Clearwater Seafoods Incorporated
2012 First Quarter Report

Clearwater

Dedicated to Sustainable Seafood Excellence

Table of Contents

LETTER TO SHAREHOLDERS

- Continues trend of positive earnings momentum and growing EBITDA

- Strong first quarter sales, gross margins and EBITDA
    - Sales grew by 2.4% to $70.9 million
    - Gross margin grew by 6.2%
    - EBITDA grew by 10.0% to $11.0 million

- On track with 2012 financial targets for creating shareholder value

- Obtains third party valuation of fishing licences and quotas of $453 million, $341 million higher than the book value of $112 million.

Today, Clearwater Seafoods Incorporated ("Clearwater") reported its results for the first quarter of 2012.

Clearwater reported EBITDA of $11.0 million on sales of $70.9 million in the first quarter of 2012 versus 2011 comparative figures of $10.0 million and $69.2 million representing growth of 10.0% in EBITDA and growth of 2.4% in sales.

The 10.0% EBITDA growth in the first quarter of 2012 came as a result of higher sales prices and higher sales volumes, partially offset by a shift to lower margin species and higher harvesting and procurement costs per pound in certain species.

Outlook

Global demand for seafood is outstripping supply; creating favorable market dynamics for primary producers such as Clearwater.

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

The supply of seafood is limited and is expected to lag the growing demand in the industry. This Supply-demand imbalance creates pricing power in which purchasers of seafood pay a premium to suppliers that can provide consistent quality, wide diversity and reliable delivery of seafood.

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

Management is satisfied with the progress made in the first quarter towards our 2012 annual plan as well as the increasing global consumer and customer demand for our premium, wild, sustainably harvested seafood.

We will continue to execute with excellence against our overall business strategy as well as key cost-saving and productivity initiatives and we have every expectation that our earnings momentum will continue through the balance of fiscal 2012.

Management's commitment to creating shareholder value

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

1. Growing EBITDA sustainably - Clearwater has demonstrated its ability to consistently grow EBITDA in a sustainable manner. As of the first quarter of 2012 the rolling 4 quarter EBITDA grew by 16% to $61.3 million. This is driven by growth in EBITDA in both 2011 and the first quarter of 2012 which saw EBITDA grow by 10.0%. Management expects revenue growth to accelerate through the balance of the year as higher value fisheries like Canadian Sea Scallops move into peak harvest and demand season. In addition, Clearwater will continue to lever its strengths and its vertical integration to win in existing segments while capturing a growing share of the seafood value chain through the introduction of value-added new products in core species, including bacon-wrapped, MSC-certified, Canadian Sea Scallops. This will enable Clearwater to continue its EBITDA growth momentum through the balance of 2012.

2. Generating strong free cash flows – Clearwater is focused on generating free cash flows and plans to accomplish this through generating strong cash earnings, managing its working capital and carefully planning and managing its capital expenditure program. It is important to understand that Clearwater's operations have a predictable seasonal pattern in which EBITDA is higher in the second half of the year and capital expenditures are higher in the first half of the year. This results in lower free cash flows, higher debt balances and higher leverage in the first half of the year. Free cash flows for the first quarter of 2012 decreased to a net investment of $7.0 million as a result of the increased investment in inventory, planned investments in property, plant and equipment and increased distributions to minority partners. Management is pleased with the free cash flow results in the first quarter of 2012 and is on target to reach its annual goals for 2012.

3. Improving leverage and committing to leverage targets – As of the first quarter of 2012 leverage has improved to 3.91 versus 4.42 as of the first quarter of 2011. Clearwater has committed to further reductions to achieve a target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow

to reduce debt. Management is pleased with the results in the first quarter of 2012, and is line to reach its leverage reduction target in 2012.

4. Improving the capital structure - In the fourth quarter of 2011 management completed the conversion of the public entity from a trust to a corporate structure, making the structure more efficient and transparent for both investors and lenders. Management continues to review opportunities to further improve its capital structure in 2012.

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

6. Building world class leadership, management, sales and marketing capabilities - Over the past year Clearwater has hired a Chief Commercial Officer, and a Chief Talent Officer. They have begun to implement best in class programs for key account management, new product development, and recruitment and compensation practices.

7. Communicating the underlying asset values - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. In April 2012 an independent appraisal of these quotas was completed by TriNav Fisheries Consultants which placed a value on the quotas of $453 million. Furthermore, the company has continued to make focused investments to maintain the value and improve the efficiency of its vessels and plant assets, both of which serve to support strong asset values. This is supported by recent appraisals of certain of Clearwater's vessels. Management believes that book values approximate market values for working capital and property, plant and equipment. The net book value of Clearwater's net working capital, vessels, plant and equipment when combined with the appraised value of its licenses is over $600 million.

Clearwater's financial targets for creating shareholder value include:

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

The sales and EBITDA ratios are annual goals whereas the return on assets and leverage ratios will be accomplished over time.

Management is satisfied with Clearwater's progress on all these goals in the first quarter of 2012.

Sales growth was 2.4% in the first quarter of 2012, in line with expectations and when combined with stronger growth expected in the latter half of the year is expected to result in Clearwater hitting its 5% annual sales growth target.

EBITDA as expressed as a percentage of sales continues to be strong at 15.5% in the first quarter of 2012 and is expected to increase in the latter half of the year resulting in an annual rate stronger than that realized in fiscal 2011.

Return on assets continues to show improvement and is in line with 2012 goals.

Finally, leverage increased in the first quarter of 2012 as compared to December 31, 2011 due to expected and planned seasonality. During the second half of the year Clearwater will make a meaningful reduction in leverage in 2012 towards its goal of achieving target leverage of 3.0 by 2014.

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

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

Management also believes that it has the people, processes and financial resources to execute this strategy to create value for its shareholders and in early 2012 developed a five year plan to support and give direction to these goals.

Ian Smith
Chief Executive Officer
Clearwater Seafoods Incorporated
May 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective May 8, 2012.

The Audit Committee and the Board of Directors of Clearwater Seafoods Incorporated ("Clearwater") have reviewed and approved the contents of this MD&A, the financial statements and the 2012 first quarter news release.

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

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

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

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

There have been no significant changes in Clearwater's internal controls over financial reporting or other factors that occurred during the period from January 1, 2012 to March 31, 2012, that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This Report may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs that could cause actual results to differ materially from those expressed in the forward-looking statements. 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.

OVERVIEW OF CLEARWATER

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

PERFORMANCE OF CLEARWATER SEAFOODS INCORPORATED (including key performance indicators)

	Rolling 12 month Period ending March 31, 2012	December 31, 2011	April 2, 2011	Target*	
Profitability					
EBITDA (as a % of sales)	18.3%	18.1%	16.8%	15.0%	Clearwater has had continued growth in EBITDA as a percentage of sales. This positive momentum has continued into the first quarter of 2012.
Sales growth	6.0%	5.5%	6.4%	5.0%	Strong annual sales came as a result of improved sales prices for all major species
Financial Performance					
Leverage*	3.91	3.85	4.42	3.00	The ratio of total debt to EBITDA improved from 4.42 at April 2, 2011 to 3.91, a continuing trend of significant improvement from 2008. The increase from 3.85 at December 31, 2011 was anticipated by management as Clearwater's operations have a predictable seasonal pattern in which EBITDA is higher in the second half of the year and capital expenditures are higher in the first half of the year. Leverage for March 31, 2012 is in line with expectations. The target of 3 times EBITDA is expected to be accomplished by December 31, 2014.
Returns					
Return on assets*	11.0%	10.5%	10.6%	12.0%	Return on assets has improved from 10.5% at December 31, 2011 to 11.0%, a continuing trend of significant improvement from 2008. The target of 12.0% is expected to be accomplished over the next several years.

Note: Refer to definitions

* Target to be accomplished over several years

Clearwater reported EBITDA of $11.0 million on sales of $70.9 million in the first quarter of 2012 versus 2011 comparative figures of $10.0 million and $69.2 million representing growth of 10.0% in EBITDA and a 2.4% growth in sales.

The 10.0% growth in the first quarter of 2012 EBITDA came as a result of higher sales prices and higher sales volumes, partially offset by a shift to lower margin species and higher harvesting and procurement costs per pound in certain species.

