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BAFFIN FISHERIES



*Pangnirtung office
building under
construction in
September 2016*

Building for the Future

Annual Report 2016-17

Submitted to the Nunavut Wildlife Management Board

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I. Executive Summary

A. Background

Baffin Fisheries (*BF, BFC, or Baffin Fisheries Coalition*) is the leading commercial fishing enterprise in Nunavut. It is 100% Inuit owned and managed, with four 100% Inuit-owned fishing vessels (two factory freezer trawlers and two factory freezer gillnetters). The Company is owned by five Hunters and Trappers Associations (HTAs) in the Baffin region and has offices in Iqaluit and St. John's, a new office building in Pangnirtung, a minority share in Pangnirtung Fisheries Ltd., and a new office building under construction in Pond Inlet. BFC harvests wild, sustainable, cold water shrimp and turbot from the cold ocean waters adjacent to Nunavut, and markets its premium, flash frozen turbot and shrimp, and cooked and frozen shrimp, around the world.

Increased Inuit Control

Baffin Fisheries achieved the goal of 100% fleet ownership and Inuit control in late 2015 and in 2016 commenced a plan to maximize benefits to Nunavut by generating economic activity in Nunavut communities improving safety and working conditions; increasing the number of Nunavummiut onboard vessels and in administrative and management positions; increasing fishing capacity; supporting the development of an inshore fishery; vertically integrating the Company to include vessel management, sales & marketing, and training support, and ; .

In 2016 the Company focused on improving Inuit engagement, governance and management of the Company, and returning a greater percentage of profits to Nunavut. The Company doubled the number of Inuit directors from five to ten, created an executive team of three Inuit beneficiaries and began recruiting a team of Inuit recruitment personnel devoted to increasing the number of Inuit working on board our vessels. The Company also increased the number of employees to eliminate consultant profit-taking and bring into the company the knowledge required to run a successful international fisheries enterprise.

B. Nunavut Benefits Plan

The Baffin Fisheries Nunavut Benefits Plan is a strategic initiative to achieve the following goals:

1. Improve the Baffin Fisheries work experience, and increase the number of Nunavummiut employed, both onshore and offshore, by Baffin Fisheries and its subsidiary companies
2. Improve corporate performance
3. Increase economic activity in Baffin Fisheries HTO communities, and explore opportunities to increase economic activity throughout the Qikiqtaaluk Region
4. Ensure sustainability.

1. Work Experience and Employment

Improved work experience and employment at Baffin Fisheries involves three key initiatives: improving safety, increasing recruitment effort, and increasing compensation.

Safety

In 2016, new programs were developed for Health and Safety, Drugs and Alcohol, and Fit for Work. New orientation programs were also introduced for all seafaring employees. The Company is taking a strategic, long term approach to ensure its vessels are safe and secure for all employees. We are proud of the new approach to safety on our vessels, and believe it will result in a safer workplace. Our goal is zero accidents or injuries in the workplace.

Recruitment

Baffin Fisheries has taken a long-term, strategic approach to increasing the number of Nunavummiut on vessels, and in onshore positions. While past approaches produced results, and training programs are in place, more work is required to significantly increase the number of Nunavummiut on board vessels in all positions.

The first step was to create greater awareness of the opportunities. BFC hired new recruitment staff in the communities, reaching out to young Nunavummiut to inform them of opportunities for employment, a good lifestyle, and significant income.

To hire Recruitment Officers and new personnel in other HTO communities in the Qikiqtaaluk Region, Baffin Fisheries required office space for employees to work from. So as part of this strategy, new offices are being built in BFC's HTO communities. For further details on Nunavut infrastructure development, see sections on Corporate Performance and Major Investments, below.

BFC's sees significant Nunavut employment growth opportunities through this approach.

Compensation

Mariners and fishermen are typically paid a percentage of the final settlement on the sale of fish. As a result, seafood pricing, efficiency of fishing operations, and quality of the final product all play a role in final Compensation. Baffin Fisheries works closely with captains and crew to ensure that seafood product value is maximized, both for the benefit of the Company and crew.

In 2016 Baffin Fisheries made a decision to pay its crew members a higher percentage of total revenue than the industry average, and one of the highest percentages anywhere in the fishing industry. Higher salaries have a negative impact on profit, but play an important role in the delivery of benefits. Baffin Fisheries will continue to review its share payments to fishers and mariners, and is committed to paying a fair, above-average wage to its seafaring crew.

2. Corporate Performance

Corporate performance impacts the corporate mandate of delivering benefits to Nunavummiut in three principle ways:

1. Increased profitability increases the Company's ability to make direct payments to Nunavut community HTOs
2. Increased investment in the communities and in other business opportunities allows the Company to create jobs and develop self-sufficient economic activity

3. Investment in assets, knowledge, and efficiency improves the sustainability of the Company, ensuring Baffin Fisheries will remain a strong corporate entity for generations to come.

Baffin Fisheries aims to strike a balance between delivering cash payments, developing economic opportunities, and investing in the Company.

Every year the Company provides \$1.2 million in direct payments to its five owner communities. These payments allow the communities to share directly in the benefits of the adjacent resource and are used to support the activities of hunters and fishers, ensure availability of country food, and support employment in the communities.

3. Economic activity in Baffin Fisheries HTO communities

Since gaining 100% Inuit ownership and control in 2015, Baffin Fisheries turned its focus to investments in infrastructure and people in Nunavut. The Board of Directors instructed the management team to create a model for community develop which could lead to economic independence for the HTOs. The plan included consultation, respecting the needs and requirements of HTOs, and delivery of tangible results.

In the first project associated with this initiative, Baffin Fisheries built a new, 3,000 square foot office building in Pangnirtung in 2016 to provide office space for HTO members, Baffin Fisheries employees, and recruiters. The building is also intended to help provide rental income to the HTO to support economic self-sufficiency.

In 2016-17, Baffin Fisheries is building a new office building in Pond Inlet; helping the HTO build a new community freezer, and; supporting the development of a new commercial inshore turbot fishing industry to create employment and revenue. In addition to supporting the development and delivery of a new 1,200 square foot community freezer and processing area, Baffin Fisheries is helping provide ice fishing equipment, and is exploring opportunities for acquiring an inshore fishing vessel.

Baffin Fisheries is in the process of consulting with other HTOs to identify their priorities and determine how it can help them gain economic independence.

4. Economic Sustainability

BFC's goal is to be an industry leader in delivering economic benefits by leveraging the revenues and assets from offshore commercial fishing activity to make strategic investments in Inuit communities. It starts with ensuring Inuit have ownership and control of all fishing assets, and manage operations from a Nunavut perspective. It is based on long-term thinking and planning that ensure benefits will last for generations to come.

In 2015 BFC acquired a new vessel, and completed the acquisition of the outstanding 49% shares in the Inuksuk I. Sole ownership of vessels, and elimination of management contracts, are consistent with the goal of strengthening economic sustainability and transitioning the company away from southern partnerships related to the Nunavut allocations. This will also increase the direct benefits achieved through the harvests, as profits will no longer be shared with a southern company.

Subsequent to the March 31 fiscal year-end, BFC signed a Letter of Intent to construct a new fishing trawler in partnership with the Havyard Group in Norway. This new vessel will reduce the risk of mechanical breakdowns, such as those that occurred in 2015-16, and increase the profitability of BFC through the harvesting of additional turbot and shrimp quotas. A modern new vessel would further improve working conditions, ensure the harvesting of all quota allocations, and serve as a flagship for the Nunavut fishing industry.

RESOURCE STEWARDSHIP

Environmental and resource stewardship is essential for the future of the fishing industry. In 2016 Baffin Fisheries invested \$312,000 in research related to more environmentally sound fishing practices, Eastern Arctic Marine Multi-species Surveys, and other issues through its participation in Nunavut Offshore Allocation Holder’s Association activities. .

C. Summary of Nunavut Benefits Plan Initiatives

Figure 1 - Table of Benefits

| Goal | Initiative | Outcomes |
|--|--|--|
| Improve Work Experience | New Health & Safety, and Fit for Work Policies Introduced | <ul style="list-style-type: none"> • Crew satisfaction levels high • Lost-time incidence rate well below industry average • Attitudes toward safety greatly improved • Setting example for entire industry to follow |
| | Industry-leading remuneration and benefits | |
| | Modernizing fleet | |
| | Increased training and orientation | |
| | Extending fishing season to create year-round employment | |
| Increase Nunavut Employment | Developed new recruitment plan | <ul style="list-style-type: none"> • Inuit crew employment stable in 2016, improving in 2017 • Increased earnings for crews in 2016, 2017 • Increased database of trained seafarers allows for continued increases • Achieved 73% Inuit crew on Trip 5, setting new benchmark to aim for |
| | Hired Recruitment Coordinator in Iqaluit and two Recruitment Officers in communities | |
| | Increased community recruitment with radio messages and improved outreach | |
| | Increased cooperation and planning with NFMTCC | |
| | Introduced program to maximize number of new recruits per rotation, increasing available workforce | |
| | Offered Inuit seafarers season-long employment schedule | |
| Improve Governance and Corporate Performance | Increased number of Inuit Board members from 5 to 10 | <ul style="list-style-type: none"> • Opportunity for greater Board participation in future • Sales and marketing team performed well in first full year of operation. |
| | Three new top Executive positions in Nunavut | |
| | Brought sales and marketing function in house to reduce commissions | |
| | Developed new Japanese shrimp production line on Sivulliq to increase value of resource | |
| Develop Economic Activity in Nunavut Communities | Developed two-story, 3,000 square foot office building for HTO in Pangnirtung | <ul style="list-style-type: none"> • Community buildings allow for recruitment of new personnel in communities • Leasing of office space to third parties generates income for HTOs • Tremendous potential in inshore fishing to create jobs and economic activity |
| | Commenced construction of office building for HTO in Pond Inlet | |
| | Supported HTO development of new community freezer and processing area | |
| | Supported development of commercial ice fishing industry in Pond Inlet | |
| | Created plan for development of summer inshore fishery | |

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| | with small vessels | |
| Ensure Sustainability | Signed Letter of Intent to build modern, new fishing vessel | <ul style="list-style-type: none"> • New vessel will increase capacity by 80% • Increased profitability and reliability due to reduced maintenance issues • Reducing fuel consumption, and time spent sailing to fishing grounds • Research programs leading to potential development of new species, and great protection of harvested resource |
| | Invested in fleet repair and maintenance to ensure vessel reliability until new vessel built | |
| | Attended and presented at Nunavut Fisheries Strategy Implementation session | |
| | Invested in research and development, and lobbied government to invest in research projects | |
| | Promoted implementation of longer allocation period to increase business security and environmental stewardship of natural resource | |
| | Continued compliance with all NWMB stewardship guidelines, laws and guidelines; compliance with relevant research initiatives, ecosystem protection requirements, and responsible fishing requirements. | |
| | Full participation in all NOAA research initiatives and significant financial contribution to all projects. | |
| Harvest | Harvested 96% of turbot available in 0A and 104% of turbot in 0B | <ul style="list-style-type: none"> • Completion of maintenance issues allows for increased harvest going forward • Small 0B overage will be reduced from next year's allocation |
| | Harvested 4,191 t of northern shrimp from Ungava Bay, Area 5, and Davis Strait. | <ul style="list-style-type: none"> • BFC will maximize its Davis Strait and Ungava Bay shrimp harvest in 2017. |

D. 2016 Fishing Season

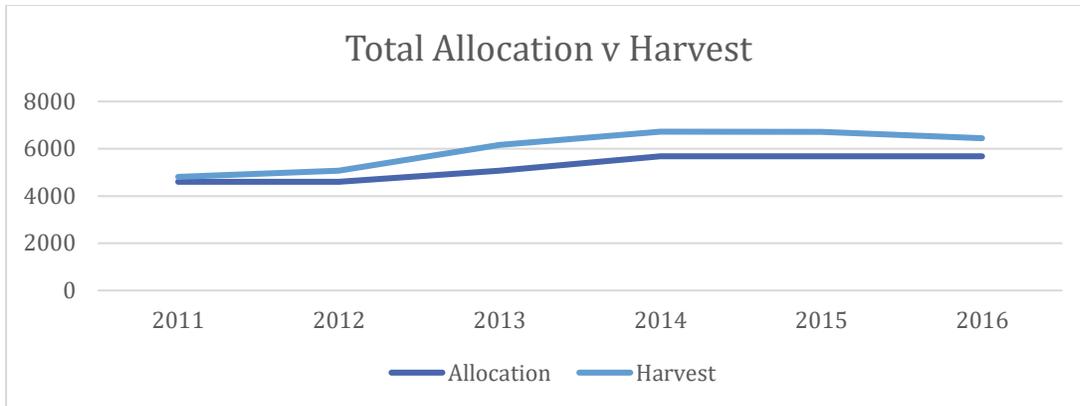
Turbot Harvesting Activity

In 2016, Baffin Fisheries harvested 6,181 tonnes of turbot from areas 0A and 0B. BFC received DFO allocations totaling 5,680 in these areas. The successful harvest of 501 tonnes beyond annual allocations was achieved by purchasing quota from other allocation holders, and participating in the 0B competitive fishery, and was partially offset by reductions from 2015 overages, quota swap arrangements to extend the fishing season, and small amounts of turbot remaining unobtainable due to early ice and vessel maintenance issues.

