Clearwater Seafoods Incorporated
2012 Third Quarter Report

Clearwater

Dedicated to Sustainable Seafood Excellence

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LETTER TO SHAREHOLDERS

- Eleventh consecutive quarter of growth in sales and EBITDA
- Results for third quarter of 2012 include sales growth of 4.2% to $101.6 million and EBITDA growth of 10.3% to $25.1 million.
- Year to date results included sales growth of 4.8% to $257.5 million and EBITDA growth of 17.4% to $52.6 million.
- Significant progress made in the third quarter of 2012 towards free cash flow and leverage goals
- Appoints highly accomplished IT Executive as new Vice-President and Chief Information Officer.

Third quarter 2012 sales were $101.6 million and EBITDA was $25.1 million versus 2011 comparative figures of $97.6 million and $22.8 million, representing growth rates of 4.2% in sales and 10.3% in EBITDA. This represents the eleventh consecutive quarter of improved results.

Year-to-date Clearwater reported sales of $257.5 million and EBITDA of $52.6 million versus 2011 comparative figures of $245.6 million and $44.8 million representing growth rates of 4.8% in sales and 17.4% in EBITDA.

Growth in sales and EBITDA came as a result of higher sales volumes, particularly of coldwater shrimp, as well as higher sales prices for most species. The impact of the growth in sales on EBITDA was partially offset by a shift to lower margin species and higher procurement costs in certain species.

Free cash flows grew in the third quarter of 2012 to $12.6 million versus $4.8 million in 2011. Year-to-date free cash flows were an investment of $20.7 million versus $11.3 million in 2011 due to seasonality in working capital and capital expenditure investments. Clearwater expects that strong earnings and further reductions in working capital during the fourth quarter of 2012 will result in positive free cash flow for 2012.

Free cash flows were used to reduce debt during the quarter. This, combined with higher EBITDA has resulted in an improvement in leverage from 4.1 at the end of the second quarter of 2012 to 3.7 at the end of the third quarter. Clearwater expects that strong free cash flows in the fourth quarter of 2012 will enable it to reduce leverage further and closer to our goal of 3.0 times.

Outlook

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

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

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

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

Clearwater expects strong earnings in the fourth quarter of 2012 due to seasonally higher sales during the fourth quarter.

In the quarter the company had the highest revenues and EBITDA in its history. Management is satisfied with the progress made towards both our 2012 and longer term financial targets and we have every expectation that our momentum will continue through the balance of fiscal 2012 and into 2013.

Management’s commitment to creating shareholder value

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.

Management has undertaken 8 initiatives to create shareholder value.

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

   Sales growth year-to-date was 4.8% 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 20.4% and is expected to remain strong for the last quarter of the year resulting in an annual rate stronger than that realized in fiscal 2011.

   Clearwater expects strong earnings in the fourth quarter of 2012 due to seasonally higher sales. Over the mid-term Clearwater will continue to lever its vertical integration existing segments to capture a growing share of the seafood value chain through the introduction of value-added new products in certain 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. 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 and higher free cash flows, lower debt balances and lower leverage levels in the second half of the year.

   Free cash flows were a net investment of $7.5 million for the rolling 12 month period ending September 29, 2012, versus positive free cash flow of $2.0 million to December 31, 2011 and a net investment of $10.7 million to October 1, 2011. The higher investment in 2012 is a result of higher seasonal investment in working capital and capital expenditures.

3. Improving leverage - As of the third quarter of 2012 leverage improved to 3.7 versus 3.9 as at December 31, 2011 and 4.1 at the end of the second quarter of 2012. Clearwater expects that strong free cash flows in the fourth quarter of 2012 will enable it to reduce leverage further. Clearwater has committed to further leverage reductions to achieve the target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt.

4. Return on assets - Return on assets has improved from 10.5% at December 31, 2011 to 11.5%, a continuing trend of improvement and focused

management of investments. The target of 12.0% is expected to be accomplished over the next several years.

Other key initiatives include:

5. Improving the capital structure - During the second quarter of 2012 Clearwater successfully completed a series of capital market transactions that substantially improved its debt structure. The financing enables Clearwater to reduce projected interest costs by approximately $4.6 million annually, strengthens its liquidity and provides the capital structure necessary to execute growth plans while further reducing overall leverage. Clearwater is now focused on initiating an active communications plan with its investors to ensure continued access, when required, to all sources of growth capital.

6. Focused management of foreign exchange - Clearwater has a focused and targeted foreign exchange hedging program to reduce the impact of short-term volatility in exchange rates on earnings. This, combined with stronger processes for price management reduces the impact of exchange rate volatility on the business. Clearwater has approximately 72% of its US Dollar, Euro and Yen exposures for the remainder of 2012 hedged at rates of 1.03, 1.29 and 0.013 respectively. In addition, Clearwater has 74% of its Euro and Yen exposures for 2013 hedged at rates of 1.27 and 0.013 and approximately 70% of its first quarter 2013 USD exposure at an average rate of 1.00.

7. Building world class leadership, management, sales and marketing capabilities - Clearwater has begun implementing best in class programs for key account management, new product development, sales and operating planning, recruitment and compensation practices. In addition, over the past two years Clearwater has added a number of new people to its senior management team and its' Board of Directors. Most recently, John Burwash joined Clearwater as Vice-President and Chief Information Officer. John is a highly accomplished IT Executive with over 20 years experience within the global automotive industry where he held senior IT leadership positions at Cosma International (An operating unit of the Magna International Group of Companies) since 1996. John will be building upon an already ambitious IT agenda, taking charge of a responsive and customer service-oriented team and ensuring that a planned ERP implementation and system upgrades provide the solid and state-of-the-art foundation needed to fuel Clearwater's next phase of growth.

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

Management believes that it has the correct strategies and focus to 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
November 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective November 13, 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 third 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 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 July 1, 2012 to September 29, 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			
	09/29/12	12/31/11	10/01/11	Target*

Profitability

	09/29/12	12/31/11	10/01/11	Target*
EBITDA*	68,087	60,284	58,620	N/A
EBITDA (as a % of sales)	19.8%	18.1%	18.2%	15.0%

Clearwater has experienced continued growth in EBITDA as a percentage of sales by controlling costs and improving productivity, product mix and prices.

	09/29/12	12/31/11	10/01/11	Target*
Sales*	344,630	332,785	329,446	N/A
Sales growth	4.6%	5.5%	7.6%	5.0%

Strong 2012 sales came as a result of improved sales prices for the majority of species and in particular strong demand for coldwater shrimp and snow crab. Sales have grown in most markets and primarily in China. The exception was in Europe where volumes and prices declined.

Financial Performance

	09/29/12	12/31/11	10/01/11	Target*
Free cash flows	(7,448)	2,015	(10,619)	N/A

Free cash flows were a net investment of $7.5 million for the rolling 12 month period ending September 29, 2012, versus positive free cash flow of $2.0 million to December 31, 2011 and a net investment of $10.7 million to October 1, 2011. The higher investment in 2012 is a result of higher seasonal investment in woring capital and capital expenditures. .

	09/29/12	12/31/11	10/01/11	Target*
Leverage**	3.7	3.9	4.1	3.0

As of the third quarter of 2012 leverage improved to 3.7 versus 3.8 as at December 31, 2011 and 4.1 at the end of the second quarter of 2012.

Clearwater expects that strong free cash flows in the fourth quarter of 2012 will enable it to reduce leverage further. Clearwater has committed to further leverage reductions to achieve the target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt.

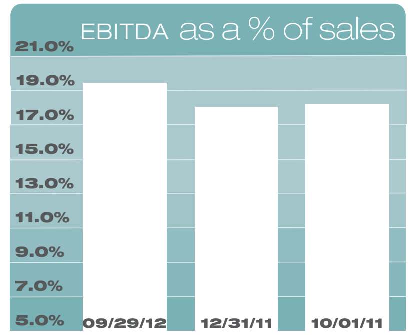
Returns

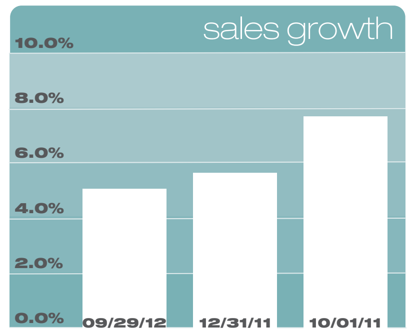
	09/29/12	12/31/11	10/01/11	Target*
Return on assets**	11.5%	10.5%	10.5%	12.0%

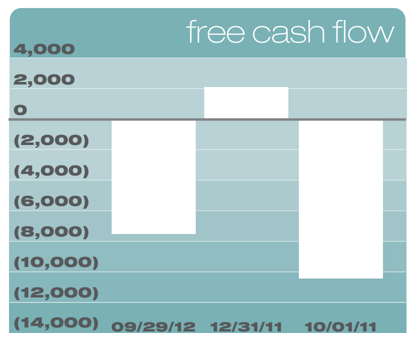
Return on assets has improved from 10.5% at December 31, 2011 to 11.5%, a continuning trend of improvement and focused management of investments. The target of 12.0% is expected to be accomplished over the next several years.

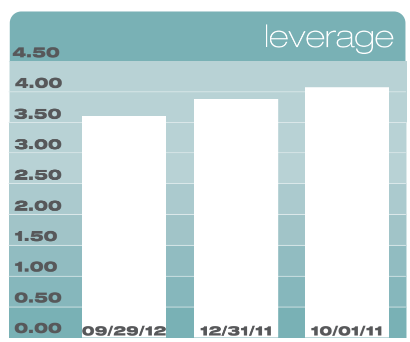
Note: Refer to definitions * Supplemental information provided for Target ** Target to be accomplished over several years

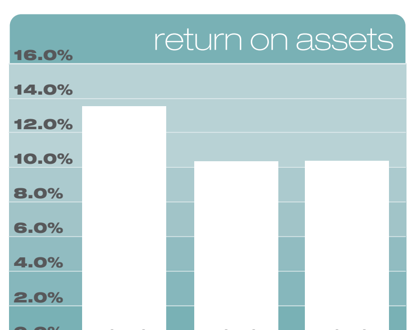
Rolling 12 month period ending











performance of clearwater seafoods incorporated

(including key performance indicators)

Third quarter 2012 sales were $101.6 million and EBITDA[1] was $25.1 million versus 2011 comparative figures of $97.6 million and $22.8 million representing growth rates of 4.2% in sales and 10.3% in EBITDA. This represents the eleventh consecutive quarter of improved results.