Clearwater experienced higher sales volumes in the first quarter of 2012 due mostly to the timing of offshore coldwater shrimp landings and strong market response in China offset partially by limited volumes of scallops available for sale in the quarter due to management's decision to begin fishing for Canadian scallops later in the quarter when catch rates normally improve.

EXPLANATION OF FIRST QUARTER 2012 EARNINGS

On October 2, 2011, Clearwater Seafoods Income Fund ("the Fund") was reorganized into a publicly traded corporation, "Clearwater Seafoods Incorporated", ("Clearwater"). The 2011 comparative results have been adjusted to reflect the conversion of the Fund to the corporation to provide a meaningful comparison to 2012. [Refer to "Conversion from a Trust to a Corporation" for further information"].

Overview

The statements of earnings reflect the earnings (loss) of Clearwater for the 13 weeks ended March 31, 2012 and April 2, 2011.

In 000's of Canadian dollars	March 31 2012	April 2 2011
Sales	$ 70,884	$ 69,235
Cost of goods sold	59,033	58,074
Gross margin	11,851	11,161
	16.7%	*16.1%*
Administrative and selling	8,142	7,759
Finance costs	6,971	13,292
Gain on change in control of joint venture	-	(11,571)
Other income	(989)	(896)
Research and development	109	(36)
	14,233	8,548
Earnings before income taxes	(2,382)	2,613
Income taxes	545	781
Earnings (loss)	$ (2,927)	$ 1,832

Earnings (loss)

Earnings declined by $4.8 million compared to the first quarter of 2011, as 2011 earnings were unusually high due to a non-cash gain of $11.6 million from the acquisition of an entity previously proportionally consolidated. However, excluding the one-time accounting gain in 2011, earnings improved by $6.8 million. The increase was largely due to:

- operational improvements - sales revenue growth of 2.4% from higher prices and sales volumes that resulted in improved gross margin of $0.6 million, realized foreign exchange gains of $1.1 million, and

- improvements in non-cash and non-routine items – a lower fair value adjustment on long-term debt, lower non-cash interest expense and lower fees on debt settlements.

In 000's of Canadian dollars 13 weeks ended	March 31 2012	April 2 2011	Change
Net earnings	$ (2,927)	$ 1,832	$ (4,759)
Explanation of changes in earnings:			
Gain on change in control of joint venture			(11,571)
Higher foreign exchange income			2,231
Lower fair value adjustment on long term debt			1,696
Lower interest expense			1,328
Lower fees on settlement of debt			1,066
Higher gross margin			690
All other			(199)
			$ (4,759)

The 10.0% growth in the first quarter of 2012 EBITDA came as a result of higher sales prices and higher sales volumes, partially offset by a shift to lower margin species and higher harvesting and procurement costs per pound in certain species. Clearwater experienced higher volumes in the first quarter of 2012 due mostly to the timing of offshore coldwater shrimp landings.

Management is satisfied with the progress made in the first quarter towards our 2012 annual plan as well as the increasing consumer demand for our premium, wild, sustainably harvested seafood. Market demand for our products continues to be strong across all major segments and we have every expectation that our earnings momentum will continue through fiscal 2012.

Sales by region

In 000's of Canadian dollars 13 weeks ended		March 31 2012		April 2 2011		Change	%
Europe	$	26,492	$	27,173	$	(681)	(2.5)
United States		12,981		11,796		1,185	10.0
Canada		5,203		7,192		(1,989)	(27.7)
Asia							
Japan		9,959		9,609		350	3.6
China		10,780		8,708		2,072	23.8
Other Asia		4,896		4,022		874	21.7
Other		573		735		(162)	(22.0)
	$	70,884	$	69,235	$	1,649	2.4

Europe

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

European sales declined $0.68 million to $26.5 million, from $27.2 million for the first quarter primarily as a result of a reduction in sales volumes for lobster and Argentine scallops as customers managed inventory levels for the first two months of the quarter. Available supply for Canadian scallops declined in the first quarter as result of the timing of landings and management's decision to fish later in the quarter when catch rates normally improve, contributing to lower sales volumes.

Strong sales prices for all species as well as higher sales volumes and selling prices for coldwater shrimp partially offset the sales volume decline in other species. Sales volumes for coldwater shrimp were higher as a result of the timing of landings and the decision not to fish turbot in the quarter.

Foreign exchange rates for sales to Europe, which are primarily transacted in the Euro and the UK Pound, decreased during the quarter as the Euro declined 3.3% relative to the Canadian dollar from 1.36 in 2011 to 1.31 in 2012, while the UK Pound declined 1.5% from 1.58 to 1.56 over the same period.

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 $1.2 million, or 10.0%, to $13.0 million as a result of an increase in sales volumes for lobster and Argentine scallops and strong selling prices for Canadian and Argentine scallops, and coldwater shrimp. Lobster volumes increased due in part to sales growth of its processed product to the cruise line segment.

For the quarter, the US dollar strengthened against the Canadian dollar contributing to the increase in sales. Average foreign exchange rates for the US dollar increased by 1.4% to 1.00 in 2012 from 0.986 in 2011.

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

Sales within Canada declined $2.0 million, or 27.7% for the first quarter primarily from a reduction in available supply for lobster due in part to diverting supply to other markets, and a difference in the timing of landings for Canadian scallops due to management's decision to harvestlater in the quarter when catch rates normally improve.

Increases in sales prices for lobster, Argentine and Canadian scallops partially offset the decline in sales volume.

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

Sales to Japan increased 3.6% to $10.0 million primarily as a result of strong sales prices for clams, coldwater shrimp and lobster. Strong sales volumes for coldwater shrimp from the timing of landings, availability of product, and higher market demand, contributed to the increase in sales. In addition changes in clam sales mix was weighted towards product with higher margins.

A decline in sales volumes for clams, as customers managed inventory levels and switched to further processed products, as well as a reduction in available supply for turbot due to the decision not to fish turbot in the quarter, partially offset the increase in sales.

Average foreign exchange rates for the Yen improved during the quarter by 8.3% to 0.013 for 2012.

China
China is a growing market for clams, coldwater shrimp, lobster and turbot. In the first quarter of 2012, China surpassed Japan to become our largest market segment in Asia.

Sales to China increased $2.1 million, or 23.8%, to $10.8 million for the first quarter primarily as a result of an increase in market demand for coldwater shrimp and lobster. In addition strong selling prices for all species contributed to the increase in sales.
Lower available supply volumes for Canadian scallops and turbot partially offset the increase in sales.

Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar contributing to the increase in sales. Average foreign exchange rates for the US dollar increased by 1.4% to 1.00 in 2012 from 0.986 in 2011.

Sales by species

In 000's of Canadian dollars 13 weeks ended		March 31 2012		April 2 2011		Change	%
Coldwater shrimp	$	21,688	$	11,656		10,032	86.1
Scallops		18,140		25,428		(7,288)	(28.7)
Clams		15,321		15,434		(113)	(0.7)
Lobster		14,650		13,657		993	7.3
Ground fish and other		899		3,060		(2,161)	(70.6)
Crab		186		-		186	-
	$	70,884	$	69,235	$	1,649	2.4

Improvements in sales were a result of price increases for the majority of the species and an increase in sales volumes for coldwater shrimp as both of the Company's shrimp vessels fished coldwater shrimp in 2012 versus 2011 when one vessel fished turbot. The increase in sales was partially offset by lower supply volumes for Canadian scallops and turbot. In addition sales volumes declined for clams and Argentine scallops as customers managed inventory levels for the first two months of the quarter.

Cost of Goods Sold

In 000's of Canadian dollars 13 weeks ended		March 31 2012		April 2 2011		Change	%
Harvesting and procurement	$	39,264	$	40,074	$	(810)	(2.0)
Manufacturing		6,338		5,996		342	5.7
Freight, customs and other transport		5,360		4,621		739	16.0
Depreciation		5,394		4,657		737	15.8
Administrative		2,660		2,713		(53)	(2.0)
Other		17		13		4	33.9
	$	59,033	$	58,074	$	959	1.7

Cost of goods sold increased $1.0 million or 1.7% to $59.0 million in the first quarter, primarily due to freight, customs and other transportation costs that resulted from increased volumes and increased sales to the Asian market as well as higher depreciation charges.

