

CPA Common Final Examination

BOARD OF EXAMINERS' REPORT

PART B — The Day 1 Report

May 2024 and May 2025
Examinations

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TABLE OF CONTENTS

	<u>Page</u>
The Board of Examiners' Report on the May 2025 Common Final Examination – Part B (Day 1).....	1
A Message to Candidates.....	9
<u>Appendices</u>	
Appendix A: Examination Design, Marking Guide Development, and Marking of the Common Final Examination.....	16
Appendix B: Capstone 1 – NPF Background Case.....	22
Appendix C: May 28, 2024 – Day 1 NPF, Version 1 Simulation.....	84
Appendix D: NPF, Version 1 – Marking Guide and Sample Candidate Response.....	100
Marking Guide NPF, Version 1.....	101
Sample Candidate Response NPF, Version 1.....	131
Appendix E: May 21, 2025 – Day 1 NPF, Version 2 Simulation.....	148
Appendix F: NPF, Version 2 – Marking Guide and Sample Candidate Response.....	162
Marking Guide NPF, Version 2.....	163
Sample Candidate Response NPF, Version 2.....	190
Appendix G: Results by Summative Assessment Opportunity for Day 1.....	204
Version 1	205
Version 2	205
Appendix H: Board of Examiners' Comments on Day 1 Simulations.....	206
Version 1	207
Version 2	218
Appendix I: CPA Common Final Examination Reference Schedule.....	232
CPA Regional and Provincial Contact Information.....	238

See Part A for full report on the May 2025 Day 2 and Day 3 simulations and marking guides.

THE BOARD OF EXAMINERS' REPORT ON THE MAY 2025 COMMON FINAL EXAMINATION

OBJECTIVES OF THE REPORT

The objective of this report is to explain the Common Final Examination (CFE) process and to assist the profession in improving the performance of candidates on the CFE.

The report sets out the responsibilities of the Board of Examiners, the methods used for guide setting and marking the CFE, and the results of the marking process. The report also includes recommendations to candidates from the Board of Examiners.

The May 2025 CFE Report is presented in two parts: Part A is the Day 2 and Day 3 report and Part B is the Day 1 report.

The appendices provide more detailed information on the design, guide setting, and marking of the CFE, as well as the board's expectations of candidates on the simulations. Readers are cautioned that the marking guides were developed for the entry-level candidate and that, therefore, all the complexities of a real-life situation may not be fully reflected in the content. The CFE report is not an authoritative source of GAAP.

RESPONSIBILITIES OF THE BOARD OF EXAMINERS

The Board of Examiners (BOE or board) comprises a chair, two vice-chairs, and sixteen members appointed by the provincial bodies.

The board's responsibilities, as set out in its terms of reference, include the following:

- Setting the CFE in accordance with the *CPA Competency Map* (the *Map*) and other directions from the Professional Education Management Committee;
- Submitting the CFE and the marking guides to the provincial bodies for review;
- Marking the candidates' responses and recommending to the provincial bodies the pass or fail standing that should be given to each candidate; and
- Reporting annually on the CFE to various CPA committees and the provincial bodies, in such form and detail and at a time that is satisfactory to them.

The chair is responsible for the supervision of the evaluation process. A CFE subcommittee, made up of nine members of the board, is actively involved in the preparation of the CFE simulations, the preliminary marking guides, and the setting of the initial passing profile. The members of that subcommittee participate in the Preliminary Evaluation Centre where the marking guides are tested against candidate responses and finalized. The BOE chair and vice-chair provide oversight throughout the entire marking process, consulting with subcommittee members as required. The full board is responsible for equating the difficulty of the examination to prior years' examinations and establishing the passing standard.

THE CFE

Preparation and Structure of the CFE

The board staff works in conjunction with authors to ensure that the simulations presented to the board achieve the overall intent and design objectives set by the board, while adhering to the competencies and proficiency levels specified in the *Map*.

The full board provides guidance as to the content and nature of simulations to be included on the examination. The CFE subcommittee reviews and refines the simulations that make up the three-paper evaluation set.

Nature of the Simulations

The CFE comprises a set of simulations which are both essential and effective in evaluating the candidates' readiness to enter the profession:

Day 1 – The first paper is a four-hour examination consisting of a single simulation that is linked to the Capstone 1 group case. There are two versions of the linked cases, unless special circumstances require that a third version be provided. Version 1 is linked to the most current Capstone case and is written by first time writers and repeat writers who chose to attempt the new case rather than Version 2 of the previous Capstone case. Version 2 is written by repeat writers and candidates who deferred and are writing Version 2 as their first attempt. The versions of the exams are calibrated to ensure the difficulties of all versions are comparable. For the May 2025 CFE, a Version 1 and a Version 2 were offered. The Version 2 case relates to NPF, for which a Version 1 was offered in May 2024.

Day 2 – The second paper is a five-hour case, with four different roles and requirements. Additional information tailored to each role is provided in four separate appendices.

Day 3 – The third paper is a four-hour paper, consisting of three multi-competency area simulations.

Assessment Opportunities

The board applies competency-based marking procedures that enable it to decide which candidates demonstrate readiness to enter the profession.

Assessment Opportunities are designed to answer the question, “What would a competent CPA do in these circumstances?” To attain a pass standing, candidates must address the issues in the simulations that are considered significant.

Appendix A contains a comprehensive description of the evaluation process.

Marking Guides

Marking centre leaders and assistant leaders provide valuable input during the testing and setting of the marking guides, before live marking begins. The vice-chair, selected member(s) of the CFE subcommittee and senior evaluations staff hold meetings with the leaders and their assistants during both the guide-setting and the marking processes. See **Appendices B to F** for the NPF Day 1 simulations and related capstone case, NPF marking guides, and NPF sample responses. **Appendix G** contains the marking results by assessment opportunity, and **Appendix H** contains the BOE comments. A copy of the Day 1 V1 (VTL), Day 2 and Day 3 simulations can be found in **Part A** of the CFE Report.

Day 1 – The marking guide is designed to assess the candidate on the stages of the CPA Way: 1) situational analysis; 2) analysis of the major issues; 3) conclusions and advice; and 4) communication. Based on these four summative assessments, the candidate’s response is holistically judged to be either a passing or a failing response.

Day 2 and Day 3 – Marking guides are prepared for each simulation. Besides identifying the Assessment Opportunities, each marking guide includes carefully defined levels of performance to assist markers in evaluating a candidate’s competence relative to the expectations set out by the board when developing the passing profile for a competent CPA.

Five categories of performance are given for each Assessment Opportunity. The candidate's performance must be ranked in one of the five categories:

- Not Addressed
- Nominal Competence
- Reaching Competence
- Competent
- Competent with Distinction

Setting the Passing Standard

The chair of the board and vice-chair in charge of the examination monitor the live marking. Near the completion of the marking process, the CFE subcommittee satisfies itself that the markers applied the marking guides as intended by the board.

In determining which candidates pass the CFE, a candidate is judged in relation to the board's pre-established expectations of an entry-level chartered professional accountant. Any changes to the initial passing profile that were made throughout guide-setting and the marking centre are ratified by the full board. In setting the passing profile, the board considers the following:

- The competency area requirements described in the *Map*
- The level of difficulty of each simulation (set using a scale: Easy, Easy to Average, Average, Average to Hard, or Hard)
- The level of difficulty of each Assessment Opportunity (set using a scale: Easy, Easy to Average, Average, Average to Hard, or Hard)
- The design and application of the marking guides
- Comments from leaders and assistant leaders regarding any marking difficulties encountered or any time constraints noted
- Possible ambiguity of wording or of translation
- Input on critical decision factors from an independent board (i.e., those BOE members not on the CFE subcommittee and therefore not directly involved) who review the fair pass package

The Decision Model

The purpose of the CFE is to assess whether candidates possess the competencies required of an entry-level CPA through a written evaluation that is common to all CPAs. Each day of the CFE is unique and is designed specifically to assess different skills:

- Day 1 is linked to the Capstone 1 group case work. It assesses the candidate's ability to demonstrate professional skills. It is independent from Day 2 and Day 3.

- Day 2 assesses technical **depth** in one of four unique roles (that reflect the four CPA Elective choices) and also provides **depth** and **breadth test** opportunities in the common core competency areas of Financial Reporting and/or Management Accounting. Candidates pre-select one role and respond from that role's perspective.
- Day 3 supplements the **depth** and **breadth** tests in the common core areas of Financial Reporting and/or Management Accounting, and also provides **breadth** test opportunities for all other common core competency areas.

Candidates must pass all three days in order to qualify for entry to the profession. Those seeking licensure must obtain depth in Financial Reporting and in the Assurance Role.

Day 1

Day 1 is assessed independently from Day 2 and Day 3. A pass or fail decision is made based on a holistic assessment of the candidates' performance in applying the CPA Way to demonstrate essential professional skills.

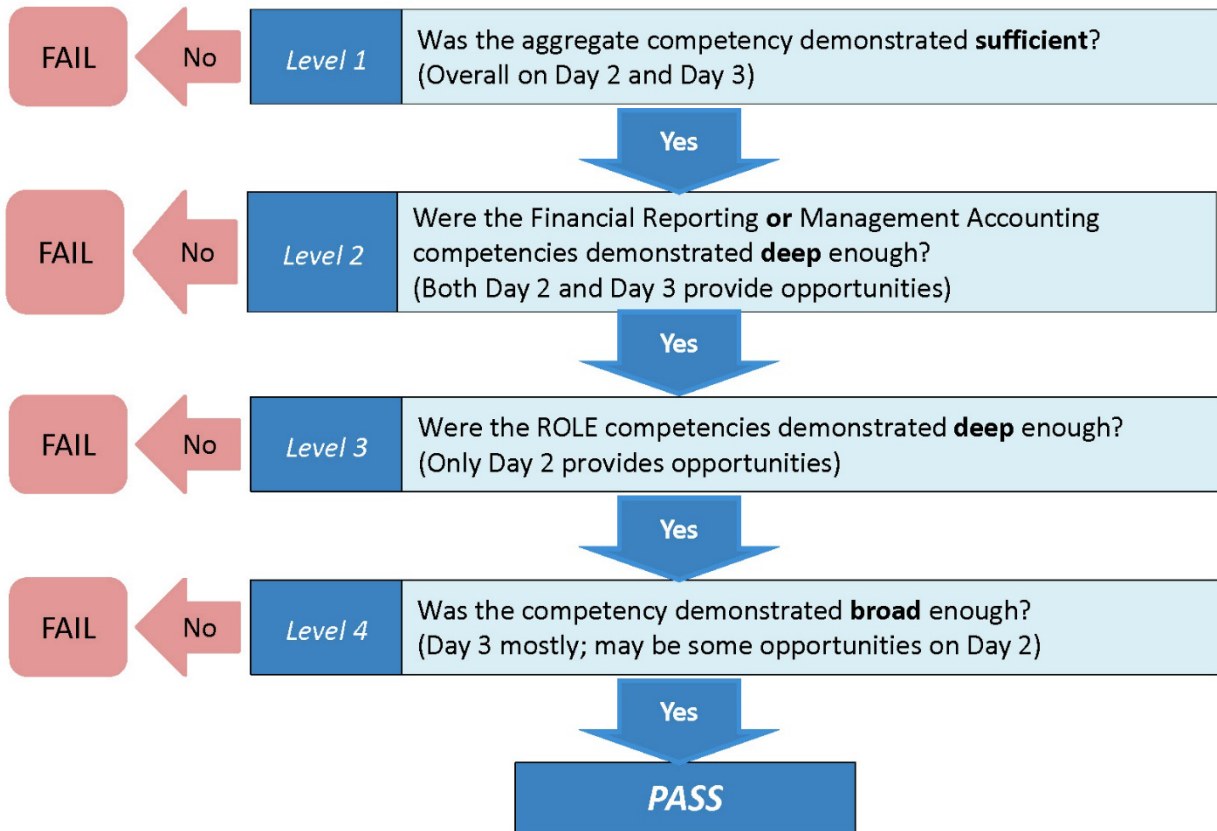
Day 2 and Day 3

The decision model used by the board is presented in Exhibit I. Four key decision points, or levels, are applied in reaching a pass or fail decision, as follows:

1. The response must be **sufficient**; i.e., the candidate must demonstrate competence on the Assessment Opportunities presented on Day 2 and Day 3 (Level 1).
2. The response must demonstrate **depth** in the common core area of Financial Reporting or Management Accounting (Level 2).
3. The response must demonstrate **depth** in the pre-selected elective role (Level 3).
4. The response must demonstrate **breadth** across all competency areas of the *Map*, at a core level, by not having avoided a particular technical competency area (Level 4).

The BOE is responsible for equating the results from one examination to another to ensure that candidates have an equal chance of passing whichever examination they write. The BOE uses the factors listed above under setting the passing standard, in order to equate the examinations.

EXHIBIT I
DAY 2 AND DAY 3 PASS/FAIL ASSESSMENT MODEL



APPROVING THE RESULTS

The CFE subcommittee reviews and approves the marking results for each simulation. Day 1 is assessed separately from Day 2 and Day 3.

Day 1 – The CFE subcommittee discusses the profiles for both the marginally passing and the marginally failing candidates to confirm the board's pre-established passing profile has been appropriately applied by the markers.

Day 2 and Day 3 – As part of the development process, the CFE subcommittee sets preliminary requirements for the three levels (tests of depth and breadth) being assessed on the Day 2 and Day 3 simulations. After the marking is completed, the board reviews and finalizes those requirements. The board establishes the Level 1 (sufficiency) requirement for the combined Day 2 and Day 3 simulations.

During the approval process, the board continues to consider whether the results could be affected by any inconsistency in the evaluation or the board's processes.

REPORTING

In reaching its decision, the board determines which candidates pass on a national basis only, without regard to provincial origin or language. Similarly, the detailed comments are based on analyses of the performance of all candidates.

The board reports the following information by candidate number:

- Overall pass/fail standing and pass/fail standing for each of Day 1 and for Day 2 and Day 3 combined.
- A pass/fail standing for Day 1.
- A pass/fail standing for Level 1, Sufficiency. A decile ranking is provided for failing candidates.
- A pass/fail standing for Level 2, Depth in Financial Reporting and/or Management Accounting.
- A pass/fail standing for Level 3, Depth in Role.
- A pass/fail standing for Level 4, Breadth in all technical competency areas.

THANK YOU

All board members wish to express their warm and sincere appreciation for the outstanding energy, support, and commitment of the Board of Examiners staff members whose dedication and talent contributed in large measure to the achievement of our objectives and the fulfilment of our responsibilities.

We also wish to acknowledge the contributions made by the provincial reviewers, markers, authors, translators, and editors. The commitment, energy, and skill demonstrated by all the markers were outstanding, resulting in the sound application of marking procedures and producing an appropriate evaluation of the candidates. Everyone's commitment to the quality and fairness of the process is appreciated.

Michael D. Fitzpatrick, CPA, CA
Chair
Board of Examiners

A MESSAGE TO CANDIDATES

To attain a pass standing, candidates needed to achieve a “Pass” on Day 1, and on Day 2 and Day 3 combined, demonstrate sufficient competence in all areas, and meet the two depth standards and the breadth standards.

Introduction

The May 2025 CFE Report, Part A and Part B combined, presents detailed information on all candidates' performance for all the examination cases, except for the Day 1 linked case, VTL Version 1. Detailed commentary on the performance of candidates on the VTL cases (Version 1 and Version 2) will only be available after VTL Version 2 is written in May 2026. The simulations, marking guides, marking results, and Board of Examiners' (BOE) comments on the Day 2/Day 3 portion of the examination are found in Part A of the CFE Report. Similar information on Day 1 NPF simulations (Version 1 and Version 2) can be found in Part B of the CFE Report.

The intent of this message from the BOE is to help candidates improve their performance on future CFEs by drawing their attention to the most common detracting characteristics observed in candidate responses to the May 2025 CFE. The BOE's comments are based on the feedback of the marking teams, who see the entire candidate population, and reflect the broad themes noted by the markers that apply to all candidates who wrote this sitting of the CFE. More detailed AO-by-AO commentary on candidates' performance can be found in the BOE's comments in Appendix F of Part A, or Appendix H of Part B, of the CFE Report.

Nature of the CFE

The design of the CFE is such that each day of the examination allows candidates to demonstrate a different skill set. Day 1 allows candidates to demonstrate their high-level professional skills, such as analysis that is relevant and critical to strategic decision-making, professional judgment, and ability to synthesize information. Day 2 allows candidates to demonstrate their technical competence in the common Financial Reporting and Management Accounting competencies and in their chosen role, which is tied to one of the four elective areas. Day 2 typically, but not always, directs candidates to the work to be done and is not designed to be time constrained, allowing candidates to demonstrate depth. Day 3 allows candidates to further demonstrate depth and breadth in the common Financial Reporting and Management Accounting competencies, and provides multiple opportunities to demonstrate breadth in all the other core technical competency areas. Day 3 is typically time constrained, requiring candidates to prioritize the issues and manage the amount of time spent on each issue.

Both Day 2 and Day 3 require candidates to integrate the information found in the simulation in order to demonstrate competence. All three days require candidates to clearly communicate their thought process.

Strengths and Weaknesses

Time management

Overall, candidates demonstrated adequate time-management skills. The Day 1 simulation was not time constrained in any way and, generally, the amount of time that candidates devoted to their situational analysis and their issue analysis was appropriate. Most candidates were able to address all the strategic alternatives presented, spending more time on the alternatives that required more analysis and discussion. On the Day 2 simulation, many candidates seemed to mismanage their time between the common and role AOs, and clearly ran out of time at the end of their Day 2 response. While the BOE recognizes that the common AOs were more difficult, they remind candidates to set aside a sufficient amount of time to properly address the role AOs. On Day 3, which is designed to be time constrained, and required time management on the part of candidates, to ensure that all three simulations were completed within the four hours allotted, candidates seemed able to plan their time accordingly.

Unrelated discussions

There were relatively few unrelated discussions on this exam. Candidates addressed the requireds and generally did not provide any analysis that was not necessary.

Technical ability

The pattern the BOE has seen for the past few CFEs has continued, with candidates generally avoiding or struggling with the more complex topics. In addition, candidates seemed to struggle with even some of the more familiar, straightforward topics.

Candidates performed well on some of the very straightforward AOs, including: Day 2, Taxation role, AO#7 (Taxable income) and AO#13 (Employee versus contractor); Day 3, Simulation 1, AO#6 (Taxable income and filing with a loss); Day 3, Simulation 2, AO#5 (Special order); and Day 3, Simulation 3, AO#2 (Business valuation). However, on certain of the remaining straightforward AOs, there was more variability in the quality of the responses, with some candidates demonstrating a very poor understanding of the required technical knowledge, including topics that are familiar and straightforward.

For example, on Day 2, Common, AO#4 (Revenue recognition), candidates struggled with applying case facts to support their Handbook discussions. On Day 3, Simulation 1, AO#4 (Barn impairment), some candidates did not provide a discussion of indications of impairment, while other candidates struggled to explain why a recoverability test was needed.

Candidates also struggled with more complex AOs. One area where lack of technical knowledge was evident was on AOs requiring Handbook or Income Tax Act knowledge. For example, on Day 2, Assurance role, AO#7 (Pension plan), candidates were unable to apply the basic concepts related to accounting for a defined benefit pension plan, such as how to account for contributions to the plan. On Day 2, Taxation role, AO#9 (Sale of assets (corporate tax impact)) and AO#10 (Sale of assets (personal tax impact) and sale of shares), many candidates did not attempt to calculate recapture, netted capital losses against capital gains, or did not attempt the second level of income taxation on deemed dividends. On Day 3, Simulation 1, AO#4 (Barn impairment), some candidates did not provide a discussion of indications of impairment, while other candidates struggled to explain why a recoverability test was needed. On Day 3, Simulation 2, AO#6 (Employee compensation), candidates often had technical errors in their discussion, such as stating that training expenses would not be deductible for the company. On Day 3, Simulation 3, AO#4 (Corporate income taxes payable on sale), candidates who did address the AO did not recognize the need to allocate proceeds to the various assets and liabilities being sold in order to determine goodwill.

There was also lack of technical knowledge shown on some of the AOs requiring quantitative analysis. For example, on Day 2, Common, AO#1 (Activity-based costing), candidates struggled with correctly allocating costs, using a relevant driver. On Day 2, Performance Management role, AO#9 (Discount programs), candidates were generally unable to deal with the attrition rate provided in the scenario. Also on Day 2, Performance Management role, AO#11 (French immersion program), candidates often did not account for the 30 students who would be lost in the English program. On Day 3, Simulation 1, AO#2 (Lease versus buy), candidates ignored, or struggled to apply, the time value of money concept.

Candidates should expect to see a variety of issues of varying difficulty. The BOE encourages candidates to ensure they have a sufficient level of technical knowledge in all competency areas.

Lack of depth or integration of case facts

While there were some AOs where candidates provided good depth of discussion and explanations, such as on: Day 2, Assurance role, AO#13 (Procedures – compliance); Day 2, Finance role, AO#9 (Qualitative analysis – AJHS versus expansion); Day 3, Simulation 2, AO#1 (SWOT analysis); and Day 3, Simulation 2, AO#3 (Control weaknesses), overall, candidate responses could use improvement in terms of additional depth or integration of case facts.

For example, on Day 2, Common, AO#4 (Revenue recognition), candidates struggled to integrate specific case facts to support their Handbook discussions. Also on Day 2, Common, AO#6 (Liabilities), candidates often reached a conclusion to record the items as liabilities without explaining why the items would meet the definition of a liability. On Day 2, Performance Management role, AO#10 (Advisory boards), candidates often only repeated case facts, with no additional explanation. Also on Day 2, Performance Management role, AO#13 (Alternative performance measures), candidates were able to identify relevant measures, but did not explain why they were relevant. On Day 3, Simulation 1, AO#5 (Audit procedures), candidates were not always able to appropriately explain the procedures they provided, often resulting in unclear or vague responses. On Day 3, Simulation 3, AO#3 (Qualitative considerations on sale), candidate responses generally lacked depth, as many candidates provided only generic discussions without incorporating specific case facts.

Failure to understand the specific required or consider the specific context of the simulations

Consistent with previous CFEs, candidates on the May 2025 exam seemed to struggle with understanding the specific required, or considering the specific context of the simulation in their response. On Day 2, Assurance role, AO#10 (Analytical procedures), candidates struggled with what was asked of them, often providing procedures to test the details of the account balance, rather than to review the substantive analytical completed by the junior. On Day 2, Finance role, AO#12 (Lease versus buy), candidates seemed confused by the request and only addressed one part of the required, either providing a reasonable analysis of the purchase price, or attempting the lease-versus-buy assessment. On Day 2, Performance Management role, AO#12 (Comparison with province), candidates often made mistakes with the calculation of the required ratios (which were specific to the case), and were unable to integrate appropriate case facts to interpret the ratios they calculated. On Day 3, Simulation 3, AO#3 (Qualitative considerations on sale), in addition to lacking depth in their response, as noted above, candidates often did not address the considerations from the seller's perspective, even though that was the specific request.

The BOE emphasizes that understanding the specific ask of the requireds, as well as the ability to adapt to unique scenarios and integrate information into an analysis, are important skills for an entry-level CPA. Candidates should ensure they have a good understanding of the specific context for any requests before addressing them, and ensure that any analyses incorporate elements that are specific to the case presented.

For more detailed commentary, see Appendix F of Part A of the CFE Report.

Additional Comments Specific to Day 1 – VTL (Version 1)

Most candidates dedicated the first section of their response to a relevant situational analysis. Most used this information later in their response, making relevant links back to the company's global situation when analyzing the specific strategic alternatives that were presented, and within their conclusions.

There were two crucial developments since Capstone 1 that had major strategic implications. First, the Canadian economy entered a recession, resulting in reduced spending at full-service restaurants. Second, there is an ongoing drought, impacting the supply of tomatoes essential to VTL's restaurants and pasta sauce. In addition to these developments, the board has imposed a strict \$2.5 million investment capital limit. Candidates were expected to integrate these crucial elements of the company's broader situation within their qualitative and quantitative analyses of each strategic alternative. Although most candidates included some of these elements, many candidates failed to recognize the significance of the drought and its impact on the supply of the tomatoes, instead focusing only on tomato prices.

There were four strategic alternatives to be analyzed in this case, both qualitatively and quantitatively: whether to expand the distribution agreement with SFDL and introduce new pasta sauces; whether to invest in Bella and manage new food windows; whether to downsize the dining rooms of restaurants so that small, boutique retail shops can be added; and whether to enter into a supply agreement with Vita.

For each of the strategic alternatives available to VTL, candidates were expected to conclude on, and recommend, a course of action that was consistent with their analyses.

Within the analysis of the major issues, three main factors differentiated strong responses from weak responses. First, a strong response identified and provided an in-depth discussion of the most important decision factors for each issue, such as how the strategic alternative could help alleviate the shortage of tomatoes. Weak candidates tended to list case facts, often failing to explain why those elements were important and how they affected the decision-making process. Second, strong candidates provided valuable quantitative analyses to help support their recommendations, such as by linking their calculations to the stated objectives of VTL. In contrast, weak candidates' quantitative analyses were often unstructured and unclear and, therefore, challenging to follow. Many failed to perform the correct calculation to assess the decision. These candidates often struggled to explain how the results of their quantitative analyses affected the decision at hand. Third, strong candidates recognized the integration between the various strategic alternatives. Strong candidates incorporated discussions of whether one option would fit well with the other options presented, whereas weak candidates typically missed making these links altogether. Strong candidates also typically incorporated both new developments in their discussion and conclusions. Weak candidates tended to only perform an issue-by-issue analysis without stepping back to consider the broader perspective, and without integrating the key new developments into their conclusions. As a result, they failed to make important links between the various aspects of each alternative.

The BOE continues to note that many candidates struggled with the "step back" nature of the Day 1 simulation. There were more responses exhibiting characteristics of weak candidates in the overall population. The BOE encourages candidates to take the time on Day 1, which is not designed to be a time constrained exam, to think through the bigger-picture issues presented in the simulation, and incorporate that analysis into their response.

Most candidates approached their response in a coherent and organized fashion. Only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized approach to their response.

Additional Comments Specific to Day 1 – NPF (Version 2)

Similar to VTL Version 1, most candidates dedicated the first section of their response to a relevant situational analysis. Most used this information later in their response, making relevant links back to the company's global situation when analyzing the specific strategic alternatives that were presented, and within their conclusions.

One of the significant constraints in the case was that, since Colan and Yvonne made the plan to retire within the next two years, management's time was a significant constraint. In addition, while NPF had \$15 million in cash reserves, the board had emphasized the importance of maintaining a reasonable cash buffer. Candidates were expected to integrate the crucial elements of the company's broader situation into their analysis.

There were four strategic alternatives that candidates were expected to analyze, both qualitatively and quantitatively: whether to purchase Bundhoo Salmon Farm; whether to open additional retail stores; whether to acquire Marine Eats; and whether to build the Integrated Multi-Trophic Aquaculture operation, Synersea.

For each of the strategic alternatives available to NPF, candidates were expected to conclude on, and recommend, a course of action that was consistent with their analyses. Given the board's primary objective, to pursue investments that will secure NPF's long-term success, candidates were expected to address how NPF could take advantage of its opportunities to meet this objective.

Similar to VTL Version 1, strong candidates recognized and discussed the most important decision factors for each issue, provided valuable quantitative analysis, and linked their analysis to the significant entity-level issues presented in the case. Strong candidates tended to consistently identify and discuss how each strategic option would impact the management time constraint, and consider any potential synergies between the various strategic alternatives, such as how the retail store expansion could complement any of the other three options by serving as a distribution channel for processed or farmed seafood products.

Weak candidates generally did not identify and discuss in depth the most relevant aspects of each strategic alternative presented as part of their analysis. Rather than discuss the more pertinent implications, weak candidates' analyses tended to focus on the minor considerations, such as the strategic alternative's fit with the vision, mission, and key success factors. Weak candidates also tended to simply list the case facts they thought were relevant without explaining the importance of those case facts, and what impact they would have on the viability and strategic strength of each option presented. Also, weak candidates often did not step back and consider the entity-level issues within their analysis of the options (the management time constraint), or the synergies between the options. Again, consistent with VTL Version 1, many candidates did not meet the BOE's expectations related to the discussions of the bigger-picture issues.

As was the case with VTL Version 1, only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized approach to their response.

APPENDIX A

**EXAMINATION DESIGN, MARKING GUIDE DEVELOPMENT, AND MARKING
OF THE COMMON FINAL EXAMINATION**

CFE Design

Day 1 is one four-hour case that is linked to the Capstone 1 case, which is worked on in groups for eight weeks prior to the CFE. When writing the Day 1 case, candidates are allowed access to their Capstone 1 case but not their group's answer or any sample response. The Day 1 case is designed to assess the enabling (professional) skills. Candidates are expected to target a "board room and senior management" level of discussion, with high-level analytics and a strategic focus. There are typically two versions of the Day 1 case. Candidates pre-select the version they will write.

Day 2 is one case designed to be completed by an average candidate in three and one half hours that candidates are given five hours to respond. The extra one and one half hour gives candidates time to filter and find the information that they need to answer *their* role requirements from within the common information presented. Day 2 is designed to assess the technical competencies in **depth** (Level 2 and Level 3). Candidates pre-select a role (Assurance, Finance, Performance Management, or Taxation). All candidates work with the same case — it has a common section and four sets of appendices containing additional information applicable to each of the four unique roles. The required tasks, regardless of the role, are clearly directed unless there is an undirected/enabling issue in the case that the board expects candidates to identify on their own. Day 2 evaluates the competencies listed in the *CPA Competency Map* mostly in the Elective area in **depth** and in common Financial Reporting and/or Management Accounting areas in **depth** and **breadth**. The role **depth** test (Level 2) may also include coverage of other competency areas from the common core.

Day 3 is a four-hour examination containing a mix of small cases that evaluate the common Core competencies only. While the minimum allowable time for any one case is 45 minutes and the maximum is 90 minutes, historically the cases have ranged between 60 to 90 minutes. The Day 3 cases provide additional opportunities for **depth** and **breadth** in Financial Reporting and Management Accounting and **breadth** opportunities for all the other technical competency areas. Cases are time constrained and are designed to cover different competency areas within each case. A higher level of integration and judgment is required on Day 3 of the CFE than in the Core modules, although the technical competencies are tested at the common core level of expectation.

The assessment opportunities on the Day 2 case are given mark values such that each of Day 2 and Day 3 is weighted equally.

The Development of Marking Guides and the Provincial Review Centre

Prior to the CFE being published, provincial reviewers, appointed by each region, meet to examine the simulations and the preliminary marking guides. The provincial reviewers' comments are then considered by the board when it finalizes the examination set and again when the leaders and assistant leaders review the marking guides in the context of actual responses at the Preliminary Evaluation Centre.

The May 2025 CFE Evaluation Centre

The May 2025 CFE Evaluation Centre was run fully remotely. Approximately 100 individuals were chosen from the pool of applicants to participate in the CFE Evaluation Centre. The marking was supervised by the CPA Canada full-time CFE professional staff, with oversight by the CFE subcommittee vice-chair, and the chair of the BOE.

In advance of the marking centre, the members of the CFE subcommittee, staff, leaders, and assistant leaders participated in a three- to six-day preliminary evaluation centre (PEC). Participants reviewed the marking guides, applied them to randomly selected candidate responses, and made necessary revisions to the marking guidelines, taking into account the comments on the marking guides received from provincial reviewers.

The larger teams followed a set marking centre schedule, which included a start-up phase to train the markers. During the start-up phase, the leaders and the assistant leaders presented the marking guides to their teams, while staff and the BOE vice-chair monitored the discussions. The teams undertook a two-phase test-marking procedure prior to actual marking. Phase one consisted of marking guide familiarization, during which markers applied the marking guide to copies of candidates' responses and collectively reviewed their results. Phase one thus ensured that all markers understood the issues in the marking guide and the basis on which to apply each expectation level. Phase two consisted of an expanded test marking of several responses to establish marker congruence.

After the training and test-marking phases, and only when marker congruence was achieved, live marking commenced. All larger teams had a leader, and anywhere from one to three assistant leaders, and had both French-speaking and English-speaking markers. Each team had one or more markers who marked in both languages.

For smaller teams, all markers attended PEC, and moved directly from PEC to live marking. These teams had a leader, and two to three experienced markers, of which two were bilingual and marked all the French papers. These bilingual markers started in English and switched to marking in French once their marking was assessed as being consistent with the team. The bilingual markers arbitrated the French papers by discussing where there were differences in their markings.

The board strives for the highest possible marking consistency and quality control. Leaders and assistant leaders, therefore, devoted much of their time to cross-marking and other monitoring activities. Control papers were fed into the system daily to check marker consistency. Markers' statistics were reviewed to ensure that marking remained consistent throughout the centre. Based on analysis of the statistics, leaders reviewed and, if necessary, re-marked papers to ensure that the assessment opportunities were marked fairly for all candidates. Bilingual markers marked papers in both languages, and their results were compared to ensure that the marking was consistent in both languages. Additional audits were performed at the end of marking on any of the larger differences between markers.

Borderline Marking (Day 1)

Each candidate's paper was marked once. All candidates' responses that were assessed as clear fail, marginal fail, or marginal pass were marked a second time by the team leader, an assistant team leader or a senior marker. Clear pass results were also audited to ensure accuracy of marking.

Double Marking (Day 2)

Each candidate's Day 2 paper was marked independently by two different markers. If the two initial markings differed on any assessment opportunity, an arbitrator (the leader, an assistant leader, or a senior marker) compared the two initial markings and determined the final assessment.

As an added measure to ensure that markers were consistently applying the marking guide, a two-day rule exists, which results in the second round of marking not beginning until two days have elapsed since the first marking. Adherence to this rule ensures that any movement in the application of the guides due to marker interpretations during the first two days of live marking are stabilized before the second marking and arbitration process begin.

Borderline Marking (Day 3)

Day 3 was marked using a borderline model. All Day 3 responses were marked once and then the Day 2 and Day 3 results were combined. All failing candidates who passed the Day 2 role test, had their Day 3 response marked a second time by an independent marker, and any differences between the first and second markings were arbitrated by a leader or senior marker.

Subsequent Request for Remark of Results and Request for Performance Analysis

Failing candidates may request a remark of their examination results and/or a detailed personalized performance analysis for either Day 1, or Day 2 and Day 3 combined, or for all three days.

In an effort to provide failing candidates with more timely feedback, the Board of Examiners is providing an automated feedback report for Day 1 of the CFE. The report is automatically generated using the marking data collected for each response rather than being based on a personalized review of the response and is being provided at no cost to all failing candidates. This report is intended to allow for the identification of the key deficiencies in the candidate's Day 1 response, which then allows the candidate to decide whether to request the more detailed, and personalized performance analysis report noted above, for a fee.

Remarking of Results Approach

Great care is exercised in the original marking and tabulating of the papers and results. The following procedures are applied to all three papers constituting the CFE.

Under the supervision of the chair of the Board of Examiners and of CPA Canada CFE staff, the responses are reviewed by the leaders and assistant leaders who did the original marking. The leaders and assistant leaders read the responses and compare them to the marking guides used at the marking centre. In reviewing candidates' results, two aspects are considered. First, it must be determined that the basis of marking the papers has been consistent with that accorded other candidates who wrote the examination. Second, all responses reviewed are subjected to a careful check to ensure that the markers have indicated that consideration has been given to all material submitted by the candidate.

The results are tabulated and a decision made as to whether any candidates have been treated unfairly and should be granted a pass on the examination. The results are then forwarded to the provincial bodies for notification of the candidates.

APPENDIX B
CAPSTONE 1
NPF BACKGROUND CASE

Capstone 1

Neptune Point Fisheries Inc. — Case (FOR REFERENCE ONLY)

It is April 5, 2024, and you are working as a CPA with Sanderson & Harrop Consulting LLP (SHC). You have been assigned to prepare a report for the board of directors (board) and management of Neptune Point Fisheries Inc. (NPF).

NPF has approached SHC with a request to assist them in strategic analysis and to set a new direction for the company. Based on past years' results, the shareholders are concerned about the declining revenues and volatility of profits. There are conflicting viewpoints among the four shareholders as to how the company should grow in the future, as well as some additional issues that they would like you to analyze and address.

You have been provided with the following information to review and analyze (all dollar values are in Canadian dollars unless specifically stated otherwise).

Neptune Point Fisheries Inc.

NPF is a private company owned by spouses Colan and Yvonne McPherson and their two children, Kurt and Allan. Colan and Yvonne own 40% each, and Kurt and Allan each own 10%. The company was started in 1987 by Colan and Yvonne and has grown from that date. In 2023, annual sales were over \$32 million and operating income was over \$1.6 million.

The company's current operations involve ocean fishing in the Atlantic Ocean, and its head office is in Newfoundland and Labrador. It operates two fishing vessels that harvest Greenland halibut and shrimp in the northern Atlantic Ocean. The company performs initial processing and freezes the seafood on board its vessels. In addition to fishing ocean shrimp, NPF purchases freshly caught inshore shrimp to be processed and packaged at its on-land processing plant. The company distributes and markets its processed shrimp in a fresh and frozen state.

An organizational chart is provided in Appendix I. NPF's most recent financial statements for the years ended December 31, 2021, 2022, and 2023 (prepared under IFRS) are provided in Appendix II. Industry benchmarks are provided in Appendix III.

Industry information

Description and size

NPF operates in the fish and seafood industry, which includes segments such as ocean fishing, inland fishing (rivers and lakes), seafood aquaculture activities, importing and exporting, seafood processing and preparation, and wholesale and distribution. The industry also includes seafood retail and restaurants. In this industry analysis, "seafood"

includes all fresh, frozen, and canned fish and shellfish. Aquaculture, also referred to as fish farming, is the breeding, rearing, and harvesting of aquatic plants and animals. NPF operates in the ocean fishing and seafood processing segments of the fish and seafood industry.

Primary products in this industry are wild-caught shellfish, wild-caught finfish, and aquaculture shellfish and finfish. In 2020, the industry had total revenue of \$5.1 billion after suffering an 8% decline due to a global pandemic.¹ But growth to 2025 is expected to be 3.1% annually, driven by increased consumer spending and higher product selling prices.²

Fish and seafood are harvested from the Atlantic, Pacific, and Arctic oceans along Canada's borders. Overall, the industry is in its mature stage, with stable markets and well-defined product segmentation.³ The most significant change in the industry continues to be an increase to the proportionate market share of aquaculture.

Ocean fishing

Ocean fishing is broken down into three areas as defined by Fisheries and Oceans Canada:⁴

- Inshore: The fishing sector where licence holders are restricted to using vessels less than 19.8 metres (65 feet) length overall (LOA).
- Midshore: The fishing sector where licence holders are permitted to use vessels 19.8 metres (65 feet) LOA and greater, but less than 30.5 metres (100 feet) LOA.
- Offshore: The fishing sector where licence holders are permitted to use vessels 30.5 metres (100 feet) LOA and greater.

The size of the vessel required for harvesting seafood increases as the depth of the waters and mileage from shore increases. Global fish stocks are threatened by overfishing,⁵ whereas in Canada, the volume of seafood that can be harvested from the open waters is restricted by quota licences by species in order not to deplete populations.⁶

¹ Matthew Buchko, "Fishing and Seafood Aquaculture in Canada, Reel well: Improved export growth is expected to accelerate the industry's expansion," IBIS World Report 11411CA, August 2020.

² Ibid.

³ Ibid.

⁴ Government of Canada, "Maritimes Region Commercial Fisheries Licensing Policy," last modified August 23, 2021, <https://www.dfo-mpo.gc.ca/reports-rapports/regs/licences-permis/maritimes/licensing-pol-permis-peche-eng.htm>

⁵ Emilie Le Beau Lucchesi, "The Real Reason Global Fish Stocks Are Declining – And What You Can Do About It," *Discover Magazine*, November 8, 2022, <https://www.discovermagazine.com/planet-earth/the-real-reason-global-fish-stocks-are-declining-and-what-you-can-do-about>

⁶ Matthew Buchko, 2020.

Aquaculture

Aquaculture licences are issued and regulated by the provinces. Licences vary in length depending on the species. Unlike the quota limits imposed for open-water fishing, aquaculture often has no resource limits.⁷ As a result, there is increasing support for growth of this sector by both governments (federal and provincial) and private corporations. As aquaculture has grown in acceptance and investor interest, consolidation among existing companies has occurred to achieve economies of scale.⁸ There are low barriers to entry, allowing more producers to enter the aquaculture segment of this industry.⁹

The benefits of aquaculture in comparison to fishing include more predictable harvest volumes, fewer risk factors, less danger for the employees (in comparison to open-water fishing), more reliable input costs, and less damage to the environment.¹⁰ The one main drawback is reputational risk related to end consumers' perception of the use of antibiotics and chemicals required for breeding fish in concentrated farms to maximize the population and weight of the seafood.¹¹

Demand for animal protein is expected to increase by 52% by 2050,¹² and aquaculture is an efficient method to meet this demand. The number of operators in this segment is expected to grow by 2.6% to 21,172 enterprises in order to meet the increased demand of the export market.¹³

For aquaculture to be successful, a company must have a site that is on the water and has the right conditions for farming.¹⁴ Success in fish farming comes from achieving higher yields with lower input costs.¹⁵ Higher-quality farmed fish will yield higher revenues. As a result, this segment of the industry is heavily involved in researching and developing technological advances to genetically breed fish to be disease resistant, have higher reproductive rates, and have higher proportionate amounts of edible product to ensure success.¹⁶ Research is also involved in developing technologies for monitoring water temperature and monitoring for disease and sea lice.¹⁷ Operating profits for aquaculture are expected to increase due to higher seafood selling prices.¹⁸

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Best Aquaculture Practices, "Why Aquaculture?" accessed April 5, 2023, <https://www.bapcertification.org/WhoWeAre>

¹³ Matthew Buchko, 2020.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

Fish and seafood industry value chain

The following are the stages of the value chain for the fish and seafood industry:¹⁹

1. Seafood harvesting — Seafood is harvested by ocean fishing, inland fishing, or aquaculture (farming). Various sizes of vessels are used to harvest the catch. Maximum allowable quotas are set by licences regulated by the Canadian government, with the bulk of the quotas being given to commercial enterprises. Harvesters are paid the “landed price” per pound for their catch. The landed price is the market spot price that harvesters receive for their catch that is off-loaded at the shore’s docks. Once harvested, the seafood can be sold in its fresh state (unprocessed) direct to grocery retailers, restaurants (fast food or full service), food caterers, or the end consumer. Alternatively, the catch can be processed to the initial stage or further processed to a variety of other seafood products (as discussed below).
2. Initial-stage processing for fresh or frozen — Initial processing includes descaling, removing heads, and holding seafood in either a fresh or frozen state. This can be completed by the harvesters themselves either on board the vessels within an hour of catching or at onshore processing plants. Alternatively, the harvester can sell their catch to third-party processors that will complete this stage. The seafood can be sold intact in a fresh or frozen state direct to seafood processors (Stage 3), wholesale or retail customers (Stage 4), or the end consumer (Stage 5).
3. Further processing by seafood processors — This stage of processing includes removing usable parts of the fish and its shell. Seafood can be filleted and cut into smaller portions and sold fresh, or further processed into canned, smoked, jarred, pickled, salted, dried, or frozen products.²⁰ Fish and shellfish fats and oils are also produced at this stage.²¹ These processed products can be sold to wholesale or retail customers. Waste products from processing, such as bones and skin, can then be sold to animal feed producers.
4. Sales to wholesale and retail customers — Customers include full-service restaurants, supermarkets and grocery stores, fast food restaurants and caterers, fish markets, and grocery wholesalers.²² Many of these customers are willing to pay a premium to suppliers that can provide consistent quality, a wide variety of product, reliable delivery, and easy-to-prepare seafood.²³ As consolidation occurs among these customer segments, specifically the food retailers, this puts pressure on the pricing and trade terms for the upstream harvesters and processors.

¹⁹ Ibid.

²⁰ Matthew Buchko, “Seafood Preparation in Canada: Krillin’ it: A forecast improvement in the global economy is expected to drive further growth in industry revenue,” IBIS World Report 31171CA, January 2021.

²¹ Ibid.

²² Matthew Buchko, 2020.

²³ Clearwater Seafoods Incorporated, “Annual Information Form For the Year Ended December 31, 2019,” March 3, 2020, https://www.clearwater.ca/wp-content/uploads/2020/03/CLR-AIF-2019_Final.pdf

5. Sales to, and consumption by, the end consumer — The end consumer is looking for seafood that is easy to prepare and delicious.²⁴

Product segmentation

Within the fishing (ocean and inland) and seafood aquaculture segments in which NPF operates, the breakdown of product sales is as follows:²⁵

Type	Percentage of total segment revenues	Description
Wild-caught shellfish	54.6%	Includes lobster and crab, which sell for the highest prices, driving up the revenues from this segment. This segment also includes shrimp, scallops, clams, sea urchin, oysters, whelks, and sea cucumbers.
Wild-caught finfish	14.2%	Includes salmon (primarily off Pacific coast, and in smaller amounts inland and Atlantic and Arctic oceans). Halibut is 17% of this segment, but its share has been declining. This segment also includes herring, Greenland halibut (turbot), tuna, cod, redfish, and hake. This segment has increased due to end consumers' preference for finfish and its health benefits.
Aquaculture	31.2%	Includes trout and steelhead salmon. This segment also includes oysters (representing the highest category of shellfish), followed by mussels, clams, scallops, and shrimp. It is expected that this segment will grow due to increased consumer demand for farmed salmon and trout.
Total	100.0%	

Seafood products such as lobster, crab, salmon, and halibut are considered premium products that can be sold for higher-than-average prices, resulting in higher revenues for the fisheries operating in this segment of the industry.²⁶

²⁴ Ibid.

²⁵ Matthew Buchko, 2020.

²⁶ Ibid.

Customer segments

Customers in the fishing (ocean and inland) and seafood aquaculture segments are as follows, and described in detail below.²⁷

Type	Percentage of total revenues
Wholesalers and retailers	55.1%
Exporters	25.6%
Seafood preparers (food processing companies)	19.3%
Total	100.0%

Fresh and frozen seafood wholesalers and retailers

This segment of customers includes wholesale and retail buyers who distribute or resell the product, as well as sales by harvesters in fresh fish markets or farmers markets. Seafood wholesale revenues are expected to grow 1.5% annually by the end of 2024, and the number of operators in Canada is also expected to increase 0.9% annually over the same period to 1,177 in total.²⁸ This segment sells fresh and unpackaged frozen products and purchases product from both Canadian and non-Canadian harvesters. Although domestic demand is predicted to decrease during this period, this will be offset by increased global demand, opening of new foreign markets, and relaxing of tariffs on product shipped to the European Union.²⁹

Exporters

International trade agreements and the Canadian dollar exchange rate affect the volume of exports in this segment. Canada currently has free trade agreements with the European Union, with the United States and Mexico (USMCA), and with Japan, Peru, and others (the Trans-Pacific Partnership). Trade agreements with China could also result in increased exports. As the Canadian dollar appreciates against major foreign currencies, this makes exports more expensive in foreign countries and causes demand for exports to decline. The cost of Canadian currency is expected to decrease, representing an opportunity for companies to increase exports.³⁰ A key factor for success in this industry is having overseas contracts to increase exports of products³¹ and expand a company's geographic scope beyond its domestic market.

²⁷ Ibid.

²⁸ Eddie Gonzales, "Fish & Seafood Wholesaling in Canada: Keepin' it reel: Rising health consciousness is expected to assist industry growth," IBIS World Report 41314CA, December 2019.

²⁹ Ibid.

³⁰ Matthew Buchko, 2020.

³¹ Ibid.

