Delivering On Our Promise

Clearwater

remarkable seafood, responsible choice

CLEARWATER SEAFOODS INCORPORATED
2015 MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective March 22, 2016.

The Audit Committee and the Board of Directors of Clearwater Seafoods Incorporated ("Clearwater") have reviewed and approved the contents of this MD&A, the financial statements and the 2015 fourth quarter news release. All figures within the MD&A are in thousands of Canadian dollars unless otherwise stated.

This MD&A should be read in conjunction with the 2015 annual financial statements and the 2015 Annual Information Form, which are available on Sedar at www.sedar.com as well as Clearwater's website, www.clearwater.ca.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This report may contain "forward-looking information" as defined in applicable Canadian securities legislation. All statements other than statements of historical fact, including, without limitation, statements regarding future plans and objectives of Clearwater, constitute forward-looking information that involve various known and unknown risks, uncertainties, and other factors outside management's control.

Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

There can be no assurance that such information will prove to be accurate and actual results and future events could differ materially from those anticipated in such forward-looking information.

In addition, this report contains forward-looking information relating to Clearwater's acquisition of Macduff Shellfish Group Limited ("Macduff"), financing of the acquisition, enhancement of Clearwater's scale of operations and accelerated growth, as well as expectations regarding sales, adjusted EBITDA, adjusted earnings and leverage. This forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect including, but not limited to, Clearwater's ability to successfully integrate or grow the business of Macduff as planned, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs. There can be no assurance that such information will prove to be accurate and actual results and future events could differ materially from those anticipated in such forward-looking information. Risk factors that could cause actual results to differ materially from those indicated by forward-looking information contained in this press release include risks and uncertainties related to: (i) diversion of management time and attention on the acquisition, (ii) any disruption from the acquisition affecting relationships with customers, employees or suppliers, (iii) the timing and extent of changes in interest rates, prices and demand, and (iv) economic conditions and related uncertainties.

For additional information with respect to risk factors applicable to Clearwater, reference should be made to Clearwater's continuous disclosure materials filed from time to time with securities regulators, including, but not limited to, Clearwater's Annual Information Form.

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

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

NON-IFRS MEASURES

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

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

These non-IFRS measures include gross margin, adjusted EBITDA, free cash flows, leverage, adjusted earnings and return on assets. Refer to non-IFRS measures, definitions and reconciliations for further information.

CLEARWATER OVERVIEW

Leading Global Provider of Wild-Caught Shellfish

Clearwater is North America's largest vertically integrated harvester, processor and distributor of premium shellfish. 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 groundfish with approximately 79 million pounds sold in 2015.

Powerful Industry Fundamentals

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

Clearwater's vertical integration creates barriers to entry and sustainable competitive advantage

Clearwater is the largest holder of shellfish quotas and licenses within Canada and maintains the widest selection of MSC-certified species of any shellfish harvester worldwide. These quotas are a key barrier to entry as regulatory authorities strictly control access and rarely grant new licenses. In addition, the financial resources required to acquire and harvest fishing quotas create barriers to entry.

Clearwater has a number of other competitive advantages including our innovations and intellectual property such as state-of-the-art factory vessels and advanced onshore processing, storage and distribution capabilities.

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

Proven and Experienced Leadership Team

Clearwater continues to build upon our world class leadership with best in class programs for quality control and food safety, operations and new product development. In addition over the past few years Clearwater has added a number of key personnel to complement its existing team to continue to support strong financial and operational growth.

SELECTED ANNUAL INFORMATION

(In 000's except per share amounts) For the year ended December 31	2015	2014	2013
Sales	$ 504,945	$ 444,742	$ 388,659
Gross margin	134,300	102,834	87,368
Net earnings (loss)	(20,671)	9,797	15,298
Basic and diluted earnings (loss) per share	(0.65)	(0.05)	0.12
Adjusted EBITDA[1]	109,734	87,368	79,103
Adjusted earnings attributable to shareholders[1]	43,457	22,571	15,692
Adjusted earnings per share[1]	0.76	0.41	0.31
Total assets	753,195	464,397	410,796
Long-term debt	480,769	273,041	257,325

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, growth in revenue, margins, adjusted EBITDA, free cash flows and the creation of long term shareholder value;
- "**wild** seafood" as premium wild shellfish. Including our core species – (scallops, lobster, clams, langoustines 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.

In 2015, Clearwater reported record annual sales and adjusted EBITDA, marking its sixth consecutive year of reported growth, resulting in not only achieving but surpassing its five year financial performance goal of $500 million in sales, and $100 million in adjusted EBITDA, one year ahead of the original plan.

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

Over the last three years, Clearwater has made significant progress in all aspects of its mission. Revenues have increased $116.3 million, or 30% since 2013. Adjusted EBITDA[1] has grown at a 17.8% compound average annual growth rate over the last three years. The increase over the last three years, in both sales and adjusted EBITDA resulted from strong sales prices in home currencies for the majority of species, positive impact from higher average foreign exchange rates and the acquisition of Macduff on October 30, 2015.

Leverage[1] has increased to 4.4x adjusted EBITDA at December 31, 2015 versus 3.3x at December 31, 2013 primarily due to the investment in Macduff Shellfish, higher capital expenditures (net of designated borrowings) as well as the impact of a higher US dollar exchange rate on USD denominated debt as the US dollar strengthened against the Canadian dollar in 2015. This is a significant improvement over the approximate 5.3x leverage at the closing of the Macduff acquisition on October 30, 2015 and we remain on target to further reduce leverage below 4.0x by year end 2016.

Value Proposition

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

- Great tasting, nutritious, highest quality, frozen-at-sea, premium shellfish.
- Expertise in premium shellfish science, harvesting, processing and logistics technology to ensure quality and safety from "ocean to plate".
- Marine Stewardship Council ("MSC") certification for sustainability of species to ensure 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 service 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. **Expanding Access to Supply** - We will continue to actively invest in access to supply of core species and other complementary, high demand, premium, wild and sustainably harvested seafood through improved utilization and productivity of core licenses as well as acquisitions, partnerships, joint ventures and commercial agreements.

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

The investment in Macduff provides Clearwater with access to an incremental 15 million pounds of premium, wild caught, safe, traceable and complementary shellfish species including King and Queen scallops, langoustines, brown crab and whelk.

In late July 2015 Clearwater launched its new state-of-the-art factory clam vessel, the Belle Carnell. At CAD $65 million, it is the largest vessel investment in Clearwater's history and will harvest Arctic Surf Clams, Cockle Clams and Propeller Clams year-round on the Grand Banks. The vessel joined Clearwater’s fleet in the fourth quarter of 2015 and significantly improves utilization of existing licenses and quota in this Marine Stewardship Council (MSC) certified sustainable fishery. We expect the Belle Carnell could contribute up to a 50% increase in total clam volume of all species in 2016 versus prior year.

2. **Target Profitable & Growing Markets, Channels & Customers** – Clearwater benefits from strong and growing global demand for sustainably harvested, safe, traceable and premium wild seafood. In 2016, we will continue to segment and target markets, consumers, channels and customers on the basis of size, profitability, demand for eco-label seafood and ability to win. Our focus is to win in key channels and with customers that are winning with consumers.

   In addition to increasing supply, Macduff provides Clearwater enhanced access to key distribution channels including food service and grocery retail in multiple markets including the UK, France, Italy, Spain and Portugal.

3. **Innovate and Position Products to Deliver Superior Customer Satisfaction and Value** – We continue to work with customers on new products and formats as we innovate and position our premium seafood to deliver superior satisfaction and value that’s relevantly differentiated on the dimensions of taste, quality, safety, sustainability, wellness, convenience and fair labour practices.

   The acquisition of Macduff also expands the product range Clearwater can make available to its large and growing customer base –especially in Asia and the Americas. Macduff’s four major species – King and Queen Scallops as well as Whelk and Brown Crab will benefit from expanded market and customer service/access as well as the sales and marketing strength of the Clearwater brand and organization.

   Clearwater's new product development (“NPD”) efforts have resulted in the significant growth, geographic and channel distribution expansion of our higher pressure-processed frozen raw lobster including major air and cruise line as well major retailers in the EU and Asia.

   Northern Propeller clam, a species with historically limited market appeal has been transformed through NPD into a significant source of incremental revenue and profit in both the Japanese and North American Sushi markets.

4. **Increase Margins by Improving Price Realization and Cost Management** - In 2015 we began to implement our “ocean to shelf” global supply chain. We will continue this work in 2016 capturing cost savings through the greater efficiency and improved productivity of our global operations. This includes leveraging the scarcity of seafood supply versus increasing global demand to continuously improve price realization, revenue and margins. It also includes investing in innovative state-of-the-art technology, systems and processes that maximize value, minimize cost, reduce waste, increase yield and improve quality, reliability and safety of our products and people.

   The Macduff investment expands Clearwater’s North Atlantic harvesting operations and provides integrated UK-based primary and secondary processing capabilities and expertise with land-based processing facilities in Scotland. Investments in automated shucking continue to generate significant cost savings and productivity gains in our Canadian Sea Scallop business. Our patented next generation live lobster storage and distribution system promises to improve quality, reduce waste and significantly lower the operating costs in our lobster business. Early tests have already yielded a significant reduction in mortality in storage and distribution –the single largest industry cost driver.

5. **Pursue and Preserve the Long Term Sustainability of Resources on Land and Sea** - As a leading global supplier of wild-harvested seafood – sustainability remains at the core of our business and our mission. Investing in the long-term health and the responsible harvesting of the oceans and the bounty is every harvester’s responsibility and the only proven way to ensure access to a reliable, stable, renewable and long-term supply of seafood. Sustainability is not just good business, like innovation it’s in our DNA. That’s why Clearwater has been recognized by the Marine Stewardship Council (“MSC”) as a leader in sustainable harvesting for wild fisheries and how Clearwater can offer the widest selection of sustainably-certified species of any seafood harvester worldwide. In October 2015 Clearwater received an award from ESRI Canada, for our commitment to sustainable business practices through the use of our geographic information system (“GIS”), which allows us to reduce our impact on the ocean floor and more efficiently conduct our harvest operations.

   Clearwater will continue to invest in science and sustainable harvesting technology and practices to add value to all fisheries in which we participate in Canada, Argentina and the United Kingdom.

6. **Build Organizational Capability, Capacity & Engagement -** A high level of performance can only be achieved by a talented and engaged global workforce at sea and on land, employing well communicated strategies and plans with measurable objectives. It also requires an enduring commitment to invest in our people.

   Macduff is one of the largest vertically integrated shellfish harvesters in the UK and creates a new growth platform for Clearwater to complement our robust organic growth plans. Management is already evaluating multiple opportunities to fuel additional growth which will provide opportunities to invest in, develop and engage our entire workforce in Canada and abroad.

CAPABILITY TO DELIVER RESULTS

Clearwater's revenues and earnings are dependent primarily on its ability to harvest, purchase, and market shellfish. Supply is dependent to a large extent on the annual total allowable catch ("TAC") for each species. The annual TAC is related to the health of the stock of the particular species as determined by the relevant government fishery management organizations. All stocks are managed sustainably providing assurance of the long term availability of the resource, however annual fluctuations in supply of a natural resource are normal. Short term impacts of such fluctuations can normally be offset within Clearwater's species portfolio and/or by making adjustments within each business unit.

The primary shellfish stocks that Clearwater harvests are Canadian sea, Argentine and UK scallops, clams, lobster and coldwater shrimp, which are harvested in offshore fisheries that have a limited number of participants. Clearwater harvests 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**.** Clearwater obtains its supply of crab, whelk, and nephrops (langoustines) entirely through purchases from independent fishermen.

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

- The **Arctic surf clam** resource is stable. Clearwater has quota allocations on both Banquereau Bank and the Grand Banks. Total annual landings are based upon the harvesting capacity of our three vessels.

- The **Argentine scallop** volumes in 2016 are expected to be in line with recent years. Argentina is the first scallop fishery in the world to have earned the rigorous Marine Stewardship Council (MSC) independent certification. .

- **Coldwater shrimp** - The Northern shrimp TAC has declined from historic highs over the last five years and is expected to continue to decline at a similar rate over the next five years. Clearwater holds access to quotas directly through licences and through long term harvesting agreements. Clearwater procures shrimp from the inshore for its cooked and peeled business and supplements this with raw material from its offshore vessels.

- The offshore **lobster** resource is healthy with a consistent offshore TAC and the inshore resource continues to support abundant catches. Clearwater harvests virtually all its lobster quota each year. During 2015, Clearwater purchased approximately 80% of its lobster from inshore lobster fishermen.

- The UK scallop landings are stable, with total 2015 landings coming down slightly from the recent high levels. The fishery is managed under a combination of effort days, gear regulation and minimum landing size which vary by area.

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 to complete research and development. The Company now operates a fleet of 13 scallop trawlers in the UK.

Excluding the fleet acquired through the acquisition of Macduff, Clearwater spent the following on capital expenditures and repairs and maintenance over the last three years:

(In 000's)

For the years ended December 31	2015	2014	2013	Total
Vessels	$ 49,748	$ 72,700	$ 17,025	$ 139,473
Plants and other	13,642	10,609	6,788	31,039
	$ 63,390	$ 83,309	$ 23,813	$ 170,512
Return on investments capital	$ 50,370	$ 60,417	$ 6,346	$ 117,133
Maintenance capital	13,020	22,892	17,467	53,379
	$ 63,390	$ 83,309	$ 23,813	$ 170,512
Maintenance capital	$ 13,019	$ 22,892	$ 17,469	$ 53,380
Repairs and maintenance	19,714	14,149	13,144	47,007
	$ 32,733	$ 37,041	$ 30,613	$ 100,387
Depreciation/Amortization	$ 29,732	$ 23,753	$ 24,167	$ 77,652
Maintenance spending as a % of depreciation	110.1%	155.9%	126.7%	129.3%

In 2015 Clearwater invested $63.4 million in capital expenditures. Of these amounts, $26 million relating to the construction of the new clam vessel, $7 million for the purchase and conversion of a research vessel, $18 million related to maintenance capital investments and $12 million to improve operational efficiencies in our plants and information systems.

This investment in the new clam harvesting vessel will drive growth in Clearwater's clam business by expanding access to clam supply by approximately 50%.

In 2014 Clearwater had a record investment in capital expenditures of $83.3 million. Capital expenditures included $36.4 million related to the construction of the clam harvesting vessel.

In 2014 Clearwater invested $16.7 million to complete the conversion of an Argentine scallop vessel which began harvesting early in the first quarter of 2015. Additional investments in 2014 included $7.3 million for an enterprise resource planning system ("ERP") which was completed in early 2016, $18.2 million on refits including $12.5 million for a life extending refit of a shrimp vessel and $4.7 million on other planned maintenance.

In 2013, Clearwater completed refits on its vessels of approximately $9.3 million. Additional vessel conversion costs included $2.7 million on a new clam vessel and $5.0 million related to a scallop vessel.

In addition to the annual amounts capitalized above, Clearwater historically has spent and expensed on average about $15.7 million a year over the past three years 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.

