



remarkable seafood, responsible choice

2018 Second Quarter Report







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LETTER TO SHAREHOLDERS

- Adjusted EBITDA grew 10.7% to $30.5 million for the second quarter versus $27.5 million in the prior year. Sales were $148.1 million for the second quarter versus $154.3 million in the prior year.

- Adjusted EBITDA grew 4.9% to $49.6 million for the first half of 2018 versus $47.3 million in the prior year. Sales were $268.2 million in the first half versus $282.7 million in the prior year.

- Strong cash generation continued into the second quarter as working capital requirements and capital expenditures declined. First half cash from operations was $9.4 million, an increase of $43.8 million versus the prior year.

- On August 8, 2018 the Board of Directors approved and declared a dividend of $0.05 per share payable on September 4, 2018 to shareholders of record as of August 21, 2018.

Second Quarter and First half results of 2018

Cash generated from operations increased $43.8 million for the first half of 2018 to $9.4 million driven by working capital improvements of $37.6 million and free cash flow increased $60.5 million to a use of cash of $6.3 million as capital expenditures declined following the completion of our fleet renewal program in 2017.

Adjusted EBITDA grew 10.7% to $30.5 million for the second quarter versus $27.5 million in the prior year. As a percentage of sales adjusted EBITDA increased to 20.6% and 18.5% for the second quarter and first half of 2018 as compared to 17.8% and 16.7% in the prior year. This reflects strong sales mix and lower administrative and selling costs following the organization restructuring in the fourth quarter of 2017.

Strong prices and timing of landings for FAS shrimp and higher volumes and sales mix for clams were offset by lower available supply and competitive scallop conditions associated with increased US supply for a net decline in sales in both the second quarter and first half of 2018 as compared to the same periods in 2017. FAS shrimp volumes are significantly higher than the prior year reflecting the timing of landings and improved harvesting conditions. Expanded distribution channels in China increased sales for clams, reducing inventory from peak levels.

Gross margin as a percentage of sales for the second quarter of 2018 was 19.3%, consistent with the prior year.

Average foreign exchange rates for the Canadian dollar against selling currencies for the first half of the year were favourable versus the same period of the prior year, positively impacting sales by $1.6 million.

Debt and Leverage

Leverage as at June 30, 2018 was 5.1x adjusted EBITDA attributable to shareholders as compared to 5.0x as at December 31, 2017. The increase in debt balances, expected in the first half of the year due to the seasonality of the business, was offset by improvement in rolling twelve-month adjusted EBITDA attributable to shareholders from $89.2 million at December 31, 2017 to $90.9 million at June 30, 2018. Debt balances denominated in US dollars and GBP increased as a result of higher average foreign exchange rates as the US dollar and the GBP strengthened against the Canadian dollar.

Dividends

On August 8, 2018 the Board of Directors approved and declared a dividend of $0.05 per share payable on September 4, 2018 to shareholders of record as of August 21, 2018.

The Board reviews dividends quarterly with a view to setting the appropriate dividend amount annually.

The Board continues to review Clearwater's dividend policy on a regular basis to ensure the dividend level remains consistent with the policy.

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

Seasonality

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

OUTLOOK

In 2018, Clearwater lost 30% of its quota in the clam fishery as a result of the decision of the Minister of the Department of Fisheries and Oceans to expropriate 25% of the quota from Clearwater without compensation, at the same time as announcing a modest quota reduction. Clam sales for 2018 are expected to benefit from expanded distribution channels in Asia – led by China and favorable product mix as we continue to reduce inventory from peak levels in 2017. Lower total allowable catch ("TAC") for Scallops in 2018 and competitive conditions associated with increases of US scallop supply are expected to be offset by favourable catch rates, cost and pricing in FAS shrimp and other species. Lower capital expenditures and further inventory reductions to historic levels, are expected to increase free cash flow resulting in lower debt and leverage. Combined with the seasonality of our business, we expect leverage to be modestly higher for the third quarter of 2018 before decreasing by the end of the year.

Clearwater's core fisheries are managed for long-term sustainability. We have taken and will continue to pursue timely and carefully considered measures in response to these near-term TAC challenges including; adjustments to harvest plans, pricing and distribution strategies, cost and working capital reductions as well as the major organization restructuring completed in December 2017. We expect these measures will generate strong cash flows from operations, reduce debt and leverage, yield a higher return on assets and generate positive returns to shareholder value.

Global demand for seafood is being driven by growing worldwide population, shifting consumer tastes towards healthier diets, and rising purchasing power of middle class consumers in emerging economies. The supply of wild seafood is limited and is expected to continue to lag behind the growing global demand. This supply-demand imbalance has created a marketplace in which purchasers of seafood are increasingly willing to pay a premium to suppliers that can provide consistent quality and food safety, wide diversity and reliable delivery of premium, wild, sustainably harvested seafood.

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

Core Strategies

Expanding Access to Supply - Expanding access to supply of core species and other complementary, high demand, premium, wild and sustainably harvested seafood through improved utilization and productivity of core licences as well as acquisitions, partnerships, joint ventures and commercial agreements.

Target Profitable and Growing Markets, Channels and Customers - Clearwater targets growing markets, consumers, channels and customers on the basis of size, profitability, demand for eco-label seafood and ability to win. Our focus is to win in key channels and with customers that are winning with consumers.

Innovate and Position Products to Deliver Superior Customer Satisfaction and Value - We continue to work with customers on new products and formats as we innovate and position our premium seafood to deliver superior satisfaction and value that is differentiated by relevant dimensions such as taste, quality, safety, sustainability, wellness, convenience and fair labour practices.

Increase Margins by Improving Price Realization and Cost Management - Leverage the scarcity of seafood supply and increasing global demand, in addition to continuing to invest in, innovate and adopt state-of-the-art technology, systems and processes.

Pursue and Preserve the Long-Term Sustainability of Resources on Land and Sea - As a leading global supplier of wild-harvested seafood, sustainability remains at the core of our business and our mission. Investing in the long-term health and the responsible harvesting of the oceans and the bounty is every harvester's responsibility and the only proven way to ensure access to a reliable, stable, renewable and long-term supply of seafood. Sustainability is not just good business, like innovation it's in our DNA.

Build Organizational Capability, Capacity and Engagement - We attract, train and retain the best talent to build business system and process excellence company-wide.

For those readers who would like to understand the calculation of adjusted earnings and adjusted earnings attributable to shareholders please refer to the reconciliation of adjusted earnings within the non-IFRS measures, definitions and reconciliations section of the Management Discussion and Analysis.

Ian Smith
Chief Executive Officer
Clearwater Seafoods Incorporated
August 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective August 8, 2018.

The Audit Committee and the Board of Directors of Clearwater Seafoods Incorporated ("Clearwater", or "the Company") have reviewed and approved the contents of this MD&A, the interim consolidated Financial Statements and the 2018 second quarter news release.

This MD&A should be read in conjunction with the 2018 second quarter interim consolidated Financial Statements, the 2017 annual consolidated Financial Statements, the 2017 annual MD&A and the 2017 Annual Information Form, which are available on Sedar at www.sedar.com as well as Clearwater's website, www.clearwater.ca.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This report contains "forward-looking information" as defined under applicable Canadian securities legislation. Forward-looking information typically, but not always, contains statements with words such as "anticipate", "does not anticipate", "believe", "estimate", "forecast", "intend", "expect", "does not expect", "may", "will", "should", "plan", or other similar terms that are predictive in nature. All statements other than statements of historical fact, including, without limitation, statements regarding future strategies, plans and objectives of Clearwater, constitute forward-looking information that involve various known and unknown risks, uncertainties, and other factors outside management's control.

Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect, including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

There can be no assurance that such information will prove to be accurate and actual results and future events could differ materially from those anticipated in such forward-looking information.

For additional information with respect to risk factors applicable to Clearwater, reference should be made to those factors discussed under the heading "Risks and Uncertainties" in this management discussion and analysis and Clearwater's continuous disclosure materials filed from time to time with securities regulators, including, but not limited to, Clearwater's Annual Information Form.

The forward-looking information contained in this report is made as of the date of this release and Clearwater does not undertake to update publicly or revise the forward-looking information contained in this report, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

No regulatory authority has approved or disapproved the adequacy or accuracy of this report.

NON-IFRS MEASURES

This MD&A makes reference to non-IFRS measures to supplement the analysis of Clearwater's results. These measures are provided to enhance the reader's understanding of our current financial performance. They are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and to provide a consistent basis for comparison between periods. These non-IFRS measures are not recognized measures under IFRS, and therefore they may not be comparable to similar measures presented by other companies.

Management believes that in addition to sales, net earnings and cash provided by operating activities, these non-IFRS measures are useful terms from which to determine Clearwater's ability to generate cash for investment in working capital, capital expenditures, debt service, income tax and dividends.

These non-IFRS measures include gross margin, adjusted EBITDA, adjusted earnings, free cash flows, leverage, and return on assets.

Gross Margin
Gross margin consists of sales less cost of goods sold which includes harvesting, distribution, direct manufacturing costs, manufacturing overhead, certain administration expenses and depreciation related to manufacturing operations.

Adjusted Earnings Before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA")
Adjusted EBITDA is defined as EBITDA excluding extraordinary, non-operating, non-recurring or non-routine items that are unusual and are deemed not to be a part of normal operations of the business. Items that are excluded from adjusted EBITDA include restructuring and reorganization expenses, gains and losses on investment activities, costs associated with acquisitions to the extent not capitalized, financing and refinancing costs, net gains on insurance claims and share-based compensation. In addition, recurring accounting gains and losses on foreign exchange (other than realized gains and losses on forward exchange contracts), have been excluded from the calculation of Adjusted EBITDA. Unrealized gains and losses on forward exchange contracts relate to economic hedging on future operational transactions and by adjusting for them, the results more closely reflect the economic effect of the hedging relationships in the period to which they relate.

Adjusted Earnings
Adjusted Earnings is defined as earnings excluding items such as refinancing and reorganization costs, acquisition related costs and recurring accounting gains and losses on foreign exchange (other than realized gains and losses on forward exchange contracts). Unrealized gains and losses on forward exchange contracts relate to economic hedging on future operational transactions and by adjusting for them, the results more closely reflect the economic effect of the hedging relationships in the period to which they relate. In addition, adjustments to share-based compensation have been excluded from Adjusted Earnings as they do not relate to the general operations of the business.

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

Leverage
Leverage is defined as the ratio of adjusted EBITDA attributed to Shareholders of Clearwater to the total debt (excluding non-controlling interest) on the balance sheet adjusted for cash (excluding non-controlling interest).

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

Refer to non-IFRS measures reconciliations for further information.

CLEARWATER OVERVIEW

Leading Global Provider of Wild-Caught Shellfish
Clearwater is North America's largest vertically integrated harvester, processor and distributor of premium shellfish. With harvesting operations in Canada, Argentina and the UK, Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium, wild, eco-labeled seafood, including scallops, lobster, clams, coldwater shrimp, langoustine, whelk, crab and groundfish with approximately 94 million pounds sold in 2017.

Powerful Industry Fundamentals
Global demand for premium wild caught seafood among aging boomers and a rising middle class in the Asian-Pacific region is outpacing resource supply. This, in combination with conservatively managing seafood fisheries to protect the long-term health of the industry, is creating new opportunities from the rising demand for high-quality sustainable seafood.

Clearwater's Vertical Integration Creates Barriers to Entry and Sustainable Competitive Advantage
Clearwater is the largest holder of shellfish quotas and licenses within Canada and maintains the widest selection of Marine Stewardship Council ("MSC")-certified species of any shellfish harvester worldwide. Regulatory authorities strictly control access to quota and rarely grant new licences.

Clearwater continues to create competitive advantage through investment in research and development and technology and intellectual property that has resulted in state-of-the-art factory vessels with harvesting and processing technologies that enable high productivity and frozen-at-sea products that deliver superior taste and quality.

Clearwater maintains a global, direct sales force that is capable of interacting with and selling directly to diverse markets worldwide. Our channel mix in food service, retail and other food industries ensures a diverse community of customers and we have no single customer representing more than 8% of total annual sales.

The vertical integration of Clearwater's quotas and licences, sustainable fishing practices, at-sea processing of shellfish, onshore processing and distribution network, and global sales forces combine to make Clearwater the industry leader in shellfish.

Proven and Experienced Leadership Team
Clearwater continues to build upon its world class capabilities in quality control and food safety, operations, new product development and leadership. Through its deep industry knowledge and talent, our team will continue to deliver on our operational and financial growth opportunities.

2018 Strategic Update and Capability to Deliver Results

Clearwater continues to execute against its six core business strategies. Combined, these strategies focus on connecting a diverse global customer base with premium wild-caught seafood products and will continue guiding Clearwater toward becoming the world's most extraordinary shellfish company dedicated to sustainable seafood excellence.

Refer to the annual MD&A for a comprehensive discussion of Clearwater's Strategies and Capability to Deliver Results.

Second Quarter updates on activities impacting our strategic pillars and our capability to deliver results:

Strategies

1. **Expanding Access to Supply** – Catch rates continue to be strong for our harvested species. The first half of 2018 saw improved catch rates for Frozen-at-sea ("FAS") shrimp, turbot and our Scottish scallop fleet.

2. **Target profitable & growing markets, channels & customers** – Global demand for shellfish continues to remain strong. Clearwater continues to focus on distribution expansion for clam and all Macduff products. Recently, Clearwater achieved significant wins in new channels such as China ecommerce and retail as well as with traditional channels in North America.

3. **Innovate and position products to deliver superior customer satisfaction and value** – Clearwater continues to offer new products to consumer and food service customers. In the first

half of 2018, we took advantage of existing processing partnerships to expand our clam sushi offerings. Clearwater was also the recipient of a special award for "Retail Packaging" for its bacon-wrapped scallops product at the 2018 Seafood Expo in Brussels.

4. **Increase margins by improving price realization and cost management** – Prices were stable in the second quarter for several species including FAS shrimp and clam. Total allowable catch ("TAC") reductions in scallops and competitive conditions associated with increases of US scallop supply applied pressure to scallop sales. Our frozen-at-sea technology provides a distinct quality advantage in the market creating some competitive insulation from downward price pressure. The company was effective in reducing costs throughout the organization through ongoing cost savings programs.

5. **Pursue and preserve the long-term sustainability** – Clearwater undertakes key research initiatives to support the long-term sustainability of our fisheries including innovative ocean bottom mapping research and analysis which Clearwater conducts in partnership with the Nova Scotia Community College. Our ocean bottom mapping data is exclusive intellectual property that contributes directly to our increasing harvest efficiency while reducing impact on the ocean habitat and improving sustainability.

   On an annual basis, Clearwater, in collaboration with other industry participants, continues to undertake video monitoring research in the Canadian sea scallop fishery adding to our understanding of resource dynamics and informing management for the development of harvest strategies that support long-term sustainability.

6. **Build organizational capability, capacity & engagement** – Clearwater continued to invest in talent and programs to build world-class capabilities throughout its organization.

Capability to Deliver Results

- **Liquidity and Capital Resources** – Cash generated from operations in the second quarter of 2018 increased $11.0 million to a use of ($5.4) million as compared to the same period in the prior year. Working capital improvement resulted from a lower investment in inventory and timing of sales and collections. Expanded distribution channels in China continue to reduce clam inventory from peak levels.

- **Total allowable catch** – On February 22nd, 2018 the Department of Fisheries and Oceans ("DFO") announced plans to expropriate 25% of Clearwater's TAC for Arctic Surf Clams and its intention to issue a licence to fish this quota to Five Nations Clam Company. Clearwater had agreed to be the operational partner with thirteen Mi'kmaq bands from Nova Scotia in their proposal for the licence which was not successful. As a result, Clearwater will make the necessary adjustments to our business to maintain shareholder value. Clearwater holds a diversified portfolio of licences and fishing rights that helps reduce the impact of TAC changes from any one holding.

- **Harvesting Fleet** – The Anne Risley, Clearwater's new state-of-the-art factory clam vessel completed trial runs and joined the Clearwater fleet in full operating capacity, late in the first quarter of 2018.

EXPLANATION OF ANNUALIZED FINANCIAL RESULTS

Overview

Clearwater uses Key Performance Indicators and Financial Measures to assess progress against our six strategic priorities. Refer to discussion on non-IFRS measures in the non-IFRS measures, definitions and reconciliations section of this interim MD&A.

Key Performance Indicators and Financial Measures

	13 weeks ended		26 weeks ended		Rolling twelve months ended	
In 000's of Canadian dollars	**June 30 2018**	July 1 2017	**June 30 2018**	July 1 2017	**June 30 2018**	July 1 2017
Profitability						
Sales	**$ 148,142**	$ 154,302	**$ 268,214**	$ 282,669	**$ 606,576**	$ 637,815
Sales growth	**(4.0%)**	10.1%	**(5.1%)**	10.2%	**(4.9%)**	12.0%
Gross margin[1]	**$ 28,605**	$ 29,690	**$ 47,065**	$ 52,812	**$ 104,318**	$ 133,758
Gross margin[1] as a % of sales	**19.3%**	19.2%	**17.5%**	18.7%	**17.2%**	21.0%
Adjusted EBITDA[1]	**$ 30,501**	$ 27,542	**$ 49,615**	$ 47,310	**$ 110,899**	$ 121,929
Adjusted EBITDA[1] (as a % of sales)	**20.6%**	17.8%	**18.5%**	16.7%	**18.3%**	19.1%
Adjusted EBITDA attributable to shareholders[1]	**$ 26,147**	$ 23,551	**$ 41,080**	$ 39,349	**$ 90,885**	$ 101,223
Adjusted EBITDA attributable to shareholders (as a % of sales)[1]	**17.6%**	15.3%	**15.3%**	13.9%	**15.0%**	15.9%
Earnings attributable to shareholders	**$ (923)**	$ 9,489	**$ (14,681)**	$ 11,661	**$ (10,583)**	$ 31,120
Basic earnings (loss) per share	**$ (0.01)**	$ 0.15	**$ (0.23)**	$ 0.18	**$ (0.37)**	$ 0.49
Diluted earnings (loss) per share[1]	**$ (0.01)**	$ 0.15	**$ (0.23)**	$ 0.18	**$ (0.38)**	$ 0.47
Adjusted Earnings attributable to shareholders[1]	**$ 6,980**	$ 70	**$ 7,324**	$ 2,065	**$ 13,951**	$ 21,265
Adjusted earnings (loss) per share	**$ 0.11**	$ 0.00	**$ 0.11**	$ 0.03	**$ 0.22**	$ 0.33
Cash Flows and Leverage						
Cash from (used in) operations	**$ (5,426)**	$ (16,432)	**$ 9,404**	$ (34,388)	**$ 101,929**	$ 63,152
Free cash flows[1]	**$ (15,952)**	$ (32,899)	**$ (6,324)**	$ (66,786)	**$ 52,120**	$ (4,015)
Leverage[1]	**N/A**	N/A	**N/A**	N/A	**5.1**	4.9
Returns						
Return on assets[1]	**N/A**	N/A	**N/A**	N/A	**8.2%**	10.5%

Second Quarter 2018 Key Highlights

For the second quarter and first half of 2018, adjusted EBITDA and cashflow increased while sales declined as compared to the same periods of the prior year.