0A Turbot Fishery, 2016

In area 0A BFC holds allocations of approximately 4,630t of turbot. In 2016, BFC harvested 96% of its available allocation in this area. 0A harvest was 208 tonnes below BFC's available allocation due to earlier than anticipated ice in Davis Strait, which also affected LFUSC from harvesting 100% of an allocation obtained in a quota swap agreement, and; unexpected mechanical issues with the Company's trawlers. At year end, BFC had harvested 4,280 tonnes out of a potential 4,422 available in 0A.

Figure 2 – Total Turbot Allocation/Harvest 2011-2016



As the figure above indicates, the Company’s capacity and total harvest has exceeded its turbot allocation since 2011. To maximize utilization of assets and increase employment opportunities, Baffin Fisheries purchases additional quota from other allocation holders, and participates in the competitive fishery.

OB Turbot Fishery, 2016

In area OB, BFC holds allocations of 1,050 t, and purchased an allocation of 950t for a market-based royalty price, from Cumberland Sound Fisheries Ltd. From this allocation, BFC provided 100t to another fishery company in exchange for a royalty payment and future opportunities, and made small adjustments based on past overages and small quota swaps.

At the end of the season, BFC had harvested 1,815 t of OB turbot, against an available allocation of 1,783 t, or 105% of the quota allocation available to it in OB. The overage of 31 tonnes will be reduced from 2017 allocations. Additionally, BFC participated in the OB competitive fishery, harvesting 86 t of turbot.

For 2017, BFC’s fishing plan again calls for harvesting 100% of the allocation, plus approximately 950t from the CSFL – PFL partnership, using the Sivulliq, Inuksuk I, and Arluk II. The 2017 fishing plan calls for the successful harvest of the full quota allocation, despite a heavy vessel maintenance schedule in 2016 and early 2017.

Shrimp Harvesting Activity

In 2016 BFC harvested a total of 4,191 t of northern shrimp from Ungava Bay, Area 5, and Davis Strait. Total harvest in Area SFA5 was reduced in 2016 due to the expiry of a quota swap agreement with the Labrador Fishermen’s Union Shrimp Company Ltd. (LFUSCL), and reduced allocation availability for 2016. Shrimp harvest in Davis Strait was lower than anticipated due to factors unique to the 2016 year: the new 2016 allocation of 379.2 tonnes of shrimp for Davis Strait West was not granted by the Department of Fisheries and Oceans until October 17, when the 2016 fishing plan was nearly complete; BFC’s unexpected heavy maintenance schedule reduced capacity late in the season; ice conditions prevented shrimp harvesting late in 2016.

With maintenance issues behind it, and a full year of planning available, BFC will maximize its Davis Strait and Ungava Bay shrimp harvest in 2017.

II. Nunavut Benefits Plan Update

The Baffin Fisheries Benefits Plan is built on the Company's core values, as expressed in its mandate, mission, and safety objective:

Baffin Fisheries Mandate:

To maximize benefits and ensure sustainability of fisheries resources for Nunavut.

Mission:

To build the world's leading wild cold water seafood company.

Safety objective:

To prevent all workplace accidents, injuries and illness; to promote the health, safety and wellbeing of all employees and stakeholders, and to protect the environment in every task undertaken on behalf of the company.

A. Benefits Plan

The Baffin Fisheries Benefits Plan is a strategic initiative launched by the new executive team and Board of Directors in 2015, and built on the Company mandate. It has four specific goals:

1. Improve the Baffin Fisheries work experience, and increase the number of Nunavummiut employed, both onshore and offshore, by Baffin Fisheries and its subsidiary companies
2. Improve corporate performance
3. Increase economic activity in Baffin Fisheries HTO communities, and explore opportunities to increase economic activity throughout the Qikiqtaaluk Region
4. Ensure sustainability.

Progress Toward Goals, Objectives, Milestones

Goals

1. Improve Work Experience and Increase Employment Opportunities

Improving work experience and employment at Baffin Fisheries involves three key initiatives: improving safety, increasing recruitment effort, and increasing compensation.

Safety

First and foremost is employee health and safety. In early 2015, health and safety, and human resources issues, were identified as a concern. While the Company's Total Recordable Incident Rate was only 1.7, well below industry average of 3.2, fishing remains a relatively high-risk industry, and the Company sought to reduce risks to improve health and safety of all employees.

Figure 3 – BFC Health and Safety performance compared to NL fishing industry.

| | Lost Time Incidence Rate | Total Recordable Incidence Rate | Soft Tissue Incidence Rate |
|-----------------------------|---------------------------------|--|-----------------------------------|
| Baffin Fisheries | 1.70 | 1.70 | 1.70 |
| NL Fish Harvesting | 2.10 | 3.20 | 1.10 |
| NL Fish Processing | 3.30 | 4.70 | 1.90 |
| NL Provincial (avg.) | 1.50 | 2.20 | 1.00 |

The Lost Time Incidence rate is equal to the number of lost time injuries x 200,000, divided by the total number of hours worked. The recordable rate includes additional incidents that are required to be reported.

The executive team and Board of Directors determined all health and safety issues should be reviewed. Improved health, safety, and working conditions were also seen as important drivers for recruitment of Nunavummiut.

As a result, new programs were developed for Health and Safety, Drugs and Alcohol, and Fit for Work. New orientation programs were also introduced for all seafaring employees. While the number of Nunavummiut employed on vessels remained consistent in 2016, evidence in the first half of 2017 indicates numbers will increase significantly this year and beyond. The Company is taking a strategic, long-term approach to ensure its vessels are safe and secure for all employees. We are proud of the new approach to safety on our vessels, and believe it will result in a safer workplace. Our goal is zero accidents or injuries in the workplace.

Baffin Fisheries remains on target to significantly increase the number of Nunavummiut on vessels in 2017.

Recruitment

With the successful introduction of new health and safety programs and policies, Baffin Fisheries took a long-term, strategic approach to increasing the number of Nunavummiut on vessels, and in onshore positions. While past approaches produce results, and training programs are good, more work is required to significantly increase the number of Nunavummiut on board vessels in all positions.

The first step was to create greater awareness of the opportunities. BFC chose to ensure it had employees are on the ground, in the communities, reaching out to young Nunavummiut to inform them of opportunities for employment, a good lifestyle, and significant income.

In 2016 a new Recruitment Coordinator was hired in Iqaluit to identify opportunities to increase the number of Nunavummiut onboard vessels, to recruit qualified personnel, and to assist with necessary training by working closely with the Nunavut Fisheries & Marine Training Consortium.

In order to hire Recruitment Officers and new personnel in other HTO communities in the Qikiqtaaluk Region, Baffin Fisheries required office space for employees to work from. So as

part of this strategy, new offices are being built in BFC's HTO communities. For further details on Nunavut infrastructure development, see sections on Corporate Performance and Major Investments, below.

In early 2017, new Recruitment Officers were hired in the communities of Pangnirtung and Pond Inlet. The goal of these officers is also to identify opportunities to increase the number of Nunavummiut onboard vessels and to recruit qualified personnel. While officers are on full salary, employment began subsequent to the 2016 calendar years, so their statistics will not be calculated in this annual report.

BFC's sees significant Nunavut employment growth opportunities through this approach.

Compensation

Mariners and fishermen are typically paid a percentage of the final settlement on the sale of fish. As a result, seafood pricing, efficiency of fishing operations, and quality of the final product all play a role in final Compensation. Baffin Fisheries works closely with captains and crew to ensure that seafood product value is maximized, both for the benefit of the Company and crew.

In 2016 Baffin Fisheries made a decision to pay its crewmembers a higher percentage of total revenue than the industry average, and one of the highest percentages anywhere in the fishing industry. Higher salaries have a negative impact on profit, but play an important role in the delivery of benefits. Baffin Fisheries will continue to review its share payments to fishers and mariners, and is committed to paying a fair, above-average wage to its seafaring crew.

2. Improve Corporate Performance

Corporate performance impacts the corporate mandate of delivering benefits to Nunavummiut in three principle ways:

4. Increased profitability increases the Company's ability to make direct payments to Nunavut community HTOs
5. Increased investment in the communities and in other business opportunities allows the Company to create jobs and develop self-sufficient economic activity
6. Investment in assets, knowledge, and efficiency improves the sustainability of the Company, ensuring Baffin Fisheries will remain a strong corporate entity for generations to come.

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Every year the Company provides \$1.2 million in direct payments to its five owner communities. These payments allow the communities to share directly in the benefits of the adjacent resource and are used to support the activities of hunters and fishers, ensure availability of country food, and support employment in the communities.

3. Increase economic activity in Baffin Fisheries HTO communities

Since gaining 100% Inuit ownership and control in 2015, Baffin Fisheries turned its focus to investments in infrastructure and people in Nunavut. The Board of Directors instructed the management team to create a model for community develop which could lead to economic independence for the HTOs. The plan included consultation, respecting the needs and requirements of HTOs, and delivery of tangible results.

In the first project associated with this initiative, Baffin Fisheries built a new, 3,000 square foot office building in Pangnirtung in 2016 to provide office space for HTO members, Baffin Fisheries employees, and recruiters. The building is also intended to help provide rental income to the HTO to support economic self-sufficiency.

In 2016-17, Baffin Fisheries is building a new office building in Pond Inlet; helping the HTO build a new community freezer, and; supporting the development of a new commercial inshore turbot fishing industry to create employment and revenue. In addition to supporting the development and delivery of a new 1,200 square foot community freezer and processing area, Baffin Fisheries is helping provide ice-fishing equipment, and is exploring opportunities for acquiring an inshore fishing vessel.

Baffin Fisheries is in the process of consulting with other HTOs to identify their priorities and determine how it can help them gain economic independence.

4. Economic Sustainability

BFC's goal is to be an industry leader in delivering economic benefits by leveraging the revenues and assets from offshore commercial fishing activity to make strategic investments in Inuit communities. It starts with ensuring Inuit have ownership and control of all fishing assets, and manage operations from a Nunavut perspective. It is based on long-term thinking and planning that ensure benefits will last for generations to come.

In 2015 BFC acquired a new vessel, and completed the acquisition of the outstanding 49% shares in the Inuksuk I. Sole ownership of vessels, and elimination of management contracts, are consistent with the goal of strengthening economic sustainability and transitioning the company away from southern partnerships related to the Nunavut allocations. This will also increase the direct benefits achieved through the harvests, as profits will no longer be shared with a southern company.

Subsequent to the March 31 fiscal year-end, BFC signed a Letter of Intent to construct a new fishing trawler in partnership with the Havyard Group in Norway. This new vessel will reduce the risk of mechanical breakdowns, such as those that occurred in 2015-16, and increase the profitability of BFC through the harvesting of additional turbot and shrimp quotas. The modern new vessel will further improve working conditions, ensure the harvesting of all quota allocations, and serve as a flagship for the Nunavut fishing industry.