Clearwater's largest fleet investments are in its nine factory vessels located within Canada and Argentina. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams.

Of the nine factory vessels:

- Two are used to harvest shrimp and are on average 22 years old. These vessels have a capacity to harvest 14,000 to 18,000 metric tons of our 20,000 metric ton quota and our entire 1,900 metric ton turbot quota in a ready for market form. One of the vessels was built in 1985 and in 2014 Clearwater invested $12.5 million in a late-life refit, thereby extending its useful life.

- Four are used to harvest sea and bay scallops with the sea scallop vessels being on average 18 years old and the bay scallop vessels being on average 20 years old. In 2014, one of the idle vessels was converted from harvesting sea scallops to harvesting bay scallops and began operations in early 2015.

- Three of Clearwater's vessels are used to harvest clams and are on average 18 years old. These vessels are harvesting at capacity. In 2015, Clearwater completed construction of a new clam harvesting vessel which was operational in the third quarter of 2015 with product reaching the market in the fourth quarter of 2015.

With the acquisition of Macduff, Clearwater's fleet now includes 13 mid-shore scallop harvesting vessels within the UK with average useful lives between 5-15 years.

In 2016 Clearwater expects to invest approximately $30 million in capital expenditures with the largest portion relating to vessel maintenance and refits.

KEY PERFORMANCE INDICATORS

In 000's of Canadian dollars **As At December 31**	**2015**	**2014**	**2013**
Profitability			
Adjusted EBITDA	$ 109,734	$ 87,368	$ 79,103
Adjusted EBITDA (as a % of sales)	21.7%	19.6%	20.4%
Sales	$ 504,945	$ 444,742	$ 388,659
Sales growth	13.5%	14.4%	10.9%
Free Cash Flows and Leverage Targets			
Free cash flows	$ 39,089	$ 30,856	$ 26,121
Leverage	4.4	3.3	3.3
Returns			
Return on assets	12.5%	13.7%	13.4%

2015 Financial Achievements

Clearwater reported record annual sales and adjusted EBITDA for 2015, marking its sixth consecutive year of reported growth, resulting in not only achieving but surpassing its five year financial performance goal of $500 million in sales, and $100 million in adjusted EBITDA, one year ahead of the original plan.

In 2015 Clearwater reported record sales of $504.9 million and adjusted EBITDA[1] of $109.7 million versus 2014 comparative figures of $444.7 million and $87.4 million.

Sales increased by $60.2 million or 13.5%, in 2015 as a result of strong sales prices in home currencies for the majority of species which increased sales by $46.2 million, a $33.6 million positive impact from higher average foreign exchange rates and $27 million due to the acquisition of Macduff on October 30, 2015 offset partially by lower volumes.

In July 2015, Clearwater completed its state-of-the-art clam vessel, the Belle Carnell, increasing harvesting capacity for the fourth quarter of 2015, partially offsetting the decline in sales volumes for clams during the year.

On October 30, 2015 Clearwater successfully completed the acquisition of 100% of the shares of Macduff Shellfish Group Limited ("Macduff") for CDN $206 million (£101 million), one of Europe's leading wild shellfish companies. Macduff expands our access to supply by more than 15 million pounds and further diversifies our access in wild shellfish.

Free cash flow[1] improved by $8.2 million to $39.1 million in 2015 due to higher adjusted EBITDA partially offset by a reduction in working capital from higher levels of inventory at the end of 2015, higher costs per pound and an increase in inventory from the acquisition of Macduff.

As of December 31, 2015 leverage increased to 4.4x from 3.3x as of December 31, 2014 primarily due to the investment in Macduff Shellfish, higher capital expenditures (net of designated borrowings) as well as the impact of a higher US dollar exchange rate on USD denominated debt as the US dollar strengthened against the Canadian dollar in 2015. This is a significant improvement from approximately 5.3x leverage at the closing of the acquisition of Macduff on October 30, 2015 and we remain on target to further reduce leverage below 4.0x by year end 2016.

Return on assets declined to 12.5% in 2015 as a result of the timing of the investment in Macduff. The full investment is included in the assets whereas earnings only include the two months of earnings from the acquisition date of October 30, 2015 to December 31, 2015.

We are pleased with our results for 2015 and particularly satisfied to exceed our five-year strategic plan goals of $500 million in revenue and $100 million in adjusted EBITDA one year ahead of our original timetable.

Strong global demand across all markets and species will continue to be a key driver for our business in 2016.

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

Looking forward, we expect to see significant volume growth in 2016 associated with the acquisition of Macduff, the expansion of our clam fleet and expanded procurement of core species.

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

EXPLANATION OF 2015 ANNUAL EARNINGS

Overview

The following statements reflect the results of Clearwater for the years ended December 31, 2015 and 2014:

In 000's of Canadian dollars Year ended December 31	2015	2014
Sales	$ 504,945	$ 444,742
Cost of goods sold	370,645	341,908
Gross margin	134,300	102,834
	26.6%	*23.1%*
Amortization of fair value adjustment to inventory and fixed assets from acquisition of Macduff[1]	2,112	-
Reported gross margin per the annual financial statements	132,188	102,834
Administrative and selling	51,363	48,252
Finance costs	68,204	35,240
Foreign exchange loss on forward contracts	26,480	6,636
Other expense (income)	444	(5,031)
Research and development	1,981	1,991
	148,472	87,088
Earnings (loss) before income taxes	(16,284)	15,746
Income tax expense	4,387	5,949
(Loss) earnings	$ (20,671)	$ 9,797
Earnings (loss) attributable to:		
Non-controlling interest	$ 16,937	$ 12,702
Shareholders of Clearwater	(37,608)	(2,905)
	$ (20,671)	$ 9,797

1 - The amortization of fair value adjustments related to inventory and depreciation result from IFRS requirements for purchase price accounting on the acquisition of Macduff. As a result, the $2.1 million has been excluded from all analysis of cost of goods sold and gross margin.

2015 Annual Earnings

Clearwater reported record annual sales and adjusted EBITDA for 2015, marking its sixth consecutive year of reported growth, resulting in not only achieving but surpassing its five year financial performance goal of $500 million in sales, and $100 million in adjusted EBITDA, one year ahead of the original plan.

Clearwater reported record sales for 2015 of $504.9 million and adjusted EBITDA of $109.7 million, versus 2014 comparative figures of $444.7 million and $87.4 million, respectively.

Sales increased by $60.2 million or 13.5%, in 2015 as a result of strong sales prices in home currencies for the majority of species which increased sales by $46.2 million, a $33.6 million positive impact from higher average foreign exchange rates and $27 million due to the acquisition of Macduff on October 30, 2015 offset partially by lower volumes.

Harvest costs and sales volumes were negatively impacted by challenging weather conditions both at sea and on land during the first half of 2015. The impact of these weather conditions was to delay harvesting operations and scheduled vessel maintenance for our clam fleets. In addition, expected reductions in the total allowable catch for the year for sea scallops reduced available supply. Finally lower catch rates as well as harvesting delays with a new Argentine vessel contributed to the decline in Argentine scallop sales volumes.

In July 2015, Clearwater completed its state-of-the-art clam vessel, the Belle Carnell, increasing harvesting capacity for the fourth quarter of 2015, partially offsetting the decline in sales volumes for clams during the year.

On October 30, 2015 Clearwater successfully completed the acquisition of 100% of the shares of Macduff Shellfish Group Limited (“Macduff”) for CDN $206 million (£101 million), one of Europe’s leading wild shellfish companies. Macduff expands our access to supply by more than 15 million pounds and further diversifies our access in wild shellfish.

The 2015 annual results include two months of activity for Macduff which equates to CDN $27 million in sales and CDN $4.5 million in adjusted EBITDA, from access to diversified complementary species including King and Queen scallops, langoustine, brown crab and whelk, the majority of which is sold within the European market.

Macduff operations experience a similar predictable seasonal pattern as Clearwater in which sales, margins and adjusted EBITDA are higher in the second half of the year whereas investments in working capital are lower, resulting in higher free cash flows and lower leverage in the second half of the year.

Excluding the acquisition of Macduff and the related amortization of the fair value adjustments to inventory and depreciation, the growth in sales, margins and adjusted EBITDA, was driven by strong market demand that provided higher sales prices for the majority of species as well as strengthening foreign exchange rates for the US dollar against the Canadian dollar. The record sales and adjusted EBITDA were achieved despite lower sales volumes. These higher foreign exchange rates had a $33.6 million positive impact on sales and gross margin in 2015. The positive impact from foreign exchange on gross margin was partially offset by lower sales volumes, higher harvesting costs for scallops and higher procurement costs for scallops, lobster, and shrimp.

Free cash flow improved by $8.2 million to $39.1 million in 2015 due to higher adjusted EBITDA partially offset by additional investment in working capital from higher levels of inventory at the end of 2015, higher costs per pound and an increase in inventory from the acquisition of Macduff.

Higher non-operational losses of $48.8 million (refer to the following table), were primarily a result of an increase in non-cash unrealized foreign exchange losses from the translation of the US dollar denominated debt as the US dollar strengthened against the Canadian dollar. In addition acquisition related costs, including $2.1 million of amortization on fair value adjustments for inventory and depreciation resulting from IFRS requirements on purchase price accounting for the acquisition of Macduff, increased non-operational losses for 2015.

In 000's of Canadian dollars Year ended December 31	2015	2014	Change
Earnings (loss)	$ (20,671)	$ 9,797	$ (30,468)
Changes due to operational items:			
Higher gross margin			31,466
Higher administrative and selling			(3,111)
Higher interest expense			(4,620)
Higher realized foreign exchange losses			(3,904)
			19,831
Changes due to non-operational items:			
Higher debt arrangement costs			(408)
Higher unrealized foreign exchange losses on debt and working capital			(44,765)
Lower deferred income tax expense			873
Amortization of fair value adjustments for inventory and depreciation			(2,112)
Acquisition related costs			(3,240)
Fair value adjustments on convertible debentures and embedded derivative			889
			(48,763)
All other			(1,536)
			$ (30,468)

Sales by region

In 000's of Canadian dollars Year ended December 31		2015		2014		Change	%
Europe	$	183,881	$	149,616	$	34,265	22.90
China		95,140		73,308		21,832	29.78
Japan		66,401		57,496		8,905	15.49
Other Asia		18,113		15,494		2,619	16.90
Asia		179,654		146,298		33,356	22.80
United States		80,668		84,943		(4,275)	(5.03)
Canada		58,696		61,668		(2,972)	(4.82)
North America		139,364		146,611		(7,247)	(4.94)
Other		2,046		2,217		(171)	(7.71)
	$	504,945	$	444,742	$	60,203	13.54

Europe

Europe is Clearwater's largest scallop market and it is an important market for coldwater shrimp, langoustines, crab and lobster products. With the acquisition of Macduff Shellfish Group Limited ("Macduff") on October 30, 2015, Europe is now our most diverse market, where a wide variety of products are sold.

European sales increased $34.3 million to $183.9 million for 2015 as compared to 2014, primarily as a result of the acquisition of Macduff.

The acquisition provided an additional CDN $27 million in sales, from access to species including King and Queen scallops, langoustine, brown crab and whelk, the majority of which is sold within the European market.

In addition higher sales volumes for lobster and strong market demand that improved sales prices for scallops and shrimp also contributed to the increase in sales.

Lower available supply for Argentine scallops and shrimp reduced sales volumes, as supply was sold to higher yielding markets partially offsetting the increase in sales in Europe.

Sales, which were primarily transacted in the Euro[1], GBP, the US dollar and DKK were positively impacted by $0.5 million due to higher foreign exchange rates. The Euro declined 1.5% relative to the Canadian dollar from 1.460 in 2014 to 1.438 in 2015 and the UK pound improved 9.8% relative to the Canadian dollar from 1.815 in 2014 to 1.993 in 2015.

China

China is an important market for clams, coldwater shrimp, lobster, turbot and scallops.

Sales to customers in China increased $21.8 million or 29.8%, to $95.1 million due to higher foreign exchange rates and strong market demand that increased sales prices for clams, sea scallops and shrimp.

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Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar in 2015 positively impacting sales by $12.1 million as average foreign exchange rates[1] for the US dollar strengthened against the Canadian dollar by 17.5% to 1.296 in 2015.

Changes in product mix for clams and lobster that was weighted towards products with higher sales prices also contributed to the increase in sales.

Sales were partially offset by a reduction in sales volumes from lower available supply for clams as product was sold in higher yielding markets.

Japan

Japan is an important market for clams, lobster, coldwater shrimp and turbot.

Sales to customers in Japan increased $8.9 million or 15.5%, to $66.4 million in 2015 primarily as a result of strong demand for shrimp and turbot that increased sales volumes and prices.

Higher sales prices for clams and changes in sales mix for lobster that was weighted towards products with higher sales prices also contributed to the increase in sales.

Reductions in available supply for clams and changes in sales mix weighted towards products with lower sales prices for clams partially offset the increase in sales. The completion of the state-of-the-art clam vessel, the Belle Carnell in July 2015, increased harvesting capacity for the fourth quarter, partially offsetting the reduction available supply.

Other Asia

The other Asia region includes Korea, Taiwan, Singapore and other Asian countries. These Asian countries are an important market for clams, shrimp and turbot.

Sales in this region increased $2.6 million to $18.1 million for 2015 in comparison to the same period in 2014 primarily as a result of strong market demand that increased sales prices for scallops and clams and higher average foreign exchange rates as the US dollar strengthened against the Canadian dollar.

Sales were positively impacted by 0.9 million in 2015 due to higher average foreign exchange[1] rates for the US dollar. Average foreign exchange rates for the US dollar increased by 17.5% to 1.296 in 2015.

United States

The United States is an important market for scallops, coldwater shrimp, lobster and clams.

Sales in the United States decreased $4.3 million, or 5.0% to $80.7 million primarily as a result of a reduction in available supply for scallops.

The reduction in available supply for sea scallops was primarily a result of expected reductions in available total allowable catch for the year.

Lower catch rates for Argentine scallops in 2015 and changes in sales regions for sea scallops to higher yielding markets contributed to the reduction in available supply.

The decline in sales volumes for scallops was partially offset by an improvement in foreign exchange rates and strong demand that increased sales prices for clams and scallops.

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Sales were positively impacted by $12.0 million in 2015 due to stronger foreign exchange rates as average rates for the US dollar strengthened against the Canadian dollar. Average foreign exchange rates for the US dollar increased by 17.5% to 1.296 in 2015.

Canada

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

Sales in Canada decreased $3.0 million, or 4.8% primarily as a result of a reduction in sales volumes for sea scallops and lobster.

Sales volumes for sea scallops declined in 2015 due lower to available supply and changes in sales mix as product was sold in higher yielding markets.

Strong sales prices for sea scallops, clams and snow crab, partially offset the decline in sales.

