



Clearwater  
Seafoods  
Incorporated

2013  
first quarter  
report



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## LETTER TO SHAREHOLDERS

- Results for the first quarter of 2013 were consistent with management expectations and include sales of \$68.3 million, adjusted EBITDA of \$10.8 million versus 2012 comparative figures of \$70.9 million and \$10.9 million, respectively
- Rolling twelve month results include adjusted EBITDA growth of 16.2% to \$72.1 million and \$8.8 million of growth in free cash flows to \$9.0 million.
- Adjusted EBITDA of \$10.8 million was stable as compared with the first quarter of 2012 as continued productivity improvements drove strong margins
- Lower sales volumes were a result of lower available opening inventory of cold water shrimp and clams due to record sales in the fourth quarter 2012. Continuing strong demand momentum for our core species in Asia, in particular China, and North America will result in higher sales as supply increases later in the year
- Management maintains strong and positive full year outlook consistent with long term growth targets including sales growth >5%; adjusted EBITDA margins >18%; leverage of approximately 3.0x; and return on assets > 12%

Today, Clearwater Seafoods Incorporated ("Clearwater") reported its results for the first quarter of 2013.

Clearwater reported sales of \$68.3 million and adjusted EBITDA of \$10.8 million versus 2012 comparative figures of \$70.9 million and \$10.9 million. Free cash flows in the first quarter of 2013 were (\$14.5) million versus (\$6.1) million in the first quarter of 2012.

Results for the first quarter of 2013 are consistent with Management's expectations and position the business to deliver on its annual targets for 2013.

Adjusted EBITDA for the first quarter of 2013 was stable as compared with strong first quarter of 2012 performance as strong sales volumes for scallops and continued productivity improvements primarily offset the impact from lower sales volumes driven by lower available opening inventory of cold water shrimp and clams due to record sales in the fourth quarter 2012.

Free cash flow decreased by \$8.4 million to (\$14.5) million in the first quarter of 2013 as a result of a \$14.6 million investment in working capital. The investment in working capital was higher than in the first quarter of 2012 primarily as a result of having to replenish the lower opening inventory to normal levels during the first quarter of 2013.

Clearwater's business experiences a predictable seasonal pattern in which sales, margins and adjusted EBITDA are lower in the first half of the year while investments in

capital expenditures and working capital are higher resulting in lower free cash flows in the first half of the year and higher free cash flows in the second half of the year.

## **Outlook**

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

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

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

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

Management is satisfied with the progress made and expects the Company to hit its annual targets for 2013.

## **Annual Targets for 2013**

Building on the success achieved in 2012, management has set the following annual targets for 2013:

- sales growth – 5% or greater,
- adjusted EBITDA margins – 18% or greater,
- leverage - 3.0x adjusted EBITDA; and
- return on assets - 12% or higher

Management has undertaken six initiatives to create shareholder value.

1. Growing adjusted EBITDA and sales sustainably - Clearwater has experienced continued growth in rolling twelve month adjusted EBITDA and sales by controlling costs and improving productivity, product mix and prices.

Clearwater will continue to lever its vertical integration to maximize value per pound in existing segments and to capture a growing share of the seafood value chain through the introduction of value-added new products in certain core species.

Management expects that the trend of earnings growth will continue in 2013 despite lower available supply of inventories in the first quarter and difficult weather conditions for harvesting early in the year. Stronger harvest conditions in the second half of the year are expected to enable Clearwater to continue the trend of growth in annual results in 2013.

2. Generating strong free cash flows— Clearwater is focused on generating increasing free cash flows through generating strong cash earnings, managing its working capital and carefully planning and managing its capital expenditure program. Seasonality results in lower free cash flows higher debt balances and higher leverage in the first half of the year and higher free cash flows, lower debt balances and lower leverage levels in the second half of the year.

Free cash flows were (\$14.5) million for the first quarter of 2013 versus (\$6.1) million in 2012 as a result of greater harvesting activities and investments in working capital in the first quarter of 2013.

As of the first quarter in 2013 leverage increased to 3.2x adjusted EBITDA versus 2.9x as at December 31, 2012, which was consistent with Management expectations. Management expects leverage to rise through the first half of 2013 and to decline thereafter for the balance of the year

3. Improving the capital structure - During the second quarter of 2012 Clearwater successfully completed a series of capital market transactions that substantially improved its debt structure. The financing enables Clearwater to reduce interest costs by approximately \$4.6 million annually, strengthens its liquidity and provides the capital structure necessary to execute growth plans. Clearwater is now focused on initiating an active communications plan with its investors to ensure continued access, when required, to all sources of growth capital.
4. Focused management of foreign exchange - Clearwater has a focused and targeted foreign exchange hedging program to reduce the impact of short-term volatility in exchange rates on earnings. This, combined with stronger processes for price management reduces the impact of exchange rate volatility on the business. As of March 2013, Clearwater has approximately 76% of its US Dollar, Euro and Yen exposures for 2013 hedged at rates of 0.985, 1.26 and 0.013 respectively.
5. Building world class leadership, management, sales and marketing capabilities - Clearwater has begun implementing best in class programs for key account management, new product development, sales and operations planning, recruitment and compensation practices. In addition, over the past two years Clearwater has added a number of new people to its senior management team and its' Board of Directors.

6. Communicating underlying asset values - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. In 2012 an independent appraisal of these quotas placed a value on the quotas of \$453 million. Clearwater obtained further independent support for the value in these licenses in the third quarter of 2012 when both the Arctic surf clam fishery and Nova Scotia snow crab fishery received the Marine Stewardship Council (MSC) certification. These species join the Clearwater family of MSC-certified offerings including Canadian sea scallops, Argentine scallops, Canadian coldwater shrimp and Eastern Canadian offshore lobster. Clearwater now boasts a total of seven species certified by the MSC, completing the certification of all its core products, and giving the Company the widest selection of MSC-certified species of any seafood harvester worldwide.

Management believes that it has the correct strategies and focus to 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 including the five year plan it developed in early 2012 to support and give direction to these goals.

Ian Smith  
Chief Executive Officer  
Clearwater Seafoods Incorporated  
May 8, 2013

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

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This Management's Discussion and Analysis ("MD&A") was prepared effective May 8, 2013.

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 2013 first quarter news release.

This MD&A should be read in conjunction with the 2012 annual financial statements and the 2012 Annual Information Form, which are available on Sedar at [www.sedar.com](http://www.sedar.com) as well as Clearwater's website, [www.clearwater.ca](http://www.clearwater.ca).

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

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

### **CLEARWATER OVERVIEW**

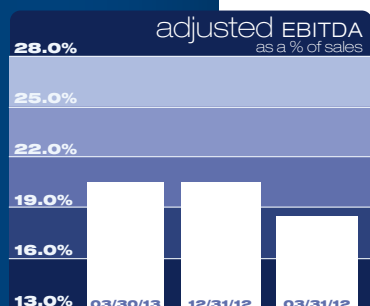
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Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium, wild, eco-labeled seafood, including scallops, lobster, clams, coldwater shrimp, crab and ground fish. Our key competitive advantages include ownership of licences and quotas in key species, our innovations and intellectual property in harvesting and processing technologies, and our vertical integration, which allows Clearwater to manage harvesting, processing, marketing, sales and distribution all 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 become a leader in the global seafood market.





# key performance indicators of clearwater seafoods incorporated



## Profitability

rolling twelve month period ending

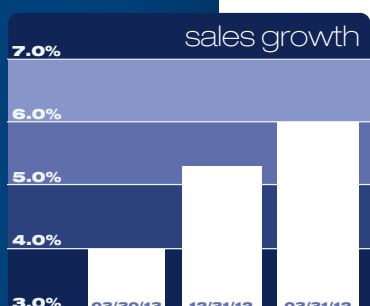
### Adjusted EBITDA\*

|          |               |
|----------|---------------|
| 03/30/13 | <b>72,109</b> |
| 12/31/12 | <b>72,243</b> |
| 03/31/12 | <b>62,057</b> |
| Target   | <b>N/A</b>    |

Adjusted EBITDA for the first quarter of 2013 was stable as compared with strong first quarter of 2012 performance as strong sales volumes for scallops, pricing gains and continued productivity improvements primarily offset the impact from lower sales volumes for clams and shrimp driven by lower available inventory.

### Adjusted EBITDA\*

|          |                         |
|----------|-------------------------|
|          | as a % of sales         |
| 03/30/13 | <b>20.7%</b>            |
| 12/31/12 | <b>20.6%</b>            |
| 03/31/12 | <b>18.6%</b>            |
| Target   | <b>18.0%</b> or greater |



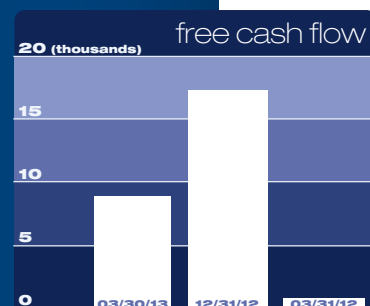
## Sales

|          |                |
|----------|----------------|
| 03/30/13 | <b>347,860</b> |
| 12/31/12 | <b>350,447</b> |
| 03/31/12 | <b>334,434</b> |
| Target   | <b>N/A</b>     |

Demand, particularly in China and throughout Asia remains strong for all our core species. As supply becomes available Management expects revenue growth.

## Sales Growth

|          |             |
|----------|-------------|
| 03/30/13 | <b>4.0%</b> |
| 12/31/12 | <b>5.3%</b> |
| 03/31/12 | <b>6.0%</b> |
| Target   | <b>5.0%</b> |



## Financial Performance

rolling twelve month period ending

### Free cash flows

|          |               |
|----------|---------------|
| 03/30/13 | <b>9,006</b>  |
| 12/31/12 | <b>17,450</b> |
| 03/31/12 | <b>156</b>    |
| Target   | <b>N/A</b>    |

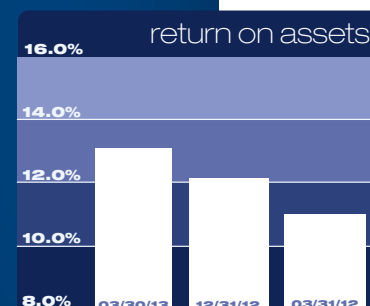
Free cash flow declined \$8.4 million as a result of greater harvesting activities and investments in working capital in the first quarter of 2013



## Leverage\*

|          |                     |
|----------|---------------------|
| 03/30/13 | <b>3.2</b>          |
| 12/31/12 | <b>2.9</b>          |
| 03/31/12 | <b>3.9</b>          |
| Target   | <b>3.0</b> or lower |

As of March 30, 2013, leverage increased to 3.2x adjusted EBITDA, as a result of seasonal investments in working capital.



## Returns

rolling twelve month period ending

### Return on assets\*

|          |                         |
|----------|-------------------------|
| 03/30/13 | <b>13.0%</b>            |
| 12/31/12 | <b>12.1%</b>            |
| 03/31/12 | <b>11.2%</b>            |
| Target   | <b>12.0%</b> or greater |

Return on assets shows a continuing trend of improvement and focused management of investments.

Note: Refer to definitions \* Supplemental information provided for Target

**Management continues to focus on maintaining or exceeding targets throughout 2013.**





## key performance indicators of clearwater seafoods incorporated

Clearwater reported sales of \$68.3 million and adjusted EBITDA<sup>1</sup> of \$10.8 million versus 2012 comparative figures of \$70.9 million and \$10.9 million. Free cash flows<sup>2</sup> in the first quarter of 2013 were (\$14.5) million versus (\$6.1) million for 2012.

Results for the first quarter of 2013 are consistent with Management's expectations and position the business to deliver on its annual targets for 2013.

Adjusted EBITDA for the first quarter of 2013 was stable as compared with strong first quarter of 2012 performance as strong sales volumes for scallops and continued productivity improvements primarily offset the impact from lower sales volumes driven by lower available opening inventory of cold water shrimp and clams due to record sales in the fourth quarter 2012.

Free cash flow decreased by \$8.4 million to (\$14.5) million in the first quarter of 2013 as a result of a \$14.6 million investment in working capital. The investment in working capital was higher than in the first quarter of 2012 primarily as a result

of having to replenish the lower opening inventory to normal levels during the first quarter of 2013.

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

Management expects that demand, particularly in Asia for all our core species, expansion of our value-added business and good harvest results will enable Clearwater to continue the trend of growth in annual earnings and free cash flow in 2013. The targets for 2013 include:

- sales growth – 5% or greater,
- adjusted EBITDA margins – 18% or greater,
- leverage - 3.0x adjusted EBITDA; and
- return on assets - 12% or higher.