Year-to-date Clearwater reported sales of $257.5 million and EBITDA of $52.6 million versus 2011 comparative figures of $245.6 million and $44.8 million representing growth rates of 4.8% in sales and 17.4% in EBITDA.

Growth in sales and EBITDA came as a result of higher sales volumes, particularly of coldwater shrimp, as well as higher sales prices for most species. The impact of the growth in sales on EBITDA was partially offset by a shift to lower margin species and higher procurement costs in certain species.

Free cash flows grew in the third quarter of 2012 to $12.6 million versus $4.8 million in 2011. Year-to-date free cash flows were an investment of $20.7 million versus $11.3 million in 2011. Clearwater expects that strong earnings and further reductions in working capital during the fourth quarter of 2012 will result in positive free cash flow.

Free cash flows was used to reduce debt during the quarter. This combined with higher EBITDA has resulted in an improvement in leverage from 4.1x at the end of the second quarter of 2012 to 3.7x at the end of the third quarter. Clearwater expects that strong free cash flows in the fourth quarter of 2012 will enable it to reduce leverage further and closer to its eventual goal of 3.0x.

Management is satisfied with the progress made towards both our 2012 and longer term financial targets and expect that earnings momentum will continue through the balance of fiscal 2012 and into 2013.

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 of Clearwater for the 39 weeks ended September 29, 2012 and October 1, 2011.

In 000's of Canadian dollars	September 29 2012	October 1 2011
Sales	$ 257,490	$ 245,645
Cost of goods sold	201,663	195,912
Gross margin	55,827	49,733
	21.7%	*20.2%*
Administrative and selling	23,015	22,588
Finance costs	18,888	34,815
Gain on change in control of joint venture	-	(11,571)
Other income	(1,094)	(5,206)
Research and development	935	198
	41,744	40,824
Earnings before income taxes	14,083	8,909
Income taxes	1,897	2,348
Earnings	$ 12,186	$ 6,561

Earnings

Year-to-date Clearwater reported sales of $257.5 million and EBITDA of $52.6 million versus 2011 comparative figures of $245.6 million and $44.8 million representing growth rates of 4.8% in sales and 17.4% in EBITDA.

In 2012 earnings improved by $5.6 million or $17.2 million as compared to 2011, excluding the one-time accounting gain of $11.6 million in 2011 from the acquisition of an entity previously proportionally consolidated. Improvements to net earnings in 2012 were largely due to operational improvements of sales revenue growth of 4.8% from higher sales volumes and prices and lower harvesting costs resulting in improvements in gross margin of $6.1 million.

These improvements were supplemented by non-cash unrealized gains on long- term debt and foreign exchange contracts and lower interest expense, offset by higher debt settlement and refinancing fees related to a $264 million debt refinancing that was completed in June 2012 and lower other income.

In 000's of Canadian dollars 39 weeks ended	September 29 2012	October 1 2011	Change
Net earnings	$ 12,186	$ 6,561	$ 5,625
Explanation of changes in earnings:			
Higher foreign exchange income			15,480
Gain on change in control of joint venture in 2011			(11,571)
Higher gross margin			6,094
Lower other income			(4,112)
Higher fees on settlement of debt			(3,875)
Lower fair value adjustment on long term debt			2,662
Lower interest expense			1,660
All other			(713)
			$ 5,625

The 17.4% growth in year-to-date EBITDA was a result of higher sales prices and higher 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.

Sales by region

In 000's of Canadian dollars 39 weeks ended		September 29 2012		October 1 2011		Change	%
Japan	$	36,011	$	33,096	$	2,915	8.8
China		39,051		32,493		6,558	20.2
Other Asia		13,302		9,554		3,748	39.2
Asia		88,364		75,143		13,221	17.6
Europe		87,407		92,844		(5,437)	(5.9)
United States		43,242		41,548		1,694	4.1
Canada		36,801		34,061		2,740	8.0
Other		1,676		2,049		(373)	(18.2)
	$	257,490	$	245,645	$	11,845	4.8

During the third quarter of 2012, Asia surpassed Europe to become Clearwater's largest regional market primarily as a result of strong market demand from China.

Asia

China

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

Sales to customers in China increased $6.6 million, or 20.2%, to $39.1 million 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 a result of a reduction in the number of landings as Management delayed harvesting into the second 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 2.3% to 1.00 in 2012 from 0.98 in 2011

Japan

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

Sales to customers in Japan increased 8.8%, or $2.9 million primarily as a result of strong sales volumes for coldwater shrimp, lobster and clams due to higher availability of landings and stronger market demand.

This was partially offset by decline in sales volumes for turbot, due to the decision not to fish turbot in the first half of the year.

Finally, average foreign exchange rates for the Yen improved during the quarter by 3.7% to 0.013 for 2012, partially contributing to the increase in sales.

Europe

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

European sales declined $5.4 million to $87.4 million, from $92.8 million for 2012 primarily as a result of an economic slowdown within the region that reduced sales volumes for both sea and bay scallops and lobster. This decline was partially offset by strong market demand for coldwater shrimp.

Finally, sales which are primarily transacted in the Euro and the UK Pound in Europe, were negatively impacted during the year as the Euro declined 7.4% relative to the Canadian dollar from 1.38 in 2011 to 1.28 in 2012, while the UK Pound declined 0.5% 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 increased $1.7 million, or 4.1%, to $43.2 million as a result of an increase in available supply within the region for bay scallops and a change in product mix for lobsters weighted towards higher value processed lobster products.

Strong sales prices for sea and bay scallops and coldwater shrimp contributed to the increase in sales.

Lower available supply volumes for Canadian scallops in the first half of the year partially offset the increase in sales.

Average foreign exchange rates for the US dollar strengthened against the Canadian dollar. Average foreign exchange rates for the US dollar increased by 2.3% to 1.00 in 2012 from 0.98 in 2011.

Canada

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

Sales within Canada increased $2.7 million, or 8.0% primarily as a result of an increase in sales volumes for crab from higher available supply. Increases in sales prices for lobster, clams and scallops contributed to the increase in sales.

A decline in sales volumes for scallops and lobster due to lower available supply for both species partially offset the increase in sales. The decline in scallops was caused by timing as management made decision to harvest later in the first half of the year when catch rates would be stronger. Sales volumes for lobster in Canada declined as available supply was sold to other higher yielding markets.

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Sales by species

In 000's of Canadian dollars 39 weeks ended	September 29 2012	October 1 2011	Change	%
Scallops	$ 75,932	$ 87,443	(11,511)	(13.2)
Coldwater shrimp	58,037	37,601	20,436	54.3
Clams	52,946	45,192	7,754	17.2
Lobster	47,916	48,957	(1,041)	(2.1)
Crab	15,628	11,449	4,179	36.5
Ground fish and other	7,031	15,003	(7,972)	(53.1)
	$ 257,490	$ 245,645	$ 11,845	4.8

Improvements in sales were a result 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 instead of shrimp. Strong selling prices for clams, sea scallops, and coldwater shrimp and higher available supply volumes of crab also contributed to the increase in sales.

This increase in sales volumes was partially offset by lower available supply volumes of both sea and bay scallops, and turbot. Sales volumes for bay scallops declined during 2012 as a result of the economic conditions within Europe. The decline in sales volumes for bay scallops was partially offset by transferring available supply to higher yielding markets.

Cost of Goods Sold

In 000's of Canadian dollars 39 weeks ended	September 29 2012	October 1 2011	Change	%
Harvesting and procurement	$ 137,126	$ 135,243	$ 1,883	1.4
Manufacturing	24,983	23,434	1,549	6.6
Freight, customs and other transport	15,812	15,495	317	2.0
Depreciation	15,903	13,762	2,141	15.6
Administrative	7,839	7,978	(139)	(1.7)
	$ 201,663	$ 195,912	$ 5,751	2.9

Cost of goods sold increased $5.8 million or 2.9% to $201.7 million primarily due to an increase in raw material procurement costs for lobster and shrimp, manufacturing costs and depreciation. The increase in manufacturing costs is a result of higher volumes sold. Higher depreciation charges resulted from an increase in capital expenditures over the last 12 months.

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 2012 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 $0.5 million for 2012 to $17.3 million. This increase was a result of an increase of the average price per litre of fuel of $0.10, 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 freight and transportation costs during the quarter and increased sales volumes to Asia.

Depreciation expense from assets used in the harvesting and production of goods increased $2.1 million to $15.9 million as a result of vessel refits and other additions that were completed during 2011 and the first three quarters 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 $6.1 million, or 12.3% to $55.8 million versus $49.7 million in 2011, an improvement of 1.4%. Gross margin was positively impacted by increases in sales prices in certain species, price increases achieved in 2011 that were maintained during 2012 for other species and an increase in sales volumes for coldwater shrimp and crab.

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

Margins were negatively impacted by lower average foreign exchange rates for the Euro that resulted in a reduction in sales and gross margin of $4.4 million. Higher average foreign exchange rates for the Yen and the US dollar partially offset the decline in foreign exchange. The net impact from foreign exchange was an reduction in sales of $0.96 million.

