

growing  globally  
dedicated to sustainable seafood excellence

# second quarter report

# 2014 Q2



Clearwater Seafoods Incorporated

## Table of Contents

	<b>Page #</b>
Letter to shareholders	1
Management's Discussion and Analysis	
Clearwater Overview	6
Key Performance Indicators	8
Seasonality	10
Explanation of year to date 2014 results	12
Capital structure	26
Liquidity	30
Explanation of second quarter 2014 results	36
Outlook	50
Risks and uncertainties	51
Critical accounting policies	54
Summary of quarterly results	58
Definitions and reconciliations	59
Clearwater Seafoods Incorporated – second quarter 2014 financial statements	65
Quarterly and share information	86
Corporate Information	87

## LETTER TO SHAREHOLDERS

- Reports record second quarter sales of \$113.4 million
- Growth of 19% in second quarter sales and adjusted EBITDA, driven by strong demand and higher exchange rates
- Rolling twelve month adjusted EBITDA and free cash flow increased \$9.4 million to \$81.8 million and \$10.7 million to \$37.5 million, respectively
- Year-to-date growth of 16.8% and 9.7% in sales and adjusted EBITDA, respectively
- Year-to-date growth in free cash flows of \$11.4 million due to a positive contribution from working capital offset by higher net capital investments
- Management maintains a strong positive outlook for the remainder of 2014 and sees a favorable overall economic environment for seafood companies
- Declares quarterly dividend of \$0.025 per share payable on September 2, 2014 to shareholders of record as of August 19, 2014.

### Second quarter results

Clearwater reported sales of \$113.4 million and adjusted EBITDA<sup>1</sup> of \$20.3 million for the second quarter of 2014 versus 2013 comparative figures of \$95.4 million and \$17.0 million, reflecting growth of 19% in both sales and adjusted EBITDA, respectively.

The 19% growth in both sales and adjusted EBITDA was driven by strong market demand that increased sales volumes and pricing for scallops, shrimp and lobster as well as a \$6.6 million positive impact due to a foreign exchange rate environment that had average spots rates for major currencies such as the US dollar and Euro at higher levels in 2014 than the second quarter of 2013.

Earnings for the second quarter of 2014 were \$18.9 million and included non-cash foreign exchange gains of \$20.7 million as the Canadian dollar strengthened against the US dollar and the Euro resulting in large non-cash gains on the translation of both Clearwater's \$200 million US dollar denominated debt and its' foreign exchange hedging contracts.

Free cash flows<sup>1</sup> were (\$11.7) million versus (\$9.6) million in the second quarter of 2013, a decline of \$2.1 million, due primarily to the timing of capital expenditures.

## **Year to date results**

Clearwater reported sales of \$191.2 million and adjusted EBITDA<sup>1</sup> of \$30.6 million for the first half of 2014 versus 2013 comparative figures of \$163.7 million and \$27.9 million, reflecting growth of 16.8% and 9.7% in sales and adjusted EBITDA, respectively.

Gross margin as a percentage of sales improved from 18.4% in the first half of 2013 to 20.4% for the same period of 2014, due to strong demand, higher prices for the majority of species and favourable exchange rates. Higher catch rates for sea scallops and the timing of landings for shrimp increased available supply which also contributed to the increase in total gross margin. Poor weather conditions for turbot and higher harvesting costs for scallops and shrimp partially offset the improvements to gross margin.

Free cash flows<sup>1</sup> from operating activities improved \$18.1 million from negative (\$13.0) million to positive \$5.1 million due to higher adjusted EBITDA and a \$16.7 million improvement in working capital, offset by higher capital expenditures (net of designated borrowings) from scheduled refits and vessel conversions, and the timing of payments to minority interest partners. As a result year to date free cash flows improved \$11.4 million from the same period in 2013.

## **Seasonality**

Clearwater's business experiences a seasonal pattern in which sales, margins and adjusted EBITDA are lower in the first half of the year while investments in capital expenditures and working capital are typically higher resulting in lower free cash flows in the first half of the year and higher free cash flows in the second half of the year.

Results for the second quarter of 2014 are consistent with Management's expectations for the quarter and in-line with its expectations for fiscal 2014.

## **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.

Clearwater, like other vertically integrated seafood companies, 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 delighted with the results in the second quarter in both harvesting and sales.

We posted strong sales results across our portfolio of sustainably harvested, wild caught seafood and are maintaining our annual financial targets. Also, we have continued to invest and advance several major capital projects that are key to sustaining our long term growth, profitability and competitive advantage.

Looking to the longer-term, we are encouraged by a recent Agricultural Outlook published by the OECD-FAO that predicts growth in seafood pricing is expected to outpace other proteins by almost 3 times from now until 2020.

For 2014 Clearwater has the following annual targets:

- sales growth – 5% or greater
- adjusted EBITDA margins – 18% or greater
- Free cash flow growth – 5% or greater
- Leverage – 3x or lower
- return on assets - 12% or higher

## **Dividends**

The Board of Directors approved a quarterly dividend of CAD\$0.025 per share payable on September 2, 2014 to shareholders of record on August 19, 2014.

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 to provide room for the dividend to increase in the future as the business continues to grow and expand.

The Board is satisfied with current dividend levels.

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.

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

1. Expanding access to supply;
2. Targeting profitable and growing markets, channels and customers;
3. Innovating and positioning our products to deliver superior customer satisfaction and value;
4. Increasing margins by improving price realization and cost management;
5. Preserving the long-term sustainability of our resources; and
6. Improving our organizational capability and capacity, talent, diversity and engagement.

Management also believes that it has the people, processes and financial resources to execute these strategies and create value for its shareholders. This includes the capacity to execute Clearwater's five year strategic plan. This plan, developed and initiated in 2012, is entitled 5-1-5 and includes goals to achieve \$500 million in sales and \$100 million in adjusted EBITDA by the end of 2016 (i.e. in 5 years) or earlier.

1 – Refer to definitions within the Management discussion and Analysis

2- Clearwater's business experiences a predictable seasonal pattern in which sales, margins and adjusted EBITDA are lower in the first half of the year while investments in capital expenditures and working capital are higher. This normally results in negative cash flows in the first half of the year. We refer to the negative cash flows as "a net use of cash" in this document.

Ian Smith  
Chief Executive Officer  
Clearwater Seafoods Incorporated  
August 7, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

This Management's Discussion and Analysis ("MD&A") was prepared effective August 7, 2014.

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 2014 second quarter news release.

This MD&A should be read in conjunction with the 2013 annual financial statements, the 2013 annual MD&A and the 2013 Annual Information Form, which are available on Sedar at [www.sedar.com](http://www.sedar.com) as well as Clearwater's website, [www.clearwater.ca](http://www.clearwater.ca).

### **COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS**

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

### **NON-IFRS MEASURES**

---

This MD&A makes reference to several non-IFRS measures to supplement the analysis of Clearwater's results. These measures are provided to enhance the reader's understanding of our current financial performance. They are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and to provide a consistent basis for comparison between periods. These non-IFRS measures are not recognized measures under IFRS, and therefore they 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 flow, leverage, adjusted earnings before interest and taxes 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 with more than 81 million pounds sold in 2013. 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.

## **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. For example, Clearwater's fleet and licenses have an estimated value of more than \$500 million.



“Loblaw is proud of our commitment to selling only sustainably sourced seafood and by partnering with suppliers like Clearwater we are confident that Canada can have a thriving, sustainable fishing industry that sets standards for the world.”

Galen Weston, Executive Chairman,  
Loblaw Companies Limited

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 and 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 in addition, we have a diverse customer mix with 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.

# key performance indicators

## 2014 FINANCIAL ACHIEVEMENTS

Clearwater reported sales of \$113.4 million and adjusted EBITDA<sup>1</sup> of \$20.3 million for the second quarter of 2014 versus 2013 comparative figures of \$95.4 million and \$17.0 million, reflecting growth of 19% in both sales and adjusted EBITDA, respectively.



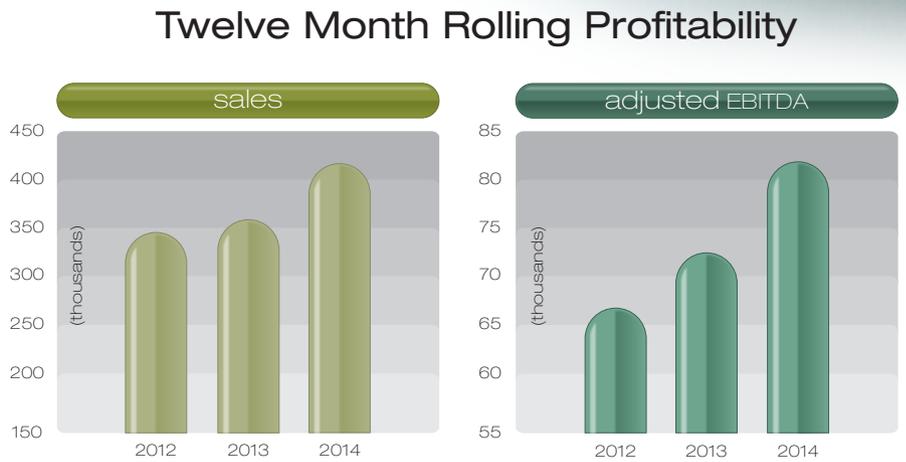
The 19% growth in both sales and adjusted EBITDA was driven by strong market demand that increased sales volumes and pricing for scallops, shrimp and lobster as well as a \$6.6 million positive impact due to a foreign exchange rate environment that had average spot rates for major currencies such as the US dollar and Euro at higher levels in 2014 than the second quarter of 2013.

Gross margin as a percentage of sales improved from 18.4% in the first half of 2013 to 20.4% for the same period of 2014, due to the strong market demand and favourable exchange rates. Higher catch rates for sea scallops and the timing of landings for shrimp increased available supply which also contributed to the increase in total gross margin.

Timing of landings for turbot as one vessel is on refit and the other harvested shrimp and higher harvesting costs for scallops and shrimp partially offset the improvements to gross margin.

The rolling twelve month adjusted EBITDA increased \$9.4 million to \$81.8 million from improvements in sales and gross margin during the second quarter of 2014.

Free cash flows<sup>1</sup> from operating



#### Sales

2014	416,167
2013	358,163
2012	340,534

#### Sales Growth

2014	16.2%
2013	5.2%
2012	5.3%
Target	5% or greater

#### Adjusted EBITDA

2014	81,808
2013	72,413
2012	66,714

#### Adjusted EBITDA

as a % of sales	
2014	19.7%
2013	20.2%
2012	19.6%
Target	18% or greater

activities for the first half of 2014 improved \$18.1 million from a use in cash of (\$13.0) million to proceeds of \$5.1 million due to the higher adjusted EBITDA and a positive contribution from working capital offset by higher capital expenditures (net of designated borrowings) from scheduled refits and vessel conversions, and the timing of payments to minority interest partners.

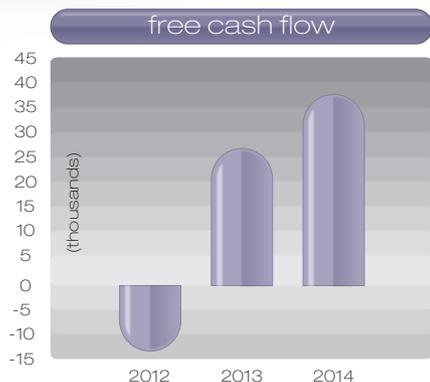
Looking to the longer term we are encouraged by a recent Agricultural Outlook published by the Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organization (FAO) of the United Nations, that predicts growth in seafood pricing is expected to outpace other proteins by almost 3 times from now until 2020.



“We are delighted with the results in the second quarter in both harvesting and sales. We posted strong sales results across our portfolio of sustainably harvested, wild caught seafood and are maintaining our annual financial targets. Also, we have continued to invest and advance several major capital projects that are key to sustaining our long term growth, profitability and competitive advantage.”

Ian Smith, Chief Executive Officer

## Twelve Month Rolling Free Cash Flows, Leverage and Returns



### Free Cash Flows

2014	37,520
2013	26,792
2012	(13,461)



### Leverage

2014	2.9
2013	3.5
2012	4.0
Target	3x or lower



### Return on Assets

2014	12.9%
2013	12.0%
2012	11.4%
Target	12% or greater

The outlook for the last half of 2014 is strong and positive. Clearwater has the following targets:

- sales growth – 5% or greater
- adjusted EBITDA margins – 18% or greater
- free cash flows growth – 5% or greater
- leverage – 3.0x or less
- return on assets – 12% or higher

Clearwater’s continued strong financial performance in the second quarter of 2014 and expectations for the remainder of the year have the Company on track to achieve its five year plan of \$500 million in sales and \$100 million in adjusted EBITDA at the end of the five years ending in 2016 or earlier.

## Five-year plan

For the rest of 2014, Clearwater will continue to make progress against its five year plan and lay the groundwork for the next phase of growth through substantial capital expenditures of approximately \$85 million for the year.

Key initiatives for 2014 include increasing available supply through investments such as the expansion of our lobster business and other businesses, the construction of a new enterprise resource planning system (“ERP”) and a new clam harvesting vessel both of which are expected to begin operating in 2015.

