growing globally

dedicated to sustainable seafood excellence

annual report 2013

Clearwater Seafoods Incorporated

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 more than 81 million pounds sold in 2013. Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium, wild, eco-labeled seafood, including scallops, lobster, clams, coldwater shrimp, crab and groundfish.

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 MSC-certified species of any shellfish harvester worldwide. These quotas are a key barrier to entry as regulatory authorities strictly control access and rarely grant new licenses. In addition, the financial resources required to acquire and harvest fishing quotas create barriers to entry. For example, Clearwater's fleet and licenses have an estimated value of more than $500 million.

"Loblaw is proud of our commitment
to selling only sustainably sourced seafood
and by partnering with suppliers like Clearwater
we are confident that Canada can have
a thriving, sustainable fishing industry
that sets standards for the world."

Galen Weston, Executive Chairman,
Loblaw Companies Limited

Clearwater has a number of other competitive advantages including our innovations and intellectual property such as state-of-the-art factory vessels and advanced onshore processing and storage and distribution capabilities.

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 in addition, we have a diverse customer mix with no single customer representing more than 7% of total sales.

Proven and Experienced Leadership Team

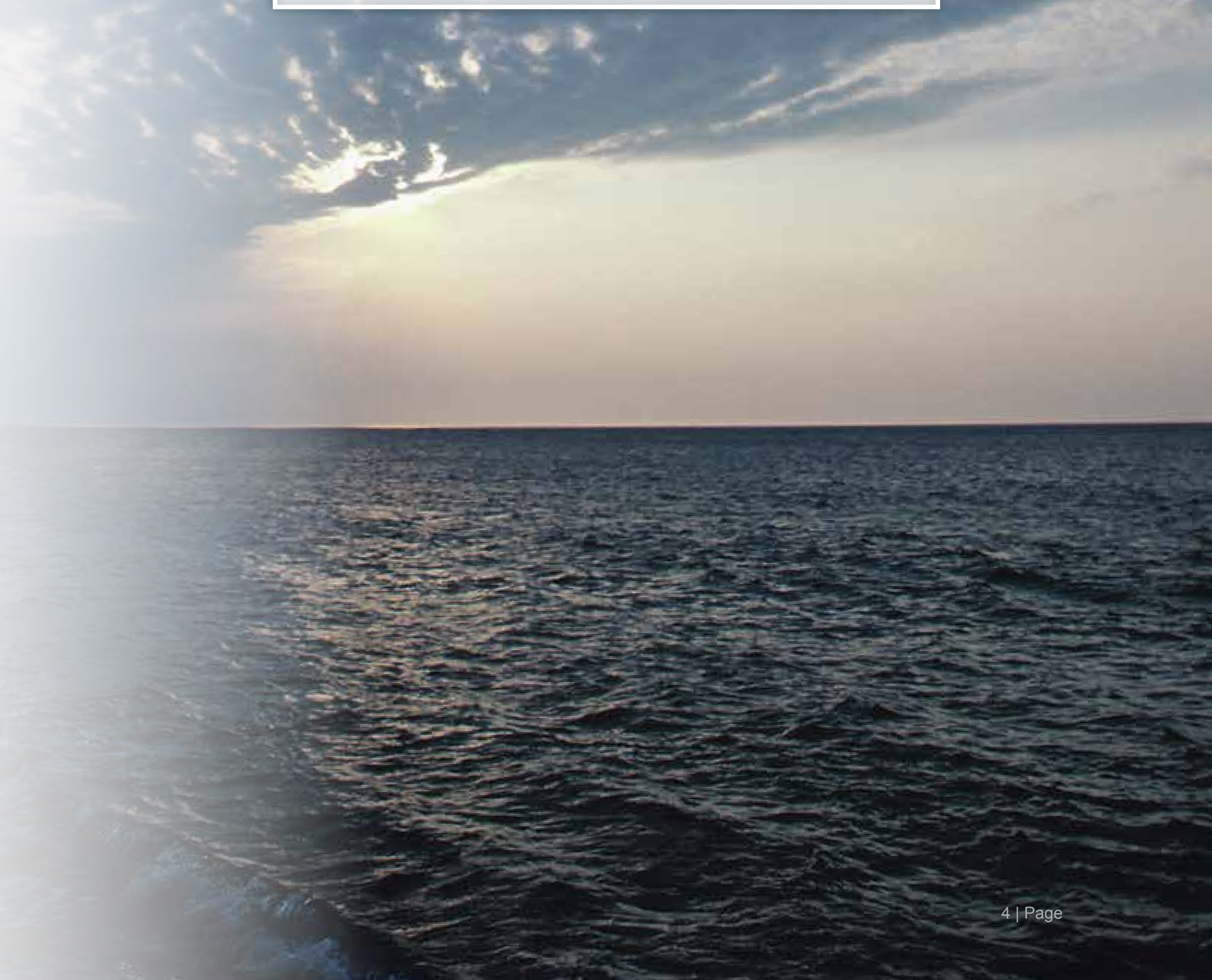
Clearwater continues to build upon our world class leadership with best in class programs for quality control and food safety, operations and new product development. In addition over the past few years Clearwater has added a number of key personnel to complement its existing team to continue to support strong financial and operational growth.

highlights in 2013…

- Continued strong growth in sales and adjusted EBITDA of 10.9% to $388.7 million and 9.5% to $79.1 million, respectively
- Achieved growth of 50.6% in free cash flows to $26.1 million
- Reduced leverage to 2.7x driven by higher adjusted EBITDA
- Made improvements to capital structure to provide for future growth and investment opportunities by:
  - refinancing approximately $350.0 million in new term debt facilities; and
  - completing a $34 million equity transaction in early 2014
- Initiated an annual dividend of $0.10 per share, payable in quarterly installments of $0.025 per share
- Announced the planned investment of approximately $45 million in a third vessel for clam business to expand access to supply by 60%
- Continued to win in the marketplace as new enrobed value added format, Scallops & Sauce, was selected as one of the Top New Products of 2013 by the editors of Seafood International.

"After 16 years, we continue to be amazed by Clearwater's commitment to food safety, high-quality products and consistent worldwide delivery. Their R&D efforts and ability to innovate based on a rapidly changing global market are simply extraordinary."

Richard Ng, Managing Director,
Sun Wah Marine Products, Hong Kong



key performance indicators

2013 FINANCIAL ACHIEVEMENTS AND 2014 TARGETS

In 2013 Clearwater grew sales and adjusted EBITDA[1] by growth of 10.9% and 9.5%, respectively.

This included sales of $388.7 million and adjusted EBITDA of $79.1 million in 2013 versus 2012 comparative figures of $350.3 million and $72.2 million, respectively.

Gross margins improved 1.8 percentage points, to 22.5% as compared with 2012.

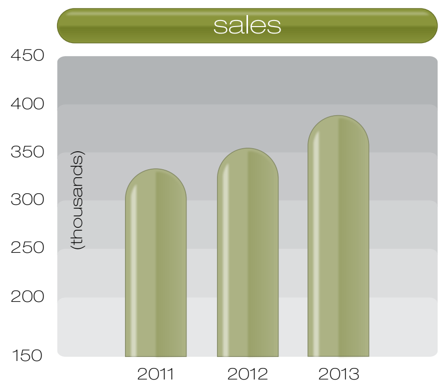
Free cash flows[2] grew by 50.6% to $26.1 million in 2013 versus $17.3 million in 2012.

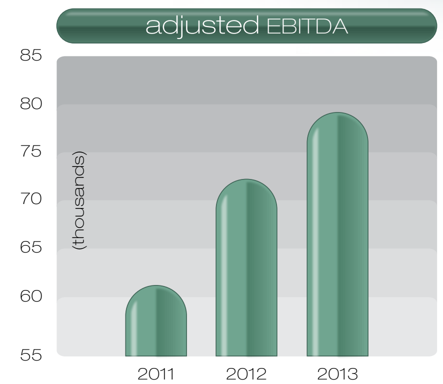
Growth in adjusted EBITDA and free cash flows were due to a strong and growing market demand that improved sales prices for scallops, clams and snow crab and yielded strong sales volumes for scallops, both of which increased margins. This was partially offset by higher clam, scallops and shrimp harvest costs.

Improvements in free cash flows were partially offset by higher capital expenditures including scheduled refits and vessel conversions and higher payments to minority interest partners, due to timing.

Clearwater successfully met its annual 2013 profitability and financial performance targets.

Profitability





Sales	
2013	388,659
2012	350,302
2011	332,785

Sales Growth	
2013	10.9%
2012	5.3%
2011	5.5%
Target	5%

Adjusted EBITDA	
2013	79,103
2012	72,243
2011	61,188

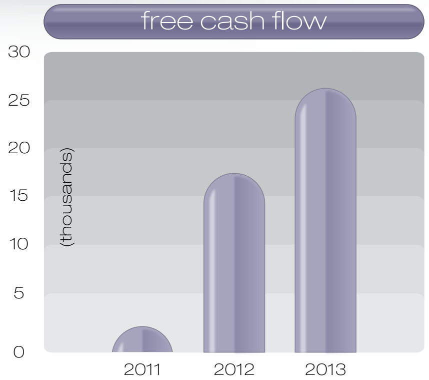
Adjusted EBITDA as a % of sales	
2013	20.4%
2012	20.6%
2011	18.4%
Target	18% or greater

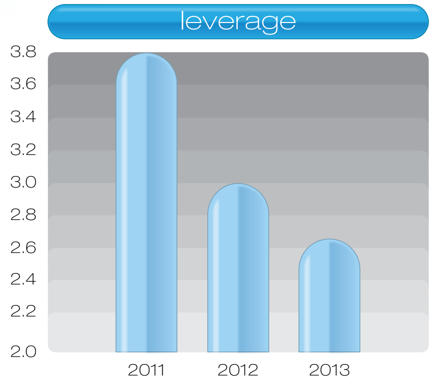
For 2014 Clearwater has set the following targets:

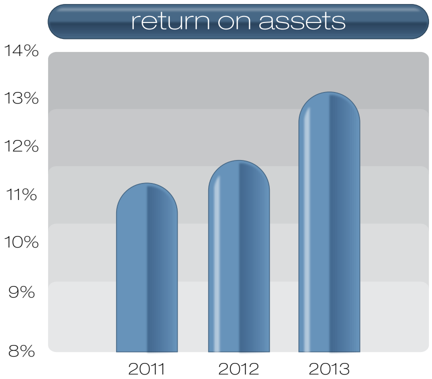
- sales growth – 5% or greater,
- adjusted EBITDA margins – 18% or greater,
- free cash flows growth – 5% or greater
- leverage – 3.0x or less
- return on assets - 12% or higher

Clearwater's strong financial performance in 2013 and expectations for 2014 have the Company on track to achieve its five year plan of $500 million in sales and $100 million in adjusted EBITDA in five years, which is 2016.

Free Cash Flows, Leverage and Returns







Free Cash Flows

2013	26,121
2012	17,347
2011	2,197

Leverage

2013	2.7
2012	2.9
2011	3.8
Target	3.0 or lower

Return on Assets

2013	13.3%
2012	12.1%
2011	10.7%
Target	12% or greater

Five-year plan

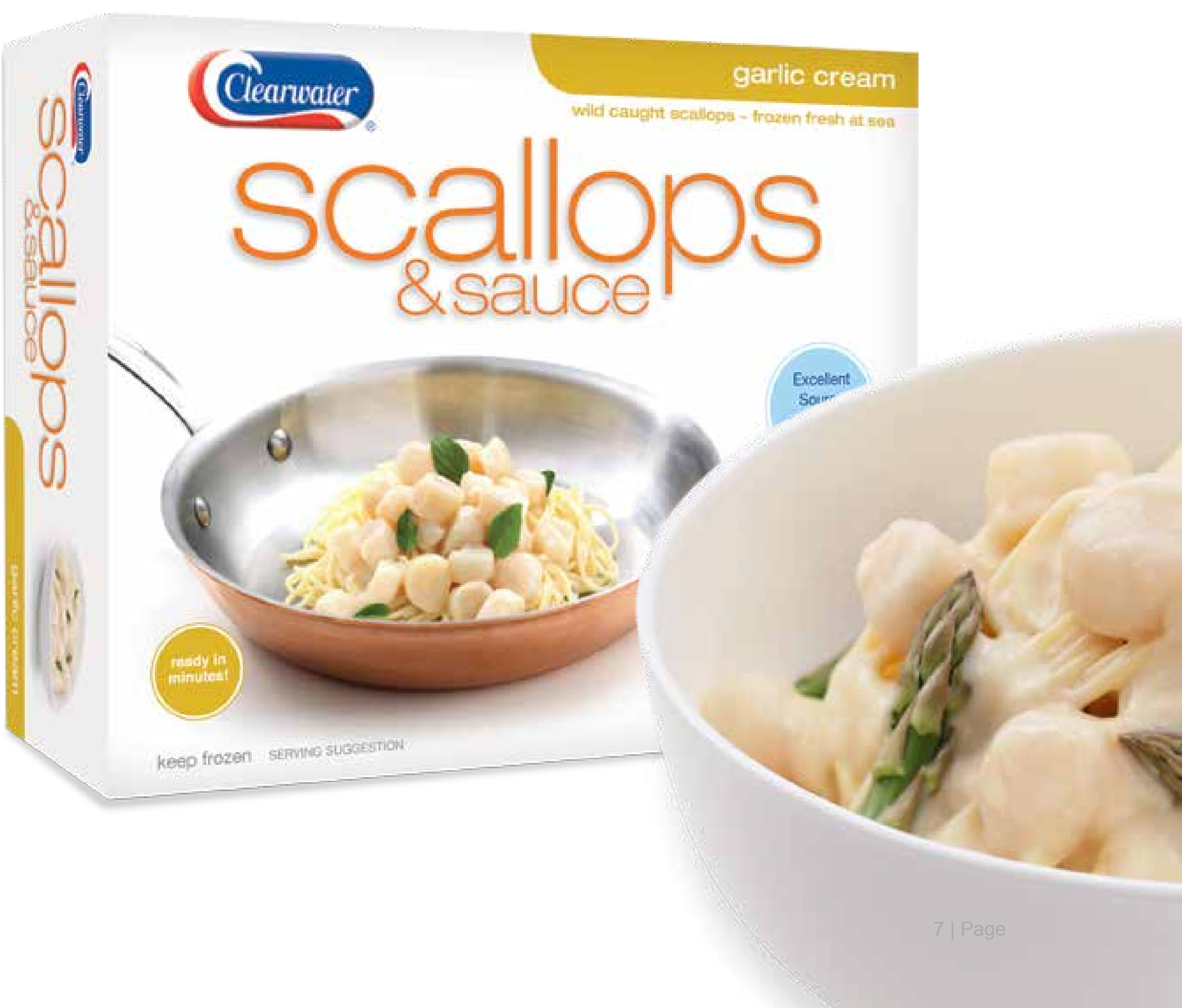
In 2014, we will continue to make progress against our five year plan and lay the groundwork for the next phase of growth through substantial capital expenditures of approximately $85 million. Key initiatives include increasing available supply through investments such as the expansion of our lobster business and the construction of a new clam harvesting vessel which is expected to begin operating in 2015. In addition the implementation of a new enterprise resource planning system ("ERP") in late 2014 will support improved decision making capabilities and we will replace our oldest vessel in the bay scallop fishery, commencing operations in mid 2014.

