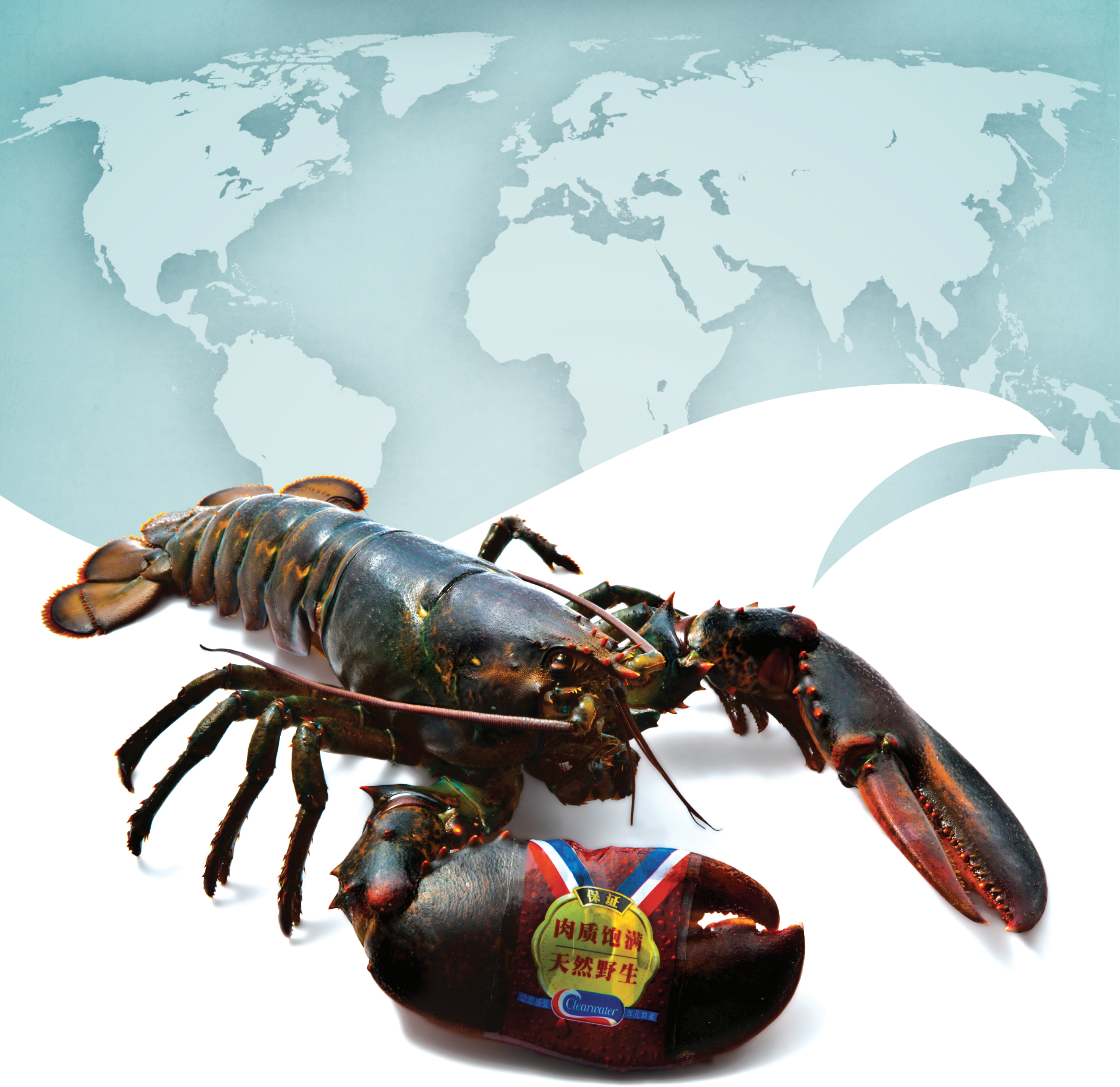
Clearwater Seafoods Incorporated
2011 Annual Report



Clearwater

Dedicated to Sustainable Seafood Excellence

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Letter from the Chairman of Clearwater Seafoods Incorporated

To our valued Shareholders,

I am delighted to report that 2011 was another outstanding year for Clearwater Seafoods. Over the past 12 months, Clearwater's operations, spanning more than three continents, reached new heights of success in sales growth, profitability and shareholder returns.

In 2011, Clearwater's financial performance placed it in the top quartile of the seafood industry and was achieved despite tough global economic conditions. At the heart of this success are the people of Clearwater, driving our company forward with character, competence and teamwork. They deserve our praise and commendation.

Seafood industry and global economic fundamentals of supply and demand point towards the sustainable, profitable growth of vertically integrated wild capture fisheries. This is the industry segment where companies like Clearwater that have the capability to harvest, process, market, sell and distribute their own catch –globally, will continue to see the greatest benefits.

That is why remain we remain confident in our commitment and ability to build shareholder value and in our mission to build the world's most extraordinary, wild seafood company, dedicated to sustainable seafood excellence.

Yours truly,

Colin MacDonald

Chairman
Clearwater Seafoods Inc.

Letter from the Chief Executive Officer of Clearwater Seafoods Incorporated

To our valued shareholders,

2011 was another year of extraordinary business performance and transformation for Clearwater. We achieved, year over year, financial results in the top quartile of the seafood industry and set clear targets for the next five years as well as for the creation of sustainable, long term shareholder value including:

- Maintaining sales growth of 5% or greater,
- An EBITDA ratio to sales of 15% or greater,
- A return on assets of 12% or greater and
- Leverage (total debt to EBITDA) of 3 times or less

In 2011, we made equally strong progress on our transformation plans. Historically, a solid performer in the harvesting, primary processing and global distribution areas, Clearwater has muscle-built our talent and processes in marketing, selling, key account management as well as new product innovation with a focus on the value added processing of our own catch.

Our transformation plan, while still in its early stages, has already directly impacted and accelerated our growth trajectory. While these changes make Clearwater more competitive and profitable, the pillars of our success remain firmly rooted in strong business, seafood industry and global economic fundamentals which have positioned vertically integrated, wild capture fishing companies like Clearwater for sustainable competitive advantage and profitable growth. These fundamentals include;

- The rising global demand for wild and constrained supply of sustainability harvested seafood,

- A value proposition with a singular focus –to deliver sustainable seafood excellence to a worldwide customer base,

- A clear set of business strategies and activities designed to build and reinforce our value proposition,

- A commitment to creating long term shareholder value through improved earnings, free cash flows, capital structure, as well as disciplined foreign exchange and capital investment management, and

- A commitment to our people and to building world class leadership, management practices and sale and marketing excellence.

We look forward to a successful 2012 and to reporting on the progress of transformation plan in the months ahead.

Sincerely,

Ian D. Smith
Chief Executive Officer
Clearwater Seafoods Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective March 13, 2012.

The Audit Committee and the Board of Directors of Clearwater Seafoods Incorporated ("Clearwater") have reviewed and approved the contents of this MD&A, the 2011 annual financial statements and the 2011 annual news release.

This MD&A should be read in conjunction with the 2011 annual financial statements and the 2011 Annual Information Form, which are available on Sedar at www.sedar.com as well as Clearwater's website, www.clearwater.ca.

Clearwater has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2011 and have concluded that such procedures are adequate and effective to provide reasonable assurance that the material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

The Management of Clearwater, with the participation of the CEO and the CFO (collectively "Management"), is responsible for establishing and maintaining adequate internal controls over financial reporting. Clearwater's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").

Management evaluated the design and effectiveness of Clearwater's internal controls over financial reporting as at December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report "Internal Control – Integrated Framework (1992)". This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion. Based on management's evaluation, the CEO and the CFO have concluded that, as at December 31, 2011, Clearwater's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There have been no significant changes in Clearwater's internal controls over financial reporting or other factors that occurred during the period from October 2, 2011 to December 31, 2011 or subsequent to the date of management's evaluation, that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This Report may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs that could cause actual results to differ materially from those expressed in the forward-looking statements. The Fund and Clearwater do not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances other than as required under applicable securities laws.

OVERVIEW OF CLEARWATER

Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium wild eco-labeled seafood, including scallops, lobster, clams, coldwater shrimp, crab and ground fish. Our key competitive advantages include our ownership of significant quotas in key species, our innovations in harvesting and processing technologies, and our vertical integration, which allows Clearwater to manage marketing, sales and distribution in-house. Since the founding of the business in 1976, Clearwater has invested in science, people, technology, resource ownership and resource management to preserve and grow its seafood resource. This commitment has allowed Clearwater to be a leader in the global seafood market.

PERFORMANCE OF CLEARWATER SEAFOODS INCORPORATED (including key performance indicators)

	2011 Actual	2010 Actual	Target	
Profitability				
EBITDA* (as a % of sales)	18.1%	16.1%	15.0%	Clearwater has had continued growth in EBITDA as a percentage of sales for the last 3 years. This positive momentum is expected to continue into 2012.
Sales growth	5.5%	2.5%	5.0%	Strong annual sales came as a result of improved sales prices for all major species
Financial Performance				
Leverage**	3.85	4.43	3.00	The ratio to total debt to EBITDA improved from 4.43 at December 31, 2010 to 3.85, a continuing trend of significant improvement from 2008. The target of 3 times EBITDA is expected to be accomplished by December 31, 2014.
Returns				
Return on assets**	10.3%	9.7%	12.0%	Return on assets has improved from 9.7% at December 31, 2010 to 10.3%, a continuing trend of significant improvement from 2008. The target of 12.0% is expected to be accomplished over the next several years.

Note: Refer to definitions

* 2010 based on 100% consolidation of an entity previously reported proportionately consolidated

** Target to be accomplished over several years

For the year 2011, Clearwater reported EBITDA of $60.3 million on sales of $332.8 million versus 2010 comparative figures of $50.7[1] million and $315.5[1] million representing EBITDA growth of 18.9% and sales growth of 5.5%.

The growth in annual 2011 EBITDA came as a result of improved sales prices and a shift to higher margin species, partially offset by lower sales volumes, higher harvesting costs per pound and a strong Canadian dollar. Clearwater experienced lower volumes in 2011 due mostly to the timing of offshore coldwater shrimp landings.

SELECTED ANNUAL INFORMATION

(In 000's except per share amounts)	2011	2010	Note 1 2009
Sales	$ 332,785	$ 315,540	$ 284,066
Net earnings (loss)	22,955	(15,278)	26,148
Basic earnings per share	0.45	(0.34)	0.51
Diluted earnings per share	0.43	(0.34)	0.51
EBITDA	60,284	50,695	39,317
Total assets *	386,817	322,152	338,090
Long-term debt *	247,100	203,433	214,117

Note 1: Results for 2009 do not reflect (i) the conversion to IFRS, (ii) the conversion to a trust; (iii) the consolidation of an entity previously proportionately consolided

* Total assets and long term debt for 2010 do not reflect the consolidation of an entity previously proportionately consolidated

CLEARWATER'S MISSION, VALUE PROPOSITION AND STRATEGIES

Mission

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

We define:

- "**extraordinary**" as sustainable, profitable growth in revenue, margins, EBITDA and the creation of long term shareholder value;
- "***wild*** seafood" as premium wild shellfish. Including our core species – (scallops, lobster, clams and coldwater shrimp); and
- "**sustainable seafood excellence**" as delivering best in class, quality, food safety, traceability and certified sustainability.

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

Over the last three years, Clearwater has made significant progress in all aspects of its mission. Revenues have consistently increased and are accelerating despite strong foreign exchange headwinds. Gross margins have increased more than 5.5 percentage points from 15.4% in 2009 to 20.9% in 2011. EBITDA has grown at a 24% cumulative average growth rate over three years.

With this improved performance Clearwater has been able to reinvest in its core operations, strengthening its competitiveness while still reducing leverage below

4 times EBITDA to 3.85 at December 31, 2011 versus 5.22 at December 31, 2009.

Value Proposition

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

- Great tasting, nutritious, highest quality, frozen-at-sea, premium shellfish.
- Expertise in premium shellfish science, harvesting, processing and logistics technology ensuring quality and safety from "ocean to plate".
- Marine Stewardship Council ("MSC") certification for sustainability of species ensuring both the traceability and long term health of our wild resource.
- Competitively advantaged global customer service with local market understanding and insight
- Scale in license and quota ownership guaranteeing exclusive and stable supply to even the largest global retail and food service customers.

Strategies

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

1. **Expand access to supply** of core species through procurement, acquisitions, partnerships, joint ventures, and yield-improving harvesting and processing technology. At Clearwater, we strive to sell everything we catch at a premium. But, being a sustainable harvester in a world of rapidly growing global demand and limited supply of wild seafood means that we must act responsibly and with agility and creativity to increase supply.

2. **Target profitable and growing markets, channels and customers** on the basis of size, profitability, demand for sustainable seafood and Clearwater's ability to win.

   The increase in global demand for premium shellfish and per capita consumption can be explained by general population growth, the shift to healthier eating choices among aging boomers and by rising incomes and purchasing power of middle class consumers in emerging economies – especially in Asia.

   Clearwater's worldwide distribution presence combined with local sales and marketing teams creates a competitive advantage and positions Clearwater for growth in both mature and emerging markets. Clearwater has sales offices in all major geographies including the United States, Canada, Europe, Japan as well as four representative offices in China where revenues have increased at a 20% compound annual growth rate for the last two years.

3. **Innovate and position products to deliver superior customer satisfaction and value.** The value of Clearwater's premium seafood is primarily differentiated on the dimensions of taste, nutrition, quality, safety, sustainability. Clearwater is best known in the industry for pioneering innovative harvesting technologies and primary processing practices that enhance this positioning.

   Going forward, Clearwater will continue to lever these strengths and its vertical integration to win in existing segments while capturing a growing share of the seafood value chain through the introduction of value-added new products in core species. Some of these new products, like Bacon-wrapped, MSC-certified, Wild Canadian Sea Scallops (produced in Clearwater's own Lockeport, Nova Scotia processing operation) were successfully introduced in the fall of 2011 and others are being readied for launch later in 2012 and beyond.

4. **Increase margins by improving price realization and cost management,** exercising price influence to maximize revenue and profit while managing overall supply. In addition Clearwater will continue to invest in R&D, introducing state-of-the-art harvesting, processing, storage and delivery systems that minimize per pound cost, reduce waste, increase yield and improve quality and reliability of supply.

5. **Pursue and preserve the long term sustainability of resources on Land and Sea.** Quota ownership is the cornerstone of Clearwater's business. From the beginning, Clearwater has invested in quota ownership to guarantee access to supply, as well as to create a defensible position in the market place. Clearwater's scale of resource ownership provides not only the security of supply, but also the scale needed to invest in leading edge science and innovative harvesting, processing and marketing efforts.

   Its strategy of resource ownership depends on ensuring sustainable harvesting through responsible resource management. Clearwater works in partnership with the Department of Fisheries and Oceans ("DFO") to lead research and development of sustainable harvesting practices, ensuring long term health of the resource and value for the licenses and total allowable catch ("TAC").

6. **Build organizational capability, capacity and engagement.** To ensure the fulfillment of its mission, value proposition and strategies, Clearwater must continue to attract, develop, recognize, reward and retain the best global talent. Clearwater's investment into training and development of its

employees is just one of the reasons we were recognized again as one of the top 101 companies in Atlantic Canada.

Management's commitment to creating shareholder value

There are seven key initiatives that management is pursuing to continue to create value for the shareholders. They include:

1. **Growing EBITDA sustainably** - Clearwater has demonstrated its ability to consistently grow EBITDA in a sustainable manner over the past three years increasing EBITDA from $34.0 million in fiscal year 2008 to $60.3 million in 2011. Management expects that our earnings momentum will continue through 2012.

2. **Focusing on generating strong free cash flows** - Clearwater's management is focused on generating free cash flows. They plan to accomplish this through generating strong cash earnings, working capital management, selling non-core assets and carefully planning and managing Clearwater's capital expenditure program.

3. **Improving leverage and committing to leverage targets** - Clearwater has reduced its leverage as a multiple of EBITDA below 4 over the past three years from 6.71 as of December 31, 2008 to 3.85 at December 31, 2011 and has committed to further reductions to achieve a target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt. Management believes that lower leverage will position the business positively with debt rating agencies and lenders and ultimately allow Clearwater to lower its cost of debt.

4. **Improving the capital structure** - In the fourth quarter 2011 management completed the conversion of the public entity from a trust to a corporate structure, making the structure more efficient and transparent for both investors and lenders. In addition, in early January 2012 Clearwater settled ongoing disputes with Glitnir for $14.5 million, removing uncertainty by bringing closure to potentially lengthy legal proceeding and resulting in a gain of $12.4 million.

5. **Focused management of foreign exchange** - Over the past year Clearwater has implemented a focused and targeted foreign exchange hedging program to reduce the impact of volatility in exchange rates on earnings. This, combined with stronger processes for price management has reduced the impact of exchange rate volatility on the business.

6. **Building world class leadership, management, sales and marketing capabilities** - Over the past year the Clearwater has appointed two new

positions, Chief Commercial Officer and Chief Talent Officer and the company has begun to implement best in class programs for key account management and new product development. Mr. Greg Morency, the Chief Commercial Officer, who has held senior leadership positions at Heinz, Unilever, International Paper and Tate & Lyle, is responsible for sales and marketing. Mr. David Rathbun, the Chief Talent Officer, is responsible for human resource strategy. Mr. Rathbun has held senior positions at xwave, BellAliant and Maritime Life. Mr. Morency and Mr. Rathbun bring best in class practices to sales, marketing and human resource management.

7. **Communicating the underlying asset values** - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. The fair market value for these quotas is much greater than the carrying value recorded in the financial statements. Furthermore, the company has and continues to make focused investments to maintain the value and improve the efficiency of its vessels and plant assets, both of which serve to support strong asset values. During 2011 Clearwater invested approximately $21.2 million in its plant and vessel upgrade program. In 2012 Clearwater plans to invest a further $20.3 million.

CAPABILITY TO DELIVER RESULTS

Clearwater's revenues and earnings are dependent primarily on its ability to harvest and purchase shellfish. This in turn is dependent to a large extent on the annual total allowable catch ("TAC") for each species. The annual TAC is related to the health of the stock of the particular species.

The primary shellfish stocks that Clearwater harvests are scallops (Canadian and Argentine), clams, lobster and coldwater shrimp, which are harvested in offshore fisheries that have a limited number of participants. Clearwater harvests Canadian and Argentine scallops and clams with its own vessels. Clearwater obtains its lobster and coldwater shrimp through harvesting with its own vessels and through purchases from independent fishermen**.**

- The **sea scallop** resource has been stable over the last number of years. Clearwater believes that this is a very well managed fishery. Clearwater lands virtually all its' sea scallop quota each year and harvests quotas for other industry participants under harvesting contracts to improve the utilization of its fleet.

- The **Arctic surf clam** resource is stable. In addition, Clearwater can land and market the by-catch (i.e., Greenland cockles and northern propeller clams) that has been harvested by the clam fleet. Clearwater lands virtually all its Banquereau Bank surf clam quota and it is starting to harvest its clam quota on the Grand Banks.

- The **Argentine scallop** resource is stable due in part to rotational fishing efforts used to manage the resource, which ensure the scallops have adequate time to regenerate. In Argentina, Clearwater is the first scallop fishery in the world to have earned the rigorous Marine Stewardship Council ("MSC") independent certification. Clearwater lands virtually all its scallop quota each year as well as quotas held by the government and allocated to industry participants annually.

- **Coldwater shrimp** - Clearwater expects the Northern shrimp TAC to decline over the next several years. However, the access that the offshore has to this quota, which is where Clearwater harvests, is not expected to decline significantly as the impact of these reductions are expected to be absorbed by the inshore sector. Clearwater holds access to quotas through direct ownership and harvesting agreements that exceed its harvesting capacity and will serve to offset declines in the TAC for northern shrimp. Clearwater does procure shrimp from the inshore for its cooked and peeled business and supplements this with raw material from its offshore vessels. Clearwater holds northern shrimp quota directly and it also holds the rights to harvest northern shrimp quotas of other companies through long-term royalty agreements. Clearwater harvests about 80% of its northern shrimp quotas (including its own quotas and quotas under license) annually.

- The **lobster** resource is strong with a consistent offshore TAC and a strong inshore resource. Clearwater harvests virtually all its turbot and lobster quotas each year

Clearwater maintains the largest, most modern, fleet of factory freezer vessels in Canada together with vessels that are used to harvest Clearwater's offshore lobster and complete research and development.

The condition and operating capability of these vessels is paramount for Clearwater to successfully operate in its fisheries. In the past three years Clearwater has invested approximately $17.6 million on its fleet.

Clearwater typically replaces vessels as a result of its focus on innovation and the adoption of new and leading edge technology. These additional investments typically provide greater efficiencies, lower costs and, in some cases, create new product forms.

The following schedule sets out Clearwater's historic capital expenditures and harvesting license investments for the past three years and clearly shows that Clearwater is both investing sufficiently to maintain its existing fleet and plants and is also investing for growth:

	2011	2010	2009	TOTAL
Vessels	17,595	6,931	3,204	27,730
Plants and other	3,643	2,488	1,296	7,427
	$ 21,238	$ 9,419	$ 4,500	$ 35,157
Return on Investments	6,850	1,194	1,200	9,244
Maintenance capital	14,388	8,225	3,300	25,913
	$ 21,238	$ 9,419	$ 4,500	$ 35,157
Maintenance capital	14,388	8,225	3,300	25,913
Repairs and maintenance	14,466	13,500	13,400	41,366
	$ 28,854	$ 21,725	$ 16,700	$ 67,279
Depreciation/Amortization	$ 19,200	$ 14,301	$ 15,870	$ 49,371
Maintenance spending as a % of depreciation	150.3%	151.9%	105.2%	136.3%

The table above includes $19.0 million of depreciation expense included in cost of goods sold for 2011 (2010 - $14.7 million).

During 2011, Clearwater completed a substantial refit program, of $11.4 million, on the scallop, clam, shrimp and lobster factory vessels. Capital expenditures for the year also included $2.1 million in relation to new vessel based processing technologies and $4.1 million on the purchase of the remaining 40% share in a scallop vessel.

In 2010 capital expenditures were minimal as the majority of Clearwater's significant projects were largely completed in 2008 and restrictions on capital expenditures from senior lending agreements reduced funds available for capital expenditures. Capital expenditures for 2010 primarily related to $5.9 million in vessel refits, $1.2 million in new vessel based processing technologies, and $1.0 million on processing plant additions in Argentina.

During 2009, Clearwater completed a conversion of a vessel for its lobster operations. The total cost of the vessel including conversion was approximately $7.4 million of which $1.2 million occurred in 2009. In addition Clearwater completed a refit of a shrimp vessel, through its 54% owned joint venture, incurring costs in 2009 of $1.6 million.

In addition to the annual amounts capitalized above, Clearwater historically has spent and expensed on average about $13.8 million a year on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition, enabling it to harvest and process its allowable catch efficiently and providing sufficient capacity.

The table above indicates how much Clearwater has spent on an annual basis over the past three years on maintenance capital expenditures, as well as repairs and maintenance and annual depreciation and amortization expense. Clearwater is committed to ensuring that the assets are kept in top condition.

Clearwater’s largest fleet investments are in its ten factory vessels. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams.

Of the ten factory vessels:

- Two are used to harvest shrimp and are on average 18 years old. These vessels have a capacity to harvest 14,000 to 18,000 metric tons of our 22,000 metric ton quota and all of our 1,900 metric ton turbot quota in a ready for market form. One of the vessels was built in 1985 and will be due for replacement or extensive refit within the next 5 years.

- Four are used to harvest Canadian sea scallops and are on average 11 years old. Three of these vessels are being equipped with automated processing factories using technology developed by Clearwater which will improve harvesting and processing capabilities. As a result the fourth vessel in the fleet is in the process of being removed.