Export sales represent 25.6% of the industry's total revenues. The table below identifies the percentage of total export revenues that were sold to the specific geographic regions:³²

Region	Percentage of total exports
United States	50.5%
China	34.0%
Other	8.7%
South Korea	3.8%
Hong Kong	3.0%
Total	100.0%

Seafood processors

This segment of customers includes companies that further process the seafood into shelf-stable or frozen products. Shelf-stable foods are those that can be safely stored at room temperature for a long period without needing to be cooked or refrigerated, such as canned, jarred, and pickled fish products. For this stage of the value chain, the total revenue that is earned by the seafood processors can be segmented into various product categories as shown below:³³

Product segment	Percentage of total revenue of the seafood processors' segment revenue	Description
Seafood and marine products	57.5%	Although shrimp and prawns represent the highest volume sold, lobster and crab represent a large portion of this revenue breakdown because their selling prices are significantly higher than the other types of seafood sold. Processed crab is exported primarily to the United States and Asia.
Canned and preserved fish	23.5%	This segment includes fish and seafood that generally cannot be sold as fresh or frozen and therefore needs to be canned, salted, or pickled to ensure it is safe to eat once delivered to the final consumer.

³² Ibid.

³³ Matthew Buchko, 2021.

Other seafood products	19.0%	Includes livers, roes and milt, anchovies, caviar, mussels, and scallops.
Total	100.0%	

In this segment, 69.3% of the prepared product is exported from Canada, and 23.1% is sold to domestic wholesalers and distributors. The remaining 7.6% represents sales that the seafood processors make directly to retailers, including seafood markets and franchise restaurant chains (for example, McDonalds and Red Lobster).³⁴

Competition

The fishing and seafood industry is a highly fragmented industry in which there are currently 18,579 operating enterprises.³⁵ There are only two companies with any significant amount of market share: Cooke Aquaculture (headquartered in New Brunswick) has an estimated 8.7% market share, and Mowi ASA (headquartered in Norway) has Canadian operations that represent 7.5% market share.³⁶ Consolidation has allowed competitors to become larger and more efficient than the smaller competitors by using more advanced processing equipment and reducing labour costs.³⁷

In addition, competitors may have the ability to process some of the harvest at sea, eliminating some of the intermediary steps. Successful competitors have vertically integrated to add value by further processing harvested seafood, and also wholesaling and retailing.³⁸ Having access to a supply of multiple species either by owning the quotas and licences or through strategic partnerships is vital for sustainable profits and success.³⁹ Some of these competitors are involved in both wild harvesting at sea and aquaculture. Having relationships with food retailers and food service companies, and identifying and targeting emerging profitable and growing customer markets and distribution channels helps to increase and diversify revenue streams.⁴⁰

Competition is based on price. Products are undifferentiated and sold in large volumes.⁴¹ Reputation and experience in the industry and the ability to sell product that consistently tastes and looks fresh helps differentiate from competitors.⁴² Aquaculture operators can produce the same product at a lower price, which increases internal competition for wild-caught seafood. The larger enterprises have a competitive advantage and are better able to withstand the volatility in the industry due to having a

³⁴ Ibid.

³⁵ Matthew Buchko, 2020.

³⁶ Ibid.

³⁷ Matthew Buchko, 2021.

³⁸ Matthew Buchko, 2020.

³⁹ Clearwater Seafoods Incorporated, 2020.

⁴⁰ Ibid.

⁴¹ Matthew Buchko, 2020.

⁴² Ibid.

greater diversification of products, greater access to financial resources, and established relationships with suppliers.⁴³

Strategies and business models of competitors

The inshore fishery segment is highly fragmented and composed of thousands of independent fishers who operate their own small fishing vessels and harvest one or more species of seafood.⁴⁴ These small enterprises fish close to shore on a daily basis and sell their catch to seafood processors located on land.

The larger and often vertically integrated enterprises fish in the offshore regions, operate a large fleet of fishing vessels, and harvest multiple species. In addition, these companies primarily harvest their own quotas, with only a small portion of the harvested catches being non-owned. These companies process their catch either on board the vessel or at multiple onshore processing plants.⁴⁵ They also purchase catches from the smaller fishers to process in their plants. These competitors both sell their products domestically and export to the international market. The number of these enterprises has declined in recent years, as consolidation has occurred to achieve economies of scale and increase efficiency.

Successful companies are also able to service customers quickly with the right products. Management of the fresh and frozen inventory is critical and requires adopting the latest technological advances in processing practices, inventory systems, cold storage facilities, freezing capabilities, and truck refrigeration. These technological advances are critical for improving costs, maintaining the safety of the product, and reducing losses.⁴⁶

Imports

Currently, imports represent 16.3% of total Canadian demand.⁴⁷ The highest percentage of imports come from the United States, due to the USMCA trade agreement and the United States' close proximity to Canada, which results in lower transportation costs. Imports from Japan and Chile have been increasing. Generally, the imported seafood are types that cannot be naturally found in Canadian waters, as Canadian consumers prefer Canadian-sourced seafood. However, as aquaculture techniques allow farming of species not native to Canada, domestic producers may be able to compete with these importers.

⁴³ Clearwater Seafoods Incorporated, 2020.

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Eddie Gonzales, 2019.

⁴⁷ Matthew Buchko, 2021.

The table below shows the percentage of imports by country:⁴⁸

Region	Percentage of total imports
United States	44.4%
Other	34.9%
Chile	8.5%
Japan	7.7%
Greece	4.5%
Total	100%

There is a threat that farmed seafood can be produced more cheaply in other countries than in Canada.⁴⁹ Therefore, these imported prices may undercut domestic producers.⁵⁰

End consumers

When purchasing seafood, end consumers want trustworthy sustainability, affordable prices, and healthy and high-quality options, as described below:⁵¹

- High-quality items — Quality is the highest priority for end consumers. When purchasing seafood, end consumers first choose the type of product, then select by freshness, taste, and flavour; 67% of end consumers are concerned about freshness and quality.
- Healthy options — End consumers purchase seafood due to its health benefits, which are perceived to be better than those of substitutes such as pork or beef.
- Affordable prices — End consumers prefer to purchase cheaper-priced products. A survey found that 65% of end consumers purchase seafood products on impulse if the price is low or the item is on sale.
- Trustworthy sustainability — End consumers are concerned about overfishing and therefore want to purchase wild-caught product that has been harvested using only sustainable practices. They prefer products that have been certified by outside independent organizations. For farmed products, end consumers are looking for certification that indicates farmed fish have also been produced using acceptable practices.

From the processor's point of view, end consumers will be attracted to a product that has a reputation or brand that encompasses these characteristics of being affordably priced, sustainably caught (or farmed), and of consistent high quality.

⁴⁸ Matthew Buchko, 2021.

⁴⁹ Matthew Buchko, 2021.

⁵⁰ Matthew Buchko, 2021.

⁵¹ "What Seafood Consumers Want: A Complete Guide," Northscope, July 1, 2020, <https://myfoodsoftware.com/blog/what-seafood-consumers-want/>

Workforce

The crew working on a commercial fishing vessel must be experienced and skilled to ensure harvesting trips are successful.⁵² Many regions require that fishers be commercially licensed or in training to become fully licensed. Although a formal education is not required, a two-year program in fishery technology is often sought by employers. Skilled employees have education or experience in areas related to seamanship, marine safety, navigation, vessel operations, vessel repairs, and fishing gear technology.⁵³

Fishers are usually paid a “crew share,” which is based on a percentage of the boat’s overall catch, and therefore compensation will vary based on the volume caught and the prevailing market price of the catch per pound. In 2021, average salaries for the crew were \$53,625 for a season.⁵⁴ The work is physically demanding, requiring long and irregular shifts while out on the boat and being away from home for weeks or months at a time. It is also very dangerous due to extreme weather that can occur at sea. Employers are required to maintain safe vessels in compliance with regulatory requirements of Transport Canada and provincial agencies.⁵⁵ As such, vessels are regularly inspected and certified for the regions within which they operate. Safety factors assessed include vessel seaworthiness, the condition of personal protective and life-saving gear, and whether the crew are properly trained.⁵⁶ Employers also need to ensure that they have protocols and safety measures in place to protect the crew.⁵⁷

Vessels

Vessels of various sizes are used for commercial fishing purposes. The type and size of the vessel will depend on the nature of seafood caught, the length of time the vessel is at sea (for example, requiring crew sleeping quarters and a food preparation area), the distance from shore that the vessel journeys, the depth of the waters being fished, and whether any processing is completed on board. The cost of a fishing vessel can range from \$200,000 to \$5,000,000 or more. In addition, there are capital costs for additional equipment required on board, such as the fishing gear.

⁵² Matthew Buchko, 2020.

⁵³ “How Much Does a Crab Fisher Make?” Indeed Career Guide, February 22, 2021, <https://www.indeed.com/career-advice/pay-salary/crab-fisherman-salaries>

⁵⁴ “Fishing Average Salary in Canada 2023,” Talent.com, accessed April 5, 2023, <https://ca.talent.com/salary?job=fishing>

⁵⁵ Government of Canada, “Commercial Fisheries Licensing Rules and Policies Reference Document Pacific Region, Fishing Vessel Safety,” last modified April 28, 2019, <https://www.pac.dfo-mpo.gc.ca/fm-gp/licence-permis/docs/commercial-licence-permis-ref/safety-securite-eng.html>

⁵⁶ Ibid.

⁵⁷ Matthew Buchko, 2020.

Fishing licence lease arrangements

Fishing licence lease arrangements are common in the offshore fishing segment because of the significant upfront capital costs and the fact that the revenue earned from fishing the quota for a single licence is not enough to cover the costs of operating the fishing vessel.⁵⁸ As such, the owners of a vessel will harvest not only their own quotas but also quotas leased from other enterprises that cannot afford their own vessels. Royalties based on a percentage of the landed price per pound are paid on the catch on these leased fishing licences.

Regulations

Fishing licences

Fisheries and Oceans Canada (DFO) is the federal department mandated to protect and preserve fish stock in Canadian coastal waters. The relevant regulations to manage fisheries are detailed in the Fisheries Act.⁵⁹ Commercial fishing licences specifying the type of seafood and annual quotas allowed to be caught are used to manage fish populations to prevent depletion.

Licences are required to fish in ocean and inland waters. DFO and regional provincial governments regulate licensing through commercial fishing licences and quotas. The licences authorize the holder to harvest identified species of seafood subject to conditions attached to the licence.⁶⁰ Conditions of the licences include the volumes (quotas) that can be annually caught, the type of vessel and methods used for harvesting, and the specific months and regions allowed for fishing each species.⁶¹

Licences must be renewed by December 31 each year by paying the related nominal fees, or they are cancelled and the licence is terminated. Ownership of these licences and having a good reputation with the regulatory authorities helps ensure that the licences can be renewed as they expire.⁶² A good reputation is maintained by following sustainable and ethical best production practices.

Aquaculture

Aquaculture is also regulated under the Fisheries Act. However, under DFO, the Sustainable Aquaculture Program has been set up to streamline regulations, improve regulatory management, increase scientific knowledge and science-based decision-

⁵⁸ Keith Storey and Meghan Eibner, “Reinvesting Fishery Profits for Economic and Social Development: A Case Study of the Northern Coalition,” April 2021, https://www.mun.ca/harriscentre/media/production/memorial/administrative/the-harris-centre/media-library/Northern_Coalition_Project.pdf

⁵⁹ Matthew Buchko, 2020.

⁶⁰ Fisheries and Oceans Canada, “Fisheries Licensing Policy Newfoundland and Labrador” last modified May 30, 2022, <https://www.dfo-mpo.gc.ca/reports-rapports/regs/licences-permis/nfld-Labrador-tn-labrador-eng.htm>

⁶¹ Ibid.

⁶² Matthew Buchko, 2020.

making, and ensure transparency through enhanced public reporting.⁶³ The provinces issue licences for the operation of a specific site, and additional licences are required if activities include imports and transfers of fish. The length of time that the licence is valid for will depend on the species that is farmed. Aquaculture licensees must meet the conditions of their licences throughout the term of the licence. These conditions include operational and reporting requirements as well as site-specific requirements based on geographic location.⁶⁴

Seafood processing

For some species, the volumes that can be processed by an enterprise are also regulated by quotas from DFO. In processing the harvested seafood, federal and provincial licences are required to operate and comply with standards related to food safety and handling. The Canadian Food Inspection Agency under the Food and Drugs Act and the Fish Inspection Act require that a quality management plan covering all aspects of seafood processing be implemented. Specifically, companies must ensure that food-borne illnesses are prevented throughout all steps of the process.⁶⁵

For some species, such as snow crab, an enterprise cannot own both a licence to harvest the species and a licence to process the same species.

Sustainable and ethical practices

Fishing practices

Sustainable fishing practices have been defined by the Marine Stewardship Council (MSC) as follows: “Sustainable fishing means leaving enough fish in the ocean and protecting habitats and threatened species. By safeguarding the oceans, people who depend on fishing can maintain their livelihoods.”⁶⁶ Specifically, the MSC breaks this down into the following issues:⁶⁷

- Overfishing results when too many adult fish are caught, leaving insufficient numbers to breed and maintain a healthy population. This in turn causes the collapse of the marine ecosystem, impacting other marine species and humans who make their livelihood from the seafood industry. Overfishing occurs when the regulatory bodies fail to set appropriate allowable catch levels and/or fail to enforce and punish when these catch levels are exceeded.
- Illegal fishing refers to fishing without an appropriate licence, fishing in prohibited areas, catching in excess of quotas, or fishing prohibited species. As with

⁶³ Fisheries and Oceans Canada, “Canada’s Sustainable Aquaculture Program,” last modified March 3, 2015, <https://www.dfo-mpo.gc.ca/aquaculture/programs-programmes/sustainable-durable/index-eng.htm>

⁶⁴ Fisheries and Oceans Canada, “Aquaculture Licensing in British Columbia,” last modified April 3, 2023, <https://www.pac.dfo-mpo.gc.ca/aquaculture/licence-permis/index-eng.html>

⁶⁵ Clearwater Seafoods Incorporated, 2020.

⁶⁶ Marine Stewardship Council, “What Is Sustainable Fishing?” accessed April 5, 2023, <https://www.msc.org/what-we-are-doing/our-approach/what-is-sustainable-fishing>

⁶⁷ Marine Stewardship Council, “Overfishing, Illegal and Destructive Fishing,” accessed April 5, 2023, <https://www.msc.org/what-we-are-doing/oceans-at-risk/overfishing-illegal-and-destructive-fishing>

overfishing, illegal fishing threatens the marine ecosystem and marine species populations.

- Destructive fishing refers to fishing practices that destroy habitats and the ecosystem. For example, the use of toxins, explosives, or large bottom trawling nets that pick up everything causes irreversible damage to the marine environment. Depending on the species, the goal is to use the correct size and type of fishing gear to cause the least impact on the marine habitat.

Consumers are able to make a difference in ensuring sustainability in the industry by purchasing wild fish and seafood products only from enterprises that have been certified as following sustainable fishing practices. The MSC Fisheries Standard is one such certification and is indicated on products with the MSC's blue label. A company that has achieved this certification has met the standards set by the MSC, which are developed in partnership with scientists, conservation groups, and the fishing and seafood industry.⁶⁸ Independent contractors perform the certifications and assess the impacts on wild fish populations and the ecosystems related to the specific species caught. It can take many years for a harvester to meet all the criteria for initial certification. Once certified, assessors annually review and observe, and every five years there is a total reassessment.

In addition, there is also an MSC Chain of Custody Standard certification for restaurants, supermarkets, preparers, distributors, and warehouses.⁶⁹ In this certification process, the entire supply chain is reviewed and separated into certified and non-certified products. Annual unannounced audits are performed at these businesses to ensure they continue to follow the protocols related to traceability, labelling, and segregation.⁷⁰

Aquaculture practices

There is also certification that can be given to producers using aquaculture. This third-party seafood certification is given by Best Aquaculture Practices (BAP), which has sustainability standards related to four areas: environmental, social, food safety, and animal health and welfare.⁷¹ The certification process reviews the entire production chain, including the processing plant, farm, hatchery, and feed mill.⁷²

⁶⁸ Marine Stewardship Council, "What Does the Blue MSC Label Mean?" accessed April 5, 2023, <https://www.msc.org/what-we-are-doing/our-approach/what-does-the-blue-msc-label-mean>

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Best Aquaculture Practices, "What We Do – Certification," accessed April 5, 2023, <https://www.bapcertification.org/WhatWeDo>

⁷² Best Aquaculture Practices, "Program Standards," accessed April 5, 2023, <https://www.bapcertification.org/Standards>

Use of technology

Within this industry, technological improvements can result in increased product quality, reduced operating costs, improved stewardship of the seafood resources, and development of new products related to untapped species. Improvements also include data collection to provide better information. Therefore, a key to success is adapting new technologies and innovations to accomplish these objectives. Research can be conducted to enhance on-board visualizations of the ocean floor, which are used to better see a specific species' population characteristics, habitats, and size.⁷³ Companies will often work in conjunction with university researchers who conduct similar research.

*Demand drivers*⁷⁴

- Per capita seafood consumption — As the per capita consumption of seafood increases, there is increased demand for seafood. However, the per capita consumption is expected to decline, posing a threat to the industry in Canada.
- Price of seafood — As the price of seafood increases, demand falls, and consumers move to cheaper protein substitutes like poultry, beef, and pork. The price of farm-raised seafood in comparison to wild seafood also impacts product demand.
- Per capita disposable income — As end consumers' disposable income increases, there is more spent on fish and shellfish, which are more expensive meat and poultry alternatives. Per capita disposable income is expected to decline in the near future.
- Health benefits — Fish is seen to be a healthier protein choice than meat and poultry. However, end consumers are also concerned about the level of chemicals (for example, mercury) in seafood, which might reduce the amounts of seafood consumed.
- Demand for processed seafood from abroad — The higher the demand for Canadian-caught and -processed seafood from international consumers, the higher the amount of exports in this industry.

Trends within the industry

- Health trends associated with the consumption of specific types of seafood can change consumption behaviour.⁷⁵ Many types of seafood are high in protein and omega-3 fatty acids and low in calories, making them a healthy food choice.
- Production in the aquaculture segment will continue to increase to meet the increased demand for seafood⁷⁶ due to the advantages over harvesting wild-caught

⁷³ Clearwater Seafoods Incorporated, 2020.

⁷⁴ Matthew Buchko, 2020.

⁷⁵ Ibid.

⁷⁶ Ibid.

fish. Farming provides a year-round supply of fresh seafood and reduces the risk of overfishing the wild population, which is attractive for many consumers.

- More end consumers are purchasing seafood for at-home preparation and consumption, as well as for preparation in restaurants.⁷⁷ There is also an increased willingness for seafood end consumers to try new types of seafood.⁷⁸ Food retailers and restaurants will expand their inventory of seafood products to meet this increased demand.
- End consumers are also interested in value-added options such as “heat-and-eat” or “grab-and-go” seafood meals.⁷⁹ The growing market for these innovative products can be met by seafood preparers expanding their product offerings. Demand for prepared ready-to-go products is expected to increase 5% to 10% in North America.⁸⁰
- Revenue volatility remains a constant in the industry due to governments’ fish population management strategies and resource availability. Historically, revenues have varied by 7.5% annually.⁸¹
- International trade will continue to be an important market for Canadian fishing companies.⁸² Exports of Canadian seafood are expected to increase at a faster rate than they have historically, and more quickly than domestic sales.⁸³ The Comprehensive Economic and Trade Agreement (CETA) between the European Union and Canada eliminates historically high tariffs, resulting in higher amounts of exports to the European Union at higher profits for Canadian seafood preparers.⁸⁴ Exports to the United States and other countries are also expected to increase. Although per capita domestic consumption of seafood is expected to decline, increased global demand for Canadian-sourced seafood, particularly from East Asia, is expected to increase.⁸⁵
- Enterprises are expected to continue to consolidate rather than expand organically. These larger operations will become more streamlined and require fewer employees working in processing plants.⁸⁶

⁷⁷ Matt Craze, “Seafood’s newfound retail popularity has a permanent feel to it,” Global Seafood Alliance, May 17, 2021, <https://www.globalseafood.org/advocate/seafoods-newfound-retail-popularity-has-a-permanent-feel-to-it/>

⁷⁸ Michael Browne, “Seafood sales at retail hit \$16.9 billion in 2021” *Supermarket News*, March 14, 2022, <https://www.supermarketnews.com/seafood/seafood-sales-retail-hit-169-billion-2021> (note this is the U.S. market)

⁷⁹ Ibid.

⁸⁰ Matt Craze, 2021.

⁸¹ Matthew Buchko, 2020.

⁸² Ibid.

⁸³ Matthew Buchko, 2021.

⁸⁴ Ibid.

⁸⁵ Matthew Buchko, 2020.

⁸⁶ Matthew Buchko, 2021.

- The amount of seafood imported is expected to increase, especially in the frozen and canned fish and seafood segments.⁸⁷ However, the imports will be of a lesser quality than similar Canadian-caught and -processed products.

General risks in the industry

- Resource supply risk — Since the volume of the annual catch is limited by quotas imposed by the federal and provincial regulators, the amount of catch available to sell will fluctuate based on these limits. If, for a specific species, the amount of resource is declining, quotas will be reduced to allow for that population to come back to sustainable levels. Fluctuating volumes of harvested fish will cause volatility in sales from year to year.
- Licensing risk — There is a risk that the harvester will lose its licence to harvest the specific seafood because it has contravened one of the many regulations. If this occurs, the harvester will lose its right to fish and will have no product to sell.
- Fluctuating market price paid to the fish harvester — The market price per pound that a fish harvester receives is dependent on supply and demand in the market for the specific species. Volatile prices result in volatile sales, cash inflows, and profits.
- Foreign exchange risk — For those entities that export or sell products that compete with products that are imported, foreign exchange risk can be high. International sales will fluctuate as the Canadian dollar fluctuates against other currencies. As the Canadian dollar appreciates relative to other currencies, the cost of imported products declines, increasing the presence and competition of these imported products. Companies can mitigate this risk by limiting long-term sales contracts to less than six months, entering into forward contracts to hedge foreign exchange risk, or borrowing in foreign currencies to provide a natural hedge for cash inflows and outflows in the same currency.⁸⁸
- Operating input costs — Marine diesel fuel is required for harvesting vessels and represents a high proportion of the input costs for harvesters. As cost of fuel increases, profits decline. Harvesting is a very labour-intensive activity, and there is the risk of increased labour costs or a shortage of skilled labour. The risk of higher labour costs is partially mitigated because employees' compensation is often a percentage of the catch.
- Customer risk — As consolidation of wholesale and retail customers increases, this could result in a potential loss of a customer base.⁸⁹ This risk can be partially mitigated by having a diverse customer base.
- Weather and access to shipping routes — Unfavourable weather can delay the ability of the vessels to fish offshore or reduce the amount of catch per voyage. In addition, access to the fishing region may be hampered by changes in shipping routes or other adverse conditions. These occurrences will result in increased

⁸⁷ Ibid.

⁸⁸ Clearwater Seafoods Incorporated, 2020.

⁸⁹ Ibid.

operating costs for the company and reduced profits. In addition, severe weather can result in extensive damage to the vessels, requiring major repairs or complete replacement. If a vessel sinks or must be docked to complete major repairs, this results in reduced volumes of catch sold during the season.⁹⁰ Climate change will impact the numbers and types of seafood that can live in certain regions, as well as migratory patterns.⁹¹ Severe weather conditions can lead to accidents, resulting in injury to workers.

Greenland halibut

Greenland halibut, also known as turbot, is primarily fished 200 or more miles offshore in waters off the continental shelf that are 800-1,500 metres deep.⁹² It is harvested using large fishing trawlers, generally more than 100 feet in length. In many cases, these trawlers have freezing capabilities on board that can freeze the fish shortly after it is caught. Because Greenland halibut has naturally oily flesh, its quality is best maintained when it is caught and frozen at sea.⁹³ International customers are willing to pay a premium price for this product, and much of the catch is exported.⁹⁴

The harvesting of Greenland halibut takes place year-round, and the catch is off-loaded in Newfoundland, Nova Scotia, or Greenland.⁹⁵

Cold-water shrimp

Cold-water shrimp can be harvested offshore in the deep waters, similar to Greenland halibut, but also inshore. The offshore fishing is done year-round using large fishing trawlers to catch and freeze the shrimp on board. In recent years, there were 10 factory freezer trawlers operating in the offshore northern fishing areas and 17 fishing licences in total.⁹⁶ The shrimp that is frozen at sea has its shell intact and is generally sold to the Japanese and Asian markets.⁹⁷

Inshore harvesting is done on smaller vessels that range from 50 to 89 feet in length and only from April to October. These smaller vessels are owned by entities that reside and fish locally, as their fishing quota licences are based on the owner's place of residence.⁹⁸ The shrimp harvested inshore are sold fresh or processed locally into shell-off cooked fresh or frozen shrimp.⁹⁹

⁹⁰ Ibid.

⁹¹ "Climate Change and Fisheries," OECD, accessed April 5, 2023,

<https://www.oecd.org/greengrowth/fisheries/climatechangeandfisheries.htm>

⁹² "Greenland Halibut Quota Increase to Boost Fishing Jobs in N.L.," *Saltwire*, September 30, 2017,

<https://www.saltwire.com/newfoundland-labrador/business/greenland-halibut-quota-increase-to-boost-fishing-jobs-in-nl-27895/>

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Keith Storey and Meghan Eibner, 2021.

⁹⁶ Ibid.

⁹⁷ Ibid.

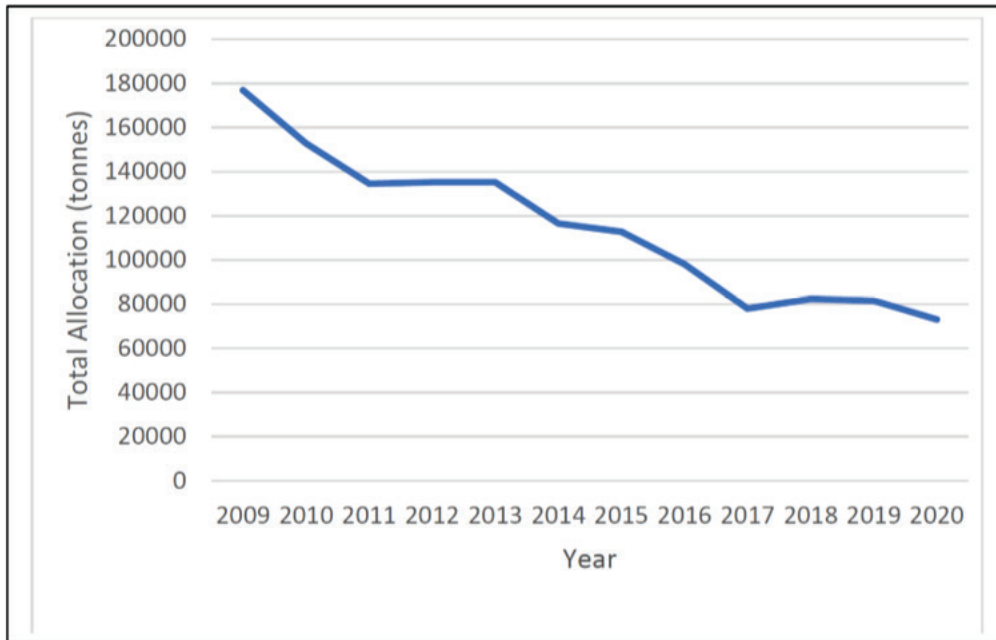
⁹⁸ Ibid.

⁹⁹ Ibid.

Licences and quotas

The offshore shrimp segment operates under an enterprise allocation system, meaning that total allowable catch for the year is divided evenly across the available licences.

The total allowable catch for inshore shrimp has declined significantly over the past few years, falling from almost 180,000 tonnes in 2009 to below 80,000 tonnes in recent years, as shown in the figure below.¹⁰⁰



Source: Canada 2020

The drastic reductions in the total amount that can be harvested annually are related to a changing ecosystem, impacted by the following factors:¹⁰¹

- Since 2017, there have been warmer than average bottom temperatures in the areas in which shrimp thrive and below-average surface temperatures between 2013 to 2019.
- There has been a change in the shrimp's food source availability.
- Shrimp mortality rates from predators have been at record highs.

¹⁰⁰ Memorial University of Newfoundland, "Reinvesting Fishery Profits for Economic and Social Development: A Case Study of the Northern Coalition," April 2021, https://www.mun.ca/harriscentre/media/production/memorial/administrative/the-harris-centre/media-library/Northern_Coalition_Project.pdf

¹⁰¹ Government of Canada, "An Assessment of Northern Shrimp (*Pandalus Borealis*) in Shrimp Fishing Areas 4-6 and of Striped Shrimp (*Pandalus Montagu*) in Shrimp Fishing Area 4 in 2020," last modified November 2021, https://www.dfo-mpo.gc.ca/csas-sccs/Publications/SAR-AS/2021/2021_049-eng.html

Consistent with these large decreases in the total allowable catch for the cold-water shrimp, the offshore and inshore catch volumes have greatly declined. This has impacted the volume of shrimp that is cooked and peeled in the processing plants. Findings for the cold-water shrimp market from 2023 were summarized in a Seafood Datasearch report as follows:¹⁰²

- The demand for cooked and peeled shrimp has been weakening.
- Increases in production have further weakened prices.
- China has increased its demand for this product.
- The UK is buying similar volumes at similar prices.
- The pandemic impacted the demand from restaurants due to the number of restaurants that closed, but retail demand increased as more product was consumed at home.

Shrimp farming

Indoor shrimp farming is a relatively new segment of the industry in Canada, having started in 2014. Canadian farmed shrimp tend to be much larger than wild-caught shrimp and can be sold at a premium price (three to four times the price of Asian farmed varieties), since they are a delicacy sold to high-end restaurants and fishmongers.¹⁰³ Shrimp farming is also less ecologically harmful than catching wild shrimp. However, Canadian shrimp farming is not without its challenges, including getting access to shrimp babies from the United States; a low survival rate of only 50%; needing to maintain the water at the right temperature, salinity, and pH; and the 10 million gallons of water required to pass through the system per day.¹⁰⁴

Snow crab

The snow crab is found in the North Atlantic and North Pacific oceans. A crab has five pairs of legs, of which the front pair are its claws. Only male crabs can be harvested, and it usually takes seven to nine years for them to reach their minimum harvestable size of 95 millimetres.¹⁰⁵ Because snow crabs prefer deep and cold water, Canada is the largest producer in the world.

Vessels that harvest (but do not process) snow crabs are generally less than 20 metres in length and use traps that are laid between 50 to 380 metres down.¹⁰⁶ The harvest

¹⁰² John Sackton, "Update on Shrimp Markets for 2023," Seafood Datasearch, Province of New Brunswick, March 2023, <https://www2.gnb.ca/content/dam/gnb/Departments/10/pdf/Publications/Fish-Peches/coldwater-shrimp-presentation-2023.pdf>

¹⁰³ Jake Edmiston, "How Canada's Fledgling Land Shrimp Industry Is Working toward Becoming the 'New Cannabis,'" *Financial Post*, April 25, 2019, <https://financialpost.com/news/retail-marketing/canadian-land-shrimp-industry-has-work-to-do-if-its-going-to-be-the-new-cannabis>

¹⁰⁴ Ibid.

¹⁰⁵ "Snow Crab – Atlantic Canada's Finest – Food Service Guide," accessed April 5, 2023, http://bestofsea.com/wp-content/uploads/2015/10/Snow_Crab_Guide-LR.pdf

¹⁰⁶ Ibid.

and processing season in Canada runs from April to November. About 80% of the catch is from fishing areas near the shore.

Snow crab can be processed directly on the vessel or at a land-based processing plant. Vessels can be designed to catch and process and then store the processed snow crab until land is reached. The edible meat of the Atlantic snow crab is found in the claws, legs, and the section between the legs and body. The white meat found in the claws and legs is low in fat and high in protein, whereas the brown meat found in the body has higher fat content but is also high in omega-3 fatty acids¹⁰⁷ and therefore is a healthy food choice. Snow crab can be sold fresh when in season, or frozen. In the frozen state, it is vacuum packaged and sold as claws, mixed meat, 100% legs, or combo packages.

The crab is kept in its frozen state and has a shelf life of 18 months.¹⁰⁸ It can be shipped and sold in its frozen state.

Snow crab fishing licences¹⁰⁹

Below are the specific issues related to the licences for snow crab in the Newfoundland and Labrador region.

The snow crab fishery has limited entry, and therefore no new licences are available. Only fish harvesters who had licences in the previous year may renew. Fish harvesters that currently hold snow crab licences (and meet fleet and regional area eligibility) may acquire additional licences from enterprises that are exiting the snow crab segment. When this occurs, the licences owned by the remaining harvester are now combined into one. As a result, the total number of licences issued by DFO has declined over time.

DFO sets annual total allowable catches by region based on advice from scientists and assessments of the stock available. The total allowable catch is the total volume of snow crab that can be caught in each specified region annually, which is used to determine the annual quota limits that each licensed holder can harvest in the year.

The landed quota allowed for in 2021 increased significantly from 2020. In 2021, the lead biologist for snow crab in Newfoundland reported that the snow crab population was expected to increase over the next two to four years in most fishing areas.¹¹⁰

¹⁰⁷ Northern Delights, “Brown and White Crab Meat: What’s the Difference?” September 29, 2021, <https://northerndelights.com/editorial/brown-and-white-crab-meat/>

¹⁰⁸ “Snow Crab – Atlantic Canada’s Finest – Food Service Guide,” accessed April 5, 2023, http://bestofsea.com/wp-content/uploads/2015/10/Snow_Crab_Guide-LR.pdf

¹⁰⁹ Fisheries and Oceans Canada. “Snow Crab - Newfoundland and Labrador Region,” last modified May 15, 2019, <https://www.dfo-mpo.gc.ca/fisheries-peches/ifmp-gmp/snow-crab-neige/2019/index-eng.html>

¹¹⁰ Barb Dean-Simmons, “Latest snow crab science is good news for Newfoundland fishers, plant workers and processors,” *Saltwire*, March 2, 2021, <https://www.saltwire.com/nova-scotia/business/latest-snow-crab-science-is-good-news-for-newfoundland-fishers-plant-workers-processors-557396/>

Snow crab processing

Quota licences are also required to process snow crab in processing plants. Therefore, there is a limit on the volume that can be processed annually.

Retail market demand and prices

There has been an increase in the demand for snow crab, which, with limited resource supply, should lead to higher retail values for the sellers of the product. Much of this increased demand is from the end consumer buying frozen product for at-home consumption rather than waiting to dine out.¹¹¹ Increasingly, snow crab is being consumed at home, in comparison to historical consumption rates at hotels, at restaurants, and on cruise ships. This has driven up overall demand for the product, driving up market prices, which are expected to stay at these high levels into the future. In addition, end consumers are interested in the health benefits related to seafood.

From the preparers' perspective of the market, the retail market was getting more concentrated in the United States, attracting other suppliers from Russia and Norway.

Market prices for snow crab have increased steadily in recent years to \$12 per pound for the 5-8 ounce size.¹¹²

Cluster sizes of 10 ounces and up were selling at prices for up to \$23.00 per pound in 2021.

Company background

Colan McPherson started out crewing on a fishing trawler owned by J & J Coastal Fisheries Ltd. (J&J) in Newfoundland and eventually worked his way up to be captain of a crew. The trawler fished for shrimp and Greenland halibut up and down the coast of Newfoundland to Greenland in the offshore regions.

In 1987, Colan and Yvonne incorporated NPF and purchased a commercial offshore cold-water shrimp licence. However, as NPF did not have the resources to purchase its own vessel, Colan leased the quota rights of this licence to J&J to fish NPF's quota, and in return, NPF received a royalty based on a percentage of the price per pound for the landed catch. Colan continued his employment as captain for J&J.

By 1995, NPF had saved enough cash for a down payment on a fishing trawler, called the *Charlie K*, that was owned by J&J and was being sold. NPF borrowed the remaining funds required to purchase this 35-metre fishing trawler, and Colan left his employment with J&J to captain his own vessel. Colan was able to negotiate lease arrangements

¹¹¹ "Standing Fish Price-Setting Panel, Snow Crab Fishery 2021," accessed April 5, 2023, https://www.gov.nl.ca/fishpanel/pricingdecisions/2021/2021_Crab_Fishery_Decision_dated_March_31_2021.pdf

¹¹² "2021 Seafood Market Outlook, APC Fisheries Workshop," Presented by TriNav Fisheries Consultants Inc., prepared by Zach Whynot, Manager, accessed April 5, 2023, https://www.apcfn.ca/wp-content/uploads/2021/01/2021-Seafood-Market-Outlook-Zach-Whynot_compressed.pdf

with other shrimp licence holders to fish their offshore shrimp quotas in return for royalty revenue. In addition, NPF signed fishing licence lease arrangements with owners of Greenland halibut licences to also harvest their quotas in return for royalty revenue.

From 1996 to 2005, NPF continued to harvest offshore shrimp and Greenland halibut on a year-round basis, as allowed under the licences. The catch was landed in Newfoundland or Greenland, where it was sold to various preparers and wholesalers. In 2005, NPF purchased a single commercial quota licence for Greenland halibut from one of its partners who had decided to retire. This increased NPF's owned quota licences to two: one for offshore cold-water shrimp and one for Greenland halibut.

In 2014, Colan decided to purchase a state-of-the-art 60-metre fishing trawler. This fishing trawler, named the *North Allotta*, is a full-service offshore harvesting and production vessel. The *North Allotta* fishes the Labrador coastline up to Baffin Island, Nunavut, for cold-water shrimp and Greenland halibut. The new vessel allowed NPF to increase the number of its fishing trips per year, thereby increasing its annual catch, and to process its catch into frozen products on board immediately after harvesting. Greenland halibut is all frozen at sea and landed in Newfoundland, from where it is ultimately shipped to international markets. Part of the shrimp catch is frozen at sea, and some is landed fresh to be processed on land in Newfoundland.

With the ability for NPF to process the catch, the arrangements with the other quota licence holders was amended. NPF now paid a royalty based on the landed price of the catch to these owners, giving NPF ownership of the catch. In this way, revenue from the sale of the processed Greenland halibut and shrimp would all be earned by NPF. The cost of goods sold would include all the costs related to the royalties paid to quota-holders, vessel and crew costs, and all processing costs.

The company also created a new brand name, Neptune's Tasties, in 2015. Today, all of NPF's processed products are marketed under this brand name. This brand is known for high quality, fresh taste, and ethically sourced products. In creating this brand, Colan was adamant that the company would always ensure that its products lived up to these three traits. One of the main objectives of the company has been to always ensure that the value proposition of this brand is maintained.

Colan and Yvonne's children, Kurt and Allan, both joined the company as employees in 2016. Both children worked on the *North Allotta* or the *Charlie K* after finishing university and taking the training courses required for working on offshore vessels. At various times, Kurt and Allan worked as crew on these vessels to gain experience and knowledge of offshore fishing.

In 2016, after a rigorous certification process, the company received its MSC certification, meaning NPF was now required to follow sustainable fishing practices. NPF is in good standing and has maintained its certification.

In 2018, NPF purchased an existing cold-water shrimp processing plant in Newfoundland and paid a fair price due to the owner moving out of the province. The

plant processes primarily premium North Atlantic shrimp caught inshore, although it also processes any shrimp caught by NPF that is not frozen at sea. It operates during the shrimp inshore fishing season, which is from May to October.

Also in 2018, with this forward vertical integration expansion into processing, Colan and Yvonne decided to gift each of their children 10% of NPF and have their children take on more management responsibilities in the company. Kurt decided to stay on land and learn the operations of the processing plant, and Allan decided to continue to crew on the *North Allotta*.

In 2021, the *Charlie K* underwent a major retrofit and added new updated equipment, including freezing capabilities on board.

Company overview

Today, NPF continues to catch Greenland halibut and offshore cold-water shrimp and freeze them on board the *North Allotta* and the *Charlie K*. These products are referred to as “frozen-at-sea.” As the frozen-at-sea Greenland halibut and the frozen-at-sea shrimp appeal more to international consumers, all of the frozen-at-sea products are sold internationally through the company’s export distributor. Any shrimp not frozen at sea is processed on land at the plant.

NPF still owns only one quota licence for Greenland halibut and one for offshore shrimp. In addition, the company has fishing licence lease arrangements with other owners of quotas for Greenland halibut and shrimp, referred to internally as “harvesting partners.” There have been no new fishing lease arrangements in years.

During the summer months, the shrimp processing plant processes premium cold-water shrimp that is purchased from inshore fishers or offshore shrimp caught by NPF but not processed on board. This processed shrimp are sold fresh or frozen. The plant is Brand Reputation Compliance Global Standards (BRCGS) certified, which is a global standard for food safety, packaging, or storage and distribution and indicates that the company practises the best methods for ensuring food safety for the end consumer.

NPF has annual supply contracts with inshore fishers in which they agree to sell their shrimp catches to NPF for processing. Therefore, the volume of shrimp that NPF receives to process is dependent on the quotas that these fishers are allowed to catch and the number of fishers that NPF has contracted in that season. Similar to frozen-at-sea products, the maximum volume of catch inshore fishers can deliver for processing is fixed by the quotas of allowable catch for the year. Actual volumes caught and delivered are also dependent on many biological factors.

The price to be paid to the inshore fishers for the shrimp is the landed market price at the time of landing. This landed price also influences the selling price that NPF can charge for processed shrimp. As the landed price for shrimp declines, NPF’s selling price of the processed shrimp also declines, and vice versa.

Annual catch quotas for NPF's species are declining, as are landed prices and selling prices in all product categories. These factors caused 2023 revenues to decline, and revenues are expected to further decline in 2024.

Because the company's viability depends solely on the available supply of Greenland halibut and shrimp, Colan has always followed sustainable fishing and environmentally responsible practices. He is proud that the company has maintained its MSC certification with good standing. Although the company does not have the resources to invest in the research and development of various initiatives to improve long-term sustainability of the fisheries, Colan stays in contact with the experts and implements changes to stay up to date with best practices.

The company's brand, Neptune's Tasties, continues to enjoy a good reputation for being high quality, fresh tasting, healthy, and ethically sourced. The success of this brand lies with Colan and Yvonne in their total commitment to their customers to ensure that what NPF advertises is what it delivers.

Colan and Yvonne, having been in this business for so long, believe that the company has the ability to ride out any industry fluctuations as it has done in the past and that this is just the nature of the fishing and seafood industry. As such, their philosophy has always been to retain cash in the business by not paying dividends, only making capital investments that will improve efficiencies, reducing NPF's environmental impact, and improving sustainable fishing practices. Although Colan is not interested in branching out into any other segments of the industry in order to diversify NPF's revenues, Yvonne does believe that a broader mix of fish products is required to attract more customers.

Kurt and Allan, on the other hand, are concerned with having more stability in revenues and profits and less reliance on only two species of wild-caught seafood. Kurt sees the declining quotas and market prices as being permanent and an indication that now might be the time to get into other business segments of the industry that are less dependent on these factors.

Corporate vision and mission

When Kurt and Allan became shareholders in 2018, a new vision statement and mission statement were approved, as follows:

Vision statement: We envision a future with thriving natural seafood populations in the Atlantic region, allowing us to continue to deliver the world's best seafood to our customers around the globe.

Mission statement: Our mission is to supply consistently high-quality, tasty, healthy, and ethically sourced Greenland halibut and shrimp to all our customers. We strive to follow sustainable fishing and processing practices using state-of-the-art vessels and equipment and to treat our partners, crews, employees, customers, and suppliers fairly and with respect. We will make decisions that ensure good stewardship of the ocean's resources.

Corporate values

The company also approved the following five core values in 2018:

1. Build long-term, loyal, and trustworthy relationships with local fishing enterprises.
2. Continually improve our harvesting and processing procedures to embrace best practices, benchmark against the industry's best, and maintain MSC and BRCGS certifications in good standing.
3. Nurture our brand by ensuring that our products continue to exceed customer expectations.
4. Treat our crews and employees with respect, and ensure that a safe working environment is our number one priority.
5. Respect and protect the environment and the fish populations for future generations.

Future plans and objectives

In November 2023, the board set the following objectives for 2024, 2025, and 2026:

- By 2026, achieve an annual growth rate of 10% for total revenues.
- By 2026, increase the number of products offered under the Neptune's Tasties brand name by three in total.
- By 2026, add at least two more product lines.
- By 2026, increase the three-year average EBITDA margin (that is, EBITDA as a percentage of revenue) to 18%.

This was the first time that the company had outlined specific objectives to be achieved. Previously, Colan had always argued that there was not really any point to this because NPF's revenues and profits were entirely dependent on factors out of the control of the company. However, Allan and Kurt felt strongly that these objectives should be articulated, as it could help the company to properly plan for growth and changes, so Colan reluctantly agreed.

Company structure

The company has a board of directors that consists of all four shareholders. The board meets monthly to discuss financial, operating, and selling strategies and make decisions. Any contract issues or new corporate policies that arise are also discussed. Annually, the officers are elected and appointed to the various positions. The company has no supporting committees. Each director has one vote.

Management team

NPF's corporate management team is made up of the following individuals.

Colan McPherson, chair of the board and CEO

Colan is 59 years old and has spent his entire working life in the fishing and seafood industry in Newfoundland. Having started as crew and worked up to owning his own vessel and company, Colan has extensive experience with Greenland halibut and shrimp. He has worked through the many cycles of the industry as allowable catches and landed prices have fluctuated through the years. Given this experience, he has set ideas on how to position the company to be able to weather these cycles by having a strong balance sheet with low debt, using state-of-the-art equipment, and always supporting and treating the crew, employees, and all other stakeholders fairly and loyally even in difficult times. Although he embraces innovations for current operations, Colan does not want to risk investing in new strategies and directions.

Colan's decisions are grounded in a strong ethical moral code and his lifelong belief that we are all only stewards of the ocean and must not exploit it for current needs but protect it for future generations.

Colan still goes out on some fishing expeditions. He has a good reputation and is well respected by local fishing industry workers and quota licence holders. Given his experience and reputation, Colan negotiates the contracts with NPF's various harvesting partners and suppliers.

Yvonne McPherson, VP sales and marketing

Yvonne is 57 years old and has worked at NPF full time since it was incorporated. Previous to becoming a shareholder of NPF, Yvonne completed her university degree in marketing and worked as a regional marketing manager for a global food manufacturer. She now heads the sales and marketing department of NPF. Yvonne has also been responsible for creating and building the Neptune's Tasties brand name. Yvonne negotiated the contract with its export distributor, which has been very successful for the company. She continues to deal with customers on a regular basis. She is a firm believer that having stellar brand name recognition and a well-defined brand are keys for success in the food industry, where the products are all very similar. Accordingly, the company has spent millions to build and maintain this reputation.

Yvonne travels around Canada to further promote the company's products. Given her long-time experience in the industry and continuous interaction with customers, she strongly believes that the company needs to have a broader mix of products and offer more than two types of seafood in order to appeal to more customers.

Kurt McPherson, VP plant operations

Kurt is 32 years old. After graduating with an engineering degree, Kurt went to work as a line supervisor for a large food manufacturing company that had multiple plants across Canada. After joining NPF as a line supervisor, Kurt became the plant manager for the shrimp processing plant in 2023. Kurt is interested in continuous improvement of plant operations in order to reduce operating costs and the impact on the environment. Kurt's strengths are his ability to be open to new ideas and to find and embrace creative

and practical solutions to employee issues that might arise. Employees find him very approachable, and he prefers to spend his time on the plant floor interacting with employees rather than in the office dealing with paperwork.

Allan McPherson, VP finance and human resources

Allan is 30 years old. After graduating with a business degree, Allan worked as a financial analyst with an import/export company. He then left that company to join NPF. Allan now manages the accounting, finance, human resources, and IT systems. By delegating work to his support staff, Allan is still able to crew on numerous fishing trips per season. This gives him first-hand knowledge of what is happening on the vessels.