1 – Refer to definition of Adjusted EBITDA

2 – Refer to definition of free cash flow

## EXPLANATION OF FIRST QUARTER 2013 EARNINGS

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### Overview

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The statements reflect the earnings of Clearwater for the 13 weeks ended March 30, 2013 and March 31, 2012

| In 000's of Canadian dollars     | March 30<br>2013 | March 31<br>2012 |
|----------------------------------|------------------|------------------|
| Sales                            | \$ 68,297        | \$ 70,878        |
| Cost of goods sold               | 56,545           | 58,771           |
| Gross margin                     | 11,752<br>17.2%  | 12,107<br>17.1%  |
| Administrative and selling       | 8,163            | 8,049            |
| Finance costs                    | 7,329            | 6,971            |
| Other income                     | (306)            | (746)            |
| Research and development         | 243              | 109              |
|                                  | 15,429           | 14,383           |
| Loss before income taxes         | (3,677)          | (2,276)          |
| Income tax (recovery) expense    | (1,915)          | 651              |
| Loss                             | \$ (1,762)       | \$ (2,927)       |
| (Loss) Earnings attributable to: |                  |                  |
| Non-controlling interests        | \$ 1,488         | \$ 1,840         |
| Shareholders of Clearwater       | (3,250)          | (4,767)          |
|                                  | \$ (1,762)       | \$ (2,927)       |

## First Quarter 2013 Earnings

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Clearwater reported sales of \$68.3 million and adjusted EBITDA<sup>1</sup> of \$10.8 million versus 2012 comparative figures of \$70.9 million and \$10.9 million. Free cash flows in the first quarter of 2013 were (\$14.5) million versus (\$6.1) million for 2012.

In the first quarter of 2013 the net loss decreased \$1.2 million to \$1.8 million from the first quarter of 2012 as a result of non cash gains on the fair value adjustment on long term debt and an increase in deferred income tax assets. The decline was partially offset by higher realized losses in foreign exchange on the translation of working capital and unrealized losses on foreign exchange from the translation of long term debt.

| In 000's of Canadian dollars<br>13 weeks ended           | March 30<br>2013 | March 31<br>2012 | Change   |
|--|------------------|------------------|----------|
| Net loss   | \$ (1,762)       | \$ (2,927)       | \$ 1,165 |
| Explanation of changes in loss:                          |                  |                  |          |
| Higher gains on fair value adjustments on long term debt |                  |                  | 3,748    |
| Higher unrealized foreign exchange losses                |                  |                  | (3,095)  |
| Higher deferred income tax asset                         |                  |                  | 2,566    |
| Higher realized foreign exchange losses                  |                  |                  | (2,077)  |
| Lower interest expense                                   |                  |                  | 748      |
| Lower other income                                       |                  |                  | (440)    |
| Lower gross margin                                       |                  |                  | (355)    |
| Lower fees on settlement of debt                         |                  |                  | 318      |
| All other  |                  |                  | (248)    |
|  |                  | \$               | 1,165    |

1 – Refer to definition of Adjusted EBITDA

## Sales by region

| In 000's of Canadian dollars<br>13 weeks ended | March 30<br>2013 | March 31<br>2012 | Change     | %      |
|--|------------------|------------------|------------|--------|
| Europe   | \$ 27,965        | \$ 26,492        | \$ 1,473   | 5.6    |
| China  | 10,193           | 10,780           | (587)      | (5.4)  |
| Japan  | 6,005            | 9,959            | (3,954)    | (39.7) |
| Other Asia                                     | 3,398            | 4,896            | (1,498)    | (30.6) |
| Asia   | 19,596           | 25,635           | (6,039)    | (23.6) |
| United States                                  | 12,367           | 12,981           | (614)      | (4.7)  |
| Canada   | 7,472            | 5,197            | 2,275      | 43.8   |
| North America                                  | 19,839           | 18,178           | 1,661      | 9.1    |
| Other  | 897              | 573              | 324        | 56.5   |
|  | \$ 68,297        | \$ 70,878        | \$ (2,581) | (3.6)  |



### Europe

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

European sales increased \$1.5 million to \$28.0 million in the first quarter of 2013, from \$26.5 million for the same period in 2012 primarily as a result of an increase in sales volumes for sea and Argentine scallops.

The increase in sales volumes for sea scallops was a result of timing in landings as Management delayed harvesting in the first quarter of 2012.

An increase in sales prices for sea scallops also contributed to the increase in sales.

Declines in sales volumes for shrimp and sales prices for Argentine scallops were as a result of lower available supply of shrimp and a continued economic slowdown within the region and partially offset the increase in sales.

Finally, sales, which are primarily transacted in the Euro and the UK Pound, were positively impacted by both the Euro and the UK Pound as the Euro improved 1.4% relative to the Canadian dollar from 1.31 in the first quarter of 2012 to 1.33 in 2013, while the UK Pound improved 0.5% to 1.56 over the same period.

### **China**

China is a growing market for clams, coldwater shrimp, lobster and turbot and scallops. China is our largest market segment in Asia.

Sales to customers in China declined \$0.6 million, or 5.4%, to \$10.2 million as a result of high clam sales in the fourth quarter of 2012 reducing available supply for the beginning of 2013 and lower catch rates in the first quarter of 2013.

Strong market demand resulted in an increase in sales volumes for shrimp, sea scallops and lobster, partially offsetting the decline in sales.

Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar during the first quarter partially offsetting the decline in sales as average foreign exchange rates<sup>2</sup> for the US dollar increased by 1.0% to 1.01 in 2013.

### **Japan**

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

Sales to customers in Japan declined 39.7% or \$4.0 million primarily as a result of a lack of available supply at the

end of 2012 for clam and shrimp. Lower catch rates for clams and few fishing days for shrimp contributed to the decline in available supply.

Average foreign exchange rates for the Yen declined during the quarter by 13.2% to 0.011 for the first quarter of 2013, contributing to the decline in sales.

### **Other Asia**

Sales within the other Asia region includes sales to Korea, Taiwan, Singapore and other Asian countries. These Asian countries are an important market for clams, shrimp and turbot.

Other Asian sales declined \$1.5 million or 30.6% to \$3.4 million in the first quarter of 2013 primarily as a result of a lack of available supply at the end of 2012 for clams and shrimp. Lower catch rates for clams and fewer fishing days for shrimp contributed to the decline in available supply.

2 – Refer to risks and uncertainties



### **United States**

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

Sales in the United States declined \$0.6 million, or 4.7%, to \$12.4 million as a result of a reduction in sales volumes for lobster and sales prices for Argentine scallops.

Increases in sales volumes for sea scallops and sales prices partially offset the decline in sales. The increase in sales volumes for sea scallops was a result of the timing in landings as Management delayed harvesting in the first quarter of 2012.

Sales were also positively impacted by exchange rates as average foreign exchange rates for the US dollar strengthened against the Canadian dollar. Average foreign exchange rates for the US dollar increased by 1.0% to 1.01 in 2013.

### **Canada**

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

Sales within Canada increased \$2.3 million, or 43.8% primarily as a result of an increase in sales volumes for sea scallops and lobster.

The increase in sales volumes for sea scallops was a result of timing in landings as Management delayed harvesting in the first quarter of 2012.

Increases in sales prices for sea scallops and lobster also contributed to the increase in sales.

Declines in sales volumes for clams partially offset the increase in sales as a result of a lack of available inventory during the first quarter of 2013.



## Sales by species\*

| In 000's of Canadian dollars<br>13 weeks ended | March 30<br>2013 | March 31<br>2012 | Change     | %       |
|--|------------------|------------------|------------|---------|
| Scallops*                                      | \$ 25,082        | \$ 18,134        | 6,948      | 38.3    |
| Coldwater shrimp                               | 19,929           | 21,688           | (1,759)    | (8.1)   |
| Lobster  | 13,054           | 14,650           | (1,596)    | (10.9)  |
| Clams  | 9,945            | 15,321           | (5,376)    | (35.1)  |
| Ground fish and other                          | 287              | 899              | (612)      | (68.1)  |
| Crab   | -                | 186              | (186)      | (100.0) |
|  | \$ 68,297        | \$ 70,878        | \$ (2,581) | (3.6)   |

\*Refer to risks and uncertainties

Sales declined slightly for the first quarter of 2013 as a result of lower available supply and lower inventory for clams and shrimp at the end of 2012. Lower catch rates for clams and timing of landings for shrimp also contributed to the decline in available supply for the first quarter of 2013. Strong sales volumes for scallops partially offset the decline.



## Cost of Goods Sold

| In 000's of Canadian dollars<br>13 weeks ended | March 30<br>2013 | March 31<br>2012 | Change     | %      |
|--|------------------|------------------|------------|--------|
| Harvesting and procurement                     | \$ 37,108        | \$ 39,014        | \$ (1,906) | (4.9)  |
| Manufacturing                                  | 6,397            | 6,326            | 71         | 1.1    |
| Freight, customs and other transport           | 4,624            | 5,360            | (736)      | (13.7) |
| Depreciation                                   | 5,535            | 5,394            | 141        | 2.6    |
| Administrative                                 | 2,881            | 2,677            | 204        | 7.6    |
|  | \$ 56,545        | \$ 58,771        | \$ (2,226) | (3.8)  |

**Cost of goods sold** declined \$2.2 million or 3.8% to \$56.5 million primarily due to a reduction in per pound procurement costs and customs and duty fees. Customs and duty fees were lower as the total number of pounds of raw materials exported from Argentina declined for the first quarter. The decline in procurement costs related to a reduction in raw material costs for lobster as shore costs per pound declined

**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. Higher labour, fuel and inflation, particularly in Argentina, partially offset the decline in procurement costs as harvesting costs per pound increased during the first quarter.

Fuel costs for our vessels increased \$1.0 million for the first quarter of 2013 to \$6.4 million. The increase was a result of an increase in the litres consumed, partially offset by a decline in the average price per litre of fuel of \$0.02. In the first quarter of 2013 we had more sea scallop fishing activity then we had in the first quarter of 2012. Clearwater's vessels used approximately 27.8 million litres of fuel in 2012. Based on 2012 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately \$0.3 million.

**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

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Gross margin was stable at 17.2% of total sales for the first quarter of 2013, despite a decline in gross margin of \$0.4 million, or 2.9% to \$11.8 million in the first quarter of 2012. The decline in gross margin was result of a decline in sales volumes for clams and shrimp from a lack of inventory levels at the end of 2012, lower catch rates for clams and fewer fishing days for shrimp in the first quarter of 2013 contributed to the decline in available supply.

Sales prices for Argentine scallops declined during the first quarter of 2013 as a result of a continued economic slowdown within Europe contributing to the decline in gross margin.

Strong sales volumes for scallops and lower procurement costs partially offset the decline in gross margin for the first quarter.

Margins were negatively impacted by lower average foreign exchange rates<sup>2</sup> for the Yen and the Danish Kroner. Higher average foreign exchange rates for the US dollar and the Euro partially offset the decline in foreign exchange. The net impact on sales from all foreign exchange volatility was a reduction in sales and gross margins of \$0.9 million.

| 13 weeks ended            | March 30, 2013 |               | March 31, 2012 |               |                |
|---------------------------|----------------|---------------|----------------|---------------|----------------|
|                           |                | Average       |                | Average       |                |
| Currency                  | % sales        | rate realized | % sales        | rate realized | Change in rate |
| US dollars                | 45.0%          | 1.010         | 47.7%          | 1.000         | 1.0%           |
| Euros                     | 22.9%          | 1.333         | 19.1%          | 1.314         | 1.4%           |
| Danish Kroner             | 7.8%           | 0.178         | 6.2%           | 0.201         | -11.5%         |
| Japanese Yen              | 7.4%           | 0.011         | 14.9%          | 0.013         | -13.2%         |
| UK pounds                 | 2.6%           | 1.563         | 4.0%           | 1.556         | 0.5%           |
| Canadian dollar and other | 14.3%          |               | 8.1%           |               |                |
|                           | 100.0%         |               | 100.0%         |               |                |

2 – Refer to risks and uncertainties for further information

## Administration and selling

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| In 000's of Canadian dollars<br>13 weeks ended | March 30<br>2013 | March 31<br>2012 | Change   | %         |
|--|------------------|------------------|----------|-----------|
| Salaries and benefits                          | \$ 6,506         | \$ 6,798         | \$ (292) | (4.3)     |
| Share-based incentive compensation             | 1,246            | (34)             | 1,280    | (3,764.7) |
| Employee compensation                          | 7,752            | 6,764            | 988      | 14.6      |
| Consulting and professional fees               | 1,201            | 1,398            | (197)    | (14.1)    |
| Other  | 801              | 1,044            | (243)    | (23.3)    |
| Selling costs                                  | 513              | 640              | (127)    | (19.8)    |
| Travel   | 569              | 539              | 30       | 5.6       |
| Occupancy                                      | 330              | 328              | 2        | 0.6       |
| Allocation to cost of goods sold               | (3,003)          | (2,664)          | (339)    | 12.7      |
|  | \$ 8,163         | \$ 8,049         | \$ 114   | 1.4       |

**Administration and selling** costs remained consistent with the first quarter of 2012 as the increase in employee compensation was offset by a decline in consulting and professional fees, selling costs and depreciation.