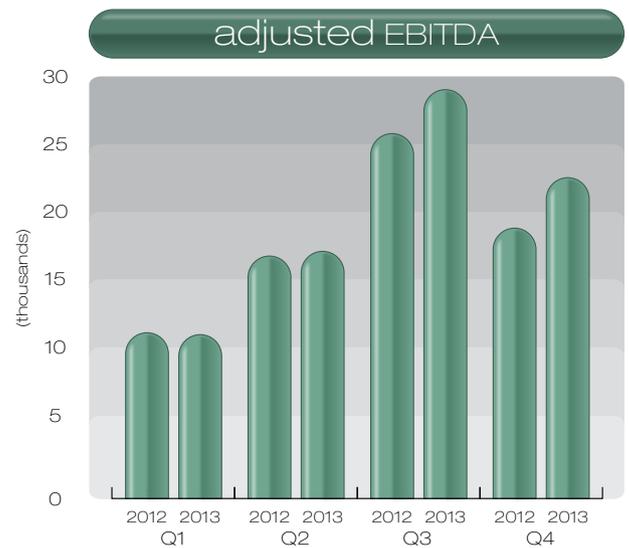
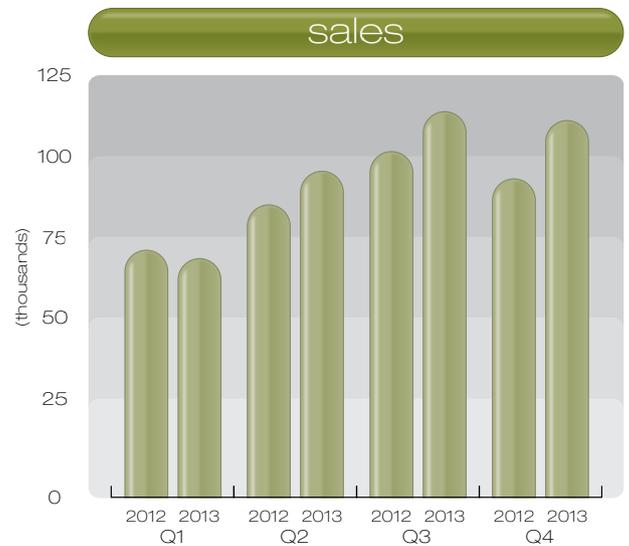
<sup>1</sup> Refer to discussion of non-IFRS measures and definition of Adjusted EBITDA and free cash flow

# seasonality

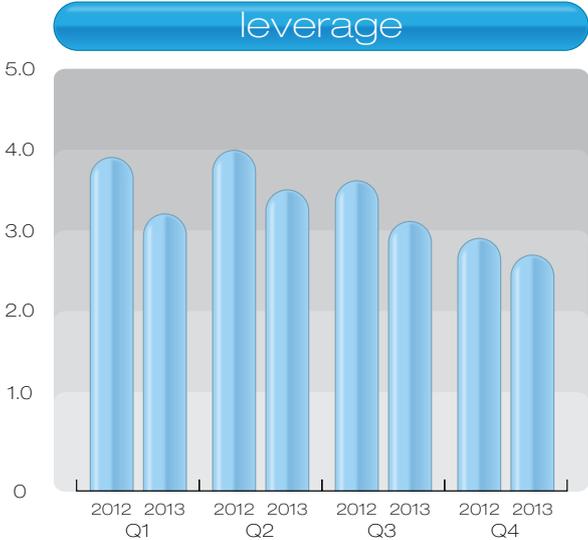
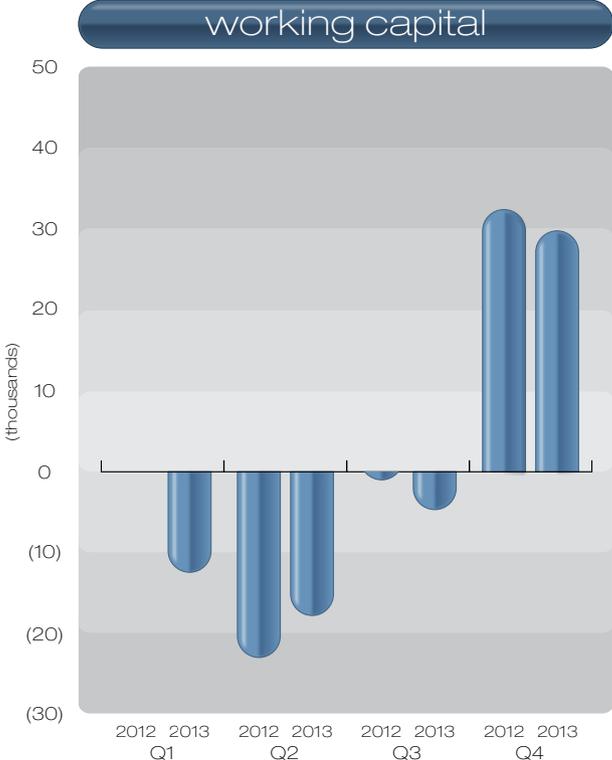
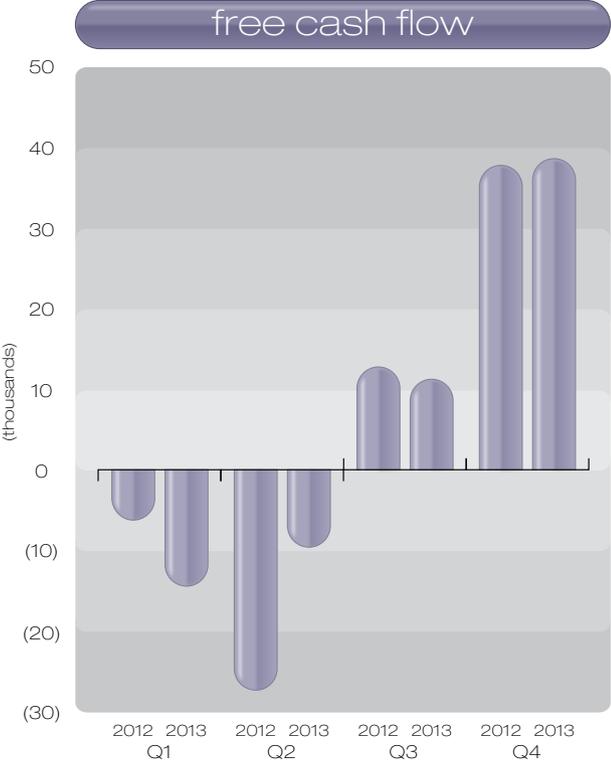
Clearwater's operations experience a predictable seasonal pattern in which sales, margins and adjusted EBITDA are higher in the second half of the year and investments in capital expenditures and working capital are lower, resulting in higher free cash flows and lower leverage in the second half of the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



## Profitability



### Free Cash Flows, Leverage and Returns



## EXPLANATION OF YEAR TO DATE 2014 RESULTS

---

### Overview

---

The statements reflect the results of Clearwater for the 26 weeks ended June 28, 2014 and June 29, 2013

In 000's of Canadian dollars Unaudited	June 28 2014	June 29 2013
Sales	\$ 191,174	\$ 163,665
Cost of goods sold	152,187	133,500
Gross margin	<u>38,987</u> 20.4%	<u>30,165</u> 18.4%
Administrative and selling	19,191	16,415
Finance costs	10,534	24,102
Foreign exchange loss on forward contracts	1,185	3,451
Other income	(972)	(359)
Research and development	744	727
	<u>30,682</u>	<u>44,336</u>
Earnings (loss) before income taxes	8,305	(14,171)
Income tax (recovery)	1,599	(2,543)
Earnings (loss)	<u>\$ 6,706</u>	<u>\$ (11,628)</u>
Earnings (loss) attributable to:		
Non-controlling interests	\$ 4,509	\$ 3,604
Shareholders of Clearwater	2,197	(15,232)
	<u>\$ 6,706</u>	<u>\$ (11,628)</u>

## Year to Date 2014 Results

---

In the first half of 2014 Clearwater reported strong sales of \$191.2 million and adjusted EBITDA<sup>1</sup> of \$30.6 million, versus 2013 comparative figures of \$163.7 million and \$27.9 million, respectively.

The 16.8% and 9.7% growth in sales 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 and the Euro against the Canadian dollar which had a \$12.6 million positive impact of on margins and adjusted EBITDA.

In addition higher catch rates for sea scallops and timing of landings for shrimp, increased available supply which also contributed to the increase in total gross margin.

A lack of available supply from lower catch rates for Argentine scallops and timing of landings for turbot partially offset the increase in margins. In addition higher harvesting costs for shrimp, scallops and higher shore prices for lobster partially offset the improvement in gross margin and adjusted EBITDA.

Free cash flows<sup>1</sup> from operating activities improved \$18.1 million from negative (\$13.0) million to positive \$5.1 million due to higher adjusted EBITDA and a \$16.7 million improvement in working capital, offset by higher capital expenditures (net of designated borrowings) from scheduled refits and vessel conversions, and the timing of payments to minority interest partners.

Higher non-operational gains of \$9.7 million (refer to the following table), were primarily a result of lower fees on debt settlement of \$9.3 million from the refinancing that occurred in June 2013 and an increase of \$7.4 million in unrealized foreign exchange gains. The increase in non-cash unrealized foreign exchange gains primarily related to a strengthening of the Canadian dollar against the US dollar and Euro. The higher non-operational gains were partially offset by reductions in non-cash deferred income tax recoveries and higher realized foreign exchange losses as contracts for the US dollar and Euro were settled at spot rates higher than contracted rates.

1 – Refer to discussion of non-IFRS measures and definition of Adjusted EBITDA and free cash flow

In 000's of Canadian dollars 26 weeks ended	June 28 2014	June 29 2013	Change
Earnings (loss)	\$ 6,706	\$ (11,628)	\$ 18,334
Explanation of changes in earnings related to operational items:			
Higher gross margin			8,822
Higher administrative and selling			(2,776)
Lower interest expense			1,967
			<u>8,013</u>
Explanation of changes in loss related to non-operational items:			
No fees on settlement of debt			9,316
Lower unrealized foreign exchange losses			7,431
Lower deferred income tax asset			(4,142)
Higher realized foreign exchange losses			(2,003)
Lower fair value adjustments on convertible debentures and embedded derivative			(877)
			<u>9,725</u>
All other			596
			<u>\$ 18,334</u>

## Sales by region

In 000's of Canadian dollars 26 weeks ended	June 28 2014	June 29 2013	Change	%
Europe	\$ 69,965	\$ 57,248	\$ 12,717	22.2
United States	41,183	34,855	6,328	18.2
Canada	26,874	22,935	3,939	17.2
North America	68,057	57,790	10,267	17.8
Japan	25,093	18,504	6,589	35.6
China	21,418	22,980	(1,562)	(6.8)
Other Asia	5,316	6,321	(1,005)	(15.9)
Asia	51,827	47,805	4,022	8.4
Other	1,325	822	503	61.2
	\$ 191,174	\$ 163,665	\$ 27,509	16.8

### Europe

Europe is Clearwater's largest scallop market and it is an important market for coldwater shrimp and lobster products.

European sales increased \$12.7 million to \$70.0 million for the first half of 2014 as compared to the same period in 2013, primarily as a result of stronger foreign exchange rates, higher available supply and strong market demand that increased sales volumes and prices for sea scallops. Strong catch rates in 2013 continued through the first half of 2014 increasing available supply for sea scallops.

Lower available supply in industrial sized shrimp resulted in a reduction in sales volumes during the first half of 2014. Strong sales prices for shrimp offset the decline in volumes.

Lower available supply at the end of 2013 and lower catch rates in the first quarter of 2014, resulted in a reduction in sales volumes for Argentine scallops,



partially offsetting the increase in sales for the region.

Finally, sales which were primarily transacted in the Euro<sup>1</sup>, GBP, the US dollar and DKK during the first half of 2014 were positively impacted by \$7.2 million in foreign exchange. The Euro improved 12.3% relative to the Canadian dollar from 1.33 in the first half of 2013 to 1.50 in the same period in 2014, the US dollar improved 7.5% from 1.02 in the first half of 2013 to 1.10 for the same period of 2014 and the DKK improved 11.9% to .20 for the first half of 2014.



### **United States**

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

Sales in the United States increased \$6.3 million, or 18.2%, to \$41.2 million primarily as a result of an increase in sales volumes and price for sea scallops and lobster, and stronger foreign exchange rates.

Strong demand improved both sales prices and volumes for lobster during the period.

Higher available supply and strong market demand increased both sales prices and sales volumes for sea scallops.

Sales volumes for snow crab declined in the region as product was sold into higher yielding markets, partially offsetting the increase in sales.

Sales were also positively impacted by \$2.9 million in the first half of 2014 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 7.5% to 1.10 in 2014.

### **Canada**

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

Sales within Canada increased \$3.9 million, or 17.2% primarily as a result of higher sales volumes for lobster, scallops and snow crab. Strong sales prices for scallops and snow crab also contributed to the increase in sales.

Strong catch rates in 2013 continued through first half of 2014 increasing available supply for sea scallops.



## Japan

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

Sales to customers in Japan increased \$6.6 million, or 35.6%, to \$25.1 million primarily as a result of higher available supply and strong market demand that increased sales volumes for shrimp, clams and lobster. Market demand also improved sales prices for shrimp and lobster.

Lower available supply from the timing of landings for turbot as one vessel is on refit and the other harvested shrimp, partially offset the increase in sales. Changes in sales mix weighted towards products with lower sales prices for clams partially offset the increase in sales.

Average foreign exchange rates for the Yen for the first half of 2014 were 0.011 and were consistent same period in 2013.

## China

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

Sales to customers in China declined \$1.6 million, or 6.8%, to \$21.4 million as a result of a reduction in sales volumes for turbot as a result of timing in landings as one vessel was on refit and the other harvested shrimp in the first half of 2014.

A reduction in available supply for clams and a change in product mix weighted

towards product with lower sales prices also contributed to the decline in sales.

Higher sales volumes and prices for shrimp, snow crab, lobster and scallops partially offset the decline in sales.

Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar during the first quarter of 2014 partially offsetting the decline in sales by \$1.5 million as average foreign exchange rates for the US dollar strengthened against the Canadian dollar by 7.5% to 1.10 in 2014.

## 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 for the region declined \$1.0 million for the first half of 2014 versus the same comparative period for 2013 as a result of a decline in sales volumes for clams for the region as product was sold into higher yielding markets.

1 – Refer to risks and uncertainties



## Sales by species\*

---

In 000's of Canadian dollars 26 weeks ended	June 28 2014	June 29 2013	Change	%
Scallops*	\$ 79,844	\$ 59,295	\$ 20,549	34.7
Coldwater shrimp	42,415	34,392	8,023	23.3
Lobster	35,610	29,866	5,744	19.2
Clams	23,554	24,195	(641)	(2.6)
Crab	8,339	8,995	(656)	(7.3)
Ground fish and other	1,412	6,922	(5,510)	(79.6)
	\$ 191,174	\$ 163,665	\$ 27,509	16.8

\*Refer to risks and uncertainties

Sales increased \$27.5 million, or 16.8%, for the first half of 2014 as a result of higher exchange rates and strong market demand that increased sales prices for the majority of species and in particular for sea scallops, lobster and shrimp. Higher catch rates for scallops and timing of landings for shrimp increased available supply and contributed to the increase in sales.

Lower catch rates for Argentine scallops and timing of landings for turbot as one vessel was on refit and the other vessel harvested shrimp lowered available supply and partially offset the increase in sales volumes.

## Cost of Goods Sold

---

In 000's of Canadian dollars 26 weeks ended	June 28 2014	June 29 2013	Change	%
Harvesting and procurement	\$ 107,350	\$ 89,441	\$ 17,909	20.0
Manufacturing	16,517	16,663	(146)	(0.9)
Transportation	10,567	10,285	282	2.7
Depreciation	11,637	11,197	440	3.9
Administrative	6,116	5,914	202	3.4
	\$ 152,187	\$ 133,500	\$ 18,687	14.0

**Cost of goods sold** increased \$18.7 million or 14.0% to \$152.2 million primarily as a result of an increase in sales volumes for scallops and shrimp and higher raw material costs per pound for lobster and snow crab.

**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. Excluding the increase in costs from higher sales volumes, higher harvesting costs per pound for scallops and shrimp and higher shore prices per pound for lobster and snow crab increased harvesting and procurement costs for the first half of 2014.

Changes in sales mix weighted towards product with lower harvesting costs for clams partially offset the increase in harvesting and procurement costs for the first half of 2014.