Allan is very goal oriented and was key to getting Colan and the other directors to agree to specific future goals for the company for 2024. Allan is flexible and adaptable to unexpected situations, is willing to take risks on new ventures if there is qualitative and quantitative support, and is eager to adopt new technologies and information system improvements.

Captain Jonathan Patterson, VP vessels

Jonathan has total responsibility for all operations of the *North Allotta* and the *Charlie K*, including overseeing the hiring, training, and safety of the crew members. Jonathan has been captain of the *North Allotta* since it was purchased by NPF. The captain of the *Charlie K* also reports to Jonathan. Prior to working for NPF, Jonathan served in the Canadian navy. Jonathan is a native of Newfoundland, and his family has fished in the Atlantic Ocean for generations. Jonathan was drawn to working with NPF because of the company's strong ethical practices and reputation in the local fishing and seafood industry.

Human resources

The company has employees who work as the crew on its two vessels, *North Allotta* and *Charlie K*. Crews are paid a small fixed salary and a larger variable portion based on the landed price for the catch on that voyage.

At its processing plant, the company has 125 employees who work during the processing season, which is June to October. These employees are paid, on average, \$14,500 (which includes benefits) for the five months of work, which is comparable with local wage rates.

Finally, the company has the *Charlie K* captain, plant supervisors, management staff, and selling and administrative staff. These salaries are included in administrative and selling expenses. The salaries for the four shareholders are also included in this category.

Overall, the company has a low attrition rate in comparison to the industry average. All its employees come from the local area, and since work is difficult to find, employees

remain with the company for many years. This results in very low employee turnover each year.

The company recently participated in a Canada-wide survey regarding its workforce and found that its results for women employed was far below the national averages, as summarized below:

	Percentage of women working at NPF	Canadian average
Fishing — crew members on the vessels	2%	15%
Seafood preparation and packaging	35%	44%

Company operations

During any year, the *North Allotta* and the *Charlie K* each make between nine and 12 fishing trips, depending on the weather and dockside time required for maintenance and equipment failures. The number of fishing trips that can be completed and the total allowable catch allowed for the licences will impact the actual volumes of Greenland halibut and shrimp that are harvested annually. Currently, the vessels have excess capacity available to harvest and process higher volumes.

The maximum volume of catch that can be harvested is fixed by the quotas of allowable catch for the year. Actual volumes caught and available for on-board processing are dependent on the state of Greenland halibut and offshore cold-water shrimp populations, how accessible they are to harvesting, and the maximum catches allowed under the quotas each year. The fish populations naturally fluctuate year over year, but these normal fluctuations may be worsened by changing water temperatures, type of food available, and disease.

The selling price of frozen-at-sea products is also dependent on the landed market price at the time, and represents about 85% to 90% of NPF's selling price. As the landed price for a species increases, the selling price of the frozen-at-sea product increases, and vice versa.

Revenues

The price received for the various products is dependent on the prevailing market price of the fresh catch, the customer, and the amount of processing the product has undergone. Currently, the company sells frozen-at-sea Greenland halibut; frozen-at-sea shrimp; and fresh and frozen headless, peeled, and cooked shrimp. The final products are sold across Canada and internationally under the name Neptune's Tasties, the company's own brand name. All frozen-at-sea products are sold as MSC certified.

International sales are all made to an exporter distributor, Atlantic Oceania International Seafood Exporters Ltd. (AOISE). Sales to AOISE are priced in U.S. dollars, and currently AOISE purchases all the available frozen-at-sea product, which is all of NPF's Greenland halibut and part of its offshore cold-water shrimp catch. NPF has a five-year contract with AOISE that requires AOISE to purchase all of its available product. The selling price is based on prevailing market rates at the time of the sale, and all sales are made on credit. The existing contract matures in 2027 but has another five-year renewal option, if agreeable to both parties. AOISE has similar core values to NPF, requiring its suppliers to be MSC certified, to embrace sustainability practices, and to produce high-quality, wild-caught, all-natural products. AOISE takes immediate ownership of the product at the dock and incurs all costs for storage, freight, and distribution.

Frozen-at-sea Greenland halibut

For processing, Greenland halibut is beheaded, gutted, and cleaned on board the vessel. The fish is separated into three saleable products prior to freezing: head, tail, and various cuts for the body. It is then frozen immediately to retain its freshness and stored below deck in freezers until port is reached. The halibut is premium quality and all natural with no preservatives. The frozen product is packaged and off-loaded in Newfoundland or Greenland, where it is immediately sold to AOISE, who takes ownership and control.

Frozen-at-sea shrimp

The processing of the live shrimp on board involves flash freezing the shrimp within minutes of harvesting at a temperature of -20°F (-28.8°C), which maintains the taste, flavour, and texture of “freshly caught” shrimp. The environmentally friendly process requires no water, salt brine, or additives. The shrimp are graded, weighed, and then bagged and boxed, and stored in freezers on board the vessel. Once at dockside, the shrimp are sold to AOISE, who takes ownership and control.

Processed fresh and frozen shrimp

The plant processes premium North Atlantic shrimp caught inshore, as well as a portion of the offshore shrimp caught by NPF. Annual production totals range between 1.5 and 3 million kilograms of caught shrimp (not yet processed), and the plant operates during the inshore fishing season of June to October. Inshore shrimp are landed directly at the plant by inshore fishers. As soon as the shrimp are landed, they are weighed and soaked in water-based solutions. From that point, they may be beheaded or peeled and then cooked. The shrimp are packaged and sold as fresh (beheaded or peeled and cooked) or frozen product. The cooked shrimp are vacuum packaged for shipping. No additives are used in the process.

The fresh and cooked shrimp products are sold locally or across Canada. The company receives orders from distributors and local grocery retailers and restaurants operating in Eastern Canada. The distributors sell primarily to restaurants, specialty fish retailers, and grocery retailers across Canada outside of the eastern provinces. NPF has no long-

term contracts with these customers, and every year the company will gain some new customers and lose others to competitors' products. The company has not been able to secure large, multi-year contracts with larger distributors, grocery retailers, or restaurant chains because its product mix is too limited. In fact, many potential customers have indicated that they cannot contract with the company due to its limited product mix.

During the year, all of the company's available product will be sold within three months of the processing date, resulting in only one month's worth of production being left on hand at year end. Sales to distributors are at lower prices than sales direct to local grocery retailers and restaurants operating in Eastern Canada. The company does not sell any of its product online.

Harvesting partners

Effective April 1, 2021, the company renewed its fishing licence lease agreements for its Greenland halibut and shrimp quota licence owners for another 10 years. The renewal of these leases allows NPF to continue to harvest the combined quotas (its own and its partners' quotas), making it more efficient to operate its vessel and improve profits. Based on the agreements, harvesting partners are paid a percentage of the prevailing landed market price for the shrimp or Greenland halibut for their quota volumes. Although the company has not lost any harvesting partners, it also has not been able to sign on any new ones. The primary reason for this is that no new quota licences have been issued and there is very little turnover in ownership.

Shrimp supplier contracts

For the shrimp supplier contracts with the inshore fishing enterprises, NPF completes background checks on new suppliers, and the legal contractual agreement requires each fishing enterprise to adhere to ethical harvesting practices. This is necessary to ensure that the company maintains its MSC certification. In 2023, the company had 60 fishing enterprises selling their shrimp catch to the processing plant. This is down from 70 in previous years due to some enterprises selling their licences and others not complying with the company's high standards for ethical sourcing. For the licences that were sold, the new owners already had processing contracts elsewhere and found no reason to switch to NPF.

Ethical sourcing of seafood

Ethical sourcing of seafood includes harvesting catches within the annual allowable limits under government-issued quota licences and using harvesting techniques that use the appropriate size and type of fishing gear to minimize the impact on the marine habitat. Because NPF does its own harvesting for products frozen at sea, it can be sure that catches of Greenland halibut and offshore shrimp have been ethically sourced.

Traceability

Once Greenland halibut or shrimp are caught, they are assigned a reference number that identifies the *North Allotta* or the *Charlie K* as the vessel, the fishing area, the time

of the catch, and other important factors. This allows the product to be traceable from catch to end consumer. The frozen products are also given a unique product code that ties to this traceable reference number and provides information on when the product was processed. For processed shrimp products, finished goods are given lot codes allowing for full traceability. The products are tested for quality at various points in the process.

Harvesting and procurement costs

These costs relate to the frozen-at-sea products, including operation of the vessel and on-board freezing costs. Costs required to operate the vessels include fuel, labour, crew costs, repairs and maintenance, fishing gear, supplies, licence fees, and other costs. Royalties paid to harvesting partners on quota catches not owned by NPF are also included, at a fixed percentage of the landed price multiplied by the volume of the catch.

Processing costs

Processing costs include the purchase of the harvest from the shrimp suppliers and costs to process and package the fresh and frozen shrimp. Purchase costs are paid to the inshore shrimp fishing enterprises at the landed market price of their catch delivered to the processing plant. The plant processing costs include wages paid to the plant employees and all other plant costs.

During the various processing steps for the shrimp, the shell and the head remain as waste after the beheading and peeling stages. During 2023, NPF sold 600,000 kilograms of this waste at a net selling price of \$0.32 per kilogram to a fertilizer producer under a five-year contract. The net value of this waste is included in processing costs.

Inventories

Depending on the time of year, the company may have frozen-at-sea Greenland halibut and frozen-at-sea offshore shrimp on the vessel waiting to be sold to AOISE when the vessel docks. During the inshore shrimp processing season, the company may have fresh or frozen shrimp. After October, when the processing has been stopped for the season, the inventory will be only frozen shrimp.

Fresh catch deteriorates quickly and so must be consumed within two days of the catch and kept refrigerated the entire time. Therefore, fresh shrimp are sold immediately on receipt. Frozen shrimp product is best consumed within three months to retain a high-quality taste; however, it can still be safely consumed up to 12 months later provided a frozen temperature of 0°F (−17.78°C) is maintained. Even a small fluctuation in the temperature at a processing/storage facility can result in significant inventory having to be destroyed or sold to a second-tier market (for example, pet food) for a greatly discounted price.

NPF has implemented state-of-the-art controls for tracking inventory and for temperature monitoring within the refrigerated and freezer warehouses and its delivery trucks, to reduce inventory losses. Radio technology allows for product-implemented

identification tags to track product all the way from harvest time and source to final delivery to the customer. Technology is also used during transportation of the product to ensure regulatory and safety compliance and fast delivery of high-quality, undamaged products. Because the inventory is sensitive to temperature changes, the company's own delivery trucks are also monitored for refrigeration and freezer temperatures. As the frozen processed inventory is sold and depleted over the year, the company has increasing excess warehouse space available that sits empty until the next harvest season.

Property, plant, and equipment

The company does not lease any assets. The offices, wharfs, and processing plant are all located in a coastal town in Newfoundland. The company has some vacant land that could be used for expansion purposes. The net book values of the asset classes are as follows:

Asset	Value (in \$'000s)	Depreciation policy
Land	125	
Office building, wharfs, and processing plant	4,147	Straight-line over 50 years
Processing and office equipment	6,230	Straight-line over 10 years
Vessels	10,766	Straight-line over 20 years
Vehicles	<u>121</u>	Straight-line over 8 years
Total net book value	21,389	

Since investing in the *North Allotta*, the shareholders have believed that in order for the company to differentiate itself, it has to continuously upgrade to state-of-art equipment on its vessels and in its processing plant. NPF expects to spend \$3 million annually on upgrading and refurbishing its property, plant, and equipment for the next five years.

Colan believes that continuously upgrading the equipment to adopt best and leading practices has resulted in the company being able to lower its greenhouse gas emissions, achieve greater efficiency, and lower its operating costs and carbon footprint. This has been a way for NPF to differentiate itself from the many smaller fish enterprises. In addition, the state-of-the-art equipment on board the vessels provides better ocean bottom mapping, which the company provides to Memorial University in Newfoundland to be used for research and analysis of the fish populations. Finally, these investments have also allowed the company to maintain its MSC certification and achieve excellent ratings in its recertification audits.

Marketing and advertising

Marketing of the Neptune's Tasties brand promotes the product as being tasty, healthy, and ethically sourced. The frozen-at-sea products are labelled as MSC certified. For the frozen-at-sea products, the taste of freshly caught fish is achieved by freezing on board within one hour of catching. For the shrimp, immediately processing and packaging the freshly caught shrimp ensures that the fresh taste is maintained. All products are

considered healthy because nothing is added to the products and so they are completely additive-free. Finally, by harvesting within the quota limits using only approved harvesting techniques, Greenland halibut and offshore shrimp have been ethically sourced.

By following these practices, the company's products have a good reputation in the industry for being high quality and ethically sourced. Marketing expenses include maintenance and updating of NPF's website and marketing costs to promote its commitment to sustainable fishing and food safety practices.

Research and development

Currently, the company does not invest in any research and development but relies on associations of which it is a member to fund a variety of projects. NPF does not have the size and resources to devote to the initial development of these ever-changing technologies. However, as Colan and Allan have an interest in this area, they keep current on new developments. Once new methods or technologies have been proven, NPF makes investments to improve sustainable harvesting techniques, production efficiencies, and inventory management. The company does not spend any resources on new product development.

In addition, for years now, NPF has collaborated with the scientists at Memorial University by providing catch data on Greenland halibut and offshore shrimp harvested annually. When requested, NPF has also allowed scientists to come on board its vessels while out on fishing trips to allow for the gathering of other scientific data.

Data analytics

Currently, NPF uses few data analytics, although it captures a variety of data on its vessels. Colan and Allan both believe that with more advanced tools and technologies, NPF could achieve precision fishing, which is a practice that allows captains to determine where to go to catch their quotas most efficiently before even leaving the dock.¹¹³

Currently NPF gathers information that includes the following:

- Vessel data — gear types, date of catch, weather, and fuel consumption
- Data collected from the vessel monitoring system — position, speed, heading, and start and end times for the catch
- Catch data — species, volume, biophysical characteristics, and volume of discards

¹¹³ Philip Christiani, Julien Claes, Elin Sandnes, and Antoine Stevens, "Precision Fisheries: Navigating a Sea of Troubles with Advanced Analytics," December 2019, <https://www.mckinsey.com/~media/mckinsey/industries/agriculture/our%20insights/precision%20fisheries%20navigating%20a%20sea%20of%20troubles%20with%20advanced%20analytics/precision-fisheries-navigating-a-sea-of-troubles-with-advanced-analytics-vf.pdf?sho>

- Sensor and oceanographic data — depth, water temperature at various depths, ocean currents, salinity, pressure, and dissolved oxygen

The local fisheries association recently began gathering select data from fisheries in the area, and it has been shared within the association in order to help facilitate precision fishing. Given that fishing spots can be closely guarded, as they are viewed by many fisheries as a competitive advantage, fisheries were asked to report their catch data by zone. The area where shrimp and Greenland halibut are caught was divided into three zones, with Zone 1 being the closest to Newfoundland and Zone 3 being the farthest away up the coast. The first set of data from May to October of the prior year has been shared within the association and includes the following:

- The type of vessel (35-metre trawler or 60-metre trawler)
- Species caught (shrimp or Greenland halibut)
- Catch total (average total per vessel in tonnes)
- Area of catch (Zone 1, 2, or 3)
- Month

Colan and Allan are looking to compare their own data to that provided by the fisheries association. One area of concern for NPF is the cost of fuel. Given that it is farther up the coast, fuel costs to reach Zone 3 are much higher than to reach Zone 1 or 2, which ultimately has an impact on NPF's profit margin.

Financial reporting and budgeting

NPF follows IFRS for reporting purposes, as it had previously received financing from a U.S. bank and IFRS was required for its reporting. Although that loan has since been repaid, the company has continued to use IFRS because its accounting systems and processes are designed for these accounting policies. NPF's auditors, Peterson & Co. LLP, have been preparing the company's audited financial statements since incorporation. The 2023 audit was completed in March 2024. NPF's corporate bank, Madison Bank, receives a copy of the annual audited financial statements. The company does not use derivatives to mitigate exchange rate fluctuations between the U.S. dollar and Canadian dollar.

Colan has always believed in paying fair wages to the shareholders and leaving any excess cash in the company in case of unexpected needs that might arise. Therefore, the company has never paid dividends, and there are no plans to change this policy in the near future. Both Kurt and Allan have the same philosophy toward maintaining cash in the business and support this policy.

The company prepares annual budgets, although the actuals are rarely in line with the budgets due to changes in environmental factors, over which management has little control.

Banking and financing

NPF uses Madison Bank for its corporate accounts, line of credit, and long-term loan. The McPhersons also use this bank for all their personal banking needs. The following line of credit and a long-term loan are outstanding:

- Line of credit — The company has access to a line of credit, up to a maximum amount of \$2 million. Any drawn amount incurs interest at prime (currently at 5%) plus 1%. The line of credit is secured with a general security agreement on the assets of the company.
- Long-term debt: term loan — The loan bears interest at 6%, payable monthly, requires annual principal payments of \$500,000 on July 31, and matures in 2029. The loan is secured by the *North Allotta*.

The company has found two alternative sources of funds for any new long-term investments. The terms and conditions proposed for each alternative are provided in Appendix IV.

Board meeting dialogue

The board met on April 3, 2024. Prior to the meeting, a briefing was distributed to the board members on the four potential new projects and some other additional issues that had been discussed at earlier meetings:

- Investment in Tillyton Salmon Farms Ltd. (Appendix V)
- Cold storage facility expansion (Appendix VI)
- Seafood retail locations (Appendix VII)
- Acquisition of Cabot Bay Fisheries Inc. (snow crab processor) (Appendix VIII)
- Information on other issues (Appendix IX)

The meeting's agenda was as follows:

1. Consider the four proposed strategic alternatives.
2. Discuss any other business.

Excerpts from the discussions that took place are detailed below.

Colan: Thank you all for coming. We have a lot to discuss today.

Kurt: Let me start, then, with my proposal. As you know, I have been friends with Jerod Jenkins since Grade 4 and am happy to see him back in Newfoundland. Jerod recently approached me about NPF investing in Tillyton Salmon Farms Ltd. (TSF), in which he is a shareholder. One of the other shareholders, Irene, had always planned to sell her shares in 2024 due to personal reasons. Jerod believes that she would accept

\$10 million for this sale. If we decide to invest, we will have one of the three seats on the board of directors.

Allan: I think this is a good idea. Aquaculture is a growing segment and would give us more control over the amount of product that is harvested and sold because there are no annual quotas. This would provide more stability to our revenues and profits. I also have a lot of respect for Jerod and his sister, Lydia, who are fast becoming experts in this field.

Yvonne: I like the idea of NPF selling another type of seafood. Perhaps, in the future, we could process and sell the salmon under our brand name. But I am concerned about reputational risk related to consumers' perception of the use of antibiotics and chemicals in salmon farming.

Kurt: I do know that Jerod's philosophy is to try nurturing the fish stock with no chemicals, using antibiotics and medicines only as required to ensure the stock's good health. Right now, they use the best breeding and sustainable practices in the industry segment, including reductions in untreated waste, which is a concern from environmental groups. He hopes, based on their data analysis and research, to develop and implement even better practices. I have full confidence in Jerod and Lydia.

Colan: I am concerned about the number of factors that impact the annual yield. From my reading, I have learned that diseases and parasites spread quickly in densely populated environments, which could severely reduce the harvest in any given year. There is the added risk that the natural salmon population will also become infected, or that the farmed salmon will escape. As well, the stock can be impacted by environmental factors such as high water temperatures or algae blooms.

Allan: This is a concern, but Jerod has highly advanced monitoring systems that should detect these issues quickly so the fish can be immediately treated. I also know, from my discussions with Jerod, that the research he conducted in B.C. and will continue to do in Newfoundland has helped stakeholders understand the salmon life cycle. This understanding can be applied to wild salmon research to better forecast salmon populations.

Kurt: Fish farming allows the food fish supply to be replenished at a faster rate than the oceans can produce wild-caught fish, allowing suppliers to keep up with demand. Because worldwide demand for seafood is increasing, much of this demand can be met with farmed salmon, reducing the risk of overfishing the natural populations.

I also want to go back to an earlier comment Mom made. I think we can use our experience in downstream integration with TSF. I see in the future us having a contract with the processor that they will prepare and package the salmon under our brand. This will ensure traceability right to the end consumer, as we have now. It will also allow us to attract more customers. And don't forget, this operation is year-round, whereas our current operations are very seasonal.

Colan: I think everyone has voiced their thoughts, so let's move on to Allan's idea.

Kurt: Just one more item on TSF. I saw agricultural inventories on TSF's financial statements and wondered what this represents and how it is accounted for.

Allan: We can ask SHC to comment on this in their report. Since TSF follows ASPE and not IFRS, I would also be interested in knowing this. Now, I want to discuss my proposal for expanding our cold storage facilities. Currently, NPF has marginal excess storage capacity at the low point in the season once the inventory has been depleted, and this led me to consider building a warehouse for cold storage. We have state-of-the-art monitoring and inventory management systems. I propose we take advantage of these capabilities. We could provide storage and warehousing services to other seafood harvesters and processors that need refrigerator and freezer storage. We could also offer warehousing services for tracking customers' inventory. In talking to the local community, I know many fish harvesters and processors who must upgrade their outdated storage facilities, particularly if they want to be certified. We could offer this outsourcing opportunity and provide NPF with a new revenue stream.

Kurt: I like the idea of long-term contracts to help stabilize our revenues, and I've heard this is critical for success in the cold storage industry. This is a great idea to provide a return on our excess capacity, and if this works, we could also expand at some future date to include distribution. We currently use state-of-the-art temperature monitoring in our trucks, and we would just need to expand on our fleet to offer this additional service.

Yvonne: If we enter the aquaculture segment, our need for storage might also grow. I can also think of some local organic food processors that might also want this capability. Because organic products have no preservatives, immediate and proper cold storage is vital to preserve the freshness. Organic food processors also might want to show traceability of their product, which we could provide with our inventory tracking automation.

Colan: Hold on a minute! There are a lot of risks in the cold storage and warehousing services industry that we have to consider. We are always hearing about lost and damaged inventories, which we would now be held responsible for. Secondly, we are located about 50 kilometres from the closest large town, and the local residents and municipality may not support this new building. To be successful, shouldn't cold storage be in major population centres and on transportation routes?

Allan: We can purchase insurance to cover the losses due to damages. There are some customers that operate close to us that I think could use our storage capabilities. We are just going to be a small operator, not one of the large national chains.

Kurt: I know that success compared to the competition in the storage industry is based on price, quality, and speed of service. By providing better-quality service, we could have some control over the prices we charge and make it attractive to our local customers. Being closer to the customers also reduces their trucking costs.

Colan: We do not have any experience in selling these services or managing other customers' expectations with respect to inventory management. We might even find

ourselves in a position where we have to compromise our own inventory to service the immediate needs of a customer and keep them happy.

Yvonne: I am concerned about the large amount of upfront cash required for this expansion, which is a start-up and might fail. We don't have any excess cash on hand.

Colan: I do not think we can compete against the well-known large competitors that operate large facilities in town and have access to larger amounts of resources compared to us. I cannot see how we would differentiate ourselves.

Allan: We are known in this area, and I anticipate that our reputation for quality and following best practices in all that we do would attract customers.

Colan: Or the flipside, if something happened where we somehow caused a local customer to lose their inventory, the bad publicity alone could destroy our reputation. We have worked too hard and too long to build this reputation to take this risk. I am absolutely against this idea.

Allan: I think you are blowing these risks out of proportion. We have years of experience in managing perishable inventories and use updated equipment to ensure that the right temperatures can be maintained continuously. That's critical for success in this industry, and I think somewhat mitigates many of your concerns. I think that with optimum capacity utilization and eventually long-term contracts once we get more established, we can be successful. We can ask SHC to perform research on the trends and risks in the industry to assist with our decision.

Colan: Let's move on to our next proposal. Yvonne, do you want to go next?

Yvonne: I am really excited about this proposal, which is to initially open three retail outlets that specialize in only seafood. We would sell fresh and frozen products of not only our own products but also others. The premium, high-quality product would be sold directly to end consumers and local restaurants. The stores would also cut fresh fish and seafood upon request. I would name the stores using a new brand name, Neptune's Seafood Market. Products could be sourced locally but also from other parts of Canada for other types of species. I propose we immediately start with the storefront of one of our customers in town, Larina Fetcher, who is closing her store. Then I propose we add one more location each year over the next two years in other surrounding towns. We will be able to differentiate ourselves from competitors because we catch the fish, we know quality and good taste, and all the products meet our strict ethical standards of harvest.

Colan: This is a great idea and gives us a direct link to end consumers. We currently sell to Larina's store, so we would not be losing a customer when the store closes.

Kurt: Why is Larina closing the store — has business been declining? Because we are not buying Larina's business, we unfortunately cannot see her historical revenues and profits.

Yvonne: Larina is well known in town, as is the store, and she did help me work out the assumptions for revenues and costs, so I believe they are reasonable. We would have direct contact with end consumers and hear about what they like and don't like about our products. This would help us to improve our current products. We could also use these customers to test out new products.

Allan: Being a retailer means that we might be competing against some of our customers, not only in town but in the other future locations also. These customers might decide not to deal with us if we become one of their competitors.

Yvonne: In selecting the other locations, we might consider only those locations that do not currently sell our product locally.

Kurt: Why would we want to get into a business in which we have no experience? There are a few key factors to being successful in the retail segment, which we don't really have, like having an experienced workforce that can answer consumers' questions about the seafood and how to prepare it, and being in the right location to attract customers. I think in order to be successful, it will also be important to be able to identify what products are popular with consumers and have supplier relationships to access these products.

Yvonne: Larina said that she would be happy to work on a part-time basis for the first year to help us manage the store and build a relationship with her suppliers.

Allan: Retail is a fiercely competitive segment. I just do not know how we would differentiate ourselves. How do we compete on price with the large grocery stores and larger seafood retailers?

Yvonne: I think we compete by selling only premium and ethically sourced products to a customer group that is concerned about the environment. We can try with the first location and if this doesn't work, then we won't expand further. But I also think there would be potential to expand the retail offering to include prepared cooked, ready-to-go seafood.

Allan: We would be totally reliant on a variety of different suppliers to ensure that we got the product when we needed it. Managing the inventory of multiple fresh and frozen products based on consumers' desires is a key to success that will be a challenge. What happens if there is a disruption in the supply and we cannot get what we need on time?

Yvonne: We could possibly use our current distributors to provide us with the other products. This might increase our power with these distributors if we are both a supplier and a customer.

Kurt: I am against this proposal. It requires \$3 million for equipment, and leasehold improvements are on top of this. I think we can better spend this on some of the other options that I think are more profitable.

Allan: I am also against this proposal — I just don't think we have anything unique to bring to the retail market, and it does not use our existing core competencies. I am also concerned about having sufficient inventory. Right now, we sell out of all our products over the year. Selling to our own retail locations might cause us to not be able to meet our commitments to existing customers.

Colan: We could consider trying a single location and see how it works. The amount of inventory NPF would sell to these retail outlets would be minimal and have little impact on current sales and customers. The timing seems to be appropriate with Larina planning to close her store. I like that we can educate end consumers directly on why it is important to support companies that use only sustainable fishing practices and not those that exploit the resources and do not act responsibly. But let's move on to our last alternative. I have been in discussions with my long-term friend, David Capriola, the sole shareholder of Cabot Bay Fisheries Inc. (CBF) about NPF purchasing his snow crab processing plant. He is proposing NPF purchase at least 60% of his company, with the remaining 40% being sold to a foreign investor, Larsen. Although he did state that he would prefer NPF purchasing 100% of the shares if we can afford it.

Yvonne: I like this idea because it will give us another product line to sell, and we can sell this under our brand. We can leverage our existing distribution channels and customers to sell these products and may be able to attract some additional customers as well.

Kurt: But how do we know that it meets our standards of high quality and taste?

Colan: Yvonne and I have purchased this product quite often and can attest that it is of high quality and very tasty. My biggest concerns are having a foreign investor and the upfront capital required.

Allan: I really don't want to get involved with foreign owners. There has been a lot of negative publicity and pushback from locals regarding foreign ownership in processing plants around the province.

Kurt: There are some positives about being in partnership with a large company that has the resources and access to capital to be able to weather the volatility in cash flows. I have spoken to the managers of some of the local companies in which Larsen owns equity, and they all speak very positively about the company. Larsen's representatives are very knowledgeable and experienced and have brought many new ideas for operational improvements. They have also left the management and employees in place with no terminations or cultural changes. Most people I spoke to said that it has been a win-win situation. Most of Larsen's plants are globally certified, which means they embrace the same principles we do.

Yvonne: We also might be able to use their contacts to get new customers for our own NPF products. Perhaps with their backing, we could get longer-term commitments from our existing NPF customers.

Colan: The snow crab segment has the same risks as we are already facing — volatile purchase prices and volatile selling prices. Although right now they are trending upwards, I am not sure how long this will last.

Allan: I am concerned about the amount of cash required. If we purchase 60%, we will have a minority foreign investor that we know nothing about. If we purchase 100%, then we will be sinking \$12.5 million into this venture. I think we need SHC to perform research on the snow crab segment outlook and the issue of foreign investment.

Kurt: In addition to the synergies that were already noted, NPF may be able to achieve other economies of scale by purchasing processing supplies required for both plants from a single supplier and receiving some volume discounts.

Allan: As David and his wife are the current managers but are leaving, who will we get to manage this operation? None of us can do it on a regular basis, since it is 200 kilometres away from where we live and work, and the operational season is the same as we have at our plant. Without daily on-site management, this significantly increases the risk of operational issues and losses occurring.

Kurt: David has said that he has two well-qualified and long-term employees who could be promoted into management roles.

Colan: I am concerned that Larsen, as a larger company, may try to use its influence to change the culture or practices or daily operations within CBF. Although we may be able to purchase 100% of the shares, this is a huge amount of cash to put up. Okay, I think everyone has shared their thoughts and we can ask SHC to go ahead with their analysis and prepare their report. But before we wrap up, I just wanted to repeat what I have said many times before. No matter what options we decide to invest in, it is imperative that we maintain a strong balance sheet and try to not take on any needless risks. Therefore, I want us all to agree that, regardless of the final investments decided on, our new total debt to total assets will not exceed the industry average of 60%. Agreed?

Allan, Kurt, and Yvonne: Yes, agreed.

Allan: I have two other tasks for SHC. Mom and I were reviewing the results of the workforce survey, and we are concerned about the lack of gender diversity at the company and how few women work at NPF in comparison to the national averages. We would like to understand the challenges and barriers to equality that women face in these types of jobs, along with the steps NPF should take to tackle these inequality issues and increase the number of women working on the vessels and in the processing plant. In addition, I would also like to know what procedures and mechanisms we could implement to help us remain current on the changing regulatory requirements and to ensure continued compliance. Right now, we rely on news reports to be made aware of changes, and I think we could be doing more.

Kurt: I also have some additional work required. First, as part of my wrap-up for the shrimp processing season, I ran a new report from the data analytics program I

purchased a few months ago. I wanted to see which shrimp suppliers had increased volumes from the prior year, so I set the report to show suppliers with a 5% or greater increase from the prior year. I noticed that most were consistent with the prior year but one, Atlantic Shrimp Inc. (ASI), had a 16% increase. I contacted the president, as I thought there may have been an error on our end. After several conversations, she finally admitted that they have been having a hard time financially and they exceeded their quota limit by fishing in an unrestricted area. She didn't think we would catch on because we don't ask our suppliers for the quota limits, as it is the supplier's responsibility to adhere to the quotas in their licences.

Second, I have been researching whether the company should process the waste from shrimp processing into shrimp oil. I have gathered some relevant information about a new shrimp oil byproduct, and I would like SHC to include a quantitative analysis in their report. After gathering this information, I will do further research on qualitative considerations.

Finally, I am interested in what it would take to get the shrimp processing plant MSC Chain of Custody certified. I would like to ask SHC to include what this would entail for the shrimp processing plant in their report. Specifically, I would like to understand the certification requirements, implications for NPF to satisfy these requirements, and what procedures the certification auditor would use to test and verify if these requirements are met. I think that the MSC and resources available on its website will be helpful in this analysis.¹¹⁴

Yvonne: I have one final addition request for their report. Although Colan and I are not thinking of retiring until we are at least 65, we would like to better understand how RRIFs, lump sum payments, and annuities work for withdrawing funds from our RRSP and the advantages and disadvantages of each. We each have RRSPs in our own names with similar market values.

Colan: I will contact SHC and ask them to get started and also to let them know about these additional issues that we need addressed in their report.

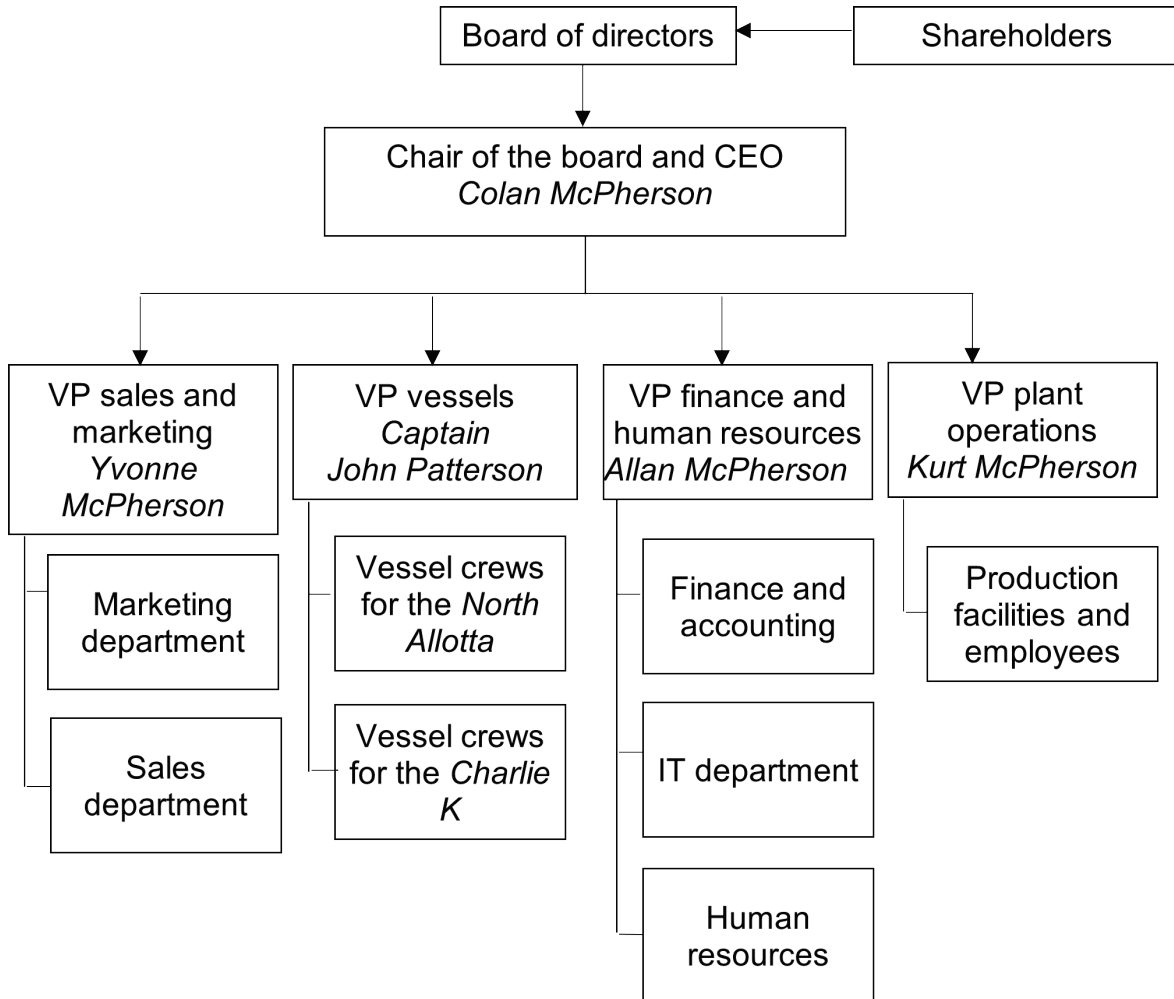
¹¹⁴ Marine Stewardship Council, "Fishery Certification Guide," accessed April 5, 2023, <https://www.msc.org/en-us/for-business/fisheries/fishery-certification-guide>

Table of appendices

Appendix I Organizational chart	67
Appendix II NPF financial statements.....	68
Appendix III Industry benchmarks	72
Appendix IV Financing alternatives	73
Appendix V Investment in Tillyton Salmon Farms Ltd. (TSF).....	74
Appendix VI Cold storage facility expansion	76
Appendix VII Seafood retail locations.....	78
Appendix VIII Acquisition of Cabot Bay Fisheries Inc.....	80
Appendix IX New shrimp oil byproduct.....	83

Appendix I Organizational chart

Prepared by Allan McPherson



Appendix II
NPF financial statements

Prepared by Allan McPherson

Neptune Point Fisheries Inc.
Statement of profit or loss and comprehensive income
For the years ended December 31
(under IFRS)
(in C\$'000s)

	AUDITED 2023 \$	AUDITED 2022 \$	AUDITED 2021 \$
Revenues			
Frozen-at-sea Greenland halibut	5,505	6,438	6,413
Frozen-at-sea shrimp	5,474	6,654	9,228
Processed shrimp	21,586	25,380	21,250
Total revenue	32,565	38,472	36,891
Expenses			
Harvesting and procurement	9,332	11,129	13,295
Processing costs	11,649	12,792	11,269
Warehousing and shipping costs	2,600	3,150	2,940
Depreciation	2,428	1,994	1,795
Selling and administration	3,520	3,610	3,420
Foreign exchange gain (loss)	478	(178)	378
Total expenses	30,007	32,497	33,097
Operating income	2,558	5,975	3,794
Interest expense — line of credit	(32)	(29)	(24)
Interest expense — term loan	(198)	(228)	(258)
Income before taxes	2,328	5,718	3,512
Income taxes	(797)	(2,038)	(1,263)
Net profit and comprehensive income for the year	1,531	3,680	2,249

Appendix II (continued)
NPF financial statements
 Prepared by Allan McPherson

Neptune Point Fisheries Inc.
Partial statement of changes in equity
 For the years ended December 31
 (under IFRS)
 (in C\$'000s)

	AUDITED 2023 \$	AUDITED 2022 \$	AUDITED 2021 \$
Balance — beginning of year	10,978	7,298	5,049
Comprehensive income	1,531	3,680	2,249
Balance — end of year	12,509	10,978	7,298

Appendix II (continued)
NPF financial statements
Prepared by Allan McPherson

Neptune Point Fisheries Inc.
Statement of financial position
As at December 31
(under IFRS)
(in C\$'000s)

	AUDITED 2023 \$	AUDITED 2022 \$	AUDITED 2021 \$
Assets			
Current assets			
Cash and cash equivalents	302	549	459
Accounts receivable	902	1,076	1,286
Inventories — seafood	486	650	574
Inventories — supplies	325	335	309
Prepaid expenses	495	450	410
Total current assets	2,510	3,060	3,038
Property, plant, and equipment — net	21,389	18,980	13,899
Intangible assets — fishing rights	540	540	540
Total assets	24,439	22,580	17,477
Liabilities			
Current liabilities			
Line of credit	1,025	787	848
Trade payables and accrued liabilities	2,742	2,239	1,993
Income tax payable	95	536	9
Current portion — term loan payable	500	500	500
Total current liabilities	4,362	4,062	3,350
Long-term debt — term loan	2,500	3,000	3,500
Deferred income taxes	4,568	4,040	2,829
Total liabilities	11,430	11,102	9,679
Shareholders' equity			
Share capital — 20,000 common shares outstanding	500	500	500
Retained earnings	12,509	10,978	7,298
Total shareholders' equity	13,009	11,478	7,798
Total liabilities and shareholders' equity	24,439	22,580	17,477

Appendix II (continued)
NPF financial statements
 Prepared by Allan McPherson

Neptune Point Fisheries Inc.
Statement of cash flows
 For the years ended December 31
 (under IFRS)
 (in C\$'000s)

	AUDITED 2023 \$	AUDITED 2022 \$
Operating activities		
Net profit	1,531	3,680
Depreciation	2,428	1,994
Interest expense	230	257
Income tax expense	797	2,038
Change in working capital balances		
Accounts receivable	174	210
Inventories	174	(102)
Prepaid supplies and expenses	(45)	(40)
Trade payables and accrued liabilities	503	246
Interest paid	(230)	(257)
Income taxes paid	(710)	(300)
Total cash flow from operating activities	4,852	7,726
Investing activities		
Investment in property, plant, and equipment	(4,837)	(7,075)
Financing activities		
Line of credit proceeds	238	(61)
Repayment of term loan	(500)	(500)
Total cash flow from financing activities	(262)	(561)
Change in cash	(247)	90
Opening cash and cash equivalents	549	459
Closing cash and cash equivalents	302	549

Appendix III Industry benchmarks

Prepared by Allan McPherson

Industry benchmarks	2023 Industry average
Annual revenue growth rate	4.1%
Current ratio	2.50
Total debt to assets	60.0%
Return on assets	7.4%
Return on equity	28.2%
EBITDA margin	18.1%
Operating margin	15.8%
Cost of goods sold (includes harvesting and procurement + processing costs + depreciation + warehousing and shipping) as percentage of revenues	76.0%
Selling and administration costs as percentage of revenues	9.3%
Net profit margin	8.6%

Appendix IV Financing alternatives

Prepared by Allan McPherson

Merit Credit Union term loan

Merit Credit Union has offered to loan up to \$8 million, with the *Charlie K*, the processing plant, and any new property, plant, and equipment as security for the loan. The loan will bear interest at 8%, payable monthly. The principal is all due in 10 years.

Preferred share investment by Michelle Patterson

Michelle Patterson, Yvonne's sister, is interested in investing up to \$5 million in preferred shares. The preferred shares will pay a cumulative dividend of 6% annually. She recently sold her business and is interested in being involved in another business. As part of this investment, NPF would agree to hire her as part of the executive management team and give her a managing role in one of the new strategic investments. She would be a voting director on the board. Michelle is a lawyer who specializes in regulatory compliance in the fishing and seafood industry and worked for a large global seafood processor whose operations include fish processing and aquaculture.

Michelle wants to move back to Newfoundland to be closer to her sister and parents. Michelle is two years older than Yvonne, and they have always gotten along well. Everyone in the family likes Michelle, although they have never worked with her. She is well respected in her professional roles and prides herself on making things happen. She is a visionary who can see the bigger picture and get people to adopt her vision. She believes right now that NPF needs help and feels her experience and drive will make the company more successful. She wants to ensure that NPF is sustainable and provides good retirement income for her sister and Colan.

Appendix V

Investment in Tillyton Salmon Farms Ltd. (TSF)

Prepared by Kurt McPherson

Tillyton Salmon Farms Ltd. (TSF) incorporated in 2021 and is currently owned by three investors. Jerod and Lydia Jenkins, siblings, are both biologists with PhDs in marine biology and they each own 35%. Irene Waterford, Lydia's friend, owns the remaining 30%. Jerod and Lydia both worked at different salmon farms in British Columbia for many years, prior to starting this new company. At the time of initial investment, Irene had indicated that she would invest only for a few years until Jerod and Lydia found another partner. For this reason, Jerod approached me about NPF making an equity investment, with July 1, 2024, as the transaction date.

TSF's farming operation is located in Newfoundland. TSF has been granted the right to use the ocean sites for its cages for a period of 12 years (there are nine years remaining) with an option for another six years. The company's goal is to grow and harvest high-quality and tasty salmon. Jerod and Lydia are committed to being at the forefront of ethical and sustainable practices for aquaculture, given their science backgrounds and main objective of protecting the health and welfare of the salmon.

The company has one freshwater and one seawater recirculating aquaculture system that is used to hatch and grow salmon to the smolt stage. Smolt are the young salmon that are ready to leave their freshwater home and migrate to seawater. Once ready, the smolt are transferred to ocean cages located in environmental areas at a depth and temperature favourable to salmon. Salmon are left to mature in these sea cages until ready for harvest and sale. Once harvested, salmon will be sold to a nearby plant to be processed into fillets for sale.

Because the production cycle is three years from time of hatch to full harvestable salmon (about 4 to 5 kilograms), 2024 will be the first year of harvest and sales. Jerod and Lydia's primary concern is to ensure the health and welfare of the stock and ensure that wild salmon populations are not impacted by the farming operations. Accordingly, they are adamant about implementing state-of-the-art technology that will allow them to constantly monitor these factors.

Salmon is a commodity, and the selling price received is dependent on spot market prices, quality, and sales contracts with the processing plant. Currently, the company is negotiating a sales contract with a local processor that will purchase all the salmon as it is harvested. Projections for the volume of production are based on the amount of smolt the company has available. Jerod and Lydia have decided to build up the stocks slowly to perfect the farming and technical procedures over a period of years, ensuring the highest yields while maintaining welfare of the stock. Therefore, they believe that these production yields are conservative until the normal sustainable amounts of 30 million kilograms per year are achieved.

Appendix V (continued)
Investment in Tillyton Salmon Farms Ltd. (TSF)
 Prepared by Kurt McPherson

	2024	2025	2026	2027	2028	2029	2030
Annual production volume in kilograms (in millions)	10	15	18	22	25	30	30

The average selling price per kilogram and average farming costs per kilogram are expected to be \$8.09 and \$6.75, respectively. These provided production volumes are based on a survival rate of 90%. Farming costs are for the year of the sale of the salmon, and these are the costs to produce and harvest the salmon including all consumables (for example, feed and antibiotics), and wages and salaries.

Other expenses will be \$11 million for 2024 and will increase each year by \$1 million until \$15 million annually is reached and remain at this amount for the foreseeable future. Included in other operating costs are administrative and selling expenses and all data analytical collection, monitoring, and analysis costs. The company uses state-of-the-art technology to monitor the environment and health of stock, as this is a key to success in this segment of the industry. Constant environmental monitoring includes water temperature, oxygen levels, level of algae, and any other disruptions in the cages that might impact the health and welfare of the salmon. Health data tracked relates to diseases, sea lice infestations, and the use of antibiotics. Depreciation expense is forecast to be \$2.5 million annually and approximates capital cost allowance (CCA). The annual cash flow requirements to support agricultural inventory growth represent approximately 10% of incremental farming costs for the next period, and will be required until annual production hits the maximum volume of 30,000,000 kilograms. Annual investments in capital assets, net of tax shield, will be \$2 million for 2024, 2025, and 2026, and then increase to \$3 million annually thereafter.

Allan suggested that the appropriate discount rate is 15% due to the higher risk with this investment, and the income tax rate is 30%. He has also determined that NPF must use the equity method of accounting for this investment if the shares are purchased. TSF uses ASPE for reporting purposes. The fair market value of the net assets is equal to the net book value of the assets as at March 31, 2024, and is as follows:

Fair market value of net assets

Cash and cash equivalents	\$ 995,410
Agricultural inventories	12,620,000
Property, plant, and equipment	20,748,000
Licences	14,770,000
Exclusivity rights to use the ocean sites	1,250,000
Current liabilities	(2,035,000)
Long-term debt	<u>(15,000,000)</u>
	<u>\$ 33,348,410</u>

Appendix VI

Cold storage facility expansion

Prepared by Allan McPherson

My idea is for NPF to offer cold storage and warehousing services to local fish harvesters and processors and other food manufacturers. Expansion of the storage facilities will allow NPF to capitalize on its knowledge and expertise in refrigerated and freezing storage of its product and use some of the available excess storage capacity. The contracts would initially be for one year, with renewal options, and provide for guaranteed cold storage and warehouse servicing, but be cancellable with three months' notice. Warehouse services could also be provided on an as-needed basis.

The warehouse will be built and equipment purchased during the remainder of 2024. The new facility will open January 1, 2025.