Sales by species[1]

In 000's of Canadian dollars Year ended December 31	2015	2014	Change	%
Scallops	$ 165,544	$ 163,705	$ 1,839	1.1
Coldwater shrimp	109,963	93,742	16,221	17.3
Lobster	92,589	78,186	14,403	18.4
Clams	84,350	72,774	11,576	15.9
Crab	26,141	20,985	5,156	24.6
Ground fish and other shellfish	18,485	15,350	3,135	20.4
Langoustine	7,873	0	7,873	100.0
	$ 504,945	$ 444,742	$ 60,203	13.5

Sales increased $60.2 million, or 13.5%, for 2015 versus the same period of 2014 as a result of strong sales prices in home currencies for the majority of species which increased sales by $46.2 million, a $33.6 million positive impact from higher average foreign exchange rates and $27 million due to the acquisition of Macduff on October 30, 2015 offset partially by lower volumes.

The acquisition provided an additional CDN $27 million in sales for the year ended December 31, 2015, from access to diversified complementary species including King and Queen scallops, langoustine, brown crab and whelk, the majority of which is sold within the European market.

The increase in sales was partially offset by a reduction in available supply for both sea and Argentine scallops. The reduction in available supply for sea scallops was primarily a result expected reductions in the total allowable catch for the year. Finally lower catch rates as well as harvesting delays with a new Argentine vessel contributed to the decline in Argentine scallop sales volumes.

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Cost of Goods Sold

In 000's of Canadian dollars Year ended December 31		2015		2014		Change	%
Harvesting and procurement	$	264,859	$	245,724	$	19,135	7.8
Manufacturing		44,046		36,690		7,356	20.0
Depreciation		28,872		24,139		4,733	19.6
Transportation		20,767		22,720		(1,953)	(8.6)
Administration		12,101		12,635		(534)	(4.2)
	$	370,645	$	341,908	$	28,737	8.4

Cost of goods sold increased $28.7 million or 8.4% to $370.6 million primarily as a result of the acquisition of Macduff and an increase in harvesting and procurement costs for lobster, shrimp and scallops.

Excluding the increase in cost of goods sold as a result of the acquisition of Macduff, cost of goods sold declined $1.5 million during 2015 in comparison to the same period in 2014, primarily as a result of lower sales volumes for scallops. The decline in sales volumes was a result of a reduction in available supply for both sea and Argentine scallops. The reduction in available supply for sea scallops was primarily a result of expected reductions in the total allowable catch for the year. Finally lower catch rates as well as harvesting delays with a new Argentine vessel contributed to the decline in Argentine scallop sales volumes.

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

Higher harvesting costs per pound for 2015 were as a result of a reduction of available supply that lowered catch rates for scallops. In addition higher procurement costs for sea scallops, lobster and shrimp increased costs per pound.

Fuel costs for our vessels declined $5.4 million in 2015 to $19.6 million as a result of a reduction in litres consumed by the scallop vessels and lower costs/litre. Scheduled refits reduced our fishing effort for scallops and poor weather conditions delayed harvesting and refit work for most species and increasing costs per pound in the first quarter of 2015. In addition harvesting delays for the new Argentine scallop vessel contributed to the reduction in litres consumed. Finally the average price per litre of fuel declined by $0.14 per litre to an average of $0.74/litre for 2015 in comparison to the same period of 2014. Clearwater's vessels used approximately 26.6 million litres of fuel in 2015 (excluding the consumption from the vessels acquired in the Macduff acquisition). Based on 2015 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $0.3 million.

Clearwater uses Marine Diesel in its harvesting operations, the price of which does not correlate closely to publicly available measures such the price of a barrel of oil. This is due to a number of factors including but not limited to the nature of the fuel used, the geographic locations in which Clearwater purchases fuel and the currency in which Clearwater purchases fuel.

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 and increased production of certain species.

Depreciation from assets used in the harvesting and production of goods increased in 2015 as a result of vessel refits and investments in plants and vessels that were completed in the last half of 2014 and 2015.

Transportation costs include freight, customs and duties related to the transfer of goods to market. Transportation costs decreased $2.0 million as a direct result of the decline in sales volumes in 2015.

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 section for further information.

Gross margin

Gross margin as a percentage of sales improved from 23.1% in 2014 to 26.6% for 2015.

Excluding the results from the acquisition of Macduff, the growth in margins , was driven by strong market demand that provided higher sales prices for the majority of species as well as strengthening foreign exchange rates[1] for the US dollar against the Canadian dollar. These higher foreign exchange rates had a $33.6 million positive impact on sales and gross margin in 2015.

The positive impact from foreign exchange on gross margin was partially offset by higher harvesting costs for scallops, higher procurement costs for scallops, lobster, and shrimp and a reduction in available supply for scallops.

Year ended December 31	2015		2014		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	43.2%	1.296	46.5%	1.103	17.5%
Euros	22.7%	1.438	20.5%	1.460	-1.5%
Japanese Yen	10.0%	0.011	9.8%	0.010	10.0%
Danish Kroner	6.4%	0.192	3.7%	0.196	-2.0%
UK pounds	5.6%	1.993	4.4%	1.815	9.8%
Canadian dollar and other	12.1%		15.1%		0.0%
	100.0%		100.0%		0.0%

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Administrative and selling

In 000's of Canadian dollars Year ended December 31	2015	2014	Change	%
Salaries and benefits	$ 34,941	$ 30,141	$ 4,800	15.9
Share-based incentive	5,270	8,948	(3,678)	(41.1)
Employee compensation	40,211	39,089	1,122	2.9
Consulting and professional fees	7,600	6,790	810	11.9
Other	4,815	3,825	990	25.9
Reorganizational costs	3,150	3,818	(668)	(17.5)
Selling costs	2,949	3,105	(156)	(5.0)
Travel	2,940	2,384	556	23.3
Occupancy	1,569	1,416	153	10.8
Allocation to cost of goods sold	(11,871)	(12,175)	304	(2.5)
	$ 51,363	$ 48,252	$ 3,111	6.4

Administrative and selling increased $3.1 million, or 6.4%, to $51.4 million for 2015 primarily as a result of as a result of the inclusion of two months of administrative salaries and general administrative costs for Macduff and increases in salaries and benefits and professional fees, partially offset by a decline in share based incentive compensation.

Excluding the impact on administrative and selling from the acquisition of Macduff, **Salaries and benefits** increased primarily as a result of new hires in senior management and other staff as well as higher compensation and benefit costs.

Share-based incentive compensation is primarily driven by changes in Clearwater's share price, performance against Clearwater's peer group and the number of outstanding share based grants outstanding.

Share based compensation expense decreased $ 3.7 million primarily as a result of a decrease in the number of share based grants outstanding in 2015 versus 2014 as the service period for one of the tranches was completed and cash settled for approximately $9.0 million in the first quarter of 2015.

Consulting and professional fees include operations, management, legal, audit and accounting, insurance and other specialized consulting services. Costs increased $0.8 million in 2015 as a result of higher consulting fees from changes to Clearwater's network infrastructure and costs related to our Enterprise Resource Planning system ("ERP") conversion.

Other includes a variety of administrative expenses such as communication, other service fees and depreciation, all of which will vary from year to year.

Reorganizational costs for 2015 included a provision for severance related to certain executives for long term employees affected by reorganization at our head office along with retirements for members of the executive management. The largest portion of the expenditures in 2014 relates primarily to a write down on goodwill associated to non-core species.

Selling costs include advertising, marketing, trade shows, samples, product development and bad debt expenses.

The allocation to cost of goods sold reflects costs that are attributable to the production of goods and are allocated on a proportionate basis based on production volumes.

Finance costs

In 000's of Canadian dollars Year ended December 31	2015	2014
Interest and bank charges	$ 19,002	$ 14,938
Amortization of deferred financing charges and accretion	1,334	778
Interest	20,336	15,716
Fair value adjustment on embedded derivative	(2,118)	(1,229)
Foreign exchange on debt and working capital	49,478	20,653
Debt refinancing fees	508	100
	$ 68,204	$ 35,240

Interest and bank charges increased $4.6 million for 2015 as compared to 2014 due to higher exchange rates on the US dollar denominated debt, which in turn increased interest expense when converted into Canadian dollars. Clearwater had approximately USD $197 million US dollar denominated debt outstanding as at December 31, 2015.

Loan facilities were higher in 2015 as on October 30, 2015 Clearwater financed the cash portion of the Macduff acquisition from existing loan facilities including:

- CAD $75 million increase in its' Term Loan B facility
- CAD $25 million increase in its' Revolving Loan Facility
- CAD $51 million borrowing on its' existing Revolving Loan Facility and cash on hand

These additional borrowings increased interest expense in the fourth quarter of 2015.

The **fair value adjustment on the embedded derivatives** on Term Loan B relates to a Libor floor provision in the loan agreement and the earnings impact represents the change in the estimated fair values.

Foreign exchange on financing and working capital

In 000's of Canadian dollars Year ended December 31		2015		2014
Realized (gain) loss				
Working capital and other	$	(1,690)	$	1,172
Unrealized loss				
Foreign exchange on long term debt and working		51,168		19,481
	$	49,478	$	20,653

Foreign exchange losses[1] on financing and working capital increased by $28.8 million to $49.5 million in 2015. The increase was a result of higher unrealized foreign exchange losses on the translation of the $ 197 million US dollar denominated debt as foreign exchange rates for the US dollar strengthened 20% against the Canadian dollar compared to 2014.

The realized foreign exchange gain from working capital in 2015 is primarily a result of higher foreign exchange rates realized on net US dollar working capital assets as the US dollar strengthened against the Canadian dollar in 2015.

Losses on forward contracts, interest rate and cross currency swaps, caps and floors

In 000's of Canadian dollars Year ended December 31		2015		2014
Realized loss				
Forward foreign exchange contracts	$	15,595	$	8,829
Unrealized loss (gain)				
Forward foreign exchange contracts		11,168		(4,782)
Interest rate and cross-currency swaps, caps and floors		(283)		2,589
		10,885		(2,193)
	$	26,480	$	6,636

Losses[1] on forward contracts, interest rate and cross currency swaps, caps and floors increased $19.8 million to $26.5 million in 2015 due to higher realized and unrealized foreign exchange losses.

The increase in realized losses on forward contracts of $6.8 million in 2015 to $15.6 million was primarily a result of US dollar contracts for which the contracted rates were lower than the spot rate for 2015 as the US dollar strengthened by approximately 20% versus the Canadian dollar in 2015.

The increase in unrealized losses on forward contracts of $16.0 million in 2015 relates primarily to US dollar, Euro and Yen forward contracts for which the spot rate is greater

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than the contracted rate, as these foreign exchange rates strengthened against the Canadian dollar during 2015.

The increase in unrealized gains on interest rate and cross currency swaps, caps and floors, was a result of an unrealized gain on the cross currency swap that Clearwater entered into in the third quarter of 2015, whereby USD $75 million was swapped into CAD at a fixed rate of 1.32 and a maturity date of June 26, 2018. The gain was offset by unrealized losses on the interest rate swaps from changes in relative future interest rates.

Clearwater's foreign exchange hedging program is designed to enable Clearwater to reduce uncertainty regarding exchange rates on sales receipts by locking in up to 75% of annual net foreign exchange exposure. Clearwater does this by entering into a series of foreign exchange contracts that mature throughout the fiscal year and that provide for a fixed exchange rate on a portion of sales receipts. In a rising exchange rate environment such as the one we are currently in where spot rates are higher than contract rates, Clearwater realizes higher exchange rates on sales but it is required to remit the excess of the spot rate received on sales receipts over the contract rate to the counterparty on the portion of sales that it has hedged.

Currently Clearwater does not apply hedge accounting and as a result unrealized gains and losses were recorded in earnings for differences between the contracted rate and the spot rate.

Should the current environment of a stronger US dollar versus the Canadian dollar persist[1] it would have a positive impact on sales but the hedging program would offset a portion of those gains and reduce the positive impact on adjusted EBITDA. However, looking forward, Clearwater will realize the benefit of such higher rates as hedging contracts that it is entering now are at rates closer to current spot rates.

Other expense (income)

Acquisition related costs relate to due diligence and other project costs incurred for the investment in Macduff.

Other fees increased from other income of $1.2 million to a loss of $0.5 million. Other expenses for 2015 included one-time payments for a contract initiation and the transfer of technology rights partially offset by Scientific Research and Experimental Development ("SR&ED") claims recovered during the year.

In 000's of Canadian dollars

Year ended December 31		2015		2014
Share of earnings of equity-accounted investee	$	(2,591)	$	(2,987)
Royalties, interest and other fees		(664)		(844)
Acquisition related costs		3,240		-
Other fees		459		(1,200)
	$	444	$	(5,031)

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Research and Development

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. Clearwater's business plans expect an increase in investment in research and development.

Income taxes

Income taxes primarily relate to taxable subsidiaries in Argentina, the United States, the United Kingdom and Canada.

Deferred tax assets have been recognized based on management's estimate that it is more likely than not that Clearwater will earn sufficient taxable profit to utilize these losses.

Earnings attributable to non-controlling interest

Non-controlling interest relates to minority share of earnings from Clearwater's majority investments in subsidiaries in Argentina, Nova Scotia and Newfoundland and Labrador.

The increase in earnings attributable to non-controlling interest of $4.2 million for 2015 relates primarily to strong market demand that increased sales prices for shrimp as well as higher average foreign exchange rates.

It is important to note that a large portion of the earnings attributable to non-controlling interest relates to Clearwater's interest in a partnership and as such taxes are included in earnings attributable to shareholders, whereas the earnings attributable to non-controlling interest are not tax effected.

For those readers that would like to understand the breakdown of adjusted EBITDA attributable to non-controlling interest and shareholders please refer to the reconciliation of adjusted EBITDA within the non-IFRS measures, definitions and reconciliations section of the MD&A.

Earnings (loss) attributable to shareholders

Earnings (loss) attributable to shareholders of Clearwater increased $34.7 million to a loss of $37.6 million in 2015 primarily as a result of an increase in non-cash adjustments for unrealized foreign exchange loss for the US dollar denominated debt as the US dollar strengthened against the Canadian dollar.

Adjusted Earnings attributable to shareholders

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

For those readers that would like to understand the calculation of adjusted earnings please refer to the reconciliation of adjusted earnings within the non-IFRS measures, definitions and reconciliations section of the MD&A.

Adjusted earnings attributable to Clearwater's shareholders increased $20.9 million to $43.5 million primarily as a result of improvements in gross margin of $31.5 million excluding the impact of the amortization of the fair value adjustments required by IFRS for purchase price accounting.

Excluding the results from the acquisition of Macduff the growth in margins, was driven by strong market demand that provided higher sales prices for the majority of species as well as strengthening foreign exchange rates for the US dollar against the Canadian dollar. The improvements in gross margin were partially offset by lower sales volumes for scallops as a result of lower available total allowable catch.

The improvements in adjusted earnings were partially offset by an increase realized foreign exchange losses on working capital and foreign exchange contracts.

As a result, adjusted earnings per share increased from $0.41 per share in 2014 to $0.76 per share in the same period of 2015.

