Clearwater Seafoods Incorporated
2012 Second Quarter Report

Clearwater

Dedicated to Sustainable Seafood Excellence

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LETTER TO SHAREHOLDERS

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  - Gross margin increased to 19.4% versus 16.1%
  - EBITDA grew by 24.7% to $27.5 million

Clearwater reported sales of $85.0 million and EBITDA of $16.5 million in the second quarter of 2012 versus 2011 comparative figures of $78.8 million and $12.0 million representing growth of 7.8% in sales and growth of 37.1% in EBITDA.

Clearwater reported year-to-date sales of $155.9 million and EBITDA of $27.5 million versus 2011 comparative figures of $148.1 million and $22.0 million representing growth of 5.3% in sales and growth of 24.7% in EBITDA.

The growth in EBITDA came as a result of higher sales prices and higher sales volumes, partially offset by a shift to lower margin species and higher harvesting and procurement costs per pound in certain species. This resulted in quarterly gross margins of 21.6% versus 16.0% percent and year to date gross margins of 19.4% versus 16.1%

Year to date Clearwater experienced higher sales volumes due mostly to the timing of offshore coldwater shrimp landings and strong market response in China.

On June 6, 2012 Clearwater reported that it had successfully completed a series of capital market transactions that will substantially improve its capital structure. These refinancings provide a number of benefits including:

1. Further strengthening of Clearwater's liquidity position - At closing there was in excess of $20 million in availability on the asset based revolving credit facility which, when combined with expected strong cash flows in the last half of the year, is expected to result in an ongoing strong liquidity position. On August 6, 2012 Clearwater reported that it had exercised a USD $10 million accordion option under its Term Loan B credit facilities. The net proceeds were used to repay balances owing on the asset based revolving credit facility.

2. Reduction in Clearwater's cost of capital - Clearwater's weighted average cost of debt is expected to decrease by approximately 2% per annum yielding a reduction of annual interest costs that, based on the debt facilities outstanding at close, approximates $4.6 million per annum.

3. Provides a solid and more flexible capital structure to allow management to continue to build shareholder value.

The Company recorded a one-time charge of $5.9M to Q2 and 2012 YTD earnings due to break fees and financing fees that were expensed in relation to the refinancing and the paying out of existing debt facilities.

Outlook

Management expects earnings to remain strong in the second half of the year as inventory levels decline and margin improvements from better catch rates are realized in gross margins.

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 incomes and purchasing power of middle class consumers in emerging economies.

The supply of wild seafood is limited and is expected to lag 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.

Vertically integrated seafood company’s like Clearwater are well positioned to take advantage of this opportunity because of its licenses, premium product quality, diversity of species, global sales footprint, and year-round harvest and delivery capability.

Management is satisfied with the progress made in the second quarter and year-to-date towards our 2012 long term financial targets.

The Company's continuing strong earnings momentum, the $450 million independent valuation of our quotas by TriNav Fisheries Consultants Inc. and the positive ratings issued by Moody's and Standard and Poors all contributed to Clearwater’s ability to refinance its debt facilities on favourable terms in the second quarter, thereby providing the Company with the capital structure necessary to execute our growth plans while further reducing overall leverage.

The MSC certification of our Arctic surf clams and Nova Scotia snow crab fisheries in July 2012 further supports our leadership position in sustainable seafood and our aspiration to be the world's most extraordinary, wild seafood company.

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

Management's commitment to creating shareholder value

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

1. Growing EBITDA sustainably - Clearwater has demonstrated its ability to consistently grow EBITDA in a sustainable manner. As of the second quarter of 2012 the Company's rolling 4 quarter EBITDA grew by 23.5% to $65.7 million as compared to same period ended July 2, 2011. This is driven by growth in EBITDA in both the latter half of 2011 and the first half of 2012 which saw EBITDA grow by 24.7%. Management expects revenue growth to accelerate through the balance of the year as higher value fisheries like Canadian Sea Scallops move into peak harvest and demand season. In addition, Clearwater will continue to lever its strengths and its vertical integration to win in existing segments while capturing a growing share of the seafood value chain through the introduction of value-added new products in core species.

2. Generating strong free cash flows – Clearwater is focused on generating increasing free cash flows on an annualized basis and plans to accomplish this through generating strong cash earnings, managing its working capital and carefully planning and managing its capital expenditure program. It is important to understand that Clearwater's operations have a predictable seasonal pattern in which EBITDA is higher in the second half of the year and capital expenditures and inventories are higher in the first half of the year. This results in lower free cash flows, higher debt balances and higher leverage in the first half of the year. Free cash flows for the second quarter of 2012 decreased to a net investment of $26.9 million primarily as a result of the increased investment in inventory and higher accounts receivable, due to the timing of sales. The increase in inventory was due to strong catch rates which enabled Clearwater to catch product earlier and at a lower cost. Management will reduce the investment in working capital as the harvest is expected to wind up earlier due to the strong catch rates. This will result in strong positive free cash flow in the second half of 2012 in line with Clearwater's annual goals for 2012.

3. Improving leverage and committing to leverage targets – As of the second quarter of 2012 leverage increased to 4.07 versus 3.85 as at December 31,

2011. During the second half of the year Clearwater will make a meaningful reduction in working capital which in turn will reduce debt and leverage such that it is projected that the year-end leverage ratio will be lower than year-end 2011. Clearwater has committed to further leverage reductions to achieve a target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt.

4. Improving the capital structure - On June 6, 2012 Clearwater reported that it had successfully completed a series of capital market transactions that substantially improved its capital structure. These transactions included a new Canadian $65 million Asset Based Revolving Credit Facility ("ABL"), a Canadian $75 million Term Loan A facility and a US $125 million Term Loan B facility. The proceeds from these facilities were used to redeem $43.4 million of 10.5% convertible debentures, US $54.5 million of 12% second lien debt and Canadian $74.2 million in existing senior term notes. These financings build on Clearwater's relationship with its lenders and will enable it to reduce projected interest costs by approximately $4.6 million annually, strengthens liquidity and provide the capital structure necessary to execute growth plans while further reducing overall leverage.

5. Focused management of foreign exchange - Clearwater has implemented a new focused and targeted foreign exchange hedging program to reduce the impact of volatility in exchange rates on earnings. This, combined with stronger processes for price management, reduces the impact of exchange rate volatility on the business. During the quarter Clearwater completed a refinancing of its facilities that allowed it to expand its coverage such that Clearwater has approximately 72% of its US Dollar, Euro and Yen exposures for the remainder of 2012 hedged at rates of 1.03, 1.30 and 0.0129 respectively.

6. Building world class leadership, management, sales and marketing capabilities - In the past quarter Clearwater hired Jeff Duffin as Vice-President of Marketing and Jim Dickson joined the Board of Directors. Jeff brings over 15 years of experience in marketing and innovation from the tier 1 global fast moving consumer goods (FMCG) companies including The Pillsbury Company Ltd. He has already begun to implement best in class programs for consumer and customer research, new product development and category management at Clearwater. Mr. Dickson is a partner with the Atlantic Canadian based law firm Stewart McKelvey where he practices Corporate and Commercial law including securities law, corporate finance, mergers and acquisitions, corporate governance; intellectual property and natural resources.

7. Communicating underlying asset values - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. In April 2012 an independent appraisal of these quotas was completed by TriNav Fisheries Consultants which placed a value on the quotas

of $453 million. Clearwater obtained further independent support for the value in these licenses on July 17, 2012 when it received the Marine Stewardship Council (MSC) certification for its Arctic surf clam fishery. In combination with the recent certification of the Nova Scotia snow crab fishery, 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. These certifications represent a collection of significant milestones for Clearwater. The deep-water clam fishery is the first of its kind globally to obtain MSC certification, while the snow crab fishery certification is the first in North America. These species join the Clearwater family of MSC-certified offerings including Canadian sea scallops, Argentine scallops, Canadian coldwater shrimps and Eastern Canadian offshore lobster.

Clearwater's financial targets for creating shareholder value include:

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

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

Management is satisfied with Clearwater's progress towards achieving all of these goals in 2012.

Sales growth year-to-date was 5.3% in line with expectations and is expected to result in Clearwater hitting its 5% annual sales growth target.

Year-to-date EBITDA as expressed as a percentage of sales continues to be strong at 19.4% and is expected to remain strong in the latter half of the year resulting in an annual rate stronger than that realized in fiscal 2011.

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

Finally, leverage increased in the first half of 2012 as compared to December 31, 2011 due to expected and planned seasonality. During the second half of the year Clearwater will record a meaningful reduction in working capital which in turn will reduce debt and leverage moving it towards the goal of achieving target leverage of 3.0 by 2014.

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

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

Management also believes that it has the people, processes and financial resources to execute this strategy to create value for its shareholders 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
August 9, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis (“MD&A”) was prepared effective August 9, 2012.

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

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

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

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

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

There have been no significant changes in Clearwater’s internal controls over financial reporting or other factors that occurred during the period from April 1, 2012 to June 30, 2012, that have materially affected, or are reasonably likely to materially affect the Company’s internal controls over financial reporting.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

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

OVERVIEW OF CLEARWATER

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

performance of clearwater seafoods incorporated

(including key performance indicators)

performance of clearwater seafoods incorporated

(including key performance indicators)

	Rolling 12 month period ending 06/30/12	12/31/11	07/02/11	Target	
Profitability					
EBITDA (as a % of sales)	**19.3%**	**18.1%**	**17.5%**	**15.0%**	Clearwater experienced continued growth in EBITDA as a percentage of sales. This positive momentum has continued through the first half of 2012.
Sales growth	**5.3%**	**5.5%**	**10.1%**	**5.0%**	Strong 2012 sales came as a result of improved sales prices for all major species and strong demand for coldwater shrimp.
Financial Performance					
Leverage*	**4.07**	**3.85**	**4.23**	**3.00**	Clearwater's total debt increased from $247.1 million at December 31, 2011 to $277.7 million at June 30, 2012 and the leverage ratio increased to 4.07 at June 30, 2012 from 3.85 in December 31, 2011. The increase in leverage is a result of an increased investment in inventory and higher accounts receivable, due to the timing of sales. The increase in inventory was due to strong catch rates which enabled Clearwater to catch product earlier and at a lower cost. Management will reduce the investment in working capital as the harvest is expected to wind up earlier due to the strong catch rates. During the second half of the year Clearwater expects to experience a meaningful reduction in working capital which in turn will reduce debt and leverage such that the year-end leverage ratio will be lower than year-end 2011.
Free cash flows	**(15,481)**	**4,454**	**(11,497)**	**N/A**	Free cash flows declined to a net investment of $15.5 million for the rolling 12 month period ending June 30, 2012, versus positive free cash flow of $4.5 million at December 31, 2011 as a result of substantial investments in inventory, higher period end receivables and planned investments in property, plant and equipment. Positive free cash flows, at levels similar to 2011, are expected to be generated as Clearwater reduces the investment in working capital. Clearwater believes these investments will position it to grow free cash flows in subsequent years.
Returns					
Return on assets*	**11.1%**	**10.5%**	**10.4%**	**12.0%**	Return on assets has improved from 10.5% at December 31, 2011 to 11.1%, a continuing trend of significant improvement. The target of 12.0% is expected to be accomplished over the next several years.

Note: Refer to definitions * Target to be accomplished over several years

Clearwater reported sales of $85.0 million and EBITDA of $16.5 million in the second quarter of 2012 versus 2011 comparative figures of $78.8 million and $12.0 million representing growth of 7.8% in sales and growth of 37.1% in EBITDA.

