regarding exchange rates and cash flows for a period of time. We recognize any realized gains and losses on these instruments as they mature and are settled.

Clearwater recognizes unrealized non-cash gains and losses on these instruments resulting from the change in fair value. Clearwater estimates the fair value of the derivative financial instruments based on forward prices and converts them to Canadian dollars at each balance sheet date. The unrealized non-cash gains or losses are excluded when calculating adjusted EBITDA and adjusted earnings attributable to shareholders of Clearwater (*Refer to Non-IFRS measures, definitions and reconciliations*).

Realized gains and losses on forward foreign exchange contracts are dependent on the average contracted rates relative to the foreign exchange rate on the settlement date.

Unrealized gains and losses on forward foreign exchange contracts are dependent on the average contracted rates as compared to forward rates based on maturity. Refer to *Foreign Exchange Management* for information regarding Clearwater economic hedging program.

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

| In 000's of Canadian dollars | 13 weeks ended December 31 2019 | December 31 2018 | Change | Year ended December 31 2019 | December 31 2018 | Change |
|---|---|---|---|---|---|---|
| Realized (gain) loss | | | | | | |
| Long-term debt and working capital | $ **(538)** | $ (660) | $ (122) | $ **1,782** | $ (5,514) | $ (7,296) |
| Changes in unrealized gains | | | | | | |
| Long-term debt and working capital | **(6,748)** | 15,381 | 22,129 | **(13,184)** | 30,798 | 43,982 |
| Forward exchange contracts related to long-term debt | **4,033** | (13,040) | (17,073) | **6,949** | (16,223) | (23,172) |
| | **(2,715)** | 2,341 | 5,056 | **(6,235)** | 14,575 | 20,810 |
| | $ **(3,253)** | $ 1,681 | $ 4,934 | $ **(4,453)** | $ 9,061 | $ 13,514 |

Realized foreign exchange gains on long-term debt and working capital decreased $0.1 million in the fourth quarter and $ $7.3 million year-to-date 2019, respectively as compared to the same periods of 2018. Foreign exchange rates for GBP. USD and EUR weakened relative to the Canadian dollar year-to-date 2019, resulting in unfavourable working capital settlements.

Changes in unrealized foreign exchange gains and losses on long-term debt and working capital increased $22.1 million and $44.0 million for the fourth quarter and year-to-date 2019, respectively, as compared to the same periods of 2018. The unrealized gains are primarily due to long-term debt denominated in USD which are translated into Canadian dollars at the period-end spot rate.

Partially offsetting unrealized gains on long-term debt and working capital, were unrealized losses related to forward foreign exchange contracts to hedge approximately 80% of the notional amount of the USD senior unsecured notes.

## Other (income) expense

| | 13 weeks ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| In 000's of Canadian dollars | **December 31 2019** | December 31 2018 | Change | **December 31 2019** | December 31 2018 | Change |
| Share of earnings of equity-accounted investee | **$ 585** | $ (178) | $ 763 | **$ (2,922)** | $ (2,923) | $ 1 |
| Fair value adjustment on earn-out liability | **80** | 91 | (11) | **188** | (623) | 811 |
| Other (income) fees | **(778)** | 189 | (967) | **(280)** | (191) | (89) |
| | **$ (113)** | $ 102 | (215) | **$ (3,014)** | $ (3,737) | $ 723 |

Other income increased in the fourth quarter by $0.2 million and decreased year-to-date 2019 by $0.7 million, as compared to the same periods of 2018.

## Research and development

Research and development relates to new harvesting, processing and storage technology and research into ocean habitats and fish stocks. Research and development can vary year to year depending on the scope, timing and volume of research completed and the number of initiatives shifting into deployment phase.

## Income taxes

Income taxes primarily relate to taxable subsidiaries in Argentina, the United States, the United Kingdom and Canada. Clearwater's consolidated effective tax rate is impacted by non-controlling interests in partnerships in which the income is taxed in the hands of the non-controlling interest partners.

Income tax expense increased $0.8 million in the fourth quarter and $1.9 million year-to-date 2019 as compared to the same periods in 2018.

Current tax expense decreased $1.5 million in the fourth quarter and $3.7 million full year 2019 primarily due to income in foreign tax jurisdictions and related foreign exchange impacts.

Deferred tax expense increased $2.2 million and $5.6 million in fourth quarter and year-to-date 2019 respectively. Deferred tax assets are being recognized based on management's estimate that it is more likely than not that Clearwater will earn sufficient taxable profit to utilize these losses.

## Earnings (loss) attributable to shareholders

Earnings attributable to shareholders increased $30.0 million and $58.0 million in fourth quarter and full year date 2019 respectively, as compared to the same periods in 2018. Increase is largely due to higher gross margin of $4.9 million and $15.4 million for fourth quarter and full year 2019 respectively, and higher changes in unrealized gains on derivative financial instruments of $19.8 million and $31.2 million reflecting changes in forward foreign change contracts, relative to the forward rate.

## Earnings (loss) attributable to non-controlling interest

Non-controlling interest relates to minority share of earnings from Clearwater's majority investments in a shrimp/turbot joint venture and subsidiaries in Argentina and Newfoundland and Labrador.

The decrease in earnings attributable to non-controlling interest in fourth quarter and full year 2019 of $0.3 million and $1.3 million respectively was primarily due to competitive market conditions for FAS shrimp and certain sizes of scallops.

It is important to note that the earnings attributable to non-controlling interest relates to the portion of Clearwater's partnerships owned by other parties. Income taxes are included in earnings attributable to shareholders for Clearwater's share of partnership earnings, whereas the earnings attributable to non-controlling interest are not tax affected as the income is taxed in the hands of the non-controlling interest partners.

## Adjusted earnings attributable to shareholders

To assist readers in understanding our earnings we have included a calculation of adjusted earnings with Non-IFRS Measures, Definitions and Reconciliations. Management believes that in addition to earnings and cash provided by operating activities, adjusted earnings is a useful supplemental measure from which to determine Clearwater's earnings from operations and ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Adjusted earnings attributable to shareholders[1] increased $3.6 million and $4.9 million in the fourth quarter and full year 2019, as compared to the same periods in 2018, as a result of higher gross margin partially offset by realized foreign exchange losses on working capital year-to-date.

Refer to the section entitled "*Non-IFRS measures, definitions and reconciliations*" for the definition of adjusted earnings and a reconciliation of adjusted earnings to net earnings.

## CAPITAL STRUCTURE AND LIQUIDITY

Clearwater's overall approach is to have a cost-effective capital structure that supports growth, while maintaining flexibility, reducing interest rate risk and reducing foreign exchange risk by borrowing in currencies other than the Canadian dollar, when appropriate.

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

The following are key elements of our capital strategy:

- Maintain sufficient liquidity to enable continued access to capital to finance operations, including investments in innovation and technology and to fund growth;
- Target a long-term leverage ratio of 3.0x;
- Limit potential foreign exchange volatility in cash flows; and
- Generate strong cash flows from operations to fund scheduled loan payments, capital expenditures and distributions to non-controlling interest and to provide for sufficient free cash flow to fund growth-investments and pay a sustainable dividend to its shareholders.

Management continuously evaluates its capital structure in light of these policies and strategies.

## Capital structure

Clearwater's capital structure includes a combination of equity and various types of debt facilities. Clearwater uses leverage, in particular USD senior unsecured notes, revolving and term debt to lower its cost of capital.

The amount of debt available to Clearwater under certain lending facilities is a function of adjusted EBITDA[1] attributable to shareholders. Adjusted EBITDA can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

Clearwater's capital structure was as follows as at December 31, 2019 and December 31, 2018:

| In 000's of Canadian dollars | | **2019** | | 2018 |
|---|---|---|---|---|
| **Equity** | | | | |
| Share capital | **$** | **216,986** | $ | 215,506 |
| Contributed surplus | | **4,164** | | 4,218 |
| Deficit | | **(10,155)** | | (38,848) |
| Accumulated other comprehensive income (loss) | | **(40,213)** | | (36,053) |
| | | **170,782** | | 144,823 |
| Non-controlling interest | | **16,668** | | 18,397 |
| Total Equity | | **187,450** | | 163,220 |
| **Long-term debt** | | | | |
| Senior debt, non-amortizing | | | | |
| USD senior unsecured notes, due 2025[1] | | **319,059** | | 333,955 |
| Revolving debt, due in 2022[2] | | **66,183** | | 58,019 |
| Term loan, due in 2019 | | **-** | | 13,637 |
| Term loan, due in 2091 | | **3,500** | | 3,500 |
| | | **388,742** | | 409,111 |
| Senior debt, amortizing | | | | |
| Term Loan B, due 2022[3] | | **33,879** | | 34,177 |
| Other loans | | **57** | | 112 |
| | | **33,936** | | 34,289 |
| Lease liabilities[4] | | **6,680** | | - |
| Deferred obligation[5] | | **8,471** | | 16,504 |
| Earnout liability[5] | | **2,431** | | 3,513 |
| Total long-term debt | | **440,260** | | 463,417 |
| **Total capital** | **$** | **627,710** | $ | 626,637 |

*1. USD senior unsecured notes with a US dollar coupon rate of 6.875% are net of unamortized deferred financing charges of $5.6 million.*

*2. The revolving debt is net of unamortized deferred financing charges of $1.5 million. As of December 31, 2019, subject to financial covenants, Clearwater may borrow up to an additional CDN $126 million on the undrawn facility.*

*3. Term Loan B is net of unamortized deferred financing charges of $0.2 million.*

*4. Lease liabilities were recognized upon adoption of IFRS 16, effective January 1, 2019 and represents the present value of remaining lease payments discounted using the Company's weighted average incremental borrowing rate.*

*5. The Deferred Obligation and Earnout Liability relate to the acquisition of Macduff in 2015.*

**Equity**

In 2019, Clearwater issued 69,426 common shares under its share-based compensation plans.

Clearwater reserved 2.5 million common shares (December 31, 2019 - 2.4 million remaining) for issuance under the share-based compensation plans and 3.0 million (December 31, 2019 - 1.9 million remaining) under the dividend reinvestment plan.

There are 65,128,253 shares outstanding as of December 31, 2019 (December 31, 2018 - 64,841,993).

**Long-term debt**

As at December 31, 2019 long-term debt includes:

- USD $250 million senior unsecured notes, due 2025 with a US dollar coupon rate of 6.875% ("the USD Notes"). Forward foreign exchange contracts are in place to hedge approximately 80% of the notional value of the USD Notes at an average rate of 1.2844 and approximately 80% of the coupon payments at an average rate of 1.2826 through to 2022. Clearwater has applied hedge accounting to these forward foreign exchange contracts that hedge coupon payments;

- Senior secured credit facilities consisting of a CDN $200 million revolving credit facility and a CDN $35 million amortizing secured term loan, each maturing in 2022 (the "Senior Secured Credit Facilities"). The Senior Secured Credit Facilities bear interest ranging from banker's acceptance rate ("BA rate") or LIBOR plus 1.50% to 2.25% for the revolving credit facility and BA rate plus 2.50% to 3.25% for the secured term loan. The range is determined quarterly based on a ratio of Senior Secured indebtedness to EBITDA, with EBITDA calculated on a trailing twelve-month basis. The revolver and Term Loan B are secured by a first charge on cash and cash equivalents, accounts receivable, inventory, marine vessels, licences and quotas, and Clearwater's investments in certain subsidiaries;

- A term loan maturing in 2091 with recourse limited to the asset financed; and

- Lease liabilities: effective January 1, 2019, the Company is required to present all lease arrangements on the statement of financial position. As a result, lease liabilities of $6.7 million have been recognized equal to the present value of remaining lease payments discounted at the incremental borrowing rate. Clearwater currently leases office space, machinery, wharves, equipment and vehicles.

Also included in Clearwater's long-term debt is deferred consideration related to the acquisition of Macduff in 2015 comprised of a deferred obligation and an earnout liability.

- The Deferred Obligation consists of deferred payments for 33.75% of the shares of Macduff acquired by Clearwater (the "Earn Out Shares") in 2015. The principal outstanding balance as at December 31, 2019 is £5.2 million (CDN $9.0 million) (December 31, 2018 - £10.5 million (CDN $18.3 million)) and does not bear interest. The Deferred Obligation is recorded at the discounted amount based on estimated timing of payment and is being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 7.44%. On October 30$^{th}$ of each year, the holders of the Earn Out Shares can elect to be paid up to 20% of the original Deferred Obligation amount. Beginning in 2017, Clearwater had the right to exercise the payout of 20% of the Deferred Obligation annually.

- The holders of the Earn Out Shares elected to be paid 20% of the Deferred Obligation in 2016 through 2019 resulting in payments of £5.2 million each year.

- The Earnout liability is unsecured additional consideration to be paid dependent upon the financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment. The estimated fair value of the Earnout liability at December 31, 2019 is £1.5 million (CDN - $2.4 million) (December 31, 2018 - £2.0 million, CDN - $3.5 million). The Earnout liability is recorded at fair value on the consolidated statement of financial position. See the consolidated financial statements for terms and valuation of the Earnout liability.

On February 14, 2020, Clearwater amended the revolving credit facility agreement to extend the maturity date from May 2020 to November 2024.

Excluding deferred consideration and the related earnout liability, Clearwater has effectively fixed the interest rate on 75% percent of its debt as at December 31, 2019.

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

## Liquidity

### Capital Requirements

Clearwater's business experiences a predictable seasonal pattern in which sales, margins and adjusted EBITDA are lower in the first half of the year and higher in the second half. Investments in capital expenditures and working capital are typically higher in the first half of the year and lower in the second half. This typically results in lower cash flows, higher debt balances and higher leverage in the first half of the year and higher cash flows, lower debt balances and lower leverage in the second half.

We schedule ongoing capital expenditure programs to maintain the operating capacity of our assets at existing levels, referred to as maintenance capital, which are typically funded by operating cash flows.

### Sources of Liquidity

Our primary sources of liquidity to fund current operations, seasonal operations, seasonal working capital demands, capital expenditures, and other commitments consists of:

- Cash flow from operating activities;
- Cash on deposit; and
- $200 million revolving loan.

As of December 31, 2019, Clearwater had $32.4 million in cash, and $126.0 million available to draw down on its revolving facility.

In 000's of Canadian dollars

| As at December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Cash | $ **32,368** | $ 35,887 | $ 35,514 |
| Availability on revolving credit facility | **125,998** | 90,254 | 55,806 |
| Sources of liquidity | **158,366** | 126,141 | 91,320 |

**Leverage[1]**

Leverage as at December 31, 2019 was 4.1x compared to 4.7x as at December 31, 2018. Leverage improved as adjusted EBITDA attributable to shareholders increased following strong harvesting conditions and favourable sales mix across multiple species, partially offset by competitive market conditions for shrimp. Overall, net debt remained consistent as adjusted EBITDA growth was partially offset by higher receivables due to timing of sales and planned increase in capital expenditures.

In 000's of Canadian dollars

| As at December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Adjusted EBITDA[1] attributable to shareholders | $ **99,245** | $ 88,175 | $ 89,156 |
| Net Debt[2,3,4] (excluding non-controlling interest) | **411,360** | 418,455 | 446,771 |
| Leverage | **4.1x** | 4.7x | 5.0x |

[1] *Refer to discussion on non-IFRS measures, definitions and reconciliations*
[2] *Debt as at December 31, 2017 through December 31, 2019 has been adjusted to include USD $200 million forward foreign exchange contracts at an average contracted rate of 1.2844.*
[3] *Debt is net of unamortized deferred financing charges of $7.2 million (December 31, 2018 - $9.2 million; December 31, 2017 - $10.0 million).*
[4] *Net debt is adjusted for cash attributable to shareholders.*

Clearwater's leverage measure is based on the ratio of adjusted EBITDA attributable to shareholders to its outstanding debt, net of cash balances. Clearwater's longer-term goal is a leverage ratio of 3.0x.

Leverage is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes leverage to be a useful term when discussing liquidity and as a measure frequently analyzed for public companies, Clearwater has calculated the amount to assist readers in this review. Leverage should not be construed as a measure of cash flows.

**Foreign Exchange Management**

Clearwater has a foreign exchange risk management program which limits cash flow volatility arising from foreign currency cash flows. Clearwater currently uses forward contracts to lock in foreign exchange rates for anticipated sales (up to 24 months) and long-term debt related hedges (through to 2022). A reduction in volatility from currency exposures improves earnings predictability.

As of December 31, 2019, Clearwater had forward exchange contracts outstanding:

| Currency | Forecasted transaction | Notional (millions) | Average rate |
|---|---|---|---|
| USD to CDN | Sales | 116.7 | 1.3221 |
| Yen to CDN | Sales | 3,798.1 | 0.0125 |
| Euro to CDN | Sales | 31.9 | 1.5286 |
| Euro to GBP | Sales | 28.0 | 0.8887 |
| CDN to USD | Debt | 234.4 | 1.2841 |

Refer to the section entitled *Risks and Uncertainties*.

## REVIEW OF CASH FLOWS

Clearwater endeavors to generate strong cash flows from operations to fund scheduled loan payments, capital expenditures and distributions to non-controlling interests and to provide sufficient free cash flow to fund growth investments and pay a sustainable dividend to its shareholders.

The following table summarizes information about Clearwater's cash flows:

| In 000's of Canadian dollars | | 13 weeks ended December 31 **2019** | 13 weeks ended December 31 2018 | Year Ended December 31 **2019** | Year Ended December 31 2018 | Year Ended December 31 2017 |
|---|---|---|---|---|---|---|
| Cash from (used in) operating activities | **$** | **64,322** | $ 45,836 | **$ 63,731** | $ 76,487 | $ 58,141 |
| Cash from (used in) financing activities | | **(30,238)** | (32,705) | **(43,235)** | (60,617) | 22,665 |
| Cash from (used in) investing activities | | **(11,406)** | (4,360) | **(23,041)** | (16,701) | (85,516) |
| Free cash flow[1,2] | **$** | **42,564** | $ 32,651 | **$ 17,419** | $ 45,206 | $ (8,428) |
| Supplemental cash flow information | | | | | | |
| Decrease (increase) in inventory | | **42,033** | 33,283 | **(2,837)** | 4,064 | 12,615 |
| (Decrease) increase in accounts payable | | **(12,265)** | (8,949) | **(124)** | (8,252) | 9,369 |
| Decrease (increase) in accounts receivable | | **9,660** | 7,067 | **(7,119)** | 18,574 | (22,043) |
| Decrease (increase) in prepaids | | **1,989** | (2,179) | **2,884** | (3,108) | 188 |
| (Decrease) increase in income tax payable | | **(1,183)** | (7) | **(2,422)** | (5,536) | 2,928 |
| Changes in working capital[3] | **$** | **40,234** | $ 29,215 | $ **(9,618)** | $ 5,742 | $ 3,057 |
| Purchase of property, plant and equipment | | **(11,155)** | (2,638) | **(27,976)** | (19,124) | (85,431) |
| Cash dividends paid on common shares[4] | $ | **(3,151)** | $ (1,849) | $ **(11,904)** | $ (8,299) | $ (12,787) |

*[1] Refer to discussion on non-IFRS measures, definitions and reconciliations.*
*[2] Free cash flow is defined as cash flows from operating activities, less planned capital expenditures (net of debt designated to fund such expenditures), scheduled payments on long-term debt and distributions to non-controlling interests. Discretionary items such as debt refinancing and repayments, changes in the revolving loan and discretionary financing and investing activities are excluded from free cash flow.*
*[3] Decrease (increase) in inventory for 2018 has been restated to reflect the impact of depreciation recorded within inventory to be consistent with the current period. The change in presentation had no impact on cash from operations.*
*[4] Net of the dividend reinvestment plan.*

### Cash flow from Operating Activities

Cash from operations increased $18.5 million in the fourth quarter of 2019 as compared to the same period of 2018 primarily due to EBITDA growth and reduction in inventory costs.