B. Employment Benefits and Data Forms

BFC firmly believes that in addition to the revenue generated directly by the harvest of the resource, the training, recruitment, and employment of staff contributes the largest benefit back to the local communities. It is the aim of BFC to have skilled Nunavummiut throughout all levels of BFC operations. BFC's position is that its new business model will maximize benefits to Nunavummiut throughout all levels of both its corporate and operational levels.

Over the last few years fishing vessels have gone through a revolution on technical aspects and the need for skilled personnel is increasing. This means BFC continues to require more qualified and technical personnel as it to expand its role in all aspects of the Nunavut offshore and inshore fisheries. The recruitment, training, and retention of young skilled workers is critical to accomplishing this.

In 2016 BFC hired a new Recruitment and Crew Coordinator in Iqaluit to increase recruitment of additional administrative and crew positions, and work closely with the Nunavut Fisheries and Marine Training Consortium (NFMTC). This new full time position is responsible for promoting Baffin Fisheries seagoing opportunities and recruiting new personnel from Nunavut communities. The Coordinator is also responsible for managing all aspects of seagoing personnel administration, and liaising with the other Nunavut recruitment/crewing officers to encourage individuals to apply to relevant training programs and to Baffin Fisheries for Employment.

Economic Opportunities Provided Through Employment

Due to the mixed nature of BFC's fleet, the number of Inuit Beneficiaries employed may vary. Multi-species vessels such as the Inuksuk I are capable of fishing turbot and shrimp year round, unlike the Arluk II, which can only harvest turbot and subsequently have a shorter season. Inuit employment is also affected by availability of trained employees.

BFC's objective is to move more Inuit into technical and managerial positions on the vessels as their experience and training levels improve. This objective, partnered with BFC's strategy to increase the length of the fishing season (through vessel acquisition, quota swaps, and quota purchases), will increase the opportunities for stable, secure, permanent employment.

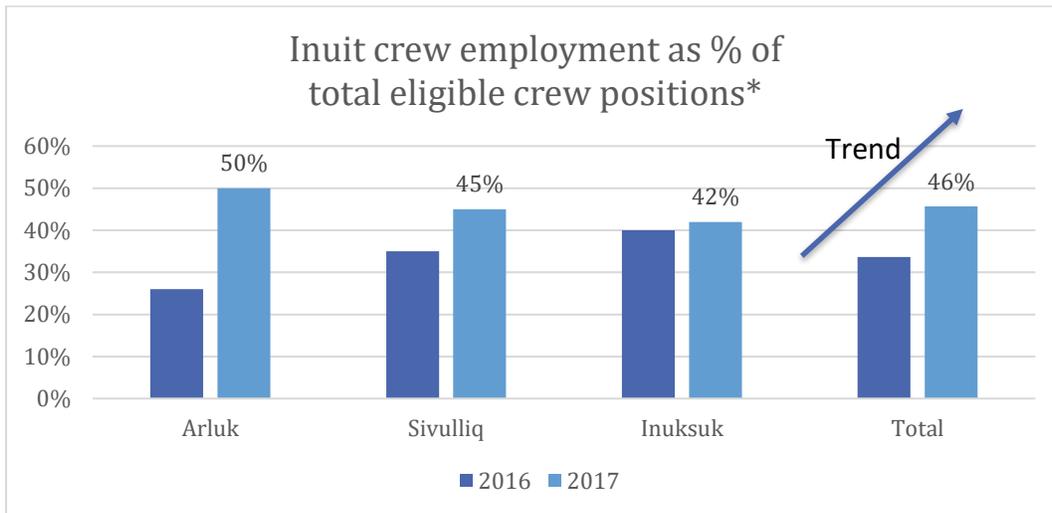
Retention Plan

BFC took specific action to achieve its employment objectives, first through consultation with Inuit fishers, and second, with offers to Inuit crew members to choose a permanent, full-time rotation schedule (two trips on, followed by two trips off, throughout the season), rather than making offers at each rotation. This resulted in much higher retention of Inuit employees. Those who did not want to fish all year were given the opportunity to serve on relief status, and pick up rotation shifts as they become available.

To date, results have been successful, and midway through the 2017 season Baffin Fisheries had already employed 55 Inuit crewmembers, well ahead of 2016 figures.

Inuit Crew Employment

Figure 4 -- Inuit Crew Employment



*Eligible crew positions include positions for which Inuit Beneficiaries are currently trained and certified. Baffin Fisheries continues to work with the NFMTTC and recruits to ensure that training is available and that Inuit Beneficiaries obtain the necessary certification to be eligible for officer positions.

Employment Highlights

- Inuit employment for all vessels has increased in 2017
- The number of new recruits onboard vessels is forecast to double in 2017 over 2016 figures.
- Fishing Trip 5, for the Sivulliq had 73.3% Inuit crew (11 out of 15 eligible crew positions)
- BFC crewing staff is working to make 75% Inuit crew the new standard for 2018, up from the traditional 50% which was considered a success in the past.
- Mid-season retention rate in 2017 was above 95%, the highest rate ever achieved.

For additional details, please see NFMTTC training tables below.

Figure 5 – Fisheries Related Training Since March 2016

| | NFMTTC Course | Total Participants | BFC Crew |
|--------------|-------------------------------|--------------------|-----------|
| New Recruits | Kisarvik | 11 | 7 |
| | Bridgwatch Rating Part 1 | 31 | 4 |
| | STCW | 56 | 22 |
| | Med A1 | 7 | 0 |
| | Sub total new recruits | 105 | 33 |
| Experienced | Bridgwatch Rating Part 2 | 35 | 16 |
| | Deckhand | 7 | 3 |
| | Total | 147 | 52 |

Working closely with the NFMTTC, BFC supported the training a significant number of new recruits in 2016. This creates an opportunity to bring more Nunavummiut into the fishing industry, and future opportunities to train employees for more senior roles. BFC stays in close contact with the NFMTTC to reach out to recent graduates to ensure they are aware of the opportunities with Baffin Fisheries, and are encouraged to apply.

Addressing Challenges

Recruitment, training, certification and offers of employment are all necessary to employ Nunavummiut onboard fishing vessels, but there remain additional challenges. With no port infrastructure in Nunavut, travel from the north to port can be time-consuming, or unavailable at the time required for a fishing trip. Documents such as passports and medical certification can be more difficult to obtain in the North. Also, Baffin Fisheries’ Fit for Work policies, which help ensure the safety of all personnel on board, can lead to fishermen being unable to participate in a fishing trip.

In 2016, 12 positions were filled, with transportation arranged, but fishing trips not completed for the following reasons:

| Reason position not filled | Number hired but not employed |
|--|-------------------------------|
| Drug & Alcohol Policy | 5 |
| Declined to travel | 2 |
| Took another job after committing for season | 2 |
| Legal Issues – prevented from traveling | 2 |
| Crew member quit half way through rotation | 1 |

Baffin Fisheries continues to work closely with crewmembers, the training consortium, recruitment personnel, HTOs and others to improve fulfillment of employment opportunities.

Indications from the 2017 calendar year to date indicate the strategic approach to improving recruitment effort, safety, and working conditions is working well. To date, Inuit employment figures are up in all crew categories, with the greatest gains in new recruits. This increase will allow continuous improvement over a number of years, as BFC has a larger pool of training fishers to draw from. Please see Appendixes for Fit for Work Policies.

Figure 6 - Inuit Crew per Harvest Year

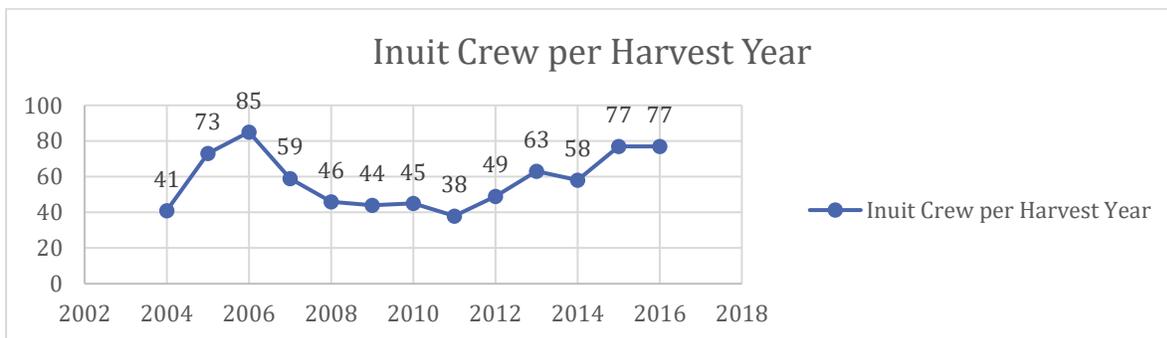


Figure 7 - Nunavut resident & non-resident Employment for 2015

| Calendar Year 2016 | NU Residents | | Non-NU Residents | | Total |
|--------------------|--------------|--------------------|------------------|---------------------|---------------------|
| | Number* | Total Wages | Number* | Total Wages | |
| Office | 5 | \$692,770 | 20 | \$1,901,573 | \$2,594,343 |
| Ship Crew | 77 | \$3,256,856 | 127 | \$12,970,315 | \$16,227,171 |
| Board Members | 10 | \$133,500 | 0 | - | \$186,975 |
| Total | 89 | \$4,083,126 | 147 | \$14,871,888 | \$19,008,489 |

* The number of Inuit Beneficiaries employed in Nunavut offices increased to 7 early in 2017 and will increase further as knowledge and skills are transferred to the North. This will also result in a decrease in Non-Nunavut employment. The top three executive positions in the Company are held by Inuit Beneficiaries based in Nunavut.

Three Nunavut Board Members are also employed executives, therefore total number employed does not equal the sum of each category.

Compensation Philosophy

Baffin Fisheries Coalition’s vision is to be the leading producer of premium, wild, cold water seafood. To reach this goal, we need to attract and retain the industry’s top performers.

All employees will be compensated fairly regardless of sex, age, race, religion, color, sexual orientation, national origin, disability, or marital status.

BFC believes that it is in the best interest of both the organization and its employees to fairly compensate its workforce for the value of the work provided. BFC uses a compensation system that determines the current market value of a position based on the skills, knowledge and behaviors of top performers in each position. The system used will be objective and nondiscriminatory in theory, application and practice.

BFC compensation structure will contain base pay and variable pay for all employees. The details will be provided to each employee upon hiring. BFC reserves the right to adjust the compensation structure at any time to meet the current market needs. (see Appendix 9: Compensation Policy)

Development/Implementation of Inuit-appropriate Working Conditions/Environment

Ultimately, BFC’s goal is to have Inuit working in all aspects of operational and managerial teams, in an Inuit-appropriate environment. To continue to improve and achieve this goal, BFC and NFMTCC have worked together to improve training for our Inuit crews.

BFC ensures that all signage and operations manual on its vessels are bilingual, written in Inuktitut and English. All memos, posting, and notices to staff are provided in both languages.

Additionally, BFC employs a community liaison and translator, allowing crew to communicate in their preferred language.

BFC continues to work to increase the staffing and presence in its corporate office in Iqaluit. The objective is to increase its presence and communication with local communities and other Nunavut-based organizations.

Health and Safety of Employees

As discussed in *Progress Toward Goals, Objectives, Milestones* above, BFC is committed to continuous improvement in health and safety of its employees and the environment. In 2015-16, Baffin Fisheries developed a new Health and Safety Policy which entrenched the Company's commitment that the health and safety of our employees was and always will be the Number 1 priority in everything we do. The policy resulted in the implementation of a new and updated Alcohol and Drug Policy in 2016 and a stricter security protocol for our entire operations. The objective of the company HS&E Program is to enshrine a culture of safety, to prevent workplace accidents, injuries and illness, and to promote health, safety and the protection of the environment in every task undertaken by employees on behalf of the company.

It is important that our employees, contractors, observers and visitors refrain from the use of illicit drugs and other mood altering substances, and the inappropriate use of alcohol and medications, as working at sea on fishing vessels is a safety sensitive environment.