Fuel costs for our vessels declined \$0.7 million for the first half of 2014 to \$11.5 million as a result of a reduction in litres consumed by the clam and shrimp vessels. Scheduled refits reduced our fishing effort for shrimp and poor weather conditions delayed harvesting for clams during the first half of 2014. The decline was partially offset by an increase in average price per litre of fuel of \$0.06. Clearwater's vessels used approximately 29.5 million litres of fuel in 2013. Based on 2013 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately \$0.3 million.

**Transportation** costs include freight, customs and duties related to the transfer of goods to market.

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

## Gross margin

---

Gross margin as a percentage of sales improved from 18.4% in the first half of 2013 to 20.4% for the same period of 2014, due to higher sales prices and favourable exchange rates. Strong demand provided higher sales prices for the majority of species and strengthening foreign exchange rates for the US dollar and the Euro against the Canadian dollar impacted positively on margins. Higher catch rates for sea scallops and timing of landings for shrimp, increased available supply which also contributed to the increase in gross margin.

A lack of available supply from lower catch rates for Argentine scallops and from the timing of landings for turbot partially offset the increase in margins. In addition higher harvesting costs for shrimp, scallops per pound and higher shore prices for lobster partially offset the improvement in gross margin.

Gross margin was positively impacted by higher average foreign exchange rates<sup>1</sup>. Both the US dollar and the Euro strengthened against the Canadian dollar. The net impact on sales from foreign exchange volatility was an increase in sales and gross margins of \$12.6 million.

26 weeks ended	June 28, 2014		June 29, 2013		Change in rate
	% sales	Average rate realized	% sales	Average rate realized	
Currency					
US dollars	46.1%	1.096	49.2%	1.020	7.5%
Euros	20.8%	1.502	20.1%	1.338	12.3%
Japanese Yen	10.2%	0.011	8.5%	0.011	0.8%
Danish Kroner	4.3%	0.200	5.0%	0.179	11.9%
UK pounds	3.7%	1.833	2.3%	1.568	16.9%
Canadian dollar and other	14.9%		14.9%		
	100.0%		100.0%		

1 – Refer to risks and uncertainties for further information

## Administrative and selling

---

In 000's of Canadian dollars 26 weeks ended	June 28 2014	June 29 2013	Change	%
Salaries and benefits	\$ 13,895	\$ 13,527	\$ 368	2.7
Share-based incentive compensation	1,790	1,851	(61)	(3.3)
Employee compensation	15,685	15,378	307	2.0
Consulting and professional fees	2,454	2,491	(37)	(1.5)
Other	3,666	1,406	2,260	160.7
Selling costs	1,485	1,166	319	27.4
Travel	1,203	1,233	(30)	(2.4)
Occupancy	682	665	17	2.6
Allocation to cost of goods sold	(5,984)	(5,924)	(60)	1.0
	\$ 19,191	\$ 16,415	\$ 2,776	16.9

**Administrative and selling** increased \$2.8 million, or 16.9%, to \$19.2 million for the first half of 2014 primarily as a result of an increase in reorganization costs.

**Salaries and benefits and share-based incentive compensation** remained consistent with the first half of 2013. 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 plans.

**Consulting and professional fees** include operations management, legal, audit and accounting, insurance and other specialized consulting services. Costs vary year over year based upon business requirements.

**Other** increased of \$2.3 million in 2014. Other includes a variety of administrative expenses such as communication, computing, service fees, depreciation, gains or losses and write-down of assets, all of which will vary from year to year. The largest portion of the in 2014 relates to reorganizational costs associated with a senior executive.

**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 26 weeks ended	June 28 2014	June 29 2013
Interest and bank charges	\$ 7,173	\$ 8,902
Amortization of deferred financing charges and accretion	381	619
Interest	7,554	9,521
Fair value adjustment on convertible debentures and embedded derivative	(506)	(1,383)
Foreign exchange on debt and other assets	3,486	6,648
Debt settlement and refinancing fees	-	9,316
	\$ 10,534	\$ 24,102

**Interest** declined \$2.0 million for the first half of 2014 as compared to the same period in 2013 due to lower average interest rates on Clearwater's debt facilities. Clearwater redeemed its 7.25% Class D convertible debentures in the third quarter of 2013 and replaced them with new facilities that carry average floating interest rates that are currently under 5%.

The **fair value adjustment on the convertible debentures and embedded derivatives** represents the change in the estimated fair values of these instruments. The reduction in the gain of \$0.9 million in the first half of 2014 primarily relates to the difference between the fair value adjustment for the convertible debentures that were refinanced in the second quarter of 2013 as well as fair market value adjustments for the Libor interest rate floor in Clearwater's current term loan B debt facility.

**Debt settlement and refinancing fees** represent fees incurred for the settlement or refinancing of long term debt and will vary year to year depending on refinancing activities. Debt settlement and refinancing fees for the first half of 2013 include a \$5.1 million non-cash charge related to financing charges deferred from 2012 as well as \$4.2 million in refinancing fees incurred in 2013. Clearwater does not have any material near term maturing debt facilities and believes the current facilities are sufficient to execute the five year plan.

## Foreign exchange on financing and working capital

In 000's of Canadian dollars 26 weeks ended	June 28 2014	June 29 2013
Realized loss (gain)		
Working capital and other	\$ 2,151	\$ 5,785
	2,151	5,785
Unrealized loss (gain)		
Foreign exchange on long term debt and other assets	350	863
Mark-to-market on interest swaps and caps	985	-
	1,335	863
	\$ 3,486	\$ 6,648

**Foreign exchange losses<sup>1</sup> on financing and working capital** declined by \$3.2 million to \$3.5 million in the first half of 2014. The decline was from higher realized foreign exchange losses in 2013 on the translation of the US dollar denominated debt that was settled in June 2013.

## Gains and losses on forward contracts

In 000's of Canadian dollars 26 weeks ended	June 28 2014	June 29 2013
(Gains) losses on forward contract derivatives		
Realized loss (gain)	\$ 5,008	\$ (629)
Unrealized (gain) loss	(3,823)	4,080
	\$ 1,185	\$ 3,451

**Gains and losses<sup>1</sup> on forward contracts** declined \$2.3 million to \$1.2 million in the first half of 2014 as a result of unrealized foreign exchange gains of \$3.8 million on forward contracts. A strengthening of the Canadian dollar against the US dollar and the Euro in the second quarter of 2014 contributed to the increase in the unrealized gain on forward contracts.

An increase of \$5.6 million in the realized loss on the settlement of forward contracts was a result of spot rates that were higher than contracted rates for the US dollar and Euro during the first half of 2014.

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 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.

Should the current environment of a stronger US dollar, Euro and Yen versus the Canadian dollar persist it would have a positive impact on 2014 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.

1 – Refer to risks and uncertainties

## **Other income**

---

In 000's of Canadian dollars 26 weeks ended	June 28 2014	June 29 2013
Royalties, interest, and other fees	\$ (222)	\$ 274
Share of earnings of equity-accounted investee	(551)	(433)
Other fees	(199)	(200)
	<hr/>	<hr/>
	\$ (972)	\$ (359)

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

## **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 Clearwater will earn sufficient taxable profit to utilities these losses.

## **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.

## **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 obtain the lowest cost of capital available, while maintaining flexibility and reducing exchange risk by borrowing when appropriate in currencies other than the Canadian dollar.

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

The amount of debt available to Clearwater is a function of earnings. Earnings 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 June 28, 2014 and December 31, 2013:

In 000's of Canadian dollars As at	June 28 2014	December 31 2013
<b>Equity</b>		
Common shares	\$ 97,267	\$ 64,780
Retained earnings	19,210	19,762
Cumulative translation account	(6,163)	(5,470)
	110,314	79,072
Non-controlling interest	22,179	24,669
	132,493	103,741
<b>Long term debt</b>		
Senior debt, non-amortizing		
Revolving debt, due in 2018	-	-
Term loan, due in 2014	10,679	10,642
Term loan, due in 2091	3,500	3,500
	14,179	14,142
Senior debt, amortizing		
Term Loan A, due 2018	29,550	29,700
Delayed Draw term Loan A, due 2018 (net of deferred financing charges of \$0.6 million)	(608)	(608)
Term Loan B, due 2019 (including embedded derivative)	211,963	211,901
Marine mortgage, due in 2017	1,817	1,785
Other loans	372	405
	243,094	243,183
<b>Total long term debt</b>	<b>257,273</b>	<b>257,325</b>
<b>Total capital</b>	<b>\$ 389,766</b>	<b>\$ 361,066</b>

There are 54,978,098 shares outstanding as of June 28, 2014 (December 31, 2013 - 50,948,698).

On February 4, 2014, Clearwater completed the issuance to the public, on a bought deal basis, of 4,029,400 common shares of the Company. The shares were issued at a price of \$8.50 per share, for gross proceeds to Clearwater of approximately \$34 million. The proceeds of the offering will be used to fund growth opportunities and general working capital.

Long term debt consists of non-amortizing and amortizing senior debt:

The revolving loan allows Clearwater to borrow a maximum of CDN \$75.0 million (denominated in either Canadian or the US dollar equivalent) and it matures in June 2018. The balance was \$nil at June 28, 2014 (December 31, 2013 - \$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 loan has a provision that, subject to certain conditions, allows Clearwater to expand the facility by a maximum of CDN \$25.0 million. 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 June 28, 2014 was \$64.3 million (December 31, 2013 - \$64.4 million).

The term loan A has principal outstanding as at June 28, 2014 of CDN \$29.6 million (December 31, 2013 – CDN \$29.7 million). The loan is repayable in quarterly instalments of \$0.2 million to June 2015, \$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 June 28, 2013 this resulted in an effective rate of approximately 4.45%.

The delayed draw term loan A has a principal outstanding as at June 28, 2014 of CDN \$nil (December 31, 2013 - \$nil) and can be drawn upon any time up to December 26, 2014, subject to a limit of the amount of capital expenditures incurred on a clam vessel project. As of June 30, 2014 the amount that Clearwater can draw is \$30 million. 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 with repayment to begin in the first quarter after the facility is fully drawn or closed out. The facility matures in June 2018 and bears interest payable monthly at the banker's acceptance rate plus 3.25%. Clearwater has entered into swap arrangements whereby:

- CDN \$12 million of this loan is subject to a fixed interest rate of 5.38% until December 31, 2015 after which it is 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%.
- CDN \$12 million of this loan is subject to a rate cap to December 31, 2015 of 4.5% and then after which the rate is fixed at 5.85% to June 2018.

Clearwater accounts for these swap arrangements and the change in market value through profit and loss.

The term loan B has principal outstanding as at June 28, 2014 of USD \$198.5 million (December 31, 2013 – USD \$199.0 million). The loan is repayable in quarterly instalments of USD \$0.5 million with the balance due at maturity in June 2019. It bears interest payable monthly at US Libor plus 3.5% with a Libor interest rate floor of 1.25%. As of June 28, 2014 this resulted in an effective rate of 4.75%. The loan has a provision that, subject to certain conditions allows Clearwater to expand the facility by a maximum of USD \$100.0 million. 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. Clearwater has entered into swap arrangements whereby USD \$50 million of the debt is capped to December 31, 2015 at an interest rate of 4.75% and then the rate is fixed at 6.15% to June 2019. Clearwater accounts for these swap arrangements and the change in market value through profit and loss.

During the third quarter of 2013 Clearwater's Argentine subsidiary borrowed USD \$10.0 million to fund conversion of a vessel for use in the Argentine scallop fishery. This loan bears interest at 6% per year with interest payable monthly and the principal is due at maturity in August 14, 2014. Clearwater is in the process of extending this loan to August 2015.

On April 29, 2014, Clearwater entered into a multi-currency revolving facility agreement that allows Clearwater to borrow a maximum of DKK 53.0 million which can be denominated in either DKK, Canadian and US dollar equivalents. The principal availability reduces by the equivalent of DKK 10.6 million on June 30, 2015 and each anniversary thereafter until the loan is fully reduced. As at June 28, 2014 the Company has not drawn on the facility. The facility bears interest in the same currency as the currency in which the principal balance is denominated. The interest is payable on the last day of each fiscal quarter at the N-bor rate applicable to the currency of the facility plus 1.875%.

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 have covenants that include, but are not limited to, a leverage ratio (for which debt, net of certain cash balances, is compared to EBITDA, excluding most significant non-cash and non-recurring items) as well as a number of 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.

## 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 June 28, 2014 Clearwater had \$16.4 million in cash, and a \$75 million revolving loan, of which \$64.3 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. In addition, Clearwater can draw up to \$30 million on its' delayed draw term loan A.

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<sup>1</sup>** - 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 seasonally but over time Clearwater intends to manage to this ratio. As of June 28, 2014 leverage increased to 2.9x adjusted EBITDA from 2.7x as of December 31, 2013 due to a large seasonable investment in lobster inventory and the ongoing refit work in the first half of the year.

1 - Refer to definitions

In 000's of Canadian dollars	June 28	December 31	June 29
As at	2014	2013	2013
Adjusted EBITDA <sup>1</sup>	\$ 81,808	\$ 79,103	\$ 72,413
Debt (net of deferred financing charges of \$0.6 million (December 31, 2013 - \$0.6 million) (June 29, 2013 - \$0.6 million))	257,273	257,325	268,962
Less cash	(16,369)	(46,793)	(18,768)
Net debt	\$ 240,904	\$ 210,532	\$ 250,194
Leverage	2.9	2.7	3.5

1 - Adjusted EBITDA is for rolling twelve month periods. Refer to discussion of non-IFRS measures and definition of Adjusted EBITDA

- **Foreign Exchange Management –**

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 August 7, 2014 Clearwater had forward exchange contracts to be settled in 2014 of:

- US dollar \$65.5 million at an average rate of 1.06;
- 1.6 billion Yen at an average rate of .011; and
- 30.5 million Euro at an average rate of 1.38.

In addition Clearwater had forward exchange contracts to be settled in 2015 of:

- US dollar \$41.5 million at an average rate of 1.09;
- 652 million Yen at an average rate of .011; and
- 18 million Euro at an average rate of 1.50.

The 2014 US dollar forwards include US dollars \$21.5 million of participating forwards which provide that to the extent spot rates are higher than the contracted rates, the contract rate will be adjusted by approximately to 50.0% of the excess.

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 exchanges 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.