For the year, cash from operations decreased $12.8 million compared to a record high in 2018 as EBITDA growth was offset by an increase in receivables due to the timing of sales, and unfavourable foreign exchange realized on working capital.

### Cash flow from Financing Activities

Cash used in financing activities decreased $2.5 million in the fourth quarter and $17.4 million for full year 2019, respectively, as compared to the same periods of 2018. For full year 2019, drawings on the revolving credit facility, net of repayments of long-term debt, increased $23.9 million primarily due to Adjusted EBITDA growth, offset by timing of working capital and higher capital expenditures. Distributions to non-controlling interests in 2019 were $2.1 million higher compared to 2018.

**Cash Flow from Investing Activities**

Cash used in investing activities increased $7.0 million in the fourth quarter and $6.3 million full year 2019 respectively, as compared to the same periods in 2018. Increased capital expenditures in both the fourth quarter and year-to-date were offset by proceeds from the sale of assets in 2019.

**Free Cash Flow[1]**

Free cash flow for fourth quarter increased $10.0 million and decreased $27.8 million full year 2019 as compared to the same periods of 2018. The increase in the fourth quarter was due higher cash earnings and reduction in inventory costs, partially offset by higher capital expenditures. Investment in working capital, including an increase in receivables related to the timing of sales, contributed to the decrease in free cash flow for the year.

**Changes in working capital**

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

Clearwater manages its inventories through detailed review of supply, production plans and sales forecasts, and through continuous improvements in the integration of its fleet and sales plans. Inventory levels may fluctuate due to harvesting conditions and operations and the seasonal nature of our business. The Company takes advantage of favourable harvesting conditions and availability of supply to maintain profitable margins.

**Purchase of Property Plant and Equipment**

Clearwater manages capital spending within cash from investing activities and free cash flow. Clearwater evaluates investments in property, plant, equipment and licences as either return on investment or maintenance capital and tracks each project accordingly. Significant expenditures that are expected to have a return in excess of the cost of capital are classified as return on investment, and all refits and expenditures that are expected to return less than the average cost of capital are classified as maintenance.

On average, Clearwater expects to invest approximately $20-25 million a year in maintaining its fixed assets with repairs and maintenance capital. In 2019, Clearwater invested $28.0 million (2018 - $19.1 million) in capital projects relating to vessel refits and land-based supply chain infrastructure.

**Dividends**

On March 3, 2020 the Board of Directors approved and declared a dividend of $0.05 per share payable on April 1, 2020 to shareholders of record as of March 18, 2020.

On February 15, 2018 the Board approved a dividend reinvestment plan effective February 23, 2018 to provide shareholders of Clearwater who are resident in Canada with the option to have the cash dividends declared on the common shares of Clearwater reinvested automatically back into additional shares, without the payment of brokerage commissions or service charges.

In making the determination of dividend levels, Clearwater's Board gives consideration to several key principles including:

- expected future earnings;
- free cash flows that should be retained to reinvest in the business;
- the assurance that all obligations can be met with respect to existing loan agreements; and
- the desire to increase the dividend in the future as the business continues to grow and expand.

The Board reviews Clearwater’s dividends on a regular basis to ensure the dividend level remains consistent with Clearwater’s dividend policy.

These dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the favourable tax treatment applicable to such dividends.

**Commitments**

In the normal course of business, Clearwater is obligated to make future payments, including contractual obligations for non-derivative and derivative financial instruments, quotas and other commitments. The table includes undiscounted cash flows of financial liabilities, quotas and other commitments, interest and principal cash flows based on the earliest date on which Clearwater is required to pay.

| December 31, 2019 | Carrying Amount | Total Contractual Cash Flow | 2020 | 2021 | 2022 | 2023 | 2024 | >2025 |
|---|---|---|---|---|---|---|---|---|
| Interest - long-term debt | | $ 148,730 | $ 26,696 | $ 26,680 | $ 23,954 | $ 22,600 | $ 22,600 | $ 26,200 |
| Principal repayments - long-term debt | $ 433,580 | 433,580 | 10,144 | 1,514 | 99,363 | - | - | 322,559 |
| Interest - lease liabilities | | 521 | 183 | 117 | 86 | 62 | 41 | 32 |
| Principal repayments - lease liabilities | 6,680 | 6,680 | 1,367 | 1,235 | 1,065 | 838 | 800 | 1,375 |
| Total long-term debt | 440,260 | 589,511 | 38,390 | 29,546 | 124,468 | 23,500 | 23,441 | 350,166 |
| Trade and other payables | 71,390 | 71,390 | 71,390 | - | - | - | - | - |
| Quota and other | - | 5,789 | 4,090 | 1,009 | 593 | 97 | - | - |
| Capital and maintenance projects | - | 1,412 | 1,412 | - | - | - | - | - |
| Derivative financial instruments - liabilities | 1,258 | 1,258 | 178 | 108 | 972 | - | - | - |
| | $ 512,908 | $ 669,360 | $ 115,460 | $ 30,663 | $ 126,033 | $ 23,597 | $ 23,441 | $ 350,166 |

Included in the above commitments for “quotas and other” are amounts to which Clearwater is committed directly - and indirectly through its partnerships - for various licences and quotas and vessel and equipment commitments. Lease liabilities includes agreements for office, machinery and vehicle leases. These commitments require minimum annual payments in each of the next five years as shown above.

## OUTLOOK

In 2020, Clearwater will continue to leverage our broad portfolio of species, global market reach and strong customer base to drive profitable growth while expanding our sales distribution into new markets and channels. At the same time, innovation in the application of artificial intelligence, machine learning and robotics will help us increase productivity, reduce cost and generate higher margins from our vertically integrated global supply chain.

We will maintain our focus and discipline on improving our key financial performance indicators and executing our strategic priorities. Further reductions in debt and leverage will come from strong cashflow from operations and working capital reductions as we strengthen our balance sheet and set the foundation for future organic growth and acquisitions.

Importantly, Clearwater has, with our First Nations partners, maintained access to the full Arctic Surf Clam quota for 2020. The Landmark agreement signed with our Indigenous partners in 2019 provides 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. Beyond this agreement, Clearwater will continue to advance working relationships with Indigenous partners to the benefit of all parties.

Trade, economic and geo-political uncertainty as well as the more recent impact of the COVID-19 outbreak, will continue to create industry headwinds in 2020. In response, Clearwater has taken, and will continue to pursue timely and carefully considered measures including adjustments to harvest schedules, species portfolio and product mix, pricing, regional and channel distribution, capital allocation, innovation priorities, cost savings and working capital reductions. These measures will generate strong cash flows from operations, reduce debt and leverage, yield a higher return on assets and generate positive long-term returns to shareholders.

The fundamental and powerful undercurrents of a growing worldwide population, shifting consumer tastes towards healthier diets, and the rising purchasing power of middle-class consumers in emerging economies will continue to drive increasing global demand for wild caught seafood. In contrast, the supply of wild seafood is limited and is expected to continue to lag behind growing global demand. This supply-demand imbalance has created a marketplace in which purchasers of seafood are increasingly willing to pay a premium to suppliers that can provide consistent quality and food safety, wide diversity and reliable delivery of premium, wild caught, sustainably harvested seafood.

As a vertically integrated seafood company, Clearwater is well positioned to take advantage of this opportunity with its proprietary licences, advanced and year-round harvesting and delivery capabilities, premium product quality, diversity of species and global sales footprint.

Sustainability, as always, will remain at the forefront of our business as we strive to reduce waste and lower our environmental footprint while making a difference in the workplace, marketplace and in our local communities. When you invest in Clearwater, you are investing in one of the most innovative, global and sustainable seafood companies in the world.

## RISKS AND UNCERTAINTIES

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

For further disclosure of additional risk factors please refer to the Annual Information Form, which is available on SEDAR at www.sedar.com as well as Clearwater's website at www.clearwater.ca.

### Foreign exchange risk

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

The majority of Clearwater's sales are to locations outside Canada and are transacted in currencies other than the Canadian dollar whereas the majority of its expenses are in Canadian dollars. As a result, fluctuations in the foreign exchange rates of these currencies can have a material impact on the financial condition and operating results. In addition, Clearwater has 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 Fishery.  The partners have committed to work together to submit an Expression of Interest in any future DFO process.

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 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.

### 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.

### Contingent Liabilities

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

### Other risks

For further disclosure of additional risk factors please refer to the Annual Information Form filed on SEDAR.

## CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and may require management to make judgments based on underlying estimates and assumptions about future events and their effects. These estimates can include but are not limited to estimates regarding inventory valuation, accounts receivable valuation allowances, estimates of expected useful lives of vessels and plant facilities, and estimates of future cash flows for impairment tests. Underlying estimates and assumptions are based on historical experience and other factors that are believed by management to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating environment changes. Clearwater has considered recent market conditions including changes to its cost of capital in making these estimates. Refer to the notes to the annual financial statements for a complete listing of critical accounting policies and estimates used in the preparation of the consolidated financial statements.

## Disclosure Controls and Internal Controls Over Financial Reporting

The Management of Clearwater, with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") (collectively "Management"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

Based on Management's evaluation, the CEO and the CFO have concluded that DC&P and ICFR were effective as of December 31, 2019.

There have been no changes to controls during the quarter ended December 31, 2019. that have materially affected, or are reasonably likely to materially affect, Clearwater's ICFR.

## Adoption of new and revised standards

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

*IFRS 16 Leases*

Effective January 1, 2019, the Company adopted IFRS 16 which supersedes the previous lease accounting standards IAS 17 – Leases and IFRIC 4 – Determining whether an arrangement contains a lease.

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

The Company has elected to apply the modified retrospective approach on transition. The modified retrospective approach does not require restatement of prior period financial information.

Leases accounted for as finance leases under IAS 17 have been reclassified to right-of-use assets within property, plant and equipment and lease liabilities from other long-term liabilities.

The following is a reconciliation of operating lease commitments as at December 31, 2018 under IAS 17, to the lease liabilities under IFRS 16 on January 1, 2019.

| | | |
|---|---|---|
| Operating lease commitments, as disclosed December 31, 2018 | $ | **10,501** |
| Contracts reassessed upon transition[1] | | **(3,004)** |
| Net lease liability commitments | | **7,497** |
| Discounting | | **(712)** |
| Finance lease liabilities under IAS 17 | | **308** |
| **Lease liabilities as at January 1, 2019** | **$** | **7,093** |

*[1] Contracts reassessed upon transition includes the removal of service contracts or quota agreements and the inclusion of certain renewal options Clearwater is reasonably certain to exercise.*

The lease liability represents the present value of remaining lease payments discounted using the Company's weighted average incremental borrowing rate specific to the currency, term and underlying asset of the agreement.

The associated right-of-use assets were recognized in property, plant and equipment at an amount equal to the lease liability net of previously existing finance leased assets at January 1, 2019, with no impact to retained earnings.

**New accounting standards not yet adopted**

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

*IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors*

On October 31, 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

The application of this amendment is not expected to have a material impact to Clearwater.

*IFRS 3 – Business Combinations*

On October 22, 2018 the IASB issued an amendment to IFRS 3 *Business Combinations* to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

The application of this amendment is not expected to have a material impact to Clearwater.

## Related Party Transactions

Clearwater transacts in the normal course of business with related parties. The details are as follows for the year ended December 31, 2019 and 2018:
Clearwater rents office space to and provides computer support network services to CFFI Ventures Inc. ("CVI"), a related party. The net amount due from CVI in respect of these transactions was $0.1 million (December 31, 2018 – nil). Any amounts outstanding are unsecured and due on demand.

For the year ended December 31, 2019, Clearwater recorded net expense of approximately $0.2 million for providing computer support network services to and receiving goods and services from companies related to CVI (December 31, 2018 - $0.2 million). The transactions are recorded at the exchange amount and the balance due from these companies was $0.2 million as at December 31, 2019 (December 31, 2018 - $0.1 million).

## SUMMARY OF QUARTERLY RESULTS

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

| In 000's of Canadian dollars | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **Fiscal 2019** | | | | |
| Sales | $ 120,082 | $ 153,874 | $ 175,200 | $ 167,085 |
| Adjusted EBITDA[1] | 20,033 | 30,250 | 34,490 | 30,131 |
| Adjusted EBITDA attributable to shareholders[1] | 16,297 | 26,254 | 29,405 | 27,293 |
| Earnings (loss) attributable to shareholders | 8,277 | 8,011 | 7,804 | 17,601 |
| Earnings (loss) per share | 0.13 | 0.12 | 0.12 | 0.27 |
| Diluted earnings (loss) per share | 0.13 | 0.12 | 0.12 | 0.27 |
| Weighted average shares outstanding[2] | 64,842,209 | 65,031,433 | 65,047,676 | 65,077,500 |
| **Fiscal 2018** | | | | |
| Sales | $ 120,072 | $ 148,142 | $ 164,225 | $ 159,807 |
| Adjusted EBITDA[1] | 19,114 | 30,501 | 30,686 | 24,090 |
| Adjusted EBITDA attributable to shareholders[1] | 14,933 | 26,147 | 25,373 | 21,722 |
| Earnings (loss) attributable to shareholders | (13,758) | (923) | 10,818 | (12,340) |
| Earnings (loss) per share | (0.22) | (0.01) | 0.17 | (0.19) |
| Diluted earnings (loss) per share | (0.22) | (0.01) | 0.17 | (0.19) |
| Weighted average shares outstanding[2] | 63,935,153 | 64,154,263 | 64,417,905 | 64,676,360 |
| **Fiscal 2017** | | | | |
| Sales | $ 128,367 | $ 154,302 | $ 163,597 | $ 174,766 |
| Adjusted EBITDA[1] | 19,767 | 27,542 | 32,797 | 28,490 |
| Adjusted EBITDA attributable to shareholders[1] | 15,798 | 23,550 | 26,961 | 22,846 |
| Earnings (loss) attributable to shareholders | 2,172 | 9,489 | 15,054 | (10,956) |
| Earnings (loss) per share | 0.03 | 0.15 | 0.24 | (0.17) |
| Diluted earnings (loss) per share | 0.03 | 0.15 | 0.24 | (0.17) |
| Weighted average shares outstanding | 63,934,698 | 63,934,698 | 63,934,698 | 63,934,698 |

[1] Refer to discussion on non-IFRS measures, definitions and reconciliations
[2] In 2018, Clearwater implemented a Dividend Reinvestment Plan and issued shares under the share-based compensation plans.

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

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

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

## NON- IFRS MEASURES, DEFINITIONS AND RECONCILIATIONS

**Adjusted earnings before interest, tax, depreciation and amortization (“adjusted EBITDA”)**

*Adjusted EBITDA is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net earnings and cash provided by operating activities, adjusted EBITDA is a useful supplemental measure from which to determine Clearwater’s ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends. In addition, as adjusted EBITDA is a measure frequently analyzed for public companies, Clearwater has calculated adjusted EBITDA to assist readers in this review. Adjusted EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as a measure of liquidity, or as a measure of cash flows.*

*Adjusted EBITDA is defined as EBITDA excluding extraordinary, non-operating, non-recurring or non-routine items that are unusual and are deemed to not 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.*

Reconciliation of net earnings (loss) to adjusted EBITDA for the 13 weeks December 31, 2019 and December 31, 2018 and year ended December 31, 2019, December 31, 2018 and December 31, 2017.

| | 13 weeks ended | | Year Ended | | |
|---|---|---|---|---|---|
| | **December 31 2019** | December 31 2018 | **December 31 2019** | December 31 2018 | December 31 2017 |
| Earnings (loss) | $ **19,066** | $ (10,556) | $ **52,843** | $ (3,706) | $ 28,239 |
| Add (deduct): | | | | | |
| Income taxes | **139** | (621) | **3,689** | 1,740 | 7,659 |
| Taxes and depreciation for equity investment | **(175)** | (874) | **1,456** | 476 | 2,112 |
| Depreciation and amortization | **13,299** | 12,479 | **44,622** | 48,843 | 45,252 |
| Interest on long-term debt and bank charges | **7,575** | 7,496 | **30,751** | 30,246 | 29,759 |
| Earnings before interest, taxes, depreciation and amortization | $ **39,904** | $ 7,924 | $ **133,361** | $ 77,599 | $ 113,021 |
| Add (deduct) other items: | | | | | |
| Unrealized foreign exchange and derivative loss (gain) | **(9,037)** | 15,786 | **(22,934)** | 29,052 | (23,136) |
| Fair market value on long-term debt | **292** | 442 | **1,317** | 1,097 | (1,307) |
| Realized foreign exchange loss (gain) on working capital | **(538)** | (660) | **1,782** | (5,512) | 3,547 |
| Restructuring and refinancing costs | **4** | 103 | **146** | 866 | 16,062 |
| Share-based compensation (recovery) expense | **(494)** | 495 | **1,230** | 1,289 | 409 |
| **Adjusted EBITDA** | **$ 30,131** | **$ 24,090** | **$ 114,902** | **$ 104,391** | **$ 108,596** |
| Adjusted EBITDA attributed to: | | | | | |
| Non-controlling interests | $ **2,838** | $ 2,368 | $ **15,657** | $ 16,216 | 19,440 |
| Shareholders of Clearwater | **27,293** | 21,722 | **99,245** | 88,175 | 89,156 |
| | **$ 30,131** | **$ 24,090** | **$ 114,902** | **$ 104,391** | **$ 108,596** |