- Strong prices and timing of landings for FAS shrimp and higher volumes and sales mix for clams were offset by lower available supply and competitive scallop conditions associated with increased US supply.
- Investments in working capital improved as inventory continued to decline from peak levels and capital expenditures decreased.

On a rolling 12 month basis, leverage increased modestly and return on assets declined.

- Adjusted EBITDA growth in the first half of 2018 was offset by headwinds in the third quarter of 2017, including unfavourable foreign exchange, promotional incentives to increase channel penetration and modest reductions in TAC.
- Assets increased as the fleet renewal program came to completion in the first quarter of 2018 and debt decreased due to improvements in working capital investment.

1 – Refer to discussion on non-IFRS measures, definitions and reconciliations

EXPLANATION OF CHANGES IN EARNINGS

Overview

The Condensed Consolidated Interim Financial Statements reflect the results of Clearwater for the 13 and 26 weeks ended June 30, 2018 and July 1, 2017. For supplemental non-IFRS measures, refer to discussion on non-IFRS measures in the non-IFRS measures, definitions and reconciliations section of this interim MD&A. Detailed discussion on the components of consolidated earnings (loss) follows.

	13 weeks ended			26 weeks ended		
In 000's of Canadian dollars	**June 30 2018**	July 1 2017	Change	June 30 **2018**	July 1 2017	Change
Sales	**$ 148,142**	$ 154,302	$ (6,160)	**$ 268,214**	$ 282,669	$ (14,455)
Cost of goods sold[1]	**119,537**	124,612	(5,075)	**221,149**	229,857	(8,708)
Gross margin	**28,605**	29,690	(1,085)	**47,065**	52,812	(5,747)
	19.3%	*19.2%*	*10 bps*	***17.5%***	*18.7%*	*(120) bps*
Operating expenses						
Administrative and selling	**14,712**	16,164	(1,452)	**26,363**	29,623	(3,260)
Restructuring costs	**-**	19	(19)	**482**	179	303
Net finance costs	**8,152**	12,322	(4,170)	**15,682**	18,247	(2,565)
(Gains) losses on contract derivatives	**487**	(3,657)	4,144	**6,323**	(1,538)	7,861
Foreign exchange (gains) losses on long-term debt and working capital	**4,118**	(7,784)	11,902	**7,685**	(8,534)	16,219
Other (income) expense	**(1,588)**	(2,427)	839	**(2,578)**	(3,195)	617
Research and development	**544**	705	(161)	**720**	1,161	(441)
	26,425	15,342	11,083	**54,677**	35,943	18,734
Earnings (loss) before income taxes	**2,180**	14,348	(12,168)	**(7,612)**	16,869	(24,481)
Income tax expense	**388**	2,356	(1,968)	**795**	1,659	(864)
Earnings (loss)	**$ 1,792**	$ 11,992	$ (10,200)	**$ (8,407)**	$ 15,210	$ (23,617)
Earnings (loss) attributable to:						
Non-controlling interest	**$ 2,715**	$ 2,503	$ 212	**$ 6,274**	$ 3,549	$ 2,725
Shareholders of Clearwater	**(923)**	9,489	(10,412)	**(14,681)**	11,661	(26,342)
	$ 1,792	$ 11,992	$ (10,200)	**$ (8,407)**	$ 15,210	$ (23,617)
Adjusted EBITDA attributed to:						
Non-controlling interests	**$ 4,354**	$ 3,991	$ 363	**$ 8,535**	$ 7,961	$ 574
Shareholders of Clearwater	**26,147**	23,551	2,596	**41,080**	39,349	1,731
Adjusted EBITDA[(1)]	**$ 30,501**	$ 27,542	$ 2,959	**$ 49,615**	$ 47,310	$ 2,305

1 – Refer to discussion on non-IFRS measures, definitions and reconciliations

Sales by region

In 000's of Canadian		13 weeks ended June 30 2018		July 1 2017		Change		26 weeks ended June 30 2018		July 1 2017		Change
Europe	**$**	**46,338**	$	56,867	$	(10,529)	**$**	**92,450**	$	112,659	$	(20,209)
China		**25,197**		20,381		4,816		**46,303**		42,418		3,885
Japan		**19,152**		18,023		1,129		**37,380**		33,614		3,766
Other Asia		**12,762**		13,308		(546)		**20,487**		22,525		(2,038)
Asia		**57,111**		51,712		5,399		**104,170**		98,557		5,613
United States		**25,566**		22,526		3,040		**43,467**		40,608		2,859
Canada		**19,111**		23,016		(3,905)		**28,103**		30,459		(2,356)
North America		**44,677**		45,542		(865)		**71,570**		71,067		503
Other		**16**		181		(165)		**24**		386		(362)
	$	**148,142**	$	154,302	$	(6,160)	**$**	**268,214**	$	282,669	$	(14,455)

Sales by species

In 000's of Canadian		13 weeks ended June 30 2018		July 1 2017		Change		26 weeks ended June 30 2018		July 1 2017		Change
Scallops	**$**	46,231	$	54,175	$	(7,944)	**$**	83,372	$	102,177	$	(18,805)
Lobster		22,493		26,482		(3,989)		43,563		49,970		(6,407)
Clams		29,417		25,059		4,358		53,529		48,552		4,977
Coldwater shrimp		20,712		10,519		10,193		41,529		29,830		11,699
Crab		8,036		14,586		(6,550)		8,787		15,573		(6,786)
Langoustine		8,974		10,963		(1,989)		17,563		17,552		11
Whelks		10,917		10,104		813		16,248		16,020		228
Ground fish and other shellfish		1,362		2,414		(1,052)		3,623		2,995		628
	$	**148,142**	$	154,302	$	(6,160)	**$**	**268,214**	$	282,669	$	(14,455)

Clearwater reported sales for the second quarter of 2018 of $148.1 million versus 2017 comparative results of $154.3 million. Sales for the first half of 2018 were $268.2 million versus 2017 comparatives of $282.7 million.

Strong prices and timing of landings for FAS shrimp and higher volumes and sales mix for clams were offset by lower available supply and competitive scallop conditions associated with increased US supply for a net decline in sales in both the second quarter and first half of 2018 as compared to the same periods in 2017. FAS shrimp volumes are significantly higher than the prior year reflecting the timing of landings and improved harvesting conditions. Expanded distribution channels in China increased sales for clams, reducing inventory from peak levels.

In other species, purchase and production plans were adjusted to achieve a more profitable product mix. This reduced sales while improving investments in working capital and maintaining overall adjusted EBITDA.

1 – Refer to discussion on non-IFRS measures, definitions and reconciliations

Average foreign exchange rates realized on sales for the second quarter and first half of 2018 had a net negative impact to sales of $0.6 million and a net positive impact to sales of $1.6 million, respectively, as compared to the same period of the prior year. The impact of foreign exchange is partially offset through Clearwater's foreign exchange risk management program with net realized gains and losses on contract derivatives recognized below gross margin, within adjusted EBITDA.

Scallops

- Lower available supply and competitive conditions associated with US scallop landings resulted in lower sales volumes for scallops in both the second quarter and first half of 2018.
- Sales mix was unfavourable in the second quarter of 2018 as compared to the same period of the prior year.

Clams

- Sales increased for both the second quarter and first half following targeted efforts to increase volumes through customer and channel penetration and geographic distribution.
- Sales volumes have been supported by favourable harvesting conditions and available supply in inventory.
- The Anne Risley joined the fleet and began harvesting near the end of the first quarter 2018.

Coldwater shrimp

- Coldwater shrimp sales increased for both the second quarter and first half, due to timing of landings and improved harvesting conditions as compared to the same period in 2017.
- Selling prices in home currencies remain strong with improved demand in Asia and Europe.

Lobster

- Lobster sales volumes declined in the second quarter and first half of 2018 due to difficult harvest conditions in the first quarter of 2018 that led to reduced supply availability. In response, purchase and production plans were adjusted to achieve a more profitable product mix. This reduced sales while improving investments in working capital and maintaining profitability.
- Strong pricing in home currencies partially offset lower sales volumes.

Crab

- The crab industry harvest season was delayed due to poor weather conditions. Overall volumes in the industry are lower resulting in lower sales volumes and higher prices.

Europe

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

Sales for the second quarter and first half of 2018, declined $10.5 million and $20.2 million to $46.3 million and $92.5 million, respectively as compared to the same periods of 2017.

The decline in sales for both periods was a result of lower available supply of scallops, langoustines and crab and scallop pricing pressure. The decline in sales was partially offset by availability of FAS shrimp and favourable foreign exchange rates.

The GBP and Euro continued to strengthen in the second quarter as compared to the prior year, resulting in a net positive impact of $1.1 million and $3.9 million in the first half.

1 – Refer to discussion on risks and uncertainties

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

Sales for both the second quarter and first half of 2018 increased $4.8 million and $3.9 million to $25.2 million and $46.3 million, respectively as compared to the same periods of 2017. The increase in sales was primarily a result of strong catch rates and sales prices for FAS shrimp, and higher clam sales with favourable product mix weighted towards products with higher sales prices.

Sales in China are almost exclusively transacted in US dollars. The second quarter and first half were both negatively impacted by unfavourable average foreign exchange rates as compared to the same period of the prior year. The net negative impact to sales was $0.8 million and $1.8 million, respectively.

Japan
Clams, lobster, coldwater shrimp and turbot are the main species sold in Japan.

Sales for the second quarter and first half of 2018 increased $1.1 million and $3.8 million, to $19.2 million and $37.4 million, respectively, as compared to the same period of 2017. The increase was primarily the result of higher available supply and sales prices for FAS shrimp, and higher clam sales and favourable product mix, partially offset by lower available supply of lobster.

Sales in Japan are typically transacted in Yen. For the second quarter and first half of 2018 average foreign exchange rates were consistent.

Other Asia
The Other Asia region includes Korea, Taiwan, Singapore and other Asian countries. Whelk, clams sea scallops and lobster are key products for these markets.

Sales declined $2.0 million for the first half of 2018 as compared to the same period of 2017 primarily as a result of timing of available supply of whelk.

United States
Scallops, lobster and clams are the primary species sold in the United States.

Sales for the second quarter and first half of 2018 increased $3.0 million and $2.9 million, to $25.6 million and $43.5 million, respectively, as compared to the same period in 2017. The increase in sales for both periods was a result of higher sales volumes for langoustines and scallops, partially offset by lower available supply of lobster.

Sales for the second quarter and first half of 2018 were impacted by unfavourable average foreign exchange as the Canadian dollar strengthened against the US dollar, having a net negative impact to sales of $0.8 million and $1.7 million, respectively.

Canada
Canada is a large market for lobster, scallops, snow crab, clams and coldwater shrimp.
Sales for the second quarter and first half of 2018 declined $3.9 million and $2.4 million to $19.1 million and $28.1 million primarily the result of a delayed snow crab harvest due to poor weather conditions. Strong demand for shrimp and clams partially offset the decline in sales.

Average Foreign Exchange Rates Realized on Sales

For the second quarter of 2018, higher average foreign exchange rates for the Euro and GBP were offset as the Canadian dollar strengthened against the US dollar, as compared to the same 2017 comparative period for a net negative impact of $0.6 million. For the first half of 2018 average foreign exchange rates for the Euro and the GBP strengthened against the Canadian dollar positively impacting sales. The Canadian dollar strengthened against the US dollar partially offsetting the impact on sales for a net positive impact to sales of $1.6 million.

The impact of foreign exchange on sales was partially offset through Clearwater's foreign exchange risk management program with net realized gains and losses on contract derivatives recognized below gross margin, within adjusted EBITDA.

			13 weeks ended				26 weeks ended	
		June 30 2018		July 1 2017		**June 30 2018**		July 1 2017
Currency	**% sales**	**Average rate realized [1]**	% sales	Average rate realized[1]	**% sales**	**Average rate realized[1]**	% sales	Average rate realized[1]
US dollars	**43.3%**	**1.300**	39.9%	1.340	**41.6%**	**1.288**	38.5%	1.334
Euros	**22.0%**	**1.529**	27.0%	1.484	**22.6%**	**1.544**	27.1%	1.457
Canadian dollar and other	**9.9%**		13.1%		**10.1%**		12.0%	
UK pounds	**11.0%**	**1.755**	10.2%	1.720	**10.2%**	**1.763**	10.7%	1.682
Japanese Yen	**8.7%**	**0.012**	7.3%	0.012	**9.7%**	**0.012**	8.7%	0.012
Danish Kroner	**5.1%**	**0.208**	2.5%	0.201	**5.8%**	**0.209**	3.0%	0.195
	100.0%		100.0%		**100.0%**		100.0%	

Cost of Goods Sold

Cost of goods sold includes harvesting and procurement costs, manufacturing costs, depreciation, transportation and administration. Cost of goods sold decreased for the second quarter and first half of 2018 by $5.1 million and $8.7 million as compared to the same periods of 2017 primarily due to decreased sales volumes, sales mix weighted towards species with lower variable costs and reduced overheads following cost savings programs. Higher allocation of fixed costs due to lower available supply in the first quarter of 2018 partially offset the decline.

Harvesting and procurement include all costs incurred in the operation of the vessels including labour, fuel, repairs and maintenance, fishing gear, supplies, other costs and fees plus procured raw material costs for lobster, shrimp, scallops, crab, langoustines and whelks.

Gross margin

Gross margin as a percentage of sales was consistent with prior year for the second quarter 2018 at 19.3%.

Gross margin for the second quarter and first half of 2018 declined to $28.6 million and $47.1 million, respectively. Strong prices and timing of landings for FAS shrimp and higher sales volumes for clams, reducing inventory from peak levels, was offset by lower available supply and competitive conditions for scallops, a harvested species that typically has higher gross margins.

In the second quarter and first half of 2018 average foreign exchange rates realized on sales had a net negative impact to gross margin of $0.6 million and a net positive impact of $1.6 million, respectively.

Operating expenses

In 000's of Canadian dollars	13 weeks ended June 30 2018	13 weeks ended July 1 2017	Change	26 weeks ended June 30 2018	26 weeks ended July 1 2017	Change
Salaries and benefits	**$ 10,473**	$ 11,146	$ (673)	**$ 20,084**	$ 20,688	$ (604)
Share-based compensation	**693**	1,130	(437)	**(212)**	925	(1,137)
Employee compensation	**11,166**	12,276	(1,110)	**19,872**	21,613	(1,741)
Consulting and professional fees	**3,697**	3,861	(164)	**6,595**	7,619	(1,024)
Other	**1,381**	1,036	345	**2,641**	2,192	449
Selling costs	**597**	844	(247)	**1,162**	1,493	(331)
Travel	**723**	774	(51)	**1,337**	1,605	(268)
Occupancy	**496**	422	74	**915**	776	139
Donations	**204**	390	(186)	**603**	845	(242)
Allocation to cost of goods sold	**(3,552)**	(3,439)	(113)	**(6,762)**	(6,520)	(242)
Administrative and selling	**$ 14,712**	$ 16,164	$ (1,452)	**$ 26,363**	$ 29,623	$ (3,260)
Restructuring costs	**-**	19	(19)	**482**	179	303
Operating expenses	**$ 14,712**	$ 16,183	$ (1,471)	**$ 26,845**	$ 29,802	$ (2,957)

Salaries and benefits, including bonus**,** decreased for the second quarter and first half of 2018 primarily a result of cost savings initiatives and the targeted restructuring of the Company's employee base and distribution infrastructure in the fourth quarter of 2017.

Share-based compensation is primarily driven by changes in Clearwater's period-end share price and the number of share-based grants outstanding.

Consulting and professional fees include legal, audit and accounting, insurance, information technology support and other specialized consulting services. Consulting and professional fees decreased in the second quarter and first half of 2018 due to a reduction in specialized fees supporting the enterprise resource planning system.

Other includes a variety of administrative expenses such as communication, computing, service fees, depreciation, storage, gains or losses and write-downs of assets, all of which vary from period to period.

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

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.

Restructuring costs represent settlement gains and losses related to the organization restructuring in the fourth quarter of 2017.

Net Finance costs

In 000's of Canadian dollars		13 weeks ended June 30 2018	July 1 2017	Change		26 weeks ended June 30 2018	July 1 2017	Change
Interest and bank charges	**$**	**7,269** $	7,196 $	73	**$**	**13,932** $	13,246 $	686
Amortization of deferred financing charges		**428**	299	129		**832**	741	91
		7,697	7,495	202		**14,764**	**13,987**	777
Accretion on deferred consideration		**455**	574	(119)		**918**	1,120	(202)
Fair value adjustment on embedded derivative		**-**	(287)	287		**-**	(703)	703
Interest rate swaps and caps (1)		**-**	(3,651)	3,651		**-**	(4,348)	4,348
Debt settlement and refinancing costs (2)		**-**	8,191	(8,191)		**-**	8,191	(8,191)
		455	4,827	(4,372)		**918**	4,260	(3,342)
	$	**8,152** $	12,322 $	(4,170)	**$**	**15,682** $	18,247 $	(2,565)

(1) Interest rate swaps and caps represents unrealized (gains) losses as a result of the change in fair value during the period. Realized amounts are reflected in interest expense and bank charges and debt settlement and refinancing fees.