Harvesting and procurement include all costs incurred in the operation of the vessels including labour, fuel, repairs and maintenance, fishing gear supplies, and other costs and fees plus procured raw material costs for species such as lobster, shrimp, scallops and crab. Harvesting costs declined in the first quarter primarily as a result of a mix of products weighted towards lower cost primarily coldwater shrimp and the planned delay in harvesting Canadian scallops in the quarter. Higher fuel and inflation particularly in Argentina partially offset this decline in harvesting costs. In addition, procurement costs were higher as purchased volumes and purchase prices for lobster increased.

Fuel costs for our vessels increased from $4.9 million in the first quarter of 2011 to $5.5 million in 2012. This increase was a result of an increase of the average price per litre of fuel of $0.18, partially offset by a decline in volumes consumed. Clearwater’s vessels used approximately 30.2 million litres of fuel in 2011. Based on 2011 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $0.3 million.

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

Freight, customs and other transportation costs include freight, customs and duties, related to the transfer of goods before final sale. The increase in costs was the result of an increase in global fuel costs during the quarter and increased sales volumes to Asia.

Depreciation expense from assets used in the harvesting and production of goods increased $0.73 million to $5.4 million as a result of vessel refits and other additions that were completed at the end of 2011 and depreciated after completion.

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

Gross margin

Gross margin improved $0.69 million, or 6.2% to $11.9 million. Gross margin was positively impacted by increases in sales prices in certain species, price increases achieved in 2011 that were maintained during the first quarter of 2012 for other species and an increase in sales volumes for coldwater shrimp.

Lower scallop sales volumes, higher fuel costs, direct and indirect wages and salaries, and procurement costs partially offset the improvement in margins.

Margins were positively impacted by higher average foreign exchange rates for US dollars and the Japanese Yen that resulted in improvements in sales and gross margin of $1.4 million. Lower average foreign exchange rates for the Euro and the UK Pound partially offset the improvement in foreign exchange. The net impact from foreign exchange was an increase in sales and gross margin of $0.9 million for the first quarter.

In 000's of Canadian dollars	March 31, 2012		April 2, 2011		
13 weeks ended Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	47.7%	1.000	40.5%	0.986	1.4%
Euros	19.1%	1.314	25.0%	1.359	-3.3%
Japanese Yen	14.9%	0.013	14.8%	0.012	8.3%
UK pounds	4.0%	1.556	3.6%	1.579	-1.5%
Canadian dollar and other	14.3%		16.1%		
	100.0%		100.0%		

Administration and selling

In 000's of Canadian dollars 13 weeks ended		March 31 2012		April 2 2011		Change	%
Employee compensation	$	6,843	$	6,307	$	536	8.5
Consulting and professional fees		1,402		861		541	62.9
Other		897		1,586		(689)	(43.4)
Selling costs		640		407		233	57.1
Travel		539		446		93	20.9
Occupancy		328		328		-	-
Donations		157		223		(66)	(29.5)
Allocation to cost of goods sold		(2,664)		(2,399)		(265)	11.1
	$	8,142	$	7,759	$	383	4.93

Administration and selling costs increased $0.40 million, or 4.93%, to $8.1 million due to an increase in salaries, including accrued incentive compensation and employee benefits.

Consulting and professional fees include legal audit, and accounting fees, insurance and other specialized consulting services. Costs will vary year over year based upon business requirements. The higher costs in the first quarter relate in part to recruiting costs, legal fees related to financing and technology development and risk consulting fees.

Other costs include a variety of administrative expenses such as travel, communication, computing, service fees, depreciation, gains/losses and write downs of assets, all of which will vary from year to year. The decline of $0.69 million was primarily as a result of a $0.6 million write down of assets in 2011 related to a plant closure.

Selling costs include advertising, marketing, trade shows, samples, product development and bad debt expenses. The increase in costs to $0.64 million from $0.4 million primarily relates to provision for bad debts and costs for product development.

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

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

Finance costs

In 000's of Canadian dollars 13 weeks ended		March 31 2012		April 2 2011
Interest and bank charges	$	5,397	$	5,534
Amortization of deferred financing charges		207		1,398
Interest on current and long term debt		5,604		6,932
Fair value adjustment on convertible debentures		3,235		4,931
Foreign exchange and derivative contracts		(2,215)		16
Debt settlement and refinancing fees		347		1,413
	$	6,971	$	13,292

Interest declined $1.3 million for 2011 due primarily to a decline in the amortization of deferred financing charges. The 2011 interest expense includes amortization of deferred financing charges for the ISK denominated bonds and the GE term facilities that were refinanced in the first quarter of 2011.

The **fair value adjustment on the convertible debentures** represents the change in value the convertible debentures and varies quarter to quarter depending on market conditions and interest rates.

Foreign exchange and derivative contracts

In 000's of Canadian dollars 13 weeks ended		March 31 2012		April 2 2011
Realized loss (income)				
Foreign exchange contracts	$	(724)	$	195
Working capital		(338)		865
		(1,062)		1,060
Unrealized (gain) loss				
Foreign exchange on long term debt		(932)		(1,645)
Mark-to-market on foreign exchange contracts		(221)		(502)
Mark-to-market on interest and currency swaps		-		1,103
		(1,153)		(1,044)
	$	(2,215)	$	16

Foreign exchange and derivative gains increased $2.2 million primarily as a result of a gain of $1.1 million in settled foreign exchange contracts and working capital versus a realized loss of $1.1 million for the same period in 2011. The improvement is also due to lower exchange fluctuations on long-term debt and no mark to market adjustments in interest rate and currency swaps, which were settled in 2011. The gains in 2011 related to contracted rates to sell Euro and Yen that were higher than spot rates as a result of the Canadian dollar weakening relative to the Euro and the Yen in 2011.

Debt settlement and refinancing fees represents fees incurred for the settlement or refinancing of long term debt and will vary from year to year. For 2011, debt settlement and refinancing fees include a gain of $1.8 million related to the settlement of the ISK denominated bonds, $2.9 million in fees resulting from the refinancing of the senior first lien loan debt facilities, and $0.38 million in refinancing and restructuring fees.

Gain on change in control of joint venture

As a result of changes made effective January 1, 2011 to the partnership agreement that governs Clearwater's frozen-at-sea shrimp and turbot harvesting operations, Clearwater began to fully consolidate these operations, which resulted in a one-time non-cash gain of $11.6 million related to recording the value of the fishing agreements assigned to the partnership at market value as at January 1, 2011.

Other income

In 000's of Canadian dollars 13 weeks ended		March 31 2012		April 2 2011
Royalties and fees	$	(312)	$	(749)
Other		(677)		(147)
	$	(989)	$	(896)

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

Research and Development

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 call for increased investment in research and development in 2012 and subsequent years.

CAPITAL STRUCTURE AND LIQUIDITY MANAGEMENT

Capital Structure

Clearwater's capital structure includes a combination of equity and various types of debt and convertible 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 senior revolving and term debt, and subordinated debt to lower its cost of capital.

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

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

Clearwater's capital structure is as follows as at March 31, 2012 and December 31, 2011:

In 000's of Canadian dollars As at	March 31 2012	December 31 2011
Equity		
Common shares	$ 65,309	$ 65,309
Accumulated deficit	(5,602)	(835)
Cumulative translation account	(2,500)	(3,122)
	57,207	61,352
Non-controlling interest	30,164	32,700
	87,371	94,052
Long term debt		
Subordinated debt		
2013 convertible debentures	44,286	43,573
2014 convertible debentures	44,154	41,632
	88,440	85,205
Senior debt, non-amortizing		
Term loan, due in 2091	3,500	3,500
Second lien loan, due 2016	52,631	43,822
Glitnir liability	-	14,500
	56,131	61,822
Senior debt, amortizing		
First lien loan, due 2015	76,250	77,250
Revolving debt, matures in 2015	22,299	17,513
Marine mortgage, matures in 2017	4,309	4,470
Other loans	812	840
	103,670	100,073
Total long term debt	248,241	247,100
Total capital structure	$ 335,612	$ 341,152

Equity consists of common shares, accumulated deficit, cumulative translation account and non-controlling interest. There are 50,948,698 shares outstanding as of March 31, 2012 (December 31, 2011 - 50,948,698).

Long term debt consists of convertible debentures as well as non-amortizing and amortizing senior debt.