In 000's of Canadian dollars	September 29, 2012		October 1, 2011		
39 weeks ended Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	46.2%	1.002	41.4%	0.980	2.3%
Euros	21.3%	1.277	26.3%	1.380	-7.4%
Japanese Yen	13.5%	0.013	12.7%	0.012	3.7%
UK pounds	2.8%	1.574	3.8%	1.581	-0.5%
Canadian dollar and other	16.2%		15.8%		
	100.0%		100.0%		

Administration and selling

In 000's of Canadian dollars 39 weeks ended	September 29 2012	October 1 2011	Change	%
Employee compensation	$ 20,592	$ 20,362	$ 230	1.1
Consulting and professional fees	3,811	3,095	716	23.1
Other	2,664	2,581	83	3.2
Selling costs	1,284	1,339	(55)	(4.1)
Travel	1,432	1,375	57	4.1
Occupancy	1,026	1,001	25	2.5
Donations	509	675	(166)	(24.6)
Allocation to cost of goods sold	(8,303)	(7,840)	(463)	5.9
	$ 23,015	$ 22,588	$ 427	1.9

Administration and selling costs increased $0.42 million, or 1.9%, to $23.0 million due to an increase in consulting and professional fees and employee compensation**.**

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.

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 39 weeks ended	September 29 2012	October 1 2011
Interest and bank charges	$ 15,876	$ 15,641
Amortization of deferred financing charges	801	2,696
Interest on current and long term debt	16,677	18,337
Fair value adjustment on convertible debentures	3,026	5,688
Foreign exchange and derivative contracts	(7,013)	8,467
Debt settlement and refinancing fees	6,198	2,323
	$ 18,888	$ 34,815

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 to create shareholder value. The refinancing reduced Clearwater's cost of capital through replacing higher cost debt facilities with lower cost facilities.

Interest declined $1.7 million for 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 $0.24 million due to the timing of the payout of the convertible debentures on July 10, 2012, which required that financing be obtained in June and held in escrow to pay out the convertible debentures in July.

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 39 weeks ended	September 29 2012	October 1 2011
Realized loss (income)		
Foreign exchange contracts	$ (2,575)	$ 1,769
Working capital	2,167	548
	(408)	2,317
Unrealized (gain) loss		
Foreign exchange on long term debt	(4,639)	1,852
Mark-to-market on foreign exchange contracts	(1,966)	3,250
Mark-to-market on interest and currency swaps	-	1,048
	(6,605)	6,150
	$ (7,013)	$ 8,467

Foreign exchange and derivative gains increased $15.4 million from a loss of $8.5 million in 2011 to a gain of $7.0 million in 2012. The foreign exchange gain was primarily a result of $4.6 million in unrealized foreign exchange from the translation of the US dollar denominated debt as the Canadian dollar strengthened against the US dollar from $1.02 in December of 2011 to $0.984 in September 2012.

Realized foreign exchange gains on foreign exchange contracts of $2.6 million relate to Euro and US forward exchange contracts settled within 2012 as average spot rates used to settle contracts were 5.1% and 2.0% lower than the average contract price for 2012 for the Euro and the US dollar, respectively.

Unrealized foreign exchange gains of $2.0 million are a result of mark to market adjustments of foreign exchange contracts primarily from weakening current market rates on the Yen and the US dollar against the Canadian dollar.

In addition, in 2011 there were mark to market adjustments on interest rate and currency swaps as that were settled in the first quarter of 2012.

The gains in 2012 were partially offset by an increase in foreign exchange losses from translating net working capital assets dominated in foreign currencies to Canadian dollars of $1.6 million related to weakening foreign exchange rates for the US dollar and Euro.

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 $1.3 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 39 weeks ended		September 29 2012		October 1 2011
Royalties and fees	$	(421)	$	(2,852)
Other		(673)		(2,354)
	$	(1,094)	$	(5,206)

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. Royalty income has declined due to Clearwater having sold off most of its non-core quotas which it would have previously leased out for a royalty.

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.

Income taxes

Income taxes primarily relate to taxable subsidiaries in Argentina, the United States, the United Kingdom and Canada. Lower earnings in Argentina contributed to lower income taxes in 2012.

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 September 29, 2012 and December 31, 2011:

In 000's of Canadian dollars As at	September 29 2012	December 31 2011
Equity		
Common shares	$ 64,867	$ 65,309
Retained earnings (deficit)	6,136	(835)
Cumulative translation account	(3,583)	(3,122)
	67,420	61,352
Non-controlling interest	31,646	32,700
	99,066	94,052
Long term debt		
Subordinated debt		
2013 convertible debentures	-	43,573
2014 convertible debentures	44,456	41,632
	44,456	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	73,099	-
Term Loan B, due 2018	129,312	-
First lien loan, due 2015	-	77,250
Revolving debt, matures in 2017	10,597	17,513
Marine mortgage, matures in 2017	2,807	4,470
Other loans	656	840
	216,471	100,073
Total long term debt	264,427	247,100
Total capital structure	$ 363,493	$ 341,152

There are 50,948,698 shares outstanding as of September 29, 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/repayment of:

- Canadian $43.4 million 10.5% convertible debentures, ("Debentures").
- US $54.5 million of 12% second lien debt;
- Canadian $74.2 million in existing senior term notes; and

- The remaining funds, after payment of expenses, were used to pay down the balance on the existing asset based revolving credit facility to $16.3 million.

In February 2012 Clearwater reached an agreement with Glitnir Banki Hf (“Glitnir”) that 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 payment by Clearwater of Canadian $14.5 million.

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

The 2014 Convertible debentures which accrue interest at 7.25%, mature in March 2014 and are convertible at a price of $5.90 per share. They are redeemable by Clearwater at face value plus accrued interest. These debentures are recorded at estimated fair value. The principal amount outstanding as of September 29, 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. 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 $1.9 million. The loan bears interest at an annual rate of banker’s acceptance plus 4.5%, payable monthly. As of September 29, 2012 this resulted in a rate of 5.8%. The loan contains an accordion provision that, subject to satisfaction of certain conditions, allows Clearwater to expand the facility by up to Canadian $25 million. As of September

2012 Clearwater entered into an interest rate swap that effectively locks in the interest rate on Canadian $30 million of this debt at an effective interest rate of 6.29%, maturing May 31, 2017. The amount outstanding under the swap reduces at a similar percentage rate as the scheduled payments on the loan.

The term loan B has a principal balance of USD $134.0 million, repayable in quarterly instalments of $0.31 million with the balance of $126.3 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 September 29, 2012 this resulted in an interest rate of 6.7%. The balance in Canadian on September 29, 2012 was $129.3 million and is recorded net of deferred financing charges of $2.9 million. The loan contains an accordion provision that, subject to satisfaction of certain conditions, allows Clearwater to expand the facility by up to US $50 million.

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 September 29, 2012 this results in rates of 4.5% for CDN balances and 4.7% for USD balances.

The loan is secured by a first charge on accounts receivable, cash and cash equivalents 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 symbol "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 September 29, 2012 Clearwater had $15.0 million in cash, and a revolving loan with an outstanding balance of $10.6 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 having higher liquidity in the second half of the year in the form of higher cash balances and lower balances on revolving debt facilities.

- **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.

Free cash flows	13 weeks ended September 29, 2012	13 weeks ended October 1, 2011	39 weeks ended September 29, 2012	39 weeks ended October 1, 2011	12 month Rolling September 29, 2012	12 month Rolling October 1, 2011
EBITDA	25,125	22,772	52,617	44,818	68,087	58,624
Less:						
Cash interest	(4,786)	(5,340)	(15,877)	(15,919)	(21,551)	(21,177)
Cash taxes	(482)	(2,127)	(1,755)	(3,780)	(2,642)	(4,833)
Other non-EBITDA items	(2,014)	1,396	(6,323)	(2,965)	(11,631)	(4,441)
Operating cash flow before changes in working capital	**17,843**	**16,702**	**28,662**	**22,154**	**32,263**	**28,173**
Change in working capital	(2,805)	(17,398)	(27,690)	(23,855)	(13,547)	(20,527)
Cash flows from operating activities	**15,038**	**(696)**	**972**	**(1,701)**	**18,716**	**7,646**
Uses of cash:						
Purchase of property, plant, equipment, quota and other assets	(1,201)	(6,589)	(12,354)	(19,133)	(14,458)	(24,117)
Less: Designated borrowings	-	16,000	2,056	19,223	2,056	19,223
Scheduled payments on long-term debt	(28)	(1,014)	(4,709)	(4,453)	(4,723)	(6,865)
Distributions to non-controlling interests	(1,177)	(2,893)	(6,711)	(5,220)	(9,038)	(6,507)
Free cash flows	12,632	4,808	(20,747)	(11,284)	(7,448)	(10,619)
Add/(less):						
Other debt borrowings (repayments) of debt	(8,946)	(6,241)	24,190	19,745	12,550	17,779
Other investing activities	1,059	697	1,815	(6,222)	432	(5,213)
Other financing activities	-	(533)	-	2,113	(171)	2,241
Change in cash flows for the period per statement of cash flows	4,745	(1,269)	5,259	4,352	5,364	4,187

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 grew in the third quarter of 2012 to $12.6 million versus $4.8 million in 2011. Year-to-date free cash flows were an investment of $20.7 million versus $11.3 million in 2011.

The strong growth in free cash flows in the third quarter of 2012 were due to strong operating results as well as a reduction in working capital during the quarter. The year-to-date the investment in working capital has been higher than in 2011 and has resulted in lower free cash flows.

Clearwater expects that strong earnings and further reductions in working capital during the fourth quarter will result in positive free cash flow in the fourth quarter of 2012.

In 000's of Canadian dollars	13 weeks ended September 29 2012	13 weeks ended October 1 2011	39 weeks ended September 29 2012	39 weeks ended October 1 2011
Decreases (increases) in inventory	7,147	(7,635)	(6,650)	(11,856)
Decreases in accounts payable	(4,835)	(3,375)	(9,151)	(1,339)
Increases in accounts receivable	(3,272)	(7,435)	(6,659)	(9,792)
Decreases (increases) in prepaids	(1,528)	989	(3,081)	905
Increases (decreases) in income taxes payable	(852)	882	(2,356)	(351)
Increases (decreases) in deferred income taxes	535	(825)	208	(1,431)
	$ (2,805)	$ (17,399)	$ (27,689)	$ (23,864)

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 and number of landings and a planned delay in the harvesting of Turbot as both vessels harvested coldwater shrimp in the first quarter of 2012. In addition investments in procured raw material volumes particularly for snow crab increased for 2012.