(2) Debt settlement includes loss on settlement of existing interest rate swaps and cross currency swaps and caps, forward foreign exchange contracts, remaining unamortized deferred financing costs and accretion.

Interest and bank charges remained consistent for the second quarter and increased $0.8 million for the first half of 2018 as compared to the same periods in 2017. The increase was primarily due to a higher average debt balance in the first quarter of 2018 relative to the same period in 2017.

The **accretion on deferred consideration** arises from the deferred consideration obligation associated with the acquisition of Macduff as the notes are non-interest bearing.

Variances in **amortization of deferred financing charges and accretion** resulted from the refinancing of the term loan facilities in the second quarter of 2017.

The **fair value adjustment on the embedded derivative** on Term Loan B related to a LIBOR floor provision in the loan agreement. In May 2017 the Term Loan B loan agreement was refinanced and the related embedded derivative was extinguished.

The **interest rate swaps and caps** related to non-cash mark-to-market gains and losses on USD $100 million and CAD $24 million swaps and caps that were entered into in 2015. As part of the refinancing in the second quarter of 2017, these instruments were settled and derecognized.

Debt settlement and refinancing costs included a loss on settlement of existing interest rate swaps and cross currency swaps and cap, forward foreign exchange contracts, remaining unamortized deferred financing costs and accretion which were settled as part of the refinancing in the second quarter of 2017.

(Gains) losses[1] on contract derivatives

In 000's of Canadian dollars	13 weeks ended June 30 2018	13 weeks ended July 1 2017	Change	26 weeks ended June 30 2018	26 weeks ended July 1 2017	Change
Realized (gain) loss						
Forward foreign exchange contracts	**$ (1,253)**	$ (88)	$ (1,165)	**$ (2,550)**	$ (265)	$ (2,285)
Unrealized (gain) loss						
Forward foreign exchange contracts	**1,740**	(3,569)	5,309	**8,873**	(1,273)	10,146
	$ 487	$ (3,657)	$ 4,144	**$ 6,323**	$ (1,538)	$ 7,861

(1) Refer to discussion on risk and uncertainties.

Clearwater is primarily an export company with more than 85% of our sales taking place outside Canada and in foreign currencies. As part of our risk management strategy we enter into short-term forward contracts to provide greater certainty regarding exchange rates and cash flows for a period of time. We recognize and include in our earnings any realized gains and losses on these instruments as they mature and are settled.

Clearwater also recognizes and includes in earnings unrealized non-cash gains and losses on these instruments by assuming the settlement of these instruments, prior to their maturity, at each period end.

To reflect this accounting, Clearwater estimates the fair value of the financial derivative instruments and converts them to Canadian dollars at each balance sheet date. The unrealized non-cash gains or losses are excluded when calculating Adjusted EBITDA, Adjusted Earnings Attributable to Shareholders of Clearwater and Free Cash Flows.

Realized gains on settled forward contract derivatives increased $1.2 million and $2.3 million in the second quarter and first half of 2018 versus the same comparative period in 2017. The increase is due to average contracted rates for most currency pairs being favourable compared to the spot rate on the date of settlement in 2018.

The increase in unrealized losses of $5.3 million and $10.1 million in the second quarter and first half of 2018 as compared to the same period in 2017 is dependent on average contracted rates as compared to the forward rates based on maturity. The unrealized loss in the second quarter of 2018 is primarily due to average contracted rates for USD, EURO and YEN being unfavourable compared to current projected forward rates at maturity.

Foreign exchange[1] (gains) losses on long-term debt and working capital

In 000's of Canadian dollars	13 weeks ended June 30 2018	13 weeks ended July 1 2017	13 weeks ended Change	26 weeks ended June 30 2018	26 weeks ended July 1 2017	26 weeks ended Change
Realized (gain) loss						
Long-term debt and working capital	**$ (1,811)**	$ 3,647	$ (5,458)	**$ (5,200)**	$ 4,053	$ (9,253)
Unrealized (gain) loss						
Long-term debt and working capital	**9,917**	(13,545)	23,462	**19,444**	(15,805)	35,249
Forward exchange contracts, cross currency swaps and cap related to long-term debt	**(3,988)**	2,114	(6,102)	**(6,559)**	3,218	(9,777)
	5,929	(11,431)	17,360	**12,885**	(12,587)	25,472
	$ 4,118	$ (7,784)	$ 11,902	**$ 7,685**	$ (8,534)	$ 16,219

Realized foreign exchange gains on long-term debt and working capital increased $5.5 million and $9.3 million from losses of $3.6 million and $4.1 million in the second quarter and first half of 2018 as compared to the same period of 2017 as average foreign exchange rates on working capital settlement were favourable.

Unrealized foreign exchange losses on long-term debt and working capital for the second quarter and first half of 2018 were $9.9 million and $19.4 million, respectively. The unrealized losses are primarily due to long-term debt denominated in USD and GBP, which is translated into Canadian dollars as at the period-end spot rates. As at June 30, 2018, the Canadian dollar had weakened against both the US dollar and GBP as compared to December 31, 2017. As compared to March 31, 2018, the Canadian dollar had weakened against the US dollar and strengthened against the GBP.

Partially offsetting unrealized losses on long-term debt, were unrealized gains related to forward foreign exchange contracts to hedge approximately 80% of the notional amount of the USD notes. The unrealized loss in the first quarter of 2017 related to the $75 million cross currency swap which was extinguished on refinancing in April 2017.

Other (income) expense

In 000's of Canadian dollars	13 weeks ended June 30 2018	13 weeks ended July 1 2017	13 weeks ended Change	26 weeks ended June 30 2018	26 weeks ended July 1 2017	26 weeks ended Change
Share of earnings of equity-accounted investee	**$ (1,513)**	$ (1,109)$	(404)	**$ (1,765)**	$ (1,453)$	(312)
Fair value adjustment on earn-out liability	**(270)**	(397)	127	**(657)**	(380)	(277)
Other (income) fees	**149**	(363)	512	**(82)**	(539)	457
Royalties, interest income and other income	**(39)**	(249)	210	**(311)**	(149)	(162)
Acquisition related costs	**85**	8	77	**237**	66	171
Export rebate income	**-**	(317)	317	**-**	(740)	740
	$ (1,588)	$ (2,427)	839	**$ (2,578)**	$ (3,195)	617

Share of earnings in equity-accounted investee was consistent with the prior year.

The fair value adjustment on earn-out liability relates to the Macduff acquisition. The earn-out liability is an unsecured additional consideration to be paid dependent on the future financial performance of Macduff and is recognized using fair value, with adjustments included in the statement of earnings (loss).

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

Acquisition related costs were associated with various explored opportunities.

Export rebate income relates to incentives accrued by our Argentine subsidiary for exports from certain economic zones in Argentina. Effective January 1, 2018, the Argentina government announced a change to the export rebate program in response to changes made by the World Customs Organization. Clearwater and other exporters are working with the Argentine government to determine rebate qualifications under the new regulations. Management expects to receive all accrued balances in due course.

Research and Development

Research and development relates to new harvesting, processing and storage 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.

Income taxes

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

Deferred tax assets are being recognized based on management's estimate that it is more likely than not that Clearwater will earn sufficient taxable profit to utilize these losses.

The decrease in income tax expense for the second quarter and first half of 2018 of $2.0 million and $0.9 million, respectively as compared to the same periods for 2017 was primarily due to changes in income in foreign tax jurisdictions.

Earnings (loss) attributable to non-controlling interest

Non-controlling interest relates to minority share of earnings from Clearwater's majority investments in a shrimp/turbot joint venture and subsidiaries in Argentina and Newfoundland and Labrador.

The increase in earnings attributable to non-controlling interest of $2.7 million for the first half of 2018 relates primarily to higher available supply for FAS shrimp.

It is important to note that the earnings attributable to non-controlling interest relates to the portion of Clearwater's partnerships owned by other parties. Income taxes are included in earnings attributable to shareholders for Clearwater's share of partnership earnings, whereas the earnings attributable to non-controlling interest are not tax affected.

For those investors that would like to understand the breakdown of adjusted EBITDA attributable to non-controlling interest and shareholders please refer to the reconciliation of adjusted EBITDA within the non-IFRS measures, definitions and reconciliations section of the MD&A.

Earnings (loss) attributable to shareholders

Earnings attributable to shareholders decreased $10.4 million and $26.3 million in the second quarter and first half of 2018 as compared to the same periods of 2017. The decline was primarily a result of higher unrealized foreign exchange losses on long-term debt.

Adjusted Earnings attributable to shareholders

To assist readers in understanding our earnings we have included a calculation of adjusted earnings with Non-IFRS Measures, Definitions and Reconciliations. Management believes that in addition to earnings and cash provided by operating activities, adjusted earnings is a useful supplemental measure from which to determine Clearwater's earnings from operations and ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Adjusted earnings attributable to shareholders[1] for the second quarter and first half of 2018 increased $6.9 million and $5.3 million as compared to the same periods in 2017 as higher adjusted EBITDA and realized foreign exchange gains on working capital were partially offset by higher depreciation.

For those readers that would like to understand the calculation of adjusted earnings and adjusted earnings attributable to shareholders, please refer to the reconciliation of adjusted earnings within the non-IFRS measures, definitions and reconciliations section of the MD&A.

CAPITAL STRUCTURE

Clearwater's capital structure includes a combination of equity and various types of debt facilities. Clearwater's goal is to have a cost-effective capital structure that supports its growth plans, while maintaining flexibility, reducing interest rate risk and reducing exchange risk by borrowing in currencies other than the Canadian dollar when appropriate.

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

The amount of debt available to Clearwater under its lending facilities is a function of Adjusted EBITDA[1] attributable to shareholders. Adjusted EBITDA can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts and multi-year business plans and making any required changes to its debt and equity facilities on a proactive basis. These changes can include early repayment of debt, issuing or repurchasing shares, issuing new debt, utilizing surplus cash, extending the term of or amending existing debt facilities and, selling surplus assets to repay debt.

1 – Refer to discussion on non-IFRS measures, definitions and reconciliations

Clearwater's capital structure was as follows as at June 30, 2018 and December 31, 2017:

In 000's of Canadian dollars As at		**June 30 2018**		December 31 2017
Equity				
Share capital	**$**	**212,732**	$	210,860
Contributed surplus		**3,446**		3,021
Deficit		**(29,803)**		(8,722)
Accumulated other comprehensive income		**(35,737)**		(39,730)
		150,638		165,429
Non-controlling interest		**18,122**		17,109
		168,760		182,538
Long-term debt				
Senior debt, non-amortizing				
USD senior unsecured notes, due 2025[1]		**321,175**		306,684
Revolving debt, due in 2022[2]		**94,922**		87,682
Term loan, due in 2018		**13,098**		12,215
Term loan, due in 2091		**3,500**		3,500
		432,695		410,081
Senior debt, amortizing				
Term Loan B, due 2022[3]		**34,319**		34,466
Other loans		**139**		167
		34,458		34,633
Deferred Obligation[4]		**24,706**		23,181
Earnout liability[4]		**3,468**		5,278
Total long-term debt		**495,327**		473,173
Total capital	**$**	**664,087**	$	655,711

1. USD senior unsecured notes is net of unamortized deferred financing charges of $7.3 million with a US dollar coupon rate of 6.875%. This resulted in an effective interest rate of approximately 7.2%.

2. The revolving debt is net of unamortized deferred financing charges of $2.3 million resulting in an effective interest rate of approximately 3.82%. As of June 30, 2018, subject to financial covenants, Clearwater may borrow up to an additional CDN $70.2 million on the undrawn facility. The availability on this loan is reduced by the amount outstanding on a USD $10 million non-amortizing term loan.

3. Term Loan B is net of unamortized deferred financing charges of $0.2 million. As of June 30, 2018, this resulted in an effective interest rate of approximately 4.35%.

4. The Deferred Obligation and Earnout Liability relate to the acquisition of Macduff in 2015.

Equity

In 2018, Clearwater issued 21,185 common shares under its share-based compensation plans.

On February 15, 2018, Clearwater approved a Dividend Reinvestment Plan ("DRIP") effective February 23, 2018 to provide shareholders with the option to have the cash dividends declared on the common shares of Clearwater, reinvested automatically back into additional shares. Shares may be either newly issued from treasury or purchased on the open market. Clearwater may from time to time, in its sole discretion, offer a discount of up to 5% of the average market price for shares purchased from treasury. Clearwater will provide a discount of 3% from the average market price for shares purchased under the plan until further notice.

As of June 30, 2018, Clearwater issued 389,137 common shares under the DRIP.

Clearwater has 2.5 million common shares reserved for issuance under the share-based compensation plans and 3.0 million under the DRIP.

There are 64,345,020 shares outstanding as of June 30, 2018 (December 31, 2017 - 63,934,698).

Long-term debt

On April 26, 2017, Clearwater completed an offering of USD $250 million senior unsecured notes, due 2025 with a US dollar coupon rate of 6.875% ("the Notes"). In 2017, Clearwater entered into forward foreign exchange contracts to hedge approximately 80% of the notional value of the Notes at an average rate of 1.2844 and approximately 80% of the coupon payments at an average rate of 1.2833 through to 2022.

Concurrently, Clearwater entered into new senior secured credit facilities in an aggregate principal amount of CDN $335 million, consisting of a CDN $300 million revolving credit facility and a CDN $35 million amortizing secured term loan, each maturing in 2022 (the "Senior Secured Credit Facilities"). The Senior Secured Credit Facilities bear interest ranging from LIBOR plus 1.50% to 2.25% for the revolving credit facility and LIBOR plus 2.50% to 3.25% for the secured term loan. The range is determined quarterly based on a ratio of Senior Secured indebtedness to EBITDA, with EBITDA calculated on a trailing twelve month basis.

On March 29, 2018, the Company decreased the size of its revolver by $100 million to $200 million.

Included in Clearwater's long-term debt is the Deferred Obligation and Earnout Liability related to the acquisition of Macduff in 2015. The terms of these liabilities are as follows:

(i) Deferred Obligation - The Deferred Obligation relates to deferred payments for 33.75% of the shares of Macduff acquired by Clearwater (the "Earn Out Shares") in 2015. Excluding the fair value adjustment on acquisition, the principal balance outstanding as at June 30, 2018 is £15.7 million (CDN $27.2 million) (December 31, 2017 - £15.7 million (CDN $26.5 million)) and does not bear interest. The Deferred Obligation is recorded at the discounted amount based on estimated timing of payment and is being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 7.44%.

On October 30th of each year, the holders of the Earn Out Shares can elect to be paid up to 20% of the original Deferred Obligation amount. Clearwater has the right to exercise the payout of 20% of the Deferred Obligation annually commencing two years after the date of closing. The percentage of the Deferred Obligation remaining unpaid will impact the fair value of the future performance component of the additional consideration, the Earnout.

On October 30, 2017 and 2016, the holders of the Earn Out Shares elected to be paid 20% of the outstanding Deferred Obligation. As a result, a payment of £5.2 million (CDN - $8.8 million) was made in November 2017 and £5.2 million (CDN - $8.7 million) in November 2016.

(ii) Earnout liability - The Earnout liability is unsecured additional consideration to be paid dependent upon the financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The estimated fair value of the Earnout liability at June 30, 2018 is £2.0 million (CDN - $3.5 million) (December 31, 2017 - £3.1 million, CDN - $5.3 million) based on forecast earnings and probability assessments. The actual Earnout payments will be paid over a five-year period ending 2021.

The amount of the total Earnout liability is calculated as follows:

The greater of:
(i) £3.8 million; or
(ii) up to 33.75% (dependent upon the percentage of Deferred Obligation remaining unpaid each year) of the increase in equity value of the business over five years calculated as 7.5x adjusted EBITDA of Macduff less the outstanding debt of Macduff; and
(iii) 10% of adjusted EBITDA of Macduff above £10 million (dependent upon the percentage of Deferred Obligation remaining unpaid each year).

The Earnout liability is recorded at fair value on the consolidated statement of financial position at each reporting period until paid, with changes in the estimated fair value being recorded as a component of other expense on the Consolidated Statement of Earnings (Loss).

Excluding deferred consideration and the related Earnout, Clearwater has effectively fixed the interest rate on 68 percent of its debt as at June 30, 2018.

Clearwater has applied hedge accounting to the forward foreign exchange contracts related to the coupon payments and a portion of the unrealized gain or loss on the contracts will be included in Net Finance Costs on an accrual basis in the period. The change in fair value related to the forward foreign exchange contract on the notional amount will be recognized in Foreign exchange gain (loss) on long-term debt and working capital and is expected to offset a portion of the foreign exchange translation on long-term debt.

The revolver and Term Loan B are secured by a first charge on cash and cash equivalents, accounts receivable, inventory, marine vessels, licenses and quotas, and Clearwater's investments in certain subsidiaries.

Clearwater's debt facilities are subject to certain financial and non-financial covenants. Clearwater is in compliance with all covenants associated with its debt facilities**.**

LIQUIDITY

Clearwater has a number of treasury management policies and objectives to promote strong liquidity and continued access to capital to fund its growth.

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

Management continuously evaluates its capital structure in light of these policies and strategies.

Liquidity

As of June 30, 2018, Clearwater had $27.2 million in cash, and a $200.0 million revolving loan, with approximately $70.2 million available to draw down. The cash balance, together with available credit on the revolving loan, is used to manage seasonal working capital demands, capital expenditures, and other commitments.