**Share-based incentive compensation** increased \$1.3 million from the first quarter of 2012 as the cost of Clearwater's share-based compensation performance incentive programs reflected increases in our share price and additional units granted during the second quarter of 2012 for key executives and directors.

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

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

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

## Finance costs

| In 000's of Canadian dollars  |    | March 30 | March 31 |
|---|----|----------|----------|
| 13 weeks ended  |    | 2013     | 2012     |
| Interest and bank charges   | \$ | 4,489    | \$ 5,397 |
| Amortization of deferred financing charges and accretion                |    | 367      | 207      |
| Interest on current and long term debt                                  |    | 4,856    | 5,604    |
| Fair value adjustment on convertible debentures and embedded derivative |    | (513)    | 3,235    |
| Foreign exchange and derivative contracts                               |    | 2,957    | (2,215)  |
| Debt settlement and refinancing fees                                    |    | 29       | 347      |
|   | \$ | 7,329    | \$ 6,971 |

**Interest** declined \$0.7 million for the first quarter of 2013 due to lower interest as Clearwater redeemed the 10.5% Class C convertible debentures in the third quarter of 2012, and replaced other higher cost debt facilities with new facilities that carry an average annual interest rate of approximately 6.5%.

The **fair value adjustment on the convertible debentures** represents the change in value of the convertible debentures and varies depending on market conditions and interest rates. The reduction in the fair value adjustment for the first quarter of 2013 primarily relates to the redemption of the 10.5% Class C convertible debentures that occurred in July 2012. In addition the convertible debentures have traded from below face value two years ago to and above face value in 2012 and 2013.

2 – Refer to risks and uncertainties for further information

## Foreign exchange and derivative contracts

| In 000's of Canadian dollars<br>13 weeks ended      | March 30<br>2013 | March 31<br>2012 |
|---|------------------|------------------|
| Realized loss (income)                              |                  |                  |
| Foreign exchange contracts                          | \$ (370)         | \$ (724)         |
| Working capital                                     | 1,385            | (338)            |
|   | 1,015            | (1,062)          |
| Unrealized (gain) loss                              |                  |                  |
| Foreign exchange on long term debt and other assets | 2,033            | (932)            |
| Mark-to-market on foreign exchange contracts        | (153)            | (221)            |
| Mark-to-market on interest swap                     | 62               | -                |
|   | 1,942            | (1,153)          |
|   | \$ 2,957         | \$ (2,215)       |

**Foreign exchange and derivative (gains) losses<sup>2</sup>** changed by \$5.2 million from a gain of \$2.2 million in the first quarter of 2012 to a loss of \$3.0 million in 2013. The foreign exchange loss for 2013 was primarily as a result of unrealized losses from the translation of the US dollar denominated debt as the US dollar strengthened against the Canadian dollar from \$0.995 at December 2012 to \$1.02 at March 30, 2013. In addition losses on working capital as the average foreign exchange rates for the UK pound weakened against the Canadian dollar from 1.62 at December 31, 2012 to 1.54 at March 30, 2013.

Realized foreign exchange gains on foreign exchange contracts of \$0.4 million relate to Yen forward exchange contracts that settled within the first quarter of 2013 as average spot rates used to settle contracts were 16% lower than the average contract price.

**Debt settlement and refinancing fees** represent fees incurred for the settlement or refinancing of long term debt and will vary year to year depending on refinancing activities.

2 – Refer to risks and uncertainties

## Other income

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| In 000's of Canadian dollars<br>13 weeks ended | March 30<br>2013 | March 31<br>2012 |
|--|------------------|------------------|
| Royalties, interest, and other fees            | (415)            | (458)            |
| Share of loss of equity-accounted investee     | 226              | 221              |
| Other fees                                     | (117)            | (509)            |
|  | \$ (306)         | \$ (746)         |

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

As a result of the adoption of *IFRS 11 – Joint Arrangements*, effective January 1, 2013 a partnership agreement that governs certain scallop harvesting operations for Clearwater, that was previously proportionately consolidated, is now accounted for using the equity method. There was no impact to earnings or adjusted EBITDA related the change in accounting.

## Research and Development

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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.

## **Income taxes**

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

In the first quarter of 2013, Clearwater recorded an additional deferred tax asset of \$2.5 million related to deferred tax assets that are expected to be utilized based upon estimated taxable earnings.

## **Non-controlling interest**

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Non-controlling interest relates to earnings from Clearwater's investment in subsidiaries in Argentina, Newfoundland and Labrador.

## **Capital Structure**

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

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

The amount of 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<sup>1</sup>, 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 proactive basis. These changes can include early repayment of debt, repurchasing shares, issuing new debt or equity, utilizing surplus cash, extending the term of existing debt facilities, selling assets to repay debt and if required, limiting debt paid.

Clearwater's capital structure is as follows as at March 30, 2013 and December 31, 2012:

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<sup>1</sup> – Refer to risks and uncertainties



| In 000's of Canadian dollars<br>As at                 | March 30<br>2013 | December 31,<br>2012 |
|---|------------------|----------------------|
| <b>Equity</b>   |                  |                      |
| Common shares   | \$ 64,867        | \$ 64,867            |
| Retained earnings                                     | 11,366           | 14,616               |
| Cumulative translation account                        | (4,023)          | (3,866)              |
|   | 72,210           | 75,617               |
| Non-controlling interest                              | 27,929           | 30,904               |
|   | 100,139          | 106,521              |
| <b>Long term debt</b>                                 |                  |                      |
| Subordinated debt                                     |                  |                      |
| 2014 convertible debentures                           | 44,620           | 44,722               |
|   | 44,620           | 44,722               |
| Senior debt, non-amortizing                           |                  |                      |
| Term loan, due in 2091                                | 3,500            | 3,500                |
| Senior debt, amortizing                               |                  |                      |
| Term Loan A, due 2017                                 | 68,467           | 72,259               |
| Term Loan B, due 2018 (including embedded derivative) | 125,440          | 129,986              |
| Marine mortgage, due in 2017                          | 2,604            | 2,697                |
| Other loans   | 499              | 627                  |
|   | 197,010          | 205,569              |
| Total long term debt                                  | 245,130          | 253,791              |
| Total capital   | \$ 345,269       | \$ 360,312           |

There are 50,948,698 shares outstanding as of March 30, 2013 (December 31, 2012 - 50,948,698).

On June 6, 2012 Clearwater completed a \$264.0 million refinancing in order to further strengthen its liquidity position, reduce its cost of capital and provide for a capital structure to allow management to continue to build strong shareholder value. The refinancing included the redemption/repayment of:

- Canadian \$43.4 million 10.5% convertible debentures, ("Debentures").
- US \$54.5 million of 12% second lien debt;
- Canadian \$74.2 million in existing senior term notes; and
- The remaining funds, after payment of expenses, were used to pay down the balance on the existing asset based revolving credit facility to \$16.3 million.

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

The 2014 Convertible debentures which 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 30, 2013 was \$44.4 million (December 31, 2012 - \$44.4 million).

To redeem the 2014 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 to senior debt. The debentures pay interest March 31 and September 30. 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 shares at that time, plus accrued interest in cash.

Clearwater has several amortizing senior debt facilities including:

- Term loan A due June 2017,
- Term loan B due June 2018,
- Revolving loan due June 2017, and
- A marine mortgage that matures in June 2017.

The term loan A has a principal balance of Canadian \$70.2 million, is repayable in quarterly instalments of \$0.5 million to June 2015, \$1.4 million from September 2015 to June 2016 and \$2.3 million from September 2016 to March 2017 with the balance due at maturity in June 2017, and is recorded net of deferred financing charges of \$1.7 million. The loan bears interest at an annual rate of banker's acceptance plus 4.5%, payable monthly. As of March 30, 2013 this resulted in a rate of 5.8%. The loan contains an accordion provision that, subject to satisfaction of certain conditions, allows Clearwater to expand the facility by up to Canadian \$25 million. As of March 30, 2013 Clearwater's interest rate swap that effectively locks in the interest rate on Canadian \$29.8 million of this debt at an effective interest rate of 6.29%, maturing May 31, 2017. The amount outstanding under the swap reduces proportionately at the same rate as the scheduled payments on the loan.

The term loan B has a principal balance of US dollars \$133.3 million is repayable in quarterly instalments of \$0.3 million with the balance of \$119.0 million due at maturity in June 2018. The loan bears interest at an annual rate of US Libor plus 5.5% with a Libor interest rate floor of 1.25% payable at periods from monthly to annually, depending on the term selected. As of March 30, 2013 this resulted in an interest rate of 6.7%. The loan contains an accordion provision that, subject to satisfaction of certain conditions, allows Clearwater to expand the facility by up to US \$50 million. Term loan B contains

an embedded derivative of \$3.9 million related to the fair market value of the Libor interest rate floor of 1.25%. As a result the net balance in Canadian dollars for the loan is \$125.4 million (per the capital structure table) net of deferred financing charges of USD \$2.4 million.

Under a provision of its Term Loan A and B agreements, Clearwater remitted a portion of “excess cash flows” (Adjusted EBITDA less certain fixed charges) of approximately \$11.1 million in March 2013.

Both the term loan A and the term loan B are secured by a first charge on marine vessels, licenses and quotas, Clearwater’s investments in certain subsidiaries and a second charge on accounts receivable, inventory, cash and cash equivalents, subject to certain limitations.

The revolving loan facility is due June 2017, and provides up to \$65.0 million of credit based on 90% of eligible receivables and up to 75% of eligible inventory and can be denominated in both Canadian and US dollars. The revolving loan was undrawn as of March 30, 2013. The Canadian balances bear interest at the banker’s acceptance rate plus 2.5%. The US dollar balances bear interest rate at the US Libor rate plus 2.5%. As of March 30, 2013 this would result in rates of 4.5% for Canadian balances and 4.7% for US dollar balances.

The revolving loan is secured by a first charge on accounts receivable, inventory, cash and cash equivalents subject to certain limitations, as well as a second charge on marine vessels, licenses and quotas and Clearwater’s investments in certain subsidiaries. The loan has an accordion provision that subject to certain conditions allows Clearwater to expand the facility by a maximum of Canadian \$20.0 million.

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 adjusted EBITDA is a better measure to evaluate our capital structure and we have provided that information in the liquidity section.

## Liquidity

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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.

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<sup>2</sup>** - As of March 30, 2013 Clearwater had \$15.6 million in cash, and an undrawn \$65 million revolving asset backed loan. The cash balance, together with available credit on the revolving loan, is used to manage seasonal working capital demands, capital expenditures, and other commitments. Clearwater's operations experience a predictable seasonal pattern in which sales, margins and adjusted EBITDA are higher in the second half of the year whereas investments in capital expenditures and working capital are lower, resulting in higher free cash flows and lower leverage in the second half of the year. This typically results in lower free cash flow, higher debt balances and higher leverage in the first half of the year. In addition, in the first quarter of 2013, as required under a provision in its loan agreements, Clearwater remitted a portion of 2012 annual "excess cash flows" (Adjusted EBITDA less certain fixed charges) which approximated \$11.1 million as a payment on its term loans.
- **Free cash flows** - Clearwater has a goal to generate strong cash flows from operations in order to fund interest, scheduled loan payments and capital expenditures and in turn to use this free cash flow to reduce debt, and to invest in growth investments. Clearwater's goal is to grow free cash flows such that it can reduce debt and pay a sustainable dividend to its shareholders.

|  | 13 weeks ended  |                | 12 month Rolling |               |
|--|-----------------|----------------|------------------|---------------|
|  | March 30        | March 31       | March 30         | March 31      |
|  | 2013            | 2012           | 2013             | 2012          |
| <b>Free cash flows</b>   |                 |                |                  |               |
| <b>Adjusted EBITDA</b>   | 10,812          | 10,946         | 72,109           | 62,057        |
| <b>Less:</b>   |                 |                |                  |               |
| Cash interest  | (4,489)         | (5,397)        | (19,440)         | (21,039)      |
| Cash taxes   | (465)           | (800)          | (1,720)          | (4,769)       |
| Other income and expense items                                 | 1,420           | (133)          | 69               | (4,247)       |
| <b>Operating cash flow before changes in working capital</b>   | <b>7,278</b>    | <b>4,616</b>   | <b>51,017</b>    | <b>32,003</b> |
| Change in working capital                                      | (14,519)        | 68             | (15,147)         | (11,455)      |
| <b>Cash flows from operating activities</b>                    | <b>(7,241)</b>  | <b>4,684</b>   | <b>35,871</b>    | <b>20,548</b> |
| <b>Uses of cash:</b>   |                 |                |                  |               |
| Purchase of property, plant, equipment, quota and other assets | (2,692)         | (5,361)        | (13,904)         | (21,718)      |
| Less: Designated borrowings                                    | -               | -              | 2,056            | 16,000        |
| Scheduled payments on long-term debt                           | (128)           | (1,028)        | (5,437)          | (4,605)       |
| Distributions to non-controlling interests                     | (4,463)         | (4,376)        | (9,579)          | (10,069)      |
| <b>Free cash flows</b>   | <b>(14,524)</b> | <b>(6,081)</b> | <b>9,006</b>     | <b>156</b>    |
| <b>Add/(less):</b>   |                 |                |                  |               |
| Other debt borrowings (repayments) of debt                     | (11,080)        | 4,769          | (2,256)          | (333)         |
| Other investing activities                                     | (265)           | 833            | 258              | 1,296         |
| Other financing activities                                     | -               | -              | -                | (566)         |
| <b>Change in cash flows for the period</b>                     | <b>(25,869)</b> | <b>(479)</b>   | <b>7,009</b>     | <b>553</b>    |

1 - Refer to definitions

2 – Refer to risks and uncertainties

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

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

Consistent with Management expectations, Free cash flows decreased by \$8.4 million to an investment of (\$14.5) million and leverage increased to 3.2x adjusted EBITDA for the first quarter of 2013 from 2.9x at December 31, 2012. This was driven primarily by lower available opening inventory due to record sales in the fourth quarter 2012.