## Adjusted earnings attributable to shareholders

*To assist readers in estimating our earnings we have included a calculation of adjusted earnings. Management believes that in addition to earnings and cash provided by operating activities, adjusted earnings is a useful supplemental measure from which to determine Clearwater's earnings from operations and ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.*

Reconciliation of net earnings to adjusted earnings for the 13 weeks ended December 31, 2019 and December 31, 2018 and year ended December 31, 2019, December 31, 2018 and December 2017 is as follows:

| | | 13 weeks ended | | Year ended | | |
|---|---|---|---|---|---|---|
| | | **December 31 2019** | December 31 2018 | **December 31 2019** | December 31 2018 | December 31 2017 |
| **Reconciliation of net earnings to adjusted earnings** | | | | | | |
| Earnings (loss) | $ | **19,066** $ | (10,556) $ | **52,843** $ | (3,706) $ | 28,239 |
| Restructuring and refinancing costs | | **4** | 103 | **146** | 866 | 16,059 |
| Share-based compensation cost (recovery) | | **(494)** | 495 | **1,231** | 1,288 | 409 |
| Unrealized foreign exchange and derivative (gain) loss | | **(9,037)** | 15,786 | **(22,934)** | 29,052 | (23,136) |
| Fair value on long-term debt | | **292** | 442 | **1,317** | 1,097 | (1,307) |
| | | **(9,235)** | 16,826 | **(20,240)** | 32,303 | (7,975) |
| **Adjusted earnings** | **$** | **9,831 $** | **6,270 $** | **32,603 $** | **28,597 $** | **20,264** |
| Adjusted earnings attributable to: | | | | | | |
| Non-controlling interests | | **1,448** | 1,480 | **11,886** | 12,766 | 11,574 |
| Shareholders | | **8,383** | 4,790 | **20,717** | 15,831 | 8,690 |
| | $ | **9,831** $ | 6,270 $ | **32,603** $ | 28,597 $ | 20,264 |
| Adjusted earnings per share: | | | | | | |
| Weighted average of shares outstanding | | **65,078** | 64,418 | **65,001** | 64,299 | 63,935 |
| Adjusted earnings per share for shareholders | | **0.13** | 0.07 | **0.32** | 0.25 | 0.14 |
| **Reconciliation of adjusted earnings to adjusted EBITDA** | | | | | | |
| Adjusted earnings | $ | **9,831** $ | 6,270 $ | **32,603** $ | 28,597 $ | 20,264 |
| Add (subtract) | | | | | | |
| Income tax expense | | **139** | (621) | **3,689** | 1,740 | 7,659 |
| Depreciation and amortization | | **13,299** | 12,479 | **44,622** | 48,843 | 45,252 |
| Interest on long-term debt and bank charges | | **7,575** | 7,496 | **30,751** | 30,246 | 29,759 |
| Taxes and depreciation on equity investment | | **(175)** | (874) | **1,456** | 476 | 2,112 |
| Realized foreign exchange on working capital | | **(538)** | (660) | **1,781** | (5,511) | 3,550 |
| | | **20,300** | 17,820 | **82,299** | 75,794 | 88,332 |
| **Adjusted EBITDA[1]** | **$** | **30,131 $** | **24,090 $** | **114,902 $** | **104,391 $** | **108,596** |

## Leverage

*Leverage is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes leverage to be a useful term when discussing liquidity and does monitor and manage leverage. In addition, as leverage is a measure frequently analyzed for public companies, Clearwater has calculated the amount to assist readers in this review. Leverage should not be construed as a measure of liquidity or as a measure of cash flows.*

*Leverage for banking purposes differs from the below calculations as agreements require the exclusion of certain cash from the calculation and EBITDA excludes non-controlling interests and most significant non-cash and non-recurring items. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities.*

The calculation of Leverage and Net debt for the years ended December 31, 2019, December 31, 2018 and December 31, 2017 is as follows:

| In 000's of Canadian dollars<br>As at December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Adjusted EBITDA[1] attributable to shareholders | $ **99,245** | $ 88,175 | $ 89,156 |
| Long-term debt[2] | **440,259** | 463,418 | 473,173 |
| Less: Cash | **(32,368)** | (35,887) | (35,514) |
| Adjust for: | | | |
| Hedging instruments[3] | **(2,847)** | (15,867) | 5,574 |
| Cash attributed to non-controlling interest | **6,316** | 6,791 | 3,538 |
| Net debt | $ **411,360** | $ 418,455 | $ 446,771 |
| Leverage | **4.1x** | 4.7x | 5.0x |

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

2. Debt is net of unamortized deferred financing charges of $7.2 million (December 31, 2018 - $9.2 million; December 31, 2017 - $10.0 million).

3. Debt has been adjusted to include USD $200 million forward foreign exchange contracts at an average contracted rate of 1.2844.

## Free cash flows

*Free cash flow is not a recognized measure under IFRS, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net earnings and cash provided by operating activities, free cash flow is a useful supplemental measure from which to determine Clearwater's ability to generate cash available for debt service, working capital, capital expenditures and distributions. Free cash flow should not be construed as an alternative to net earnings determined in accordance with IFRS, as a measure of liquidity, or as a measure of cash flows.*

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

Reconciliation for the 13 weeks ended December 31, 2019 and December 31, 2018 and years ended December 31, 2019, December 31, 2018 and December 31, 2017 is as follows:

| | 13 weeks ended December 31 | | Year Ended December 31 | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | 2017 |
| **Adjusted EBITDA[1]** | **$ 30,131** | $ 24,090 | **$ 114,902** | $ 104,391 | $ 108,596 |
| **Less:** | | | | | |
| Interest and bank charges | **(7,132)** | (7,061) | **(28,982)** | (28,551) | (28,204) |
| Current income tax expense | **199** | (1,260) | **(2,666)** | (6,318) | (12,376) |
| Other income and expense items | **890** | 852 | **(9,905)** | 1,224 | (12,932) |
| **Operating cash flow before changes in working capital** | **24,088** | 16,621 | **73,349** | 70,746 | 55,084 |
| Changes in working capital[2] | **40,234** | 29,215 | **(9,618)** | 5,741 | 3,057 |
| **Cash flows from operating activities** | **64,322** | 45,836 | **63,731** | 76,487 | 58,141 |
| **Adjustments to selected sources (uses) of cash:** | | | | | |
| Purchase of property, plant, equipment, quota and other assets | **(11,155)** | (2,638) | **(27,976)** | (19,124) | (85,431) |
| Disposal of fixed assets | **-** | - | **2,010** | - | 2,408 |
| Less: Designated borrowings[3] | **-** | - | **-** | 1,106 | 39,206 |
| Scheduled payments on long-term debt[4] | **(8,986)** | (8,992) | **(10,606)** | (10,650) | (11,948) |
| Repayment of finance leases | **(518)** | - | **(1,600)** | - | - |
| Payments on long-term incentive plans | **-** | - | **752** | 1,084 | 1,618 |
| Distribution to non-controlling interests | **(1,242)** | (1,853) | **(13,406)** | (11,353) | (19,154) |
| Dividends received from joint venture | **-** | - | **3,640** | 3,228 | 3,340 |
| Non-routine project costs | **143** | 298 | **874** | 4,428 | 3,392 |
| **Free cash flows[1]** | **$ 42,564** | $ 32,651 | **$ 17,419** | $ 45,206 | $ (8,428) |
| **Reconciliation of change in cash flows for the period** | | | | | |
| Add/(less): | | | | | |
| Other debt borrowings (repayments) of debt, use of cash[3] | **(16,424)** | (20,000) | **(6,355)** | (31,356) | 27,792 |
| Issuance of equity | **102** | 1,381 | **1,095** | 4,548 | - |
| Payments on long-term incentive plans | **-** | - | **(752)** | (1,084) | (1,618) |
| Other investing activities | **(249)** | (1,724) | **(715)** | (805) | (5,832) |
| Other financing activities | **(3,328)** | (2,383) | **(14,211)** | (16,136) | (15,914) |
| Change in cash flows for the period | **$ 22,665** | $ 9,925 | **$ (3,519)** | $ 373 | $ (4,000) |

*[1] Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For the purpose of free cash flow calculations, the amount invested (up to the total amount of the related financing) during the period on these projects is backed out of the calculation of free cash flows regardless of the timing of the related borrowing.*
*[2] Scheduled payments on long-term debt includes payments on Term Loan B, Deferred Obligation, Earnout liability and other loans.*

## Return on Assets

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

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

The calculation of adjusted earnings before interest and taxes to total assets for the years ended December 31, 2019, December 31, 2018 and December 31, 2017 is as follows:

| In (000's) of Canadian dollars | | **December 31 2019** | | December 31 2018 | | December 31 2017 |
|---|---|---|---|---|---|---|
| Adjusted EBITDA[1] | $ | **114,902** | $ | 104,391 | $ $ | 108,596 |
| Depreciation and amortization | | **44,622** | | 48,843 | | 45,428 |
| Adjusted earnings before interest and taxes | | **70,280** | | 55,548 | | 63,168 |
| Average quarterly total assets | $ | **732,551** | $ | 752,007 | $ $ | 775,783 |
| | | **9.6%** | | 7.4% | | 8.1% |

*[1] Refer to discussion on non-IFRS measures, definitions and reconciliations.*

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

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

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

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

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

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

March 3, 2020

| | |
|---|---|
| *Ian Smith* | *Teresa Fortney* |
| *Chief Executive Officer* | *Vice-President, Finance and Chief Financial Officer* |

KPMG LLP
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1959 Upper Water Street, Suite 1500
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# INDEPENDENT AUDITORS' REPORT

To Shareholders of Clearwater Seafoods Incorporated

### *Opinion*

We have audited the consolidated financial statements of Clearwater Seafoods Incorporated (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of earnings (loss) for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

### *Other Information*

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

KPMG

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Douglas Reid.

Halifax, Canada

March 3, 2020

**CLEARWATER SEAFOODS INCORPORATED**

**Consolidated Statements of Financial Position**

*(In thousands of Canadian dollars)*

| As at December 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash | **$** | **32,368** | $ | 35,887 |
| Trade and other receivables (Note 5) | | **89,159** | | 85,244 |
| Inventories (Note 6) | | **72,587** | | 70,115 |
| Income tax receivable (Note 12) | | **760** | | - |
| Prepaids and other | | **5,095** | | 7,357 |
| Derivative financial instruments (Note 7(b)) | | **7,005** | | 1,222 |
| | | **206,974** | | 199,825 |
| Non-current assets | | | | |
| Long-term receivables (Note 8) | | **7,106** | | 4,970 |
| Derivative financial instruments (Note 7(b)) | | **6,028** | | 12,671 |
| Other assets | | **383** | | 147 |
| Property, plant and equipment (Note 9) | | **239,963** | | 246,117 |
| Investment in equity investee (Note 11) | | **8,664** | | 9,382 |
| Deferred tax assets (Note 12(c)) | | **12,805** | | 14,266 |
| Intangible assets (Note 10) | | **187,391** | | 191,422 |
| Goodwill (Note 10) | | **48,185** | | 48,623 |
| | | **510,525** | | 527,598 |
| **TOTAL ASSETS** | **$** | **717,499** | $ | 727,423 |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Trade and other payables | **$** | **71,390** | $ | 70,507 |
| Income taxes payable (Note 12) | | **-** | | 1,661 |
| Current portion of long-term debt (Note 13) | | **11,511** | | 23,269 |
| Derivative financial instruments (Note 7(b)) | | **178** | | 9,966 |
| | | **83,079** | | 105,403 |
| Non-current liabilities | | | | |
| Long-term debt (Note 13) | | **428,749** | | 440,148 |
| Derivative financial instruments (Note 7(b)) | | **1,080** | | 497 |
| Other long-term liabilities | | **649** | | 323 |
| Deferred tax liabilities (Note 12(c)) | | **16,492** | | 17,832 |
| | | **446,970** | | 458,800 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 14) | **$** | **216,986** | $ | 215,506 |
| Contributed surplus | | **4,164** | | 4,218 |
| Retained earnings (deficit) | | **(10,155)** | | (38,848) |
| Accumulated comprehensive loss ("ACL") | | **(40,213)** | | (36,053) |
| | | **170,782** | | 144,823 |
| Non-controlling interest (Note 16) | | **16,668** | | 18,397 |
| | | **187,450** | | 163,220 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$** | **717,499** | $ | 727,423 |

*See the accompanying notes to the consolidated financial statements*

Approved by the Board:

John Risley
*Director*

Colin MacDonald
*Chairman*

**CLEARWATER SEAFOODS INCORPORATED**

**Consolidated Statements of Earnings (Loss)**

*(In thousands of Canadian dollars)*

| Year ended December 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| Sales (Note 15) | $ | **616,244** | $ | 592,246 |
| Cost of goods sold | | **493,991** | | 485,409 |
| Gross margin | | **122,253** | | 106,837 |
| Operating expenses (Note 17) | | | | |
| Administrative and selling costs | | **57,253** | | 53,509 |
| Restructuring costs | | **-** | | 482 |
| Net finance costs (Note 13 (f)) | | **31,880** | | 31,966 |
| (Gains) losses on derivative financial instruments (Note 7 (d)) | | **(16,658)** | | 15,798 |
| Foreign exchange (gains) losses on long-term debt and working capital (Note 7 (e)) | | **(4,453)** | | 9,061 |
| Other (income) expense (Note 18) | | **(3,014)** | | (3,737) |
| Research and development | | **713** | | 1,724 |
| | | **65,721** | | 108,803 |
| Earnings (loss) before income taxes | | **56,532** | | (1,966) |
| Income tax (recovery) expense (Note 12) | | **3,689** | | 1,740 |
| Earnings (loss) for the year | $ | **52,843** | $ | (3,706) |
| Earnings (loss) attributable to: | | | | |
| Non-controlling interest (Note 16) | $ | **11,151** | $ | 12,498 |
| Shareholders of Clearwater | | **41,692** | | (16,204) |
| | $ | **52,843** | $ | (3,706) |
| Basic earnings (loss) per share (Note 20) | $ | 0.64 | $ | (0.25) |
| Diluted earnings (loss) per share (Note 20) | $ | 0.64 | $ | (0.25) |

*See the accompanying notes to the consolidated financial statements*

**CLEARWATER SEAFOODS INCORPORATED**

## Consolidated Statements of Comprehensive Income (Loss)

*(In thousands of Canadian dollars)*

| Year ended December 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| Earnings (loss) for the year | **$** | **52,843** | $ | (3,706) |
| Comprehensive income (loss) | | | | |
| Items that may be reclassified subsequently to income (loss): | | | | |
| Foreign currency translation differences of foreign operations | | **(2,605)** | | 312 |
| Cash flow hedges - effective portion of change in fair value, net of tax | | **(1,723)** | | 3,377 |
| Cash flow hedges - reclassified to earnings (loss), net of tax | | **94** | | (169) |
| | | **(4,234)** | | 3,520 |
| Comprehensive income (loss) for the year | **$** | **48,609** | $ | (186) |
| Comprehensive income (loss) attributable to: | | | | |
| Non-controlling interest (Note 16) | **$** | **11,077** | $ | 12,250 |
| Shareholders of Clearwater | | **37,532** | | (12,436) |
| | **$** | **48,609** | $ | (186) |

*See the accompanying notes to the consolidated financial statements*

**CLEARWATER SEAFOODS INCORPORATED**

**Consolidated Statements of Changes in Equity**

| | | | Accumulated Comprehensive Income (Loss) | | | | |
|---|---|---|---|---|---|---|---|
| (In thousands of Canadian dollars) | Common shares | Contributed surplus | Cash flow hedge | Cumulative translation adjustment | Retained earnings (deficit) | Non-controlling interest | Total |
| Balance at January 1, 2018 | $ 210,860 | $ 3,021 | $ (1,189) | $ (38,541) | $ (8,722) | $ 17,109 | $ 182,538 |
| **Comprehensive (loss) income for the year** | - | - | 3,208 | 560 | (16,204) | 12,250 | (186) |
| **Transactions recorded directly in equity** | | | | | | | |
| Share-based compensation (Note 21) | 98 | 1,197 | - | - | - | - | 1,295 |
| Distributions to non-controlling interest | - | - | - | - | - | (10,816) | (10,816) |
| Dividends declared on common shares (Note 14) | | - | - | - | (12,847) | - | (12,847) |
| Common shares issued under DRIP | 4,548 | | | | | | 4,548 |
| Acquisition of non-controlling interest (Note 16) | | | - | (91) | (1,075) | (146) | (1,312) |
| Total transactions with owners | 4,646 | 1,197 | - | (91) | (13,922) | (10,962) | (19,132) |
| Balance at December 31, 2018 | $ 215,506 | $ 4,218 | $ 2,019 | $ (38,072) | $ (38,848) | $ 18,397 | $ 163,220 |
| **Comprehensive income (loss) for the year** | **-** | **-** | **(1,629)** | **(2,531)** | **41,692** | **11,077** | **48,609** |
| **Transactions recorded directly in equity** | | | | | | | |
| Share-based compensation (Note 21) | **385** | **(54)** | **-** | **-** | **-** | **-** | **331** |
| Distributions to non-controlling interest | **-** | **-** | **-** | **-** | **-** | **(12,806)** | **(12,806)** |
| Dividends declared on common shares (Note 14) | **-** | **-** | **-** | **-** | **(12,999)** | **-** | **(12,999)** |
| Common shares issued under DRIP | **1,095** | **-** | **-** | **-** | **-** | **-** | **1,095** |
| Total transactions with owners | **1,480** | **(54)** | **-** | **-** | **(12,999)** | **(12,806)** | **(24,379)** |
| Balance at December 31, 2019 | **$ 216,986** | **$ 4,164** | **$ 390** | **$ (40,603)** | **$ (10,155)** | **$ 16,668** | **$ 187,450** |

*See the accompanying notes to the consolidated financial statements*

**CLEARWATER SEAFOODS INCORPORATED**

**Consolidated Statements of Cash Flows**

*(In thousands of Canadian dollars)*

| Year ended December 31 | | 2019 | | 2018 (Restated, Note 27) |
|---|---|---|---|---|
| Operating | | | | |
| Earnings (loss) for the year | **$** | **52,843** | $ | (3,706) |
| Adjustments for: | | | | |
| Depreciation and amortization | | **44,622** | | 48,826 |
| Accretion on long-term debt (Note 13 (f)) | | **1,129** | | 1,720 |
| Amortization of deferred financing costs (Note 13 (f)) | | **1,769** | | 1,695 |
| Net changes in unrealized foreign exchange (gains) losses on financial assets and liabilities | | **(26,392)** | | 30,558 |
| Deferred tax expense (recovery) (Note 12) | | **1,023** | | (4,578) |
| Share-based compensation | | **1,230** | | 1,283 |
| (Gain) loss on disposal of property, plant, and equipment and other assets | | **467** | | (254) |
| (Earnings) loss from equity investee (Note 11) | | **(2,922)** | | (2,923) |
| Foreign exchange and other | | **(420)** | | (1,876) |
| Cash from operating activities before changes in working capital | | **73,349** | | 70,745 |
| Change in non-cash operating working capital (Note 26) | | **(9,618)** | | 5,742 |
| **Cash from (used in) operating activities** | **$** | **63,731** | $ | 76,487 |
| Financing | | | | |
| Repayment of long-term debt (Note 13) | | **(23,854)** | | (10,652) |
| Net proceeds (repayment of) from revolving credit facility | | **6,892** | | (30,248) |
| Repayment of lease liabilities | | **(1,599)** | | - |
| Distributions paid to non-controlling interest | | **(13,406)** | | (11,353) |
| Repayments from (advances to) minority partners | | **636** | | (65) |
| Dividends paid on common shares, net of dividends reinvested | | **(11,904)** | | (8,299) |
| **Cash from (used in) financing activities** | **$** | **(43,235)** | $ | (60,617) |
| Investing | | | | |
| Purchase of property, plant and equipment | | **(27,976)** | | (19,124) |
| Proceeds on disposal of property, plant and equipment | | **2,010** | | - |
| Dividends received from equity investee (Note 11) | | **3,640** | | 3,228 |
| Acquisition of non-controlling interest (Note 16) | | **-** | | (1,312) |
| Net proceeds from sale (purchase) of other assets | | **(311)** | | 181 |
| Net proceeds (advances) from long term receivables | | **(404)** | | 326 |
| **Cash from (used in) investing activities** | **$** | **(23,041)** | $ | (16,701) |
| Effect of foreign exchange rate changes on cash | **$** | **(974)** | $ | 1,204 |
| **Increase (decrease) in cash** | | **(3,519)** | | 373 |
| **Cash, beginning of period** | | **35,887** | | 35,514 |
| **Cash, end of period** | **$** | **32,368** | $ | 35,887 |
| **Supplemental disclosure of operating cash flows** | | | | |
| Cash interest paid | | **(29,272)** | | (28,817) |
| Cash income taxes paid | | **(5,087)** | | (11,853) |

*See the accompanying notes to the consolidated financial statements*

## 1. DESCRIPTION OF THE BUSINESS

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

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

The consolidated financial statements of Clearwater as at and for the years ended December 31, 2019 and 2018 comprise the Company, its subsidiaries and a joint venture (see Note 23). Clearwater's business includes the ownership and operation of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial statements were authorized for issue by Clearwater's Board of Directors on March 3, 2020.