The convertible debentures consists of two series:

1. The 2013 Convertible debentures accrue interest at 10.5%, mature on December 31, 2013 and are convertible at a price of $3.25 per share. These debentures are recorded at estimated fair value and are redeemable by Clearwater at face value plus accrued interest. Clearwater repurchased and cancelled $1.6 million of these debentures in 2011 reducing the principal amount outstanding to $43.4 million as of March 31, 2012 (December 31, 2011 - $43.4 million).

2. The 2014 Convertible debentures accrue interest at 7.25%, mature in March 2014 and are convertible at a price of $5.90 per share. They are redeemable by Clearwater at face value plus accrued interest. These debentures are recorded at estimated fair value. The principal amount outstanding as of March 31, 2012 was $44.4 million (December 31, 2011 - $44.4 million).

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

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

Clearwater has several non-amortizing senior loan facilities including a US $54.5 million second lien term loan ($52.6 million net of deferred financing), due in February 2016 and a $3.5 million term loan due in 2091. The US $54.5 million loan bears interest payable monthly at an annual rate of 12.0% (13.35% effective rate including amortization of deferred financing costs). The loan is secured by a third charge (after term and revolving debt facilities) on accounts receivable, cash and cash equivalents subject to certain limitations, inventory, marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

On February 28, 2012 Clearwater reported that it had reached an agreement with Glitnir Banki Hf ("Glitnir") ("Glitnir settlement transaction"). The agreement reached with Glitnir provided for the settlement and release of all outstanding claims among CSLP, the Fund and its successor Clearwater Seafoods Incorporated, and Glitnir in exchange for an immediate cash payment by Clearwater of Canadian $14.5 million. Clearwater funded the payment using Canadian $5.0 million from deposits that Clearwater had maintained for such purpose and a $9.5 million addition to Clearwater's existing second lien term loan facility.

Clearwater maintains several amortizing senior debt facilities including an term loan due in 2015, a revolving loan due in 2015, and a marine mortgage that matures in 2017.

The amortizing term loan has a principal balance of $76.3 million as of March 31, 2012 (December 31, 2011 - $77.3 million), is repayable in quarterly instalments of $2.0 million with the balance of $52.3 million due at maturity in February 2015. It bears interest payable monthly at an annual rate of bank prime plus 3.75%. As of March 31, 2012 this resulted in a rate of 6.75%. The loan is secured by a second charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a first charge on marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

The revolving loan facility is due 2015, provides for up to $50.0 million of revolving debt facilities based on 90% of eligible receivables and approximately 70% of eligible inventories. It bears interest on Canadian balances at a Canadian short-term index margin plus 2.5%. For US dollar balances the interest rate is a US index margin plus 3.0%. As of March 31, 2012 this resulted in rates of 5.5% for CDN balances and 6.25% for USD balances. The loan is secured by a first charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a second charge on marine vessels, licenses and quotas as well as Clearwater's investments in certain subsidiaries.

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

Some public entities provide information on debt to equity ratios. We do not believe that this ratio would provide useful information about Clearwater and its capital structure because a 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 EBITDA is a better measure to evaluate our capital structure and we have provided that information in the liquidity section**.**

Conversion from a Trust to a Corporation

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

The business of the Fund has been carried on by Clearwater and the underlying seafood business operated by CSLP remains unchanged. As a result of the reorganization, CSLP became a wholly-owned subsidiary of Clearwater.

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

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

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

Liquidity Management

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

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

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

- **Liquidity** - As of March 31, 2012 Clearwater had $8.9 million in cash, and a revolving loan with an outstanding balance of $22.3 million (excluding deferred financing charges). The cash balance, together with available credit on the revolving loan, is used to manage seasonal working capital demands, capital expenditures, and other commitments. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the second half of the calendar year than in the first half of the year.

- **Leverage** - As part of its continuing review of leverage levels Clearwater benchmarked itself versus a number of seafood and food companies and determined that it should target to reduce its leverage to 3.0 or less within 2 years. As Clearwater's operations have a predictable seasonal pattern in which EBITDA is higher in the second half of the year and capital expenditures are higher in the first half of the year, Clearwater's total debt increased from $247.1 million at December 31, 2011 to $248.2 million at March 31, 2012 and the leverage ratio increased to 3.91 in 2012 from 3.85 in December 31, 2011. This is in line with management's expectations.

Comparing leverage ratios to the first quarter of 2011, the ratio has declined from 4.42 at April 2, 2011 to 3.91 as of March 31, 2012. Clearwater is pleased with the progress it has made in reducing leverage over the past several periods and management expects to achieve the leverage target on schedule through a combination of increased earnings and reductions in debt levels.

In 000's of Canadian dollars As at	March 31 2012	December 31 2011	April 2 2011
EBITDA	$ 61,263	$ 60,284	48,279
Net debt	239,389	232,375	213,586
Net debt leverage	3.91	3.85	4.42
Senior debt (per below)	151,180	140,528	125,526
Senior debt leverage	2.47	2.33	2.60
Debt per balance sheet	248,241	247,100	222,274
Less cash	(8,852)	(14,725)	(8,688)
Net debt	239,389	232,375	213,586
Subordinated debt	97,061	106,572	96,748
Senior debt	151,180	140,528	125,526
First lien loan	76,250	77,250	69,101
Second lien loan	52,631	45,765	41,377
Revolver	22,299	17,513	15,048
Senior debt	$ 151,180	$ 140,528	$ 125,526

1 – Refer to the definition of EBITDA

- **Foreign Exchange Management** – Exchange rates for US dollars and the Japanese Yen resulted in improvements in sales and gross margin of $1.4 million. Lower average foreign exchange rates for the Euro and the UK Pound partially offset the improvement in foreign exchange. The net impact from foreign exchange was an increase of sales and gross margin of $0.9 million for the first quarter.

  Clearwater's response to 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 few customers with long-term sales contracts. The limited number of sales contracts are all limited to short time period, typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations, and

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

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

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

- **Free cash flows** - Clearwater's short-term goal is to generate cash flows from operations to fund interest, scheduled loan payments, capital expenditures and to use this free cash flow to reduce debt and invest in growth investments. Over the medium term Clearwater's goal is to grow free cash flows such that it can reduce debt and pay a sustainable dividend to its shareholders.

Free cash flows	13 weeks ended March 31, 2012	13 weeks ended April 2, 2011	Year ended December 31, 2011	Year ended December 31, 2010
EBITDA	$ 10,980	$ 10,001	$ 60,284	$ 50,695
Less:				
Cash interest	(5,401)	(8,089)	(21,091)	(18,319)
Cash taxes	(899)	(865)	(4,662)	(3,866)
Other non-EBITDA items	204	1,332	(8,424)	(14,156)
Change in working capital	(114)	2,516	(6,668)	1,597
Cash flows from operating activities	4,769	4,896	19,439	15,951
Uses of cash:				
Purchase of property, plant, equipment, quota and other assets	(5,361)	(4,881)	(21,237)	(9,418)
Less: Designated borrowing to fund purchases	-		16,000	-
Scheduled payments on long-term debt	(2,000)	(889)	(4,468)	(6,266)
Distributions to non-controlling interests	(4,376)	(1,854)	(7,537)	(1,613)
Free cash flows	(6,968)	(2,728)	2,197	(1,346)
Add/(less):				
Other debt borrowings (repayments) of debt	(3,743)	(97,878)	8,567	(4,272)
Other investing activities	500	(7,772)	(3,086)	5,115
Other financing activities	9,338	111,795	(3,224)	(3,058)
Change in cash flows for the period per statement of cash flows	(873)	3,417	4,454	(3,561)

Refer to definitions for free cash flows

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

Clearwater’s operations have a predictable seasonal pattern in which EBITDA is higher in the second half of the year and capital expenditures are higher in the first half of the year. This results in lower free cash flow, higher debt balances and higher leverage in the first half of the year. Management is pleased with the free cash flow results in the first quarter of 2012 and is on target to reach its annual goals for the year.

Free cash flows for the first quarter of 2012 declined to a loss of $7.0 million as a result of the increased investment in inventory, planned investments in property, plant and equipment and increased distributions to minority partners.

Cash flows from operating activities declined for the first quarter of 2012 by $0.13 million to $$4.8 million due primarily to an increased working capital investment as management increased inventory levels to prepare for expected sales growth.