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

Receivable balances increased during the third quarter of 2012 by $3.3 million as a result of the timing of sales which occurred later in the quarter. Receivable aging improved to 89% current at September 29, 2012 from 76% October 1, 2011. Improvements in liquidity are expected to be recognized within the fourth quarter as the receivables are collected.

Investments in capital expenditures of $12.4 million for the year 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 $20.1 million in fixed assets excluding repairs, of which $15.5 million relates to maintenance, capital investments and $4.6 million to investments to improve efficiencies. In addition, Clearwater has and will continue to review and liquidate underperforming and non-core assets.

- 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. 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 resulting in higher leverage in the first half of the year and lower leverage in the second half.

  As of the third quarter of 2012 leverage improved to 3.7 versus 3.8 as at December 31, 2011 and 4.1x at the end of the second quarter of 2012. Clearwater expects that strong free cash flows in the fourth quarter of 2012 will enable it to reduce leverage further and closer to its eventual goal of 3.0x. Clearwater has committed to further leverage reductions to achieve the target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt and expects that it will hit that level prior to then.

In 000's of Canadian dollars As at	September 29 2012	December 31 2011	October 1 2011
EBITDA	$ 68,087	$ 60,284	58,620
Net debt	249,442	232,375	238,309
Net debt leverage	3.66	3.85	4.07
Senior debt (per below)	213,008	140,528	153,309
Senior debt leverage	3.1	2.3	2.6
Debt per balance sheet	264,427	247,100	247,930
Less cash	(14,985)	(14,725)	(9,621)
Net debt	249,442	232,375	238,309
Subordinated debt	51,419	106,572	94,621
Senior debt	213,008	140,528	153,309
Term loan A	73,099	-	-
Term loan B	129,312	-	-
First lien loan	-	77,250	77,250
Second lien loan	-	45,765	44,675
Revolver	10,597	17,513	31,384
Senior debt	$ 213,008	$ 140,528	$ 153,309

1 – Refer to the definition of EBITDA

- **Foreign Exchange Management** – Weakening exchange rates for the Euro and the UK pound against the Canadian dollar resulted in a reduction in sales and gross margin of $4.4 million for the year to date period ended September 29, 2012. Higher average foreign exchange rates for the US dollar and the Japanese Yen partially offset the decline in foreign exchange. The net impact from foreign exchange was a decline of sales and gross margin of $0.97 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 September 2012 Clearwater had forward exchange contracts to be settled in the fourth quarter of 2012 of

- USD $20.0 million at an average rate of 1.03,
- 0.75 billion Yen at an average rate of .013 and
- 11.0 million Euro at an average rate of 1.29.

Clearwater also had forward exchange contracts to be settled in 2013 of:

- USD18.5 million at an average rate of 1.00;
- 2.7 billion Yen at an average rate of .013; and
- 56.1 million Euro at an average rate of 1.27.

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

EXPLANATION OF THIRD 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 of Clearwater for the 13 weeks ended September 29, 2012 and October 1, 2011.

In 000's of Canadian dollars	September 29 2012	October 1 2011
Sales	$ 101,640	$ 97,590
Cost of goods sold	76,042	71,660
Gross margin	25,598	25,930
	25.2%	*26.6%*
Administrative and selling	7,367	7,894
Finance costs	(1,111)	14,290
Other income	216	(2,650)
Research and development	511	38
	6,983	19,572
Earnings before income taxes	18,615	6,358
Income taxes	997	1,302
Earnings	$ 17,618	$ 5,056

Earnings

Third quarter 2012 sales were $101.6 million and EBITDA[1] was $25.1 million versus 2011 comparative figures of $97.6 million and $22.8 million representing growth rates of 4.2% in sales and 10.3% in EBITDA. This represents the eleventh consecutive quarter of improved results.

Earnings increased by $12.6 million as compared to 2011 primarily as a result of an increase in unrealized foreign exchange gains on US dollar denominated debt , offset partially by lower other income.

In 000's of Canadian dollars 13 weeks ended	September 29 2012	October 1 2011	Change
Net earnings	$ 17,618	$ 5,056	$ 12,562
Explanation of changes in earnings:			
Higher foreign exchange income			13,768
Lower other income			(2,866)
Lower fees on settlement of debt			846
Lower interest expense			730
Lower gross margin			(332)
Lower fair value adjustment on long term debt			57
All other			359
			$ 12,562

The 10.3% growth in the third quarter EBITDA came as a result of higher sales volumes for coldwater shrimp, crab and clams, and lower harvesting costs. This was partially offset by higher procurement costs for shrimp and crab.

Management is satisfied with the progress made in the third 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 the last quarter of 2012.

1 – Refer to definition of EBITDA

Sales by region

In 000's of Canadian dollars 13 weeks ended		September 29 2012		October 1 2011		Change	%
Europe	$	33,874	$	40,562	$	(6,688)	(16.5)
United States		15,240		13,342		1,898	14.2
Canada		19,390		16,130		3,260	20.2
Japan		12,786		11,515		1,271	11.0
China		15,273		12,696		2,577	20.3
Other Asia		4,398		2,604		1,794	68.9
Asia		32,457		26,815		5,642	21.0
Other		679		741		(62)	(8.4)
	$	101,640	$	97,590	$	4,050	4.2

Europe

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

European sales declined $6.7 million to $33.9 million, from $40.6 million for the third quarter primarily as a result of an economic slowdown within the region that reduced sales volumes and prices for scallops and lobster. This was partially offset by higher sales volumes for coldwater shrimp due in part to an increase in landings and improved catch rates during 2012.

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 9.9% relative to the Canadian dollar from 1.38 in 2011 to 1.25 in 2012, and the UK Pound declined 0.5% 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 increased $1.9 million, or 14.2%, to $15.2 million in the third quarter as a result of an increase in sales volumes for clams, sea scallops and snow crab from an increase available supply.

Strong selling prices for coldwater shrimp and clams contributed to the increase in sales.

For the quarter, the US dollar strengthened against the Canadian dollar contributing to the increase in sales. Average foreign exchange rates for the US dollar increased by 1.0% to 0.997 in 2012 from 0.986 in 2011.

Canada

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

Sales within Canada increased $3.3 million, or 20.2% for the third quarter primarily as a result of an increase in sales volumes for snow crab and lobster.

The increase in sales was partially offset by a decline in selling prices for snow crab and lobster.

Japan

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

Sales to Japan increased 11.0% or by $1.3 million, to $12.8 million primarily as a result of strong sales volumes for coldwater shrimp and turbot. Strong market demand resulted in increased sales prices for coldwater shrimp and clams.

Average foreign exchange rates for the Yen remained consistent during the quarter at an average rate of 0.013 for 2012 in comparison to the same period in 2011.

China

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

Sales to China increased $2.6 million, or 20.3%, to $15.3 million for the third quarter primarily as a result of an increase in market demand for coldwater shrimp and clams. 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 1.0% to 0.997 in 2012 from 0.986 in 2011.

Sales by species

In 000's of Canadian dollars 13 weeks ended	September 29 2012	October 1 2011	Change	%
Scallops	$ 30,474	$ 35,725	(5,251)	(14.7)
Clams	19,182	15,406	3,776	24.5
Coldwater shrimp	19,438	14,258	5,180	36.3
Lobster	17,264	18,572	(1,308)	(7.0)
Crab	9,585	6,915	2,670	38.6
Ground fish and other	5,697	6,714	(1,017)	(15.1)
	$ 101,640	$ 97,590	$ 4,050	4.2

Improvements in sales were a result of price increases in certain species as well as an increase in sales volumes.

Sales volumes increased 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. This was partially offset by lower sales volumes for scallops during 2012 as a result of the economic conditions within Europe. The decline in sales volumes for scallops was partially offset by transferring available to supply to higher yielding markets.

Cost of Goods Sold

In 000's of Canadian dollars 13 weeks ended	September 29 2012	October 1 2011	Change	%
Harvesting and procurement	$ 53,045	$ 49,847	$ 3,198	6.4
Manufacturing	9,396	9,338	58	0.6
Freight, customs and other transport	5,665	5,984	(319)	(5.3)
Depreciation	5,285	4,232	1,053	24.9
Administrative	2,651	2,259	392	17.4
	$ 76,042	$ 71,660	$ 4,382	6.1

Cost of goods sold increased $4.3 million or 6.1% to $76.0 million primarily due to an increase in raw material procurement costs for lobster and shrimp and 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 third quarter primarily as a result of a mix of products weighted towards lower cost primarily coldwater shrimp and lower fuel costs as a result of lower consumption. Higher procurement costs for lobster and shrimp partially offset the decline.

Fuel costs for our vessels declined $0.69 million from $6.8 million in the third quarter of 2011 to $6.1 million in 2012. This decline was a result of a reduction in the litres consumed and pounds landed. The decline was partially offset by an increase in the average price per litre of fuel of 0.02 in comparison to the third quarter of 2011.

Depreciation expense from assets used in the harvesting and production of goods increased $1.1 million to $5.3 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 declined by $0.33 million, or 1.3% to $25.6 million as a result of lower sales volumes for bay scallops due in part to the economic slowdown within Europe and a negative impact from foreign exchange rates. Lower average foreign exchange rates for the Euro and UK pound negatively impacted sales and gross margin by $2.6 million. Margins were positively impacted by higher average foreign exchange rates for US dollars and the Japanese Yen of $0.5 million. The net impact from foreign exchange was a decline in sales and gross margin of $2.4 million for the third quarter.

In 000's of Canadian dollars	September 29, 2012		October 1, 2011		
13 weeks ended Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	46.2%	0.997	38.5%	0.986	1.0%
Euros	22.9%	1.247	32.2%	1.384	-9.9%
Japanese Yen	12.1%	0.013	10.6%	0.013	0.0%
UK pounds	2.4%	1.574	3.6%	1.582	-0.5%
Canadian dollar and other	16.4%		15.1%		
	100.0%		100.0%		

Excluding the affect of foreign exchange, gross margin was positively impacted by increases in sales prices for coldwater shrimp and an increase in sales volumes for coldwater shrimp and snow crab.