- **Free cash flows-** 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		26 weeks ended		12 month Rolling	
	June 28 2014	June 29 2013	June 28 2014	June 29 2013	June 28 2014	June 29 2013
<b>Free cash flows</b>						
<b>Adjusted EBITDA</b>	\$ 20,336	\$ 17,043	\$ 30,560	\$ 27,855	\$ 81,808	\$ 72,413
<b>Less:</b>						
Cash interest	(3,644)	(4,413)	(7,173)	(8,902)	(14,589)	(18,157)
Cash taxes	(1,046)	(538)	(1,785)	(1,004)	(2,595)	(1,562)
Other income and expense items	(4,578)	120	(2,587)	(327)	(3,119)	(6,204)
<b>Operating cash flow before changes in working capital</b>	<b>11,067</b>	<b>12,212</b>	<b>19,014</b>	<b>17,622</b>	<b>61,505</b>	<b>46,489</b>
Change in working capital	(15,165)	(18,096)	(13,912)	(30,572)	11,211	608
<b>Cash flows from operating activities</b>	<b>(4,098)</b>	<b>(5,884)</b>	<b>5,102</b>	<b>(12,950)</b>	<b>72,716</b>	<b>47,097</b>
<b>Uses of cash:</b>						
Purchase of property, plant, equipment, quota and other assets	(18,531)	(4,104)	(58,932)	(6,901)	(75,845)	(12,320)
Disposal of fixed assets	5	850	5	955	28	955
Less: Designated borrowings <sup>1</sup>	13,282	-	46,761	-	54,461	-
Scheduled payments on long-term debt	(719)	(1,715)	(734)	(1,843)	(2,124)	(3,500)
Dividends received from joint venture	-	1,240	1,490	1,240	1,490	2,980
Distributions to non-controlling interests	(1,622)	-	(6,256)	(4,463)	(13,207)	(8,420)
<b>Free cash flows</b>	<b>\$ (11,682)</b>	<b>\$ (9,613)</b>	<b>\$ (12,564)</b>	<b>\$ (23,962)</b>	<b>\$ 37,520</b>	<b>\$ 26,792</b>
<b>Add/(less):</b>						
Other debt borrowings (repayments) of debt, use of cash <sup>2</sup>	(13,282)	12,142	(48,413)	1,033	(70,205)	(18,510)
Issuance of equity	-	-	32,486	-	32,486	-
Other investing activities	(357)	172	(1,015)	(94)	(1,639)	505
<b>Change in cash flows for the period</b>	<b>\$ (26,695)</b>	<b>\$ 2,700</b>	<b>\$ (30,880)</b>	<b>\$ (23,023)</b>	<b>\$ (3,212)</b>	<b>\$ 8,787</b>

1 - Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For the 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.

2 - Other debt borrowings (repayments) of debt, use of cash for the second quarter of 2014 includes \$46.8 million of cash invested in designated capital projects less \$2.7 million of dividends paid.

Cash flows 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 for the rolling twelve months to June 2014 increased from \$26.8 million to \$37.5 million as a result of strong improvements in cash flows from operating activities.

Improvements were a result of a strong and growing market demand that improved sales prices for the majority of species and strong sales volumes for scallops and shrimp. Improvements in cash flow from operations were partially offset by higher capital expenditures (net of designated borrowings) from scheduled refits and vessel conversions, and the timing of payments to minority interest partners.

In addition 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

In 000's of Canadian dollars	13 weeks ended		26 weeks ended		12 month rolling	
	June 28 2014	June 29 2013	June 28 2014	June 29 2013	June 28 2014	June 29 2013
(Increase) decrease in inventory	\$ (16,302)	\$ (16,191)	\$ (16,525)	\$ (15,747)	\$ 1,968	\$ 7,635
Increases (decrease) in accounts payable	13,398	11,188	15,973	(6,017)	13,647	1,345
(Increase) in accounts receivable	(13,113)	(13,614)	(14,696)	(10,594)	(4,572)	(9,497)
Decrease in prepaids	853	521	1,336	1,786	169	1,125
	\$ (15,164)	\$ (18,096)	\$ (13,912)	\$ (30,572)	\$ 11,212	\$ 608

Working capital for the rolling twelve months ending June 28, 2014, improved \$10.6 million to \$11.2 million. The improvement in cash was primarily a result of higher accounts payable from the timing of payments, partially offset by higher for receivables due to higher sales revenues in the quarter.

Investments in capital expenditures in the first half of 2014 of \$58.9 million resulted primarily from the construction of the clam vessel, scheduled refits and vessel conversions.

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 \$15-20 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 June 2013 the Company announced the planned investment in a third vessel for its clam business. Clearwater plans to invest up to \$50 million (including interest) on the project. A suitable hull has been sourced and work commenced in the first quarter of 2014. Management expects to complete conversion work and enter the new vessel into service in mid 2015.

This investment will drive growth in Clearwater’s clam business by expanding access to clam supply by approximately 60% when the customer distribution chain is fully in place by 2017, at which time Clearwater expects to earn incremental gross margins of approximately \$8 million per year.

In 2014 Clearwater expects significant growth investments of approximately \$85 million in capital assets, of which \$38 million relates to the construction of the clam vessel, \$15 million relates to the late life extension of a shrimp vessel, \$15 million relates to the conversion of a vessel to harvest bay scallops, \$11.5 million relates to maintenance capital investments and \$5.5 million relates to various investments to improve operational efficiencies.

- **Dividends** – On November 1, 2013 Clearwater announced the initiation of an annual dividend of \$0.10 per share, payable in quarterly installments of \$0.025 per share and on December 13, 2013 it made the first quarterly dividend payment.

Consistent with that announcement, today the Board of Directors approved a quarterly dividend of CAD\$0.025 per share payable on September 2, 2014 to shareholders of record on August 19, 2014.

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

- expected future earnings;
- the amount of free cash flows that should be retained to reinvest in the business;
- assurance that all obligations can be met with respect to existing loan agreements; and

- ability for the dividend to increase in the future as the business continues to grow and expand.

The Board is satisfied with current dividend levels

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

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

## EXPLANATION OF SECOND QUARTER 2014 RESULTS

---

### Overview

---

The statements reflect the results of Clearwater for the 13 weeks ended June 28, 2014 and June 29, 2013

In 000's of Canadian dollars Unaudited	June 28 2014	June 29 2013
Sales	\$ 113,403	\$ 95,368
Cost of goods sold	88,996	76,955
Gross margin	24,407 21.5%	18,413 19.3%
Administrative and selling	11,608	8,252
Finance costs	(2,516)	16,250
Foreign exchange (gain) loss on forward contracts	(7,128)	3,974
Other income	(650)	(53)
Research and development	452	484
	<u>1,766</u>	<u>28,907</u>
Earnings (loss) before income taxes	22,641	(10,494)
Income tax (recovery)	3,791	(628)
Earnings (loss)	<u>\$ 18,850</u>	<u>\$ (9,866)</u>
Earnings (loss) attributable to:		
Non-controlling interests	\$ 2,181	\$ 2,116
Shareholders of Clearwater	16,669	(11,982)
	<u>\$ 18,850</u>	<u>\$ (9,866)</u>

## **Second Quarter 2014 Results**

---

Clearwater reported sales of \$113.4 million and adjusted EBITDA<sup>1</sup> of \$20.3 million for the second quarter of 2014 versus 2013 comparative figures of \$95.4 million and \$17.0 million, reflecting growth of 19% in sales and adjusted EBITDA, respectively.

The 19% growth in sales and adjusted EBITDA was driven by strong market demand that increased sales volumes and pricing for scallops, shrimp and lobster as well as a \$6.6 million positive impact due to a foreign exchange rate environment that had average spots rates for major currencies such as the US dollar and Euro at higher levels in 2014 than the second quarter of 2013.

Free cash flows<sup>1</sup> for the second quarter of 2014 declined by \$2.1 million over the same period in 2013 primarily due to higher capital expenditures (net of designated borrowings) from schedule refits and our investment in a new clam vessel.

For the second quarter of 2014, gross margin improved by \$6.0 million. Gross margin as a percentage of sales improved from 19.3% in the second quarter of 2013 to 21.5% in 2014 due primarily to strong demand that provided higher sales prices for the majority of species and strengthening foreign exchange rates. Higher harvesting costs for scallops and higher shore prices for lobster, shrimp and snow crab partially offset the improvement in gross margin.

Higher non-operational gains of \$24.6 million (refer to the following table), were primarily a result of higher non-cash unrealized foreign exchange gains of \$20.7 million and lower fees on debt settlement (in 2013 results included \$9.3 million for the refinancing that occurred in June 2013). The increase in non-cash unrealized foreign exchange gains was primarily related to unsettled forward contracts as spot rates were lower than contracted rates, and the translation of the \$199 million US dollar denominated debt as the Canadian dollar strengthened against the US dollar and the Euro. The higher non-operational gains were partially offset by reductions in non-cash deferred income tax recoveries.

1 – Refer to discussion of non-IFRS measures and definition of Adjusted EBITDA and free cash flow

In 000's of Canadian dollars 13 weeks ended	June 28 2014	June 29 2013	Change
Earnings (loss)	\$ 18,850	\$ (9,866)	\$ 28,716
Explanation of changes in loss related to operational items:			
Higher gross margin			5,994
Higher administrative and selling			(3,356)
Lower interest expense			829
			<u>3,467</u>
Explanation of changes in loss related to non-operational items:			
Higher unrealized foreign exchange gains			20,737
No fees on settlement of debt			9,287
Lower deferred income tax asset			(4,419)
Higher realized foreign exchange losses			(808)
Lower fair value adjustments on convertible debentures and embedded derivative			(177)
			<u>24,620</u>
All other			629
			<u>\$ 28,716</u>

## Sales by region

In 000's of Canadian dollars 13 weeks ended	June 28 2014	June 29 2013	Change	%
Europe	\$ 39,290	\$ 29,023	\$ 10,267	35.4
United States	25,561	22,488	3,073	13.7
Canada	17,672	15,548	2,124	13.7
North America	43,233	38,036	5,197	13.7
Japan	15,269	12,499	2,770	22.2
China	12,376	12,487	(111)	(0.9)
Other Asia	2,668	3,072	(404)	(13.2)
Asia	30,313	28,058	2,255	8.0
Other	567	251	316	125.9
	\$ 113,403	\$ 95,368	\$ 18,035	18.9

### Europe

Europe is Clearwater's largest scallop market and it is an important market for coldwater shrimp and lobster products.

European sales increased \$10.3 million to \$39.3 million for the second quarter of 2014 primarily as a result of higher available supply and strong market demand that increased sales volumes and prices for sea scallops. Strong catch rates in the first quarter of 2013 continued through the second quarter increasing available supply for sea scallops. Strong sales prices and volumes for argentine scallops also contributed to the increase in sales.



Finally, sales which were primarily transacted in the Euro<sup>1</sup>, GBP, the US dollar and DKK during the second quarter of 2014 were positively impacted by \$3.6 million in foreign exchange. The Euro improved 10.8% relative to the Canadian dollar from 1.34 in the second quarter of 2013 to 1.49 in the same period in 2014, the US dollar improved

6.3% from 1.03 in the second quarter of 2013 to 1.09 for the same period of 2014 and the DKK improved 9.1% to .20 for the second quarter of 2014.

1 – Refer to risks and uncertainties



### **United States**

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

Sales in the United States increased \$3.1 million, or 13.7%, to \$25.6 million primarily as a result of an increase in sales volumes and price for sea scallops and lobster, and stronger foreign exchange rates.

Strong demand improved both sales prices and volumes for lobster during the period.

Higher available supply and strong market demand increased both sales prices and sales volumes for sea scallops.

Sales volumes for snow crab declined in the region from a lack of available supply as the season was delayed due to poor weather conditions, partially offsetting the increase in sales.

Sales were also positively impacted by \$1.6 million in the second quarter of 2014 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 6.3% to 1.09 in the second quarter of 2014.

### **Canada**

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

Sales within Canada increased \$2.1 million, or 13.7% primarily as a result of higher sales volumes for lobster and snow crab. Strong sales prices for scallops and snow crab also 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 \$2.8 million to \$15.3 million primarily as a result of higher available supply and strong market demand that increased sales volumes for clams and lobster.

Market demand also improved sales prices and timing of landings increased available supply for shrimp.

Lower available supply for turbot from the timing of landings as one vessel was on refit and the other harvested shrimp, partially offset the increase in sales. Changes in sales mix weighted towards products with lower sales prices for clams partially offset the increase in sales.

Average foreign exchange rates for the Yen for the second quarter of 2014 were

0.011 and were consistent same period in 2013.



## Sales by species\*

---

In 000's of Canadian dollars 13 weeks ended	June 28 2014	June 29 2013	Change	%
Scallops*	\$ 50,541	\$ 34,213	\$ 16,328	47.7
Coldwater shrimp	21,677	14,463	7,214	49.9
Lobster	19,998	16,812	3,186	19.0
Clams	11,676	14,250	(2,574)	(18.1)
Crab	8,339	8,995	(656)	(7.3)
Ground fish and other	1,172	6,635	(5,463)	(82.3)
	\$ 113,403	\$ 95,368	\$ 18,035	18.9

\*Refer to risks and uncertainties

Sales increased \$18.0 million, or 18.9%, for the second quarter of 2014 as a result of strong market demand that increased sales prices including scallops and shrimp and higher exchange rates. Higher catch rates for scallops and timing of landings for shrimp increased available supply.

Timing of landings for turbot as one vessel was on refit and the other harvested shrimp and snow crab lowered available supply and partially offset the increase in sales.

## Cost of Goods Sold

---

In 000's of Canadian dollars 13 weeks ended	June 28 2014	June 29 2013	Change	%
Harvesting and procurement	\$ 64,066	\$ 52,333	\$ 11,733	22.4
Manufacturing	10,034	10,266	(232)	(2.3)
Transportation	5,476	5,660	(184)	(3.3)
Depreciation	6,189	5,662	527	9.3
Administrative	3,231	3,034	197	6.5
	\$ 88,996	\$ 76,955	\$ 12,041	15.6

**Cost of goods sold** increased \$12.0 million or 15.6% to \$89.0 million primarily as a result of an increase in sales volumes for sea scallops, shrimp and higher shore prices per pound for lobster, snow crab 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. Excluding the increase in costs due to higher sales volumes, higher harvesting costs per pound for scallops and higher shore prices per pound for lobster, snow crab and shrimp increased harvesting and procurement costs for the first quarter of 2014.

Lower harvesting costs for clams as a result of changes in sales mix weighted towards products with lower costs partially offset the increase in harvesting and procurement costs for the second quarter.

Fuel costs for our vessels declined \$0.2 million for the second quarter of 2014 to \$5.7 million as a result of a reduction in litres consumed by the shrimp vessels. Scheduled refits reduced our fishing effort for shrimp. The decline was partially offset by an increase in average price per litre of fuel of \$0.07. Clearwater's vessels used approximately 29.5 million litres of fuel in 2013. Based on 2013 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately \$0.3 million.

**Transportation** costs include freight, customs and duties related to the transfer of goods to market.

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

## Gross margin

---

Gross margin as a percentage of sales improved from 19.3% in the second quarter of 2013 to 21.5% for the same period of 2014, due to higher prices and favourable exchange rates. Strong demand provided higher sales prices for the majority of species and strengthening foreign exchange rates for the US dollar and the Euro against the Canadian dollar impacted positively on margins. Higher catch rates for sea scallops and timing of landings for shrimp, increased available supply which also contributed to the increase in total gross margin.