We will use existing land that is currently vacant but has a current market price of \$500,000, and selling costs would be 6% on the gross proceeds. We originally purchased all the property for \$30,000, and this portion of the land to be used for the expansion represents about 25%. Additional expenditures for the building expansion would be \$6,000,000, and for new robotic process automation equipment would be \$2,000,000. The building will qualify for CCA at 6% declining balance, and equipment will qualify for CCA at 20% declining balance. The equipment will last eight years and have no salvage value. At the end of eight years, it is assumed that the building could be sold for net proceeds of \$1,000,000 and the land for \$750,000. There will be an initial investment in net working capital related to accounts receivable of \$250,000.

The following additional assumptions relate to this proposal:

- In 2025, storage revenues will be \$1,862,000 and then increase by \$350,000 annually until a maximum of \$3,612,000 is reached and sustained for the subsequent years. I have assumed average capacity of 75%.
- Warehouse services revenues will be 125% of the annual storage revenues.
- Power expenses will be 12% of the annual storage revenues.
- Other facilities costs will be \$450,000 in 2025 and then increase annually at 5%.
- Labour costs will be 40% of total annual revenues.
- Other service costs will be \$550,000 in 2025, and then increase 3% annually.
- Two new employees will be required for administrative functions. The average salary for these employees will be \$50,000 each, and benefits are 25% of the annual salaries. These costs will increase 3% annually.
- Accounts receivable will be 30-day terms (based on 365 days a year).
- The appropriate discount rate is 10%, and the income tax rate is 30%.

Appendix VI (continued)
Cold storage facility expansion
Prepared by Allan McPherson

In preparing this proposal, I did some research on the industry and found the following:¹¹⁵

- The demand for cold storage and warehousing servicing is increasing, as the demand for “fresh” food requiring refrigeration has gained popularity.
- Food safety and freshness is an ongoing concern for consumers, and temperature monitoring in refrigerated and freezing storage is key to storing food safely.
- As the technology for monitoring temperatures in storage facilities improves, companies will continue to invest in the technologies required to track and monitor these inventories. This monitoring technology and the increase in automation requires significant upfront capital for state-of-the-art cold storage and warehousing facilities.

To help understand the trends and risks in the cold storage industry, I have found two other sources that I recommend the other directors review:

- Martha Roberts, “Commercial Cold Storage Outlook: Demand Hard to Predict Amid COVID Volatility,” *FCC*, February 23, 2022, <https://www.fcc-fac.ca/en/knowledge/economics/2022-cold-storage-outlook.html>
- Sanjay Sharma, “5 Risks in Cold Chain Management and How to Ensure it Won’t Happen to You,” *Food Logistics*, June 13, 2018, <https://www.foodlogistics.com/transportation/cold-chain/blog/21008563/5-risks-in-cold-chain-management-and-how-to-ensure-it-wont-happen-to-you#:~:text=Negligent%20staff%2C%20insufficient%20training%2C%20non,containers%20due%20to%20haphazard%20handling>.

¹¹⁵ Jullian Guirguis, “Refrigerated Storage in the US, Kept fresh: increased outsourcing of warehouse services will boost industry revenue,” IBIS World Industry Report 49312, June 2022.

Appendix VII Seafood retail locations

Prepared by Yvonne McPherson

Recently, Larina Fetcher, the owner of the local fisheries retailer in town, announced she would be retiring and closing at the end of April. After hearing this, I decided to speak to Larina about what the operations entailed and see if this might represent an opportunity for NPF. Based on these discussions, I looked at the current retail space and spoke to the landlord about leasing the storefront to NPF. The landlord has agreed to a lease for an initial five years, ending in 2029, with a potential option to renew. He also agreed to paint the inside premises and remove the old, outdated equipment.

With Larina's assistance and discussions with equipment suppliers, I estimated that we would need to spend \$1 million for new refrigeration and freezer storage and refrigerated display cabinets for each store. The equipment is considered Class 8 for CCA. The equipment will have a useful life of five years due to excessive wear and tear and no salvage value. I estimate we would need to spend \$750,000 on leasehold improvements for each store. I expect we could open in July 2024, and revenues are estimated to be as follows:

	6 months 2024	12 months 2025	12 months 2026	12 months 2027
Revenues	\$1,600,000	\$3,800,000	\$5,000,000	\$5,500,000

Revenues will increase 5% annually after 2027.

Expenses are assumed as follows:

- Purchases are 59% of revenues.
- Wages are \$270,000 for the six months of 2024, \$456,000 for 2025, and \$550,000 for 2026 and thereafter.
- Marketing costs will be \$120,000 in the initial period of opening, and then \$100,000 annually thereafter.
- The rent will be \$90,000 annually starting July 1, 2024.
- Utilities are \$108,000 annually.
- Other expenses will be \$45,000 for the first six months and then \$75,000 annually.
- One-time expenditures to open the first location will be \$100,000.
- Income taxes are payable at 30%.

A 12% required rate of return is appropriate.

Appendix VII (continued)
Seafood retail locations

Prepared by Yvonne McPherson

My idea is that we would open a second location in July 2025 and a third location in July 2026, and that we would sign five-year lease agreements for these locations too. Each of the locations will be in a different town, which can be decided at a later date, after some additional market research is completed. I would expect similar assumptions, but annual rent will be \$100,000 for Location #2 and \$110,000 for Location #3. All other estimates for revenue and expenses will be the same as for the initial location.

Appendix VIII Acquisition of Cabot Bay Fisheries Inc.

Prepared by Colan McPherson

I recently met with my old friend, David Capriola, the sole shareholder of Cabot Bay Fisheries Inc. (CBF), operating in Newfoundland about 200 kilometres from our current location. David has owned CBF for many years and now wants to move to British Columbia to be with his family and grandchildren. He has been approached by a foreign investor, Larsen Skaldyr Co. (Larsen), a Danish company that has other investments in seafood processing plants in Eastern Canada, Greenland, and Denmark. However, David wants control of his company to remain with a lifelong resident of Eastern Canada. Therefore, David has suggested that he would sell 40% of the outstanding shares to Larsen and 60% to NPF, for \$5 million and \$7.5 million, respectively. David also stated that Larsen would require one seat on the four-member board of directors.

However, David also indicated that if NPF would be willing to purchase 100% of the shares to avoid selling to the foreign investor, he would be willing to take \$7.5 million up front and take the remaining \$5 million as a note payable. The note would bear interest at 8%, payable annually, along with annual principal payments of \$1 million for the next five years.

On my tour of the processing facilities, the premises looked well maintained and the equipment was relatively new, although not state-of-the-art, and similar to our processing and refrigeration equipment. If we purchase CBF, I will want to upgrade with more state-of-the-art equipment, as the equipment requires replacement. The snow crab products are sold under the CBF brand name, which is known to be of high quality and tasty.

David has provided me with a summary of his operating income for the past three years, as follows:

	2023	2022	2021
Revenue from snow crab			
Pounds of finished product	1,860,000	1,680,000	1,440,000
Average selling price per processed pound	\$24.89	\$22.65	\$16.65
Purchase of snow crabs from other fisheries			
Pounds received for processing	3,100,000	2,800,000	2,400,000
Landed price per pound	\$7.75	\$7.21	\$3.45
Total revenues	\$46,295,400	\$38,052,000	\$23,976,000

Appendix VIII (continued)
Acquisition of Cabot Bay Fisheries Inc.
Prepared by Colan McPherson

Expenses	2023	2022	2021
Purchase of landed snow crabs	(24,025,000)	(20,188,000)	(8,280,000)
Processing costs — wages	(5,146,000)	(4,648,000)	(3,984,000)
Processing costs — other	(4,092,000)	(3,696,000)	(3,168,000)
Depreciation	(1,780,000)	(1,630,000)	(1,540,000)
Shipping costs	(1,388,862)	(1,141,560)	(719,280)
Selling and administration	(4,648,100)	(4,545,100)	(4,391,100)
Interest expenses	<u>(195,000)</u>	<u>(206,000)</u>	<u>(212,000)</u>
Income before taxes	\$5,020,438	\$1,997,340	\$1,681,620

David has contracts with a number of snow crab fishing enterprises to purchase their annual catch. These agreements mature in the next five to eight years, and he believes he can convince them all to stay with NPF if we become the new majority owners. Some of the fishing enterprises that supply snow crab to CBF also harvest inshore shrimp. David believes that at least 10, if not more, of his current suppliers would switch to NPF for their shrimp processing if NPF were also the owner of the snow crab processing plant.

CBF has current quota licences required to process snow crabs that should be easily renewed each year as long as the company remains compliant with all regulatory requirements. I do not think this should be an issue, since we would follow similar protocols as we do in our existing shrimp plant. The snow crab fishing season employs about 70 employees and operates during the harvest period of April to October. The snow crab are alive when they land. CBF then cuts the crab into sections, and cleans, cooks, and freezes them in a process that takes one hour from time of receiving the live seafood. The frozen product is immediately packed and ready to be stored or shipped. Every container is tested for quality prior to being shipped. The plant is also BRCGS certified and MSC certified for Chain of Custody.

In discussing the summary of operational results, David also provided the following information:

- In 2023, the company had some abnormal wastage, which caused costs to be \$250,000 higher than normal.
- Although David and his wife manage the operations, they did not take any management salaries during 2021 to 2023.
- In 2021, David paid a bonus to his employees of \$80,000 to compensate for lower wages being paid in 2020.
- Included in the selling costs are charitable donations that were \$10,000 in 2021, \$20,000 in 2022, and \$30,000 in 2023.

Appendix VIII (continued)
Acquisition of Cabot Bay Fisheries Inc.
Prepared by Colan McPherson

- The company has a long-term loan with the bank that is secured by the property. The current balance owing on the loan is \$2,500,000, which represents its current fair value, and it matures in 2030.
- On average, capital investments net of any applicable tax shields are \$1,200,000 annually. David's accountant has determined that the present value of the undepreciated capital cost (UCC) tax shield on the existing assets is \$670,000.
- CBF's tax rate is 30%.

Based on what we currently pay our managers, I estimate that the management salaries for David and his wife should be \$325,000 for 2021 and then increase \$25,000 each year thereafter.

Based on some research and discussions with some of my peers who have recently purchased seafood processing plants, a multiple of 6.7 times free cash flow should be used to value the shares of CBF. The free cash flow is the simple average for the past three years.

NPF could achieve savings of \$1,500,000 annually in the administration costs by combining our offices and people. We can also save \$400,000 annually on the shipping costs by using our own distribution trucks. These savings can be achieved for at least the next five years.

I recently read an interesting article on the snow crab segment that indicates a favourable outlook:

- Barb Dean-Simmons, "Snow Crabbers Set for a Billion Dollar Haul in Newfoundland and Labrador," *Saltwire*, April 4, 2022, <https://www.saltwire.com/atlantic-canada/business/snow-crabbers-set-for-a-billion-dollar-haul-in-newfoundland-and-labrador-100714456/>

Appendix IX New shrimp oil byproduct

Prepared by Kurt McPherson

New shrimp oil byproduct

I have been researching a low-cost and efficient process that can be used to extract an oil from the shells and head of shrimp that is rich in polyunsaturated fatty acids and astaxanthin (Astx), an effective antioxidant. This byproduct can be added to food to provide additional nutritional content. I would like some assistance in analyzing if the company should adopt this new process or continue to sell the waste to the fertilizing companies.

In addition, I think it would be useful to know what volume of raw material is required to have the same net profit from the sale of waste as NPF currently has. Finally, what are other issues that should be considered prior to making this decision?

I have estimated the following costs:

- New equipment costing \$640,000 will be required, which will be depreciated on a straight-line basis over four years.
- Weight of oil extracted from the shells and head waste is 2% of the raw material.
- Bulk selling price of the shrimp oil is \$132.00 per kilogram.
- Direct labour costs to process the oil are \$35.00 per kilogram of oil.
- Direct material costs are \$5.20 per kilogram of oil.
- Variable manufacturing costs are \$24.20 per kilogram of oil.
- On an annual basis:
 - Fixed manufacturing costs total \$75,000.
 - Other fixed overhead costs total \$120,000.
 - Depreciation is not included in these fixed costs.

Lease versus buy for the new oil processing equipment

I don't know if the new oil processing equipment should be purchased outright or leased. If purchased, the company would borrow at a rate of 8.0%, compounded monthly, for a period of four years. Alternatively, the supplier has offered to lease the equipment at a monthly lease payment of \$14,850, due at the first of the month for 48 months. At the end of the lease, there is a guaranteed residual value of \$30,000. Delivery costs of \$15,000 are required to be paid by NPF regardless of whether the machine is leased or purchased. The machine qualifies for Class 53 and 50% declining balance for CCA. At the end of four years, the salvage value of the machine is expected to be \$20,000.

APPENDIX C

**THE COMMON FINAL EXAMINATION
DAY 1 NPF VERSION 1 BOOKLET – MAY 28, 2024**

COMMON FINAL EXAMINATION
MAY 28, 2024 – DAY 1

Case (NPF-Version 1)

(Suggested time 240 minutes)

It is April 1, 2026. You, CPA, continue to work at Sanderson & Harrop Consulting LLP (SHC), and have once again been assigned to an engagement with Neptune Point Fisheries Inc. (NPF).

Since SHC's last engagement with NPF in 2024, NPF has made one major strategic investment. In 2024, NPF decided to expand the company's cold storage facility, and in early 2025, the company began to offer cold storage and warehousing services to local fish harvesters and processors. So far, the investment has been very successful, as NPF's reputation and ability to provide effective cold storage has led to a high demand for this service.

In addition, two crucial developments have occurred within the industry, which could have major strategic implications for NPF. First, because the water of the North Atlantic Ocean is warming at a faster pace than anticipated, Fisheries and Oceans Canada (DFO) has reduced the annual allowable harvest limit for some species granted under government-issued quota licences. Cold-water shrimp, the species that provides most of NPF's revenue, experienced the biggest reduction. Although the maximum allowable harvest for Greenland halibut has yet to be affected, DFO has made it clear that its intention is to reduce this harvest limit in upcoming years.

Second, in 2025, a new international seafood trade agreement was signed between Canada and China. As a result, exports of Canadian seafood have significantly increased and are expected to increase further as new overseas supply contracts are signed between Canadian and Chinese companies.

Since 2024, NPF has not changed its mission, vision, or core values. However, at the beginning of 2026, NPF updated the company's objectives to reflect the recent changes that have occurred in the industry. NPF's quantitative corporate objectives are now as follows:

1. Increase the number of species the company harvests to at least five.
2. Increase the gross profit margin to 25% by 2029.
3. Increase the operating profit margin to 12% by 2029.
4. Earn at least a 12% annual rate of return on any new investments.

NPF's Board of Directors has already decided to limit upfront cash spending for any new strategic investments to \$10 million.

NPF's board has asked you to review the information provided and draft a report that discusses NPF's main strategic considerations, including strategically analyzing and making a recommendation for each proposal presented. For this engagement, please ignore any tax implications within your analysis and recommendations.

INDEX OF APPENDICES

	Page
I Board Meeting with CPA in Attendance	88
II Industry Update	94
III Excerpts from NPF’s Income Statement	95
IV Entero Inc. Distribution Contract Proposal	96
V Strategic Partnership with Acadia Fisheries Co.	97
VI Acquisition of Sunrise Shellfish Processing Plant	98
VII Acquisition of Oceanfin Harvesters	99

APPENDIX I
BOARD MEETING WITH CPA IN ATTENDANCE

April 1, 2026

Yvonne: Thank you, CPA, for coming today.

Given the fast-changing landscape of our industry, NPF is at a crucial phase of the company's development. Because the maximum allowable harvest limit for both species of seafood that NPF currently sells is expected to continually decrease, we need to diversify the species we can harvest and offer to our customers.

Colan: That's right, Yvonne, and it's becoming harder and harder to acquire new quota licences or harvesting partners, as more competitors enter the industry. Obtaining as many quota licences and harvesting partners as possible is perhaps the most important key success factor for NPF.

Yvonne: Another main strategic question we must consider relates to the distribution channels that we use to sell our products. At present, we use two main distribution channels, depending on whether the product is sold nationally or internationally. For national sales, we mainly sell to various grocery stores and restaurants, and for international sales, we continue to sell all of our product to Atlantic Oceania International Seafood Exporters Ltd. (AOISE). We have no long-term contracts for our national sales, and our contract with AOISE is due to renew next year. We need to decide whether to renew it or go in a different direction.

Kurt: How NPF decides to manage its distribution channels will affect the company for many years to come, so it's crucial that we make a wise decision.

Yvonne: Yes, Kurt, and that decision will be made more complicated by the fact that NPF just received a major offer from a large Canadian grocery chain called Entero Inc. (Entero). Entero is a trendy and popular grocery retailer that only sells the best products. Entero has grown significantly in the past few years and plans to continue its expansion throughout Canada. They want to enter into an exclusive distribution agreement with us.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

April 1, 2026

Allan: I am familiar with Entero and would be proud to offer our Neptune's Tasties brand through them. How does their proposed offer compare to our current arrangement with AOISE?

Yvonne: Perhaps the best part of the contract proposal is the price that Entero is willing to pay for Neptune's Tasties products. Entero has agreed to pay a 20% premium above the prevailing market price for all species of seafood we sell to them, whereas if we decide to renew with AOISE, we will continue to receive only the prevailing market price.

Colan: That's certainly attractive.

Yvonne: Indeed, but the contract comes with conditions. First, we must be able to provide Entero with at least five species of seafood, and we currently only have two. Next, the contract is exclusive, meaning that we wouldn't be able to sell our products to any other domestic or international vendor for as long as the agreement is in place. Finally, Entero requires that all products we sell to them are shelf ready.

Kurt: Shelf-ready products? Our current processing facility is not capable of doing that—it is designed to produce minimally processed products that the buyer can then sell or further process into other products if they wish.

Yvonne: We could always outsource the necessary further processing to another nearby facility.

Allan: That's true, but outsourcing would be costly.

Yvonne: Rather than move forward with the Entero contract, we could choose to renew with AOISE and continue with our current distribution strategy. Although AOISE cannot commit to purchasing all of our products, based on the demand schedule they recently provided, it looks like their demand far exceeds what we're able to provide. The new trade agreement with China has significantly increased the amount of product they wish to purchase.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

April 1, 2026

- Allan: Also, if we renewed with AOISE, and another big strategic opportunity arose in the future, we wouldn't be locked into a long-term agreement that would prohibit us from moving forward with it.
- Yvonne: That's true. Although AOISE would likely purchase all that we can provide, we could still choose to sell our product elsewhere.
- Kurt: AOISE has always required that we provide only minimally processed products. That requirement aligns with our existing processes, especially since we now have an expanded cold storage facility.
- Yvonne: Yes, but Entero has offered us other incentives. Although both Entero and AOISE are eager to sign a distribution agreement with NPF, we need to be careful.
- Allan: One thing I like about the Entero option is that it would reduce much of the administrative work that's required with our current distribution strategy.
- Colan: On another note, I want to introduce the next opportunity. Acadia Fisheries Co. (Acadia) is an MSC-certified shellfish harvester that wants to form a strategic partnership with NPF. Acadia has three separate quota licences, allowing them to harvest lobster, scallops, and snow crab.
- Kurt: I am very familiar with Acadia's operations. They currently use our cold storage facility. Acadia's fishing crew has a strong reputation for being high-quality and successful harvesters.
- Colan: That's true, Kurt. Acadia has been around for as long as NPF has, and I have a great relationship with Acadia's owners. In January, Acadia won an expanded quota for snow crab after the prior licence holder decided to wind down their harvesting operation. Going forward, Acadia expects a significantly larger harvest of snow crab, but to take advantage of the increased quota, Acadia needs to upgrade both of its fishing vessels. Acadia is proposing that NPF pay for the upgrades, which are expected to cost \$5 million, and in exchange, NPF will gain access to Acadia's harvest and will earn a split on the income that Acadia's operations generate.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

April 1, 2026

Yvonne: Have you discussed which distribution channel Acadia's harvest would be sold into if we agreed to their proposal?

Colan: Yes, that's another reason Acadia wants to work with NPF. Acadia recognizes the strength of Neptune's Tasties and would like to use our brand and distribution channels to market their harvested seafood.

Also, Acadia wants us to help them remain compliant with all the requirements necessary to maintain their MSC-certifications. Given that Acadia has licences for three separate species, it is quite time-consuming for them to ensure that they remain in compliance. As part of the proposal, NPF would need to contribute time and expertise to this vital function.

Kurt: Based on the way Acadia uses our cold storage facility, I assume that Acadia's harvests are at present only minimally processed before sale?

Colan: Yes, that's right, Kurt.

Kurt: That could be a concern if we wanted to further process the harvest into shelf-ready products, since we might struggle to find a suitable shellfish processing facility, especially one that's BRCGS-certified. Facilities like this are currently in high demand, so if we were to outsource that function, our costs would increase significantly.

On that note, we should consider the acquisition of Sunrise Shellfish Processing Plant (Sunrise). The proposed acquisition would include a shellfish processing plant and all of its associated equipment, in addition to the plant's existing contracts. If we owned this plant, our processing costs would decrease significantly.

Allan: Interesting. What do you currently know about this processing plant?

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

April 1, 2026

- Kurt: By volume, the species the plant processes the most is snow crab. But it is also capable of processing a variety of other types of shellfish, such as lobster, shrimp, scallops, clams, and other species of crab. Also, the plant's location makes distribution simple. It currently supplies grocery stores all over Canada. Finally, the plant has been operating at 100% capacity over the past three years. This is due to both the increasing demand for shellfish products and because this facility is held in high regard as a reliable processing plant.
- Colan: This sounds risky. We currently have no experience with this type of processing. I think it's a better idea to focus our investments on taking advantage of our core competency—harvesting seafood.
- Allan: I disagree. This would be a great way to diversify our sources of revenue and reduce cost.
- Kurt: Dad is right—we don't have experience with this type of processing at the moment, but with enough time, I can certainly learn.
- Yvonne: Do we know anything about the existing contracts? If the plant is operating at 100% capacity, would NPF be able to use the plant to process its own products and forgo the cost of outsourcing?
- Kurt: Great questions, Mom. According to Sunrise's current owners, they have a mix of both short-term and long-term contracts. NPF would be able to use the plant's capacity but only after the existing contracts expire. Each of Sunrise's existing contracts has a cancellation policy, which makes them very expensive to terminate prior to the end of the contract term.
- Allan: Okay, last up, the parent company of Oceanfin Harvesters (Oceanfin), a bluefin tuna harvesting company, has put Oceanfin up for sale. The acquisition of Oceanfin would provide NPF with both the necessary fishing vessel and the quota licence for bluefin tuna.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

April 1, 2026

- Colan: Bluefin tuna? That's one of the most prized fish on the market. Is the operation MSC-certified?
- Allan: Unfortunately, no. But based on my preliminary review, the operation appears compliant with the standards necessary for obtaining certification. With our experience, I am sure we would eventually earn the certification, although this would likely take at least two years. And what's more, even without the certification, the operation is profitable.
- Yvonne: Bluefin tuna is especially prized on the international market. It's rare to have the opportunity to acquire an operation like this.
- Colan: As exciting as this opportunity is, fishing for bluefin tuna is certainly not easy, and requires experience and skill. For this to be successful, we would need to invest a lot of time and effort.
- Allan: That's true, Dad, but Oceanfin's vessel has an experienced and dedicated crew. The fishing vessel is even capable of producing sushi-grade tuna.
- Yvonne: CPA, please review all the information provided and let us know how you think NPF should proceed. Meeting adjourned.

APPENDIX II INDUSTRY UPDATE

The demand for seafood products, both fish and shellfish, is increasing both nationally and internationally. However, because of the new international trade agreement with China, international demand is expected to grow faster than national demand. The growth of demand for bluefin tuna is especially high, given the increasing popularity of sushi. However, the growth of bluefin tuna's popularity extends beyond sushi, and as a result, the demand for both MSC-certified and non-certified bluefin tuna that is minimally processed is on the rise. The demand for premade, ready-to-eat seafood entrees is also on the rise, as more customers seek the convenience of already-prepared meals.

Given warming waters in the Atlantic Ocean, the annual allowable harvest limit granted under government-issued quota licences is expected to decrease for cold-water species such as cold-water shrimp, Greenland halibut, cod, redfish, and snow crab. On the other hand, for species that do well in warmer waters, such as lobster, scallops, salmon, and bluefin tuna, the maximum allowable harvest is expected to remain stable, or even increase, over time.

Another consequence of warming waters is that obtaining and maintaining an MSC-certification is expected to become more onerous as the Marine Stewardship Council plans to update their policies, to ensure the continued health of global fisheries.

APPENDIX III
EXCERPTS FROM NPF'S INCOME STATEMENT

Neptune Point Fisheries Inc.
Partial Income Statement
For the year ended December 31, 2025

Revenue (Note)

Frozen-at-sea Greenland halibut	\$ 5,840,000
Frozen-at-sea shrimp	5,190,000
Processed shrimp	18,942,000
Total revenue	<u>29,972,000</u>

Cost of goods sold

Harvesting and procurement	9,375,500
Processing costs	10,228,680
Warehousing and shipping costs	2,273,040
Depreciation	2,083,620
Total cost of goods sold	<u>23,960,840</u>

Gross profit	6,011,160
Selling and administrative	<u>3,550,000</u>

Operating income	<u>\$ 2,461,160</u>
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Gross margin	20%
Operating profit margin	8%

Note: All sales were made at the prevailing market price.

APPENDIX IV ENTERO INC. DISTRIBUTION CONTRACT PROPOSAL

Entero is an upscale, specialty grocery store chain with locations all across Canada.

Extracts from Entero's proposal are as follows:

- The contract term is 10 years and will begin on January 1, 2027. A penalty will be charged to either party who breaks the contract within this term.
- The contract is exclusive. Therefore, only NPF's seafood products will be offered in Entero's network of grocery stores, and NPF will agree to sell its products only to Entero.
- Entero will agree to purchase all of NPF's available products as long as they are MSC-certified.
- As long as NPF provides at least five species of seafood throughout the duration of the contract, Entero will purchase NPF's products at a price that equals 20% above the prevailing market price. However, if the number of species that NPF can offer falls below five, the purchase price premium will decrease and a penalty will be applied by Entero.
- Entero will increase the purchase price premium if NPF becomes able to also provide premade, ready-to-eat seafood entrees.
- Entero will also agree to pay half of all costs associated with maintaining NPF's MSC and BRCGS certifications.

Notes from Yvonne:

- After the third year of the contract, Entero may also be willing to help NPF finance any acquisitions or infrastructure upgrades necessary for ensuring that NPF can continue to provide Entero with a variety of high-quality seafood products.
- If we enter into the contract with Entero, given that we will only need to deliver the products to Entero's nearest distribution centre, I expect our warehousing and shipping costs to decrease by 50%, compared to NPF's 2025 expense.
- However, given that Entero requires shelf-ready products, our processing costs will increase by approximately 40% above NPF's 2025 expense.
- I expect NPF's annual selling and administrative expense will fall to only \$1.5 million.
- To give the board an idea of how attractive Entero's contract is financially, I wonder what our 2025 operating income would have been if we had sold our products to Entero, assuming that NPF provided a product mix that included five species?

**APPENDIX V
STRATEGIC PARTNERSHIP WITH ACADIA FISHERIES CO.**

If NPF agrees to the strategic partnership, all profit from the harvest and sale of the three species will be split equally between NPF and Acadia, and all product sales will be made through NPF’s distribution channel, using the Neptune’s Tasties brand. Acadia will retain the right to cancel the contract if NPF does not adhere to the conditions of the contract. Acadia will also retain ownership of the quota licence for each species throughout the duration of the 10-year contract.

The size of Acadia’s harvest tends to fluctuate from one year to the next, given the seasonality of each species’ harvest period, and because changing weather patterns influence the size of each year’s harvest. Acadia provided the following information for the 12 months ended December 31, 2025:

Species	Revenue	Cost of Goods Sold		Gross Margin
		Harvesting	Processing	
Lobster	\$ 1,290,000	\$ 580,500	\$ 193,500	\$ 516,000
Scallop	\$ 1,750,000	\$ 875,000	\$ 210,000	\$ 665,000
Snow crab	\$ 3,500,000	\$ 1,925,000	\$ 700,000	\$ 875,000
Total	\$ 6,540,000	\$ 3,380,500	\$ 1,103,500	\$ 2,056,000

All products were sold at the prevailing market price. Acadia also mentioned that they expect the prevailing market price for these products to increase by 5% annually, while the harvesting and processing costs are expected to increase by 3% annually. In addition, throughout the life of the contract, Acadia will require that NPF pay half the costs associated with maintaining Acadia’s MSC-certification. Acadia’s MSC-certification cost roughly \$1 million in 2025.

At present, Acadia only sells minimally processed products. To further process Acadia’s harvest into shelf-ready products, an estimated additional \$2 million would be required to outsource the additional processing to a nearby shellfish processing facility.

APPENDIX VI ACQUISITION OF SUNRISE SHELLFISH PROCESSING PLANT

The processing plant specializes in producing shelf-ready products and is BRCS-certified. Although it currently operates at 100% capacity, it appears suitable for an upgrade, either to expand capacity or to include a new function, such as the ability to produce premade, ready-to-eat entrees.

The plant's equipment has not been modernized or upgraded for many years. When asked about this, Sunrise's owners said they prefer to remain with their current equipment because their current processing system works so well. As well, the processing plant does not produce its own brand of products, and instead tailors the packaging to the needs of their customers.

The plant appears to adhere to a strict quality control and food safety system, and has never experienced any major contamination or recall events. In addition, the plant has MSC Chain of Custody certification, and has a strong reputation within the local industry. The plant's ongoing success partially relies on an experienced team of managers and engineers who have worked at the plant for many years.

The asking price for the acquisition is \$15 million, but Madison Bank is willing to provide us with a ten-year, \$10 million loan that will be secured by the processing plant itself. With the loan, we would only be required to pay \$5 million upfront, and then annual payments of \$1.3 million until the loan matures.

The remaining life of the plant and its equipment is 10 years, and we expect it to generate \$7.5 million of revenue in the first year we take ownership. The plant's cost of goods sold equals 65% of revenue, and its fixed operating costs are currently \$950,000 per year. The plant's revenue is expected to increase by 6% annually whereas the plant's fixed costs are expected to increase by 3% annually. At the end of the plant's useful life, it is expected to have a residual value of \$650,000.

**APPENDIX VII
ACQUISITION OF OCEANFIN HARVESTERS**

The asking price for Oceanfin, which includes the fishing vessel and the quota licence to fish for bluefin tuna, is \$13 million. However, Oceanfin’s parent company is willing to offer NPF a ten-year loan with an attractive interest rate. With the loan, NPF would only be required to pay \$4 million upfront, and then annual payments of \$1 million until the loan matures.

Oceanfin’s fishing vessel has the necessary equipment to produce sushi-grade bluefin tuna. The bluefin tuna is minimally processed, and then frozen at sea before being immediately sold or transferred to a cold storage facility. Oceanfin’s fishing vessel has a remaining useful life of 10 years. At the end of its useful life, the vessel is not expected to have any significant salvage value.

Although sushi-grade bluefin tuna is sold at a high premium compared with regular bluefin tuna, the process that must be followed to ensure that the quality of the fish stays high enough to be classified as sushi-grade is more complex and onerous relative to regular tuna. To ensure that these strict quality control guidelines are followed, the fishing vessel must have the necessary equipment and a trained workforce, and the bluefin tuna must be held in cold storage until the product is ready to be sold.

Oceanfin has historically sold a mix of both sushi-grade and regular bluefin tuna. Oceanfin provided the following information for the 12 months ended December 31, 2025:

Species	Revenue	Cost of Goods Sold		Gross Margin
		Harvesting	Processing	
Bluefin tuna	\$5,650,000	\$3,390,000	\$847,500	\$1,412,500

During 2025, Oceanfin’s bluefin tuna sold at the prevailing market price. This price is expected to increase by 6% annually, while both the harvesting and processing costs are expected to increase by 3% annually. In addition, NPF would also need to pay \$350,000 per year for expenses related to items such as maintaining the operation’s quota licence with DFO.

APPENDIX D

**DAY 1 (NPF VERSION 1) – MAY 28, 2024
MARKING GUIDE AND SAMPLE CANDIDATE RESPONSE**

**DAY 1 MARKING GUIDE
NEPTUNE POINT FISHERIES INC. (NPF)
VERSION 1**

Summative Assessment #1 (Situational Analysis)

For Summative Assessment #1, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate used a reasonable situational analysis when analyzing the major issues facing NPF.

Unsure – The candidate attempted to use a reasonable situational analysis when analyzing the major issues facing NPF.

No – The candidate clearly did not use a reasonable situational analysis when analyzing the major issues facing NPF.

Based on the 2022 Competency Map:

Technical Competency

2.3.2 Evaluates the entity's internal and external environment and its impact on strategy development

Enabling Competencies

1.4.1 Performs work carefully, thoroughly and competently in accordance with relevant technical and professional standards

2.1.1 Applies knowledge of the organization's competitive environment and strategic direction when performing assigned work

2.1.3 Identifies the strategic impact of internal decisions and external influences on project plans and initiatives

6.1.1 Identifies and articulates issues within areas of work responsibility

6.2.1 Maintains an objective and questioning mindset to avoid biased analyses

The candidate is expected to complete an appropriate situational analysis. The candidate should draw upon their situational analysis when analyzing the major issues facing NPF (sign a distribution contract with Entero Inc. or AOISE, enter into a strategic partnership with Acadia Fisheries Co., acquire a shellfish processing plant, and acquire Oceanfin Harvesters). The candidate should also identify the main changes that have occurred since Capstone 1, and discuss how they could affect the company's strategic direction going forward.

Current Situation

Because of warming ocean water, the maximum allowable catch size for both species of seafood that NPF currently sells is expected to decrease in the future. Therefore, to maintain and grow the company's revenue stream, NPF must seek to obtain new quota licences and/or harvesting partners or other sources of revenue.

On the other hand, the demand for all types of seafood is increasing both nationally and internationally, but international growth is especially pronounced, given a new international seafood trade agreement that was signed between Canada and China. As a result, exports of Canadian seafood have significantly increased, and are expected to increase further as new overseas supply contracts are signed between Canadian and Chinese companies.

NPF also has a crucial strategic decision to make that will impact its direction for many years to come. This decision relates to which distribution channel NPF will choose to sell its products into. At present, NPF uses two main distribution channels, according to whether a product is sold nationally or internationally. For national sales, NPF sells mainly to various grocery retailers and restaurants, and for international sales, NPF continues to sell all its products to Atlantic Oceania International Seafood Exporters Ltd. (AOISE).

NPF must now decide whether to renew the existing agreement with AOISE or to instead sign a new distribution agreement with Entero Inc. (Entero), which is a trendy and popular grocery store retailer with stores all over Canada.

Vision/Mission

NPF's vision, mission, and core values, approved by the board in 2018, are as follows (no change from Capstone 1):

Vision statement: We envision a future with thriving natural seafood populations in the Atlantic region, allowing us to continue to deliver the world's best seafood to our customers around the globe.

Mission statement: Our mission is to supply consistently high-quality, tasty, healthy, and ethically sourced Greenland halibut and shrimp to all our customers. We strive to follow sustainable fishing and processing practices using state-of-the-art vessels and equipment and to treat our partners, crew, employees, customers, and suppliers fairly and with respect. We will make decisions that ensure good stewardship of the ocean's resources.

Core values:

1. Good relationships with local fishing companies.
2. Best industry practices for harvesting and processing (MSC and BRCGS).
3. Build brand for high-quality seafood products.
4. Respect and safety for NPF's employees.
5. Respect and protect the environment.

Objectives

1. Increase the number of species the company harvests to at least five.
2. Increase the gross profit margin to 25% by 2029.
3. Increase the operating profit margin to 12% by 2029.
4. Earn at least a 12% annual rate of return on any new investments.

Available Cash Flow /Financing

For any new strategic investments, NPF currently has \$10 million of cash for investment, and no desire or ability to increase the company's upfront cash spending.

Candidates are NOT expected to recap KSFs and SWOT in detail. However, they must draw upon these in their analysis of the strategic options presented.

Key Success Factors (KSFs)

KSFs in the fish and seafood industry in Canada are as follows:

- Overseas contracts, to increase exports of products and expand a company's geographic scope beyond its domestic market
- Vertical integration that adds value by further processing harvested seafood, and also wholesaling and retailing
- Relationships with food retailers and food service companies, and identifying and targeting emerging profitable and growing customer markets and distribution channels, to help increase and diversify revenue streams
- Technological improvements and data collection that result in increased product quality, reduced operating costs, improved stewardship of seafood resources, and development of new products related to untapped species
- Access to a supply of multiple species, either by owning the quotas and licences or through strategic fishing licence leases, which is vital for sustainable profits and success. (Since the quotas for NPF's two harvested species—cold-water shrimp and Greenland halibut—have declined, Colan highlighted this key success factor as perhaps the most important one for NPF.)
- Reputation and experience in the industry
- The ability to sell product that consistently tastes and looks fresh

- The ability to service customers quickly with the right products, and manage the fresh and frozen inventory using the latest technological advances, such as processing practices, inventory systems, cold-storage facilities, freezing capabilities, and truck refrigeration

SWOT Analysis

Strengths:

- In early 2025, the company began to offer cold-storage and warehousing services to local fish harvesters and processors. The investment has so far been very successful, as NPF's reputation and ability to provide effective storage and warehousing services has led to a high demand for NPF's cold-storage facility. Adding this service will help NPF diversify its sources of revenue and could lead to more opportunities in the future.
- NPF's reputation and relationships within the industry have provided the company with important opportunities, such as the potential to increase the number of species it harvests.
- The company's reputation and experience with the MSC-certification process have provided the company with the opportunity to lend its expertise to other companies within the industry, and to gain access to potentially attractive partnerships and investment opportunities.
- The Neptune's Tasties brand has a strong enough reputation that other companies want to sell their products under NPF's brand. This could help NPF increase the number of species it currently sells into the market.

Weaknesses:

- NPF only catches two species of seafood, cold-water shrimp and Greenland halibut, and the maximum allowable catch size for both species is expected to decrease in the future. Therefore, to maintain the company's income, NPF must seek to add other species to its harvest.
- NPF's ability to make investments is limited by the company's cash availability. Although the company has several investment opportunities, the amount of cash required to make all the available investments exceeds the company's spending limit.
- NPF currently does not have the capability to process shelf-ready products, which could limit the company's ability to accept the distribution agreement with Entero. This weakness is compounded by the fact that finding a BRCGS-certified facility that can produce shelf-ready products is becoming more and more challenging.

Opportunities:

- The warming ocean in the North Atlantic could be favourable for some species, such as lobster, scallops, salmon, and bluefin tuna, given that these species tend to do well in warmer water. The maximum allowable harvests for these species are expected to either remain stable or increase over time.
- A new international seafood trade agreement was signed between Canada and China. As a result, exports of Canadian seafood have significantly increased and are expected to increase further. NPF could take advantage of this growth in demand by selling its products into the international market. One effective way to do this would be to renew the company's agreement with AOISE.
- The demand for seafood products—both fish and shellfish—is increasing both nationally and internationally. This increase in demand will help ensure that NPF is able to sell all the seafood it can harvest and prepare for sale.
- NPF recently received an exclusive distribution agreement proposal from a popular and trendy grocery store. The offer includes the potential to receive a higher selling price for NPF's products compared to its current distribution channels. This could help NPF increase and solidify the company's revenue stream for many years.
- Acadia Fisheries Co. (Acadia), an MSC-certified shellfish harvester that currently harvests three species of shellfish—snow crab, lobster, and scallops—wants to form a strategic partnership with NPF. This would greatly expand the number of species that NPF has the ability to bring to market.
- NPF could acquire a shellfish processing facility, Sunrise Shellfish (Sunrise), which would allow the company to process shelf-ready products. This would enable it to move forward with the Entero contract without the need to outsource this function, which would be costly.
- NPF could gain access to harvesting bluefin tuna—one of the most prized fish on the market—given that the parent company of Oceanfin Harvesters (Oceanfin), a bluefin tuna harvesting company, has put Oceanfin up for sale. This opportunity is especially attractive, given that the demand for bluefin tuna is especially high.
- The demand for pre-made, ready-to-eat seafood entrees is on the rise as more customers seek the convenience of prepared meals. NPF could take advantage of this growth in demand by further processing its harvested seafood into this type of product.

Threats:

- Because the water of the North Atlantic Ocean is warming at a faster pace than anticipated, Fisheries and Oceans Canada (DFO) has reduced the annual allowable harvest limits for some species granted under government-issued quota licences. If this continues, as is expected, NPF's revenue could continually decrease year over year for the species that are affected.

- Because of warming ocean waters, obtaining and maintaining an MSC-certification is expected to become more onerous, given updates to the Marine Stewardship Council's certification policies. Therefore, maintaining NPF's current licences or acquiring new ones may become more costly and time-consuming.
- As more competitors enter the seafood industry, it is becoming harder to acquire new quota licences and harvesting partners. If NPF is unable to do so, the company's revenue from harvesting will likely continue to decline.
- NPF has the opportunity to enter into new aspects of the seafood industry for which it currently has limited or no experience. If NPF makes these investments, its risk would increase, given that the success of the investments depends on NPF's ability to gain the necessary experience and skill, to operate them effectively.

Conclusion on the Situational Analysis

NPF's choice of which distribution agreement to sign will greatly influence the strength and attractiveness of the other strategic investment opportunities that are currently available to the company. Therefore, before it decides whether to proceed with any of the proposed investments, the company must first decide which distribution agreement is the most attractive, and how it would affect the strength of the other available opportunities.

Summative Assessment #2 (Analyzes the Major Issues)

For Summative Assessment #2, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate sufficiently completed a reasonable assessment of the major issues facing NPF.

Unsure – The candidate attempted to complete a reasonable assessment of the major issues facing NPF.

No – The candidate clearly did not complete a reasonable assessment of the major issues facing NPF.

Technical Competency

2.3.3 Evaluates strategic alternatives

Enabling Competencies

1.1.3 Exhibits ethical behavior by complying with laws and regulations, organizational policies, societal norms and personal ideals

6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems

6.1.3 Demonstrates skepticism, objectivity, due care and persistence when identifying issues

6.2.3 Questions the relevance and tests the quality of information and assumptions in own analyses

6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives

This summative assessment is based on Assessment Opportunities #2 to #5.

Assessment Opportunity #2 (Strategic Issue #1: Agree to the distribution agreement with Entero or renew the existing contract with AOISE?)

The candidate is expected to complete both a quantitative and qualitative assessment of the decision to either accept Entero's proposed distribution agreement or renew the existing distribution agreement with AOISE.

Quantitative analysis: The candidate should analyze how NPF's 2025 operating income would have been affected if NPF had sold its harvest to Entero (assuming that the selling price included the increase over the prevailing market price). The candidate should also discuss the assumptions and uncertainties related to the comparison.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of accepting Entero's distribution contract proposal when compared to NPF's current distribution strategy, and in particular, how Entero's proposal compares to the AOISE renewal option. The candidate should also point out where NPF needs to acquire more information before an informed decision can be made.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

NPF must decide whether to change the company’s current distribution strategy, which involves using two main distribution channels, depending on whether the product is sold nationally or internationally. Currently, for national sales, NPF mainly sells to grocery retailers and restaurants, and for international sales, NPF continues to sell all its product to AOISE. The AOISE agreement is up for renewal next year, and NPF must now decide whether that renewal option is more attractive than the proposed distribution agreement that Entero, a popular and trendy nationwide grocery chain, has offered to NPF.

Quantitative Analysis

Entero’s distribution contract proposal includes a number of stipulations and conditions that would affect NPF’s income if it were to enter into the agreement. To give NPF’s board an idea of the proposal’s quantitative attractiveness, the following analysis was performed, which compares what NPF’s operating income would have been in 2025 if all sales had been made to Entero rather than to NPF’s current customers.

	2025	Change if Sold to Entero	If Sold to Entero
Revenue			
Frozen-at-sea Greenland halibut	\$ 5,840,000	+20%	\$ 7,008,000
Frozen-at-sea shrimp	5,190,000	+20%	6,228,000
Processed shrimp	18,942,000	+20%	22,730,400
Total revenue	29,972,000		35,966,400
Cost of goods sold			
Harvesting and procurement	9,375,500		9,375,500
Processing costs	10,228,680	+40%	14,320,152
Warehousing and shipping costs	2,273,040	-50%	1,136,520
Depreciation	2,083,620		2,083,620
Total cost of goods sold	23,960,840		26,915,792
Gross profit	6,011,160		9,050,608
Selling and administration	3,550,000		1,500,000
Operating income	\$ 2,461,160		\$ 7,550,608
Gross margin	20%		25%
Operating profit margin	8%		21%

Based on the above analysis, it appears that Entero's proposed distribution agreement is attractive from a quantitative standpoint. If NPF had sold these products to Entero, the company's income would have significantly increased. Moreover, through this contract, NPF would have been able to meet the board's current objectives of increasing both the company's gross profit margin and operating profit margin.

However, it is crucial to point out that, based on Entero's current proposed agreement, it would not have been possible to sell these products to Entero, given that NPF did not have five species of seafood to provide.

In addition, a critical piece of information is missing from Entero's proposed agreement. The agreement states that, as long as NPF continues to provide at least five species of seafood throughout the duration of the contract, Entero will purchase NPF's products at a price 20% above the prevailing market price. However, if the number of species NPF can offer falls below five, the purchase price premium will decrease, and a penalty will be applied. What is missing is how much the purchase price will decrease by, and what the penalty will be. This information is vital to acquire and analyze, to ensure that NPF is fully aware of the risks associated with the contract.

Finally, Entero's proposal includes an incentive whereby Entero will pay half of all costs associated with maintaining NPF's MSC and BRCGS certifications. This amount has not been factored into the above analysis. To achieve the most accurate estimate possible, the value of this incentive should be determined, and then included within the final quantitative analysis.

Qualitative Analysis

Advantages:

- If NPF is able to provide Entero with a host of products, including at least five MSC-certified species of seafood, this agreement would allow the company to meet all its objectives. However, NPF would need to ensure that Entero's conditions were met throughout the duration of the agreement, which could be a challenge, given the changing nature of the industry.
- NPF's products will be the only seafood products offered in Entero's network of grocery stores. Given that Entero is an upscale, trendy, specialty grocery store chain, the reputation of NPF's products could benefit by being associated with Entero.
- Entero will agree to purchase all of NPF's available products as long as they are MSC-certified. This would give NPF the certainty that Entero would purchase all it is able to harvest. This type of security is very attractive.

- The AOISE renewal option does not provide this type of security because AOISE will not guarantee to purchase all of NPF's products. However, this does not seem to be a major consideration, given that AOISE's demand schedule appears to far surpass what NPF is able to provide.
- As long as NPF continues to provide at least five species of seafood throughout the duration of the contract, Entero will purchase NPF's products at a price 20% above the prevailing market price. This is very attractive, and would increase NPF's revenue significantly, given that NPF currently sells all its products at the prevailing market price.
 - In comparison to the renewal option with AOISE, this aspect of Entero's agreement is very attractive, given that AOISE purchases all product at the prevailing market price.
- Entero will increase the 20% premium on the purchase price if NPF becomes able to also provide pre-made, ready-to-eat seafood entrees. This creates an incentive to produce this type of product, which is becoming more popular with consumers. NPF should acquire more precise information on the increase so it can properly analyze whether it makes sense to add this type of product to what it currently offers.
- Entero will also agree to pay half of all costs associated with maintaining NPF's MSC and BRCGS certifications. This aspect of the agreement was not included in the quantitative analysis above, but it would make the agreement even more financially attractive.
- After Year 3, Entero may be willing to help NPF finance any acquisition or infrastructure upgrade necessary for ensuring that NPF can continue to provide Entero with a variety of high-quality seafood products. This aspect is especially attractive, given that NPF has limited resources available for investment. However, NPF needs to acquire more precise information about this potential financing before the company can determine whether it is as advantageous as it appears.