Lower turbot sales volumes and higher procurement costs partially offset the improvement in margins.

Administration and selling

In 000's of Canadian dollars 13 weeks ended	September 29 2012	October 1 2011	Change	%
Employee compensation	$ 7,006	$ 7,076	$ (70)	(1.0)
Consulting and professional fees	1,243	1,205	38	3.2
Other	621	960	(339)	(35.3)
Selling costs	480	366	114	31.1
Travel	401	426	(25)	(5.9)
Occupancy	322	343	(21)	(6.1)
Donations	199	180	19	10.6
Allocation to cost of goods sold	(2,905)	(2,662)	(243)	9.1
	$ 7,367	$ 7,894	$ (527)	(6.68)

Administration and selling costs declined $0.53 million, or 6.7%, to $7.4 million as a result of a decline in reorganizational charges during the third quarter of 2012.

Other costs include a variety of administrative expenses such as travel, communication, computing, service fees, depreciation, gains/losses and write downs of assets, all of which will vary from year to year. The decline of $0.34 million was primarily a result of $0.46 million in reorganizational charges for severance during the third quarter of 2011.

Selling costs include advertising, marketing, trade shows, samples, product development and bad debt expenses. The increase in costs of $0.11 million to $0.48 million primarily relates to advertising and marketing expenses for 2012.

The allocation to cost of goods sold reflects costs that are attributable to the production and sale of goods and are allocated 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		September 29 2012		October 1 2011
Interest and bank charges	$	4,785	$	5,340
Amortization of deferred financing charges		340		515
Interest on current and long term debt		5,125		5,855
Fair value adjustment on convertible debentures		26		83
Foreign exchange and derivative contracts		(6,263)		7,505
Debt settlement and refinancing fees		1		847
	$	(1,111)	$	14,290

Interest declined $0.73 million for the third quarter as a result of lower average interest rates on debt facilities.

Foreign exchange and derivative contracts

In 000's of Canadian dollars 13 weeks ended		September 29 2012		October 1 2011
Realized loss (income)				
Foreign exchange contracts	$	(1,817)	$	1,311
Working capital		1,212		(146)
		(605)		1,165
Unrealized (gain) loss				
Foreign exchange on long term debt		(4,583)		3,026
Mark-to-market on foreign exchange contracts		(1,075)		3,353
Mark-to-market on interest and currency swaps		-		(39)
		(5,658)		6,340
	$	(6,263)	$	7,505

Foreign exchange and derivative gains increased $13.8 million from a loss of $7.5 million in the third quarter of 2011 to a gain of $6.3 million in 2012. The foreign exchange gain was primarily a result of $4.6 million in unrealized foreign exchange from the translation of the US dollar denominated debt in 2012 as the Canadian dollar strengthened against the US dollar as foreign exchange rates declined from $1.02 at July 2, 2012 to $0.984 at September 29, 2012.

Realized foreign exchange gains of $1.8 million related primarily to Euro and US forward exchange contracts settled within 2012 as average spot rates were 4.3% and 3.2% lower than the average strike price for 2012 for the Euro and the US dollar, respectively.

Unrealized foreign exchange gains of $1.1 million are a result of mark to market adjustments of foreign exchange contracts primarily from weakening current market rates on the Yen and the US dollar against the Canadian dollar.

The gains were partially offset by an increase in foreign exchange losses on working capital of $1.2 million related to weakening foreign exchange rates for the US dollar and Euro.

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

Other income

In 000's of Canadian dollars 13 weeks ended	September 29 2012	October 1 2011
Royalties and fees	$ (45)	$ (1,219)
Other	261	(1,431)
	$ 216	$ (2,650)

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. Royalty income has declined due to Clearwater having sold off most of its non-core quotas which it would have previously leased out for a royalty.

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.

Income taxes

Income taxes primarily relate to taxable subsidiaries in Argentina, the United States, the United Kingdom and Canada. Lower earnings in Argentina contributed to lower income taxes in 2012.

OUTLOOK

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

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

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

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

Clearwater expects strong earnings in the fourth quarter of 2012 due to seasonally higher sales during the fourth quarter.

Ian Smith, Chief Executive Officer, commented, “In the quarter the company had the highest revenues and EBITDA in its history. Management is satisfied with the progress made towards both our 2012 and longer term financial targets and we have every expectation that our momentum will continue through the balance of fiscal 2012 and into 2013.”

Management’s commitment to creating shareholder value

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.

Management has undertaken 8 initiatives to create shareholder value.

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

   Sales growth year-to-date was 4.8% 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 20.4% and is expected to remain strong for the last quarter of the year resulting in an annual rate stronger than that realized in fiscal 2011.

   Clearwater expects strong earnings in the fourth quarter of 2012 due to seasonally higher sales. Over the mid-term Clearwater will continue to lever its vertical integration existing segments to capture a growing share of the seafood value chain through the introduction of value-added new products in certain 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. 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 and higher free cash flows, lower debt balances and lower leverage levels in the second half of the year.

   Free cash flows were a net investment of $7.5 million for the rolling 12 month period ending September 29, 2012, versus positive free cash flow of $2.0 million to December 31, 2011 and a net investment of $10.7 million to October 1, 2011. The higher investment in 2012 is a result of higher seasonal investment in working capital and capital expenditures.

3. Improving leverage - As of the third quarter of 2012 leverage improved to 3.7 versus 3.9 as at December 31, 2011 and 4.1 at the end of the second quarter of 2012. Clearwater expects that strong free cash flows in the fourth quarter of 2012 will enable it to reduce leverage further. Clearwater has committed to further leverage reductions to achieve the target of 3.0 by December 31, 2014 by increasing earnings and using its free cash flow to reduce debt.

4. Return on assets - Return on assets has improved from 10.5% at December 31, 2011 to 11.5%, a continuing trend of improvement and focused management of investments. The target of 12.0% is expected to be accomplished over the next several years.

Other key initiatives include:

5. Improving the capital structure - During the second quarter of 2012 Clearwater successfully completed a series of capital market transactions that substantially improved its debt structure. The financing enables Clearwater to reduce projected interest costs by approximately $4.6 million annually, strengthens its liquidity and provides the capital structure necessary to execute growth plans while further reducing overall leverage. Clearwater is now focused on initiating an active communications plan with its investors to ensure continued access, when required, to all sources of growth capital.

6. Focused management of foreign exchange - Clearwater has a focused and targeted foreign exchange hedging program to reduce the impact of short-term volatility in exchange rates on earnings. This, combined with stronger processes for price management reduces the impact of exchange rate volatility on the business. Clearwater has approximately 72% of its US Dollar, Euro and Yen exposures for the remainder of 2012 hedged at rates of 1.03, 1.29 and 0.013 respectively. In addition, Clearwater has 74% of its Euro and Yen exposures for 2013 hedged at rates of 1.27 and 0.013 and approximately 70% of its first quarter 2013 USD exposure at an average rate of 1.00.

7. Building world class leadership, management, sales and marketing capabilities - Clearwater has begun implementing best in class programs for key account management, new product development, sales and operating planning, recruitment and compensation practices. In addition, over the past two years Clearwater has added a number of new people to its senior management team and its' Board of Directors. Most recently, John Burwash joined Clearwater as Vice-President and Chief Information Officer. John is a highly accomplished IT Executive with over 20 years experience within the global automobile industry where he held senior IT leadership positions at Cosma International (An operating unit of the Magna International Group of Companies) since 1996. John will be building upon an already ambitious IS agenda, taking charge of a responsive and customer service-oriented team and ensuring that a planned ERP installation and system upgrades provide the solid and state-of-the-art foundation needed to fuel Clearwater's next phase of growth.

8. Communicating underlying asset values - Clearwater has an industry-leading portfolio of quotas that provide strong security of underlying value to lenders and investors. In the second quarter of 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 in the third quarter of 2012 when both the Arctic surf clam fishery and Nova Scotia snow crab fishery received the

Marine Stewardship Council (MSC) certification. These species join the Clearwater family of MSC-certified offerings including Canadian sea scallops, Argentine scallops, Canadian coldwater shrimp and Eastern Canadian offshore lobster. Clearwater now boasts a total of seven species certified by the MSC, completing the certification of all its core products, and giving the Company the widest selection of MSC-certified species of any seafood harvester worldwide.

Management believes that it has the correct strategies and focus to 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 enable Clearwater to lock in exchange rates up to 18 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows 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 September 2012 Clearwater had approximately 72% of its US Dollar, Euro and Yen exposures for the remainder of 2012 hedged at rates of 1.03, 1.29 and 0.013 respectively and 74% of its Euro and Yen exposures for 2013 hedged at rates of 1.27 and 0.013.

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.

In early 2012, the Argentine Government began withholding approvals for companies seeking to make certain types of transfers and retain cash outside of Argentina. Clearwater has been able to make payments and flow funds into and out of Argentina in accordance with current regulations and our business has not been materially impacted by the regulations. However there can be no assurance that the Government will not restrict approvals for future payments of dividends and other transfers.

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

We mitigate this risk through maintaining a policy of repatriating our share of the earnings from Argentina through dividends and we do not maintain any material financial assets that are surplus to our needs to operate the business outside of Canada. We do not carry financial assets in Pesos to mitigate exchange risk. In addition we have structured our operations in Argentina with an Argentine partner who owns 20% of the Argentine business and who is resident in Argentina 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 November 13, 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 expects that the adoption of IFRS 11 Joint Arrangements will impact Its balance sheet and income statement but will not have an impact on cash flows or EBITDA levels. It will provide a further update on this standard in its 2012 annual report.