Higher harvesting costs for scallops and higher shore prices for lobster, shrimp and snow crab partially offset the improvement in gross margin.

Gross margin was positively impacted by higher average foreign exchange rates<sup>1</sup>. Both the US dollar and the Euro strengthened against the Canadian dollar. The net impact on sales from all foreign exchange volatility was an increase in sales and gross margins of \$6.6 million.

13 weeks ended	June 28, 2014		June 29, 2013		Change in rate
Currency	% sales	Average rate realized	% sales	Average rate realized	
US dollars	47.8%	1.091	52.2%	1.026	6.3%
Euros	20.3%	1.487	18.1%	1.342	10.8%
Japanese Yen	9.7%	0.011	9.2%	0.011	1.7%
Danish Kroner	3.4%	0.196	2.9%	0.180	9.1%
UK pounds	4.0%	1.833	2.1%	1.573	16.6%
Canadian dollar and other	14.8%		15.5%		
	100.0%		100.0%		

1 – Refer to risks and uncertainties for further information

## Administrative and selling

---

In 000's of Canadian dollars 13 weeks ended	June 28 2014	June 29 2013	Change	%
Salaries and benefits	\$ 7,173	\$ 7,021	\$ 152	2.2
Share-based incentive compensation	1,474	605	869	143.6
Employee compensation	8,647	7,626	1,021	13.4
Consulting and professional fees	1,352	1,290	62	4.8
Other	2,702	604	2,098	347.4
Selling costs	853	654	199	30.4
Travel	647	664	(17)	(2.6)
Occupancy	323	335	(12)	(3.6)
Allocation to cost of goods sold	(2,916)	(2,921)	5	(0.2)
	\$ 11,608	\$ 8,252	\$ 3,356	40.7

**Administrative and selling** increased \$3.4 million, or 40.7%, to \$11.6 million for the second quarter of 2014 primarily as a result of an increase in share-based incentive compensation and reorganizational costs.

**Salaries and benefits and share-based incentive compensation** increased \$1.0 million to \$8.6 million in the second quarter of 2014. The increase in share-based incentive compensation was primarily driven by changes in Clearwater's share price, performance against Clearwater's peer group and an increase in the number of outstanding share based plans.

**Consulting and professional fees** include operations management, legal, audit and accounting, insurance and other specialized consulting services. Costs vary year over year based upon business requirements.

**Other** increased of \$2.1 million in 2014. Other includes a variety of administrative expenses such as communication, computing, service fees, depreciation, gains or losses and write-down of assets, all of which will vary from year to year. The largest portion of the in 2014 relates to reorganizational costs associated with a senior executive.

**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		June 28 2014		June 29 2013
Interest and bank charges	\$	3,644	\$	4,413
Amortization of deferred financing charges and accretion		192		252
Interest		3,836		4,665
Fair value adjustment on convertible debentures and embedded derivative		(693)		(870)
Foreign exchange on debt and other assets		(5,659)		3,168
Debt settlement and refinancing fees		-		9,287
	\$	(2,516)	\$	16,250

---

**Interest** declined \$0.8 million for the second quarter of 2014 due to lower average interest rates on Clearwater's debt facilities.

The **fair value adjustment on the convertible debentures and embedded derivatives** represents the change in the estimated fair values of these instruments. The fair value adjustment of \$0.7 million in the second quarter of 2014 relates to the fair value adjustment on the embedded derivatives on US dollar denominated. The fair value adjustment of \$0.9 million relates to the convertible debentures that were redeemed in the third quarter of 2013.

**Debt settlement and refinancing fees** represent fees incurred for the settlement or refinancing of long term debt and will vary year to year depending on refinancing activities. Debt settlement and refinancing fees for the second quarter of 2013 include a \$5.1 million non-cash charge related to financing charges deferred from 2012 as well as \$4.2 million in refinancing fees incurred in 2013. Clearwater does not have any material near term maturing debt facilities and believes the current facilities are sufficient to execute the five year plan.

## Foreign exchange on long term debt and working capital

In 000's of Canadian dollars 13 weeks ended	June 28 2014	June 29 2013
Realized loss (gain)		
Working capital and other	\$ 2,557	\$ 4,400
	2,557	4,400
Unrealized (gain) loss		
Foreign exchange on long term debt and other assets	(8,959)	(1,170)
Mark-to-market on interest swaps and caps	743	(62)
	(8,216)	(1,232)
	\$ (5,659)	\$ 3,168

**Foreign exchange gains<sup>1</sup>** increased by \$8.8 million from a loss of \$3.2 million in the second quarter of 2013 to a gain of \$5.7 million for the same period in 2014. The increase was primarily a result of non-cash unrealized gains on the translation of the \$199 million US dollar denominated debt as the Canadian dollar strengthened against the US dollar during the second quarter of 2014.

Realized foreign exchange losses on working capital declined \$1.8 million from \$4.4 million in the third quarter of 2013 to \$2.6 million for the same period of 2014 with the difference relating to a loss in the second quarter of 2013 related to US dollar denominated debt that settled in June 2013.

## Gains and losses<sup>1</sup> on forward contracts

In 000's of Canadian dollars 13 weeks ended	June 28 2014	June 29 2013
(Gains) losses on forward contract derivatives		
Realized loss (gain)	\$ 2,392	\$ (259)
Unrealized (gain) loss	(9,520)	4,233
	\$ (7,128)	\$ 3,974

**Gains<sup>1</sup> and losses on forward contracts** increased \$11.1 million from a loss of \$4.0 million in the second quarter of 2013 versus a gain of \$7.1 million for the same period in 2014. The increase in foreign exchange gains was primarily a result of non-cash unrealized gains from a reduction in spot rates, as the Canadian dollar strengthened against the US dollar and Euro at the end of the second quarter of 2014.

Realized foreign exchange losses partially offset the impact of these unrealized foreign exchange gains as forward contracts were settled at spot rates higher than contracted rates as the Canadian dollar strengthened against the US dollar and the Euro at the end of the second quarter of 2014. These realized losses related to payments made to

settle foreign exchange contracts that matured during the first quarter of 2014. 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 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.

Should the current environment of a stronger US dollar, Euro and Yen versus the Canadian dollar persist it would have a positive impact on 2014 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.

1 – Refer to risks and uncertainties

## **Other income**

---

In 000's of Canadian dollars 13 weeks ended	June 28 2014	June 29 2013
Royalties, interest, and other fees	\$ 183	\$ 689
Share of earnings of equity-accounted investee	(809)	(660)
Other fees	(24)	(82)
	<u>\$ (650)</u>	<u>\$ (53)</u>

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

## **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.

In the second quarter of 2014 Clearwater's utilized \$2.4 million of its deferred tax asset by utilizing loss carryforwards to reduce income that would have otherwise been subject to tax.

## **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.

## 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.

Clearwater, like other vertically integrated seafood companies, 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 delighted with the results in the second quarter in both harvesting and sales.

We posted strong sales results across our portfolio of sustainably harvested, wild caught seafood and are maintaining our annual financial targets. Also, we have continued to invest and advance several major capital projects that are key to sustaining our long term growth, profitability and competitive advantage.

Looking to the longer-term, we are encouraged by a recent Agricultural Outlook published by the OECD-FAO that predicts growth in seafood pricing is expected to outpace other proteins by almost 3 times from now until 2020.

For 2014 Clearwater has the following annual targets:

- sales growth – 5% or greater
- adjusted EBITDA margins – 18% or greater
- Free cash flow growth – 5% or greater
- Leverage – 3x or lower
- return on assets - 12% or higher

## **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.

### **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.

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 2013 approximately 49.1% of Clearwater's sales were denominated in US dollars. Based on 2013 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 \$1.8 million change in sales and gross profit. Approximately 21.5% of 2013 sales were

denominated in Euros, based on 2013 sales, a change of 0.01 in the Euro rate as converted to Canadian dollars would result in a \$0.6 million change in sales and gross profit. Also, 8.0% of sales in 2013 were denominated in Japanese Yen, based on 2013 annual sales, a change of 0.001 in the Yen rate as converted to Canadian dollars would result in a change of \$3.0 million in sales and gross profit.

As of August 7, 2014 Clearwater had forward exchange contracts to be settled in 2014 of:

- US dollar \$65.5 million at an average rate of 1.06;
- 1.6 billion Yen at an average rate of .011; and
- 30.5 million Euro at an average rate of 1.38.

In addition Clearwater had forward exchange contracts to be settled in 2015 of:

- US dollar \$41.5 million at an average rate of 1.09;
- 652 million Yen at an average rate of .011; and
- 18 million Euro at an average rate of 1.50.

## **Political risk**

---

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

Our Argentine and other foreign operations and investments are subject to numerous risks, including fluctuations in foreign currency, exchange rates and controls, expropriation of our assets, nationalization, renegotiation, forced divestiture, modification or nullification of our contracts and changes in Argentine or other foreign laws or other regulatory policies of foreign governments and having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory.

For a period of time during 2012 Clearwater was unable to repatriate dividends from Argentina.

However, Clearwater received approvals and paid approximately \$12.0 million Canadian in 2013. 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 domestic loan payments, thus alleviating the need for any material dividend payments for the short term.

Our operations in Argentina and elsewhere may be negatively affected by both foreign exchange and expropriation losses as well as the increased cost and risks of doing business in developing markets.

We mitigate this risk through maintaining a policy of repatriating our share of the earnings from Argentina through dividends 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.

### **Resource supply risk**

---

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

Clearwater's business is dependent on our allocated quotas of the annual 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 governments of Canada 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 opinions 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 plans to invest approximately \$5.2 million of capital expenditures in 2014 as part of a \$9 million project related to 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, 2013 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, 2013. 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, 2013, Clearwater’s internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There have been no significant changes in Clearwater’s internal controls over financial reporting or other factors that occurred during the period from March 30, 2014 to June 28, 2014, 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 following IFRS standards have been recently issued by the IASB: Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 and IFRIC 21 - Levies.

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

*Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities.* These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement to qualify for offsetting. These amendments had no impact on Clearwater.

*Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets.* These amendments remove the unintended consequences of IFRS 13 - Fair Value Measurement on the disclosures required under IAS 36 - Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (“CGUs”) for which an impairment loss has been recognized or reversed during the period. These disclosure requirements will be considered when Clearwater performs its annual impairment testing in the third quarter of 2014, but no impact is anticipated.

*IFRIC 21 – Levies.* This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. There was no impact on Clearwater.

*IFRS 15 – Revenue from Contracts with Customers.* The Company intends to adopt IFRS 15 – *Revenue from Contracts with Customers* in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the standard to have a material impact on the financial statements.

## Related Party Transactions

Clearwater rents office space to Clearwater Fine Foods Incorporated (“CFFI”) (the controlling shareholder of Clearwater) and provides computer network support services to CFFI. Clearwater charges CFFI management and other fees for finance and administration services provided to CFFI by certain Clearwater staff. These fees apportion the salaries of the individuals providing the services based on estimated time spent.

Clearwater had the following transactions and balances with CFFI, for the period ended June 28, 2014 and June 29, 2013:

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Opening balance due from CFFI	\$ 1,311	\$ 1,602	\$ 1,524	\$ 1,596
Management and other fees charged to CFFI	-	-	-	122
Rent and IT service fees charged to CFFI	46	46	92	92
Interest on intercompany account	17	20	36	39
Payments from CFFI	(250)	(150)	(550)	(350)
Other charges to (from) CFFI	19	(60)	41	(41)
	\$ 1,143	\$ 1,458	\$ 1,143	\$ 1,458

The amount due from CFFI is unsecured and due on demand. As such the account has been classified as a current asset included in prepaids and other. The balance bears interest at a rate of 5%.

In addition, Clearwater expensed approximately \$0.01 million and \$0.03 million for vehicle leases for the 13 and 26 weeks ended June 28, 2014 (June 29, 2013 - \$0.02 million and \$0.04 million, respectively) and approximately \$0.03 million and \$0.06 million for other services for the 13 and 26 weeks ended June 28, 2014 (June 29, 2013 - \$0.04 million and \$0.06 million, respectively) by companies related to its parent. The transactions are recorded at the exchange amount and the balance due to these companies was \$ nil million as at June 28, 2014 (December 31, 2013 - \$0.01 million)

Clearwater recorded sales, sales commissions and storage fees to a non-controlling interest in a consolidated partnership. These sales, sales commissions and storage fees are at prevailing market prices and are settled on normal trade terms. Sales for the 13 and 26 weeks ended June 28, 2014 are \$ nil (June 29, 2013 - \$0.03 million). Sales commissions for the 13 and 26 weeks ended June 28, 2014 are \$0.5 million and \$1.0 million, respectively (June 29, 2013 - \$0.4 million and \$0.9 million, respectively). Storage fees for the 13 and 26 weeks ended June 28, 2014 are \$0.3 million and \$0.8 million (June 29, 2013 - \$0.5 million and \$0.9 million).

At June 28, 2014 Clearwater had a balance of \$4.0 million (December 31, 2013 - \$5.0 million), included in long term receivables, for interest bearing loans made to a non-controlling interest shareholder in a subsidiary. In the first quarter of 2014, Clearwater changed its presentation of advances to a non-controlling interest shareholder in a subsidiary. Advances as at June 28, 2014 of \$3.7 million (December 31, 2013 - \$3.8 million) (January 1, 2013 - \$3.4 million) were reclassified from long term receivables to non-controlling interest. These advances are now recorded as distributions to a non-controlling shareholder in a subsidiary.

During the 13 and 26 weeks ended June 28, 2014, Clearwater incurred \$0.02 million in legal fees paid to a law firm in which a Director of Clearwater is a partner (13 and 26 weeks ended June 29, 2013 - \$nil).

## **Commitments**

---

In the normal course of business, the Clearwater is obligated to make future payments, including contractual obligations for non-derivative and derivative financial instruments, operating leases and other commitments. Clearwater has included these items in the commitments section of its 2013 annual MD&A, which section is herein incorporated by reference. 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. Since December 31, 2013, there have been no material changes to amounts presented or expectations in the commitment schedule included in the 2013 annual MD&A.

## 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 2014				
Sales	\$ 77,771	\$113,403		
Earnings (loss)	(12,144)	18,850		
Earnings (loss) per share ("EPS")	(0.27)	0.30		
Diluted earnings (loss) per share <sup>1</sup>	(0.27)	0.30		
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 <sup>1</sup>	(0.06)	(0.24)	0.47	(0.06)
Fiscal 2012				
Sales	\$ 70,878	\$ 84,926	\$101,553	\$ 92,945
Earnings (loss)	(2,927)	(2,505)	17,618	10,518
Earnings (loss) per share ("EPS")	(0.09)	(0.08)	0.30	0.17
Diluted earnings (loss) per share <sup>1</sup>	(0.09)	(0.08)	0.27	0.15

---

1 - Diluted earnings (loss) per share are anti-dilutive for all periods except September 28, 2013, September 29, 2012, and December 31, 2012.