## Changes in working capital

| In 000's of Canadian dollars            | 13 weeks ended   |                  |
|---|------------------|------------------|
|   | March 30<br>2013 | March 31<br>2012 |
| Decreases in inventory                  | 444              | 7,276            |
| Decreases in accounts payable           | (17,204)         | (7,581)          |
| Decreases in accounts receivable        | 3,019            | 2,293            |
| Decrease (increase) in prepaids         | 1,265            | (1,964)          |
| Increases in income taxes payable       | 338              | 403              |
| Increases in deferred income tax assets | (2,381)          | (359)            |
|   | \$ (14,519)      | \$ 68            |

The net investment in working capital increased \$14.6 million as a result of the timing of interest and other payments and a \$2.5 million increase in deferred income tax assets.

Investments in capital expenditures of \$2.7 million for the quarter primarily resulted from planned vessel refits.

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

On average, Clearwater expects to invest \$15-20 million a year in maintaining its fixed assets with a further \$10-15 million of repairs and maintenance expensed and included in the cost of goods sold. In 2013 it expects to invest approximately \$27.8 million in capital assets excluding repairs and maintenance, of which \$22.0 million relates to maintenance capital investments and \$5.8 million of investments to improve efficiencies. In addition, Clearwater has and will continue to review and liquidate underperforming and non-core assets.

Leverage – For 2013 Management set a target to maintain leverage of approximately 3.0x adjusted EBITDA. Due to seasonality and periodic debt financing of investments it is possible that leverage may exceed 3.0x for periods of time.

| In 000's of Canadian dollars   | March 30  | December 31 | March 31  |
|--|-----------|-------------|-----------|
| As at December 31  | 2013      | 2012        | 2012      |
| Adjusted EBITDA <sup>1</sup>   | \$ 72,109 | \$ 72,243   | \$ 62,057 |
| Debt (net of deferred financing charges<br>of \$4.1 million (December 31, 2012 - \$4.4 million) (March 31,<br>2012 - \$1.8 million)) | 245,130   | 253,791     | 248,241   |
| Less cash  | (15,635)  | (41,504)    | (8,852)   |
| Net debt   | 229,495   | 212,287     | 239,389   |
| Leverage   | 3.2       | 2.9         | 3.9       |

1 – Refer to the definition of adjusted EBITDA and leverage

- **Foreign Exchange Management** – Weakening exchange rates for the Yen and the Danish Kroner against the Canadian dollar resulted in a reduction in sales and gross margin of \$1.5 million for the first quarter of 2013. Higher average foreign exchange rates for the US dollar partially offset the decline in foreign exchange. The net impact from foreign exchange was a decline of sales and gross margin of \$0.9 million for the first quarter of 2013.

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 very few long-term sales contracts with any customers. Contracts are typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations.
- (4) Use conservative exchange estimates in business plans – Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when preparing its' business plans.
- (5) Foreign exchange hedging program - Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts to lock in exchange rates up to 18 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows from derivative contracts.



As of March 30, 2013 Clearwater had forward exchange contracts to be settled in 2013 of:

- US dollar \$94.5 million at an average rate of 0.985;
- 2.2 billion Yen at an average rate of .013; and
- 43.0 million Euro at an average rate of 1.26.

The US dollar forwards include US dollars \$62.5 million of participating forwards which provide that to the extent spot rates are higher than the contracted rates, the contract rate will be adjusted by approximately 33% to 50.0% of the excess.

In addition at March 30, 2013 Clearwater had forward exchange contracts to be settled in 2013 of:

- US dollar \$5.0 million at an average rate of 0.984
- 120.0 million Yen at an average rate of .011; and
- 2.0 million Euro at an average rate of 1.34

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

## OUTLOOK

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

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

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

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

Management is satisfied with the progress made and expects the Company to hit its annual targets for 2013.

### **Annual Targets for 2013**

Building on the success achieved in 2012, management has set the following annual targets for 2013:

- sales growth – 5% or greater,
- adjusted EBITDA margins – 18% or greater,
- leverage - 3.0x adjusted EBITDA; and
- return on assets - 12% or higher

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

Management has undertaken six initiatives to create shareholder value.

1. Growing adjusted EBITDA and sales sustainably - Clearwater has experienced continued growth in rolling twelve month adjusted EBITDA and sales by controlling costs and improving productivity, product mix and prices.

Clearwater will continue to lever its vertical integration to maximize value per pound in existing segments and to capture a growing share of the seafood value

chain through the introduction of value-added new products in certain core species.

Management expects that the trend of earnings growth will continue in 2013 despite lower available supply of inventories in the first quarter and difficult weather conditions for harvesting early in the year. Stronger harvest conditions in the second half of the year are expected to enable Clearwater to continue the trend of growth in annual results in 2013.

2. Generating strong free cash flows— Clearwater is focused on generating increasing free cash flows through generating strong cash earnings, managing its working capital and carefully planning and managing its capital expenditure program. Seasonality results in lower free cash flows higher debt balances and higher leverage in the first half of the year and higher free cash flows, lower debt balances and lower leverage levels in the second half of the year.

Free cash flows were (\$14.5) million the first quarter of 2013 versus (\$6.1) million in 2012 as a result of greater harvesting activities and investments in working capital in the first quarter of 2013.

As of the first quarter in 2013 leverage increased to 3.2x adjusted EBITDA versus 2.9x as at December 31, 2012, which was consistent with Management expectations. Management expects leverage to rise through the first half of 2013 and to decline thereafter for the balance of the year

3. Improving the capital structure - During the second quarter of 2012 Clearwater successfully completed a series of capital market transactions that substantially improved its debt structure. The financing enables Clearwater to reduce interest costs by approximately \$4.6 million annually, strengthens its liquidity and provides the capital structure necessary to execute growth plans. Clearwater is now focused on initiating an active communications plan with its investors to ensure continued access, when required, to all sources of growth capital.
4. Focused management of foreign exchange - Clearwater has a focused and targeted foreign exchange hedging program to reduce the impact of short-term volatility in exchange rates on earnings. This, combined with stronger processes for price management reduces the impact of exchange rate volatility on the business. As of March 2013, Clearwater has approximately 76% of its US Dollar, Euro and Yen exposures for 2013 hedged at rates of 0.985, 1.26 and 0.013 respectively.
5. Building world class leadership, management, sales and marketing capabilities - Clearwater has begun implementing best in class programs for key account management, new product development, sales and operations planning, recruitment and compensation practices. In addition, over the past two years

Clearwater has added a number of new people to its senior management team and its' Board of Directors.

6. Communicating underlying asset values - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. In 2012 an independent appraisal of these quotas placed a value on the quotas of \$453 million. Clearwater obtained further independent support for the value in these licenses in the third quarter of 2012 when both the Arctic surf clam fishery and Nova Scotia snow crab fishery received the Marine Stewardship Council (MSC) certification. These species join the Clearwater family of MSC-certified offerings including Canadian sea scallops, Argentine scallops, Canadian coldwater shrimp and Eastern Canadian offshore lobster. Clearwater now boasts a total of seven species certified by the MSC, completing the certification of all its core products, and giving the Company the widest selection of MSC-certified species of any seafood harvester worldwide.

Management believes that it has the correct strategies and focus to 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 including the five year plan it developed in early 2012 to support and give direction to these goals.

## **RISKS AND UNCERTAINTIES**

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

### **Foreign exchange risk**

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

The majority of Clearwater's sales are to locations outside Canada and are transacted in currencies other than the Canadian dollar whereas the majority of our expenses are in Canadian dollars. As a result, fluctuations in the foreign exchange rates of these currencies can have a material impact on our financial condition and operating results. In addition Clearwater has a subsidiary which operates in the offshore scallop fishery in Argentina which exposes Clearwater to changes in the value of the Argentine Peso.

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

- (1) Diversify sales internationally which reduces the impact of any country-specific economic risks.
- (2) Execute on pricing strategies so as to offset the impact of exchange rates.
- (3) Limit the amount of long-term sales contracts – Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations.
- (4) Plan conservatively - Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when preparing its' business plans, and
- (5) Foreign exchange hedging program - that focuses on using forward contracts to enable Clearwater to lock in exchange rates up to 18 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows through derivative contracts.

In 2012 approximately 45.4% of Clearwater's sales were denominated in US dollars. Based on 2012 sales, a change of 0.01 in the U.S. dollar rate converted to Canadian dollars would result in a \$1.6 million change in sales and gross profit. Approximately 22.1% of 2012 sales were denominated in Euros, based on 2012 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, 12.5% of sales in 2012 were denominated in Japanese Yen, based on 2012 annual sales, a change of 0.0001 in the Yen rate as converted to Canadian dollars would result in a change of \$0.4 million in sales and gross profit.

At the end of March 30, 2013 Clearwater had approximately 76% of its US Dollar, Euro and Yen exposures for 2013 hedged at rates of 0.985, 1.26 and 0.013 respectively.

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 variability.

### **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.

During 2012 and as a result of economic pressures within Argentina, the Argentine Government withheld approvals on the ability of companies to transfer cash outside of Argentina, restricting Clearwater's ability to payout dividends. However, Clearwater did receive approvals to pay approximately \$4.8 million in dividends in December 2012 and it received further approvals to pay dividends of approximately \$2.0 million Canadian in the first 4 months of 2013. There can be no assurances that the Argentine government will continue to provide approvals to pay dividends in 2013.

To compensate for the potential restriction on dividend payouts Clearwater is reviewing options for the scheduled replacement of one of its two fishing vessels in Argentina in 2013/2014. The replacement of this vessel will necessitate that funds be used for the related loan payments, thus alleviating the need for any material dividend payments over the next several years.

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

We mitigate this risk through maintaining a policy of repatriating our share of the earnings from Argentina through dividends and we do not maintain any material

financial assets that are surplus to our needs to operate the business outside of Canada. We do not carry financial assets in Pesos to mitigate exchange risk. In addition we have structured our operations in Argentina with an Argentine partner who owns 20% of the Argentine business and who is resident in Argentina and is actively managing the business.

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

### **Resource supply risk**

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

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

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

Resource supply risk is managed through adherence with government policies and regulations related to fishing in Canada and Argentina and Clearwater's investment in science and technology, which enables Clearwater to understand the species that it harvests. Clearwater has invested in projects with the scientific community, such as ocean floor mapping and the resource assessment surveys to ensure access to the best



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

### **Capital availability and liquidity risk**

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There are risks associated with capital availability and liquidity including:

1. The ability of Clearwater 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, 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 dividends 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 was 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 May 8, 2013 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 business. These include policies and goals with respect to

leverage, foreign exchange, lending arrangements and free cash flows. See the Capital structure and liquidity sections 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.

## **Financial Reporting Controls and Procedures**

Clearwater has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2012 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

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

Management evaluated the design and effectiveness of Clearwater's internal controls over financial reporting as at December 31, 2012. 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, 2012, 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, 2013 to March 30, 2013, that have materially affected, or are reasonably likely to materially affect the Company’s internal controls over financial reporting.