Capital Structure

Clearwater's capital structure includes a combination of equity and various types of debt facilities. Clearwater's objective when managing its capital structure is to maintain adequate liquidity while obtaining the lowest cost of capital available, maintaining flexibility and managing both exchange and interest rate risk by borrowing when appropriate in currencies other than the Canadian dollar and fixing a portion of the interest rates on its debt.

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

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

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

Clearwater's capital structure was as follows as at December 31, 2015 and 2014:

In 000's of Canadian dollars As at December 31		2015		2014
Equity				
Common shares	$	157,161	$	97,267
Contributed surplus		547		-
Retained earnings		(36,333)		11,084
Cumulative translation account		(1,625)		(5,326)
		119,750		103,025
Non-controlling interest		29,325		24,962
		149,075		127,987
Long term debt				
Senior debt, non-amortizing				
Revolving debt, due in 2018		16,400		-
Term loan, due in 2016		13,953		11,595
Term loan, due in 2091		3,500		3,500
		33,853		15,095
Senior debt, amortizing				
Term Loan A, due 2018 (net of deferred financing charges of $0.1 million.		26,889		28,950
Delayed Draw term Loan A, due 2018 (net of deferred financing charges of $0.6 million)		28,673		(608)
Term Loan B, due 2019 (including embedded derivative, net of deferred financing charges of $1.6 million)		335,024		228,211
Marine mortgage, due in 2017		457		1,030
Multi-currency revolving facility		-		21
Other loans		277		342
		391,320		257,946
Deferred Obligation		43,035		-
Earnout		12,561		
Total long term debt		480,769		273,041
Total capital	$	629,844	$	401,028

There are 59,958,998 shares outstanding as of December 31, 2015 (December 31, 2014 - 54,978,098).

On June 30, 2015, Clearwater issued 3,755,900 shares on a bought deal basis at $12.25 per Share yielding gross proceeds of approximately $46 million. Concurrently, Clearwater completed a non-brokered private placement with certain existing shareholders for 1,225,000 shares at $12.25 per share for gross proceeds of approximately $15 million. The total gross proceeds from the offering were approximately $61 million and the proceeds net of expenses were $58.6 million.

This followed a share issuance completed in February 2014 in which Clearwater completed the issuance of 4,029,400 common shares at a price of $8.50 per share, for gross proceeds of approximately $34 million.

Long term debt consists of a revolving loan, non-amortizing and amortizing senior debt, a Deferred Obligation and Earnout:

- The revolving loan allows Clearwater to borrow a maximum of CDN $100 million (denominated in either Canadian or the US dollar equivalent) and it matures in June 2018. The balance was $16.4 million at December 31, 2015 (December 31, 2014 - $nil). The CDN balances bear interest at the banker's acceptance rate plus 3.25%. The USD balances bear interest at the US Libor rate plus 3.25%. The availability on this loan is reduced by the amount outstanding on a US $10 million non-amortizing term loan and as such the availability as at December 31, 2015 was $69.6 million (December 31, 2014 - $63.4 million).

- Non-amortizing debt consists of a US $10 million loan due in June 2016 and a CAD $3.5 million loan due in 2091.

  During the third quarter of 2013 Clearwater's Argentine subsidiary borrowed USD $10.0 million, as an annual renewable loan to fund conversion of a vessel for use in the Argentine scallop fishery. The loan has been renewed twice, bears interest at 8% per year with interest payable monthly and the principal is due at maturity in June 2016.

- Amortizing debt consists of a term loan A, a delayed draw term loan A and a term loan B.

  The term loan A has principal outstanding as at December 31, 2015 of CDN $27.0 million (December 31, 2014 – CDN $29.0 million). The loan is repayable in quarterly instalments of $0.4 million from September 2015 to June 2017, and $0.8 million from September 2017 to March 2018 with the balance due at maturity in June 2018. It bears interest at the applicable banker's acceptance rate plus 3.25%. As at December 31, 2015 this resulted in an effective rate of approximately 4.09%.

  The delayed draw term loan A, has a principal outstanding as at December 31, 2015 of CDN $29.3 million (December 31, 2014 - $ nil). The balance is shown net of deferred financing charges of CDN $0.6 million. The loan is repayable in quarterly instalments of 1.25% of the principal amount drawn under the facility. The facility matures in June 2018 and bears interest payable monthly at the banker's acceptance rate plus 3.25%.

  The term loan B has principal outstanding as at December 31, 2015 of USD $189.7 million (December 31, 2014 – USD $196.8 million) and CDN $75 million. The USD loan is repayable in quarterly instalments of USD $0.5 million with the balance due at maturity in June 2019 and it bears interest payable monthly at US

Libor plus 3.5% with a Libor interest rate floor of 1.25%. As of October 3, 2015 this resulted in an effective rate of 4.75%. The Libor interest rate floor of 1.25% is accounted for separately as embedded derivative and is recorded at the estimated fair market value. The change in fair market value of the embedded derivative is recorded through profit or loss. The CAD loan is repayable in quarterly instalments of CAD $0.2 million with the balance due at maturity in June 2019 and it bears interest payable monthly at 4.32%. The loan has a provision that, subject to certain conditions allows Clearwater to expand the facility by a maximum of USD or CAD $25 million.

- The Deferred Obligation and Earnout (refer to Acquisition of Macduff below) is as follows:

  The Deferred Obligation relates to 33.75% of the shares of Macduff Shellfish Group Limited (see Note 4) acquired by Clearwater (the "Earn Out Shares"). The amount of the deferred obligation is £26.2 million and the estimated fair value is £20.9 million (CDN $43.0 million).

  In each year, the former holders of the Earn Out Shares can elect to be paid up to 20% of the Deferred Obligation. Clearwater has the right to exercise the payout of 20% of the Deferred Obligation annually commencing two years after the date of closing. The percentage of the Deferred Obligation remaining unpaid will impact the fair value of the future performance component of the additional consideration, the Earnout. The fair value of the Deferred Obligation is estimated as of the acquisition date based on, discounting the projected future cash out flows. Refer to Note 13(l) for further information on the process in which to determine fair value.

  The Earnout liability is unsecured additional consideration to be paid dependent upon the future financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The estimated fair value of the Earnout is £6.1 million (CDN $12.6 million) based on forecast earnings and probability assessments. The actual Earnout payments are expected to be paid over the next five years. Refer to Note 4 for further information

  The amount of the total Earnout is calculated as follows:

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

  The Earnout liability is recorded at fair value on the balance sheet at each reporting period until paid in cash, with changes in the estimated fair value being recorded as a component of other expense on the statement of operations.

Clearwater has entered into interest rate swap and cross-currency swap arrangements whereby:

- CDN $12 million of Term Loan A is effectively subject to an interest rate that is the lesser of the floating rate of interest on the loan or a maximum fixed rate of interest of 6.25%.

- CDN $12 million of Term Loan A is fixed at 5.85% to June 2018.

- USD $50 million of the Term Loan B is fixed at 6.15% to June 2019.

- USD $50 million of the Term Loan B is capped to June 30, 2016 at an interest rate of 4.75% and then the rate is fixed at 6.49% to June 2019.

- USD $75 million of the Term Loan B debt has been swapped into Canadian dollars at an effective exchange rate of 1.32 until June 26, 2018.

Taking into account the above interest rate swaps and excluding deferred compensation and the related earn out, Clearwater has effectively fixed the interest rate on 43% of its debt.

Taking into account the above cross currency swaps, Clearwater has reduced the percentage of its debt denominated in USD from 55% to 39%.

Clearwater includes the change in market value for all interest rate swap and foreign exchange swap arrangements in the profit and loss during the period.

The revolver, term loan A, delayed draw and term loan B are secured by a first charge on cash and cash equivalents, accounts receivable, inventory, marine vessels, licenses and quotas, and Clearwater's investments in certain subsidiaries.

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

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 significant amount of assets (harvesting licenses and quotas in particular) are recorded at historical cost rather than at fair value. Instead, we believe that leverage measured in relation to adjusted EBITDA is a better measure to evaluate our capital structure and we have provided that information in the liquidity section**.**

Acquisition and financing of Macduff Shellfish Group Limited

On October 30, 2015 Clearwater completed its acquisition of Macduff Shellfish Group Limited ("Macduff"), one of Europe's leading wild shellfish companies for a purchase price of £102 million (CDN $206 million).

Macduff was acquired for cash consideration and an unsecured deferred consideration obligation of £27 million (the “Deferred Obligation”) with a contingent consideration (“Earnout”) component that will be a minimum of £3.8 million. Refer above to long term debt for description of Deferred Obligation and Earnout.

Clearwater financed the cash portion of the acquisition from existing loan facilities including:

- CAD $75 million increase in its’ Term Loan B facility
- CAD $25 million increase in its’ Revolving Loan Facility
- CAD $51 million borrowing on its’ existing Revolving Loan Facility and cash on hand

As a result of this acquisition, leverage increased to approximately 5.3x at closing but has since decreased in line with management’s expectations to 4.4x as at December 31, 2015. Management is focused on continuing to reduce leverage and expects it to be below 4.0x by December 31, 2016 when Clearwater and MacDuff see the full realization of recent investments and organic growth. As a result, management expects to operate above its leverage target of 3.0x with the intention of returning to this goal over the course of one to two years.

Liquidity

Clearwater has a number of treasury management policies and goals to promote strong liquidity and continued access to capital to fund its growth.

These include policies and strategies with respect to liquidity, leverage, foreign exchange management, free cash flows and dividends.

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

- **Liquidity** - As of December 31, 2015 Clearwater had $51.1 million in cash, and a $100 million revolving loan, of which $69.6 million was available. The cash balance, together with available credit on the revolving loan, is used to manage seasonal working capital demands, capital expenditures, and other commitments.

  Clearwater's operations experience a predictable seasonal pattern in which sales, margins and adjusted EBITDA are higher in the second half of the year whereas investments in capital expenditures and working capital are lower, resulting in higher free cash flows and lower leverage in the second half of the year. This typically results in lower free cash flow, higher debt balances and higher leverage in the first half of the year. Clearwater is satisfied that it has ample liquidity to execute its business plan.

- **Leverage[1] -** Clearwater has a long-term leverage target of 3.0x or lower of net debt to adjusted EBITDA. Periodically, the ratio may be higher due to planned investments, or lower due to seasonality but over time Clearwater intends to manage to this ratio. As of December 31, 2015 leverage increased to 4.4x from 3.3x as of December 31, 2014 primarily due to the investment in Macduff Shellfish, higher capital expenditures (net of designated borrowings) as well as the impact of a higher US dollar exchange rate on USD denominated debt as the US dollar strengthened against the Canadian dollar in 2015.

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

  Clearwater's leverage measure is based on Clearwater's share of adjusted EBITDA, debt and cash balances. It also takes into account trailing earnings for business acquisitions and the value of swaps that have the impact of converting USD loans in Canadian dollar loans.

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

In 000's of Canadian dollars

As at December 31		2015		2014		2013
Adjusted EBITDA[1]	$	101,310	$	70,650	$	65,082
Debt (net of deferred financing charges of $2.3 million (December 31, 2014 - $0.6 million))[2]		475,685		272,554		256,498
Less cash[3]		(32,938)		(40,712)		(38,510)
Net debt	$	442,747	$	231,842	$	217,988
Leverage		4.4		3.3		3.3

1 - Adjusted EBITDA includes estimated annual adjusted EBITDA earnings of $18.6 million for Macduff Shellfish Group Limited.

2 - Debt at December 31, 2015 has been adjusted to include the USD $75 million cross-currency swap at contracted rates of 1.3235 that was entered into in the third quarter 2015. This resulted in a reduction of net debt of $4.8 million at December 31, 2015.

3 - Cash was reduced by the share attributable to non-controlling shareholders of $18.2 million in 2015 and $6.9 million in 2014.

- **Foreign Exchange Management[1]** –

  Clearwater's plan to mitigate foreign exchange risk is as follows:

  (1) Diversify sales geographically, 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 contracts – Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than 6 months.

  (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 to lock in exchange rates up to 18 months for sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows from changes in exchange rates.

  As of March 22, 2016 Clearwater had forward exchange contracts to be settled in 2016 of:

  - US dollar $65.2 million at an average rate of 1.28;
  - 3.36 billion Yen at an average rate of .011; and
  - 43.4 million Euro at an average rate of 1.45.

  The 2016 US dollar forwards include US dollars $13.2 million of participating forwards which provide that to the extent spot rates are higher than the contracted rates of approximately 1.25 for 2016 forwards, the contract rate will be adjusted by approximately 25.0% of the excess for the 2016 forwards.

  The purpose of these contracts is to give certainty to Clearwater on the exchange rates it receives on a portion of our foreign currency sales[1]. The foreign exchange contracts effectively adjust the cash proceeds received on sales receipts to the rates that Clearwater planned for and contracted for as part of this annual planning cycle and its foreign exchange management program. When spot exchange rates are above contract rates at the date of maturity of the contracts Clearwater realizes a loss and conversely, when spot exchange rates are lower it realizes a gain. At the same time, given that Clearwater only hedges to 75% of its net exposures and that higher or lower spot exchange rates are reflected in sales, any losses or gains on contracts are more than offset by the impact on sales.

1 – Refer to discussion on risks and uncertainties

- **Free cash flows[1] -** Clearwater has a goal to generate strong cash flows from operations in order to fund, scheduled loan payments and capital expenditures and in turn to use this free cash flow to invest in growth investments. Clearwater's goal is to grow free cash flows such that it can fund growth, maintain leverage of around 3x adjusted EBITDA and pay a sustainable dividend to its shareholders.

	13 weeks ended December 31 2015	13 weeks ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014	Year Ended December 31 2013
Adjusted EBITDA[1]	$ 39,000	$ 25,861	$ 109,732	$ 87,368	$ 79,103
Less:					
Cash Interest	(5,471)	(4,288)	(19,006)	(14,938)	(16,317)
Cash taxes	29	(375)	(2,604)	(2,585)	(1,812)
Other income and expense items	(219)	(789)	(882)	(5,295)	(863)
Operating cash flow before changes in working capital	33,339	20,409	87,240	64,550	60,111
Changes in working capital from operating activities	33,482	27,571	(18,746)	3,476	(5,448)
Cash flows from operating activities	**66,821**	**47,980**	**68,494**	**68,026**	**54,663**
Other sources (uses) of cash:					
Purchase of property, plant, equipment, quota and other assets	(4,292)	(12,802)	(63,390)	(83,309)	(23,813)
Proceeds on disposal of fixed assets	4,517	-	4,584	5	978
Designated borrowings[A]	230	11,017	35,097	63,431	7,700
Scheduled payments on long-term debt	(1,669)	(6,205)	(5,461)	(8,360)	(3,233)
Dividends received from joint venture	-	-	-	1,490	1,240
Distribution to non-controlling interests	(2,781)	(2,780)	(11,817)	(10,427)	(11,414)
Non-routine project costs	888	-	1,953	-	-
Other financing costs	676	-	676	-	-
Payments on long-term incentive plans	-	-	8,953	-	-
Free cash flow[1]	**$ 64,390**	**$ 37,210**	**$ 39,089**	**$ 30,856**	**$ 26,121**
Add/(less):					
Other debt borrowings (repayments) of debt, use of cash[B]	90,261	(11,054)	78,099	(60,398)	(20,759)
Issuance of equity	-	-	58,628	32,487	-
Other investing activities[C]	(144,033)	(482)	(148,930)	1,805	(717)
Other financing activities	(2,999)	(1,649)	(9,795)	(4,397)	-
Payments on long-term incentive plans	-	-	(8,953)	-	-
Non-routine project costs	(888)	-	(1,952)	-	-
Other financing costs	(676)	-	(676)	-	-
Change in cash flows for the period	$ 6,055	$ 24,025	$ 5,510	$ 353	$ 4,645

A – Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For the periods covered in this table that includes a conversion of a vessel for Argentina, the addition of a third clam vessel and a late life refit on a shrimp vessel. For the purpose of free cash flow calculations the amount invested (up to the total amount of the related financing) during the period on these projects is backed out of the calculation of free cash flows irrespective of the timing of the related borrowing.