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

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

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

  On average, it expects to invest $10-15 million a year in maintaining its fixed assets with a further $14.4 million of repairs and maintenance expensed and included in the cost of goods sold. In 2012 it expects to invest approximately $20.3 million in fixed assets, of which $15.5 million relates to maintenance and $4.8 million to investments to improve efficiencies.

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

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

OUTLOOK

Global demand for seafood is outstripping supply; creating favorable market dynamics for primary producers such as Clearwater.

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

The supply of seafood is limited and is expected to lag the growing demand in the industry. This supply-demand imbalance creates pricing power in which purchasers of seafood pay a premium to suppliers that can provide consistent quality, wide diversity and reliable delivery of seafood.

Clearwater is well positioned to take advantage of this opportunity because of its licenses, premium quality, diversity of species and year-round delivery capability

Management is satisfied with the progress made in the first quarter towards the 2012 annual plan as well as the increasing consumer demand for our premium, wild, sustainably harvested seafood.

Clearwater will continue to execute with excellence against the overall business strategy as well as key cost-saving and productivity initiatives and we have every expectation that our earnings momentum will continue through the balance of fiscal 2012.

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

1. **Growing EBITDA sustainably** - Clearwater has demonstrated its ability to consistently grow EBITDA in a sustainable manner. As of the first quarter of 2012 the rolling 4 quarter EBITDA grew by 16% to $61.3 million. This is driven by growth in EBITDA in both 2011 and the first quarter of 2012 which saw EBITDA grow by 10.0%. Management expects revenue growth to accelerate through the balance of the year as higher value fisheries like Canadian Sea Scallops move into peak harvest and demand season. In addition, Clearwater will continue to lever its strengths and its vertical integration to win in existing segments while capturing a growing share of the seafood value chain through the introduction of value-added new products in core species, including bacon-wrapped, MSC-certified, Canadian Sea Scallops. This will enable Clearwater to continue its EBITDA growth momentum through the balance of 2012.

2. **Generating strong free cash flows** – Clearwater is focused on generating free cash flows and plans to accomplish this through generating strong cash earnings, managing its working capital and carefully planning and managing its capital expenditure program. It is important to understand that Clearwater's

operations have a predictable seasonal pattern in which EBITDA is higher in the second half of the year and capital expenditures are higher in the first half of the year. This results in lower free cash flows, higher debt balances and higher leverage in the first half of the year. Free cash flows for the first quarter of 2012 decreased to a net investment of $7.0 million as a result of the increased investment in inventory, planned investments in property, plant and equipment and increased distributions to minority partners. Management is pleased with the free cash flow results in the first quarter of 2012 and is on target to reach its annual goals for 2012.

3. **Improving leverage and committing to leverage targets** - As of the first quarter of 2012 leverage has improved to 3.91 versus 4.42 as of the first quarter of 2011. Clearwater has committed to further reductions to achieve a target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt. Management is pleased with the results in the first quarter of 2012, and is line to reach its leverage reduction target in 2012.

4. **Improving the capital structure** - In the fourth quarter of 2011 management completed the conversion of the public entity from a trust to a corporate structure, making the structure more efficient and transparent for both investors and lenders. Management continues to review opportunities to further improve its capital structure in 2012.

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

6. **Building world class leadership, management, sales and marketing capabilities** - Over the past year Clearwater has hired a Chief Commercial Officer, and a Chief Talent Officer. They have begun to implement best in class programs for key account management, new product development, and recruitment and compensation practices.

7. **Communicating the underlying asset values** - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. In April 2012 an independent appraisal of these quotas was completed by TriNav Fisheries Consultants which placed a value on the quotas of $453 million. Furthermore, the company has continued to make focused investments to maintain the value and improve the efficiency of its vessels and plant assets, both of which serve to support strong asset values. This is supported by recent appraisals of certain of Clearwater's vessels. The net book value of Clearwater's net working capital vessels, plant and equipment when combined with the appraised value of its licenses is over $600 million.

Clearwater's financial targets for creating shareholder value include:

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

The sales and EBITDA ratios are annual goals whereas the return on assets and leverage ratios will be accomplished over time.

Management is satisfied with Clearwater's progress on all these goals in the first quarter of 2012.

Sales growth was 2.4% in the first quarter of 2012, in line with expectations and when combined with stronger growth expected in the latter half of the year is expected to result in Clearwater hitting its 5% annual sales growth target.

EBITDA as expressed as a percentage of sales continues to be strong at 15.5% in the first quarter of 2012 and is expected to increase in the latter half of the year resulting in an annual rate stronger than that realized in fiscal 2011.

Return on assets continues to show improvement and is in line with 2012 goals.

Finally, leverage increased in the first quarter of 2012 as compared to December 31, 2011 due to expected and planned seasonality. During the second half of the year leverage will decline such that Clearwater will make a meaningful reduction in EBITDA in 2012 towards its goal of achieving target leverage of 3.0 by 2014.

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

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

Management also believes that it has the people, processes and financial resources to execute this strategy to create value for its shareholders and in early 2012 developed a five year plan to support and give direction to these goals.

RISKS AND UNCERTAINTIES

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

Foreign exchange risk

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

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

Risks associated with foreign exchange are partially mitigated by our strategies to:

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

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

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

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

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

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

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

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

Political risk

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

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

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

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

Resource supply risk

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

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

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

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

Capital availability and liquidity risk

There are risks associated with capital availability and liquidity including:

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

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

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

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

Clearwater's credit facilities contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Clearwater to incur additional indebtedness, to pay distributions or make certain payments and to sell or otherwise dispose of assets. In addition, they contain a number of financial covenants that require Clearwater to meet certain financial ratios and financial condition tests. A failure to comply with the covenants could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Clearwater would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facilities would be able to be refinanced. As of March 31, 2012 Clearwater is not in violation of the restrictive covenants.

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

Other risks

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

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.

Conversion from Trust to Corporate Structure

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

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

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

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

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

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

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

Adoption of new and revised standards

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

SUMMARY OF QUARTERLY RESULTS

The following 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 2012				
Sales	$ 70,884	$ -	$ -	$ -
Earnings (loss)	(2,927)	-	-	-
Earnings per share ("EPS")	(0.09)	-	-	-
Diluted earnings per share[2]	(0.09)	-	-	-
Fiscal 2011				
Sales	$ 69,235	$ 78,820	$ 97,590	$ 87,140
Earnings (loss)	1,832	(327)	5,058	16,390
Earnings per share ("EPS")[1]	0.01	(0.02)	0.05	0.28
Diluted earnings per share[2]	0.01	(0.02)	0.05	0.23
Fiscal 2010[3]				
Sales	$ 69,262	$ 70,844	$ 91,633	$ 83,801
Earnings (loss)	(9,583)	(4,990)	4,260	(4,968)

1 – On October 2, 2011, Clearwater Seafoods Income Fund ("the Fund") was reorganized into a publicly traded corporation, "Clearwater Seafoods Incorporated", ("Clearwater"). The 2011 comparative results have been adjusted to reflect the conversion of the Fund to the corporation to provide a meaningful comparison to 2012. Earnings per share ("EPS") for 2011 was calculated using these comparatives.

2 - Diluted earnings (loss) per share for March 31, 2012 and April 2, 2011 are anti-dilutive.

3 – Earnings and diluted earnings per share were not calculated for 2010 results.

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

In general, sales increased with each successive quarter with the largest increase in the third quarter of each year. This is best illustrated by looking at the 2010 quarterly results. This seasonality is more pronounced in 2010 and 2011 than it has been in the past.

In addition, volatility in exchange rates can have a significant impact on earnings. The volatility is partially offset by Clearwater's foreign exchange management program.

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

The settlement of the Glitnir transaction during the fourth quarter of 2011 resulted in a non-cash gain of $12.4 million.