### **Adoption of new and revised standards**

The following IFRS standards have been recently issued by the IASB: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities and IFRS 13 Fair Value Measurement Arrangements that have an effective date for annual periods beginning on or after January 1, 2013. In addition IFRS 9 Financial Instruments has an effective date for annual periods beginning on or after January 1, 2015.

As a result of the adoption of *IFRS 11 – Joint Arrangements*, effective January 1, 2013 a partnership agreement that governs certain scallop harvesting operations for Clearwater, that was previously proportionately consolidated, is now accounted for using the equity method. There was no impact to earnings or adjusted EBITDA related the change in accounting. All other standards effective January 1, 2013, have been assessed to have no significant effect on the current consolidated financial statements. Refer to Clearwater’s first quarter 2013 financial statements for additional information.

## SUMMARY OF QUARTERLY RESULTS

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

| In 000's of Canadian dollars                   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Fiscal 2013                                    |                  |                   |                  |                   |
| Sales  | \$ 68,297        | -                 | -                | -                 |
| Loss   | (1,762)          | -                 | -                | -                 |
| Loss per share ("EPS")                         | (0.06)           | -                 | -                | -                 |
| Diluted loss per share <sup>2</sup>            | (0.06)           | -                 | -                | -                 |
| Fiscal 2012                                    |                  |                   |                  |                   |
| Sales  | \$ 70,884        | \$ 84,966         | \$ 101,640       | \$ 92,957         |
| Earnings (loss)                                | (2,927)          | (2,505)           | 17,618           | 10,518            |
| Earnings (loss) per share ("EPS")              | (0.09)           | (0.08)            | 0.30             | 0.17              |
| Diluted earnings (loss) per share <sup>2</sup> | (0.09)           | (0.08)            | 0.27             | 0.15              |
| Fiscal 2011                                    |                  |                   |                  |                   |
| Sales  | \$ 69,235        | \$ 78,820         | \$ 97,590        | \$ 87,140         |
| Earnings (loss)                                | 1,832            | (327)             | 5,058            | 16,390            |
| Earnings (loss) per share ("EPS") <sup>1</sup> | 0.01             | (0.02)            | 0.05             | 0.28              |
| Diluted earnings (loss) per share <sup>2</sup> | 0.01             | (0.02)            | 0.05             | 0.23              |

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 are anti-dilutive for all periods except September 29, 2012, December 31, 2011 and December 31, 2012.

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

In general, sales increased with each successive quarter with the largest increase in the third quarter of each year. The third quarter has the highest sales revenue each year.

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.

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

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**

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### **Gross margin**

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

### **Adjusted earnings before interest, tax, depreciation and amortization (“adjusted EBITDA”)**

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

*Adjusted EBITDA is defined as EBITDA excluding one-time non-recurring items such as severance charges, gains or losses on property, plant and equipment, gains or losses on quota sales, refinancing and reorganization costs. In addition recurring accounting gains and losses on foreign exchange (other than realized gains and losses on forward exchange contracts), and adjustments to stock based compensation, have been excluded from the calculation of adjusted EBITDA due to the variability in these gains and losses.*

*In the fourth quarter of 2012 Clearwater began to exclude amounts related to stock based compensation from the calculation of adjusted EBITDA due to the variability in these gains and losses in the liability related to its cash settled share-based payment programs. It has restated all prior periods for this change.*

Reconciliation of Net (loss) earnings to Adjusted EBITDA for the 13 weeks ended, and the rolling twelve months ended March 30, 2013 and March 31, 2012 is as follows:

|   | Year to date     |                  | 12 month rolling ended |                  |
|---|------------------|------------------|------------------------|------------------|
|   | March 30         | March 31         | March 30               | March 31         |
|   | 2013             | 2012             | 2013                   | 2012             |
| Net earnings (loss)   | \$ (1,762)       | \$ (2,927)       | \$ 23,869              | \$ 18,200        |
| Add (deduct):   |                  |                  |                        |                  |
| Income taxes  | (1,915)          | 545              | (7,479)                | 3,628            |
| Taxes and depreciation for equity investment                        | (94)             | -                | (95)                   | -                |
| Depreciation and amortization                                       | 5,638            | 5,640            | 22,974                 | 20,221           |
| Interest on long-term debt and bank charges                         | 4,856            | 5,604            | 20,757                 | 22,680           |
|   | 6,723            | 8,862            | 60,026                 | 64,729           |
| Add (deduct) other non-routine items:                               |                  |                  |                        |                  |
| Unrealized foreign exchange and derivative income                   | 1,942            | (1,153)          | (379)                  | 1,415            |
| Fair market value on convertible debentures and embedded derivative | (513)            | 3,236            | (850)                  | 5,365            |
| Realized foreign exchange on working capital                        | 1,385            | (338)            | 3,082                  | 1,510            |
| Restructuring and refinancing costs                                 | 29               | 373              | 6,620                  | 3,125            |
| Stock based compensation  | 1,246            | (34)             | 3,610                  | 794              |
| Gain on sale of quota   | -                | -                | -                      | (672)            |
| Gain on settlement of debt  | -                | -                | -                      | (12,445)         |
| Loss on disposal of investment                                      | -                | -                | -                      | (69)             |
| Gain on insurance claim   | -                | -                | -                      | (1,695)          |
| <b>Adjusted EBITDA</b>  | <b>\$ 10,812</b> | <b>\$ 10,946</b> | <b>\$ 72,109</b>       | <b>\$ 62,057</b> |
| Adjusted EBITDA attributable to:                                    |                  |                  |                        |                  |
| Non-controlling interests   | \$ 2,616         | \$ 3,746         | 11,718                 | 10,830           |
| Shareholders of Clearwater  | 8,196            | 7,200            | 60,391                 | 51,227           |
|   | <b>\$ 10,812</b> | <b>\$ 10,946</b> | <b>\$ 72,109</b>       | <b>\$ 62,057</b> |

Note 1: The impact to earnings and adjusted EBITDA related to an entity previously proportionately consolidated was \$nil. As a result no changes were made to the calculation of adjusted EBITDA per above.

## Leverage

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

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

*Leverage for banking purposes differs from the above calculations as agreements require the exclusion of cash from the calculation. Clearwater is in compliance with all of the non-financial and financial covenants associated with its debt facilities.*

| In 000's of Canadian dollars   | March 30  | December 31 | March 31  |
|--|-----------|-------------|-----------|
| As at December 31  | 2013      | 2012        | 2012      |
| Adjusted EBITDA <sup>1</sup>   | \$ 72,109 | \$ 72,243   | \$ 62,057 |
| Debt (net of deferred financing charges<br>of \$4.1 million (December 31, 2012 - \$4.4 million) (March 31,<br>2012 - \$1.8 million)) | 245,130   | 253,791     | 248,241   |
| Less cash  | (15,635)  | (41,504)    | (8,852)   |
| Net debt   | 229,495   | 212,287     | 239,389   |
| Leverage   | 3.2       | 2.9         | 3.9       |



## Free cash flows

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

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

Reconciliation for the 13 weeks ended and the rolling twelve months ended March 30, 2013 and March 31, 2012 is as follows:

|  | 13 weeks ended   |                  | 12 month Rolling |                  |
|--|------------------|------------------|------------------|------------------|
|  | March 30<br>2013 | March 31<br>2012 | March 30<br>2013 | March 31<br>2012 |
| <b>Free cash flows</b>   |                  |                  |                  |                  |
| <b>Adjusted EBITDA</b>   | 10,812           | 10,946           | 72,109           | 62,057           |
| <b>Less:</b>   |                  |                  |                  |                  |
| Cash interest  | (4,489)          | (5,397)          | (19,440)         | (21,039)         |
| Cash taxes   | (465)            | (800)            | (1,720)          | (4,769)          |
| Other income and expense items                                 | 1,420            | (133)            | 69               | (4,247)          |
| <b>Operating cash flow before changes in working capital</b>   | <b>7,278</b>     | <b>4,616</b>     | <b>51,017</b>    | <b>32,003</b>    |
| Change in working capital                                      | (14,519)         | 68               | (15,147)         | (11,455)         |
| <b>Cash flows from operating activities</b>                    | <b>(7,241)</b>   | <b>4,684</b>     | <b>35,871</b>    | <b>20,548</b>    |
| <b>Uses of cash:</b>   |                  |                  |                  |                  |
| Purchase of property, plant, equipment, quota and other assets | (2,692)          | (5,361)          | (13,904)         | (21,718)         |
| Less: Designated borrowings                                    | -                | -                | 2,056            | 16,000           |
| Scheduled payments on long-term debt                           | (128)            | (1,028)          | (5,437)          | (4,605)          |
| Distributions to non-controlling interests                     | (4,463)          | (4,376)          | (9,579)          | (10,069)         |
| <b>Free cash flows</b>   | <b>(14,524)</b>  | <b>(6,081)</b>   | <b>9,006</b>     | <b>156</b>       |
| <b>Add/(less):</b>   |                  |                  |                  |                  |
| Other debt borrowings (repayments) of debt                     | (11,080)         | 4,769            | (2,256)          | (333)            |
| Other investing activities                                     | (265)            | 833              | 258              | 1,296            |
| Other financing activities                                     | -                | -                | -                | (566)            |
| <b>Change in cash flows for the period</b>                     | <b>(25,869)</b>  | <b>(479)</b>     | <b>7,009</b>     | <b>553</b>       |

## Return on Assets

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

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

**In (000's) of Canadian dollars**  
**Twelve month period ending**  
**Return on Assets**

|                                    | <b>March 30, 2013</b> | <b>March 31, 2012</b> |
|------------------------------------|-----------------------|-----------------------|
| Earnings before interest and taxes | 49,378                | 41,836                |
| Total Assets                       | 380,607               | 374,302               |
|                                    | 13.0%                 | 11.2%                 |

## NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. Management of Clearwater Seafoods Incorporated has prepared these condensed consolidated interim financial statements. Management have compiled the unaudited condensed consolidated interim Statement of Financial Position of Clearwater Seafoods Incorporated as at March 30, 2013, the unaudited condensed consolidated interim Statements of Financial Position as at December 31, 2012 and January 1, 2012 and the unaudited condensed consolidated interim statements of loss, other comprehensive (loss) income, shareholders' equity, and cash flows for the 13 weeks ended March 30, 2013 and March 31, 2012. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the March 30, 2013 and March 31, 2012 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

# CLEARWATER SEAFOODS INCORPORATED

## Condensed Consolidated Interim Statements of Financial Position

unaudited

(In thousands of Canadian dollars)

|   | March 30,<br>2013 | December 31,<br>2012      | January 1,<br>2012        |
|---|-------------------|---------------------------|---------------------------|
|   |                   | (Restated)<br>(Note 2(b)) | (Restated)<br>(Note 2(b)) |
| <b>ASSETS</b>                                     |                   |                           |                           |
| Current assets                                    |                   |                           |                           |
| Cash  | \$ 15,635         | \$ 41,504                 | \$ 9,216                  |
| Trade and other receivables                       | 40,139            | 43,168                    | 41,681                    |
| Inventories                                       | 51,993            | 51,793                    | 61,714                    |
| Prepays and other                                 | 5,727             | 6,981                     | 10,207                    |
| Derivative financial instruments (Note 5)         | 5,089             | 4,185                     | 1,075                     |
|   | <b>118,583</b>    | <b>147,631</b>            | <b>123,893</b>            |
| Non-current assets                                |                   |                           |                           |
| Long term receivables                             | 11,040            | 10,647                    | 10,293                    |
| Other assets                                      | 899               | 1,245                     | 2,066                     |
| Property, plant and equipment                     | 123,832           | 126,580                   | 129,225                   |
| Licences and fishing rights                       | 103,974           | 104,568                   | 107,725                   |
| Investment in equity investee (Note 2(b))         | 3,643             | 3,868                     | 4,566                     |
| Deferred tax assets                               | 11,593            | 9,207                     | 1,594                     |
| Goodwill  | 7,043             | 7,043                     | 7,043                     |
|   | <b>262,024</b>    | <b>263,158</b>            | <b>262,512</b>            |
| <b>TOTAL ASSETS</b>                               | <b>\$ 380,607</b> | <b>\$ 410,789</b>         | <b>\$ 386,405</b>         |
| <b>LIABILITIES</b>                                |                   |                           |                           |
| Current liabilities                               |                   |                           |                           |
| Trade and other payables                          | \$ 28,610         | \$ 44,564                 | \$ 40,838                 |
| Income tax payable                                | 324               | 310                       | 1,655                     |
| Current portion of long-term debt (Note 4)        | 48,793            | 15,527                    | 42,766                    |
| Derivative financial instruments (Note 5)         | 4,472             | 3,639                     | 1,097                     |
|   | <b>82,199</b>     | <b>64,040</b>             | <b>86,356</b>             |
| Non-current liabilities                           |                   |                           |                           |
| Long-term debt (Note 4)                           | 196,337           | 238,264                   | 204,334                   |
| Deferred tax liabilities                          | 1,932             | 1,964                     | 1,663                     |
|   | <b>198,269</b>    | <b>240,228</b>            | <b>205,997</b>            |
| <b>SHAREHOLDERS' EQUITY</b>                       |                   |                           |                           |
| Share capital                                     | 64,867            | 64,867                    | 65,309                    |
| Retained earnings (deficit)                       | 11,366            | 14,616                    | (835)                     |
| Cumulative translation account                    | (4,023)           | (3,866)                   | (3,122)                   |
|   | <b>72,210</b>     | <b>75,617</b>             | <b>61,352</b>             |
| Non-controlling interest                          | 27,929            | 30,904                    | 32,700                    |
|   | <b>100,139</b>    | <b>106,521</b>            | <b>94,052</b>             |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b> | <b>\$ 380,607</b> | <b>\$ 410,789</b>         | <b>\$ 386,405</b>         |