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

Leverage[1]

Leverage as at June 30, 2018 was 5.1x adjusted EBITDA attributable to shareholders as compared to 5.0x as at December 31, 2017. The increase in debt balances, expected in the first half of the year due to the seasonality of the business, was offset by improvement in rolling twelve-month adjusted EBITDA. Debt balances denominated in US dollars and GBP increased as a result of higher average foreign exchange rates as the US dollar and the GBP strengthened against the Canadian dollar.

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 manages its leverage. In addition, as leverage is a measure frequently analyzed for public companies, Clearwater has calculated the amount in order to assist readers in this review. Leverage should not be construed as a measure of cash flows.

Clearwater's leverage measure is based on the ratio of adjusted EBITDA attributable to shareholders to its outstanding debt, net of cash balances. Clearwater's longer-term goal is a leverage ratio of 3.0x.

In 000's of Canadian dollars Rolling 12 months ended		**June 30 2018**	December 31 2017	July 1 2017	July 2 2016
Adjusted EBITDA[1] attributable to shareholders	**$**	**90,885**	$ 89,156	$ 101,223	$ 109,246
Debt [2,3,4] (excluding non-controlling interest)		**489,461**	478,747	504,646	464,830
Less cash (excluding non-controlling interest)		**(24,974)**	(31,976)	(11,773)	(31,331)
Net debt	**$**	**464,487**	$ 446,771	$ 492,873	$ 433,499
Leverage		**5.1**	5.0	4.0	4.0

1 – Refer to discussion on non-IFRS measures, definitions and reconciliations

2 - Debt for 2016 and the first quarter of 2017 have been adjusted to include the USD $75 million cross-currency swap at contracted rates of 1.3235 that was entered into in the third quarter 2015.

3 - Debt at June 30, 2018 has been adjusted to include USD $200 million forward foreign exchange contract at an average contracted rate of 1.2844.

4 - Debt is net of unamortized deferred financing charges of $9.8 million (December 31, 2017 - $10 million; July 1, 2017 - $10.9 million; July 2, 2016 - $2.0 million).

Foreign Exchange Management[1]

Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts to lock in exchange rates up to 18 months for sales currencies (the US dollar, Euro, Yen and GBP), foreign denominated capital spend and foreign denominated debt thereby lowering the potential volatility in cash flows from changes in exchange rates.

As of June 30, 2018, Clearwater had forward exchange contracts outstanding:

Currrency	Forecasted transaction	Notional (millions)	Average rate
USD to CDN	Sales	86.3	1.2746
Yen to CDN	Sales	3,006.0	0.0117
Euro to CDN	Sales	35.3	1.5365
Euro to GBP	Sales	30.3	0.8841
USD to GBP	Sales	2.2	0.7352
CDN to USD	Debt	255.0	1.2841

The purpose of these contracts is to give greater certainty to Clearwater on the exchange rates it receives on a portion of its foreign currency sales and long-term debt[1]. The foreign exchange contracts effectively adjust the cash proceeds received on sales receipts and interest and notional amounts for long-term debt.

When spot exchange rates are above contract rates at the date of maturity of the contracts Clearwater realizes a loss and conversely, when spot exchange rates are lower it realizes a gain. At the same time, given that Clearwater hedges more than 50% of its estimated net exposures and that higher or lower spot exchange rates are reflected in sales, any losses or gains on contracts are more than offset by the impact on sales.

Free cash flows[1]

Clearwater has a goal to generate strong cash flows from operations in order to fund scheduled loan payments, capital expenditures and distributions to non-controlling interests and to provide for sufficient free cash flow to fund growth investments and pay a sustainable dividend to its shareholders.

	13 weeks ended		26 weeks ended		12 months Rolling[E]		
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017	**June 30 2018**	July 1 2017	July 2 2016
Adjusted EBITDA[1]	**$ 30,501**	$ 27,542	**$ 49,615**	$ 47,310	**$ 110,899**	$ 121,929	$ 124,129
Less:							
Interest and bank charges	**(7,269)**	(7,196)	**(13,931)**	(13,246)	**(28,889)**	(25,237)	(23,219)
Current income tax expense	**(1,176)**	(4,207)	**(3,128)**	(7,424)	**(8,080)**	(10,814)	(2,885)
Other income and expense items	**249**	(559)	**793**	538	**(12,679)**	(2,956)	(9,072)
Operating cash flow before changes in working capital	**22,305**	15,580	**33,349**	27,178	**61,251**	82,922	88,953
Changes in working capital[A]	**(27,731)**	(32,012)	**(23,945)**	(61,566)	**40,678**	(19,770)	(45,319)
Cash flows from operating activities	**(5,426)**	(16,432)	**9,404**	(34,388)	**101,929**	63,152	43,634
Sources (uses) of cash:							
Purchase of property, plant, equipment, quota and other assets	**(8,227)**	(23,550)	**(13,993)**	(42,660)	**(56,763)**	(82,696)	(28,100)
Disposal of fixed assets	**-**	8	**-**	8	**2,400**	8	5,690
Less: Designated borrowings[B]	**-**	9,815	**1,106**	18,677	**21,635**	43,773	3,997
Scheduled payments on long-term debt[C]	**(1,456)**	(1,401)	**(1,557)**	(2,913)	**(10,592)**	(14,675)	(6,530)
Payments on long-term incentive plans	**-**	1,441	**1,084**	1,441	**1,261**	2,884	4,227
Distribution to non-controlling interests	**(2,085)**	(2,780)	**(5,329)**	(6,951)	**(17,443)**	(17,145)	(19,000)
Dividends received from joint venture	**-**	**-**	**-**	**-**	**3,340**	**-**	-
Other financing activities	**-**	**-**	**-**	**-**	**-**	-	676
Non-routine project costs	**1,242**	-	**2,961**	-	**6,353**	684	3,154
	(10,526)	(16,467)	**(15,728)**	(32,398)	**(49,809)**	(67,167)	(35,886)
Free cash flows[1]	**$ (15,952)**	$ (32,899)	**$ (6,324)**	$ (66,786)	**$ 52,120**	$ (4,015)	**$ 7,748**
Add/(less):							
Other debt borrowings (repayments) of debt, use of cash[D]	**12,166**	42,566	**5,844**	58,205	**(24,569)**	11,095	96,911
Issuance of equity	**1,774**	-	**1,774**	-	**1,774**	(25)	53,049
Payments on long-term incentive plans	**-**	(1,441)	**(1,084)**	(1,441)	**(1,261)**	(2,884)	(4,227)
Other investing activities	**(976)**	(5,541)	**(2,735)**	(6,325)	**(5,632)**	(9,635)	(146,775)
Other financing activities	**(7,197)**	(7,345)	**(5,809)**	(7,274)	**(11,146)**	(16,425)	(16,827)
Change in cash flows for the period	**$ (10,185)**	$ (4,660)	**$ (8,334)**	$ (23,621)	**$ 11,286**	$ (21,889)	$ (10,121)

A – Changes in working capital have been restated to align with the change in presentation of cash interest and cash income taxes paid in the consolidated statement of cash flows. This change had no impact on cash from operations.

B – Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For 2018, 2017 and 2016, the periods covered in this table includes the replacement of the Ocean Concord clam vessel. Included in 2016 12 months rolling is a conversion of a vessel for Argentina, the addition of a third clam vessel, a late life refit on a shrimp vessel and the conversion of a new research vessel. For the purpose of free cash flow calculations the amount invested (up to the total amount of the related

1 – Refer to discussion on risks and uncertainties

financing) during the period on these projects is backed out of the calculation of free cash flows regardless of the timing of the related borrowing.

C – Scheduled payments on long-term debt have been updated to include the Deferred Consideration payment made in the fourth quarter 2017 of $8.9 million (fourth quarter 2016 of $8.7 million) and the Earnout payment in the second quarter 2017 of $1.3 million.

D – Within 12 months rolling for 2016, other investing activities includes $151.1 million for the acquisition of Macduff in the fourth quarter of 2015, less cash acquired in the acquisition of $9.1 million.

E – Within 12 months rolling for 2017, certain line items have been reallocated with no change to free cash flow for the period.

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

Certain large investments in longer term assets such as vessel conversion and/or acquisitions, are funded with long-term capital including amortizing term loans. As a result, Clearwater adds the funding on those capital expenditures in the determination of free cash flows and deducts the related debt borrowings.

Cash generated from operations increased $11.0 million to a use of cash of ($5.4) million in the second quarter of 2018 and increased $43.8 million to $9.4 million in the first half driven by strong adjusted EBITDA and lower investment in working capital. Working capital improvements were a result of timing of sales, improved collection periods for accounts receivable and reduction of inventory levels from planned reductions in procurement of low margin inventory and reductions in clam inventory from peak levels.

Free cash flows[1] increased $16.9 million to a use of cash of ($16.0) million in the second quarter of 2018 and increased $60.5 million to a use of cash of ($6.3) million in the first half of 2018 as compared to a use of cash of ($66.8) million for the same period of 2017. Cash generation improved due to higher cash generated from operations and lower capital expenditures following the successful completion of our five year fleet renewal program in 2017.

Changes in working capital

	13 weeks ended		26 weeks ended		12 months Rolling	
In 000's of Canadian dollars	June 30 2018	July 1 2017	June 30 2018	July 1 2017	June 30 2018	July 1 2017
(Increase) decrease in inventory	$ **(26,958)**	$ (38,773)	$ **(26,696)**	$ (42,017)	$ **28,355**	$ (13,885)
(Decrease) increase in accounts payable	**9,453**	23,352	**(2,841)**	(316)	**5,850**	4,560
Decrease (increase) in accounts receivable	**(7,611)**	(16,130)	**10,999**	(22,321)	**11,753**	(12,214)
(Increase) decrease in prepaids	**2,754**	(1,337)	**(1,154)**	637	**(1,505)**	(2,486)
(Decrease) increase in income tax payable	**(5,369)**	876	**(4,253)**	2,451	**(3,775)**	4,255
	$ **(27,731)**	$ (32,012)	$ **(23,945)**	$ (61,566)	$ **40,678**	$ (19,770)

Clearwater is focused on managing its free cash flows through:

- Managing working capital - Clearwater manages trade receivables through a combination of tight collection terms and, when appropriate, discounting. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer and country specific credit risk. As a result, Clearwater does not have any significant concentration of credit risk. Clearwater manages its investment in inventories through tight review of supply and production plans versus sales forecasts, and through continuous improvements in the integration of its fleet and sales plans. From time-to-time, Clearwater enters into transactions to sell selected accounts receivables to a commercial partner without recourse. Sale of receivables during the period represented less than 5 percent of consolidated sales.

1 – Refer to discussion on risks and uncertainties

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

  On average, Clearwater expects to invest approximately $20-25 million a year in maintaining its fixed assets with repairs and maintenance capital.

  In 2018 Clearwater expects to invest approximately $18 million in capital expenditures for land based operations, vessel maintenance and refits.

Dividends

On August 8, 2018 the Board of Directors approved and declared a dividend of $0.05 per share payable on September 4, 2018 to shareholders of record as of August 21, 2018.

On February 15, 2018 the Board approved a Dividend Reinvestment Plan (DRIP) effective February 23, 2018 to provide shareholders of Clearwater who are resident in Canada with the option to have the cash dividends declared on the common shares of Clearwater reinvested automatically back into additional shares, without the payment of brokerage commissions or service charges. The DRIP program was effective for the payment of the fourth quarter 2017 dividend.

In making the determination of dividend levels Clearwater's Board gives consideration to several key principles including:

- expected future earnings;
- free cash flows that should be retained to reinvest in the business;
- the assurance that all obligations can be met with respect to existing loan agreements; and
- the desire to increase the dividend in the future as the business continues to grow and expand.

The Board will continue to review Clearwater's dividend policy on a regular basis to ensure the dividend level remains consistent with the policy.

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

Commitments

In the normal course of business, Clearwater is obligated to make future payments, including contractual obligations for non-derivative and derivative financial instruments, operating leases and other commitments. Clearwater has included these items in the commitments section of its 2017 annual MD&A. Since December 31, 2017, there have been no material changes to amounts presented or expectations in the commitment schedule included in the 2017 annual MD&A.

OUTLOOK

In 2018, Clearwater lost 30% of its quota in the clam fishery as a result of the decision of the Minister of the Department of Fisheries and Oceans to expropriate 25% of the quota from Clearwater without compensation, at the same time as announcing a modest quota reduction. Clam sales for 2018 are expected to benefit from expanded distribution channels in Asia – led by China and favorable product mix as we continue to reduce inventory from peak levels in 2017. Lower total allowable catch (TAC) for Scallops in 2018 and competitive conditions associated with increases of US scallop supply are expected to be offset by favourable catch rates, cost and pricing in FAS shrimp and other species. Lower capital expenditures and further inventory reductions to historic levels, are expected to increase free cash flow resulting in lower debt and leverage. Combined with the seasonality of our business, we expect leverage to be modestly higher for the third quarter of 2018 before decreasing by the end of the year.

Clearwater's core fisheries are managed for long-term sustainability. We have taken and will continue to pursue timely and carefully considered measures in response to these near-term TAC challenges including; adjustments to harvest plans, pricing and distribution strategies, cost and working capital reductions as well as the major organization restructuring completed in December 2017. We expect these measures will generate strong cash flows from operations, reduce debt and leverage, yield a higher return on assets and generate positive returns to shareholder value.

Global demand for seafood is being driven by growing worldwide population, shifting consumer tastes towards healthier diets, and rising purchasing power of middle class consumers in emerging economies. The supply of wild seafood is limited and is expected to continue to lag behind the growing global demand. This supply-demand imbalance has created a marketplace in which purchasers of seafood are increasingly willing to pay a premium to suppliers that can provide consistent quality and food safety, wide diversity and reliable delivery of premium, wild, sustainably harvested seafood.

Clearwater 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.

RISKS AND UNCERTAINTIES

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

Foreign exchange risk

Clearwater's 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 its expenses are in Canadian dollars. As a result, fluctuations in the foreign exchange rates of these currencies can have a material impact on the financial condition and operating results. In addition, Clearwater has subsidiaries which operate in the offshore scallop fishery in Argentina and Scotland which exposes Clearwater to changes in the value of the Argentine Peso and GBP.

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

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

Political risk

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

These risks include fluctuations in foreign exchange rates, expropriation of our assets, nationalization, renegotiation, forced divestiture, modification or nullification of our contracts and changes in foreign laws or other regulatory policies of foreign or domestic 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. Specific risks by country are described below.

Canada

Clearwater was a pioneer in the development of the clam fishery, which began in 1986. Clearwater purchased its licences and quota with the consent of the Department of Fisheries and Oceans Canada ("DFO") and has invested hundreds of millions of dollars to develop the fishery and the market, including $156 million in the last three years.

On September 6, 2017, the DFO announced the introduction of a fourth Arctic Surf Clam licence representing 25% of the existing TAC to be awarded to an indigenous group effective 2018. With the announcement of the recipient of the new licence on February 21, 2018, the DFO Minister has effectively expropriated value, without compensation to Clearwater. Clearwater will be pursuing legal options to address this failure in public policy and abuse of power by the Minister. This announcement, in combination with the suspension of the shrimp LIFO arrangement in 2016, represent departures from historical Canadian policy.

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

Argentina

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

We mitigate this risk through maintaining a policy of repatriating our share of 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 15% and is involved in 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.

United Kingdom
On June 23, 2016, the United Kingdom ("UK") voted to leave the European Union ("EU"). On March 29, 2017, the Prime Minister of the UK filed notice of intention to leave the EU triggering the process to negotiate the terms of the withdrawal and the country's future relationship with the EU. Under the Lisbon Treaty, the negotiations of the terms of departure are required to be concluded within two years from giving notice.

Negotiations on terms of the transition period have concluded and indicate that UK businesses can expect stability and status quo during a 21 month implementation period concluding on December 31, 2020. Full discussions related to the future economic partnership agreements began in July 2018. Any impacts to Clearwater are not yet known although the UK Government white paper proposes a mechanism for free and frictionless trade of goods between the UK and EU, as well as outlining government plans for establishing free trade agreements with the rest of the world.

The UK is clear that access to waters should be decided at annual fisheries negotiations and not linked to trade arrangements. Sustainability, industry leadership and cost recovery form the basis of the fisheries white paper, which indicates that the UK will be taking back full control of its waters and seeking fairer quota shares when it becomes an independent coastal state on December 31, 2020.

As a business, we are taking a fully participative, active and advisory role in all preparatory government working groups for shellfisheries and processing, looking at trade, fisheries access and immigration/labour related matters. The Company expects to be able to assess, manage and plan for any impacts to the business through our involvement in the negotiations and their outputs.

United States
NAFTA is a comprehensive trade agreement that sets the rules of trade and investment between Canada, the United States, and Mexico. Since the agreement entered into force on January 1, 1994, NAFTA has systematically eliminated most tariff and non-tariff barriers to free trade and investment between the three NAFTA countries. The United States has expressed intent to change the existing NAFTA and in July 2017 the United States released their objectives. Since July 2017, there have been many rounds of discussion among the members however, because of the uncertainty of the outcome from these discussions, the impact to Canada is indeterminable. Approximately 16.2% of total sales for the first half of 2018 were in the United States.

Management continues to review, assess and monitor for any changes to NAFTA that could significantly impact Clearwater.

China and Japan
On January 30, 2017, the Government of the United States officially withdrew from the Trans-Pacific Partnership Agreement ("TPP"). Negotiations on the TPP continued despite the US withdrawal and on March 8, 2018 the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") was signed. The CPTPP will create an eleven country trading block including Canada, and representing 495 million people, with a combined gross domestic product of $13.5 trillion or 13.5% of global GDP.

The Government of Canada has also expressed interest in exploring a bilateral free trade agreement with China. These dialogues are in an early stage.