The objective of the Policy is to protect the health and safety of our employees, and to provide a workplace free of the negative effects of alcohol and other drug use. Should employees need help in complying with the Policy at any time, they are encouraged to access assistance through the Company's Employee Assistance Program, their personal physician, or through appropriate community resources.

Employees can also come forward voluntarily for help with any alcohol or drug problem. In this situation, arrangements will be made for an assessment with a Substance Abuse Professional (SAP) and the employee will be supported through treatment and an aftercare program within the benefit coverage.

Baffin Fisheries recognizes that the increased emphasis on safety and security, and the implementation of a drug and alcohol consistent with internationally accepted best practices may result in stricter conditions for employees and reduced tolerance for dangerous activities. As a result, the Company also implemented a training and orientation program to increase awareness of program details and assistance available, and to reduce the potential for employees to be disciplined.

We believe this long-term approach to safety will become the industry standard for all Nunavut Fisheries enterprises and will result in safer operations and a culture of continuous improvement.

C. Training and R&D Benefits

Training

As a founding member of the Nunavut Fishing and Marine Training Consortium (NFMTTC), Baffin Fisheries continues to work closely with trainers and administrators to ensure Nunavummiut are trained and eligible to work on board our vessels.

However, qualifications for officer positions require a decade or more of training and seafaring experience. Given that vessel ownership and management is relatively new in Nunavut, there are no Inuit Beneficiaries with the certification and qualifications to fill the top officer positions. Baffin Fisheries recognizes that this is unacceptable and is implementing recruitment; mentoring, and training initiatives to ensure Inuit have the opportunity to receive the training and gain experience necessary to advance to the highest positions. See table for Inuit Crew Employment, above, for details.

Mentoring

Baffin Fisheries works with all industry partners and NFMTTC to ensure successful mentoring. The mentoring plan will include:

- Follow-up with students after completing their training
- Follow-up with Inuit employees after completing Trip 1 and 2
- Identifying crew who are ready for additional training
- Provide advanced training for crew
- Maintain contact with individuals no longer in the fishery, to monitor situational changes

As part of the program NFMTTC annually provides lists of graduates to all partners in the agreement. In turn the partners supply NFMTTC annual crewing lists so that statistics on retention and training can be maintained.

It is anticipated that these activities will contribute to an increased number of Inuit crewmembers from all across Nunavut, as well as an increased length of employment. One of the goals is for Inuit beneficiaries to realize that participation in the fishing industry can be a life-long career as opposed to a short-term job. BFC has been a strong proponent of the training and mentoring program and will continue in the future to contribute its financial and other resources to the continuing development.

For example, in 2015-16, Johnny Itulu was promoted to First Mate aboard the Arluk II, having completed a successful mentorship under Captain Mark Letto. He started with the Company as a Deck Hand, worked his way to Assistant Factory Boss, Factory Boss and now First Mate. He is believed to be the first Inuit to achieve necessary accreditation for this position and to gain significant practical hours serving in this capacity. In his first three trips as First Mate, the Arluk II enjoyed some of its most successful harvesting ever. It is hoped that Johnny's success will serve as inspiration for other Inuit to rise to higher levels in vessel management and it is BFC's ultimate goal to have Inuit employees rise to the top rank, of Captain, aboard vessels. The

Company will continue to promote his success to help encourage others to take the training required, work with a mentor and take on additional responsibilities on board our vessels.

2016 Consultation and Resultant Improvements for 2017

In 2016 Baffin Fisheries ship management consulted with Nunavut crewing coordinator and brought in additional changes to improve recruitment and increase the number of Nunavummiut on vessels. One critical change was a commitment to maximizing the number of new recruits, or inexperienced fishers, onboard vessels. The goal is to assess recruit's seaworthiness and ability to handle the job in a real-world environment. Due to space limitations and challenges associated with commercial offshore fishing, trawlers may only accommodate up to two new recruits per trip.

Prior to commencement of the 2017 season, Baffin Fisheries, working closely with the NFMTC, coordinated a plan to accommodate the maximum of two new graduates per trip. This will significantly increase the number of qualified Inuit able to work on vessels. The goal was to accommodate up to 24 new recruits throughout the season. By the end of July 10 new recruits had made a trip, or were scheduled to make a trip on the next rotation. Baffin Fisheries anticipates that the number of Inuit new recruits will double in 2017, and the total number of Inuit onboard vessels will increase significantly.

Other changes emerging from 2016 consultation sessions include working with Nunavut crewing coordinators to seek out and find people interested in the fishing industry, and exploring opportunities to conduct introductory courses, such as the required MED A1, in smaller communities.

Research and Development

BFC has been fully committed to financially contributing to exploratory, and research and development in the Nunavut fishery. From 2003 to March 31, 2012 BFC contributed \$1,030,000 to some more than 50 projects in the Nunavut. Prior to 2004 BFC organized and implemented many projects and surveys in Nunavut's adjacent waters.

Baffin Fisheries is the leading financial contributor to the Nunavut Offshore Allocations Holders' Association (NOAHA) and in 2016 continued to support research in sustainable turbot pot fishing, alternate species research such as porcupine crab, and essential base line research throughout Nunavut waters. BFC's research investment through NOAHA \$311,767 in 2016.

BFC recognizes that research and science are essential components to the development, stewardship, and sustainability of the Nunavut Fishing Industry. It is BFC's firm belief that through the continued support of scientific and community based research the fishery can be managed sustainably to provide maximum benefit to local people. For additional details on research, please see Appendix 7.

D. Investment Benefits

1. Research and Development Investment

Figure 8 - NOAHA research projects 2015-2016

| Project | Amount \$ |
|--|--------------|
| Three-year porcupine crab project | 68,354.00 |
| Multi-species survey | 129,920.00 |
| Char research – Tallman – 2 years | 60,000.00 |
| MSC shrimp certification – Annual fees – 2 years | 20,000.00 |
| MSC turbot certification | |
| NSRF survey – 2 years | 150,000.00 |
| Subtotal | 428,274.00 |
| Estimated GN proposals | 428,274.00 |
| Multi-species survey – separate assessment | 82,505.00 |
| Total | \$468,754.00 |

2. Fisheries Investment

Vessel Acquisition

As part of BFC's new commitment to long-term development and its transition strategy, there are a number of recent investments in the fisheries sector. The first major investment was the 2015 purchase of the factory freezer trawler, Sivulliq, previously named the "Remøy". The vessel was built in 2001 and is an ice-class factory freezer trawler that had previously operated in the Norwegian fishery. The vessel is capable of fishing both turbot and shrimp, and an additional process line was added in 2016 to handle both products. This vessel is wholly-owned and operated by BFC with all profits being directed back to the member associations. BFC also purchased the foreign-owned 49% shares in Inuksuk Fisheries Ltd. (operator of Inuksuk I). The acquisition of all outstanding shares in Inuksuk Fisheries Ltd. completed the transition of BFC into a 100% Inuit owned and controlled company.

Baffin Fisheries believes that it has demonstrated that Inuit owners no longer need to participate in inequitable partnerships of the past. Baffin Fisheries is a 100% Inuit-owned company, with 100% ownership of its vessels. None of its quotas are harvested by foreign partners. The company has recently appointed Inuit to its top three executive positions and, as a result of its Inuit ownership and control, is increasing Inuit participation in all areas of the company.

Through significant financial investments made by Inuit community owner groups, Baffin Fisheries has ensured that it has the capacity to:

1. fish its own quota while maximizing Inuit participation and environmental stewardship;
2. partner, on equitable terms, with other Nunavut fisheries companies that may be unable to fish their entire quota; and

3. ensure that any future, scientifically supported quota increases can be harvested by Inuit-owned organizations, with maximum benefits accruing to Nunavummiut.

During the spring and early summer of 2016, the Sivulliq underwent significant upgrades and modifications, and continued its aggressive pace of Canadianization. Significant investments were made to upgrade the factory for enhanced turbot production. These investments will lead to enhanced quality and size-grading of final product, upgraded refrigeration to horizontal plate freezers, and an overall improvement in ergonomics to ensure greater health and reduced risk of injury to factory workers.

Additional maintenance was performed on the vessel's main engine and winch system, delaying the first trip of the summer until July 2016. As with any new vessel acquisition, a break-in period is required to ensure all crew and support staff are familiar with operations. By investing in this vessel, BFC will increase its capacity to respond to any increases in allocation, assist other allocation holders, and expand its harvest into other Nunavut adjacent fisheries.

For further detail on the FV Sivulliq please refer to the Fleet section under Operations and Appendix 5.

As stated, subsequent to our March 31st fiscal year-end, BFC has signed a Letter of Intent to construct a new fishing trawler in partnership with the Havyard Group in Norway. This new vessel will increase the profitability of BFC by securing the Company's ability to harvest its full allocation, and provide capacity to harvest additional quotas from other groups. The new vessel is expected to increase capacity by 80%, reducing fuel consumption, and the amount of time spent sailing from, and to, fishing grounds, therefore increasing daily remuneration for all seafarers.

3. Other Investment

Inshore Fishery

While Baffin Fisheries' primary mandate focuses on the continued development and expansion of the offshore fishery, BFC has identified the development of inshore fishery capabilities as a key strategic objective to deliver benefits to the North. As part of this commitment, Baffin Fisheries continues to explore the potential acquisition of fishing vessels to support the inshore fishery. Prior to the acquisition of vessels, Baffin Fisheries commenced in 2015-16 a review of processing and cold storage capabilities at HTO facilities in each of the five stakeholder communities.

The review identified an inadequacy of existing HTO facilities to support processing and storage of inshore harvests, either as country food, or on a commercial basis. The review also identified potential of inshore ice-fishing activity as an opportunity for economic development in the communities. Baffin Fisheries therefore embarked on a plan to assist the HTOs in the development of local offices, processing areas and cold storage in order to support future inshore fisheries activity, both by inshore vessels, and through ice fishing. BFC believes that investing in local infrastructure is essential to the development of local inshore fisheries across the region.

Investment in HTO Office Space

In 2015-16 Baffin Fisheries committed to the development of improved HTO facilities in Pangnirtung and Pond Inlet, and committed to consulting with HTO Boards in Kimmirut, Clyde River, and Iqaluit to determine the priorities for these communities.

In 2016, a new building lot was obtained from the Pangnirtung Hamlet and building material was delivered to begin construction of a new HTO facility and cold storage area. In addition, BFC assisted the Amaruq HTO in Iqaluit in the purchase of a new cold storage unit, and developed plans for construction of a new processing area and cold storage facility for the Mittimatalik HTO in Pond Inlet. Construction is expected to take place next year.

Over the coming years BFC will be actively working with local communities to explore the interest and the sustainability of an inshore fishery. This will involve both community outreach and development programs along with working with private hook and line harvesters. The hope is to provide the required equipment, infrastructure, and skills required to develop a sustainable inshore fishery.

Investment in in-house sales and marketing function

Prior to 2016, following the generally accepted practice in the North Atlantic fishing industry, seafood harvests were sold to third-party seafood distribution companies, who then re-sold product to end buyers in Asia, Europe and North America. As part of its strategic growth and vertical integration planning, BF sought to bring this service in house, eliminating the 'middle man' distribution company. The benefits of this approach are:

1. Eliminate third-party commissions and increase profitability, allowing the Company to increase HTO royalties and community investments,
2. Increase the market value of the unique, superior quality Baffin Fisheries product and brand, and create ocean-to-plate marketing opportunity,
3. Gain knowledge and expertise in a new sector of the business, and transfer knowledge and skills to employees in Nunavut,
4. Create opportunity for BF to become a third-party marketing company for other seafood harvesters,
5. Create a channel for sales and distribution of inshore seafood products caught through the ice, or from small vessels, by individual HTO fishers.

Full Year of Sales and Marketing

2016 was the Baffin Fisheries' first year managing the sales and marketing of its seafood products and it enjoyed a successful year in sales growth. During the year, BF managed 100% of sales for all seafood harvested and eliminated all third-party commissions, resulting in increases to overall revenue.