- Two of Clearwater’s vessels are used to harvest Argentine scallops and are on average 31 years old. One vessel is expected to be replaced over the next three years and the second has about ten years of useful life available.

- Two of Clearwater’s vessels are used to harvest clams and are on average 18 years old. One of the vessels was built in 1985 and will be due for replacement within the next five to seven years.

Clearwater will fund future investments in vessels with a combination of cash flow, debt and equity, similar to what has been done in the past with other large capital projects.

EXPLANATION OF ANNUAL 2011 EARNINGS

On October 2, 2012 Clearwater Seafoods Income Fund (“the Fund”) was reorganized into a publicly traded corporation, “Clearwater Seafoods Incorporated”, (“Clearwater”). The 2010 results have been adjusted to reflect the conversion of the Fund to the corporation for the annual reporting periods to provide a meaningful comparison. [Refer to “Conversion from a Trust to a Corporation” for further information”].

In addition the 2010 comparatives have been adjusted for the consolidation of an entity previously proportionately consolidated in order to provide a meaningful comparison to the 2011 results. Refer to “consolidation of entity proportionately consolidated” within the critical accounting policy changes for the calculated change in the 2010 comparatives.

Overview

The statements of earnings reflect the earnings (loss) of Clearwater for the years ended December 31, 2011 and December 31, 2010.

In 000's of Canadian dollars Year ended December 31	2011	2010
Sales	$ 332,785	$ 315,540
Cost of goods sold	263,220	256,722
Gross margin	69,565	58,818
	20.9%	*18.6%*
Administrative and selling	33,345	28,757
Finance costs	38,604	43,023
Gain on settlement of Glitnir transaction	(12,445)	-
Gain on change in control of joint venture	(11,571)	-
Other income	(5,893)	(2,871)
Research and development	707	1,623
	42,747	70,532
Earnings (loss) before income taxes	26,818	(11,714)
Income taxes	3,863	3,564
Earnings (loss)	$ 22,955	$ (15,278)

Earnings (loss)

Earnings increased by $38.2 million compared to 2010, due primarily to sales revenue growth of 5.5%, higher prices and lower costs that resulted in improved gross margin of $10.7 million. In addition net earnings improved in 2011 as a result of two non-cash gains of $11.6 million from the acquisition of an entity previously proportionally consolidated and $12.4 million on the Glitnir settlement transaction (refer to financing costs for further information on the settlement).

In 000's of Canadian dollars Year ended December 31	2011	2010	Change
Net earnings (loss)	$ 22,955	$ (15,278)	$ 38,233
Explanation of changes in earnings:			
Gain on change in control of joint venture			11,571
Gain on settlement of Glitnir liabilities			12,445
Higher gross margin			10,747
Lower mark to market on long term debt			7,703
Higher foreign exchange			(3,526)
Higher other income			3,022
Higher administration and selling			(4,588)
Higher fees on settlement of debt			1,404
Higher interest expense			(1,163)
All other			618
			$ 38,233

Clearwater reported strong annual results for 2011 with EBITDA growth of 18.9% and sales growth of 5.5%. Annual EBITDA represented $60.3 million on sales of $332.8 million versus 2010 EDITDA of $50.7 million on sales of $315.5 million. In addition, Clearwater also reported a reduction of leverage below 4 times, to 3.85 at December 31, 2011 from 4.43 at December 31, 2010.

The 2011 results have continued a positive trend in Clearwater's earnings. Clearwater reported earnings growth, strong sales and year over year growth in EBITDA, despite a reduction in volumes as planned refits lowered the volume of pounds landed during 2011.

Sales volumes in almost all product lines were lower than the prior year as a result of planned refits, normal variations within a stable range of the total allowable catch levels and planned lower levels of procured product.

Management is encouraged by the annual results for 2011 and the increasing global consumer and customer demand for our premium, wild, sustainably harvested seafood. Market demand for our products continues to be strong across all major segments and we have every expectation that our earnings momentum will continue through fiscal 2012.

Annual sales by region

in 000's of Canadian dollars Year ended December 31		2011		2010		Change	%
Europe	$	126,696	$	123,259	$	3,437	2.8
United States		55,457		60,107		(4,650)	(7.7)
Canada		44,332		41,720		2,612	6.3
Asia							
Japan		42,649		37,114		5,535	14.9
China		46,069		37,105		8,964	24.2
Other Asia		15,034		14,583		451	3.1
Other		2,548		1,652		896	54.2
	$	332,785	$	315,540	$	17,245	5.5

Clearwater reported sales of $332.8 million for 2011, an increase of $17.2 million, or 5.5% from 2010. Improvements in sales were a result of price increases in all of our product lines. This was partially offset by lower volumes for clams, scallops, coldwater shrimp and crab. Clearwater experienced lower volumes in 2011 due primarily to planned refit work done on its' fleet which reduced time available to harvest normal variations of TAC levels and lower levels of procured raw materials.

Europe

Europe is Clearwater's largest scallop region and it is an important market for coldwater shrimp products. It has been a growth area for several years notwithstanding the current challenging economic environment in Europe.

European sales increased $3.4 million, or 2.8% to $126.7 million for 2011 as strong market conditions increased sales prices for the majority of species including Canadian and Argentine scallops, lobster, and coldwater shrimp. The increase in sales price was partially offset by lower available supply volumes for both Canadian and Argentine scallops.

Foreign exchange rates within Europe improved slightly for the year, partially offsetting lower volumes. The Euro strengthened by 0.9% relative to the Canadian dollar from 1.362 in 2010 to 1.375 in 2011, while the UK Pound declined 0.7% from 1.590 to 1.578 over the same period.

United States

The United States is an important market for scallops, coldwater shrimp and clams. It is our most diverse market, where a wide variety of products are sold.

Sales in the United States declined $4.7 million, or 7.7% to $55.5 million for 2011. Lower available supply volumes for the majority of species including Canadian scallops, Argentine scallops, snow crab, lobster and coldwater shrimp. In addition, stronger market conditions in other regions contributed to reduced sales for the period.

For the year, the Canadian dollar strengthened against the US dollar contributing to the decline in sales. Average foreign exchange rates for the US dollar declined by 3.8% to 0.992 in 2011 from 1.032 in 2010. Price increases for the majority of species including Canadian and Argentine scallops, coldwater shrimp and lobster, more than offset the decline in sales from foreign exchange.

Canada

Canada is a large market for lobster, scallops and coldwater shrimp.

Sales within Canada increased $2.6 million, or 6.3%, for 2011 primarily as a result of higher sales prices, particularly for scallops and lobster.

Increased sales prices were partially offset by lower volumes of Canadian scallops and lobster. These species declined as a result of lower available supply of scallops and a planned reduction in lobster procurement.

Japan

Japan is our largest clam market and it is also an important market for lobster coldwater shrimp and turbot.

Sales to Japan increased $5.5 million, or 14.9%, for 2011, primarily as a result of improved selling prices for turbot, lobster and coldwater shrimp. In addition changes in clam sales mix was weighted towards product with higher margins. Lower sales volumes for coldwater shrimp, and turbot partially offset the increase in sales prices. A planned refit for one frozen-at-sea shrimp vessel and higher competing demand from China for Turbot, contributed to the decline in available supply volumes.

Average foreign exchange rates for the Yen remained consistent at 0.012 for 2011 and 2010.

China

China is a growing market for clams, coldwater shrimp, lobster and turbot

Sales to China increased $9.0 million, or 24.2% to $46.1 million for 2011 primarily as a result of an increase in market demand for clams, turbot, lobster and Canadian scallops that improved selling prices and volumes. A planned refit for one frozen-at-sea shrimp vessel contributed to lowered available supply volumes for coldwater shrimp during the year.

Chinese sales are transacted in US dollars. The Canadian dollar strengthened against the US dollar for 2011, partially offsetting the increase in sales price. Average foreign exchange rates for the US dollar declined by 3.8% to 0.992 in 2011 from 1.032 in 2010.

Annual sales by species

In 000's of Canadian dollars Year ended December 31	2011	2010	Change	%
Scallops	$ 115,843	$ 112,499	$ 3,344	3.0
Lobster	64,073	61,261	2,812	4.6
Clams	61,705	60,122	1,583	2.6
Coldwater shrimp	61,946	54,528	7,418	13.6
Crab	13,831	13,425	406	3.0
Ground fish and other	15,387	13,705	1,682	12.3
	$ 332,785	$ 315,540	$ 17,245	5.5

Improvements in sales were a result of price increases in all of our product lines. The increase in sales was partially offset by lower supply volumes in several species including scallops, coldwater shrimp, and clams. A planned refit for coldwater shrimp, and differences in volume mix for clams contributed to lower available supply.

Cost of Goods Sold

Year ended December 31 in 000's of Canadian dollars	2011	2010	Change	%
Harvesting and procurement	181,162	179,343	1,819	1.0
Freight, customs and other transport	21,179	21,388	(210)	(1.0)
Depreciation	18,983	16,587	2,396	14.4
Manufacturing	31,057	28,259	2,798	9.9
Administrative	10,829	11,155	(326)	(2.9)
Other	10	(11)	21	(190.9)
	263,220	256,722	6,498	2.5

Cost of goods sold increased $6.5 million or 2.5% to $263.2 million in 2011, primarily due to higher manufacturing costs and depreciation.

Harvesting and procurement include all costs incurred in the operation of the vessels including labour, fuel, repairs and maintenance, fishing gear supplies, and other costs and fees plus procured raw material costs for species such as inshore lobster, shrimp and crab. Harvesting costs increased during 2011 as a result of higher fuel costs and inflation particularly in Argentina. Procurement costs were higher during 2011 as shore prices for lobster and snow crab increased.

Fuel costs increased from $19.5 million in 2010 to $23.6 million in 2011. This increase was a result of an increase of the average price per litre of fuel of $0.17, partially offset by a decline in volumes consumed. Clearwater's vessels used approximately 30.2 million litres of fuel in 2011. Based on 2011 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $0.3 million.

Depreciation expense from assets used in the harvesting and production of goods increased $2.4 million to $19.0 million as a result of vessel refits that were completed during the year.

Manufacturing includes labour costs related to the production and selling of goods, plant utilities and supplies. Labour costs increased as a result of rising wages, salaries and benefits.

Administrative overheads include salaries and benefits, professional and consulting fees and management fees attributable to the harvesting and production of goods. Refer to Administrative and selling for further information.

Gross margin

Gross margin improved $10.7 million, or 18.3% to $69.6 million. Gross margin was positively impacted by increases in sales prices for all species and an improved sales mix for clams, offsetting the increase in cost of goods sold.

Sales volumes in almost all product lines were lower than the prior year as a result of planned refits, normal variations within a stable range of the total allowable catch levels and planned lower levels of procured product.

Margins were negatively impacted by lower average foreign exchange rates for US dollars that resulted in a reduction in sales and gross margin of $5.7 million. Strengthening foreign exchange rates for the Euro and Japanese Yen partially offset the exchange impact from US dollars. The net negative impact from foreign exchange was a reduction of sales and gross margin of $2.3 million for 2011.

Year ended December 31	2011		2010		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	43.1%	0.992	40.7%	1.032	-3.8%
Euros	24.7%	1.375	27.9%	1.362	0.9%
Japanese Yen	12.7%	0.012	10.8%	0.012	0.0%
UK pounds	4.3%	1.578	4.3%	1.590	-0.7%
Canadian dollars and other	15.2%		16.3%		
	100.0%		100.0%		

Administration and selling

In 000's of Canadian dollars Year ended December 31		2011		2010		Change	%
Employee compensation	$	29,427	$	25,320	$	4,107	16.2
Consulting and professional fees		4,316		4,268		48	1.1
Other		3,466		2,767		699	25.3
Selling costs		2,602		1,760		842	47.8
Travel		1,981		1,481		500	33.8
Occupancy		1,317		1,366		(49)	(3.6)
Donations		1,019		638		381	59.7
Allocation to cost of goods sold		(10,783)		(8,843)		(1,940)	21.9
	$	33,345	$	28,757	$	4,588	16.0

Administration and selling costs increased $4.6 million or 16.0% for 2011 primarily as a result of an increase in salaries, incentive compensation and employee benefits. In addition severance costs also increased during the year.

Consulting and professional fees include administrative fees including audit, IFRS conversion costs and certification fees, insurance and other specialized consulting services. Costs will vary year over year based upon business requirements.

Other costs include miscellaneous selling and administrative expenses, depreciation, gains/losses and write downs of assets, which will vary from year to year. The increase of $0.7 million to $3.5 million was primarily driven by a change of $1.0 million in gains/loss and write down of assets. In 2011 it consisted of a realized gain of $0.5 million on the disposal of property, plant, equipment which was offset by write downs of property, plant and equipment of $0.6 million on a plant closure. In 2010 a gain of $1.9 million was realized related to the disposal of quota which was partially offset by a write down of $1.0 million related to ISK funds on deposit.

Selling costs include advertising, marketing, trade shows, samples, product development and bad debt expenses. The increase in costs to $2.6 million from $1.8 million primarily relates to an increase in bad debt expense.

Occupancy include administrative costs incurred for rent, utilities and property taxes and has remained consistent year over year.

The allocation to cost of goods sold reflects costs that are attributable to the production and sale of goods and are allocated on a proportionate basis based on production volumes. The increase in this allocation in 2011 is directly attributable to the increase in selling and administrative costs.

Finance costs

In 000's of Canadian dollars Year ended December 31		2011		2010
Interest and bank charges	$	20,899	$	18,443
Amortization of deferred financing charges		3,112		4,405
Interest on current and long term debt		24,011		22,848
Foreign exchange and derivative contracts		6,983		3,457
Fair value adjustment on convertible debentures		5,717		13,420
Debt settlement and refinancing fees		1,893		3,297
	$	38,604	$	43,023

Interest on current and long-term debt increased $1.2 million for 2011 to $24.0 million due to an increase in interest rates from 7.0% to 10.5% for the refinancing of the 2013 convertible debentures. The 2011 interest expense includes approximately $3.1 million of amortization of deferred financing charges compared to $4.4 million for 2010. Included in this amount in 2011 is the amortization of the outstanding charges related to the pay out of the ISK denominated bonds.

Foreign exchange and derivative contracts

In 000's of Canadian dollars Year ended December 31		2011		2010
Realized loss (gain)				
Foreign exchange contracts	$	2,578	$	(218)
Mark-to-market on interest and currency swaps		1,048	$	-
Working capital		2,712		2,786
		6,338		2,568
Unrealized (gain) loss				
Foreign exchange on long term debt		932		833
Mark-to-market on foreign exchange contracts		(287)		1,475
Mark-to-market on interest and currency swaps		-		(1,419)
		645		889
	$	6,983	$	3,457

Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts (up to $175 million in nominal value of forwards, which equates to approximately 80% of Clearwater's annual net foreign exchange exposure). This program enables Clearwater to lock in exchange rates up to 12 months for key sales currencies (the US dollar, Euro, Yen and Sterling). Clearwater has set up facilities that will provide it with the ability to hedge $125 - $150 million or up to 85% of target coverage. Clearwater's use of this facility is governed by the credit available on its operating lines. As to the extent there is a mark-to-market liability associated with forward exchange contracts, it reduces Clearwater's ability to borrow under its asset backed lending facility. Clearwater plans to expand the use of its program in 2012, subject to credit availability.

Clearwater does not account for its derivative contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each reporting period and includes the related non-cash adjustment in income or expense. Proceeds generated from the derivative contracts are included in realized foreign exchange income in the period in which the contract is settled.

Foreign exchange and derivative loss increased $3.5 million to $7.0 million for 2011 due primarily to realized losses of $2.6 million on the foreign exchange contracts and unrealized losses of $1.0 million as a result of marking the cross-currency interest rates swaps that were in dispute with Glitnir during 2011 to market (refer to Glitnir settlement transaction).

The **fair value adjustment on the convertible debentures** represents the change in value from the convertible debentures to market for 2011 and 2010.

For 2011, **debt settlement and refinancing fees** include a gain of $1.8 million related to the settlement of the ISK denominated bonds, $2.8 million in fees resulting from the refinancing of the senior first lien loan debt facilities, and $1.0 million in refinancing and restructuring fees. In 2010, $3.3 million represents costs incurred for refinancing and restructuring.

Gain on settlement of Glitnir transaction

On February 28, 2012 Clearwater reported that it has reached an agreement with Glitnir Banki Hf ("Glitnir") regarding disputed derivative contracts, interest rate swaps and damage claims (refer to details on the "Glitnir settlement transaction" for further information).

The agreement reached with Glitnir provides for the settlement and release of all outstanding claims against Clearwater Seafoods Partnership ("CSLP"), the Fund and its successor Clearwater, and Glitnir in exchange for an immediate cash payment by Clearwater of Canadian $14.5 million.

As a result of this settlement, Clearwater recognized a gain of approximately Canadian $12.4 million in the fourth quarter of 2011, the difference between the $14.5 million settlement and the book value of the liabilities recorded for the exchange contracts and cross currency and interest rate swaps.

Gain on change in control of joint venture

As a result of changes made effective January 1, 2011 to the partnership agreement that governs Clearwater's frozen-at-sea shrimp and turbot harvesting operations, Clearwater began to fully consolidate these operations in 2011 and resulted in a one-time non-cash gain of $11.6 million. For further information refer to "consolidation of entity proportionately consolidated".

Other income

In 000's of Canadian dollars Year ended December 31		2011		2010
Insurance claims	$	(1,729)	$	-
Royalties and fees		(1,747)		(1,644)
Other		(2,417)		(1,227)
	$	(5,893)	$	(2,871)

Other income increased $3.0 million to $5.9 million for 2011 primarily as a result of a gain from insurance claims of $1.7 million that was realized during the third quarter of 2011. The insurance claims related primarily to the repair of a building damaged by a fire that occurred at one of the plants. The damages to the plant have been repaired and the plant has resumed operations. The gain is the difference between the net book value of the damaged building and the insurance proceeds, which reflected replacement value as well as some lost profits claims.

Royalties and fees and other includes income related to quota rental, commissions, processing fees and other miscellaneous income and expense that varies based upon the operations of the business.

Research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year to year depending on the scope, timing and volume of research completed.

Income taxes were higher in 2011 due to higher taxable earnings in the Argentine subsidiary.

CAPITAL STRUCTURE AND LIQUIDITY MANAGEMENT

Capital Structure

Clearwater's capital structure includes a combination of equity and various classes of long-term debt. Clearwater's objective when managing its capital structure is to obtain the lowest cost of capital available, while maintaining flexibility and reducing exchange risk by borrowing when appropriate in currencies other than the Canadian dollar.

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

The amount of senior debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts of future results and making any required changes to its debt and equity facilities on a timely basis. These changes can include early repayment of debt, repurchasing shares, issuing new debt or equity, extending the term of existing debt, selling assets to repay debt and if required, limiting debt paid.

Clearwater's capital structure is as follows as at December 31, 2011 and December 31, 2010:

In 000's of Canadian dollars As at December 31	2011	2010
Equity		
Trust units	$ -	$ 162,517
Common shares	65,309	-
Accumulated deficit	(835)	(115,551)
Contributed surplus	-	1,816
Cumulative translation account	(3,122)	(1,436)
Non-controlling interest	32,700	4,018
	94,052	51,364
Long term debt		
Subordinated debt		
2013 convertible debentures	43,573	43,740
2014 convertible debentures	41,632	37,841
	85,205	81,581
Non-amortizing debt		
Bond payable, due in 2010 and 2013	-	36,937
Term debt, repaid in 2011	-	16,404
Term loan, due in 2091	3,500	3,500
Second lien loan, due 2016	43,822	-
	47,322	56,841
Amortizing debt		
First lien loan, due 2015	77,250	-
Revolving debt, matures in 2015	17,513	27,254
Term debt, repaid in 2011	-	33,864
Marine mortgage, matures in 2017	4,470	3,135
Glitnir liability	14,500	-
Other loans	840	758
	114,573	65,011
Total long term debt	247,100	203,433
Total capital structure	$ 341,152	$ 254,797

Equity consists of common shares, accumulated deficit, cumulated transaction account and non-controlling interest. During 2011 Clearwater repurchased and cancelled 179,752 shares and $5,000 face value of the 2013 convertible debentures were converted by a holder at a conversion price of $3.25/share resulting in 1,538 new shares being issued. As a result, there are 50,948,698 shares outstanding as of December 31, 2011 (December 31, 2010 – 51,126,912).

Long term debt consists of subordinated debt, amortizing and non-amortizing debt. The non-amortizing debt consists of two series of convertible debentures:

The 2013 Convertible debentures accrue interest at 10.5%, mature on December 31, 2013 and are convertible at a price of $3.25 per share. These debentures are recorded at estimated fair value and are redeemable by Clearwater at face value plus accrued interest. Clearwater repurchased and cancelled $1.6 million of these debentures in 2011 reducing the principal amount outstanding to $43.4 million as of December 31, 2011.

The 2014 Convertible debentures accrue interest at 7.25%, mature in March 2014 and are convertible at a price of $5.90 per share. They are redeemable by Clearwater at face value plus accrued interest on or after March 31, 2012. Clearwater may redeem the debentures before March 31, 2012 if the market price of the shares is not less than 125% of the conversion price of $5.90. These debentures are recorded at estimated fair value. The principal amount outstanding as of December 31, 2011 was $44.4 million.

To retract either series of debentures, in whole or in part, Clearwater must issue a notice of the redemption not more than 60 days and not less than 30 days prior to the date of redemption. Any debenture holder that wishes to convert the Debentures held, rather than to have them redeemed, must complete and deliver a Notice of Conversion prior to the redemption date.

The convertible debentures are unsecured and subordinated. The debentures pay interest semi-annually in arrears on June 30 and December 31 for the 2013 debentures and March 31 and September 30 for the 2014 debentures. Subject to regulatory approval, Clearwater may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of shares equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

Clearwater also has several non-amortizing loan facilities including a US $45.0 million second lien term loan ($43.8 million net of deferred financing), due February in 2016 and $3.5 million term loan due in 2091. The US $45.0 million loan bears interest payable monthly at an annual rate of 12.0%. The loan is secured by a third charge (after term and revolving debt facilities) on accounts receivable, cash and cash equivalents subject to certain limitations, inventory, marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

At December 31, 2011 long term debt was increased by $14.5 million related to the Glitnir settlement. Of the $14.5 million, $9.5 million was funded from an increase in the second term loan facility and $5.0 million from funds on deposit on February 28, 2012.

Clearwater maintains several amortizing debt facilities including an amortizing term loan due in 2015, a revolving loan due in 2015, and a marine mortgage that matures in 2017. During the third quarter of 2011 the amortizing term loan was increased by $10.0 million dollars to fund certain capital expenditures.

The amortizing term loan has a principal balance of $77.3 million as of December 31, 2011, is repayable in quarterly instalments of $2.0 million with the balance of $53.3 million due at maturity in February 2015. It bears interest payable monthly at an annual rate of bank prime plus 3.75%. As of December 31, 2011 this resulted in a rate of 6.75%. The loan is secured by a second charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a first charge on marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

The revolving loan facility is due 2015, provides for up to $50.0 million of revolving debt facilities based on 85% of eligible receivables and approximately 70% of eligible inventories. It bears interest on Canadian balances at a Canadian short-term index margin plus 2.5%. For US dollar balances the interest rate is a US index margin plus 3.0%. As of December 31, 2011 this resulted in rates of 5.5% for CDN balances and 6.25% for USD balances. The loan is secured by a first charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a second charge on marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

Clearwater's debt facilities have covenants that include, but are not limited to, leverage ratios (for which senior and unsubordinated debt is compared to EBITDA, excluding most significant non-cash and non-recurring items) and fixed charge ratios that limit the amount of dividends, capital expenditures, and loan repayments to amounts approved by lenders. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities.