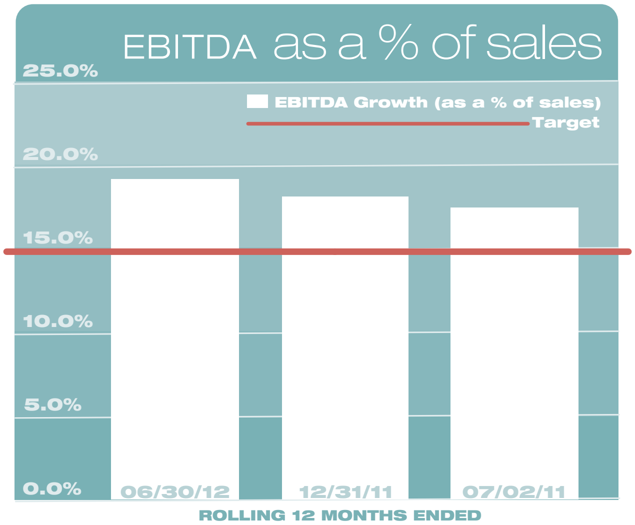
Clearwater reported year-to-date sales of $155.9 million and EBITDA[1] of $27.5 million on versus 2011 comparative figures of $148.1 million and $22.0 million representing growth of 5.3% in sales and growth of 24.7% in EBITDA.

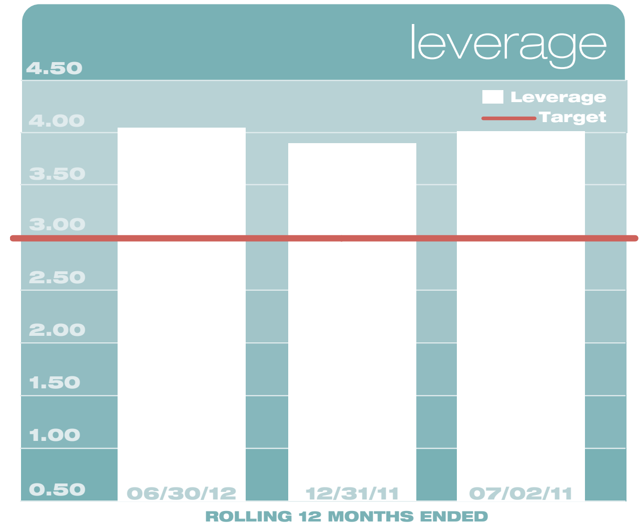
The 24.7% growth in year-to-date EBITDA came as a result of higher sales prices and higher sales volumes, partially offset by a shift to lower margin species and higher harvesting and procurement costs per pound in certain species.

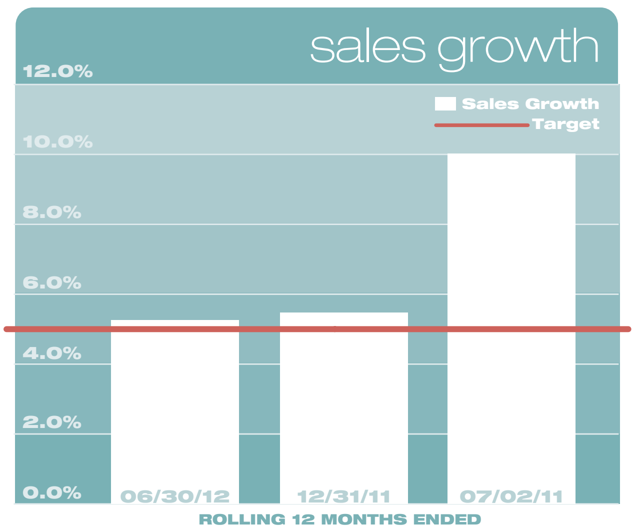
Clearwater experienced higher sales volumes in the first six months of 2012 due mostly to the timing of offshore coldwater shrimp landings and strong market response in China that was partially offset by limited volumes of scallops available for sale in the quarter due to management's decision to begin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

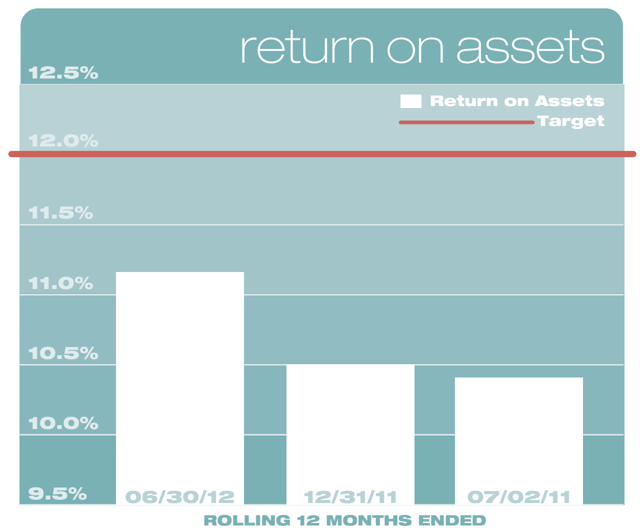
Free cash flows were an investment of $15.5 million for the rolling 12 month period ending June 30, 2012, versus a positive free cash flow generated of $4.5 million at December 31, 2011 as a result of substantial investments in inventory, higher period end receivables and planned investments in property, plant and equipment.

Investments of $21.0 million in inventory were made during the second quarter of 2012 as a result of the









timing of landings, strong catch rates for sea scallops and the start of the summer lobster buy.

Clearwater started the 2012 sea scallop harvest later than in the past several years to take advantage of better fishing and fishing bank conditions that historically were present later in the first quarter. This allowed Clearwater to fully leverage its automated shucking technology ("AST"). AST has had a significant positive impact on catch rates. These higher catch rates enabled Clearwater to reduce its harvesting costs. The improved catch rates have allowed management to reduce its expected fishing effort in the third and fourth quarters while fully harvesting its scallop quota prior to the end of the year.

Investments in coldwater shrimp and clams also increased for the year as a result of the timing of landings and a planned delay in the harvesting of Turbot as both vessels harvested coldwater shrimp in the first quarter of 2012.

Management expects to realize the benefit of the planned investment in inventory over the last half of 2012 as inventory levels decline and cost improvements from better catch rates are realized in gross margins.

Management is satisfied with the progress made towards our 2012 annual plan as well as the increasing consumer demand for our premium, wild, sustainably harvested seafood. Market demand for our products continues to be strong across all major segments and we have every expectation that our earnings momentum will continue through fiscal 2012 as inventory levels return to lower levels during the last half of the year.

1 – Refer to definition of EBITDA

EXPLANATION OF YEAR TO DATE EARNINGS

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

Overview

The statements of earnings reflect the earnings (loss) of Clearwater for the 26 weeks ended June 30, 2012 and July 2, 2011.

In 000's of Canadian dollars	June 30 2012	July 2 2011
Sales	$ 155,850	$ 148,055
Cost of goods sold	125,621	124,253
Gross margin	30,229	23,802
	19.4%	*16.1%*
Administrative and selling	15,648	14,758
Finance costs	19,999	20,461
Gain on change in control of joint venture	-	(11,571)
Other income	(1,310)	(2,556)
Research and development	424	156
	34,761	21,248
Earnings (loss) before income taxes	(4,532)	2,554
Income taxes	900	1,047
Earnings (loss)	$ (5,432)	$ 1,507

Earnings (loss)

Excluding a one-time accounting gain in 2011, earnings improved by $4.6 million in 2012 as compared to 2011. Earnings, including the one-time gain declined by $6.9 million. In 2011 earnings were unusually high due to a non-cash gain of $11.6 million from the acquisition of an entity previously proportionally consolidated. Improvements to net earnings were largely due to:

- Operational improvements - sales revenue growth of 5.3% from higher sales volumes and higher prices.

- improvements in non-cash and non-routine items – a lower fair value adjustment on long-term debt and higher foreign exchange income on exchange contracts primarily from weakening spot rates on the Yen against the Canadian dollar.

These improvements were partially offset by debt settlement and refinancing fees of $6.2 million related to the $264 million debt refinancing that was completed in June 2012. This refinancing further strengthens Clearwater's liquidity position, reduces its cost of capital and provides for a capital structure to allow management to continue to build strong shareholder value.

In 000's of Canadian dollars 26 weeks ended		June 30 2012		July 2 2011		Change
Net earnings	$	(5,432)	$	1,507	$	(6,939)
Explanation of changes in earnings:						
Gain on change in control of joint venture						(11,571)
Higher gross margin						6,427
Higher fees on settlement of debt						(4,784)
Lower fair value adjustment on long term debt						2,604
Higher foreign exchange income						1,712
Lower other income						(1,246)
Lower interest expense						930
All other						(1,011)
					$	(6,939)

The 24.7% growth in year to date EBITDA[1] came as a result of higher sales prices and higher sales volumes, partially offset by a shift to lower margin species and higher harvesting and procurement costs per pound in certain species. Clearwater experienced higher volumes in 2012 due mostly to the timing of offshore coldwater shrimp landings.

1 – Refer to definition of EBITDA

Sales by region

In 000's of Canadian dollars 26 weeks ended		June 30 2012		July 2 2011		Change	%
Europe	$	53,532	$	52,282	$	1,250	2.4
United States		28,002		28,207		(205)	(0.7)
Canada		17,411		17,931		(520)	(2.9)
Asia							
Japan		23,225		21,581		1,644	7.6
China		23,777		19,797		3,980	20.1
Other Asia		8,900		6,950		1,950	28.1
Other		1,003		1,307		(304)	(23.3)
	$	155,850	$	148,055	$	7,795	5.3

Europe

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

European sales increased $1.3 million to $53.5 million, from $52.3 million for the first half of 2012 primarily as a result of an increase in sales volume for coldwater shrimp and strong selling prices for certain species.

A reduction in sales volumes for scallops and lobster partially offset the increase in sales prices as customer demand slowed during the first half. In addition, available supply for Canadian scallops declined in the first quarter as a result of the timing of landings. This was partially due to management's decision to fish later in the first quarter when catch rates improved substantially.

Foreign exchange rates for sales to Europe, which are primarily transacted in the Euro and the UK Pound, decreased during the first half of the year as the Euro declined 5.5% relative to the Canadian dollar from 1.38 in the first half of 2011 to 1.30 in 2012, while the UK Pound declined 0.4% from 1.58 to 1.57 over the same period.

United States

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

Sales in the United States declined $0.2 million, or 0.7%, to $28.0 million as a result of a reduction in sales volumes for snow crab and lower available supply of Canadian scallops.

This was partially offset by an increase in sales volumes for lobster and Argentine scallops and an increase in sales price for scallops. Lobster volumes increased due in part to sales growth of processed product to the cruise line segment.

Also partially offsetting the lower volumes previously noted was a strengthening of the US dollar against the Canadian dollar. Average foreign exchange rates for the US dollar increased by 3.1% to 1.01 in 2012 from 0.976 in 2011.

Canada

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

Sales within Canada declined $0.5 million, or 2.9% primarily as a result of a decline in sales volumes for scallops and lobster due to lower available supply for both species. The decline in scallops was caused by a difference in the timing of landings for Canadian scallops due to management's decision to harvest later in the first half. Sales volumes for lobster declined as available supply was sold to other higher yielding markets.

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

Japan

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

Sales to Japan increased 7.6%, or $1.6 million primarily as a result of strong sales volumes for coldwater shrimp due to higher availability of landings and higher market demand. Strong sales prices for clams, and coldwater shrimp also contributed to the increase in sales. In addition clam sales mix was weighted towards product with higher margins.

There was a decline in sales volumes for turbot, due to the decision not to fish turbot in the first half of the year, which partially offset the increase in sales in Japan.

Finally, average foreign exchange rates for the Yen improved during the quarter by 5.6% to 0.013 for 2012, contributing to the increase in sales.

China

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

Sales to China increased $4.0 million, or 20.1%, to $23.8 million for the first half of the year primarily as a result of an increase in market demand for coldwater shrimp and lobster. In addition strong selling prices for clams, lobster, and coldwater shrimp contributed to the increase in sales.

Lower available supply volumes for turbot partially offset the increase in sales.

Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar contributing to the increase in sales. Average foreign exchange rates for the US dollar increased by 3.1% to 1.01 in 2012 from 0.976 in 2011.