B – Other debt borrowings (repayments) of debt, use of cash for 2015 includes $35.1 million of cash invested in designated capital projects.

C - Other investing activities include $151.1 million for the acquisition of Macduff, less cash acquired in the acquisition of $9.1 million.

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

Cash flow generated by Clearwater's operations along with cash on deposit and available credit on the revolving loan are used to fund current operations, seasonal working capital demands, capital expenditures, and other commitments.

Free cash flow improved by $8.2 million to $39.1 million in 2015 due to higher adjusted EBITDA, partially offset by additional investment in working capital from higher levels of inventory at the end of 2015, higher costs per pound and an increase in inventory from the acquisition of Macduff.

In addition higher capital expenditures (net of designated borrowings) from scheduled refits partially offset the increase in free cash flow.

Certain large investments in longer term assets, for example vessel conversion/acquisitions, are funded with long term capital such as amortizing term loans. As a result Clearwater adds back the funding on those capital expenditures in the determination of free cash flows and deducts the related debt payments.

- **Changes in working capital**

	13 weeks ended		Year Ended	
	December 31	December 31	December 31	December 31
In 000's of Canadian dollars	2015	2014	2015	2014
Decrease (increase) in inventory	$ 16,680	$ 13,016	$ (7,297)	$ 6,237
(Decrease) increase in accounts payable	3,291	(5,414)	5,023	2,557
Decrease (increase) in accounts receivable	17,562	21,933	(13,564)	(4,605)
(Increase) decrease in prepaids	(4,051)	(1,964)	(2,908)	(713)
	$ 33,482	$ 27,571	$ (18,746)	$ 3,476

Working capital cash flow for 2015, declined $22.2 million from proceeds of $3.5 million for 2014 to a use of cash of ($18.7) million for 2015. The decline was primarily a result of higher levels of inventory at the end of 2015, higher costs per pound from harvesting activities and an increase in inventory from the acquisition of Macduff. In addition timing of payments of accounts payable contributed to the reduction in working capital.

Investments in capital expenditures for 2015 of $63.4 million resulted primarily from the construction of the clam vessel, and scheduled refits.

In 2014 Clearwater had a record investment in capital expenditures of $83.3 million. Capital expenditures included $36.4 million related to the construction of the new clam harvesting vessel that had a total cost of approximately $65 million and started operating late in 2015.

In 2014 Clearwater invested $16.7 million to complete the conversion of an Argentine scallop vessel which began harvesting early in the first quarter of 2015. Additional investments in 2014 included $7.3 million for an enterprise resource planning system ("ERP") which was completed in 2016, $18.2 million on refits including $12.5 million for a life extending refit for a shrimp vessel and $4.7 million on other planned maintenance.

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 supply and production plans versus sales forecasts, and through continuous improvements in the integration of its fleet and sales plans.

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

  On average, Clearwater expects to invest $15-25 million a year in maintaining its fixed assets with a further $10-15 million of repairs and maintenance expensed and included in the cost of goods sold.

  In late July 2015 Clearwater successfully launched its new state-of-the-art factory clam vessel, the Belle Carnell. At a cost of CAD $65 million, this vessel is the single-largest vessel investment in Clearwater's history and will harvest Arctic Surf Clams, Cockle Clams and Propeller Clams year-round. The vessel completed fishing trials and initial trips in the third quarter of 2015 and has joined Clearwater's fleet in the fourth quarter. Management forecasts the vessel to increase annual clam sales by up to 50% (as compared to 2014 annual sales).

  In 2015 Clearwater invested $63.4 million in capital expenditures, excluding the investment in Macduff. Of these amounts, $26 million related to the construction of the new clam vessel, $7 million for the purchase and conversion of a research vessel, $18 million related to maintenance capital investments and $12 million to improve operational efficiencies in our plants and information systems.

  In 2016 Clearwater expects to invest approximately $30 million in capital expenditures with the largest portion relating to vessel maintenance and refits.

- **Dividends** – On March 22, 2016 the Board of Directors approved and declared a quarterly dividend of CAD $0.05 per share, payable on April 15, 2016 to shareholders of record as of March 31, 2016.

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

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

The Board reviews dividends quarterly with a view to revisiting the appropriate dividend amount annually.

The Board will continue to review the policy on a regular basis to ensure the dividend level remains consistent with Clearwater's long term dividend policy.

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

Commitments

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

December 31, 2015	Carrying Amount	Total Contractual Cash Flow	2016	2017	2018	2019	2020	>2021
Interest - long-term debt		81,183	18,845	17,940	16,560	7,763	275	19,800
Principal repayments - long-term debt		503,405	65,685	19,061	63,507	339,265	9,875	6,012
Total long-term debt	480,769	584,588	84,530	37,001	80,067	347,028	10,150	25,812
Trade and other payables	82,870	82,870	82,870	-	-	-	-	-
Operating leases and other	-	25,822	7,677	6,059	3,467	2,795	2,750	3,074
Derivative financial instruments - asset	(3,788)	(3,788)	(3,788)	-	-	-	-	-
Derivative financial instruments - liability	18,622	18,622	18,622	-	-	-	-	-
	$ 578,473	$ 708,114	$ 189,911	$ 43,060	$ 83,534	$ 349,823	$ 12,900	$ 28,886

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

Also included in commitments for operating leases and other, are (i) amounts to be paid to a company controlled by a director of Clearwater over a period of years ending in 2018 for vehicle and office leases, which aggregate approximately $0.05 million (2014 - $0.1 million); and (ii) amounts to be paid to a company related to a member of its management team who is a former shareholder of Macduff for $1.9 million. These amounts relate to the lease of a production plant and will be paid over a period over 6 years.

EXPLANATION OF FOURTH QUARTER 2015 RESULTS

Overview

The following statements reflect the results of Clearwater for the 13 weeks ended December 31, 2015 and 2014:

In 000's of Canadian dollars 13 weeks ended December 31	2015	2014
Sales	$ 165,503	$ 119,498
Cost of goods sold	120,292	89,647
Gross margin	45,211	29,851
	27.3%	25.0%
Amortization of fair value adjustment to inventory and fixed assets from acquisition of Macduff[1]	2,112	-
	43,099	29,851
Administrative and selling	16,852	13,004
Finance costs	25,102	12,800
Foreign exchange loss on forward contracts	2,403	3,523
Other expense (income)	(147)	(1,622)
Research and development	822	615
	45,032	28,320
Earnings before income taxes	(1,933)	1,531
Income tax expense	1,860	1,401
(Loss) earnings	$ (3,793)	$ 130
(Loss) earnings attributable to:		
Non-controlling interest	$ 3,267	$ 4,117
Shareholders of Clearwater	(7,060)	(3,987)
	$ (3,793)	$ 130

1 - The amortization of fair value adjustments related to inventory and depreciation result from IFRS requirements for purchase price accounting on the acquisition of Macduff. As a result, the $2.1 million has been excluded from all analysis of cost of goods sold and gross margin.

Fourth Quarter 2015 Results

Clearwater reported record sales of $165.5 million and adjusted EBITDA[1] of $39.0 million for the fourth quarter of 2015 versus 2014 comparative figures of $119.5 million and $25.9 million, reflecting growth of 38.5% in sales and 50.8% in adjusted EBITDA.

Sales increased by $46.0 million or 38.5%, in the fourth quarter 2015 as a result of strong sales prices in home currencies for the majority of species which increased sales by $12.1 million, a $14.7 million positive impact from higher average foreign exchange rates and $27 million due to the acquisition of Macduff on October 30, 2015 offset partially by lower volumes.

On October 30, 2015 Clearwater successfully completed the acquisition of 100% of the shares of Macduff Shellfish Group Limited ("Macduff") for CDN $206 million (£101 million), one of Europe's leading wild shellfish companies. Macduff expands our access to supply by more than 15 million pounds and further diversifies our access in wild shellfish.

The acquisition provided an additional CDN $27 million in sales and $4.5 million in adjusted EBITDA in the fourth quarter of 2015, from access to diversified complementary species including King and Queen scallops, langoustine, brown crab and whelk, the majority of which is sold within the European market.

Macduff operations experience a similar predictable seasonal pattern as Clearwater in which sales, margins and adjusted EBITDA are higher in the second half of the year whereas investments in working capital are lower, resulting in higher free cash flows and lower leverage in the second half of the year.

Excluding the acquisition of Macduff and the related amortization of the fair value adjustments to inventory and depreciation, the growth in sales, margins and adjusted EBITDA, was driven by strong market demand that provided higher sales prices for the majority of species as well as strengthening foreign exchange rates for the US dollar against the Canadian dollar. These higher foreign exchange rates had a $14.7 million positive impact on sales and gross margin in the fourth quarter of 2015. The positive impact from foreign exchange on gross margin was partially offset by higher harvesting costs for clams from changes in product mix and higher procurement costs for lobster and cooked and peeled shrimp.

In the fourth quarter of 2015 adjusted earnings attributable to shareholders increased $9.4 million, to $19.0 million primarily as a result of improvements in gross margin of $15.4 million. The improvements in adjusted earnings were partially offset by an increase in realized foreign exchange losses on working capital and foreign exchange contracts.

Free cash flow[1] increased for the fourth quarter of 2015 to $64.4 million versus $37.2 million for the same period of 2014, due primarily to improvements in adjusted EBITDA, lower capital expenditures in the fourth quarter of 2015 and improvements in working capital from lower inventory and accounts receivable balances.

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

Higher non-operational losses of $9.0 million (refer to the following table), were primarily a result of an increase in non-cash unrealized foreign exchange losses from the translation of the US dollar denominated debt as the US dollar strengthened against the Canadian dollar. In addition acquisition related costs, including $2.1 million of amortization on fair value adjustments for inventory and depreciation resulting from IFRS requirements on purchase price accounting for the acquisition of Macduff, increased non-operational losses for 2015.

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

In 000's of Canadian dollars 13 weeks ended December 31	2015	2014	Change
(Loss) earnings	$ (3,793)	$ 130	$ (3,923)
Higher gross margin			15,360
Higher administrative and selling			(3,848)
Higher interest expense			(1,517)
Higher realized foreign exchange losses			(6,483)
			3,512
Explanation of changes in earnings related to non-operational items:			
Higher unrealized foreign exchange losses on debt and working capital			(5,084)
Higher debt refinancing fees			(408)
Higher deferred income tax expense			(1,570)
Amortization of fair value adjustments for inventory and depreciation			(2,112)
Acquisition related costs			(2,185)
Fair value adjustments on convertible debentures and embedded derivative			2,310
			(9,049)
All other			1,614
			$ (3,923)

Sales by region

In 000's of Canadian dollars 13 weeks ended December 31		2015		2014		Change	%
Europe	$	75,241	$	45,217	$	30,024	66.4
China		32,413		21,202		11,211	52.9
Japan		17,208		15,712		1,496	9.5
Other Asia		5,852		5,100		752	14.7
Asia		55,473		42,014		13,459	32.0
United States		21,265		19,247		2,018	10.5
Canada		12,799		12,595		204	1.6
North America		34,064		31,842		2,222	7.0
Other		725		425		300	70.6
	$	165,503	$	119,498	$	46,005	38.5

Europe

Europe is Clearwater's largest scallop market and it is an important market for coldwater shrimp, langoustines, crab and lobster products. With the acquisition of Macduff Shellfish Group Limited ("Macduff") on October 30, 2015, Europe is now our most diverse market, where a wide variety of products are sold.

European sales increased $30.0 million to $75.2 million for the fourth quarter of 2015 as compared to the same period in 2014, primarily as a result of the acquisition of Macduff.

The acquisition provided an additional CDN $27 million in sales, from access to diversified complementary species including King and Queen scallops, langoustine, brown crab and whelk, the majority of which is sold within the European market.

In addition strong demand, that increased sales prices for scallops and higher foreign exchange rates[1] contributed to the increase in sales.

Lower sales volumes for scallops and shrimp as a result of a reduction in available supply partially offset the increase in sales.

The reduction in available supply for sea scallops was primarily a result expected reductions in available total allowable catch for the year for sea scallops.

Sales were positively impacted by $3.7 million in the fourth quarter of 2015 as a result of foreign exchange rates as average rates for the Euro strengthened against the Canadian dollar. Average foreign exchange rates for the Euro increased by 3.9% to 1.475 in the fourth quarter of 2015.

China

China is an important market for clams, coldwater shrimp, lobster, turbot and scallops.

1 – Refer to discussion on risks and uncertainties

Sales in China increased $11.2 million to $32.4 million in 2015 primarily as a result of an a $5.1 million positive impact in foreign exchange rates as the US dollar strengthened against the Canadian dollar.

Higher sales volumes for shrimp, from the timing of landings, and higher sales prices for clams, shrimp and scallops contributed to the increase in sales.

Japan

Japan is an important market for clams, lobster, coldwater shrimp and turbot.

Sales to customers in Japan increased $1.5 million to $17.2 million primarily as a result of an increase in sales volumes for frozen-at-sea shrimp.

The increase in sales was partially offset by a reduction in sales volumes for cooked and peeled shrimp and lobster.

Average foreign exchange rates for the Yen for the fourth quarter of 2015 were 0.011 improving sales by $1.6 million.

United States

The United States is an important market for scallops, coldwater shrimp, lobster and clams.

Sales in the United States increased $2.0 million, or 10.5%, to $21.3 million in the fourth quarter of 2015 primarily as a result of an increase in sales volumes for Argentine scallops and higher foreign exchange rates as the US dollar strengthened against the Canadian dollar.

Increases in sales prices for clams and scallops contributed to the increase in sales.

Reductions in available supply for scallops partially offset the increase in sales.

The reduction in available supply for sea scallops was primarily a result of expected reductions in available total allowable catch for the year for sea scallops.

Sales were positively impacted by $3.3 million in the fourth quarter of 2015 as a result of foreign exchange rates as average rates for the US dollar strengthened against the Canadian dollar. Average foreign exchange rates for the US dollar increased by 18.6% to 1.350 in the fourth quarter of 2015.