Disadvantages:

- The term of the agreement is 10 years, and is exclusive, meaning that NPF will be prohibited from selling its products to any other vendor throughout the duration of the contract. This means that NPF's Neptune's Tasties brand will be tied to Entero for the foreseeable future. If other opportunities were to arise throughout the term of the contract, NPF would not be able to take advantage of them.
 - In addition, a penalty must be paid by either party if the contract is broken within the 10-year term. This reduces NPF's flexibility even more. As well, the size of this penalty was not specified. Before agreeing to the proposal, NPF should seek to understand more about the penalty.

- The exclusivity component of the contract introduces a further risk in that NPF's business will rely solely on Entero. If Entero were to go out of business or if the contract is not renewed at the end of the 10-year term, NPF would be required to rebuild its vendor list from scratch, which would represent a significant challenge.
- If the number of species NPF can offer falls below five, the purchase price premium will decrease. Therefore, NPF runs the risk of losing a portion of its net income if the company is unable to continue to provide five MSC-certified species of seafood. Given the industry trend of lowering quotas and the requirements to maintain an MSC certification, this risk could grow in the future.
- Entero requires NPF to provide shelf-ready products, whereas NPF's current processing facility is designed to produce minimally-processed products. Therefore, in order to enter this agreement, NPF's current process would need to change. This could be costly, especially given that NPF has no experience with producing shelf-ready products.
 - The AOISE renewal option, on the other hand, would only require that NPF provide minimally-processed products, which aligns well with NPF's capabilities and operations.
- Given that Entero is a Canadian company, this option does not take advantage of the new international seafood trade agreement signed with China. Therefore, this contract misses out on the potential growth of international seafood sales, which is expected to surpass the growth of national sales.
- There is a slight misalignment between this opportunity and NPF's mission statement (which states that NPF will supply Greenland halibut and shrimp). Therefore, if NPF pursues this option, the company's mission statement will need to be updated to reflect the additional species of seafood that NPF harvests.

Conclusion/Recommendation

If NPF was able to comply with all the conditions of Entero's proposal, this distribution agreement looks very attractive. However, meeting those conditions will be a challenge both now (given that NPF does not currently have the required number of species or easy access to the required processing facility) and in the future (given decreasing quotas for some species and the challenges of maintaining the MSC certification). Therefore, prior to accepting this agreement, NPF needs to explore all the options it has for meeting the conditions, as well as assess whether it would be feasible for NPF to continue to meet those stipulations throughout the duration of the contract.

In addition, several aspects of the proposal are unclear, such as how much the purchase price would drop if NPF was not able to meet the conditions of the proposal. Before NPF moves forward, the company needs to do more due diligence, to ascertain the specifics of the contract.

Before this decision can ultimately be made, the other opportunities available to NPF need to be analyzed and assessed.

Assessment Opportunity #3 (Strategic Issue #2: Enter into strategic partnership with Acadia Fisheries Co.?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether NPF should enter into the 10-year strategic partnership with Acadia and gain access to a shellfish harvest that includes three species.

Quantitative analysis: The candidate should complete a net present value calculation of the strategic partnership. The candidate should also consider how NPF's chosen distribution channel would affect the attractiveness of this opportunity.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of entering into the strategic partnership with Acadia.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

Acadia Fisheries Co. (Acadia), an MSC-certified shellfish harvester, wants to form a strategic partnership with NPF. Acadia has three separate quota licences that allow it to harvest lobster, scallops, and snow crab. Acadia's snow crab quota has increased, after it obtained a quota from the prior licence holder, who decided to wind down their harvesting operation. Acadia now needs \$5 million to upgrade its fishing vessels. Acadia is proposing that NPF pay for the upgrades, and in exchange, NPF will gain access to Acadia's harvest and earn a split on the income that Acadia's operation generates.

Quantitative Analysis

A net present value calculation was completed for two scenarios. The first scenario involves using NPF's current distribution channels, which accept minimally-processed seafood, and the second scenario involves using the potential new distribution channel, which would be made available if NPF were to sign the distribution agreement with Entero.

In the first scenario, the net present value of this 10-year agreement is \$257,391 (see Appendix I below), using a discount rate of 12%. This means that it meets NPF's criteria for investment. However, the figures used to calculate the net present value of the investment were based on Acadia's 2025 revenue and expenses. Given that Acadia's quota for snow crab has recently increased, the value of its future harvest will likely be higher than what is reflected in the information provided by Acadia, and in the net present value calculation used to determine the investment's financial attractiveness.

In the second scenario, where the selling price of these products will increase as a result of the price premium offered by Entero, the net present value is negative \$949,936 (see Appendix I below). This is because the Entero contract requires shelf-ready products, which NPF's current facility cannot provide. As a result, this function would need to be outsourced, as the additional cost associated with outsourcing exceeds the increase in revenue. Therefore, if NPF were to agree to the strategic partnership and then outsource the necessary processing to the nearby shellfish processing facility, the investment would not meet the board's objectives.

Qualitative Analysis

Advantages:

- This strategic alternative offers the opportunity to increase the number of species NPF harvests by three. Therefore, it helps meet the objective of increasing the company's product mix. As Colan stated, this is perhaps the most important key success factor going forward for NPF.
- Acadia's current operations are MSC-certified, which aligns with NPF's mission, vision, and current operations. MSC certification is also required for the distribution agreement offered by Entero, so this investment would allow NPF to move forward with Entero's proposal.
- The demand for shellfish products is increasing both nationally and internationally, so if NPF were to agree to this strategic partnership, it would be able to take advantage of this industry opportunity.
- Two of the species that Acadia harvests—lobster and scallops—do well in warming water, so the likelihood that the quotas will be decreased is reduced. In fact, the quotas for these species may actually increase if ocean waters continue to warm.
- NPF is already very familiar with Acadia's operations, and the two companies have a strong pre-existing relationship. This fact will help provide NPF with confidence that the partnership will be effective and successful.
- As Acadia wishes to use NPF's distribution channel to market its harvest, NPF's Neptune's Tasties brand would be able to grow and offer new species of seafood. Regardless of which distribution channel these products are eventually sold into, this would help grow the brand's strength.
- Acadia's harvests are currently minimally processed, which aligns with NPF's current distribution channels. Therefore, if NPF decides to continue with its current distribution strategy and renew the agreement with AOISE, Acadia's operations would not need to be revised, making this strategic partnership effective.
- Acadia's fishing crew has a reputation for being high-quality harvesters. This further increases NPF's confidence in the continued success of Acadia's operations and harvest size.

Disadvantages:

- The species of seafood that represents the largest catch size of Acadia’s three species of shellfish—snow crab—does poorly in warming waters, so the maximum allowable catch size—and, therefore, Acadia’s quota for snow crab—may decline in future if waters continue to warm. Given how much revenue snow crab currently generates for Acadia, this could be especially impactful on the future success of Acadia’s operation and the strategic partnership, if NPF decides to move forward with the agreement.
- If NPF agrees to the strategic partnership, it will need to contribute to the maintenance of Acadia’s MSC certifications. As Acadia mentioned to Colan, this has become quite time-consuming, and with the expected update to the Marine Stewardship Council’s policies, maintaining an MSC-certification will likely become more onerous in coming years. Therefore, this investment would require NPF to devote a portion of its time to ensuring that Acadia’s operations remain in good standing. This would take time away from other aspects of NPF’s existing business.
- Acadia will retain the right to cancel the contract if NPF does not adhere to the conditions of the contract. Therefore, there is the risk that NPF makes the \$5 million investment only to lose access to Acadia’s harvest and any profit that operation generates. Therefore, prior to making this investment, NPF needs to carefully analyze the terms and conditions of the contract, to ensure that compliance is reasonably assured.
- Acadia will retain ownership of the quota licences for each species throughout the duration of the agreement. Therefore, although NPF’s product mix will increase while the agreement is in effect, the company will lose access to Acadia’s harvest when the agreement comes to an end. This would have a major impact on NPF’s business.
- Acadia’s harvest size tends to fluctuate from one year to the next, based on the seasonality of the harvest period and changing weather patterns. Therefore, the future financial success of Acadia’s harvest is partially outside of its control.
- There is a slight misalignment between this opportunity and NPF’s mission statement (which states that NPF will supply Greenland halibut and shrimp). Therefore, if NPF pursues this option, the company’s mission statement will need to be updated to reflect the expanded offering of lobster, scallops, and snow crab.

Conclusion/Recommendation

The attractiveness of this opportunity is affected by the distribution channel NPF uses to sell these products. With NPF’s present processing capabilities, this investment would only be profitable if Acadia’s products were sold into the market as minimally processed. If Acadia’s products required further processing into shelf-ready products (to comply with Entero’s distribution agreement), the investment would no longer be financially attractive.

Nevertheless, given how well Acadia's operations align with NPF's mission, vision, and objectives, this strategic partnership appears to be very attractive. This attractiveness is further enhanced by NPF's and Acadia's current relationship. However, important aspects of this agreement, such as the conditions associated with the contract, require further due diligence before an informed decision can be made.

Assessment Opportunity #4 (Strategic Issue #3: Acquire Sunrise Shellfish?)

The candidate is expected to complete both a quantitative and qualitative assessment of the decision to acquire 100% ownership of a shellfish processing plant, Sunrise Shellfish.

Quantitative analysis: The candidate should complete a net present value calculation of this investment. The candidate should also consider how NPF's chosen distribution channel would affect the attractiveness of this opportunity.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of investing in the shellfish processing plant.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

A shellfish processing plant, Sunrise Shellfish (Sunrise), which specializes in producing shelf-ready products, recently came up for sale. NPF has the opportunity to acquire the processing plant, which would diversify the company's revenue and potentially reduce its operating cost, especially if it moves forward with the strategic partnership with Acadia, a shellfish harvesting operation.

Quantitative Analysis

A net present value calculation for this investment was performed, based on the parameters provided. The net present value of the investment is \$884,190 (see Appendix II below), using a discount rate of 12% and a useful remaining life of 10 years. Therefore, it appears that this investment aligns with the board's investment objectives. As well, although the asking price for the processing plant is \$15 million, Madison Bank is willing to provide NPF with a 10-year loan, which will be secured by the processing plant. With the loan, NPF would only be required to pay \$5 million upfront and then annual repayments of \$1.3 million until the loan matures. Therefore, the investment is possible, given NPF's current cash availability, which is limited to \$10 million.

Based on the information provided, the processing plant's gross profit margin is 35%, whereas its operating profit margin is 22%. Therefore, this investment meets the board's objectives for both of these measures.

It is also possible that the financial attractiveness of this investment would increase if NPF were to use the plant to process its own harvest (such as the shellfish harvest that NPF would gain access to if the company decided to enter the strategic partnership with Acadia). If NPF were able to use Sunrise to process Acadia's catch, it would forgo the expensive outsourcing costs of \$2 million annually. However, at this point, it is unclear when NPF would gain access to Sunrise's processing capabilities, given that Sunrise is currently operating at 100% capacity. According to Sunrise's owners, NPF would be able to use Sunrise's capacity only when the plant's current contracts expire.

Qualitative Analysis

Advantages:

- NPF's current facility is not capable of producing shelf-ready products, so adding Sunrise to NPF's assets would enhance the company's vertical integration (a key success factor in the industry) and ability to create a wide variety of products (another key success factor). This capability is especially important if NPF decides to move forward with Entero's distribution agreement, given that Entero requires all its products to be shelf-ready. There appears to be synergy between the Entero agreement and this investment.
- Sunrise is BRCGS and MSC Chain of Custody certified. Not only does this indicate the strength of Sunrise's current operations and products, but it also aligns perfectly with NPF's commitment to produce the highest-quality products.
- Sunrise is capable of processing a wide variety of shellfish, including snow crab, lobster, shrimp, scallops, clams, and other species of crab. This flexibility will help protect Sunrise's success. This is especially important, given the warming of the North Atlantic Ocean.
 - In addition, Sunrise appears capable of processing all the species of shellfish that NPF would gain access to if it decided to move forward with the strategic partnership with Acadia. Therefore, there appears to be synergy between Acadia's proposal and this investment.
- Sunrise's location makes distribution simple, and the processing plant currently supplies grocery stores all over Canada. This is an important aspect of Sunrise's operations, as the ability to get product to market is a key success factor in the industry.
- Sunrise is held in high regard as a reliable processing plant. This will give NPF confidence that Sunrise is a high-quality investment.
- There is increasing demand for shellfish products within Canada, and therefore, by making this investment, NPF will be able to take advantage of this growth, especially if the company decides to expand the capacity of the processing plant.

- The plant appears to adhere to a strict quality control and food safety system, and has never experienced any major contamination or recall events. This provides further confidence that Sunrise is a strong asset and worthy of NPF's limited investment capital.
 - However, prior to NPF making an investment decision, the plant's quality control and food safety system should be inspected and verified by a qualified professional.
- The plant has an experienced team of managers and engineers who have worked there for many years. This helps mitigate the risk associated with NPF's current lack of experience in operating a processing plant like Sunrise.
 - However, if these key employees were to leave Sunrise, NPF's risk would significantly increase. Prior to making an investment decision, NPF should ascertain as best as possible whether these employees plan to stay at Sunrise. NPF could even consider offering these employees incentives to stay.

Disadvantages:

- By volume, the species that Sunrise processes the most is snow crab, which does poorly in warming water, so the maximum allowable catch size and quotas for snow crab may decline in the future if waters continue to warm. Therefore, Sunrise's financial success may decline if the amount of snow crab that requires processing also declines.
- The plant's equipment has not been modernized or upgraded for many years. Although the plant owners claim that an upgrade is not necessary, given the current effectiveness of the plant's operations, this aspect of Sunrise does not align with the key success factor of making technological improvements. Prior to making an investment decision, NPF needs to examine and verify the quality of Sunrise's current equipment, to ensure the success and longevity of the operation.
- This investment does not make strategic sense if NPF decides to continue with the company's current distribution strategy and renew the existing distribution agreement with AOISE, since AOISE only requires minimally-processed products, which this processing plant is not designed for.
- The plant is currently operating at 100% capacity, so NPF would not be able to grow Sunrise's revenue without making an additional investment in the plant's expansion or waiting until the plant's existing contracts—which are both short-term and long-term—expire.
- NPF currently has no experience with this type of processing, so Sunrise's success could be negatively affected by the change in ownership, at least until NPF has learned how to effectively operate the plant. In addition, the learning process could take NPF's time and attention away from other aspects of the existing business.

- There are a number of important aspects of Sunrise’s current business that NPF does not understand. For example, we do not know when the plant’s existing contracts expire, and how many are short-term contracts versus long-term contracts. Before an investment decision can be made, this important information needs to be obtained and analyzed.
- Colan appears to be hesitant to make this investment, given that NPF does not have experience with this type of processing. Before a final decision is made to move forward, his concerns should be addressed as best as possible.

Conclusion/Recommendation

The attractiveness of this opportunity greatly depends on the distribution strategy that NPF ultimately decides to take. If NPF agrees with Entero’s proposal, this acquisition makes strategic sense because it would allow NPF to provide Entero with shelf-ready shellfish products. However, to make that outcome possible, NPF would also need to agree to the strategic partnership with Acadia, which would give NPF access to a shellfish harvest. Also, NPF would only be able to use Sunrise to process its shellfish products when Sunrise’s current contracts expire. Prior to making an investment decision, NPF should learn when the plant’s current contracts expire, to ensure that the timing of these expiries aligns with NPF’s requirements for shellfish processing. If NPF is unable to utilize a sufficient amount of the processing plant’s capacity, this investment may not align well with the long-term strategic direction of NPF.

If NPF decides to renew its existing distribution agreement with AOISE, this acquisition makes less strategic sense, given that AOISE does not require shelf-ready products.

Assessment Opportunity #5 (Strategic Issue #4: Acquire Oceanfin Harvesters?)

The candidate is expected to complete both a quantitative and qualitative assessment of the decision to acquire Oceanfin Harvesters and gain access to a bluefin tuna harvest.

Quantitative analysis: The candidate should complete a net present value calculation of the investment. The candidate should also consider how NPF’s chosen distribution channel would affect the attractiveness of this opportunity.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of acquiring Oceanfin Harvesters.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

The parent company of Oceanfin Harvesters (Oceanfin), a bluefin tuna harvesting company without an MSC certification, has put Oceanfin up for sale. The acquisition of Oceanfin would provide NPF with both the necessary fishing vessel and the quota licence for bluefin tuna.

Quantitative Analysis

A net present value calculation for this investment was performed, based on the parameters provided. The net present value of this investment is \$1,531,692 (see Appendix III below), using a discount rate of 12% and a time frame of 10 years, which is the expected remaining useful life of Oceanfin's fishing vessel. Therefore, it appears to meet the board's threshold for investment. As well, although the asking price for Oceanfin is \$13 million, Oceanfin's parent company is willing to provide NPF with a 10-year loan at an attractive interest rate. With the loan, NPF would only be required to pay \$4 million upfront and then make annual repayments of \$1 million until the loan matures. Therefore, the investment is possible, given NPF's current cash availability, which is limited to \$10 million.

Based on the information provided, Oceanfin's gross profit margin is 25%, and its operating profit margin is 19%. Therefore, this investment meets the board's objectives for both of these measures.

Oceanfin has historically sold a mix of both sushi-grade and normal tuna. However, the information provided does not specify how much of Oceanfin's 2025 revenue was derived from sushi-grade sales versus normal tuna. This is important information for NPF to acquire, so that we can ascertain whether it would be possible to focus more on sushi-grade tuna and, therefore, potentially increase the profitability of the operation.

In addition, Oceanfin's operation is not currently MSC-certified. If NPF earned the certification, the operation's revenue would likely increase. However, this potential increase in revenue, as well as any applicable costs associated with gaining the certification, have not been included in the analysis performed. Again, before NPF can make an informed decision, this information should be analyzed and included within the financial projection.

Nevertheless, this investment appears to be a strong one from a quantitative perspective.

Qualitative Analysis

Advantages:

- Unlike the strategic partnership with Acadia, this investment would give NPF ownership of both the fishing vessel and quota licence associated with Oceanfin's current operation. Therefore, although the financial analysis above only considers the first 10 years of operations after acquisition, it is possible that NPF will continue to derive revenue from this investment beyond that period (although this would necessitate the purchase of a new fishing vessel).
- This acquisition would help NPF achieve its objective of increasing the number of species the company is able to offer in its product mix. This aspect is especially important, given that, as Colan pointed out, acquiring new quotas is perhaps the most important key success factor in the seafood industry.
- Although Oceanfin's operation is not yet MSC-certified, it appears to comply with the standards necessary for earning the certification. Therefore, NPF would be able to use its expertise to earn certification and increase the value of Oceanfin's harvest.
 - In addition, even non-certified bluefin tuna is a highly desirable seafood product, so the current lack of certification should not inhibit the investment's success.
 - Before making a final investment decision, NPF should gain more understanding of Oceanfin's current process to ascertain how closely it aligns with the requirements necessary for earning MSC certification. This is a crucial piece of information that will allow NPF to value this potential investment.
- Bluefin tuna is one of the most prized fish on the market—especially the international market. Through this acquisition, NPF could harvest and market an in-demand species of fish, and take advantage of tuna's popularity.
- If NPF decides to continue with its current distribution strategy, it would be able to find the purchaser offering the highest price for this popular seafood product.
- Oceanfin's vessels currently produce minimally-processed tuna, which is frozen at sea before being immediately sold or transferred to a cold-storage facility. Given that NPF has a cold-storage facility, there could be additional cost savings and synergies that have not been factored into the profitability projection.
- If NPF were able to ensure that the quality of the bluefin tuna harvest stays high enough to be classified as sushi-grade, the demand for this product would increase, and so too would the selling price. Therefore, NPF has the potential to build more value into this investment by adhering to the necessary quality procedures.
- Bluefin tuna populations respond well to warming ocean water, which means that quotas are unlikely to decline, given the expectation that the water in the North Atlantic will continue to warm into the future.

Disadvantages:

- Oceanfin’s operation is not currently MSC-certified, and although it appears that obtaining the certification is possible, this process is likely to take at least two years. Therefore, Oceanfin’s current operation goes against NPF’s typical operations, which center around MSC-certified harvests.
 - This lack of certification would disqualify Oceanfin’s harvest from certain distribution channels, such as the one proposed by Entero. Therefore, at this point, it does not appear that this would be a good strategic fit if NPF decided to move forward with Entero’s proposed distribution agreement.
- This investment would also not align with Entero’s distribution agreement proposal because Entero requires all products to be shelf-ready, and Oceanfin produces minimally-processed tuna that is frozen at sea before being immediately sold or transferred to a cold-storage facility.
- Fishing for bluefin tuna is a complex process that requires experience and skill. NPF currently has no experience with fishing for bluefin tuna, so there is a risk that it would not be able to operate Oceanfin effectively until it gains the required experience.
 - This is especially true for sushi-grade tuna, which requires an even more complex processing procedure. NPF would need to rely on Oceanfin’s current fishing crew, to ensure that the harvested tuna retains its freshness and quality.
- This investment would require NPF to take on additional debt. Although the parent company of Oceanfin has offered to provide NPF with a loan at a desirable rate, taking on additional debt may prohibit NPF’s ability to acquire future financing.
- This acquisition involves purchasing Oceanfin the company, rather than just the operations. As such, there is a risk that Oceanfin has liabilities—unrecorded or otherwise—that NPF is currently unaware of. Before the company can make an informed decision, more due diligence is required, to determine what exactly is included in the acquisition and whether there are any liabilities that NPF would become responsible for.
- There is a slight misalignment between this opportunity and NPF’s mission statement (which states that NPF will supply Greenland halibut and shrimp). Therefore, if NPF pursues this option, the company’s mission statement will need to be updated to reflect the expanded offering, which would now include bluefin tuna.

Conclusion/Recommendation

This investment appears to be particularly attractive, due to the high demand for bluefin tuna and because NPF would be able to build additional value into Oceanfin’s existing process by earning the MSC certification. However, this investment does not appear to align with Entero’s proposed distribution agreement, so if NPF decides to work with Entero, it should avoid this investment.

If NPF decides to continue with its current distribution strategy and renew the existing contract with AOISE, it should consider this investment. However, prior to making a final decision, there are crucial pieces of due diligence that NPF must investigate, to ensure that the investment is as attractive as it first seems.

Summative Assessment #3 (Conclude and Advise)

For Summative Assessment #3, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate provided reasonable conclusions for each major issue.

Unsure – The candidate attempted to provide reasonable conclusions for each major issue.

No – The candidate clearly did not provide reasonable conclusions for each major issue.

Enabling Competencies

6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

6.3.2 Articulates limitations to recommendations

6.3.3 Applies decision criteria to choose among viable alternatives

6.3.4 Ensures that decision criteria do not conflict with professional ethics and values

The candidate is expected to provide a logical conclusion that is consistent with their analysis and integrated with an overall recommendation that suggests which distribution channel NPF should choose, and considers how their recommendations for other strategic investment opportunities would be affected by that choice. The candidate should also ensure that their recommended course of action is possible, given NPF's current cash available for investment.

The candidate draws logical conclusions and makes a recommendation on which strategic options NPF should pursue. The candidate's overall recommendation should integrate the analysis of all four major strategic opportunities into a coherent overall strategy. The recommendations should be strategic in nature and display good professional judgment and logic, recognizing the interconnected influence of each option. Suggesting that further information is required is acceptable where justified and consistent with the analysis.

NPF has two options to consider regarding the company's distribution strategy: accept the contract with Entero, or continue with the company's current distribution strategy and renew the existing contract with AOISE. NPF's choice of which distribution strategy to pursue will greatly influence the attractiveness of the other strategic options it is currently presented with.

We recommend that NPF first pursue the contract with Entero. Given this recommendation, the company should also pursue the strategic partnership with Acadia and the acquisition of Sunrise, because these two investments would allow NPF to adhere to the conditions and requirements of Entero's proposal (to have at least five species of seafood to offer with NPF's product mix, and to have all products processed into shelf-ready products).

Entero's offer looks favourable because of the increased selling price that NPF would earn over the prevailing market price. It is also favourable because NPF's brand would likely gain a reputation as a high-quality brand, and its administrative processes would be streamlined by only selling its product to Entero. Finally, Entero is offering NPF a variety of other incentives, such as the possibility of helping finance any acquisition or infrastructure upgrade necessary for ensuring that it can continue to provide Entero with a variety of high-quality seafood products.

However, there are several significant unknown factors related to this strategy that NPF needs to investigate prior to making a final decision. For example, how long would it be before NPF can use Sunrise, to process the shellfish that would be harvested through the strategic partnership with Acadia? And what effect would that have on the profitability of Sunrise? Also, if NPF cannot supply Entero with the minimum number of species, the purchase price will decrease and a penalty will be applied, but these two elements are not currently known. They need to be determined prior to making an investment decision to ensure that NPF has identified and reduced its risk to a reasonable level. If NPF can satisfy itself through further due diligence that this strategy does not present any unacceptable risks, we recommend that NPF agree to the distribution agreement with Entero and move forward with both the acquisition of Sunrise and the strategic partnership with Acadia.

If NPF decides to pursue the contract with Entero, it will also have the necessary funds available for making this combination of investments possible. However, this investment strategy would take up all of NPF's available financing and would necessitate the company taking on additional debt. If this is unacceptable to the board, NPF should decline Entero's offer.

On the other hand, if NPF discovers that it may not be able to adhere to the requirements of Entero's proposed distribution agreement, the alternative route—continuing with the company's current distribution strategy and renewing the contract with AOISE—also appears to be an acceptable option. If NPF decides to pursue this strategy, we recommend that the company also pursue the strategic partnership with Acadia and the acquisition of Oceanfin. This combination of choices would allow NPF to significantly increase the number of species it is able to harvest, and would help the company meet its other objectives of increasing both the gross profit margin and the operating profit margin.

This strategy also appears to be less risky and more flexible in relation to Entero's proposed agreement. With this strategic route, NPF would not need to expand the company's processing capabilities to include shelf-ready products, and the company would not face a penalty if it could not offer at least five different species of fish within its product mix. In addition, if another major strategic opportunity arose in the future, the company would not be locked into an exclusive contract (which it would be if it accepted the Entero contract). NPF also has the necessary funds available to make this combination of investments possible. However, this investment strategy would take up nearly all of NPF's available financing and would require the company to take on additional debt. If this is unacceptable to the board, NPF should decline either the strategic partnership with Acadia or the acquisition of Oceanfin (the determination of which investment is more attractive can only be made after further due diligence procedures are performed). However, the company would not be able to earn the selling price premium that Entero is offering if it adopted this strategy. This one critical difference is what makes the Entero route more attractive than the AOISE route.

However, before NPF decides to pursue this strategy, further due diligence is required. For example, NPF must investigate Oceanfin's current business, to ensure that it would not be assuming any unknown liabilities. If NPF can satisfy itself through further due diligence that this strategic path does not present any unacceptable risks, choosing to remain with its current distribution strategy looks promising.

Finally, NPF's mission statement will require an update to capture the company's new operations, should the company decide to move forward with any of the suggested investments or strategies discussed above. This is because the current mission statement specifies only Greenland halibut and shrimp as the company's focus.

Summative Assessment #4 (Communication Hurdle)

For Summative Assessment #4, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate adequately communicated their response.

No – The candidate clearly did not adequately communicate their response.

Insufficient communication in a candidate's response would generally include some of the following:

- The reader needs to re-read sections several times in order to gain an understanding.
- It is not clear what point the candidate is trying to make.
- The quantitative analysis does not make sense because of a lack of labelling or illogical ordering.
- There are excessive amounts of spelling and grammatical errors.
- Unprofessional language is used.

Summative Assessment #5 (Overall Assessment)

For Summative Assessment #5, the candidate must be assessed in one of the following, based on their overall performance:

Clear Pass – Overall, the candidate provided an adequate response, clearly meeting the minimum standards for each of the summative assessments above.

Marginal Pass – Overall, the candidate provided an adequate response, with some errors or areas of omission, but the underlying key concepts were there.

Marginal Fail – Overall, the candidate provided an attempt at a response, but one that contained several errors or where the analysis was incomplete.

Clear Fail – Overall, the candidate did not provide an adequate response; the response was deficient in multiple areas.

To be assessed a Pass, the candidate is expected to perform adequately in all the summative assessments and demonstrate that, overall, they addressed the issues of all of the shareholders.

Markers considered the following in making their overall assessment:

1. Did the candidate step back and see the bigger picture, and then address the broader issues identified?
2. Did the candidate prioritize the issues by discussing the major and minor issues in appropriate depth?
3. Did the candidate use both quantitative and qualitative information to support their discussions and conclusions?
4. Did the candidate use the appropriate tools to perform quantitative analysis?
5. Did the candidate use sufficient case facts (current case and Capstone 1 case) about the external and internal environment to support their discussions?
6. Did the candidate communicate their ideas clearly, integrating and synthesizing the information?

SAMPLE RESPONSE – NPF VERSION 1

Below is an actual passing candidate response.

NPF board, I have reviewed the information you have provided and have completed the following analysis,

Overview

Vision

There has been no updates to the companies vision statement.

Mission

There has been no updates to the companies mission statement.

New Key Success Factors

- Transitioning away from relying on cold water species as quotas, and thereby revenue/profit, generated from these species is likely to decrease in the upcoming years.
- Expanding the business to obtain more quota licenses and harvesting partners to limit the effects of lower quotas. Note, this is a key success factor for Colan and may not represent the entire boards viewpoint.

Objectives

The companies updated objectives are:

- Increasing the number of species the company harvests to at least 5.
- Increasing the gross profit margin to 25% by 2029.
- Increasing the operating profit margin to 12% by 2029.
- Earn at least a 12% annual return on new investments.

Constraints

The board has limited the total amount of cash to be spent on all new strategic investments to be \$10m.

SWOT

Strengths

- NPF has several revenue streams, including cold storage. This has allowed them to diversify away from relying on government quotas and will create more stable revenue in the future.
- NPF has a strong management team that has remained unchanged over several years. This means the company is well situated to expand and the management team will likely be able to leverage their existing experience with new opportunities.
- Expanding into cold storage has increased NPF's relationships with local harvestors and processors and has improved the brand name. These relationships may be leveraged in the future when completing other expansion opportunities as local industry players will trust NPF.

Weaknesses

- NPF only has 1 international distributor, AOSIE, which limits their ability to sell products overseas. There is a significant risk with only selling product to 1 distributor such as supply chain interruptions.
- NPF currently only processes greenland halibut and shrimp. This is limited and means they have not developed the operational expertise required to process other species of seafood. Expanding into other seafood types will likely be burdensome as the admin team learns about how to properly process the product.
- NPF's objectives and key success factors require them to heavily invest into state of the art equipment for their existing fleet of vessels. This limits the amount of cash available for expansion opportunities and may force the company to be more reliant on harvesting activities instead of diversifying with new opportunities.
- NPF does not provide any shelf ready products and expanding into these types of products requires significant capital investment. Management has slightly fallen behind industry trends and may be forced to make a quick decision to enter this market.

Opportunities

- A new trade agreement with China means exports are expected to increase in the future, international demand is growing faster than domestic demand. This will allow NPF to sell more product to china and meet this objective of expanding its exported seafood business if this opportunity is pursued.

- The demand for Bluefin tuna is very high as the demand for sushi has increased, this creates additional opportunities for NPF if oceanfin harvesters is purchased.
- The demand for ready to eat entrees is increasing. This means expanding and being able to produce ready to eat meals will provide NPF with the opportunity to capture this market.
- The expected quotas for warmer water species including lobster, scallops, salmon, and tuna are expected to remain stable or rise in the future. This means expanding into these segments will provide NPF with a more stable revenue stream and may help them enter into a deal with Entero as these are new species not currently offered by NPF.

Threats

- DFO has reduced the allowable quota for several species, including shrimp and halibut, because of warming waters. This means that NPF's revenues related to shrimp processing and harvesting will likely decrease in the future. Also, any investments in greenland halibut and shrimp will see decreased returns in the future.
- It is expected the MSC certification will be more onerous to earn in the future. This means that if NPF is trying to earn this certification, for example for Oceanfin, additional admin work will be required and there may be additional capital investments required.
- The industry is fast changing, with consumer trends changing quickly, new international agreements being signed, the requirements to obtain certifications changing becoming more burdensome. This creates a risk that if NPF begins to pursue a new opportunity, market conditions may change during the implementation phase in an unfavourable way, causing the opportunity to not be as profitable as originally anticipated.

Financial Analysis

I have completed a brief financial review of the company. Overall, the companies goal of not taking on excessive debt to avoid the risk of not being able to pay for debt service obligations in slower years remain. The company is also still required to heavily invest in its existing fleet of vessels to ensure they have state of the art technology. A few other points:

- The Gross Profit margin is currently 20%, this is below the 25% target set for 2029 and therefore NPF must work to improve this ratio by either improving the existing business or adding new, more profitable, segments.

- The Operating profit margin is 8%, which is below the 12% target for 2029. The ratio was also 8% in 2023, indicating no improvement. NPF must focus on optimizing its selling and admin costs to improve this ratio. Also expanding into new businesses and leveraging existing selling and admin resources will improve this ratio.
- Operating income in 2025 was \$2.46M and was \$2.56M in 2023, this means the company is not growing and has remained relatively stagnant. Frozen at sea shrimp and processed shrimp are 81% of revenue in 2025 and both of these revenue streams are expected to decrease in the future. This creates a significant amount of risk for the company's profitability.
- The company's depreciation expense has decreased from \$2.4M in 2023 to \$2.08M in 2025 (a 14% decrease), this indicates the company may not be completing sustaining capital investments (meaning the assets are deteriorating) since the expense has decreased. There is a risk the company's assets may not be sufficient to sustain the business in the future.

Analysis of Issues

Acadia Partnership Opportunity

Overview

NPF has the opportunity to enter a strategic partnership with Acadia. Acadia is a MSC certified shellfish harvester who may expand into snowcrab. As part of the agreement, NPF must pay \$5M to upgrade Acadia's fleet.

Quantitative Analysis

The calculations related to this opportunity are shown in appendix 1. The \$5M investment is within the \$10M maximum allowable amount and therefore is feasible. In comparison to objectives:

- The average gross margin is 39%, this exceeds the 25% target. MET.
- The average net margin is 27%, this exceeds the 12% target. Met.
- Without including the investment in ready to shelf equipment, the IRR is 16% and when including the additional investment (assuming the \$2M investment is split 50-50) the return is 12%. This means the minimum return requirements are met.

Given the financial targets for the company are met, this option is recommended from a quantitative perspective.

Qualitative Analysis

Some of the benefits of this opportunity include

- This will allow NPF to offer 3 more species, of which 2 are not coldwater species more subject to decreasing quotas. This will diversify revenue streams and give them 5 total species, making them eligible for the Entero agreement. This also allows NPF to meet their objective of offering 5 species.
- Acadia currently uses NPF's cold storage facility. This may create the opportunity for future synergies to be realized, creating additional profitability.
- Acadia wants to use the Neptune's tasties brand name. Given Acadia has a strong reputation, this partnership will allow NPF to expand the brand and may create the opportunity for NPF to sell other products to this new customer base.

Some of the drawbacks of the opportunity include:

- Harvesting lobster, scallops, and snowcrab are still subject to weather conditions and market trends. While quotas for these species are not expected to decrease, there is still a risk this trend may change in the future.
- Acadia will have the option to cancel the contract and will retain quota licenses. This creates a risk that a small infraction on the contract will cause NPF to lose their \$5M investment without any recourse.
- NPF is required to pay for the upgrades to Acadia's vessels but NPF does not control the vessels. This means the vessels may not be properly maintained if NPF does not control operations, risking the vessels will not last the full 10 years of the proposed contract, thereby decreasing profitability.
- IT is not known if the harvesting partner for shellfish will be MSC certified, this contradicts NPF's values and creates risk to the brandname.

Overall, the pros outweigh the cons and therefore this opportunity is recommended from a qualitative perspective.

Recommendation

Given the strong project returns that will help NPF meet its objectives and the significant benefits, it is recommended that NPF accepts this opportunity. It is also recommended NPF negotiates a dispute resolution mechanism into the partnership agreement and ensures the contract is not cancelable for at least 5 years to mitigate the risk of NPF investing into capex for Acadia without receiving the expected returns.

Sunrise Shellfish Opportunity

Overview

NPF has the opportunity to acquire Sunrise, a local shellfish processing plant that sells products to grocery stores. The plant is currently operating at capacity with existing contracts.

Quantitative Analysis

Calculations are shown in appendix 2. Note that of the \$10M available for investment, the purchase will require \$5M in cash. However, the facility likely needs additional upgrades to sustain operations and therefore this will increase the required investment amount. Furthermore, the facility will likely require annual maintenance capex, this capex must be estimated and will reduce the project's return. The interest rate on the debt is low, at only 5%. Additional considerations:

- The project's IRR is 13% as is, but is only 5% if \$3M in additional capex is required to upgrade the facility. This means the 12% targeted return will likely not be met.
- The Gross margin in 2029 is 35%, this exceeds the 25% target. Met.
- The net margin in 2029 is 23%, this exceeds the 12% target. Met.

The facility requires the company to take on \$10M in additional debt, which does not align with the company objectives of not being highly leveraged. There is also a significant amount of risk for the amount of upfront implementation capex required and maintenance capex to sustain the facility as the facility is outdated. Therefore from a quantitative perspective, this option is not recommended.

Qualitative Analysis

Some of the benefits of this opportunity include

- The facility has several operating contracts that have staggered expiry dates. This means NPF will have time to learn the operations before these contracts expire and will allow NPF to replace expiring contracts with their own seafood in future years, creating synergies by leveraging the facility's processing capabilities.
- The facility is MSC certified and has strict quality control procedures (e.g. no history of complaints). This aligns with NPF's objectives and maintains a high quality brand image for NPF, thereby limiting risk of bad publicity.
- The facility has a strong management team that is experienced. NPF can leverage this management team to continue to run the facility, thereby decreasing strain on NPF's management post acquisition and reducing the risk associated with entering a new market.

Some of the drawbacks of the opportunity include:

- The facilities existing contracts have strict cancellation penalties, this means NPF will not be able to process significant amount of NPF volumes if required.
- While the facility can be expanded to process more than snowcrab, this will require a significant amount of capital investment. Therefore the facility will only allow NPF to process snowcrab (1 additional species) and therefore the objective of expanding into 5 total species will likely not be met.
- The site does not have its own brandname and therefore purchasing the facility and allowing contracts to expire will not decrease competition, other harvestors will simply just take their product and packaging to another processing facility.

The facility has several strategic benefits that include the ability to recognize synergis, leverage the existiting management team, and possibly expand to process more species in the future. Therefore this option is recommended from a qualative perspective.

Recommendation

While the acquisition opportunity does have several qualitative benefits, there is a significant amount of financial risk associated with upgrading the facility, especially if the facility is upgraded to process species in addition to snowcrab. Furthermore, realizing synergies by processing NPF seafood at the facility will likely take years to realize; this transition and acuqision is also unlikely to decrease competition in the market. Therefore it is overall not recommended that this acquisition opportunity is completed.

Oceanfin Harvestors Acquisition

Overview

Oceanfin harvestors is a bluefin tuna harvesting business that can be acquried. Bluefin tuna is a increasingly popular species, however the facility is not MSC certified.

Quantitative Analysis

Calculations are shown in appendix 3. The asking price for the business is \$13M, of which \$9M will be funded with debt provided by the seller, meaning only \$4M will be required by NPF. This is within the \$10M maximum set by the board. Furthermore, the interest rate on the debt is only 2%, this is a very low cost of financing for an acquisition. Reviewing the objectives:

- The projects IRR is 23% . This means the 12% targeted return is met.
- The Gross margin in 2029 is 33%, this exceeds the 25% target. Met.

- The net margin in 2029 is 28%, this exceeds the 12% target. Met.

Note that the analysis does not include any incremental overhead costs associated with operating the facility other than what is included in the \$350K estimate. In addition, the analysis does not include any annual maintenance capex to maintain the vessel.

Given the strong project return and alignment with objectives, this opportunity is recommended from a quantitative perspective.

Qualitative Analysis

Some of the benefits of this opportunity include:

- The demand for bluefin tuna, plus sushi-grade blue fin tuna, is expected to increase in the future and is unlikely to be subject to DFO quota decreases. This provides long term opportunity for NPF in a new revenue stream.
- Selling bluefin tuna increases the number of species available for NPF to sell. This allows NPF to work towards its objective of selling 5 species.
- Oceanfin requires the use of a cold storage facility. Once the acquisition is complete, NPF may be able to realize synergies by using the NPF cold storage facility, increasing profitability.

Some of the drawbacks of the opportunity include:

- Selling sushi grade tuna requires a significant amount of additional processes to ensure the tuna remains at high quality, this means the vessels crew and NPF's management team will need to contribute a significant amount of effort to realize this additional revenue.
- Oceanfin is not MSC certified and it will take increasing work to obtain this certification in the future. This will require a significant amount of NPF's managements time.
- The acqusition requires the company to take on \$9M in debt, which is a significant amount of leverage and creates risk if market conditions change in the future, decreasing profitability.

From a qualitative perspective, this option has several benefits and therefore is recommended.

Recommendation

Given this opportunity has strong financial returns that align with objectives and several strong qualitative objectives that allow NPF to grow, this acquisition is recommended. To mititiage risks, it is also recommended that NPF begins working on

obtaining the MSC certification as soon as the acquisition is complete, before additional regulatory burdens are in place.

Entering into a contract with Entero or renewing the AOSIE Agreement

Overview

NPF currently sells products to grocery stores and a international distributor (AOSIE). NPF has received a proposal from Entero, a large Canadian distribution grocery chain for exclusive rights to all of NPF's products and is willing to pay a 20% market premium. NPF must either sign the Entero agreement or renew with AOSIE.

Quantitative Analysis

As shown in the proforma statements in appendix 4, it is expected the gross margin will decrease to 16% and the operating margin will increase to 12%, using adjusted 2025 financial statements. This moves the company further away from oobjective of increasing gross margin while only slightly improving operating margin. This opportunity does not effect the objective of obtaining a 12% mrgin on new investments. A few additional considerations:

- Meeting the requirement of only selling packaged ready meals will likely incur additional 1 time costs to properly learn the market.
- Entero is willing to pay for 50% of NPF's costs to maintian the MSC and BRCGS certifications, this provides additional cost saving oportuntities.

Overall from a financial perspective, this option is not recommended.

Qualatitve Considerations

Benefits to the Enterco Agreement:

- NPF will recognize synergies by reducing costs and only having to work with 1 customer. This will decrease the strain on the existing admin team, allowing them to persue additional opportunities.
- The agreement is for 10 years and both parties have a penalty for breaking the agreement, therefore Enerco takes the risk if customer preferences change away from seafood (as they will be required to purchase all of NPF's product at a premium regardless), limiting risk for NPF.
- Enterco is willing to provide additional capital after year 3 to fund future expansion, this will reduce the capital burdon on NPF and helps them allign with their objective of not being highly levered.

- The agreement allows for further expansion of the Neptune Tasties brand name, creating the opportunity for increased sales.

There are several drawbacks to the agreement:

- All products sold must be shelf ready (and there is the opportunity for a higher premium if ready to eat meals are sold). NPF currently does not have the capability to sell these products and expanding into having these capabilities will be expensive and administratively burdensome.
- The market and quotas are continuously changing and therefore being able to sell 5 species of MSC certified seafood for the next 10 years will be very difficult to achieve. Maintaining this commitment, to avoid a decreased market premium or penalties, will be logistically very complex to achieve and may strain management.
- It is within NPF's objectives to sell to international markets and therefore only selling a limited amount of shelf ready seafood does not align with NPF's objective of developing international relationships and selling high quality seafood.

The significant amount of risk and cons outweigh the pros, and this option is not recommended from a qualitative perspective.

Recommendation

Overall, it is not recommended NPF enters the agreement with Entero. The contract is very restrictive, and creates a significant amount of risk as NPF must enter several new markets to be able to meet the contract requirements. The contract also provides limited financial upside, while still relying on seafood harvesting and processing (limiting diversification).

Instead, it is recommended that NPF renews the contract with AOISE. Several reasons this is recommended are:

- NPF will be able to leverage and expand within Canada as it sees fit, providing flexibility to expand as necessary (including expanding the Neptune's Tasties name).
- NPF will be able to leverage the new trade agreement with China, aligning with its objectives for international growth. Furthermore, it is recommended NPF requires to commit to a minimum annual purchase volume upon renewal negotiations to limit the risk of not selling products to AOISE, thereby decreasing revenue.

- Selling to AOSIE aligns with NPF's existing operations of selling minimally processed products, thereby limiting the risk of forced expansion into new processing techniques.

Overall Cashflow Analysis

Overview

The board has approved up to \$10M in capital to be spent to expand the companies operations while alligning with objectives.

Analysis

As shown in appendix 5, NPF can enter into the strategic partnership with Acadia and acquire Oceanfin with the board approved \$10M capital (leaving \$1M in excess cash not required). Furthermore, by 2029, the company will be extremely close to meeting its gross margin target and will exceed its operating margin target by entering into these 2 new opportunities.

Recommendation

It is recommended NPF continues to monitor their performance against the company objectives, at least on an annual basis, until 2029 to ensure the company is progressing towards meeting these objectives. A annual report to the board should be prepared, so the board can discuss and implement changes to ensure the objectives related to margins are being met.

Differing Management Opinions

Overview

Both Yvonne and Colan recommend diversifying the number of species offered and maximizing the number of quota licenses and harvesting partners available.

Analysis

While both Yvonne and Colan are focused on the existing business's core operations by wanting to expand the harvesting and processing operations while Kurt and Allan have historically been more focused on diversifying by shifting away from these business segements (e.g. the cold storage facility). This may create a conflict within the board in the future as additional opportunities are brought up and discussed.

Recommendation

Given the cold storage expansion has been successful, it is recommended that the board reviews their mission and vision statements to ensure they align with the companies existing and planned future operations. Suggested updates include in the vision statement possibly including wording around "having an advanced storage

system" or other wording that reflects this new business segment. The vision must also be updated to include the new species being offered (i.e. its not just shrimp and snowcrab that the company will process with these new opportunities). Furthermore, the board must plan if they intend on re-visiting other expansion opportunities previously turned down (e.g. retail stores and farmed fish) that create additional diversified revenue streams or if they intend on maximizing existing operations (by increasing the # of licenses and harvesting partners). It is essential the board has strategic alignment on where the company is headed (by updating the vision and mission) to ensure future growth is effective and agreed upon.

Overall Recommendation

Overall and in conclusion based on the analysis above, it is recommended that:

- NPF enters the strategic partnership with Acadia and negotates more favourable cancellations terms in the contract to mitigate risk associated with Acaida cancelling the contract early. NPF's management will have limited operational involvement and instead will be able to leverage their time to leverage the Neptune tasties brandname with the new species. Furthermore, this acquisition will add 3 new species to NPF's poartfolio, allowing them to meet their goal of selling 5 product lines.
- NPF should not acquire Sunrise because this opportunity creates a significant amount of capex risk (to upgrade the facility or to be able to processes additional species besides snow crab). Given the agreement with Enertco is not recommended, Sunrises ability to produce shelf-ready products provides a limited amount of strategic value.
- NPF should acquire Oceanfin, using a mix of cash and the vendor supplied debt. This will allow NPF to expand into a growing bluefin tuna market, leverage its opertational expertise managing quotas and fishing vessels, and obtain more quota licenses under the NPF name. NPF must begin getting Oceanfin MSC certified as soon as the acquisition closes so Oceanfin alligns with NPF's objectives and fits within industry standards.
- NPF should not enter into the agreement with Enterco and instead should renew its contract with AOISE and other grocery retailers. The Enertco agreement requires NPF to commit to a significant amount of expansion into new markets and processing techniques, which creates a significant amount of operational and financial risk. Instead, maintaining existing agreements provides NPF with the most flexibility and allows NPF to leverage its existing core competencies.
- NPF should consider adding a compliance focused staff member to the team that can focus on maintaining NPF's certifications and obtaining a certification

for Oceanfin, as the process is expected to become more complex and burdensome in the future.