Sales by species

In 000's of Canadian dollars 26 weeks ended		June 30 2012		July 2 2011		Change	%
Scallops	$	45,458	$	51,717		(6,259)	(12.1)
Coldwater shrimp		38,599		23,343		15,256	65.4
Clams		33,764		29,785		3,979	13.4
Lobster		30,652		30,385		267	0.9
Crab		6,043		4,534		1,509	33.3
Ground fish and other		1,334		8,291		(6,957)	(83.9)
	$	155,850	$	148,055	$	7,795	5.3

Improvements in sales were a result of price increases for the majority of species and an increase in sales volumes for coldwater shrimp as both of the Company's shrimp vessels fished coldwater shrimp in the first half of 2012 versus 2011 when one vessel fished turbot. The increase in sales was partially offset by lower supply volumes for Canadian scallops and turbot.

Cost of Goods Sold

In 000's of Canadian dollars 26 weeks ended		June 30 2012		July 2 2011		Change	%
Harvesting and procurement	$	84,081	$	85,396	$	(1,315)	(1.5)
Manufacturing		15,587		14,095		1,492	10.6
Freight, customs and other transport		10,146		9,510		636	6.7
Depreciation		10,619		9,530		1,089	11.4
Administrative		5,174		5,709		(535)	(9.4)
Other		14		13		1	7.7
	$	125,621	$	124,253	$	1,368	1.1

Cost of goods sold increased $1.4 million or 1.1% to $125.6 million primarily due to an increase in manufacturing costs resulting from an increase in labour costs related to the production and sale of goods due to higher volumes sold. In addition higher freight, customs and transportation costs resulted from increased volumes and increased sales to the Asian market as well as higher depreciation charges.

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

Fuel costs for our vessels increased $1.3 million for the first half of 2012 to $11.4 million. This increase was a result of an increase of the average price per litre of fuel of $0.14, partially offset by a decline in volumes consumed. Clearwater's vessels used approximately 30.2 million litres of fuel in 2011. Based on 2011 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $0.3 million.

Manufacturing includes labour costs related to the production of goods, plant utilities and supplies. Labour costs increased for the year as a result of higher production levels and scheduled increases in wages, salaries and benefits. Production costs also increased during the year primarily as a result of an increase in plant utilities, repairs and maintenance and storage.

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

Depreciation expense from assets used in the harvesting and production of goods increased $1.1 million to $10.6 million as a result of vessel refits and other additions that were completed at the end of 2011 and the first quarter of 2012.

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

Gross margin

Gross margin improved $6.4 million, or 27.0% to $30.2 million versus 23.8 million in 2011, an improvement of 3.3%. Gross margin was positively impacted by increases in sales prices in certain species, price increases achieved in 2011 that were maintained during the first half of 2012 for other species and an increase in sales volumes for coldwater shrimp.

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

Margins were positively impacted by higher average foreign exchange rates for US dollars and the Japanese Yen that resulted in improvements in sales and gross margin of $3.3 million. Lower average foreign exchange rates for the Euro and the UK Pound partially offset the improvement in foreign exchange. The net impact from foreign exchange was an increase in sales and gross margins of $1.4 million for 2012.

In 000's of Canadian dollars	June 30, 2012		July 2, 2011		
26 weeks ended Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	46.3%	1.006	43.3%	0.976	3.1%
Euros	20.2%	1.300	22.5%	1.376	-5.5%
Japanese Yen	14.4%	0.013	14.2%	0.012	8.3%
UK pounds	3.1%	1.573	3.9%	1.580	-0.4%
Canadian dollar and other	16.0%		16.1%		
	100.0%		100.0%		

Administration and selling

In 000's of Canadian dollars 26 weeks ended		June 30 2012		July 2 2011		Change	%
Employee compensation	$	13,586	$	13,350	$	236	1.8
Consulting and professional fees		2,568		1,891		677	35.8
Other		2,042		1,621		421	26.0
Selling costs		805		972		(167)	(17.2)
Travel		1,031		949		82	8.6
Occupancy		704		659		45	6.8
Donations		310		494		(184)	(37.2)
Allocation to cost of goods sold		(5,398)		(5,178)		(220)	4.2
	$	15,648	$	14,758	$	890	6.0

Administration and selling costs increased $0.90 million, or 6.0%, to $15.6 million due to an increase in consulting and professional fees and an increase in information technology expenditures**.**

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. The increase in costs relate in part to recruiting costs, legal fees and technology development and risk consulting fees.

Other costs include a variety of administrative expenses such as travel, communication, computing, service fees, depreciation, gains/losses and write downs of assets, all of which will vary from year to year. The increase of $0.42 million was primarily as a result of an increase in information technology expenditures.

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

Occupancy includes rent, utilities and property taxes and has remained consistent year over year.

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

Finance costs

In 000's of Canadian dollars 26 weeks ended		June 30 2012		July 2 2011
Interest and bank charges	$	11,091	$	10,398
Amortization of deferred financing charges		461		2,084
Interest on current and long term debt		11,552		12,482
Fair value adjustment on convertible debentures		3,000		5,604
Foreign exchange and derivative contracts		(750)		962
Debt settlement and refinancing fees		6,197		1,413
	$	19,999	$	20,461

On June 6, 2012 Clearwater completed a $264 million refinancing of its debt facilities. The refinancing was completed to further strengthen Clearwater's liquidity position, reduce cost of capital and provide for a capital structure to allow management to continue create shareholder value.

The refinancing reduces Clearwater's cost of capital through paying out $43.4 million 10.5% convertible debentures, US $54.5 million 12% second lien debt, and Canadian $74.2 million 6.75% first lien debt with new term facilities with current interest rates of 5.8% and 6.7% for the term loan A and term loan B, respectively.

Interest declined $1.0 million for the first half of 2012 as a result of a decline in the amortization of deferred financing charges. The 2011 interest expense includes amortization of deferred financing charges for ISK denominated bonds and the GE term facilities that were refinanced in the first quarter of 2011.

Interest and bank charges increased $0.69 million as a result of the timing of the payout of the convertible debentures on July 10, 2012 and the completion of the financing of the new debt facilities.

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.

Foreign exchange and derivative contracts

In 000's of Canadian dollars 26 weeks ended	June 30 2012	July 2 2011
Realized loss (income)		
Foreign exchange contracts	$ (758)	$ 458
Working capital	955	694
	197	1,152
Unrealized (gain) loss		
Foreign exchange on long term debt	(56)	(1,174)
Mark-to-market on foreign exchange contracts	(891)	(103)
Mark-to-market on interest and currency swaps	-	1,087
	(947)	(190)
	$ (750)	$ 962

Foreign exchange and derivative gains increased $1.7 million primarily as a result of gains of $0.9 million and $0.8 million in unrealized and realized foreign exchange contracts, respectively.

Gains are a result of mark to market adjustments and settlements of foreign exchange contracts primarily from weakening spot rates on the Yen against the Canadian dollar.

The gains were partially offset by realized foreign exchange losses of $1.0 million in 2012 versus $0.7 million in 2011 on working capital as well as unrealized foreign exchange gains on long term debt of $0.06 million versus $1.2 million as average foreign exchange rates for US dollars continued to strengthen against the Canadian dollar from 0.976 in 2011 to 1.001 in 2012. In addition the improvement is also due to there being no mark to market adjustments in interest rate and currency swaps as they were settled in the first quarter of 2012.

Debt settlement and refinancing fees represent fees incurred for the settlement or refinancing of long term debt and will vary from year to year.

The debt settlement costs of $6.2 million in 2012 include $3.1 million in refinancing fees and early payment fees related to refinancing of debt facilities in June 2012 and $3.0 million of write-offs of deferred financing charges associated with the previously existing revolving debt facility and second lien loan.

For 2011, debt settlement and refinancing fees include a gain of $1.8 million related to the settlement of the ISK denominated bonds, $2.8 million in fees resulting from the refinancing of the senior first lien loan debt facilities, and $0.38 million in refinancing and restructuring fees.

Gain on change in control of joint venture

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

Other income

In 000's of Canadian dollars 26 weeks ended		June 30 2012		July 2 2011
Royalties and fees	$	(376)	$	(1,633)
Other		(934)		(923)
	$	(1,310)	$	(2,556)

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

Research and Development

Research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year to year depending on the scope, timing and volume of research completed. Clearwater's business plans call for increased investment in research and development in 2012 and subsequent years.

CAPITAL STRUCTURE AND LIQUIDITY MANAGEMENT

Capital Structure

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

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

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

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

Clearwater's capital structure is as follows as at June 30, 2012 and December 31, 2011:

In 000's of Canadian dollars As at	June 30 2012	December 31 2011
Equity		
Common shares	$ 65,309	$ 65,309
Accumulated deficit	(9,476)	(835)
Cumulative translation account	(2,703)	(3,122)
	53,130	61,352
Non-controlling interest	30,375	32,700
	83,505	94,052
Long term debt		
Subordinated debt		
2013 convertible debentures	43,418	43,573
Deposit on escrow for the 2013 convertible debentures	(43,418)	-
2014 convertible debentures	44,460	41,632
	44,460	85,205
Senior debt, non-amortizing		
Term loan, due in 2091	3,500	3,500
Second lien loan, due 2016	-	43,822
Glitnir liability	-	14,500
	3,500	61,822
Senior debt, amortizing		
Term Loan A, due 2017	73,003	-
Term Loan B, due 2018	123,718	-
First lien loan, due 2015	-	77,250
Revolving debt, matures in 2017	29,529	17,513
Marine mortgage, matures in 2017	2,851	4,470
Other loans	684	840
	229,785	100,073
Total long term debt	277,745	247,100
Total capital structure	$ 361,250	$ 341,152

Equity consists of common shares, accumulated deficit, cumulative translation account and non-controlling interest. There are 50,948,698 shares outstanding as of June 30, 2012 (December 31, 2011 - 50,948,698).

On June 6, 2012 Clearwater completed a $264 million refinancing in new debt facilities. The refinancing was completed to further strengthen Clearwater's 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 of Canadian $43.4 million 10.5% convertible debentures, ("Debentures").As of June 30, 2012 the funds received as part of the refinancing related to the principal amount of $43.4 million plus accrued interest were held in escrow and on July 10, 2012 were used to redeem the debentures in full.
- 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, was used to pay down the balance on the existing asset based revolving credit facility to $16.3 million.

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

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

The convertible debentures consist of 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 June 30, 2012 was $44.4 million (December 31, 2011 - $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. The debentures pay interest March 31 and September 30 for the 2014 debentures. Subject to regulatory approval, Clearwater may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of shares equal to the amount due divided by 95% of the market price of the 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 $75.0 million, is repayable in quarterly instalments of $0.50 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 $2.0 million. The loan bears interest at an annual rate of banker's acceptance plus 4.5%, payable monthly. As of June 30, 2012 this resulted in a rate of 5.80%. 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.

The term loan B has a principal balance of USD $124.0 million, repayable in quarterly instalments of $0.31 million with the balance of $116.8 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 June 30, 2012 this resulted in an interest rate of 6.75%. The balance in Canadian on June 30, 2012 was $123.7 million and is recorded net of deferred financing charges of $3.0 million.

On August 6, 2012 Clearwater reported that it had exercised a USD $10 million accordion option under its Term Loan B credit facilities. The net proceeds were used to repay balances owing on the asset based revolving credit facility. The loan contains an accordion provision that subject to certain conditions allows Clearwater to expand the facility by a maximum of USD $50 million.

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

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 CDN balances bear interest at the banker's acceptance rate plus 2.5%. The USD balances bear interest rate at the US Libor rate plus 2.5%. As of June 30, 2012 this results in rates of 4.5% for CDN balances and 2.9% for USD balances.

The loan is secured by a first charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a second charge on marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries. The loan has an accordion provision that subject to certain conditions allows Clearwater to expand the facility by a maximum of CDN $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 EBITDA is a better measure to evaluate our capital structure and we have provided that information in the liquidity section.

Conversion from a Trust to a Corporation

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

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

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

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

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

Liquidity Management

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

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

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

- **Liquidity** - As of June 30, 2012 Clearwater had $10.2 million in cash, and a revolving loan with an outstanding balance of $29.5 million. The cash balance, together with available credit on the revolving loan, is used to manage seasonal working capital demands, capital expenditures, and other commitments. Due to the seasonality in Clearwater's business, sales and gross profit are typically higher in the second half of the calendar year than in the first half of the year and capital expenditures are typically higher in the first half of the year. This typically results in Clearwater using up some of its liquidity in the first half of the year.