Clearwater is assessing the impact of the other new standards, but does not expect them to have a significant effect on its consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

The following table provides historical data for the eleven 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	$ 101,640	$ -
Earnings (loss)	(2,927)	(2,505)	17,618	-
Earnings (loss) per share ("EPS")	(0.09)	(0.08)	0.30	-
Diluted earnings per share[2]	(0.09)	(0.08)	0.27	-
Fiscal 2011				
Sales	$ 69,235	$ 78,820	$ 97,590	$ 87,140
Earnings (loss)	1,832	(327)	5,058	16,390
Earnings (loss) per share ("EPS")[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 are anti-dilutive for all periods except September 29, 2012 and December 31, 2011.

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, 39 weeks ended and the rolling twelve-month period ending September 29, 2012 and October 1, 2011:

	13 weeks ended		Year to date		12 month rolling ended	
	September 29 2012	October 1 2011	September 29 2012	October 1 2011	September 29 2012	October 1 2011
Net earnings	$ 17,618	$ 5,065	$ 12,186	$ 6,560	$ 28,580	$ 8,198
Add (deduct):						
Income taxes	997	1,302	1,897	2,349	3,412	3,739
Reduction in foreign currency translation	-	-	-	-	-	852
Depreciation and amortization	5,335	4,331	16,389	14,153	21,739	17,663
Interest on long-term debt and bank charges	5,124	5,845	16,677	21,166	22,351	27,276
	29,074	16,543	47,149	44,228	76,082	57,728
Add (deduct) other non-routine items:						
Foreign exchange and derivative income unrealized	(5,658)	6,173	(6,605)	5,983	(11,063)	4,399
Fair market value on convertible debentures	26	250	3,026	5,855	4,232	5,855
Realized foreign exchange on working capital	1,212	(145)	2,167	549	4,331	2,137
Restructing and refinancing costs	471	1,714	6,880	3,667	6,950	3,565
Gain on sale of quota	-	-	-	(672)	-	(672)
Gain on settlement of debt	-	-	-	(1,797)	(12,445)	(1,797)
Loss on disposal of investment	-	(69)	-	267	-	267
Gain on change in ownership of joint venture	-	-	-	(11,571)	-	(11,571)
Gain on insurance claim	-	(1,695)	-	(1,695)	-	(1,695)
Stock appreciation rights	-	-	-	-	-	404
EBITDA	**$ 25,125**	**$ 22,771**	**$ 52,617**	**$ 44,814**	**$ 68,087**	**$ 58,620**

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 September 29, 2012 would have been $59.9 million if the entity had been consolidated.

Note 3: Minority interest on total EBITDA has not been reflected in the above table. The minority interest in EBITDA for the third quarter would have been $3.4 million and $4.6 million for 2012 and 2011, respectively. Minority interest in EBITDA for the year to date period would have been $9.4 million for 2012 and $9.7 million for 2011. Minority interest in EBITDA for the rolling twelve month period would have been $13.2 million for 2012 and $10.0 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	September 29 2012	December 31 2011	October 1 2011
EBITDA	$ 68,087	$ 60,284	58,620
Net debt	249,442	232,375	238,309
Net debt leverage	3.66	3.85	4.07
Senior debt (per below)	213,008	140,528	153,309
Senior debt leverage	3.1	2.3	2.6
Debt per balance sheet	264,427	247,100	247,930
Less cash	(14,985)	(14,725)	(9,621)
Net debt	249,442	232,375	238,309
Subordinated debt	51,419	106,572	94,621
Senior debt	213,008	140,528	153,309
Term loan A	73,099	-	-
Term loan B	129,312	-	-
First lien loan	-	77,250	77,250
Second lien loan	-	45,765	44,675
Revolver	10,597	17,513	31,384
Senior debt	$ 213,008	$ 140,528	$ 153,309

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, 39 weeks ended and rolling twelve months ending September 29, 2012 and October 1, 2011:

	13 weeks ended		39 weeks ended		12 month Rolling	
Free cash flows	**September 29, 2012**	**October 1, 2011**	**September 29, 2012**	**October 1, 2011**	**September 29, 2012**	**October 1, 2011**
EBITDA	25,125	22,772	52,617	44,818	68,087	58,624
Less:						
Cash interest	(4,786)	(5,340)	(15,877)	(15,919)	(21,551)	(21,177)
Cash taxes	(482)	(2,127)	(1,755)	(3,780)	(2,642)	(4,833)
Other non-EBITDA items	(2,014)	1,396	(6,323)	(2,965)	(11,631)	(4,441)
Operating cash flow before changes in working capital	**17,843**	**16,702**	**28,662**	**22,154**	**32,263**	**28,173**
Change in working capital	(2,805)	(17,398)	(27,690)	(23,855)	(13,547)	(20,527)
Cash flows from operating activities	**15,038**	**(696)**	**972**	**(1,701)**	**18,716**	**7,646**
Uses of cash:						
Purchase of property, plant, equipment, quota and other assets	(1,201)	(6,589)	(12,354)	(19,133)	(14,458)	(24,117)
Less: Designated borrowings	-	16,000	2,056	19,223	2,056	19,223
Scheduled payments on long-term debt	(28)	(1,014)	(4,709)	(4,453)	(4,723)	(6,865)
Distributions to non-controlling interests	(1,177)	(2,893)	(6,711)	(5,220)	(9,038)	(6,507)
Free cash flows	12,632	4,808	(20,747)	(11,284)	(7,448)	(10,619)
Add/(less):						
Other debt borrowings (repayments) of debt	(8,946)	(6,241)	24,190	19,745	12,550	17,779
Other investing activities	1,059	697	1,815	(6,222)	432	(5,213)
Other financing activities	-	(533)	-	2,113	(171)	2,241
Change in cash flows for the period per statement of cash flows	4,745	(1,269)	5,259	4,352	5,364	4,187

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 Statement of Financial Position of Clearwater Seafoods Incorporated as at September 29, 2012, the unaudited consolidated Statement of Financial Position as at December 31, 2011 and the unaudited interim consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for the 13 weeks and 39 weeks ended September 29, 2012 and October 1, 2011. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 29, 2012 and October 1, 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)

	September 29, 2012	December 31, 2011
ASSETS		
Current assets		
Cash	**$ 14,985**	$ 9,725
Trade and other receivables	**48,976**	43,830
Inventories	**68,405**	61,755
Prepaids and other	**7,519**	9,438
Derivative financial instruments (Note 5)	**2,445**	1,075
	142,330	125,823
Non-current assets		
Long term accounts receivable	**8,826**	10,293
Other assets	**3,373**	3,660
Property, plant and equipment	**127,720**	129,373
Licences and fishing rights (Note 9)	**110,136**	111,700
Goodwill (Note 9)	**7,043**	7,043
	257,098	262,069
TOTAL ASSETS	**$ 399,428**	$ 387,892
LIABILITIES		
Current liabilities		
Trade and other payables	**$ 31,618**	$ 40,767
Income tax payable	**635**	1,984
Current portion of long-term debt (Note 4)	**14,789**	42,766
Derivative financial instruments (Note 5)	**389**	1,097
	47,431	86,614
Non-current liabilities		
Long-term debt (Note 4)	**249,638**	204,334
Deferred tax liabilities	**3,293**	2,892
	252,931	207,226
SHAREHOLDERS' EQUITY		
Share capital	**64,867**	65,309
Retained earnings (deficit)	**6,136**	(835)
Cumulative translation account	**(3,583)**	(3,122)
	67,420	61,352
Non-controlling interest	**31,646**	32,700
	99,066	94,052
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**$ 399,428**	$ 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 September 29, 2012	13 weeks ended October 1, 2011	39 weeks ended September 29, 2012	39 weeks ended October 1, 2011
Sales	**$ 101,640**	$ 97,590	**$ 257,490**	$ 245,645
Cost of goods sold	**76,042**	71,660	**201,663**	195,912
	25,598	25,930	**55,827**	49,733
Administrative and selling	**7,367**	7,894	**23,015**	22,588
Research and development	**511**	38	**935**	198
Gain on change in control of joint venture	**-**	-	**-**	(11,571)
Other expense (income)	**216**	(2,650)	**(1,094)**	(5,206)
Net finance costs (Note 5)	**(1,111)**	14,290	**18,888**	34,815
	6,983	19,572	**41,744**	40,824
Earnings before income taxes	**18,615**	6,358	**14,083**	8,909
Income taxes	**997**	1,302	**1,897**	2,348
Earnings for the period	**$ 17,618**	$ 5,056	**$ 12,186**	$ 6,561
Earnings attributable to:				
Non-controlling interest	**$ 2,448**	$ 2,425	**$ 5,657**	$ 4,520
Shareholders of Clearwater	**15,170**	2,631	**6,529**	2,041
	$ 17,618	$ 5,056	**$ 12,186**	$ 6,561
Basic earnings per share (note 6)	$ 0.30	$ 0.05	$ 0.13	$ 0.04
Diluted earnings per share (note 6)	$ 0.27	$ 0.05	$ 0.13	$ 0.04

See accompanying notes to condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statement of Comprehensive Income

(unaudited)
(In thousands of Canadian dollars)

	13 weeks ended September 29, 2012	13 weeks ended October 1, 2011	39 weeks ended September 29, 2012	39 weeks ended October 1, 2011
Earnings for the period	**$ 17,618**	$ 5,056	**$ 12,186**	$ 6,561
Other comprehensive income (loss) - foreign currency translation differences of foreign operations	**(880)**	607	**(461)**	(182)
Total Comprehensive income	**$ 16,738**	$ 5,663	**$ 11,725**	$ 6,379
Total comprehensive income attributable to:				
Non-controlling interest	**$ 2,448**	$ 2,425	**$ 5,657**	$ 4,520
Shareholders of Clearwater	**14,290**	3,238	**6,068**	1,859
	$ 16,738	$ 5,663	**$ 11,725**	$ 6,379