[1] Refer to definition of Adjusted EBITDA
[2] Refer to definition of free cash flow

growing distribution channels and product lines

"It's rare to find a supplier like Clearwater
who exhibits the same philosophies
and standards as Publix. Whether we're talking
about product quality, food safety, sustainability
or customer service – Clearwater leads in all
of these areas. And it's attributes like these
that contribute to the success
and longevity of our relationship."

Guy Pizzuti, Seafood Category Manager,
Publix Super Markets



Clearwater's worldwide distribution presence combined with local sales and marketing teams in each market create a competitive advantage and position Clearwater for growth in both mature and emerging markets.

This worldwide distribution presence is fundamental to Clearwater's strategy to target growing markets, channels and customers.

During 2013 Clearwater made considerable progress in advancing this strategy across all channels, distribution and retail lines including new product development and culinary achievements.

Expansion of distribution and retail lines

In 2013 our value added products achieved distribution with a number of national retailers across Canada and the United States in both branded and private label formats. Utilizing specialized enrobing technology, Clearwater's innovative Scallops and Sauce were launched in three unique flavors. We've also augmented our value added launches with new retail packaging for some of our core species broadening the selection of Clearwater products for retail consumers.

Growth and Diversity in our customer base

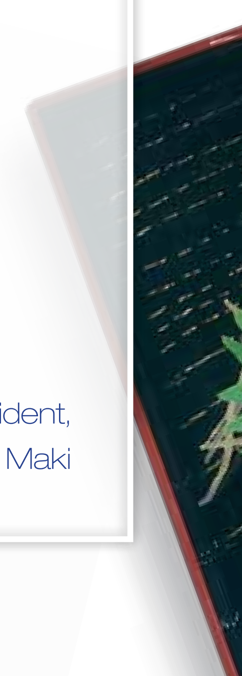
In 2013 Clearwater made major strides in the North American retail market. We gained distribution at several major Canadian and US retailers and have had success with sales being driven by customers who desire convenience, nutrition and high quality products.

continued on next page...

With a rising middle class in China, we had a trend of increasing demand for and consumption of imported seafood in 2013. During the year, we began our expansion from a solely foodservice focus to launching a branded range for Chinese retail. Lack of available supply limited growth to 3% in 2013 but in the future we fully expect the Asia-Pacific region to be a significant growth market as we increase available supply through investments such as the expansion of our lobster business and the construction of a new clam harvesting vessel which is expected to begin operating in 2015.

Culinary achievements

Our industry-leading culinary team offered value to our foodservice partners through customer visits and custom ideation sessions throughout 2013. We also increased our presence at tradeshows in Asia, Europe and North America helping to build company awareness and strengthen our existing relationships with our customers around the world and initiate new customer relationships.



"We've found a partner in Clearwater.
A company we share values with.
A company we can trust and rely on,
so that we're able to provide
our customers with high quality
and sustainable seafood
for generations to come."

Abe Ng, President,
Founder and CEO, Sushi Maki

awards/achievements in the marketplace

Top 10 Winner 2013 • Canada's Passion Capitalist Award

Atlantic Business Magazine • Atlantic Canada's Top Employers 2013

Atlantic Business Magazine • 2013 Top 50 CEO Award Winner, Ian Smith

Progress Magazine • Top 101 Companies in Atlantic Canada 2013

Seafood International • Best New Products of 2013 Scallops & Sauce

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Letter from the Chairman of Clearwater Seafoods Incorporated

To our Shareholders,

I am happy to report another outstanding year for Clearwater Seafoods Incorporated.

The Board is very pleased with the results the management team has achieved in growing the company's sales by 11%, and adjusted EBITDA by 10% to $79.1 million and in particular the significant increases in free cash flows and strong shareholder returns. This has resulted in top quartile financial performance for the third year in a row versus our seafood industry peers.

As Chairman, I am also extremely pleased with the work of your Directors over the past year and how closely they have worked in supporting and enabling the management team to create sustainable long-term value for our shareholders. The following examples will give you a fuller appreciation of the some of the areas the four Committees have focused on in 2013:

- Governance – Chaired by Jim Dickson with members Larry Hood, Tom Traves and Stan Spavold. This Committee worked actively with the Board Committee Chairs and their related mandates creating a Finance Committee and forming separate Governance and Human Resource Development and Compensation Committees to allow for more focused work at the Committee level. The Committee has also been active in reviewing developments in governance practices in Canada and as a result in 2013 Clearwater adopted a policy of individual voting of its' directors.

- Finance - Chaired by Stan Spavold with members John Risley, Jim Dickson and Brendan Paddick. This Committee had a busy year and was active in the review of some significant investments including a new clam vessel, a new information system and several other investments in plants and vessels as well as working with management on external development policies. The Committee members also worked closely with management in making continued improvements to the capital structure of the business – from eliminating high cost convertible debentures, to putting in place more flexible and lower cost term debt facilities to completing an equity offering in early 2014. These changes served to further strengthen Clearwater's capital structure and position it for further growth.

- Audit - Chaired by Larry Hood with members Tom Traves, Stan Spavold and Jim Dickson. The Audit Committee spent a lot of time early in the year working with management to ensure that key performance indicators were communicated well to investors including targets and the performance achieved. The Committee continues to invest time in understanding and ensuring the key risks and opportunities are communicated to investors in disclosure documents as well as ensuring that management maintains the required controls to produce timely and accurate information for Clearwater's shareholders.

- Human Resources Development and Compensation - Chaired by Harold Giles with members Tom Traves, Mickey MacDonald and Brendan Paddick. This Committee continues to invest time to ensure the management team has well articulated talent management and development plans. In addition, over the past year they have continued to ensure that compensation practices are aligned with shareholder interests by linking annual and long-term incentive plans to the creation of free cash flows.

It is through this team approach that Clearwater's management group with the support and direction from very active Board members was able to excel in creating sustainable long-term value for our shareholders.

Finally, I am pleased that in 2013 we were able to begin expressing the Board's confidence in the future through the payment of a dividend to our shareholders. The Board put a lot of thought into the dividend decision giving consideration to a number of key principles including the expected future earnings and the amount of 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 provide room for the dividend to increase in the future as the business continues to grow and expand. We will review these same factors regularly and at a minimum, annually we will review the opportunity to adjust or increase the dividend.

Looking to 2014 and beyond, the industry fundamentals continue to be encouraging with global demand for seafood outstripping supply and creating favorable market dynamics for vertically integrated producers such as Clearwater.

Since John Risley and I founded the company in 1976, the company has invested in science, people and technological innovation as well as resource ownership and management to sustain and grow our seafood resource.

At Clearwater, we remain focused on our commitment and in our mission to build the world's most extraordinary, wild seafood company and we are pleased to offer our shareholders the opportunity to participate in this exciting sector of the food industry and in Clearwater's passionate pursuit of excellence.

Yours truly,

Colin MacDonald

Chairman
Clearwater Seafoods Incorporated

Letter from the Chief Executive Officer of Clearwater Seafoods Incorporated

To our shareholders,

Wow! What a year! In 2013, Clearwater surpassed all previous records for sales revenue and adjusted EBITDA. We posted strong results across our portfolio of sustainably harvested, wild caught seafood with six out of seven core species showing increased revenues, margins or both. We also made significant improvements to our capital structure and advanced several major capital projects - activities critical to sustaining our long term growth, profitability and competitive advantage.

Our performance in 2013 marks four years of top and bottom line growth. In fact, since 2009, we've increased sales revenue by over $100 million and adjusted EBITDA by over $35 million. This level of performance can only be achieved and sustained when you have a high performing team and culture. At Clearwater, we call it "winning in the workplace, the marketplace and in the communities in which we live". In 2013, we did just that and received local, national and international recognition for our efforts. This included recognition as one of Canada's top 10 companies for "Passion Capital" and being ranked as one of the top companies to work for in Atlantic Canada. We even won a Seafood International "best new product award" for our new value-added seafood line in its first full year of retail distribution.

We're also proud of the big and little things our people do every day at sea on our vessels, in our communities and with our customers around the world. At sea, not only do our state of the art vessels and highly trained crew sustainably harvest some of the finest seafood in the world, they were also recently recognized for mounting a search and rescue effort that saved the lives of three local fishermen after their vessel capsized in heavy seas more than 75 miles from shore.

In rural communities in Nova Scotia and Newfoundland and Labrador, we have invested in our facilities and people to create well-paying and sustainable employment. We believe we can create good jobs in Atlantic Canada and we've been doing it for more than 35 years.

What many of our customers will tell you, several of whom are quoted in this annual report, is that Clearwater is unique, that we believe in building long term partnerships and that we treat their success as our own. In fact, many of our largest global customers have also been with us for 15 years or longer.

As we enter 2014, we are confident that we are on track to achieve our stated 5 year goals of $500 million in sales revenue and $100 million in adjusted EBITDA by the end of 2016 or earlier. That confidence comes from the knowledge that we are building world class capabilities and competency. Clearwater has spent the last three years investing in our people, innovation and best in class programs and practices across the company. In 2014, and over the course of the next three years, we will complement these investments with the roll-out of a new ERP system, two new state of the art vessels, proprietary harvest, storage and distribution technology and a host of innovative new culinary solutions and products for our customers. Together these investments will enable our next phase of growth and productivity as we ramp to our 5-1-5 goal.

In 2013, we demonstrated that we can sustain and even accelerate our performance. Going forward, we believe that we have the strategy, business plans, people, processes and financial resources to continue to execute with excellence to produce top quartile results and long term shareholder value. We look forward to sharing our progress throughout 2014.

Sincerely,

Ian D. Smith

Ian D. Smith
Chief Executive Officer
Clearwater Seafoods Incorporated

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective February 26, 2014.

The Audit Committee and the Board of Directors of Clearwater Seafoods Incorporated ("Clearwater") have reviewed and approved the contents of this MD&A, the financial statements and the 2013 fourth quarter news release.

This MD&A should be read in conjunction with the 2013 annual financial statements and the 2013 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 may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties, and other factors outside management's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs that could cause actual results to differ materially from those expressed in the forward-looking statements. Clearwater does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances other than as required under applicable securities laws.

SELECTED ANNUAL INFORMATION

(In 000's except per share amounts) For the year ended December 31	2013	2012	2011
Sales	$ 388,659	$ 350,302	$ 332,785
Gross Margin	87,368	72,525	69,565
Net earnings	15,298	22,704	22,955
Basic and diluted earnings per share	0.12	0.29	0.32
Adjusted EBITDA[1]	79,103	72,243	61,188
Total assets	414,582	410,789	386,405
Long-term debt	257,325	253,791	247,100

1 Refer to definition of adjusted EBITDA

CLEARWATER'S MISSION, VALUE PROPOSITION AND STRATEGIES

Mission

Clearwater's mission is to build the world's most **extraordinary**, **wild** seafood company, dedicated to **sustainable seafood excellence**.

We define:

- "**extraordinary**" as sustainable, profitable growth in revenue, margins, adjusted EBITDA, free cash flows and the creation of long term shareholder value;
- "**wild** seafood" as premium wild shellfish. Including our core species – (scallops, lobster, clams and coldwater shrimp); and
- "**sustainable seafood excellence**" as delivering best in class, quality, food safety, traceability and certified sustainability.

We believe that the fulfillment of this mission will result in extraordinary value creation for shareholders, customers, employees and for the communities in which we work and live.

Over the last three years, Clearwater has made significant progress in all aspects of its mission. Revenues have increased 16.8% since 2011 despite a weakened global economy. Gross margins have increased more than 1.6 percentage points from 20.9% in 2011 to 22.5% in 2013. Adjusted EBITDA[1] has grown at a 13.7% cumulative average growth rate over the last three years.