- **Free cash flows** - Clearwater's short-term goal is to generate cash flows from operations to fund interest, scheduled loan payments, capital expenditures and to use this free cash flow to reduce debt and invest in growth investments. 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		26 weeks ended		12 month Rolling	
Free cash flows	**June 30, 2012**	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
EBITDA	16,512	12,042	27,492	22,043	65,733	53,207
Less:						
Cash interest	(5,694)	(5,106)	(11,091)	(10,384)	(22,218)	(20,973)
Cash taxes	(462)	(887)	(1,273)	(1,774)	(3,136)	(4,954)
Other non-EBITDA items	(3,939)	(352)	(4,241)	(4,440)	(25,978)	(6,028)
Change in working capital	(24,772)	(8,721)	(24,886)	(6,453)	(11,110)	(5,197)
Cash flows from operating activities	(18,355)	(3,024)	(14,000)	(1,008)	3,292	16,056
Uses of cash:						
Purchase of property, plant, equipment, quota and other assets	(5,792)	(7,664)	(11,153)	(12,544)	(19,848)	(19,971)
Less: Designated borrowings	2,056	-	2,056	3,223	18,056	3,223
Scheduled payments on long-term debt	(3,653)	(2,549)	(4,681)	(3,439)	(6,227)	(7,191)
Distributions to non-controlling interests	(1,159)	(473)	(5,534)	(2,327)	(10,754)	(3,614)
Free cash flows	(26,902)	(13,710)	(33,312)	(16,095)	(15,481)	(11,497)
Add/(less):						
Other debt borrowings (repayments) of debt	28,367	15,001	33,137	29,683	15,773	20,140
Other investing activities	(77)	914	690	(7,393)	6	(5,147)
Other financing activities	-	-	-	(577)	(951)	(782)
Change in cash flows for the period per statement of cash flows	1,388	2,205	515	5,618	(653)	2,714

Refer to definitions for free cash flows

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

Clearwater's operations have a predictable seasonal pattern in which EBITDA is higher in the second half of the year and capital expenditures are higher in the first half of the year. This typically results in lower free cash flow, higher debt balances and higher leverage in the first half of the year.

Free cash flows were an investment of $15.5 million for the rolling 12 month period ending June 30, 2012, versus a free cash flow generated of $4.5 million at December 31, 2011 as a result of substantial investments in inventory, higher period end receivables and planned investments in property, plant and equipment.

Investments of $21.0 million in inventory were made during the second quarter of 2012 as a result of the timing of landings, strong catch rates for sea scallops and the start of the summer lobster buy.

	13 weeks ended		26 weeks ended	
Changes in working Capital	June 30	July 2	June 30	July 2
In 000's of Canadian dollars	2012	2011	2012	2011
Increases in inventory	(21,024)	(11,697)	(13,798)	(4,221)
Increases (decreases) in accounts payable	3,239	8,519	(4,316)	2,036
Increases in accounts receivable	(5,715)	(3,276)	(3,387)	(2,357)
Decreases (increases) in prepaids	347	(264)	(1,498)	(71)
Decreases in income taxes payable	(1,601)	(1,481)	(1,505)	(1,233)
Increases (decreases) in deferred income taxes	(19)	(522)	(384)	(607)
	$ (24,773)	$ (8,721)	$ (24,888)	$ (6,453)

Clearwater started the 2012 sea scallop harvest later than in the past several years to take advantage of better fishing and fishing bank conditions that historically were present later in the first quarter. This allowed Clearwater to fully leverage its automated shucking technology ("AST"). AST has had a significant impact on catch rates. These higher catch rates enabled Clearwater to reduce its harvesting costs. The improved catch rates have allowed management to reduce its expected fishing effort in the third and fourth quarters while fully harvesting its scallop quota prior to the end of the year.

Investments in coldwater shrimp and clams also increased for the year as a result of the timing of landings and a planned delay in the harvesting of Turbot as both vessels harvested coldwater shrimp in the first quarter of 2012.

Management expects to realize the benefit of the planned investment in inventory over the last half of 2012 as inventory levels decline and cost improvements from better catch rates are realized in gross margins.

Receivable balances increased during the second quarter of 2012 by $5.7 million as a result of the timing of sales which occurred later in the quarter. Receivable aging improved to 90% current in June 2012 from 85.1% in June 2011. Improvements in liquidity are expected to be recognized within the third quarter as the receivables are collected.

Investments in capital expenditures of $11.1 million for the first half of 2012 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 expenditures that have less than the average cost of capital are classified as maintenance as are all refits.

  On average, Clearwater expects to invest $10-15 million a year in maintaining its fixed assets with a further $10-14 million of repairs and maintenance expensed and included in the cost of goods sold. In 2012 it expects to invest approximately $20.3 million in fixed assets excluding repairs, of which $15.5 million relates to maintenance, capital investments and $4.8 million to investments to improve efficiencies.

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

- Leverage - As part of its continuing review of leverage levels Clearwater benchmarked itself versus a number of seafood and food companies and determined that it should target to reduce its leverage to 3.0 or less within 2 years. As Clearwater’s operations have a predictable seasonal pattern in which

EBITDA is higher in the second half of the year and significant investments in capital expenditures and inventories occur in the first half of the year, Clearwater's total debt increased from $247.1 million at December 31, 2011 to $277.7 million at June 30, 2012 and the leverage ratio increased to 4.07 at June 30, 2012 from 3.85 in December 31, 2011.

The increase in leverage is a result of a substantial investment in inventory and planned investments in property, plant and equipment. Investments in capital expenditures of $11.1 million for the first half of 2012 primarily resulted from planned vessel refits.

Management expects to realize the benefit of the planned investment in inventory over the last half of 2012 as inventory levels decline and improvements from better catch rates are realized in higher gross margin and reduced leverage.

In 000's of Canadian dollars As at	June 30 2012	December 31 2011	July 2 2011
EBITDA	$ 65,733	$ 60,284	53,207
Net debt	267,505	232,375	225,049
Net debt leverage	4.07	3.85	4.23
Senior debt (per below)	226,250	140,528	139,950
Senior debt leverage	3.44	2.33	2.63
Debt per balance sheet	277,745	247,100	235,941
Less cash	(10,240)	(14,725)	(10,892)
Net debt	267,505	232,375	225,049
Subordinated debt	51,495	106,572	95,991
Senior debt	226,250	140,528	139,950
Term loan A	73,003	-	-
Term loan B	123,718	-	-
First lien loan	-	77,250	68,250
Second lien loan	-	45,765	41,652
Revolver	29,529	17,513	30,048
Senior debt	$ 226,250	$ 140,528	$ 139,950

1 – Refer to the definition of EBITDA

- **Foreign Exchange Management** – Exchange rates for US dollars and the Japanese Yen resulted in improvements in sales and gross margin of $3.3 million for the year to date period ended June 30, 2012. Lower average foreign exchange rates for the Euro and the UK Pound partially offset the improvement in foreign exchange. The net impact from foreign exchange was an increase of sales and gross margin of $1.3 million for the same period.

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

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

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

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

(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.

    At the end of June 2012 Clearwater had forward exchange contracts to be settled in 2012 of USD $40.0 million for at an average rate of 1.03, 1.4 billion Yen at an average rate of .013 and 31.5 million Euro at an average rate of 1.296. Clearwater also had forward exchange contracts to be settled in 2013 of 1.3 billion Yen at an average rate of .013 and 24.6 million Euro at an average rate of 1.294.

As a result of its continued focus on increasing gross margin and managing its investments in working capital and capital assets, Clearwater expects to improve its liquidity position in the second half of 2012 and it believes that it has sufficient financial resources to execute on its strategy and business plan.

EXPLANATION OF SECOND QUARTER EARNINGS

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

Overview

The statements of earnings reflect the earnings (loss) of Clearwater for the 13 weeks ended June 30, 2012 and July 2, 2011.

In 000's of Canadian dollars	June 30 2012	July 2 2011
Sales	$ 84,966	$ 78,820
Cost of goods sold	66,588	66,181
Gross margin	18,378	12,639
	21.6%	*16.0%*
Administrative and selling	7,506	6,997
Finance costs	13,028	7,170
Other income	(321)	(1,661)
Research and development	315	194
	20,528	12,700
Loss before income taxes	(2,150)	(61)
Income taxes	355	266
Loss	$ (2,505)	$ (327)

Earnings (loss)

Earnings declined by $2.2 million as compared to 2011 as a result of higher one-time financing costs relating to the refinancing of certain debt in the quarter. These costs were partially offset by improvements in gross margin. Sales revenue grew of 7.8% as a result of higher prices and sales volumes.

In 000's of Canadian dollars 13 weeks ended	June 30 2012	July 2 2011	Change
Net earnings	$ (2,505)	$ (327)	$ (2,178)
Explanation of changes in earnings:			
Higher gross margin			5,739
Higher fees on settlement of debt			(5,850)
Lower other income			(1,340)
Lower fair value adjustment on long term debt			908
Lower foreign exchange income			(518)
Higher interest expense			(398)
All other			(719)
			$ (2,178)

The 37.1% growth in second quarter EBITDA[1] came as a result of higher sales prices and higher sales volumes, along with a shift towards species with lower harvesting cost per pound, primarily coldwater shrimp. This was partially offset by higher fuel costs and procurement costs per pound for lobster and shrimp.

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

1 – Refer to definition of EBITDA

Sales by region

In 000's of Canadian dollars 13 weeks ended		June 30 2012		July 2 2011		Change	%
Europe	$	27,039	$	25,108	$	1,931	7.7
United States		15,021		16,411		(1,390)	(8.5)
Canada		12,209		10,739		1,470	13.7
Asia							
Japan		13,266		11,973		1,293	10.8
China		12,997		11,089		1,908	17.2
Other Asia		4,005		2,928		1,077	36.8
Other		429		572		(143)	(25.0)
	$	84,966	$	78,820	$	6,146	7.8

Europe

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

European sales increased $1.9 million to $27.0 million, from $25.1 million for the second quarter of 2012 primarily as a result of an increase in sales volume for coldwater shrimp from an increase in available supply from the timing of landings and strong selling prices for lobster, coldwater shrimp, and Canadian scallops.

A reduction in sales volumes for lobster partially offset the improvement in sales prices as available supply was diverted to other markets with higher gross margins.

Foreign exchange rates for sales to Europe, which are primarily transacted in Euros and the UK Pounds, decreased during the quarter as the Euro declined 7.5% relative to the Canadian dollar from 1.39 in 2011 to 1.29 in 2012, and the UK Pound increased 1.0% from 1.58 to 1.60 over the same period.

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

Sales in the United States declined $1.4 million, or 8.5%, to $15.0 million in the second quarter as a result of a decline in sales volumes for Canadian scallops, lobster, and crab as available supply for snow crab and lobster was sold to other markets. The decline in scallops was caused by a difference in the timing of landings for Canadian scallops due to management's decision to harvest later in the first half.

The decline in sales was partially offset by an increase in sales volumes for Argentine scallops and strong sales prices for the majority of species.

For the quarter, the US dollar strengthened against the Canadian dollar contributing to the increase in sales. Average foreign exchange rates for the US dollar increased by 4.4% to 1.01 in 2012 from 0.969 in 2011.

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

Sales within Canada increased $1.5 million, or 13.7% for the second quarter primarily as a result of an increase in sales volumes for snow crab as the snow crab season started earlier than in the past.

The increase in sales was partially offset by a decline in available supply for Canadian scallops.

Japan

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

Sales to Japan increased 10.8% or by $1.3 million, to $13.3 million primarily as a result of strong sales volumes for clams and lobster. Strong market demand resulted in increased sales prices for coldwater shrimp and lobster. In addition clam sales mix was weighted towards product with higher margins.