By managing sales, BF also moved product more expediently, reducing cold storage fees charged by third-party cold storage companies in Newfoundland and Greenland, where products is landed. BFC also managed sales for all seafood harvested under third party licence transfer agreements with Cumberland Sound Fisheries Limited, and Labrador Fisherman's Union Shrimp Company Ltd.

FOB at First Port

All seafood sold by Baffin Fisheries was sold FOB (Free On Board) for ports in Newfoundland or Greenland. This designation defines the limit for which the seller is responsible for the product. In other words, as soon as the seafood is landed at Bay Roberts, NL, or Nuuk, Greenland, BF's buyers take full possession and responsibility, and revenues are transferred to the Company. From that point on, the buyer is responsible for the cost of ocean freight, foreign port offloading, cold storage at destination, insurance, currency risks etc. This allows BF to obtain payment immediately without risk.

Early payment allows the Company to settle with crewmembers immediately, which elevates morale, improves retention, and motivates crewmembers to work more efficiently and realize larger settlements. A happy crew is a productive crew.

New Shrimp Line

In 2016, BFC added a Japanese Shrimp production line to the Sivulliq processing factory. This addition allows for production of sushi grade shrimp exclusively for the Japanese market and significantly increases the value per kilogram for certain shrimp products. As a result of this investment, BF has added two of the largest buyers in Japan to its list of customers. The Inuksuk I has successfully operated a Japanese production line for many years. Its excellent reputation among customers allowed the Sivulliq to quickly earn the trust of buyers.

Sales Team

Throughout the year members of the sales and market team met with buyers internationally to increase the Company's client list, and increase demand for BF premium products. Working closely with factory crewmembers, the sales team established a program to generate daily Quality Assurance Reports, which allow products to be reviewed by potential clients before landing. As a result, product can be sold before landing of the vessel.

The sales team also met with senior executives from third-party production facilities to explore opportunities to add value to Baffin Fisheries products to increase revenue per kilogram. Adding value through processing is an ongoing strategic initiative of the Company.

Despite the fact that BFC's sales and marketing initiative is a new direction for the Company – and much of the industry – BFC is pleased with results from Year 1. We continue to see opportunities for growth as we continue to gain direct access to Asian and European markets, and improve the reputation of our unique, premium brand.

Staff Housing

In 2014, BFC purchased a house in Iqaluit office to provide a venue for employees travelling from smaller communities, through Iqaluit, en route to fishing trips, and to help increase BFC's presence in Iqaluit. Unfortunately, the utilization rate of the house was lower than expected, and not cost-effective. As a result, the BFC Board made a decision to sell the house in 2016 in order to reduce operating costs and improve profitability. The house has been rented awaiting finalization of a purchase offer.

Cold Storage Facility

Currently all product harvested by BFC is offloaded into third-party cold storage facilities in Greenland or Newfoundland. This process provides for consolidation of product and improves the cost of shipping the product to its final market destinations. Recognizing that these facilities are an integral part in the delivery of product to market, BFC continues to assess the viability of construction or acquisition of its own facility.

By owning cold storage facilities, BFC would have full control of costs associated with this aspect of the industry. This would also provide BFC the opportunity to market additional space to other members of the industry, and would allow BFC to time shipments of finished product to the market when prices are favourable. BFC will continue to evaluate additional options and locations over the next several years.

E. Commitments for Upcoming Season

Baffin Fisheries is committed, and on target, to harvest all of its turbot and shrimp allocations in 2017. In addition, Baffin Fisheries is committed to major improvements in Inuit Beneficiary employment, and is committed to targeting a rate of 75% Inuit employment, for positions in which Inuit are trained, certified and available.

Furthermore, Baffin Fisheries is committed to working with the NFMTC, HTOs and other stakeholders to ensure that Inuit have the opportunity to train for senior officer positions on board all of its vessels.

F. Benefits Indicators Summation

In summary, 2016 was a transition year for BFC, in which new employment programs were introduced and tested, new recruitment strategies were put in place, and vessels underwent major repair and overhaul. The results observed in the first half of 2017 indicate that all initiatives are proving valuable and effective. Employment programs are in place and working, Inuit employment numbers are up significantly, and Baffin Fisheries vessels are performing well and on target in 2017.

III. Governance Plan Update

Description of Ownership and Management Structure

Baffin Fisheries was established in 2000 to address a pressing need for Inuit-owned enterprises to acquire their own fleet of vessels. Although other fisheries enterprises had held enterprise allocation licences since 1987, they had not acquired vessels and were locked into long-term contracts that made vessel ownership challenging, and saw profits diverted to southern and foreign companies.

BFC was initially an organization of nine (9) Inuit-owned organizations. Five of the nine were Hunters and Trappers organizations on Baffin Island and four were private companies that had historically been involved in the Nunavut fishery. However, in keeping with the Access and Allocation guidelines established by the NWMB a decision was made to remove private companies as members of BFC. As of July 2011 BFC is an organization comprised of five Hunters and Trappers Association members: Amaruq, Pangnirtung, Mayukalik, Mittimatalik and Namautaq. Each HTO owns 20% of the Company.

In December, 2015 Board decision, and in conjunction with the 2015-16 establishment of 100% Inuit ownership of all vessels and assets, BFC increased Inuit representation and input by doubling the size of its Board of Directors from five to ten voting members appointed by shareholder HTOs.

Each HTO (or member organization) appoints two (2) persons to attend and vote at BFC Board meetings, and it is the responsibility of these individuals to report back to their respective community organizations. BFC is comprised of seven subsidiary companies. These companies are responsible for the day-to-day management of operations, marketing, supply, and running of the vessels.

- Nigitaq Fisheries Ltd. (NFL) (100% ownership): Responsible for the management and marketing of products.
- Arluk II Fisheries Ltd. (AFL) (66% BFC ownership; 34% HTO ownership): Responsible for the purchase, refit, and operation of the Arluk II gillnet fishing vessel.
- Oujukoaq Fisheries Ltd. (OFL) (100% ownership): Responsible for the purchase, refit, and operation of the Sikuvut gillnet fishing vessel.
- Inuksuk Fisheries Ltd. (IFL) (100% ownership): Responsible for the purchase, refit, and operation of the Inuksuk mobile gear vessel.
- Remoy Fisheries Ltd. (RFL) (100% ownership): Responsible for the purchase, refit, and operation of the Sivulliq mobile gear vessel
- BFC Crewing Inc. (BFI) (100% ownership): Responsible for recruiting and hiring all crew for vessels.

BFC and its subsidiary companies have Inuit Firm Status and are registered in the city of Iqaluit.

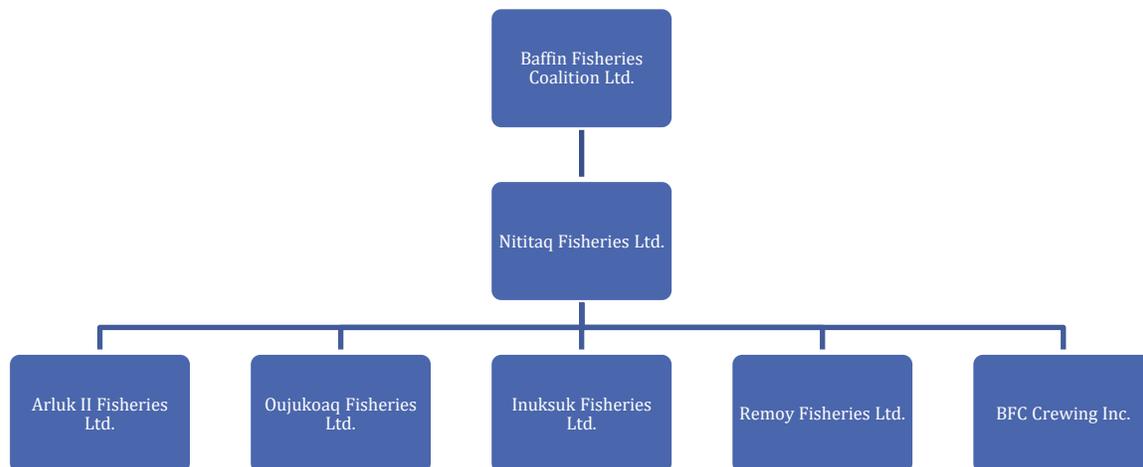
A. Progress Towards Goals, Objectives, and Milestones

BFC has always operated with the objective striving to achieve a commercially viable and sustainable fishing industry with the goal of maximizing the benefits of the resource for the Nunavummiut. As a not-for-profit, this goal objective has driven BFC to ensure that its contributions back to community have not been only monetary but also in the form of education, skills development, and culturally appropriate work environments. To build on this BFC has worked on becoming less reliant on Southern and European partnerships and has slowly transitioned toward 100% Nunavut based ownership. Previously, as part of this transition plan, BFC removed the involvement of private firms from participating directly as members of BFC and has purchased the balance of share in several vessels.

In 2015, a decision was made by the board of Directors to significantly restructure the existing companies. The intent of this restructure was to focus BFC on its primary mandate of benefit maximization through long-term planning. This model is intended to position BFC as a world-class leader in the fishing industry, from source to market.

Through this restructuring, BFC can not only significantly increase the benefits transferred directly to the communities (through 100% profit retention, not just royalties) but also strategically develop infrastructure projects that will truly maximize the benefits of the resource and provide a solid foundation of self-sufficiency within Nunavut for generations to come.

Figure 9 - Organizational Chart



Inuit Participation in Allocation Review Process

During 2016, BFC executive board members participated in the NWMB allocation review process to create a more effective quota allocation process for the Nunavut commercial fishing industry.

BFC executives expressed concern over the short-term, subjective nature of the current quota allocation system and the risk it placed on modern, large companies making significant investments in vessels and other assets. In the absence of secure allocations, and the

associated security of access to resources, Nunavut fisheries enterprises are challenged in their ability to raise the capital necessary to acquire vessels and secure full Inuit ownership and control. Cyclic expiration of quota allocations complicates financial planning for enterprises.

The Executive team also cited an increased risk to sustainability of fish stocks when fishers have no quota security and are not invested in future fish stocks. This Inuit knowledge is supported by western scientific research¹. The current allocation review system requires extracting maximum benefits over two- and three- year periods rather than strategies based on long-term planning. Uncertainty over access to fisheries resources undermines efforts to develop conservation incentives. If resource users do not have a reasonable degree of certainty that they will share in future returns arising from their conservation efforts, they will have limited incentive to support conservation².

Supporting Certainty and Sustainability

BFC recommended that Nunavut allocations be made more secure and stable, so that fishing enterprises can invest in the future with greater certainty and secure Inuit ownership and control. BFC Executive and Board of Directors recommended that allocations be awarded for a minimum of five years, and be subject to agreed-upon, objective standards that when met, allow a company to maintain its allocations. This approach would give financial institutions greater certainty and allow Nunavut companies to compete with southern companies, which enjoy permanent enterprise allocations. It would allow fisheries companies to concentrate on long-term plans, taking greater effort to preserve stocks for the future.

The Nunavut annual review and two- or three- year allocation policy is unique in the fishing industry in Canada.

BFC participation in the Nunavut Offshore Allocation Holders Association

BFC was a fully participating member of the NOAHA in 2016 and attended all meetings and conferences. BFC was pleased to see its recommendation of hiring a full time Executive Director completed in 2016 and significant progress made on R&D, training, and other joint initiatives as a result. BFC supports the appointment of an Inuit Chair to NOAHA, and a strong, united voice from the association.

¹ Early work by Scott Gordon in [*The Economic Theory of a Common Resource, The Fishery*](#), and significant work by other researchers, theorizes that when a fisher does not have a property right to the resource until point of capture, it creates incentives for competitive behavior and overfishing. Without secure access or long-term rights to fish stocks, there is no incentive to conserve for the future.