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 of each year.

Volatility in exchange rates can have a significant impact on earnings. The volatility is partially offset by Clearwater's foreign exchange management program. Earnings in the second quarter of 2014 include unrealized foreign exchange gains of \$17.7 million on the translation of long term debt and marking forward contracts to market. This offsets the unrealized foreign exchange unrealized foreign exchange losses of \$15.2 million on translation of long term debt and marking forward contracts to market incurred in the first quarter of 2014.

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.

Earnings for the fourth quarter of 2012 included an \$8 million future tax recovery.

## **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 26 weeks ended and the rolling twelve months ended June 28, 2014 and June 29, 2013 is as follows:

	13 weeks ended		26 weeks ended		12 month rolling ended	
	June 28	June 29	June 28	June 29	June 28	June 29
	2014	2013	2014	2013	2014	2013
Earnings (loss)	\$ 18,850	\$ (9,866)	\$ 6,706	\$ (11,628)	\$ 33,631	\$ 16,508
Add (deduct):						
Income taxes	3,791	(628)	1,599	(2,543)	(3,959)	(8,462)
Taxes and depreciation for equity investment	367	302	247	207	991	207
Depreciation and amortization	6,339	5,995	11,870	11,633	24,415	23,555
Interest on long-term debt and bank charges	3,836	4,664	7,554	9,521	15,342	19,474
Earnings before interest, taxes, depreciation and amortization	33,183	467	27,976	7,190	70,420	51,282
Add (deduct) other items:						
Unrealized foreign exchange and derivative loss (income)	(17,736)	3,001	(2,488)	4,943	4,056	2,414
Fair market value on long term debt	(694)	(870)	(507)	(1,383)	(833)	(1,485)
Realized foreign exchange on working capital	2,557	4,400	2,151	5,785	(48)	6,189
Restructuring and refinancing costs	1,548	10,153	1,634	10,182	2,094	10,737
Stock based compensation	1,474	605	1,790	1,851	5,800	3,989
Gain on disposal of assets and quota	3	(713)	3	(713)	318	(713)
<b>Adjusted EBITDA</b>	<b>\$ 20,336</b>	<b>\$ 17,043</b>	<b>\$ 30,560</b>	<b>\$ 27,855</b>	<b>\$ 81,808</b>	<b>\$ 72,413</b>
Adjusted EBITDA attributable to:						
Non-controlling interests	\$ 2,848	\$ 3,277	\$ 6,354	\$ 5,893	\$ 14,638	\$ 12,672
Shareholders of Clearwater	17,488	13,766	24,206	21,962	67,170	59,741
	<b>\$ 20,336</b>	<b>\$ 17,043</b>	<b>\$ 30,560</b>	<b>\$ 27,855</b>	<b>\$ 81,808</b>	<b>\$ 72,413</b>

## 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 is calculated by dividing the current and preceding annual adjusted EBITDA by the total debt on the balance sheet adjusted for cash reserves.

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

Reconciliation of adjusted EBITDA to debt (net of deferred financing charges) for the rolling twelve months ended June 28, 2014, December 31, 2013 and June 29, 2013 is as follows:

In 000's of Canadian dollars	June 28	December 31	June 29
As at	2014	2013	2013
Adjusted EBITDA <sup>1</sup>	\$ 81,808	\$ 79,103	\$ 72,413
Debt (net of deferred financing charges of \$0.6 million (December 31, 2013 - \$0.6 million) (June 29, 2013 - \$0.6 million))	257,273	257,325	268,962
Less cash	(16,369)	(46,793)	(18,768)
Net debt	\$ 240,904	\$ 210,532	\$ 250,194
Leverage	2.9	2.7	3.5

<sup>1</sup> - Adjusted EBITDA is for rolling twelve month periods. Refer to discussion of non-IFRS measures and definition of Adjusted EBITDA

## **Free cash flows**

---

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

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

Reconciliation for the 13 weeks ended, 26 weeks ended and the rolling twelve months ended June 28, 2014 and June 29, 2013 is as follows:

	13 weeks ended		26 weeks ended		12 month Rolling	
	June 28 2014	June 29 2013	June 28 2014	June 29 2013	June 28 2014	June 29 2013
<b>Free cash flows</b>						
<b>Adjusted EBITDA</b>	\$ 20,336	\$ 17,043	\$ 30,560	\$ 27,855	\$ 81,808	\$ 72,413
<b>Less:</b>						
Cash interest	(3,644)	(4,413)	(7,173)	(8,902)	(14,589)	(18,157)
Cash taxes	(1,046)	(538)	(1,785)	(1,004)	(2,595)	(1,562)
Other income and expense items	(4,578)	120	(2,587)	(327)	(3,119)	(6,204)
<b>Operating cash flow before changes in working capital</b>	<b>11,067</b>	<b>12,212</b>	<b>19,014</b>	<b>17,622</b>	<b>61,505</b>	<b>46,489</b>
Change in working capital	(15,165)	(18,096)	(13,912)	(30,572)	11,211	608
<b>Cash flows from operating activities</b>	<b>(4,098)</b>	<b>(5,884)</b>	<b>5,102</b>	<b>(12,950)</b>	<b>72,716</b>	<b>47,097</b>
<b>Uses of cash:</b>						
Purchase of property, plant, equipment, quota and other assets	(18,531)	(4,104)	(58,932)	(6,901)	(75,845)	(12,320)
Disposal of fixed assets	5	850	5	955	28	955
Less: Designated borrowings <sup>1</sup>	13,282	-	46,761	-	54,461	-
Scheduled payments on long-term debt	(719)	(1,715)	(734)	(1,843)	(2,124)	(3,500)
Dividends received from joint venture	-	1,240	1,490	1,240	1,490	2,980
Distributions to non-controlling interests	(1,622)	-	(6,256)	(4,463)	(13,207)	(8,420)
<b>Free cash flows</b>	<b>\$ (11,682)</b>	<b>\$ (9,613)</b>	<b>\$ (12,564)</b>	<b>\$ (23,962)</b>	<b>\$ 37,520</b>	<b>\$ 26,792</b>
<b>Add/(less):</b>						
Other debt borrowings (repayments) of debt, use of cash <sup>2</sup>	(13,282)	12,142	(48,413)	1,033	(70,205)	(18,510)
Issuance of equity	-	-	32,486	-	32,486	-
Other investing activities	(357)	172	(1,015)	(94)	(1,639)	505
<b>Change in cash flows for the period</b>	<b>\$ (26,695)</b>	<b>\$ 2,700</b>	<b>\$ (30,880)</b>	<b>\$ (23,023)</b>	<b>\$ (3,212)</b>	<b>\$ 8,787</b>

1 - Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For the 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.

2 - Other debt borrowings (repayments) of debt, use of cash for the second quarter of 2014 includes \$46.8 million of cash invested in designated capital projects less \$2.7 million of dividends paid.

## 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 June 28, 2014 and June 29, 2014 is as follows:

<b>In (000's) of Canadian dollars</b>			
<b>Rolling 12 months ended</b>		<b>June 28,</b>	<b>June 29</b>
<b>Return on Assets</b>		<b>2014</b>	<b>2013</b>
Adjusted EBITDA	\$	81,808	\$ 72,413
Depreciation and amortization		23,122	23,519
Adjusted earnings before interest and taxes		58,686	48,894
Total Assets	\$	455,291	\$ 408,412
		12.9%	12.0%

## NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. Management of Clearwater Seafoods Incorporated has prepared these condensed consolidated interim financial statements. Management has compiled the unaudited condensed consolidated interim Statement of Financial Position of Clearwater Seafoods Incorporated as at June 28, 2014, the unaudited condensed consolidated interim Statement of Financial Position as at December 31, 2013 and the unaudited condensed consolidated interim statements of earnings, other comprehensive income, shareholders' equity, and cash flows for the 13 and 26 weeks ended June 28, 2014 and June 29, 2013. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 28, 2014 and June 29, 2013 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

# CLEARWATER SEAFOODS INCORPORATED

## Condensed Consolidated Interim Statements of Financial Position

unaudited

(In thousands of Canadian dollars)

	June 28, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets		
Cash	\$ 16,369	\$ 46,793
Trade and other receivables	58,766	43,702
Inventories	63,100	46,987
Prepays and other	4,572	6,291
Derivative financial instruments (Note 5)	1,866	1,466
	<b>144,673</b>	<b>145,239</b>
Non-current assets		
Long-term receivables	7,061	6,656
Other assets	347	296
Property, plant and equipment	173,719	126,451
Licences and fishing rights	99,523	101,467
Investment in equity investee	3,762	4,701
Deferred tax assets	19,163	18,943
Goodwill	7,043	7,043
	<b>310,618</b>	<b>265,557</b>
<b>TOTAL ASSETS</b>	<b>\$ 455,291</b>	<b>\$ 410,796</b>
<b>LIABILITIES</b>		
Current liabilities		
Trade and other payables	58,525	40,760
Income tax payable	1,353	648
Current portion of long-term debt (Note 4)	14,423	14,297
Derivative financial instruments (Note 5)	4,417	6,869
	<b>78,718</b>	<b>62,574</b>
Non-current liabilities		
Long-term debt (Note 4)	242,850	243,028
Deferred tax liabilities	1,230	1,453
	<b>244,080</b>	<b>244,481</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	97,267	64,780
Retained earnings	19,210	19,762
Cumulative translation account	(6,163)	(5,470)
	<b>110,314</b>	<b>79,072</b>
Non-controlling interest	22,179	24,669
	<b>132,493</b>	<b>103,741</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>\$ 455,291</b>	<b>\$ 410,796</b>

See accompanying notes to condensed consolidated interim financial statements

**CLEARWATER SEAFOODS INCORPORATED**  
**Condensed Consolidated Interim Statements of Earnings**

*unaudited*

*(In thousands of Canadian dollars)*

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Sales	\$ 113,403	\$ 95,368	\$ 191,174	\$ 163,665
Cost of goods sold	88,996	76,955	152,187	133,500
	24,407	18,413	38,987	30,165
Administrative and selling	11,608	8,252	19,191	16,415
Net finance (income) costs (Note 5(d))	(2,516)	16,250	10,534	24,102
(Gains) losses on forward contracts (Note 5 (f))	(7,128)	3,974	1,185	3,451
Other income	(650)	(53)	(972)	(359)
Research and development	452	484	744	727
	1,766	28,907	30,682	44,336
Earnings (loss) before income taxes	22,641	(10,494)	8,305	(14,171)
Income tax expense (recovery)	3,791	(628)	1,599	(2,543)
Earnings (loss) for the period	\$ 18,850	\$ (9,866)	\$ 6,706	\$ (11,628)
Earnings (loss) attributable to:				
Non-controlling interest	\$ 2,181	\$ 2,116	\$ 4,509	\$ 3,604
Shareholders of Clearwater	16,669	(11,982)	2,197	(15,232)
	\$ 18,850	\$ (9,866)	\$ 6,706	\$ (11,628)
Basic and diluted earnings (loss) per share (Note 6)	\$ 0.30	\$ (0.24)	\$ 0.04	\$ (0.30)

*See accompanying notes to condensed consolidated interim financial statements*

**CLEARWATER SEAFOODS INCORPORATED**  
**Condensed Consolidated Interim Statements of Other Comprehensive Income**

*unaudited*

*(In thousands of Canadian dollars)*

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Earnings (loss) for the period	\$ 18,850	\$ (9,866)	\$ 6,706	\$ (11,628)
Other comprehensive income (loss) -				
Items that may be reclassified subsequently to income (loss):				
Foreign currency translation differences of foreign operations	(467)	(168)	(1,552)	(325)
<b>Total comprehensive income (loss) for the period</b>	<b>\$ 18,383</b>	<b>\$ (10,034)</b>	<b>\$ 5,154</b>	<b>\$ (11,953)</b>
Total comprehensive income (loss) attributable to:				
Non-controlling interest	\$ 1,539	\$ 2,116	\$ 3,650	\$ 3,604
Shareholders of Clearwater	16,844	(12,150)	1,504	(15,557)
	<b>\$ 18,383</b>	<b>\$ (10,034)</b>	<b>\$ 5,154</b>	<b>\$ (11,953)</b>

*See accompanying notes to condensed consolidated interim financial statements*

# CLEARWATER SEAFOODS INCORPORATED

## Condensed Consolidated Interim Statements of Shareholders' Equity

unaudited

(In thousands of Canadian dollars)

	Common shares	Retained earnings	Cumulative translation account	Non- controlling interest	Total
Balance at January 1, 2013	\$ 64,867	\$ 14,616	\$ (3,866)	\$ 27,495	\$ 103,112
<b>Total comprehensive loss for the period</b>	-	(15,232)	(325)	3,604	(11,953)
<b>Transactions recorded directly in equity</b>					
Distributions to non-controlling interest	-	-	-	(4,724)	(4,724)
Total transactions with owners	-	-	-	(4,724)	(4,724)
Balance at June 29, 2013	\$ 64,867	\$ (616)	\$ (4,191)	\$ 26,375	\$ 86,435
<b>Total comprehensive income for the period</b>	-	21,565	(1,279)	5,361	25,647
<b>Transactions recorded directly in equity</b>					
Distributions to non-controlling interest	-	-	-	(7,067)	(7,067)
Dividends declared on common shares	-	(1,274)	-	-	(1,274)
Redemption of 2014 convertible debentures	(87)	87	-	-	-
Total transactions with owners	(87)	(1,187)	-	(7,067)	(8,341)
Balance at December 31, 2013	\$ 64,780	\$ 19,762	\$ (5,470)	\$ 24,669	\$ 103,741
<b>Total comprehensive income for the period</b>	-	2,197	(693)	3,650	5,154
<b>Transactions recorded directly in equity</b>					
Issuance of common shares	32,487	-	-	-	32,487
Distributions to non-controlling interest	-	-	-	(6,140)	(6,140)
Dividends declared on common shares	-	(2,749)	-	-	(2,749)
Total transactions with owners	32,487	(2,749)	-	(6,140)	23,598
Balance at June 28, 2014	\$ 97,267	\$ 19,210	\$ (6,163)	\$ 22,179	\$ 132,493

See accompanying notes to condensed consolidated interim financial statements

**CLEARWATER SEAFOODS INCORPORATED**  
**Condensed Consolidated Interim Statements of Cash Flows**

unaudited

(In thousands of Canadian dollars)