Some public entities provide information on debt to equity ratios. We do not believe that this ratio would provide useful information about Clearwater and its capital structure because a large portion of historical earnings have been paid out in distributions and a significant amount of assets are recorded at historical cost since the IPO in 2002 rather than at fair value. Instead, we believe that leverage measured in relation to EBITDA is a better measure to evaluate our capital structure and we have provided that information in the liquidity section**.**

Normal Course Issuer Bid Activity in 2011 ("NCIB") and Conversions

Under a normal course issuer bid ("NCIB") announced on August 12, 2011, Clearwater repurchased and cancelled 179,752 shares for $0.5 million.

Clearwater also repurchased $1.6 million of the 2013 Debentures under the NCIB.

In December 2011 $5,000 face value of the 2013 convertible debentures were converted by a holder at a conversion price of $3.25/share resulting in 1,538 new shares being issued.

Conversion from a Trust to a Corporation

Effective October 2, 2011 the Fund was reorganized from an income trust structure into a public corporation named “Clearwater Seafoods Incorporated”. Units of the Fund were exchanged for shares of Clearwater on a 1 to 1 basis.

The business of the Fund has been carried on by Clearwater and the underlying seafood business operated by CSLP remains unchanged.

Under the reorganization, unitholders of the Fund received one common share of Clearwater, for each trust unit of the Fund held. As a result, Clearwater had outstanding at the time of conversion 50,947,160 Common Shares issued and outstanding, representing one Common Share for each of the 27,565,943 Fund Units and the 23,381,217 Special Trust Units of the Fund that were outstanding immediately prior to the Arrangement.

7914091 Canada Inc., a newly formed holding company owned by Clearwater Fine Foods Incorporated (“CFFI”) and a major shareholder, was used to consolidate their shareholdings in the Fund such that upon conversion of the Fund units into shares it owns 29,636,076 or 58% of the issued and outstanding Common Shares of Clearwater.

The Common Shares and the Debentures commenced trading on the Toronto Stock Exchange ("TSX") on October 3. 2011; the common shares trade under the stock symbol "CLR". The 7.25% Debentures and 10.5% Debentures trade under the stock symbols "CLR.DB.A" and "CLR.DB.B", respectively.

Liquidity Management

Over the past several years Clearwater has formalized a number of its treasury management policies and goals so as to promote strong liquidity and continued access to capital to fund its growth plan.

These include policies and strategies with respect to leverage, foreign exchange, lending arrangements and free cash flows.

Management continuously evaluates its capital structure in light of these policies and strategies and a summary of the results of its most recent evaluation is as follows:

- As of December 31, 2011 Clearwater had $9.7 million in cash, and a revolving loan with an outstanding balance of $17.5 million (excluding deferred financing charges). The cash balance, together with available credit on the revolving loan, is used to manage seasonal working capital demands, capital expenditures, and other commitments. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the second half of the calendar year than in the first half of the year.

- Leverage - As part of its continuing review of leverage levels Clearwater benchmarked itself versus a number of seafood and food companies and determined that it should target to reduce its leverage to 3.0 or less within 2 years. In 2011, total debt increased from $203.4 million at December 31, 2010 to $247.1 million at December 31, 2011 as it made substantial investments which contributed to its increased earnings (refer to free cash flow section for detail of changes). As a result, it has realized higher annual EBITDA levels which in turn have resulted in a decrease in leverage ratios below 4 times to 3.85 at December 31, 2011 from 4.43 at December 31, 2010. Clearwater is pleased with the progress it has made in reducing leverage over the past several years and management expects to achieve the leverage target on schedule through a combination of increased earnings and reductions in debt levels.

In 000's of Canadian dollars Year ended December 31	2011	2010
EBITDA [1]	$ 60,284	$ 44,767
Net debt	232,375	198,162
Net debt leverage	3.85	4.43
Senior debt (per below)	140,528	77,522
Senior debt leverage	2.33	1.73
Debt per balance sheet	247,100	203,433
Less cash	(14,725)	(5,271)
Net debt	232,375	198,162
Less subordinated debt	106,572	125,911
Senior debt	140,528	77,522
First lien loan	77,250	-
Second lien loan	45,765	-
Revolver	17,513	27,254
Amortizing Term Debt	-	33,864
Non - Amortizing Term Debt	-	16,404
	$ 140,528	$ 77,522

- Foreign Exchange - In 2011 the continued strengthening of the Canadian dollar had an impact on annual results, albeit a reduced effect as compared to the strengthening of the Canada dollar over the past 5 years. In 2011 the impact of the stronger Canadian dollar served to reduce sales and margins by $2.3 million in comparison to 2010. In spite of this, the company has been successful in increasing sales revenue by 5.5% to $332.8 million and gross margins to $69.6 million (20.9% of sales) versus $58.8 million (18.6% of sales) in 2010.

  Clearwater's response to foreign exchange risk is as follows:

  (1) Diversify sales internationally which reduces the impact of any country-specific economic risks on its business.

  (2) Execute on pricing strategies so as to offset the impact of exchange rates

  (3) Limit the amount of long-term sales contacts – Clearwater has few customers with long-term sales contracts. The limited number of sales contracts are all limited to short time period, typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations, and

  (4) Use conservative exchange estimates in business plans – Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when preparing its' business plans.

  (5) Foreign exchange hedging program - Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts (up to $175 million in nominal value of forwards, which equates to approximately 75% of Clearwater's annual net foreign exchange exposure). The program enables Clearwater to lock in exchange rates up to 12 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows from derivative contracts.

  Clearwater has set up facilities that will provide it with the ability to hedge $125 - $150 million or up to 85% of target coverage. Clearwater's use of this facility is governed by the credit available on its operating lines. As to the extent there is a mark-to-market liability associated with forward exchange contracts, it reduces Clearwater's ability to borrow under its asset backed lending facility. Clearwater plans to expand the use of its program in 2012, subject to credit availability.

- Free cash flows - Clearwater’s short-term goal is to generate cash flows from operations to fund interest, scheduled loan payments, capital expenditures and to use this free cash flow to reduce debt and invest in growth investments. Over the next 3-5 years Clearwater’s goal is to grow free cash flows such that it can reduce debt as opportunities present themselves and eventually pay a dividend to its shareholders.

	13 weeks ended		Year ended	
Free cash flows	**December 31, 2011**	**December 31, 2010**	**December 31, 2011**	**December 31, 2010**
EBITDA	15,470	15,547	60,284	50,695
Less:				
Cash interest	(5,318)	(5,889)	(21,091)	(18,319)
Cash taxes	(171)	(1,150)	(4,662)	(3,866)
Other non-EBITDA items	(4,046)	(2,344)	(8,424)	(14,156)
Change in working capital	14,357	3,145	(6,668)	1,597
Cash flows from operating activities	20,292	9,309	19,439	15,951
Uses of cash:				
Purchase of property, plant, equipment, quota and other assets	(2,104)	(4,984)	(21,237)	(9,418)
Less: Designated borrowing to fund purchases	-	-	16,000	-
Scheduled payments on long-term debt	(14)	(1,340)	(4,468)	(6,266)
Distributions to non-controlling interests	(2,317)	(1,287)	(7,537)	(1,613)
Free cash flows	15,857	1,698	2,197	(1,346)
Add/(less):				
Other debt borrowings (repayments) of debt	(14,272)	(3,036)	8,567	(4,272)
Other investing activities	(1,279)	1,007	(3,086)	5,115
Other financing activities	(201)	166	(3,224)	(3,058)
Change in cash flows for the year per statement of cash flows	105	(165)	4,454	(3,561)

Refer to definitions for free cash flows

Cash flows generated by Clearwater’s operations along with cash on deposit and available credit on the revolving asset-backed loan are used to fund current operations, seasonal working capital demands, capital expenditures, and other commitments. Due to the seasonality in Clearwater's business, sales and gross margins are typically higher in the second half of the calendar year than in the first half of the year.

Cash flows from operating activities increased in 2011 by $3.5 million to $19.4 million due primarily to a $9.6 million increase in EBITDA and a $8.4 million reduction in non-EBITDA related expenses offset partially by a increase in the investment in working capital of $6.7 million.

After deducting fixed charges from cash flow from operating activities, the resulting free cash flows improved by $3.5 million in 2011 from a negative $1.3 million in 2010 to $2.2 million in 2011. The major changes included a $4.2 million reduction in investment in property, plant, equipment and other assets (as a portion of the 2011 investments were funded with long-term debt). In addition, scheduled payments on long-term debt were $1.8 million lower in 2011. This improvements were partially offset by an increase in distributions to non-controlling interests of $5.9 million due mainly to the consolidation of Clearwater's frozen-at-sea shrimp and turbot harvesting operations beginning January 1, 2011 (see section of MD&A entitled "Consolidation of entity previously proportionally consolidated").

From free cash flows Clearwater makes a number of discretionary payments/creates additional cash flows including repayments and draws on its revolving debt facility and discretionary financing and investing activities (such as payments under normal course issuer bids, sales of non-core assets, etc). Clearwater is focused on managing its free cash flows through:

- Managing working capital - Clearwater manages its investment in trade receivables through a combination of tight collection terms and when appropriate, discounting. Clearwater limits its investment in inventories through tight review of any slow moving items, regular review at the executive level and through continuous improvements in the integration of its fleet and sales force;

  As of December 31, 2011 Clearwater had $9.7 million in cash, and a revolving loan with an outstanding balance of $17.5 million (excluding deferred financing charges). The cash balance, together with available credit on the revolving loan, is used to manage working capital requirements.

  The increase in working capital in 2011 was primarily a result of higher inventories partially offset by a higher trade accounts payable. Increases in inventories were a result of a normal and substantial seasonal investment in lobster inventories as well as due to the timing of landings.

- Capital spending - Clearwater plans and manages its annual capital expenditure programs. Clearwater grades investments in property, plant, equipment and licences as either return on investment ("ROI") or maintenance capital and tracks each on a project-by-project basis. Significant expenditures that are expected to have an average return in excess of average cost of capital are classified as ROI, and expenditures that have less than the average cost of capital are classified as maintenance as are all refits.

  On average, it expects to invest $10-15 million a year in maintaining its fixed assets with a further $14.4 million of repairs and maintenance expensed and included in the cost of goods sold. Over the past year Clearwater invested $21.2 million in fixed assets with approximately $14.4 million related to maintenance activities (such as refits of vessels and repairs to plants) and $4.1 million to purchase a 40% interest in a Canadian scallop vessel (bringing its ownership to 100%) and approximately $2.7 million to improve efficiencies in its plants and vessels.

In 2012 it expects to invest approximately $20.3 million, of which $15.5 million relates to maintenance and $4.8 million to investments to improve efficiencies.

In addition, Clearwater has and will continue to review and liquidate underperforming and non-core assets. In 2011 Clearwater realized proceeds of $0.7 million from the sale of non-core quotas. This substantially completes the program of selling non-core quotas that management had undertaken in the last several years.

As a result of its continued focus on increasing gross margin and managing its investments in working capital and capital assets, Clearwater has continued to improve its liquidity position and it believes that it has sufficient financial resources to execute on its strategy and business plan.

GLITNIR SETTLEMENT TRANSACTION

On October 7, 2008 the Icelandic Financial Services Authority ("FME") took control of Glitnir and subsequently placed it into receivership. Prior to Glitnir's receivership CSLP had derivative contracts with Glitnir including foreign exchange contracts and cross currency and interest rate swaps.

During the course of refinancing debt facilities in June 2009, CSLP and Glitnir reached an agreement whereby all outstanding foreign exchange contracts were closed and the potential liability under these contracts was capped at $14.0 million plus interest. As of the fourth quarter of 2011, CSLP had included in current liabilities an estimated $16.5 million, including accrued interest, associated with these contracts. CSLP also had a number of interest rate and cross currency swap contracts with Glitnir to hedge the changes in the Icelandic Consumer Price Index ("CPI") and the ISK currency. As of the fourth quarter of 2011, CSLP had included in current liabilities an estimated $10.9 million associated with these contracts.

On February 28, 2012 Clearwater reported that it has reached an agreement with Glitnir Banki Hf ("Glitnir") ("Glitnir settlement transaction"). The agreement reached with Glitnir provides for the settlement and release of all outstanding claims amoung CSLP, the Fund and its successor Clearwater Seafoods Incorporated, and Glitnir in exchange for an immediate cash payment by Clearwater of Canadian $14.5 million.

Clearwater will fund the payment using Canadian $5.0 million funded from deposits that Clearwater had maintained for such purpose and had included in other long-term assets and a $9.5 addition to Clearwater's existing second lien term loan facility.

As a result of this settlement, Clearwater recognized a gain of approximately Canadian $12.4 million in the fourth quarter of 2011, being the difference between the $14.5 million settlement and liabilities recorded for the exchange contracts and cross currency and interest rate swaps.

This settlement removes uncertainty by bringing closure to a potentially lengthy legal proceeding. In addition, it allows Clearwater to reduce the volitaility from our balance sheet and when combined with the recent conversion from a trust to a corporation, provides the company with a clear and transparent capital structure.

EXPLANATION OF FOURTH QUARTER 2011 EARNINGS

On October 2, 2012 Clearwater Seafoods Income Fund ("the Fund") was reorganized into a publicly traded corporation, "Clearwater Seafoods Incorporated", ("Clearwater"). The 2010 results have been adjusted to reflect the conversion of the Fund to the corporation for the fourth quarter to provide a meaningful comparison. [Refer to "Conversion from a Trust to a Corporation" for further information"].

In addition the 2010 comparatives have been adjusted for the consolidation of an entity previously proportionately consolidated in order to provide a meaningful comparison to the 2011 results. Refer to "consolidation of entity proportionately consolidated" within the critical accounting policy changes for the calculated change in the 2010 comparatives.

Overview

The statements of earnings reflect the earnings (loss) of Clearwater for the 13 weeks ended December 31, 2011 and December 31, 2010.

In 000's of Canadian dollars 13 weeks ended December 31	2011	2010
Sales	$ 87,140	$ 83,801
Cost of goods sold	67,308	65,878
Gross margin	19,832	17,923
	22.8%	*21.4%*
Administrative and selling	10,377	7,729
Gain on settlement of Glitnir transaction	(12,445)	-
Finance costs	4,168	12,803
Other income	(687)	(157)
Research and development	510	128
	1,923	20,503
Earnings before income taxes	17,909	(2,580)
Income taxes	1,515	2,388
Earnings (loss)	$ 16,394	$ (4,968)

Earnings (loss)

In the fourth quarter of 2011 Clearwater reported earnings of $16.4 million, an improvement of $21.4 million from the same period in 2010. The increase in earnings for the period is primarily a result of a non-cash gain of $12.4 million on the Glitnir settlement transaction (refer to financing costs for further information) and increased gross margins. Details of the changes in earnings are as follows:

In 000's of Canadian dollars 13 weeks ended December 31	2011	2010	Change
Net earnings	$ 16,394	$ (4,968)	$ 21,362
Explanation of changes in earnings:			
Gain on settlement of Glitnir liabilities			12,445
Lower mark to market on long term debt			7,177
Higher administration and selling			(2,648)
Higher gross margin			1,909
Higher foreign exchange income			1,407
All other			1,072
			$ 21,362

In the fourth quarter of 2011 strong selling prices and improved foreign exchange rates for the US dollar and the Japanese Yen, more than offset lower sales volumes, and higher costs per pound that resulted in improved gross margin. Clearwater experienced lower volumes in the quarter due primarily to the timing of landings and deliveries to market as well as vessel repair and maintenance schedules.

Clearwater reported 2011 fourth quarter EBITDA of $15.5 million on sales of $87.1 million versus 2010 EBITDA of $15.5 million and sales of $83.8 million representing consistent EBITDA and sales growth of $3.3 million. Price increases in the majority of species, particularly clams, scallops, and coldwater shrimp, offset lower sales volumes for most species and accounted for the majority of the sales growth.

Fourth quarter sales by region

in 000's of Canadian dollars

Quarter ended December 31		2011		2010		Change	%
Europe	$	33,852	$	38,557	$	(4,705)	(12.2)
United States		13,909		13,083		826	6.3
Canada		10,271		9,547		724	7.6
Asia							
Japan		9,553		7,244		2,309	31.9
China		13,576		10,723		2,853	26.6
Other Asia		5,480		4,167		1,313	31.5
Other		499		480		19	4.0
	$	87,140	$	83,801	$	3,339	4.0

Europe

Europe is Clearwater's largest scallop market and it is an important market for coldwater shrimp products. It has been a growth area for several years notwithstanding the current challenging economic environment in Europe.

European sales declined $4.7 million, or 12.2%, to $33.9 million for 2011 as a result of lower available supply volumes for Canadian scallops and lower sales volumes of Argentine scallops, from the timing of landings and deliveries to market, partially offset by increased sales prices for the majority of species including Canadian and Argentine scallops, and frozen-at-sea shrimp..

Overall foreign exchange rates remained consistent for the fourth quarter. The Euro remained at 1.37 for the fourth quarter of 2011 and 2010, while the Canadian dollar strengthened against UK Pound 1.8% from 1.602 to 1.572 over the same period.

United States

The United States is an important market for scallops, coldwater shrimp and clams. It is our most diverse market, where a wide variety of products are sold.

Sales within the United States increased $0.8 million to $13.9 million for the fourth quarter of 2011 primarily as a result of an increase in sales prices for Canadian and Argentine scallops.

The US dollar strengthened against the Canadian dollar during the fourth quarter of 2011, contributing to the increase in sales prices. Average foreign exchange rates for the US dollar increased by 1.1% in 2011.

Japan

Japan is our largest clam market and it is also an important market for lobster and turbot.

Sales to Japan increased 31.9% to $9.6 million in 2011, primarily as a result of improved selling prices for lobster and coldwater shrimp. In addition changes in sales mix weighted towards product with higher margins for clams resulted in increased sales, despite the lower volumes.

China

China is an important market for coldwater shrimp, clams, lobster and turbot. It continues to be a growth market.

Sales to China increased $2.9 million, or 26.6%, to $13.6 million for 2011 primarily as a result of an increase in market demand for coldwater shrimp which improved selling prices and volumes. Strong selling prices for lobster and Canadian scallops also increased sales during the quarter.

Chinese sales are transacted in US dollars. The US dollar strengthened against the Canadian dollar for the fourth quarter of 2011 partially contributing to the increase in sales price. Average foreign exchange rates for the US dollar increased by 1.1% in 2011.

Other Asia

Sales within the other Asia region includes sales Korea, Taiwan, Singapore and other Asian countries. Other Asian countries are an important market for clams, shrimp and turbot. Sales within other Asia increased 31.5% to $5.5 million due primarily to an increase in sales prices for clams and shrimp.

Fourth quarter sales by species

in 000's of Canadian dollars Quarter ended December 31		2011		2010		Change	%
Scallops	$	28,400	$	33,971		(5,571)	(16.4)
Clams		16,514		15,113		1,401	9.3
Lobster		15,116		15,853		(737)	(4.6)
Coldwater shrimp		24,346		16,705		7,641	45.7
Crab		2,382		914		1,468	160.6
Ground fish and other		382		1,245		(863)	(69.3)
	$	87,140	$	83,801	$	3,339	4.0

Sales

Improvements in sales were a result of price increases in all of our product lines.

Cost of goods sold

13 weeks ended December 31, in 000's of Canadian dollars	2011	2010	Change	%
Harvesting and procurement	47,571	46,782	789	1.7
Administrative	3,616	2,900	716	24.7
Freight, customs and other transport	5,468	5,276	192	3.6
Manufacturing	7,623	6,600	1,023	15.5
Depreciation	3,023	4,317	(1,294)	(30.0)
Other	7	2	5	250.0
	67,308	65,878	1,430	2.2

Cost of goods sold increased $1.4 million, or 2.2%, to $67.3 million for the fourth quarter of 2011, primarily due to higher harvesting costs, freight and other transportation costs and manufacturing costs.

Harvesting and procurement include all costs incurred in the operation of the vessels including labour, fuel, repairs and maintenance, fishing gear supplies, and other costs and fees plus procured raw material costs for species such as inshore lobster, shrimp and crab. Harvesting costs increased as a result of higher fuel costs and inflation particularly in Argentina. Procurement costs were higher as shore prices for lobster and snow crab increased.

Fuel costs increased from $4.7 million in 2010 to $6.8 million in 2011. This was a result of an average increase of the price per litre of fuel of $0.21, and an increase in volumes consumed from the timing of landings.

Administrative overheads include salaries and benefits, professional and consulting fees and management fees attributable to the harvesting and production of goods. Refer to Administrative and selling for further information.

Freight, customs and other transport costs increased 3.6% primarily as a result of an increase in freight, as fuel costs increased globally.

Depreciation expense from assets used in the harvesting and production of goods declined $1.3 million to $3.0 million as a result of vessel refits that were fully amortized by the end of the fourth quarter.

Manufacturing includes labour costs related to the production and selling of goods, plant utilities and supplies. Labour costs increased as a result of rising wages, salaries and benefits.

Gross margin

Gross margin improved $1.9 million, or 10.7% to $19.8 million. Gross margin was positively impacted by increases in sales prices for all species and an improved sales mix for clams, offsetting the increase in cost of goods sold.

Margins were positively impacted by higher average foreign exchange rates for US dollars and Japanese Yen that resulted in an improvement in sales and gross margin of $1.3 million. Lower foreign exchange rates for the Euro and the UK pound partially offset the exchange impact from US dollars and Japanese Yen. The net positive impact from foreign exchange was an increase of sales and gross margin of $1.2 million, for the fourth quarter of 2011.

Quarter ended December 31	2011		2010		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	47.8%	1.024	36.8%	1.013	1.1%
Euros	20.1%	1.369	36.0%	1.375	-0.5%
Japanese Yen	12.7%	0.013	8.8%	0.012	8.5%
UK pounds	5.8%	1.572	3.9%	1.602	-1.8%
Canadian dollar and other	13.6%		14.5%		
	100.0%		100.0%		

Administration and selling

In 000's of Canadian dollars 13 weeks ended December 31	2011	2010	Change	%
Employee compensation	$ 8,684	$ 6,703	$ 1,981	29.6
Consulting and professional fees	1,221	1,114	107	9.6
Other	884	809	75	9.3
Selling costs	1,263	418	845	202.2
Travel	606	389	217	55.8
Occupancy	315	354	(39)	(11.0)
Donations	344	139	205	147.5
Allocation to cost of goods sold	(2,940)	(2,197)	(743)	33.8
	$ 10,377	$ 7,729	$ 2,648	34.26

Administration and selling costs increased $2.6 million or 34.3% for 2011 primarily as a result of an increase in salaries and employee benefits. In addition severance costs for salaried employees increased during the quarter.

Selling costs include advertising, marketing, trade shows, samples, product development and bad debt expenses. The increase in costs of $0.8 million to $1.3 million primarily relates to an increase in bad debt expense in 2011.

The allocation to cost of goods sold reflects costs that are attributable to the production and sale of goods and are allocated on a proportionate basis to production volume. The increase in this allocation in 2011 is directly attributable to the increase in selling and administrative costs.

Gain on settlement of Glitnir transaction

On February 28, 2012 Clearwater reported that it has reached an agreement with Glitnir Banki Hf (“Glitnir”) regarding disputed derivative contracts, interest rate swaps and damage claims (refer to details on the “Glitnir settlement transaction” for further information).

The agreement reached with Glitnir provides for the settlement and release of all outstanding claims against Clearwater Seafoods Partnership (“CSLP”), the Fund and its successor Clearwater, and Glitnir in exchange for an immediate cash payment by Clearwater of Canadian $14.5 million.

As a result of this settlement, Clearwater recognized a gain of approximately Canadian $12.4 million in the fourth quarter of 2011, the difference between the $14.5 million settlement and the liabilities recorded at the end of 2011 for the exchange contracts and cross currency and interest rate swaps.