² [*Atlantic Fisheries Policy Review - A Policy Framework for the Management of Fisheries on Canada's Atlantic Coast*](#)

Officers, Board of Directors, and Key Personnel

Early in the formation of BFC, the importance of local knowledge and expertise in the fishing industry was identified as a key factor in maximizing the benefit of the turbot and shrimp resource for Nunavummiut. Recognizing the importance of a strong knowledge base, BFC established a headquarter office in Iqaluit, Nunavut and a satellite office in St. John's, Newfoundland. The headquarters office is responsible for the corporate management, while the St. John's office houses NFL and oversees the management and operations of BFC's fleet of vessels. The satellite office was strategically located in St. John's due to the offloading and servicing requirements of BFC's fleet, occurring primarily in Greenland and Newfoundland, and to provide for future expansion into developing markets for BFC.

B. Governance Structure Update

The five Hunting and Trapping Associations comprise the shareholders of BFC. Each shareholder appoints two representatives to BFC's board of directors for three-year terms. As a result of elections in HTO communities, three new Board members were elected to the BFC Board for 2016: Jerry Ell for Iqaluit, Apiusie Apak for the Nangmoutaq HTO in Clyde River, and Karen Nutarak, for the Mittimakalik HTO in Pond Inlet. For a full listing of all directors, please see appendix 1.

Inuit Executive Team

Three of the 10 elected Board members are appointed by the Board to serve as executives of the Corporation, and as directors for BFC's subsidiary companies. BFC's Board of Directors holds a minimum of three meetings annually and subsidiary companies hold a minimum of two. BFC Executives meet regularly in person and through frequent conference calls throughout the year.

As of 2016, the three executives (President, Vice-President, and Corporate Treasurer) remain in their positions, and continue to manage the Company on a day-to-day basis, providing strategic direction, directing the management team and overseeing operations.

Annual financial and harvesting reports are developed and are presented to board members at the annual general meetings. This report provides a summary of what has transpired over the past harvesting season, and historically since 2001. Additionally, membership updates are generated on a regular basis. These reports address issues such as quarterly financial reports, harvesting activity, business activities including strategic plans, acquisitions, major expenses, and HTO remuneration.

As figure below indicates, BFC and its subsidiaries have had a substantial number of board meetings since their formation (for examples of minutes of these meetings please refer to Appendix 2). BFC is reliant of the HTA's representative of the shareholders on the various boards of BFC and its affiliates to update their individual organizations once they return to their communities from these meetings. However, at the request of and HTAs or communities, BFC is open to providing additional presentations.

Figure 10 - Summary of governance meetings held by BFC and subsidiaries from 2012-2015

| Meetings | F2013 | F2014 | F2015 | F2016 |
|--------------------|-------|-------|---|----------------------------------|
| Directors meetings | 12 | 8 | 15 | 12 |
| Conference calls | 7 | 0 | Weekly or bi-weekly Executive Committee Calls | Weekly Executive Committee Calls |
| AGM | 5 | 5 | 5 | 5 |

**AGMs for BFC and its subsidiaries typically occur in fiscal year Q3.*

All corporate decisions made by the board are discussed at meetings and voted on using majority rule.

In addition to more formal communications with shareholders as described above, BFC and its subsidiaries maintain regular communication between the Board of Directors' executive team, management, and staff.

BFC prides itself on maximizing the benefits associated with the resource for Nunavummiut while maintaining an environment of sustainability and transparency. As part of that responsibility to the communities and people, BFC conducts annual visits with community members, issues press releases, and conducts interviews with media as required. BFC recognizes the importance of actively engaging with the HTO's at the community level. For examples please refer to Appendix 3.

Regulations, by-laws, and incorporation documents have been provided in previous Annual Reports, however are available upon request.

Profit Sharing and Royalty Arrangements

From 2004 to 2010, the profit sharing arrangement between the shareholders of BFC was 89.5% to be paid (split evenly) to the five (5) HTA members, and the remaining 10.5% to the non-HTA members. Since the removal of the corporate members in 2011, 100% of the royalties and profits generated by BFC are shared equally between the five members HTAs.

In 2015-16, BFC's Board of Directors voted unanimously to increase annual profit sharing payments to \$1.2 million, plus a \$50,000 donation. The \$1.2 million is divided equally among five HTOs, and is paid in installments.

IV. Stewardship

A. Progress Towards Goals, Objectives, and Milestones

Fisheries around the world have to be more conservation minded and sustainable, and the Nunavut fisheries are no exception. BFC works with industry stakeholders and regulatory agencies in an effort to continuously improve its operations. The goal of a sustainable fishery that will benefit generation of Nunavut residents into the future requires an active hand in stewardship at present.

Recovery of Lost Nets

BFC keeps detailed records of where it sets its nets. Normally, a string has 50 nets, in length, 50 fathoms each. As per DFO regulation, data for each net set is recorded in logbooks.

Nets can be lost as a result of stormy weather, weight of the vessels can snap of the ropes, vessel traffic, and severe ice conditions

BFC's fleet coordinates the location of net and trawling activities to minimize conflict. Additionally, BFC does not set nets in ice-infested areas. Late in the fall, ice conditions are monitored and vessels have to exit out of OA as follows: north of Latitude 71 by October 21, and south of 71 by November 10.

Process used by BFC for recovering lost nets:

If loss occurs when portion of the string has been hauled, then vessel will immediately steam to other end on the fleet, find the buoy, and retrieve the nets.

If loss occurs as a result of ice conditions or dragger problem:

- Recorded in log book and DFO is informed.
- Use creeper with 1,000 fathoms of rope.
- Tow between 2 – 3 knots.
- Normally go mid center of where nets are charted and pull the creeper in an east west direction (nets normally set in a north/south direction).
- Normally, would continue creeping for nets at end of each fleet being hauled, until nets are recovered.

B. Compliance with NWMB Stewardship Guidelines

BFC continues to support the NWMB's Responsible Stewardship plan to:

- Improve scientific knowledge of the Greenland Halibut (turbot) and shrimp stock.
- Maintain a healthy Greenland Halibut (turbot) and shrimp stock through the use of science, Inuit knowledge the precautionary approach and discussions with other resource users.
- Minimize harvest of small fish.
- Operate consistently with the Species at Risk legislation.
- Protect critical habitat, ecosystems and species.
- Collect and document Inuit knowledge of Greenland Halibut (turbot).

Compliance with relevant law and policy

BFC is a strong supporter of NWMB's Responsible Stewardship guidelines. In the last several years few nets were lost and 100% observer coverage for shrimp and OA turbot was achieved. BFC has made every effort to comply with:

- a) DFO Legislation/Policy: Complied with all of the relevant legislative and policy requirements of DFO, including licence conditions, regulations, management plans, conservation harvesting plans, and encounter protocols.
- b) Transport Canada Legislation/Policy: Complied with all Transport Canada's relevant environmental stewardship requirements for fishing vessels.
- c) *Species at Risk Act* (SARA): Complied with applicable SARA measures for marine species at risk.

Compliance with relevant research and reporting initiatives

BFC complied with relevant research and reporting initiative by:

- a) Providing assistance and cooperation with respect to relevant research initiatives organized/sponsored by the NWMB or DFO. In 2013, BFC in consultation with other Nunavut stakeholders was a major contributor to two major surveys in Nunavut adjacent waters: the multi-species survey and the shrimp survey carried out under the direction of the Northern Shrimp Research Foundation. In addition to these two major surveys, BFC was successful in working with the Canadian Association of Prawn Producers (CAPP) to have Nunavut's shrimp in the Nunavut Settlement Area certified under the CAPP certification process.
- b) Compiled records and provided reports of fishing operations, as required by NWMB and/or DFO
- c) Used Inuit Qaujimajatuqangit, as requested by the NWMB or DFO, to assist in the advance of fisheries research.

Compliance with responsible habitat and ecosystem protection requirements

BFC complied with responsible habitat and ecosystem protection requirements by:

- a) Assisting in the identification of sensitive habitat areas as required by the NWMB or DFO, with particular emphasis on coral and sponges.
- b) Avoidance of fishing locations formally identified by the NWMB or DFO as sensitive habitat areas where fishing is prohibited.
- c) BFC made every effort to adhere to DFO and NWMB restrictions on fishing in protected and/or sensitive areas, as set out in relevant licence conditions, regulations, management plans, conservation harvest plans, encounter protocols, and other formal policy or legal documents. However, in 2012 BFC was charged with an offence related to the Sikuvut being within a protected and/or sensitive area. The initial court appearance was scheduled in June 2013, with later court dates forwarded to early 2016. BFC is pleading "not guilty" to the charge laid.
- d) Avoiding disturbance to marine mammals where possible. BFC had minimum encounters in 2013 -2015 with marine mammals.

It should be noted that BFC is a member of the DFO lead working group on the precautionary approaches for both shrimp and turbot.

Compliance with responsible vessel and training requirements

BFC complies with responsible vessel and training requirements by:

- a) Practicing sound waste management in all aspects of harvesting operations, with particular emphasis on the acceptable disposal of domestic garbage. BFC ensures that all plastics and non-biodegradable garbage is kept onboard the vessel(s) and disposed of at a land facility during each vessel offload.
- b) Minimizing emissions of dangerous substances arising from vessel/harvesting operations, by holding used fuels and lubricating oils on board and disposing of them at appropriate land facilities at the end of each trip.
- c) Providing appropriate training for all crew members with respect to responsible and sustainable fish harvesting

Compliance with responsible fishing practices and gear-use

BFC complied with responsible fishing practices and gear-use by:

- a) Employing fishing practices that minimize the risk of gear loss through not setting nets in ice infested areas. BFC has a recovery plan in place for the recovery of lost gill nets.
- b) Using fishing gear that minimizes the harvest of undesirable species as by-catch, including marine mammals, and the harvest of juvenile fish. The majority of the gill nets used have mesh size of 8 inches to a minimum of 7.5 inches, resulting in a minimizing of juvenile fish harvested. The focus of BFC has always been to have a conservation-minded view to the fishery achieved through a balanced approach of fixed and mobile gear.

C. Commitments for Upcoming Season

In 2017, and future years, BFC will continue to fully comply with NWMB's Responsible Stewardship guidelines and seek ways to improve sustainability of the resources and protection of the environment. Initiatives include:

Certification of Shrimp Fisheries in Nunavut's Adjacent Waters

The market place is demanding more and more of fishery suppliers to put in place a certification program that allows them to track the origin of the product they are buying. Also, the marketplace is demanding that the fish they buy come from well managed, environmentally, and sustainable areas. One of the main certification bodies for fisheries is the Marine Stewardship Council (MSC).

The MSC Certification of the Canadian offshore northern shrimp fishery was issued subject to a number of conditions with respect to Habitat and Ecosystem. Today there are three (3) separate MSC Certifications for shrimp of the coast of Newfoundland and Labrador:

- Canadian Association of Prawn Producers (CAPP) and Northern Coalition (NC)
- Association of Seafood Producers (ASP) of Newfoundland and Labrador
- Fogo Island Co-op

In general certifications are for a five-year period with annual reviews to ensure harvesters are living up to the conditions of their certification.

Working with CAPP/NC, NOAHA was able to establish Nunavut adjacent shrimp allocation under the MSC certification in 2012/13. BFC and NOAHA continue to work with CAPP/NC to explore the option to include turbot under this certification.

Designated Seabird Areas

BFC has been working with DFO on the establishment of bird sanctuaries, in the arctic. As part of this work BFC has been working to establish operational procedures when working in proximity to these areas. A proposed projection zone of 60 km; this will affect potential inshore fishery development; BFC will work to be proactive on these proposed bird sanctuaries.

BFC continues to participate in federal government discussions to establish Marine Protected Areas (MPAs) and in discussions and activities related to Arctic resources.

V. Business Plan Update

A. Progress towards Goals, Milestones, and Objectives

2016-17 was a challenging year for Baffin Fisheries Coalition. Major repairs were required on both the Inuksuk and Sivulliq vessels, which reduced harvesting time and had a negative impact on our gross revenue and net income figures.

However, BFC continues to strive towards revenue growth and maximizing local benefits with an emphasis on reinvesting these profits back to its member associations. We are confident that BFC will see a substantial improvement in profitability starting in 2017-18, with full harvesting seasons from all BFC vessels. Significant steps have been taken subsequent to the March 31, 2017 fiscal year-end which are already having a positive impact on financial performance. These initiatives include the refinancing of our long-term debt to more favourable terms.