A decline in sales volumes for turbot, as a result of availability of supply due to the decision not to fish turbot in the first half of the year, and a decision to direct available supply for coldwater shrimp to other higher margin markets, partially offset the increase in sales.

Average foreign exchange rates for the Yen improved during the quarter by 6.4% to 0.013 for 2012.

China

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

Sales to China increased $1.9 million, or 17.2%, to $13.0 million for the second quarter primarily as a result of an increase in market demand for coldwater shrimp and lobster. In addition strong selling prices for clams, lobster, and coldwater shrimp contributed to the increase in sales.

Lower available supply volumes for turbot partially offset the increase in sales as turbot was not harvested in the first half of 2012.

Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar contributing to the increase in sales. Average foreign exchange rates for the US dollar increased by 4.4% to 1.01 in 2012 from 0.969 in 2011.

Sales by species

In 000's of Canadian dollars 13 weeks ended	June 30 2012	July 2 2011	Change	%
Scallops	$ 27,318	$ 26,289	1,029	3.9
Clams	18,443	14,351	4,092	28.5
Coldwater shrimp	16,911	11,687	5,224	44.7
Lobster	16,002	16,728	(726)	(4.3)
Crab	5,857	4,534	1,323	29.2
Ground fish and other	435	5,231	(4,796)	(91.7)
	$ 84,966	$ 78,820	$ 6,146	7.8

Improvements in sales were a result of price increases for the majority of species as well as an increase in sales volumes for coldwater shrimp and snow crab as both of the Company's shrimp/turbot vessels fished coldwater shrimp in the first half of 2012 versus 2011 when one vessel fished turbot. The increase in sales was partially offset by lower supply volumes for turbot.

Cost of Goods Sold

In 000's of Canadian dollars 13 weeks ended		June 30 2012		July 2 2011		Change	%
Harvesting and procurement	$	44,817	$	45,322	$	(505)	(1.1)
Manufacturing		9,249		8,099		1,150	14.2
Freight, customs and other transport		4,786		4,890		(104)	(2.1)
Depreciation		5,224		4,873		351	7.2
Administrative		2,514		2,996		(482)	(16.1)
Other		(2)		1		(3)	(300.0)
	$	66,588	$	66,181	$	407	0.6

Cost of goods sold increased $0.4 million or 0.6% to $66.6 million primarily due to higher manufacturing costs from any increase in labour costs related to the production of goods. In addition these costs were impacted by higher production levels for scallops and clams.

Harvesting and procurement include all costs incurred in the operation of the vessels including labour, fuel, repairs and maintenance, fishing gear supplies, and other costs and fees plus procured raw material costs for species such as lobster, shrimp, scallops and crab. Harvesting costs declined in the second quarter primarily as a result of a mix of products weighted towards lower cost primarily coldwater shrimp. Higher fuel costs and procurement for lobster and shrimp partially offset the decline.

Fuel costs for our vessels increased from $5.1 million in the second quarter of 2011 to $5.9 million in 2012. This increase was a result of an increase in both the average price per litre of fuel of $0.10 and the litres consumed as there was an increase in number of landings and the pounds landed during the quarter.

Manufacturing includes labour costs related to the production of goods, plant utilities and supplies. Labour costs increased as a result of higher production levels and scheduled increases in wages, salaries and benefits. Production costs also increased during the year primarily as a result of an increase in plant utilities, repairs and maintenance and storage. These costs were impacted by higher production levels for scallops and clams.

Freight, customs and other transportation costs include freight, customs and duties, related to the transfer of goods before final sale.

Depreciation expense from assets used in the harvesting and production of goods increased $0.35 million to $5.2 million as a result of vessel refits and other additions that were completed at the end of 2011 and depreciated after completion.

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

Gross margin

Gross margin improved $5.7 million, or 45.4% to $18.4 million. Gross margin was positively impacted by increases in sales prices in certain species and an increase in sales volumes for coldwater shrimp and snow crab.

Lower turbot sales volumes, higher harvesting and fuel costs, direct and indirect wages and salaries; partially offset the improvement in margins.

Margins were positively impacted by higher average foreign exchange rates for US dollars and the Japanese Yen that resulted in improvements in sales and gross margin of $2.3 million. Lower average foreign exchange rates for the Euro partially offset the improvement in foreign exchange. The net impact from foreign exchange was an increase in sales and gross margin of $0.19 million for the second quarter.

In 000's of Canadian dollars	June 30, 2012		July 2, 2011		
13 weeks ended		Average rate		Average rate	Change
Currency	% sales	realized	% sales	realized	in rate
US dollars	45.1%	1.011	45.8%	0.968	4.4%
Euros	21.2%	1.290	20.2%	1.395	-7.5%
Japanese Yen	13.9%	0.013	13.6%	0.012	8.3%
UK pounds	2.4%	1.598	4.2%	1.581	1.1%
Canadian dollar and other	17.4%		16.2%		
	100.0%		100.0%		

Administration and selling

In 000's of Canadian dollars 13 weeks ended		June 30 2012		July 2 2011		Change	%
Employee compensation	$	6,744	$	7,043	$	(299)	(4.2)
Consulting and professional fees		1,166		1,030		136	13.2
Other		1,144		34		1,110	3,264.7
Selling costs		165		565		(400)	(70.8)
Travel		492		503		(11)	(2.2)
Occupancy		376		331		45	13.6
Donations		153		272		(119)	(43.8)
Allocation to cost of goods sold		(2,734)		(2,781)		47	(1.7)
	$	7,506	$	6,997	$	509	7.3

Administration and selling costs increased $0.51 million, or 7.3%, to $7.5 million as 2011 expenses were net of a $0.67 million gain on the disposal of non-core quota.

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

Other costs include a variety of administrative expenses such as travel, communication, computing, service fees, depreciation, gains/losses and write downs of assets, all of which will vary from year to year. The increase of $1.1 million was primarily as a result of a gain on disposal of non-core quota of $0.67 million in the second quarter of 2011.

Selling costs include advertising, marketing, trade shows, samples, product development and bad debt expenses. The decline in costs of $0.4 million to $0.2 million primarily relates to recovery for bad debts during the second quarter of 2012.

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

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

Finance costs

In 000's of Canadian dollars 13 weeks ended	June 30 2012	July 2 2011
Interest and bank charges	$ 5,694	$ 5,045
Amortization of deferred financing charges	254	505
Interest on current and long term debt	5,948	5,550
Fair value adjustment on convertible debentures	(235)	673
Foreign exchange and derivative contracts	1,465	947
Debt settlement and refinancing fees	5,850	-
	$ 13,028	$ 7,170

Interest increased $0.4 million for the second quarter as a result of an increase in interest expense as outstanding balances on the revolver were higher during the second quarter of 2012 as a result of changes in the timing of investments in working capital as landings for scallops were planned for the second quarter. In addition higher interest expense occurred as a result of the timing of the payout of the convertible debentures.

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

Foreign exchange and derivative contracts

In 000's of Canadian dollars 13 weeks ended	June 30 2012	July 2 2011
Realized loss (income)		
Foreign exchange contracts	$ (34)	$ 263
Working capital	1,293	(171)
	1,259	92
Unrealized (gain) loss		
Foreign exchange on long term debt	876	471
Mark-to-market on foreign exchange contracts	(670)	400
Mark-to-market on interest and currency swaps	-	(16)
	206	855
	$ 1,465	$ 947

Foreign exchange and derivative losses increased $0.52 million primarily as a result of an increase in realized losses of $1.2 million offset by a decrease in unrealized losses of $0.6 million.

Unrealized mark to market foreign exchange gains increased from a loss of $0.4 million in 2011 versus a gain of $0.67 million in the second quarter primarily from weakening spot rates on the Yen against the Canadian dollar.

Debt settlement and refinancing fees represents fees incurred for the settlement or refinancing of long term debt and will vary from year to year.

The debt settlement costs of $5.9 million in 2012 includes $2.9 million in refinancing fees and early payment fees related to the refinancing of debt facilities in June 2012 and $3.0 million in write off of non-cash deferred financing charges associated with the original revolving and the second lien loans.

Other income

In 000's of Canadian dollars 13 weeks ended		June 30 2012		July 2 2011
Royalties and fees	$	(64)	$	(906)
Other		(257)		(755)
	$	(321)	$	(1,661)

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

Research and Development

Research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year to year depending on the scope, timing and volume of research completed. Clearwater's business plans call for increased investment in research and development in 2012 and subsequent years.

OUTLOOK

Management expects earnings to remain strong in the second half of the year as inventory levels decline and margin improvements from better catch rates are realized in gross margins.

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 incomes and purchasing power of middle class consumers in emerging economies.

The supply of wild seafood is limited and is expected to lag 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.

Vertically integrated seafood company’s like Clearwater are well positioned to take advantage of this opportunity because of its licenses, premium product quality, diversity of species, global sales footprint, and year-round harvest and delivery capability.

Management is satisfied with the progress made in the second quarter and year-to-date towards our 2012 long term financial targets.

The Company's continuing strong earnings momentum, the $450 million independent valuation of our quotas by TriNav Fisheries Consultants Inc. and the positive ratings issued by Moody's and Standard and Poors all contributed to Clearwater’s ability to refinance its debt facilities on favourable terms in the second quarter, thereby providing the Company with the capital structure necessary to execute our growth plans while further reducing overall leverage.

The MSC certification of our Arctic surf clams and Nova Scotia snow crab fisheries in July 2012 further supports our leadership position in sustainable seafood and our aspiration to be the world's most extraordinary, wild seafood company.

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

Management’s commitment to creating shareholder value

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

1. Growing EBITDA sustainably - Clearwater has demonstrated its ability to consistently grow EBITDA in a sustainable manner. As of the second quarter of 2012 the Company's rolling 4 quarter EBITDA grew by 23.5% to $65.7 million as compared to same period ended July 2, 2011. This is driven by growth in EBITDA in both the latter half of 2011 and the first half of 2012 which saw EBITDA grow by 24.7%. Management expects revenue growth to accelerate through the balance of the year as higher value fisheries like Canadian Sea Scallops move into peak harvest and demand season. In addition, Clearwater will continue to lever its strengths and its vertical integration to win in existing segments while capturing a growing share of the seafood value chain through the introduction of value-added new products in core species.

2. Generating strong free cash flows – Clearwater is focused on generating increasing free cash flows on an annualized basis and plans to accomplish this through generating strong cash earnings, managing its working capital and carefully planning and managing its capital expenditure program. It is important to understand that Clearwater's operations have a predictable seasonal pattern in which EBITDA is higher in the second half of the year and capital expenditures and inventories are higher in the first half of the year. This results in lower free cash flows, higher debt balances and higher leverage in the first half of the year. Free cash flows for the second quarter of 2012 decreased to a net investment of $26.9 million primarily as a result of the increased investment in inventory and higher accounts receivable, due to the timing of sales. The increase in inventory was due to strong catch rates which enabled Clearwater to catch product earlier and at a lower cost. Management will reduce the investment in working capital as the harvest is expected to wind up earlier due to the strong catch rates. This will result in strong positive free cash flow in the second half of 2012 in line with Clearwater's annual goals for 2012.

3. Improving leverage and committing to leverage targets – As of the second quarter of 2012 leverage increased to 4.07 versus 3.85 as at December 31, 2011. During the second half of the year Clearwater will make a meaningful reduction in working capital which in turn will reduce debt and leverage such that it is projected that the year-end leverage ratio will be lower than year-end 2011. Clearwater has committed to further leverage reductions to achieve a target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt.

4. Improving the capital structure - On June 6, 2012 Clearwater reported that it had successfully completed a series of capital market transactions that substantially improved its capital structure. These transactions included a new

Canadian $65 million Asset Based Revolving Credit Facility ("ABL"), a Canadian $75 million Term Loan A facility and a US $125 million Term Loan B facility. The proceeds from these facilities were used to redeem $43.4 million of 10.5% convertible debentures, US $54.5 million of 12% second lien debt and Canadian $74.2 million in existing senior term notes. These financings build on Clearwater's relationship with its lenders and will enable it to reduce projected interest costs by approximately $4.6 million annually, strengthens liquidity and provide the capital structure necessary to execute growth plans while further reducing overall leverage.