See accompanying notes to condensed consolidated interim financial statements

# CLEARWATER SEAFOODS INCORPORATED

## Condensed Consolidated Interim Statements of Loss

*unaudited*

*(In thousands of Canadian dollars)*

| 13 weeks ended                   | March 30,<br>2013 | March 31,<br>2012         |
|----------------------------------|-------------------|---------------------------|
|                                  |                   | (Restated)<br>(Note 2(b)) |
| Sales                            | \$ 68,297         | \$ 70,878                 |
| Cost of goods sold               | 56,545            | 58,771                    |
|                                  | 11,752            | 12,107                    |
| Administrative and selling       | 8,163             | 8,049                     |
| Net finance costs (Note 5(c))    | 7,329             | 6,971                     |
| Other income                     | (306)             | (746)                     |
| Research and development         | 243               | 109                       |
|                                  | 15,429            | 14,383                    |
| Loss before income taxes         | (3,677)           | (2,276)                   |
| Income tax (recovery) expense    | (1,915)           | 651                       |
| Loss for the period              | \$ (1,762)        | \$ (2,927)                |
| (Loss) Earnings attributable to: |                   |                           |
| Non-controlling interest         | \$ 1,488          | \$ 1,840                  |
| Shareholders of Clearwater       | (3,250)           | (4,767)                   |
|                                  | \$ (1,762)        | \$ (2,927)                |
| Basic loss per share (Note 6)    | \$ (0.06)         | \$ (0.09)                 |
| Diluted loss per share (Note 6)  | \$ (0.06)         | \$ (0.09)                 |

*See accompanying notes to condensed consolidated interim financial statements*

**CLEARWATER SEAFOODS INCORPORATED**  
**Condensed Consolidated Interim Statements of Loss and Other Comprehensive**  
**(Loss) Income**

*unaudited*

*(In thousands of Canadian dollars)*

| 13 weeks ended  | March 30, 2013 |         | March 31, 2012 |         |
|---|----------------|---------|----------------|---------|
| Loss for the period   | \$             | (1,762) | \$             | (2,927) |
| Other comprehensive (loss) income -                             |                |         |                |         |
| Items that may be reclassified subsequently to (loss) earnings: |                |         |                |         |
| Foreign currency translation differences of foreign operations  |                | (157)   |                | 622     |
| Total comprehensive loss for the period                         | \$             | (1,919) | \$             | (2,305) |
| Total comprehensive (loss) income attributable to:              |                |         |                |         |
| Non-controlling interest  | \$             | 1,488   | \$             | 1,840   |
| Shareholders of Clearwater                                      |                | (3,407) |                | (4,145) |
|   | \$             | (1,919) | \$             | (2,305) |

*See accompanying notes to condensed consolidated interim financial statements*

# CLEARWATER SEAFOODS INCORPORATED

## Condensed Consolidated Interim Statements of Shareholders' Equity

unaudited

(In thousands of Canadian dollars)

|  | Common<br>Shares | Retained<br>earnings<br>(deficit) | Cumulative<br>Translation<br>Account | Non-<br>controlling<br>interest | Total      |
|--|------------------|-----------------------------------|--------------------------------------|---------------------------------|------------|
| Balance at January 1, 2012                       | \$ 65,309        | \$ (835)                          | \$ (3,122)                           | \$ 32,700                       | \$ 94,052  |
| <b>Total comprehensive loss for the period</b>   | -                | (4,767)                           | 622                                  | 1,840                           | (2,305)    |
| <b>Transactions recorded directly in equity</b>  |                  |                                   |                                      |                                 |            |
| Distributions to non-controlling interest        | -                | -                                 | -                                    | (4,376)                         | (4,376)    |
| Total transactions with shareholders             | -                | -                                 | -                                    | (4,376)                         | (4,376)    |
| Balance at March 31, 2012                        | \$ 65,309        | \$ (5,602)                        | \$ (2,500)                           | \$ 30,164                       | \$ 87,371  |
| <b>Total comprehensive income for the period</b> | -                | 19,776                            | (1,366)                              | 5,855                           | 24,265     |
| <b>Transactions recorded directly in equity</b>  |                  |                                   |                                      |                                 |            |
| Distributions to non-controlling interest        | -                | -                                 | -                                    | (5,115)                         | (5,115)    |
| Redemption of 2013 convertible debentures        | (442)            | 442                               | -                                    | -                               | -          |
| Total transactions with shareholders             | (442)            | 442                               | -                                    | (5,115)                         | (5,115)    |
| Balance at December 31, 2012                     | \$ 64,867        | \$ 14,616                         | \$ (3,866)                           | \$ 30,904                       | \$ 106,521 |
| <b>Total comprehensive loss for the period</b>   | -                | (3,250)                           | (157)                                | 1,488                           | (1,919)    |
| <b>Transactions recorded directly in equity</b>  |                  |                                   |                                      |                                 |            |
| Distributions to non-controlling interest        | -                | -                                 | -                                    | (4,463)                         | (4,463)    |
| Total transactions with shareholders             | -                | -                                 | -                                    | (4,463)                         | (4,463)    |
| Balance at March 30, 2013                        | \$ 64,867        | \$ 11,366                         | \$ (4,023)                           | \$ 27,929                       | \$ 100,139 |

See accompanying notes to condensed consolidated interim financial statements

# CLEARWATER SEAFOODS INCORPORATED

## Condensed Consolidated Interim Statements of Cash Flows

*unaudited*

*(In thousands of Canadian dollars)*

| 13 weeks ended   | March 30,<br>2013  | March 31,<br>2012 |
|--|--------------------|-------------------|
| <b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b> |                    |                   |
| Operating  |                    |                   |
| Loss for the period  | \$ (1,762)         | \$ (2,927)        |
| Items not involving cash:  |                    |                   |
| Depreciation and amortization  | 5,874              | 5,478             |
| Net finance costs  | 1,804              | 2,289             |
| Share-based compensation   | 1,246              | (34)              |
| Gain on disposal of property, plant, and equipment, and other            | (85)               | (67)              |
| Loss in equity investee  | 226                | 220               |
| Other  | (25)               | (373)             |
|  | <b>7,278</b>       | <b>4,586</b>      |
| Change in operating working capital (Note 9)                             | (11,431)           | (926)             |
| Interest expense   | 4,489              | 5,397             |
| Interest paid  | (5,534)            | (4,193)           |
| Income tax (recovery) expense  | (1,915)            | 651               |
| Income tax paid  | (128)              | (830)             |
|  | <b>\$ (7,241)</b>  | <b>\$ 4,685</b>   |
| Financing  |                    |                   |
| Repayment of long-term debt  | \$ (11,208)        | \$ (10,527)       |
| Proceeds from long-term debt   | -                  | 9,484             |
| Proceeds of asset based revolving credit facility                        | -                  | 4,785             |
| Distributions to non-controlling interest                                | (4,463)            | (4,376)           |
|  | <b>\$ (15,671)</b> | <b>\$ (634)</b>   |
| Investing  |                    |                   |
| Purchase of property, plant, equipment, and other                        | \$ (2,797)         | \$ (5,360)        |
| Proceeds on disposal of property, plant, equipment, and other            | 105                | 67                |
| Purchase of other assets   | (23)               | -                 |
| Net (advances) receipts in long term receivables                         | (242)              | 767               |
|  | <b>\$ (2,957)</b>  | <b>\$ (4,526)</b> |
| <b>DECREASE IN CASH</b>  | <b>\$ (25,869)</b> | <b>\$ (475)</b>   |
| <b>CASH, BEGINNING OF PERIOD</b>   | <b>41,504</b>      | <b>9,216</b>      |
| <b>CASH, END OF PERIOD</b>   | <b>\$ 15,635</b>   | <b>\$ 8,741</b>   |

*See accompanying notes to condensed consolidated interim financial statements*



# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

### 1. DESCRIPTION OF THE BUSINESS

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

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

The condensed consolidated interim financial statements of Clearwater as at March 30, 2013, December 31, 2012 and January 1, 2012 and for the 13 weeks ended March 30, 2013 and March 31, 2012 comprise the company, its subsidiaries and a joint venture. Clearwater’s business includes the ownership and operation of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

### 2. BASIS OF PREPARATION

#### (a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board and should be read in conjunction with the annual audited financial statements and the accompanying notes for the year ended December 31, 2012 (included in Clearwater’s 2012 Annual Report) which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

The financial statements were authorized for issue by Clearwater’s Board of Directors on May 8, 2013.

The preparation of these condensed consolidated interim financial statements is based on accounting policies and practices consistent with those used in the preparation of the annual audited December 31, 2012 financial statements, except as described below.

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

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

##### IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements replaces the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation-Special Purpose Entities. IFRS 10 provides additional guidance on determining control for the purposes of consolidation.

Clearwater determined that the adoption of IFRS 10 did not result in any change to the consolidation of its subsidiaries.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

### IFRS 11 Joint Arrangements

IFRS 11 Joint Arrangements, replaces IAS 31 Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement.

Clearwater's adoption of IFRS 11 changed the classification of an entity from a joint operation proportionately consolidated to a joint venture. An investment in a joint venture is accounted for using the equity method as set out in IAS 28 Investments in Associates and Joint Ventures (amended in 2011).

This change in accounting as at January 1, 2012 resulted in the aggregation of Clearwater's proportionate share of the entity's net assets and items of profit and loss into single line items. The adjustments to the condensed consolidated interim statements of financial position, statements of earnings, and cash flows are as follows:

### Impact of application of IFRS 11 to Condensed Consolidated Interim Statements of Financial Position

| In thousands of Canadian dollars                      | As at December<br>31, 2012<br>(Previously stated) | Elimination of<br>carrying values of<br>entity<br>proportionately<br>consolidated | Presentation of<br>entity using equity<br>method | As at December<br>31, 2012<br>(Restated) |
|---|---|---|--|--|
| <b>ASSETS</b>   |   |   |  |  |
| Current assets  | 148,758   | (1,127)   | -  | 147,631                                  |
| Non-current assets                                    | 263,392   | (4,102)   | 3,868  | 263,158                                  |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 412,150</b>                                 | <b>(5,229)</b>  | <b>3,868</b>                                     | <b>\$ 410,789</b>                        |
| <b>LIABILITIES</b>                                    |   |   |  |  |
| Current liabilities                                   | 64,169  | (129)   | -  | 64,040                                   |
| Non-current liabilities                               | 241,460   | (1,232)   | -  | 240,228                                  |
| <b>SHAREHOLDERS' EQUITY</b>                           | <b>75,617</b>                                     | <b>-</b>  | <b>-</b>   | <b>75,617</b>                            |
| Non-controlling interest                              | 30,904  | -   | -  | 30,904                                   |
|   | 106,521   | -   | -  | 106,521                                  |
| <b>TOTAL SHAREHOLDERS' EQUITY AND<br/>LIABILITIES</b> | <b>\$ 412,150</b>                                 | <b>(1,361)</b>  | <b>-</b>   | <b>\$ 410,789</b>                        |

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

| In thousands of Canadian dollars                      | As at January 1,<br>2012<br>(Previously stated) | Elimination of<br>carrying values of<br>entity<br>proportionately<br>consolidated | Presentation of<br>entity using equity<br>method | As at January 1,<br>2012<br>(Restated) |
|---|---|---|--|--|
| <b>ASSETS</b>   |   |   |  |  |
| Current assets  | 125,823   | (1,930)   | -  | 123,893                                |
| Non-current assets                                    | 262,069   | (4,123)   | 4,566  | 262,512                                |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 387,892</b>                               | <b>(6,053)</b>  | <b>4,566</b>                                     | <b>\$ 386,405</b>                      |
| <b>LIABILITIES</b>                                    |   |   |  |  |
| Current liabilities                                   | 86,614  | (258)   | -  | 86,356                                 |
| Non-current liabilities                               | 207,226   | (1,229)   | -  | 205,997                                |
| <b>SHAREHOLDERS' EQUITY</b>                           | <b>61,352</b>                                   | <b>-</b>  | <b>-</b>   | <b>61,352</b>                          |
| Non-controlling interest                              | 32,700  | -   | -  | 32,700                                 |
|   | 94,052  | -   | -  | 94,052                                 |
| <b>TOTAL SHAREHOLDERS' EQUITY AND<br/>LIABILITIES</b> | <b>\$ 387,892</b>                               | <b>(1,487)</b>  | <b>-</b>   | <b>\$ 386,405</b>                      |