### (b) Basis of Measurement

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

- Derivative financial instruments
- Earnout liability entered into as part of a business combination
- Liabilities for cash settled share-based compensation arrangements

The fair value measurements have been described in the notes.

### (c) Functional and presentation currency

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

Change in functional currency

On July 1, 2018, Clearwater changed the functional currency of a subsidiary from the Argentinean Peso to the US dollar to reflect that the US dollar has become the predominate currency. Key factors considered in this assessment include the currency in which sales are denominated, the underlying currency in which operating costs are determined and the Company's intra-group funding arrangements. The Company has accounted for the change prospectively in accordance with *IAS 21 The Effects of Changes in Foreign Exchange Rates*.

**(d) Critical judgments and estimates in applying accounting policies**

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

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

i. Income taxes

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

Clearwater makes judgments about whether to recognize the benefit of deferred tax assets. In making this judgment Clearwater continually evaluates the magnitude and duration of any past losses, current profitability and whether it is sustainable, and forecasted earnings.

For further discussion on deferred income taxes refer to Note 12.

ii. Leases

Key sources of estimation uncertainty

Clearwater uses estimation in determining the incremental borrowing rate used to measure the lease liability, specific to the asset, underlying currency and geographic location.

Judgements made in relation to accounting policies applied

Clearwater applies judgement in determining whether the contract contains an identified asset, whether Clearwater has the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create an economic incentive to exercise renewal options.

For further discussion on leases refer to Note 3(d).

iii. Goodwill and intangible assets

Key sources of estimation uncertainty

Clearwater conducts impairment testing on its goodwill and intangible assets annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Clearwater determines the fair value of each cash-generating unit ("CGU") to which goodwill and intangible assets are allocated using the value-in-use method, which estimates fair value using a discounted five-year forecasted cash flow estimate with a terminal value. The determination of the recoverable amount involves estimates and assumptions of future sales, product margins, market conditions, allowable catch rates, and appropriate discount rates.

Judgments made in relation to accounting policies applied

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

For further discussion on goodwill and intangible assets, refer to Note 10.

iv. Share-based compensation

Key sources of estimation uncertainty

Clearwater determines compensation expense for certain share-based compensation using market-based valuation techniques. Clearwater determines the fair value of certain performance-based, non-vested share awards at the date of grant using Black-Scholes valuation model. Certain performance-based share awards require Clearwater to make estimates of the likelihood of achieving internal performance metrics.

Clearwater makes assumptions in applying valuation techniques including estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and corporate performance.

For further discussion on share-based compensation, refer to Note 21.

v. Derivative financial instruments

Key sources of estimation uncertainty

Clearwater records the fair value of certain financial assets and liabilities using valuation techniques where the fair value cannot be observed in active markets.

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

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

vi. Earnout liability

Key sources of estimation uncertainty

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

The inputs used in the fair value model contain inherent uncertainties, estimates and use of judgment. Inputs are taken from observable markets where possible and estimated as necessary. Assumptions include forecasted earnings and probability assessments.

For further discussion on the fair value measurement of the Earnout liability, refer to Note 7(l).

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of consolidation

i) Business Combinations and Goodwill

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

Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized and is tested for impairment annually in the fourth quarter and as required if events occur that indicate that its carrying amount may not be recoverable. Goodwill is tested for impairment at the CGU level by comparing the carrying amount to its recoverable amount.

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

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

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

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

ii) Subsidiaries

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

iii) Joint venture

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

iv) Transactions eliminated on consolidation

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

**(b) Inventories**

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

**(c) Property, plant and equipment**

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

Depreciation on property, plant and equipment commences in the month the assets are available for use. Vessel refits are capitalized when incurred and amortized over the period between scheduled refits. Construction in progress assets are capitalized during the construction period and depreciation commences when the asset is available for use.

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

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

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and changes to estimates are adjusted prospectively.

**(d) Leases**

At the inception of a contract, Clearwater assesses whether a contract is or contains a lease based on whether the contract conveys the right to use an asset for a period of time in exchange for consideration. Contracts identified as leases are recognized as a right-of-use asset within property, plant and equipment and corresponding lease liability within long-term debt on the statement of financial position on the commencement date of the lease.

The right-of-use asset is initially measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made before the commencement date, less any lease incentives received, any initial direct costs and restoration costs expected to be incurred. The right-of-use asset is subsequently amortized on a straight-line basis over the lease-term.

The corresponding lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, Clearwater's incremental borrowing rate. Lease payments include any fixed payments, variable payments that are dependent on an index or a rate in effect at the time of commencement, amounts expected to be paid under residual value guarantees, and the exercise of a purchase option that are reasonably expected to be exercised. The lease liability is subsequently measured at amortized cost using the effective interest method.

Clearwater has elected to apply the following practical expedients in accounting for leases:

i) Separable components

Clearwater has elected not to separate non-lease components from lease components and account for each lease component and associated non-lease component as a single lease component.

ii) Short-term and leases of assets of low-value

For each class of underlying asset, Clearwater has elected to recognize the exemption for leases with a term of 12-months or less. The recognition exemption for leases of assets of low-value has been applied on a lease-by-lease basis and is comprised of office equipment and miscellaneous plant and vessel equipment. Such items are charged to cost of goods sold and operating expenses on a straight-line basis over the term of the agreement as payments are made.

**(e) Intangible Assets**

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

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

i) Licences, brand names, patents and fishing rights

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

Indefinite life intangible assets, including licences, brand names and patents, are not amortized and are tested for impairment annually in the fourth quarter or more frequently if events or changes in circumstances indicate that the asset may be impaired.

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

ii) Computer software

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

**(e) Revenue from contracts with customers**

Clearwater sells seafood in a fresh or frozen state to customers. These sales are evidenced by purchase orders or invoices, which set out the terms of the sale, including pricing and shipping terms. Revenue is recognized when control of the product transfers to the customer.

Control transfers to the customer at the point of delivery, which is dependent on the shipping term. Revenue from the sale of seafood products is recognized based on the price specified in the contract, less any customer discounts. No element of financing is recognized as sales are generally made with normal credit terms ranging from 14 days from delivery to 60 days from the date of invoice.

When customers pay before product is shipped, revenue is not recognized until control transfers to the customer.

Clearwater has elected to apply the practical expedient related to contract costs therefore contract costs with an amortization period of less than one year have been expensed as incurred.

Clearwater may also provide services after control of the product has transferred to the customer, including, freight, storage, customs clearing and cleaning. These services represent separate performance obligations for which revenue is recognized over the time that the service is performed for freight, storage and cleaning and at a point in time for customs clearing, being when the goods have cleared customs. The transaction price is allocated to these services based on an expected cost-plus margin approach.

**(f) Government assistance**

Government assistance received by Clearwater relates to items of property, plant and equipment or research and development expenses.

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

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

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

**(g) Financial instruments**

*Classification*

Clearwater classifies its financial assets and financial liabilities into three categories being subsequently measured at 1) fair value through profit or loss ("FVTPL"); 2) amortized cost; or 3) fair value through other comprehensive income ("FVTOCI"). The classification for financial assets depends on the Company's business model, management of the financial asset and the contractual terms of the cash flows.

Financial assets are classified as amortized cost only if both the following criteria are met:
(1) the financial asset is held within a business model with the objective of collecting the contractual cash flows; and
(2) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Derivatives are classified as FVTPL unless they are designated as hedges. Clearwater has not designated any financial liabilities to be recognized as FVTPL.

Clearwater's financial assets and liabilities have been classified as follows:

| Financial instrument | Classification | Measurement |
|---|---|---|
| Cash | FVTPL | Fair value |
| Trade and other receivables | Amortized cost | Initial: Fair Value Subsequent: Amortized cost |
| Long-term receivables | Amortized cost | |
| Trade and other payables | Amortized cost | |
| Long-term debt | Amortized cost | |
| Earnout liability | FVTPL | Fair value |
| Derivative financial instruments | FVTPL | Fair value |
| Derivative financial instruments (hedge accounting) | FV - hedging instrument | Fair value |

*Measurement*

(1) Financial assets and liabilities at amortized cost or FVTPL

On initial recognition, a financial asset or financial liability carried at amortized cost is measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or liability. Transaction costs of financial assets and liabilities carried at FVTPL are recognized in the Consolidated Statement of Earnings (Loss).

(2) Derivative instruments

Derivatives are initially recognized at fair value and subsequently re-measured to their fair value either through profit or loss or other comprehensive income depending on whether the derivative has been designated as a hedging instrument.

When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in fair value of the derivative is recognized in the Consolidated Statement of Comprehensive Income (Loss) and accumulated within equity. The amount recorded in equity is reclassified to the Consolidated Statement of Earnings (Loss) in the same period during which the hedged item is recognized in the Consolidated Statement of Earnings (Loss).

The ineffective portion of the change in fair value of the derivative is recognized as Net finance costs in the Consolidated Statement of Earnings (Loss).

If the forecasted transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or expired, or Clearwater elects to discontinue hedge accounting for the derivative, then hedge accounting is discontinued prospectively.

If the forecasted transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to the Consolidated Statement of Earnings (Loss). If hedge accounting is discontinued but the forecasted transaction is still expected to occur, the amount accumulated in equity will be reclassified to the Consolidated Statement of Earnings (Loss) at the same time as the original hedged item.

*Derecognition*

From time-to-time, Clearwater enters into transactions to sell accounts receivables to a commercial partner without recourse. The amount of receivables sold are removed from the Consolidated Statement of Financial Position at the time of the sale. The difference between the carrying amount and the proceeds on sale of the receivables is recorded in Net Finance Costs in the Consolidated Statement of Earnings (Loss). Sale of receivables during the year represent less than 5 percent of consolidated sales.

**(h) Impairment**

i) Financial assets

The Company assesses expected credit losses on financial assets carried at amortized cost on a forward-looking basis.

For trade receivables, Clearwater applies the simplified approach which requires lifetime expected credit losses to be recognized from initial recognition of the receivables.

Clearwater considers the probability of default on a specific account basis, which involves assessing whether there was a significant increase in credit risk. Indicators include actual or expected changes in the debtor's ability to pay based on information that is available each reporting period; monitoring past due accounts and other external factors. Refer to Note 7(e) for discussion on credit risk and the provision for impairment losses related to trade receivables.

ii) Non-financial assets

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

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

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

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

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

**(h) Translation of foreign currency**

i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Company and its' subsidiaries at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the Company's functional currency at the exchange rate as at the reporting date.

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

ii) Foreign operations

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

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

**(i) Income taxes**

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

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

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

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

### (j) Borrowing costs

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

### (k) Finance costs

Finance costs comprises interest expense on borrowings, gains and losses on financial instruments related to long-term debt or interest recognized in earnings (loss), accretion on deferred consideration and refinancing and settlement fees. Borrowing costs determined to be period costs or the amortization of such costs are recorded through earnings (loss).

### (l) Share-based compensation

Clearwater has three share-based compensation plans including share appreciation rights (“SARs”), deferred share units (“DSUs”) and performance share units (“PSUs”). Refer to Note 21 for a description of the plans.

In accordance with the PSU plan document, vested units may be settled in cash or common shares or by a combination thereof as determined by the Company. Grants currently issued under the PSU plan are expected to be settled in equity or cash, as predetermined by the Company.

Cash-settled PSU awards are recorded as liabilities at fair market value at each reporting period with changes in fair value recorded to earnings (loss). Equity-settled PSU awards are measured at fair market value on the grant date of the awards. The fair market value is equal to the share price at the grant date where the performance factor is a non-market condition. Compensation expense is recognized based on the fair value of the awards that are expected to vest and remain outstanding at the end of the reporting period. Clearwater estimates the expected forfeiture rate and performance factor for each plan and adjusts for actual forfeitures and adjustments in the period.

The share-based compensation liability related to cash-settled PSU’s is recorded in trade and other payables in the consolidated statement of financial position. The cumulative compensation expense related to the equity-settled PSU’s is recorded as contributed surplus in equity. The related compensation expense for both cash-settled and equity-settled PSU’s is recorded in administrative and selling costs in the consolidated statement of earnings (loss) over the vesting period.

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

### (m) Earnings (loss) per share

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

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

## 4. CHANGES IN ACCOUNTING POLICIES

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

*IFRS 16 Leases*

Effective January 1, 2019, the Company adopted IFRS 16 which supersedes the previous lease accounting standards IAS 17 – Leases and IFRIC 4 – Determining whether an arrangement contains a lease.

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

The Company has elected to apply the modified retrospective approach on transition. The modified retrospective approach does not require restatement of prior period financial information.

Leases accounted for as finance leases under IAS 17 have been reclassified to right-of-use assets within property, plant and equipment and lease liabilities from other long-term liabilities.

The following is a reconciliation of operating lease commitments as at December 31, 2018 under IAS 17, to the lease liabilities under IFRS 16 on January 1, 2019.

| | | |
|---|---|---|
| Operating lease commitments, as disclosed December 31, 2018 | $ | **10,501** |
| Contracts reassessed upon transition[1] | | **(3,004)** |
| Net lease liability commitments | | **7,497** |
| Discounting | | **(712)** |
| Finance lease liabilities under IAS 17 | | **308** |
| **Lease liabilities as at January 1, 2019** | **$** | **7,093** |

*[1] Contracts reassessed upon transition includes the removal of service contracts or quota agreements and the inclusion of certain renewal options Clearwater is reasonably certain to exercise.*

The lease liability represents the present value of remaining lease payments discounted using the Company's weighted average incremental borrowing rate specific to the currency, term and underlying asset of the agreement.

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

The associated right-of-use assets were recognized in property, plant and equipment at an amount equal to the lease liability net of previously existing finance leased assets at January 1, 2019, with no impact to retained earnings.

**New accounting standards not yet adopted**

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

*IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors*

On October 31, 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

The application of this amendment is not expected to have a material impact to Clearwater.

*IFRS 3 – Business Combinations*

On October 22, 2018 the IASB issued an amendment to IFRS 3 *Business Combinations* to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

The application of this amendment is not expected to have a material impact to Clearwater.

## 5. TRADE AND OTHER RECEIVABLES

| As at December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Trade receivables | **$** | **72,177** | $ | 68,952 |
| Other receivables | | **16,982** | | 16,292 |
| | **$** | **89,159** | $ | 85,244 |

Included in other receivables is $13.1 million (December 31, 2018 - $9.3 million) of value added tax and commodity tax receivables and $3.9 million (December 31, 2018 - $7.0 million) of other receivables.

## 6. INVENTORIES

| As at December 31 | | **2019** | | **2018** |
|---|---|---|---|---|
| Seafood inventory | **$** | **62,345** | $ | 60,414 |
| Supplies and other | | **10,242** | | 9,701 |
| | **$** | **72,587** | $ | 70,115 |

In 2019 inventory costs of $470.6 million (2018 - $463.0 million) were recognized in cost of goods sold. Clearwater incurred $2.1 million (2018 - $1.2 million) in inventory write-downs which was recognized in cost of goods sold. For inventories pledged as security for long-term debt, refer to Note 13.

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

## 7. FINANCIAL INSTRUMENTS

Clearwater classifies its financial assets and financial liabilities into three categories being subsequently measured at 1) fair value through profit or loss ("FVTPL"); 2) amortized cost; or 3) fair value through other comprehensive income ("FVTOCI"). The classification for financial assets depends on the Company's business model and management of the financial asset and the contractual terms of the cash flows.

Derivatives are classified as FVTPL unless they are designated as hedges. Clearwater has not designated any non-derivative financial liabilities to be recognized as FVTPL.