5. Focused management of foreign exchange - Clearwater has implemented a new focused and targeted foreign exchange hedging program to reduce the impact of volatility in exchange rates on earnings. This, combined with stronger processes for price management, reduces the impact of exchange rate volatility on the business. During the quarter Clearwater completed a refinancing of its facilities that allowed it to expand its coverage such that Clearwater has approximately 72% of its US Dollar, Euro and Yen exposures for the remainder of 2012 hedged at rates of 1.03, 1.30 and 0.0129 respectively.

6. Building world class leadership, management, sales and marketing capabilities - In the past quarter Clearwater hired Jeff Duffin as Vice-President of Marketing and Jim Dickson joined the Board of Directors. Jeff brings over 15 years of experience in marketing and innovation from the tier 1 global fast moving consumer goods (FMCG) companies including The Pillsbury Company Ltd. He has already begun to implement best in class programs for consumer and customer research, new product development and category management at Clearwater. Mr. Dickson is a partner with the Atlantic Canadian based law firm Stewart McKelvey where he practices Corporate and Commercial law including securities law, corporate finance, mergers and acquisitions, corporate governance; intellectual property and natural resources.

7. Communicating underlying asset values - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. In April 2012 an independent appraisal of these quotas was completed by TriNav Fisheries Consultants which placed a value on the quotas of $453 million. Clearwater obtained further independent support for the value in these licenses on July 17, 2012 when it received the Marine Stewardship Council (MSC) certification for its Arctic surf clam fishery. In combination with the recent certification of the Nova Scotia snow crab fishery, 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. These certifications represent a collection of significant milestones for Clearwater. The deep-water clam fishery is the first of its kind globally to obtain MSC certification, while the snow crab fishery certification is the first in North

America. These species join the Clearwater family of MSC-certified offerings including Canadian sea scallops, Argentine scallops, Canadian coldwater shrimps and Eastern Canadian offshore lobster.

Clearwater's financial targets for creating shareholder value include:

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

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

Management is satisfied with Clearwater's progress towards achieving all of these goals in 2012.

Sales growth year-to-date was 5.3% in line with expectations and is expected to result in Clearwater hitting its 5% annual sales growth target.

Year-to-date EBITDA as expressed as a percentage of sales continues to be strong at 19.4% and is expected to remain strong in the latter half of the year resulting in an annual rate stronger than that realized in fiscal 2011.

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

Finally, leverage increased in the first half of 2012 as compared to December 31, 2011 due to expected and planned seasonality. During the second half of the year Clearwater will record a meaningful reduction in working capital which in turn will reduce debt and leverage moving it towards the goal of achieving target leverage of 3.0 by 2014.

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

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

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

RISKS AND UNCERTAINTIES

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

Foreign exchange risk

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

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

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

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

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

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

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

(5) Foreign exchange hedging program - Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts to enables 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 from derivative contracts.

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

At the end of June 2012 Clearwater had forward exchange contracts to be settled in 2012 of USD $40.0 million for at an average rate of 1.03, 1.4 billion Yen at an average rate of 0.013 and 31.5 million Euro at an average rate of 1.296. Clearwater also had forward exchange contracts to be settled in 2013 of 1.3 billion Yen at an average rate of 0.013 and 24.6 million Euro at an average rate of 1.293.

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

Political risk

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

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

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

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

Resource supply risk

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

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

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

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

Capital availability and liquidity risk

There are risks associated with capital availability and liquidity including:

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

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

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

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

Clearwater's credit facilities contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Clearwater to incur additional indebtedness, to pay distributions or make certain payments and to sell or otherwise dispose of assets. In addition, they contain a number of financial covenants that require Clearwater to meet certain financial ratios and financial condition tests. A failure to comply with the covenants could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Clearwater would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facilities would be able to be refinanced. As of August 9, 2012 Clearwater is not in violation of the restrictive covenants.

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

Other risks

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

CRITICAL ACCOUNTING POLICIES

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

Conversion from Trust to Corporate Structure

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

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

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

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

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

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

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

Adoption of new and revised standards

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

SUMMARY OF QUARTERLY RESULTS

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

In 000's of Canadian dollars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2012				
Sales	$ 70,884	$ 84,966	$ -	$ -
Earnings (loss)	(2,927)	(2,505)	-	-
Earnings per share ("EPS")	(0.09)	(0.08)	-	-
Diluted earnings per share[2]	(0.09)	(0.08)	-	-
Fiscal 2011				
Sales	$ 69,235	$ 78,820	$ 97,590	$ 87,140
Earnings (loss)	1,832	(327)	5,058	16,390
Earnings per share ("EPS")[1]	0.01	(0.02)	0.05	0.28
Diluted earnings per share[2]	0.01	(0.02)	0.05	0.23
Fiscal 2010[3]				
Sales	$ 69,262	$ 70,844	$ 91,633	$ 83,801
Earnings (loss)	(9,583)	(4,990)	4,260	(4,968)

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

2 - Diluted earnings (loss) per share for June 30, 2012 and July 2, 2011 are anti-dilutive.

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

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

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

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

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

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

DEFINITIONS AND RECONCILIATIONS

Gross margin

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

Earnings before interest, tax, depreciation and amortization

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

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

Reconciliation for the 13 weeks ended, 26 weeks ended and the rolling twelve-month period ending June 30, 2012 and July 2, 2011:

	13 weeks ended		Year to date		12 month rolling ended	
	June 30 2012	July 2 2011	June 30 2012	July 2 2011	June 30 2012	July 2 2011
Net earnings (loss)	$ (2,505)	$ (327)	$ (5,432)	$ 1,507	$ 16,027	$ 6,040
Add (deduct):						
Income taxes	355	266	900	1,047	3,717	3,535
Reduction in foreign currency translation	-	-	-	-	-	852
Depreciation and amortization	5,414	4,900	11,054	9,822	20,735	16,425
Interest on long-term debt and bank charges	5,947	5,555	11,553	15,321	23,072	27,624
	9,211	10,394	18,075	27,697	63,551	54,476
Add (deduct) other non-routine items:						
Foreign exchange and derivative income unrealized	208	855	(947)	(190)	768	(191)
Fair market value on convertible debentures	(236)	673	3,000	5,605	4,456	5,605
Realized foreign exchange on working capital	1,293	(171)	955	694	2,974	524
Severance	-	638	-	638	177	1,112
Write down of property, plant, and equipment & CSI entries	-	(5)	-	592	214	604
Reorganization costs and non-routine costs	6,036	330	6,409	711	7,802	3,321
Restructing and refinancing costs	6,036	963	6,409	1,941	8,193	5,037
Provision for underutilized plant and other assets	-	-	-	-	-	1,056
Gain on sale of quota	-	(672)	-	(672)	-	(672)
Gain on settlement of debt	-	-	-	(1,797)	(12,445)	(1,797)
Loss on disposal of investment	-	-	-	336	(69)	336
Gain on change in ownership of joint venture	-	-	-	(11,571)	-	(11,571)
Gain on insurance claim	-	-	-	-	(1,695)	-
Stock appreciation rights	-	-	-	-	-	404
EBITDA	**$ 16,512**	**$ 12,042**	**$ 27,492**	**$ 22,043**	**$ 65,733**	**$ 53,207**

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

Note 2: The 2010 comparative periods (used in calculating the rolling 12 month period for 2011) have not been changed to reflect the consolidation of the entity previously recorded using proportionate consolidation. As a result it was noted that EBITDA for the rolling twelve month period ending July 2, 2011 would have been $56.4 million if the entity had been consolidated.

Note 3: Minority interest on total EBITDA has not been reflected in the above table. The minority interest in EBITDA for the second quarter would have been $2.3 million and $2.6 million for 2012 and 2011, respectively. Minority interest in EBITDA for the year to date period would have been $6.0 million for 2012 and $5.1 million for 2011. Minority interest in EBITDA for the rolling twelve month period would have been $14.4 million for 2012 and $6.7 million for 2011.

Leverage

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

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

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

In 000's of Canadian dollars As at	June 30 2012	December 31 2011	July 2 2011
EBITDA	$ 65,733	$ 60,284	53,207
Net debt	267,505	232,375	225,049
Net debt leverage	4.07	3.85	4.23
Senior debt (per below)	226,250	140,528	139,950
Senior debt leverage	3.44	2.33	2.63
Debt per balance sheet	277,745	247,100	235,941
Less cash	(10,240)	(14,725)	(10,892)
Net debt	267,505	232,375	225,049
Subordinated debt	51,495	106,572	95,991
Senior debt	226,250	140,528	139,950
Term loan A	73,003	-	-
Term loan B	123,718	-	-
First lien loan	-	77,250	68,250
Second lien loan	-	45,765	41,652
Revolver	29,529	17,513	30,048
Senior debt	$ 226,250	$ 140,528	$ 139,950

Free cash flows

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

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

Reconciliation for the 13 weeks ended, 26 weeks ended and rolling twelve months ending June 30, 2012 and July 2, 2011:

	13 weeks ended		**26 weeks ended**		**12 month Rolling**	
Free cash flows	**June 30, 2012**	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
EBITDA	16,512	12,042	27,492	22,043	65,733	53,207
Less:						
Cash interest	(5,694)	(5,106)	(11,091)	(10,384)	(22,218)	(20,973)
Cash taxes	(462)	(887)	(1,273)	(1,774)	(3,136)	(4,954)
Other non-EBITDA items	(3,939)	(352)	(4,241)	(4,440)	(25,978)	(6,028)
Change in working capital	(24,772)	(8,721)	(24,886)	(6,453)	(11,110)	(5,197)
Cash flows from operating activities	(18,355)	(3,024)	(14,000)	(1,008)	3,292	16,056
Uses of cash:						
Purchase of property, plant, equipment, quota and other assets	(5,792)	(7,664)	(11,153)	(12,544)	(19,848)	(19,971)
Less: Designated borrowings	2,056	-	2,056	3,223	18,056	3,223
Scheduled payments on long-term debt	(3,653)	(473)	(4,681)	(3,439)	(7,080)	(7,191)
Distributions to non-controlling interests	(1,159)	(2,549)	(5,534)	(2,327)	(9,901)	(3,614)
Free cash flows	(26,902)	(13,710)	(33,312)	(16,095)	(15,481)	(11,497)
Add/(less):						
Other debt borrowings (repayments) of debt	28,367	15,001	33,137	29,683	15,773	20,140
Other investing activities	(77)	914	690	(7,393)	6	(5,147)
Other financing activities	-	-	-	(577)	(951)	(782)
Change in cash flows for the period per statement of cash flows	1,388	2,205	515	5,618	(653)	2,714

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 interim consolidated financial statements. Management have compiled the unaudited interim consolidated balance sheet of Clearwater Seafoods Incorporated as at June 30, 2012, the unaudited consolidated balance sheets as at December 31, 2011 and the unaudited interim consolidated statements of earnings and deficit, comprehensive income, and cash flows for the 13 weeks and 26 weeks ended June 30, 2012 and July 2, 2011. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2012 and July 2, 2011 consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

CLEARWATER SEAFOODS INCORPORATED

Condensed Consolidated Interim Statement of Financial Position

unaudited

(In thousands of Canadian dollars)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash	**$ 10,240**	$ 9,725
Trade and other receivables	**45,704**	43,830
Inventories	**75,552**	61,755
Prepaids and other	**5,991**	9,438
Derivative financial instruments	**1,016**	1,075
	138,503	125,823
Non-current assets		
Long term accounts receivable	**10,017**	10,293
Other assets	**3,058**	3,660
Property, plant and equipment	**132,035**	129,373
Licences and fishing rights	**111,109**	111,700
Goodwill	**7,043**	7,043
	263,262	262,069
	$ 401,765	$ 387,892
LIABILITIES		
Current liabilities		
Trade and other payables	**$ 36,448**	$ 40,767
Income tax payable	**480**	1,984
Current portion of long-term debt (Note 4)	**33,778**	42,766
Derivative financial instruments	**157**	1,097
	70,863	86,614
Non-current liabilities		
Long-term debt (Note 4)	**243,967**	204,334
Deferred tax liabilities	**3,430**	2,892
	247,397	207,226
SHAREHOLDERS' EQUITY		
Share capital	**65,309**	65,309
Accumulated deficit	**(9,476)**	(835)
Cumulative translation account	**(2,703)**	(3,122)
	53,130	61,352
Non-controlling interest	**30,375**	32,700
	83,505	94,052
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**$ 401,765**	$ 387,892