B. Operations Report

Fleet

BFC allocations have been harvested by various vessels since the formation of the company. Vessels have varied dependant on availability, gear type, available season lengths, and partnership arrangements. BFC has steadily worked towards transitioning its fleet away from southern partnerships to developing a 100% Inuit owned fleet that not only meets the needs of the current fishing industry, but has capacity to expand in response to market demands. The continued optimization of the fleet ensures that BFC can increase season lengths for vessels, grow employment opportunities, and maximize the benefits for Nunavummiut.

The next stage in the evolution of the Company's fleet strategy is the delivery of a new, efficient vessel which will improve overall fishing efficiency, increase capacity, reduce down time associated with maintenance and overhaul, and provide an opportunity for increased revenue through arrangements with other allocation holders.

Fixed-gear Vessels

BFC currently operates one fixed-gear vessel, the Arluk II. The fixed gear vessel, Sikuvut, was retired from active fishing operations in 2016. The Arluk is a 30m vessel with factory freezer capacity of approximately 10-15 tonnes per day. It can accommodate approximately 15 crewmembers. BFC's fixed gear vessel is used in the turbot fishery and accounts for approximately 20% of BFC's annual turbot harvest. Subsequent to the end of the fiscal year, in summer 2017, the Arluk II was actively involved in the turbot fishery.

Mobile-gear Vessels

BFC's mobile-gear vessels are used in the harvest of both turbot and shrimp. The flexibility, efficiency, and larger capacity of these vessels make them the ideal choice when considering future fleet expansion. The Inuksuk I is a 62 m factory-freezer trawler built in 1987. It has a total

daily capacity of 525mt of turbot or 400mt of shrimp and accommodations for 22-28 crewmembers.

Guided by the objective of continued development, in the later part of 2015 BFC purchased a second mobile gear vessel, FV Sivulliq. It is 64 m factory-freezer vessel, built in 2001, with accommodations for 25 crewmembers. This vessel has the ability to fish both turbot and shrimp and will replace the need for southern vessels to harvest shrimp. Both vessels are actively fishing for BFC in 2016.

For further details and general arrangements of BFCs vessels please refer to Appendix 5.

Non-owned Vessels

Since buying out its foreign partners and increasing the size of the fleet in 2015, BFC does not require the chartering of vessels to harvest its own allocation. However, from time to time, BFC may still enter into chartering arrangements if the arrangement includes reciprocal quota allocations that assist BFC in maximizing the use of its vessels throughout the year, and provide an opportunity for Inuit to work aboard vessels.

As an example, BFC works very closely with the Labrador Fishermen's Union Shrimp Company (LFUSCL), and has in the past supplied turbot at competitive rates in exchange for access to LFUSCL shrimp, which allows the Inuksuk I to operate year-round.

Turbot

Detailed Harvesting Plan

Baffin Fisheries has consistently harvested approximately 100% of its turbot allocation every year since 2004. In some years, harvest exceeds allocation due to the acquisition of additional quota from other allocation holders.

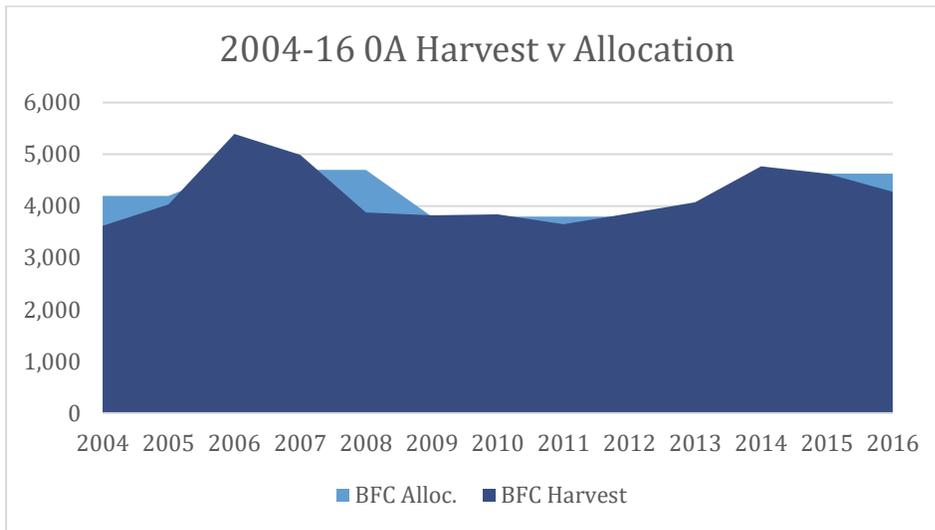
In 2016, Baffin Fisheries harvested 6,181 tonnes of turbot from areas OA and OB. BFC received DFO allocations totaling 5,680 in these areas. The successful harvest of 501 tonnes beyond annual allocations was achieved by purchasing quota from other allocation holders, and participating in the OB competitive fishery, and was partially offset by reductions from 2015 overages, quota swap arrangements to extend the fishing season, and small amounts of turbot remaining unobtainable due to early ice and vessel maintenance issues.

OA Turbot Fishery, 2016

In area OA BFC holds allocations of approximately 4,630t of turbot. In 2016, BFC harvested 96% of its available allocation in this area. OA harvest was 208 tonnes below BFC's available allocation due to earlier than anticipated ice in Davis Strait, which also affected LFUSCL from harvesting 100% of an allocation obtained in a quota swap agreement, and; unexpected mechanical issues with the Company's trawlers.

At year end, BFC had harvested 4,279 tonnes out of a potential 4,422 available in OA.

Figure 11 - 0A Turbot Harvest v Allocation 2004-2016



OB Turbot Fishery, 2016

In area 2016, BFC holds allocations of 1,050 t, and purchased an allocation of 950t for a market-based royalty price, from Cumberland Sound Fisheries Ltd. From this allocation, BFC provided 100t to another fishery company in exchange for a royalty payment and future opportunities, and made small adjustments based on past overages and small quota swaps.

At the end of the season, BFC had harvested 1,815 t of OB turbot, against an available allocation of 1,783 t, or 105% of the quota allocation available to it in OB. The overage will be reduced from 2017 allocations.

Additionally, BFC participated in the OB competitive fishery, harvesting 86 t of turbot.

For 2017, BFC's fishing plan again calls for harvesting 100% of the allocation, plus approximately 950t from the CSFL – PFL partnership, using the Sivulliq, Inuksuk I, and Arluk II. The 2017 fishing plan calls for the successful harvest of the full quota allocation, despite a heavy vessel maintenance schedule in 2016 and early 2017.

History

From 2001 – 2010, BFC assisted Cumberland Sound Fisheries Ltd (CSFL) and Pangnirtung Fisheries Ltd (PFL) with the harvest of their turbot quota in zones 0A and 0B. In the later years this harvest was shared between BFC and Qikiqtaaluk Corporation. During this period a portion of the quota was identified for processing in the plant in Pangnirtung. For the 2011 season, CSFL partnered with Arctic Fisheries Alliance (AFA) to form the Umiat Corporation, responsible for the harvest of CSFL turbot quota for the 2011-2012 season. This harvest was primarily conducted by non-Inuit owned Southern vessels.

In 2012, BFC re-established a long-term agreement with Cumberland Sound Fisheries to assist with the harvest of their allocated quota. BFC agreed to harvest (and pay royalty on) 950t of OB

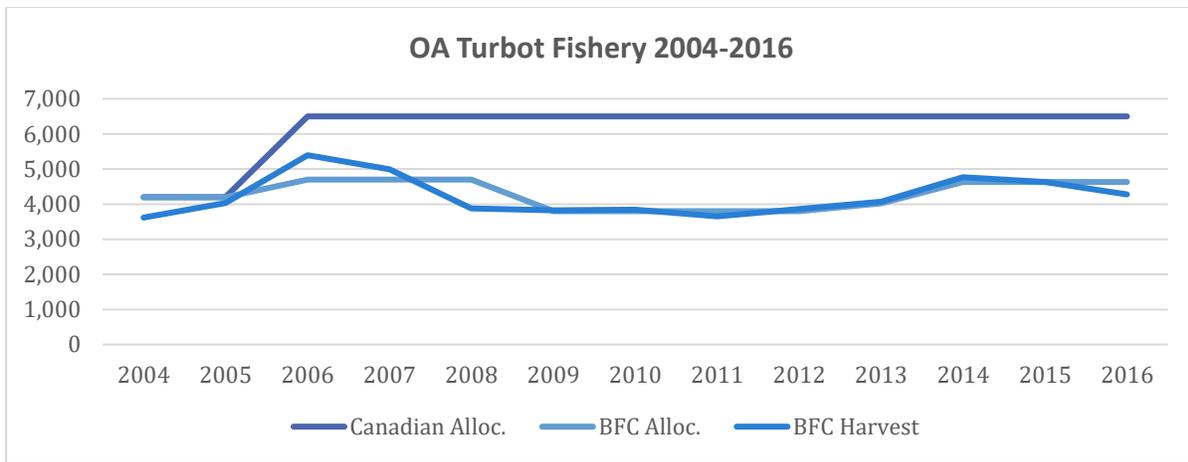
turbot. This agreement allowed BFC to increase the Inuksuk’s utilization in OB, and expanded the harvest season for this vessel. This agreement also assured that primarily Inuit-owned vessels would harvest Nunavut allocations. BFC continued this partnership in 2016.

Looking Ahead

From Dec. 31, 2017 onward, Baffin Fisheries has entered into an exclusive arrangement with CSFL to harvest turbot allocations at competitive market prices. This long-term agreement will give CSFL the financial security it requires to make additional investments in the fishery or other business areas, and give BFC the security it needs to continue to improve the Nunavut fleet of offshore vessels.

Figures below outline BFC historical harvest of OA and OB turbot up to and including 2016.

Figure 12 - OA Turbot Fishery BFC Harvest 2004 – 2016



Summary 2017 Fishing Plan

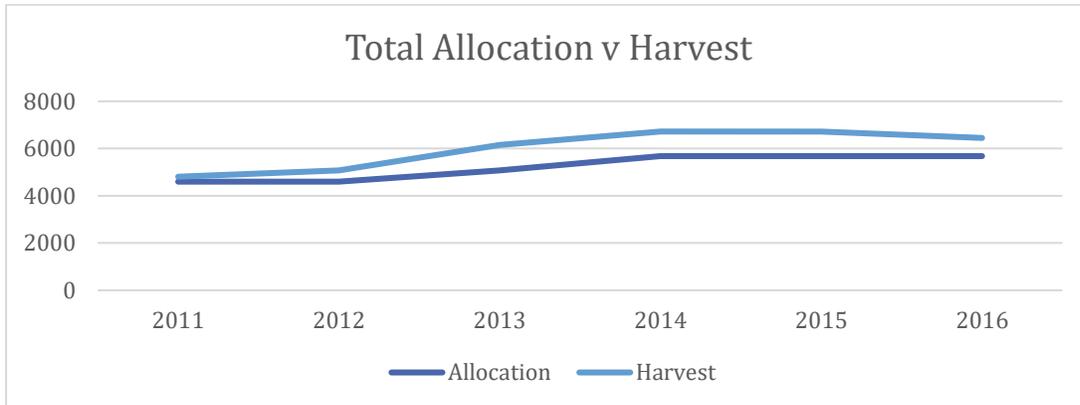
The Inuksuk I will harvest turbot in the north from May/June to end of December and shrimp in the south from early to mid-December to April. The Arluk II will harvest turbot in the north from late May to November 10th (DFO has a set time frame for fixed gear vessels to finish OA fishery; this is based on the ice conditions). Due to the existing and continued investment outlined in this plan, BFC anticipates having a surplus capacity of approximately 750-1,000t of turbot per year, allowing for any recommended quota increases or support for other allocation holders. With major maintenance issues and upgrades behind it, and new vessels under consideration, BFC expects to significantly increase this surplus capacity for future seasons.