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

| December 31, 2019 | FVTPL | FV Hedging | Amortized cost | Total Carrying amount | Fair value |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash | $ 32,368 | $ - | $ - | **$ 32,368** | **$ 32,368** |
| Trade and other receivables | - | - | 89,159 | **89,159** | **89,159** |
| Long-term receivables | - | - | 7,106 | **7,106** | **7,106** |
| Derivative financial instruments | 12,152 | 881 | - | **13,033** | **13,033** |
| | $ 44,520 | $ 881 | $ 96,265 | **$ 141,666** | **$ 141,666** |
| **Liabilities:** | | | | | |
| Trade and other payables[1] | $ - | $ - | $ (71,390) | **$ (71,390)** | **$ (71,390)** |
| Long-term debt[2] | (2,431) | - | (437,829) | **(440,260)** | **(460,741)** |
| Derivative financial instruments | (976) | (282) | - | **(1,258)** | **(1,258)** |
| | $ (3,407) | $ (282) | $ (509,219) | **$ (512,908)** | **$ (533,389)** |

*[1] Trade and other payables includes share-based compensation of $3.4 million which is not recorded at amortized cost.*
*[2] Long-term debt includes lease liabilities of $6.7 million and is recorded at amortized cost.*

| December 31, 2018 | FVTPL | FV Hedging | Amortized cost | Total Carrying amount | Fair value |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash | $ 35,887 | $ - | $ - | **$ 35,887** | **$ 35,887** |
| Trade and other receivables | - | - | 85,244 | **85,244** | **85,244** |
| Long-term receivables | - | - | 4,970 | **4,970** | **4,970** |
| Derivative financial instruments | 10,815 | 3,078 | - | **13,893** | **13,893** |
| | $ 46,702 | $ 3,078 | $ 90,214 | **$ 139,994** | **$ 139,994** |
| **Liabilities:** | | | | | |
| Trade and other payables[1] | $ - | $ - | $ (70,507) | **$ (70,507)** | **$ (70,507)** |
| Long-term debt | (3,513) | - | (459,904) | **(463,417)** | **(450,098)** |
| Derivative financial instruments | (10,463) | - | - | **(10,463)** | **(10,463)** |
| | $ (13,976) | $ - | $ (530,411) | **$ (544,387)** | **$ (531,068)** |

*[1] Trade and other payables includes share-based compensation of $3.5 million which is not recorded at amortized cost.*

Fair value of financial instruments carried at amortized cost:

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

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

The estimated fair value of Clearwater's long-term debt for which carrying value did not approximate fair value at December 31, 2019 was $351.6 million (December 31, 2018 - $354.3 million) and the carrying value was $331.1 million (December 31, 2018 - $367.7 million). The fair value of long-term debt has been classified as Level 2 in the fair value hierarchy (described below) and was estimated based on discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities.

**(a) Fair value hierarchy**

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

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

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

| December 31, 2019 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Recurring measurements** | | | |
| **Financial Assets:** | | | |
| Cash | $ 32,368 | $ - | $ - |
| Derivative financial instruments | - | 13,033 | - |
| | $ 32,368 | $ 13,033 | $ - |
| **Financial Liabilities:** | | | |
| Derivative financial instruments | - | 1,258 | - |
| Earnout liability | - | - | 2,431 |
| | $ - | $ 1,258 | $ 2,431 |

| December 31, 2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Recurring measurements** | | | |
| **Financial Assets:** | | | |
| Cash | $ 35,887 | $ - | $ - |
| Derivative financial instruments | | 13,893 | |
| | $ 35,887 | $ 13,893 | $ - |
| **Financial Liabilities:** | | | |
| Derivative financial instruments | - | 10,463 | - |
| Earnout liability | - | - | 3,513 |
| | $ - | $ 10,463 | $ 3,513 |

There were no transfers between levels during the periods ended December 31, 2019 and December 31, 2018.

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

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

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

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

**(b) Derivative financial instruments**

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

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

Clearwater has forward contracts maturing each month until June 2021 and forward contracts related to the USD Notes maturing May 2022 (Note 13). At December 31, 2019 Clearwater had outstanding forward contracts as follows:

| Currency | Foreign currency notional amount (in 000's) | Average contract exchange rate | Weighted average months to maturity | | Fair value asset (liability) |
|---|---|---|---|---|---|
| **Contracts in a current asset position** | | | | | |
| *Derivatives designated as hedging instruments* | | | | | |
| USD | 6,875 | 1.243 | 7 | $ | 376 |
| *Derivatives not designated as hedging instruments* | | | | | |
| Euro | 27,783 | 1.531 | 6 | | 1,630 |
| USD | 102,041 | 1.322 | 5 | | 2,399 |
| Yen | 2,713,650 | 0.0124 | 6 | | 962 |
| Euro - GBP | 23,073 | 0.893 | 6 | | 1,638 |
| | | | | $ | 7,005 |
| **Contracts in a non-current asset position** | | | | | |
| *Derivatives designated as hedging instruments* | | | | | |
| USD | 10,313 | 1.250 | 22 | $ | 505 |
| *Derivatives not designated as hedging instruments* | | | | | |
| Euro | 4,100 | 1.512 | 15 | | 59 |
| USD | 114,640 | 1.263 | 26 | | 4,889 |
| Yen | 1,056,400 | 0.0127 | 17 | | 432 |
| Euro - GBP | 2,850 | 0.888 | 15 | | 143 |
| | | | | | 6,028 |
| **Total contracts in an asset position** | | | | $ | 13,033 |
| **Contracts in a current liability position** | | | | | |
| *Derivatives designated as hedging instruments* | | | | | |
| USD | 6,875 | 1.321 | 7 | $ | (152) |
| *Derivatives not designated as hedging instruments* | | | | | |
| Yen | 28,000 | 0.0117 | 2 | | (8) |
| Euro - GBP | 1,480 | 0.846 | 8 | | (18) |
| | | | | $ | (178) |
| **Contracts in a non-current liability position** | | | | | |
| *Derivatives designated as hedging instruments* | | | | | |
| USD | 10,313 | 1.315 | 22 | $ | (130) |
| *Derivatives not designated as hedging instruments* | | | | | |
| USD | 100,000 | 1.314 | 28 | | (942) |
| Euro - GBP | 620 | 0.853 | 16 | | (8) |
| | | | | | (1,080) |
| **Total contracts in a liability position** | | | | $ | (1,258) |

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

At December 31, 2018, Clearwater had outstanding forward contracts as follows:

| Currency | Foreign currency notional amount (in 000's) | Average contract exchange rate | Weighted average months to maturity | | Fair value asset (liability) |
|---|---|---|---|---|---|
| **Contracts in a current asset position** | | | | | |
| *Derivatives designated as hedging instruments* | | | | | |
| **USD** | 13,750 | 1.284 | 7 | $ | 1,003 |
| *Derivatives not designated as hedging instruments* | | | | | |
| **Euro** | 8,950 | 1.594 | 5 | | 126 |
| **Euro - GBP** | 13,540 | 0.911 | 8 | | 93 |
| | | | | $ | 1,222 |
| **Contracts in a non-current asset position** | | | | | |
| *Derivatives designated as hedging instruments* | | | | | |
| **USD** | 34,375 | 1.283 | 28 | $ | 2,075 |
| *Derivatives not designated as hedging instruments* | | | | | |
| **USD** | 200,000 | 1.284 | 40 | | 10,584 |
| **Euro - GBP** | 2,120 | 0.918 | 15 | | 12 |
| | | | | | 12,671 |
| **Total contracts in an asset position** | | | | $ | 13,893 |
| **Contracts in a current liability position** | | | | | |
| *Derivatives not designated as hedging instruments* | | | | | |
| **Euro** | 24,060 | 1.550 | 6 | | (770) |
| **USD** | 121,723 | 1.298 | 6 | | (7,204) |
| **Yen** | 2,928,300 | 0.0120 | 6 | | (1,631) |
| **Euro - GBP** | 14,890 | 0.889 | 5 | | (361) |
| | | | | $ | (9,966) |
| **Contracts in a non-current liability position** | | | | | |
| *Derivatives not designated as hedging instruments* | | | | | |
| **Euro** | 5,620 | 1.574 | 15 | | (207) |
| **Yen** | 396,400 | 0.0121 | 14 | | (242) |
| **Euro - GBP** | 1,870 | 0.900 | 15 | | (48) |
| | | | | | (497) |
| **Total contracts in a liability position** | | | | **$** | (10,463) |

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

### (c) Gains (losses) on derivatives designated as hedging instruments

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

The following table summarizes amounts recognized in the Consolidated Statements of Comprehensive Income (Loss), the amounts reclassified from Accumulated Comprehensive Income (Loss) ("ACL") within equity and the amount recorded in the Consolidated Statements of Earnings (Loss):

| | | Gain (loss) recognized in ACL | | (Gain) loss reclassified from ACL to Net Finance Costs | | Ineffectiveness recognized in Net Finance Costs | |
|---|---|---|---|---|---|---|---|
| | | Year ended | | Year ended | | Year ended | |
| Derivatives in cash flow hedging relationship | | **December 31 2019** | December 31 2018 | **December 31 2019** | December 31 2018 | **December 31 2019** | December 31 2018 |
| Forward foreign exchange contracts | | **(2,479)** | 4,859 | **135** | (243) | - | - |
| Income tax recovery (expense) | | **756** | (1,482) | **(41)** | 74 | - | - |
| Net gain (loss) | $ | **(1,723)** | 3,377 | **94** | (169) | - | - |

### (d) (Gains) losses on derivative financial instruments

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Realized (gain) loss | | | | |
| Forward foreign exchange contracts | $ | **39** | $ | 1,321 |
| Changes in unrealized gains & losses | | | | |
| Forward foreign exchange contracts | | **(16,697)** | | 14,477 |
| | $ | **(16,658)** | $ | 15,798 |

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

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Realized (gain) loss | | | | |
| Long-term debt and working capital | $ | **1,782** | $ | (5,514) |
| Changes in unrealized gains & losses | | | | |
| Long term debt and working capital | | **(13,184)** | | 30,798 |
| Forward foreign exchange contracts, cross currency swaps and cap on long-term debt | | **6,949** | | (16,223) |
| Total changes in unrealized (gains) losses | | **(6,235)** | | 14,575 |
| | $ | **(4,453)** | $ | 9,061 |

### (f) Foreign currency exchange rate risk

Foreign currency exchange rate risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. Approximately 90% (2018 - 91%) of Clearwater's sales are in currencies other than Canadian dollars, whereas the majority of expenses are in Canadian dollars. As a result, fluctuations in foreign exchange rates may have a material impact on Clearwater's financial condition and operating results. In addition, Clearwater has subsidiaries that operate in the offshore scallop fishery in Argentina and Scotland which exposes Clearwater to changes in the value of the Argentine Peso, USD and GBP.

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

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, Yen and GBP) thereby lowering the potential volatility in cash flows through derivative contracts.

On April 26, 2017, Clearwater completed an offering of USD $250 million senior unsecured notes, due 2025 with a US dollar coupon rate of 6.875% (“the Notes”). Clearwater entered into forward foreign exchange contracts to hedge approximately 80% of the notional value of the Notes at an average rate of 1.2844 and approximately 80% of the coupon payments at an average rate of 1.2826 through to 2022.

The carrying amounts of Clearwater’s foreign currency denominated monetary assets and monetary liabilities (excluding derivative financial instruments) as at December 31, 2019 and December 31, 2018 were as follows (presented in Canadian dollars):

| As at December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Cash | **$** | **21,509** | $ | 28,392 |
| Trade receivables | | **66,855** | | 58,583 |
| Other receivables | | **13,505** | | 16,442 |
| Long-term receivables | | **4,608** | | 3,151 |
| Trade and other payables | | **(22,847)** | | (24,982) |
| Long-term debt | | **(356,000)** | | (367,593) |
| Other long-term liabilities | | **(649)** | | (308) |
| Net exposure to foreign currency monetary items | **$** | **(273,019)** | $ | (286,315) |

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

The components of this net exposure by currency are as follows (in foreign currency '000's) at December 31, 2019:

| **December 31, 2019** | **GBP** | **USD** | **Yen** | **Euros** | **RMB** | **DKK** | **Argentine Peso** |
|---|---|---|---|---|---|---|---|
| **Cash** | **4,942** | **3,567** | **271** | **79** | **1,349** | **41,001** | **119** |
| **Trade receivables** | **3,855** | **16,129** | **476,237** | **22,342** | **-** | **5,753** | **-** |
| **Other receivables** | **(285)** | **1,072** | **-** | **7,981** | **-** | **2,197** | **25,771** |
| **Long term receivables** | **2,705** | **(40)** | **-** | **-** | **-** | **-** | **-** |
| **Trade and other payables** | **(6,292)** | **(4,602)** | **(11,989)** | **(1,237)** | **(2,076)** | **(1,637)** | **(155,709)** |
| **Long-term debt** | **(21,241)** | **(246,011)** | **-** | **40** | **-** | **-** | **-** |
| **Other long-term liabilities** | **-** | **(500)** | **-** | **-** | **-** | **-** | **-** |
| **Net exposure to foreign currency monetary items** | **(16,316)** | **(230,385)** | **464,519** | **29,205** | **(727)** | **47,314** | **(129,819)** |

The components of this net exposure by currency are as follows (in foreign currency '000's) at December 31, 2018:

| December 31, 2018 | GBP | USD | Yen | Euros | RMB | DKK | Argentine Peso |
|---|---|---|---|---|---|---|---|
| Cash | 8,018 | 3,442 | 1,169 | 425 | 1,508 | 41,805 | 267 |
| Trade receivables | 2,302 | 10,555 | 446,079 | 21,003 | - | 7,500 | 316 |
| Other receivables | 1,861 | 1,070 | - | 6,501 | - | 2,516 | 28,190 |
| Long term receivables | 1,400 | (40) | - | - | - | - | 21,266 |
| Trade and other payables | (7,680) | (6,525) | (13,531) | (582) | 6,272 | (719) | (75,455) |
| Long-term debt | (11,470) | (254,965) | - | 40 | - | - | - |
| Other long-term liabilities | (177) | - | - | - | - | - | - |
| Net exposure to foreign currency monetary items | (5,746) | (246,463) | 433,717 | 27,387 | 7,780 | 51,102 | (25,416) |

The following table details Clearwater's sensitivity to a 10% change in the exchange rates against the Canadian dollar. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency exchange rates. The change below is calculated based on the net exposure to foreign currency monetary items.

| (In '000 of Canadian dollars) | **2019** | **2018** |
|---|---|---|
| GBP | **(2,810)** | (1,000) |
| USD | **(29,918)** | (33,610) |
| Yen | **557** | 540 |
| Euros | **4,250** | 4,282 |
| RMB | **(14)** | 154 |
| DKK | **922** | 1,070 |
| Argentine Peso | **(282)** | (92) |

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

### (g) Credit risk

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

Clearwater has significant accounts receivable from customers operating in North America, Europe and Asia. Significant portions of Clearwater's customers, from a sales dollar perspective, have been transacting with Clearwater in excess of five years and bad debt losses have been minimal. Clearwater has a policy of using a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk. No single customer of Clearwater represented more than 7% of total sales for the quarter ended December 31, 2019. As a result, Clearwater does not have any significant concentration of credit risk.

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

| As at December 31 | **2019** | 2018 |
|---|---|---|
| 0-30 days | **93.1%** | 93.8% |
| 31-60 days | **6.0%** | 4.6% |
| over 60 days | **0.9%** | 1.6% |
| | **100.0%** | 100.0% |

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $0.2 million (2018 - $ 0.3 million).

Clearwater considers the probability of default on a specific account basis, which involves assessing whether there was a significant increase in credit risk. Indicators include actual or expected changes in the debtor's ability to pay based on information that is available each reporting period; monitoring past due accounts and other external factors. Changes in the allowance for doubtful accounts are summarized in the table below:

| | | **2019** | | 2018 |
|---|---|---|---|---|
| Balance at January 1 | **$** | **265** | $ | 147 |
| Allowance recognized | | **111** | | 120 |
| Amounts recovered | | **(41)** | | (10) |
| Amounts written off as uncollectible | | **(79)** | | - |
| Foreign exchange | | **(9)** | | 8 |
| Balance at December 31 | **$** | **247** | $ | 265 |

### (h) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flow associated with the instrument will fluctuate due to changes in market interest rates. Clearwater's interest rate risk arises from long-term borrowings issued at fixed rates which create fair value interest rate risk. Clearwater's variable rate borrowings create cash flow interest rate risk.

Clearwater's long-term debt is carried at amortized cost.

Clearwater manages its interest rate risk exposure by using a mix of fixed and variable rate debt. In 2017, Clearwater replaced its long-term debt with fixed rate USD Notes and a variable rate Revolving Credit facility and Term Loan B facility (Note 13). As at December 31, 2019, approximately 75% (2018 – 76%) of Clearwater's debt of $440.3 million (2018 - $463.4 million) was fixed rate debt with a weighted average interest rate of 6.3% (2018 – 6.3%). A one-percent change in interest rates for variable rate borrowings would result in a $1.0 million increase (or decrease) in interest expense.

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

### (i) Liquidity risk

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

Clearwater's debt facilities are subject to certain financial and non-financial covenants. Clearwater is in compliance with all covenants associated with its debt facilities as of December 31, 2019.

Clearwater's business experiences a predictable seasonal pattern in which sales and gross margin are lower in the first half of the year and higher in the second half. Investments in capital expenditures and working capital are typically higher in the first half of the year and lower in the second half. This typically results in lower cash flows, higher debt balances and higher leverage and in the first half and vice versa in second half of the year. Management has structured its financing facilities reflecting this pattern and works with its lenders to set financial covenants which consider seasonal liquidity requirements.

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

| December 31, 2019 | Carrying Amount | Total Contractual Cash Flow | 2020 | 2021 | 2022 | 2023 | 2024 | >2025 |
|---|---|---|---|---|---|---|---|---|
| Interest - long-term debt | | $ 148,730 | $ 26,696 | $ 26,680 | $ 23,954 | $ 22,600 | $ 22,600 | $ 26,200 |
| Principal repayments - long-term debt | $ 433,580 | 433,580 | 10,144 | 1,514 | 99,363 | - | - | 322,559 |
| Interest - lease liabilities | | 521 | 183 | 117 | 86 | 62 | 41 | 32 |
| Principal repayments - lease liabilities | 6,680 | 6,680 | 1,367 | 1,235 | 1,065 | 838 | 800 | 1,375 |
| Total long-term debt | 440,260 | 589,511 | 38,390 | 29,546 | 124,468 | 23,500 | 23,441 | 350,166 |
| Trade and other payables | 71,390 | 71,390 | 71,390 | - | - | - | - | - |
| Quota and other | - | 5,789 | 4,090 | 1,009 | 593 | 97 | - | - |
| Capital and maintenance projects | - | 1,412 | 1,412 | - | - | - | - | - |
| Derivative financial instruments - liabilities | 1,258 | 1,258 | 178 | 108 | 972 | - | - | - |
| | $ 512,908 | $ 669,360 | $ 115,460 | $ 30,663 | $ 126,033 | $ 23,597 | $ 23,441 | $ 350,166 |

## 8. LONG-TERM RECEIVABLES

| As at December 31 | **2019** | 2018 |
|---|---|---|
| Advances to fishermen | **$ 7,086** | 4,930 |
| Other | **20** | 40 |
| | **$ 7,106** | $ 4,970 |

Certain advances to fishermen are made for a fixed term, secured by an assignment of catch and are non-interest bearing unless there is no supply for 6 weeks, at which time the loans become repayable in installments and are interest bearing. Other advances to fishermen bear interest at prime plus 1% - 3% (2018 - prime plus 1% - 3%), are due on demand, and are secured by an assignment of catch, marine mortgage on the related vessels, equipment and licences.