Resource supply risk

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

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

The source of all Clearwater's supply of products comes from fisheries in Canada, the United Kingdom and Argentina. The governments of Canada, the UK and EU and Argentina set the annual TAC and/or define fishing regulations for each species by reviewing scientific studies of the resource and then consulting with key stakeholders including Clearwater and its competitors to determine acceptable catch levels. The potentially differing interests of our competitors may result in conflicting positions on issues around resource management, including the establishment of TACs and other management measures potentially limiting our ability to grow, to fully capitalize on our investments in harvesting capacity, or to achieve targeted yields from the resource, which may adversely affect our financial condition and results of operations.

Resource supply risk is managed through adherence with government policies and regulations related to fishing in Canada, Argentina and the UK and Clearwater's investment in science and technology, which enables Clearwater to understand the species that it harvests. Clearwater has invested in projects with the scientific community, such as ocean floor mapping and the resource assessment surveys to ensure access to the best available science information. Resource management plans, developed by DFO, are developed through an open and transparent process with strong input from industry participants. Clearwater engages in these processes to promote best in class, robust, and sustainable management of the resource. The Marine Stewardship Council certification of all our core species demonstrates that the resources that Clearwater harvests meet the leading global standard for sustainable fisheries management practice. Clearwater further mitigates the risk associated with resource supply and competition through the diversification across species.

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.

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.

Disclosure Controls and Internal Controls Over Financial Reporting

The Management of Clearwater, with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") (collectively "Management"), is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings.*

There have been no changes to controls during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, Clearwater's ICFR.

Adoption of new and revised standards

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized.

The Company adopted IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has elected to apply the modified retrospective method on transition, which means that comparative periods have not been restated. On transition, cumulative impacts related to adoption are required to be recognized in opening retained earnings; however, no adjustments were required for Clearwater.

Under the new standard, the Company is required to disclose information related to the disaggregation of revenues, performance obligations, significant judgements, contract balances and costs to obtain contracts. Refer to accounting policies and Note 9 in the Condensed Consolidated Interim Financial Statements for these disclosures.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The Company adopted IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Clearwater. Refer to accounting policies and Note 6 in the Condensed Consolidated Interim Financial Statements.

The IASB has issued the following standard that has not been applied in preparing these consolidated financial statements as its effective date falls within annual periods beginning subsequent to the current reporting period.

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company is required to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. Clearwater expects to see an impact as a result of the new lease standard on its key performance measures, including earnings before interest, tax, depreciation and amortization. The extent of the impact of adoption of the standard has not yet been determined and quantified. Clearwater expects to have its analysis of existing contracts completed by the end of the third quarter of 2018.

Related Party Transactions

Clearwater often transacts in the normal course of business with other related parties. The details are as follows for the 13 and 26 weeks ended June 30, 2018 and July 1, 2017.

Clearwater rents office space to and provides computer support network services to CFFI Ventures Inc. ("CVI"), a related party. The net amount due from CVI in respect of these transactions of $0.02 million (December 31, 2017 – $0.04 million), is unsecured and due on demand.

For the 13 and 26 weeks ended June 30, 2018, Clearwater recorded net expense of approximately $0.1 million and $0.3 million for providing computer support network services to and receiving goods and services from companies related to CVI (13 and 26 weeks ended July 1, 2017 - $0.01 million and $0.05 million). The transactions are recorded at the exchange amount and the net amount due to these companies was $0.08 million as at June 30, 2018 (December 31, 2017 - net amount due from of $0.07 million).

In the second quarter of 2017, interest bearing loans of $1.3 million made to a non-controlling interest shareholder in a subsidiary were repaid and $0.1 million was forgiven.

On March 20, 2018, Clearwater signed a second amended and restated partnership agreement for Clearwater Ocean Prawns Venture, effective April 1, 2018 for a ten-year term. There were no substantial changes to the existing terms of the arrangement.

SUMMARY OF QUARTERLY RESULTS

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

In 000's of Canadian dollars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2018				
Sales	$ 120,072	$ 148,142	$ -	$ -
Adjusted EBITDA attributable to shareholders[1]	14,933	26,147	-	-
Earnings (loss) attributable to shareholders	(13,758)	(923)	-	-
Earnings (loss) per share ("EPS")	(0.22)	(0.01)	-	-
Diluted earnings (loss) per share[2]	(0.22)	(0.01)	-	-
Weighted average shares outstanding[3]	63,935,153	64,154,263	-	-
Fiscal 2017				
Sales	$ 128,367	$ 154,302	$ 163,597	$ 174,765
Adjusted EBITDA attributable to shareholders[1]	15,798	23,550	26,961	22,846
Earnings (loss) attributable to shareholders	2,172	9,489	15,054	(10,956)
Earnings (loss) per share ("EPS")	0.03	0.15	0.24	(0.17)
Diluted earnings (loss) per share	0.03	0.15	0.24	(0.17)
Weighted average shares outstanding	63,934,698	63,934,698	63,934,698	63,934,698
Fiscal 2016				
Sales	$ 116,225	$ 140,180	$ 189,457	$ 165,690
Adjusted EBITDA attributable to shareholders[1]	14,761	21,811	36,795	25,079
Earnings (loss) attributable to shareholders	14,506	9,963	10,847	8,612
Earnings (loss) per share ("EPS")	0.24	0.16	0.17	0.14
Diluted earnings (loss) per share	0.24	0.16	0.17	0.14
Weighted average shares outstanding	59,958,998	60,439,577	63,934,698	63,934,698

[1] Refer to discussion on non-IFRS measures, definitions and reconciliations

[2] Diluted earnings (loss) per share were anti-dilutive for the first nine months of 2016.

[3] In 2018, Clearwater implemented a Dividend Reinvestment Plan and issued shares under the share based compensation plans.

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

Due to seasonality, sales generally increase with each successive quarter with the highest revenues in the second half of each year.

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

NON- IFRS MEASURES, DEFINITIONS AND RECONCILIATIONS

Gross margin

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

Adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA")

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

Adjusted EBITDA is defined as EBITDA excluding extraordinary, non-operating, non-recurring or non-routine items that are unusual and are deemed not to be a part of normal operations of the business. Items that are excluded from adjusted EBITDA include restructuring and reorganization expenses, gains and losses on investment activities, costs associated with acquisitions to the extent not capitalized, financing and refinancing costs, net gains on insurance claims and share-based compensation. In addition, recurring accounting gains and losses on foreign exchange (other than realized gains and losses on forward exchange contracts), have been excluded from the calculation of Adjusted EBITDA. Unrealized gains and losses on forward exchange contracts relate to economic hedging on future operational transactions and by adjusting for them, the results more closely reflect the economic effect of the hedging relationships in the period to which they relate.

Reconciliation of net earnings (loss) to adjusted EBITDA for the 13 and 26 weeks ended June 30, 2018 and July 1, 2017 and rolling twelve months ended June 30, 2018, July 1, 2017 and July 2, 2016 is as follows:

	13 weeks ended		26 weeks ended		12 months Rolling		
	June 30 2018	**July 1 2017**	**June 30 2018**	**July 1 2017**	**June 30 2018**	**July 1 2017**	**July 2 2016**
Earnings (loss)	$ **1,792**	$ 11,992	$ **(8,407)**	$ 15,210	$ **4,621**	$ 45,481	$ 27,250
Income taxes	**388**	2,356	**795**	1,659	**6,794**	12,743	10,499
Taxes and depreciation for equity investment	**755**	945	**1,123**	1,047	**2,187**	2,362	820
Depreciation and amortization	**13,049**	10,520	**24,016**	20,163	**49,105**	40,048	30,008
Interest on long-term debt and bank charges	**7,697**	7,495	**14,764**	13,987	**30,536**	26,974	25,192
Earnings before interest, taxes, depreciation and amortization	$ **23,681**	$ 33,308	$ **32,291**	$ 52,066	$ **93,243**	$ 127,608	$ 93,769
Add (deduct) other items:							
Unrealized foreign exchange and derivative loss (income)	**7,668**	(18,650)	**21,759**	(18,206)	**16,830**	(19,427)	5,167
Fair market value on long-term debt	**185**	(110)	**260**	36	**(1,082)**	(1,683)	2,548
Realized foreign exchange on working capital	**(1,811)**	3,647	**(5,202)**	4,053	**(5,708)**	2,851	9,550
Restructuring and refinancing costs	**85**	8,217	**719**	8,436	**8,344**	10,503	9,596
Share-based compensation (recovery) expense	**693**	1,130	**(212)**	925	**(728)**	2,077	3,499
Adjusted EBITDA	**$ 30,501**	$ 27,542	**$ 49,615**	$ 47,310	**$ 110,899**	$ 121,929	$ 124,129
Adjusted EBITDA attributed to:							
Non-controlling interests	$ **4,354**	$ 3,991	$ **8,535**	$ 7,961	$ **20,014**	$ 20,706	$ 22,881
Shareholders of Clearwater	**26,147**	23,551	**41,080**	39,349	**90,885**	101,223	101,248
	$ 30,501	$ 27,542	**$ 49,615**	$ 47,310	**$ 110,899**	$ 121,929	$ 124,129

Adjusted Earnings attributable to shareholders

To assist readers in estimating our earnings we have included a calculation of adjusted earnings. Management believes that in addition to earnings and cash provided by operating activities, adjusted earnings is a useful supplemental measure from which to determine Clearwater's earnings from operations and ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Reconciliation of net earnings to adjusted earnings for the 13 and 26 weeks ended June 30, 2018 and July 1, 2017 and rolling twelve months ended June 30, 2018, July 1, 2017 and July 2, 2016 is as follows:

		13 weeks ended		26 weeks ended		Rolling 12 months ended	
		June 30 2018	**July 1 2017**	**June 30 2018**	**July 1 2017**	**June 30 2018**	**July 1 2017**
Reconciliation of earnings to adjusted earnings							
Earnings (loss)	$	**1,792**	$ 11,992	**(8,407)**	$ 15,210	**4,621**	$ 45,481
Add (subtract)							
Restructuring and refinancing costs		**85**	8,217	**719**	8,436	**8,344**	9,100
Share-based compensation (recovery) expense		**693**	1,130	**(212)**	925	**(728)**	2,077
Unrealized foreign exchange and derivative (gain)		**7,668**	(18,651)	**21,759**	(18,206)	**16,830**	(19,427)
Fair value on long-term debt		**185**	(110)	**260**	36	**(1,082)**	(1,683)
		8,631	(9,414)	**22,526**	(8,809)	**23,364**	(9,933)
Adjusted earnings	**$**	**10,423**	**$** 2,578	**14,119**	**$** 6,401	**27,985**	**$** 35,548
Adjusted earnings attributable to:							
Non-controlling interests		**3,443**	2,508	**6,795**	4,336	**14,034**	14,283
Shareholders		**6,980**	70	**7,324**	2,065	**13,951**	21,265
	$	**10,423**	$ 2,578	**14,119**	$ 6,401	**27,985**	$ 35,548
Adjusted earnings per share:							
Weighted average of shares outstanding		**64,154**	63,935	**64,048**	63,935	**64,154**	63,935
Adjusted earnings per share for shareholders		**0.11**	0.00	**0.11**	0.03	**0.22**	0.33
Reconciliation of adjusted earnings to adjusted EBITDA							
Adjusted earnings	$	**10,423**	$ 2,578	**14,119**	$ 6,401	**27,985**	$ 35,548
Add (subtract)							
Income tax expense		**388**	2,356	**795**	1,659	**6,794**	12,743
Depreciation and amortization		**13,049**	10,520	**24,016**	20,163	**49,105**	40,048
Interest on long-term debt and bank charges		**7,697**	7,495	**14,764**	13,987	**30,536**	26,974
Taxes and depreciation for equity investment		**755**	946	**1,123**	1,048	**2,187**	2,362
Realized foreign exchange on working capital		**(1,811)**	3,647	**(5,202)**	4,052	**(5,708)**	2,851
Other reorganizational costs		**-**	-	**-**	-	**-**	1,403
		20,078	24,964	**35,496**	40,909	**82,914**	86,381
Adjusted EBITDA[1]	**$**	**30,501**	**$** 27,542	**49,615**	**$** 47,310	**110,899**	**$** 121,929

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 to assist readers in this review. Leverage should not be construed as a measure of liquidity or as a measure of cash flows.

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

The calculation of adjusted EBITDA attributable to shareholders to debt (net of unamortized deferred financing charges) for the rolling twelve months ended June 30, 2018, July 1, 2017 and July 2, 2016 is as follows:

In 000's of Canadian dollars Rolling 12 months ended		**June 30 2018**	December 31 2017	July 1 2017	July 2 2016
Adjusted EBITDA[1] attributable to shareholders	**$**	**90,885**	$ 89,156	$ 101,223	$ 109,246
Debt [2,3,4] (excluding non-controlling interest)		**489,461**	478,747	504,646	464,830
Less cash (excluding non-controlling interest)		**(24,974)**	(31,976)	(11,773)	(31,331)
Net debt	**$**	**464,487**	$ 446,771	$ 492,873	$ 433,499
Leverage		**5.1**	5.0	4.9	4.0

1 – Refer to discussion on non-IFRS measures, definitions and reconciliations

2 - Debt for 2016 and the first quarter of 2017 have been adjusted to include the USD $75 million cross-currency swap at contracted rates of 1.3235 that was entered into in the third quarter 2015.

3 - Debt at June 30, 2018 has been adjusted to include USD $200 million forward foreign exchange contract at an average contracted rate of 1.2844.

4 - Debt is net of unamortized deferred financing charges of $9.8 million (December 31, 2017 - $10 million; July 1, 2017 - $10.9 million; July 2, 2016 - $2.0 million).

Free cash flows

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

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

Reconciliation for the 13 and 26 weeks ended June 30, 2018 and July 1, 2017 and rolling twelve months ended June 30, 2018, July 1, 2017 and July 2, 2016 is as follows:

	13 weeks ended		26 weeks ended		12 months Rolling[E]		
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017	**June 30 2018**	July 1 2017	July 2 2016
Adjusted EBITDA[1]	**$ 30,501**	$ 27,542	**$ 49,615**	$ 47,310	**$ 110,899**	$ 121,929	$ 124,129
Less:							
Interest and bank charges	**(7,269)**	(7,196)	**(13,931)**	(13,246)	**(28,889)**	(25,237)	(23,219)
Current income tax expense	**(1,176)**	(4,207)	**(3,128)**	(7,424)	**(8,080)**	(10,814)	(2,885)
Other income and expense items	**249**	(559)	**793**	538	**(12,679)**	(2,956)	(9,072)
Operating cash flow before changes in working capital	**22,305**	15,580	**33,349**	27,178	**61,251**	82,922	88,953
Changes in working capital[A]	**(27,731)**	(32,012)	**(23,945)**	(61,566)	**40,678**	(19,770)	(45,319)
Cash flows from operating activities	**(5,426)**	(16,432)	**9,404**	(34,388)	**101,929**	63,152	43,634
Sources (uses) of cash:							
Purchase of property, plant, equipment, quota and other assets	**(8,227)**	(23,550)	**(13,993)**	(42,660)	**(56,763)**	(82,696)	(28,100)
Disposal of fixed assets	**-**	8	**-**	8	**2,400**	8	5,690
Less: Designated borrowings[B]	**-**	9,815	**1,106**	18,677	**21,635**	43,773	3,997
Scheduled payments on long-term debt[C]	**(1,456)**	(1,401)	**(1,557)**	(2,913)	**(10,592)**	(14,675)	(6,530)
Payments on long-term incentive plans	**-**	1,441	**1,084**	1,441	**1,261**	2,884	4,227
Distribution to non-controlling interests	**(2,085)**	(2,780)	**(5,329)**	(6,951)	**(17,443)**	(17,145)	(19,000)
Dividends received from joint venture	**-**	**-**	**-**	**-**	**3,340**	**-**	-
Other financing activities	**-**	**-**	**-**	**-**	**-**	-	676
Non-routine project costs	**1,242**	-	**2,961**	-	**6,353**	684	3,154
	(10,526)	(16,467)	**(15,728)**	(32,398)	**(49,809)**	(67,167)	(35,886)
Free cash flows[1]	**$ (15,952)**	$ (32,899)	**$ (6,324)**	$ (66,786)	**$ 52,120**	$ (4,015)	**$ 7,748**
Add/(less):							
Other debt borrowings (repayments) of debt, use of cash[D]	**12,166**	42,566	**5,844**	58,205	**(24,569)**	11,095	96,911
Issuance of equity	**1,774**	-	**1,774**	-	**1,774**	(25)	53,049
Payments on long-term incentive plans	**-**	(1,441)	**(1,084)**	(1,441)	**(1,261)**	(2,884)	(4,227)
Other investing activities	**(976)**	(5,541)	**(2,735)**	(6,325)	**(5,632)**	(9,635)	(146,775)
Other financing activities	**(7,197)**	(7,345)	**(5,809)**	(7,274)	**(11,146)**	(16,425)	(16,827)
Change in cash flows for the period	**$ (10,185)**	$ (4,660)	**$ (8,334)**	$ (23,621)	**$ 11,286**	$ (21,889)	$ (10,121)

A – Changes in working capital have been restated to align with the change in presentation of cash interest and cash income taxes paid in the consolidated statement of cash flows. This change had no impact on cash from operations.

B – Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For 2018, 2017 and 2016, the periods covered in this table includes the replacement of the Ocean Concord clam vessel. Included in 2016 12 months rolling is a conversion of a vessel for Argentina, the addition of a third clam vessel, a late life refit on a shrimp vessel and the conversion of a new research vessel. For the purpose of free cash flow calculations the amount invested (up to the total amount of the related financing) during the period on these projects is backed out of the calculation of free cash flows regardless of the timing of the related borrowing.

C – Scheduled payments on long-term debt have been updated to include the Deferred Consideration payment made in the fourth quarter 2017 of $8.9 million (fourth quarter 2016 of $8.7 million) and the Earnout payment in the second quarter 2017 of $1.3 million.

D – Within 12 months rolling for 2016, other investing activities includes $151.1 million for the acquisition of Macduff in the fourth quarter of 2015, less cash acquired in the acquisition of $9.1 million.

E – Within 12 months rolling for 2017, certain line items have been reallocated with no change to free cash flow for the period.