With this improved performance Clearwater has been able to improve its capital structure, increase shareholder value and reduce leverage[1] to 2.7x adjusted EBITDA at December 31, 2013 versus 3.8x at December 31, 2011.

1-Refer to definitions

Value Proposition

At Clearwater, we have a passion for wild seafood and strive to deliver a highly differentiated and competitively advantaged value proposition to a global customer base. Key elements of Clearwater's unique value proposition are:

- Great tasting, nutritious, highest quality, frozen-at-sea, premium shellfish.
- Expertise in premium shellfish science, harvesting, processing and logistics technology ensuring quality and safety from "ocean to plate".
- Marine Stewardship Council ("MSC") certification for sustainability of species ensuring both the traceability and long term health of our wild resource.
- Competitively advantaged global customer service with local market understanding and insight.
- Scale in license and quota ownership guaranteeing exclusive and stable supply to even the largest global retail and food service customers.

Strategies

Clearwater's six core strategies are designed to strengthen a competitive and differentiated value proposition. They are:

1. **Expand access to supply** of core species through procurement, acquisitions, partnerships, joint ventures, and yield-improving harvesting and processing technology. At Clearwater, we strive to sell everything we catch at a premium. But, being a sustainable harvester in a world of rapidly growing global demand and limited supply of wild seafood means that we must act responsibly, with agility and creativity to increase supply.

2. **Target profitable and growing markets, channels and customers** on the basis of size, profitability, demand for sustainable seafood and Clearwater's ability to win.

   The increase in global demand for premium shellfish and per capita consumption can be explained by general population growth, the shift to healthier eating choices among aging boomers and by rising incomes and purchasing power of middle class consumers in emerging economies –especially in Asia.

Clearwater’s worldwide distribution presence combined with local sales and marketing teams creates a competitive advantage and positions Clearwater for growth in both mature and emerging markets. Clearwater has sales offices in all major geographies including the United States, Canada, Europe, as well as four representative offices in China**.**

3. **Innovate and position products to deliver superior customer satisfaction and value.** The value of Clearwater’s premium seafood is primarily differentiated on the dimensions of taste, nutrition, quality, safety and sustainability. Clearwater is best known in the industry for pioneering innovative harvesting technologies and processing practices that enhance this positioning.

   Going forward, Clearwater will continue to lever these strengths and its vertical integration to win in existing segments while capturing a growing share of the seafood value chain through the introduction of value-added new products in core species.

4. **Increase margins by improving price realization and cost management,** exercising price influence to maximize revenue and profit while managing supply. In addition Clearwater will continue to invest in R&D, introducing state-of-the-art harvesting, processing, storage and delivery systems that minimize per pound cost, reduce waste, increase yield and improve quality and reliability of supply.

5. **Pursue and preserve the long term sustainability of resources on land and sea.** Our fishing licences and quotas are the cornerstone of Clearwater’s business. From the beginning, Clearwater has invested in licences and quota in rights based fisheries to guarantee access to supply, as well as to create a defensible position in the market place. Clearwater’s licences and quotas provide not only the security of supply, but also the scale needed to invest in leading edge science and innovative harvesting, processing and marketing efforts.

   Our strategy of investing in secure access to the resource depends on ensuring sustainable harvesting through responsible resource management. Clearwater works in partnership with the Department of Fisheries and Oceans (“DFO”) to lead research and development of sustainable harvesting practices, ensuring long term health of the resource and value for the licenses and total allowable catch (“TAC”).

6. **Build organizational capability, capacity and engagement.** To ensure the fulfillment of its mission, value proposition and strategies, Clearwater must continue to attract, develop, recognize, reward and retain the best global talent. Clearwater’s investment into training and development of its employees is just one of the reasons we were recognized again as one of the top companies in Atlantic Canada.

CAPABILITY TO DELIVER RESULTS

Clearwater's revenues and earnings are dependent primarily on its ability to harvest and purchase shellfish. This in turn is dependent to a large extent on the annual total allowable catch ("TAC") for each species. The annual TAC is related to the health of the stock of the particular species.

The primary shellfish stocks that Clearwater harvests are sea and Argentine scallops, clams, lobster and coldwater shrimp, which are harvested in offshore fisheries that have a limited number of participants. Clearwater harvests sea and Argentine scallops and clams with its own vessels. Clearwater obtains its lobster and coldwater shrimp through harvesting with its own vessels and through purchases from independent fishermen**.**

- The **sea scallop** resource has been stable over the last number of years. Clearwater lands virtually all its' sea scallop quota each year and harvests quotas for other industry participants under harvesting contracts to improve the utilization of its fleet.

- The **Arctic surf clam** resource is stable. Clearwater has the Banquereau Bank and the Grand Banks quotas available for harvesting. Total annual landings are currently based upon the harvesting capacity of our two vessels.

- The **Argentine scallop** resource has stabilized after a period of growth and expansion of the fishery. Argentina, is the first scallop fishery in the world to have earned the rigorous Marine Stewardship Council ("MSC") independent certification. Clearwater lands virtually all its scallop quota each year

- **Coldwater shrimp** - Clearwater expects the offshore Northern shrimp TAC to decline slightly over the next several years from historically high levels. Clearwater holds access to quotas directly through licences and through long term harvesting agreements that exceed its harvesting capacity and will serve to offset any mid to long term declines in the TAC for northern shrimp. Clearwater does procure shrimp from the inshore for its cooked and peeled business and supplements this with raw material from its offshore vessels

- The offshore **lobster** resource is strong with a consistent offshore TAC and the inshore resource is strong with abundant catches. Clearwater harvests virtually all its lobster quota each year. During 2013, Clearwater purchased approximately 80% of its total pounds from inshore lobster fishermen.

Clearwater maintains the largest, most modern, fleet of factory freezer vessels in Canada together with vessels that are used to harvest Clearwater's offshore lobster and complete research and development.

The condition and operating capability of these vessels is paramount for Clearwater to successfully operate in its fisheries. In the past three years Clearwater has invested approximately $58.2 million on its fleet.

Clearwater typically replaces vessels as a result of its focus on innovation and the adoption of new and leading edge technology. These additional investments typically provide greater efficiencies, lower costs and, in some cases, create new product forms.

The following schedule sets out Clearwater's capital expenditures and harvesting license investments for the past three years and clearly shows that Clearwater is both investing sufficiently to maintain its existing fleet and plants and is also investing for growth:

(In 000's) For the years ended December 31	2013	2012	2011	TOTAL
Vessels	17,025	11,780	17,595	58,180
Plants and other	6,788	4,792	3,642	20,014
	$ 23,813	$ 16,572	$ 21,237	$ 78,194
Return on investments capital	6,346	2,774	6,850	18,744
Maintenance capital	17,467	13,798	14,387	59,450
	$ 23,813	$ 16,572	$ 21,237	$ 78,194
Maintenance capital	17,467	13,800	14,387	59,454
Repairs and maintenance	13,144	12,837	14,466	53,283
	$ 30,611	$ 26,637	$ 28,853	$ 112,737
Depreciation/Amortization	$ 24,167	$ 22,475	$ 19,503	$ 88,620
Maintenance spending as a % of depreciation	126.7%	120.9%	147.9%	127.2%

During 2013, Clearwater invested $9.3 million to complete refits on a number of its vessels. Capital expenditures also included interim payments of $2.7 million related to the construction of a new clam harvesting vessel that is expected to have a total cost of $45 million and is expected to be operating in 2015 and $5.0 million related to the conversion of a scallop vessel to harvest bay scallops which has a total cost of $15 million and is expected to be in operation in mid 2014.

This investment in a new clam harvesting vessel will drive growth in Clearwater's clam business by expanding access to clam supply by approximately 60% when the customer distribution chain is fully in place by 2017, at which time Clearwater expects to earn incremental gross margins of approximately $8 million per year.

In 2012, Clearwater completed refits on its vessels of $11.8 million. Capital expenditures for the year also included $2.0 million in relation to new vessel based processing technologies.

In 2011, Clearwater completed a refit program, of $11.4 million, on the scallop, clam, shrimp and lobster factory vessels. Capital expenditures for the year also included $2.1 million in relation to new vessel based processing technologies and $4.1 million on the purchase of the remaining 40% share in a scallop vessel.

In addition to the annual amounts capitalized above, Clearwater historically has spent and expensed on average about $13.5 million a year on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition, enabling it to harvest and process its allowable catch efficiently and providing sufficient capacity.

Clearwater's largest fleet investments are in its ten factory vessels. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams.

Of the ten factory vessels:

- Two are used to harvest shrimp and are on average 20 years old. These vessels have a capacity to harvest 14,000 to 18,000 metric tons of our 22,000 metric ton quota and our entire 1,900 metric ton turbot quota in a ready for market form. One of the vessels was built in 1985 and in 2014 we will complete a late-life refit on it, thereby extending its useful life.

  Four are used to harvest sea and bay scallops with the sea scallop vessels being on average 16 years old and the bay scallop vessels being on average 33 years old. In 2012, Clearwater completed the conversion to automated processing factories on its sea scallop vessels using proprietary technology and as result of the related improvement in harvesting and processing capabilities, had two idle sea scallop vessels. One vessel is being converted from harvesting sea scallops to bay scallops which is expected to be in operation in mid 2014. When this is complete one of the older bay scallop vessels will be retired.

- Two of Clearwater's vessels are used to harvest clams and are on average 20 years old. Both of these vessels are harvesting at capacity. In 2013 Clearwater began the construction of a new clam harvesting vessel which will increase access to available supply in 2015.

In 2014 Clearwater expects significant growth investments of approximately $83 million in capital assets, of which $36 million relates to the construction of the clam vessel, $15 million relates to the late life extension of a shrimp vessel, $10 million relates to the conversion of a vessel to harvest bay scallops, $17.3 million relates to maintenance capital investments and $4.7 million relates to various investments to improve operational efficiencies.

EXPLANATION OF 2013 ANNUAL EARNINGS

Overview

The statements reflect the earnings of Clearwater for the years ended December 31, 2013 and 2012

In 000's of Canadian dollars Year ended December 31	2013	2012
Sales	$ 388,659	$ 350,302
Cost of goods sold	301,291	277,777
Gross margin	87,368	72,525
	22.5%	*20.7%*
Administrative and selling	39,005	32,536
Finance costs	42,747	24,387
Other income	(3,240)	(3,399)
Research and development	1,659	1,759
	80,171	55,283
Earnings before income taxes	7,197	17,242
Income tax recovery	(8,101)	(5,462)
Earnings	$ 15,298	$ 22,704
Earnings attributable to:		
Non-controlling interests	$ 8,965	$ 7,695
Shareholders of Clearwater	6,333	15,009
	$ 15,298	$ 22,704

2013 Annual Earnings

Clearwater reported strong results including sales of $388.7 million and adjusted EBITDA[1] of $79.1 million, versus 2012 comparative figures of $350.3 million and $72.2 million, respectively.

For 2013, operations improved earnings $12.6 million primarily as a result of an improvement in gross margin of $14.8 million and lower interest expense of $4.2 million. Gross margin as a percentage of sales improved from 20.7% in 2012 to 22.5% in 2013 due primarily to strong demand that provided higher sales prices for the majority of species. Strengthening foreign exchange rates for the US dollar and the Euro against the Canadian dollar impacted positively on margins. Higher catch rates for scallops increased available supply and contributed to the increase in total gross margin dollars. Improvements to operations were partially offset by an increase in administrative and selling expense from higher employee compensation

Non-operational items of $19.9 million (refer to the following table), included non-cash unrealized foreign exchange losses, refinancing and debt settlement costs, and realized foreign exchange losses on forward contracts that hedge our future sales, partially offset by non-cash gains on the fair value adjustment on long term debt and an increase in deferred income tax recoveries from loss carry forwards. Including these non-operational items the earnings declined by $7.4 million to $15.3 million for the year.

1 – Refer to definition of Adjusted EBITDA

In 000's of Canadian dollars Year ended December 31	2013	2012	Change
Earnings	$ 15,298	$ 22,704	$ (7,406)
Explanation of changes in earnings related to operational items:			
Higher gross margin			14,843
Higher administrative and selling			(6,469)
Lower interest expense			4,194
			12,568
Explanation of changes in earnings related to non-operational items:			
Higher unrealized foreign exchange losses			(14,969)
Higher realized foreign exchange losses			(8,970)
Lower fair value adjustments on convertible debentures and embedded derivative			4,608
Higher debt settlement costs			(3,223)
Higher gain from from a deferred income tax asset valuation			2,639
			(19,915)
All other			(59)
			$ (7,406)

Sales by region

In 000's of Canadian dollars Year ended December 31	2013	2012	Change	%
Europe	$ 133,752	$ 122,884	$ 10,868	8.8
United States	76,945	54,157	22,788	42.1
Canada	55,923	47,408	8,515	18.0
North America	132,868	101,565	31,303	30.8
China	61,622	59,624	1,998	3.4
Japan	38,712	46,366	(7,654)	(16.5)
Other	18,711	17,693	1,018	5.8
Asia	119,045	123,683	(4,638)	(3.7)
Other	2,994	2,170	824	38.0
	$ 388,659	$ 350,302	$ 38,357	10.9

Europe

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

European sales increased $10.9 million to $133.8 million for 2013 primarily as a result of strong market demand that increased sales volumes for Argentine scallops and shrimp.

Higher sales prices for sea scallops contributed to the increase in sales.

Market demand for cooked and peeled shrimp slowed during 2013 which partially offset the increase in sales for the region.