Advances to fishermen are presented as non-current as the entire balances are not expected to be repaid in the current year and it is not Clearwater's intention to demand payment unless the terms of the advance agreements are not met. Certain advances to fishermen are denominated in Pounds Sterling (see Note 7 (f)). There is no material expected loss provision on long-term receivables.

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

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Land and land improvements | Building and wharves | Equipment | Vessels and vessel equipment | Construction in progress | Total PPE | Deferred Gov't Assistance | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at January 1, 2019 | $ 2,874 | $ 71,746 | $ 101,691 | $ 382,300 | $ 8,872 | $ 567,483 | $ (10,122) | $ 557,361 |
| Additions[2] | - | 1,891 | 1,079 | 5,066 | 21,547 | 29,583 | - | 29,583 |
| Disposals | - | (413) | (147) | (18,554) | (183) | (19,297) | - | (19,297) |
| Reclassifications and other adjustments | 18 | 5,730 | 3,801 | 11,912 | (21,486) | (25) | - | (25) |
| IFRS 16 Transition Adjustment[1] | - | 5,615 | 455 | 765 | - | 6,835 | - | 6,835 |
| Effect of movements in exchange rates | - | (43) | (197) | (1,038) | (150) | (1,428) | - | (1,428) |
| Balance at December 31, 2019 | $ 2,892 | $ 84,526 | $ 106,682 | $ 380,451 | $ 8,600 | $ 583,151 | $ (10,122) | $ 573,029 |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| Balance at January 1, 2019 | $ 1,054 | $ 54,410 | $ 72,065 | $ 192,595 | $ - | $ 320,124 | $ (8,880) | $ 311,244 |
| Depreciation for the year[3] | 18 | 3,703 | 7,108 | 30,662 | - | 41,491 | (233) | 41,258 |
| Disposals | - | (63) | (159) | (17,765) | - | (17,987) | - | (17,987) |
| Reclassifications and other adjustments | 18 | 59 | (56) | (924) | - | (903) | - | (903) |
| Effect of movements in exchange rates | - | (26) | (101) | (407) | - | (534) | (12) | (546) |
| Balance at December 31, 2019 | $ 1,090 | $ 58,083 | $ 78,857 | $ 204,161 | $ - | $ 342,191 | $ (9,125) | $ 333,066 |
| | | | | | | | | |
| **Carrying amounts** | | | | | | | | |
| At December 31, 2018 | $ 1,820 | $ 17,336 | $ 29,626 | $ 189,705 | $ 8,872 | $ 247,359 | $ (1,242) | $ 246,117 |
| At December 31, 2019[4] | $ 1,802 | $ 26,443 | $ 27,825 | $ 176,290 | $ 8,600 | $ 240,960 | $ (997) | $ 239,963 |

[1] Upon transition to IFRS 16, the Company recognized right-of-use assets representing the present value of the remaining lease payments of leases previously classified as operating leases.

[2] Included in additions is right-of-use asset additions relating to Building and wharves ($0.5 million), Equipment ($0.9 million) and Vessels and vessel equipment ($0.2 million).

[3] Included in depreciation for the year is depreciation of right-of-use assets of $1.5 million.

[4] Included in the carrying amounts is right-of-use assets relating to Buildings and wharves ($4.8 million), Equipment ($1.0 million) and Vessels and vessel equipment ($0.7 million).

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

| | Land and land improvements | Building and wharves | Equipment | Vessels and vessel equipment | Construction in progress | Total PPE | Deferred Gov't Assistance | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at January 1, 2018 | $ 2,877 | $ 69,212 | $ 87,878 | $ 312,449 | $ 85,875 | $ 558,291 | $ (10,122) | $ 548,169 |
| Additions | - | - | 12 | - | 19,112 | 19,124 | - | 19,124 |
| Disposals | - | (369) | (899) | (4,381) | - | (5,649) | - | (5,649) |
| Reclassification and other adjustments | - | 3,035 | 14,112 | 78,912 | (96,190) | (131) | - | (131) |
| Effect of movements in exchange rates | (3) | (132) | 588 | (4,680) | 75 | (4,152) | - | (4,152) |
| Balance at December 31, 2018 | $ 2,874 | $ 71,746 | $ 101,691 | $ 382,300 | $ 8,872 | $ 567,483 | $ (10,122) | $ 557,361 |
| **Accumulated depreciation** | | | | | | | | |
| Balance at January 1, 2018 | $ 1,035 | $ 52,223 | $ 65,543 | $ 165,902 | $ - | $ 284,703 | $ (8,605) | $ 276,098 |
| Depreciation for the year | 19 | 2,552 | 6,850 | 32,099 | - | 41,520 | (304) | 41,216 |
| Disposals | - | (369) | (720) | (3,954) | - | (5,043) | - | (5,043) |
| Reclassifications and other adjustments | - | (43) | 45 | - | - | 2 | - | 2 |
| Effect of movements in exchange rates | - | 47 | 347 | (1,452) | - | (1,058) | 29 | (1,029) |
| Balance at December 31, 2018 | $ 1,054 | $ 54,410 | $ 72,065 | $ 192,595 | $ - | $ 320,124 | $ (8,880) | $ 311,244 |
| **Carrying amounts** | | | | | | | | |
| At January 1, 2018 | $ 1,842 | $ 16,989 | $ 22,335 | $ 146,547 | $ 85,875 | $ 273,588 | $ (1,517) | $ 272,071 |
| At December 31, 2018 | $ 1,820 | $ 17,336 | $ 29,626 | $ 189,705 | $ 8,872 | $ 247,359 | $ (1,242) | $ 246,117 |

Total depreciation and amortization expense related to property, plant and equipment and definite-life intangible assets for 2019 was $44.2 million (2018 - $44.9 million). In 2019, $41.4 million (2018 - $46.4 million) of depreciation and amortization expense for assets used in the harvesting and production of goods was included in the cost of inventory and cost of goods sold and $3.2 million (2018 – $2.5 million) was recorded in administrative and selling costs for assets used in administrative activities. For property, plant and equipment pledged as security for long-term debt, refer to Note 13.

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

## 10. INTANGIBLE ASSETS AND GOODWILL

| | | Intangible assets | | | | | |
|---|---|---|---|---|---|---|---|
| | Goodwill | Brand names | Computer software | Indefinite life assets | Fishing rights | Total | Goodwill and intangible asset total |
| **Cost** | | | | | | | |
| Balance at January 1, 2018 | $ 50,196 | $ 10,402 | $ 22,074 | $ 154,453 | $ 25,308 | $ **212,237** | $ **262,433** |
| Additions | **-** | - | - | 119 | - | **119** | **119** |
| Disposals | | | (197) | (596) | - | **(793)** | **(793)** |
| Foreign currency exchange translation | (1,573) | 315 | | 1,777 | (340) | **1,752** | **179** |
| Balance at December 31, 2018 | 48,623 | 10,717 | 21,877 | 155,753 | 24,968 | **213,315** | **261,938** |
| Additions | - | - | - | 13 | - | **13** | **13** |
| Foreign currency exchange translation | (438) | (14) | - | (1,043) | (42) | **(1,099)** | **(1,537)** |
| Balance at December 31, 2019 | $ 48,185 | $ 10,703 | $ 21,877 | $ 154,723 | $ 24,926 | $ **212,229** | $ **260,414** |
| **Accumulated amortization** | | | | | | | |
| Balance at January 1, 2018 | $ - | $ - | $ 5,616 | $ - | $ 12,806 | $ **18,422** | $ **18,422** |
| Amortization | - | - | 3,137 | - | 516 | **3,653** | **3,653** |
| Disposal | | | (107) | - | - | **(107)** | **(107)** |
| Foreign currency exchange translation | - | - | - | - | (75) | **(75)** | **(75)** |
| Balance at December 31, 2018 | - | - | 8,646 | - | 13,247 | **21,893** | **21,893** |
| Amortization | - | - | 2,901 | - | 57 | **2,958** | **2,958** |
| Foreign currency exchange translation | - | - | - | - | (13) | **(13)** | **(13)** |
| Balance at December 31, 2019 | $ - | $ - | $ 11,547 | $ - | $ 13,291 | **24,838** | $ **24,838** |
| **Carrying amounts** | | | | | | | |
| As at December 31, 2018 | $ 48,623 | $ 10,717 | $ 13,231 | $ 155,753 | $ 11,721 | **191,422** | $ **240,045** |
| As at December 31, 2019 | $ 48,185 | $ 10,703 | $ 10,330 | $ 154,723 | $ 11,635 | **187,391** | $ **235,576** |

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

*Indefinite life licences, brand names, patents and goodwill*

Annual impairment testing for each CGU was performed using a value in use approach as at December 31, 2019. The recoverable amount is the higher of the VIU and fair value less cost of disposal. The VIU for all CGU's were determined to be higher than their carrying amounts and therefore no impairments were recorded during 2019.

The value in use was determined by discounting the projected future cash flows generated from operations for the applicable CGU. Unless otherwise indicated in notes i – iii, the assumptions used in the goodwill and indefinite life intangible assets value in use for 2019 were determined similarly to those used in 2018.

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

The carrying value of goodwill and indefinite life intangible assets in Clearwater's significant CGU's are as follows:

| As at December 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| **Scallops** | | | | |
| Indefinite life assets | **$** | **53,383** | $ | 53,541 |
| **MacDuff** | | | | |
| Goodwill | | **42,547** | | 42,985 |
| Indefinite life assets | | **75,681** | | 76,652 |
| Brand names | | **10,703** | | 10,717 |
| **Goodwill** | | | | |
| Goodwill | | **5,638** | | 5,638 |
| Indefinite life assets | | **25,659** | | 25,560 |
| | **$** | **213,611** | $ | 215,093 |

The discounted cash flows used in determining the recoverable amounts were based on the following key assumptions:

i) Cash flows from operations were projected for a period of five years based on a combination of past experience, actual operating results and forecasted earnings. Terminal values and forecasts for future periods were extrapolated using inflation rates of 2% - 2.5% (2018: 2% - 2.5%).

ii) Pre-tax discount rates ranging from 8.5% - 12% (2018: 9% - 13%) were applied in determining the recoverable amount of the CGU's. The discount rates were estimated based upon weighted average cost of capital, and associated risk for the CGU.

iii) Cash flow adjustments for capital expenditures were based upon a management approved capital expenditure forecast, and terminal year capital expenditures were based on required refits over the period of the fishing licence.

The following assumptions were used for each individual CGU:

| | Terminal growth rate | | Pre-tax discount rates | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Argentine scallops | **2.0%** | 2.0% | **12.0%** | 13.0% |
| Clams | **2.0%** | 2.0% | **8.5%** | 9.5% |
| Turbot | **2.0%** | 2.0% | **8.5%** | 9.5% |
| CDN scallops | **2.0%** | 2.0% | **8.5%** | 9.5% |
| FAS shrimp | **2.0%** | 2.0% | **8.5%** | 9.5% |
| Lobster | **2.0%** | 2.0% | **8.5%** | 10.0% |
| MacDuff | **2.5%** | 2.5% | **10.0%** | 11.0% |
| Other | **2.0%** | 2.0% | **8.5%** | 9.0% |

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

*Definite life fishing rights*

Amortization relates to fishing rights. Amortization is allocated to the cost of inventory and is recognized in cost of goods sold as inventory is sold.

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

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

*Computer software*

Computer software relates to an enterprise resource planning system ("ERP") implemented in 2016 and began amortizing on a straight-line basis over 3 - 8 years.

## 11. INVESTMENT IN EQUITY INVESTEE

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

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| **Carrying amount of interest in joint venture** | **$** | **8,664** | $ | 9,382 |
| **Share of:** | | | | |
| Earnings for the year | | **2,922** | | 2,923 |
| Dividends from joint venture | | **3,640** | | 3,228 |

## 12. INCOME TAXES

### (a) Reconciliation of income tax expense

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

A reconciliation of the difference is as follows:

| Year ended December 31 | | **2019** | | **2018** |
|---|---|---|---|---|
| Earnings (loss) before income taxes | $ | **56,532** | $ | (1,966) |
| Combined tax rates | | **30.5%** | | 30.5% |
| Income tax provision at statutory rates | $ | **17,242** | $ | (600) |
| Add (deduct): | | | | |
| Income of partnerships taxed in the hands of the partners | $ | **(2,913)** | $ | (3,618) |
| Permanent differences | | **(2,610)** | | 4,452 |
| Benefit of capital loss not recognized | | **(2,165)** | | 4,099 |
| Recognition of previously unrecognized deferred tax assets | | **(3,454)** | | (2,636) |
| Effect of rate differences | | **(311)** | | (22) |
| Income of foreign subsidiary not subject to tax | | **(1,362)** | | 1,153 |
| Other | | **(738)** | | (1,088) |
| Actual provision | $ | **3,689** | $ | 1,740 |

### (b) Income tax expense

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

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Current income tax expense | $ | **2,666** | $ | 6,318 |
| Deferred tax expense (recovery) | | **1,023** | | (4,578) |
| | $ | **3,689** | $ | 1,740 |

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

### (c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Non-capital loss carry-forwards | **$** | **36,928** | **$** | 20,770 |
| Share issuance costs | | **137** | | 418 |
| Reserve for unpaid share-based compensation | | **764** | | 798 |
| Other | | **1,683** | | 2,371 |
| Deferred tax liabilities: | | | | |
| Licences and intangibles | | **(23,066)** | | (22,422) |
| Unrealized foreign exchange | | **(3,056)** | | (1,215) |
| Property, plant and equipment | | **(15,027)** | | (3,235) |
| Long-term debt | | **(1,597)** | | (1,051) |
| Other | | **(453)** | | - |
| | $ | **(3,687)** | $ | (3,566) |

Classified in the consolidated statement of financial position as:

| | | | | |
|---|---|---|---|---|
| Deferred tax asset | | **12,805** | | 14,266 |
| Deferred tax liability | | **(16,492)** | | (17,832) |
| | $ | **(3,687)** | $ | (3,566) |

The net change in deferred income taxes is reflected in deferred income tax expense of $1.0 million (2018 - $4.6 million recovery), less $0.7 million (2018 – expense $1.4 million) of deferred tax recovery recorded through other comprehensive loss (Note 7 (c)), less the foreign exchange effect of deferred taxes of foreign subsidiaries totaling $0.2 million (2018 – $0.3 million), the effect of which was recorded through foreign exchange.

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

Unrecognized deferred tax assets

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

| | | Clearwater Seafoods Inc. | | Subsidiary Corporations | | Total | Expiry |
|---|---|---|---|---|---|---|---|
| Non-capital losses | $ | - | $ | 6,665 | $ | 6,665 | 2026 - 2037 |
| Investment tax credits | | 14,981 | | 1,023 | | 16,004 | 2023 - 2039 |
| Capital losses | | 49,471 | | 380 | | 49,851 | No expiry |
| Accounts receivable | | - | | 13,534 | | 13,534 | N/A |

Unrecognized deferred tax liabilities

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2019 for the Company's subsidiaries was $98.5 million (December 31, 2018 - $95.3 million).

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

## 13. LONG-TERM DEBT

| As at December 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| Senior debt (a): | | | | |
| USD senior unsecured notes, due May 2025 (USD $250,000) | **$** | **319,059** | $ | 333,955 |
| Term loan B, due May 2022 | | **33,879** | | 34,177 |
| Revolving credit facility, due May 2022 | | **66,183** | | 58,019 |
| Deferred obligation (b) | | **8,471** | | 16,504 |
| Earnout liability (b) | | **2,431** | | 3,513 |
| Term loan, due September 2019 (c) | | **-** | | 13,637 |
| Term loan, due in 2091 (d) | | **3,500** | | 3,500 |
| Lease liabilities (e) | | **6,680** | | - |
| Other loans | | **57** | | 112 |
| Total debt | | **440,260** | | 463,417 |
| Less: current portion [1] | | **(11,511)** | | (23,269) |
| Total long-term debt | **$** | **428,749** | $ | 440,148 |

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

### (a) Senior debt

As at December 31, 2019, Senior debt consists of Senior Notes, a Term Loan B facility and revolving credit facility.

In April 2017 the Company issued USD $250 million of 6.875% Senior Notes due May 2025 (the “Senior Notes”). Concurrent with issuing the Senior Notes, Clearwater entered into new senior secured credit facilities consisting of a revolving credit facility and an amortizing secured term loan (“Term Loan B”), each maturing in 2022 (the “Senior Secured Credit Facilities”).

Financing costs related to the Senior Notes and Senior Secured Credit Facilities of $12.2 million have been deferred and amortized into interest using the effective interest method over the term of the debt.

**Senior Notes**, due 2025 – The USD $250.0 million (CDN $324.7 million) Senior Notes have a coupon rate of 6.875%, with coupon payments payable in semi-annual installments of USD $8.6 million (CDN $11.2 million) in May and November each year. The balance is shown net of unamortized deferred financing charges of USD $4.3 million (CDN $5.6 million) which resulted in an effective interest rate of 7.20%.

Refer to Note 7 for details on forward foreign exchange contracts used to economically hedge a portion of the foreign exchange risk related to the notional and coupon payments for the Senior Notes.

**Term Loan B facility**, due 2022 – The Term Loan B consists of an initial term loan of CDN $35.0 million. The principal outstanding as at December 31, 2019 was CDN $34.1 million. The loan is repayable in quarterly installments totaling $0.35 million per year, with the balance due at maturity in May 2022. The facility bears interest ranging from banker’s acceptance rate (“BA rate”) plus 2.50% to 3.25%. The range is determined quarterly based on a ratio of Senior Secured Indebtedness to EBITDA, with EBITDA calculated on a trailing twelve-month basis. The balance is shown net of deferred financing charges of CDN $0.2 million resulting in an effective interest rate of 4.72%.