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statement of Earnings
(unaudited)
(In thousands of Canadian dollars)

	13 weeks ended June 30, 2012	13 weeks ended July 2, 2011	26 weeks ended June 30, 2012	26 weeks ended July 2, 2011
Sales	**$ 84,966**	$ 78,820	**$ 155,850**	$ 148,055
Cost of goods sold	**66,588**	66,181	**125,621**	124,253
	18,378	12,639	**30,229**	23,802
Administrative and selling	**7,506**	6,997	**15,648**	14,758
Research and development	**315**	194	**424**	156
Gain on change in control of joint venture	**-**	-	**-**	(11,571)
Other income	**(321)**	(1,661)	**(1,310)**	(2,556)
Net finance costs (Note 5)	**13,028**	7,170	**19,999**	20,461
	20,528	12,700	**34,761**	21,248
Earnings (loss) before income taxes	**(2,150)**	(61)	**(4,532)**	2,554
Income taxes	**355**	266	**900**	1,047
Earnings (loss) for the period	**$ (2,505)**	$ (327)	**$ (5,432)**	$ 1,507
Earnings (loss) attributable to:				
Non-controlling interest	**$ 1,369**	$ 937	**$ 3,209**	$ 2,095
Shareholders of Clearwater	**(3,874)**	(1,264)	**(8,641)**	(588)
	$ (2,505)	$ (327)	**$ (5,432)**	$ 1,507
Basic and diluted earnings (loss) per share (note 6)	$ (0.08)	$ (0.02)	$ (0.17)	$ (0.01)

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(unaudited)
(In thousands of Canadian dollars)

	13 weeks ended June 30, 2012	13 weeks ended July 2, 2011	26 weeks ended June 30, 2012	26 weeks ended July 2, 2011
Earnings (loss) for the period	**$ (2,505)**	$ (327)	**$ (5,432)**	$ 1,507
Other comprehensive income - foreign currency translation differences of foreign operations	**(203)**	(374)	**419**	(789)
Total Comprehensive income (loss)	**$ (2,708)**	$ (701)	**$ (5,013)**	$ 718
Total comprehensive income (loss) attributable to:				
Non-controlling interest	**$ 1,369**	$ 937	**$ 3,209**	$ 2,095
Shareholders of Clearwater	**(4,077)**	(1,638)	**(8,222)**	(1,377)
	$ (2,708)	$ (701)	**$ (5,013)**	$ 718

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED

Condensed Consolidated Interim Statement of Shareholders' Equity

unaudited

(In thousands of Canadian dollars)

	Shareholders' Equity						
	Trust Units	Common Shares	Accumulated Deficit	Contributed Surplus	Cumulative Translation Account	Non-controlling interest	Total
Balance at January 1, 2011	**$ 162,517**	**$ -**	**$ (115,551)**	**$ 1,816**	**$ (1,436)**	**$ 4,018**	**$ 51,364**
Total comprehensive income for the period	-	-	(588)	-	(789)	2,095	718
Transactions recorded directly in equity							
Distributions to non-controlling interest	-	-	-	-	-	(2,327)	(2,327)
Changes in ownership interests							
Change in control on acquisition of joint venture	-	-	(73)	-	-	29,600	29,527
Total transactions with unitholders	-	-	(661)	-	(789)	29,368	27,918
Balance at July 2, 2011	**$ 162,517**	**-**	**$ (116,212)**	**$ 1,816**	**$ (2,225)**	**$ 33,386**	**$ 79,282**
Total comprehensive income for the period	-	-	16,924	-	(897)	4,524	20,551
Transactions recorded directly in equity							
Distributions to non-controlling interest	-	-	-	-	-	(5,210)	(5,210)
Purchase and cancellation of shares	(571)						(571)
Changes in ownership interests							
Change in control of entity	-	-	-	-	-	-	-
Total transactions with shareholders	(571)	-	16,924	-	(897)	(686)	14,770
Trust conversion, October 2, 2011	(161,946)	65,309	98,453	(1,816)			-
Balance at December 31, 2011	**$ -**	**$ 65,309**	**$ (835)**	**$ -**	**$ (3,122)**	**$ 32,700**	**$ 94,052**
Total comprehensive income for the period			(8,641)		419	3,209	(5,013)
Transactions recorded directly in equity							
Distributions to non-controlling interest						(5,534)	(5,534)
Total transactions with shareholders		-	(8,641)	-	419	(2,325)	(10,547)
Balance at June 30 , 2012	**$ -**	**$ 65,309**	**$ (9,476)**	**$ -**	**$ (2,703)**	**$ 30,375**	**$ 83,505**

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statement of Cash Flows

unaudited
(In thousands of Canadian dollars)

	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
Operating				
Earnings (loss) for the period	**$ (2,505)**	$ (327)	**$ (5,432)**	$ 1,507
Items not involving cash:				
Depreciation and amortization	**5,768**	4,900	**11,251**	9,822
Gain on acquisition of joint venture	**-**	-	**-**	(11,571)
Net finance costs	**3,276**	2,033	**5,565**	5,702
Impairment of property, plant and equipment and other assets	**-**		**-**	605
Gain on disposal of property, plant and equipment and quota	**-**	(668)	**-**	(652)
Other	**(121)**	(233)	**(496)**	47
	6,418	5,705	**10,888**	5,460
Change in non-cash operating working capital	**(23,427)**	(6,438)	**(26,035)**	(2,678)
Interest expense	**5,694**	5,045	**11,091**	10,398
Interest paid	**(5,470)**	(5,378)	**(8,051)**	(12,296)
Income tax expense	**355**	266	**900**	1,047
Income tax paid	**(1,925)**	(2,224)	**(2,793)**	(2,936)
	$ (18,355)	$ (3,024)	**$ (14,000)**	$ (1,005)
Financing				
Repayment of long-term debt	**$ (133,656)**	$ (2,549)	**$ (144,184)**	$ (89,110)
Proceeds from long-term debt	**196,739**	-	**206,223**	112,559
Long-term debt proceeds held in escrow for debt repayment	**(43,543)**	-	**(43,543)**	-
Net change in asset based revolving credit facility	**7,231**	15,001	**12,016**	2,795
Cash received on change in control of joint venture	**-**	-	**-**	2,646
Distributions to non-controlling interest	**(1,159)**	(473)	**(5,534)**	(2,327)
	$ 25,612	$ 11,979	**$ 24,978**	$ 26,563
Investing				
Purchase of property, plant, equipment, licenses and other	**$ (5,792)**	$ (7,664)	**$ (11,153)**	$ (12,544)
Proceeds on disposal of property, plant, equipment, quota and other	**20**	695	**20**	696
Advances in other assets	**-**	(10)	**-**	(5,224)
Net payments (advances) in other receivables	**(97)**	229	**670**	(2,865)
	$ (5,869)	$ (6,750)	**$ (10,463)**	$ (19,937)
INCREASE IN CASH	**$ 1,388**	$ 2,205	**$ 515**	$ 5,621
CASH, BEGINNING OF PERIOD	**8,852**	8,687	**9,725**	5,271
CASH, END OF PERIOD	**$ 10,240**	$ 10,892	**$ 10,240**	$ 10,892

See accompanying notes to condensed consolidated interim financial statements

1. DESCRIPTION OF THE BUSINESS

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

Clearwater's sole investment is the ownership of 100% of the units of Clearwater Seafoods Limited Partnership ("CSLP").

Clearwater is domiciled at 757 Bedford Highway, Bedford, Nova Scotia, Canada. The condensed consolidated interim financial statements of Clearwater as at June 30, 2012 and December 31, 2011 and for the 13 and 26 weeks ended June 30, 2012 and July 2, 2011 comprise the company, its subsidiaries and a jointly controlled entity. Clearwater's business includes the ownership, operation and lease of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

2. BASIS OF PREPARATION

(a) Conversion to a Corporation

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

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

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

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

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

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

Therefore, the carrying amounts recorded in the financial statements are those of CSLP rather than those of the Fund.
As Clearwater and CSLP were subject to common control for all periods included in these condensed interim financial statements, the comparative financial information for the 13 and 26 weeks ended July 2, 2011 and December 31, 2011 are represented on a consolidated basis. Consequently, any references to trust units, unitholders, and per unit amounts relate to periods prior to the conversion October 2, 2011 and any references to common shares, shareholders, and per share amounts relate to periods subsequent to October 2, 2011.

(b) Statement of Compliance

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

3. SEASONALITY

Due to the seasonality in Clearwater's business, sales and gross margins are typically higher in the second half of the year than in the first half of the year as a result of higher seasonal working capital demands, capital expenditures and other commitments in the first half of the year and higher catch rates typically occur in the second half of the year . As a result for the 12 month period ending June 30, 2012 Clearwater incurred sales of $340.6 million (July 2, 2011 – 323.5 million) and gross margin of $76.0 million (July 2, 2011 - $61.9 million).

(In thousands of Canadian dollars)

4. LONG TERM DEBT

	June 30, 2012	December 31, 2011
Revolving loan, due in 2015 (a)	**$ 29,529**	$ 17,513
Term loans (b)		
Term loan A, due 2017	**73,003**	-
Term loan B, due 2018	**119,371**	-
Term loan B, embedded derivative	**4,347**	-
Senior first lien loan - repaid in June 2012	**-**	77,250
Senior second lien loan - repaid in June 2012	**-**	43,822
2013 Convertible Debentures (c)	**43,418**	43,573
2013 Convertible Debentures - funds held in escrow	**(43,418)**	-
2014 Convertible Debentures (c)	**44,460**	41,632
Marine mortgage, due in 2017 (d)	**2,851**	4,470
Term loan, due in 2091 (e)	**3,500**	3,500
Glitnir payable (f)	**-**	14,500
Other loans	**684**	840
	277,745	247,100
Less: current portion	**(33,778)**	(42,766)
	$ 243,967	$ 204,334

(a) The revolving loan is based on 90% of eligible receivables and up to 75% of eligible inventory to a maximum of $65.0 million, denominated in both CDN of $2.1 million at June 30, 2012 ($2.9 million CDN at December 31, 2011) and USD of $26.9 million at June 30, 2012 ($14.4 million USD at December 31, 2011) and maturing in June 2017. The CDN balances bear interest at the banker's acceptance rate plus 2.5%. The USD balances bear interest rate at the US Libor rate plus 2.5%. As of June 30, 2012 this results in rates of 4.5% for CDN balances and 2.9% for USD balances. The loan is secured by a first charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a second charge on marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries. The full amount of this loan has been included in the current portion of long-term debt as it is drawn using short-term instruments that mature 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 $124.0 million Term Loan B facility.

Term Loan A - CDN $75.0 million, 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 $56.7 million due at maturity in June 2017. Bears interest payable monthly at an annual rate of banker's acceptance plus 4.5%. As of June 30, 2012 this resulted in a rate of 5.8%. The principal outstanding on June 30, 2012 is CDN $75.0 million. The balance is shown net of deferred financing charges of CDN $2.0 million. The loan is secured by a second charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a first charge on marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries. 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.

Term loan B - USD $124.0 million, repayable in quarterly installments of USD $0.3 million with the balance of USD $116.8 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 June 30, 2012 this resulted in an interest rate of 6.7%. The principal outstanding on June 30, 2012 is USD $124 million. The balance is shown net of deferred financing charges of USD $2.9 million. The loan is secured by a second charge on accounts receivable, cash and cash equivalents subject to certain limitations, and inventory as well as a first charge on marine vessels, licenses and quotas and Clearwater's investments in certain subsidiaries. On August 6, 2012 Clearwater reported that it had exercised a USD $10 million accordion option under its Term Loan B credit facilities. The net proceeds were used to repay balances owing on the asset based revolving credit facility. 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 is recorded through profit or loss.