Finance costs

In 000’s of Canadian dollars 13 weeks ended December 31		2011		2010
Interest and bank charges	$	5,257	$	4,681
Amortization of deferred financing charges		416		1,110
Interest on current and long term debt		5,673		5,791
Fair value adjustment on convertible debentures		27		7,204
Foreign exchange and derivative contracts		(1,484)		(77)
Debt refinancing fees		(48)		(115)
	$	4,168	$	12,803

Interest on long-term debt remained consistent during the period as a decline in deferred financing charges offset the increase in cash interest expense. The main reason for the increase in interest rates was an increase in interest rates from 7.0% to 10.5% on a series of convertible debentures agreed to as part of an extension agreement. In the fourth quarter of 2011 interest expense includes approximately $0.4 million of amortization of deferred financing charges compared to $1.1 million for 2010. Deferred charges in 2010 included approximately $0.8 million of non-cash amortization related to the ISK bond payable and the term loans, which were refinanced during the first quarter of 2011.

The **fair value mark-to-market adjustment** on the convertible debentures varies period to period depending on the estimated fair value of the debentures. In 2010 the value of the debentures increased by $7.2 million as they recovered from all time low trading values in 2008/2009. In 2011 the fair value continued to improve but the rate of improvement slowed as they neared their face and redemption value.

Foreign exchange and derivative contracts

In 000's of Canadian dollars 13 weeks ended December 31	2011	2010
Realized loss (income)		
Foreign exchange contracts	$ 809	$ (218)
Working capital	2,164	1,771
	2,973	1,553
Unrealized (gain) loss		
Foreign exchange on long term debt	(920)	(2,031)
Mark-to-market on foreign exchange contracts	(3,537)	101
Mark-to-market on interest and currency swaps	-	300
	(4,457)	(1,630)
	$ (1,484)	$ (77)

Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts (up to $175 million in nominal value of forwards, which equates to approximately 80% of Clearwater's annual net foreign exchange exposure). This program enables Clearwater to lock in exchange rates up to 12 months for key sales currencies (the US dollar, Euro, Yen and Sterling). Clearwater has set up facilities that will provide it with the ability to hedge $125 - $150 million or up to 85% of target coverage. Clearwater's use of this facility is governed by the credit available on its operating lines. As to the extent there is a mark-to-market liability associated with forward exchange contracts, it reduces Clearwater's ability to borrow under its asset backed lending facility. Clearwater plans to expand the use of the program in 2012, subject to credit availability.

Clearwater does not account for its derivative contracts as accounting hedges, and therefore records the mark-to-market value of the contracts each reporting period and includes the related non-cash adjustment in income or expense. Proceeds generated from the derivative contracts are included in realized foreign exchange income in the period in which the contract is settled.

Foreign exchange gains increased $1.4 million for the fourth quarter of 2011 due primarily to unrealized gains on mark-to-market adjustments on foreign exchange derivative contracts, primarily Euro contracts in place above spot rates.

Realized losses increased $1.4 million to $3.0 million in 2011 primarily as a result of a loss of $0.8 million in 2011 versus a gain of $0.2 million in 2010 in realized foreign exchange contracts that settled during the fourth quarter. In addition losses on working capital translation increased $0.4 million during the same period.

Unrealized gains increased $2.8 million to $4.5 million in 2011 primarily from a gain of $3.5 million in 2011 versus a loss of $0.1 million in 2010 for unsettled foreign exchange contracts. In addition, the translation of Clearwater's US dollar long-term debt resulted in a gain of $1.0 million during the quarter. In 2010 losses related to the mark-to-market on the interest and currency swaps relate to cross-currency interest rates swaps that were in dispute with Glitnir. Please refer to the section “Glitnir Settlement Transaction” for further details.

Research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year to year depending on the scope, timing and volume of research completed.

OUTLOOK

Management is pleased by the fourth quarter and annual results for 2011 as well as the increasing global consumer and customer demand for our premium, wild, sustainably harvested seafood. We will continue to execute against our overall business strategy as well as key cost-saving and productivity initiatives.

Furthermore, market demand for our products continues to be strong across all major segments and we believe that our earnings momentum will continue through 2012.

Management's commitment to creating shareholder value

There are seven key initiatives that management is pursuing to continue to create value for the shareholders. They include:

1. **Growing EBITDA sustainably** - Clearwater has demonstrated its ability to consistently grow EBITDA in a sustainable manner over the past three years increasing EBITDA from $34.0 million in fiscal year 2008 to $60.3 million in 2011. Management believes that our earnings momentum will continue through 2012.

2. **Focusing on generating free cash flows** - Clearwater's management is focused on generating free cash flows. They plan to accomplish this through generating strong cash earnings, maintaining the working capital management, selling non-core assets and carefully planning and managing Clearwater's capital expenditure program.

3. **Improving leverage and committing to leverage targets** - Clearwater has reduced its leverage as a multiple of EBITDA below 4 over the past three years from 6.71 as of December 31, 2008 to 3.85 at December 31, 2011 and has committed to further reductions to achieve a target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt. Management believes that lower leverage will position the business positively with debt rating agencies and lenders and ultimately allow Clearwater to lower its cost of debt.

4. **Improving the capital structure** - In the fourth quarter 2011 management completed the conversion of the public entity from a trust to a corporate structure, making the structure more efficient and transparent for both investors and lenders. In addition, in early January 2012 Clearwater settled ongoing disputes with Glitnir for $14.5 million, removing uncertainty by bringing closure to potentially lengthy legal proceeding and resulting in a gain of $12.4 million.

5. **Focused management of foreign exchange** - Over the past year Clearwater has implemented a focused and targeted foreign exchange hedging program to reduce the impact of volatility in exchange rates on earnings. This combined with stronger processes for price management has reduced the impact of exchange rate volatility on the business**.**

6. **Building world class leadership, management, sales and marketing capabilities** - Over the past year Clearwater has appointed two new positions, Chief Commercial Officer and Chief Talent Officer and the company has begun to implement best in class programs for key account management and new product development. Mr. Greg Morency, the Chief Commercial Officer, who has held senior leadership positions at Heinz, Unilever, International Paper and Tate & Lyle, is responsible for sales and marketing. Mr. David Rathbun, the Chief Talent Officer, is responsible for human resource strategy. Mr. Rathbun has held senior positions at Xwave, BellAliant and Maritime Life. Mr. Morency and Mr. Rathbun bring best in class practices to sales, marketing and human resource management.

7. **Communicating the underlying asset values** - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. The fair market value for these quotas is much greater than the carrying values recorded in the financial statements. Furthermore, the company has and continues to make focused investments to maintain the value and improve the efficiency of its vessels and plant assets, both of which serve to support strong asset values. During 2011 Clearwater invested approximately $21.2 million in its plant and vessel upgrade program. In 2012 Clearwater plans to invest a further $20.3 million.

In 2011 management developed financial targets for these initiatives including:

- Annual sales growth of 5% or greater
- Annual EBITDA as a percentage of sales of 15% or greater
- Return on assets of 12% or greater
- Leverage (debt to EBITDA) of 3 times by December 31, 2014

The sales and EBITDA ratios are annual goals whereas the return on assets and leverage ratios will be accomplished over time. Management will provide quarterly updates on progress towards these goals throughout 2012.

Management believes that it has the correct strategies and focus to enable improved results and provide sustainable competitive advantage and long-term growth. These strategies include:

1. Expanding access to supply;
2. Targeting profitable and growing markets, channels and customers;

3. Innovating and positioning our products to deliver superior customer satisfaction and value;
4. Increasing margins by improving price realization and cost management;
5. Preserving the long-term sustainability of our resources; and
6. Improving our organizational capability and capacity, talent, diversity and engagement

Management also believes that it has the people, processes and financial resources to execute this strategy to create value for its shareholders.

RISKS AND UNCERTAINTIES

Clearwater's income and cash flow are generated from and fluctuate with, the performance of its business, which is susceptible to a number of risks, including risks related to resource supply, food processing and product liability, suppliers, customers, competition and foreign exchange exposure and lawsuits in the normal course of business. For further disclosure of additional risk factors please refer to the Annual Information Form.

Foreign exchange risk

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

The majority of Clearwater's sales are outside to locations outside Canada and are transacted in currencies other than the Canadian dollar whereas the majority of our expenses are in Canadian dollars. As a result, fluctuations in the foreign exchange rates of these currencies can have a material impact on our financial condition and operating results.

Risks associated with foreign exchange are partially mitigated by:

(1) Diversify sales internationally which reduces the impact of any country-specific economic risks on its business.

(2) Execute on pricing strategies so as to offset the impact of exchange rates

(3) Limit the amount of long-term sales contacts – Clearwater has few customers with long-term sales contracts. The limited number of sales contracts are all limited to short time period, typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations, and

(4) Use conservative exchange estimates in business plans – Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when preparing its' business plans

(5) Foreign exchange hedging program - Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts (up to $175 million in nominal value of forwards, which equates to approximately 75% of Clearwater's annual net foreign exchange exposure). The program enables Clearwater to lock in exchange rates up to 12 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows from derivative contracts.

    Clearwater has set up facilities that will provide it with the ability to hedge $125 - $150 million or up to 85% of target coverage. Clearwater's use of this facility is governed by the credit available on its operating lines. As to the extent there is a mark-to-market liability associated with forward exchange contracts, it reduces Clearwater's ability to borrow under its asset backed lending facility. Clearwater plans to expand the use of its program in 2012, subject to credit availability.

In 2011 approximately 43.1% of Clearwater's sales were denominated in US dollars. Based on 2011 sales, a change of 0.01 in the U.S. dollar rate converted to Canadian dollars would result in a $1.4 million change in sales and gross profit. Approximately 24.7% of 2011 sales were denominated in Euros, based on 2011 sales, a change of 0.01 in the Euro rate as converted to Canadian dollars would result in a $0.6 million change in sales and gross profit. Also, 12.7% of sales in 2011 were denominated in Japanese Yen, based on 2011 annual sales, a change of 0.0001 in the Yen rate as converted to Canadian dollars would result in a change of $0.3 million in sales and gross profit.

A foreign exchange hedging program provides short-term risk management for foreign exchange risk. Further strengthening of the Canadian dollar relative to the currencies of our sales markets will result in lower sales prices and receipts when converted into Canadian dollars and will have an adverse impact on our profitability to the extent we are not able to adjust prices and costs to offset this risk.

Political risk

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

Our Argentine and other foreign operations and investments are subject to numerous risks, including fluctuations in foreign currency, exchange rates and controls, expropriation of our assets, nationalization, renegotiation, forced divestiture, modification or nullification of our contracts and changes in Argentine or other foreign laws or other regulatory policies of foreign governments and having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory. For example, the Government of Argentina devalued the Argentine Peso in early 2002 and forced the conversion of all foreign currency bank deposits and many other foreign currency denominated contracts into Argentine Pesos. The Argentine Government also imposed temporary restrictions on the ability of companies to transfer and retain cash outside of Argentina. Our operations in Argentina and elsewhere may be negatively affected by both foreign exchange and expropriation losses as well as the increased cost and risks of doing business in developing markets.

We mitigate this risk through maintaining a policy of repatriating our share of the earnings from Argentina through dividends which are declared as needed. We do not carry financial assets in Pesos to mitigate exchange risk. In addition we have structured our operations in Argentina with an Argentine partner who owns 20% of the Argentine business is resident in Argentina actively managing the business.

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

Resource supply risk

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

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

The governments of Canada and Argentina set the annual TAC for each species by reviewing scientific studies of the resource and then consulting with key industry stakeholders including us and our competitors to determine agreed acceptable catch levels. The potentially differing interests of our competitors may result in conflicting opinions on how to manage the resource, including the establishment of TACs and other management measures potentially limiting our ability to grow, to fully capitalize on our investments in harvesting capacity, or to achieve targeted yields from the resource, which may adversely affect our financial condition and results of operations.

Resource supply risk is managed through adherence with government policies and regulations related to fishing in Canada and Argentina and Clearwater's investment in science and technology, which enables Clearwater to understand the species that it harvests. Clearwater has invested in projects with the scientific community, such as ocean floor mapping and the development of rotational fishing plans. The guidelines, developed by DFO, are very often a cooperative effort between industry participants and DFO. Clearwater further mitigates the risk associated with resource supply and competition through the diversification across species.

Capital availability and liquidity risk

There are associated with capital availability and liquidity including:

1. The ability of Clearwater (and its affiliates) to obtain sufficient financing for working capital, capital expenditures or acquisitions in the future or to repay loans as they become due;

2. Certain borrowings are at variable rates of interest, which exposes Clearwater to the risk of increased interest rates; and

3. Clearwater may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures if it has high leverage, debt coverage and limited liquidity.

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

Clearwater's credit facilities contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Clearwater to incur additional indebtedness, to pay distributions or make certain payments and to sell or otherwise dispose of assets. In addition, they contain a number of financial covenants that require Clearwater to meet certain financial ratios and financial condition tests. A failure to comply with the covenants could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Clearwater would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facilities would be able to be refinanced. As of December 31, 2011 Clearwater is not in violation of the restrictive covenants.

Clearwater mitigates capital availability and liquidity risk through a number of its treasury management policies and goals which promote strong liquidity and continued access to capital to fund its growth plan. These include policies and goals with respect to leverage, foreign exchange, lending arrangements and free cash flows. See the Capital structure and liquidity management section for further information.

Other risks

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

RELATED PARTY TRANSACTIONS

Clearwater rents office space to CFFI and provides computer network support services to CFFI. CFFI charges management fees to Clearwater for legal, finance and administration services provided to Clearwater by certain CFFI staff. These fees apportion the salaries of the individuals providing the services based on estimated time spent. CFFI charges Clearwater for its use of CFFI aircraft at market rates per hour of use. CFFI provides guarantees and undertakings to certain of Clearwater's lenders.

Clearwater had the following transaction and balances with CFFI, the controlling hareholder of Clearwater, for the year ended December 31, 2011 and December 31, 2010:

Year ended December 31	2011	2010
Management fees charged to Clearwater	(342)	(318)
Rent and IT service fees charged to CFFI	184	182
Aircraft charges to Clearwater	(41)	(182)
Advances to CFFI	953	471
Other charges to CFFI	74	199
Purchase of JV partner note receivable from CFFI	(495)	-
Net charged to CFFI	333	352
Balances due from CFFI	2,107	1,774

The amount due from CFFI is unsecured and has no set terms of repayment. CFFI has undertaken to pay the balance of the account in 2012 and the account has been classified as a current asset. No interest was charged for the periods to December 31, 2011. The account will bear interest from January 1, 2012 at a rate of 5%. No guarantee fees were charged by CFFI to Clearwater for periods to December 31, 2011, Fees amounting to 1% of the guarantees will be charged to Clearwater from January 1, 2012.

In addition Clearwater was charged approximately $0.1 million for vehicle leases in 2011 (2010 - $0.1 million) and approximately $0.1 million for other services in 2011 (2010 - $0.1 million) by a company related to its parent.

At December 31, 2011 Clearwater had a long-term receivable of $8.3 million (December 31, 2010 - $2.3 million), included in other receivables, for advances on dividends and loans made to a non-controlling interest shareholder in a subsidiary.

CRITICAL ACCOUNTING POLICIES

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

Clearwater reviewed all new accounting standards issued by the CICA in order to determine the impact of the new standards and has addressed them in the section entitled "International Financial Reporting Standards" that follows.

Consolidation of entity previously proportionately consolidated

As a result of changes made effective January 1, 2011 to the partnership agreement that governs Clearwater's frozen-at-sea shrimp and turbot harvesting operations, Clearwater began to fully consolidate these operations in 2011. Previously it included its proportionate 54% share of these operations in its results. To provide for greater ease of comparison, Clearwater has updated the 2010 comparative figures in the MD&A to full consolidation, which included increasing sales, cost of goods sold, selling, general and administration, interest expense and interest expense as follows:

	December 31, 2010 13 weeks ended			December 31, 2010 Year ended		
In 000's of Canadian dollars	2010 MDA*	Adjustment for acquisition of control	Proforma 2010	Note 28 of the 2011 AFS	Adjustment for acquisition of control	Proforma 2010
Revenue	$77,823	$5,978	$83,801	$ 291,116	$24,424	$315,540
Cost of sales	60,440	5,438	65,878	234,854	21,868	256,722
Gross margin	17,383	540	17,923	56,262	2,556	58,818
Administration and selling	7,727	2	7,729	28,557	200	28,757
Other income	(151)	(6)	(157)	(2,477)	(394)	(2,871)
Finance costs	12,647	156	12,803	42,482	541	43,023
Research and development	128	-	128	1,623	-	1,623
	20,351	152	20,503	70,185	347	70,532
Earnings (loss) before income taxes	(2,968)	388	(2,580)	(13,923)	2,209	(11,714)
Income taxes	2,388	-	2,388	3,564	-	3,564
Earnings (loss)	($5,356)	$388	($4,968)	($17,487)	$2,209	($15,278)

* Note: The 2010 results has been adjusted to reflect the coversion from a trust to a corporation. Refer to Note 28 of the financials for further information

Conversion from Trust to Corporate Structure and International Financial Reporting Standards

Conversion from Trust to Corporate Structure

Effective October 2, 2011 the Fund was reorganized from an income trust structure into a public corporation named "Clearwater Seafoods Incorporated". Units of the Fund were exchanged for shares of Clearwater on a 1 to 1 basis.

The business of the Fund has been carried on by Clearwater and the underlying seafood business operated by CSLP remains unchanged.

Under the reorganization, unitholders of the Fund received one common share of Clearwater, for each trust unit of the Fund held. As a result, Clearwater has

50,947,160 Common Shares issued and outstanding, representing one Common Share for each of the 27,565,943 Fund Units and the 23,381,217 Special Trust Units of the Fund that were outstanding immediately prior to the Arrangement.

7914091 Canada Inc., a newly formed holding company owned by Clearwater Fine Foods Incorporated ("CFFI") and a major shareholder consolidated their shareholders in the Fund such that upon conversion of the Fund units into shares it owns 29,636,076 or 58% of the issued and outstanding Common Shares of Clearwater.

As a result of the this trust conversion Clearwater controls CSLP with a 100% ownership and Holdco controls Clearwater with a 58% ownership.

As the original owners of the Fund and CSLP have the same proportionate interest in the same underlying assets and liabilities, albeit through a different legal structure, the Conversion has been accounted for as a combination of entities under common control. Accordingly, Clearwater is considered to be carrying on the business of the Fund and therefore the carrying amounts of the Fund become the carrying amounts of Clearwater at the date of the Conversion and all comparative amounts and results prior to the Conversion are those of the Fund. Also, as at the date of the Conversion, Clearwater begins consolidating the carrying amounts of CSLP.

As Clearwater and CSLP were subject to common control for all periods included in these consolidated financial statements, the comparative and financial information prior to the Conversion are presented on a combined basis.

The tables in Note 28 to the 2011 annual financial statements reconcile the previously reported consolidated statements of financial position and consolidated income statement of Clearwater (successor company to the Fund) and CSLP prepared under Canadian generally accepted accounting standards to the consolidated statements of financial position presented as at January 1, 2010 and December 31, 2010 and the consolidated income statement presented in the consolidated financial statements for the year-ended December 31, 2010.

Financial Reporting Standards ("IFRS")

Effective January 1, 2011 International Financial Reporting Standards ("IFRS") replaced Canadian GAAP for publicly accountable enterprises. Accordingly, Clearwater began reporting under IFRS in the first quarter of 2011 and has provided comparative figures for 2010 using IFRS.

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on our transition date of January 1, 2010, and allows certain exemptions on the transition to IFRS. The elections we have chosen to apply and that are considered significant to the company include decisions to:

- not restate previous business combinations and the accounting thereof;
- apply the requirements of IAS 23, Borrowing Costs to capitalize borrowing costs on qualifying assets effective January 1, 2010;
- reset the cumulative translation difference reserve for all foreign operations to zero at the date of transition to IFRS; and
- not retrospectively apply the requirements of IAS 32, Financial Instruments - Presentation to compound financial instruments settled before January 1, 2010.

Readers Clearwater's financial statements should be aware that:

- There was no impact on Clearwater's EBITDA from the adoption of IFRS.
- There was no impact on Clearwater's cash flows from operations and total cash flows from the adoption of IFRS.
- The adoption of IFRS did not impact any of Clearwater's key lending ratios
- All adjustments required to adopt IFRS were non-cash.

Further details on the adoption of IFRS are included in note 28 of Clearwater's annual 2011 financial statements.

Adoption of new and revised standards

The following IFRS standards have been recently issued by the IASB: IFRS 9 Financial Instruments, IFRS 13 Fair Value Measurement Arrangements, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. Clearwater is assessing the impact of these new standards, but does not expect them to have a significant effect on the condensed consolidated interim financial statements.

SUMMARY OF QUARTERLY RESULTS

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

In 000's of Canadian dollars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2011				
Sales	$ 69,235	$ 78,820	$ 97,590	$ 87,140
Earnings(loss)	1,827	(332)	5,065	16,394
Fiscal 2010				
Sales	$ 69,262	$ 70,844	$ 91,633	$ 83,801
Earnings (loss)	(9,583)	(4,990)	4,260	(4,968)
Fiscal 2009 (Note 1)				
Sales	$ 71,013	$ 70,176	$ 74,483	$ 68,394
Earnings (loss)	16,600	11,290	684	(2,426)

Note 1: Results for 2010 and 2009 have not been adjusted to reflect (i) the full consolidation of an entity previously proportionately consolidated and (ii) restated for IFRS or (iii) the conversion to a corporation.

Foreign exchange rates can have a significant impact on the volatility of earnings in the quarterly results, which include large cash and non-cash gains or losses related to foreign exchange derivatives.

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

In general, sales increased with each successive quarter with the largest increase in the third quarter of each year. This is best illustrated by looking at the 2010 quarterly results and 2009 was an exception to that trend as exceptional high exchange rates in the first half of the year and softer market conditions in the second half of the year disrupted that trend. This seasonality is more pronounced in 2010 than it has been in 2008 or 2009.

In addition, volatility in exchange rates can have a significant impact on earnings. The volatility in earnings for the last eleven quarters is largely driven by exchange rates and the realized and unrealized gains and losses that resulted on Clearwater's derivative and currency and interest rate swaps. Net earnings of $16.6 million and $11.3 million for the first and second quarter of 2009 primarily related to significant unrealized and realized gains and losses from mark-to-market on exchange derivatives and interest and currency swap contracts. All previous foreign exchange contracts were settled during the first half of 2009 and the business had no new contracts until late in the third quarter of 2010 and as a result there has been less exchange rate volatility during the period.

As a result of changes made effective January 1, 2011 to the management agreement that governs Clearwater's frozen-at-sea shrimp and turbot harvesting operations, Clearwater began to fully consolidate these operations in 2011 incurring a non-cash gain of $11.6 million in the first quarter of 2011.

DEFINITIONS AND RECONCILIATIONS

Gross margin

Gross margin consists of sales less harvesting, distribution, direct manufacturing costs, manufacturing overhead, certain administration expenses and depreciation related to manufacturing operations.

Earnings before interest, tax, depreciation and amortization

Foreign exchange losses and gains other than realized gains and losses on forward exchange contracts have been excluded from the calculation of EBITDA due to the variability in these gains and losses. In addition one-time non-recurring items such as severance charges, provisions on property, plant and equipment, gain on quota sales, and reorganization costs are excluded from the calculation of EBITDA.