Furthermore, the recommended expansion opportunities limit the amount of strain on NPF's management as Acadia will manage their own vessel and Oceanfin is a smaller operation that operates similar to NPF's harvesting operations. These recommended expansion opportunities are within the boards spending limit of \$10M, allow NPF to diversify away from halibut and snowcrab, and fit within NPF's overall values and objectives.

Appendix 1: Acadia Fisheries

Purpose: Determine the expected profitability of the Acadia partnership

Acadina Projection

	Year 0	Year 1 (2026)	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Lobster - 5% growth		1,355	1,422	1,493	1,568	1,646	1,729	1,815	1,906	2,001	2,101
Scallop 5% growth		1,838	1,929	2,026	2,127	2,233	2,345	2,462	2,586	2,715	2,851
SNow Crab 5% growth		3,675	3,859	4,052	4,254	4,467	4,690	4,925	5,171	5,430	5,701
Total REvenue		6,867	7,210	7,571	7,949	8,347	8,764	9,202	9,663	10,146	10,653
Harvesting Costs - 3% growth		3,482	3,586	3,694	3,805	3,919	4,036	4,158	4,282	4,411	4,543
Processing Costs - 3% growth		1,137	1,171	1,206	1,242	1,279	1,318	1,357	1,398	1,440	1,483
TOTal Costs		4,619	4,757	4,900	5,047	5,198	5,354	5,515	5,680	5,851	6,026
Gross Margin		2,248	2,453	2,671	2,903	3,149	3,410	3,688	3,982	4,295	4,627
Gross Margin Attributable to NPF		1,124	1,227	1,336	1,451	1,574	1,705	1,844	1,991	2,148	2,313
Operating Attributable to NPF (Gross Margin Less MSC Co		624	727	836	951	1,074	1,205	1,344	1,491	1,648	1,813
Average Gross Margin %		39%									
Average Operating Margin %		27%									
IRR - without Shelf Ready											
Cashflows	-5000	624	727	836	951	1,074	1,205	1,344	1,491	1,648	1,813
IRR		16%									
IRR - With Shelf Ready											
Cashflows	-6000	624	727	836	951	1,074	1,205	1,344	1,491	1,648	1,813
IRR		12%									

Conclusion: The project has a 16% return without the shelf ready investment and a 12% return with the shelf ready investment.

Appendix 2: Sunrise

Purpose: Determine the expected profitability of the Sunrise Acquisition

Projection

	Year 0	Year 1 (2026)	Year 2	Year 3	Year 4 (2029)	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue (6% increase)		7,500	7,950	8,427	8,933	9,469	10,037	10,639	11,277	11,954	12,671
COGS (65% of revenue)		4,875	5,168	5,478	5,806	6,155	6,524	6,915	7,330	7,770	8,236
Gross Margin		2,625	2,783	2,949	3,126	3,314	3,513	3,724	3,947	4,184	4,435
Fixed Costs (3% increase)		950	979	1,008	1,038	1,069	1,101	1,134	1,168	1,203	1,240
Net Margin		1,675	1,804	1,942	2,088	2,245	2,412	2,589	2,779	2,980	3,195
Add: Salvage Value											650
Less: Debt Service Costs		1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Cashflow	- 5,000	375	504	642	788	945	1,112	1,289	1,479	1,680	2,545

IRR 13%

Sensitivity - \$3M in additional Capex for upgrades

Cashflow	- 8,000	375	504	642	788	945	1,112	1,289	1,479	1,680	2,545
IRR		5%									

GRoss Margin - 2029 35%

Operating Margin - 2029 23%

Implied Interest rate on Debt 5%

Conclusion: The acquisition will generate a 13% IRR without additional upgrades as 5% with \$3M in additional upgrades.

Appendix 3: Oceanfin

Purpose: Determine the expected profitability of the Oceanfin Acquisition

Projection

	Year 0	Year 1 (2026)	Year 2	Year 3	Year 4 (2029)	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue (6% increase)		5,989	6,348	6,729	7,133	7,561	8,015	8,496	9,005	9,546	10,118
COGS (3% increase)		4,365	4,496	4,630	4,769	4,912	5,060	5,212	5,368	5,529	5,695
Gross Margin		1,624	1,853	2,099	2,364	2,649	2,955	3,284	3,637	4,017	4,423
Fixed Costs (3% increase)		350	350	350	350	350	350	350	350	350	350
Net Margin		1,274	1,503	1,749	2,014	2,299	2,605	2,934	3,287	3,667	4,073
Less: Debt Service		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Cashflow	- 4,000	274	503	749	1,014	1,299	1,605	1,934	2,287	2,667	3,073

IRR 23%

GRoss Margin - 2029 33%

Operating Margin - 2029 28%

Implied Interest rate on Debt 2%

Conclusion: The acquisition is expected to generate a 23% return

Appendix 4: Enterco

Purpose: Calculate a 2025 Pro Forma

Pro Forma - 2025

Revenue (Note)

Frozen-at-sea Greenland halibut	\$ 7,008	<< INcreased by 20%
Frozen-at-sea shrimp	6,228	<< INcreased by 20%
Processed shrimp	<u>18,942</u>	
Total revenue	<u>32,178</u>	

Cost of goods sold

Harvesting and procurement	9,376	
Processing costs	14,320	<< increased by 40%
Warehousing and shipping costs	1,137	<< decreased by 50%
Depreciation	<u>2,084</u>	
Total cost of goods sold	<u>26,916</u>	

Gross profit	5,262	
Selling and administrative	<u>1,500</u>	<< decreased to \$1.5M

Operating income \$ 3,762

Gross margin	16%
Operating profit margin	12%

Conclusion: Under the Enterco agreement, it is expected both that gross and operating margins will decrease.

Appendix 5: Cashflow Analysis

Purpose: Calculate the companies cashflow and overall impact on objectives

Determine the Cash uses

Sources

Board Approved Cash	9,000
Oceanfin Loan	9,000
	<u>18,000</u>

Uses

Investment in Acadia	5,000
Investment in Oceanfin	13,000
	<u>18,000</u>

Therefore, NPF can complete the proposed expansions using only \$9M of the \$10M approved.

Calculate the impact on overall objectives in 2029

	<i>NPF</i>	<i>Acadia</i>	<i>Oceanfin</i>	<i>TOTal</i>
REvenue	29,972	3,975	7,133	41,080
COGS	23,961	2,523	4,769	31,254
Gross Margin	6,011	1,451	2,364	9,826
OVERhead Costs	3,550	500	350	4,400
Operating Margin	2,461	951	2,014	5,426

GRoss Margin - 2029	24%
Operating Margin - 2029	13%

COncclusion: ASsuming NPF's business remains constant, the gross margin will improve to 24% (just below the 25% target) and the operating margin will improve to 13% (just above the 12% target)

APPENDIX E

**THE COMMON FINAL EXAMINATION
DAY 1 NPF VERSION 2 BOOKLET – MAY 21, 2025**

**COMMON FINAL EXAMINATION
MAY 21, 2025 – DAY 1**

Case (NPF - Version 2)

(Suggested time 240 minutes)

It is March 15, 2026, and you, CPA, continue to work at Sanderson & Harrop Consulting LLP (SHC) and have once again been assigned to an engagement with Neptune Point Fisheries Inc. (NPF).

Since SHC's last engagement with NPF in 2024, two major strategic decisions have been made. First, in 2024, NPF opened its first seafood retail location, called Atlantic Pure Seafood Market. After the first location's initial success, a second retail store was opened in 2025. Each store sells an assortment of fresh and frozen fish and ready-to-eat seafood meals.

Next, in 2025, NPF's Board of Directors decided to accept an offer from a large Canadian seafood harvester to sell its Neptune's Tasties brand name for \$12 million. As part of the purchase agreement, Blue Fresh Seafoods (Blue Fresh), the purchasing company, guaranteed to buy all the wild-caught or farmed fish products that NPF makes available for a period of 10 years, given that Blue Fresh requires a wide variety of seafood products to satisfy its contract with a large North American grocery chain.

After the sale of the brand in 2025, NPF's board approved a new vision and mission statement for the company, as follows:

Vision statement: To help create a future where seafood lovers have access to ethically sourced, high-quality, nutritious, and delicious seafood products that are processed and harvested in a way that ensures the long-term health and sustainability of the world's marine populations.

Mission statement: To harvest the highest quality seafood and offer a consistent supply of products with an emphasis on ethical, sustainable, and technologically advanced operations. Strive to make decisions that benefit all the company's interested parties and allow the company to become an industry leader in best practices for both seafood harvesting and processing.

Presently, the board's main objective is to make investments that will ensure the long-term success of the company. As such, preference will be given to investments with long-term growth potential. The board would also like to earn at least a 12% annual return on any investments made.

With the proceeds from the sale of the Neptune's Tasties brand and the cash generated through the company's operations, NPF currently has \$15 million of cash in the bank. However, the board wants NPF to retain a reasonable cash reserve, to ensure that the company can withstand the unpredictability of the industry, and to take advantage of any other potential strategic investments that come available in the future.

NPF's board has asked you to review the information provided and draft a report that discusses NPF's overall strategic direction, including strategically analyzing and making a recommendation for each proposal presented. For this engagement, please ignore any tax implications within your analysis and recommendations.

INDEX OF APPENDICES

	Page
I Board Meeting with CPA in Attendance	152
II Industry Update	157
III Purchase of Bundhoo Salmon Farm	158
IV Expansion of Retail Stores	159
V Purchase of Seafood Processing Facility	160
VI Construction of Synersea Farm	161

APPENDIX I
BOARD MEETING WITH CPA IN ATTENDANCE

March 15, 2026

Yvonne: Thank you for joining us, CPA. With the sale of the Neptune's Tasties brand, NPF has recently entered a new phase in the company's development.

Allan: Yes, and because of the sale of the brand, we now have enough cash available to expand the company's operations in a way that will ensure that NPF prospers well into the future. But we also need to be careful. Given the volatility of the industry, retaining a cash reserve has become an important key success factor and board objective.

Colan: I agree, Allan. Also, because Yvonne and I are planning to retire in the next two years, the company's operations will soon become the sole responsibility of you and Kurt. Although we plan to stay on as shareholders, Yvonne and I do not intend to stay actively engaged in the day-to-day operations of NPF. We must ensure that you and Kurt have the capacity to effectively manage not only any new investments, but also NPF's existing operations.

Allan: Very true. Once you both retire, we think it would be best for me to oversee all aspects of the head office, like accounting, finance, and marketing, while Kurt will be responsible for the company's at-sea operations and processing facilities.

Kurt: Given our respective skill sets, that structure makes the most sense.

Yvonne: Excellent. It seems like we are all in agreement. With all that in mind, let's discuss the first investment opportunity currently available.

Allan: Okay, first up is a salmon aquaculture farm, Bundhoo Salmon Farm (BSF), that has been put up for sale by its owner and founder, Bibi Bundhoo. She is asking \$4 million for the operation and all its assets. Bibi is a salmon farming expert who values sustainability. She worked hard to maintain the operational efficiency of BSF. The operation, which is 12 years old, has never experienced a major adverse event such as escaped salmon into the surrounding environment or a disease outbreak.

Colan: I am hesitant. Just because there have been no adverse events to date does not mean that something like that won't happen in the future.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 15, 2026

Allan: That's true, but Bibi has said she would be willing to stay for a year after the acquisition and teach Kurt how to operate the facility. During that time, we would gain the knowledge required to help ensure the operation's continued effectiveness. And the fact that BSF is already operational means we would start to earn a return on our investment right away.

Kurt: Although I am familiar with Bibi's salmon farm, I do not have a technical understanding of how it works, so I would need to dedicate much of my time to working with Bibi, to learn how best to operate the farm.

Yvonne: It would be wonderful if we could add salmon to our product line, especially because fresh salmon and products that contain salmon are two of the biggest sellers within our retail stores.

Speaking of the retail stores, I think it's time we consider opening the next series of storefronts. Although the competition is fierce and growing, I have found four locations that appear perfect for new Atlantic Pure Seafood Markets. The only drawback is that two of these potential locations are outside of Newfoundland and Labrador—one would be in Quebec and the other would be in Ontario.

Colan: I am worried about supply, Yvonne. Although our current stores have so far been successful, they are vulnerable to the industry's fluctuating supply, especially given the consumer demand for a wide variety of product choices, and because the maximum allowable harvest limit for certain species is expected to decrease. Plus, the further away each store is from our head office, the harder it will be to effectively manage.

Yvonne: Although supply is always a concern in our industry, I've had recent contact with a number of suppliers located close to us in Newfoundland. I think we should be able to lock in several new long-term supply contracts that are necessary to stock our retail stores with high-quality and in-demand products. We should capitalize on our initial success and open more storefronts in the locations I have found before some other company does.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 15, 2026

Allan: I do like the diversification that our retail stores offer us, and Mom's judgement about which locations to pick for our stores has been perfect so far. But Mom, you must admit, this aspect of our business hasn't been without headaches. I understand that high employee turnover is still a problem within our existing stores?

Yvonne: Yes, that's true. But that's simply the reality of retail these days.

Kurt: To me, the expansion only makes sense if you coordinate the development and opening of each store, Mom. You have the experience and expertise from opening the first two stores, and it seems like the first six months after a new store is opened is the most complicated and time consuming.

Yvonne: Yes, the development and initial opening is the most critical time for the future success of each store. After that initial period, the amount of time I have needed to devote to the day-to-day operations of each store has dropped, although even still, managing our current retail stores takes up a good portion of my time.

Colan, I believe you wanted to discuss the next investment opportunity?

Colan: Indeed, Yvonne. We have the opportunity to buy a local seafood processing facility called Marine Eats for \$7 million. Marine Eats processes raw seafood into ready-to-eat fresh or frozen meals that are shipped to and sold by grocery stores. Each grocery store uses its own labelling, so Marine Eats does not sell any product to the end consumer under its own brand.

Kurt: Interesting. Marine Eats has been in business for a long time and is well established. From my experience in plant operations, I know that this type of facility can be a challenge to operate. If we acquire it, it will require a lot of time to manage effectively.

Colan: That's actually one of the best parts of this opportunity. The current owner said that the facility's management team has made it clear they intend to stay, so we could use their expertise to ensure the facility continues to perform well.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 15, 2026

Yvonne: What type of meals does the facility currently produce?

Colan: The facility is very versatile in terms of the meals it can produce, so Marine Eats can adapt its product formulations to meet the needs of its customers. This versatility is a big reason for the facility's success.

As well, with the rise in demand for more variety, Marine Eats needed to greatly expand its list of suppliers to ensure it can meet the specifications of each client.

Allan: I like the fact that the facility is versatile. We could adapt its products to match our own specifications. But the process of changing formulations would be new to us. This could also be challenging because we would need to ensure that the raw fish used by the facility meets our strict requirements for quality.

Yvonne: That's true, Allan, but the prospect of offering ready-to-eat meals is attractive. We could take advantage of the growing demand for variety by offering a wide assortment of high-quality premade products.

Kurt: Speaking of variety, I want to propose one last opportunity for investment. Integrated Multi-Trophic Aquaculture (IMTA) uses the most advanced marine technology to enable aquaculture farms to cultivate and harvest multiple species at a time. We have the opportunity to build this type of aquaculture farm and cultivate at least four species simultaneously!

Yvonne: This sounds complicated.

Kurt: You're right, it is, but I think it's worth it. Not only is this type of aquaculture the most environmentally friendly, but it also produces the highest quality and most nutritious farmed seafood. It does this by creating an environment where the waste products from one species are used by the other species. This reduces the environmental impact and cuts costs.

I estimate the project, which I am calling Synersea, will cost \$8 million and will take two years to become operational, but once it is, Synersea will provide NPF with a reliable source of in-demand seafood.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 15, 2026

Colan: I am somewhat familiar with this type of aquaculture farm. From what I know, although the annual harvest size is much higher than a typical aquaculture farm, the risk of disease and pests is also higher in an IMTA farm, given the interconnected nature of an IMTA farm operation.

Kurt: That's true, but the overall success of Synersea would directly depend on how well we develop the initial infrastructure and farming environment. If we can get that right, I am confident in the long-term success of the project.

Allan: I don't doubt that either, Kurt. From what I know, once an IMTA farm is set up and stable, the system automates many of the processes that once depended on people to perform. But what about the location for Synersea?

Kurt: I have already found a location that looks perfect. I was in touch with the landowner, and she has offered a 10-year lease with the potential to extend it for at least another 10 years. The location looks perfectly suitable for a farm that would include Greenland halibut, mackerel, blue oysters, and sugar kelp, which is an edible and healthy type of seaweed. Finally, because of Synersea's advanced technology, I don't think it would take long before the IMTA operation gains the Best Aquaculture Practices (BAP) certification.

Yvonne: It looks like you have done your homework, Kurt. The project certainly sounds interesting.

CPA, please review all the materials and provide us with your report as soon as possible. Meeting adjourned.

APPENDIX II INDUSTRY UPDATE

Consumer demand for fresh, frozen, and ready-to-eat fish and fish products has increased in recent years, although the greatest demand is for wild-caught fresh and frozen fish. As consumers become increasingly health conscious, the demand for seafood products perceived to be healthy, such as salmon, mackerel, and Greenland halibut, has increased significantly. In addition, for ready-to-eat fish products, the biggest increase in demand has been for products that are additive-free and for brands that offer a wide variety of meals to choose from.

Although wild-caught fish is still preferred, acceptance of fish farmed from aquaculture operations has gone up because of the benefits provided by the significant technological improvements of modern aquaculture farms. These technological improvements have not only allowed aquafarms to produce higher quality and better tasting seafood, but they have also made newer aquaculture farms more environmentally sustainable and easier to operate.

The maximum allowable harvest limit for wild-caught Greenland halibut, cold water shrimp, salmon, and other species set by government regulators has stayed steady in the past two years; however, the government has given advance notice that it expects to decrease these quotas at least four times in the next five years.

APPENDIX III PURCHASE OF BUNDHOO SALMON FARM

Prepared by Allan

Whereas several salmon farms in the Atlantic region have recently suffered disease outbreaks and were investigated by Fisheries and Oceans Canada (DFO), BSF has never experienced such an event. Bibi partially credits this to BSF's location, which is situated in an area protected against extreme weather and algae blooms. Bibi believes the salmon farm's location is one of the reasons for its prolonged success. However, although Bibi would never say so, BSF's success is also due to Bibi's dedication to the farm's daily operations.

Three years ago, BSF earned the BAP certification and reached the maximum capacity of salmon that the operation's infrastructure can safely farm. Since then, the operation's annual revenue has stayed steady, at \$13.3 million. BSF's farming costs equal roughly half of revenue. Since earning the BAP certification, the farm's other expenses have also remained steady at \$6.15 million per year.

Based on the information received from Bibi, BSF's infrastructure was recently inspected by a third-party consulting group, who provided a full diagnostic report. The report concluded that BSF does not currently require any equipment or technology upgrades but, to ensure the continued health of the farm's salmon population and the environmental compliance of the operation, it will likely need an upgrade within two or three years. It's not uncommon for an older salmon aquaculture operation like this to require a periodic maintenance upgrade. The last major upgrade occurred four years ago, when a traceability and food safety system was introduced into the operation. That upgrade was necessary for BSF to become eligible for the BAP certification.

APPENDIX IV EXPANSION OF RETAIL STORES

Prepared by Yvonne

With the experience gained from opening the first two Atlantic Pure Seafood Market locations, we now have a much better idea of what products are most in demand. We can use that knowledge to stock our stores with the most popular products. Based on our current sales data, we know that freshly caught wild fish is the most popular, followed by farmed fish. We are also seeing an ever-increasing demand for pre-cooked, ready-to-eat meals.

Each new retail location comes with a cost of \$250,000 for the equipment and \$500,000 for leasehold improvements. Based on our experience from the first two locations, we expect each store's annual revenue to approximate \$3.5 million. However, given the increasing demand for healthy and environmentally sustainable seafood products, I expect our retail locations to experience growth for at least the next several years. The estimated expenses for each store are as follows:

Expense	Amount
Purchases	67% of revenue
Wages	\$ 595,000
Marketing	\$ 175,000
Rent	\$ 110,000
Utilities	\$ 90,000
Other operating costs	\$ 69,000

The one expense that is hard to determine, and not included above, is the transportation costs associated with supplying store locations in provinces outside of Newfoundland and Labrador. I estimate this expense will be \$15,000 for each out-of-province location, but if we cannot find suppliers local to each location, this expense would increase.

APPENDIX V PURCHASE OF SEAFOOD PROCESSING FACILITY

Prepared by Colan

Marine Eats has a wide variety of customers, which are mostly small or mid-sized grocery stores in Eastern and Central Canada. The appeal of Marine Eats' products is clear, given that the facility has more demand than it can satisfy. In the past, the facility was expanded to increase capacity, but it is now at its limit.

The facility received a series of complaints five years ago after people became ill from consuming ready-to-eat meals produced by Marine Eats. This occurred after Marine Eats began shipping its products to Central Canada. The added distance and time required to reach store shelves resulted in the spoilage of some of the product. To ensure it never happened again, Marine Eats increased the number of additives and preservatives in its products to extend their shelf life; since then, the facility has received no further complaints. The increase in additives also improved the taste of Marine Eats' products.

Marine Eats prefers to obtain its supply of raw fish from local harvesters and aquaculture farms but, given periodic fluctuations in the availability of local ingredients and the need for a wide variety of products, the company also has supply arrangements with many suppliers in the United States and other international companies.

In 2027, the first full year of NPF's potential ownership, the facility would have an estimated eight years of useful life remaining before it would require an extensive refurbishment. At present, the facility generates \$4.1 million in annual revenue, with variable costs that equal approximately 55% of revenue. The facility's fixed costs are currently \$675,000. The facility's revenue is expected to increase by 4% per year, whereas fixed expenses are only expected to grow by 2.5%. If we decided to close the facility at the end of its current useful life and sell the land it sits on, we estimate a cash inflow of \$450,000 after all the necessary shutdown and closing costs.

APPENDIX VI CONSTRUCTION OF SYNERSEA FARM

Prepared by Kurt

Before we can begin construction of the Integrated Multi-Trophic Aquaculture (IMTA) farm, Synersea, a significant amount of preliminary work will be required. In 2026 and the beginning of 2027, we will need to obtain the necessary licences, complete an initial feasibility study and environmental assessment, and find and acquire the best equipment. We also need to acquire initial seed stock of mackerel and blue oysters, which we will need to first populate the farm. In addition to these expenses, I intend to enroll in a three-month technical program to learn all about IMTA farm operations, should we decide to move forward with this project. These upfront costs are expected to total \$2 million.

Construction of the IMTA farm would then take place in 2027 and is expected to cost approximately \$6 million. The lease will also commence in 2027. The lease's initial term is 10 years and has an annual cost of \$250,000, but the useful life of the farm could far exceed that if it is properly maintained. However, given the time it will take for the first harvest to reach maturity, the operation will not begin to earn revenue until July 2028. I have compiled the following forecast, which details the expected revenue and operating expenses for the first six years of the operation after its construction in 2027 (all figures are presented in thousands).

Item	2028 (\$)	2029 (\$)	2030 (\$)	2031 (\$)	2032 (\$)	2033 (\$)
Revenue	16,600	33,200	33,200	52,500	52,500	52,500
Farming expense	9,500	17,000	17,000	24,000	24,000	24,000
Other operating expenses	6,000	14,000	14,000	25,515	25,515	25,515

After 2033, and until the initial lease term ends in 2036, the project's revenue and expenses are not expected to fluctuate beyond any changes that are caused by the conditions of the market. I expect the operation to be upgraded for its third and fourth species, Greenland halibut and sugar kelp, in 2031. This upgrade in 2031 is expected to cost \$3 million. Although it would be possible to introduce even more species into the operation after 2031, I have not included any further potential expansion in my analysis.

APPENDIX F

**DAY 1 (NPF VERSION 2) – MAY 21, 2025
MARKING GUIDE AND SAMPLE CANDIDATE RESPONSE**

**MARKING GUIDE
NEPTUNE POINT FISHERIES INC. (NPF)
VERSION 2**

Summative Assessment #1 – Situational Analysis

For Summative Assessment #1, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate used a reasonable situational analysis when analyzing the major issues facing NPF.

Unsure – The candidate attempted to use a reasonable situational analysis when analyzing the major issues facing NPF.

No – The candidate clearly did not use a reasonable situational analysis when analyzing the major issues facing NPF.

Based on the 2022 CPA Competency Map:

Technical Competency

2.3.2 Evaluates the entity's internal and external environment and its impact on strategy development

Enabling Competencies

1.4.1 Performs work carefully, thoroughly and competently in accordance with relevant technical and professional standards

2.1.1 Applies knowledge of the organization's competitive environment and strategic direction when performing assigned work

2.1.3 Identifies the strategic impact of internal decisions and external influences on project plans and initiatives

6.1.1 Identifies and articulates issues within areas of work responsibility

6.2.1 Maintains an objective and questioning mindset to avoid biased analyses

The candidate is expected to complete an appropriate situational analysis. Candidates should draw upon their situational analysis when analyzing the major issues facing NPF (whether to acquire Bundhoo Salmon Farm, open additional Atlantic Pure Seafood Markets, purchase Marine Eats seafood processing facility, or construct an IMTA farm, Synersea). The candidate should also identify the main changes that have occurred since Capstone 1, and discuss how they could affect the company's strategic direction going forward.

Current Situation

After the sale of the Neptune's Tasties brand, NPF has entered into a new phase of the company's development. With the proceeds from the sale of the brand, the board would like to make new investments that help ensure NPF's long-term sustainability.

In addition, because Colan and Yvonne plan to retire in the next two years, the company's operations will soon become the sole responsibility of Allan and Kurt. Colan and Yvonne plan to stay on as shareholders but do not intend to stay actively engaged in the day-to-day management of NPF. Because of this, NPF needs to ensure that Allan and Kurt have the capacity to effectively manage both the company's existing operations and any new operations it pursues. As a result, both Allan and Kurt have agreed that after Colan and Yvonne retire, Allan will oversee all aspects of the head office, such as accounting, finance, and marketing, while Kurt will be responsible for the company's at-sea operations and processing facilities. Therefore, to ensure the continued effectiveness of the company, the time required to operate and manage any new investments will be a crucial consideration.

Vision and Mission

After the sale of the brand in 2025, NPF's board approved a new vision and mission statement for the company, as follows:

Vision statement: To help create a future where seafood lovers have access to ethically sourced, high-quality, nutritious, and delicious seafood products that are processed and harvested in a way that ensures the long-term health and sustainability of the world's marine populations.

Mission statement: To harvest the highest-quality seafood and offer a consistent supply of products with an emphasis on ethical, sustainable, and technologically advanced operations. Strive to make decisions that benefit all the company's interested parties and allow the company to become an industry leader in best practices for both seafood harvesting and processing.

Core Values

1. Good relationships with local fishing companies
2. Best industry practices for harvesting and processing (MSC and BRCGS)
3. Building a brand for high-quality seafood products
4. Respect for, and safety of, NPF's employees
5. Respect for, and protection of, the environment

Objectives

- With the company's available investment capital, NPF's board has set the following objectives: Ensure the long-term success of the company by making investments with long-term growth potential
- Earn at least a 12% annual return on any investments made
- Retain a cash reserve

Available Cash Flow

With the proceeds from the brand sale and cash generated through the company's operations, NPF currently has \$15 million of cash in the bank. However, the board wants NPF to retain a reasonable cash reserve, to ensure the company can endure the unpredictability of the industry, and to take advantage of any other potential strategic investments that come available in the future.

Candidates are NOT expected to recap KSFs or provide a detailed SWOT analysis. However, they must draw upon these in their analysis of the strategic options presented.

Key Success Factors (KSFs)

KSFs in the fish and seafood industry in Canada are as follows:

- Overseas contracts, to increase exports of products and expand a company's geographic scope beyond its domestic market
- Vertical integration that adds value by further processing harvested seafood, and also wholesaling and retailing
- Relationships with food retailers and food service companies, and identifying and targeting emerging profitable and growing customer markets and distribution channels, to help increase and diversify revenue streams
- Technological improvements and data collection that result in increased product quality, reduced operating costs, improved stewardship of seafood resources, and development of new products related to untapped species
- Access to a supply of multiple species, either by owning the quotas and licences or through strategic fishing licence leases, which is vital for sustainable profits and success
- A good reputation, and experience, in the industry
- The ability to sell product that consistently tastes and looks fresh
- The ability to service customers quickly with the right products and manage the fresh and frozen inventory, using the latest technological advances, such as processing practices, inventory systems, cold storage facilities, freezing capabilities, and truck refrigeration

- Retaining a reasonable cash reserve; given the volatility of the industry, this has become important, to ensure the company can withstand the unpredictability of the industry

SWOT Analysis

Strengths:

- Since 2024, NPF has opened two seafood retail locations, called Atlantic Pure Seafood Market. Both stores sell an assortment of fresh and frozen fish and ready-to-eat seafood meals. Adding these retail locations to NPF's business helps diversify the company's revenue and gives the company another avenue for continued growth.
- The company that bought Neptune's Tasties—Blue Fresh—has guaranteed it will buy all of NPF's wild-caught or farmed fish products for a period of 10 years. This is a significant strength, given that NPF's sales will be guaranteed for this period of time.
- The company has a significant amount of cash for making investments. Wise investment choices now will help NPF grow its income and help ensure the company is able to withstand any major changes to the industry.

Weaknesses:

- Colan and Yvonne plan to retire in the near future. This means that Kurt and Allan will be solely responsible for the management of NPF's day-to-day operations. This could put a strain on Kurt's and Allan's time, which could result in less effective operations.
- NPF no longer has its Neptune's Tasties brand, given that it was sold in 2025. Although the company earned \$12 million as part of the sale, the company can no longer rely on the reputation of Neptune's Tasties to help sell its products (although this weakness is mitigated, given that the company's sales are guaranteed for the next 10 years).
- It is becoming harder to find suitable locations for more retail outlets, and the farther away from NPF's head office that the company opens storefronts, the harder they are to manage, and the more costly they become (given the increase in transportation costs).
- NPF does not appear to have a strong technical understanding of aquaculture farms or various kinds of processing facilities. This lack of understanding could inhibit its ability to effectively manage investments such as Bundhoo Salmon Farm, Marine Eats, and Synersea.
- The biggest increase in demand is for wild-caught fish and fish products, but NPF does not appear to have any potential investments within this area of the industry, so it could miss out on this increasing demand.

Opportunities:

- NPF has the opportunity to purchase Bundhoo Salmon Farm (BSF), a 12-year-old salmon farm currently owned by Bibi Bundhoo, an expert salmon farmer. This would help NPF expand its product mix by including another in-demand seafood product.
- NPF could open additional storefronts for its new Atlantic Pure Seafood Market retail operation. The demand for seafood continually increases, so NPF could take advantage of this growth by offering additional locations where high-quality seafood can be purchased.
- NPF could acquire a local seafood processing facility called Marine Eats. Marine Eats processes raw seafood into ready-to-eat fresh or frozen meals that are shipped to, and sold by, grocery stores.
- NPF could choose to build and operate an Integrated Multi-Trophic Aquaculture (IMTA) operation, Synersea. This is a modern and technologically advanced type of aquaculture farm that enables the cultivation and harvest of multiple species at a time.
- Although consumers prefer wild-caught fish, acceptance of fish farmed from aquaculture operations has increased, given the benefits provided by the significant technological improvements of modern aquaculture farms. An investment in Synersea would allow NPF to take advantage of this growth in acceptance.
- The demand for seafood products perceived to be healthy, such as salmon, mackerel, and Greenland halibut, has increased significantly. NPF could take advantage of this by investing in operations that will allow it to supply the market with fish and fish products perceived to be healthy.

Threats:

- The maximum allowable catches for wild-caught Greenland halibut, cold-water shrimp, salmon, and other species are expected to decrease in at least four of the next five years. Given that NPF's two current sources of revenue are from Greenland halibut and cold-water shrimp sales, its revenue will almost certainly decrease if it is unable to earn it through some other means.
- Given the uncertainty surrounding the maximum allowable catch sizes for certain species, as well as consumer demand for a wide variety of products, NPF cannot be certain it will be able to acquire the product necessary to satisfy its customers' demands. If NPF is unable to procure an adequate amount and variety of seafood, this could result in fewer sales.
- Competition within the retail seafood market is already fierce, and continues to grow. Therefore, not only could NPF's two current Atlantic Pure Seafood Markets suffer a loss in sales, but it might also be a challenge to open and grow more locations, given the increase in competition.

Conclusion

After the sale of Neptune’s Tasties, NPF is well-positioned to make investments that will help ensure the company’s long-term growth and success. However, the company’s ability to make investments is limited by two main factors: its cash availability, and the time required to effectively manage not only the existing operations, but also any operations it chooses to invest in. Therefore, although NPF has several promising opportunities, it must be cautious, to ensure it does not take on more than Kurt and Allan can handle after Yvonne and Colan retire in the upcoming years.

Summative Assessment #2 – Analysis of the Major Issues

For Summative Assessment #2, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate sufficiently completed a reasonable assessment of the major issues facing NPF.

Unsure – The candidate attempted to complete a reasonable assessment of the major issues facing NPF.

No – The candidate clearly did not complete a reasonable assessment of the major issues facing NPF.

Technical Competency

2.3.3 Evaluates strategic alternatives

Enabling Competencies

1.1.3 Exhibits ethical behavior by complying with laws and regulations, organizational policies, societal norms and personal ideals

6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems

6.1.3 Demonstrates skepticism, objectivity, due care and persistence when identifying issues

6.2.3 Questions the relevance and tests the quality of information and assumptions in own analyses

6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives

This summative assessment is based on Assessment Opportunities #2 to #5.

Assessment Opportunity #2 (Strategic Issue #1: Purchase Bundhoo Salmon Farm?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether to purchase the salmon aquaculture farm, Bundhoo Salmon Farm (BSF).

Quantitative analysis: The candidate should calculate the projected return on the investment. The candidate should also discuss the assumptions and uncertainties related to the future financial performance of BSF (such as the operation’s useful life and the amount of additional investment required in order to ensure the continued effectiveness of the salmon farm).

Qualitative analysis: The candidate should discuss the advantages and disadvantages of acquiring BSF, and how well the acquisition meets the board’s objectives. The candidate should also discuss the initial time required to learn how to effectively operate the farm, as well as the likely time commitment required to ensure the farm remains productive and compliant with all the necessary standards.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

NPF has the opportunity to purchase Bundhoo Salmon Farm (BSF), a 12-year-old salmon farm currently owned by Bibi Bundhoo, an expert salmon farmer. This would help NPF expand its product mix by including another in-demand seafood product, salmon.

Quantitative Analysis

Based on the information provided by Allan, the following return on investment calculation was performed:

Annual revenue	\$13,300,000
Farming costs	(6,650,000)
Gross margin	<u>6,650,000</u>
Other expenses	(6,150,000)
Net income	\$ 500,000
Annual ROI	12.50%

Therefore, based on BSF's current operations, NPF can expect to earn a 12.5% return on its initial \$4 million investment, which would meet the board's objective to earn at least a 12% annual return on any investments made. However, BSF currently operates at the maximum capacity that its infrastructure can safely handle, so it does not appear possible to grow BSF and increase NPF's return on investment. Another objective of the board is to give preference to investments with long-term growth potential, and this investment does not appear to satisfy that.

However, the above analysis is not comprehensive, given that it does not include any future potential upgrades or other maintenance costs associated with keeping BSF operating at its current level. As well, although both BSF's revenue and costs have stayed steady in recent years, these figures could fluctuate with market conditions. Therefore, before making a final investment decision, NPF should obtain more information about BSF's expected useful life, and any significant investments that will likely need to be made within that time period.

It is also important to note that the upfront cost of the investment (\$4 million) will reduce NPF's cash reserve, which is an important consideration, given the board's objective to retain a reasonable cash reserve. Prior to making a final decision, NPF should analyze whether this investment is justified when weighed against the other available investment opportunities.

Qualitative Analysis

Advantages:

- BSF was developed, and has been maintained, by a salmon farming expert, Bibi Bundhoo, its current owner. Bundhoo's expertise and dedication to BSF's success will help ensure that NPF is investing in a high-quality project.
- According to Bundhoo, BSF is located in an area that is protected against extreme weather events and algae blooms. This inherent aspect will help ensure that the operation does not suffer an adverse event that reduces the farm's operational effectiveness.
- Whereas several salmon farms in the Atlantic region have recently suffered disease outbreaks, BSF has never experienced such an event. This is further evidence of the quality of the operation, and should give NPF more confidence that it is investing in a sustainable operation.
- Salmon is perceived as healthy, so demand for salmon has increased significantly. NPF could take advantage of this trend by investing in salmon aquaculture.
- The maximum allowable catch for salmon is expected to decrease in at least four of the next five years. Therefore, the demand for farmed salmon is likely to increase, to make up for the loss of wild-caught salmon. By making this investment, NPF could take advantage of this potential increase in demand.

- Because the aquafarm is already operational, NPF would not have to wait before it started to earn a return on the investment (which it would have to do if it decides to invest in Synnersea, the proposed IMTA project).
- Aspects of BSF align well with NPF's new vision and mission statement. For example, Bundhoo appears to value sustainably produced and high-quality salmon. In addition, because BSF's salmon is farmed rather than wild-caught, its operations help ensure the long-term health and sustainability of the world's fish populations.
- Bundhoo is willing to continue working at BSF for one year after the acquisition. During this year, Kurt would be able to learn firsthand how to best manage the daily activities of the aquafarm. This training will help ensure that NPF is able to operate BSF as effectively as Bundhoo has in the past.
- Fresh salmon and products that contain salmon are two of the biggest sellers in NPF's retail stores. Therefore, acquiring BSF would offer it the ability to vertically integrate this salmon operation into its existing business. There appears to be synergy between this potential investment and NPF's existing business.
- BSF has Best Aquaculture Practices (BAP) certification, which means its salmon will sell at a premium compared to salmon that is not certified. In addition, the BAP certification aligns with NPF's existing operations, which have MSC certification.

Disadvantages:

- Wild-caught fish is still the preferred form of seafood, and although acceptance of farmed fish has increased, NPF would miss out on the attractiveness of wild-caught salmon if it made this investment.
- Kurt currently has no technical understanding of how BSF works, so the learning curve will be steep, and is likely to require a lot of time. This investment of time will take Kurt's attention away from NPF's existing operations, and any other potential new operation that NPF has the opportunity to invest in.
- BSF is 12 years old, and properly managing its day-to-day activities appears to require a lot of time. If NPF makes this investment, even after Kurt has learned how to operate the aquafarm, the amount of time required to properly manage the farm could still be significant. This point is especially important, given that Yvonne and Colan plan to retire in the next two years.
- BSF is 12 years old, so it does not appear to be using the most advanced technology. This could hinder the attractiveness of its product in relation to salmon that is farmed in more modern and technologically advanced aquafarms. Therefore, NPF may be investing in technology that is already outdated.
- Given BSF's age, aspects of it do not completely align with NPF's new mission statement, which highlights advanced technology as a hallmark of its approach to harvesting fish. In order to align BSF with NPF's mission, major upgrades to BSF's current operation would likely be needed.

- The risk of major adverse events, such as farmed salmon escaping into the wild or a disease outbreak, are an inherent risk factor in farming fish. Although such an event has yet to happen to BSF, the potential is still there. As well, this risk will increase as BSF ages, and if NPF decides to acquire it, since NPF currently lacks the expertise to operate the facility, especially when compared to the present owner.

Conclusion/Recommendation

Although this investment meets the board's objective to earn at least a 12% return on investment, some significant drawbacks make it less attractive. There are two main disadvantages to highlight. First, because of BSF's age, NPF would be investing in old technology that requires more time and effort to effectively manage. Not only does this increase the risk of adverse events, but it also means Kurt will need to dedicate more of his time to this operation, to ensure it continues to operate smoothly. The time required to manage BSF is the second major drawback, because of the upcoming retirement of Yvonne and Colan. NPF needs to ensure that Kurt and Allan are able to effectively manage the company's day-to-day operations after Yvonne and Colan retire, and given how much time would need to be spent at this facility, this investment would likely make it much harder for Kurt to effectively manage all of NPF's at-sea operations and processing facilities. For these two main reasons, we do not recommend this investment.

Assessment Opportunity #3 (Strategic Issue #2: Open additional retail stores?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether to open additional Atlantic Pure Seafood Market locations and expand the company's new retail business venture.

Quantitative analysis: The candidate should calculate the projected return on the investment. The candidate should also discuss the uncertainties related to the projection, such as unknown transportation costs associated with opening out-of-province locations.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of opening additional retail locations, and how well this investment aligns with the board's objectives. The candidate should also discuss the time required to manage the additional locations.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

After the successful opening of NPF’s first two Atlantic Pure Seafood Markets, the company is now considering opening four additional storefronts for its new retail business (two would be located in Newfoundland and Labrador, one in Quebec, and one in Ontario). Demand for seafood continues to increase, and NPF could take advantage of this growth by offering additional locations where high-quality seafood can be purchased.

Quantitative Analysis

Based on the information provided by Yvonne, we calculated the following return on investment. Note that, although NPF is considering opening four new locations, the analysis was performed for two different scenarios: new locations opened within Newfoundland and Labrador, and new locations opened outside of the province. This type of analysis is required, given the extra transportation costs associated with supplying stores outside of Newfoundland and Labrador. The farther away a future location is, the lower the likely return that NPF will earn.

Per Location	In Province	Out of Province
Revenues	\$3,500,000	\$3,500,000
Purchases	(2,345,000)	(2,345,000)
Wages	(595,000)	(595,000)
Marketing	(175,000)	(175,000)
Rent	(110,000)	(110,000)
Utilities	(90,000)	(90,000)
Other operating costs	(69,000)	(69,000)
Transportation	0	(15,000)
Annual income per location	116,000	101,000
Cost per location	\$ 750,000	\$ 750,000
Annual ROI	15.5%	13.5%

Based on Yvonne’s estimates, NPF can expect to earn a 15.5% return on the company’s initial \$750,000 investment for each new Atlantic Pure Seafood Market location opened in Newfoundland and Labrador, and a 13.5% return on each location opened outside of the province. Therefore, the investment in either scenario would meet the board’s objective to earn at least a 12% annual return on any investments that are made.

Yvonne also noted that the transportation expense would increase if NPF was not able to find suppliers local to each location. Therefore, before a final projection can be completed, NPF should ascertain whether finding local suppliers for either the proposed Ontario or Quebec location would be possible. In addition, given the increasing demand for healthy and environmentally-sustainable seafood products, Yvonne expects NPF’s retail locations to experience growth for at least the next several years. This potential growth has not been built into the annual ROI figure above, so the result of this investment could be higher than anticipated.

It is also important to note that the total upfront cost of this investment (\$3 million) will reduce NPF's cash reserve, which is an important consideration, given the board's objective to retain a reasonable cash reserve. Prior to making a final decision, NPF should analyze whether this investment is justified when weighed against the other available investment opportunities.

Qualitative Analysis

Advantages:

- Yvonne has so far been very successful at choosing locations for Atlantic Pure Seafood Markets, and has found four additional locations that appear perfect for new seafood retail locations. NPF could leverage Yvonne's expertise to grow this aspect of NPF's business.
- One of the board's objectives is to give preference to investments that have growth potential. Given the increase in demand for high-quality seafood products, NPF's retail locations could experience an increase in sales within each store, and an overall increase in sales if the company continues to open additional locations. Therefore, this investment may satisfy this objective.
- Yvonne is confident that NPF can lock in several new long-term supply contracts with high-quality, local suppliers. This will help ensure that NPF's retail stores are stocked with desirable products that match NPF's dedication to providing high-quality seafood products.
 - However, these potential suppliers are located in Newfoundland, so it may be an added challenge to effectively transport that product to the two out-of-province retail locations, especially if the products are fresh. Before NPF makes a final investment decision, this aspect needs to be investigated in greater detail.
- NPF's retail stores have helped the company diversify its revenue sources. This diversification could become especially valuable if the maximum allowable catch size for the company's existing products—cold-water shrimp and Greenland halibut—decrease in future, as expected. This investment offers NPF a way to protect its future earnings against any major change to the wild-caught fish industry.
- For NPF's first two retail locations, the amount of time required to manage day-to-day operations decreased after the initial development and store openings. Therefore, NPF could take advantage of Yvonne's expertise before she retires, to get the new stores operational. Then, when Yvonne retires, the stores might not be as time consuming for Kurt and Allan to manage.
- NPF now has experience in operating retail stores, which it could use to optimize any new location it decides to open.
- This investment aligns well with NPF's new vision and mission statements, if it is able to stock its retail locations with high-quality, nutritious, and sustainably caught or farmed fish.

- However, aspects of NPF's mission and vision focus on seafood harvesting and processing, which do not align with retail. In addition, it may be a challenge for NPF to ensure that all products offered at the retail locations adhere to its vision and mission. It would be time consuming to scrutinize each supplier, to ensure NPF's values are upheld.

Disadvantages:

- Competition within the retail seafood market is fierce, and growing. The performance of NPF's existing retail locations, as well as any future locations, could decline if NPF needs to offer incentives (such as lower prices) in order to stay competitive. As more competitors enter the market, the success of NPF's retail locations will likely decline.
- Given fluctuations and unpredictability in the supply of some seafood products, NPF could have an increasingly difficult time stocking its retail locations with desirable products. This risk is especially important to assess, given that the maximum allowable catch for some species is expected to decrease in four of the next five years.
 - It could also become increasingly challenging for NPF to meet its customers' demand for a wide variety of products, given the uncertainties surrounding supply.
- Yvonne was only able to locate two additional locations within Newfoundland and Labrador that would be suitable for new Atlantic Pure Seafood Markets. Therefore, to expand this aspect of NPF's business beyond four stores, the company will need to go out of province. This will not only increase costs, but also the complexity of the potential expansion.
- NPF's current two retail locations have been challenged by high employee turnover. Although this is not uncommon for retailers, this challenge is especially problematic for NPF, given that Yvonne—who has been responsible for opening and managing the existing locations—plans to retire in the next two years. If high employee turnover continues to be a problem after Yvonne's retirement, it may require more time and effort by Allan and Kurt to effectively operate NPF's retail locations.
- So far, Yvonne has been responsible for opening and managing NPF's retail stores. When she retires, it might be a challenge for Kurt and Allan to replicate Yvonne's success (especially because the seafood retail market is becoming more competitive). Therefore, it may be a challenge for NPF's retail business to experience long-term growth, which is a main objective of NPF's board.
- Neither Kurt nor Allan appear to have much involvement with NPF's current retail locations. Therefore, after Yvonne retires, this will increase their workload, which will take their attention from other aspects of NPF's business. This is especially important to consider, given that NPF is also contemplating other investments that would require Kurt's and Allan's time and attention.

Conclusion/Recommendation

Overall, the expansion of NPF's retail business appears attractive but also risky. One major risk pertains to ensuring the company can supply the retail locations with products that match NPF's dedication to quality and sustainability. A second major risk involves the amount of time required to effectively manage both NPF's existing retail locations and any additional locations that it decides to open. This risk is especially concerning, given Yvonne's upcoming retirement. Also, two of the proposed locations are located far away from NPF's head office and existing retail locations in Newfoundland and Labrador, and the farther away each location is, the greater the risk becomes.