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	Retained earnings (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	-	-	2,041	-	(182)	4,520	6,379
Transactions recorded directly in equity							
Distributions to non-controlling interest	-	-	-	-	-	(5,220)	(5,220)
Purchase and cancellation of shares	(571)	-	-	-	-	-	(571)
Changes in ownership interests							
Change in control on acquisition of joint venture	-	-	(73)	-	-	29,600	29,527
Total transactions with unitholders	(571)	-	1,968	-	(182)	28,900	30,115
Balance at October 1, 2011	**$ 161,946**	**-**	**$ (113,583)**	**$ 1,816**	**$ (1,618)**	**$ 32,918**	**$ 81,479**
Total comprehensive income for the period	-	-	14,295	-	(1,504)	2,099	14,890
Transactions recorded directly in equity							
Distributions to non-controlling interest	-	-	-	-	-	(2,317)	(2,317)
Total transactions with shareholders	-	-	14,295	-	(1,504)	(218)	12,573
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	-	-	6,529	-	(461)	5,657	11,725
Transactions recorded directly in equity							
Distributions to non-controlling interest	-	-	-	-	-	(6,711)	(6,711)
Redemption of 2013 convertible debentures	-	(442)	442	-	-	-	-
Total transactions with shareholders	-	(442)	6,971	-	(461)	(1,054)	5,014
Balance at September 29, 2012	**$ -**	**$ 64,867**	**$ 6,136**	**$ -**	**$ (3,583)**	**$ 31,646**	**$ 99,066**

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		39 weeks ended	
	September 29, 2012	**October 1, 2011**	**September 29, 2012**	**October 1, 2011**
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
Operating				
Earnings for the period	**$ 17,618**	$ 5,056	**$ 12,186**	$ 6,561
Items not involving cash:				
Depreciation and amortization	**5,489**	4,851	**16,741**	14,715
Gain on acquisition of joint venture	**-**	-	**-**	(11,571)
Net finance costs	**(5,292)**	6,938	**273**	12,737
Impairment of property, plant and equipment and other assets	**-**	-	**-**	605
Loss (gain) on disposal of property, plant and equipment and quota	**(165)**	106	**(235)**	(546)
Other	**195**	(249)	**(297)**	(339)
	17,845	16,702	**28,668**	22,162
Change in operating working capital	**(1,499)**	(17,870)	**(26,230)**	(20,450)
Interest expense	**4,785**	5,340	**15,876**	15,641
Interest paid	**(5,751)**	(5,001)	**(15,108)**	(17,298)
Income tax expense	**997**	1,302	**1,897**	2,348
Income tax paid	**(1,339)**	(1,169)	**(4,132)**	(4,105)
	$ 15,038	$ (696)	**$ 971**	$ (1,702)
Financing				
Repayment of long-term debt	**$ (43,446)**	$ (2,591)	**$ (192,631)**	$ (91,701)
Proceeds from long-term debt	**9,861**	10,000	**216,084**	122,085
Release of funds held for debt repayment and Glitnir liability	**43,543**	-	**5,000**	-
Net change in asset based revolving credit facility	**(18,932)**	1,336	**(6,916)**	4,130
Cash received on change in control of joint venture	**-**	-	**-**	2,646
Distributions to non-controlling interest	**(1,177)**	(2,893)	**(6,711)**	(5,220)
Purchase and cancellation of units	**-**	(533)	**-**	(533)
	$ (10,151)	$ 5,319	**$ 14,826**	$ 31,407
Investing				
Purchase of property, plant, equipment, quota and other	**$ (1,201)**	$ (6,589)	**$ (12,355)**	$ (19,134)
Proceeds on disposal of property, plant, equipment, quota and other	**175**	135	**265**	831
Net receipts (advances) in other assets	**-**	102	**-**	(4,648)
Net receipts (advances) in other receivables	**884**	460	**1,553**	(2,404)
	$ (142)	$ (5,892)	**$ (10,537)**	$ (25,355)
INCREASE (DECREASE) IN CASH	**$ 4,745**	$ (1,269)	**$ 5,260**	$ 4,350
CASH, BEGINNING OF PERIOD	**10,240**	10,890	**9,725**	5,271
CASH, END OF PERIOD	**$ 14,985**	$ 9,621	**$ 14,985**	$ 9,621

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 September 29, 2012 and December 31, 2011 and for the 13 and 39 weeks ended September 29, 2012 and October 1, 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 39 weeks ended October 1, 2011 and as at 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 on 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 planned work done on fleet vessels which reduces available harvest time and product harvested, harsher weather conditions, seasonality in consumer demand and other commitments in the first half of the year and higher catch rates resulting in additional saleable product typically occur in the second half of the year.

(In thousands of Canadian dollars)

4. LONG TERM DEBT

		September 29, 2012		December 31, 2011
Revolving loan, due in 2017 (a)	**$**	**10,597**	$	17,513
Term loans (b)				
Term loan A, due 2017		**73,099**		-
Term loan B, due 2018		**125,104**		-
Term loan B, embedded derivative		**4,208**		-
Senior first lien loan - repaid in June 2012		**-**		77,250
Senior second lien loan - repaid in June 2012		**-**		43,822
2013 Convertible Debentures - redeemed in July 2012		**-**		43,573
2014 Convertible Debentures (c)		**44,456**		41,632
Marine mortgage, due in 2017 (d)		**2,807**		4,470
Term loan, due in 2091 (e)		**3,500**		3,500
Glitnir payable (f)		**-**		14,500
Other loans		**656**		840
		264,427		247,100
Less: current portion		**(14,789)**		(42,766)
	$	**249,638**	$	204,334

(a) The revolving loan is limited to 90% of eligible receivables and up to 75% of eligible inventory to a maximum of $65.0 million, denominated in both CDN of $1.7 million at September 29, 2012 ($2.9 million CDN at December 31, 2011) and USD of $9.0 million at September 29, 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 at the US Libor rate plus 2.5%. As of September 29, 2012 this results in rates of 4.5% for CDN balances and 4.7% for USD balances. The loan is secured by a first charge on accounts receivable, cash and cash equivalents 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 $134.0 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 September 29, 2012 this resulted in a rate of 5.8%. The principal outstanding on September 29, 2012 is CDN $75.0 million. The balance is shown net of deferred financing charges of CDN $1.9 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. 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.

In September 2012 Clearwater entered into an interest rate swap that effectively locks in the interest rate on CDN $30.0 million of Term Loan A debt at an effective interest rate of 6.29%, maturing May 31, 2017. The amount outstanding under the swap reduces at a similar percentage rate as the scheduled payments on the loan. The interest rate swaps settle on a quarterly basis and are recorded through profit and loss.

Term loan B - USD $134.0 million, repayable in quarterly installments of USD $0.3 million with the balance of USD $126.3 million due at maturity in June 2018. Bears interest payable monthly at an annual rate of US Libor plus 5.5% with a Libor interest rate floor of 1.2%. As of September 29, 2012 this resulted in an interest rate of 6.7%. The principal outstanding on September 29, 2012 is USD $134.0 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. 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.

(c) The 2014 Convertible debentures accrue interest at 7.25%, mature in March 2014 and are convertible at a price of $5.90 per share at the option of the holder. They are redeemable by Clearwater at face value plus accrued interest. These debentures are recorded at estimated fair value. The principal amount outstanding as of September 29, 2012 was $44.4 million (December 31, 2011 - $44.4 million).

To redeem the debentures, in whole or in part, Clearwater must issue a notice of the redemption not more than 60 days and not less than 30 days prior to the date of redemption. Any debenture 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.

(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.

(In thousands of Canadian dollars)

5. NET FINANCE COSTS

In (000's)	13 weeks ended September 29, 2012	13 weeks ended October 1, 2011	39 weeks ended September 29, 2012	39 weeks ended October 1, 2011
Interest expense on financial liabilities measured at amortized cost	**$ 4,785**	$ 5,340	**$ 15,876**	$ 15,641
Amortization of deferred financing charges	**340**	515	**801**	2,696
	$ 5,125	5,855	**16,677**	18,337
Fair value adjustment on convertible debentures and embedded derivative	**26**	83	**3,026**	5,688
Foreign exchange and derivative contracts	**(6,263)**	7,505	**(7,013)**	8,467
Debt settlement and refinancing fees	**1**	847	**6,198**	2,323
Finance costs	**$ (1,111)**	$ 14,290	**$ 18,888**	$ 34,815

Foreign exchange and derivative contracts include:

In 000's of Canadian dollars	13 weeks ended September 29, 2012	13 weeks ended October 1, 2011	39 weeks ended September 29, 2012	39 weeks ended October 1, 2011
Realized loss (income)				
Foreign exchange contracts	**$ (1,817)**	$ 1,311	**$ (2,575)**	$ 1,769
Working capital	**1,212**	(146)	**2,167**	548
	$ (605)	1,165	**(408)**	2,317
Unrealized (gain) loss				
Foreign exchange on long term debt	**(4,583)**	3,026	**(4,639)**	1,852
Mark-to-market on foreign exchange contracts	**(1,075)**	3,353	**(1,966)**	3,250
Mark-to-market on interest and currency swaps	**-**	(39)	**-**	1,048
	(5,658)	6,340	**(6,605)**	6,150
	$ (6,263)	$ 7,505	**$ (7,013)**	$ 8,467

The following foreign exchange contracts were outstanding at the end of September 29, 2012:

Currency	Notional Amount (in 000's)	Average Contract Exchange Amount	Maturity	Fair Value Asset (Liability)
USD	20,000	1.031	2012	$ 918
Yen	745,000	0.013	2012	258
Yen	2,705,000	0.013	2013	1,015
Euro	11,000	1.29	2012	254
				2,445
Euro	56,100	1.27	2013	(389)
				$ 2,056

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

Currency	Notional Amount (in 000's)	Average 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 PER SHARE (UNIT)

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

	13 weeks ended				39 weeks ended			
		September 29, 2012		**October 1, 2011**		**September 29, 2012**		**October 1, 2011**
Basic								
Earnings for the period	**$**	**15,170**	$	2,631	**$**	**6,529**	$	2,041
Weighted average number of shares (units) outstanding		**50,948,698**		51,058,528		**50,948,698**		51,103,867
Earnings per share (unit)	**$**	**0.30**	$	0.05	**$**	**0.13**	$	0.04
Diluted								
Earnings for the period	**$**	**16,101**	$	2,631	**$**	**6,529**	$	2,041
Weighted average number of shares (units) oustanding		**60,069,575**		51,058,528		**50,948,698**		51,103,867
Earnings per share (unit)	**$**	**0.27**	$	0.05	**$**	**0.13**	$	0.04