Earnings before interest, tax, depreciation and amortization is not a recognized measure under Canadian GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that in addition to net earnings and cash provided by operating activities, EBITDA is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. In addition, as EBITDA is a measure frequently analyzed for public companies, Clearwater has calculated EBITDA in order to assist readers in this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity, or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation for the fourth quarter, year to date 2011 and rolling twelve months ending December 31, 2011 and December 31, 2010:

	13 weeks ended		Year to Date	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Net earnings (loss)	$ 16,394	$ 1,638	$ 22,955	$ (5,785)
Add (deduct):				
Income taxes	1,515	1,390	3,864	3,378
Reduction in foreign currency translation	-	852	-	1,066
Depreciation and amortization	5,350	3,510	19,503	13,827
Interest on long-term debt and bank charges	5,674	6,110	26,840	23,965
	28,933	13,500	73,162	36,451
Add (deduct) other non-routine items:				
Foreign exchange and derivative income unrealized	(4,458)	(1,584)	1,525	926
Fair market value on convertible debentures	1,206	-	7,061	-
Realized foreign exchange on working capital	2,164	1,588	2,713	2,284
Restructing and refinancing costs	70	(102)	3,736	4,856
Provision for underutilized plant and other assets	-	-	-	1,056
Gain on sale of quota	-	-	(672)	(1,210)
Gain on settlement of debt	(12,445)	-	(14,242)	-
Loss on disposal of investment	-	-	267	-
Gain on change in ownership of joint venture	-	-	(11,571)	-
Gain on insurance claim	-		(1,695)	-
Stock appreciation rights	-	404	-	404
EBITDA	**$ 15,470**	**$ 13,806**	**$ 60,284**	**$ 44,767**

Note 1: All comparative periods have not been changed to reflect IFRS adjustments as the impact of IFRS is non-cash and therefore would not impact the calculation of EBITDA.

Note 2: All comparative periods have not been change to reflect the consolidation of the entity previously recorded using proportionate consolidation. As a result it was noted that EBITDA for the fourth quarter of 2010 and year to date 2010 would have been $50.7 million and $15.5 million, respectively if the entity had been consolidated.

Note 3: Minority interest on total EBITDA has not been reflected in the above table. The minority interest in EBITDA for the fourth quarter would have been $3.8 million and $0.4 million for 2011 and 2010, respectively. Minority interest in EBITDA for year to date period would have been $13.5 million for 2011 and $2.9 million for 2010.

Leverage

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

Leverage is calculated by dividing the current and preceding annual EBITDA by the total debt on the balance sheet adjusted for cash reserves and subordinated debt (convertible debentures and ISK bonds).

Leverage for banking purposes differs from the above calculations. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities.

In 000's of Canadian dollars Year ended December 31	2011	2010
EBITDA [1]	$ 60,284	$ 44,767
Net debt	232,375	198,162
Net debt leverage	3.85	4.43
Senior debt (per below)	140,528	77,522
Senior debt leverage	2.33	1.73
Debt per balance sheet	247,100	203,433
Less cash	(14,725)	(5,271)
Net debt	232,375	198,162
Less subordinated debt	106,572	125,911
Senior debt	140,528	77,522
First lien loan	77,250	-
Second lien loan	45,765	-
Revolver	17,513	27,254
Amortizing Term Debt	-	33,864
Non - Amortizing Term Debt	-	16,404
	$ 140,528	$ 77,522

Free cash flows

Prior to the third quarter of 2011 Clearwater reported normalized cash flows. In the third quarter of 2011 management determined that free cash flows would be a more inclusive measure and has prepared information on that basis with comparative information.

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

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

Reconciliation of periods ended December 31, 2011 and December 31, 2010:

Free cash flows	13 weeks ended December 31, 2011	December 31, 2010	Year ended December 31, 2011	December 31, 2010
EBITDA	15,470	15,547	60,284	50,695
Less:				
Cash interest	(5,318)	(5,889)	(21,091)	(18,319)
Cash taxes	(171)	(1,150)	(4,662)	(3,866)
Other non-EBITDA items	(4,046)	(2,344)	(8,424)	(14,156)
Change in working capital	14,357	3,145	(6,668)	1,597
Cash flows from operating activities	20,292	9,309	19,439	15,951
Uses of cash:				
Purchase of property, plant, equipment, quota and other assets	(2,104)	(4,984)	(21,237)	(9,418)
Less: Designated borrowing to fund purchases	-	-	16,000	-
Scheduled payments on long-term debt	(14)	(1,340)	(4,468)	(6,266)
Distributions to non-controlling interests	(2,317)	(1,287)	(7,537)	(1,613)
Free cash flows	15,857	1,698	2,197	(1,346)
Add/(less):				
Other debt borrowings (repayments) of debt	(14,272)	(3,036)	8,567	(4,272)
Other investing activities	(1,279)	1,007	(3,086)	5,115
Other financing activities	(201)	166	(3,224)	(3,058)
Change in cash flows for the year per statement of cash flows	105	(165)	4,454	(3,561)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Clearwater Seafoods Incorporated

We have audited the accompanying consolidated financial statements of Clearwater Seafoods Incorporated, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of earnings, comprehensive income (loss), equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Clearwater Seafoods Incorporated as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Accountants

Halifax, Canada
March 13, 2012

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

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

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

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

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

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

March 13, 2012

Ian D Smith

Ian Smith
Chief Executive Officer

RD Wight

Robert Wight
Vice-President, Finance and Chief Financial Officer

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

As at

	December 31 2011	December 31 2010 (Note 27)	January 1 2010 (Note 27)
ASSETS			
Current assets			
Cash	**$ 9,725**	$ 5,271	$ 8,832
Trade and other receivables (Note 6)	**43,830**	39,209	29,489
Inventories (Note 7)	**61,755**	47,517	56,051
Prepaids and other (Note 8)	**9,438**	4,446	4,148
	124,748	96,443	98,520
Non-current assets			
Other receivables (Note 9)	**10,293**	4,890	6,251
Other assets (Note 10)	**3,660**	4,897	7,319
Property, plant and equipment (Note 11)	**129,373**	113,750	119,893
Licences and fishing rights (Note 12)	**111,700**	95,129	96,515
Goodwill (Note 12)	**7,043**	7,043	7,043
	262,069	225,709	237,021
	$ 386,817	$ 322,152	$ 335,541
LIABILITIES			
Current liabilities			
Trade and other payables	**$ 40,767**	$ 33,327	$ 31,604
Income tax payable	**1,984**	2,435	468
Current portion of long-term debt (Note 14)	**42,766**	32,924	89,233
Derivative financial instruments (Note 15(a))	**22**	9,845	11,242
	85,539	78,531	132,547
Non-current liabilities			
Other liabilities (Note 13)	**-**	18,620	17,685
Long-term debt (Note 14)	**204,334**	170,509	109,708
Deferred tax liabilities (Note 20)	**2,892**	3,128	3,700
	207,226	192,257	131,093
EQUITY			
Trust units (Note 16)	**-**	162,517	162,517
Share capital (Note 16)	**65,309**	-	-
Accumulated deficit	**(835)**	(115,551)	(96,360)
Contributed surplus	**-**	1,816	1,816
Cumulative translation account	**(3,122)**	(1,436)	-
	61,352	47,346	67,973
Non-controlling interest	**32,700**	4,018	3,928
	94,052	51,364	71,901
TOTAL EQUITY AND LIABILITIES	**$ 386,817**	$ 322,152	$ 335,541

See accompanying notes to consolidated financial statements

Subsequent event (Note 13)

Approved by the Board:

John Risley
Director

Colin MacDonald
Chairman

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statement of Earnings

(In thousands of Canadian dollars)

Year ended December 31		2011		2010
				(Note 27)
Sales	**$**	**332,785**	$	291,116
Cost of goods sold		**263,220**		234,854
		69,565		56,262
Administrative and selling		**33,345**		28,557
Research and development		**707**		1,623
Gain on settlement of Glitnir transaction (note 13)		**(12,445)**		-
Gain on change in control of joint venture (note 4)		**(11,571)**		-
Other income (note 17)		**(5,893)**		(2,477)
Finance costs (note 18)		**38,604**		42,482
		42,747		70,185
Earnings (loss) before income taxes		**26,818**		(13,923)
Income taxes (note 20)		**3,863**		3,564
Earnings (loss) for the year	**$**	**22,955**	$	(17,487)
Earnings (loss) attributable to:				
Non-controlling interest	**$**	**6,619**	$	1,704
Shareholders of Clearwater		**16,336**		(19,191)
	$	**22,955**	$	(17,487)
Basic earnings (loss) per share (note 19)	$	0.45	$	(0.34)
Diluted earnings (loss) per share (note 19)	$	0.43	$	(0.34)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

Year ended December 31		**2011**		**2010**
				(Note 27)
Earnings (loss) for the year	**$**	**22,955**	$	(17,487)
Other comprehensive income - foreign currency translation differences for foreign operations		**(1,686)**		(1,436)
Total Comprehensive income (loss)	**$**	**21,269**	$	(18,923)
Total comprehensive income (loss) attributable to:				
Non-controlling interest	**$**	**6,619**	$	1,704
Shareholders of Clearwater		**14,650**		(20,627)
	$	**21,269**	$	(18,923)

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED

Consolidated Statements of Equity

(In thousands of Canadian dollars)

		Equity					
	Trust units	Common Shares	Accumulated Deficit	Contributed Surplus	Cumulative Translation Account	Non-controlling interest	Total
Balance at January 1, 2010	**$ 162,517**	**$ -**	**$ (96,360)**	**$ 1,816**	**$ -**	**$ 3,928**	**$ 71,901**
Total comprehensive income for the year			(19,191)		(1,436)	1,704	(18,923)
Transactions recorded directly in equity - distributions to non-controlling interest						(1,614)	(1,614)
							-
Balance at December 31, 2010	**$ 162,517**	**$ -**	**$ (115,551)**	**$ 1,816**	**$ (1,436)**	**$ 4,018**	**$ 51,364**

	Trust units	Common Shares	Accumulated Deficit	Contributed Surplus	Cumulative Translation Account	Non-controlling interest	Total
Balance at January 1, 2011	**$ 162,517**	**$ -**	**$ (115,551)**	**$ 1,816**	**$ (1,436)**	**$ 4,018**	**$ 51,364**
Total comprehensive income for the year	-	-	16,336	-	(1,686)	6,619	21,269
Transactions recorded directly in equity							
Distributions to non-controlling interest	-	-	-	-	-	(7,537)	(7,537)
Purchase and cancellation of shares	(571)	-		-	-	-	(571)
Change in control on acquisition of joint venture	-	-	(73)	-	-	29,600	29,527
Total transactions with unitholders	(571)	-	(73)	-	-	22,063	21,419
Trust conversion, Oct 2, 2011 (note 16)	(161,946)	65,309	98,453	(1,816)	-	-	-
Balance at December 31 , 2011	**$ -**	**$ 65,309**	**$ (835)**	**$ -**	**$ (3,122)**	**$ 32,700**	**$ 94,052**

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Year ended December 31		2011		2010
				(Note 27)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
Operating				
Earnings (loss) for the year	**$**	**22,955**	$	(17,487)
Items not involving cash:				
Depreciation and amortization		**20,603**		14,321
Gain on acquisition of joint venture		**(11,571)**		-
Finance costs		**10,618**		18,734
Gain on settlement of Glitnir Transaction		**(12,445)**		-
Gain on debt reduction		**(1,797)**		-
Impairment of property, plant and equipment and other assets		**819**		950
Gain on disposal of property, plant and equipment and quota		**(485)**		(1,868)
Other		**-**		6
		28,697		14,656
Change in non-cash operating working capital		**(147)**		6,019
Interest expense		**20,899**		18,367
Income tax expense		**3,863**		3,564
Interest paid		**(28,603)**		(24,896)
Income tax paid		**(5,270)**		(1,759)
	$	**19,439**	$	15,951
Financing				
Repayment of long-term debt and swap contracts	**$**	**(102,065)**	$	(58,347)
Proceeds from long-term debt		**122,164**		44,809
Purchase and cancellation of shares		**(508)**		-
Increase in restricted cash		**(5,000)**		
Cash received on change in control of joint venture (Note 4)		**2,646**		-
Other		**(362)**		(57)
Distributions to non-controlling interest		**(7,537)**		(1,614)
	$	**9,338**	$	(15,209)
Investing				
Purchase of property, plant, equipment, licenses and other	**$**	**(21,237)**	$	(9,418)
Proceeds on disposal of property, plant, equipment, quota and other		**841**		3,247
Increase in long term receivables		**(3,859)**		292
Acquisition of other long-term assets		**(68)**		1,576
	$	**(24,323)**	$	(4,303)
INCREASE (DECREASE) IN CASH	**$**	**4,454**	$	(3,561)
CASH, BEGINNING OF YEAR		**5,271**		8,832
CASH, END OF YEAR	**$**	**9,725**	$	5,271

See accompanying notes to consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

Clearwater Seafoods Incorporated (“Clearwater) was incorporated on July 7, 2011 under the provisions of the Canada Business Corporations Act to facilitate the reorganization of Clearwater Seafoods Income Fund (the “Fund") from an income trust to a corporate structure (the “Conversion”).

Clearwater’s sole investment is the ownership of 100% of the units of Clearwater Seafoods Limited Partnership (“CSLP”).

Clearwater is domiciled at 757 Bedford Highway, Bedford, Nova Scotia, Canada. The consolidated financial statements of Clearwater as at and for the year ended December 31, 2011, comprise the company, its subsidiaries and jointly control entities. Clearwater’s business, includes the ownership, operation and lease of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

2. BASIS OF PREPARATION

(a) Conversion to a Corporation

Effective October 2, 2011 the Fund was reorganized from an income trust structure into a public corporation named “Clearwater Seafoods Incorporated”.

The business of the Fund has been carried on by Clearwater and the underlying seafood business operated by CSLP remains unchanged.

Under the reorganization, unitholders of the Fund received one common share of Clearwater, for each trust unit of the Fund held. As a result, as of October 2, 2011, Clearwater had 50,947,160 common shares issued and outstanding, representing one common share for each of the 27,565,943 Fund Units and the 23,381,217 Special Trust Units of the Fund that were outstanding immediately prior to the reorganization.

7914091 Canada Inc., a newly formed holding company owned by Clearwater Fine Foods Incorporated (“CFFI”) and a major shareholder (related to the Chairman of Clearwater) consolidated their shareholdings in the Fund such that upon conversion of the Fund units into common shares, it owned 29,636,076 or 58% of the issued and outstanding common shares of Clearwater.

As a result of the Conversion, Clearwater controls CSLP with a 100% ownership and Clearwater began consolidating CSLP.

As the original owners of the Fund and CSLP have the same proportionate interest in the same underlying assets and liabilities, albeit through a different legal structure, the Conversion has been accounted for as a combination of entities under common control using the book values of the assets and liabilities as recorded in CSLP.

Therefore, the carrying amounts recorded in the financial statements are those of CSLP rather than those of the Fund.

As Clearwater and CSLP were subject to common control for all periods included in the consolidated financial statements, the comparative financial information as at January 1, 2010, December 31, 2010 and for the year ended December 31, 2011 are represented on a consolidated basis. Consequently, any references to trust units, unitholders, and per unit amounts relate to periods prior to the conversion October 2, 2011 and any references to common shares, shareholders, and per share amounts relate to periods subsequent to October 2, 2011.

The tables in Note 27 reconcile the previously reported consolidated statements of financial position and consolidated income statement of the Fund and CSLP prepared under Canadian generally accepted accounting standards to the consolidated statements of financial position presented in these comparative consolidated financial statements, as at January 1, 2010 and December 31, 2010 and the comparative consolidated income statement for the year ended December 31, 2010 prepared in accordance with IFRS.

(b) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board. These are Clearwater's first annual consolidated financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRSs has affected Clearwater's consolidated statement of financial position, statement of income, statement of comprehensive income, statement of change in shareholders' equity and statement of cash flows is provided in note 27 – *Explanation of transition to IFRS and conversion from trust to corporate structure.*

The financial statements were authorized for issue by the Board of Directors on March 13, 2012.

(c) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Liabilities for cash-settled share-based payment arrangements are measured at fair value

Where applicable these differences have been described in the notes.

(d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Clearwater's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(e) Use of judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make estimates, judgments and assumptions that materially affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

Estimates are based on management's best knowledge of the current events and actions that Clearwater may undertake in the future. These estimates include but are not limited to estimates regarding inventory valuation, accounts receivable valuation allowances, income taxes, estimated useful lives of quotas, licenses, property, plant and equipment, and estimates of future cash flows for impairment tests.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4 – Acquisition of subsidiary and non-controlling interests
Note 7 – Inventories
Note 11 – Property, plant and equipment
Note 12 – Intangible assets and Goodwill
Note 20 – Income taxes
Note 16 – Equity

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year are included in the following notes:

Note 13 - Other liabilities
Note 26 - Contingent liabilities

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

(a) Basis of consolidation

i) Business Combinations

Clearwater measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities

assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.
Clearwater elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that Clearwater incurs in connection with a business combination are expensed as incurred.

ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore no goodwill is recognized as a result of such transactions.

iii) Subsidiaries

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

iv) Jointly controlled entities

Joint ventures are those entities over whose activities Clearwater has joint control, established by contractual agreement. The consolidated financial statements include Clearwater's proportionate share of the entities assets, liabilities, revenue and expenses from the date that control commences until the date that control ceases.

v) Transactions eliminated on consolidation

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

(b) Inventories

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

(c) Property, plant and equipment

Property, plant and equipment is measured at cost, less government assistance received, accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, which they are located, and borrowing costs for which the commencement date for capitalization is on or after January 1, 2010.

Additions are depreciated commencing in the month that they are available for use. Vessel refits are capitalized when incurred and amortized over the period between scheduled refits. Construction in progress assets are capitalized during the construction period and depreciation commences when the asset is available for use.

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

Asset Component	Rate
Vessel	15 to 30 years
Vessel equipment	1 to 7 years
Building and wharves	20 to 30 years
Plant equipment	3 to 17 years

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in earnings or loss.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Intangible assets

i) Goodwill

Goodwill is the residual amount that results when the purchase of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values. Goodwill is allocated to Clearwater’s cash generating units that are expected to benefit from the acquisition synergies.

Goodwill is measured at cost less accumulated amortization and impairment losses.

ii) Licenses and fishing rights

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

Licenses have indefinite lives, are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Fishing rights arise from contractual rights to fish quotas, have definite lives and are amortized over the term of the related contract.

(e) Revenue recognition

Clearwater sells seafood in a fresh or frozen state to customers. These sales are evidenced by purchase orders/invoices, which set out the terms of the sale, including pricing and shipping terms. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts.

(f) Government assistance

Government assistance received by Clearwater relates to items of property, plant and equipment.

Government assistance is recognized using the net presentation policy whereby the assistance is deducted from the carrying amount of the relating asset and amortized over the same estimated useful life of the particular asset to which it relates.

Clearwater does not have any government assistance that could potentially be required to be repaid, nor are there any forgivable loans.

(g) Financial instruments

Clearwater has the following non-derivative and derivative financial assets and liabilities that are classified into the following categories:

Financial instrument	Category	Measurement Method
Cash	Loans and receivables	Initial: Fair value Subsequent: Amortized cost through profit or loss
Trade and other receivables	Loans and receivables	
Other receivables	Loans and receivables	
Other assets	Loans and receivables	
Trade and other payables	Non-derivative financial liabilities	
Long-term debt	Non-derivative financial liabilities	
Convertible debentures	Derivative financial instruments	Fair value through profit or loss
Forward exchange contracts	Derivative financial instruments	

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at their fair values plus any attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in profit or loss in the period in which they arise.

Non-derivative liabilities

Non-derivative liabilities are debt securities issued and subordinated liabilities that are initially measured at fair value plus attributable transactions costs, and subsequently measured at amortized cost, with gains and losses recognized in profit or loss in the period in which they arise.

Compound and derivative financial instruments

Clearwater holds compound financial instruments in the form of convertible debentures and derivative financial instruments in the form of forward exchange contracts that are used to hedge its foreign currency exposure.

Prior to the Conversion to a corporate structure, as described in note 2(a), the convertible debentures were convertible into Trust Units. As the Trust Units were redeemable at the option of the holder and were, therefore, considered puttable instruments in accordance with IAS 32, Financial Instruments: Presentation, the convertible debentures were considered a liability containing liability-classified embedded derivatives. The Fund elected to record the full outstanding amount of each convertible debenture at its fair value with the changes being recorded in the consolidated statements of earnings and comprehensive income.

At the time of the Conversion, the convertible debentures were amended to provide the conversion of the debentures into common shares of Clearwater rather than Trust Units. This was not determined to be a substantial modification of the instrument. Following the Conversion, the convertible debentures are determined to be a compound financial instrument with the conversion option recorded in equity. The debt component of the convertible debenture continues to be recorded at fair value through profit or loss following the Conversion as the original instrument was accounted for in its entirety at fair value with the changes being recorded in the consolidated statements of earnings and comprehensive income.

The forward exchange contracts are derivative financial instruments and are recorded on the balance sheet at fair value with all changes in fair value recorded through profit or loss.

(h) Impairment

i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to Clearwater on terms that Clearwater would not consider otherwise or indications that a debtor will enter bankruptcy.

Clearwater considers evidence of impairment for receivables on a customer specific basis.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

Clearwater reviews non-financial assets each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time.

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

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

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

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

(i) Translation of foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

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

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill, other intangible assets and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(j) Income taxes

Prior to the conversion (as described in Note 2(a)) the portion of Clearwater's income earned through a partnership was not subject to tax. As a corporation, all Clearwater's income is subject to tax.

Income tax expense is comprised of current and deferred income tax. Current tax and deferred income tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

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

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

(k) Borrowing costs

Clearwater capitalizes borrowing costs directly attributable to the acquisition, or construction of its qualifying assets as they are being constructed. Other borrowing costs are recognized as an expense of the period in which they are incurred.

(l) Finance costs

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets and liabilities at fair value through profit or loss, impairment losses recognized on financial assets and liabilities, gains and losses on financial instruments that are recognized in profit or loss. Borrowing costs determined to be period costs, or the amortization of such costs through profit or loss.

Foreign currency gains and losses are reported on a net basis.

(m) Stock-based compensation

Clearwater operates a phantom stock plan that provides for the granting of share appreciation rights (“SARs”) and other cash-based awards to certain employees. The expense associated with this plan is determined based on the fair value of the liability at the end of the reporting period until the award is settled. The liability is included in trade and other payables in the consolidated statement of financial position. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. As the awards under this plan have graded vesting, the fair value of each tranche is recognized in administration expense over its respective vesting period. At the end of each reporting period, Clearwater re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the income statement.

(In thousands of Canadian dollars)

(n) Earnings per share

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

Diluted earnings per share (units) is calculated by dividing earnings (loss) for the year attributable to the shareholders of Clearwater by the weighted average number of common shares (units) outstanding and the voting rights attributable to the outstanding convertible debentures during the year. The calculation of the potential dilutive common shares (units) assumes the exercise of all convertible debentures outstanding.

(o) New accounting standards and interpretations

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed standards	**Description**	**Previous standard**	**Effective date (i)**
IFRS 10 - Consolidated Financial Statements	Builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated or not.	IAS 27 – Consolidated and Separate Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and requires a single method to account for interests in jointly controlled entities.	IAS 31 – Interests in Joint Ventures	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	A new standard detailing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.	Various - no direct replacement	January 1, 2013
IFRS 13 – Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various - no direct replacement	January 1, 2013
IFRS 9 – Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities.	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015

(i) Effective for annual periods on or after the stated date

Management continues to evaluate the potential qualitative and quantitative impact of these new standards on Clearwater's financial statement measurements and disclosures. Management does not anticipate early adopting these standards at this time.

4. ACQUISITION OF SUBSIDAIRY AND NON-CONTROLLING INTERESTS

Business combination

Effective January 1, 2011 Clearwater obtained control of a joint venture, Clearwater Ocean Prawns Venture, that operates its frozen-at-sea shrimp and turbot harvesting operations in which it has a 53.66% interest. Clearwater obtained control as a result of changes in the partnership agreement that provide Clearwater the power to govern the financial and operating policies of the entity.

As a result, Clearwater has accounted for this transaction as an acquisition by contract alone and effective January 1, 2011 began to fully consolidate the results. Previously, this was a jointly controlled entity and Clearwater included its proportionate 53.66% share of these operations in its results.

For the year ending December 31, 2011 consolidating this business increased revenue by $28. 1 million and net earnings by $4.9 million.