DEFINITIONS AND RECONCILIATIONS

Gross margin

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

Earnings before interest, tax, depreciation and amortization

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

Earnings before interest, tax, depreciation and amortization is not a recognized measure under 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, 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 distributions. In addition, as EBITDA is a measure frequently analyzed for public companies, Clearwater has calculated EBITDA in order to assist readers in this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of performance, as a measure of liquidity, or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation for the first quarter and the rolling twelve-month period ending March 31, 2012 and April 2, 2011:

	13 weeks ended		12 month rolling ended	
	March 31, 2012	April 2, 2011	March 31, 2012	April 2, 2011
Net earnings (loss)	$ (2,927)	$ 1,827	$ 18,200	$ 2,348
Add (deduct):				
Income taxes	545	781	3,628	3,996
Reduction in foreign currency translation	-	-	-	852
Depreciation and amortization	5,640	4,922	20,221	14,399
Interest on long-term debt and bank charges	5,606	9,766	22,680	27,915
	8,864	17,296	64,729	49,510
Add (deduct) other non-routine items:				
Foreign exchange and derivative income unrealized	(1,155)	(1,045)	1,415	(685)
Fair market value on convertible debentures	3,236	4,932	5,365	4,932
Realized foreign exchange on working capital	(338)	865	1,510	791
Restructing and refinancing costs	373	985	3,125	5,303
Provision for underutilized plant and other assets	-	-	-	1,056
Gain on sale of quota	-	-	(672)	-
Gain on settlement of debt	-	(1,797)	(12,445)	(1,797)
Loss on disposal of investment	-	336	(69)	336
Gain on change in ownership of joint venture	-	(11,571)	-	(11,571)
Gain on insurance claim	-	-	(1,695)	-
Stock appreciation rights	-	-	-	404
EBITDA	**$ 10,980**	**$ 10,001**	**$ 61,263**	**$ 48,279**

Note 1: The 2010 comparative periods (used in calculating the rolling 12 month period for 2011) have not been changed to reflect IFRS adjustments as the impact of IFRS is non-cash and therefore would not impact the calculation of EBITDA.

Note 2: The 2010 comparative periods (used in calculating the rolling 12 month period for 2011) have not been changed to reflect the consolidation of the entity previously recorded using proportionate consolidation. As a result it was noted that EBITDA for the rolling twelve month period ending April 2, 2011 would have been $52.9 million if the entity had been consolidated.

Note 3: Minority interest on total EBITDA has not been reflected in the above table. The minority interest in EBITDA for the first quarter would have been $3.7 million and $2.4 million for 2012 and 2011, respectively. Minority interest in EBITDA for the rolling twelve month period would have been $14.7 million for 2012 and $7.5 million for 2011.

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 an indicator of performance, as a measure of liquidity or as a measure of cash flows, and management does not use this measure as a performance measure of earnings.

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

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

In 000's of Canadian dollars As at	March 31 2012	December 31 2011	April 2 2011
EBITDA	$ 61,263	$ 60,284	48,279
Net debt	239,389	232,375	213,586
Net debt leverage	3.91	3.85	4.42
Senior debt (per below)	151,180	140,528	125,526
Senior debt leverage	2.47	2.33	2.60
Debt per balance sheet	248,241	247,100	222,274
Less cash	(8,852)	(14,725)	(8,688)
Net debt	239,389	232,375	213,586
Subordinated debt	97,061	106,572	96,748
Senior debt	151,180	140,528	125,526
First lien loan	76,250	77,250	69,101
Second lien loan	52,631	45,765	41,377
Revolver	22,299	17,513	15,048
Senior debt	$ 151,180	$ 140,528	$ 125,526

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 the Clearwater's ability to generate cash available for debt service, working capital, capital expenditures and distributions. Free cash flow should not be construed as an alternative to net earnings determined in accordance with IFRS, as an indicator of performance, as a measure of liquidity, or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

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

Reconciliation for the first quarter and rolling twelve months ending March 31, 2012 and April 2, 2011:

	13 weeks ended		Year ended	
Free cash flows	**March 31, 2012**	**April 2, 2011**	**December 31, 2011**	**December 31, 2010**
EBITDA	$ 10,980	$ 10,001	$ 60,284	$ 50,695
Less:				
Cash interest	(5,401)	(8,089)	(21,091)	(18,319)
Cash taxes	(899)	(865)	(4,662)	(3,866)
Other non-EBITDA items	204	1,332	(8,424)	(14,156)
Change in working capital	(114)	2,516	(6,668)	1,597
Cash flows from operating activities	4,769	4,896	19,439	15,951
Uses of cash:				
Purchase of property, plant, equipment, quota and other assets	(5,361)	(4,881)	(21,237)	(9,418)
Less: Designated borrowing to fund purchases	-		16,000	-
Scheduled payments on long-term debt	(2,000)	(889)	(4,468)	(6,266)
Distributions to non-controlling interests	(4,376)	(1,854)	(7,537)	(1,613)
Free cash flows	(6,968)	(2,728)	2,197	(1,346)
Add/(less):				
Other debt borrowings (repayments) of debt	(3,743)	(97,878)	8,567	(4,272)
Other investing activities	500	(7,772)	(3,086)	5,115
Other financing activities	9,338	111,795	(3,224)	(3,058)
Change in cash flows for the period per statement of cash flows	(873)	3,417	4,454	(3,561)

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statement of Financial Position

unaudited
(In thousands of Canadian dollars)

		March 31 2012		December 31 2011
ASSETS				
Current assets				
Cash	**$**	**8,852**	$	9,725
Trade and other receivables		**39,989**		43,830
Inventories		**54,528**		61,755
Prepaids and other		**6,338**		9,438
Derivative financial instruments		**261**		1,075
		109,968		125,823
Non-current assets				
Long term accounts receivable		**9,791**		10,293
Other assets		**4,173**		3,660
Property, plant and equipment		**131,663**		129,373
Licences and fishing rights		**111,664**		111,700
Goodwill		**7,043**		7,043
		264,334		262,069
	$	**374,302**	$	387,892
LIABILITIES				
Current liabilities				
Trade and other payables	**$**	**33,214**	$	40,767
Income tax payable		**2,136**		1,984
Current portion of long-term debt (Note 4)		**34,022**		42,766
Derivative financial instruments		**-**		1,097
		69,372		86,614
Non-current liabilities				
Long-term debt (Note 4)		**214,219**		204,334
Deferred tax liabilities		**3,340**		2,892
		217,559		207,226
SHAREHOLDERS' EQUITY				
Share capital		**65,309**		65,309
Accumulated deficit		**(5,602)**		(835)
Cumulative translation account		**(2,500)**		(3,122)
		57,207		61,352
Non-controlling interest		**30,164**		32,700
		87,371		94,052
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**$**	**374,302**	$	387,892

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statement of Earnings

unaudited

(In thousands of Canadian dollars)

13 weeks ended		March 31, 2012		April 2, 2011
Sales	**$**	**70,884**	$	69,235
Cost of goods sold		**59,033**		58,074
		11,851		11,161
Administrative and selling		**8,142**		7,759
Research and development		**109**		(36)
Gain on change in control of joint venture		**-**		(11,571)
Other income		**(989)**		(896)
Net finance costs (note 5)		**6,971**		13,292
		14,233		8,548
Earnings (loss) before income taxes		**(2,382)**		2,613
Income taxes		**545**		781
Earnings (loss) for the period	**$**	**(2,927)**	$	1,832
Earnings (loss) attributable to:				
Non-controlling interest	**$**	**1,840**	$	1,158
Shareholders of Clearwater		**(4,767)**		674
	$	**(2,927)**	$	1,832
Basic and diluted earnings (loss) per share (note 6)	$	(0.09)	$	0.01

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statement of Comprehensive Income (Loss)

unaudited

(In thousands of Canadian dollars)

13 weeks ended		**March 31, 2012**		April 2, 2011
Earnings (loss) for the period	**$**	**(2,927)**	$	1,832
Other comprehensive income - foreign currency translation differences of foreign operations		**622**		(415)
Total comprehensive income (loss)	**$**	**(2,305)**	$	1,417
Total comprehensive income (loss) attributable to:				
Non-controlling interest	**$**	**1,840**	$	1,158
Shareholders of Clearwater		**(4,145)**		259
	$	**(2,305)**	$	1,417

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED

Condensed Consolidated Interim Statement of Shareholders' Equity

unaudited

(In thousands of Canadian dollars)