For this reason, NPF may want to consider only opening one or two new locations within Newfoundland and Labrador now, and then conducting more research to ascertain the effect of operating retail locations outside of the company's home province. If all goes well, the company could consider opening these out-of-province locations. This will reduce the amount of upfront investment capital required now, as well as the workload required to operate these locations once Yvonne and Colan retire.

Assessment Opportunity #4 (Strategic Issue #3: Acquire Marine Eats?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether to acquire 100% ownership of a ready-to-eat processing facility, Marine Eats.

Quantitative analysis: The candidate should complete a net present value calculation of this investment, and discuss whether the investment meets the board's objectives.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of acquiring this processing facility, and how well this investment aligns with the board's objectives. The candidate should also discuss the time required to effectively operate the additional facility.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

NPF is considering whether to acquire a local seafood processing facility called Marine Eats for \$7 million. Marine Eats processes raw seafood into ready-to-eat fresh or frozen meals that are shipped to, and sold by, grocery stores.

Quantitative Analysis

A net present value calculation for this investment was performed, based on the parameters provided. The net present value of the investment is \$74,714, using a discount rate of 12% and a useful remaining life of eight years (see Appendix I). Therefore, although this investment appears to align with the board's investment objectives, the return is close to falling below the board's expectations.

In addition, this investment does not appear to align with the board's preference for investments with long-term growth potential because this facility is already operating at 100% capacity and only has a useful remaining life of eight years. To continue to operate the facility beyond its current useful life, extensive refurbishment would be required. Therefore, without what is likely to be an expensive additional investment, NPF can only expect to earn income from this investment for the next eight years.

It is also important to note that the total upfront cost of this investment (\$7 million) will reduce NPF's cash reserve, which is an important consideration, given the board's objective to retain a reasonable cash reserve. Prior to making a final decision, NPF should analyze whether this investment is justified when weighed against the other available investment opportunities.

Qualitative Analysis

Advantages:

- Marine Eats has been in business for a long time and is well established, which provides confidence in the continued performance of the facility, given that it has been a supplier of this type of product for many years.
- Although this type of facility is challenging to operate, members of the facility's management team have indicated they intend to stay with Marine Eats. Therefore, NPF would be able to use the existing experience and strength of Marine Eats' personnel to help ensure the continued success of the facility.
 - This aspect of the investment is especially important, given the upcoming retirement of Yvonne and Colan. Because Kurt will be responsible for operating the facility, it will be valuable to have a trusted team that could alleviate the amount of time Kurt is required to be onsite.
- The facility is very versatile in terms of the meals it can produce, which has made the facility popular with its customers. This aspect of Marine Eats' facility is especially beneficial, given the consumer demand for a wide variety of premade, ready-to-eat seafood meal options.

- To meet the rising demand for a wide variety of products, Marine Eats needed to greatly expand the facility's list of suppliers. This helps ensure the facility is able to continue to meet consumer demands, and handle unexpected fluctuations that occur within the local supply of raw fish.
- There is a growing demand for variety, so by offering a wide assortment of high-quality, premade products, NPF would take advantage of this trend by investing in Marine Eats.
 - This investment also presents a possible synergy with NPF's retail stores, given that they currently sell an assortment of ready-to-eat seafood meals. Therefore, there is a vertical integration component of this investment that could prove to be valuable.
- This investment could also provide synergies with the potential investments in BSF and Synersea, given that outputs from both of these operations could be used to supply Marine Eats with high-quality raw fish.
- Because Marine Eats has a wide variety of customers, the facility's success does not overly depend on one customer. This diversification of purchasers will help ensure the ongoing success of the facility.
- Marine Eats appears to be providing a desirable product, given that the facility has more demand than it can satisfy. This indicates that the facility is providing tasty, ready-made meals, which aligns with one aspect of NPF's vision statement.

Disadvantages:

- Marine Eats has no recognizable brand value, because its customers—mainly small- to mid-sized grocery stores—use their own labelling for the products the facility provides. Therefore, if NPF makes this investment, it will not acquire a recognizable or valuable brand.
- A number of aspects of Marine Eats' facility and operations do not appear to align with NPF's new vision and mission statements. For example:
 - NPF's vision and mission statements highlight the importance of providing ethically-sourced products that ensure the long-term health and sustainability of the world's marine populations. However, Marine Eats purchases its products from a wide variety of suppliers (both locally and internationally), so it is likely that at least some of these suppliers do not adhere to NPF's standards.
 - Before NPF makes this investment, it is imperative that the company review the facility's existing suppliers, to ensure they meet NPF's strict requirements for quality standards.
 - NPF's mission statement highlights the importance of using technologically advanced operations and becoming an industry leader in best practices for seafood processing. However, Marine Eats has been in business for a long time and the facility has a remaining useful life of only eight years, so it likely does not use modern technology.

- Although the facility is versatile enough to adapt its products to NPF's specifications, this would likely be challenging for a number of reasons (such as designing new formulations and finding suitable suppliers). This aspect of the investment may not only be complicated, but also time consuming. This point is especially important, given the upcoming retirement of Yvonne and Colan.
- The facility received a series of complaints five years ago, after people became ill from consuming ready-to-eat meals produced by Marine Eats. The solution was to increase the quantity of additives and preservatives in products, to ensure a longer shelf life. Although this solved the problem and even improved the taste of the products, this does not align with consumer preference for healthy seafood products that are additive-free, or with NPF's vision statement, which emphasizes nutrition.

Conclusion/Recommendation

Both quantitatively and qualitatively, this investment presents risks. Quantitatively, although the facility might meet the board's objective to earn at least a 12% return on investment, it is very close to falling below that expectation. For example, if the facility's expected revenue falls by just 2%, the investment return would fall below the board's objectives. Likewise, if revenues do not grow at the pace expected, the investment return would again fall below the board's expectations. Even more importantly, this investment does not appear to provide NPF with much long-term growth potential. Qualitatively, aspects of this investment do not appear to align with NPF's new vision and mission statements. The most concerning aspect is the facility's extensive number of suppliers, and whether those suppliers meet NPF's high quality standards. Before NPF can move forward with the investment, it needs to determine the criteria Marine Eats uses to choose its suppliers. Finally, although the facility's current management team plans to continue to work at Marine Eats, NPF would depend on that team to ensure the facility's ongoing success, given that Kurt's attention will likely be needed elsewhere. For these reasons, we do not recommend this investment at this time.

Assessment Opportunity #5 (Strategic Issue #4: Build the IMTA operation, Synersea?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether to invest in the development of a technologically advanced aquafarm, Synersea.

Quantitative analysis: The candidate should complete a net present value calculation of the investment. The candidate should also consider the long-term growth potential of this investment.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of building and operating Synersea. The candidate should also consider the time required for management to effectively develop, and then operate, the IMTA farm.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

NPF is considering whether to build and operate an Integrated Multi-Trophic Aquaculture (IMTA) operation, which Kurt has named Synersea. This is a modern and technologically advanced type of aquaculture farm that enables the cultivation and harvest of multiple species at a time.

Quantitative Analysis

A net present value calculation for this investment was performed, based on the parameters provided. The net present value of the investment is \$1,168,418 using a discount rate of 12% and a useful life of 10 years, given that this is the length of the initial lease period (see Appendix II). Therefore, it appears this investment exceeds the board's investment objective to earn at least a 12% annual return on any investments made.

In addition, the return earned on this investment could exceed this expectation, for a few reasons. First, the above projection assumes the useful life of Synersea equals the initial lease term of 10 years; however, as Kurt pointed out, the landowner has already mentioned the potential to extend the lease term for at least an additional 10 years. Therefore, the useful life of Synersea could far exceed the parameters used in the net present value calculation. Second, as Kurt mentioned, it will likely be possible to introduce even more species into the operation after 2031. In that event, the return earned on this investment would likely increase. Therefore, it appears this investment also achieves another aspect of the board's objectives, which is to give preference to investments with long-term growth potential.

Therefore, the Synersea investment appears to be very attractive from a quantitative perspective.

It is also important to note that the total upfront cost of this investment (\$8 million) will reduce NPF's cash reserve, which is an important consideration, given the board's objective to retain a reasonable cash reserve. Prior to making a final decision, NPF should analyze whether this investment is justified when weighed against the other available investment opportunities.

Qualitative Analysis

Advantages:

- Synersea is based on the most advanced marine technology, which enables an aquaculture farm to cultivate and harvest multiple species at a time. This aspect of the investment aligns well with NPF's new vision and mission statements.
 - The vision statement highlights the importance of the long-term health and sustainability of the world's marine populations. Given that Synersea is an aquafarm, the seafood that NPF harvests from it will not deplete the population of wild fish.
 - The vision statement also highlights the importance of providing high-quality and nutritious seafood, which is exactly what Synersea will be designed to do.
 - The mission statement highlights sustainability and the use of technologically advanced operations. Synersea appears to align perfectly with this, given that IMTA is an advanced marine technology.
- Synersea can cultivate multiple species at a time. This aspect of the investment aligns well with both the rise in popularity of seafood and the increase in demand for variety. By making this investment, NPF will align itself with these two important industry trends.
- One of the species that will be cultivated in Synersea is Greenland halibut. This species aligns with the company's current operations, given that NPF has a licence and operation for harvesting wild-caught halibut. Given that the maximum allowable catch for Greenland halibut is expected to decrease in the future, farming this fish will allow NPF to replace its wild-caught halibut with farmed halibut.
- Two of the species that will be cultivated within Synersea, Greenland halibut and mackerel, are considered healthy, so demand for these species is on the rise. If NPF moves forward with this investment, it will align itself with this industry trend.
- Synersea is expected to produce a reliable source of at least four different kinds of seafood. This reliability is an especially important aspect, given the uncertainty around the maximum allowable catch for various wild-caught species. By making this investment, NPF's continued revenue stream would be more reliable.
- The acceptance of fish farmed from aquaculture operations has risen, due to the benefits provided by the significant technological improvements of modern aquaculture farms. Synersea aligns perfectly with this industry trend, given that IMTA operations are the most advanced form of aquaculture.

- New aquaculture operations are more environmentally sustainable and easier to operate, compared to older aquaculture operations. Therefore, Synersea will likely be easier to operate than BSF, which is an older type of aquaculture operation. This is especially important, given the time constraint that Kurt and Allan will encounter when Yvonne and Colan retire.

Disadvantages:

- Unlike the BSF aquafarm investment, NPF will need to wait approximately three years before Synersea begins to earn a return.
 - This point will likely have little impact on the board’s decision, given that its main focus is to build NPF’s long-term success. When developing a new project, it is customary for there to be a time lag between the initial investment and the start of revenue.
- Wild-caught fish is still the preferred form of seafood, and although acceptance of farmed fish has increased, NPF would still miss out on the attractiveness of wild-caught salmon if the company made this investment.
- A major drawback of this investment is the amount of upfront work required in both 2026 and 2027. To ensure the success of Synersea, Kurt will need to devote much of his time to all the activities required to be prepared for, and then develop, Synersea. Before NPF decides to move forward with this investment, the board needs to carefully assess whether it is feasible for Kurt to devote this much of his time to the project.
- Even after Synersea’s initial development, the time required to operate the aquafarm will likely continue to be high, because the third and fourth species will be introduced to Synersea in 2031. If NPF makes this investment, Kurt may have limited time to devote to other opportunities that could arise.
- As Kurt mentioned, developing and operating an IMTA is a complex process. This complexity could lead to unforeseen delays and expenses.

Conclusion/Recommendation

This investment aligns very closely with the board’s objectives and the company’s new vision and mission statements. It also aligns with a number of key industry trends. For this reason, we recommend the investment.

However, before an investment decision can be made, NPF must ascertain whether it will be possible for Kurt to devote much of his time to this project, both during its development period and after Synersea becomes operational.

Summative Assessment #3 – Conclude and Advise

For Summative Assessment #3, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate provided reasonable conclusions for each major issue.

Unsure – The candidate attempted to provide reasonable conclusions for each major issue.

No – The candidate clearly did not provide reasonable conclusions for each major issue.

Enabling Competencies

6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

6.3.2 Articulates limitations to recommendations

6.3.3 Applies decision criteria to choose among viable alternatives

6.3.4 Ensures that decision criteria do not conflict with professional ethics and values

The candidate is expected to provide a logical conclusion that is consistent with their analysis, and integrated with an overall recommendation that considers both the management time, and amount of cash, required for the recommended investments.

The candidate draws logical conclusions and makes a recommendation on which strategic options NPF should pursue. The candidate's overall recommendation should integrate the analyses of all four major strategic opportunities into a coherent overall strategy. The recommendations should be strategic in nature and display good professional judgment and logic, recognizing the interconnected influence of each option. Suggesting that further information is required is acceptable where justified and consistent with the analysis.

NPF has been presented with a number of attractive investment options. However, given the two main constraints—management time and investment capital—the company will need to be cautious when making investment decisions.

Management Time

Because Colan and Yvonne are planning to retire in the next two years, the company's operations will soon become the sole responsibility of Allan and Kurt. When only Kurt and Allan remain active in the day-to-day operations of the company, Allan will oversee all aspects of NPF's head office, such as accounting, finance, and marketing, while Kurt will be responsible for the company's at-sea operations and processing facilities. Therefore, NPF must ensure that Allan and Kurt have the capacity to not only effectively manage any new investments, but also the company's existing operations.

At least two of the potential investment options appear to require a significant investment of Kurt's time: BSF and Synersea. In both cases, Kurt will be responsible for learning how to operate these aquaculture operations, something the company currently does not do. With Synersea, the amount of Kurt's time required will likely be even higher, given that this project will be built from the ground up. Therefore, it does not appear feasible to invest in both of these options.

Moreover, the retail expansion and investment in Marine Eats will also require a significant investment of time, especially when the investments are first made. With Marine Eats, this may be less of a constraint because the facility's current management team plans to continue to work at the facility. Nevertheless, it would be imprudent to rely solely on the facility's existing team without any supervision by Kurt.

The amount of time required to manage NPF's retail stores appears to be linked to how far each store is from NPF's head office. Although NPF could use Yvonne's expertise to design and manage the opening of any new store, her time will no longer be available once she retires. Therefore, prior to expanding the number of retail locations, NPF needs to determine how much time it will take to manage the daily operations of the stores after Yvonne retires. Opening all four stores at the same time is likely a bad approach, given that NPF currently does not understand the implications involved in opening out-of-province locations. If NPF decides to expand the number of retail locations, it may want to begin with only one or two, and likely with the locations closest to NPF's current operations.

Cash

As Allan mentioned, given the volatility of the industry, retaining a cash reserve has become an important key success factor. This will allow NPF to endure the unpredictability of the industry, and to take advantage of other potential strategic investments that come available in the future. Therefore, although the company currently has \$15 million in cash, this money should only be spent on investments that meet its objectives.

The Marine Eats investment appears to be the least attractive because it just barely meets one of the board's objectives. It also does not appear to align very well with the company's new vision and mission statements, and because the investment would cost NPF \$7 million, this investment is not recommended.

Likewise, BSF does not meet the board's objective to prioritize investments with long-term growth potential; the remaining useful life of BSF is limited and the operation is already at capacity. In addition, this investment would not be possible to manage at the same time as Synersea, given the amount of Kurt's time that would be required. For this reason, this investment is not recommended.

The expansion of the retail stores appears to meet the board's objectives. However, it is possible the retail stores will become more burdensome on management's time when Yvonne retires and as the stores get farther away from NPF's head office. For this reason, investing in all four expansions is not recommended at this time. Instead, NPF should open only one or, at most, two locations at the same time within Newfoundland and Labrador, and then conduct further research to understand the implications of opening out-of-province stores.

Finally, Synersea appears to align almost perfectly with the board's objectives and the company's new vision and mission statements. Although the investment would take time before it begins to earn a return, the long-term horizon of Synersea appears to be very attractive. In addition, although Kurt would need to dedicate much of his time to the project, this appears to be possible if Kurt's attention is not needed to manage any other new investment. For this reason, this investment is recommended. However, before a final decision is made, it will be important to determine whether the time required of Kurt will be feasible, given his other responsibilities.

With these recommendations—to develop Synersea (\$8 million), and expand into two new retail locations (\$1.5 million)—the company will have \$5.5 million left over in its cash reserve. In addition, by making these investments, the board's objectives will be satisfied and the company's operations will adhere well with its new vision and mission statements.

Summative Assessment #4 – Communication

For Summative Assessment #4, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate adequately communicated their response.

No – The candidate clearly did not adequately communicate their response.

Insufficient communication in a candidate’s response would generally include some of the following:

- The reader needs to re-read sections several times in order to gain an understanding.
- It is not clear what point the candidate is trying to make.
- The quantitative analysis does not make sense because of a lack of labelling or illogical ordering.
- There are excessive amounts of spelling and grammatical errors.
- Unprofessional language is used.

Summative Assessment #5 – Overall Assessment

For Summative Assessment #5, the candidate must be assessed in one of the following, based on their overall performance:

Clear Pass – Overall, the candidate provided an adequate response, clearly meeting the minimum standards for each of the summative assessments above.

Marginal Pass – Overall, the candidate provided an adequate response, with some errors or areas of omission, but the underlying key concepts were there.

Marginal Fail – Overall, the candidate provided an attempt at a response, one that contained several errors or where the analysis was incomplete.

Clear Fail – Overall, the candidate did not provide an adequate response; the response was deficient in multiple areas.

To be assessed a Pass, the candidate is expected to perform adequately in all the summative assessments and demonstrate that, overall, they addressed the issues raised by the company’s board members.

Markers considered the following in making their overall assessment:

1. Did the candidate step back and see the bigger picture, and then address the broader issues identified?
2. Did the candidate prioritize the issues by discussing the major and minor issues in appropriate depth?
3. Did the candidate use both quantitative and qualitative information to support their discussions and conclusions?
4. Did the candidate use the appropriate tools to perform quantitative analysis?
5. Did the candidate use sufficient case facts (current case and Capstone 1 case) about the external and internal environment to support their discussions?
6. Did the candidate communicate their ideas clearly, integrating and synthesizing the information?

SAMPLE RESPONSE - NPF VERSION 2

Below is an actual passing candidate response.

From: CPA

To: Board of directors

Re: NPF situational analysis and strategic issues

Mar 15, 2026

Situational analysis framework

Mission

To harvest highest quality seafood and offer a consistent supply of products with an emphasis on ethical, sustainable, and technological advanced operations. Strive to make decisions that benefit all the company's interested parties and allow the company to become an industry leader in best practices for both seafood harvesting and processing.

Vision

To help create a future where seafood lovers have access to ethically sourced, high-quality, and delicious seafood products that are processed and harvested in a way that ensures the long-term health and sustainability of the world's marine populations.

Value

1. build long-term loyal, and trustworthy relationships with local fishing enterprises.
2. Continually improve our harvesting and processing procedure to embrace best practices, benchmark against the industry's best, and maintain MSC and BRCGS certifications in good standing.
3. Nurture our brand by ensuring that our products continue to exceed customer expectations.
4. Treat our crews and employees with respect, and ensure that a safe working environment is our number one priority.
5. Respect and protect the environment and fish populations for future generations.

KSFs

1. Having overseas contract to increase exports of products and expand geographic scope beyond domestic market.
2. Vertically integrated- adding value by further processing harvested seafood, wholesaling and retailing.

3. Access to supply of multiple species- quotas and licences or strategic partnerships.
4. Relationships with food retailers and food services companies.
5. Reputation and experience in the industry.
6. Ability to sell products that consistently looks and tastes fresh.
7. Service customers quickly with the right products- at the right location, with the right product knowledge.
8. Technological improvement- increase products quality, reduced processing costs, improved stewardship of ocean resources and develop new products.
9. (new) Given the volatility of the industry, retaining a cash reserve has come an important KSF.

SWOT Analysis

Strengths:

- NPF has built a reputation for providing healthy, tasty, and ethically sourced seafood. This help increase profitability.
- The seafood retail location has been successful, providing NPF with diverse revenue stream. This help increase profitability.
- NPF accept the offer to sell Neptune's Tasties name for \$12M, the cash position has been improved by this inflow. NPF has more cash to invest to be profitable.

Weaknesses:

- As Colan and Yvonne will retire soon, they plan not to stay actively engaged in the day-to-day operations. Less management oversight will create operational issues for NPF.
- Given the volatility in the fishing industry, NPF need to retain cash reserve for emergency and unexpected. The cash available could not all be used toward capital investments which limits NPF's growth.
- NPF wants to retain cash for uncertainty in the industry. Less investment.

Opportunities:

- Consumers demand for fresh, frozen and ready-to-eat fish and fish products has increased in recent year.
- Demand for seafood that perceived to be healthy, such as salmon, mackerel and Greenland halibut increased significantly.
- Demand for ready-to- eat products that are additive-free is also increasing.

- Acceptance of fish farmed from aquaculture operations has gone up because of the benefits provided by significant technological improvements modern aquaculture farms.

Threats:

- Government announce that the maximum allowable harvest limit for wild-caught Greenland halibut, cold water shrimp, salmon, etc is expected to decrease at least four times in the next five years.
- Competition for retail stores is fierce and growing.
- Considering Colan and Yvonne's retirement, they will be less involved in the daily operations. The operational efficiency will be treated.

Constraints/ Big picture

- \$15M cash available
- Limited management time- because Yvonne and Colan plans to retire in the next two years, and not intent to stay in daily operations at NPF. Whether Kurt and Allan have the capacity to effectively manage not only new but existing operations.

Objectives:

- Qual:
 - make investments that will ensure the long-term success of the company.
 - retaining a cash reserve
- Quant: Earn at least 12% annual return on any investment made

Financial Analysis

- NPF sell Neptune's Tasties brand name for \$12M.
- NPF currently has \$15M cash available.
- The board would like to earn at least a 12% annual return on any investment made.

Strategic Options

Issue 1- Purchase of Bundhoo Salmon Farm (BSF)

Quantitative Analysis

As per APP 1, based on the operational information provided by BSF, the operating income every year is around \$500K, considering the \$4M asking price, the ROI of this proposal is 13%. The payback period is around 8 years.

Assumptions:

1. the financial amount is provided by the seller BSF, hence it is biased to provide higher figure, due diligence need to be completed by NPF prior to the purchase.
2. EBITDA valuation may be more appropriate to evaluate whether the purchase price is reasonable, more information need to be provided.

Constraints:

- \$15M cash available
 - MET, this investment needs \$4M. Hence it is within the constraint, add leave NPF with \$11M cash available, which is a reasonable cash reserve.

Objectives:

- Earn at least 12% annual return on any investment made
 - MET, per APP 1, the rate of return is 13%

Hence, from quantitative perspective, NPF should continue with this purchasing BSF.

Qualitative Analysis:

Pros:

- BSF values sustainability, the operation for the past 12 years has never experience a major adverse event or a disease outbreak. Which implicate a strict quality control and operation process. Therefore, acquisition of BSF align with NPF's mission, vision and value to provide customers with the best quality seafood that is sustainable, this helps to enhance NPF's market presence, diversify the revenue stream and improve profitability.
- The owner of BSF, Bibi is willing to stay for a year after the acquisition to teach Kurt how to operate the facilities. This will save management time for exploring the business on themselves after acquisition. With the help from Bibi, BSF's daily operational issues can be learnt, and the operational efficiency can be improved.
- Add Salmon to NPF's product line would have synergy with the retail stores, since salmon and salmon products are two of the biggest sellers within NPF's retail stores. NPF could be benefit from additional cost saving between the two segment, the profitability will be improved.
- BSF is at the location where is against extreme weather and algae blooms. This will make the supply of salmon more consistent, which aligns with NPF's mission to consistent service customer with best products.

Cons:

- BSF' success is due to Bibi's dedication to farm' daily operations. With the change in the management, BSF's positive financial performance might not be realized. NPF might suffer from the operational inefficiency after Bibi left after the first year which will create loss and board's target of return not met.
- BSF might require technological upgrades in within two or three years for BSF to become eligible for BAP certification. Therefore, there would be additional cash outflows in the coming years, and it is not align with board's target of retain cash reserve.
- Kurt will need to dedicate much of his time to working with Bibi, to learn how to best operate the farm. Hence, it will took away Kurt's time on NPF's at sea operations and processing facilities. Therefore, it will lease to operating inefficiency in these areas, lack of oversight could cause errors and increased operating costs, which have an negative effect on overall financial performance of NPF.

Recommendation

BSF provide NPF the opportunity to purchase a salmon farm, which is trending due to it is considered as healthy food choice. I do not recommend NPF to proceed with this proposal due to additional time needed by Kurt. (discussed below) Although it meets the board's target of 12% return and it requires \$4M cash upfront which is within the cash constraints, BSF's success is not going to happen without Bibi's dedication to daily operations. Which means if NPF purchased BSF, management has to dedicated the same level of effort to the operations to make its success.

Strategic Direction (big picture)- Management time:

After Yvonne and Colans retirement, Kurt will be responsible for company's at sea operations and processing facilities, additional dedicate learning with Bibi for 1 year due to Kurt is not familiar with the how to operate the salmon farm will limit Kurt's ability for other areas of NPF. The existing operations must be guaranteed first before pursuing new ones. Hence I recommend NPF to reject this proposal, because it would take Kurt additional daily dedication like Bibi for BSF to be successful .

Issue 2- Expansion of retail stores

Quantitative Analysis

As per APP 2, I have calculated the return on investment and the payback period. The results shows the ROI is 14% and payback period is around 7 years.

Assumptions:

1. The transportation costs for out-of province location is \$15,000 per location minimum, if NPF cannot find suppliers local to each location, this expense would increase, hence currently, this is the best case scenario.

Constraints:

- \$15M cash available
 - MET, this investment required \$3M upfront investment for equipment and leasehold improvements. It will leave NPF with \$12M cash reserve available

Objectives:

- Earn at least 12% annual return on any investment made
 - MET, the ROI for the retail expansion is 14%.

Hence, from quantitative perspective, NPF should continue with the expansion.

Qualitative Analysis:

Pros:

- After initial success of the 2 stores, NPF should seize the market share before competitors. Opening 4 more retail locations would increase brand presence of NPF and due to the initial success of the two stores, the profitability estimated is likely to be realized.
- Yvonne's judgement regarding the retail stores locations has been successful. It helps NPF to meet one of the KSFs to service customers quickly with the right product and at the right location.

Cons:

- Two of the four potential new locations are outside of Newfoundland and Labrador, one would be in Quebec, and other would be in Ontario. Despite the risk that NPF is not familiar with the market out of province, the further away each store is from NPF head office, the harder it will be effectively managed. Therefore, it is risky for NPF to open in other provinces due to the increased operational challenges, this could lead to loss from the retail locations, which is against board's target return.

- Retail stores are vulnerable to industry's fluctuating supply, especially given the consumer demand for a wide variety of products choices. This pose inventory risk on NPF's retail locations, if the customer demand changes, NPF's retail store might overstock or not be able to provide the products. Therefore, there could be additional products' COGS need to be absorb by NPF, decreasing overall profitability.
- There is high employee turnover at the existing store which continues to be a problem in the industry. Low employee retention rate is not aligned with the mission of NPF to treat employee fairly and will have negative effect on the brand images.
- The first six month after a new store is opened is most complicated and time consuming, and managing current retail store stakes up a good portion of Yvonne's time. This indicates that there could be no time available for Yvonne to oversight the opening of the additional 4 locations, which 2 are out of province. And considering the retirement of Yvonne, and the intention of less involved in daily operations, the expansion would take lots of management time. Distraction from the daily operating will have negative impact on overall financial performance.

Recommendation

The retail expansion provide NPF with opportunity to seize the retail markets after the initial success. It meets the board target of 12% return, and it is within the \$15M cash constraint. However, this opportunity is risky due to the two additional stores is out-of-province, it will make NPF harder to efficiently manage those two locations, additional management time is needed for this proposal to be successful. Hence, I do not recommend this proposal due to Kurt and Allan's management time constraint.

Strategic Direction:

Yvonne will be retired in 2 years, and would like less involved in daily operating at NPF. And retail store would require a good portion of Yvonne or any manger's time. Hence, this investment is not align with her strategic direction and NPF's strategic direction, while Allan will be focusing on head office , Kurt will be at the processing plants and sea operations. Additional 4 locations (2 out of province) will be beyond NPF's scope to manage. Hence, I do not recommend this strategic option which aligns with the SD of Yvonne's retirement.

Issue 3- Purchase of seafood processing facility - Marine Eats

Quantitative Analysis

As per APP 3, the NPV for the purchase of Marine Eats is \$210K, which means this is financial viable.

Assumptions:

1. discount rate of 12% is used due to this is the targeted return

Constraints:

- \$15M cash available
 - MET, this proposal requires \$7M. this will leave NPF with \$4M cash available, if issue 1 is pursued. ($\$15M - \$4M - \$7M$)

Objectives:

- Earn at least 12% annual return on any investment made
 - MET, the NPV is positive using discount rate of 12%.

Hence, from quantitative perspective, this option is financially viable.

Qualitative Analysis:

Pros:

- There is growing demand for variety by offering a wide assortment of high-quality premade products. By purchasing Marine Eats, NPF can capture this trend and capitalize on it. The profitability will be improved due to high demand.
- The opportunity provide NPF the opportunity to further processing the seafood. Which will let NPF to meet one of the KSFs to add value by further processing the harvested seafood, wholesaling or retailing.
- NPF could use the current's facility's management team , so the facility's performance continues to perform well. This is benefiting for NPF due to finding experienced members could be time consuming, and it will save NPF's management efforts. Therefore, the operational efficiency can be controlled, which has positive effect on the profitability.
- Marine Eats can adapt its product formulations to meet the needs of its customers. This versatility can match with NPF's own specifications. NPF can apply its own quality control and standards to make sure it aligns well with the mission and vision of providing consumers only the best products.

Cons:

- The new business will require a lot of time manage effectively. And processing facility can be challenge to operate. Additionally, NPF would need to ensure that raw fish used by the facility meets the strict requirements for quality. Extra management time needed will lead to distraction in other area of business, having negative impact on other area's profitability.

- Marine Eats received complaints 5 years ago when people become ill from consuming ready-to-eat meals which is due to spoilage of some of the product. Therefore, the acquisition might have negative effect on NPF's brand image to provide the healthy products.
- To increase the shelf life of the products, Marine Eats increased the number of additive and preservatives in the products, and the tastes of Marines Eats' products. This goes against with NPF 's mission of providing best quality, ethically products to customers. Hence, acquisition of Marine Eats will impact NPF's brand image significantly.

Recommendation

The acquisition of Marine Eats provide NPF with opportunity to add value by further processing harvested seafood. It meets the board target of return of 12% due to positive NPF of \$210K. However, there are some questionable activities like complaints before and adding additive and preservatives in the products makes this proposal not align with NPF's mission, vision and value of providing the bets seafood to customers.

Hence I do not recommend this strategic option.

Strategic direction:

It will require lost of time to manage the processing plant effectively. Hence under the limited management time constraint, although the original management team at Marine Eats can stay, but their practices is questionable with the additives, it might take NPF's management longer time to correct this. Hence, it is not recommend.

Issue 4- Construction of Synersea Farm

Quantitative Analysis

As per APP 4, I have calculated the NPV of the Synersea Farm proposal, the result shows a positive NPV of \$96M.

Assumptions:

1. discount rate of 12% is used due to this is the targeted return

Constraints:

- \$15M cash available
 - MET, upfront cost require in \$2M, construction of the farm takes place in 2027 would required \$6M, total \$8M. If issue 1 is pursued, it leave NPF with \$9M left at the end of 2026.

Objectives:

- Earn at least 12% annual return on any investment made
 - MET, the NPV is positive using discount rate of 12%.

Hence, from quantitative perspective, NPF should pursue with this opportunity.

Qualitative Analysis:

Pros:

- IMTA uses the most advanced marine technology to enable aquaculture farms to cultivate and harvest multiple species at a time. IMTA is most environmentally friendly, and also produces the highest quality and most nutritious farmed seafood. It aligns with NPF's mission and vision to harvest the best quality products with technological advanced operations, therefore it enhance NPF's market presence.
- IMTA reduces environmental impacts and cuts costs. It allows NPF to meet one of the KSFs to have technology improvements that can reduce operating costs and improve stewardship of the ocean resources.
- Acceptance of fish farmed from aquaculture operations has gone up because of the benefits provided. IMTA provides higher quality, better tasting and more environmental sustainable. NPF can capture this trend, and capitalize on the farmed seafood products.
- IMTA farm have higher yields than normal farms, which will improve the profitability and resulting more cash on hand, which meet the board's target of retaining cash.
- Once IMTA farm is set up and stable, the system automate many of the processes that once depended on people to perform. This will save NPF from the constraint management time and decrease the risk of human errors, improving overall operating efficiency.

Cons:

- The risk of disease and pests is higher for IMTA farm, given the interconnected nature of an IMTA farm operation. This implicated that the anticipated revenue could be lower then expected due to the risk of disease, or the increase farming expense for additional treatment. Therefore, NPF's board target of 12% return might not be reazlied.
- IMTA operation did not have the BAP certification yet. Operating without the certification is against NPF's value of continually improve the harvesting and processing procedure to embrace best practices. '

- There is a lot of preliminary work needed before the construction, for example, obtain necessary licenses, find and acquire equipment, etc. In addition, Kurt will enrol in a three-month technical program to learn all about IMTA farm operations. This worsen the limited management time considering Yvonne and Colan will be less involved in the daily operations. If pursue this proposal, NPF other area of business might suffer from lack of oversight and other operational issues. Negatively impacting overall financial performance.

Recommendation

Based on the analysis, I recommend NPF to pursue with this proposal. There is growing trend of acceptance of the farmed seafood, the synersea farm provides great opportunity to caplitalize on this trend. Additionally, IMTA produces the highest quality and most nutritious farmed seafood, it aligns with NPF's mission and vision well. It provide the positive NPV given the required return of 12%, and it is within the cash constraint. Although there would be some risk around the disease and illness of the farmed fish, Kurt will spend 3 month learning every aspect of IMTA technology which will decrease the operational issues.

Strategic direction

Although it will require Kurt three month to learn about IMTA, but it is less than learning period and BSF salmon farm, additionally, once the Synersea farm is stable, it can automated a lot of process, which will save management time. Hence it is recommended.

Strategic Direction- Management Time

It is clear that after Colan and Yvonne retired in the next two year, there wont be enough management and board supervision available. This lack of management time can create a lot of issues like:

- Risk of errors
- Operational inefficiencies
- misalignment with mission and vision

These will increase the operating costs, and have negative effect on overall performance of NPF and brand image. Hence I recommend below to mitigate this concern:

- hire /promote additional manages who will be sole responsible for oversee and supervise of new projects.
 - this will save Kurt and Allan's time, they can continue to focus on the existing operations.
- hire additional board members to oversee the overall operating of NPF to make sure the alignment with mission, vision, value.

Other Issue- Cash constraint:

NPF has constraint of \$15M, and would like to keep cash at the same time for the risk in the industry. This would be considered as risk averse. Hence I have rejected the issue 1, 2 and 3 due to the risky portion for NPF not able to retain cash.

Overall recommendation

NPF has been provided with multiple strategic opportunities, I recommend below, presented in order of priority:

- Strategic Issue 1- BSF , reject
- Strategic Issue 2- Expansion of retail stores, reject
- Strategic Issue 3- Acquisition of Marine Eats, reject
- **Strategic Issue 4- Synersea Farm, Accept**

Financing needed and constraint on the recommended option

- Strategic Issue 4- Synersea Farm - \$2M in 2026, \$6 M in 2027

Hence NPF will be with in the limit of \$15M and have \$13M cash reserve for the volatility of the industry at the end of 2026, and another \$6M required 2027, it can ease NPF's cash pressure instead of providing \$8M upfront.

For the first strategic issue, I do not recommend to proceed due to the additional dedication of management needed for BSF, which is why it was successful before. If not dedicated like its old owner Bibi, the profitability is questionable.

For the second strategic issue, I do not recommend to proceed due to the expand retail stores out of province will make it harder for NPF's management to effectively manage the stores for it to be successful.

For the third strategic issues, I do not recommend to proceed due to Marine Eats's business practices of using additive and preservative is not align with NPF's mission and vision and will have negative impact on NPF's brand image of providing the ethical, healthy and sustainable seafood.

For the forth strategic issue, I recommend proceeding the proposal, due toe IMTA will provide farmed products with great quality, technological improvements and align well with the mission and vision of NPF, additional its net cash flow is beneficial for NPF to retain the cash reserve for the industry uncertainties.

I also noticed that NPF has strategic direction concerns regarding the future allocation of management time, discussed above, I recommend NPF to hire more board members or promote from the company.

APP 1

Purpose: To evaluate the purchase of BSF

Purcashe price	\$ 4,000,000.00	B
BSF's operations		
Revenue	\$ 13,300,000.00	
Farming cost	\$ 6,650,000.00	*half of the revenue
Other expense	<u>\$ 6,150,000.00</u>	
Operating income	\$ 500,000.00	A
Return on investment	13%	A/B
Payback period	8.0 years	B/A

APP 2

Purpose: to evaluate the expansion of retail stores.

Total new stores	4	(2 out of Newfoundland)
Initial inves. req (each)	\$ 250,000.00	
Leashold.Impr. (each)	<u>\$ 500,000.00</u>	
Total	\$ 750,000.00	
Four locations	\$ 3,000,000.00	
	2 Newfoundland store	2 out of province store
Revenue	\$ 7,000,000.00	\$ 7,000,000.00
Purchase	67% <u>\$ 4,690,000.00</u>	<u>\$ 4,690,000.00</u>
Gross profit	\$ 2,310,000.00	\$ 2,310,000.00
Other expense		
Wages	\$ 1,190,000.00	\$ 1,190,000.00
Marketing	\$ 350,000.00	\$ 350,000.00
Rent	\$ 220,000.00	\$ 220,000.00
Utilities	\$ 180,000.00	\$ 180,000.00
Othe roperating costs	<u>\$ 138,000.00</u>	<u>\$ 138,000.00</u>
Transportation costs		<u>\$ 30,000.00</u>
Operating income	\$ 232,000.00	\$ 202,000.00
Total Operating income		\$ 434,000.00
ROI		14%
Payback period		6.912442396 years

APPENDIX G

**RESULTS BY SUMMATIVE ASSESSMENT OPPORTUNITY FOR
DAY 1 VERSION 1 AND VERSION 2**

Results by Summative Assessment Opportunity

Marking Results – Neptune Point Fisheries Inc. Version 1

Summative Assessment	Papers	Did not meet standard¹	Marginal¹	Yes, met standard
Situational Analysis	1359	0.15%	2.13%	97.72%
Analysis	1359	0.74%	27.37%	71.89%
Conclude and Advise	1359	2.80%	70.27%	26.93%
Communication	1359	0.07%	N/A	99.93%

Marking Results – Neptune Point Fisheries Inc. Version 2

Summative Assessment	Papers	Did not meet standard¹	Marginal¹	Yes, met standard
Situational Analysis	340	0.59%	1.47%	97.94%
Analysis	340	2.65%	44.12%	53.24%
Conclude and Advise	340	3.24%	63.24%	33.53%
Communication	340	0.00%	N/A	100.00%

¹ Clearly failing papers (i.e., did not meet the standard) were marked twice. All marginally failing or marginally passing papers were marked a second time to determine which ones met the passing standard. A selection of papers that were close to the margin were also looked at by third marker. The clear pass papers were marked only once, however, they were audited.

The BOE ensures that Version 2 difficulties are equated with Version 1. Any differences in the above statistics are attributable to the mix of candidates writing, which varies with each version.

APPENDIX H

**BOARD OF EXAMINERS' COMMENTS ON DAY 1 SIMULATIONS
VERSION 1 AND VERSION 2**

**BOARD OF EXAMINERS' COMMENTS ON DAY 1 SIMULATION
(NPF VERSION 1)**

Paper/Simulation: Day 1 – Linked Case, NPF V1 (on May 2024 CFE)

Estimated time to complete: 240 minutes

Simulation difficulty: Average

Competency Map coverage: N/A; Enabling Skills

Examiners' comments by Summative Assessment Opportunity (SO)

SO#1 (Situational Analysis)

Candidates were expected to highlight the factors, both internal and external to NPF, that could have influenced the strategic decisions presented in the simulation. Since Capstone 1, candidates were informed that NPF had expanded its cold-storage facility, and had begun to offer cold storage and warehousing services to local fish harvesters and processors. In addition, two crucial developments with major strategic implications had occurred within NPF's industry. First, Fisheries and Oceans Canada had reduced the annual allowable harvest limit for some cold-water species, including a significant reduction for cold-water shrimp (NPF's primary revenue source), due to the faster-than-anticipated warming of the North Atlantic Ocean. Second, a new international seafood trade agreement was signed between Canada and China, leading to a significant increase in Canadian seafood exports and the expectation of further increases in the future. Therefore, as part of their analysis within SO#2 and their recommendations in SO#3, candidates were rewarded when they discussed how these significant situational developments would affect the viability of each strategic option under consideration, as well as NPF's main strategic question of which distribution channel to move forward with. Also since Capstone 1, NPF's Board of Directors had updated the company's corporate objectives. Given the expected decline of the maximum allowable harvest limit for cold-water species, NPF's board wanted to obtain as many quota licences and harvesting partners as possible—the first corporate objective was to increase the number of species the company could harvest to at least five. The other three corporate objectives aimed to improve NPF's financial performance and to ensure as best as possible that the company earned a specified return on any new investments that were made. To achieve the company's objectives, the board had decided to limit NPF's upfront spending on any new investments to \$10 million. Candidates were rewarded when they made relevant links between their situational analysis and their analysis of the strategic alternatives in SO#2, and recommendations in SO#3.

Most candidates provided a good summary of NPF's internal and external situation at the beginning of their response. Candidates typically included an updated SWOT analysis that highlighted the changes in the company's situation that had occurred since Capstone 1, and identified the board's main objectives to be considered in relation to the strategic options presented in the simulation. For example, most candidates recognized the significant threat of warming ocean water and reduced harvest limits on NPF's present and future revenue within their situational analysis; however, many candidates failed to adequately address how this significant industry change would likely affect the strategic options under consideration, and/or how NPF could mitigate the risk of continually declining revenue. Most candidates also recognized and highlighted the company's upfront cash spending limitation of \$10 million.

Strong candidates provided a situational analysis that both identified and discussed the implications of the major situational aspects presented in the simulation, such as the new trade agreement with China and the reduced annual harvest limits. Using NPF's partial income statement provided in the case, strong candidates recognized that cold-water shrimp accounted for the bulk of NPF's harvesting revenue, and emphasized the need for the company to diversify in order to mitigate the risk of suffering a significant revenue loss in the coming years. Strong candidates also recognized that the reduced harvest limits were solely expected to affect cold-water species, and that harvest limits for warm-water species such as bluefin tuna could actually go up as a result of this climate trend.

Weak candidates tended to simply list NPF's vision, mission, and key success factors from Capstone 1, without highlighting which of those aspects would play an emphasized role in their analysis, based on the information provided in the simulation. Other weak candidates simply restated the case facts that were provided in the simulation without identifying which of those items would have the most influence on their decision-making process. Weak candidates also struggled to link their analysis of the strategic options in SO#2 to the most relevant situational elements presented in the simulation, and instead attempted to link their discussion to less relevant aspects of NPF's governance policies (such as discussing how well various aspects of each strategic decision aligned with NPF's key success factors, as described in Capstone 1).

SO#2 (Analysis of the Issues)

Candidates were expected to analyze four strategic alternatives, both qualitatively and quantitatively. Candidates were also expected to integrate the two crucial developments that had occurred within NPF's industry: the threat of warming ocean water and how that could affect the maximum allowable harvest limits for the species of seafood that NPF harvested, and the new international seafood trade agreement with China.

AO#2: Sign new distribution agreement with Entero or renew existing agreement with AOISE?

Candidates were expected to analyze whether NPF should sign an exclusive distribution agreement with Entero, a trendy Canadian grocery store chain with significant growth, instead of renewing the company's existing agreement with AOISE, an organization devoted to exporting Canadian seafood around the world. Qualitatively, candidates were expected to compare the relative advantages and disadvantages of each distribution channel, and to discuss whether NPF could meet all the conditions of the Entero contract in order to avoid any noncompliance penalties. Quantitatively, candidates were expected to calculate what NPF's operating income would have been in 2025 if all sales had been made to Entero rather than to NPF's current customers, and then compare that figure to NPF's actual 2025 operating income. Candidates were then expected to compare that result to the board's stated objectives.

Most candidates recognized the restrictive nature of Entero's proposed agreement, and how NPF would need to sever all of its existing distribution arrangements prior to accepting Entero's proposal. Most candidates also recognized that NPF would not be able to adhere to the conditions of Entero's proposed agreement without making significant alterations to the company's operations. For example, most candidates recognized that NPF was currently unable to provide shelf-ready products in accordance with Entero's proposal, and how expensive it would be to outsource this necessary function. However, fewer candidates recognized that the acquisition of Sunrise (AO#4) would allow NPF to process shelf-ready products, as long as the Sunrise processing plant had adequate capacity. Quantitatively, most candidates attempted to recalculate NPF's 2025 operating income, gross margin, and operating profit margin, assuming all of NPF's products were sold to Entero. Most candidates then compared these figures to the board's stated objectives.

Strong candidates recognized and highlighted the significance of Entero's proposal to pay a 20% purchase price premium above the prevailing market price for all species of seafood that NPF was able to sell to them. Recognizing the significance of this benefit, strong candidates discussed whether it was likely that NPF could adhere to the conditions of Entero's proposed agreement, both in the near term as well as over the entire duration of the 10-year agreement. Strong candidates also contrasted Entero's proposed agreement, and all of its conditions and restrictions, with NPF's current distribution arrangement with AOISE, which had far fewer restrictions. Strong candidates also recognized that there were significant pieces of information missing from Entero's proposal, such as the magnitude of any noncompliance penalties, and how much the purchase price premium would fall if NPF could not provide at least five species of seafood to Entero. These candidates recommended obtaining this information before the agreement was signed. Quantitatively, strong candidates recalculated NPF's 2025 operating income, gross margin, and operating profit margin, assuming all of NPF's

products were sold to Entero, and linked these calculations to the board's stated objectives.

Weak candidates tended to discuss the advantages and disadvantages of Entero's proposal without comparing it to NPF's current distribution arrangement with AOISE. Weak candidates also tended to recommend declining Entero's proposal, given NPF's current inability to adhere to the conditions of the agreement. These candidates consistently failed to explore and discuss ways that NPF could potentially meet the conditions, and therefore earn the 20% purchase price premium. Weak candidates also tended to miss the more consequential situational considerations of the decision, such as the fact that the Entero agreement would prohibit NPF from taking advantage of the new international trade agreement with China, given that Entero operated solely within Canada. Quantitatively, weak candidates attempted to recalculate NPF's 2025 operating income but often failed to translate that result into revised gross margin and operating profit margin figures. These candidates also often failed to link their calculations to the board's stated objectives.

AO#3: Enter partnership with Acadia and offer three new seafood types under Neptune's Tasties?

Candidates were expected to analyze whether NPF should enter a strategic partnership with Acadia, an MSC-certified shellfish harvester with quota licences for three types of shellfish: lobster, scallops, and snow crab. Qualitatively, candidates were expected to recognize that the partnership would help NPF achieve its objective of increasing the number of species that the company harvested to at least five. Candidates were also expected to recognize how well Acadia's current operation fit with NPF's vision, mission, and key success factors, and that the pre-existing relationship between NPF and Acadia would likely help facilitate the partnership. Quantitatively, candidates were expected to analyze the potential profitability of the partnership, using a net present value calculation with a discount rate of 12% and a time horizon of 10 years. Candidates could have provided additional value by providing two separate calculations—one that included an additional outsourcing fee for shelf-ready processing and one that did not.