Finally, sales, which are primarily transacted in the Euro[1] and the UK Pound, were positively impacted by $6.6 million, as the Euro improved 8.1% relative to the Canadian dollar from 1.28 in 2012 to 1.38 in 2013, and the UK pound improved 2.9% from 1.58 in 2012 to 1.63 in 2013.

United States

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

Sales in the United States increased $22.8 million, or 42.1%, to $76.9 million primarily as a result of an increase in available supply as well as strong demand for both Argentine and sea scallops.

Higher sales prices for sea scallops and an increase in sales volumes for shrimp, lobster and snow crab contributed to the increase in sales.

Lower sales prices for Argentine scallops and shrimp partially offset the increase in sales.

Sales were also positively impacted by $2.5 million in 2013 as a result of foreign exchange rates as average rates for the US dollar strengthened against the Canadian dollar. Average foreign exchange rates for the US dollar increased by 3.3% to 1.03 in 2013.

Canada

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

Sales within Canada increased $8.5 million, or 18.0% primarily as a result of higher sales volumes and prices for scallops. Higher sales prices for snow crab contributed to the increase in sales.

The increase in sales volumes for sea scallops were a result of higher landings from an increase in total allowable catch for the year.

Poor weather conditions late in 2013 reduced available supply of lobster and changes in product mix weighted towards product with lower sales prices partially offset the increase in sales.

China

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

Sales to customers in China increased $2.0 million, or 3.4%, to $61.6 million as a result of an increase in sales volumes for shrimp and lobster. Strong demand and sales prices for shrimp also contributed to the increase in sales.

Weather related disruptions reduced the available supply for clams partially offsetting the increase in sales.

Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar during 2013 contributing to the increase in sales within the region as average foreign exchange rates for the US dollar strengthened against the Canadian dollar by 3.3% to 1.03 in 2013.

Japan

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

Sales to customers in Japan declined 16.5% or $7.7 million primarily as a result of a lack of available supply for clams and shrimp. Lower catch rates for clams (from weather related disruptions) resulted in a reduction in available supply.

Available supply for frozen-at-sea shrimp declined as a result of Clearwater moving supply to other markets that had stronger demand.

Improvements in sales volumes for lobster partially offset the decline of other species.

Average foreign exchange rates for the Yen declined during the year by 15.8% to 0.011 for 2013 contributing to the decline in sales.

1 – Refer to risks and uncertainties

Sales by species*

In 000's of Canadian dollars Year ended December 31		2013		2012		Change	%
Scallops	$	147,637	$	109,754		37,883	34.5
Coldwater shrimp		81,592		77,497		4,095	5.3
Lobster		66,452		61,458		4,994	8.1
Clams		60,780		71,894		(11,114)	(15.5)
Crab		18,271		15,628		2,643	16.9
Ground fish and other		13,927		14,071		(144)	(1.0)
	$	388,659	$	350,302	$	38,357	10.9

*Refer to risks and uncertainties

Sales increased $38.4 million, or 10.9%, for 2013 as a result of strong sales volumes for scallops, and snow crab. Higher total allowable catch levels increased catch rates for scallops which increased available supply. In addition strong market demand increased sales prices for sea scallops, shrimp, snow crab and offshore lobster also contributed to the increase in sales.

Lower catch rates for clams and lower sales prices for Argentine scallops, partially offset the increase in sales for 2013.

Cost of Goods Sold

In 000's of Canadian dollars Year ended December 31	2013	2012	Change	%
Harvesting and procurement	$ 207,057	$ 190,731	$ 16,326	8.6
Manufacturing	35,275	32,542	2,733	8.4
Freight, customs and other transport	22,826	21,254	1,572	7.4
Depreciation	23,733	22,251	1,482	6.7
Administrative	12,400	10,999	1,401	12.7
	$ 301,291	$ 277,777	$ 23,514	8.5

Cost of goods sold increased $23.5 million or 8.5% to $301.2 million primarily as a result of higher sales volumes, and higher harvesting and manufacturing costs including labour.

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 and crab. Excluding the increase in costs due to higher sales volumes from an increase in pounds landed for scallops, higher harvesting costs per pound, resulted from poor harvesting conditions caused by weather for clams and higher costs in Argentina due to inflation. Higher catch rates for scallops that reduced costs per pound and lower shore prices for cooked and peeled shrimp partially offset the increase in harvesting costs.

Fuel costs for our vessels increased $0.9 million for 2013 to $24.7 million. The increase was a result of an increase in the litres consumed from higher total allowable catch levels for sea scallops, partially offset by a decline in the average price per litre of fuel of $0.02. Clearwater's vessels used approximately 29.5 million litres of fuel in 2013 versus 27.8 million litres of fuel in 2012. Based on 2013 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $0.3 million.

Manufacturing includes labour costs related to the production of goods, plant utilities and supplies. Labour costs increased for the year as a result of higher production levels and scheduled increases in wages, salaries and benefits.

Transportation costs include freight, customs and duties, related to the transfer of goods to market. The increase in costs of $1.6 million was the result of increased sales volumes.

Depreciation from assets used in the harvesting and production of goods increased $1.5 million to $23.7 million as a result of vessel refits and other additions that were completed during the second half of 2012 and throughout 2013 and are now being depreciated.

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

Gross margin

Gross margin as a percentage of sales improved from 20.7% in 2012 to 22.5% in 2013 due to higher prices, favourable exchange rates and lower harvest costs per pound. Strong demand provided higher sales prices for the majority of species and strengthening foreign exchange rates for the US dollar and the Euro against the Canadian dollar impacted positively on margins. Higher catch rates for scallops increased available supply and reduced costs per pound which also contributed to the increase in total gross margin.

A reduction in sales volumes for clams from a lack of available supply due to lower catch rates for clams partially offset the increase in margins. In addition reductions in sales price for Argentine scallops and higher costs for labour partially offset the improvements in gross margin.

Gross margin was positively impacted by higher average foreign exchange rates[1]. Both the US dollar and the Euro strengthened against the Canadian dollar but were partially offset by lower rates for the Yen. The net impact on sales from all foreign exchange volatility was an increase in sales and gross margins of $7.2 million.

Year ended December 31	2013		2012		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	49.1%	1.033	45.4%	0.999	3.3%
Euros	21.5%	1.383	22.1%	1.280	8.1%
Japanese Yen	8.0%	0.011	12.5%	0.013	-15.8%
Danish Kroner	3.5%	0.182	4.2%	0.179	1.9%
UK pounds	3.1%	1.627	3.3%	1.580	2.9%
Canadian dollar and other	14.8%		12.5%		
	100.0%		100.0%		

1 – Refer to risks and uncertainties for further information

Administration and selling

In 000's of Canadian dollars Year ended December 31	2013	2012	Change	%
Salaries and benefits	$ 28,708	$ 25,996	$ 2,712	10.4
Share-based incentive compensation	5,861	2,331	3,530	151.4
Employee compensation	34,569	28,327	6,242	22.0
Consulting and professional fees	5,549	5,030	519	10.3
Other	4,442	4,866	(424)	(8.7)
Selling costs	2,893	1,871	1,022	54.6
Travel	2,274	2,035	239	11.7
Occupancy	1,385	1,398	(13)	(0.9)
Allocation to cost of goods sold	(12,107)	(10,991)	(1,116)	10.2
	$ 39,005	$ 32,536	$ 6,469	19.9

Administration and selling increased approximately $6.5 million, or 19.9%, to $39.0 million for 2013 primarily as a result of an increase in employee compensation including share based incentive compensation.

Salaries and benefits increased $2.7 million from 2012 primarily due to increases in senior management and other staff and a short term incentive program that is accrued based on Company performance.

Share-based incentive compensation increased $3.5 million from 2012 primarily due to increases in Clearwater's share price and to a lesser extent the issue of additional share based incentive units during the first quarter of 2013 for executives and directors.

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

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

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

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

Finance costs

In 000's of Canadian dollars Year ended December 31	2013	2012
Interest and bank charges	$ 16,317	$ 20,346
Amortization of deferred financing charges and accretion	993	1,158
Interest	17,310	21,504
Fair value adjustment on convertible debentures and embedded derivative	(1,710)	2,898
Foreign exchange and derivative contracts	17,831	(6,108)
Debt settlement and refinancing fees	9,316	6,093
	$ 42,747	$ 24,387

Interest declined $4.2 million for 2013 due to lower average interest rates on Clearwater's debt facilities. Clearwater redeemed its 10.5% Class C convertible debentures in the third quarter of 2012 and its 7.25% Class D convertible debentures in the third quarter of 2013 and replaced them with new facilities that carry a lower average annual floating interest rate that is under 5%.

The **fair value adjustment on the convertible debentures** represents the change in value of the convertible debentures. The reduction in the fair value adjustment primarily relates to the redemption of the 10.5% Class C convertible debentures that occurred in July 2012 and the redemption of the 7.25% Class D convertible debentures that occurred in July 2013.

Foreign exchange and derivative contracts

In 000's of Canadian dollars Year ended December 31		2013		2012
Realized loss (gain)				
Foreign exchange contracts and interest rate swap	$	2,752	$	(3,991)
Working capital, long-term debt, and other		3,586		1,359
		6,338		(2,632)
Unrealized loss (gain)				
Foreign exchange on long term debt and other assets		5,427		(3,013)
Mark-to-market on foreign exchange contracts		6,060		(663)
Mark-to-market on interest swap		6		200
		11,493		(3,476)
	$	17,831	$	(6,108)

Foreign exchange and derivative (gains) losses[1] changed by $23.9 million from a gain of $6.1 million for 2012 to a loss of $17.8 million for 2013. The foreign exchange losses of $17.8 million for 2013, include $11.5 million in non-cash unrealized foreign exchange losses related to foreign exchange contracts and the translation of US dollar $200.0 million denominated debt as the US dollar and Euro strengthened against the Canadian dollar by 7.0% and 12.1%, respectively during 2013. In addition the strengthening foreign exchange rates resulted in an increase in realized losses of $3.6 million from $1.4 million in 2012.

Realized losses on foreign exchange contracts were $2.8 million as the US dollar and the Euro strengthened against the Canadian dollar, partially offset by a reduction in the value of the Yen against the Canadian dollar. Unrealized losses occur because spot rates are higher than contract rates. Higher spot rates are net positive to the business over a longer period of time.

Foreign exchange contracts are used as part of Clearwater's foreign exchange management program (refer the Liquidity section for further details). The purpose of these contracts is to give certainty to Clearwater on the exchange rates that it expects to receive on foreign currency sales. The foreign exchange contracts effectively adjust the cash proceeds received on sales receipts to the rates that Clearwater planned for and contracted for as part of its annual planning cycle and its foreign exchange management program. 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 only hedges to 75% of its 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.

Debt settlement and refinancing fees represent fees incurred for the settlement or refinancing of long term debt and will vary year to year depending on refinancing activities. Debt settlement and refinancing fees for 2013 include a $5.1 million non-cash charge related to financing charges incurred in 2012 that had been deferred and were being amortized and $4.2 million in refinancing fees incurred in 2013. Clearwater does not have any material near term maturing debt facilities and believes the current facilities are sufficient to execute the five year plan.

1 – Refer to risks and uncertainties

Other income

In 000's of Canadian dollars Year ended December 31	2013	2012
Royalties, interest, and other fees	92	(1,712)
Share of earnings of equity-accounted investee	(2,082)	(1,054)
Other fees	(1,250)	(633)
	$ (3,240)	$ (3,399)

Royalties, interest 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. For 2013, royalties, interest and other fees include a non-recurring export rebate cost from the termination of a rebate program within Argentina.

As a result of the adoption of *IFRS 11 – Joint Arrangements*, effective January 1, 2013 a company that has certain scallop harvesting operations that was previously proportionately consolidated, is now accounted for using the equity method. There was no impact to earnings or adjusted EBITDA related to the change in accounting. There was an increase in earnings from the equity accounted investee for 2013 as a result of an increase in total allowable catch for scallops and an increase in sales prices.

Research and Development

Research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year to year depending on the scope, timing and volume of research completed. Clearwater's business plans expect an increase in investment in research and development.

Income taxes

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

In 2013 the deferred tax asset increased $9.9 million tax asset, the majority of which relates to previously unrecognized non-capital losses in CSI. These deferred tax assets are being recognized based on management's estimate that Clearwater will earn sufficient taxable profit to utilities these losses.

Non-controlling interest

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

Capital Structure

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

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

The amount of debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, 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 or equity, utilizing surplus cash, extending the term of existing debt facilities, selling assets to repay debt and if required, limiting debt paid.

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

In 000's of Canadian dollars As at December 31	2013	2012
Equity		
Common shares	$ 64,780	$ 64,867
Retained earnings	19,762	14,616
Cumulative translation account	(5,470)	(3,866)
	79,072	75,617
Non-controlling interest	28,455	30,904
	107,527	106,521
Long term debt		
Subordinated debt		
2014 convertible debentures, redeemed in July 2013	-	44,722
	-	44,722
Senior debt, non-amortizing		
Revolving debt, due in 2018	-	-
Term loan, due in 2014	10,642	-
Term loan, due in 2091	3,500	3,500
	14,142	3,500
Senior debt, amortizing		
Term Loan A, due 2018	29,700	-
Delayed Draw term Loan A, due 2018 (net of deferred financing charges of $0.6 million)	(608)	-
Term Loan B, due 2019 (including embedded derivative)	211,901	-
Marine mortgage, due in 2017	1,785	2,697
Other loans	405	627
Term Loan A, repaid in June 2013	-	72,259
Term Loan B, (including embedded derivative), repaid in June 2013	-	129,986
	243,183	205,569
Total long term debt	257,325	253,791
Total capital	$ 364,852	$ 360,312

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

On February 4, 2014, Clearwater completed the issuance to the public, on a bought deal basis, of 4,029,400 common shares from the treasury of the Company. The shares were offered at a price of $8.50 per Share, for gross proceeds to Clearwater of approximately $34 million. The proceeds of the offering will be used to fund growth opportunities and general working capital.