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
<b>Operating</b>				
Earnings for the period	\$ 18,850	\$ (9,866)	\$ 6,706	\$ (11,628)
Adjustments for:				
Depreciation and amortization	5,583	6,410	11,239	12,285
Net finance (income) costs and unrealized derivative (gains) and losses	(14,594)	16,083	4,547	22,397
Income tax recovery	3,791	(628)	1,599	(2,543)
Share-based compensation	1,474	605	1,790	1,851
Gain on disposal of property, plant, and equipment, and other	(3)	(1,040)	(3)	(1,125)
Earnings in equity investee	(809)	(660)	(551)	(433)
Foreign exchange and other	1,155	5,894	2,008	6,021
	15,447	16,798	27,335	26,825
Change in operating working capital (Note 10)	(15,149)	(15,908)	(16,752)	(27,338)
Interest paid	(3,659)	(6,600)	(4,333)	(12,135)
Income tax paid	(736)	(174)	(1,148)	(302)
	\$ (4,097)	\$ (5,884)	\$ 5,102	\$ (12,950)
<b>Financing</b>				
Repayment of long-term debt	(719)	(203,334)	(734)	(214,542)
Net proceeds from long-term debt	-	234,649	-	234,620
Long-term debt proceeds held in escrow for repayment of liabilities	-	(44,389)	-	(44,389)
Net proceeds from common share issue	-	-	32,487	-
Proceeds of revolving credit facility	-	23,500	-	23,500
Distributions paid to non-controlling interest	(1,622)	-	(6,256)	(4,464)
Advances to minority partners	(278)	(150)	(550)	(331)
Dividends paid on common shares	(1,374)	-	(2,749)	-
	\$ (3,993)	\$ 10,276	\$ 22,198	\$ (5,606)
<b>Investing</b>				
Purchase of property, plant, equipment, and other	\$ (18,531)	\$ (4,104)	\$ (58,931)	\$ (6,901)
Proceeds on disposal of property, plant, equipment, and other	5	850	5	955
Dividends received from equity investee	-	1,240	1,490	1,240
Purchase of other assets	-	(60)	(65)	(83)
Net advances in long term receivables	(79)	382	(679)	322
	\$ (18,605)	\$ (1,692)	\$ (58,180)	\$ (4,467)
Effect of foreign exchange rate changes on cash	110	433	456	287
<b>DECREASE IN CASH</b>	\$ (26,585)	\$ 3,133	\$ (30,424)	\$ (22,736)
<b>CASH, BEGINNING OF PERIOD</b>	42,954	15,635	46,793	41,504
<b>CASH, END OF PERIOD</b>	\$ 16,369	\$ 18,768	\$ 16,369	\$ 18,768

See accompanying notes to condensed consolidated interim financial statements

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

### 1. DESCRIPTION OF THE BUSINESS

Clearwater Seafoods Incorporated (“Clearwater”) was incorporated on July 7, 2011 and is domiciled at 757 Bedford Highway, Bedford, Nova Scotia, Canada.

Clearwater’s sole investment is the ownership of 100% of the partnership units of Clearwater Seafoods Limited Partnership (“CSLP”), which holds the underlying investments in subsidiaries and joint ventures.

The condensed consolidated interim financial statements of Clearwater as at June 28, 2014 and December 31, 2013 and for the 13 and 26 weeks ended June 28, 2014 and June 29, 2013 comprise the company, its subsidiaries and a joint venture. Clearwater’s business includes the ownership and operation of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

### 2. BASIS OF PREPARATION

#### (a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board and should be read in conjunction with the annual audited financial statements and the accompanying notes for the year ended December 31, 2013 (included in Clearwater’s 2013 Annual Report) which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

The financial statements were authorized for issue by Clearwater’s Board of Directors on August 7, 2014.

The preparation of these condensed consolidated interim financial statements is based on accounting policies and practices consistent with those used in the preparation of the annual audited December 31, 2013 financial statements, except as described below.

#### (b) Application of new and revised International Financial Reporting Standards (IFRSs)

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

##### Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on Clearwater.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

### Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These disclosure requirements will be considered when Clearwater performs its annual impairment testing in the third quarter of 2014, however no impact is expected.

### IFRIC 21 – Levies

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payments, as identified by the relevant legislation, occurs. The interpretation had no impact on Clearwater.

### (c) New accounting standards

The Company intends to adopt *IFRS 15 – Revenue from Contracts with Customers* in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the standard to have a material impact on the financial statements.

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

In preparing these condensed consolidated interim financial statements, the significant judgments made in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements for the year ended December 31, 2013, (refer to Note 2(d) of the 2013 annual audited consolidated financial statements) with the exception of changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim periods are accrued using the effective annual income tax rate.

## 3. SEASONALITY

Clearwater's operations experience a predictable seasonal pattern in which sales and gross margins are higher in the second half of the year and investments in capital expenditures and working capital are lower, resulting in higher cash flows in the second half of the year. This typically results in lower cash flow and higher debt balances in the first half of the year.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### 4. LONG TERM DEBT

	June 28, 2014	December 31, 2013
Term loans (a)		
Term loan A, due June 2018	\$ 29,550	\$ 29,700
Delayed draw term loan A, due June 2018	(608)	(608)
Term loan B, due June 2019	207,733	207,197
Term loan B, embedded derivative	4,230	4,704
Term loan, due August 2014 (b)	10,679	10,642
Marine mortgage, due in 2017 (d)	1,817	1,785
Term loan, due in 2091 (e)	3,500	3,500
Other loans	372	405
	<b>257,273</b>	257,325
Less: current portion	<b>(14,423)</b>	(14,297)
	<b>\$ 242,850</b>	\$ 243,028

- (a) Clearwater has a CDN \$75.0 million revolving facility that matures in June 2018. The facility can be denominated in Canadian and US dollars. As at June 28, 2014 the balances are CDN \$ nil (December 31, 2013 - \$ nil) and USD of \$ nil (December 31, 2013 - \$ 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%. As of June 28, 2014 this results in effective rates of 4.45% for CDN balances and 3.48% for USD balances. The facility has a provision that, subject to certain conditions, allows Clearwater to expand the facility by a maximum of CDN \$25.0 million. The availability of this facility is reduced by the term loan outstanding in note (b), as such the balance available as at June 28, 2014 is \$64.3 million.

Term loans consist of a CDN \$30.0 million Term Loan A facility, a CDN \$45.0 million Delayed Draw Term Loan A facility, and a USD \$200.0 million Term Loan B facility.

Term Loan A - The principal outstanding as at June 28, 2014 is CDN \$29.6 million (December 31, 2013 - \$29.7 million). The loan is repayable in quarterly installments of \$0.2 million to June 2015, \$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 June 28, 2014 this resulted in an effective rate of 4.45%.

Delayed Draw Term Loan A - The principal outstanding as at June 28, 2014 is CDN \$ nil (December 31, 2013 - \$ nil) and can be drawn upon any time up to December 26, 2014. The balance is shown net of deferred financing charges of CDN \$0.6 million. The facility is repayable in quarterly installments of 1.25% of the principal amount drawn under the facility

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

with repayment to begin in the first quarter after the final draw on the facility. The facility matures in June 2018 and bears interest payable monthly at the banker's acceptance rate plus 3.25%.

Term Loan B - The principal outstanding as at June 28, 2014 is USD \$198.5 million (December 31, 2013 - \$199.0 million). The loan is repayable in quarterly installments of USD \$0.5 million with the balance due at maturity in June 2019 and bears interest payable monthly at the US Libor plus 3.50% with a Libor interest rate floor of 1.25%. As of June 28, 2014 this resulted in an effective rate of 4.75%. The facility has a provision that, subject to certain conditions allows Clearwater to expand the facility by a maximum of USD \$100.0 million. The embedded derivative represents the fair market value of the Libor interest rate floor of 1.25%. The change in fair market value of the embedded derivative is recorded through profit or loss.

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 have covenants that include, but are not limited to, a leverage ratio (for which debt, net of certain cash balances, is compared to EBITDA as defined in the debt facility agreements, excluding non controlling interest in EBITDA and most significant non-cash and non-recurring items) as well as a number of non-financial covenants. Clearwater is in compliance with all covenants associated with its debt facilities.

In addition to the minimum principal payments for Term Loan A and B, the loan agreement requires between 0% and 50% of excess cash flow (defined in the loan agreement as EBITDA, excluding non controlling interest in EBITDA and most significant non-cash and non-recurring items less certain scheduled principal payments, certain capital expenditures and certain cash taxes) be repaid starting for the year ended December 31, 2014 based on the previous fiscal year's results upon approval of the annual financial statements. Payments are allocated amongst the term loans on a pro rata basis.

Refer to note 5(b) for detail on interest rate caps and swaps that hedge interest rate risk on the term loans.

- (b) Term Loan - The principal outstanding as at June 28, 2014 is USD \$10.0 million (December 31, 2013 - \$10.0 million). The loan is held through a Clearwater subsidiary. The loan is non amortizing, repayable at maturity in August 2014 and bears interest payable monthly at 6.0%. The loan is secured by a marine vessel. Clearwater provides a guarantee on the term loan.
- (c) On April 29, 2014, Clearwater entered into a multi-currency revolving facility agreement that allows Clearwater to borrow a maximum of DKK 53.0 million and can be denominated in either DKK or Canadian and US dollar equivalents. The principal availability reduces by the equivalent of DKK 10.6 million per year on June 30, 2015 and each anniversary thereafter until the loan is fully repaid. As at June 28, 2014 the company has not drawn on the facility. The facility bears interest in the same currency as the currency in which the principal balance is denominated. The interest is payable on the last day of each fiscal quarter at the N-bor rate

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

applicable to the currency of the facility plus 1.875%. The N-bor rate is a variable interest rate as designated by the lender.

- (d) Marine mortgage - The mortgage is payable in the principal amount of:

	<b>June 28, 2014</b>	<b>December 31, 2013</b>
YEN	<b>99,224</b>	99,224
DKK	<b>3,957</b>	3,957
CDN	-	-

The mortgage bears interest at UNIBOR plus 1.0% payable semi-annually. UNIBOR is a variable interest rate component fixed on the basis of the average long-term borrowing interest rate of credit unions. Principal payments are required annually as follows:

	2014	2015	2016	2017
YEN	29,767	29,767	29,767	9,923
DKK	2,087	1,870	-	-
CDN	-	-	-	-

The loan matures in 2017 and is secured by a first mortgage over the related vessel.

- (e) Term Loan - due in 2091. In connection with this loan, Clearwater makes a royalty payment of \$0.3 million per annum in lieu of interest. This equates to an effective interest rate of approximately 8.0%.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### 5. FINANCIAL INSTRUMENTS

The Company enters into derivatives as part of an active economic hedging program to manage financial risks. The Company has elected not to use hedge accounting for these instruments and consequently changes in fair value are recorded in earnings as they occur:

Summary of derivative financial instrument positions:

	<b>June 28, December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Derivative financial assets</b>		
Forward foreign exchange contracts	\$ 1,794	\$ 1,297
Interest rate cap contracts	72	169
	<b>\$ 1,866</b>	<b>\$ 1,466</b>
<b>Derivative financial liabilities</b>		
Forward foreign exchange contracts	(3,361)	(6,694)
Interest rate swap contracts	(1,056)	(175)
	<b>\$ (4,417)</b>	<b>\$ (6,869)</b>

(a) Clearwater has forward contracts maturing each month until July 2015. At June 28, 2014 Clearwater had outstanding forward contracts as follows:

Currency	Notional Amount (in 000's)	Average Contract Exchange Amount	Weighted average months to maturity	Fair Value Asset (Liability)
<b>Sell:</b>				
Euro	13,000	1.514	3	\$ 598
USD	29,500	1.102	3	794
Yen	1,837,000	0.011	5	402
				<b>\$ 1,794</b>
<b>Sell:</b>				
Euro	30,500	1.377	3	(2,504)
USD	64,500	1.064	2	(854)
Yen	225,000	0.011	1	(3)
				<b>\$ (3,361)</b>

At December 31, 2013, Clearwater had outstanding forward contracts as follows:

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

Currency	Notional Amount (in 000's)	Average Contract Exchange Amount	Weighted average months to maturity	Fair Value Asset (Liability)
<b>Sell:</b>				
Yen	2,670,000	0.011	7	\$ 1,297
<b>Sell:</b>				
USD	113,000	1.046	7	\$ (1,598)
Euro	52,000	1.372	7	(5,096)
				\$ (6,694)

Certain USD and Euro forward contracts contain provisions that subject to the spot rate being greater than the contract rate, the contract rate is adjusted by 50% (December 31, 2013 -50%) of the excess of the spot rate over the contract rate at maturity. The participating portion of the notional amount of the forward contracts in USD at June 28, 2014 is \$10.8 million (December 31, 2013 - \$39.5 million) and in Euro at June 28, 2014 is \$ nil million (December 31, 2013 - \$2.0 million).

(b) At June 28, 2014 Clearwater had interest rate cap and swap contracts outstanding as follows:

June 28, 2014

	Effective Date	Expiry Date	Contracted capped interest rate	Currency	Notional Amount (in 000's)	Fair Value Asset
Term Loan A - Interest rate cap	December 2015	June 2018	6.25%	CAD	12,000	\$ 25
Term Loan A - Interest rate cap	March 2014	December 2015	4.50%	CAD	12,000	30
Term Loan B - Interest rate cap	March 2014	December 2015	4.75%	USD	50,000	17
						\$ 72

June 28, 2014

	Effective Date	Expiry Date	Contracted fixed interest rate	Currency	Notional Amount (in 000's)	Fair Value (Liability)
Term Loan A - Interest rate swap	December 2013	December 2015	5.38%	CAD	12,000	\$ (166)
Term Loan A - Interest rate swap	December 2015	June 2018	5.85%	CAD	12,000	(148)
Term Loan B - Interest rate swap	December 2015	June 2019	6.15%	USD	50,000	(742)
						\$ (1,056)

(c) At December 31, 2013 Clearwater had an interest rate cap and swap contract outstanding as follows:

	Effective Date	Expiry Date	Contracted capped interest rate	Currency	Notional Amount (in 000's)	Fair Value Asset
Term Loan A - Interest rate cap	December 2015	June 2018	6.25%	CAD	12,000	\$ 169

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

	Effective Date	Expiry Date	Contracted fixed interest rate	Currency	Notional Amount (in 000's)	Fair Value (Liability)
Term Loan A - Interest rate swap	December 2013	December 2015	5.38%	CAD	12,000 \$	(175)

### (d) Net finance (income) costs

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Interest expense on financial liabilities	\$ 3,644	\$ 4,413	\$ 7,173	\$ 8,902
Amortization of deferred financing charges and accretion	192	252	381	619
	<b>3,836</b>	<b>4,665</b>	<b>7,554</b>	<b>9,521</b>
Fair value adjustment on convertible debentures and embedded derivative	(693)	(870)	(506)	(1,383)
Foreign exchange on debt and other assets (gain) loss	(5,659)	3,168	3,486	6,648
Debt settlement and refinancing fees	-	9,287	-	9,316
	<b>\$ (2,516)</b>	<b>\$ 16,250</b>	<b>\$ 10,534</b>	<b>\$ 24,102</b>