### Impact of application of IFRS 11 to Condensed Consolidated Interim Statements of Loss

| In thousands of Canadian dollars | 13 weeks ended<br>March 31, 2012<br>(Previously stated) | Elimination of<br>entity proportionately<br>consolidated | Presentation of<br>entity using equity<br>method | 13 weeks ended<br>March 31, 2012<br>(Restated) |
|----------------------------------|---|--|--|--|
| Sales                            | \$ 70,884   | (6)  | -  | \$ 70,878                                      |
| Cost of goods sold               | 59,033  | (262)  | -  | 58,771   |
|                                  | 11,851  | 256  | -  | 12,107   |
| Administrative and selling       | 8,142   | (93)   | -  | 8,049  |
| Net finance costs                | 6,971   | -  | -  | 6,971  |
| Other income                     | (989)   | 22   | 221  | (746)  |
| Research and development         | 109   | -  | -  | 109  |
|                                  | 14,233  | (71)   | 221  | 14,383   |
| Loss before income taxes         | (2,382)   | 327  | -  | (2,276)  |
| Income tax expense               | 545   | 106  | -  | 651  |
| <b>Loss for the period</b>       | <b>\$ (2,927)</b>                                       | <b>\$ 221</b>  | <b>\$ -</b>                                      | <b>\$ (2,927)</b>                              |

# **CLEARWATER SEAFOODS INCORPORATED**

## **Notes to Condensed Consolidated Interim Financial Statements**

*unaudited*  
(In thousands of Canadian dollars)

### **IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 Disclosure of Interests in Other Entities provides a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). Clearwater has adopted IFRS 12 effective January 1, 2013. The adoption of IFRS 12 will result in incremental disclosures in the annual consolidated financial statements.

### **IFRS 13 Fair Value Measurement**

IFRS 13, Fair value measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

Clearwater adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Clearwater added additional disclosures on fair value measurement in note 5(e).

### **(c) Critical judgments and estimates in applying accounting policies**

In preparing these condensed consolidated interim financial statements, the significant judgments made in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements for the year ended December 31, 2012, (refer to Note 2(e) of the 2012 annual audited consolidated financial statements) with the exception of changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim periods are accrued using the effective annual income tax rate.

## **3. SEASONALITY**

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 maintenance on vessels, higher investments in working capital, harsher weather conditions, seasonality in consumer demand and other commitments in the first half of the year and higher catch rates resulting in additional saleable product typically occur in the second half of the year.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### 4. LONG TERM DEBT

|   | March 30,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Revolving loan, due in 2017 (a)               | \$ -              | \$ -                 |
| Term loans (b)                                |                   |                      |
| Term loan A, due 2017                         | 68,467            | 72,259               |
| Term loan B, due 2018                         | 121,558           | 125,781              |
| Term loan B, embedded derivative              | 3,882             | 4,205                |
| Senior first lien loan - repaid in June 2012  | -                 | -                    |
| Senior second lien loan - repaid in June 2012 | -                 | -                    |
| 2013 Convertible Debentures                   | -                 | -                    |
| 2014 Convertible Debentures (c)               | 44,620            | 44,722               |
| Marine mortgage, due in 2017 (d)              | 2,604             | 2,697                |
| Term loan, due in 2091 (e)                    | 3,500             | 3,500                |
| Glitnir payable                               | -                 | -                    |
| Other loans                                   | 499               | 627                  |
|   | <b>245,130</b>    | <b>253,791</b>       |
| Less: current portion                         | <b>(48,793)</b>   | <b>(15,527)</b>      |
|   | <b>\$ 196,337</b> | <b>\$ 238,264</b>    |

(a) The revolving loan is limited to 90% of eligible receivables and up to 75% of eligible inventory to a maximum of \$65.0 million, denominated in both CDN of \$ nil million at March 30, 2013 and December 31, 2012 and USD of \$ nil million at March 30, 2013 and December 31, 2012 and maturing in June 2017. The CDN balances bear interest at the banker's acceptance rate plus 2.5%. The USD balances bear interest at the US Libor rate plus 2.5%. As of March 30, 2013 this results in effective rates of 4.5% for CDN balances and 4.7% for USD balances. The loan is secured by a first charge on accounts receivable, cash and cash equivalents, and inventory subject to certain limitations, 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 would be included in the current portion of long-term debt as it would be typically drawn using short-term instruments that mature within 1-3 months. The loan has an accordion provision that, subject to certain conditions, allows Clearwater to expand the facility by a maximum of CDN \$20.0 million.

(b) Term loans consist of a CDN \$75.0 million Term Loan A facility and a USD \$134.0 million Term Loan B facility.

Term Loan A - The principal outstanding as at March 30, 2013 is CDN \$ 70.2 million (December 31, 2012 - \$74.1 million). The balance is shown net of deferred financing charges of

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

CDN 1.7 million (December 31, 2012 \$1.8 million). The loan is repayable in quarterly installments of \$0.5 million to June 2015, \$1.4 million from September 2015 to June 2016 and \$2.3 million from September 2016 to March 2017 with the balance of \$52.8 million due at maturity in June 2017. Bears interest payable monthly at an annual rate of banker's acceptance plus 4.5%. As at March 30, 2013 this resulted in an effective rate of 5.8%. The loan is secured by a second charge on accounts receivable, cash and cash equivalents, and inventory subject to certain limitations, as well as a first charge on marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries. The loan has an accordion provision that subject to certain conditions allows Clearwater to expand the facility by a maximum of CDN \$25.0 million.

As required by the Term Loan A agreement Clearwater entered into an interest rate swap to effectively swap the variable interest rate for a fixed rate for an initial 40% or \$30 million of the outstanding Term Loan A debt facility. As principal balances for the Term Loan A decline due to scheduled repayments, the balance of the swap will also decline proportionately. As at March 30, 2013 this interest rate swap effectively locks in the interest rate on 42% or \$29.8 million of the Term Loan A facility at an effective interest rate of 6.29%.

Term loan B - The principal outstanding as at March 30, 2013 is USD \$126.3 million (December 31, 2012 USD \$133.3 million). The balance is shown net of deferred financing charges of USD \$2.4 million (December 31, 2012 USD \$2.6 million). The loan is repayable in quarterly installments of USD \$0.3 million with the balance of USD \$119.3 million due at maturity in June 2018. Bears interest payable monthly at an annual rate of US Libor plus 5.5% with a Libor interest rate floor of 1.2%. As of March 30, 2013 this resulted in an effective rate of 6.7%. The loan is secured by a second charge on accounts receivable, cash and cash equivalents, and inventory subject to certain limitations, as well as a first charge on marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries. The loan has an accordion provision that, subject to certain conditions allows Clearwater to expand the facility by a maximum of USD \$50.0 million. The embedded derivative represents the fair market value of the Libor interest rate floor of 1.2%. The change in fair market value of the embedded derivative is recorded through profit or loss.

In addition to the minimum principal payments for Term Loan A and B, the loan agreement requires between 25% and 50% of excess cash flow (as defined in the loan agreement) to be repaid based on the previous fiscal year's results upon approval of the annual financial statements. Payments are allocated on a pro rata basis. In March 2013 Clearwater repaid \$11.1 million of its principal outstanding balance.

- (c) 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. The debt component of the debentures is recorded at estimated fair value through profit or loss, the equity component is recorded in share capital. The principal amount outstanding as at March 30, 2013 is \$44.4 million (December 31, 2012 - \$44.4 million).

To redeem the 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

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

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 2014 debentures pay interest semi-annually in arrears on March 31 and September 30. 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 95.0% of the market price of the shares at that time, plus accrued interest in cash.

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

|     | March 30,<br>2013 | December 31,<br>2012 |
|-----|-------------------|----------------------|
| YEN | 128,991           | 128,991              |
| DKK | 6,044             | 6,044                |
| CDN | 154               | 154                  |

The mortgage bears interest at UNIBOR plus 1% payable semi-annually. Principal payments are required annually as follows:

|     | 2013   | 2014   | 2015   | 2016   | 2017  |
|-----|--------|--------|--------|--------|-------|
| YEN | 29,767 | 29,767 | 29,767 | 29,767 | 9,922 |
| DKK | 2,087  | 2,087  | 1,870  | -      | -     |
| CDN | 154    | -      | -      | -      | -     |

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

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

## 5. FINANCIAL INSTRUMENTS

Summary of derivative financial instrument position

|   | March 30,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| <b>Derivative financial assets</b>      |                   |                      |
| Forward foreign exchange contracts      | \$ 5,089          | \$ 4,185             |
| <b>Derivative financial liabilities</b> |                   |                      |
| Forward foreign exchange contracts      | (4,210)           | (3,439)              |
| Interest rate swap contract             | (262)             | (200)                |
|   | <b>\$ (4,472)</b> | <b>\$ (3,639)</b>    |

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

(a) At March 30, 2013 Clearwater had outstanding forward contracts as follows:

| Currency | Notional Amount (in 000's) | Average Contract Exchange Amount | Maturity | Fair Value Asset (Liability) |
|----------|----------------------------|----------------------------------|----------|------------------------------|
| Yen      | 2,155,000                  | 0.013                            | 2013     | \$ 5,004                     |
| Yen      | 120,000                    | 0.011                            | 2014     | 10                           |
| Euro     | 2,000                      | 1.338                            | 2014     | 75                           |
|          |                            |                                  |          | \$ 5,089                     |
| USD      | 94,500                     | 0.985                            | 2013     | \$ (2,170)                   |
| USD      | 5,000                      | 0.984                            | 2014     | (72)                         |
| Euro     | 43,000                     | 1.263                            | 2013     | (1,968)                      |
|          |                            |                                  |          | \$ (4,210)                   |

At December 31, 2012, Clearwater had outstanding forward contracts as follows:

| Currency | Notional Amount (in 000's) | Average Contract Exchange Amount | Maturity | Fair Value Asset (Liability) |
|----------|----------------------------|----------------------------------|----------|------------------------------|
| Yen      | 2,705,000                  | 0.013                            | 2013     | \$ 4,185                     |
| USD      | 82,500                     | 0.988                            | 2013     | \$ (640)                     |
| Euro     | 56,100                     | 1.270                            | 2013     | (2,799)                      |
|          |                            |                                  |          | \$ (3,439)                   |

(b) At March 30, 2013 Clearwater had an interest rate swap contract outstanding as follows:

|                                  | Average contracted fixed interest rate | Notional Amount (in 000's) | Fair Value Asset (Liability) |
|----------------------------------|--|----------------------------|------------------------------|
| Term Loan A - Interest rate swap | 6.29%                                  | 29,813                     | \$ (262)                     |



# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*  
(In thousands of Canadian dollars)

At December 31, 2012 Clearwater had an interest rate swap contract outstanding as follows:

|                                  | Average<br>contracted<br>fixed interest<br>rate | Notional<br>Amount (in<br>000's) | Fair Value<br>Asset<br>(Liability) |
|----------------------------------|---|----------------------------------|------------------------------------|
| Term Loan A - Interest rate swap | 6.29%   | 30,000 \$                        | (200)                              |

The interest rate swap declines proportionately with scheduled principal repayments of Term Loan A (Note 4 (b)). The outstanding balance of the swap is due upon maturity in May 2017.