On June 26, 2013, Clearwater completed an approximately $350.0 million refinancing to further enhance and strengthen its capital structure and liquidity and provide for investment in a new vessel for clam harvesting operations. The refinancing reduces Clearwater's annual interest costs by 1.75 percentage points to 4.75% or approximately $2.6 million annually.

The refinancing included the redemption and repayment of:

- Canadian $44.4 million of 7.25% convertible debentures, as of July 29, 2013 upon payment of a redemption amount of $1,000 for each $1,000 principal amount of Debentures plus accrued and unpaid interest thereon to but excluding the redemption date;
- Canadian $69.7 million in existing term debt;
- USD $126.0 million in existing term debt; and
- the existing asset based revolving credit facility.

Long term debt consists of non-amortizing and amortizing senior debt.

Clearwater has several amortizing senior debt facilities including:

- Term loan A due June 2018,
- Term loan B due June 2019,
- Delayed Term Loan draw due June 2018,
- Revolving loan due June 2018, and
- A marine mortgage that matures in June 2017.

The revolving loan allows Clearwater to borrow a maximum of CDN $75.0 million (denominated in either Canadian or the US dollar equivalent) and it matures in June 2018. The balance was nil at both December 31, 2013 and 2012. The CDN balances bear interest at the banker's acceptance rate plus 3.25%. The USD balances bear interest at the US Libor rate plus 3.25%. The loan has a provision that, subject to certain conditions, allows Clearwater to expand the facility by a maximum of CDN $25.0 million. The availability on this loan is reduced by the amount outstanding on the US $10 million non-amortizing term loan and as such the availability as at December 31, 2013 was $64.4 million.

The term loan A has principal outstanding as at December 31, 2013 of CDN $29.7 million. The loan is repayable in quarterly instalments of $0.2 million to June 2015, $0.4 million from September 2015 to June 2017, and $0.8 million from September 2017 to March 2018 with the balance due at maturity in June 2018. It bears interest at the applicable banker's acceptance rate plus 3.25%. As at September 28, 2013 this resulted in an effective rate of approximately 4.45%.

The delayed draw term loan A has a principal outstanding as at December 31, 2013 of CDN $nil and can be drawn upon any time up to December 26, 2014. The balance is shown net of deferred financing charges of CDN $0.6 million. The loan is repayable in quarterly instalments of 1.25% of the principal amount drawn under the facility with repayment to begin in the first quarter after the facility is fully drawn or closed out. The facility matures in June 2018 and bears interest payable monthly at the banker's acceptance rate plus 3.25%. Clearwater has entered into swap arrangements whereby CDN $12 million of this loan is subject to a fixed interest rate of 5.38% until December 31, 2015 after which it is subject to an interest rate that is the lessor of the floating rate of interest on the loan or a maximum fixed rate of interest of 6%. Clearwater accounts for these swap arrangements and the change in market value through profit and loss.

The principal outstanding on the term loan B as at December 31, 2013 was USD $199.0 million. The loan is repayable in quarterly instalments of USD $0.5 million with the balance due at maturity in June 2019 and bears interest payable monthly at the US Libor plus 3.5% with a Libor interest rate floor of 1.25%. As of December 31, 2013 this resulted in an effective rate of 4.75%. The loan has a provision that, subject to certain conditions allows Clearwater to expand the facility by a maximum of USD $100.0 million. The embedded derivative represents the fair market value of the Libor interest rate floor of 1.25%. The change in fair market value of the embedded derivative is recorded through profit or loss.

During the third quarter of 2013 Clearwater's Argentine subsidiary borrowed USD $10.0 million to fund conversion of a vessel for use in the Argentine scallop fishery. This loan bears interest at 6% per year with interest payable monthly and the principal is due at maturity in 2014.

The revolver, term loan A, delayed draw 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 have covenants that include, but are not limited to, a leverage ratio (for which debt, net of certain cash balances, is compared to EBITDA, excluding most significant non-cash and non-recurring items) as well as a number of non-financial covenants. Clearwater is in compliance with all covenants associated with its debt facilities.

Some public entities provide information on debt to equity ratios. We do not believe that this ratio would provide useful information about Clearwater and its capital structure because a significant amount of assets (harvesting licenses and quotas in particular) are recorded at historical cost rather than at fair value. Instead, we believe that leverage measured in relation to adjusted EBITDA is a better measure to evaluate our capital structure and we have provided that information in the liquidity section.

Liquidity

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

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

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

- **Liquidity** - As of December 31, 2013 Clearwater had $46.8 million in cash, and a $75 million revolving loan, of which $64.4 million was available. The cash balance, together with available credit on the revolving loan, is used to manage seasonal working capital demands, capital expenditures, and other commitments. Clearwater's operations experience a predictable seasonal pattern in which sales, margins and adjusted EBITDA are higher in the second half of the year whereas investments in capital expenditures and working capital are lower, resulting in higher free cash flows and lower leverage in the second half of the year. This typically results in lower free cash flow, higher debt balances and higher leverage in the first half of the year. Clearwater is satisfied that it has ample liquidity to execute its business plan.

- **Leverage[1] -** Clearwater has a long-term leverage target of 3.0x or lower of net debt to adjusted EBITDA. Periodically, the ratio may be higher due to planned investments, or lower due to seasonally but over time Clearwater intends to manage to this ratio. As of December 31, 2013 leverage decreased to 2.7x adjusted EBITDA from 2.9x as of December 31, 2012. During the second quarter of 2013 Clearwater successfully completed a refinancing of substantially all of its senior debt facilities. The new capital structure provides financing for $45 million investment in a new vessel for the Company's clam harvesting operations. Although this financing and the investment in a third clam vessel will result in an increase in total leverage for the next 2 years, management remains committed to a long-term leverage goal of 3x adjusted EBITDA or lower.

In 000's of Canadian dollars As at December 31		December 31 2013		December 31 2012
Adjusted EBITDA[1]	$	79,103	$	72,243
Debt (net of deferred financing charges of $0.6 million (December 31, 2012 - $4.4 million))		257,325		253,791
Less cash		(46,793)		(41,504)
Net debt		210,532		212,287
Leverage		2.7		2.9

- **Foreign Exchange Management[2]** – Strengthening foreign exchange rates for US dollar and the Euro against the Canadian dollar resulting in an increase in sales and gross margins of $12.4 million for 2013. Lower average foreign exchange rates for the Yen partially offset the improvement in foreign exchange. The net impact from foreign exchange was an improvement of sales and gross margin of $7.2 million for 2013.

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

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

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

  (3) Limit the amount of long-term sales contracts – Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations.

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

  (5) Foreign exchange hedging program - Clearwater has a targeted foreign exchange program. This program focuses on using forward contracts to lock in exchange rates up to 18 months for sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows.

As of February 26th, 2014 Clearwater had forward exchange contracts to be settled in 2014 of:

- US dollar $108.0 million at an average rate of 1.0481;
- 2.5 billion Yen at an average rate of .011; and
- 50.0 million Euro at an average rate of 1.37.

The US dollar forwards include US dollars $34.5 million of participating forwards which provide that to the extent spot rates are higher than the contracted rates, the contract rate will be adjusted by approximately to 50.0% of the excess.

The purpose of these contracts is to give certainty to Clearwater on the exchange rates that it expects to receive on foreign currency sales. The foreign exchange contracts effectively adjust the cash proceeds received on sales receipts to the rates that Clearwater planned for and contracted for as part of this annual planning cycle and its foreign exchange management program. When spot exchanges 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 only hedges to 75% of its 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 interest, scheduled loan payments and capital expenditures and in turn to use this free cash flow to reduce debt, and to invest in growth investments. Clearwater's goal is to grow free cash flows such that it can fund growth, reduce debt and pay a sustainable dividend to its shareholders.

1 - Refer to definitions
2 – Refer to risks and uncertainties

Free cash flows	13 weeks ended December 31, 2013	December 31, 2012	Year Ended December 31, 2013	December 31, 2012
Adjusted EBITDA	22,347	18,812	79,103	72,243
Less:				
Cash interest	(3,657)	(4,471)	(16,317)	(20,346)
Cash taxes	(270)	(453)	(1,812)	(1,693)
Other income and expense items	514	(1,531)	(863)	(12,448)
Operating cash flow before changes in working capital	**18,933**	**12,357**	**60,110**	**37,756**
Change in working capital	29,816	32,334	(5,448)	8,184
Cash flows from operating activities	**48,749**	**44,691**	**54,662**	**45,940**
Uses of cash:				
Purchase of property, plant, equipment, quota and other assets	(11,182)	(4,219)	(23,813)	(16,572)
Disposal of fixed assets	-	-	978	-
Less: Designated borrowings	6,231	-	7,700	2,056
Scheduled payments on long-term debt	(1,366)	(1,629)	(3,233)	(6,327)
Dividends received from joint venture	-	1,740	1,240	1,740
Distributions to non-controlling interests	(3,707)	(2,780)	(11,414)	(9,491)
Free cash flows	**38,725**	**37,803**	**26,121**	**17,347**
Add/(less):				
Other debt borrowings (repayments) of debt	(7,505)	(10,597)	(20,759)	13,584
Other investing activities	(386)	(459)	(717)	1,358
Other financing activities	-	-	-	-
Change in cash flows for the period	30,834	26,747	4,645	32,288

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

Free cash flow for 2013 increased 51%, from $17.3 million at December 31, 2012 to $26.1 million at December 31, 2013 as a result of strong improvements in cash flows from operating activities before changes in working capital. Improvements were a result of a strong and growing market demand that improved sales prices for scallops, clams and snow crab and strong sales volumes for scallops. Margins were partially offset by higher clam, scallops and shrimp harvest costs. Improvements in free cash flow were partially offset by changes in working capital, higher capital expenditures (net of designated borrowings) from scheduled refits and vessel conversions, and the timing of payments to minority interest partners.

In addition certain large investments in longer term assets, for example vessel conversion/acquisitions, are funded with long term capital such as amoritizing term loans. As a result Clearwater does not deduct such capital expenditures in the determination of free cash flows but rather deducts the related debt payments.

Changes in working capital

In 000's of Canadian dollars As at December 31	13 weeks ended December 31 2013	 December 31 2012	Year Ended December 31 2013	 December 31 2012
Decreases in inventory	18,056	16,228	2,745	9,657
(Decreases) increases in accounts payable	(3,550)	12,155	(8,342)	3,078
Decreases (increases) in accounts receivable	16,377	4,373	(470)	(2,274)
(Increases) decrease in prepaids	(1,067)	(422)	619	(2,277)
	$ 29,816	$ 32,334	$ (5,448)	$ 8,184

For 2013, the net investment in working capital declined to a use of cash of $5.4 million from an increase in cash of $8.2 million primarily as a result of a timing in payments in accounts payable. An increase in total pounds sold for 2013 partially offset the use of working capital for the year. Working capital as a percentage of sales declined to 14.3% from 16.3% in 2012, as Clearwater continues to manage its working capital and investment in inventories.

Investments in capital expenditures in 2013 of $23.8 million primarily resulted from planned vessel refits and conversions.

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

Clearwater is focused on managing its free cash flows through:

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

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

  On average, Clearwater expects to invest $15-20 million a year in maintaining its fixed assets with a further $10-15 million of repairs and maintenance expensed and included in the cost of goods sold.

In June 2013 the Company announced the planned investment in a third vessel for its clam business. This investment is estimated at $45 million. A suitable hull has been sourced and a yard is being commissioned to commence the work in the first quarter of 2014. Management expects to complete conversion work and enter the new vessel into service in 2015.

This investment will drive growth in Clearwater's clam business by expanding access to clam supply by approximately 60% when the customer distribution chain is fully in place by 2017, at which time Clearwater expects to earn incremental gross margins of approximately $8 million per year.

In 2014 Clearwater expects significant growth investments of approximately $83 million in capital assets, of which $36 million relates to the construction of the clam vessel, $15 million relates to the late life extension of a shrimp vessel, $10 million relates to the conversion of a vessel to harvest bay scallops, $17.3 million relates to maintenance capital investments and $4.7 million relates to various investments to improve operational efficiencies.

- **Dividends** – On November 1, 2013 Clearwater announced the initiation of an annual dividend of $0.10 per share, payable in quarterly installments of $0.025 per share and on December 13, 2013 it made the first quarterly dividend payment.

  Consistent with that announcement, today the Board of Directors approved a quarterly dividend of CAD$0.025 per share payable on March 24, 2014 to shareholders of record on March 10, 2014.

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

  - the expected future earnings;
  - the amount of 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 provide room for the dividend to increase in the future as the business continues to grow and expand.

  The Board is satisfied with current dividend levels

  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 favourable tax treatment applicable to such dividends.