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

**Revolving credit facility**, due 2022 – The CDN $200 million revolving credit facility can be drawn in CDN, USD, EUR, YEN or GBP. As at December 31, 2019 the balances were drawn in CDN bearing interest at the BA rate plus 1.50% to 2.25%, and GBP, bearing interest at LIBOR plus 1.50% to 2.25%. The applicable margin is determined quarterly based on a ratio of Senior Secured Indebtedness to EBITDA, with EBITDA calculated on a trailing twelve-month basis. The balance is shown net of deferred financing charges of CDN $1.5 million, resulting in effective rates of 5.24% for CDN balances and 2.17% for GBP balances. Subject to financial covenants, the availability as at December 31, 2019 was approximately CDN $126.0 million. The facility has standby fees ranging from 0.25% to 0.30% based upon the Senior Secured Indebtedness to EBITDA ratio as of the last day of the immediately preceding fiscal quarter.

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

In addition to the minimum principal payments for Term Loan B, the loan agreement requires that between 0% and 50% of excess cash flow (defined in the loan agreement as EBITDA, excluding non-controlling interest in EBITDA less principal debt repayments (excluding revolver payments), less interest expense, less capital expenditures funded through operating cash flows, less certain tax expenses), be used to repay the principal based on the previous fiscal year's results upon approval of the annual consolidated financial statements. No principal repayment was required under this condition in 2018 or 2019.

**(b) Deferred Obligation and Earnout Liability**

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

(i) Deferred obligation

The Deferred Obligation relates to deferred payments for 33.75% of the shares of Macduff acquired by Clearwater (the "Earn Out Shares") in 2015. Excluding the fair value adjustment on acquisition, the principal balance outstanding as at December 31, 2019 is £5.2 million (CDN $9.0 million) (December 31, 2018 - £10.5 million (CDN $18.3 million)) and does not bear interest. The Deferred Obligation is recorded at the discounted amount based on estimated timing of payment and is being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 7.44%.

The following is a reconciliation of the Deferred Obligation:

| | | GBP | | CDN |
|---|---|---|---|---|
| Balance - at acquisition | £ | 20,925 | $ | 42,388 |
| Accretion | | 4,253 | | 7,442 |
| Principal repayments | | (15,693) | | (26,442) |
| Effect of movement in foreign exchange | | - | | (6,884) |
| **Balance - December 31, 2018** | £ | 9,485 | $ | 16,504 |
| Accretion - year ended December 31, 2019 | | **665** | | **1,129** |
| Principal repayment | | **(5,231)** | | **(8,884)** |
| Effect of movement in foreign exchange | | **-** | | **(278)** |
| **Balance - December 31, 2019** | £ | **4,919** | **$** | **8,471** |

On October 30th of each year, the holders of the Earn Out Shares can elect to be paid up to 20% of the original Deferred Obligation amount. Beginning in 2017, Clearwater had the right to exercise the payout of 20% of the Deferred Obligation annually. The percentage of the Deferred Obligation remaining unpaid will impact the fair value of the future performance component of the additional consideration, the Earnout liability.

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

The holders of the Earn Out Shares have elected to be paid 20% of the outstanding Deferred Obligation in October 2016 through 2019. As a result, annual payments of £5.2 million have been made each year.

(ii) Earnout liability

The Earnout liability is unsecured additional consideration to be paid dependent upon the financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The estimated fair value of the Earnout liability at December 31, 2019 is £1.5 million (CDN - $2.4 million) (December 31, 2018 - £2.0 million, CDN - $3.5 million) based on forecast earnings and probability assessments. The actual Earnout payments are being paid over a five-year period ending 2021.

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

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

The Earnout liability is recorded at fair value on the consolidated statement of financial position at each reporting period until paid, with changes in the estimated fair value being recorded as a component of other expense on the Consolidated Statement of Earnings (Loss).

The following is a reconciliation of the Earnout liability:

| | | GBP | | CDN |
|---|---|---|---|---|
| Balance - at acquisition | £ | 6,100 | $ | 12,357 |
| Fair value adjustment | | (2,588) | | (4,464) |
| Payment | | (1,493) | | (2,687) |
| Effect of movement in foreign exchange | | - | | (1,693) |
| **Balance - December 31, 2018** | £ | 2,019 | $ | 3,513 |
| Fair value adjustment | | **108** | | **188** |
| Payment | | **(756)** | | **(1,317)** |
| Effect of movement in foreign exchange | | **-** | | **47** |
| **Balance - December 31, 2019** | £ | **1,371** | **$** | **2,431** |

### (c) Term Loan, due 2019

In September 2019, Clearwater's subsidiary in Argentina repaid the outstanding loan ($10.0 million USD; CDN - $13.2 million) on its maturity date.

### (d) Term Loan, due 2091

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

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

### (e) Lease liabilities

The Company currently leases office space, machinery, wharves, equipment and vehicles. A lease liability has been recognized equal to the present value of remaining lease payments discounted at the interest rate implicit in the lease, or if that rate cannot be readily determined, Clearwater's incremental borrowing rate.

### (f) Net finance costs

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Interest expense on financial liabilities | $ | **28,982** | $ | 28,551 |
| Amortization of deferred financing charges and accretion | | **1,769** | | 1,695 |
| | | **30,751** | | 30,246 |
| Accretion on deferred consideration (Note 13 (b)) | | **1,129** | | 1,720 |
| | | **1,129** | | 1,720 |
| | $ | **31,880** | $ | 31,966 |

## 14. SHARE CAPITAL

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

*Share capital movement:*

| | **2019** | | 2018 | |
|---|---|---|---|---|
| Share capital: | **#** | **$** | # | $ |
| Balance at January 1 | **64,841,993** | **215,506** | 63,934,698 | 210,860 |
| Shares issued under share-based compensation plans | **69,426** | **385** | 21,185 | 98 |
| Shares issued under dividend reinvestment plan | **216,834** | **1,095** | 886,110 | 4,548 |
| Balance at December 31 | **65,128,253** | **216,986** | 64,841,993 | 215,506 |

### Dividend Reinvestment Plan

On February 15, 2018, Clearwater approved a Dividend Reinvestment Plan ("DRIP") effective February 23, 2018 to provide shareholders with the option to have the cash dividends declared on the common shares of Clearwater reinvested automatically back into additional shares. Shares may be either newly issued from treasury or purchased on the open market. Clearwater may from time to time, in its sole discretion, offer a discount of up to 5% of the average market price for shares purchased from treasury. Clearwater will provide a discount of 3% from the average market price for shares purchased under the DRIP until further notice.

Clearwater has 2.5 million common shares (December 31, 2019 – 2.4 million remaining) reserved for issuance under the share-based compensation plans and 3.0 million (December 31, 2019 – 1.9 million remaining) under the DRIP.

During the year ended 2019, dividends of $13.0 million were declared and paid as follows:

| Payment Date | # of Shares Outstanding | Dividends per Share |
|---|---|---|
| April 1, 2019 | 64,841,993 | $ 0.05 |
| June 6, 2019 | 65,026,962 | $ 0.05 |
| September 3, 2019 | 65,043,730 | $ 0.05 |
| December 2, 2019 | 65,058,528 | $ 0.05 |

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

During the year ended 2018, dividends of $12.8 million were declared and paid as follows:

| Payment Date | # of Shares Outstanding | Dividends per Share |
|---|---|---|
| April 2, 2018 | 63,955,169 | $ 0.05 |
| June 1, 2018 | 64,060,448 | $ 0.05 |
| September 4, 2018 | 64,345,020 | $ 0.05 |
| December 3, 2018 | 64,600,116 | $ 0.05 |

Subsequent to the end of the year, on March 3, 2020 the Board of Directors declared a quarterly dividend of $0.05 per share payable on April 1, 2020 to shareholders of record as of March 18, 2020 for a total of approximately $3.3 million (excluding the impact of the DRIP).

## 15. REVENUE

Clearwater recognized the following revenue from customers:

| Year ended December 31 | **2019** | 2018 |
|---|---|---|
| Revenue from contracts with customers | **$ 616,244** | $ 592,246 |

*Disaggregation of revenue from contracts with customers*

Clearwater's revenue from contracts with customers is primarily generated through the sale of seafood product in a fresh or frozen state to customers. Clearwater recognizes revenue on the sale of seafood product at a point-in-time. Clearwater may provide additional services after control of seafood product has transferred to the customer, including freight, storage, customs clearing and cleaning. These services are recognized over time except from customs clearing which is recognized at a point-in-time. These services are each considered separate performance obligations.

The timing of revenue recognition related to seafood product is dependent on shipping terms, in which Clearwater uses International Commercial terms ("Incoterms") as agreed upon with each customer. These internationally recognized shipping terms specify when control of the goods have transferred to the customer and therefore when revenue should be recognized.

Refer to Note 22 for revenue disaggregated by species and region. Refer to Note 5 for trade receivables from contracts with customers.

## 16. NON-CONTROLLING INTEREST

On October 26, 2018, Clearwater acquired an additional 1% interest in its Argentina subsidiary for USD $1 million (CDN $1.3 million) increasing Clearwater's ownership from 85% to 86%.

The carrying value of the subsidiary's net liabilities in the consolidated financial statements on the date of acquisition was $12.3 million, including the cumulative translation adjustment account. The acquisition resulted in a reduction to retained earnings attributable to shareholders of Clearwater of $1.4 million.

| Year ended December 31, 2018 | |
|---|---|
| Carrying amount of net deficit | $ (12,259) |
| Non-controlling interest acquired (deficit) | (119) |
| Consideration paid to non-controlling interest | 1,312 |
| **Decrease in retained earnings attributable to shareholders of Clearwater** | $ 1,431 |

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

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

### (a) Summarized statements of financial position

| | Coldwater shrimp | |
|---|---|---|
| As at December 31 | **2019** | 2018 |
| **NCI Percentage** | **46.34%** | 46.34% |
| Current assets | $ **25,183** | $ 25,258 |
| Current liabilities | **(9,671)** | (10,499) |
| | **15,512** | 14,759 |
| Non-current assets | **8,781** | 14,613 |
| Net assets | **24,293** | 29,372 |
| Accumulated non-controlling interests | **$ 16,431** | $ 18,784 |

| | Argentine Scallops | |
|---|---|---|
| As at December 31 | **2019** | 2018 |
| **NCI Percentage** | **14.0%** | 14.0% |
| Current assets | $ **6,062** | $ 15,255 |
| Current liabilities | **(5,152)** | (17,625) |
| | **910** | (2,370) |
| Non-current assets | **9,340** | 10,112 |
| Non-current liabilities | **(745)** | (88) |
| | **8,595** | 10,024 |
| Net assets | **9,505** | 7,654 |
| Accumulated non-controlling interests | **$ (1,453)** | $ (2,118) |

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

### (b) Summarized statements of earnings

| Year ended December 31 | | **Coldwater shrimp 2019** | | 2018 |
|---|---|---|---|---|
| Sales | **$** | **81,286** | **$** | 82,434 |
| Earnings and comprehensive income for the year | | **22,422** | | 26,281 |
| **Earnings allocated to non-controlling interest** | | **10,390** | | 12,665 |
| **Dividends paid to non-controlling interest** | | **12,744** | | 11,353 |

| Year ended December 31 | | **Argentine Scallops 2019** | | 2018 |
|---|---|---|---|---|
| Sales | **$** | **33,979** | $ | 38,534 |
| Earnings for the year | | **8,268** | | 5,506 |
| Other comprehensive income | | **(473)** | | (1,222) |
| Total comprehensive income | | **7,795** | | 4,284 |
| **Earnings allocated to non-controlling interest** | | **1,572** | | 77 |
| **Dividends paid to non-controlling interest** | | **832** | | - |

### (c) Summarized statements of cash flows

| Year ended December 31 | | **Coldwater shrimp 2019** | | 2018 |
|---|---|---|---|---|
| Cash flow from operating activities | **$** | **27,164** | $ | 35,032 |
| Cash flow used in financing activities | | **(27,500)** | | (24,500) |
| Cash flow used in investing activities | | **-** | | (4,825) |
| Net increase (decrease) in cash | | **(336)** | | 5,707 |

| Year ended December 31 | | **Argentine Scallops 2019** | | 2018 |
|---|---|---|---|---|
| Cash flow from operating activities | **$** | **19,298** | **$** | 8 |
| Cash flow used in financing activities | | **(17,495)** | | - |
| Cash flow used in investing activities | | **(1,810)** | | (12) |
| Net increase (decrease) in cash | | **(7)** | | (4) |

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

## 17. OPERATING EXPENSES

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Salaries and benefits | **$** | **41,836** | $ | 41,308 |
| Share-based incentive compensation | | **1,230** | | 1,289 |
| Employee compensation | | **43,066** | | 42,597 |
| | | | | |
| Consulting and professional fees | | **12,872** | | 12,827 |
| Other | | **5,944** | | 3,559 |
| Selling costs | | **2,563** | | 2,319 |
| Travel | | **2,972** | | 2,770 |
| Occupancy | | **1,312** | | 1,578 |
| Donations | | **894** | | 1,298 |
| Total administrative and selling costs before allocation | | **26,557** | | 24,351 |
| Allocation to cost of goods sold | | **(12,370)** | | (13,439) |
| Total administrative and selling costs | | **57,253** | | 53,509 |
| | | | | |
| Restructuring costs | | **-** | | 482 |
| Operating expenses | **$** | **57,253** | $ | 53,991 |

## 18. OTHER (INCOME) EXPENSE

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Acquisition related costs | **$** | **146** | $ | 384 |
| Share of earnings of equity-accounted investee | | **(2,922)** | | (2,923) |
| Royalties, interest (income) and other fees | | **1,066** | | (745) |
| Other (income) fees | | **(1,492)** | | 170 |
| Fair value adjustment on earn-out liability | | **188** | | (623) |
| Other (income) expense | **$** | **(3,014)** | $ | (3,737) |

## 19. EMPLOYEE COMPENSATION

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

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Salaries and benefits | **$** | **135,795** | $ | 146,105 |
| Share-based compensation | | **1,230** | | 1,289 |
| | **$** | **137,025** | $ | 147,394 |
| | | | | |
| Cost of goods sold | **$** | **102,236** | $ | 113,570 |
| Administrative and selling costs | | **34,789** | | 33,824 |
| | **$** | **137,025** | $ | 147,394 |

## 20. EARNINGS (LOSS) PER SHARE

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

| In thousands except number of shares and per share data | | **2019** | | **2018** |
|---|---|---|---|---|
| Earnings (loss) attributable to shareholders - basic and diluted | **$** | **41,692** | $ | (16,204) |
| | | | | |
| Weighted average number of shares outstanding - basic | | **65,001,415** | | 64,298,784 |
| Adjustment for stock-based compensation plan shares | | **609,145** | | - |
| Weighted average number of shares outstanding - diluted | | **65,610,560** | | 64,298,784 |
| | | | | |
| Earnings (loss) per share | | | | |
| Basic | **$** | **0.64** | $ | (0.25) |
| Diluted | **$** | **0.64** | $ | (0.25) |

Diluted earnings (loss) for the period is calculated based on earnings attributable to the shareholders of Clearwater after the adjustment for any potentially dilutive cash-settled share-based payments. There was no revaluation adjustment related to cash-settled share-based payments for the year ended December 31, 2019.

Diluted weighted average number of shares outstanding are adjusted for the dilutive effect of share-based compensation. For the year ended December 31, 2019, nil (2018 - 123,833) potentially dilutive shares were excluded from the calculation of diluted (loss) earnings per share as they were anti-dilutive.

## 21. SHARE-BASED COMPENSATION

Clearwater's share-based compensation plans are disclosed in Note 3 (l). An aggregate amount of 2.5 million common shares of Clearwater are issuable under the deferred share unit and performance share unit plans.

Clearwater has the following share-based compensation plans:

Share appreciation rights ("SARs")

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

Deferred share units ("DSU")

The deferred share unit plan provides the holder a cash payment equal to the fair market value of Clearwater's common shares on the date of settlement or equity-settlement, as determined by the Company. The DSU plan allows non-employee directors to receive, in the form of deferred share units, all or a percentage of director's fees, which would be otherwise payable in cash. The DSUs vest at the grant date and are payable upon retirement.

Performance share units ("PSU")

Performance share units are issued to employees and prior to 2019, directors also participated in the plan. The performance measure is based on Clearwater's performance relative to specific internal targets.

Vested units will be settled in cash or shares or by a combination thereof as determined by the Company.

The number of share-based awards outstanding and vested as of December 31, 2019 and 2018 were as follows:

| As at December 31, 2019 (in thousands) | Grant price | Number outstanding | Number vested | Grant Date |
|---|---|---|---|---|
| **SARs** | **$ 0.80** | **83** | **83** | **May 2010** |
| | **1.00** | **67** | **67** | **May 2010** |
| **PSU - Tranche 6** | **N/A** | **-** | **-** | **May 2017** |
| **PSU - Tranche 7** | **N/A** | **389** | **-** | **May 2018** |
| **PSU - Tranche 8** | **N/A** | **364** | **-** | **March 2019** |
| **DSU** | **N/A** | **430** | **430** | |
| **Total** | | **1,333** | **580** | |

| As at December 31, 2018 (in thousands) | Grant price | Number outstanding | Number vested | Grant Date |
|---|---|---|---|---|
| SARS | $ 0.80 | 83 | 83 | May 2010 |
| | 1.00 | 67 | 67 | May 2010 |
| PSU - Tranche 5 | N/A | 79 | 79 | April 2016 |
| PSU - Tranche 6 | N/A | 103 | - | May 2017 |
| PSU - Tranche 7 | N/A | 409 | - | May 2018 |
| DSU | N/A | 403 | 403 | June 2012 - December 2018 |
| Total | | 1,144 | 632 | |

The following reconciles the share-based awards outstanding for the year ended December 31, 2019:

| (In thousands of share units) | PSU - Tranche 5 | PSU - Tranche 6 | PSU - Tranche 7 | PSU - Tranche 8 | DSU | SARS | Total |
|---|---|---|---|---|---|---|---|
| **Outstanding at January 1, 2019** | **79** | **103** | **409** | **-** | **403** | **150** | **1,144** |
| **Granted** | **-** | **-** | **-** | **351** | **132** | **-** | **483** |
| **Granted from dividends** | **-** | **4** | **15** | **13** | **14** | **-** | **46** |
| **Forfeited** | **-** | **(95)** | **(11)** | **-** | **-** | **-** | **(106)** |
| **Exercised** | **(79)** | **(12)** | **(24)** | **-** | **(119)** | **-** | **(234)** |
| **Outstanding at December 31, 2019** | **-** | **-** | **389** | **364** | **430** | **150** | **1,333** |
| | | | | | | | |
| **Vested at January 1, 2019** | **79** | **-** | **-** | **-** | **403** | **150** | **632** |
| **Vested** | **-** | **12** | **24** | **-** | **146** | **-** | **182** |
| **Exercised** | **(79)** | **(12)** | **(24)** | **-** | **(119)** | **-** | **(234)** |
| **Vested at December 31, 2019** | **-** | **-** | **-** | **-** | **430** | **150** | **580** |

The following reconciles the number of share-based awards outstanding for the year ended December 31, 2018:

| (In thousands of share units) | PSU - Tranche 4 | PSU - Tranche 5 | PSU - Tranche 6 | PSU - Tranche 7 | DSU | SARS | Total |
|---|---|---|---|---|---|---|---|
| Outstanding at January 1, 2018 | 61 | 85 | 110 | - | 465 | 150 | 871 |
| Granted | - | - | - | 407 | 111 | - | 518 |
| Granted from dividends | - | 3 | 4 | 11 | 12 | - | 30 |
| Exercised | (61) | (9) | (11) | (9) | (185) | - | (275) |
| Outstanding at December 31, 2018 | - | 79 | 103 | 409 | 403 | 150 | 1,144 |
| | | | | | | | |
| Vested at January 1 2018 | 61 | - | - | - | 465 | 150 | 676 |
| Vested | - | 89 | 11 | 9 | 123 | - | 232 |
| Exercised | (61) | (10) | (11) | (9) | (185) | - | (276) |
| Vested at December 31, 2018 | - | 79 | - | - | 403 | 150 | 632 |

The following units were settled in the year ended December 31, 2019:

| **As at December 31, 2019** | **Grant price** | **Number exercised In thousands** | **Exercise date** | **Share price at exercise date** |
|---|---|---|---|---|
| **PSU - Tranche 5** | **N/A** | **79** | **March 2019** | **$5.16** |
| **PSU - Tranche 6** | **N/A** | **12** | **March & August 2019** | **$5.27 & $5.36** |
| **PSU - Tranche 7** | **N/A** | **24** | **March & August 2019** | **$5.27 & $5.36** |
| **Total** | | **115** | | |

These awards were equity and cash settled during 2019. Refer to Note 14 for the number of shares issued after taking into consideration the performance factor as described in Note 3 (l).