Return on Assets

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

Return on assets is defined as the ratio of rolling 12 month adjusted earnings before interest and taxes ("EBIT") to average total quarterly assets including all working capital assets.

The calculation of adjusted earnings before interest and taxes to total assets for the rolling twelve months ended June 30, 2018, July 1, 2017 and July 2, 2016 is as follows:

In (000's) of Canadian dollars		**June 30 2018**		July 1 2017		July 2 2016
Adjusted EBITDA[1]	$	**110,899**	$	121,929	$	124,129
Depreciation and amortization		**46,712**		42,131		35,811
Adjusted earnings before interest and taxes		**64,187**		79,798		88,318
Average quarterly total assets	$	**778,616**	$	756,821	$	699,186
		8.2%		10.5%		12.6%

(1) Refer to discussion on non-IFRS measures, definitions and reconciliations.

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. Management of Clearwater Seafoods Incorporated has prepared these condensed consolidated interim financial statements. Management has compiled the unaudited condensed consolidated interim Statement of Financial Position of Clearwater Seafoods Incorporated as at June 30, 2018 and the unaudited condensed consolidated interim Statements of Earnings (Loss), Comprehensive Income (Loss), Shareholders' Equity, and Cash Flows for the 13 and 26 weeks ended June 30, 2018 and July 1, 2017. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2018 and July 1, 2017 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Financial Position

(unaudited)

(In thousands of Canadian dollars) As at		**June 30 2018**		December 31 2017
ASSETS				
Current assets				
Cash	**$**	**27,180**	$	35,514
Trade and other receivables (Note 5)		**92,402**		103,096
Inventories		**105,428**		79,124
Prepaids and other		**5,778**		4,781
Derivative financial instruments (Note 6)		**1,001**		5,797
		231,789		228,312
Non-current assets				
Long-term receivables		**4,923**		5,077
Derivative financial instruments (Note 6)		**3,902**		141
Other assets		**144**		102
Property, plant and equipment		**261,177**		272,071
Investment in equity investee		**11,583**		9,817
Deferred tax assets		**12,399**		11,349
Intangible assets		**193,041**		193,815
Goodwill		**50,951**		50,196
		538,120		542,568
TOTAL ASSETS	**$**	**769,909**	$	770,880
LIABILITIES				
Current liabilities				
Trade and other payables	**$**	**77,104**	$	80,411
Income taxes payable		**2,925**		7,182
Current portion of long-term debt (Note 7)		**22,412**		21,025
Derivative financial instruments (Note 6)		**5,310**		1,978
		107,751		110,596
Non-current liabilities				
Long-term debt (Note 7)		**472,915**		452,148
Derivative financial instruments (Note 6)		**2,490**		7,142
Other long-term liabilities		**449**		616
Deferred tax liabilities		**17,544**		17,840
		493,398		477,746
SHAREHOLDERS' EQUITY				
Share capital (Note 8)	**$**	**212,732**	$	210,860
Contributed surplus		**3,446**		3,021
Retained earnings (deficit)		**(29,803)**		(8,722)
Accumulated comprehensive loss ("ACL")		**(35,737)**		(39,730)
		150,638		165,429
Non-controlling interest		**18,122**		17,109
		168,760		182,538
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**769,909**	$	770,880

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Earnings (Loss)

(unaudited)

(In thousands of Canadian dollars)	13 weeks ended		June 30 weeks ended	
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017
Sales (Note 9)	**$ 148,142**	$ 154,302	**$ 268,214**	$ 282,669
Cost of goods sold	**119,537**	124,612	**221,149**	229,857
	28,605	29,690	**47,065**	52,812
Operating expenses				
Administrative and selling costs	**14,712**	16,164	**26,363**	29,623
Restructuring costs	**-**	19	**482**	179
Net finance costs (Note 7 (e))	**8,152**	12,322	**15,682**	18,247
Foreign exchange (gains) losses on long-term debt and working capital (Note 6 (c))	**4,118**	(7,784)	**7,685**	(8,534)
Losses (gains) on contract derivatives (Note 6 (d))	**487**	(3,657)	**6,323**	(1,538)
Other (income) expense (Note 10)	**(1,588)**	(2,427)	**(2,578)**	(3,195)
Research and development	**544**	705	**720**	1,161
	26,425	15,342	**54,677**	35,943
Earnings (loss) before income taxes	**2,180**	14,348	**(7,612)**	16,869
Income tax expense (recovery)	**388**	2,356	**795**	1,659
Earnings (loss) for the period	**$ 1,792**	$ 11,992	**$ (8,407)**	$ 15,210
Earnings (loss) attributable to:				
Non-controlling interest	**$ 2,715**	$ 2,503	**$ 6,274**	$ 3,549
Shareholders of Clearwater	**(923)**	9,489	**(14,681)**	11,661
	$ 1,792	$ 11,992	**$ (8,407)**	$ 15,210
Basic earnings (loss) per share (Note 11)	**$ (0.01)**	$ 0.15	**$ (0.23)**	$ 0.18
Diluted earnings (loss) per share (Note 11)	**$ (0.01)**	$ 0.15	**$ (0.23)**	$ 0.18

See the accompanying notes to the condensed consolidated interim financial statements

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

(unaudited)

(In thousands of Canadian dollars)		**13 weeks ended**				**13 weeks ended**		
		June 30		July 1		**June 30**		July 1
		2018		2017		**2018**		2017
Earnings (loss) for the period	**$**	**1,792**	$	11,992	**$**	**(8,407)**	$	15,210
Comprehensive income (loss)								
Items that may be reclassified subsequently to income (loss):								
Foreign currency translation differences of foreign operations		**(8,431)**		181		**1,974**		1,627
Cash flow hedges - effective portion of change in fair value, net of tax		**812**		**(880)**		**1,626**		**(880)**
Cash flow hedges - reclassified to earnings (loss), net of tax		**38**		-		**89**		-
		(7,581)		(699)		**3,688**		747
Comprehensive income (loss) for the period	**$**	**(5,789)**	$	11,293	**$**	**(4,719)**	$	15,957
Comprehensive income (loss) attributable to:								
Non-controlling interest	**$**	**2,432**	$	2,264	**$**	**5,969**	$	3,354
Shareholders of Clearwater		**(8,221)**		9,029		**(10,688)**		12,603
	$	**(5,789)**	$	11,293	**$**	**(4,719)**	$	15,957

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Shareholders' Equity

(unaudited)

(In thousands of Canadian dollars)

			ACL				
	Common shares	Contributed surplus	Cash flow hedge	Cumulative translation account	Retained earnings (deficit)	Non-controlling interest	Total
Balance at January 1, 2017	$ 210,860	$ 1,419	$ -	(38,931)	$ (4,793)	$ 19,930	$ 188,485
Comprehensive income (loss) for the	-	-	(880)	1,822	11,661	3,354	15,957
Transactions recorded directly in equity							
Share-based compensation	-	768	-	-	-	-	768
Distributions to non-controlling interest	-	-	-	-	-	(4,507)	(4,507)
Dividends declared on common shares	-	-	-	-	(6,393)	-	(6,393)
Acquisition of non-controlling interest				(268)	(6,901)	445	(6,724)
Total transactions with owners	-	768	-	(268)	(13,294)	(4,062)	(16,856)
Balance at July 1, 2017	$ 210,860	$ 2,187	$ (880)	$ (37,377)	$ (6,426)	$ 19,222	$ 187,586
Comprehensive income (loss) for the	-	-	(309)	(1,164)	4,098	8,723	11,348
Transactions recorded directly in equity							
Share-based compensation	-	834	-	-	-	-	834
Distributions to non-controlling interest	-	-	-	-	-	(10,836)	(10,836)
Dividends declared on common shares	-	-	-	-	(6,394)	-	(6,394)
Total transactions with owners	-	834	-	-	(6,394)	(10,836)	(16,396)
Balance at December 31, 2017	$ 210,860	$ 3,021	$ (1,189)	$ (38,541)	$ (8,722)	$ 17,109	$ 182,538
Comprehensive income (loss) for the	**-**	**-**	**1,714**	**2,279**	**(14,681)**	**5,969**	**(4,719)**
Transactions recorded directly in equity							
Share-based compensation	**98**	**425**	**-**	**-**	**-**	**-**	**523**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(4,956)**	**(4,956)**
Dividends declared on common shares	**-**	**-**	**-**	**-**	**(6,400)**	**-**	**(6,400)**
Common shares issued under DRIP	**1,774**	**-**	**-**	**-**	**-**	**-**	**1,774**
Total transactions with owners	**1,872**	**425**	**-**	**-**	**(6,400)**	**(4,956)**	**(9,059)**
Balance at June 30, 2018	$ 212,732	$ 3,446	$ 525	(36,262)	$ (29,803)	$ 18,122	$ 168,760

See the accompanying notes to the condensed consolidated interim financial statements

CLEARWATER SEAFOODS INCORPORATED
Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(In thousands of Canadian dollars)

	13 weeks ended		26 weeks ended	
	June 30 2018	July 1 2017 (Restated, Note 16)	**June 30 2018**	July 1 2017 (Restated, Note 16)
Operating				
Earnings (loss) for the period	**$ 1,792**	$ 11,992	**$ (8,407)**	$ 15,210
Adjustments for:				
Depreciation and amortization	**12,838**	11,232	**22,012**	22,747
Amortization of deferred financing costs	**428**	299	**832**	741
Accretion on long-term debt	**455**	574	**918**	1,120
Net unrealized foreign exchange (gains) losses on financial assets and liabilities	**7,205**	(9,541)	**22,592**	(9,086)
Loss on debt refinancing	**-**	3,787	**-**	3,787
Fair value adjustments to financial instruments	**-**	(287)	**-**	(694)
Deferred tax expense (recovery)	**(788)**	(1,845)	**(2,333)**	(5,745)
Share-based compensation	**699**	1,130	**(206)**	925
(Gain) loss on disposal of property, plant, and equipment, and other assets	**165**	-	**165**	-
(Earnings) loss from equity investee	**(1,513)**	(1,109)	**(1,765)**	(1,453)
Foreign exchange and other	**1,024**	(652)	**(459)**	(374)
Cash from operating activities before changes in working capital	**22,305**	15,580	**33,349**	27,178
Change in non-cash operating working capital (Note 15)	**(27,731)**	(32,012)	**(23,945)**	(61,566)
Cash from (used in) operating activities	**$ (5,426)**	$ (16,432)	**$ 9,404**	$ (34,388)
Financing				
Repayment of long-term debt	**(1,459)**	(415,186)	**(1,561)**	(416,697)
Proceeds from long-term debt	**-**	365,194	**-**	365,194
Proceeds of revolving credit facility	**12,169**	100,971	**6,952**	125,471
Settlement of derivative contracts on refinancing	**-**	(4,209)	**-**	(4,209)
Distributions paid to non-controlling interest	**(2,085)**	(2,780)	**(5,329)**	(6,951)
Repayments from (advances to) minority partners	**(20)**	2,738	**(38)**	2,738
Dividends paid on common shares (net of dividend reinvested)	**(4,626)**	(6,393)	**(4,626)**	(6,393)
Cash from (used in) financing activities	**$ 3,979**	$ 40,335	**$ (4,602)**	$ 59,153
Investing				
Purchase of property, plant and equipment	**(8,227)**	(23,550)	**(13,993)**	(42,660)
Proceeds on disposal of property, plant and equipment	**-**	8	**-**	8
Acquisition of non-controlling interest	**-**	(6,726)	**-**	(6,726)
Purchase of other assets	**(71)**	-	**(71)**	(42)
Net advances in long term receivables	**337**	1,183	**297**	440
Cash from (used in) investing activities	**$ (7,961)**	$ (29,085)	**$ (13,767)**	$ (48,980)
Effect of foreign exchange rate changes on cash	**$ (777)**	$ 522	**$ 631**	$ 594
Increase (decrease) in cash	**(10,185)**	(4,660)	**(8,334)**	(23,621)
Cash, beginning of period	**37,365**	20,553	**35,514**	39,514
Cash, end of period	**$ 27,180**	$ 15,893	**$ 27,180**	$ 15,893
Supplemental disclosure of operating cash flows				
Cash interest paid	**(12,722)**	(3,479)	**(14,210)**	(10,665)
Cash income taxes paid	**$ (6,545)**	$ (3,331)	**$ (7,381)**	$ (4,973)

See the accompanying notes to the condensed consolidated interim financial statements

1. DESCRIPTION OF THE BUSINESS

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

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

The Condensed Consolidated Financial Statements of Clearwater as at and for the period ended June 30, 2018 and July 1, 2017 comprise the company, its subsidiaries and a joint venture. Clearwater's business includes the ownership and operation of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and should be read in conjunction with the annual audited financial statements and the accompanying notes for the year ended December 31, 2017 (included in Clearwater's 2017 Annual Report) which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorized for issue by Clearwater's Board of Directors on August 8, 2018.

The preparation of these Condensed Consolidated Interim Financial Statements is based on accounting policies and practices consistent with those used in the preparation of the annual audited December 31, 2017 financial statements, except as described below.

(b) Revenue from contracts with customers

Clearwater sells seafood in a fresh or frozen state to customers. These sales are evidenced by purchase orders or invoices, which set out the terms of the sale, including pricing and shipping terms. Revenue is recognized when control of the product transfers to the customer.

Control transfers to the customer at the point of delivery, which is dependent on the shipping term. Revenue from the sale of seafood products is recognized based on the price specified in the contract, less any customer discounts. No element of financing is recognized as sales are generally made with normal credit terms ranging from 14 days from delivery to 60 days from the date of invoice.

When customers pay before product is shipped, revenue is not recognized until control transfers to the customer.

Clearwater has elected to apply the practical expedient related to contract costs therefore contract costs with an amortization period of less than one year have been expensed as incurred.

Clearwater may also provide services after control of the product has transferred to the customer including, freight, storage, custom clearing and cleaning. These services represent separate performance obligations for which revenue is recognized over the time that the service is performed for freight, storage and cleaning and at a point in time for customs clearing, being when the goods have cleared customs. The transaction price is allocated to these services based on an expected cost plus margin approach.

(c) Financial instruments

Classification

Clearwater classifies its financial assets and financial liabilities into three categories being subsequently measured at 1) fair value through profit or loss ("FVTPL"); 2) amortized cost; or 3) fair value through other comprehensive income ("FVTOCI"). The classification for financial assets depends on the Company's business model and management of the financial asset and the contractual terms of the cash flows.

Financial assets are classified as amortized cost only if both the following criteria are met:

(1) the financial asset is held within a business model with the objective of collecting the contractual cash flows; and
(2) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Derivatives are classified as FVTPL unless they are designated as hedges. Clearwater has not designated any financial liabilities to be recognized as FVTPL.

Clearwater's financial assets and liabilities have been classified as follows:

Financial instrument	Classification	Measurement
Cash	FVTPL	Fair value
Trade and other receivables	Amortized cost	Initial: Fair Value Subsequent: Amortized cost
Long-term receivables	Amortized cost	
Trade and other payables	Amortized cost	
Long-term debt	Amortized cost	
Earnout liability	FVTPL	Fair value
Trade and other payables	FVTPL	Fair value
Derivative financial instruments	FVTPL	Fair value
Derivative financial instruments (hedge accounting)	FV - hedging instrument	Fair value

Measurement

(1) Financial assets and liabilities at amortized cost or FVTPL

On initial recognition, a financial asset or financial liability carried at amortized cost is measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or liability. Transaction costs of financial assets and liabilities carried at FVTPL are recognized in the Condensed Consolidated Statement of Earnings (Loss).

(2) Derivative instruments

Derivatives are initially recognized at fair value and subsequently re-measured to their fair value either through profit or loss or other comprehensive income depending on whether the derivative has been designated as a hedging instrument.

When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in fair value of the derivative is recognized in the Consolidated Statement of Comprehensive Income (Loss) and accumulated within equity. The amount recorded in equity is reclassified to the Consolidated Statement of Earnings (Loss) in the same period during which the hedged item is recognized in the Consolidated Statement of Earnings (Loss).

The ineffective portion of the change in fair value of the derivative is recognized as Net finance costs in the Consolidated Statement of Earnings (Loss).

If the forecasted transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or expired, or Clearwater elects to discontinue hedge accounting for the derivative, then hedge accounting is discontinued prospectively.

If the forecasted transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to the Consolidated Statement of Earnings (Loss). If hedge accounting is discontinued but the forecasted transaction is still expected to occur, the amount accumulated in equity will be reclassified to the Consolidated Statement of Earnings (Loss) at the same time as the original hedged item.

(d) Impairment

Financial assets

The Company assesses expected credit losses on financial assets carried at amortized cost on a forward looking basis.

For trade receivables, Clearwater applies the simplified approach which requires lifetime expected credit losses to be recognized from initial recognition of the receivables.

Clearwater considers the probability of default on a specific account basis, which involves assessing whether there was a significant increase in credit risk. Indicators include actual or expected changes in the debtor's ability to pay based on information that is available each reporting period; monitoring past due accounts and other external factors. Refer to Note 6(e) for discussion on credit risk and the provision for impairment losses related to trade receivables.

3. CHANGE IN ACCOUNTING POLICY

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized.

The Company adopted IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has elected to apply the modified retrospective method on transition, which means that comparative periods have not been restated. On transition, cumulative impacts related to adoption are required to be recognized in opening retained earnings; however, no adjustments were required for Clearwater.

Under the new standard, the Company is required to disclose information related to the disaggregation of revenues, performance obligations, significant judgements, contract balances and costs to obtain contracts. Refer to accounting policies and Note 9 in the Condensed Consolidated Interim Financial Statements for these disclosures.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The Company adopted IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Clearwater. Refer to accounting policies and Note 6 in the Condensed Consolidated Interim Financial Statements.

New accounting standards not yet adopted

The IASB has issued the following standard that has not been applied in preparing these consolidated financial statements as its effective date falls within annual periods beginning subsequent to the current reporting period.