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

EXPLANATION OF FOURTH QUARTER EARNINGS

Overview

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

In 000's of Canadian dollars 13 weeks ended December 31	2013	2012
Sales	$ 111,012	$ 92,945
Cost of goods sold	85,384	74,406
Gross margin	25,628	18,539
	23.1%	*19.9%*
Administrative and selling	13,295	9,765
Finance costs	12,678	5,500
Other income	(1,664)	(1,205)
Research and development	630	824
	24,939	14,884
Earnings before income taxes	689	3,655
Income tax expense (recovery)	987	(6,863)
(Loss) earnings	$ (298)	$ 10,518
(Loss) earnings attributable to:		
Non-controlling interests	$ 2,804	$ 2,038
Shareholders of Clearwater	(3,102)	8,480
	$ (298)	$ 10,518

Fourth Quarter Earnings

Clearwater reported strong results for the fourth quarter of 2013 that included sales of $111.0 million and adjusted EBITDA[1] of $22.3 million versus 2012 comparative figures of $92.9 million and $18.8 million, respectively.

In the fourth quarter of 2013, operations improved earnings $5.0 million primarily as a result of an improvement in gross margin of $7.1 million and lower interest expense of $1.0 million. Gross margins were 23.1%, an improvement of 3.2 percentage points from 19.9% realized in the fourth quarter of 2012 due primarily to a strong market demand that improved sales prices for the majority of species and improvements in foreign exchange as the US dollar and Euro strengthened against the Canadian dollar. Margins were partially offset by higher scallop and shrimp harvest costs. An increase in sales volumes for scallops and shrimp contributed to the increase in total gross margin dollars for the fourth quarter of 2013.

Non-operational items of $15.9 million (refer to the following table) included unrealized foreign exchange losses from the US dollar and Euro strengthening against the Canadian dollar, and lower deferred income tax recoveries from loss carry forwards. Including these non-operational items the earnings declined by $10.8 million to a loss of $0.3 million

In 000's of Canadian dollars 13 weeks ended December 31	2013	2012	Change
(Loss) earnings	$ (298)	$ 10,518	$ (10,816)
Explanation of changes in (loss) earnings related to operational items:			
Higher gross margin			7,089
Higher administrative and selling			(3,530)
Lower interest expense			976
Higher other income			459
			4,994
Explanation of changes in (loss) earnings related to non-operational items:			
Lower deferred income tax asset valuation			(7,850)
Higher unrealized foreign exchange losses			(7,724)
Higher realized foreign exchange losses			(1,206)
Lower fair value adjustments on convertible debentures and embedded derivative			881
			(15,899)
All other			89
			$ (10,816)

1 – Refer to the definition s

Sales by region

In 000's of Canadian dollars 13 weeks ended December 31		2013		2012		Change	%
Europe	$	45,956	$	35,478	$	10,478	29.5
China		18,513		20,573		(2,060)	(10.0)
Japan		10,552		10,355		197	1.9
Other Asia		4,502		4,391		111	2.5
Asia		33,567		35,319		(1,752)	(5.0)
United States		17,373		10,914		6,459	59.2
Canada		13,194		10,740		2,454	22.8
North America		30,567		21,654		8,913	41.2
Other		922		494		428	86.6
	$	111,012	$	92,945	$	18,067	19.4

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

European sales increased $10.5 million to $46.0 million in the fourth quarter of 2013 as a result of strong sales volumes for Argentine scallops and shrimp. The increase in sales volumes resulted from an increase in overall demand for scallops and timing of landings for shrimp.

Sales prices for bay scallops declined during the fourth quarter partially offsetting the increase in sales.

Foreign exchange rates[1] for sales to Europe, which are primarily transacted in Euros and UK Pounds, increased by $3.1 million for the region as the Euro improved 12.3% relative to the Canadian dollar from 1.29 in the fourth quarter of 2012 to 1.44 in 2013, and the UK Pound improved 7.5% to 1.71 over the same period.

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

Sales to China declined $2.1 million, or 10.0%, to $18.5 million for the fourth quarter primarily as a result of the timing of landings for turbot as all available supply was sold at the end of the third quarter of 2013 versus the fourth quarter of 2012.

Strong sales prices for sea scallops, shrimp and clams partially offset the decline in sales for the quarter.

Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar improving sales. Average foreign exchange rates for the US dollar increased by 5.9% from 0.991 in the fourth quarter of 2012 to 1.05 in 2013, increasing sales by $1.0 million for the region.

Japan

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

Sales to Japan remain consistent for the fourth quarter of 2013 versus 2012 as lower available supply for clams from lower catch rates and turbot from the timing of landings, offset the increase in sales volumes from shrimp.

In addition, sales were impacted negatively by reductions in foreign exchange as the Yen weakened against the Canadian dollar, by 14.1% to 0.010.

United States

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

Sales in the United States increased by $6.5 million, to $17.4 million in the fourth quarter as a result of an increase in sales volumes for scallops, shrimp and lobster.

The increase in sales volumes for sea scallops were a result of strong catch rates for 2013 and demand, which resulted in an increase in sales price. Reductions in sales price for offshore lobster and shrimp from a change in product mix weighted towards product with lower sales prices partially offset the increase in sales.

For the fourth quarter, the US dollar strengthened against the Canadian dollar, impacting sales by $1.0 million. Average foreign exchange rates for the US dollar increased by 5.9% from 0.991 in the fourth quarter of 2012 to 1.05 in 2013.

Canada

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

Sales within Canada increased $2.5 million, or 22.8% primarily as a result of an increase in market demand that increased sales volumes and price for scallops for 2013.

1 – Refer to risks and uncertainties for further information

Sales by species*

In 000's of Canadian dollars 13 weeks ended December 31	2013	2012	Change	%
Scallops	$ 45,998	$ 33,955	12,043	35.5
Coldwater shrimp	27,653	19,460	8,193	42.1
Clams	18,805	18,949	(144)	(0.8)
Lobster	18,102	13,542	4,560	33.7
Ground fish and other	436	7,039	(6,603)	(93.8)
Crab	18	-	18	-
	$ 111,012	$ 92,945	$ 18,067	19.4

*Refer to risks and uncertainties

Improvements in sales were a result of increases in sales volumes for scallops, lobster and shrimp. Higher sales prices for the majority of species also contributed to the increase in sales. In addition foreign exchange positively impacted sales as the US dollar and Euro strengthened against the Canadian dollar.

The increase in sales was partially offset by lower available supply volumes for turbot from the timing of landings and lower catch rates for clams.

Cost of Goods Sold

In 000's of Canadian dollars 13 weeks ended December 31	2013	2012	Change	%
Harvesting and procurement	$ 60,419	$ 51,850	$ 8,569	16.5
Manufacturing	8,267	7,606	661	8.7
Freight, customs and other transport	5,548	5,442	106	1.9
Depreciation	7,161	6,348	813	12.8
Administrative	3,989	3,160	829	26.2
	$ 85,384	$ 74,406	$ 10,978	14.8

Cost of goods sold increased $11.0 million or 14.8% to $85.4 million primarily as a result of higher sales volumes, higher harvesting costs per pound for Argentine scallops and shrimp, and higher labour.

Harvesting and procurement include all costs incurred in the operation of the vessels including labour, fuel, repairs and maintenance, fishing gear supplies, and other costs and fees plus procured raw material costs for lobster, shrimp, scallops and crab. Excluding the impact of higher sales volumes, harvesting costs per pound for both Argentine scallops and shrimp increased as a result of higher labour. In addition higher shore prices for lobster increased procurement costs for the fourth quarter.

Fuel costs for our vessels declined $0.5 million from $6.6 million in the fourth quarter of 2012 to $6.1 million in the fourth quarter of 2013. The decline was primarily a result of a reduction in litres consumed combined with a reduction in fuel cost of $0.03 per litre.

Depreciation from assets used in the harvesting and production of goods increased $0.8 million to $7.2 million as a result of vessel refits and other additions that were completed during the first half of 2013 and began depreciating.

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

Gross margin

Gross margins as a percentage of total sales improved, 3.1 percentage points from 19.9% in the fourth quarter of 2012 to 23.1% in 2013 due primarily to a strong market demand that improved sales prices for the majority of species and an improvement in foreign exchange for the US and Euro against the Canadian dollar.

An increase in sales volumes for scallops and shrimp contributed to the increase in total gross margin dollars of $7.1 million to $25.7 million for the fourth quarter of 2013. Increases in sales volumes were a result of higher catch rates and strong demand for scallops and timing of landings for shrimp.

Higher harvesting costs for Argentine scallops and shrimp partially offset the improvement in gross margin. In addition higher shore prices for lobster increased procurement costs for the fourth quarter.

Margins were positively impacted by higher average foreign exchange rates[1] for the US dollar and Euro, partially offset by lower foreign exchange rates for the Yen. The net impact on sales from all foreign exchange volatility was an increase in sales and gross margins of $4.9 million.

13 weeks ended December 31	2013		2012		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	44.0%	1.050	43.0%	0.991	5.9%
Euros	25.8%	1.443	24.5%	1.286	12.3%
Japanese Yen	8.3%	0.010	9.8%	0.012	-14.1%
Danish Kroner	2.8%	0.192	3.7%	0.172	11.4%
UK pounds	3.3%	1.710	4.8%	1.592	7.5%
Canadian dollar and other	15.8%		14.2%		
	100.0%		100.0%		

1 – Refer to risks and uncertainties for further information

Administration and selling

In 000's of Canadian dollars 13 weeks ended December 31	2013	2012	Change	%
Salaries and benefits	$ 8,151	$ 6,382	$ 1,769	27.7
Share-based incentive compensation	2,913	1,517	1,396	92.0
Employee compensation	11,064	7,899	3,165	40.1
Consulting and professional fees	1,526	1,254	272	21.7
Other	1,619	1,732	(113)	(6.5)
Selling costs	1,111	586	525	89.6
Travel	665	604	61	10.1
Occupancy	363	378	(15)	(4.0)
Allocation to cost of goods sold	(3,053)	(2,688)	(365)	13.6
	$ 13,295	$ 9,765	$ 3,530	36.1

Administration and selling costs increased $3.5 million from $9.8 million to $13.3 million in the fourth quarter of 2013 versus the same period in 2012. This was due to higher employee compensation costs including share based incentive compensation.

Salaries and benefits increased $1.8 million from 2012 primarily due to increases in senior management and other staff and a short term incentive program that is accrued based on Company performance.

Share-based incentive compensation increased $1.4 million from the fourth quarter of 2012 due primarily to increases in Clearwater's share price and to a lesser extent the issue of additional share based incentive units during the first quarter of 2013 for executives and directors.

Other include a variety of administrative expenses such as communication, computing, service fees, depreciation, gains or losses and write downs of assets, all of which will vary from year to year.

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

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

Finance costs

In 000's of Canadian dollars 13 weeks ended December 31		2013		2012
Interest and bank charges	$	3,657	$	4,471
Amortization of deferred financing charges and accretion		195		357
Interest		3,852		4,828
Fair value adjustment on embedded derivative		(1,009)		(128)
Foreign exchange and derivative contracts		9,835		905
Debt settlement and refinancing fees		-		(105)
	$	12,678	$	5,500

Interest declined $1.0 million for the fourth quarter as Clearwater replaced other higher cost debt facilities with new facilities that carry a lower average annual interest rate.

The **fair value adjustment on the embedded derivative** relates to an interest rate floor on the term loan B facility that is recorded at fair value through profit and loss. The gain of $1.0 million in the fourth quarter relates to a reduction in the credit spread for the fourth quarter.

Foreign exchange and derivative contracts

In 000's of Canadian dollars 13 weeks ended December 31		2013		2012
Realized loss (gain)				
Foreign exchange contracts and interest rate swap	$	1,431	$	(1,416)
Working capital, long-term debt, and other		(2,449)		(808)
		(1,018)		(2,224)
Unrealized loss				
Foreign exchange on long term debt and other assets		7,898		1,626
Mark-to-market on foreign exchange contracts		2,949		1,303
Mark-to-market on interest swap		6		200
		10,853		3,129
	$	9,835	$	905

Foreign exchange and derivative contracts[1] losses increased by $8.9 million from $0.9 million in the fourth quarter of 2012 to $9.8 million in 2013. The foreign exchange losses of $9.8 million in for fourth quarter of 2013, include $10.8 million in non-cash unrealized foreign exchange losses related to foreign exchange contracts and the translation of US dollar $200.0 million denominated debt as the US and Euro strengthened against the Canadian dollar by 5.9% and 12.3% during 2013, respectively. In June 2013, Clearwater increased the total amount of USD denominated debt from USD $124.0 million at June 30, 2012 to USD $200 million. Should the US dollar strengthen against the Canadian dollar, unrealized foreign exchange losses could occur.

Realized foreign exchange losses of $1.4 million were a result of strengthening foreign exchange rates for the US dollar and the Euro against the Canadian dollar.

1 – Refer to risks and uncertainties for further information

Other income

In 000's of Canadian dollars 13 weeks ended December 31		2013		2012
Royalties, interest, and other fees		(226)		(749)
Share of (earnings) loss of equity-accounted investee		(528)		99
Other fees		(910)		(555)
	$	(1,664)	$	(1,205)

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

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

Research and Development

Research and development relates to new technology and research into ocean habitats and fishing grounds. Research and development can vary year to year depending on the scope, timing and volume of research completed. Clearwater's business plans call for increased investment in research and development in 2013 and subsequent years.

Income taxes

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

Non-controlling interest

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

OUTLOOK

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

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

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

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

In 2013 Clearwater surpassed all previous records for sales revenue and adjusted EBITDA. We posted strong results across our portfolio of sustainably harvested, wild caught seafood with six out of seven core species showing increased revenues, margins or both. We also made significant improvements to our capital structure and advanced several major capital projects - activities critical to sustaining our long term growth, profitability and competitive advantage.