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				39 weeks ended			
		September 29, 2012		**October 1, 2011**		**September 29, 2012**		**October 1, 2011**
Weighted average number of shares (units) used in the calculation of basic earnings per share (unit)		**50,948,698**		51,058,528		**50,948,698**		51,103,867
Convertible debentures		**9,120,877**		-		**-**		-
Weighted average number of shares (units) used in the calculation of diluted earnings per share (unit)		**60,069,575**		51,058,528		**50,948,698**		51,103,867
Earnings for the period	**$**	**15,170**	$	2,631	**$**	**6,529**	$	2,041
Interest on convertible debentures		**931**		-		**-**		-
Diluted earnings for the period	**$**	**16,101**	$	2,631	**$**	**6,529**	$	2,041

The interest on the 2014 convertible debentures results in dilutive earnings per share for the 13 weeks ended September 29, 2012. The interest on the 2013 and 2014 convertible debentures results in anti-dilutive earnings per share for the 13 weeks ended October 1, 2011 and 39 weeks ended September 29, 2012 and October 1, 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		39 weeks ended	
	September 29, 2012	**October 1, 2011**	**September 29, 2012**	**October 1, 2011**
Scallops	**$ 30,474**	$ 35,725	**$ 75,932**	$ 87,443
Coldwater shrimp	**19,438**	14,258	**58,037**	37,601
Clams	**19,182**	15,406	**52,946**	45,192
Lobster	**17,264**	18,572	**47,916**	48,957
Crab	**9,585**	6,915	**15,628**	11,449
Ground fish and other	**5,697**	6,714	**7,031**	15,003
	$ 101,640	$ 97,590	**$ 257,490**	$ 245,645

(b) Sales by Geographic Region

	13 weeks ended		39 weeks ended	
	September 29, 2012	**October 1, 2011**	**September 29, 2012**	**October 1, 2011**
United States	**$ 15,240**	$ 13,342	**$ 43,242**	$ 41,548
Europe				
France	**10,584**	18,246	**28,603**	38,029
Russia	**3,247**	2,378	**8,450**	7,511
UK	**3,838**	3,612	**11,148**	11,736
Other	**16,205**	16,326	**39,206**	35,568
Asia				
Japan	**12,786**	11,515	**36,011**	33,096
China	**15,273**	12,696	**39,051**	32,493
Other	**4,398**	2,604	**13,302**	9,554
Canada	**19,390**	16,130	**36,801**	34,061
Other	**679**	741	**1,676**	2,049
	$ 101,640	$ 97,590	**$ 257,490**	$ 245,645

(In thousands of Canadian dollars)

(c) Non-current Assets by Geographic Region

	September 29, 2012	December 31, 2011
Property, plant and equipment, licences, fishing rights and goodwill		
Canada	**$ 231,009**	$ 234,805
Argentina	**13,612**	13,190
Other	**278**	121
	$ 244,899	$ 248,116

8. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Clearwater rents office space to CFFI (the controlling shareholder of Clearwater) and provides computer network support services to CFFI. 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 for the 13 weeks and 39 weeks ended September 29, 2012 and October 1, 2011:

In 000's	13 weeks ended September 29, 2012	13 weeks ended October 1, 2011	39 weeks ended September 29, 2012	39 weeks ended October 1, 2011
Opening balance due from CFFI	**$ 2,267**	$ 1,925	**$ 2,111**	$ 1,774
Management fees charged to Clearwater	**(48)**	(86)	**(198)**	(257)
Rent and IT service fees charged to CFFI	**46**	46	**138**	138
Interest on intercompany account	**25**	-	**82**	-
Guarantee fee	**-**	-	**(62)**	-
Aircraft charges to Clearwater	**-**	-	**(26)**	(24)
Payments from CFFI	**(650)**	-	**(750)**	-
Advances to (from) CFFI	**(119)**	112	**166**	823
Other charges to CFFI	**173**	10	**233**	48
Purchase of partner note receivable from CFFI	**-**	-	**-**	(495)
Net due from CFFI	**$ 1,694**	$ 2,007	**$ 1,694**	$ 2,007

The amount due from CFFI is unsecured and has no set terms of repayment. CFFI has undertaken to pay the balance of the account in 2013 and the account has been classified as a current asset included in trade and other receivables. No interest was charged for the periods prior 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 prior to December 31, 2011; however, beginning in January 2012 fees amounting to 1% of the guarantees were being charged to Clearwater. With the debt refinancing on June 6, 2012 CFFI no longer provides a guarantee on the senior debt facilities for Clearwater.

(In thousands of Canadian dollars)

Clearwater expensed approximately $0.01 million and $0.09 million for vehicle leases for the 13 and 39 weeks ended September 29, 2012 (October 1, 2011 - $0.03 million and $0.10 million) and approximately $0.08 million and $0.08 million for other services for the 13 and 39 weeks ended September 29, 2012 (October 1, 2011 - $0 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 million at September 29, 2012 (December 31, 2011 - $0.01 million).

9. INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Indefinite life licenses	Definite life licenses and fishing rights	Total
Cost				
Balance at January 1, 2011	$ 15,537	$ 108,996	$ 7,285	$ 131,818
Change in ownership on change in control	-	-	16,809	16,809
Foreign currency exchange translation	-	(948)	-	(948)
Balance at December 31, 2011	15,537	108,048	24,094	147,679
Disposal	-	(10)	-	(10)
Foreign currency exchange translation	-	(202)	-	(202)
Balance at September 29, 2012	$ 15,537	$ 107,836	$ 24,094	$ 147,467
Accumulated amortization				
Balance at January 1, 2011	$ 8,494	$ 18,693	$ 2,459	$ 29,646
Amortization expense	-	-	1,802	1,802
Change in ownership on change in control	-	-	(2,512)	(2,512)
Balance at December 31, 2011	8,494	18,693	1,749	28,936
Amortization expense	-	-	1,352	1,352
Balance at September 29, 2012	$ 8,494	$ 18,693	$ 3,101	$ 30,288
Carrying amounts				
As at December 31, 2011	7,043	89,355	22,345	118,743
As at September 29, 2012	7,043	89,143	20,993	117,179

Clearwater maintains fishing licenses and rights to ensure continued access to the underlying resource. Except for fishing rights, licenses have an indefinite life as they have nominal annual renewal fees, which are expensed as incurred, and the underlying species are healthy. The licenses and goodwill are tested for impairment annually and when circumstances indicate the carrying value may be impaired.

Indefinite life licenses and Goodwill

Annual impairment testing for the Cash Generating Unit 'CGU' is performed using a value in use approach as of September 29, 2012. The recoverable amounts for all CGU's was determined to be higher than the carrying amounts and no impairments were recorded during 2012 (2011 – nil). The value in use approach was determined by discounting the future cash flows generated from the continuing earnings from operations for the applicable CGU. Unless otherwise indicated, the assumptions used in the value in use approach for 2012 were determined similarly to 2011.

(In thousands of Canadian dollars)

The carrying value of the intangible assets and goodwill by CGU was as follows:

	September 29, 2012	December 31, 2011
Scallops	62,054	62,219
All other CGU's individually without significant carrying value	55,125	56,524
	117,179	118,743

The discounted cash flows used in the value in use approach for the Scallops and other CGU's were based on the following key assumptions:

i) Cash flows from operations were projected for a period of five years based on a combination of past experience, actual operating results and management approved 2013 forecasted earnings. Terminal values and forecasts for future periods were extrapolated using inflation rates of 1.0% (2011: 1.0%). Annual margins for all future periods were determined using forecasted rates for 2013.

ii) Pre-tax discount rates ranging from 12% - 17% (2011: 11% - 17%) were applied in determining the recoverable amount of the CGU's. The discount rates were estimated based upon past experience, weighted average cost of capital, and associated risk for the CGU.

iii) Free cash flow adjustments such as for capital expenditures were based upon 2013 sustaining capital expenditures, and an estimated vessel refit schedule based upon the useful life of the related vessels.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and the global market and are based on both internal and external sources.

Definite life fishing rights and licenses

Amortization of licenses relates to the definite life license agreements and fishing rights. This amortization is allocated to the cost of inventory and is recognized in cost of goods sold as inventory is sold.

10. CONTINGENT LIABILITIES

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

Quarterly and share (unit) information

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

	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	101,640	84,966	70,884	87,140	97,590	78,820	69,235	77,824
Net earnings (loss)	17,618	(2,505)	(2,927)	16,390	5,058	(327)	1,832	(5,356)
Per share (unit) data								
Basic net earnings (loss)	0.30	(0.08)	(0.09)	0.28	0.05	(0.02)	0.01	(0.10)
Diluted net earnings (loss)	0.27	(0.08)	(0.09)	0.23	0.05	(0.02)	0.01	(0.10)

Trading information, Clearwater Seafoods Incorporated, symbol CLR

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Trading price range of shares (units) (board lots)								
High	2.90	2.70	2.40	2.85	3.32	1.73	1.58	1.28
Low	2.36	2.02	1.85	2.10	1.31	1.35	0.99	0.76
Close	2.50	2.48	2.27	2.39	2.35	1.47	1.52	1.02
Tranding volumes (000's)								
Total	1,265	1,350	1,089	831	3,907	1,544	2,669	1,767
Average daily	21	22	18	13	63	26	44	30
Shares (Units) outstanding at end of quarter								
Units/Shares	50,948,698	50,948,698	50,948,698	50,948,698	27,565,943	27,745,695	27,745,695	27,745,695
Special	-	-	-	-	23,381,217	23,381,217	23,381,217	23,381,217
Total	50,948,698	50,948,698	50,948,698	50,948,698	50,947,160	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

Rob O'Sullivan
Vice-President Sales – Americas

Paul Broderick
Vice-President of International Sales

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SHARE Symbol CLR
Convertible Debenture symbol: CLR.DB.A

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