Identifiable assets acquired and liabilities assumed (in thousands of dollars)		
Cash	$	5,710
Receivables		6,749
Inventories		4,966
Prepaids		1,466
Property, plant and equipment		31,512
Fishing rights		24,094
Trade payables		(4,356)
Long-term debt		(5,843)
Non-controlling interest in net assets		(29,600)
Total identifiable assets	$	34,698

The receivables comprise gross contractual amounts of $6.7 million and no amounts were determined to be uncollectible subsequent to the acquisition date.

Consideration and gain on acquisition

No cash consideration was transferred as part of this transaction.

The carrying value of Clearwater's previous net investment in this operation was $22.9 million.

The difference between the carrying value of Clearwater's net investment and the fair value of the net assets assumed, being $11.6 million, is recorded as a gain on change in ownership of joint venture.

(In thousands of Canadian dollars)

Assets acquired and liabilities assumed were recorded at estimated fair values at the date of acquisition and the non-controlling interest has been measured at its proportionate share of the fair value of the net assets acquired.

Fair value for the fishing rights was measured through a value in use approach by determining discounted future cash flows generated from the earnings from operations of the related fishing rights. The cash flows from operations were based on a combination of past experience for royalty fees and discount rates of 7.25% representing the weighted average cost of capital. Fair values for all other assets were based upon carrying values.

5. EMPLOYEE COMPENSATION

Employee compensation is classified in the consolidated statement of earnings based on the related nature of the service performed. The following table reconciles Clearwater's compensation expense items to where the amounts are presented on the consolidated statement of earnings:

Year ended December 31	2011	2010
Salaries and benefits	$ 93,701	$ 81,410
Cash-settled share-based payment transactions	903	404
	$ 94,604	$ 81,814
Cost of goods sold	$ 69,902	$ 60,082
Administrative and selling	24,702	21,733
	$ 94,604	$ 81,814

6. TRADE AND OTHER RECEIVABLES

	December 31 2011	December 31 2010	January 1 2010
Trade account receivables	**$ 32,480**	$ 31,888	$ 23,374
Due from related parties (note 22)	**2,111**	1,781	1,507
Other receivables	**9,239**	5,540	4,608
	$ 43,830	$ 39,209	$ 29,489

7. INVENTORIES

	December 31 2011	December 31 2010	January 1 2010
Goods for resale	**$ 53,189**	$ 40,216	$ 47,770
Supplies and other	**8,566**	7,301	8,281
	$ 61,755	$ 47,517	$ 56,051

In 2011, inventory costs of $243.1 million (2010 - $210.2 million) were recognized in cost of sales. Clearwater incurred $1.7 million (2010 - $0.6 million) in inventory write-downs, which is included in cost of goods sold.

(In thousands of Canadian dollars)

8. PREPAIDS AND OTHER

	December 31 2011	December 31 2010	January 1 2010
Restricted funds on deposit (note 13)	$ 5,000	$ -	$ -
Prepaids	4,438	4,446	4,148
	$ 9,438	$ 4,446	$ 4,148

Restricted funds relate to $5.0 million held on deposit for the settlement with Glitnir Banki Hf ("Glitnir") ("Glitnir settlement transaction"). Refer to Note 13 for further information on the agreement.

9. OTHER RECEIVABLES

	December 31 2011	December 31 2010	January 1 2010
Notes receivable from non-controlling interest holder in subsidiary	**$ 3,514**	$ -	$ -
Advances to non-controlling interest holder in subsidiary	**4,802**	2,343	2,947
Advances to fishermen	**1,977**	2,547	3,304
	$ 10,293	$ 4,890	$ 6,251

Notes receivable and advances to non-controlling interest consists of funds that are advanced to a shareholder in an incorporated subsidiary. The advances are unsecured and have a value of $4.8 million at December 31, 2011 (2010 - $2.3 million).

The notes bear interest at 12%, and are secured by the shares held by the non-controlling interest in the subsidiary. The notes had a value of $3.5 million at December 31, 2011 (2010 - nil) and have no set terms of repayment.

Advances to fishermen consist of amounts advanced to various fishermen and are payable from proceeds of the related catches. The advances bear interest at prime plus 3% (2010- 3%), are due on demand, and are secured by an assignment of catch, a marine mortgage on the vessels, related equipment and licenses. They are presented as non-current as the entire balances are not expected to be repaid in the current year and it is not Clearwater's intention to demand payment unless the terms of the advance agreements are not met.

10. OTHER ASSETS

	December 31 2011	December 31 2010	January 1 2010
Restricted funds on deposit	**$ 93**	$ 1,917	$ 3,762
Deferred tax assets	**1,594**	662	643
Deferred transaction costs on revolving debt	**1,448**	1,456	2,454
Other	**525**	862	460
	$ 3,660	$ 4,897	$ 7,319

(In thousands of Canadian dollars)

Deferred transaction costs relate to a revolving loan facility and are being amortized over the term of the related facility which matures in 2015.

11. PROPERTY, PLANT AND EQUIPMENT ("PPE")

	Land	Building and wharves	Equipment	Vessels	Construction in progress	Total PPE	Deferred Gov't Assistance	Total
Cost								
Balance at January 1, 2011	$ 2,870	$ 64,481	$ 74,261	$ 170,277	$ 2,568	$ 314,457	$ (9,667)	$ 304,790
Additions	-	334	1,385	17,675	1,843	21,237	-	21,237
Disposals	-	(847)	(439)	(5,202)	-	(6,488)	-	(6,488)
Change in control of a subsidary	-	-	305	23,443	-	23,747	-	23,747
Other adjustments	(62)	(254)	(229)	473	-	(71)	-	(71)
Effect of movements in exchange rates	(5)	(16)	(45)	(1,149)	(282)	(1,497)	-	(1,497)
Balance at December 31, 2011	$ 2,803	$ 63,698	$ 75,238	$ 205,517	$ 4,129	$ 351,385	$ (9,667)	$ 341,718
Depreciation and impairment losses								
Balance at January 1, 2011	$ 976	$ 46,818	$ 66,383	$ 83,336	$ -	$ 197,513	$ (6,473)	$ 191,040
Depreciation for the year	11	1,558	1,785	15,803	-	19,157	(409)	18,748
Disposals	-	(621)	(405)	(5,202)	-	(6,228)	-	(6,228)
Change in control of a subsidary	-	-	184	8,961	-	9,144	-	9,144
Other adjustments	-	148	26	277	-	452	-	452
Effect of movements in exchange rates	-	(6)	(17)	(788)	-	(811)	-	(811)
Balance at December 31, 2011	$ 987	$ 47,897	$ 67,956	$ 102,387	$ -	$ 219,227	$ (6,882)	$ 212,345
Carrying amounts								
At January 1, 2011	1,894	17,663	7,878	86,941	2,568	116,944	(3,194)	113,750
At December 31, 2011	1,816	15,801	7,282	103,130	4,129	132,158	(2,785)	129,373

	Land	Building and wharves	Equipment	Vessels	Construction in progress	Total PPE	Deferred Gov't Assistance	Total
Cost								
Balance at January 1, 2010	$ 2,936	$ 64,876	$ 74,407	$ 167,065	$ 1,067	$ 310,351	$ (9,567)	$ 300,784
Additions	-	224	1,166	6,356	1,673	9,419	(100)	9,319
Disposals	(57)	(425)	(1,182)	(1,003)	-	(2,667)	-	(2,667)
Other adjustments	-	(159)	(77)	(865)	(20)	(1,121)	-	(1,121)
Effect of movements in exchange rates	(9)	(35)	(53)	(1,276)	(152)	(1,525)	-	(1,525)
Balance at December 31, 2010	$ 2,870	$ 64,481	$ 74,261	$ 170,277	$ 2,568	$ 314,457	$ (9,667)	$ 304,790
Depreciation and impairment losses								
Balance at January 1, 2010	$ 967	$ 45,378	$ 65,668	$ 74,823	$ -	$ 186,836	$ (5,945)	$ 180,891
Depreciation for the year	9	1,608	1,995	11,370	-	14,982	(528)	14,454
Disposals	-	(48)	(1,182)	(1,003)	-	(2,233)	-	(2,233)
Other adjustments	-	(114)	(82)	(1,055)	-	(1,251)	-	(1,251)
Effect of movements in exchange rates	-	(6)	(16)	(799)	-	(821)	-	(821)
Balance at December 31, 2010	$ 976	$ 46,818	$ 66,383	$ 83,336	$ -	$ 197,513	$ (6,473)	$ 191,040
Carrying amounts								
At January 1, 2010	1,969	19,498	8,739	92,242	1,067	123,515	(3,622)	119,893
At December 31, 2010	1,894	17,663	7,878	86,941	2,568	116,944	(3,194)	113,750

Total depreciation expense of property, plant and equipment for 2011 was $19.2 million (2010 - $14.8 million). In 2011 $19.0 million (2010 - $13.6 million) of depreciation expense for assts used in the harvesting and production of goods was classified as cost of goods sold and $0.5 million (2010 – $1.2 million) in administrative and selling for assets used in administrative activities. Refer to note 14 for assets pledged as security for long term debt.

(In thousands of Canadian dollars)

12. INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Indefinite life Licenses	Definite Life Licenses and fishing rights	Total
Cost				
Balance at January 1, 2010	$ 15,537	$ 111,100	$ 6,132	$ 132,769
Disposals	-	(1,000)	-	(1,000)
Effect of foreign currency exchange differences	-	(1,104)	-	(1,104)
Amortization of deferred gain on fishing rights	-	-	1,153	1,153
Balance at December 31, 2010	15,537	108,996	7,285	131,818
Change in ownership on change in control (note 4)	-	-	16,809	16,809
Effect of foreign currency exchange differences	-	(948)	-	(948)
Balance at December 31, 2011	$ 15,537	$ 108,048	$ 24,094	$ 147,679
Accumulated amortization				
Balance at January 1, 2010	$ 8,494	$ 18,693	$ 2,024	$ 29,211
Amortization expense	-	-	435	435
Balance at December 31, 2010	8,494	18,693	2,459	29,646
Amortization expense	-	-	1,802	1,802
Disposal	-	-	(2,512)	(2,512)
Balance at December 31, 2011	$ 8,494	$ 18,693	$ 1,749	$ 28,936
Carrying amounts				
At January 1, 2010	$ 7,043	$ 92,407	$ 4,108	$ 103,558
At December 31, 2010	7,043	90,303	4,826	102,172
At December 31, 2011	7,043	89,355	22,345	118,743

Clearwater maintains fishing licenses and rights to ensure continued access to the underlying resource. Except for fishing rights, licenses have an indefinite life as they have nominal annual renewal fees, which are expensed as incurred, and the underlying species are healthy.

Indefinite life licenses and Goodwill
For the purpose of annual impairment testing, goodwill and the indefinite life licenses are allocated to species to which they relate which represents the lowest group of assets at which goodwill and intangible assets are monitored for internal management purposes (i.e. CGU's).

Annual impairment testing for the CGU is performed using a value in use approach. The carrying amounts for all CGU's was determined to be higher than its recoverable amount and no impairments were recorded during 2011 (2010 – nil). The value in use approach was determined by discounting the future cash flows generated from the continuing earnings from operations for the applicable CGU. Unless otherwise indicated, the assumptions used in the value in use approach for 2011 were determined similarly to 2010.

The carrying value of the intangible assets and goodwill by CGU was as follows:

Year ended December 31	**2011**	**2010**
Scallops	62,219	63,096
All other CGU's individually without significant carrying value	56,524	39,076
	118,743	102,172

The discounted cash flows used in the value in use approach for the Scallops CGU were based on the following key assumptions:

i) Cash flows from operations was projected for a period of five years based on a combination of past experience, actual operating results and 2012 forecasted earnings. Terminal values and the three additional future periods were extrapolated using inflation rates of 1.0% on total sales. Annual margins for all future periods were determined using forecasted rates for 2012.

ii) Pre-tax discount rates ranging from 16.2% - 17.4% (January 1, 2010: 14.7% - 16.4%) were applied in determining the recoverable amount of the CGU. The discount rates were estimated based upon past experience, weighted average cost of capital, and associated risk for the CGU.

iii) Free cash flow adjustments such as capital expenditures were based upon 2012 sustaining capital expenditures, and an estimated vessel refit schedule based upon the useful life of the related vessels.

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

Definite life fishing rights and licenses
Amortization of licenses primarily relates to the definite life license agreements and fishing rights. This amortization is allocated to the cost of inventory and is recognized in cost of goods sold as inventory is sold.

In 2011, Clearwater did not dispose of any fishing quotas. In 2010, Clearwater disposed of non-core groundfish fishing quotas with a net book value of $1.0 million for proceeds of $2.2 million resulting in a gain of $1.2 million. There were no additions to licenses during 2011 or 2010.

(In thousands of Canadian dollars)

13. OTHER LIABILITIES

	December 31 2011	December 31 2010	January 1 2010
Glitnir note	$ -	$ 13,970	$ 13,970
Accrued interest	-	1,610	514
	-	15,580	14,484
Due to joint venture	-	3,040	3,201
	$ -	$ 18,620	$ 17,685

On October 7, 2008 the Icelandic Financial Services Authority ("FME") took control of Glitnir Banki Hf ("Glitnir"), a company that previously operated as a financial institution in Iceland, and subsequently placed it into receivership. Prior to Glitnir's receivership, CSLP had derivative contracts with Glitnir including foreign exchange contracts and cross currency and interest rate swaps.

During the course of refinancing debt facilities in June 2009, CSLP and Glitnir reached an agreement whereby all outstanding foreign exchange contracts were closed and the potential liability under these contracts was capped at $14.0 million plus interest (December 31, 2010 - $15.6 million; January 1, 2010: $14.5 million) and CSLP commenced litigation with Glitnir in relation to damages from Glitnir's failure to honour a term sheet for a proposed privatization in October 2008, the foreign exchange contracts and the cross currency and interest rate swaps.

On February 27, 2012 an agreement was reached with Glitnir which provides for the settlement and release of all outstanding claims against CSLP, the Fund and its successor, Clearwater Seafoods Incorporated, and Glitnir in exchange for an immediate cash payment by Clearwater of $14.5 million.

Clearwater has funded the payment on February 27, 2012 using $5.0 million in restricted cash that Clearwater had maintained for such purpose (and had included in prepaids and other) and $9.5 million made available through an amendment to Clearwater's existing second lien term loan facility (refer to note 14). As a result of this settlement, Clearwater recorded a gain of approximately $12.4 million.

The due to joint venture amount related to Clearwater's frozen-at-sea and turbot harvesting operations and was eliminated upon consolidation as at January 1, 2011 upon the acquisition of control of these operations (see note 4).

(In thousands of Canadian dollars)

14. LONG-TERM DEBT

	December 31 2011	December 31 2010	January 1 2010
Revolving loan, due in 2015 (a)	**$ 17,513**	$ 27,254	$ 29,327
Term loans (b)			
Senior first lien loan, due 2015	**77,250**	-	-
Senior second lien loan, due 2016	**43,822**	-	-
Facility A - repaid in February 2011	**-**	33,864	37,935
Facility B - repaid in February 2011	**-**	16,404	16,051
2013 Convertible Debentures (c)	**43,573**	43,740	36,049
2014 Convertible Debentures (c)	**41,632**	37,841	32,626
Bond payable - repaid in February 2011	**-**	36,937	38,864
Marine mortgage, due in 2017 (d)	**4,470**	3,135	4,004
Term loan, due in 2091 (e)	**3,500**	3,500	3,500
Glitnir payable (f)	**14,500**	-	-
Other loans	**840**	758	585
	247,100	203,433	198,941
Less: current portion	**(42,766)**	(32,924)	(89,233)
	$ 204,334	$ 170,509	$ 109,708

(a) The revolving loan is based on 85% of eligible receivables and approximately 70% of eligible inventory to a maximum of $50.0 million, denominated in both CDN of $2,870 at December 31, 2011 ($3,472 CDN at December 31, 2010) and USD of $14,398 at December 31, 2011 ($24,658 USD at December 31, 2010) and maturing in February 2015. Bearing interest on CDN balances at a Canadian short-term index margin plus 2.5%. For USD balances the interest rate is a US index margin plus 3%. As of December 31, 2011 this results in rates of 5.50% for CDN balances and 6.25% for USD balances. The loan is secured by a first charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a second charge on marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries. The full amount of this loan has been included in the current portion of long-term debt as it is drawn using short-term instruments that mature from 1-3 months.

(b) Term loans consist of a CDN $77.3 million senior first lien loan facility and a USD $45.0 million senior second lien loan facility.

Senior first lien loan - CDN $77.3 million, repayable in quarterly installments of $2.0 million with the balance of $52.3 million due at maturity in February 2015. Bearing interest payable monthly at an annual rate of bank prime plus 3.75%. As of December 31, 2011 this resulted in a rate of 6.75%. The loan is secured by a second charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a first charge on marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

Senior second lien loan - USD $45.0 million, non-amortizing with a maturity of February 2016 bearing interest payable monthly at an annual rate of 12%. As of December 31, 2011 this resulted in an effective interest rate of 13.35%. The loan is secured by a third charge (after term and revolving debt facilities) on accounts receivable, cash and cash equivalents subject to certain limitations, inventory, marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries. The balance is shown net of deferred financing charges of USD $1.9 million. The principal outstanding on December 31, 2011 is CDN $43.8 million.

(c) Clearwater has two series of convertible debentures:

The 2013 Convertible debentures accrue interest at 10.5%, mature on December 31, 2013 and are convertible at a price of $3.25 per share at the option of the holder. These debentures are recorded at estimated fair value as outlined in note 3(g) and are redeemable by Clearwater at face value plus accrued interest. Clearwater repurchased and cancelled $1.7 million of these debentures in 2011 reducing the principal amount outstanding to $43.4 million as of December 31, 2011.

The 2014 Convertible debentures accrue interest at 7.25%, mature in March 2014 and are convertible at a price of $5.90 per share at the option of the holder. They are redeemable by Clearwater at face value plus accrued interest on or after March 31, 2012. Clearwater may redeem the debentures before March 31, 2012 if the market price of the shares is not less than 125% of the conversion price of $5.90. These debentures are recorded at estimated fair value as outlined in note 3(g). The principal amount outstanding as of December 31, 2011 was $44.4 million.

To retract either series of debentures, in whole or in part, Clearwater must issue a notice of the redemption not more than 60 days and not less than 30 days prior to the date of redemption. Any debenture holder that wishes to convert the Debentures held, rather than to have them redeemed, must complete and deliver a Notice of Conversion prior to the redemption date.

The convertible debentures are unsecured and subordinated. The debentures pay interest semi-annually in arrears on June 30 and December 31 for the 2013 debentures and March 31 and September 30 for the 2014 debentures. Subject to regulatory approval, Clearwater may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of shares equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

(d) Marine mortgage - Due to an acquisition of control in the first quarter of 2011 Clearwater has included 100% of the mortgage in long-term debt. Prior to the first quarter of 2011 Clearwater included its 53.66 % of proportionate share. The mortgage is payable in the principal amount of CDN $929 (December 31, 2010 - $ 1,705), DKK 8,131,232 (December 31, 2010 - DKK 10,218,338) and YEN 158,758,062 (December 31, 2010 - 188,525,199) bearing interest at UNIBOR plus 1% payable semi-annually. Principal payments are required annually with CDN $775,601, DKK 2,087,106 and YEN 29,767,137 due in 2012, CDN $153,870 due in 2013, DKK 2,087,106 and YEN 29,767,137 due in 2013-2014, DKK 1,869,914 due in 2015, YEN 29,767,137 due in 2015-2016 and YEN 9,922,377 due in 2017. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants over certain fishing licenses.

(In thousands of Canadian dollars)

(e) Term loan, payable in 2091. In connection with this loan, Clearwater makes a royalty payment of $275,000 per annum in lieu of interest. This equates to an effective interest rate of approximately 8%. This loan is measured at amortized cost.

(f) Glitnir payable. On February 27, 2012 Clearwater reached an agreement with Glitnir. The settlement transaction provides for the settlement and release of all outstanding claims amounts with CSLP, the Fund and its successor Clearwater Seafoods Incorporated, and Glitnir in exchange for an immediate cash payment by Clearwater of CDN $14.5 million.

Clearwater will fund the payment using CDN $5.0 million funded from deposits that Clearwater had maintained for such purpose and had included in prepaids and other and a $9.5 million addition to Clearwater's existing second lien term loan facility.

15. FINANCIAL INSTRUMENTS

(a) At December 31, 2011 Clearwater had outstanding forward contracts as follows:

Currency	Notional Amount (in 000's)	Maturity		Fair Value (Asset) Liability
Yen	1,095,000	2012	$	(1,097)
Euro	15,200	2012		1,075
			$	(22)

At December 31, 2010, Clearwater had outstanding forward contracts as follows:

Currency	Notional Amount (in 000's)	Maturity		Fair Value (Asset) Liability
Yen	410,000	2011	$	(24)
Euro	7,500	2011		3
			$	(21)

At January 1, 2010, Clearwater did not have any outstanding forward contracts.

Summary of liability position for derivative contracts (refer to Note 13 - other long term liabilities for settlement of Glitnir transaction):

		December 31 2011		**December 31 2010**	**January 1 2010**
Contracts with Glitnir Banki hf	**$**	**-**	$	9,824	11,242
Forward Contracts		**22**		21	-
Liability position	**$**	**22**	$	9,845	11,242

(b) Foreign exchange and derivative contract gains and losses:

(In thousands of Canadian dollars)

Year ended December 31	2011	2010
Realized loss (gain)		
Foreign exchange contracts	$ **2,578**	$ (218)
Mark-to-market on interest and currency swaps	**1,048**	-
Working capital	**2,712**	2,283
	6,338	2,065
Unrealized (gain) loss		
Foreign exchange on long term debt	**932**	870
Mark-to-market on foreign exchange contracts	**(287)**	1,475
Mark-to-market on interest and currency swaps	**-**	(1,419)
	645	926
	$ **6,983**	$ 2,991

(c) Credit risk:

Credit risk refers to the risk of losses due to failure of Clearwater's customers or other counterparties to meet their payment obligations. Clearwater is exposed to credit risk in the event of non-performance by counter parties to its derivative financial instruments but does not anticipate non-performance of any of the counter parties as Clearwater only deals with highly rated financial institutions other than as disclosed within note 13.

Clearwater has significant accounts receivable from customers operating in Canada, United States, Europe and Asia. Significant portions of Clearwater's customers from a sales dollar perspective have been transacting with Clearwater in excess of five years and bad debt losses have been minimal. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk. As a result, Clearwater does not have any significant concentration of credit risk.

As at December 31, 2011, Clearwater's trade accounts receivable aging based on the invoice due date is as follows: 97.7% 0-30 days, 0.6% 31-60 days, and 1.7% over 60 days. As at December 31, 2010, Clearwater's trade accounts receivable aging based on the invoice date is as follows: 98.1% 0-30 days, 0.4% 31-60 days, and 1.5% over 60 days.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $0.8 million (2010 - $0.5 million). Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. Accounts are only written off completely when it becomes virtually certain that collection will not occur. Changes in the allowance for doubtful accounts are summarized in the table below:

(In thousands of Canadian dollars)

December 31	2011	2010
Opening Balance	$ 521	$ 715
Additional allowance	510	98
Allowance released	(133)	(122)
Bad debts written off	(79)	(103)
Revaluation	(9)	(7)
Translation	28	(60)
Closing Balance	$ 838	$ 521

(d) Foreign currency exchange rate risk

Foreign exchange risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. Approximately 80% of Clearwater's sales are in United States dollars and other currencies, whereas the majority of expenses and any cash distributions are in Canadian dollars. As a result, fluctuations in foreign exchange rates may have a material impact on Clearwater's financial results.

Risks associated with foreign exchange are partially mitigated by the fact that Clearwater operates internationally which reduces the impact of any country-specific economic risks on its business.