Sales by species[1]

In 000's of Canadian dollars 13 weeks ended December 31		2015		2014		Change	%
Scallops	$	59,787	$	41,285	$	18,502	44.8
Coldwater shrimp		37,299		31,448		5,851	18.6
Clams		32,288		26,156		6,132	23.4
Lobster		21,863		20,169		1,694	8.4
Langoustine		7,873		-		7,873	100.0
Crab		4,798		-		4,798	100.0
Ground fish and other shellfish		1,595		440		1,155	262.5
	$	165,503	$	119,498	$	46,005	38.5

Sales increased $46.0 million, or 38.5%, for the fourth quarter of 2015 primarily as a result of strong sales prices in home currencies for the majority of species which increased sales by $12.1 million, a $14.7 million positive impact from higher average foreign exchange rates and $27 million due to the acquisition of Macduff on October 30, 2015.

The acquisition of Macduff and the inclusion of two months of their operations provided an additional CDN $27 million in total sales in the fourth quarter of 2015, from access to diversified complementary species including King and Queen scallops, langoustine, brown crab and whelk, the majority of which is sold within the European market.

The increase in sales was partially offset by lower available supply of sea scallops as a result of expected reductions in the total allowable catch for the year for sea scallops.

1 – Refer to discussion on risks and uncertainties

Cost of Goods Sold

In 000's of Canadian dollars 13 weeks ended December 31		2015		2014		Change	%
Harvesting and procurement	$	87,882	$	64,822	$	23,060	35.6
Manufacturing		14,548		9,118		5,430	59.6
Depreciation		8,668		6,483		2,185	33.7
Transportation		5,751		5,598		153	2.7
Administration		3,443		3,626		(183)	(5.0)
	$	120,292	$	89,647	$	30,645	34.2

Cost of goods sold increased $30.6 million or 34.2% to $120.3 million primarily as a result of the acquisition of Macduff and an increase in procurement costs for lobster and cooked and peeled shrimp.

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

Higher shore prices per pound for lobster and cooked and peeled shrimp increased procurement costs for the fourth quarter of 2015. Higher harvesting costs for clams were a result of changes in sales mix for products with higher costs per pound.

Fuel costs for our vessels declined $1.1 million in the fourth quarter of 2015 to $5.6 million as a result of timing of landings for shrimp and lower total allowable catch for sea scallops and lower costs per litre of fuel. The average price for fuel declined $0.18 per litre to an average of $0.69 per litre. Clearwater's vessels used approximately 26.6 million litres of fuel in 2015 (excluding the consumption from the vessels acquired in the Macduff acquisition). Based on 2015 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $0.3 million.

Please note that Clearwater uses Marine Diesel in its harvesting operations, the price of which does not correlate closely to publically available measures such the price of a barrel of oil. This is due to a number of factors including but not limited to the nature of the fuel used, the geographic locations in which Clearwater purchases fuel and the currency in which Clearwater purchases fuel.

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 and increased production of certain species.

Depreciation from assets used in the harvesting and production of goods increased in 2015 as a result of vessel refits and investments in plants and vessels that were completed in the last half of 2014 and 2015.

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 section for further information.

Gross margin

Gross margin as a percentage of sales improved from 25.0% in the fourth quarter of 2014 to 27.3% for the same period of 2015. Excluding the results from the acquisition of Macduff, the growth in margins, was driven by strong market demand that provided higher sales prices for the majority of species as well as strengthening foreign exchange rates for the US dollar against the Canadian dollar.

The net impact on sales from all foreign exchange volatility was an increase in sales and gross margins of $14.7 million.

13 weeks ended December 31	2015		2014		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	37.4%	1.350	39.1%	1.138	18.6%
Euros	30.2%	1.475	22.0%	1.419	3.9%
Japanese Yen	8.8%	0.011	9.9%	0.010	10.0%
UK pounds	7.3%	2.030	5.3%	1.799	12.8%
Danish Kroner	6.1%	0.196	4.5%	0.191	2.6%
Canadian dollar and other	10.2%		19.2%		
	100.0%		100.0%		

Administrative and selling

In 000's of Canadian dollars 13 weeks ended December 31		2015		2014		Change	%
Salaries and benefits	$	10,645	$	8,026	$	2,619	32.6
Share-based incentive compensation		3,004		2,928		76	2.6
Employee compensation		13,649		10,954		2,695	24.6
Consulting and professional fees		1,530		2,089		(559)	(26.8)
Other		1,158		1,041		117	11.2
Reorganization costs		1,143		133		1,010	759.4
Travel		1,031		719		312	43.4
Selling costs		954		764		190	24.9
Occupancy		472		409		63	15.4
Allocation to cost of goods sold		(3,085)		(3,105)		20	(0.6)
	$	16,852	$	13,004	$	3,848	29.6

Administrative and selling increased $3.8 million primarily as a result of the inclusion of two months of administrative salaries and general administrative costs for Macduff, in 2015 as well as increases in salaries and benefits and professional fees.

Excluding the impact on administrative and selling from the acquisition of Macduff, **Salaries and benefits** increased primarily as a result of new hires in senior management and other staff as well as higher compensation and benefit costs.

Share-based incentive compensation is primarily driven by changes in Clearwater's share price, performance against Clearwater's peer group and the number of share based grants outstanding.

Consulting and professional fees include operations, management, legal, audit and accounting, insurance and other specialized consulting services. Costs declined $0.5 million in 2015 as a result of timing of consulting fees in 2014 from changes to Clearwater's network infrastructure and costs related to our Enterprise Resource Planning system ("ERP") conversion.

Other includes a variety of administrative expenses such as communication, service fees, depreciation, gains or losses, all of which will vary from year to year.

Reorganizational costs for 2015 included a provision for severance related to certain executives for long term employees affected by reorganization at our head office along with retirements for members of the executive management.

Selling costs include advertising, marketing, trade shows, samples, product development and bad debt expenses.

The allocation to cost of goods sold reflects costs that are attributable to the production of goods and are allocated on a proportionate basis based on production volumes.

Finance costs

In 000's of Canadian dollars 13 weeks ended December 31		2015	2014
Interest and bank charges	$	5,467 $	4,288
Amortization of deferred financing charges and accretion		541	203
Interest		6,008	4,491
Fair value adjustment on embedded derivative		(2,761)	(451)
Foreign exchange on debt and working capital		21,447	8,760
Debt refinancing fees		408	-
	$	25,102 $	12,800

Interest increased $1.5 million for the fourth quarter of 2015 as compared to the same period in 2014 due to higher exchange rates[1] on the US dollar denominated debt, which in turn increased interest expense when converted into Canadian dollars. Clearwater has approximately USD $197 million US dollar denominated debt outstanding as at December 31, 2015.

Loan facilities were higher in 2015 as on October 30, 2015 Clearwater financed the cash portion of the Macduff acquisition from existing loan facilities including:

- CAD $75 million increase in its' Term Loan B facility
- CAD $25 million increase in its' Revolving Loan Facility
- CAD $51 million borrowing on its' existing Revolving Loan Facility and cash on hand

These additional borrowings increased interest expense in the fourth quarter of 2015.

The **fair value adjustment on the embedded derivatives** on Term Loan B relates to a Libor floor provision in the loan agreement and the earnings impact represents the change in the estimated fair values.

Foreign exchange[1] on long term debt and working capital

In 000's of Canadian dollars 13 weeks ended December 31		2015		2014
Realized loss (gain)				
Working capital and other	$	3,900	$	(134)
Unrealized loss				
Foreign exchange on long term debt and working capital		17,547		8,894
	$	21,447	$	8,760

1 – Refer to discussion on risks and uncertainties

Foreign exchange losses[1] on long term debt and working capital increased by $12.7 million from a loss of $8.8 million in the fourth quarter of 2014 to a loss of $21.4 million for the same period in 2015. The increase was primarily a result of non-cash unrealized losses on the translation of the $197 million US dollar denominated debt as the US dollar strengthened against the Canadian dollar during 2015.

In addition, realized foreign exchange losses increased $3.8 million on working capital as a result of a devaluation on working capital assets as the Argentinean peso devalued approximately 24% from the third quarter of 2015.

Losses [1] on forward contracts, interest rate and cross currency swaps, caps and floor

In 000's of Canadian dollars 13 weeks ended December 31		2015		2014
Realized loss				
Forward foreign exchange contracts	$	4,343	$	1,894
Unrealized loss (gain)				
Forward foreign exchange contracts		3,107		280
Interest rate and cross-currency swaps, caps and floors		(5,047)		1,349
		(1,940)		1,629
	$	2,403	$	3,523

Losses on forward contracts[1], interest rate and cross currency swaps, caps and floor declined $1.1 million to $2.4 million primarily as a result of an increase in gains on the USD $75 million cross currency swap that was entered into in the third quarter of 2015 as the US dollar foreign exchange rates strengthened against the Canadian dollar.

The unrealized gain on the cross currency swap was partially offset by an unrealized loss on interest rate swaps and caps. The unrealized loss was primarily a result of non-cash mark to market losses from the USD $100 million and Canadian $24 million interest rate swaps/caps that were entered into in the first and third quarter of 2014. These non-cash adjustments relate to changes in relative expected future interest rates.

The increase in realized and unrealized losses on forward contracts relates primarily to US dollar, Euro and Yen forward contracts for which the spot rate was greater than the contracted rate.

Clearwater's hedging program is designed to enable Clearwater to remove uncertainty regarding exchange rates on sales receipts by locking in up to 75% of annual net foreign exchange exposure. Clearwater does this by entering into a series of foreign exchange contracts that mature throughout the fiscal year and that provide for a fixed exchange rate on a portion of sales receipts. In a rising exchange rate environment such as the one we are currently in where spot rates are higher than contract rates, Clearwater realizes higher exchange rates on sales but it is required to remit the excess of the spot rate received on sales receipts over the contract rate to the counterparty on the portion of sales that it has hedged.

1 – Refer to discussion on risks and uncertainties

Should the current environment of a stronger US dollar and Euro versus the Canadian dollar persist it would have a positive impact on 2015 sales but the hedging program would offset a portion of those gains and reduce the positive impact on adjusted EBITDA. However, looking forward to 2015, Clearwater would realize the benefit of such higher rates as hedging contracts that it is entering now are at rates closer to current spot rates.

Other expense (income)

In 000's of Canadian dollars 13 weeks ended December 31		2015		2014
Share of earnings of equity-accounted investee	$	(623)	$	(615)
Royalties, interest and other fees		(129)		(166)
Acquisition related costs		2,185		-
Other fees		(1,580)		(841)
	$	(147)	$	(1,622)

Other income declined $1.5 million from income of $1.6 million as a result of costs related to the acquisition of Macduff. The decrease was partially offset by Scientific Research and Experimental Development (“SR&ED”) tax claims from previous years that were received in 2015.

Research and Development

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. Clearwater's business plans expect an increase in investment in research and development.

Income taxes

Income taxes primarily relate to taxable subsidiaries in Argentina, the United States, the United Kingdom and Canada.

Deferred tax assets are being recognized based on management's estimate that it is more likely than not that Clearwater will earn sufficient taxable profit to utilize these losses.

Earnings attributable to non-controlling interest

Non-controlling interest relates to minority share of earnings from Clearwater's majority investments in subsidiaries in Argentina, Nova Scotia and Newfoundland and Labrador.

The decline in earnings attributable to non-controlling interest of $0.9 million for the fourth quarter of 2015 relates primarily to a reduction in sales volumes for cooked and peeled shrimp.

It is important to note that the earnings attributable to non-controlling interest relates to Clearwater's interest in a partnership and as such taxes are included in earnings attributable to shareholders, whereas the earnings attributable to non-controlling interest are not tax effected.

For those investors that would like to understand the breakdown of adjusted EBITDA attributable to non-controlling interest and shareholders please refer to the reconciliation of adjusted EBITDA within the non-IFRS measures, definitions and reconciliations section of the MD&A.

Earnings attributable to shareholders

Earnings attributable to shareholders of Clearwater declined $3.1 million to a loss of $7.1 million for the fourth quarter of 2015 primarily as a result of an increase in non-cash losses from the translation of the US dollar denominated debt as the US dollar strengthened against the Canadian dollar, offset by the increase in gross margin.

Adjusted Earnings attributable to shareholders

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

For those readers that would like to understand the calculation of adjusted earnings please refer to the reconciliation of adjusted earnings within the non-IFRS measures, definitions and reconciliations section of the MD&A.

In the fourth quarter of 2015 adjusted earnings attributable to shareholders increased \$9.4 million, to \$19.0 million primarily as a result of improvements in gross margin of \$15.4 million.

Excluding the results from the acquisition of Macduff, the growth in margins, was driven by strong market demand that provided higher sales prices for the majority of species as well as strengthening foreign exchange rates for the US dollar against the Canadian dollar. The improvements in gross margin were partially offset by lower sales volumes for scallops from lower available total allowable catch.

The improvements in adjusted earnings were partially offset by an increase realized foreign exchange losses on working capital and foreign exchange contracts.

As a result, adjusted earnings per share increased from \$0.17 per share in the fourth quarter of 2014 to \$0.32 per share in the same period of 2015.

OUTLOOK

Global demand for seafood is outpacing supply, creating favorable market dynamics for vertically integrated producers such as Clearwater which have strong resource access.

Demand has been driven by growing worldwide population, shifting consumer tastes towards healthier diets, and rising purchasing power of middle class consumers in emerging economies.

The supply of wild seafood is limited and is expected to continue to lag behind the growing global demand. This supply-demand imbalance has created a marketplace in which purchasers of seafood are increasingly willing to pay a premium to suppliers that can provide consistent quality and food safety, wide diversity and reliable delivery of premium, wild, sustainably harvested seafood.

As a vertically integrated seafood company, Clearwater is well positioned to take advantage of this opportunity because of its licenses, premium product quality, diversity of species, global sales footprint, and year-round harvest and delivery capability.

We are pleased with our results for 2015 and particularly satisfied to exceed our five-year strategic plan goals of $500 million in revenue and $100 million in adjusted EBITDA one year ahead of our original timetable.

Strong global demand across all markets and species will continue to be a key driver for our business in 2016

Looking forward, we expect to see significant volume growth in 2016 associated with the acquisition of Macduff, the expansion of our clam fleet and expanded procurement of core species.

Our six core strategies are:

Expanding Access to Supply - We will continue to actively invest in access to supply of core species and other complementary, high demand, premium, wild and sustainably harvested seafood through improved utilization and productivity of core licenses as well as acquisitions, partnerships, joint ventures and commercial agreements.

The investment in Macduff provides Clearwater with access to an incremental 15 million pounds of premium, wild caught, safe, traceable and complementary shellfish species including King and Queen scallops, langoustines, brown crab and whelk.

In late July 2015 Clearwater launched its new state-of-the-art factory clam vessel, the Belle Carnell. At CAD $65 million, it is the single-largest vessel investment in Clearwater's history and will harvest Arctic Surf Clams, Cockle Clams and Propeller Clams year-round on the Grand Banks. The vessel joined Clearwater's fleet in the fourth quarter of 2015 and significantly improves utilization of existing licenses and quota in this Marine Stewardship Council (MSC) certified sustainable fishery. We expect the Belle Carnell could contribute up to a 50% increase in total clam volume of all species in 2016 versus prior year.