On June 6, 2012 Clearwater completed a refinancing of its debt facilities and used the proceeds to repay senior debt facilities that totaled CDN $74.2 million, USD $54.5 million, convertible debentures of CDN $43.4 million noted in section (c) and reduce the balance owing on the asset based revolving credit facility noted in section (a).

(c) The 2013 Convertible debentures accrue interest at 10.5% and are convertible at a price of $3.25 per share at the option of the holder. These debentures are recorded at estimated fair value. The principal amount outstanding as of June 30, 2012 is $43.4 million (December 31, 2011 – $43.4 million).

On June 6, 2012 Clearwater as part of its refinancing issued notice of redemption of the 2013 convertible debentures. The debentures were redeemed at face value plus accrued interest on July 10, 2012.

The 2014 Convertible debentures accrue interest at 7.25%, mature in March 2014 and are convertible at a price of $5.90 per share at the option of the holder. They are redeemable by Clearwater at face value plus accrued interest on or after March 31, 2012. These debentures are recorded at estimated fair value. The principal amount outstanding as of June 30, 2012 was $44.4 million (December 31, 2011 - $44.4 million).

(In thousands of Canadian dollars)

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 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 CDN $0.2 million (December 31, 2011 - $0.1 million), DKK 6.0 million (December 31, 2011 - DKK 8.1 million) and YEN 128.1 million (December 31, 2011 – 158.8 million) bearing interest at UNIBOR plus 1% payable semi-annually. Principal payments are required annually with CDN $0.2 million due in 2013, DKK 2.1 million and YEN 29.8 million due in 2013-2014, DKK 1.9 million due in 2015, YEN 29.8 million due in 2015-2016 and YEN 9.9 million due in 2017. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants over certain fishing licenses.

(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.

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

5. NET FINANCE COSTS

In (000's)	13 weeks ended June 30, 2012	13 weeks ended July 2, 2011	26 weeks ended June 30, 2012	26 weeks ended July 2, 2011
Interest expense on financial liabilities measured at amortized cost	**$ 5,694**	$ 5,045	**$ 11,091**	$ 10,398
Amortization of deferred financing charges	**254**	505	**461**	2,084
	$ 5,948	5,550	**11,552**	12,482
Fair value adjustment on convertible debentures and embedded derivative	**(235)**	673	**3,000**	5,604
Foreign exchange and derivative contracts	**1,465**	947	**(750)**	962
Debt settlement and refinancing fees	**5,850**	-	**6,197**	1,413
Finance costs	**$ 13,028**	$ 7,170	**$ 19,999**	$ 20,461

(In thousands of Canadian dollars)

Foreign exchange and derivative contracts include:

In 000's of Canadian dollars	13 weeks ended June 30, 2012	13 weeks ended July 2, 2011	26 weeks ended June 30, 2012	26 weeks ended July 2, 2011
Realized loss (income)				
Foreign exchange contracts	**$ (34)**	$ 263	**$ (758)**	$ 458
Working capital	**1,293**	(171)	**955**	694
	$ 1,259	92	**197**	1,152
Unrealized (gain) loss				
Foreign exchange on long term debt	**876**	471	**(56)**	(1,174)
Mark-to-market on foreign exchange contracts	**(670)**	400	**(891)**	(103)
Mark-to-market on interest and currency swaps	**-**	(16)	**-**	1,087
	206	855	**(947)**	(190)
	$ 1,465	$ 947	**$ (750)**	$ 962

The following foreign exchange contracts were outstanding at the end of June 30, 2012:

Currency	Notional Amount (in 000's)	Average Contract Exchange Amount	Maturity	Fair Value (Asset) Liability
USD	40,000	1.03	2012	432
Yen	1,395,000	0.01286	2012	123
Yen	1,310,000	0.013	2013	260
Euro	31,500	1.296	2012	201
Euro	24,600	1.294	2013	(157)
				$ 859

The following exchange contracts were outstanding at the end of December 31, 2011:

December 31, 2011

Currency	Notional Amount (in 000's)	Contract Exchange Amount	Maturity	Fair Value (Asset) Liability
Yen	1,095,000	0.012	2012	$ (1,097)
Euro	15,200	1.394	2012	1,075
				$ (22)

6. EARNINGS (LOSS) PER SHARE (UNIT)

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

	13 weeks ended		26 weeks ended	
	June 30, 2012	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Basic				
Earnings (loss) for the period	**$ (3,874)**	$ (1,264)	**$ (8,641)**	$ (588)
Weighted average number of shares (units) outstanding	**50,948,698**	51,126,912	**50,948,698**	51,126,912
Earnings (loss) per share (unit)	**$ (0.08)**	$ (0.02)	**$ (0.17)**	$ (0.01)
Diluted				
Earnings (loss) for the period	**$ (3,874)**	$ (1,264)	**$ (8,641)**	$ (588)
Weighted average number of shares (units) oustanding	**50,948,698**	51,126,912	**50,948,698**	51,126,912
Earnings (loss) per share (unit)	**$ (0.08)**	$ (0.02)	**$ (0.17)**	$ (0.01)

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

	13 weeks ended		26 weeks ended	
	June 30, 2012	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Weighted average number of shares (units) used in the calculation of basic earnings per share (unit)	**50,948,698**	51,126,912	**50,948,698**	51,126,912
Convertible debentures	-	-	-	-
Weighted average number of shares (units) used in the calculation of diluted earnings per share (unit)	**50,948,698**	51,126,912	**50,948,698**	51,126,912
Earnings (loss) for the period	**$ (3,874)**	$ (1,264)	**$ (8,641)**	$ (588)
Interest on convertible debentures	-	-	-	-
Diluted earnings (loss) for the period	**$ (3,874)**	$ (1,264)	**$ (8,641)**	$ (588)

The affect of the interest on the 2013 and 2014 convertible debentures are anti-dilutive for the calculation of earnings per share for the 13 and 26 weeks ended June 30, 2012 and July 2, 2011.

(In thousands of Canadian dollars)

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 June 30, 2012	July 2, 2011	26 weeks ended June 30, 2012	July 2, 2011
Scallops	**$ 27,318**	$ 26,289	**$ 45,458**	$ 51,717
Coldwater shrimp	**16,911**	11,687	**38,599**	23,343
Clams	**18,443**	14,351	**33,764**	29,785
Lobster	**16,002**	16,728	**30,652**	30,385
Crab	**5,857**	4,534	**6,043**	4,534
Ground fish and other	**435**	5,231	**1,334**	8,291
	$ 84,966	$ 78,820	**$ 155,850**	$ 148,055

(b) Sales by Geographic Region

	13 weeks ended June 30, 2012	July 2, 2011	26 weeks ended June 30, 2012	July 2, 2011
United States	**$ 15,021**	$ 16,411	**$ 28,002**	$ 28,207
Europe				
France	**10,068**	8,632	**18,019**	19,783
Russia	**962**	2,606	**5,203**	5,133
UK	**3,202**	3,827	**7,309**	8,124
Other	**12,807**	10,043	**23,001**	19,242
Asia				
Japan	**13,266**	11,973	**23,225**	21,581
China	**12,997**	11,089	**23,777**	19,797
Other	**4,005**	2,928	**8,900**	6,950
Canada	**12,209**	10,739	**17,411**	17,931
Other	**429**	572	**1,003**	1,307
	$ 84,966	$ 78,820	**$ 155,850**	$ 148,055

(In thousands of Canadian dollars)

(c) Non-current Assets by Geographic Region

		June 30, 2012		December 31, 2011
Property, plant and equipment, licences, fishing rights and goodwill				
Canada	**$**	**235,007**	$	234,805
Argentina		**15,075**		13,190
Other		**105**		121
	$	**250,187**	$	248,116

8. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

Clearwater had the following transactions and outstanding receivable balance with CFFI, the controlling shareholder of Clearwater, for the 13 weeks and 26 weeks ended June 30, 2012 and July 2, 2011:

	13 weeks ended				26 weeks ended			
In 000's		**June 30, 2012**		**July 2, 2011**		**June 30, 2012**		**July 2, 2011**
Opening balance due from CFFI, April 1, January 1,	**$**	**2,314**	$	1,814	**$**	**2,111**	$	1,774
Management fees charged to Clearwater		**(69)**		(86)		**(150)**		(171)
Rent and IT service fees charged to CFFI		**46**		47		**92**		92
Interest on intercompany account		**29**		-		**57**		-
Guarantee fee		**(26)**		-		**(62)**		-
Aircraft charges to Clearwater		**(26)**		-		**(26)**		(24)
Payments from CFFI		**(100)**		-		**(100)**		-
Advances to CFFI		**59**		125		**285**		711
Other charges to CFFI		**41**		25		**61**		38
Purchase of partner note receivable from CFFI		**-**		-		**-**		(495)
Net due from CFFI	**$**	**2,268**	$	1,925	**$**	**2,268**	$	1,925

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

Clearwater. With the debt refinancing on June 6, 2012 CFFI no longer provides a guarantee on the senior debt facilities for Clearwater.

Clearwater expensed approximately $0.02 million and $0.07 million for vehicle leases for the 13 and 26 weeks ended June 30, 2012 (July 2, 2011 - $0.04 million and $0.07 million) and approximately $0 million and $0.003 million for other services for the 13 and 26 weeks ended June 30, 2012 (July 2, 2011 - $0.03 million and $0.07 million) by a company related to CFFI. The transactions are recorded at the exchange amount and the balance due to this company was $0.002 million at June 30, 2012 (December 31, 2011 - $0.02 million).

9. CONTINGENT LIABILITIES

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

Quarterly and share (unit) information

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

	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	84,966	70,884	87,140	97,590	78,820	69,235	77,824	85,417
Net earnings (loss)	(2,505)	(2,927)	16,390	5,058	(327)	1,832	(5,356)	3,298
Per share (unit) data								
Basic net earnings (loss)	(0.08)	(0.09)	0.28	0.05	(0.02)	0.01	(0.10)	0.04

Trading information, Clearwater Seafoods Incorporated, symbol CLR

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Trading price range of shares (units) (board lots)								
High	2.70	2.40	2.85	3.32	1.73	1.58	1.28	0.98
Low	2.02	1.85	2.10	1.31	1.35	0.99	0.76	0.80
Close	2.48	2.27	2.39	2.35	1.47	1.52	1.02	0.82
Tranding volumes (000's)								
Total	1,350	1,089	831	3,907	1,544	2,669	1,767	394
Average daily	22	18	13	63	26	44	30	7
Shares (Units) outstanding at end of quarter								
Units/Shares	50,948,698	50,948,698	50,948,698	27,565,943	27,745,695	27,745,695	27,745,695	27,745,695
Special	-	-	-	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217
Total	50,948,698	50,948,698	50,948,698	50,947,160	51,126,912	51,126,912	51,126,912	51,126,912

CORPORATE INFORMATION

DIRECTORS OF CLEARWATER SEAFOODS INCORPORATED

Colin E. MacDonald, Chairman of the Board

John C. Risley
President, Clearwater Fine Foods Inc.

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

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

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

Mickey MacDonald
President, Micco Companies

Brendan Paddick
Chief Executive Officer, Columbus Communications Inc.

Stan Spavold
Executive Vice President, Clearwater Fine Foods Inc.

Jim Dickson
Partner, Stewart McKelvey

EXECUTIVE OF CLEARWATER SEAFODS INCORPORATED

Ian Smith
Chief Executive Officer

Eric R. Roe
Vice-President, Chief Operating Officer

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

Michael D. Pittman
Vice-President, Fleet

Greg Morency
Chief Commercial Officer & Executive Vice-President

David Rathbun
Vice-President, Chief Talent Officer

Christine Penney
Vice-President, Sustainability & Public Affairs

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Halifax, Nova Scotia

SHARES LISTED

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

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