The following units were settled in the year ended December 31, 2018:

| As at December 31,2018 | Grant price | Number exercised In thousands | Exercise date | Share price at exercise date |
|---|---|---|---|---|
| PSU - Tranche 4 | N/A | 61 | March 2018 | $4.63 |
| PSU - Tranche 5 | N/A | 9 | June 2018 | $5.04 |
| PSU - Tranche 6 | N/A | 11 | June 2018 | $5.04 |
| PSU - Tranche 7 | N/A | 9 | June 2018 | $5.04 |
| Total | | 90 | | |

These awards were equity settled during 2018. Refer to Note 14 for the number of shares issued after taking into consideration the performance factor as described in Note 3 (l).

***Dividend equivalents***

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

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

### *Fair value of share-based awards*

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

Measurement inputs for the remaining plans include the fair value of Clearwater's shares, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected remaining life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds), as follows:

| | | | | | **2019** |
|---|---|---|---|---|---|
| | | **PSU Tranche 7** | | **PSU Tranche 8** | **DSU** |
| **Weighted average fair value per award** | **$** | **4.95** | **$** | **5.27** | **$ 5.74** |
| **Weighted average risk-free interest rate** | | **N/A** | | **N/A** | **N/A** |
| **Weighted average expected volatility** | | **N/A** | | **N/A** | **N/A** |
| **Expected life of awards (years)** | | **3** | | **3** | **N/A** |

| | | | | | 2018 |
|---|---|---|---|---|---|
| | | PSU Tranche 6 | | PSU Tranche 7 | DSU |
| Weighted average fair value per award | $ | 11.85 | $ | 4.95 | $ 5.89 |
| Weighted average risk-free interest rate | | 1.11% - 2.31% | | N/A | N/A |
| Weighted average expected volatility | | 16.60% - 33.83% | | N/A | N/A |
| Expected life of awards (years) | | 3 | | 3 | N/A |

Share-based compensation expense included in the Consolidated Statements of Earnings (Loss) for the year ended December 31, 2019 is $1.2 million (December 31, 2018 - $1.3 million).

The liability for share-based compensation is $3.4 million at December 31, 2019 (December 31, 2018 - $3.5 million). The vested portion of the liability for share-based compensation is $3.4 million at December 31, 2019 (December 31, 2018 - $3.5 million).

## 22. SEGMENT INFORMATION

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

### (a) Sales by Species

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| Scallops | **$** | **174,240** | $ | 171,373 |
| Clams | | **128,723** | | 120,235 |
| Lobster | | **89,573** | | 88,387 |
| Coldwater shrimp | | **67,411** | | 70,951 |
| Crab | | **52,304** | | 51,656 |
| Langoustine | | **49,886** | | 42,026 |
| Whelk | | **25,249** | | 24,291 |
| Groundfish and other shellfish | | **28,858** | | 23,327 |
| | **$** | **616,244** | $ | 592,246 |

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

### (b) Sales by Geographic Region of the Customer

| Year ended December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| France | **$** | **93,988** | $ | 94,422 |
| Scandinavia | | **24,607** | | 27,381 |
| UK | | **31,497** | | 25,059 |
| Other | | **67,610** | | 58,791 |
| Europe | | **217,702** | | 205,653 |
| China | | **154,875** | | 130,402 |
| Japan | | **59,832** | | 73,325 |
| Other | | **38,112** | | 33,014 |
| Asia | | **252,819** | | 236,741 |
| United States | | **74,778** | | 85,871 |
| Canada | | **70,927** | | 63,892 |
| North America | | **145,705** | | 149,763 |
| Other | | **18** | | 89 |
| | **$** | **616,244** | $ | 592,246 |

### (c) Non-current Assets by Geographic Region

| As at December 31 | | **2019** | | 2018 |
|---|---|---|---|---|
| **Property, plant and equipment, licences, fishing rights and goodwill** | | | | |
| Canada | **$** | **291,813** | $ | 306,565 |
| Argentina | | **10,770** | | 10,844 |
| Scotland | | **171,891** | | 168,653 |
| Other | | **1,065** | | 100 |
| | **$** | **475,539** | $ | 486,162 |

## 23. RELATED PARTY TRANSACTIONS

### (a) Subsidiaries, partnerships, and joint venture

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

| **Entity** | **Ownership %** | **Accounts** |
|---|---|---|
| Adams and Knickle Limited | 50% | Equity method |
| Clearwater Fine Foods (Europe) Limited | 100% | Consolidated |
| Clearwater Fine Foods (USA) Incorporated | 100% | Consolidated |
| Clearwater Ocean Prawns Venture | 53.66% | Consolidated |
| Clearwater Seafoods Holdings Incorporated | 100% | Consolidated |
| Clearwater Seafoods Limited Partnership | 100% | Consolidated |
| Glaciar Pesquera S.A. | 86% | Consolidated |
| Macduff Shellfish Group Limited | 100% | Consolidated |
| St. Anthony Seafoods Limited Partnership | 75% | Consolidated |

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

### (b) Key management personnel

Clearwater has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2019 and 2018.

| Year ended December 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| Wages and salaries | **$** | **3,018** | $ | 2,835 |
| Share-based compensation | | **1,133** | | 966 |
| Other benefits | | **193** | | 198 |
| | **$** | **4,344** | $ | 3,999 |

### (c) Transactions with other related parties

Clearwater rents office space to and provides computer support network services to CFFI Ventures Inc. (“CVI”), a related party. The net amount due from CVI in respect of these transactions was $0.1 million (December 31, 2018 – nil). Any amounts outstanding are unsecured and due on demand.

For the year ended December 31, 2019, Clearwater recorded net expense of approximately $0.2 million for providing computer support network services to and receiving goods and services from companies related to CVI (December 31, 2018 - $0.2 million). The transactions are recorded at the exchange amount and the balance due from these companies was $0.2 million as at December 31, 2019 (December 31, 2018 - $0.1 million).

## 24. CAPITAL MANAGEMENT

Clearwater’s objectives when managing capital are as follows:

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

Clearwater’s capital structure includes a combination of equity and various types of debt facilities. Clearwater’s goal is to have a cost-effective capital structure that supports its growth plans, while maintaining flexibility, reducing interest rate risk and reducing exchange risk by borrowing in currencies other than the Canadian dollar when appropriate.

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

The amount of debt available to Clearwater under its lending facilities is a function of Net Adjusted EBITDA attributable to shareholders, as defined in the credit agreement. Net Adjusted EBITDA attributable to shareholders can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater’s control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

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

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

Clearwater's capital structure was as follows as at December 31, 2019 and December 31, 2018:

| In 000's of Canadian dollars | | **2019** | | 2018 |
|---|---|---|---|---|
| **Equity** | | | | |
| Share capital | **$** | **216,986** | $ | 215,506 |
| Contributed surplus | | **4,164** | | 4,218 |
| Deficit | | **(10,155)** | | (38,848) |
| Accumulated other comprehensive income (loss) | | **(40,213)** | | (36,053) |
| | | **170,782** | | 144,823 |
| Non-controlling interest | | **16,668** | | 18,397 |
| Total Equity | | **187,450** | | 163,220 |
| **Long-term debt** | | | | |
| Senior debt, non-amortizing | | | | |
| USD senior unsecured notes, due 2025[1] | | **319,059** | | 333,955 |
| Revolving debt, due in 2022[2] | | **66,183** | | 58,019 |
| Term loan, due in 2019 | | **-** | | 13,637 |
| Term loan, due in 2091 | | **3,500** | | 3,500 |
| | | **388,742** | | 409,111 |
| Senior debt, amortizing | | | | |
| Term Loan B, due 2022[3] | | **33,879** | | 34,177 |
| Other loans | | **57** | | 112 |
| | | **33,936** | | 34,289 |
| Lease liabilities[4] | | **6,680** | | - |
| Deferred obligation[5] | | **8,471** | | 16,504 |
| Earnout liability[5] | | **2,431** | | 3,513 |
| Total long-term debt | | **440,260** | | 463,417 |
| **Total capital** | **$** | **627,710** | $ | 626,637 |

*1. USD senior unsecured notes with a US dollar coupon rate of 6.875% are net of unamortized deferred financing charges of $5.6 million.*

*2. The revolving debt is net of unamortized deferred financing charges of $1.5 million. As of December 31, 2019, subject to financial covenants, Clearwater may borrow up to an additional CDN $126 million on the undrawn facility.*

*3. Term Loan B is net of unamortized deferred financing charges of $0.2 million.*

*4. Lease liabilities were recognized upon adoption of IFRS 16, effective January 1, 2019 and represents the present value of remaining lease payments discounted using the Company's weighted average incremental borrowing rate.*

*5. The Deferred Obligation and Earnout Liability relate to the acquisition of Macduff in 2015.*

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

## 25. CONTINGENT LIABILITIES

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

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

## 26. ADDITIONAL CASH FLOW INFORMATION

| **Changes in non-cash operating working capital** *(excludes change in accrued interest)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Decrease (increase) in inventory[1] | **$** | **(2,837)** | $ | 4,064 |
| (Decrease) increase in accounts payable | | **(124)** | | (8,252) |
| Decrease (increase) in accounts receivable | | **(7,119)** | | 18,574 |
| Decrease (increase) in prepaids | | **2,884** | | (3,108) |
| (Decrease) increase in income tax payable/receivable | | **(2,422)** | | (5,536) |
| | **$** | **(9,618)** | $ | 5,742 |

[1] (Increase) decrease in inventory for 2018 has been restated to reflect the impact of depreciation recorded within inventory to be consistent with the current period. See note 27.

| **Changes in liabilities arising from financing activities** | | **2019** | | 2018 |
|---|---|---|---|---|
| Current and long-term debt - beginning of period | **$** | **463,417** | $ | 473,173 |
| Scheduled repayments of long-term debt | | **(23,854)** | | (10,652) |
| Repayment of lease liabilities | | **(1,599)** | | - |
| Net proceeds from revolving credit facility, net of financing costs | | **6,892** | | (30,248) |
| Non-cash changes in long-term debt: | | **-** | | - |
| Accretion of deferred obligation | | **1,129** | | 1,720 |
| Fair market value adjustment on earnout liability | | **188** | | (623) |
| Amortization of deferred financing costs | | **1,769** | | 1,695 |
| Foreign exchange (gain) loss on long-term debt | | **(16,020)** | | 28,352 |
| Net additions to lease liabilities | | **1,245** | | - |
| Lease liability transition adjustment[1] | | **7,093** | | - |
| Current and long-term debt - end of period | **$** | **440,260** | $ | 463,417 |

[1] Upon transition to IFRS 16, the Company recognized a lease liability representing the present value of the remaining lease payments and reclassified finance leases previously classified in Other liabilities.

## 27. COMPARATIVE INFORMATION

These Consolidated Financial Statements contain certain reclassifications of prior year amounts to be consistent with the current period presentation. Significant reclassifications are discussed below.

In the Consolidated Statements of Cash Flows, depreciation and amortization recorded to inventory has been reclassified from depreciation and amortization to change in non-cash operating working capital. Adjustments for depreciation and amortization reflect amounts recorded within cost of sales and operating expenses in the period. This change in presentation has no impact on cash from operating activities.

## 28. SUBSEQUENT EVENTS

### New joint venture

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 Seafoods Limited Partnership plant. Closing of the transaction is subject to regulatory approval and customary conditions and is scheduled for March 31, 2020.

### Amendment to revolving credit facility agreement

On February 14, 2020, Clearwater amended the revolving credit facility agreement to extend the maturity date from May 2020 to November 2024.

**Quarterly and share information**
**Clearwater Seafoods Incorporated ($000's except per share amounts)**

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Sales | 167,085 | 175,200 | 153,875 | 120,082 | 159,807 | 164,225 | 148,142 | 120,072 |
| Earnings attributable to: | | | | | | | | |
| Non-controlling interests | 1,467 | 3,850 | 3,328 | 2,506 | 1,784 | 4,440 | 2,715 | 3,559 |
| Shareholders of Clearwater | 17,601 | 7,803 | 8,011 | 8,277 | (12,341) | 10,819 | (924) | (13,758) |
| | 19,068 | 11,653 | 11,340 | 10,783 | (10,558) | 15,259 | 1,792 | (10,199) |
| Per share data | | | | | | | | |
| Basic net earnings (loss) | 0.27 | 0.12 | 0.12 | 0.13 | (0.19) | 0.17 | (0.01) | (0.22) |
| Diluted net earnings (loss) | 0.27 | 0.12 | 0.12 | 0.13 | (0.19) | 0.17 | (0.01) | (0.22) |
| Adjusted earnings (loss) | 0.13 | 0.11 | 0.09 | (0.02) | 0.07 | 0.06 | 0.11 | 0.01 |

**Trading information, Clearwater Seafoods Incorporated, symbol CLR**

| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
|---|---|---|---|---|---|---|---|---|
| Trading price range of shares (board lots) | | | | | | | | |
| High | 5.89 | 6.17 | 5.44 | 5.75 | 5.89 | 6.17 | 5.44 | 5.75 |
| Low | 4.68 | 4.94 | 4.53 | 4.80 | 4.68 | 4.94 | 4.53 | 4.80 |
| Close | 5.79 | 5.62 | 5.15 | 4.93 | 5.79 | 5.62 | 5.15 | 4.93 |
| Trading volumes (000's) | | | | | | | | |
| Total | 4,484 | 1,649 | 1,087 | 1,561 | 4,484 | 1,649 | 1,087 | 1,561 |
| Average daily | 67 | 27 | 17 | 25 | 67 | 27 | 17 | 25 |
| Shares outstanding at end of quarter | 65,128,253 | 65,058,528 | 65,043,730 | 64,861,233 | 64,841,993 | 64,600,116 | 64,345,020 | 63,955,169 |

## Selected Annual Information

| | 2019 (Audited) | 2018 (Audited) | 2017 (Audited) | 2016 (Audited) | 2015 (Audited) |
|---|---|---|---|---|---|
| Sales | $ 616,244 | $ 592,246 | $ 621,031 | $ 611,551 | $ 504,945 |
| Costs of goods sold | 493,991 | 485,409 | 510,963 | 466,930 | 372,757 |
| Gross margin | 122,253 | 106,837 | 110,068 | 144,621 | 132,188 |
| Operating expenses | | | | | |
| Administrative and selling | 50,397 | 53,005 | 59,257 | 56,609 | 51,289 |
| Restructuring | 6,856 | 986 | 3,150 | 1,883 | 74 |
| Net finance costs | 31,880 | 31,967 | (7,576) | (5,209) | 444 |
| Foreign exchange (gains) losses on long-term debt and working capital | (4,453) | 9,062 | | | |
| (Gains) losses on forward contracts | (16,658) | 15,798 | 2,368 | 2,922 | 1,981 |
| Other income | (3,014) | (3,739) | - | - | - |
| Research and development | 713 | 1,724 | - | - | - |
| Gain on change of control of joint venture | - | - | 74,171 | 68,579 | 148,472 |
| Earnings before income taxes | 56,532 | (1,966) | (21,303) | 19,837 | (70,072) |
| Income taxes expense (recovery) | 3,689 | (3,706) | 28,238 | 59,596 | (20,671) |
| Earnings before non-controlling interest | 52,843 | (3,706) | 28,238 | 59,596 | (20,671) |
| Non-controlling interest | 11,151 | 12,498 | 12,480 | 15,668 | 16,937 |
| Earnings attributable to shareholders | $ 41,692 | $ (16,204) | $ 15,759 | $ 43,928 | $ (37,608) |

# CORPORATE INFORMATION

**HEAD OFFICE OF CLEARWATER SEAFOODS INCORPOROATED**

757 Bedford Highway
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902-443-0550

**DIRECTORS**

**Colin E. MacDonald, Chairman of the Board**

**Jane Craighead, Chair of Human Resources Development and Compensation Committee**
Retired Senior Vice-President, Scotiabank

**Jim Dickson, Lead Independent Director**
Former Counsel, Stewart McKelvey

**Mickey MacDonald**
President, Micco Companies

**Vicki McKibbon, Chair of Corporate Governance Committee**
President of Transportation, Amour Transportation Systems Inc.

**Brendan Paddick**
Chief Executive Officer, Columbus Capital Corporation

**John Risley**
Chairman and CEO, CFFI Ventures Inc.

**Karl Smith, Chair of Audit Committee**
Former Chief Financial Officer and Executive Vice-President, Fortis Inc.

**Stan Spavold, Chair of Finance Committee**
President, CFFI Ventures Inc.

**EXECUTIVES**

**Ian Smith**
Chief Executive Officer

**Teresa Fortney**
Vice-President, Finance and Chief Financial Officer

**Christine Penney**
Vice-President, Sustainability & Public Affairs

**Dieter Gautschi**
Vice-President, Global Human Resources

**Tony Jabbour**
Vice-President, Fleet Operations

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**SHARES LISTED**
**Toronto Stock Exchange**
SHARE Symbol: CLR

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