While most candidates recognized that moving forward with the Acadia partnership would ensure that NPF met the company's objective of harvesting at least five species of seafood, fewer candidates recognized that this partnership would also ensure that NPF met the first condition of Entero's proposal: to provide at least five species of seafood. Most candidates recognized that, by agreeing to the partnership, NPF would be responsible for helping Acadia remain compliant with their MSC-certifications—something that was likely to become more onerous, given the expected changes to the certification policies.

In addition, most candidates recognized that the demand for Acadia's shellfish products was increasing, both nationally and internationally; however, only strong candidates discussed how the new international trade agreement between Canada and China could only be taken advantage of if NPF continued to distribute its product internationally. Quantitatively, most candidates attempted to quantify the potential profitability of the partnership, using a net present value calculation.

Strong candidates routinely recognized and discussed the more consequential strategic elements of whether to accept the partnership with Acadia. For example, strong candidates would link their analysis of whether to accept the Acadia partnership with the decision of which distribution channel to use going forward. These candidates recognized that, at present, Acadia's harvests were only minimally processed, which aligned nicely with the requirements of AOISE, whereas if NPF decided to move forward with the Entero agreement, NPF would be required to provide shelf-ready products, which would necessitate a significant increase in processing costs. Strong candidates also recognized the risk associated with Acadia's ability to cancel the partnership contract if NPF did not adhere to the conditions of the contract. As these conditions were not provided, strong candidates recommended that NPF carefully analyze the terms and conditions of the contract prior to moving forward with the partnership. Quantitatively, strong candidates provided an accurate and straightforward net present value calculation for the partnership, and also discussed some of the variables that could fluctuate throughout the duration of the partnership. Some strong candidates also provided a net present value calculation of the partnership, assuming that all of the product was sold to Entero.

Weak candidates tended to analyze this proposal in isolation, without recognizing the various strategic links between it and the other proposals that NPF was presented with. For example, weak candidates discussed how Acadia's snow crab harvest would increase, given that Acadia had won an expanded quota for snow crab. These candidates failed to recognize that, as a cold-water species, the maximum allowable harvest for snow crab was expected to decrease, an outcome that could nullify any increase attributable to the expanded quota licence that Acadia recently won. Weak candidates also tended to highlight the contribution that NPF would need to make, to maintain Acadia's MSC-certifications, as a main reason for declining this proposal, rather than to discuss ways that NPF could approach this task without losing focus on other aspects of the company's operations. Quantitatively, weak candidates struggled to provide an accurate net present value calculation, due to a variety of input errors (such as not using a 12% discount rate). Other weak candidates simply quantified the expected gross profit and operating profit margin of the proposal without providing a net present value calculation, which is less valuable, given the upfront investment that would be required for this option.

AO#4: Acquire Sunrise, the shelf-ready shellfish processing plant?

Candidates were expected to analyze whether NPF should acquire Sunrise, a shellfish processing plant that specialized in producing shelf-ready products. Qualitatively, candidates were expected to recognize that, if NPF wished to produce shelf-ready products, the acquisition of Sunrise would greatly help facilitate this new process. Candidates were also expected to recognize the apparent strength of Sunrise's current operations, as well as the potential opportunity to upgrade Sunrise's equipment, something that had not been done for many years. Quantitatively, candidates were expected to analyze the potential profitability of this acquisition, using a net present value calculation with a discount rate of 12% and a time horizon of 10 years. Candidates could have provided additional value by recognizing that the financial attractiveness of the acquisition would increase if NPF used the plant to process its own harvests (such as the shellfish harvest that NPF would gain access to if the company decided to enter the strategic partnership with Acadia in AO#3).

Most candidates recognized that the processing plant appeared to align well with NPF's corporate values, given that Sunrise was BRCGS- and MSC Chain of Custody-certified. Most candidates also recognized that Sunrise's strong reputation within the local industry, as well as the plant's strict adherence to quality control and food safety, were two indications that the plant had high-quality operations. In addition, most candidates recognized that NPF may not be able to use the plant to process its own products and forgo the cost of outsourcing, given that the plant was currently operating at 100% capacity; however, only strong candidates recognized the strategic importance of this and recommended that NPF acquire additional details about Sunrise's existing contracts prior to making a final decision. Quantitatively, most candidates attempted to quantify the potential profitability of the acquisition, using a net present value calculation.

Strong candidates recognized that, given Sunrise's specialization in producing shelf-ready products, the merit of acquiring Sunrise strongly depended on whether NPF planned to accept Entero's distribution agreement. These candidates recognized that it would not make strategic sense to acquire Sunrise if NPF renewed its distribution agreement with AOISE, given that AOISE only required minimally processed products. Strong candidates also recognized that Sunrise's plant appeared suitable for an upgrade that would have enabled the plant to produce premade, ready-to-eat entrees—a type of product whose demand was increasing, and one that Entero wished to provide within its network of grocery stores across Canada. Quantitatively, strong candidates provided an accurate and straightforward net present value calculation for the acquisition and then compared the result of their calculation to the board's objectives. Strong candidates would also discuss how the financial attractiveness of the acquisition would likely increase if the plant was used to process the company's own harvests.

Similar to AO#3, weak candidates tended to analyze this proposal in isolation, without recognizing the various strategic links between it and the other proposals that NPF was presented with. For example, weak candidates did not integrate how NPF's choice of which distribution channel to use could affect the strategic strength of acquiring Sunrise's processing plant. Instead, weak candidates tended to highlight NPF's current lack of experience with this type of processing as a main reason for forgoing the acquisition. Rather than suggest that NPF inquire whether the plant's current team of experienced managers and engineers, who had worked at the plant for many years, planned to stay with Sunrise after the acquisition, these candidates recommended against the investment altogether. Other weak candidates would highlight the differing opinions of Colan and Allan as a main reason for forgoing the acquisition. Quantitatively, weak candidates struggled to provide an accurate net present value calculation, due to a variety of input errors (such as not including the annual loan repayments). Other weak candidates simply quantified the expected gross profit and operating profit margin of the proposal without providing a net present value calculation.

AO#5: Acquire Oceanfin, the bluefin tuna quota licence and harvesting operation?

Candidates were expected to analyze whether NPF should acquire Oceanfin, a bluefin tuna harvesting company that was selling both its fishing vessel and quota licence for bluefin tuna. Qualitatively, candidates were expected to recognize the significant opportunity that this potential acquisition represented, given the increasing popularity of bluefin tuna and the fact that Oceanfin's fishing vessel was equipped to catch and process sushi-grade tuna. Candidates were also expected to recognize that Oceanfin's operation was not yet MSC-certified, and that obtaining this certification could be a challenge, given the expected update to the policies related to obtaining and maintaining the MSC-certification. Quantitatively, candidates were expected to analyze the potential profitability of the acquisition, using a net present value calculation with a discount rate of 12% and a time horizon of 10 years. Candidates could have provided additional value by discussing the various elements of Oceanfin's revenue and expenses that could fluctuate, from the data provided in the case (for example, candidates could have discussed how Oceanfin's harvesting and processing expenses could increase, should NPF decide to focus on offering sushi-grade tuna).

Most candidates recognized that the growing popularity of sushi made the acquisition of Oceanfin attractive; however, some weak candidates recommended forgoing the investment, given that the process to produce sushi-grade tuna was more complex relative to processing regular tuna. On the other hand, strong candidates recommended that, prior to making an investment decision, NPF should investigate this process, to ascertain whether NPF could reasonably expect to produce sushi-grade tuna, given the current state of Oceanfin's operations and fishing vessel. In addition, while most candidates recognized the increasing popularity of bluefin tuna, only strong candidates recognized that bluefin tuna was especially popular on the international market, which could allow NPF to take advantage of the new trade agreement with China, should the company decide to decline Entero's proposed distribution agreement. Quantitatively, most candidates attempted to quantify the potential profitability of the acquisition, using a net present value calculation.

Strong candidates recognized that NPF's choice of which distribution channel to move forward with would greatly affect whether it made sound strategic sense to also move forward with the acquisition of Oceanfin. For example, strong candidates recognized that the demand for minimally processed bluefin tuna was rising on the international market, and how renewing the company's distribution agreement with AOISE aligned perfectly with that, given AOISE's focus on international markets and their need for only minimally processed products. Strong candidates also recognized the strategic link between the acquisition of Oceanfin and NPF's existing operation, given the recent expansion of NPF's cold-storage facility, which would allow NPF to store any bluefin tuna that was not immediately sold. Quantitatively, strong candidates provided an accurate and straightforward net present value calculation for the acquisition, and then compared the result of their analysis to the board's stated objectives. Strong candidates would also highlight aspects of Oceanfin's quantitative data that NPF should conduct more due diligence over prior to making an investment decision (for example, some strong candidates recognized that the information provided did not specify how much, if any, of Oceanfin's current revenue was derived from selling sushi-grade tuna).

Weak candidates tended to focus their analysis on the generic aspects of this decision, such as the fact that fishing for bluefin tuna did not align with NPF's current vision and mission statements, rather than the more strategically impactful aspects of the decision, such as the fact that the maximum allowable harvest for bluefin tuna, a warm-water fish, was expected to remain stable or even increase, given the warming waters of the North Atlantic Ocean. Weak candidates also highlighted Oceanfin's lack of an MSC-certification as a main reason to decline the opportunity, rather than suggest that NPF investigate the process of obtaining the certification prior to making a final investment decision.

Quantitatively, weak candidates struggled to provide an accurate net present value calculation, due to a variety of errors (such as by not using a 10-year time horizon). Other weak candidates simply quantified the expected gross profit and operating profit margin of the proposal, without providing a net present value calculation.

Overall

The focus of SO#2 was on the candidate's ability to recognize and integrate the main strategic elements of the company's global situation within their analyses of each strategic alternative, and to consider how the viability of each investment opportunity would be affected by the main strategic question of the simulation: which distribution channel should NPF use to sell the company's products?

Most candidates addressed each of the strategic alternatives available to NPF; however, many weak candidates took an "issue by issue" approach, and therefore failed to recognize and discuss the synergies and strategic links that existed between the various opportunities that NPF was considering. For example, weak candidates typically did not incorporate their recommendation on which distribution channel to use within their analysis of the other strategic opportunities presented. Conversely, strong candidates recognized that the strategic strength of the available investment opportunities would partially depend on which distribution channel the company decided on. For example, strong candidates recognized that, given that AOISE only wished to purchase minimally processed products, moving forward with the acquisition of Sunrise did not make strategic sense if the company also decided to renew the company's existing distribution agreement with AOISE.

Strong candidates provided well-balanced qualitative discussions that recognized both the advantages and disadvantages of each strategic alternative, and made more relevant links to the company's global situation (for example, strong candidates regularly discussed how the warming water of the North Atlantic Ocean would affect the viability of each strategic alternative that was presented). On the other hand, some weak candidates struggled to provide sufficient breadth when discussing each strategic alternative's advantages and disadvantages, which often resulted in an unbalanced and incomplete discussion. Weak candidates also struggled to identify and integrate the more relevant aspects of NPF's global situation within their analysis of the strategic alternatives (for example, some weak candidates tended to repeatedly link each qualitative discussion point to the board's stated objectives, without recognizing or discussing how the other pertinent elements of NPF's global situation would impact the decisions that needed to be made).

While most candidates attempted to analyze each strategic option from a quantitative perspective, strong candidates were better able to provide straightforward and easy-to-understand calculations. Strong candidates were also able to better integrate the results of their calculations into their discussions and recommendations of each strategic alternative. Strong candidates used the board's stated objectives to guide their quantitative analyses, and did a good job of discussing how well each strategic option met, or did not meet, the board's objectives. For example, not only did strong candidates recalculate NPF's 2025 operating income, had the company sold all of its product to Entero at the 20% purchase price premium, but they also recalculated the resulting increase to NPF's gross profit and operating profit margins, in accordance with the board's stated objectives. Weak candidates often struggled to incorporate all of the relevant information into their calculations, and also struggled to describe how the results of their quantitative analyses had impacted their recommendations on whether or not to move forward with each strategic alternative. Additionally, weak candidates were more likely to provide overly complicated calculations that contained many errors, were difficult to understand, and did not address the board's objectives.

SO#3 (Conclude and Advise)

For each of the strategic alternatives available to NPF, candidates were expected to provide recommendations that were consistent with their analyses. Candidates were also expected to provide an integrative conclusion that linked together the analysis and recommendations they provided for each AO in a cohesive and sensible way. Candidates could have accomplished this in a variety of ways. The most common way to integrate was through a discussion of how the candidate's recommendation in AO#2 (which distribution channel to use to sell the company's products) impacted their analysis and recommendations for whether to proceed with the other strategic alternatives available to the company. For example, after recommending that NPF renew the company's existing agreement with AOISE, candidates could have discussed how moving forward with the Oceanfin acquisition made sound strategic sense, given that AOISE required minimally processed products, which aligned with the way that Oceanfin processed its bluefin tuna harvests. As another example, after recommending that NPF move forward with Entero, candidates could have discussed how partnering with Acadia was necessary, to ensure that NPF could provide Entero with five species of seafood, in accordance with the conditions of Entero's proposal. Candidates could have also provided integration by drawing on the two crucial developments that had occurred within NPF's industry (the threat of warming ocean water and the opportunity presented by the new international seafood trade agreement), to support their recommendations on which strategic alternatives to pursue.

Strong candidates provided responses that included several integrative elements, and an overall conclusion that made sound strategic sense, given which distribution channel the candidate recommended in AO#2. Weak candidates struggled to provide conclusions that would have resulted in a sensible overall strategic direction. For example, some weak candidates recommended moving forward with Entero as the company's exclusive distributor, but then recommended against Acadia and/or Sunrise, even though both of these investments were necessary for ensuring that NPF met the conditions of Entero's contract. Within their recommendations, strong candidates also cautioned NPF against moving forward with certain strategic alternatives before more due diligence was conducted. For example, strong candidates recognized that critical pieces of information were missing from Entero's proposal, which NPF needed to acquire prior to making a final decision (such as the penalty that would be applied if NPF was unable to provide at least five species of seafood throughout the duration of the contract). On the other hand, weak candidates were more likely to recommend against the various strategic alternatives based on the incomplete information provided in the case, rather than suggest that NPF investigate the risk prior to making a final decision (for example, rather than suggest that NPF inquire whether Oceanfin's experienced and dedicated crew planned to stay with Oceanfin after the company's sale, weak candidates tended to reject the option outright, given NPF's current lack of experience with fishing for bluefin tuna).

SO#4 (Communication)

Most candidates approached their response in a coherent and organized fashion. Only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized response approach.

SO#5 (Overall Assessment)

Overall, candidates were expected to meet the minimum acceptable standards in each of the four summative opportunities in order to obtain a "Pass" on the Day 1 linked case. Candidates also had to demonstrate a minimum level of numeracy skills.

For each major issue, candidates were expected to provide a sufficient level of analysis, and then to provide a recommendation that was consistent with their analyses. Candidates were also expected to provide a reasonable amount of discussion on how the two crucial developments that had occurred within NPF's industry (the threat of warming ocean water and the opportunity presented by the new international trade agreement) had impacted their analysis, and/or how the candidate's recommendation for which distribution channel to use had impacted the rest of the candidate's recommendations. Finally, the board sought evidence that candidates incorporated the important elements of Capstone 1, as well as the main elements of this simulation's situational analysis, into their analysis of the major issues.

**BOARD OF EXAMINERS' COMMENTS ON DAY 1 SIMULATION
(NPF VERSION 2)**

Paper/Simulation: Day 1 – Linked Case, NPF V2 (on May 2025 CFE)

Estimated time to complete: 240 minutes

Simulation difficulty: Average

Competency Map coverage: N/A; Enabling Skills

Examiners' comments by Summative Assessment Opportunity (SO)

SO#1 (Situational Analysis)

Candidates were expected to highlight internal and external factors that may have influenced the choice of strategic alternatives presented in the case. From the range of strategic alternatives available to NPF in Capstone 1, two major decisions had been made: (1) In 2024, NPF opened its first seafood retail location, called Atlantic Pure Seafood Market. Following the initial success of this store, a second retail location launched in 2025; and (2) The board accepted the sale of Neptune's Tasties brand name for \$12 million. NPF also approved a new vision and mission statement.

Since Capstone 1, Colan and Yvonne made the plan to retire within the next two years. Responsibility for NPF's operations will transition fully to Allan and Kurt. Although Colan and Yvonne will remain shareholders, they will no longer be involved in NPF's daily operations. The board's primary objective is to now pursue investments that will secure NPF's long-term success. Preference will be given to opportunities with long-term growth potential, and the board has set a target of achieving at least a 12% annual return on any investments made.

Following the sale of Neptune's Tasties brand, and with cash generated from ongoing operations, NPF has \$15 million in cash reserves. However, the board has emphasized the importance of maintaining a reasonable cash buffer, to help NPF navigate industry volatility and to capitalize on future strategic investment opportunities. As a result, any new investments need to consider not only the financial resources available to NPF, but also the time required and management's capacity to operate them effectively.

In their analysis in SO#2 and recommendations in SO#3, candidates were rewarded for discussing how management's time constraint could influence the strength and viability of each of the strategic alternatives being considered by NPF. In addition to addressing this challenge, candidates were also expected to consider NPF's strategic priorities: maintaining a reasonable cash reserve; pursuing investments with long-term growth potential; and achieving a 12% return on investments. Candidates were rewarded when they effectively linked their situational analysis with their evaluation of strategic alternatives in SO#2 and the recommendations made in SO#3.

Most candidates provided an adequate summary of NPF's internal and external environment at the beginning of their report. Typically, candidates included an updated SWOT analysis that highlighted the changes in NPF's situation since Capstone 1, and identified the board's main objectives to be considered in relation to the strategic alternatives presented in the case. While most candidates recognized the presence of management's time constraint within their situational analysis, some did not sufficiently explore or discuss the implications within their analysis and recommendations. Additionally, most candidates also recognized and emphasized NPF's objectives—specifically, the focus on investments with long-term growth potential, and the requirement to achieve a 12% return on investments.

Strong candidates provided a situational analysis that included an updated SWOT analysis, highlighting the most relevant macro-level factors affecting NPF's current internal and external business environment. For example, they emphasized that the planned retirement of Colan and Yvonne introduced uncertainty around whether Allan and Kurt would be able to manage the existing operations as well as any new potential investments. These candidates also identified the opportunities and weaknesses associated with the strategic alternatives, and how these would impact management time constraints. Strong candidates consistently linked their evaluation of each strategic alternative to these key macro-level factors, demonstrating an understanding of how NPF's broader context influenced strategic decision making.

Weak candidates tended to simply list NPF's vision, mission, core values, and key success factors from Capstone 1 without highlighting which of those aspects would play an emphasized role in their analysis, based on the information provided in the case. Others simply restated case facts without explaining which aspects would most significantly impact their decision-making process. Additionally, weak candidates struggled to link their analysis of the strategic alternatives in SO#2 to the most relevant situational factors, often making superficial or misplaced links, such as referencing how each investment aligned with NPF's strategy as outlined in Capstone 1, rather than focusing on the updated strategic context presented in the case.

SO#2 (Analysis of the Issues)

Candidates were expected to analyze four strategic alternatives, both qualitatively and quantitatively. Candidates were also expected to integrate the key macro-level aspects of NPF's internal and external factors within their analysis of each strategic alternative, such as the board's objectives and the management time constraint.

AO#2: Purchase Bundhoo Salmon Farm (BSF)?

Candidates were expected to evaluate whether NPF should enter the aquaculture industry by acquiring Bibi Bundhoo's 12-year-old salmon farm as a means of expanding its product mix to include an in-demand seafood product, salmon. Qualitatively, candidates were expected to discuss if this move made strategic sense, particularly since fresh salmon and salmon-related products are among NPF's top sellers in its retail stores. Quantitatively, candidates were expected to analyze the potential profitability of the investment using an appropriate tool, such as a return on investment (ROI) calculation, and compare it to the board's objective of a 12% return. Candidates were rewarded when they addressed how the management time constraint could be mitigated, for example, by noting that Bibi Bundhoo had agreed to remain for one-year, post-acquisition, to train Kurt on facility operations. Alternatively, candidates could have recommended against the acquisition, pointing out that Kurt lacks technical knowledge of aquaculture, and does not have the capacity to invest the time required to learn from Bibi Bundhoo.

Most candidates acknowledged that, although no adverse events had occurred at the farm to date, that did not guarantee it would not happen in the future. Many also recognized that Kurt lacked expertise in operating an aquaculture farm, identifying it as a risk to the investment's success. Few candidates discussed that BSF was already operating at maximum farming capacity, which significantly limited future growth. Quantitatively, most candidates attempted to assess the proposal's profitability by using the data provided. Some candidates acknowledged that the operation's age could impact long-term returns, and although BSF did not currently require upgrades, it was likely to need them within two or three years, which could also affect the return on investment and fall short of the board's objective of investments with long-term growth and 12% return. This investment would also reduce NPF's cash reserve, a financial consideration that should have been factored into the recommendation.

Strong candidates acknowledged Kurt's lack of technical expertise but also recognized Bibi Bundhoo's willingness to support the transition as a valuable mitigating factor. These candidates also recognized the growing demand for salmon and salmon products as an opportunity, reinforcing the potential benefits of this acquisition. Strong candidates made connections between BSF and the retail stores' expansion opportunity, noting the potential for increased salmon and salmon-product sales through new store openings if NPF were to proceed with both strategic alternatives. Quantitatively, strong candidates used the provided data effectively to perform a clear and accurate ROI calculation, and directly linked their results to the board's 12% return objective.

Weak candidates often narrowly focused on the industry's maximum allowable harvest limits as their main justification for either proceeding with, or rejecting, the investment. Some recommended against the proposal based on the government's intent to reduce the catch quota, without recognizing this only applied to wild-caught salmon, and having an aquaculture farm would then mitigate against the catch quotas as the salmon would be bred within the farm. Weak candidates also tended to focus on more superficial case facts, such as the absence of past disease outbreaks at the farm while overlooking deeper strategic implications, such as Bibi Bundhoo's critical role in the farm's success and the dedication of time required, a constraint Kurt and NPF are facing. Quantitatively, although weak candidates attempted to calculate the ROI, they frequently presented their calculation without tying it back to the board's strategic objective of a 12% required return. Others used incorrect inputs, or inappropriate assessment tools. For example, rather than a return on investment calculation, many weak candidates calculated the proposal's projected annual income, or multiple of net income, to determine if the asking price was reasonable.

AO#3: Open additional retail stores?

Candidates were expected to evaluate whether NPF should open four additional storefronts for its new retail business, two located in Newfoundland and Labrador, one in Quebec, and one in Ontario. With increasing demand for seafood and ready-to-eat seafood meals, NPF could potentially capitalize on this opportunity by expanding consumer access to its high-quality products. Qualitatively, candidates were expected to assess whether this expansion made strategic sense, particularly for the stores that are out of province. The further each store is from head office, the more difficult and costly it becomes to manage, requiring additional resources and time. In addition, candidates should have recognized that the first six months after opening a store are often the most complicated and time-consuming, and this initial phase is critical to long-term store success. Candidates could have also recognized that, although industry competition is increasing and supply is unpredictable, Yvonne was in discussions to secure long-term supply contracts that would help to supply NPF's retail stores. Quantitatively, candidates were expected to assess the profitability of the proposed expansion using an appropriate tool, such as a return on investment (ROI) calculation, and compare it the board's objective of a 12% return.

Most candidates recognized that NPF's experience from opening the first two retail stores provided insight into which products are in demand, which could help with inventory choices for the new stores. Many also noted the growing popularity for pre-cooked and ready-to-eat meals. Most candidates acknowledged that expanding into four new stores—especially those out of province—would significantly increase both cost and time commitments, which NPF already has in limited quantities. Most also noted that, while Yvonne had initiated conversations with local suppliers to ensure that NPF's retail stores could be stocked, many recognized that if these contracts could not be finalized, sourcing could be an added challenge. This could include lack of product availability, an increase in the costs to transport, and greater chances of spoilage, especially to the out-of-province locations. Additionally, most candidates recognized that the industry's harvest limit could restrict NPF's ability to meet customer demand, especially given the wide range of products expected by consumers. Quantitatively, most candidates attempted to assess the profitability of the proposed investment. Some noted that the investment would reduce NPF's cash reserves, an important financial factor that should have been considered.

Strong candidates recognized the risk of launching all four stores simultaneously, and proposed practical strategies for reducing that risk, such as opening only two stores initially, and leveraging Yvonne's support and expertise before her retirement. They also questioned the feasibility of expanding into other provinces, citing management's limited time, a lack of experience operating in those provinces, and potential higher costs. Strong candidates acknowledged that, while the retail expansion would meet the board's 12% return target, a more cautious and phased approach would be wiser. They also identified the long-term growth potential of this proposal, suggesting that more stores could be added in the future as operational stability improved and management was able to find more capacity to oversee the expansions. Strong candidates recognized the potential strategic integration between the retail store expansion and the Marine Eats proposal, suggesting that Marine Eats could help process seafood into ready-to-eat meals, to supply the retail stores. Quantitatively, strong candidates used the provided data to effectively conduct a clear and accurate ROI calculation, directly linking their results to the board's objective of a 12% return. They also highlighted how uncertainty surrounding the provided revenue projections due to supply chain volatility, and the unexpected expenses if local suppliers could not be secured, would impact the return. Some noted the risk of spoilage if products had to be transported long distances between provinces, resulting in additional costs.

Weak candidates struggled to identify and analyze the proposal's more impactful strategic elements, instead focusing on less relevant parts of NPF's situation. For example, some overemphasized high employee turnover, linking it to NPF's core values of respect and safety of its employees. While this is a valid concern, the more pressing issue for this qualitative factor is the time that management would need to spend on hiring and training new staff. Others argued against the expansion on the grounds that NPF already had a stable buyer for its products—Blue Fresh, the company that purchased Neptune's Tasties—thereby overlooking the purpose and potential of the retail expansion. Some weak candidates objected to the out-of-province stores but failed to suggest an alternative, such as starting with local stores and expanding later. Quantitatively, while weak candidates attempted the ROI calculation, they frequently failed to link their results to the board's objective of a 12% return. Others used incorrect inputs, or inappropriate assessment tools. For example, many calculated only the projected annual income of the stores rather than the ROI, or failed to distinguish between the returns from in-province and out-of-province stores.

AO#4: Acquire Marine Eats?

Candidates were expected to analyze whether NPF should acquire a local seafood processing facility, Marine Eats. This facility processes raw seafood into ready-to-eat fresh or frozen meals, which are then distributed to grocery stores. Qualitatively, candidates were expected to recognize that, although Marine Eats is a well-established business, operating such a facility presents significant challenges and would require substantial management oversight. Candidates could have noted that Marine Eats' existing management team intended to stay, post-acquisition, which could ease the transition. Additionally, there was an opportunity for candidates to identify the potential synergies between this investment and NPF's proposed retail store expansion, as well as either of the aquaculture farms. Quantitatively, candidates were expected to assess the investment's profitability using a valid assessment tool, such as a net present value (NPV) calculation, using a discount rate of 12% over a time horizon of eight years, to reflect the remaining useful life of the facility before significant refurbishments would be required. Given the initial investment required, candidates could have noted that the investment would reduce NPF's cash reserves, an important financial factor that should have been considered.

Most candidates acknowledged that Marine Eats' operations align with NPF's commitment to offering high-quality products, and the opportunity to supply a broad range of premium, pre-made meals is attractive, given increasing consumer demand for variety and convenience. Many also noted that, while Marine Eats could tailor its products to meet NPF's specifications, doing so could be challenging and time-consuming due to the stringent quality requirements of the raw fish used by the facility. Most candidates observed that Marine Eats does not sell directly to consumers under its own brand, and thus NPF would be acquiring a business with minimal brand recognition or consumer reputation. Fewer candidates, however, recognized that Marine Eats had more demand than it could satisfy, and that the facility had already expanded in the past to increase capacity. Quantitatively, most candidates attempted to assess the potential profitability of the proposed investment using an NPV calculation; however, many responses contained errors related to the inputs, time horizons, or the discount rate used, which impacted the reliability of the analysis.

Strong candidates recognized that, although Marine Eats had been in operation for many years, it was uncertain whether Kurt would have the time and capacity to manage the facility effectively. However, they went on to discuss that this concern was mitigated since Marine Eats' existing management team intended to remain, post-acquisition. This would not only facilitate a smoother transition, but would also reduce the direct time commitment required from Kurt. Strong candidates also identified the synergies between this acquisition and NPF's proposed retail store expansion. Some strong candidates went further by noting the potential integration that could also be made to Bundhoo Salmon Farm or Synersea. Strong candidates recognized that the Marine Eats facility can process NPF's seafood catches into ready-to-eat products for sale in its own stores. Others noted that, if NPF were to expand into aquaculture, Marine Eats could similarly process the farmed fish, enhancing the vertical integration and value of this facility. Strong candidates also acknowledged that, while Marine Eats' current high demand made it an attractive opportunity, the facility had already been expanded once and was at its capacity. This limited future growth, and did not align with the board's preference for investments with longer-term scalability. Quantitatively, strong candidates correctly performed an NPV analysis, using a discount rate of 12% and a time horizon of eight years. They noted that, while the investment aligned with the board's investment objective of a 12% return, the projected return was marginal and close to falling below expectations. They also appropriately raised the concern that continuing operations beyond the facility's useful life required significant refurbishments, representing a potentially costly future investment.

Weak candidates tended to focus on the more operational or human-resource issues of the investment, such as the potential interpersonal conflicts between Marine Eats' existing management and NPF's employees. This potential misalignment was often linked back to one of NPF's corporate values of respect and safety for its employees. This analysis missed the more strategic insight that the presence of an experienced management team would ease the transition and reduce the burden on Kurt, allowing him to focus on other areas of the business. Weak candidates also struggled to identify the strategic links between this proposal and NPF's other investment initiatives being considered. For example, while many acknowledged that Marine Eats could process raw seafood, they failed to connect this capability to the opportunity to supply high-quality, ready-to-eat meals to NPF's existing and future retail stores. Weak candidates discussed surface-level case facts, relying heavily on broad references to NPF's new vision and mission statement without deeper analysis. For example, some rejected the proposal on the basis that Marine Eats sources both local and international seafood, arguing that this conflicted with NPF's commitment to ethically-sourced products. Others pointed to the risk of exchange-rate fluctuations, or the additives used to preserve the seafood in order to reduce spoilage during transportation. While these may be valid considerations, they were more minor compared to the significant benefits this strategic alternative could provide. Quantitatively, weak candidates generally struggled with the required NPV calculation. Many either failed to perform the calculation, or did not interpret the results in terms of its implications for investment viability. Instead, some calculated ROI or projected annual net income, but these approaches were not suitable for evaluating longer-term projects. Given the extended time horizon and the long-term nature of the project, a more appropriate tool would be to use NPV.

AO#5: Build the Integrated Multi-Trophic Aquaculture (IMTA) operation, Synersea?

Candidates were expected to evaluate whether NPF should build and operate the IMTA operation, Synersea. This investment would allow NPF to use advanced marine technology capable of cultivating and harvesting multiple species simultaneously. Qualitatively, candidates were expected to recognize that, not only was consumer demand increasing for high-quality seafood, but consumers were also looking for greater variety. Synersea offered NPF a way to respond to both trends, given that the farm could cultivate a significantly larger and more diverse harvest than a traditional aquaculture operation, such as Bundhoo Salmon Farm. Candidates could have also identified the potential synergies between this investment and NPF's proposed retail store expansion, as the variety of species farmed at Synersea could directly supply the retail stores and better meet evolving customer preferences. Candidates could have noted that Synersea's use of advanced marine technology would streamline the certification process and improve operational efficiency, which could help with the time constraint faced by management. A key point for consideration was that Synersea's success hinged on NPF's ability to successfully develop the initial infrastructure and farming environment.

Quantitatively, candidates were expected to assess the financial viability of the project using a valid assessment tool such as an NPV analysis, applying a 12% discount rate over a 10-year horizon, which was the duration of the lease. Given the initial investment required, candidates could have noted the effect on NPF's cash reserves, and integrate this financial consideration into their analysis.

Most candidates recognized that Synersea would meet growing consumer demand for both quality and variety, as the farm could cultivate at least four species simultaneously. Most also acknowledged the operational parallels with the Bundhoo Salmon Farm, noting that technical knowledge gained from one project could be transferable to the other. Most candidates also pointed out that, although Synersea's annual harvest was significantly larger than traditional aquaculture farms, the IMTA model carries a higher risk of disease and outbreaks due to the interconnected nature of the farming system. Quantitatively, most candidates made a reasonable attempt to calculate the anticipated return using an NPV, and compared the projected return that building the IMTA farm would have on the board's 12% objective.

Strong candidates recognized the synergies between this proposal and other investment opportunities, such as the Marine Eats facility, noting that farmed seafood from Synersea could be processed into ready-to-eat meals and sold through NPF's existing or new retail stores. Strong candidates added further value to their response by recognizing that, although the initial set-up would be resource-intensive, both financially and of management's time, the IMTA system would eventually automate many of the tasks previously requiring manual oversight. This feature directly addressed management's limited availability, as it reduced the need for hands-on supervision once operations were stabilized. Strong candidates also linked the project directly to the board's investment objective of long-term growth, given that Kurt had stated that additional species could be introduced after 2031, providing commercial scalability. Some strong candidates also addressed the anticipated reduction in catch quotas for wild-caught Greenland halibut. They noted that, while Synersea would not produce wild-caught fish, it could cultivate Greenland halibut or a similar species in the aquafarm, thereby offsetting lost volume and protecting NPF's supply chain. Quantitatively, strong candidates correctly calculated the NPV, using a 12% discount rate and a 10-year useful life to align with the lease period. They then compared the calculated returns with the board's objective, concluding that the investment exceeded the required threshold. Strong candidates also noted that the landowner had already expressed interest in extending the lease for another 10 years, which would extend the useful life of Synersea well beyond what was used in the NPV calculation, further enhancing the investment's attractiveness and potential return.

Weak candidates struggled to assess the strategic implications of Synersea's advantages and risks. Rather than focusing on how Synersea fit into NPF's broader investment strategy, many simply cited case facts without demonstrating how they applied to NPF's current context. For example, the case noted that once the IMTA farm is set up and stable, the system automates many of the processes that once depended on people to perform. Weak candidates noted this as a disadvantage, citing that employees would be laid off, and although this is a valid concern, they often overlooked the more important factor, which was that having automated processes would reduce the strain on management's time. Many weak candidates recommended both Synersea and Bundhoo Salmon Farm, based solely on the perceived similarities of the two operations. These responses often failed to consider the broader implications of capacity limitations—neither Kurt nor NPF had sufficient aquaculture experience or the time to execute both projects simultaneously. Most weak candidates did not recognize that the two investments might be substitutes, rather than complementary, especially given that species like salmon could potentially be added to Synersea at a later stage, making the salmon farm redundant. Some weak candidates also made generalized statements about the value of technological innovation without analyzing how the automation features of Synersea could help address NPF's operational constraints—specifically, management's time constraint. Many weak candidates demonstrated a surface-level understanding of the risks. For example, while disease and outbreaks were often mentioned, weak candidates did not explore the potential operational or financial impact of such risks, nor did they propose ways to mitigate them. Instead, candidates simply stated this fact as a qualitative factor without further explaining how or why this was a disadvantage, or they attempted to link the issue back to a key success factor of selling products that taste and look fresh. Quantitatively, weak candidates struggled with the NPV calculation. Many either did not complete the calculation or misapplied the methodology, using incorrect discount rates, time horizons, or cash flow assumptions. Many candidates calculated ROI or projected net income instead, which were not appropriate measures for this long-term investment decision. Even when some weak candidates attempted the NPV, they failed to interpret the results or link them back to NPF's strategic goals of having an investment with long-term growth, which Synersea would provide. Since the initial lease term was 10 years, with the potential to extend for another 10 years, the useful life of Synersea could exceed the parameters used in the NPV calculation, meeting both the board's strategic objectives of long-term growth, and the 12% investment objective.

Overall Summary

The focus in SO#2 was on the candidate's ability to integrate key elements of NPF's global situation—particularly the management time constraint and the board's objectives—into their analysis and discussion of each assessment opportunity. Candidates were expected to recognize that the attractiveness of each strategic alternative depended heavily on whether NPF could effectively mitigate its management capacity limitations, which were heightened by the impending retirement of two key shareholders. NPF had different avenues it could pursue: aquaculture farming (AO#2 and AO#5), commercial expansion through retail stores (AO#3), and the purchase of a processing facility (AO#4). The management time constraint affected all four proposals under consideration. Candidates were expected to recognize this as a critical issue and incorporate it into their analyses. They were expected to suggest strategies that could help NPF overcome this limitation, for example, by leveraging automation, retaining existing management teams, or phasing in proposals. Alternatively, candidates could also recommend against certain investments altogether if they concluded that NPF lacked the necessary time or resources to manage them effectively.

In addition to recognizing the operational constraints, candidates were also expected to consider the board's two objectives: achieving long-term growth and generating a minimum financial return of 12% on investments. Candidates needed to balance both strategic alignment and financial viability in their recommendations, clearly linking the expected outcomes of each proposal to these overarching objectives. Because some of the investment opportunities were more compatible than others, candidates were also expected to discuss the interconnections between the proposals. For example, the retail store expansion could complement any of the other three options by serving as a distribution channel for processed or farmed seafood products. In contrast, other combinations, such as Bundhoo Salmon Farm and Synersea together, posed significant challenges due to the high demand of management's time required to execute both at once.

Most candidates addressed all the strategic alternatives available to NPF. Qualitatively, most candidates provided sufficient breadth and depth in their analyses. Quantitatively, most candidates attempted to assess the profitability of the strategic alternatives. Several key factors differentiated strong and weak candidates. First, strong candidates demonstrated a greater depth of discussion of how management's time constraint would impact the viability of each strategic alternative. Rather than simply stating that a proposal would increase or decrease the burden on management, strong candidates evaluated the specific circumstances of each option. For example, they recognized that some proposals, such as the acquisition of Bundhoo Salmon Farm or Marine Eats, included existing individuals or management teams that would remain, post-acquisition.

These details were used to support the argument that such investments would allow NPF's management team to have more time to either learn gradually, or take a more strategic, less hands-on role in the operation. In contrast, weak candidates either did not identify the time constraint faced by management, or would simply state whether a strategic alternative would worsen or improve the management time constraint, without examining the specific elements that could perhaps mitigate this. Second, strong candidates were better at identifying and discussing the interrelationships between the four proposals under consideration. They demonstrated AO integration by evaluating how the investments could complement or conflict with each other, particularly under the constraints faced by NPF. For example, strong candidates recognized that building the IMTA operation would have multiple benefits: it would help address the management time constraint through automation of some of the processes; it would offset the impact of reduced catch quotas by cultivating substitute species; and it would create synergies with other proposals, such as using the Marine Eats facility to process farmed seafood or supplying NPF's existing and proposed retail stores. Third, strong candidates consistently provided more meaningful interpretation of the case facts they included in their qualitative analysis. They did not simply state case facts but clearly explained their implications within the context of NPF's strategy and decision-making framework. For example, when evaluating the Bundhoo Salmon Farm proposal, strong candidates recognized that the facility was already operating at full capacity and would therefore not support the board's long-term growth objective, and this observation influenced their recommendation. In contrast, weak candidates often overlooked this operational constraint and did not connect it to the broader strategic objective of long-term growth. Overall, what distinguished strong candidates was their ability to integrate detailed case facts with a broader strategic analysis, making clear connections between operational and financial targets, and NPF's long-term vision. Weak candidates tended to approach each element in isolation, missing the opportunity to build a cohesive and impactful investment strategy for NPF. Quantitatively, many weak candidates struggled to apply the preferred investment evaluation tool. Rather than using NPV or ROI, which were methods consistent with the board's stated objectives, weak candidates calculated only the expected operating income of each proposal. Others applied alternative or inappropriate financial metrics. This demonstrated a lack of alignment with the board's expectations, and reduced the overall reliability of their recommendations.

SO#3 (Conclude and Advise)

Candidates were expected to conclude their analysis by providing a clear and well-supported recommendation for each individual strategic alternative, as well as an overall conclusion that was consistent with their analysis throughout. Although NPF had a sizable investment capital of \$15 million and was not facing an immediate cash constraint, strong candidates recognized that the board had explicitly stated its intention to retain a cash reserve. This reserve was meant to buffer against the inherent volatility of the seafood industry, and to take advantage of other potential strategic investments in the future. As such, while recommending multiple proposals was feasible, doing so required a clear rationale and it was important to note that money should only be spent on investments that met NPF's objectives. The board objectives included achieving a minimum return of 12% on any investment, and prioritizing projects with long-term growth potential. Therefore, if a candidate recommended a proposal that did not meet these criteria, they were expected to provide a well-reasoned justification. This could have included considering qualitative strategic benefits (for example, long-term competitive positioning), or providing risk mitigation strategies. Simply stating that an investment fell short of the board's objectives was not sufficient without a clear explanation of why it may still be worth pursuing, or conversely, why it should be rejected. Candidates could have incorporated the board's objectives into their recommendations, such as long-term sustainability, product diversification, integration, and brand development, and could have explained how their proposed investment decisions would help NPF meet its broader organizational goals. Candidates could have also provided further value by considering the interrelationships between strategic alternatives that they suggested NPF move forward with. Overall, candidates were expected to incorporate all key elements of NPF's global situation—financial targets, operational constraints, strategic goals, and proposal interdependencies—into a well-supported, logical, and realistic recommendation.

Weak candidates tended to analyze each alternative in isolation. As a result, they failed to identify or explore the strategic connections and shared constraints that existed across the proposals, considering NPF's global situation. This limited approach led to fragmented analysis, where each proposal was evaluated on its own merits without considering how it interacted with the others, or how it aligned with NPF's broader strategic and operational realities. A common shortfall among weak responses was the tendency to provide individual recommendations for each investment option within their respective AO sections, while neglecting to consolidate them into a coherent, integrated recommendation in the overall conclusion. Strong responses were able to evaluate the trade-offs between investments, prioritize proposals, and justify their decisions with respect to both synergies and operational feasibility.

A critical overarching issue that candidates needed to address was the significant time constraint facing NPF's management team, particularly considering the pending retirement of two shareholders. Strong candidates recognized this as a central issue and reflected it in their recommendations. This involved not only assessing whether each investment was viable under current resource limitations, but also proposing realistic and actionable strategies to mitigate the time burden. For example, candidates could have suggested hiring external personnel to support new operations, promoting or hiring individuals to take over existing responsibilities, or phasing the implementation of investments to reduce the time pressures. Alternatively, rather than recommending the immediate rollout of four retail stores, a phased opening of one or two stores could allow NPF to build capacity slowly.

SO#4 (Communication)

Most candidates approached their response in a coherent and organized manner, demonstrating a clear structure that allowed the reader to follow their thought process. Candidates generally presented their analysis in a logical sequence, used appropriate headings or subheadings, and supported their conclusions.

A small number of candidates struggled to effectively communicate their ideas, which affected the clarity and professionalism of their responses. These candidates tended to use poor sentence structure, confusing syntax, and a lack of logical flow. In some cases, ideas were presented in a disorganized or fragmented way, making it difficult to understand or follow the rationale behind their recommendations.

SO#5 (Overall Assessment)

Overall, candidates were expected to meet the minimum acceptable standards in each of the four summative opportunities to obtain a "Pass" on the Day 1 linked case. In addition, candidates were required to demonstrate a minimum level of numeracy skills.

For each major issue, candidates were expected to provide a sufficient level of analysis, followed by a recommendation that was consistent with their analysis. They were also expected to include a reasonable discussion on how NPF could achieve its investment objectives while managing the constraint of limited management time. Candidates were also expected to provide an overall recommendation that remained within the company's financial objectives. Finally, the board sought evidence that candidates incorporated the important elements of Capstone 1, along with the main components of this case's situational analysis, into their evaluation of the major issues.

APPENDIX I

CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

Present Value of Tax Shield for Amortizable Assets

Present value of total tax shield from CCA for a new asset acquired on or after January 1, 2024, and before January 1, 2028, other than those eligible for immediate expensing, which would normally be subject to the half-year rule.

$$= \frac{CdT}{(d+k)}$$

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018, and before January 1, 2024, or, under proposed legislation, on or after January 1, 2025, and before January 1, 2030, other than those eligible for immediate expensing.

$$= \frac{CdT}{(d+k)} \left(\frac{1+1.5k}{1+k} \right)$$

Notation for above formula:

C = net initial investment

T = corporate tax rate

k = discount rate or time value of money

d = maximum rate of capital cost allowance

Selected Prescribed Automobile Amounts

Item	2024	2025
Maximum depreciable cost — Class 10.1	\$37,000 + sales tax	\$38,000 + sales tax
Maximum depreciable cost — Class 54	\$61,000 + sales tax	\$61,000 + sales tax
Maximum monthly deductible lease cost	\$1,050 + sales tax	\$1,100 + sales tax
Maximum monthly deductible interest cost	\$350	\$350
Operating cost benefit — employee	33¢ per km of personal use	34¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	70¢ per km	72¢ per km
— balance	64¢ per km	66¢ per km

Individual Federal Income Tax Rates

For 2024:

If taxable income is between	Tax on base amount	Tax on excess
\$0 and \$55,867	\$0	15%
\$55,868 and \$111,733	\$8,380	20.5%
\$111,734 and \$173,205	\$19,833	26%
\$173,206 and \$246,752	\$35,815	29%
\$246,753 and any amount	\$57,144	33%

For 2025:

If taxable income is between	Tax on base amount	Tax on excess
\$0 and \$57,375	\$0	15%
\$57,376 and \$114,750	\$8,606	20.5%
\$114,751 and \$177,882	\$20,368	26%
\$177,883 and \$253,414	\$36,782	29%
\$253,415 and any amount	\$58,687	33%

Selected indexed amounts for purposes of computing income tax

Personal tax credits are a maximum of 15% of the following amounts:

Item	2024	2025
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins	\$14,156	\$14,538
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins	15,705	16,129
Age amount if 65 or over in the year	8,790	9,028
Net income threshold for age amount	44,325	45,522
Canada employment amount	1,433	1,471
Disability amount	9,872	10,138
Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount	2,616	2,687
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	8,375	8,601
Net income threshold for Canada caregiver amount	19,666	20,197
Adoption expense credit limit	19,066	19,580

Other indexed amounts are as follows:

Item	2024	2025
Medical expense tax credit — 3% of net income ceiling	\$2,759	\$2,834
Old age security repayment threshold	90,997	93,454
Annual TFSA dollar limit	7,000	7,000
RRSP dollar limit	31,560	32,490
Lifetime capital gains exemption		1,250,000
Lifetime capital gains exemption for dispositions before June 25	1,016,836	
Lifetime capital gains exemption for dispositions after June 24	1,250,000	

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2025	4	4		
2024	6	6	5	5
2023	4	5	5	5

This is the rate used for taxable benefits for employees and shareholders from interest-free and low-interest loans. The rate is 4 percentage points higher for overdue income taxes payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
Class 1	4%	For all buildings except those below
Class 1	6%	For buildings acquired for first use after March 18, 2007, and \geq 90% of the square footage is used for non-residential activities
Class 1	10%	For buildings acquired for first use after March 18, 2007, and \geq 90% of the square footage is used for manufacturing and processing activities
Class 8	20%	
Class 10	30%	
Class 10.1	30%	
Class 12	100%	
Class 13	N/A	Straight-line over original lease period plus one renewal period (minimum 5 years and maximum 40 years)
Class 14	N/A	Straight-line over length of life of property
Class 14.1	5%	For property acquired after December 31, 2016
Class 17	8%	
Class 29	50%	Straight-line
Class 43	30%	
Class 44	25%	
Class 45	45%	
Class 50	55%	
Class 53	50%	
Class 54	30%	

The CPA certification program prepares future CPAs to meet the challenges that await them. For more information on the qualification process, the common final examination (CFE), and the specific education requirements for your jurisdiction, contact your provincial/regional CPA body.

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