Target Profitable & Growing Markets, Channels & Customers – Clearwater benefits from strong and growing global demand for sustainably harvested, safe, traceable and premium wild seafood. In 2016, we will continue to segment and target markets, consumers, channels and customers on the basis of size, profitability, demand for eco-label seafood and ability to win. Our focus is to win in key channels and with customers that are winning with consumers.

In addition to increasing supply, Macduff provides Clearwater enhanced access to key distribution channels including food service and grocery retail in multiple markets including the UK, France, Italy, Spain and Portugal.

Innovate and Position Products to Deliver Superior Customer Satisfaction and Value – We continue to work with customers on new products and formats as we innovate and position our premium seafood to deliver superior satisfaction and value that's relevantly differentiated on the dimensions of taste, quality, safety, sustainability, wellness, convenience and fair labour practices.

The acquisition of Macduff also expands the product range Clearwater can make available to its large and growing core customer base –especially in Asia and the Americas. Macduff's four major species – King and Queen Scallops as well as Whelk and Brown Crab will benefit from expanded market and customer service/access as well as the sales and marketing strength of the Clearwater brand and organization.

Clearwater's new product development ("NPD") efforts have resulted in the significant growth, geographic and channel distribution expansion of our higher pressure-processed frozen raw lobster including major air and cruise line as well major retailers in the EU and Asia.

Northern Propeller Clam, a species with historically limited market appeal has been transformed through NPD into a significant source of incremental revenue and profit in both the Japanese and North American Sushi markets.

Increase Margins by Improving Price Realization and Cost Management - In 2015 we began to implement our "ocean to shelf" global supply chain. We will continue this work in 2016 capturing cost savings through the greater efficiency and improved productivity of our global operations. This includes leveraging the scarcity of seafood supply versus increasing global demand to continuously improve price realization, revenue and margins. It also includes investing in innovative state-of-the-art technology, systems and processes that maximize value, minimize cost, reduce waste, increase yield and improve quality, reliability and safety of our products and people.

The Macduff investment expands Clearwater's North Atlantic harvesting operations and provides integrated UK-based primary and secondary processing capabilities and expertise with land-based processing facilities in Scotland. Investments in automated shucking continue to generate significant cost savings and productivity gains in our Canadian Sea Scallop. Our patented next generation live lobster storage and distribution system promises to improve quality, reduce waste and significantly lower the operating costs in our lobster business. Early tests have already yielded a significant reduction in mortality in storage and distribution –the single largest industry cost driver.

Pursue and Preserve the Long Term Sustainability of Resources on Land and Sea - As a leading global supplier of wild-harvested seafood – sustainability remains at the core of our business and our mission. Investing in the long-term health and the responsible harvesting of the oceans and the bounty is every harvester's responsibility and the only proven way to ensure access to a reliable, stable, renewable and long-term supply of seafood. Sustainability is not just good business, like innovation it's in our DNA. That's why Clearwater has been recognized by the Marine Stewardship Council ("MSC") as a leader in sustainable harvesting for wild fisheries and how Clearwater can offer the widest selection of sustainably-certified species of any seafood harvester worldwide. In October 2015 Clearwater received an award from ESRI Canada, for our commitment to sustainable business practices through the use of our geographic information system ("GIS"), which allows us to reduce our impact on the ocean floor and more efficiently conduct our harvest operations.

Clearwater will continue to invest in science and sustainable harvesting technology and practices to add value to all fisheries in which we participate in Canada, Argentina and the United Kingdom.

Build Organizational Capability, Capacity & Engagement - A high level of performance can only be achieved by a talented and engaged global workforce at sea and on land, employing well communicated strategies and plans with measurable objectives. It also requires an enduring commitment to invest in our people.

Macduff is one of the largest vertically integrated shellfish harvesters in the UK and creates a new growth platform for Clearwater to complement our robust organic growth plans. Management is already evaluating multiple opportunities to fuel additional growth which will provide opportunities to invest in, develop and engage our entire workforce in Canada and abroad.

Looking forward, we will no longer disclose future targets for sales growth, free cash flow growth, return on assets as we believe the track record we have achieved on these measures over the past four years provides a reasonable base for users of our financial reports to form educated estimates of possible future performance.

RISKS AND UNCERTAINTIES

The performance of Clearwater's business is susceptible to a number of risks which affect income, liquidity and cash flow, including risks related to resource supply, food processing and product liability, suppliers, customers, competition and foreign exchange exposure and lawsuits in the normal course of business. For further disclosure of additional risk factors please refer to the Annual Information Form, which is available on Sedar at www.sedar.com as well as Clearwater's website at www.clearwater.ca.

Foreign exchange risk

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

The majority of Clearwater's sales are to locations outside Canada and are transacted in currencies other than the Canadian dollar whereas the majority of 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. In addition Clearwater has a subsidiary which operates in the offshore scallop fishery in Argentina which exposes Clearwater to changes in the value of the Argentine Peso and a subsidiary in the United Kingdom which exposes Clearwater to changes in the value of the Pound Sterling.

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

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

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

(3) Limit the amount of long-term sales contracts – Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations.

(4) Plan conservatively - Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when preparing its' business plans, and

(5) Foreign exchange hedging program - that focuses on using forward contracts to enable Clearwater to lock in exchange rates up to 18 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows through derivative contracts.

In 2015 approximately 43.2% of Clearwater's sales were denominated in US dollars.

Based on 2015 sales and excluding the impact of its' hedging program,

- a change of 0.01 in the U.S. dollar rate converted to Canadian dollars would result in a $1.7 million change in sales and gross profit.

- a change of 0.01 in the Euro rate as converted to Canadian dollars would result in a $0.8 million change in sales and gross profit.

- A change of 0.001 in the Yen rate as converted to Canadian dollars would result in a change of $4.7 million in sales and gross profit.

As of March 22, 2016 Clearwater had forward exchange contracts to be settled in 2016 of:

  - US dollar $65.2 million at an average rate of 1.28;
  - 3.36 billion Yen at an average rate of .011; and
  - 43.4 million Euro at an average rate of 1.45.

The 2016 US dollar forwards include US dollars $13.2 million of participating forwards which provide that to the extent spot rates are higher than the contracted rates of approximately 1.25 for 2016 forwards, the contract rate will be adjusted by approximately 25.0% of the excess for the 2016 forwards.

The purpose of these contracts is to give certainty to Clearwater on the exchange rates that it expects to receive on a portion of our foreign currency sales. The foreign exchange contracts effectively adjust the cash proceeds received on sales receipts to the rates that Clearwater planned for and contracted for as part of this annual planning cycle and its foreign exchange management program. When spot exchange rates are above contract rates at the date of maturity of the contracts Clearwater realizes a loss and conversely, when spot exchange rates are lower it realizes a gain. At the same time, given that Clearwater only hedges to 75% of its net exposures and that higher or lower spot exchange rates are reflected in sales, any losses or gains on contracts are more than offset by the impact on sales.

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, United Kingdom 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.

In certain previous years, Clearwater has been unable to repatriate dividends from Argentina.

Clearwater did not request for dividends to be paid in 2014 or 2015 as it completed the process of converting a vessel for use in its' Argentine operations late in 2014. There can be no assurances that Clearwater will continue to be able to repatriate dividends from Argentina in the future.

To compensate for the potential restriction on dividend payouts Clearwater put in place domestic loan financing in Argentina related to the purchase of a replacement vessel. The replacement of this vessel will necessitate that some funds be used for the related loan domestic payments, thus alleviating the need for any material dividend payments for the short term.

Our operations in Argentina, the United Kingdom 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 and we do not maintain any material financial assets that are surplus to our needs to operate the business outside of Canada. 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 and who is resident in Argentina and is 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.

Contingent Liability

In addition, from time to time Clearwater is subject to claims and lawsuits arising in the ordinary course of operations.

Resource supply risk

A material change in the population and biomass of scallop, lobster, clam, langoustine, crab 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 Total Allowable Catch (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 some of which are beyond our control and which may be exacerbated by factors such as water temperatures, food availability, the presence of predators, disease, disruption in the food chain, reproductive problems or other biological issues. We are unable to fully 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 source of all Clearwater's supply of products comes from fisheries in Canada the United Kingdom and Argentina. The governments of Canada, the UK and EU and Argentina set the annual TAC for each species by reviewing scientific studies of the resource and then consulting with key stakeholders including us and our competitors to determine acceptable catch levels. The potentially differing interests of our competitors may result in conflicting positions on issues around resource management, including the establishment of TACs and other management measures potentially limiting our ability to grow, to fully capitalize on our investments in harvesting capacity, or to achieve targeted yields from the resource, which may adversely affect our financial condition and results of operations.

Resource supply risk is managed through adherence with government policies and regulations related to fishing in Canada 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 resource assessment surveys to ensure access to the best available science information. Resource management plans, developed by DFO, are developed through an open and transparent process with strong input from industry participants. Clearwater engages in these processes to promote best in class, robust, and sustainable management of the resource. The Marine Stewardship Council certification of all of our core species demonstrates that the resources that Clearwater harvests meet the leading global standard for sustainable fisheries management practice. Clearwater further mitigates the risk associated with resource supply and competition through the diversification across species.

Other risks

Clearwater is investing in the implementation of a new enterprise resource planning system ("ERP") to support improved decision making capabilities. We recognize that the integrity and reliability of information in all its forms are critical. Inaccurate, incomplete or unavailable information could lead to incorrect financial reporting, and poor decision making. The implementation of the ERP and all major information technology projects are managed by a change management and governance process. Clearwater has an ERP team staffed with knowledgeable internal and external resources that is responsible for implementing the various key initiatives.

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

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.

Financial Reporting Controls and Procedures

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, 2015 and have concluded that such procedures are adequate and effective to provide reasonable assurance that 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, 2015. 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 (2013)". 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, 2015, 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.

On October 30, 2015, Clearwater acquired 100% of the outstanding shares of Macduff Shellfish Group Limited ("Macduff"). As a result, the CEO and the CFO have determined to limit the scope of design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Macduff. Sales for the two month period included in the MD&A and the financial statements is CDN $27.0 million and earnings of $3.8 million.

The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109, which allows for an issuer to limit the design of disclosure controls and procedures and internal control over financial reporting for a business that the issuer acquired not more than 365 days before the last day of the period covered by this MD&A.

With the exception of the acquisition of Macduff, there have been no significant changes in Clearwater's internal controls over financial reporting or other factors that occurred during the period from October 4, 2015 to December 31, 2015, that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Adoption of new and revised standards

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.

Business combination accounting for interests in a joint operation (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 15 – Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 Financial Instruments

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.
Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets between an investor and its associate or joint venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Specifically, under the existing consolidation standard the parent recognises the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognised when the assets transferred do not meet the definition of a business, eve n if these assets are housed in a subsidiary.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Annual Improvements to IFRS (2012-2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure Initiative

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 16 Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

Related Party Transactions

Clearwater often transacts in the normal course of business with other related parties. The details are as follows for the year ended December 31, 2015 and 2014:

Clearwater rents office space to Clearwater Fine Foods Incorporated (“CFFI”) (the controlling shareholder of Clearwater) and provides computer network support services to CFFI. The net amount due to CFFI in respect of these transactions was $0.05 million (December 31, 2014 – net amount due from CFFI of $0.03 million), is unsecured and due on demand. As such the account has been classified as a current. The balance bears interest at a rate of 5%.

In September 2015, Clearwater entered into an agreement to sell an idle vessel to a joint venture which is accounted for under the equity method in Clearwater’s consolidated financial statements. The estimated sales price of CDN $11.8 million dollars is the estimated book value at the time of the sale. This amount includes estimated costs for a refit on the vessel, which is to be completed by the Company prior to the sale to the joint venture. The sale is expected to close in the first quarter of 2016.

For the year ended December 31, 2015, Clearwater expensed approximately $0.2 million for goods and services from companies related to its parent (December 31, 2014 - $0.2 million). The transactions are recorded at the exchange amount and the balance due to these companies was $0.01 million as at December 31, 2015 (December 31, 2014 - $ nil million).

For the year ended December 31, 2015, Clearwater expensed approximately $0.07 million in factory and equipment rentals from companies related to a member of its management team (December 31, 2014 $ nil). Clearwater incurred $0.1 million in legal fees paid to a law firm in which a Director of Clearwater is a partner (December 31, 2014 - $0.02 million).

At December 31, 2015 Clearwater had a balance of $1.3 million (December 31, 2014 - $1.0 million), included in long term receivables, for interest bearing loans made to a non-controlling interest shareholder in a subsidiary.

Clearwater recorded sales commissions, management and administration fees, storage fees and sales to a non-controlling interest holder in a consolidated partnership. These sales commissions, management and administration fees, storage fees and sales are at negotiated prices and are settled on normal trade terms:

	December 31, 2015	**December 31, 2014**
Sales commissions	$ 3,957	$ 2,379
Management and administration	1,403	1,425
Storage fees	1,424	1,390
Sales	80	6,694

SUMMARY OF QUARTERLY RESULTS

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

In 000's of Canadian dollars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2015				
Sales	$ 75,362	$ 116,748	$ 147,332	$ 165,503
Earnings (loss)	(28,336)	9,739	1,717	(3,793)
Earnings (loss) per share ("EPS")	(0.57)	0.10	(0.08)	(0.07)
Diluted earnings (loss) per share[1]	(0.57)	0.10	(0.09)	(0.07)
Fiscal 2014				
Sales	$ 77,771	$ 113,403	$ 134,069	$ 119,498
Earnings (loss)	(12,144)	18,850	2,959	130
Earnings (loss) per share ("EPS")	(0.27)	0.30	(0.02)	(0.07)
Diluted earnings (loss) per share[1]	(0.27)	0.30	(0.02)	(0.07)
Fiscal 2013				
Sales	$ 68,297	$ 95,368	$ 113,982	$ 111,012
Earnings (loss)	(1,762)	(9,866)	27,224	(298)
Earnings (loss) per share ("EPS")	(0.06)	(0.24)	0.48	(0.06)
Diluted earnings (loss) per share[1]	(0.06)	(0.24)	0.47	(0.06)

1 - Diluted earnings (loss) per share are anti-dilutive the fourth quarter of 2015 and for all periods prior to 2014 except for September 28, 2013, September 29, 2012, and December 31, 2012. In the third quarter of 2013, the outstanding convertible debentures were redeemed.

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 highest revenues in the third quarter and fourth quarter of each year which is consistent with Clearwater's seasonality.

Unrealized foreign exchange losses were $28.9 million, $21.4 million and $12.8 million in the first, third, and fourth quarters of 2015, respectively, for a total increase of $59.9 million for 2015. The increase in unrealized foreign exchange losses was primarily a result of the translation of the USD denominated debt, as the US dollar strengthened against the Canadian dollar in 2015.

Earnings for the second quarter of 2013 include $3.3 million in future tax recovery and $9.2 million in debt settlement fees and write-downs of deferred financing charges related to the June 2013 refinancing.