Excluding derivative financial instruments, at December 31, 2011 and December 31, 2010 Clearwater's balance sheet exposure to foreign currency was as follows (as converted to Canadian dollars):

December 31	2011	2010
Cash	9,780	3,736
Accounts receivable	28,831	27,564
Other accounts receivable	3,984	4,132
Property, plant and equipment	6,465	7,232
Accounts receivable long-term	7,841	4,191
Accounts payable and accrued liabilities	(11,617)	(10,484)
Long-term debt	(56,898)	(63,625)
Net balance sheet exposure	(11,614)	(27,254)

The components of this net exposure by currency are as follows (in local currency '000's) at December 31, 2011:

December 31, 2011	GBP	USD	Yen	Euros	RMB	ISK	DKK	Argentine Peso
Cash	168	5,973	233	168	458	-	17,630	48
Accounts receivable	1,236	13,171	206,566	7,604	312	-	3,479	20
Other accounts receivable	(150)	159	-	2,330	-	-	(52)	4,569
Property, plant and equipment	2	117	-	-	-	-	-	29,525
Accounts receivable long-term	-	3,390	-	-	-	-	-	20,453
Accounts payable and accrued liabilities	(168)	(1,717)	(362)	(748)	-	-	(3,267)	(37,383)
Long-term debt	-	(52,465)	(158,758)	-	-	-	(8,131)	-
Net balance sheet exposure	1,088	(31,372)	47,679	9,354	770	-	9,659	17,232

(In thousands of Canadian dollars)

The components of this net exposure by currency are as follows (in local currency '000's) at December 31, 2010:

December 31, 2010	GBP	USD	Yen	Euros	RMB	ISK	DKK	Argentine Peso
Cash	111	771	401	73	462	-	14,684	3
Accounts receivable	849	10,234	122,152	10,340	-	-	4,022	25
Other accounts receivable	11	651	-	1,740	-	-	-	4,705
Property, plant and equipment	6	155	-	1	-	-	-	29,157
Accounts receivable long-term	-	-	-	24	-	256,571	-	7,983
Accounts payable and accrued liabilities	(165)	(1,304)	-	(709)	-	(144,089)	(607)	(27,341)
Long-term debt	-	(24,600)	(101,162)	-	-	(4,260,302)	(5,483)	-
Net balance sheet exposure	812	(14,093)	21,391	11,469	462	(4,147,820)	12,616	14,532

The above items are included in the balance sheet at their carrying values which are materially equal to fair values other than for long-term debt. The valuation of long-term debt was conducted using both a discounted cash flow approach and a review of current market values for the convertible debentures. At December 31, 2011 the estimated fair value of Clearwater's foreign currency denominated debt was $65.2 million (2010 - $64.6 million) and the carrying value was $64.9 million (2010 - $65.2 million).

A 10% increase in the exchange rates relative to the Canadian dollar (i.e. increase is when GBP moves from 1.58 to 1.74) would result in the following increase (decrease) to net earnings and net equity:

	2011	2010
GBP	172	126
USD	(3,191)	(1,402)
Yen	63	26
Euros	1,293	1,528
RMB	12	8
ISK	-	(3,609)
DKK	171	225
Argentine Peso	370	352

(e) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flow associated with the instrument fluctuate due to changes in market interest rates. Clearwater manages its interest rate risk exposure by using a mix of fixed and variable rate debt. Clearwater's interest rate risk arises from long term borrowings issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk. At December 31, 2011, approximately 58.9% of the $247.1 million of Clearwater's debt was fixed rate debt with a weighted average interest rate of 9.5%. Changes in market interest rates cause the fair value of long term debt with fixed interest rates to fluctuate but do not affect net earnings, as Clearwater's debt is carried at amortized cost and the carrying value does not change as interest rates change.

A 1% change in interest rates for variable rate borrowings would result in $0.9 million increase (or decrease) in cash flow interest rate risk.

(In thousands of Canadian dollars)

(f) Liquidity risk

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

The following are the contractual maturities of financial liabilities, including estimated interest payments at December 31, 2011:

	Carrying Amount	Contractual Cash Flow	2012	2013	2014	2015	>2016
Long-Term debt	247,100	267,528	36,746	62,045	50,918	67,731	50,088
Trade and Other Payables	40,767	40,767	40,767	-	-	-	-
Operating Leases	-	5,233	2,289	1,218	1,041	439	246
Financial Instruments	22	22	22	-	-	-	-
	$ 287,889	$ 313,550	$ 79,824	$ 63,263	$ 51,959	$ 68,170	$ 50,334

Included in the above commitments for operating leases are amounts that Clearwater is committed directly and indirectly through its proportionate share of its joint venture, for various licenses and lease agreements, office, machinery and vehicle leases. These commitments require approximate minimum annual payments in each of the next five years as shown above.

Also included in commitments for operating leases are amounts to be paid to a company controlled by a relative of an officer of Clearwater over a period of years ending in 2015 for vehicle leases, which aggregate approximately $0.2 million (2010 - $0.2 million).

(g) Fair Value Hierarchy

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

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

The table below sets out fair value measurements of financial instruments using the fair value hierarchy:

(In thousands of Canadian dollars)

December 31, 2011		Level 1		Level 2		Level 3
Financial Liabilities:						
Derivative financial instruments	$	-	$	22	$	-
Convertible debentures		85,205		-		-

December 31, 2010		Level 1		Level 2		Level 3
Financial Liabilities:						
Financial Instruments	$	-	$	21	$	9,824
Convertible debentures		81,581		-		-

January 1, 2010		Level 1		Level 2		Level 3
Financial Liabilities:						
Financial Instruments	$	-	$	-	$	11,242
Convertible debentures		68,675		-		-

There were no transfers between levels during the year ended December 31, 2011, December 31, 2010 or January 1, 2010. The change in the fair value measurement on the financial instruments of $9.8 million was is included in the mark-to-market of the interest rate and cross currency swaps until the settlement of the Glitnir transaction was recorded in the fourth quarter of 2011; refer to Note 15(b).

16. EQUITY

Authorized:

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

Issued and outstanding:

	December 31, 2011		**January 1 and December 31, 2010**	
	Number of Shares	**$**	**Number of Shares**	**$**
Common Shares	**50,948,698**	**65,309**	-	-
Trust Units	**-**	**-**	27,745,695	162,517
Special Trust Units	**-**	**-**	23,381,217	-
	50,948,698	**65,309**	51,126,912	162,517

Conversion to a Corporation:

On October 2, 2011, as part of the Conversion, CFFI indirectly exchanged 1,275,205 trust units of the Fund, 23,381,217 Class B limited partnership units of CSLP (Class B LP units) and the associated special trust units, and 51 common shares of ManPar Inc. (GP common shares) for 24,656,422 common shares of Clearwater. The remaining unitholders of the Fund exchanged their 26,290,738 units of the Fund for common shares of Clearwater.

The $65,309 assigned to the common shares of Clearwater represents the legal stated capital of the issued common shares on the date of the Conversion plus $529 related to the option to convert embedded in the convertible debentures. The portion of the convertible debentures ("debentures") attributed to the option to convert was derived by taking the traded values of the related debentures and deducting the fair value of the liability portion of the debenture. The fair value of the liability portion of the debentures was estimated by using a discounted cash flow approach, estimates of risk free rates of 1.01% to 1.05% and a credit spread of 9.19%. The credit spread estimate was determined using the convertible bond valuation model, a stock price of $2.35, a volatility factor of 40% and a dividend yield of nil. The value of the common share was determined by reference to the closing price of $2.35 per unit of the Class A units of the Fund.

(In thousands of Canadian dollars)

	December 31, 2011		December 31, 2010	
Share capital:	#	$	#	$
Balance beginning of period	-	-	-	-
Shares issued pursuant to the arrangement	50,947,160	64,780	-	-
Conversion option embedded in convertible debentures	-	529		
Issuance of shares on redemption of convertible debentures	1,538	-	-	-
Balance , end of period	50,948,698	65,309	-	-

	December 31, 2011		December 31, 2010	
Trust units and special trust units:	#	$	#	$
Balance beginning of period	51,126,912	162,517	51,126,912	162,517
Purchase of units for cancellation	(179,752)	(571)	-	-
Trust units cancelled on conversion	(50,947,160)	(161,946)	-	-
Balance , end of period	-	-	51,126,912	162,517

The difference of $97.2 million between the carrying value of the Fund units at October 1, 2011 of $161.9 million and the assigned value of the common shares of $64.8 million has been recorded in accumulated deficit on the date of the Conversion.

17. OTHER INCOME

Year ended December 31	2011	2010
Insurance claims	**(1,729)**	-
Royalties and fees	**(1,247)**	(1,256)
Other fees	**(2,917)**	(1,221)
Other income	**$ (5,893)**	$ (2,477)

18. FINANCE COSTS

Year ended December 31	2011	2010
Interest expense on financial liabilities measured at amortized cost	**20,899**	18,367
Amortization of deferred financing charges	**3,112**	4,405
	24,011	22,772
Fair value adjustment on convertible debentures	**5,717**	13,421
Foreign exchange and derivative contracts	**6,983**	2,991
Debt settlement and refinancing fees	**1,893**	3,298
Finance costs	**38,604**	42,482

19. EARNINGS (LOSS) PER SHARE (UNIT)

The computations for earnings per share (unit) are as follows (in thousands except per share (unit) data):

	2011	2010
Basic		
Earnings (loss) attributable to the Shareholders of Clearwater	**$ 22,955**	$ (17,487)
Weighted average number of shares (units) outstanding	**51,064,503**	51,126,912
Earnings (loss) per share (unit)	**$ 0.45**	$ (0.34)
Diluted		
Earnings (loss) attributable to the Shareholders of Clearwater	**$ 30,860**	$ (17,487)
Weighted average number of shares (units) oustanding	**72,265,245**	51,126,912
Earnings (loss) per share (unit)	**$ 0.43**	$ (0.34)

The weighted average number of shares (units) for the purpose of diluted earnings per share (unit) reconciles to the weighted average number of shares (units) used in the calculation of basic earnings per share (unit) as follows:

	2011	2010
Weighted average number of shares (units) used in the calculation of basic earnings per share (unit)	**51,064,503**	51,126,912
Convertible debentures	**21,200,742**	-
Weighted average number of shares (units) used in the calculation of diluted earnings per share (unit)	**72,265,245**	51,126,912
Earnings (loss) attributable to the Shareholders of Clearwater	**22,955**	(17,487)
Interest on convertible debentures	**7,905**	-
Diluted earnings (loss) attributable to the Shareholders of Clearwater	**30,860**	(17,487)

Diluted earnings (loss) per share for December 31, 2010 is anti-dilutive.

20. INCOME TAXES

The 2011 disclosures for income taxes are reflective of Clearwater after the conversion as described in Note 2(a). The 2010 disclosures are reflective of Clearwater Seafoods Limited Partnership as it existed prior to the conversion. Therefore, the 2010 disclosures do not include certain items or reflect certain items that would otherwise exist if Clearwater Seafoods Limited Partnership was a taxable entity.

(a) Reconciliation of current income tax

The effective rate on Clearwater's earnings before income tax differs from the expected amount that would arise using the combined Canadian federal and provincial statutory income tax rates. The overall effective rate for 2011 is reflective of the decrease in the federal tax rate in 2011 as compared to 2010. A reconciliation of the difference is as follows:

(In thousands of Canadian dollars)

Year ended December 31	2011	%	2010	%
Earnings before income tax	26,818		(13,923)	
Combined tax rates	32%		34%	
Income tax provision at statutory rates	8,582	32%	(4,734)	34.0%
Add (deduct):				
Income of Partnership distributed directly to partners	(1,642)	-6%	6,773	-49%
Non-deductible expenses:	3,332	12%	-	0%
(Recognition) benefit of previously unrecorded deferred tax assets	(4,174)	-16%	1,543	-11%
Income of foreign subsidiary not subject to tax	(3,302)	-12%	(1,979)	14%
Other	1,067	4%	1,961	-14%
Actual provision	**3,863**	14.4%	**3,564**	-25.6%

(b) Income tax expense

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

	December 31 2011	December 31 2010
Current	$ 4,833	$ 3,866
Deferred (recovery)	(970)	(302)
	$ 3,863	$ 3,564

(c) Deferred tax liability

Significant temporary differences in Clearwater's subsidiaries and interests in joint ventures that would give rise to future income taxes are noted below:

	December 31 2011	December 31 2010	January 1 2010
Deferred income tax asset:			
Loss carry-forwards and future deductible expenses of foreign subsidiaries, included in other long-term assets	$ 1,594	$ 662	$ 643
Deferred income tax liabilities:			
Licenses	2,763	2,958	3,205
Property, plant and equipment	8	170	471
Other	121	-	24
	$ 2,892	$ 3,128	$ 3,700

The change in deferred income tax liabilities net of deferred income tax assets from 2010 to 2011 is reflected in the deferred income tax recovery in 2011 of $1.0 million plus the foreign exchange effect of deferred taxes of foreign subsidiaries totaling $198, the effect of which was recorded through foreign exchange. The change from January 1, 2010 to December 31, 2010 is reflected in the deferred tax recovery in 2010 of $0.3 million plus the foreign exchange effect of deferred taxes of foreign subsidiaries of $0.3 million.

(In thousands of Canadian dollars)

Clearwater has the following temporary differences and unused tax losses for which no deferred income taxes have been recognized in the Consolidated Statement of Financial Position:

	December 31 2011	December 31 2010
Deductible temporary differences		
Property, plant and equipment	$ 5,637	$ -
Licences	5,380	14,136
Financing fees	3,436	-
Donations	505	-
Foreign exchange	22	21
Non Capital Loss Carryforwards	73,234	15,756
	88,214	29,913
Taxable Temporary differences:		
Property, plant and equipment	-	(2,379)
Financing fees	-	(1,872)
Refit Accrual	(6,377)	(2,419)
Inventory	(2,516)	(4,934)
Other	-	(92)
	(8,893)	(11,696)
Net Deductible Temporary differences	$ 79,321	$ 18,217

(d) Losses and ITC's

Clearwater, along with its subsidiary corporations have non-capital losses and investment tax credits available. A breakdown of these losses and investments tax credits are as follows:

	Clearwater Seafoods Inc.	Subsidiary Corporations	Total
Non-capital losses	$ 65,150	$ 8,084	$ 73,234
Investment tax credits	2,889	1,809	4,698

The non-capital losses in Clearwater will expire from 2026 to 2031. The non-capital losses in the subsidiary corporations will expire from 2013 to 2031.

The investment tax credits will expire from 2023 to 2031.

(e) Temporary differences associated with investments in subsidiaries

The aggregate temporary difference associated with investments in subsidiaries for which no deferred tax liabilities have been recorded is $60.7 million. It is not expected that the aggregate temporary difference will reverse in the foreseeable future.

21. SEGMENTED INFORMATION

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

(a) Sales by Species

(In thousands of Canadian dollars)

Year ended December 31	2011	2010
Scallops	**$ 115,843**	$ 112,499
Lobster	**64,073**	61,261
Clams	**61,705**	60,122
Coldwater shrimp	**61,946**	35,553
Crab	**13,831**	8,024
Ground fish and other	**15,387**	13,657
	$ 332,785	$ 291,116

(b) Sales by Geographic Region

Year ended December 31	2011	2010
United States	**$ 55,457**	$ 59,277
Europe		
France	**47,958**	52,816
UK	**17,751**	16,127
Other	**60,987**	42,373
Asia		
Japan	**42,649**	31,188
China	**46,069**	22,212
Other	**15,034**	23,754
Canada	**44,332**	41,717
Other	**2,548**	1,652
	$ 332,785	$ 291,116

(c) Non-current Assets by Geographic Region

	December 31 2011	December 31 2010	January 1 2010
Property, plant and equipment, licences, fishing rights and goodwill			
Canada	**$ 234,805**	$ 200,966	$ 209,075
Argentina	**13,190**	14,790	14,148
Other	**121**	166	228
	$ 248,116	$ 215,922	$ 223,451

22. RELATED PARTY TRANSACTIONS

(a) Subsidiaries, partnership and joint ventures

Clearwater's consolidated financial statements include the accounts of the Corporation and its subsidiaries, partnerships and joint ventures, as follows:

(In thousands of Canadian dollars)

Entity	Accounts
Clearwater Seafoods Limited Partnership	Consolidated
Clearwater Ocean Prawns Venture	Consolidated
St. Anthony Seafoods Limited Partnership	Consolidated
Adams and Kinckle Limited	Proportionately consolidated
Clearwater Seafoods Holdings Incorporated	Consolidated
Clearwater Fine Foods Europe Limited	Consolidated
Clearwater Fine Foods USA Incorporated	Consolidated
Glaciar Pesquera S.A.	Consolidated

(b) Key management personnel

Clearwater has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2011 and 2010.

Year ended December 31	2011	2010
Wages and Salaries	**$ 2,311**	$ 1,843
Bonuses	**869**	121
Other Benefits	**1,040**	469
	$ 4,220	$ 2,433

(c) Transactions with other related parties

Clearwater rents office space to CFFI and provides computer network support services to CFFI. CFFI charges management fees to Clearwater for legal, finance and administration services provided to Clearwater by certain CFFI staff. These fees apportion the salaries of the individuals providing the services based on estimated time spent. CFFI charges Clearwater for its use of CFFI aircraft at market rates per hour of use. CFFI provides guarantees and undertakings to certain of Clearwater's lenders.

Clearwater had the following transaction and balances with CFFI, the controlling shareholder of Clearwater, for the year ended December 31, 2011 and December 31, 2010:

	December 31 2011	December 31 2010
Management fees charged to Clearwater	(342)	(318)
Rent and IT service fees charged to CFFI	184	182
Aircraft charges to Clearwater	(41)	(182)
Advances to CFFI	953	471
Other charges to CFFI	74	199
Purchase of JV partner note receivable from CFFI	(495)	-
Net charged to CFFI	333	352
Balances due from CFFI	2,111	1,781

(In thousands of Canadian dollars)

The amount due from CFFI is unsecured and has no set terms of repayment. CFFI has undertaken to pay the balance of the account in 2012 and the account has been classified as a current asset. No interest was charged for the periods to December 31, 2011. The account will bear interest from January 1, 2012 at a rate of 5%. No guarantee fees were charged by CFFI to Clearwater for periods to December 31, 2011, Fees amounting to 1% of the guarantees will be charged to Clearwater from January 1, 2012.

In addition Clearwater expensed approximately $0.1 million for vehicle leases in 2011 (2010 - $0.1 million) and approximately $0.1 million for other services in 2011 (2010 - $0.2 million) by a company related to its parent. The transactions are recorded at the exchange amount and the balance due to this company was $13 thousand in 2011 ($17 thousand- 2010)

At December 31, 2011 Clearwater had a long-term receivable of $8.3 million (December 31, 2010 - $2.3 million), included in other receivables, for advances on dividends and loans made to a non-controlling interest shareholder in a subsidiary (refer to Note 9).

23. JOINT VENTURES

The financial statements include Clearwater's proportionate share of the assets, liabilities, sales and expenses of joint ventures, the material elements of which are as follows:

(a) Changes to Joint Venture Partnership Agreement

Effective January 1, 2011 Clearwater obtained control of a joint venture that operates its frozen-at-sea shrimp and turbot harvesting operations in which it has a 53.66% interest. Clearwater obtained control as a result of changes to the partnership agreement that provide Clearwater the power to govern the financial and operating policies of the entity.

Clearwater has accounted for this transaction as an acquisition by contract alone and effective January 1, 2011 began to fully consolidate the results. Previously, this was a jointly controlled entity and Clearwater included its proportionate share of these operations in its results. Refer to acquisition of subsidiary – Note 4 for further information.

As result of the change in control the assets and liabilities resulting from the investment in the venture were eliminated upon consolidation. This elimination included the due to joint venture partner that resulted from the capital contribution and the deferred gain that resulted from the transfer of the fishing rights by Clearwater.

Year ended December 31		**2011**		2010
Due to Joint Venture	**$**	**-**	$	3,040
Deferred Gain		**-**		8,903
	$	**-**	$	11,943

The total deferred gain at December 31, 2010 was $19.2 million and the accumulated amortization was $10.3 million.

(b) Proportionate share of assets, liabilities, sales, expenses and earnings before taxes as at December 31:

(In thousands of Canadian dollars)

Effective January 1, 2011, Clearwater began to fully consolidate the results of a jointly controlled entity that Clearwater previously included its proportionate share of these operations in its results. Refer to acquisition of subsidiary – Note 4 for further information.

Year ended December 31		**2011**		**2010**
Current assets	$	2,073	$	11,768
Property, plant, equipment and other long-term assets		2,533		32,224
Current liabilities		367		3,456
Long-term liabilities		203		2,520
Sales		144		28,374
Expenses		(1,887)		24,868
Earnings before taxes		2,031		3,594

(c) Balances, transactions and guarantees with joint venture partners as at December 31:

The following is a summary of the transactions included in the financial statements as at December 31:

Year ended December 31		**2011**		2010
Commissions charged to joint ventures	**$**	**2,777**	$	2,802
Interest charged to joint ventures	**$**	**2**	$	89

As at December 31, 2011 Clearwater was contingently liable for the obligations of the joint venture partners in the amount of nil (December 31, 2010 - $3.1 million), however, the joint venture partners' share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is nil (December 31, 2010 - $7.0 million)

The following is a summary of the cash flows from operating, financing and investing for the year ended December 31:

Effective January 1, 2011, Clearwater began to fully consolidate the results of a jointly controlled entity that Clearwater previously included its proportionate share of these operations in its results. Refer to acquisition of subsidiary – Note 4 for further information.

Year ended December 31		**2011**		2010
Cash flow (used in) from operating activities	**$**	**1,333**	$	6,578
Cash flow (used in) from financing activities		**(1,000)**		(8,042)
Cash flow (used in) from investing activities		**(29)**		(26)
	$	**304**	$	(1,490)

24. CAPITAL DISCLOSURES

Clearwater's objectives when managing capital are as follows:

- To maintain financial flexibility to preserve access to capital markets and meet its financial obligations
- To have sufficient capital to maintain its capital program
- To meet requirements of lending facilities

Clearwater's capital structure includes a combination of equity and various classes of long-term debt. Clearwater's objective when managing its capital structure is to obtain the lowest cost of capital available, while maintaining flexibility and reducing exchange risk and refinancing risk as appropriate.

Clearwater uses leverage, in particular senior revolving and term debt, to lower its cost of capital. The amount of senior debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs. Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include early repayment of debt, repurchasing units, issuing new debt or equity, extending the term of existing debt, selling assets to repay debt and if required, limiting distributions paid.

The capital structure is as follows:

(In thousands of Canadian dollars)

Year ended December 31	2011	2010
Equity		
Trust units	$ -	$ 162,517
Common shares	65,309	-
Accumulated deficit	(835)	(115,551)
Contributed surplus	-	1,816
Cumulative translation account	(3,122)	(1,436)
Non-controlling interest	32,700	4,018
	94,052	51,364
Long term debt		
Subordinated debt		
2013 Convertible debentures	43,573	43,740
2014 convertible debentures	41,632	37,841
	85,205	81,581
Non-amortizing debt		
Bond payable, due in 2010 and 2013	-	36,937
Term debt, repaid in 2011	-	16,404
Term loan, due in 2091	3,500	3,500
Second lien loan, due 2016	43,822	-
	47,322	56,841
Amortizing debt		
First lien loan, due 2015	77,250	-
Revolving debt, matures in 2015	17,513	27,254
Term debt, repaid in 2011	-	33,864
Marine mortgage, matures in 2017	4,470	3,135
Other loans	840	758
	100,073	65,011
	232,600	203,433
	$ 326,652	$ 254,797

25. SHARE-BASED COMPENSATION

Clearwater operates a phantom stock plan that provides for the granting of share (units) appreciation rights (“SARs”) and other cash-based awards to certain employees. SARs provide the holder with the opportunity to receive a cash payment equal to the fair market value of Clearwater Seafood Incorporated’s shares (units) less the grant price. SARs vest over a three year period and have no expiry. Compensation expense is recognized based on the fair value of the awards that are expected to vest and remain outstanding at the end of the reporting period.