	Shareholders' Equity						
	Trust Units	**Common Shares**	**Accumulated Deficit**	**Contributed Surplus**	**Cumulative Translation Account**	**Non-controlling interest**	**Total**
Balance at January 1, 2011	**$ 162,517**	**$ -**	**$ (115,551)**	**$ 1,816**	**$ (1,436)**	**$ 4,018**	**$ 51,364**
Total comprehensive income for the period	-	-	674	-	(415)	1,158	1,417
Transactions recorded directly in equity							
Distributions to non-controlling interest	-	-	-	-	-	(1,854)	(1,854)
Changes in ownership interests							
Change in control on acquisition of joint venture	-	-	(73)	-	-	29,600	29,527
Total transactions with unitholders	-	-	601	-	(415)	28,904	29,090
Balance at April 2, 2011	**$ 162,517**	**-**	**$ (114,950)**	**$ 1,816**	**$ (1,851)**	**$ 32,922**	**$ 80,454**
Total comprehensive income for the period	-	-	15,662	-	(1,271)	5,462	19,853
Transactions recorded directly in equity							
Distributions to non-controlling interest	-	-	-	-	-	(5,684)	(5,684)
Purchase and cancellation of shares	(571)						(571)
Changes in ownership interests							
Change in control of entity	-	-	-	-	-	-	-
Total transactions with shareholders	(571)	-	15,662	-	(1,271)	(222)	13,598
Trust conversion, October 2, 2011	(161,946)	65,309	98,453	(1,816)			-
Balance at December 31, 2011	**$ -**	**$ 65,309**	**$ (835)**	**$ -**	**$ (3,122)**	**$ 32,700**	**$ 94,052**
Total comprehensive income for the period			(4,767)		622	1,840	(2,305)
Transactions recorded directly in equity							
Distributions to non-controlling interest						(4,376)	(4,376)
Total transactions with shareholders		-	(4,767)	-	622	(2,536)	(6,681)
Balance at March 31 , 2012	**$ -**	**$ 65,309**	**$ (5,602)**	**$ -**	**$ (2,500)**	**$ 30,164**	**$ 87,371**

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statement of Cash Flows

unaudited

(In thousands of Canadian dollars)

13 weeks ended	**March 31, 2012**	April 2, 2011
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
Operating		
Earnings (loss) for the period	**$ (2,927)**	$ 1,832
Items not involving cash:		
Depreciation and amortization	**5,484**	4,922
Gain on acquisition of joint venture	**-**	(11,571)
Finance costs	**2,289**	6,317
Impairment of property, plant and equipment and other assets	**-**	604
Loss on disposal of property, plant and equipment and quota	**-**	16
Other	**37**	260
	4,883	2,380
Change in non-cash operating working capital	**(2,757)**	5,218
Interest expense	**5,397**	5,534
Income tax expense	**545**	781
Interest paid	**(2,788)**	(8,305)
Income tax paid	**(511)**	(712)
	$ 4,769	$ 4,896
Financing		
Repayment of long-term debt	**$ (10,528)**	$ (98,767)
Proceeds from long-term debt	**14,269**	108,899
Cash received on change in control of joint venture	**-**	2,646
Other	**(146)**	250
Distributions to non-controlling interest	**(4,376)**	(1,854)
	$ (781)	$ 11,174
Investing		
Purchase of property, plant, equipment, licenses and other	**$ (5,361)**	$ (4,881)
Decrease (increase) in long term receivables	**545**	(3,094)
Acquisition of other long-term assets	**(45)**	(4,692)
Other	**-**	14
	$ (4,861)	$ (12,653)
INCREASE (DECREASE) IN CASH	**$ (873)**	$ 3,417
CASH, BEGINNING OF PERIOD	**9,725**	5,271
CASH, END OF PERIOD	**$ 8,852**	$ 8,688

See accompanying notes to condensed consolidated interim financial statements

1. DESCRIPTION OF THE BUSINESS

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

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

Clearwater is domiciled at 757 Bedford Highway, Bedford, Nova Scotia, Canada. The condensed consolidated interim financial statements of Clearwater as at December 31, 2011 and for the 13 weeks ended March 31, 2012 and April 2, 2011 comprise the company, its subsidiaries and a jointly controlled entity. Clearwater’s business includes the ownership, operation and lease of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

2. BASIS OF PREPARATION

(a) Conversion to a Corporation

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

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

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

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

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

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

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

As Clearwater and CSLP were subject to common control for all periods included in these condensed interim financial statements, the comparative financial information for the 13 weeks ended April 2, 2011 and December 31, 2011 are represented on a consolidated basis. Consequently, any references to trust units, unitholders, and per unit amounts relate to periods prior to the conversion October 2, 2011 and any references to common shares, shareholders, and per share amounts relate to periods subsequent to October 2, 2011.

(b) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board. The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the annual audited December 31, 2011 financial statements. These unaudited condensed interim financial statements do not contain all the disclosures required in annual financial statements, and accordingly should be read together with the annual audited December 31, 2011 financial statements and the accompanying notes included in Clearwater's 2011 Annual Report.

The financial statements were authorized for issue by the Board of Directors on May 8, 2012.

3. SEASONALITY

Due to the seasonality in Clearwater's business, sales and gross margins are typically higher in the second half of the year than in the first half of the year as a result of higher seasonal working capital demands, capital expenditures and other commitments.

(In thousands of Canadian dollars)

4. LONG TERM DEBT

		March 31 2012		December 31 2011
Revolving loan, due in 2015 (a)	**$**	**22,299**	$	17,513
Term loans (b)				
Senior first lien loan, due 2015		**76,250**		77,250
Senior second lien loan, due 2016		**52,631**		43,822
2013 Convertible Debentures (c)		**44,286**		43,573
2014 Convertible Debentures (c)		**44,154**		41,632
Marine mortgage, due in 2017 (d)		**4,309**		4,470
Term loan, due in 2091 (e)		**3,500**		3,500
Glitnir payable (f)		**-**		14,500
Other loans		**812**		840
		248,241		247,100
Less: current portion		**(34,022)**		(42,766)
	$	**214,219**	$	204,334

(a) The revolving loan is based on 85% of eligible receivables and approximately 70% of eligible inventory to a maximum of $50.0 million, denominated in both CDN of $3,684 at March 31, 2012 ($2,870 CDN at December 31, 2011) and USD of $18,632 at March 31, 2012 ($14,398 USD at December 31, 2011) and maturing in February 2015. The CDN balances bear interest at a Canadian short-term index margin plus 2.5%. For USD balances the interest rate is a US index margin plus 3%. As of March 31, 2012 this results in rates of 5.5% for CDN balances and 6.25% for USD balances. The loan is secured by a first charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a second charge on marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries. The full amount of this loan has been included in the current portion of long-term debt as it is drawn using short-term instruments that mature from 1-3 months.

(b) Term loans consist of a CDN $76.3 million senior first lien loan facility and a USD $54.5 million senior second lien loan facility.

Senior first lien loan - CDN $76.3 million, repayable in quarterly installments of $2.0 million with the balance of $52.3 million due at maturity in February 2015. Bearing interest payable monthly at an annual rate of bank prime plus 3.75%. As of March 31, 2012 this resulted in a rate of 6.75%. The loan is secured by a second charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a first charge on marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries.

Senior second lien loan - USD $54.5 million, non-amortizing with a maturity of February 2016 bearing interest payable monthly at an annual rate of 12%. The balance is shown net of deferred financing charges of USD $1.7 million. As of March 31, 2012 this resulted in an effective interest rate of 13.35%. The loan is secured by a third charge (after term and revolving debt facilities) on accounts receivable, cash and cash equivalents subject to certain limitations, inventory, marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries. The principal outstanding on March 31, 2012 is CDN $54.5 million.

CFFI provides a guarantee and undertaking for both the first and second lien loans.

(c) Clearwater has two series of convertible debentures:

The 2013 Convertible debentures accrue interest at 10.5%, mature on December 31, 2013 and are convertible at a price of $3.25 per share at the option of the holder. These debentures are recorded at estimated fair value and are redeemable by Clearwater at face value plus accrued interest. Clearwater repurchased and cancelled $1.7 million of these debentures in 2011 reducing the principal amount outstanding to $43.4 million as of March 31, 2012 (December 31, 2011 – $43.4 million).

The 2014 Convertible debentures accrue interest at 7.25%, mature in March 2014 and are convertible at a price of $5.90 per share at the option of the holder. They are redeemable by Clearwater at face value plus accrued interest on or after March 31, 2012. These debentures are recorded at estimated fair value. The principal amount outstanding as of March 31, 2012 was $44.4 million (December 31, 2011 - $44.4 million).