For 2014 Clearwater set the following targets:

- sales growth – 5% or greater,
- adjusted EBITDA margins – 18% or greater,
- Free cash flow growth – 5% or greater
- return on assets - 12% or higher

RISKS AND UNCERTAINTIES

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

Foreign exchange risk

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

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

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

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

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

(3) Limit the amount of long-term sales contracts – Clearwater has very few long-term sales contracts with any customers. Contracts are typically less than 6 months and are based on list prices that provide a margin for exchange rate fluctuations.

(4) Plan conservatively - Clearwater regularly reviews economist estimates of future exchange rates and uses conservative estimates when preparing its' business plans, and

(5) Foreign exchange hedging program - that focuses on using forward contracts to enable Clearwater to lock in exchange rates up to 18 months for key sales currencies (the US dollar, Euro, Yen and Sterling) thereby lowering the potential volatility in cash flows through derivative contracts.

In 2013 approximately 49.1% of Clearwater's sales were denominated in US dollars. Based on 2013 sales, a change of 0.01 in the U.S. dollar rate converted to Canadian dollars would result in a $1.8 million change in sales and gross profit. Approximately 21.5% of 2013 sales were denominated in Euros, based on 2013 sales, a change of

0.01 in the Euro rate as converted to Canadian dollars would result in a $0.6 million change in sales and gross profit. Also, 8.0% of sales in 2013 were denominated in Japanese Yen, based on 2013 annual sales, a change of 0.001 in the Yen rate as converted to Canadian dollars would result in a change of $3.0 million in sales and gross profit.

As of February 26, 2014 Clearwater had approximately 81% of its US Dollar, Euro and Yen exposures for 2014 hedged at rates of 1.05, 1.37 and 0.011 respectively.

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

Political risk

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

Our Argentine and other foreign operations and investments are subject to numerous risks, including fluctuations in foreign currency, exchange rates and controls, expropriation of our assets, nationalization, renegotiation, forced divestiture, modification or nullification of our contracts and changes in Argentine or other foreign laws or other regulatory policies of foreign governments and having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory.

For a period of time during 2012 Clearwater was unable to repatriate dividends from Argentina.

However, Clearwater received approvals and paid approximately $4.8 million in dividends in December 2012 and has since paid dividends of approximately $12.0 million Canadian in 2013. There can be no assurances that Clearwater will continue to be able to repatriate dividends from Argentina in the future.

To compensate for the potential restriction on dividend payouts Clearwater put in place domestic loan financing in Argentina related to the purchase of a replacement vessel. The replacement of this vessel will necessitate that some funds be used for the related loan domestic payments, thus alleviating the need for any material dividend payments for the short term.

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

We mitigate this risk through maintaining a policy of repatriating our share of the earnings from Argentina through dividends and we do not maintain any material financial assets that are surplus to our needs to operate the business outside of Canada. We do not carry financial assets in Pesos to mitigate exchange risk. In addition we have structured our operations in Argentina with an Argentine partner who owns 20% of the Argentine business and who is resident in Argentina and is actively managing the business.

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

Resource supply risk

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

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

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

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

Capital availability and liquidity risk

There are risks associated with capital availability and liquidity including:

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

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

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

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

Clearwater's credit facilities contain restrictive covenants of a customary nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Clearwater to incur additional indebtedness, to pay dividends or make certain payments and to sell or otherwise dispose of assets. In addition, they contain a number of financial covenants that require Clearwater to meet certain financial ratios and financial condition tests. A failure to comply with the covenants could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the credit facilities was to be accelerated, there can be no assurance that the assets of Clearwater would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facilities would be able to be refinanced. As of February 26, 2014 Clearwater is not in violation of the restrictive covenants.

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

Other risks

Clearwater plans to invest approximately $4.7 million in 2014 as part of a $9 million project related to in the implementation of a new enterprise resource planning system ("ERP") to support improved decision making capabilities. We recognize that the integrity and reliability of information in all its forms are critical. Inaccurate, incomplete or unavailable information could lead to incorrect financial reporting, and poor decision making. The implementation of the ERP and all major information technology projects are managed by a change management and governance process. Clearwater has an ERP team staffed with knowledgeable internal and external resources that is responsible for implementing the various key initiatives.

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

CRITICAL ACCOUNTING POLICIES

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

Financial Reporting Controls and Procedures

Clearwater has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2013 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

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

Management evaluated the design and effectiveness of Clearwater's internal controls over financial reporting as at December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report "Internal Control – Integrated Framework (2013)". This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion. Based on management's evaluation, the CEO and the CFO have concluded that, as at December 31, 2013, Clearwater's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There have been no significant changes in Clearwater's internal controls over financial reporting or other factors that occurred during the period from September 29, 2013 to December 31, 2013, that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Adoption of new and revised standards

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

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

IFRS 10 - Consolidated Financial Statements replaces the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation-Special Purpose Entities. IFRS 10 provides additional guidance on determining control for the purposes of consolidation. Clearwater determined that the adoption of IFRS 10 did not result in any change to the consolidation of its subsidiaries.

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

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

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

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

Impact of application of *IFRS 11 – joint arrangements* to Consolidated Statements of Financial Position

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

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

Impact of application of IFRS 11 to Consolidated Statements of Earnings

In thousands of Canadian dollars	December 31, 2012 (Previously stated)	Elimination of entity proptionately consolidated	Presentation of entity using equity method	December 31, 2012 (Restated)
Sales	$ 350,447	(145)	-	$ 350,302
Cost of goods sold	276,190	1,587	-	277,777
	74,257	(1,732)	-	72,525
Administrative and selling	32,837	(301)	-	32,536
Net finance costs	24,388	(1)	-	24,387
Other income	(2,412)	67	(1,054)	(3,399)
Research and development	1,759	-	-	1,759
	56,572	(235)	(1,054)	55,283
Earnings before income taxes	17,685	(1,497)	-	17,242
Income tax expense	(5,019)	(443)	-	(5,462)
Earnings for the period	$ 22,704	$ (1,054)	$ -	$ 22,704

For the consolidated statements of cash flows the net cash flows adjusted were $0.3 million.

Related Party Transactions

Clearwater often transacts in the normal course of business with other related parties. The details are as follows for the year ended December 31, 2013 and 2012:

Key management personnel

Clearwater has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2013 and 2012.

Year ended December 31		2013		2012
Wages and salaries	**$**	**3,792**	$	3,023
Share-based compensation		**5,861**		2,331
Bonuses		**1,290**		1,380
Other benefits		**606**		371
	$	**11,549**	$	7,105

Transactions with other related parties

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

Clearwater had the following transactions and balances with CFFI, for the year ended December 31, 2013 and December 31, 2012:

		December 31, 2013		December 31, 2012
Opening balance due from CFFI	**$**	**1,596**	$	2,111
Management and other fees charged to (from) CFFI		**122**		(198)
Rent and IT service fees charged to CFFI		**184**		184
Interest on intercompany account		**78**		103
Guarantee fee charged from CFFI		**-**		(62)
Aircraft charges from CFFI		**-**		(38)
Payments from CFFI		**(466)**		(925)
Advances to CFFI		**-**		166
Other charges to CFFI		**10**		255
	$	**1,524**	$	1,596

The amount due from CFFI is unsecured and due on demand. As such the account has been classified as a current asset included in prepaids and other. The balance bears interest at a rate of 5%. Fees amounting to 1% of the guarantees were charged to Clearwater. With the debt refinancing in 2012 and 2013 CFFI no longer provides a guarantee on the senior debt facilities for Clearwater.

In addition, Clearwater expensed approximately $0.07 million for vehicle leases in 2013 (2012 - $0.11 million) and approximately $0.11 million for other services in 2013 (2012 - $0.17 million) by companies related to its parent. The transactions are recorded at the exchange amount and the balance due to these companies was $0.01 million as at December 31, 2013 (December 31, 2012 - $0.02 million).

Clearwater recorded sales, sales commissions and storage fees to a non-controlling interest in a consolidated partnership. These sales, sales commissions, and storage fees are at prevailing market prices and are settled on normal trade terms. Sales to the non-controlling interest for 2013 are $1.2 million (2012 - $1.0 million). Sales commissions in 2013 are $2.0 million (2012 - $1.9 million). Storage fees for 2013 are $1.7 million (2012 - $2.1 million).

Clearwater recorded legal expense for services provided by a Director of the corporation for 2013 of $0.03 million (2012 - $ nil).

At December 31, 2013 Clearwater had a balance of $8.8 million (December 31, 2012 - $7.7 million), included in long term receivables, for interest and non interest bearing advances and loans made to a non-controlling interest shareholder in a subsidiary (refer to Note 8).

Commitments

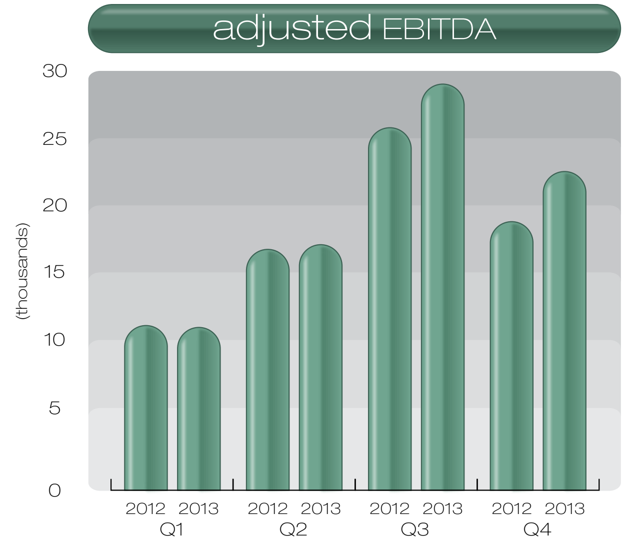
The following are the contractual maturities of non-derivative financial liabilities, derivative financial instruments, operating lease and other commitments at December 31, 2013. The table includes undiscounted cash flows of financial liabilities, operating lease and other commitments, interest and principal cash flows based on the earliest date on which Clearwater is required to pay.

December 31, 2013	Carrying Amount	Contractual Cash Flow	2014	2015	2016	2017	2018	>2019
Interest - long-term debt		79,519	11,899	11,132	10,963	10,788	10,072	24,665
Principal repayments - long-term debt		257,769	14,297	3,762	3,985	3,784	27,234	204,707
Total long-term debt	257,325	337,288	26,196	14,894	14,948	14,572	37,306	229,372
Trade and other payables	40,760	40,760	40,760	-	-	-	-	-
Operating leases and other	-	48,954	31,522	3,115	2,034	1,990	1,845	8,448
Derivative financial instruments - asset	(1,466)	(1,466)	(1,466)	-	-	-	-	-
Derivative financial instruments - liability	6,869	6,869	6,869	-	-	-	-	-
	$ 303,488	$ 432,405	$ 103,881	$ 18,009	$ 16,982	$ 16,562	$ 39,151	$ 237,820

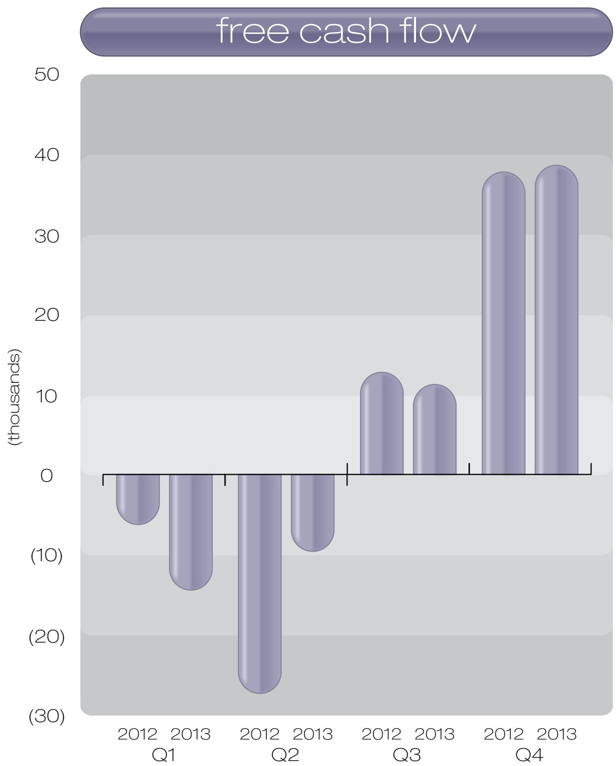
seasonality

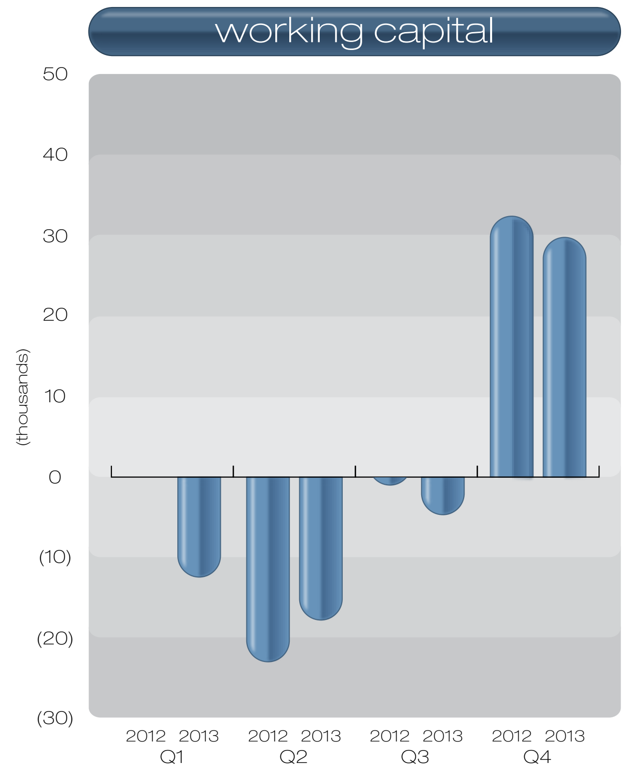
Profitability

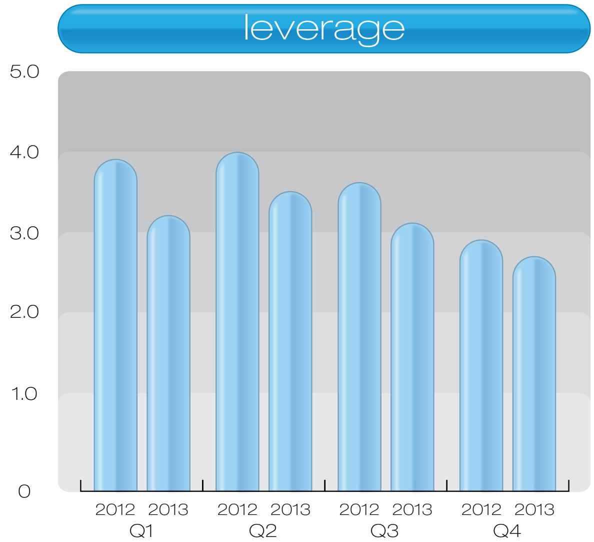
Clearwater's operations experience a predictable seasonal pattern in which sales, margins and adjusted EBITDA are higher in the second half of the year and investments in capital expenditures and working capital are lower, resulting in higher free cash flows and lower leverage in the second half of the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