NON- IFRS MEASURES, DEFINITIONS AND RECONCILIATIONS

Gross margin

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

Adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA")

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

Adjusted EBITDA is defined as EBITDA excluding items such as severance charges, gains or losses on property, plant and equipment, gains or losses on quota sales, refinancing and reorganization costs. In addition recurring accounting gains and losses on foreign exchange (other than realized gains and losses on forward exchange contracts), have been excluded from the calculation of adjusted EBITDA. Unrealized gains and losses on forward exchange contracts relate to economic hedging on future operational transactions and by adjusting for them, the results more closely reflect the economic effect of the hedging relationships in the period to which they relate. In addition adjustments to stock based compensation have been excluded from adjusted EBITDA as they do not relate to the general operations of the business.

Reconciliation of earnings to adjusted EBITDA for the 13 weeks ended, the years ended December 31, 2015 and 2014 is as follows:

	13 weeks ended		Year Ended		
	December 31 2015	December 31 2014	December 31 2015	December 31 2014	December 31 2013
Earnings (loss)	$ (3,793)	$ 130	$ (20,671)	$ 9,797	$ 15,298
Add (deduct):					
Income taxes	1,860	1,401	4,387	5,949	(8,101)
Taxes and depreciation for equity investment	285	280	1,154	1,265	951
Depreciation and amortization	8,835	6,563	29,414	24,544	24,171
Interest on long-term debt and bank charges	6,008	4,491	20,336	15,716	17,310
Earnings before interest, taxes, depreciation and amortization	$ 13,195	$ 12,865	$ 34,620	$ 57,271	$ 49,629
Add (deduct) other items:					
Unrealized foreign exchange and derivative loss (income)	15,607	10,523	62,053	17,288	11,493
Fair market value on long term debt	(2,761)	(451)	(2,118)	(1,229)	(1,710)
Realized foreign exchange loss (gain) on working capital	3,900	(134)	(1,690)	1,172	3,586
Restructuring and refinancing costs	6,055	130	11,299	1,981	10,642
Stock based compensation	3,004	2,928	5,270	8,948	5,861
Loss (gain) on disposal of assets and quota	-	-	-	1,937	(398)
Loss on insurance claim	-	-	300	-	-
Adjusted EBITDA	**$ 39,000**	**$ 25,861**	**$ 109,734**	**$ 87,368**	**$ 79,103**
Adjusted EBITDA attributed to:					
Non-controlling interests	$ 5,576	$ 4,763	$ 22,829	$ 16,718	14,021
Shareholders of Clearwater	33,424	21,098	86,905	70,650	65,082
	$ 39,000	**$ 25,861**	**$ 109,734**	**$ 87,368**	**$ 79,103**

Adjusted Earnings attributable to shareholders

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

Reconciliation of earnings to adjusted earnings for the 13 weeks ended, the years ended December 31, 2015 and 2014 is as follows:

		13 weeks ended		Year ended	
		December 31 2015	December 31 2014	December 31 2015	December 31 2014
Reconciliation of earnings to adjusted earnings					
Earnings (loss)	$	(3,793) $	130 $	(20,671) $	9,797
Deferred tax assets booked related to prior years		-	-	-	(2,575)
Restructuring and refinancing costs		1,551	130	5,821	1,981
Acquisition related costs		2,338	-	3,403	-
Fair value impact of purchase price allocation		2,166	-	2,166	-
Stock based compensation		3,004	2,928	5,270	8,948
Insurance claim		-	-	300	-
Unrealized foreign exchange		15,607	10,523	62,053	17,288
Devaluation of peso on working capital		5,344	-	5,344	-
Fair value on Long term debt		(2,761)	(451)	(2,118)	(1,229)
		27,249	13,130	82,239	24,413
Adjusted earnings	**$**	**23,456 $**	**13,260 $**	**61,568 $**	**34,210**
Adjusted earnings attributable to:					
Non-controlling interests		4,486	3,646	18,111	11,639
Shareholders		18,970	9,614	43,457	22,571
	$	23,456 $	13,260 $	61,568 $	34,210
Adjusted earnings per share:					
Weighted average of shares outstanding		59,959	54,978	57,489	54,787
Earnings per share for shareholders		0.32	0.17	0.76	0.41
Reconciliation of adjusted earnings to adjusted EBITDA					
Adjusted earnings	$	23,456 $	13,260 $	61,568 $	34,210
Add (subtract)					
Cash and deferred taxes		1,860	1,401	4,387	8,524
Depreciation and Amortization		8,835	6,563	29,414	24,544
Interest on Long term debt and bank charges		6,008	4,491	20,336	15,716
Taxes and depreciation on equity investment		285	280	1,154	1,265
Realized foreign exchange on working capital		(1,444)	(134)	(7,034)	1,172
Other reorganizational costs		-	-	(91)	-
Gain on disposal of assets		-	-	-	1,937
		15,544	12,601	48,166	53,158
Adjusted EBITDA[1]	**$**	**39,000 $**	**25,861 $**	**109,734 $**	**87,368**

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

Leverage

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

Leverage calculations are calculated by dividing the current and preceding annual adjusted EBITDA (excluding non controlling interest) by the total debt (excluding non-controlling interest) on the balance sheet adjusted for cash reserves (excluding non-controlling interest).

Reconciliation of adjusted EBITDA to debt (net of deferred financing charges) for the years ended December 31, 2015 and 2014 is as follows:

In 000's of Canadian dollars

As at December 31	2015	2014	2013
Adjusted EBITDA[1]	$ 101,310	$ 70,650	$ 65,082
Debt (net of deferred financing charges of $2.3 million (December 31, 2014 - $0.6 million))[2]	475,685	272,554	256,498
Less cash[3]	(32,938)	(40,712)	(38,510)
Net debt	$ 442,747	$ 231,842	$ 217,988
Leverage	4.4	3.3	3.3

1 - Adjusted EBITDA includes estimated annual adjusted EBITDA earnings of $18.6 million for Macduff Shellfish Group Limited.

2 - Debt at December 31, 2015 has been adjusted to include the USD $75 million cross-currency swap at contracted rates of 1.3235 that was entered into in the third quarter 2015. This resulted in a reduction of net debt of $4.8 million at December 31, 2015.

3 - Cash was reduced by the share attributable to non-controlling shareholders of $18.2 million in 2015 and $6.9 million in 2014.

Free cash flows

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

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

Reconciliation for the 13 weeks and year ended December 31, 2015 and 2014 is as follows:

		13 weeks ended December 31		Year Ended December 31		
		2015	2014	2015	2014	2013
Adjusted EBITDA[1]	$	39,000 $	25,861 $	109,732 $	87,368 $	79,103
Less:						
Cash Interest		(5,471)	(4,288)	(19,006)	(14,938)	(16,317)
Cash taxes		29	(375)	(2,604)	(2,585)	(1,812)
Other income and expense items		(219)	(789)	(882)	(5,295)	(863)
Operating cash flow before changes in working capital		33,339	20,409	87,240	64,550	60,111
Changes in working capital from operating activities		33,482	27,571	(18,746)	3,476	(5,448)
Cash flows from operating activities		**66,821**	**47,980**	**68,494**	**68,026**	**54,663**
Other sources (uses) of cash:						
Purchase of property, plant, equipment, quota and other assets		(4,292)	(12,802)	(63,390)	(83,309)	(23,813)
Proceeds on disposal of fixed assets		4,517	-	4,584	5	978
Designated borrowings[A]		230	11,017	35,097	63,431	7,700
Scheduled payments on long-term debt		(1,669)	(6,205)	(5,461)	(8,360)	(3,233)
Dividends received from joint venture		-	-	-	1,490	1,240
Distribution to non-controlling interests		(2,781)	(2,780)	(11,817)	(10,427)	(11,414)
Non-routine project costs		888	-	1,953	-	-
Other financing costs		676	-	676	-	-
Payments on long-term incentive plans		-	-	8,953	-	-
Free cash flow[1]	$	**64,390 $**	**37,210 $**	**39,089 $**	**30,856 $**	**26,121**
Add/(less):						
Other debt borrowings (repayments) of debt, use of cash[B]		90,261	(11,054)	78,099	(60,398)	(20,759)
Issuance of equity		-	-	58,628	32,487	-
Other investing activities[C]		(144,033)	(482)	(148,930)	1,805	(717)
Other financing activities		(2,999)	(1,649)	(9,795)	(4,397)	-
Payments on long-term incentive plans		-	-	(8,953)	-	-
Non-routine project costs		(888)	-	(1,952)	-	-
Other financing costs		(676)	-	(676)	-	-
Change in cash flows for the period	$	6,055 $	24,025 $	5,510 $	353 $	4,645

A – Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For the periods covered in this table that includes a conversion of a vessel for Argentina, the addition of a third clam vessel and a late life refit on a shrimp vessel. For the purpose of free cash flow calculations the amount invested (up to the total amount of the related financing) during the period on these projects is backed out of the calculation of free cash flows irrespective of the timing of the related borrowing.

B – Other debt borrowings (repayments) of debt, use of cash for 2015 includes $35.1 million of cash invested in designated capital projects.

C - Other investing activities include $151.1 million for the acquisition of Macduff, less cash acquired in the acquisition of $9.1 million.

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

Return on Assets

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

Return on assets is defined as the ratio of adjusted earnings before interest and taxes (“EBIT”) to average total assets including all working capital assets.

The calculation of adjusted earnings before interest and taxes to total assets for the rolling twelve months ended December 31, 2015 and December 31, 2014 is as follows:

In (000's) of Canadian dollars As at December 31	2015	2014	2013
Adjusted EBITDA[1]	$ 124,140	$ 87,368	$ 79,103
Depreciation and amortization	29,809	23,753	24,167
Adjusted earnings before interest and taxes	94,331	63,615	54,936
Total Assets[A]	$ 753,195	$ 464,397	$ 410,796
	12.5%	13.7%	13.4%

A- Return on assets declined to 12.5% in 2015 as a result of the timing of the investment in Macduff. The investment is included in the assets whereas earnings only include the two months of earnings from the acquisition date of October 30, 2015 to December 31, 2015.

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

Quarterly and share information

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

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Sales	165,503	147,332	116,748	75,362	119,498	134,069	113,403	77,771
Earnings attributable to:								
Non-controlling interests	3,267	6,485	4,123	3,062	4,117	4,076	2,181	2,328
Shareholders of Clearwater	(7,060)	(4,768)	5,616	(31,398)	(3,987)	(1,117)	16,669	(14,472)
Per share data								
Basic net (loss) earnings	(0.12)	(0.08)	0.10	(0.57)	(0.07)	(0.02)	0.30	(0.27)
Diluted net (loss) earnings	(0.12)	(0.09)	0.10	(0.57)	(0.07)	(0.02)	0.30	(0.27)

Trading information, Clearwater Seafoods Incorporated, symbol CLR

	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Trading price range of shares (board lots)								
High	13.43	13.13	14.42	15.24	12.23	10.80	8.70	9.21
Low	9.91	9.22	11.66	10.93	9.30	7.75	6.90	7.27
Close	11.99	9.99	12.25	13.75	11.86	10.56	8.69	7.55
Trading volumes (000's)								
Total	3,062.00	3,030.00	3,100.00	3,690.00	5,907.00	3,793.00	2,974.00	3,370.00
Average daily	49.39	51.36	50.00	57.66	90.88	66.54	47.21	55.25
Shares outstanding at end of quarter	59,958,998	59,958,998	59,958,998	54,978,098	54,978,098	54,978,098	54,978,098	54,978,098

Selected Annual Information

	2015	2014	2013	2012	2011
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Sales	$ 504,945	$ 444,742	$ 388,659	$ 350,302	$ 332,785
Costs of goods sold	370,645	341,908	301,291	277,777	263,220
Gross margin	134,300	102,834	87,368	72,525	69,565
Amortization of fair value adjustment to inventory and fixed assets from acquisition of Macduff[1]	2,112				
Reported gross margin per the annual financial statements	132,188	102,834	87,368	72,525	69,565
Administrative and selling	51,363	48,252	39,005	32,536	33,345
Net finance costs	68,204	37,829	33,935	29,041	36,313
(Gains) losses on forward contracts	26,480	4,047	8,812	(4,654)	2,291
Other income	444	(5,031)	(3,240)	(3,399)	(5,893)
Research and development	1,981	1,991	1,659	1,759	707
Gain on settlement of Glitnir transaction	-	-	-	-	(12,445)
Gain on change of control of joint	-	-	-	-	(11,571)
Earnings before income taxes	(16,284)	15,746	7,197	17,242	26,818
Income taxes expense (recovery)	4,387	5,949	(8,101)	(5,462)	3,863
Earnings before non-controlling interest	(20,671)	9,797	15,298	22,704	22,955
Non-controlling interest	16,937	12,702	8,965	7,695	6,619
Earnings attributable to shareholders	$ (37,608)	$ (2,905)	$ 6,333	$ 15,009	$ 16,336

1 - The amortization of fair value adjustments related to inventory and depreciation result from IFRS requirements for purchase price accounting on the acquisition of Macduff. As a result, the $2.1 million has been excluded from all analysis of cost of goods sold and gross margin.

CORPORATE INFORMATION

HEAD OFFICE OF CLEARWATER SEAFOODS INCORPORATED

757 Bedford Highway
Bedford, Nova Scotia B4A 3Z7
902-443-0550

DIRECTORS OF CLEARWATER SEAFOODS INCORPORATED

Colin E. MacDonald, Chairman of the Board

John C. Risley
President, Clearwater Fine Foods Inc.

Harold Giles, Chair of Human Resource Development and Compensation ('HRDCC") Committee
Independent Consultant

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

Jane Craighead
Senior Vice President, Scotiabank

Mickey MacDonald
President, Micco Companies

Brendan Paddick
Chief Executive Officer, Columbus International Inc.

Stan Spavold, Chair of Finance Committee
Executive Vice President, Clearwater Fine Foods Inc.

Jim Dickson, Chair of Governance Committee
Partner, Stewart McKelvey

EXECUTIVE OF CLEARWATER SEAFODS INCORPORATED

Ian Smith
Chief Executive Officer

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

Ronald van der Giesen
President, Global Supply Chain

Greg Morency
President and Chief Commercial Officer

Dieter Gautschi
Vice-President, Chief Talent Officer

Christine Penney
Vice-President, Sustainability & Public Affairs

David Kavanagh
Vice-President and General Counsel

Kirk Rothenberger
Vice-President, Chief Information Officer

INVESTOR RELATIONS

Tyrone D. Cotie, CPA, CA
Treasurer
(902) 457-8181
tcotie@clearwater.ca

AUDITORS

KPMG LLP
Halifax, Nova Scotia

SHARES LISTED

Toronto Stock Exchange
SHARE Symbol: CLR

TRANSFER AGENT

Computershare Investor Services Inc.

Clearwater Seafoods Incorporated
757 Bedford Highway, Bedford, Nova Scotia, Canada, B4A 3Z7
Tel. (902) 443-0550 Fax. (902) 443-7797 www.clearwater.ca