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

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

(d) Marine mortgage - The mortgage is payable in the principal amount of CDN $0.92 million (December 31, 2011 - $0.92 million), DKK 8.1 million (December 31, 2011 - DKK 8.1 million) and YEN 158.8 million (December 31, 2011 – 158.8 million) bearing interest at UNIBOR plus 1% payable semi-annually. Principal payments are required annually with CDN $0.78 million, DKK 2.1 million and YEN 29.8 million due in 2012, CDN $0.15 million due in 2013, DKK 2.1 million and YEN 29.8 million due in 2013-2014, DKK 1.9 million due in 2015, YEN 29.8 million due in 2015-2016 and YEN 9.9 million due in 2017. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants over certain fishing licenses.

(In thousands of Canadian dollars)

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

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

Clearwater funded the payment using CDN $5.0 million of deposits that Clearwater had maintained for such purpose and a $9.5 million increase in its' existing senior second lien term loan facility on February 27, 2012.

5. NET FINANCE COSTS

13 weeks ended		**March 31 2012**		**April 2 2011**
Interest expense on financial liabilities measured at amortized cost	**$**	**5,397**	$	5,534
Amortization of deferred financing charges		**207**		1,398
		5,604		6,932
Fair value adjustment on convertible debentures		**3,235**		4,931
Foreign exchange and derivative contracts		**(2,215)**		16
Debt settlement and refinancing fees		**347**		1,413
Finance costs	**$**	**6,971**	$	13,292

Foreign exchange and derivative contracts include:

13 weeks ended		**March 31 2012**		April 2 2011
Realized loss (income)				
Foreign exchange contracts	**$**	**(724)**	$	195
Working capital		**(338)**		865
		(1,062)		1,060
Unrealized (gain) loss				
Foreign exchange on long term debt		**(932)**		(1,645)
Mark-to-market on foreign exchange contracts		**(221)**		(502)
Mark-to-market on interest and currency swaps		**-**		1,103
		(1,153)		(1,044)
	$	**(2,215)**	$	16

6. EARNINGS (LOSS) PER SHARE (UNIT)

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

	March 31 2012	April 2 2011
Basic		
Earnings (loss) for the period	**$ (4,767)**	$ 674
Weighted average number of shares (units) outstanding	**50,948,698**	51,126,912
Earnings (loss) per share (unit)	**$ (0.09)**	$ 0.01
Diluted		
Earnings (loss) for the period	**$ (4,767)**	$ 674
Weighted average number of shares (units) oustanding	**50,948,698**	51,126,912
Earnings (loss) per share (unit)	**$ (0.09)**	$ 0.01

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

	March 31 2012	April 2 2011
Weighted average number of shares (units) used in the calculation of basic earnings per share (unit)	**50,948,698**	51,126,912
Convertible debentures	-	-
Weighted average number of shares (units) used in the calculation of diluted earnings per share (unit)	**50,948,698**	51,126,912
Earnings (loss) for the period	**$ (4,767)**	$ 674
Interest on convertible debentures	-	-
Diluted earnings (loss) for the period	**$ (4,767)**	$ 674

7. SEGMENTED INFORMATION

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

(In thousands of Canadian dollars)

(a) Sales by Species

13 weeks ended		March 31 2012		April 2 2011
Coldwater shrimp	**$**	**21,688**	$	11,656
Scallops		**18,140**		25,428
Clams		**15,321**		15,434
Lobster		**14,650**		13,657
Ground fish and other		**899**		3,060
Crab		**186**		-
	$	**70,884**	$	69,235

(b) Sales by Geographic Region

13 weeks ended		March 31 2012		April 2 2011
United States	**$**	**12,981**	$	11,796
Europe				
France		**7,951**		11,151
Russia		**4,241**		2,527
UK		**4,107**		4,296
Other		**10,193**		9,199
Asia				
Japan		**9,959**		9,609
China		**10,780**		8,708
Other		**4,896**		4,022
Canada		**5,203**		7,192
Other		**573**		735
	$	**70,884**	$	69,235

(c) Non-current Assets by Geographic Region

		March 31 2012		December 31 2011
Property, plant and equipment, licences, fishing rights and goodwill				
Canada	**$**	**235,157**	$	234,805
Argentina		**15,099**		13,190
Other		**114**		121
	$	**250,370**	$	248,116

(In thousands of Canadian dollars)

8. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

Clearwater had the following transactions and outstanding receivable balance with CFFI, the controlling shareholder of Clearwater, for the 13 weeks ended March 31, 2012 and April 2, 2011:

13 weeks ended		**March 31 2012**		**April 2 2011**
Opening balance due from CFFI, January 1	**$**	**2,111**	$	1,774
Management fees charged to Clearwater		**(81)**		(86)
Rent and IT service fees charged to CFFI		**46**		46
Interest on intercompany account		**28**		-
Guarantee fee		**(35)**		-
Aircraft charges to Clearwater		**-**		(24)
Advances to CFFI		**227**		586
Other charges to CFFI		**30**		13
Purchase of partner note receivable from CFFI		**-**		(495)
Net due from CFFI	**$**	**2,326**	$	1,814

The amount due from CFFI is unsecured and has no set terms of repayment. CFFI has undertaken to pay the balance of the account in 2012 and the account has been classified as a current asset included in trade and other receivables. No interest was charged for the periods to December 31, 2011; however, beginning in January 2012 the intercompany loan account is bearing interest at a rate of 5%. No guarantee fees were charged by CFFI to Clearwater for periods to December 31, 2011; however, beginning in January 2012 fees amounting to 1% of the guarantees are being charged to Clearwater.

Clearwater expensed approximately $50 thousand for vehicle leases for the 13 weeks ended March 31, 2012 (April 2, 2011 - $30 thousand) and approximately $11 thousand for other services for the 13 weeks ended March 31, 2012 (April 2, 2011 - $34 thousand) by a company related to its parent. The transactions are recorded at the exchange amount and the balance due to this company was $17 thousand at March 31, 2012 (December 31, 2011 - $13 thousand).

9. 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.

10. COMPARATIVE INFORMATION

Certain of the December 31, 2011 amounts, have been reclassified to conform to the financial statement presentation adopted for the 2012 fiscal year.

Quarterly and unit information

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

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	70,884	87,140	97,590	78,820	69,235	77,824	85,417	65,215
Net earnings (loss)	(2,927)	16,390	5,058	(327)	1,832	(5,356)	3,298	(5,281)
Per unit data								
Basic net earnings (loss)	(0.09)	0.28	0.05	(0.02)	0.01	(0.10)	0.04	(0.09)

Trading information, Clearwater Seafoods Income Fund, symbol CLR

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Trading price range of units (board lots)								
High	2.40	2.85	3.32	1.73	1.58	1.28	0.98	1.13
Low	1.85	2.10	1.31	1.35	0.99	0.76	0.80	0.80
Close	2.27	2.39	2.35	1.47	1.52	1.02	0.82	0.87
Tranding volumes (000's)								
Total	1,089	831	3,907	1,544	2,669	1,767	394	751
Average daily	18	13	63	26	44	30	7	13
Units outstanding at end of quarter								
Units/Shares	50,948,698	50,948,698	27,565,943	27,745,695	27,745,695	27,745,695	27,745,695	27,745,695
Special	-	-	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217
Total	50,948,698	50,948,698	50,947,160	51,126,912	51,126,912	51,126,912	51,126,912	51,126,912

CORPORATE INFORMATION

DIRECTORS OF CLEARWATER SEAFOODS INCORPORATED

Colin E. MacDonald, Chairman of the Board

John C. Risley
President, Clearwater Fine Foods Inc.

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

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

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

Mickey MacDonald
President, Micco Companies

Brendan Paddick
Chief Executive Officer, Columbus Communications Inc.

Stan Spavold
Executive Vice President, Clearwater Fine Foods Inc.

EXECUTIVE OF CLEARWATER SEAFODS INCORPORATED

Ian Smith
Chief Executive Officer

Eric R. Roe
Vice-President, Chief Operating Officer

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

Michael D. Pittman
Vice-President, Fleet

Greg Morency
Chief Commercial Officer & Executive Vice-President

David Rathbun
Vice-President, Chief Talent Officer

Christine Penney
Vice-President, Sustainability & Public Affairs

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
Convertible Debenture symbols: CLR.DB.B and CLR.DB.A

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