### (c) Net finance costs

| 13 weeks ended  | March 30,<br>2013 | March 31,<br>2012 |
|---|-------------------|-------------------|
| Interest expense on financial liabilities                               | \$ 4,489          | \$ 5,397          |
| Amortization of deferred financing charges and accretion                | 367               | 207               |
|   | <b>4,856</b>      | <b>5,604</b>      |
| Fair value adjustment on convertible debentures and embedded derivative | (513)             | 3,235             |
| Foreign exchange and derivative contracts                               | 2,957             | (2,215)           |
| Debt settlement and refinancing fees                                    | 29                | 347               |
|   | <b>\$ 7,329</b>   | <b>\$ 6,971</b>   |

### (d) Foreign exchange and derivative contract gains and losses per note 5 (c)):

| 13 weeks ended                                      | March 30,<br>2013 | March 31,<br>2012 |
|---|-------------------|-------------------|
| Realized loss (income)                              |                   |                   |
| Foreign exchange contracts                          | \$ (370)          | \$ (724)          |
| Working capital                                     | 1,385             | (338)             |
|   | <b>1,015</b>      | <b>(1,062)</b>    |
| Unrealized (gain) loss                              |                   |                   |
| Foreign exchange on long term debt and other assets | 2,033             | (932)             |
| Mark-to-market on foreign exchange contracts        | (153)             | (221)             |
| Mark-to-market on interest rate swap                | 62                | -                 |
|   | <b>1,942</b>      | <b>(1,153)</b>    |
|   | <b>\$ 2,957</b>   | <b>\$ (2,215)</b> |

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

unaudited

(In thousands of Canadian dollars)

### Fair value of financial instruments

#### (e) Fair Value Hierarchy

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

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

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

| March 30, 2013                   | Level 1  | Level 2    | Level 3 |
|----------------------------------|----------|------------|---------|
| <b>Recurring measurements</b>    |          |            |         |
| <b>Financial Assets:</b>         |          |            |         |
| Derivative financial instruments | -        | 5,089      | -       |
| \$                               | -        | \$ 5,089   | \$ -    |
| <b>Financial Liabilities:</b>    |          |            |         |
| Derivative financial instruments | -        | (4,210)    | -       |
| Convertible debentures           | (44,620) | -          | -       |
| Embedded derivative              | -        | (4,205)    | -       |
| Interest rate swap               | -        | (262)      | -       |
| \$                               | (44,620) | \$ (8,677) | \$ -    |
| <hr/>                            |          |            |         |
| December 31, 2012                | Level 1  | Level 2    | Level 3 |
| <b>Recurring measurements</b>    |          |            |         |
| <b>Financial Assets:</b>         |          |            |         |
| Derivative financial instruments | -        | 4,185      | -       |
| \$                               | -        | \$ 4,185   | \$ -    |
| <b>Financial Liabilities:</b>    |          |            |         |
| Derivative financial instruments | -        | (3,439)    | -       |
| Convertible debentures           | (44,722) | -          | -       |
| Embedded derivative              | -        | (4,205)    | -       |
| Interest rate swap               | -        | (200)      | -       |
| \$                               | (44,722) | \$ (7,844) | \$ -    |

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

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*(In thousands of Canadian dollars)*

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

- Derivative financial instruments are measured using quoted forward exchange rates at the statements of financial position dates.

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

- The embedded derivative and interest rate swap are measured using present value techniques. These models require a variety of inputs, including, but not limited to, contractual terms, market prices, forward price curves, yield curves, and credit spreads.

The inputs used in fair value models contain inherent uncertainties, estimates and use of judgment. Fair value is taken from observable markets where possible and estimated as necessary. Assumptions underlying the valuations require estimation of prices over time, discount rates, inflation rates, defaults and other relevant variables such as foreign exchange volatility.

There were no transfers between levels during the periods ended March 30, 2013 and December 31, 2012.

Fair value of financial instruments carried at amortized cost

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

The estimated fair value of Clearwater's financial liabilities whose carrying value does not approximate fair value at March 30, 2013 is \$7.2 million (December 31, 2012 - \$7.2 million) and the carrying value is \$6.5 million (December 31, 2012 – \$6.6 million)

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

### 6. LOSS PER SHARE

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

|   | March 30,<br>2013 | March 31,<br>2012 |
|---|-------------------|-------------------|
| Basic   |                   |                   |
| Loss for the period                           | \$ (3,250)        | \$ (4,767)        |
| Weighted average number of shares outstanding | 50,948,698        | 50,948,698        |
| Loss per share                                | \$ (0.06)         | \$ (0.09)         |
| Diluted                                       |                   |                   |
| Loss for the period                           | \$ (3,250)        | \$ (4,767)        |
| Weighted average number of shares outstanding | 50,948,698        | 50,948,698        |
| Loss per share                                | \$ (0.06)         | \$ (0.09)         |

The interest on the 2013 and 2014 convertible debentures results in anti-dilutive loss per share for March 30, 2013 and March 31, 2012. As a result for the period ended March 30, 2013 7,523,559 potential ordinary shares (March 31, 2012- 20,882,942) were not included in the calculation of the weighted average number of ordinary shares for the purpose of diluted loss per share.

### 7. SEGMENTED INFORMATION

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

#### (a) Sales by Species

| 13 weeks ended        | March 30,<br>2013 | March 31,<br>2012 |
|-----------------------|-------------------|-------------------|
|                       |                   | (Restated)        |
|                       |                   | (Note 2(b))       |
| Scallops              | \$ 25,082         | \$ 18,134         |
| Coldwater shrimp      | 19,929            | 21,688            |
| Lobster               | 13,054            | 14,650            |
| Clams                 | 9,945             | 15,321            |
| Ground fish and other | 287               | 899               |
| Crab                  | -                 | 186               |
|                       | \$ 68,297         | \$ 70,878         |

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

### (b) Sales by Geographic Region

| Year ended December 31 | March 30,<br>2013 | March 31,<br>2012         |
|------------------------|-------------------|---------------------------|
|                        |                   | (Restated)<br>(Note 2(b)) |
| China                  | \$ 10,193         | \$ 10,780                 |
| Japan                  | 6,005             | 9,959                     |
| Other                  | 3,398             | 4,896                     |
| Asia                   | 19,596            | 25,635                    |
| United States          | 12,367            | 12,981                    |
| Canada                 | 7,472             | 5,197                     |
| North America          | 19,839            | 18,178                    |
| France                 | 10,496            | 7,951                     |
| UK                     | 2,474             | 4,107                     |
| Russia                 | 4,126             | 4,241                     |
| Other                  | 10,869            | 10,193                    |
| Europe                 | 27,965            | 26,492                    |
| Other                  | 897               | 573                       |
|                        | \$ 68,297         | \$ 70,878                 |

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

|   | March 30,<br>2013 | December 31,<br>2012      | January 1,<br>2012        |
|---|-------------------|---------------------------|---------------------------|
|   |                   | (Restated)<br>(Note 2(b)) | (Restated)<br>(Note 2(b)) |
| <b>Property, plant and equipment, licences, fishing rights and goodwill</b> |                   |                           |                           |
| Canada  | \$ 222,234        | \$ 225,048                | \$ 230,682                |
| Argentina   | 12,358            | 12,886                    | 13,190                    |
| Other   | 257               | 257                       | 121                       |
|   | \$ 234,849        | \$ 238,191                | \$ 243,993                |

## 8. RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

Clearwater rents office space to CFFI (the controlling shareholder of Clearwater) and provides computer network support services to CFFI. Clearwater charges CFFI management and other fees for finance and administration services provided to CFFI by certain Clearwater staff for the 13 weeks ended March 30, 2013. CFFI charged management fees to Clearwater for legal, finance, and

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

administration services provided to Clearwater by certain CFFI staff for the 13 weeks ended March 31, 2012. 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 balances with CFFI, for the period ended March 30, 2013 and March 31, 2012:

|  | March 30,<br>2013 | March 31,<br>2012 |
|--|-------------------|-------------------|
| 13 weeks ended                                   |                   |                   |
| Opening balance due from CFFI                    | \$ 1,596          | \$ 2,111          |
| Management and other fees charged to (from) CFFI | 122               | (81)              |
| Rent and IT service fees charged to CFFI         | 46                | 46                |
| Interest on intercompany account                 | 19                | 28                |
| Guarantee fee charged from CFFI                  | -                 | (35)              |
| Payments from CFFI                               | (200)             | -                 |
| Advances to CFFI                                 | -                 | 227               |
| Other charges to CFFI                            | 19                | 30                |
|  | \$ 1,602          | \$ 2,326          |

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 2013 and the account has been classified as a current asset included in prepaids and other. The intercompany loan account is bearing interest at a rate of 5%. Fees amounting to 1% of the guarantees were being charged to Clearwater. With the debt refinancing on June 6, 2012 CFFI no longer provides a guarantee on the senior debt facilities for Clearwater.

In addition Clearwater expensed approximately \$0.02 million for vehicle leases for the 13 weeks ended March 30, 2013 (March 31, 2012 - \$0.05 million) and approximately \$0.01 million for other services for the 13 weeks ended March 30, 2013 (March 31, 2012 - \$0.01 million) from a company related to its parent. The transactions are recorded at the exchange amount and the balance due to this company was \$ nil million as at March 30, 2013 (March 31, 2012 - \$0.02 million).

At March 30, 2013 Clearwater had a long-term receivable of \$8.0 million (December 31, 2012 - \$7.7 million), included in other receivables, for advances and loans made to a non-controlling interest shareholder in a subsidiary.

# CLEARWATER SEAFOODS INCORPORATED

## Notes to Condensed Consolidated Interim Financial Statements

*unaudited*

*(In thousands of Canadian dollars)*

### 9. ADDITIONAL CASH FLOW INFORMATION

|                                      | 13 weeks ended |             |
|--------------------------------------|----------------|-------------|
|                                      | March 30,      | March 31,   |
| Changes in operating working capital | 2013           | 2012        |
|                                      |                | (Restated)  |
|                                      |                | (Note 2(b)) |
| Decreases in inventory               | 444            | 7,276       |
| Decreases in accounts payable        | (16,159)       | (8,754)     |
| Decreases in accounts receivable     | 3,019          | 2,293       |
| Decrease (increase) in prepaids      | 1,265          | (1,964)     |
| Increase in income taxes payable     | -              | 228         |
| Decrease in deferred income taxes    | -              | (5)         |
|                                      | \$ (11,431)    | \$ (926)    |

### 10. CONTINGENT LIABILITIES

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

## Quarterly and share (unit) information

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

|                             | 2013    |        |         | 2012    |         |        | 2011   |        |
|-----------------------------|---------|--------|---------|---------|---------|--------|--------|--------|
|                             | Q1      | Q4     | Q3      | Q2      | Q1      | Q4     | Q3     | Q2     |
| Sales                       | 68,297  | 92,957 | 101,640 | 84,966  | 70,884  | 87,140 | 97,590 | 78,820 |
| Net earnings (loss)         | (1,762) | 10,518 | 17,618  | (2,505) | (2,927) | 16,390 | 5,058  | (327)  |
| Per share (unit) data       |         |        |         |         |         |        |        |        |
| Basic net earnings (loss)   | (0.06)  | 0.17   | 0.30    | (0.08)  | (0.09)  | 0.28   | 0.05   | (0.02) |
| Diluted net earnings (loss) | (0.06)  | 0.15   | 0.27    | (0.08)  | (0.09)  | 0.23   | 0.05   | (0.02) |

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

|  | Q1         | Q4         | Q3         | Q2         | Q1         | Q4         | Q3         | Q2         |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Trading price range of shares (units) (board lots) |            |            |            |            |            |            |            |            |
| High   | 5.30       | 4.15       | 2.90       | 2.70       | 2.40       | 2.85       | 3.32       | 1.73       |
| Low  | 4.00       | 2.50       | 2.36       | 2.02       | 1.85       | 2.10       | 1.31       | 1.35       |
| Close  | 4.85       | 4.00       | 2.50       | 2.48       | 2.27       | 2.39       | 2.35       | 1.47       |
| Trading volumes (000's)                            |            |            |            |            |            |            |            |            |
| Total  | 6,709      | 1,906      | 1,265      | 1,350      | 1,089      | 831        | 3,907      | 1,544      |
| Average daily                                      | 110        | 31         | 21         | 22         | 18         | 13         | 63         | 26         |
| Shares (Units) outstanding at end of quarter       |            |            |            |            |            |            |            |            |
| Shares/Units                                       | 50,948,698 | 50,948,698 | 50,948,698 | 50,948,698 | 50,948,698 | 50,948,698 | 27,565,943 | 27,745,695 |
| Special  | -          | -          | -          | -          | -          | -          | 23,381,217 | 23,381,217 |
| Total  | 50,948,698 | 50,948,698 | 50,948,698 | 50,948,698 | 50,948,698 | 50,948,698 | 50,947,160 | 51,126,912 |



## **CORPORATE INFORMATION**

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### **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.

**Jim Dickson**  
Partner, Stewart McKelvey

### **EXECUTIVE OF CLEARWATER SEAFOODS 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

**Rob O'Sullivan**  
Vice-President Sales – Americas

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

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

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

### **INVESTOR RELATIONS**

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

### **AUDITORS**

**KPMG LLP**  
Halifax, Nova Scotia

### **SHARES LISTED**

**Toronto Stock Exchange**  
SHARE Symbol CLR  
Convertible Debenture symbol: CLR.DB.A

### **TRANSFER AGENT**

**Computershare Investor Services Inc.**

**Clearwater Seafoods Incorporated**

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