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company is required to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. Clearwater expects to see an impact as a result of the new lease standard on its key performance measures, including earnings before interest, tax, depreciation and amortization. The extent of the impact of adoption of the standard has not yet been determined and quantified. Clearwater expects to have its analysis of existing contracts completed by the end of the third quarter of 2018.

4. SEASONALITY

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

5. TRADE AND OTHER RECEIVABLES

As at		**June 30 2018**		December 31 2017
Trade receivables	**$**	**78,108**	$	86,636
Other receivables		**14,294**		16,460
	$	**92,402**	$	103,096

6. FINANCIAL INSTRUMENTS

The Company periodically uses derivative instruments as part of an active risk management program. The Company designated certain forward foreign exchange contracts related to USD denominated interest payments as hedging instruments in a qualifying hedging relationship (cash flow hedge). Changes in the fair value of derivatives in a qualifying hedging relationship are recognized in comprehensive income. The Company has elected not to use hedge accounting on the remaining derivative instruments and consequently, changes in their fair value are recorded in the consolidated statement of earnings (loss).

Summary of fair value of derivative financial instrument positions:

As at		**June 30 2018**		December 31 2017
Derivative financial assets				
Forward foreign exchange contracts	**$**	**4,903**	$	5,938
	$	**4,903**	$	5,938
Derivative financial liabilities				
Forward foreign exchange contracts		**(7,800)**		(9,120)
	$	**(7,800)**	$	(9,120)

(a) Forward Foreign Exchange Contracts

Clearwater has forward contracts maturing each month until June 2019 and forward contracts related to the USD Notes maturing April 2022 (Note 7). At June 30, 2018 Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency notional amount (in 000's)	Average contract exchange rate	Weighted average months to maturity		Fair value asset (liability)
Contracts in a current asset position					
Derivatives designated as hedging instruments					
USD	**6,875**	**1.238**	**11**	**$**	**474**
Derivatives not designated as hedging instruments					
Euro	**11,930**	**1.587**	**11**		**240**
USD	**9,800**	**1.321**	**12**		**155**
Yen	**407,000**	**0.0123**	**10**		**102**
Euro - GBP	**3,300**	**0.896**	**7**		**30**
				$	**1,001**
Contracts in a non-current asset position					
Derivatives designated as hedging instruments					
USD	**20,625**	**1.246**	**29**	**$**	**929**
Derivatives not designated as hedging instruments					
USD	**100,000**	**1.255**	**46**		**2,973**
					3,902
Total contracts in an asset position				**$**	**4,903**
Contracts in a current liability position					
Derivatives designated as hedging instruments					
USD	**6,875**	**1.332**	**11**	**$**	**(155)**
Derivatives not designated as hedging instruments					
Euro	**23,400**	**1.511**	**4**		**(824)**
USD	**76,500**	**1.269**	**5**		**(3,107)**
Yen	**2,599,000**	**0.0116**	**5**		**(823)**
Euro - GBP	**26,950**	**0.883**	**6**		**(332)**
USD - GBP	**2,150**	**0.735**	**3**		**(69)**
				$	**(5,310)**
Contracts in a non-current liability position					
Derivatives designated as hedging instruments					
USD	**20,625**	**1.319**	**29**	**$**	**(437)**
Derivatives not designated as hedging instruments					
USD	**100,000**	**1.314**	**46**		**(2,053)**
					(2,490)
Total contracts in a liability position				**$**	**(7,800)**

At December 31, 2017, Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency notional amount (in 000's)	Average contract exchange rate	Weighted average months to maturity		Fair value asset (liability)
Contracts in a current asset position					
Derivatives designated as hedging instruments					
USD	6,875	1.237	7	$	122
Derivatives not designated as hedging instruments					
Euro	4,700	1.560	12		84
USD	62,600	1.323	6		4,178
Yen	1,461,000	0.0120	6		1,012
Euro - GBP	9,500	0.904	8		134
USD - GBP	5,220	0.766	5		267
				$	5,797
Contracts in a non-current asset position					
Derivatives designated as hedging instruments					
USD	17,188	1.243	28	$	141
					141
Total contracts in an asset position				$	5,938
Contracts in a current liability position					
Derivatives designated as hedging instruments					
USD	6,875	1.336	7	$	(541)
Derivatives not designated as hedging instruments					
Euro	27,700	1.497	6		(750)
USD	27,400	1.245	9		(270)
Yen	715,000	0.0113	9		(21)
Euro - GBP	9,400	0.866	4		(395)
				$	(1,978)
Contracts in a non-current liability position					
Derivatives designated as hedging instruments					
USD	30,938	1.305	38	$	(1,504)
Derivatives not designated as hedging instruments					
USD	200,000	1.284	52		(5,639)
					(7,142)
Total contracts in a liability position				**$**	(9,120)

(b) Derivatives designated as Hedging Instruments

Clearwater entered into USD forward foreign exchange contracts to hedge a portion of its USD interest payments, payable semi-annually in May and November each year.

The following table summarizes the pre-tax amounts recognized in the Consolidated Statement of Comprehensive Income, the amounts reclassified from Accumulated Comprehensive Income (Loss) ("ACL") within equity and the amount recorded in the Consolidated Statement of Earnings (Loss):

	Gain (loss) recognized in ACL		Gain (loss) reclassified from ACL to Net Finance Costs		Ineffectiveness recognized in Net Finance Costs	
	13 weeks ended		13 weeks ended		13 weeks ended	
Derivatives in cash flow hedging relationship	**June 30 2018**	July 1 2017	**June 30 2018**	July 1 2017	**June 30 2018**	July 1 2017
Forward foreign exchange contacts	**1,168**	(1,266)	**55**	-	-	-
Income tax recovery (expense)	**(356)**	386	**(17)**	-	-	-
Net gain (loss)	**$ 812**	$ (880)	**$ 38**	$ -	$ **-**	$ -

	Gain (loss) recognized in ACI		Gain (loss) reclassified from ACI to Net Finance Costs		Ineffectiveness recognized in Net Finance Costs	
	26 weeks ended		26 weeks ended		26 weeks ended	
Derivatives in cash flow hedging relationship	**June 30 2018**	July 1 2017	**June 30 2018**	July 1 2017	**June 30 2018**	July 1 2017
Forward foreign exchange contacts	**2,339**	(1,266)	**128**	-	-	-
Income tax recovery (expense)	**(713)**	386	**(39)**	-	-	-
Net gain (loss)	**$ 1,626**	$ (880)	**$ 89**	$ -	$ **-**	$ -

(c) Foreign exchange (gains) losses on long-term debt and working capital

	13 weeks ended		26 weeks ended	
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017
Realized (gain) loss				
Long-term debt and working capital	**$ (1,811)**	$ 3,647	**$ (5,200)**	$ 4,053
Unrealized (gain) loss				
Foreign exchange on long-term debt and working capital	**9,917**	(13,545)	**19,444**	(15,805)
Forward foreign exchange contracts, cross currency swaps and cap on long-term debt	**(3,988)**	2,114	**(6,559)**	3,218
	5,929	(11,431)	**12,885**	(12,587)
	$ 4,118	$ (7,784)	**$ 7,685**	$ (8,534)

(d) Losses (gains) on contract derivatives

	13 weeks ended		26 weeks ended	
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017
Realized (gain) loss				
Forward foreign exchange contracts	**$ (1,253)**	$ (88)	**$ (2,550)**	$ (265)
Unrealized (gain) loss				
Forward foreign exchange contracts	**1,740**	(3,569)	**8,873**	(1,273)
	$ 487	$ (3,657)	**$ 6,323**	$ (1,538)

(e) Credit risk

Credit risk refers to the risk of losses due to failure of Clearwater's customers or other counterparties to meet their contractual obligations. Clearwater is exposed to credit risk in the event of non-performance by counter parties to its derivative financial instruments but does not anticipate non-performance of any of the counter parties as Clearwater only deals with highly rated financial institutions.

Clearwater has significant accounts receivable from customers operating in Canada, the United States, Europe and Asia. Significant portions of Clearwater's customers from a sales dollar perspective have been transacting with Clearwater in excess of five years and bad debt losses have been minimal. Clearwater has a policy of using a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk. No single customer of Clearwater represented more than 8% of total sales for the year ended December 31, 2017. As a result Clearwater does not have any significant concentration of credit risk.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $ 0.2 million (2017 - $0.1 million).

Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. Accounts are written off completely when it becomes virtually certain that collection will not occur. Changes in the allowance for doubtful accounts are summarized in the table below:

As at	**2018**	2017
Balance at January 1	**$ 147**	$ 424
Allowance recognized	**71**	263
Amounts recovered	**-**	(303)
Amounts written off as uncollectible	**-**	(247)
Foreign exchange	**3**	10
Ending balance	**$ 221**	$ 147

(f) Fair value of financial instruments

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

June 30, 2018	FVTPL	FV Hedging	Amortized cost	Total Carrying amount	Fair value
Assets:					
Cash	$ 27,180	$ -	$ -	**$ 27,180**	**$ 27,180**
Trade and other receivables	-	-	92,402	**92,402**	**92,402**
Long-term receivables	-	-	4,923	**4,923**	**4,923**
Forward foreign exchange contracts	3,500	1,403	-	**4,903**	**4,903**
	$ 30,680	$ 1,403	$ 97,325	**$ 129,408**	**$ 129,408**
Liabilities:					
Trade and other payables	$ (2,809)	$ -	$ (74,295)	**$ (77,104)**	**$ (77,104)**
Long-term debt[1]	(3,468)	-	(491,859)	**(495,327)**	**(479,993)**
Forward foreign exchange contracts	(7,208)	(592)	-	**(7,800)**	**(7,800)**
	$ (13,485)	$ (592)	$ (566,154)	**$ (580,231)**	**$ (564,897)**

[1] Earnout liability is recorded at fair value through profit or loss.

December 31, 2017	FVTPL	FV Hedging	Amortized cost	Total Carrying amount	Fair value
Assets:					
Cash	$ 35,514	$ -	$ -	**$ 35,514**	**$ 35,514**
Trade and other receivables	-	-	103,096	**103,096**	**103,096**
Long-term receivables	-	-	5,077	**5,077**	**5,077**
Forward foreign exchange contracts	5,675	263	-	**5,938**	**5,938**
	$ 41,189	$ 263	$ 108,173	**$ 149,625**	**$ 149,625**
Liabilities:					
Trade and other payables	$ (4,703)	$ -	$ (75,708)	**$ (80,411)**	**$ (80,411)**
Long-term debt[1]	(5,278)	-	(467,895)	**(473,173)**	**(491,079)**
Forward foreign exchange contracts	(7,075)	(2,045)	-	**(9,120)**	**(9,120)**
	$ (17,057)	$ (2,045)	$ (543,603)	**$ (562,704)**	**$ (580,610)**

[1] Earnout liability is recorded at fair value through profit or loss.

Fair value of financial instruments carried at amortized cost:

Except as detailed above, Clearwater considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values. For cash, trade and other receivables, and trade and other payables, the carrying value approximates their fair values due to the short-term maturity of these instruments. The fair values of the long term receivables are not materially different from their carrying values.

The estimated fair value of Clearwater's long-term debt for which carrying value did not approximate fair value at June 30, 2018 was $347.1 million (December 31, 2017 - $363.5 million) and the carrying value was $362.6 million (December 31, 2017 – $345.7 million). The fair value of long-term debt has been classified as Level 2 in the fair value hierarchy (described below) and was estimated based on discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities.

(g) Fair value hierarchy

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

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

The table below sets out fair value measurements of financial instruments carried at fair value through profit and loss and fair value hedging instruments using the fair value hierarchy:

June 30, 2018	Level 1	Level 2	Level 3
Recurring measurements			
Financial Assets:			
Cash	$ 27,180	$ -	$ -
Forward foreign exchange contracts	-	4,903	-
	$ 27,180	$ 4,903	$ -
Financial Liabilities:			
Trade and other payables	$ 2,175	$ 634	$
Forward foreign exchange contracts	-	7,800	-
Earnout liability	-	-	3,468
	$ 2,175	$ 8,434	$ 3,468

December 31, 2017	Level 1	Level 2	Level 3
Recurring measurements			
Financial Assets:			
Cash	$ 35,514	$ -	$ -
Forward foreign exchange contracts		5,938	
	$ 35,514	$ 5,938	$ -
Financial Liabilities:			
Trade and other payables	$ 3,730	$ 973	$ -
Forward foreign exchange contracts	-	9,120	-
Earnout liability	-	-	5,278
	$ 3,730	$ 10,093	$ 5,278

There were no transfers between levels during the periods ended June 30, 2018 and December 31, 2017.

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

- Forward foreign exchange contracts are measured using present value techniques. Future cash flows are estimated based on forward exchange rates (from observable exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of Clearwater and the various counterparties and the risk-free yield curves of the respective currencies.

The Earnout liability relating to the Macduff acquisition is a financial liability categorized as Level 3 as the fair value measurement of this financial liability is based on significant inputs not observable in the market.

To determine the fair value of the Earnout liability three primary sources of risk are assessed (i) the risk associated with the underlying performance of Macduff's Earnings before interest, taxes, depreciation and amortization ("EBITDA"); (ii) the risk associated with the functional form of the Earnout payments; and (iii) the credit risk associated with the future Earnout payments. The fair value of the Earnout payments is estimated based on a Monte Carlo simulation under a risk-neutral framework. The fair value of the Earnout is estimated based on discounted expected future EBITDA cash flows for Macduff for the four year period ending December 31, 2020. The following inputs and assumptions were used in calculating the fair value of the Earnout liability including:

- Payment dates: The Earnout will be payable for the periods ending December 31, 2017 through December 31, 2020, based on the expected pattern of the Deferred Obligation and the expected outstanding amount of Deferred Obligation at the end of each year.
- Forecasted EBITDA: Management's forecast for the remaining period;
- Risk-free rate: 1.8%
- Risk adjusted discount rate: 7.5%
- Asset volatility: The estimated asset volatility of Macduff is based on its observable historical EBITDA volatility. In the context of calculating the asset volatility, the following inputs to derive the asset volatility were used:
    - Debt value: 1.8x EBITDA
    - Enterprise Value: 7.5x EBITDA
    - EBITDA volatility: 18%

A risk adjusted payout is calculated at each time period and discounted at the risk-free rate to the valuation date. This process is simulated 100,000 times and the expected value of the Earnout is retrieved. Based on the method stated above, the fair value of the Earnout was determined to be £2.0 million (CDN $3.5 million) as at June 30, 2018.

The change in the fair value of the Earnout for the period ended June 30, 2018 was a decrease of £0.2 million (CDN $0.3 million) (2017 - increase of £0.3 million (CDN $0.6 million)).

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

7. LONG-TERM DEBT

As at		**June 30 2018**		December 31 2017
Senior debt (a):				
USD senior unsecured notes, due May 2025 (USD $250,000)	**$**	**321,175**	$	306,684
Term loan B, due May 2022		**34,319**		34,466
Revolving credit facility, due May 2022		**94,922**		87,682
Deferred obligation (b)		**24,706**		23,181
Earnout liability (b)		**3,468**		5,278
Term loan, due June 2019 (c)		**13,098**		12,215
Term loan, due in 2091 (d)		**3,500**		3,500
Other loans		**139**		167
Total Debt		**495,327**		473,173
Less: current portion [1]		**(22,412)**		(21,025)
Total Long-term Debt	**$**	**472,915**	$	452,148

[1] Current portion of long-term debt includes scheduled payments related to the Senior debt, Term Loan due June 2019, Deferred Obligation payments, less accretion during the period and minimum payment related to the Earnout Liability.

(a) Senior debt

In April 2017, Clearwater refinanced its senior debt facilities. The Company issued USD $250 million of 6.875% Senior Notes due May 2025 (the "Senior Notes"). Concurrent with issuing the Senior Notes, Clearwater entered into new senior secured credit facilities in an aggregate availability of CAD $335 million, consisting of a CAD $300 million revolving credit facility and a CAD $35 million amortizing secured term loan ("Term Loan B"), each maturing in 2022 (the "Senior Secured Credit Facilities"). Clearwater used the net proceeds from the sale of the Senior Notes, together with the new borrowings under the Senior Secured Credit Facilities, to refinance existing senior secured credit facilities (Term Loan A, Term Loan B that were due in June 2018 and June 2019 and senior revolving credit facility) and for general corporate purposes.

The refinancing was accounted for as a settlement of the prior facilities and consequently $4.2 million of unamortized deferred financing costs and refinancing costs were recorded within Net Finance Costs (refer to Note 7 (e)). Financing costs related to the Senior Notes and Senior Secured Credit Facilities of $12.0 million had been deferred and amortized into interest using the effective interest method over the term of the debt.

On March 29, 2018, Clearwater amended the terms of the secured credit facility agreement to temporarily increase the secured indebtedness to EBITDA covenant requirement for the duration of 2018 and obtained a reduction in the availability on the revolving credit facility from $300 million to $200 million. The transaction costs of $0.2 million were added to deferred financing costs and will be amortized over the remaining term of the credit facility using the effective interest rate.

As at June 30, 2018, Senior debt consists of Senior Notes, a Term Loan B facility and revolving credit facility.

Senior Notes, due 2025 – The USD $250.0 million (CAD $328.4 million) Senior Notes have a coupon rate of 6.875%, with coupon payments payable in semi-annual installments of USD $8.6 million (CAD $11.3 million) in May and November each year. The balance is shown net of unamortized deferred financing charges of USD $5.5 million (CAD $7.3 million) which resulted in an effective interest rate of 7.20%.

Refer to Note 6 for details on forward foreign exchange contracts used to economically hedge a portion of the foreign exchange risk related to the notional and coupon payments for the Senior Notes.

Term Loan B facility, due 2022 – The Term Loan B consists of an initial term loan of CAD $35.0 million. The principal outstanding as at June 30, 2018 was CAD $34.5 million. The loan is repayable in quarterly installments totalling $0.35 million per year, with the balance due at maturity in May 2022. The facility bears interest ranging from bankers acceptance rate ("BA rate") plus 2.50% to 3.25%. The range is determined quarterly based on a ratio of Senior Secured indebtedness to EBITDA, with EBITDA calculated on a trailing twelve month basis. The balance is shown net of deferred financing charges of CAD $0.2 million resulting in an effective interest rate of 4.35%.