Figure 13 - OA and OB turbot allocations and harvest for 2011-2016

| | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | |
|-------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|
| Zone | Alloc. | Har. |
| OA | 3800 | 3649 | 3800 | 3859 | 4020 | 4072 | 4630 | 4767 | 4630 | 4627 | 4630 | 4279 |
| OB | 800 | 1159 | 800 | 2170 | 1050 | 2086 | 1050 | 1954 | 1050 | 2094 | 1050 | 1901 |
| Total | 4600 | 4808 | 4600 | 6029 | 5070 | 6158 | 5680 | 6721 | 5680 | 6720 | 5680 | 6180 |

Due to quota swapping, and agreements to pay a royalty for other Allocation Holders' quotas, BFC has consistently harvested additional turbot quota beyond its own allocations since 2011.

Figure 14 - Total Turbot Allocation/Harvest 2011-2016



As the figure above indicates, the Company's capacity and total harvest has exceeded its turbot allocation since 2011. To maximize utilization of assets and increase employment opportunities, Baffin Fisheries purchases additional quota from other allocation holders, and participates in the competitive fishery.

Shrimp

Harvesting Activity

In 2016 BFC harvested a total of 4,191 t of northern shrimp from SFA 2,3, and 5, and Davis Strait. Total harvest in Area SFA5 was reduced in 2016 due to the expiry of a quota swap agreement with the Labrador Fishermen's Union Shrimp Company Ltd. (LFUSCL), and reduced allocation availability for 2016. Shrimp harvest in Davis Strait was lower than anticipated due to factors unique to the 2016 year: the new 2016 allocation of 379.2 tonnes of shrimp for Davis Strait West was not granted by the Department of Fisheries and Oceans until October 17, when the 2016 fishing plan was nearly complete; BFC's unexpected heavy maintenance schedule reduced capacity late in the season; ice conditions prevented shrimp harvesting late in 2016.

With maintenance issues behind it, and a full year of planning available, BFC will maximize its Davis Strait shrimp harvest in 2017.

Historically, shrimp fishing in NSA waters has occurred at a small scale. Since 2006, with the decision to increase overall quotas, BFC has actively pursued the development of this resource. In the early development stage, it was recognized that to maximize the potential capacity to harvest shrimp additional vessels would be required. Many fisheries globally have been developed by allowing the industry member to transition vessel between species throughout the season. This provides for maximum utilization of existing fleet vessels and continuous employment for employees throughout the year. Unfortunately, the turbot season in OA and the SFA 1, Davis Strait East (DSE), Davis Strait West (DSW), and Nunavut/Nunavik East and West (NU/NK E & W) overlap. This previously required BFC to focus its fishing effort during this

period on OA turbot, meaning large portions of the allocated shrimp quota was not fished annually.

Recognizing that this resource was being underutilized, BFC worked toward expanding the capacity to harvest the annual allocation. Prior to the 2009/10 shrimp season, BFC entered into agreements with operators of Canadian-flagged factory freezer vessels to harvest the allocation on their behalf. During the 2009/10 and 2010/11 harvesting seasons, BFC were unable to identify Canadian vessel operators willing to harvest the allocation. It was recognized that existing economic issues such as fuel price and exchange rate were likely the reasons for the lack of interest expressed by Canadian operators.

In a plan submitted to, and subsequently approved by, NWMB and DFO, BFC proposed entering into agreements with a foreign-flagged vessel to fulfill BFC’s commit to the allocations in SFA 1, 2, and 3. The use of foreign-flagged vessels resulted in the successful harvest of approximately 3,000t of shrimp in both the 2010 and 2011 season. Subsequent to the successful harvests conducted in the 2009/10 and 2011/12 seasons, BFC entered into an agreement with a Canadian operator from 2012-2015 to harvest shrimp within Nunavut waters.

As discussed above, prior to 2015 BFC was reliant on southern or foreign partners to harvest its full shrimp quota. BFC sought to exit such partnerships, and leverage existing assets to acquire its own fleet.

D. Financial Details

See Section VI, Detailed Financial Information, for 2016 financial details.

Investment in Developing Davis Strait Fishery

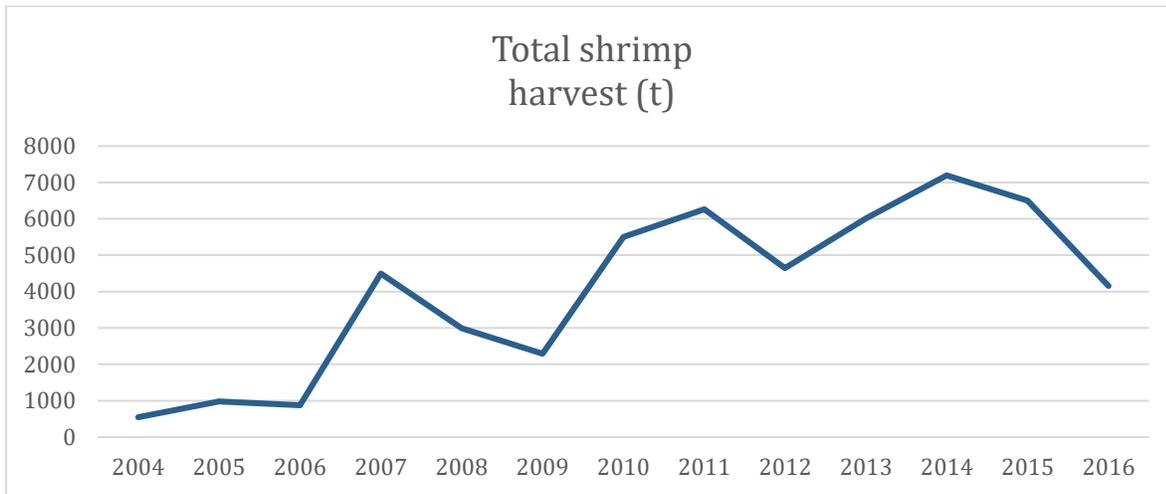
In 2013-15, BFC invested significantly in Davis Strait to gain the knowledge necessary to turn the non-viable Davis Strait fishery into a profitable venture, and provide jobs and benefits to Nunavummiut. In 2015 BFC conducted 53 tows over a 15-day period, netting just 116 tonnes.

Figure 15 - Shrimp Fishery – BFC Harvest 2016

| | SFA 1 | SFA 2 | SFA 3 | SFA 4 | SFA 5 | SFA 6 | SFA 7 | Davis Strait W ¹ | Total harvest (t) |
|------|-------|-------|-------|-------|-------|-------|-------|-----------------------------|-------------------|
| 2016 | | 9.4 | 2,775 | | 1,350 | | | 17.5 | 4,151 |

1) New allocation for 2016 announced late in season; ice conditions prevented fishing

Figure 16- BFC Shrimp Harvest 2004 – 2016



Previously, vessels owned by BFC were utilized to full capacity for harvesting turbot quotas in the short fishing season of the Nunavut Waters. As a result, BFC’s shrimp allocations were harvested mostly under agreement with third-party fishing vessels. With the successful acquisition and upgrading of the Sivulliq, BFC anticipates that the use of southern vessels will no longer be required to harvest its shrimp allocation. Additionally, to provide year-round operations, the Inuksuk fishes for shrimp in southern waters during the Nunavut off-season, which runs from December through May inclusive. Third party quota holders, to whom BFC pays royalties, provide access to this allocation. In return BFC may make turbot available to the third party.

With the addition of a modern, higher-capacity vessel to the fleet, BFC will be in a better position to negotiate quota purchases and swaps which allow it to extend the fishing season to year-round operations. Year-round fishing provides stability and certainty of cash flow, reduces the per-tonne operating costs of vessels, and provides better employment opportunities for fishers.

While BFC has had some success in the past in harvesting shrimp in Nunavut’s adjacent waters there are still many inconsistencies in the shrimp available in SFA 1 & 2. In the northern regions BFC is an active partner and supportive of research surveys to identify the economic viability of the fishery in this region. As a result, BFC has shown that the Ungava Bay area (Nunavut East & West) can support a viable fishery, and continues to harvest here annually.

Landing and Processing

All turbot and shrimp are processed and packaged on board the fishing vessels. Finished product is discharged in Nuuk and Sisimiut, Greenland or Bay Roberts, Newfoundland at privately owned refrigeration facilities. Product is then shipped to the international market as sold through existing marketing arrangements. BFC continues to develop new opportunities to increase the return to shareholders by negotiating favourable cold storage rates, exploring opportunities to obtain its own cold storage capacity, conducting detailed cost-benefits

analyses for selecting offloading sites, and exploring all options for maximizing final sale price. For further details please refer to the Benefits section.

Sales and Marketing Plan

Baffin Fisheries is recognized internationally as a premium supplier of wild, sustainable, cold water seafood products. As a result of this recognition and existing brand equity, BFC made a decision in 2015 to operate under one consistent brand name, *Baffin Fisheries*, and to enhance its brand by promoting its new status as a 100% Inuit-owned company. The company engaged the services of an Iqaluit design agency to simplify and modernize its existing logo and wordmark, creating an identity that can be better promoted around the world. This essential groundwork led to BFC taking over all sales and marketing functions, as stated above.

Brand Value

Baffin Fisheries' goal has been, since its inception, to develop a strong brand awareness for fish species harvested in Nunavut's pristine, cold water environment. Packaging is displayed prominently with the Baffin Fisheries logo, as well as the Truly Wild logo. In the markets where this product is marketed, it is recognized as a quality branded product, from Nunavut. The Company plans to continue to increase this market awareness and to further distinguish its product from lower-value species from other regions.

Baffin Fisheries products are processed and packaged within hours of harvest in factory freezers onboard modern vessels. Turbot is packaged in two ways: Head-removed gutted (H/G >1 kilo) form and whole fish (< 1 kilo). The primary markets for our H/G turbot, as well as heads and tails, are the Asian countries of China, Taiwan and Japan. Some of the larger H/G turbot is sold into Germany for the smoking industry. The smaller, whole turbot is marketed primarily in China. Our raw larger shrimp are sold into the Japanese market, the Chinese market, and, prior to 2014, were being sold into markets in Russia, Ukraine, and other former eastern bloc countries. However due to the ban on Canadian products into Russia and poor economy in Ukraine, these market is no longer available to us. Industrial shrimp are sold primarily to cook and peeling plants in Scandinavia and Greenland.

Administrative Support

BFC has expanded its support facilities in St. John's to improve vessel supply and support, product offloading, product quality control, financial management, and to explore expansion opportunities. With the increase in fleet size and buy-out of its partner company, Baffin Fisheries is implementing new software and processes to better manage purchasing, inventory management, and vessel maintenance.

Royalty Fees for Quota Allocations

Since buying out its foreign partners and increasing the size of the fleet in 2015, BFC does not require the chartering of other company vessels to harvest its own allocation in exchange for a royalty. However, from time to time, BFC may still enter into chartering arrangements if the arrangement includes reciprocal quota allocation that assists BFC in maximizing the use of its vessels throughout the year, or if unanticipated incidents make it impossible for BFC vessels to operate as planned. In cases where agreements are established for chartering of vessels, BFC's

HTO shareholders benefit from 100% of the royalties and profits. In addition, all non-ownership vessels must also provide Inuit employment on the vessels.

For the harvesting of shrimp or turbot from other allocation holders, BFC enters into agreements on a royalty basis. To continue to expand and develop sustainably, BFC's policy in dealing with outside vessel operators is to first identify operators that have resources or quotas in adjacent areas.

As an example, BFC has worked very closely with the Labrador Fishermen's Union Shrimp Company (LFUSCL), supplying OA turbot, at competitive rates, in exchange for access to LFUSCL, which allows the Inuksuk I to operate year-round.

In general, the agreements BFC is signatory to have competitive, market-based royalty fee schedules.

E. Commitments for the Upcoming Season

Midway through the 2017 fishing season, BFC was back on track to harvest 100% of both its turbot and shrimp allocations, and harvest all resources acquired through royalty agreements and quota swaps. The major repair and overhaul issues of 2016 have successfully addressed all known mechanical issues with the vessels.