Clearwater issued its first awards in May 2010.

The movement in the number of awards outstanding and their related weighted average exercise prices are as follows:

In thousands	**2011**	**2010**
Outstanding at January 1	705	0
Granted	0	705
Outstanding at December 31	705	705
Exercisable at January 1	255	0
Granted	150	255
Excersisable at December 31	405	255

Share-based compensation expense included in the income statement for the year ended December 31, 2011 was $0.9 million (December 31, 2010 - $0.4 million).

The Company recorded a liability for cash-settled share incentive awards of $1.3 million at December 31, 2011 (December 31, 2010 - $0.4 million).

The following table summarizes additional information relating to the awards outstanding at December 31, 2011:

	As at December 31, 2011 In thousands	
Exercise price	Number outstanding	Number exercisable
0.01	255	255
0.80	250	83
1.00	200	67
	705	405

The fair value of the SARs are expensed over the service period. The fair value of each SAR is estimated on the date of grant using the Black-Sholes option pricing model. Upon the exercise of SARs, the rights will be settled in cash.

The fair value of the employee share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of SARs granted during the years ended December 31, 2011 and 2010, and the assumption used in their determination are as follows:

(In thousands of Canadian dollars)

	2011	2010
Weighted average fair value per option	$ 2.116	$ 0.839
Weighted average risk-free interest rate	1.73%	3.12%
Weighted average expected volatility	64.98%	60.00%
Expected life of options (years)	8.5	9.5
Weighted average dividend yield	Nil	Nil
Weighted average share price	$ 2.39	$ 1.02
Weighted average exercise price	$ 0.57	$ 0.57

26. CONTINGENT LIABILITIES

From time to time, Clearwater is subject to claims and lawsuits arising in the ordinary course of operations. In the opinion of management, the ultimate resolution of such pending legal proceedings will not have a material effect on Clearwater's consolidated financial position. Refer to Note 13 for further information related to Glitnir.

27. EXPLANATION OF TRANSITION TO IFRS AND CONVERSION FROM TRUST TO CORPORATE STRUCTURE

As stated in Note 1, these are Clearwater Seafood Incorporated's first consolidated financial statements.

The tables in this note reconcile the previously reported consolidated statements of financial position and consolidated income statement of the Fund and CSLP prepared under Canadian generally accepted accounting standards ("GAAP") to the comparative consolidated statements of financial position as at January 1, 2010 and December 31, 2010 and the comparative consolidated income statement for the year ended December 31, 2010, presented in accordance with IFRS.

a) Conversion from Trust to Corporate Structure

The main changes to to the represented comparative consolidated financial statements prepared in accordance with Canadian GAAP as at January 1, 2010 and December 31, 2010 and the year ended December 31, 2010 are as follows (cross referenced in the following tables):

1. As a result of the external unitholders and CFFI's contributing, directly or indirectly, all their ownership of the Fund and CSLP to Clearwater on October 2, 2011, 100% of the assets and liabilities of CSLP are consolidated with Clearwater.

   Previously, the external unitholders of the Fund held 54.27% of the fully diluted ownership of CSLP while CFFI held 45.73% and maintained the right to elect the majority of the members to the Clearwater board. As such. the Fund accounted for its investment in CSLP on an equity basis. With Clearwater owning 100% of the CSLP units the financial position of CSLP is represented as if it were accounted for on a consolidated basis and the previous equity accounting by the Fund in the CSLP is eliminated.

   As of January 1, 2010 and December 31, 2010 this results in the elimination of intercompany receivables and payables, the Fund's investment in CSLP, the Class E & D Units classified as debt in the CSLP (which virtually mirror the convertible debentures in the Fund) and the Fund's resulting unitholder's equity.

Clearwater consolidates the operating results of the CSLP for the year ended December 31, 2010 and the previous equity accounting for the Fund's equity earnings from their investment in the CSLP of $4,063 is eliminated.

The amounts recorded by the Fund for the convertible debentures were higher than amounts recorded by CSLP for Class D and E units as the Fund did not net deferred financing costs against the carrying value of the convertible debentures.

CFFI controlled CSLP both before and after the initial public offering in 2002 and therefore the acquisition of the seafood business by the Fund was accounted for using the book values of the assets and liabilities as recorded by CFFI.

Therefore, the the carrying amounts recorded in the financial statements are those of CSLP rather than those of the Fund.

a) Transition to IFRS

As stated in note 2(a), these are Clearwater's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for December 31, 2010 and in the preparation of opening IFRS statement of financial position as at January 1, 2010 (Clearwater's date of transition).

In preparing its opening IFRS statement of financial position, Clearwater has adjusted amounts reported in the represented consolidated financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected Clearwater's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

IFRS 1 First-time adoption of International Financial Reporting Standards ("IFRS 1"), which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on our transition date of January 1, 2010, and allows certain exemptions on the transition to IFRS. The elections we have chosen to apply and that are considered significant to Clearwater include decisions to:

- not restate previous business combinations and the accounting thereof;
- apply the requirements of IAS 23, Borrowing Costs to capitalize borrowing costs on qualifying assets effective January 1, 2010; and
- reset the cumulative translation account for all foreign operations to zero at the date of transition to IFRS.

The main changes to Clearwater's financial statements (cross referenced in the following tables) were as follows:

Statement of Financial Position

2. Other assets increased $1.6 million as a result of a reclassification of deferred charges of $2.5 million as of January 1, 2010 (December 31, 2010 - $1.5 million), on the revolving loan that was recorded against long term debt under Canadian GAAP, and an increase in deferred income taxes of $0.6 million was recorded. A reclassification of $1.5 million was recorded as of

January 1, 2010 and December 31, 2010 from other assets to property, plant and equipment for assets held for sale.

3. The carrying value of certain property, plant and equipment as of January 1, 2010 increased by $4.4 million (December 31, 2010 - $3.9 million) upon transition to IFRS due to more detailed asset componentization than under Canadian GAAP. In addition a reclassification of $1.5 million from was recorded as of January 1, 2010 and December 31, 2010 from other assets to property, plant and equipment.

4. Under Canadian GAAP, a deferred gain on fishing rights was classified as other long term liabilities. Under IFRS, the deferred gain is not recognized, reducing total fishing rights by $10.1 million as of January 1, 2010 (December 31, 2010 - $8.9 million).

5. Long-term debt – There were three adjustments made to long-term debt:

   a. Clearwater's revolving loan is presented as a component of current liabilities under IFRS rather than as a long term liability. This resulted in a reclassification of $29.3 million as of January 1, 2010 (December 31, 2010 - $27.3 million).
   b. The conversion option on the convertible debentures is an embedded derivative that is liability classified under IFRS because the conversion option relates to puttable units. The carrying value of $2.2 million as at January 1, 2010 (December 31, 2010 - $4.2 million) was reclassified to long term debt.
   c. The convertible debentures contain embedded derivatives and, Clearwater elected to account for the entire instrument at fair value through profit or loss. As of January 1, 2010 long-term debt was decreased by an additional $21.8 million (December 31, 2010 - $8.6 million) due to the revaluation of the convertible debentures to fair market value. Fair value is calculated using quoted market prices at the end of each reporting period. The fair value adjustment is recorded as part of finance costs in the statement of income (loss).

   The aggregate impact of these adjustments as of January 1, 2010 was a reduction in long-term debt of $17.1 million reflected as an increase in current portion of long-term debt of $28.8 and a reduction in the long-term portion of long-term debt of $45.9 million (December 31 2010 - a reduction in long-term debt of $3.6 million reflected as an increase in current portion of long-term debt of $27.3 and a reduction in the long-term portion of long-term debt of $30.9 million

6. Deferred income taxes – As of January 1, 2010 deferred tax liabilities were decreased by $0.4 million (December, 31, 2010 - $0.4 million).

7. Non-controlling Interest – Non-controlling interest is presented as a component of equity under IFRS rather than as a liability. This resulted in a reclassification of $3.9 million of minority interest to non-controlling interest as of January 1, 2010 ($4.0 million as at December 31, 2010). Included in these amounts are increases to non-controlling interest of $0.3 million as at January 1, 2010 (December 31, 2010 - $0.3 million) relating to the non-controlling share in adjustments relating to property, plant and equipment.

8. Shareholders equity was impacted by the following items:

a. Contributed surplus was reduced as at January 1, 2010 by $nil (December 31, 2010 - $0.8 million) for gains recognized on debenture buybacks.

b. Units were reduced by $2.2 million as at January 1, 2010 (December 31, 2010 - $3.4 million) for the equity component of the convertible debentures reclassified to long-term debt and gains recognized on debenture buybacks.

c. Cumulative translation account –Reduction of the Cumulative Foreign Currency Translation Account – IFRS 1 allows entities to reduce this account to nil upon the date of transition, i.e. January 1, 2010. This resulted in a reduction of $4.4 million of this account as of January 1, 2010 (December 31, 2010 - $3.0 million).

d. The accumulated deficit was reduced by $22.6 million as at January 1, 2010 (December 31, 2010 - $10.9 million) as a result of previously noted items including the revaluation of the convertible debentures to fair market value, a reduction in accumulated amortization as a result of the componentization of property, plant and equipment and changes to future tax liabilities.

Statement of Income or (Loss)

9. Depreciation and amortization charges – As a result of refining the degree to which we componentized our vessels and plants we have recorded higher depreciation and amortization charges $0.4 million for the year ended December 31, 2010.

10. Mark-to-Market on the long-term debt. As a result of the revaluation of the convertible debentures to fair market value a mark-to-market adjustment of $12.2 million was recorded for the year ended December 31, 2010.

11. Amortization of The Cumulative Foreign Currency Translation Account – This account accumulates the exchange difference that results from converting foreign subsidiaries at average current rates of exchange and converting all assets and liabilities at period end rates. IFRS 1 allows entities to reduce this account to nil upon the date of transition, i.e. January 1, 2010 and Clearwater took this election. Under Canadian GAAP, a gain or loss equivalent to the proportionate amount of exchange gains and losses accumulated in the account was recognized in net income when there was a reduction in Clearwater's net investment in its subsidiary. Under IFRS this account is only recognized in net income if there is considered to be a permanent reduction in the investment. As a result of this difference, a previously recognized loss of $1.1 million was reversed for the year ended December 31, 2010.

12. Deferred income taxes – deferred taxes decrease by $0.2 million for the year ended December 31, 2010 due to the tax impact of the other IFRS adjustments.

13. Presentation of non-controlling interest – non-controlling interest of $1.7 million for the year ended December 31, 2010 are presented as an allocation of net earnings rather than as a recovery under IFRS.

    The net impact of the above changes was a $11.7 million increase in the net loss for the year ended December 31, 2010.

Statement of cash flows

There were no material changes to the statement of cash flows. The net earnings figure changed due to non-cash changes in depreciation, the amortization of the cumulative foreign currency translation account and minority interest but cash flow from operations did not change.

CLEARWATER SEAFOODS INCORPORATED

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars)

b) Statement of Financial Position as at January 1, 2010

As at January 1, 2010

	Note reference	Fund	CSLP	Eliminate Equity Accounting in the Fund	Clearwater Seafoods Incorporated (Canadian GAAP)	Note reference	IFRS Adjustments	Clearwater Seafoods Incorporated (IFRS)
ASSETS								
Current assets								
Cash			$ 8,832		$ 8,832			$ 8,832
Trade receivables			29,489		29,489			29,489
Intercompany Receivables	1	807	-	(807)	-			-
Inventories			56,051		56,051			56,051
Prepaids			4,148		4,148			4,148
		807	98,520	(807)	98,520		-	98,520
Non-current assets								
Other receivables			6,251		6,251			6,251
Other assets			5,740		5,740	2,3	1,579	7,319
Property, plant and equipment			113,965		113,965	2,3	5,928	119,893
Investment in subsidiary	1	59,281	-	(59,281)	-			-
Licenses and fishing rights			106,571		106,571	4	(10,056)	96,515
Goodwill			7,043		7,043			7,043
		59,281	239,570	(59,281)	239,570		(2,549)	237,021
		$ 60,088	$ 338,090	$ (60,088)	$ 338,090		$ (2,549)	$ 335,541
LIABILITIES								
Current liabilities								
Trade and other payables	1	$ 781	$ 31,630	$ (807)	$ 31,604			$ 31,604
Income taxes payable			468		468			468
Current portion long-term debt	1	44,851	59,906	(44,338)	60,419	5	28,814	89,233
Derivative liability			11,242		11,242			11,242
		45,632	103,246	(45,145)	103,733		28,814	132,547
Non-current liabilities								
Long-term debt	1	43,402	154,211	(41,967)	155,646	5	(45,938)	109,708
Deferred tax liabilities			4,143		4,143	6	(443)	3,700
Other liabilities			27,741		27,741	4	(10,056)	17,685
		43,402	186,095	(41,967)	187,530		(56,437)	131,093
Non-controlling interest			3,623		3,623	7	(3,623)	-
SHAREHOLDERS EQUITY								
Contributed Surplus	1	8,945	1,816	(8,945)	1,816			1,816
Units	1	283,839	164,770	(283,839)	164,770	8	(2,253)	162,517
Cumulative Translation Account			(4,391)		(4,391)	8	4,391	-
Accumulated deficit	1	(321,730)	(117,069)	319,808	(118,991)	8	22,631	(96,360)
		(28,946)	45,126	27,024	43,204		24,769	67,973
Non-controlling interest					-	7	3,928	3,928
		(28,946)	45,126	27,024	43,204		28,697	71,901
TOTAL LIABILITIES and SHAREHOLDER'S EQUITY		$ 60,088	$ 338,090	$ (60,088)	$ 338,090		$ (2,549)	$ 335,541

(In thousands of Canadian dollars)

c) Statement of Financial Position as at December 31, 2010

As at December 31, 2010

	Note Reference	Fund	CSLP	Eliminate Equity Accounting in the Fund	Clearwater Seafoods Incorporated (Canadian GAAP)	Note Reference	IFRS Adjustments	Clearwater Seafoods Incorporated (IFRS)
ASSETS								
Current assets								
Cash			$ 5,271		$ 5,271			$ 5,271
Trade receivables			39,209		39,209			39,209
Intercompany Receivables	1	854	-	(854)	-			-
Inventories			47,517		47,517			47,517
Prepaids			4,446		4,446			4,446
		854	96,443	(854)	96,443		-	96,443
Non-current assets								
Other receivables			4,890		4,890			4,890
Other assets			4,500		4,500	2,3	397	4,897
Property, plant and equipment			108,316		108,316	2,3	5,434	113,750
Investment in subsidiary	1	55,200	-	(55,200)	-			-
Licenses and fishing rights			104,032		104,032	4	(8,903)	95,129
Goodwill			7,043		7,043			7,043
		55,200	228,781	(55,200)	228,781		(3,072)	225,709
		$ 56,054	$ 325,224	$ (56,054)	$ 325,224		$ (3,072)	$ 322,152
LIABILITIES								
Current liabilities								
Trade and other payables	1	$ 792	$ 33,507	$ (855)	$ 33,444		$ (117)	$ 33,327
Income taxes payable			2,435		2,435			2,435
Current portion long-term debt			5,671		5,671	5	27,253	32,924
Derivative financial instruments			9,845		9,845			9,845
		792	51,458	(855)	51,395		27,136	78,531
Non-current liabilities								
Long-term debt	1	86,640	199,727	(85,002)	201,365	5	(30,856)	170,509
Deferred tax liabilities			3,571		3,571	6	(443)	3,128
Other liabilities			27,523		27,523	4	(8,903)	18,620
		86,640	230,821	(85,002)	232,459		(40,202)	192,257
Non-controlling interest	1		3,713		3,713	7	(3,713)	-
SHAREHOLDERS EQUITY								
Contributed Surplus	1	9,738	2,609	(9,738)	2,609	8	(793)	1,816
Units	1	285,011	165,942	(285,011)	165,942	8	(3,425)	162,517
Cumulative Translation Account	1		(4,761)	328	(4,433)	8	2,997	(1,436)
Accumulated deficit	1	(326,127)	(124,558)	324,223	(126,462)	8	10,911	(115,551)
		(31,378)	39,232	29,802	37,656		9,690	47,346
Non-controlling interest					-	7	4,018	4,018
		(31,378)	39,232	29,802	37,656		13,708	51,364
TOTAL LIABILITIES and SHAREHOLDER'S EQUITY		$ 56,054	$ 325,224	$ (56,054)	$ 325,223		$ (3,071)	$ 322,152

(In thousands of Canadian dollars)

d) Statement of Shareholder's Equity at at January 1 and December 31, 2010

	Reference	December 31 2010	January 1 2010
Balance, Previous Canadian GAAP			
Contributed surplus		$2,609	$1,816
Units		165,942	164,770
Cumulative translation account		(4,433)	(4,391)
Accumulated deficit		(126,462)	(118,991)
		37,656	43,204
IFRS Adjustments			
Reduction in contributed surplus for debenture buybacks	8 (a)	(793)	-
Conversion option on Class D & E Units	8 (b)	(3,425)	(2,253)
Reduction in cumulative translation account	8 (c)	2,997	4,391
Reduction in accumulated deficit	8 (d)	10,911	22,634
		9,690	24,772
Balance, IFRS			
Contributed surplus		1,816	1,816
Units		162,517	162,517
Cumulative translation account		(1,436)	-
Accumulated deficit		(115,551)	(96,360)
		$ 47,346	**$ 67,973**

(In thousands of Canadian dollars)

e) Statement of Income or Loss for the year ended December 31, 2010

For the year ended December 31, 2010

	Note Reference	Fund	CSLP	Eliminate Equity Accounting by the Fund	Clearwater Seafoods Incorporated (Canadian GAAP)	Note Reference	CSLP IFRS Adjustments	Clearwater Seafoods Incorporated (IFRS)
Revenue		$ -	$ 291,116		$ 291,116		$ -	$ 291,116
Equity Earnings	1	(4,063)		4,063	-			
Cost of Sales			234,854		234,854			234,854
Gross Profit		(4,063)	56,262	4,063	56,262		0	56,262
Administration Expense			28,200		28,200	9	357	28,557
Other (Income) Expense			(2,477)		(2,477)			(2,477)
R&D expense (income)			1,623		1,623			1,623
Net Finance Costs	1	334	30,256	(352)	30,238	10	12,244	42,482
Reduction in foreign currency translation account			1,066		1,066	11	(1,066)	0
		334	58,668	(352)	58,650		11,535	70,185
Profit (Loss) before income taxes		(4,397)	(2,406)	4,415	(2,388)		(11,535)	(13,923)
Income tax expense		0	3,378		3,378	12	186	3,564
Profit (Loss)		$ (4,397)	$ (5,784)	$ 4,415	$ (5,766)		$ (11,721)	$ (17,487)
Profit (loss) attributable to non-controlling interest			*1,704*		*1,704*			*1,704*
Profit (loss) attributable to shareholders		*(4,397)*	*(7,488)*	*4,415*	*(7,470)*		*(11,721)*	*(19,191)*
Profit (loss)		$ (4,397)	$ (5,784)	$ 4,415	$ (5,766)		$ (11,857)	$ (17,487)
Other Comprehensive Income: foreign currency translation account		779	(1,436)	(779)	(1,436)		0	(1,436)
Total Other Comprehensive Income (Loss)		$ (3,618)	$ (7,220)	$ 3,636	$ (7,202)		$ (11,857)	$ (18,923)
Attributable to non-controlling interest			*1,704*		*1,704*			*1,704*
Attributable to shareholders		*$ (3,618)*	*$ (8,924)*	*$ 3,636*	*$ (8,906)*		*(11,857)*	*(20,627)*

Quarterly and unit information

Clearwater Seafoods Incorporated ($000's except per unit amounts)

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	87,140	97,590	78,820	69,235	77,824	85,417	65,215	62,660
Net earnings (loss) *	16,394	5,065	(332)	1,827	(5,356)	3,298	(5,281)	(10,148)

Trading information, Clearwater Seafoods Incorporated, symbol CLR

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of shares/units (board lots)								
High	2.85	3.32	1.73	1.58	1.28	0.98	1.13	1.03
Low	2.10	1.31	1.35	0.99	0.76	0.80	0.80	0.80
Close	2.39	2.35	1.47	1.52	1.02	0.82	0.87	0.84
Tranding volumes (000's)								
Total	831	3,907	1,544	2,669	1,767	394	751	695
Average daily	13	63	26	44	30	7	13	12
Shares/units outstanding at end of quarter								
Shares/units **	50,948,694	27,565,943	27,745,695	27,745,695	27,745,695	27,745,695	27,745,695	27,745,695
Special	-	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217
Total	50,948,694	50,947,160	51,126,912	51,126,912	51,126,912	51,126,912	51,126,912	51,126,912

* Results for 2010 have been adjusted to reflect international reporting standards ("IFRS") and the conversion to a Corporation. Refer to note 27 of the financial statements for further information.
** As of October 2, 2011 Clearwater Seafoods Income Fund converted from a trust to a Corporation, Clearwater Seafoods Incorporated. Refer to note 2 in the financial statements for further information.

Selected Annual Information

	2011 (Audited)*	2010 (Audited)*	2009 (Audited)	2008 (Audited)	2007 (Audited)
Sales	$ 332,785	$ 291,116	$ 284,066	$ 301,204	$ 302,681
Cost of goods sold	263,220	234,854	240,215	261,443	232,584
Gross margin	69,565	56,262	43,851	39,761	70,097
Administrative and selling	33,345	28,557	25,724	25,926	37,818
Research and development	707	1,623	-	-	-
Gain on settlement of Glitnir transaction	(12,445)				
Gain on change in control of joint venture	(11,571)				
Other income	(5,893)	(2,477)	(6,567)	8,858	(8,333)
Finance costs	38,604	42,482	-	-	-
Foreign exchange loss (income)	-	-	(30,642)	80,210	(18,633)
Interest on long-term debt and bank charges	-	-	25,342	19,113	16,745
Depreciation and amortization	-	-	236	586	14,406
Reduction in foreign currency translation account	-	-	703	-	2,644
	42,747	70,185	14,796	134,693	44,647
Earnings (loss) before income taxes	26,818	(13,923)	29,055	(94,932)	25,450
Income taxes	3,863	3,564	1,868	4,595	365
Earnings (loss) before non-controlling interest	22,955	(17,487)	27,187	(99,527)	25,085
Non-controlling interest	6,619	1,704	1,039	2,878	4,134
Earnings (loss) attributable to shareholders	$ 16,336	$ (19,191)	$ 26,148	$ (102,405)	$ 20,951

* 2011 and 2010 results have been adjusted to reflect International Financial Reporting Standards ("IFRS") and the conversion to a Corporation. Refer to note 27 for further information

CORPORATE INFORMATION

DIRECTORS OF CLEARWATER SEAFOODS INCORPORATED

Colin E. MacDonald, Chairman of the Board

John C. Risley
President, Clearwater Fine Foods Inc.

Harold Giles, Chair of Corporate Governance and Compensation Committee
Independent Consultant

Larry Hood, Chair of Audit Committee
Director, Former Partner, KPMG

Thomas D. Traves
President and Vice-Chancellor, Dalhousie University

Mickey MacDonald
President, Micco Companies

Brendan Paddick
Chief Executive Officer, Columbus Communications Inc.

Stan Spavold
Executive Vice President, Clearwater Fine Foods Inc.

EXECUTIVE OF CLEARWATER SEAFODS INCORPORATED

Ian Smith
Chief Executive Officer

Eric R. Roe
Vice-President, Chief Operating Officer

Robert D. Wight
Vice-President, Finance and Chief Financial Officer

Michael D. Pittman
Vice-President, Fleet

Greg Morency
Chief Commercial Officer & Executive Vice-President

David Rathbun
Vice-President, Chief Talent Officer

Christine Penney
Vice-President, Sustainability & Public Affairs

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SHARES LISTED

Toronto Stock Exchange
SHARE Symbol CLR
Convertible Debenture symbols: CLR.DB.B and CLR.DB.A

TRANSFER AGENT

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