Revolving credit facility, due 2022 – The CAD $200 million revolving credit facility can be drawn in CAD, USD, EUR, YEN or GBP. As at June 30, 2018 the balances were drawn in CAD and bear interest ranging from LIBOR or BA rate plus 1.50% to 2.25%. The range is determined quarterly based on a ratio of Senior Secured indebtedness to EBITDA, with EBITDA calculated on a trailing twelve month basis. The balance is shown net of deferred financing charges of CAD $2.3 million, resulting in effective rates of 3.82% for CAD balances. The availability of this facility, subject to financial covenants, is further reduced by the term loan outstanding in note (c), as such the availability as at June 30, 2018 was approximately CAD $70.2 million. The facility has standby fees ranging from 0.25% to 0.30% based upon the Senior Secured Indebtedness to EBITDA ratio as of the last day of the immediately preceding fiscal quarter.

The Revolving Credit Facility and Term Loan B, due 2022, are secured by a first charge on cash, trade and other receivables, inventories, marine vessels, licenses and quotas, and Clearwater's investments in certain subsidiaries.

In addition to the minimum principal payments for Term Loan B, the loan agreement requires that between 0% and 50% of excess cash flow (defined in the loan agreement as EBITDA, excluding non-controlling interest in EBITDA less principal debt repayments (excluding revolver payments), less interest expense, less capital expenditures funded through operating cash flows, less certain tax expenses), be used to repay the principal based on the previous fiscal year's results upon approval of the annual consolidated financial statements. Based on the 2017 financial statements, no principal repayment was required under this condition.

(b) Deferred Obligation and Earnout Liability

In connection with the 2015 acquisition of MacDuff, there are two components of the purchase price that are to be paid in future periods as discussed below:

(i) Deferred Obligation - The Deferred Obligation relates to deferred payments for 33.75% of the shares of Macduff acquired by Clearwater (the "Earn Out Shares") in 2015. Excluding the fair value adjustment on acquisition, the principal balance outstanding as at June 30, 2018 is £15.7 million (CDN $27.2 million) (December 31, 2017 - £15.7 million (CDN $26.5 million)) and does not bear interest. The Deferred Obligation is recorded at the discounted amount based on estimated timing of payment and is being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 7.44%.

The following is a reconciliation of the Deferred Obligation:

		GBP		CDN
Balance - December 31, 2015	£	20,925	$	42,952
Accretion		3,262		5,722
Principal repayment		(10,462)		(17,540)
Effect of movement in foreign exchange		-		(7,954)
Balance - December 31, 2017	£	13,724	$	23,181
Accretion - 26 weeks ended June 30, 2018		**518**		**902**
Effect of movement in foreign exchange		**-**		**623**
Balance - June 30, 2018	£	**14,242**	**$**	**24,706**

On October 30th of each year, the holders of the Earn Out Shares can elect to be paid up to 20% of the original Deferred Obligation amount. Clearwater has the right to exercise the payout of 20% of the Deferred Obligation annually commencing two years after the date of closing. The percentage of the Deferred Obligation remaining unpaid will impact the fair value of the future performance component of the additional consideration, the Earnout.

On October 30, 2017 and 2016, the holders of the Earn Out Shares elected to be paid 20% of the outstanding Deferred Obligation. As a result, a payment of £5.2 million (CDN - $8.8 million) was made in November 2017 and £5.2 million (CDN - $8.7 million) in November 2016.

(ii) Earnout liability - The Earnout liability is unsecured additional consideration to be paid dependent upon the financial performance of Macduff and the percentage of Deferred Obligation remaining unpaid at the time of payment (refer to Deferred Obligation above). The estimated fair value of the Earnout liability at June 30, 2018 is £2.0 million (CDN - $3.5 million) (December 31, 2017 - £3.1 million, CDN - $5.3 million) based on forecast earnings and probability assessments. The actual Earnout payments will be paid over a five-year period ending 2021.

The amount of the total Earnout liability is calculated as follows:

The greater of:
(i) £3.8 million; or
(ii) up to 33.75% (dependent upon the percentage of Deferred Obligation remaining unpaid each year) of the increase in equity value of the business over five years calculated as 7.5x adjusted EBITDA of Macduff less the outstanding debt of Macduff; and
(iii) 10% of adjusted EBITDA of Macduff above £10 million (dependent upon the percentage of Deferred Obligation remaining unpaid each year).

The Earnout liability is recorded at fair value on the consolidated statement of financial position at each reporting period until paid, with changes in the estimated fair value being recorded as a component of other expense on the Consolidated Statement of Earnings (Loss).

The following is a reconciliation of the Earnout liability:

		GBP		CDN
Balance - December 31, 2015	£	5,737	$	12,561
Fair value adjustment		(1,875)		(3,841)
Payment		(737)		(1,333)
Effect of movement in foreign exchange				(2,109)
Balance - December 31, 2017	£	3,125	$	5,278
Fair value adjustment		**(370)**		**(657)**
Payment		**(756)**		**(1,354)**
Effect of movement in foreign exchange		**-**		**202**
Balance - June 30, 2018	£	**1,999**	**$**	**3,468**

(c) Term Loan, due 2019

The principal outstanding as at June 30, 2018 was USD $10.0 million (CAD $13.1 million) (December 31, 2017 - USD$10.0 million; CAD $12.2 million). The loan is held through a Clearwater subsidiary. The loan is non-amortizing and was renewed in June 2018. The renewal extended maturity to June 2019, bearing interest payable monthly at 5.5% per annum.

(d) Term Loan, due 2091

In connection with this term loan, Clearwater makes a royalty payment of CAD $0.3 million per annum in lieu of interest. This equates to an effective interest rate of approximately 8.0% per annum.

(e) Net finance costs

		13 weeks ended				26 weeks ended	
In 000's of Canadian dollars		**June 30 2018**	July 1 2017			**June 30 2018**	July 1 2017
Interest and bank charges	**$**	**7,269**	$ 7,196	**$**		**13,932**	$ 13,246
Amortization of deferred financing charges and accretion		**428**	299			**832**	741
		7,697	7,495			**14,764**	13,987
Fair value adjustment on embedded derivative		**-**	(287)			**-**	(703)
Accretion on deferred consideration		**455**	574			**918**	1,120
Interest rate swaps and caps (1)		**-**	(3,651)			**-**	(4,348)
Debt settlement and refinancing fees (2)		**-**	8,191			**-**	8,191
		455	4,827			**918**	4,260
	$	**8,152**	$ 12,322	**$**		**15,682**	$ 18,247

(1) Interest rate swaps and caps represents unrealized (gains) losses as a result of the change in fair value during the period. Realized amounts are reflected in interest expense and bank charges and debt settlement and refinancing fees.

(2) Debt settlement includes loss on settlement of existing interest rate swaps and cross currency swaps and cap, forward foreign exchange contracts, remaining unamortized deferred financing costs and accretion.

8. SHARE CAPITAL

Authorized:

Clearwater is authorized to issue an unlimited number of common shares.

Share capital movement:

As at		**June 30 2018**		December 31 2017
Share capital:	#	**$**	#	$
Balance at January 1	**63,934,698**	**210,860**	63,934,698	210,860
Shares issued under share-based compensation plans	**21,185**	**98**	-	-
Shares issued under dividend reinvestment plan	**389,137**	**1,774**	-	-
Closing balance	**64,345,020**	**212,732**	63,934,698	210,860

Dividend reinvestment Plan

On February 15, 2018, Clearwater approved a Dividend Reinvestment Plan ("DRIP") effective February 23, 2018 to provide shareholders with the option to have the cash dividends declared on the common shares of Clearwater reinvested automatically back into additional shares. Shares may be either newly issued from treasury or purchased on the open market. Clearwater may from time to time, in its sole discretion, offer a discount of up to 5% of the average market price for shares purchased from treasury. Clearwater will provide a discount of 3% from the average market price for shares purchased under the plan until further notice.

Clearwater has 2.5 million common shares reserved for issuance under the share-based compensation plans and 3.0 million under the DRIP.

Subsequent to the end of the quarter, on August 8, 2018 the Board of Directors declared a quarterly dividend of CAD $0.05 per share payable on September 4, 2018 to shareholders of record as of August 21, 2018 for a total of approximately $3.2 million (excluding the impact of the DRIP).

9. REVENUE

Clearwater recognized the following revenue from customers:

	13 weeks ended		26 weeks ended	
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017
Revenue from contracts with customers	**$ 148,142**	$ 154,302	**$ 268,214**	$ 282,669

Disaggregation of revenue from contracts with customers

Clearwater's revenue from contracts with customers is primarily generated through the sale of seafood product in a fresh or frozen state to customers. Clearwater recognizes revenue on the sale of seafood product at a point-in-time. Clearwater may provide additional services after control of seafood product has transferred to the customer, including freight, storage, customs clearing and cleaning which are recognized over time with the exception of customs clearing which is recognized at a point-in-time. These services are each considered separate performance obligations.

The timing of revenue recognition, related to seafood product, is primarily dependent on shipping terms, in which Clearwater primarily uses International Commercial terms ("Incoterms") as agreed with each customer. These internationally recognized shipping terms specify when control of the goods have transferred to the customer and therefore when revenue should be recognized.

Refer to Note 12 for revenue disaggregated by species and region.

Refer to Note 5 for trade receivables from contracts with customers.

10. OTHER (INCOME) EXPENSE

	13 weeks ended		26 weeks ended	
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017
Share of earnings of equity-accounted investee	**$ (1,513)**	$ (1,109)	**$ (1,765)**	$ (1,453)
Fair value adjustment on earn-out liability	**(270)**	(397)	**(657)**	(380)
Other (income) fees	**149**	(363)	**(82)**	(539)
Royalties, interest income and other fees	**(39)**	(249)	**(311)**	(149)
Acquisition related costs	**85**	8	**237**	66
Export rebates	**-**	(317)	**-**	(740)
	$ (1,588)	$ (2,427)	**$ (2,578)**	$ (3,195)

11. EARNINGS (LOSS) PER SHARE

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

	13 weeks ended		26 weeks ended	
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017
Earnings (loss) attributable to shareholders - basic and diluted	**(923)**	9,489	**(14,681)**	11,661
Weighted average number of shares outstanding - basic	**$ 64,154,263**	$ 63,934,698	**$ 64,047,855**	$ 63,934,698
Adjustment for share-based compensation plan	**105,504**	44,436	**52,752**	86,589
Weighted average number of shares outstanding - diluted	**$ 64,259,767**	$ 63,979,134	**$ 64,100,607**	$ 64,021,287
Earnings (loss) per share				
Basic	**$ (0.01)**	$ 0.15	**$ (0.23)**	$ 0.18
Diluted	**$ (0.01)**	$ 0.15	**$ (0.23)**	$ 0.18

Diluted earnings (loss) for the period is calculated based on earnings attributable to the shareholders of Clearwater after the adjustment for any potentially dilutive cash-settled share-based payments. There was no revaluation adjustment related to cash-settled share-based payments for the 13 and 26 weeks ended June 30, 2018.

Diluted weighted average number of shares outstanding are adjusted for the dilutive effect of share-based compensation.

12. SEGMENT INFORMATION

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

(a) Sales by Species

	13 weeks ended		26 weeks ended	
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017
Scallops	**$ 46,231**	$ 54,175	**$ 83,372**	$ 102,177
Coldwater shrimp	**20,712**	10,519	**41,529**	29,830
Lobster	**22,493**	26,482	**43,563**	49,970
Clams	**29,417**	25,059	**53,529**	48,552
Langoustine	**8,974**	10,963	**17,563**	17,552
Crab	**8,036**	14,586	**8,787**	15,573
Whelks	**10,917**	10,104	**16,248**	16,020
Groundfish and other	**1,362**	2,414	**3,623**	2,995
	$ 148,142	$ 154,302	**$ 268,214**	$ 282,669

(b) Sales by Geographic Region of the Customer

	13 weeks ended		26 weeks ended	
	June 30 2018	July 1 2017	**June 30 2018**	July 1 2017
China	**$ 25,197**	$ 20,381	**$ 46,303**	$ 42,418
Japan	**19,152**	18,023	**37,380**	33,614
Other	**12,762**	13,308	**20,487**	22,525
Asia	**57,111**	51,712	**104,170**	98,557
Canada	**19,111**	23,016	**28,103**	30,459
United States	**25,566**	22,526	**43,467**	40,608
North America	**44,677**	45,542	**71,570**	71,067
France	**20,925**	29,729	**40,279**	56,239
UK	**5,558**	1,163	**10,889**	4,273
Scandinavia	**7,469**	5,841	**17,869**	17,162
Other	**12,386**	20,134	**23,413**	34,985
Europe	**46,338**	56,867	**92,450**	112,659
Other	**16**	181	**24**	386
	$ 148,142	$ 154,302	**$ 268,214**	$ 282,669

(c) Non-current Assets by Geographic Region

As at		**June 30 2018**		December 31 2017
Property, plant and equipment, licenses, fishing rights and goodwill				
Canada	**$**	**322,056**	$	327,432
Argentina		**12,419**		18,984
Scotland		**170,587**		169,362
Other		**107**		304
	$	**505,169**	$	516,082

13. RELATED PARTY TRANSACTIONS

Clearwater rents office space to and provides computer support network services to CFFI Ventures Inc. ("CVI"), a related party. The net amount due from CVI in respect of these transactions of $0.02 million (December 31, 2017 – $0.04 million), is unsecured and due on demand.

For the 13 and 26 weeks ended June 30, 2018, Clearwater recorded net expense of approximately $0.1 million and $0.3 million for providing computer support network services to and receiving goods and services from companies related to CVI (13 and 26 weeks ended July 1, 2017 - $0.01 million and $0.05 million). The transactions are recorded at the exchange amount and the net amount due to these companies was $0.08 million as at June 30, 2018 (December 31, 2017 - net amount due from of $0.07 million).

In the second quarter of 2017, interest bearing loans of $1.3 million made to a non-controlling interest shareholder in a subsidiary were repaid and $0.1 million was forgiven.

On March 20, 2018, Clearwater signed a second amended and restated partnership agreement for Clearwater Ocean Prawns Venture, effective April 1, 2018 for a ten-year term. There were no substantial changes to the existing terms of the arrangement.

14. 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.

15. ADDITIONAL CASH FLOW INFORMATION

	13 weeks ended				26 weeks ended			
Changes in operating working capital *(excludes change in accrued interest)*		**June 30 2018**		July 1 2017		**June 30 2018**		July 1 2017
(Increase) decrease in inventory	$	**(26,958)**		(38,773)	$	**(26,696)**		(42,017)
(Increase) decrease in trade and other		**(7,611)**		(16,130)		**10,999**		(22,321)
(Increase) decrease in prepaids and other		**2,754**		(1,337)		**(1,154)**		637
(Decrease) increase in trade and other		**9,453**		23,352		**(2,841)**		(316)
(Decrease) increase in income taxes		**(5,369)**		876		**(4,253)**		2,451
	$	**(27,731)**	$	(32,012)	**$**	**(23,945)**	$	(61,566)

	13 weeks ended		26 weeks ended	
	June 30	July 1	**June 30**	July 1
Changes in liabilities arising from financing activities	**2018**	2017	**2018**	2017
Current and long-term debt - beginning of period	**$ 478,975**	$ 458,047	**$ 473,173**	$ 436,414
Scheduled repayments of long-term debt	**(1,456)**	(1,407)	**(1,557)**	(2,918)
Repayment of long-term credit facilities	**-**	(361,519)	**-**	(361,519)
Repayment of revolving credit facility	**-**	(52,400)	**-**	(52,400)
Net proceeds from long-term debt, net of financing costs	**-**	330,523	**-**	330,523
Net proceeds from long-term credit facilities, net of financing costs	**(4)**	34,672	**(3)**	34,672
Net proceeds from revolving credit facility, net of financing costs	**12,169**	100,971	**6,952**	125,471
Realized foreign exchange on settlement of long-term debt	**-**	4,172	**-**	4,172
Non-cash changes in long-term debt:				
Accretion	**455**	(3,209)	**918**	(2,398)
Fair market value adjustment on embedded derivative	**-**	(287)	**-**	(694)
Fair market value adjustment on earnout liability	**(270)**	(397)	**(657)**	(380)
Amortization of deferred financing costs	**428**	6,609	**832**	6,786
Write-off unamortized deferred financing costs	**-**	1,477	**-**	1,477
Foreign exchange (gain) loss on long-term debt	**5,029**	(14,321)	**15,670**	(16,274)
Current and long-term debt - end of period	**$ 495,327**	$ 502,930	**$ 495,327**	$ 502,930

16. COMPARATIVE INFORMATION

These Condensed Consolidated Interim Financial Statements contain certain reclassifications of prior year amounts to be consistent with the current period presentation. Significant reclassifications are discussed below.

In the Condensed Consolidated Interim Statement of Cash Flows, cash interest paid and cash income tax paid are now disclosed separately as supplemental information. Other line items within cash from operating activities have been reclassified in accordance with current period presentation. These changes in presentation have no impact on cash from operating activities.

17. SUBSEQUENT EVENTS

Hyperinflationary economy

Argentina is experiencing a high level of inflation, exceeding 100% on a three-year cumulative basis. As a result of this trend, entities will be required to apply *IAS 29 Financial reporting in hyperinflationary economies* to operations in Argentina for reporting periods ending on or after July 1, 2018. This will impact Clearwater's subsidiary in Argentina.

Under hyperinflationary accounting, the financial results, cash flows and financial position of the affected subsidiary are restated, using a general price index, for changes in the general purchasing power of the functional currency so that all amounts are presented in terms of the measuring unit at the end of the current reporting period. The company is assessing the impact that this may have on its consolidated financial statements.