### (e) Foreign exchange on debt and other assets per note 5 (d)

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Realized (gain) loss				
Working capital and other	\$ 2,557	\$ 4,400	\$ 2,151	\$ 5,785
	<b>2,557</b>	<b>4,400</b>	<b>2,151</b>	<b>5,785</b>
Unrealized (gain) loss				
Foreign exchange on long term debt and other assets	(8,959)	(1,170)	350	863
Mark-to-market on interest rate swaps and caps	743	(62)	985	-
	<b>(8,216)</b>	<b>(1,232)</b>	<b>1,335</b>	<b>863</b>
	<b>\$ (5,659)</b>	<b>\$ 3,168</b>	<b>\$ 3,486</b>	<b>\$ 6,648</b>

### (f) (Gains) losses on forward contracts

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
(Gains) losses on forward contract derivatives				
Realized (gain) loss	\$ 2,392	\$ (259)	\$ 5,008	\$ (629)
Unrealized (gain) loss	(9,520)	4,233	(3,823)	4,080
	<b>\$ (7,128)</b>	<b>\$ 3,974</b>	<b>\$ 1,185</b>	<b>\$ 3,451</b>

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### (g) Fair value of financial instruments

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

June 28, 2014	Fair Value		Amortized cost		Total		Fair value
	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount		
<b>Asset :</b>							
Cash	\$ 16,369	\$ -	\$ -	\$ -	\$ 16,369		\$ 16,369
Trade and other receivables	-	-	58,766	-	58,766		58,766
Long-term receivables	-	-	7,061	-	7,061		7,061
Forward foreign exchange contracts	-	1,794	-	-	1,794		1,794
Interest rate caps	-	72	-	-	72		72
	\$ 16,369	\$ 1,866	\$ 65,827	\$ -	\$ 84,062		\$ 84,062

### Liabilities:

Trade and other payables (1)	\$ -	\$ -	\$ -	\$ (49,741)	\$ (49,741)		\$ (49,741)
Long-term debt	-	-	-	(253,043)	(253,043)		(252,851)
Forward foreign exchange contracts	-	(3,361)	-	-	(3,361)		(3,361)
Embedded derivative	-	(4,230)	-	-	(4,230)		(4,230)
Interest rate swaps	-	(1,056)	-	-	(1,056)		(1,056)
	\$ -	\$ (8,647)	\$ -	\$ (302,784)	\$ (311,431)		\$ (311,239)

December 31, 2013	Fair Value		Amortized cost		Total		Fair value
	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount		
<b>Asset :</b>							
Cash	\$ 46,793	\$ -	\$ -	\$ -	\$ 46,793		\$ 46,793
Trade and other receivables	-	-	43,702	-	43,702		43,702
Long-term receivables	-	-	6,656	-	6,656		6,656
Forward foreign exchange contracts	-	1,297	-	-	1,297		1,297
Interest rate cap	-	169	-	-	169		169
	\$ 46,793	\$ 1,466	\$ 50,358	\$ -	\$ 98,617		\$ 98,617

### Liabilities:

Trade and other payables (1)	\$ -	\$ -	\$ -	\$ (33,766)	\$ (33,766)		\$ (33,766)
Long-term debt	-	-	-	(252,621)	(252,621)		(252,621)
Forward foreign exchange contracts	-	(6,694)	-	-	(6,694)		(6,694)
Embedded derivative	-	(4,704)	-	-	(4,704)		(4,704)
Interest rate swap	-	(175)	-	-	(175)		(175)
	\$ -	\$ (11,573)	\$ -	\$ (286,387)	\$ (297,960)		\$ (297,960)

(1) Trade and other payables excludes the liability for share based compensation of \$8.8 million at June 28, 2014 (December 31, 2013 - \$7.0 million).

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### Fair Value Hierarchy:

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

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

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

June 28, 2014	Level 1	Level 2	Level 3
<b>Recurring measurements</b>			
<b>Financial Assets:</b>			
Cash	16,369	-	-
Forward foreign exchange contracts	-	1,794	-
Interest rate caps	-	72	-
	\$ 16,369	\$ 1,866	\$ -
<b>Financial Liabilities:</b>			
Forward foreign exchange contracts	-	(3,361)	-
Embedded derivative	-	(4,230)	-
Interest rate swaps	-	(1,056)	-
	\$ -	\$ (8,647)	\$ -
<hr/>			
December 31, 2013	Level 1	Level 2	Level 3
<b>Recurring measurements</b>			
<b>Financial Assets:</b>			
Cash	46,793	-	-
Forward foreign exchange contracts	-	1,297	-
Interest rate cap	-	169	-
	\$ 46,793	\$ 1,466	\$ -
<b>Financial Liabilities:</b>			
Forward foreign exchange contracts	-	(6,694)	-
Embedded derivative	-	(4,704)	-
Interest rate swap	-	(175)	-
	\$ -	\$ (11,573)	\$ -

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*  
(In thousands of Canadian dollars)

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

- Forward foreign exchange contracts are measured using present value techniques. Future cash flows are estimated based on forward exchange rates (from observable exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of Clearwater and the various counterparties and the risk free yield curves of the respective currencies.
- The embedded derivative, interest rate swaps and caps are measured using present value techniques that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs.

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

There were no transfers between levels during the periods ended June 28, 2014 and December 31, 2013.

For cash, trade and other receivables, and trade and other payables, the carrying value approximates their fair value due to the short-term maturity of these instruments. The fair value of the long term receivables is not materially different from their carrying value.

Fair value of financial instruments carried at amortized cost:

Except as detailed below Clearwater considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements materially approximate their fair values:

The estimated fair value of Clearwater's long term debt whose carrying value does not approximate fair value at June 28, 2014 is \$16.6 million (December 31, 2013 - \$16.3 million) and the carrying value is \$16.4 million (December 31, 2013 – \$16.3 million). The fair value of long term debt has been classified as level 2 in the fair value hierarchy and was estimated based on discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### 6. EARNINGS PER SHARE

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

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
<b>Basic</b>				
Earnings (loss) for the period	\$ 16,669	\$ (11,982)	\$ 2,197	\$ (15,232)
Weighted average number of shares outstanding	54,978,098	50,948,698	54,587,430	50,948,698
Earnings (loss) per share	\$ 0.30	\$ (0.24)	\$ 0.04	\$ (0.30)
<b>Diluted</b>				
Earnings (loss) for the period	\$ 16,669	\$ (11,982)	\$ 2,197	\$ (15,232)
Weighted average number of shares outstanding	54,978,098	50,948,698	54,587,430	50,948,698
Earnings (loss) per share	\$ 0.30	\$ (0.24)	\$ 0.04	\$ (0.30)

The interest on the 2014 convertible debentures (redeemed in July 2013) results in anti-dilutive loss per share for June 29, 2013. As a result, for the period ended June 29, 2013, 7,523,559 potential ordinary shares were not included in the calculation of the weighted average number of ordinary shares for the purpose of diluted loss per share.

### 7. SHARE CAPITAL

On February 4, 2014 Clearwater completed the issuance of 4,029,400 common shares at \$8.50 per common share for gross proceeds of \$34.2 million. Transaction costs associated with the equity issue were \$1.8 million and deducted from the recorded amount for the common shares.

Total common shares outstanding as at June 28, 2014 is 54,978,098 common shares.

The Board of Directors approved and declared a quarterly dividend of CAD \$0.025 per share payable on September 2, 2014 to shareholders of record on August 19, 2014.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### 8. SEGMENTED INFORMATION

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

#### (a) Sales by Species

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Scallops	\$ 50,541	\$ 34,213	\$ 79,844	\$ 59,295
Coldwater shrimp	21,677	14,463	42,415	34,392
Lobster	19,998	16,812	35,610	29,866
Clams	11,676	14,250	23,554	24,195
Crab	8,339	8,995	8,339	8,995
Ground fish and other	1,172	6,635	1,412	6,922
	\$ 113,403	\$ 95,368	\$ 191,174	\$ 163,665

#### (b) Sales by Geographic Region

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
France	\$ 15,638	\$ 11,977	\$ 25,868	\$ 22,549
Russia	4,224	4,517	8,771	8,643
UK	5,347	2,690	8,805	5,133
Other	14,081	9,839	26,521	20,923
Europe	39,290	29,023	69,965	57,248
United States	25,561	22,488	41,183	34,855
Canada	17,672	15,548	26,874	22,935
North America	43,233	38,036	68,057	57,790
Japan	15,269	12,499	25,093	18,504
China	12,376	12,487	21,418	22,980
Other	2,668	3,072	5,316	6,321
Asia	30,313	28,058	51,827	47,805
Other	567	251	1,325	822
	\$ 113,403	\$ 95,368	\$ 191,174	\$ 163,665

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

	June 28, 2014	December 31, 2013
<b>Property, plant and equipment, licences, fishing rights and goodwill</b>		
Canada	\$ 250,132	\$ 212,625
Argentina	29,953	22,115
Other	200	221
	\$ 280,285	\$ 234,961

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### 9. RELATED PARTY TRANSACTIONS

Clearwater rents office space to Clearwater Fine Foods Incorporated (“CFFI”) (the controlling shareholder of Clearwater) and provides computer network support services to CFFI. Clearwater charges CFFI management and other fees for finance and administration services provided to CFFI by certain Clearwater staff. These fees apportion the salaries and benefit costs of the individuals providing the services based on estimated time spent.

Clearwater had the following transactions and balances with CFFI, for the period ended June 28, 2014 and June 29, 2013:

	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Opening balance due from CFFI	\$ 1,311	\$ 1,602	\$ 1,524	\$ 1,596
Management and other fees charged to CFFI	-	-	-	122
Rent and IT service fees charged to CFFI	46	46	92	92
Interest on intercompany account	17	20	36	39
Payments from CFFI	(250)	(150)	(550)	(350)
Other charges to (from) CFFI	19	(60)	41	(41)
	\$ 1,143	\$ 1,458	\$ 1,143	\$ 1,458

The amount due from CFFI is unsecured and due on demand. As such the account has been classified as a current asset included in prepaids and other. The balance bears interest at a rate of 5%.

In addition, Clearwater expensed approximately \$0.01 million and \$0.03 million for vehicle leases for the 13 and 26 weeks ended June 28, 2014 (June 29, 2013 - \$0.02 million and \$0.04 million, respectively) and approximately \$0.03 million and \$0.06 million for other services for the 13 and 26 weeks ended June 28, 2014 (June 29, 2013 - \$0.04 million and \$0.06 million, respectively) by companies related to its parent. The transactions are recorded at the exchange amount and the balance due to these companies was \$ nil million as at June 28, 2014 (December 31, 2013 - \$0.01 million)

Clearwater recorded sales, sales commissions and storage fees to a non-controlling interest in a consolidated partnership. These sales, sales commissions and storage fees are at prevailing market prices and are settled on normal trade terms. Sales for the 13 and 26 weeks ended June 28, 2014 are \$ nil (June 29, 2013 - \$0.03 million). Sales commissions for the 13 and 26 weeks ended June 28, 2014 are \$0.5 million and \$1.0 million, respectively (June 29, 2013 - \$0.4 million and \$0.9 million, respectively). Storage fees for the 13 and 26 weeks ended June 28, 2014 are \$0.3 million and \$0.8 million (June 29, 2013 - \$0.5 million and \$0.9 million).

At June 28, 2014 Clearwater had a balance of \$4.0 million (December 31, 2013 - \$5.0 million), included in long term receivables, for interest bearing loans made to a non-controlling interest shareholder in a subsidiary. In the first quarter of 2014, Clearwater changed its presentation of advances to a non-controlling interest shareholder in a subsidiary. Advances as at June 28, 2014 of \$3.7 million (December 31, 2013 - \$3.8 million) were reclassified from long term receivables to non-controlling interest. These advances are now recorded as distributions to a non-controlling shareholder in a subsidiary.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

During the 13 and 26 weeks ended June 28, 2014, Clearwater incurred \$0.02 million in legal fees paid to a law firm in which a Director of Clearwater is a partner (13 and 26 weeks ended June 29, 2013 - \$nil).

### 10. ADDITIONAL CASH FLOW INFORMATION

Changes in operating working capital <i>(excludes change in accrued interest)</i>	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
(Increase) in inventory	(16,302)	(16,191)	(16,525)	(15,747)
Decrease (increase) in accounts payable	13,413	13,376	13,133	(2,783)
(Increase) in accounts receivable	(13,113)	(13,614)	(14,696)	(10,594)
Decrease in prepaids	853	521	1,336	1,786
	<u>\$ (15,149)</u>	<u>\$ (15,908)</u>	<u>\$ (16,752)</u>	<u>\$ (27,338)</u>

### 11. CONTINGENT LIABILITIES

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

## Quarterly and share information

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

	2014	2014	2013				2012		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	113,403	77,771	111,012	113,982	95,368	68,297	92,945	101,553	84,926
Net (loss) earnings	18,850	(12,144)	(298)	27,224	(9,866)	(1,762)	10,518	17,618	(2,505)
Per share data									
Basic net (loss) earnings	0.30	(0.27)	(0.06)	0.48	(0.24)	(0.06)	0.17	0.30	(0.08)
Diluted net (loss) earnings	0.30	(0.27)	(0.06)	0.47	(0.24)	(0.06)	0.15	0.27	(0.08)

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

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Trading price range of shares (board lots)									
High	8.70	9.21	8.50	5.82	4.98	5.30	4.15	2.90	2.70
Low	6.90	7.27	5.37	4.86	4.10	4.00	2.50	2.36	2.02
Close	8.69	7.55	8.22	5.68	4.92	4.85	4.00	2.50	2.48
Trading volumes (000's)									
Total	2,974	3,370	2,635	2,416	1,930	6,709	1,906	1,265	1,350
Average daily	47	55	41	39	30	110	31	21	22
Shares outstanding at end of quarter	54,978,098	54,978,098	50,948,698	50,948,698	50,948,698	50,948,698	50,948,698	50,948,698	50,948,698

## **CORPORATE INFORMATION**

---

### **DIRECTORS OF CLEARWATER SEAFOODS INCORPORATED**

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

**John C. Risley**  
President, Clearwater Fine Foods Inc.

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

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

**Thomas D. Traves**  
President Emeritus, Dalhousie University

**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 SEAFOODS INCORPORATED**

**Ian Smith**  
Chief Executive Officer

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

**Michael D. Pittman**  
Vice-President, Fleet

**Greg Morency**  
President and Chief Commercial Officer

**David Rathbun**  
Vice-President, Chief Talent Officer

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

**Paul Broderick**  
Vice-President of International Sales

**David Kavanagh**  
Vice-President and General Counsel

**John Burwash**  
Vice-President, Chief Information Officer

### **INVESTOR RELATIONS**

---

**Tyrone D. Cotie, 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](http://www.clearwater.ca)