Free Cash Flows, Leverage and Working Capital







SUMMARY OF QUARTERLY RESULTS

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

In 000's of Canadian dollars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2013				
Sales	$ 68,297	$ 95,368	$113,982	111,012
Earnings (loss)	(1,762)	(9,866)	27,224	(298)
Earnings (loss) per share ("EPS")	(0.06)	(0.24)	0.48	(0.06)
Diluted earnings (loss) per share[2]	(0.06)	(0.24)	0.47	(0.06)
Fiscal 2012				
Sales	$ 70,878	$ 84,926	$101,553	$ 92,945
Earnings (loss)	(2,927)	(2,505)	17,618	10,518
Earnings (loss) per share ("EPS")	(0.09)	(0.08)	0.30	0.17
Diluted earnings (loss) per share[2]	(0.09)	(0.08)	0.27	0.15
Fiscal 2011				
Sales	$ 69,235	$ 78,820	$ 97,590	$ 87,140
Earnings (loss)	1,832	(327)	5,058	16,390
Earnings (loss) per share ("EPS")[1]	0.01	(0.02)	0.05	0.28
Diluted earnings (loss) per share[2]	0.01	(0.02)	0.05	0.23

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

2 - Diluted earnings (loss) per share are anti-dilutive for all periods except September 28, 2013, September 29, 2012, December 31, 2011 and December 31, 2012.

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

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

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

Earnings for the second quarter of 2013 include $3.3 million in future tax recovery, $9.2 million in debt settlement fees and writedowns on deferred financing charges related to the June 2013 refinancing.

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

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

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

DEFINITIONS AND RECONCILIATIONS

Gross margin

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

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

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

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

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

Reconciliation of earnings to adjusted EBITDA for the 13 weeks ended, and the year ended December 31, 2013 and 2012 is as follows:

	13 weeks ended		Year Ended	
	December 31 2013	December 31 2012	December 31 2013	December 31 2012
Earnings	$ (298)	$ 10,518	$ 15,298	$ 22,704
Add (deduct):				
Income taxes	987	(6,916)	(8,101)	(5,019)
Taxes and depreciation for equity investment	237	-	951	-
Depreciation and amortization	7,261	6,587	24,171	22,976
Interest on long-term debt and bank charges	3,852	4,829	17,310	21,506
	12,039	15,018	49,629	62,167
Add (deduct) other non-routine items:				
Unrealized foreign exchange and derivative income	10,853	3,129	11,493	(3,476)
Fair market value on long term debt	(1,009)	(128)	(1,710)	2,898
Realized foreign exchange on working capital	(2,449)	(808)	3,586	1,359
Restructuring and refinancing costs	-	84	10,642	6,964
Stock based compensation	2,913	1,517	5,861	2,331
(Gain)/Loss on disposal of assets and quota	-	-	(398)	-
Gain on settlement of debt	-	-	-	-
Adjusted EBITDA	**$ 22,347**	**$ 18,812**	**$ 79,103**	**$ 72,243**
Adjusted EBITDA attributable to:				
Non-controlling interests	$ 3,847	$ 3,397	$ 14,021	$ 12,848
Shareholders of Clearwater	18,500	15,415	65,082	59,395
	$ 22,347	**$ 18,812**	**$ 79,103**	**$ 72,243**

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

Leverage

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

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

Leverage for banking purposes differs from the 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.

Reconciliation of adjusted EBITDA to debt (net of deferred financing charges) for the year ended December 31, 2013 and 2012 is as follows:

In 000's of Canadian dollars As at December 31	December 31 2013	December 31 2012
Adjusted EBITDA[1]	$ 79,103	$ 72,243
Debt (net of deferred financing charges of $0.6 million (December 31, 2012 - $4.4 million))	257,325	253,791
Less cash	(46,793)	(41,504)
Net debt	210,532	212,287
Leverage	2.7	2.9

Free cash flows

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

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

Reconciliation for the 13 weeks ended and the year ended December 31, 2013 and 2012 is as follows:

Free cash flows	13 weeks ended December 31, 2013	December 31, 2012	Year Ended December 31, 2013	December 31, 2012
Adjusted EBITDA	22,347	18,812	79,103	72,243
Less:				
Cash interest	(3,657)	(4,471)	(16,317)	(20,346)
Cash taxes	(270)	(453)	(1,812)	(1,693)
Other income and expense items	514	(1,531)	(863)	(12,448)
Operating cash flow before changes in working capital	**18,933**	**12,357**	**60,110**	**37,756**
Change in working capital	29,816	32,334	(5,448)	8,184
Cash flows from operating activities	**48,749**	**44,691**	**54,662**	**45,940**
Uses of cash:				
Purchase of property, plant, equipment, quota and other assets	(11,182)	(4,219)	(23,813)	(16,572)
Disposal of fixed assets	-	-	978	-
Less: Designated borrowings	6,231	-	7,700	2,056
Scheduled payments on long-term debt	(1,366)	(1,629)	(3,233)	(6,327)
Dividends received from joint venture	-	1,740	1,240	1,740
Distributions to non-controlling interests	(3,707)	(2,780)	(11,414)	(9,491)
Free cash flows	**38,725**	**37,803**	**26,121**	**17,347**
Add/(less):				
Other debt borrowings (repayments) of debt	(7,505)	(10,597)	(20,759)	13,584
Other investing activities	(386)	(459)	(717)	1,358
Other financing activities	-	-	-	-
Change in cash flows for the period	30,834	26,747	4,645	32,288

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 adjusted earnings before interest and taxes ("EBIT") to average total assets including all working capital assets.

The calculation of adjusted earnings before interest and taxes to total assets for the year ended December 31, 2013 and 2012 is as follows:

In (000's) of Canadian dollars **As at** **Return on Assets**	**December 31, 2013**	**December 31, 2012**
Adjusted earnings before interest and taxes	54,936	49,768
Total Assets	414,582	410,789
	13.3%	12.1%

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Clearwater Seafoods Incorporated

We have audited the accompanying consolidated financial statements of Clearwater Seafoods Incorporated, which comprise the consolidated statements of financial position as at December 31, 2013, December 31, 2012, and January 1, 2012 the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Clearwater Seafoods Incorporated as at December 31, 2013, December 31, 2012, and January 1, 2012 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
February 26, 2014
Halifax, Canada

Clearwater Seafoods Incorporated
Management's Statement of Responsibility for Financial Reporting

The consolidated financial statements and all related financial information contained in the annual report, including Management's Discussion and Analysis, are the responsibility of the Management of Clearwater Seafoods Incorporated. They have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information contained in the annual report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of Clearwater Seafoods Incorporated is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of non-management directors. The Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board.

KPMG LLP, the independent auditors appointed by the Board, have audited Clearwater Seafoods Incorporated's consolidated financial statements in accordance with generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

February 26, 2014

Ian D Smith

Ian Smith
Chief Executive Officer

Robert Wight
Vice-President, Finance and Chief Financial Officer

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	December 31, 2013	December 31, 2012	January 1, 2012
		(Restated) (Note 3(o))	(Restated) (Note 3(o))
ASSETS			
Current assets			
Cash	**$ 46,793**	$ 41,504	$ 9,216
Trade and other receivables (Note 5)	**43,702**	43,168	41,681
Inventories (Note 6)	**46,987**	51,793	61,714
Prepaids and other (Note 7)	**6,291**	6,981	10,207
Derivative financial instruments (Note 13)	**1,466**	4,185	1,075
	145,239	147,631	123,893
Non-current assets			
Long term receivables (Note 8)	**10,442**	10,647	10,293
Other assets (Note 9)	**296**	1,245	2,066
Property, plant and equipment (Note 10)	**126,451**	126,580	129,225
Licences and fishing rights (Note 11)	**101,467**	104,568	107,725
Investment in equity investee (Notes 3(o) and 22)	**4,701**	3,868	4,566
Deferred tax assets (Note 18)	**18,943**	9,207	1,594
Goodwill (Note 11)	**7,043**	7,043	7,043
	269,343	263,158	262,512
TOTAL ASSETS	**$ 414,582**	$ 410,789	$ 386,405
LIABILITIES			
Current liabilities			
Trade and other payables	**$ 40,760**	$ 44,564	$ 40,838
Income tax payable (Note 18)	**648**	310	1,655
Current portion of long-term debt (Note 12)	**14,297**	15,527	42,766
Derivative financial instruments (Note 13)	**6,869**	3,639	1,097
	62,574	64,040	86,356
Non-current liabilities			
Long-term debt (Note 12)	**243,028**	238,264	204,334
Deferred tax liabilities (Note 18)	**1,453**	1,964	1,663
	244,481	240,228	205,997
SHAREHOLDERS' EQUITY			
Share capital (Note 14)	**64,780**	64,867	65,309
Retained earnings (deficit)	**19,762**	14,616	(835)
Cumulative translation account	**(5,470)**	(3,866)	(3,122)
	79,072	75,617	61,352
Non-controlling interest	**28,455**	30,904	32,700
	107,527	106,521	94,052
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**$ 414,582**	$ 410,789	$ 386,405

Subsequent event (Note 14)

See accompanying notes to consolidated financial statements

Approved by the Board:

John Risley
Director

Colin MacDonald
Chairman

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Earnings

(In thousands of Canadian dollars)

Year ended December 31		2013		2012
				(Restated) (Note 3(o))
Sales	**$**	**388,659**	$	350,302
Cost of goods sold		**301,291**		277,777
		87,368		72,525
Administrative and selling		**39,005**		32,536
Net finance costs (Note 15)		**42,747**		24,387
Other income (Note 16)		**(3,240)**		(3,399)
Research and development		**1,659**		1,759
		80,171		55,283
Earnings before income taxes		**7,197**		17,242
Income tax recovery (Note 18)		**(8,101)**		(5,462)
Earnings for the year	**$**	**15,298**	$	22,704
Earnings attributable to:				
Non-controlling interest	**$**	**8,965**	$	7,695
Shareholders of Clearwater		**6,333**		15,009
	$	**15,298**	$	22,704
Basic earnings per share (Note 17)	$	0.12	$	0.29
Diluted earnings per share (Note 17)	$	0.12	$	0.29

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Comprehensive Income

(In thousands of Canadian dollars)

Year ended December 31		2013		2012
Earnings for the year	**$**	**15,298**	$	22,704
Other comprehensive loss -				
Items that may be reclassified subsequently to earnings:				
Foreign currency translation differences of foreign operations		**(1,604)**		(744)
Total comprehensive income	**$**	**13,694**	$	21,960
Total comprehensive income attributable to:				
Non-controlling interest	**$**	**8,965**	$	7,695
Shareholders of Clearwater		**4,729**		14,265
	$	**13,694**	$	21,960

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Shareholders' Equity

(In thousands of Canadian dollars)

	Common Shares	Retained earnings (deficit)	Cumulative Translation Account	Non-controlling interest	Total
Balance at January 1, 2012	**$ 65,309**	**$ (835)**	**$ (3,122)**	**$ 32,700**	**$ 94,052**
Total comprehensive income for the year	-	15,009	(744)	7,695	21,960
Transactions recorded directly in equity					
Distributions to non-controlling interest	-	-	-	(9,491)	(9,491)
Redemption of 2013 convertible debentures (Note 14)	(442)	442	-	-	-
Total transactions with owners	(442)	442	-	(9,491)	(9,491)
Balance at December 31, 2012	**$ 64,867**	**$ 14,616**	**$ (3,866)**	**$ 30,904**	**$ 106,521**
Total comprehensive income for the year	-	6,333	(1,604)	8,965	13,694
Transactions recorded directly in equity					
Distributions to non-controlling interest	-	-	-	(11,414)	(11,414)
Dividends declared on common shares	-	(1,274)	-	-	(1,274)
Redemption of 2014 convertible debentures (Note 14)	(87)	87	-	-	-
Total transactions with owners	(87)	(1,187)	-	(11,414)	(12,688)
Balance at December 31, 2013	**$ 64,780**	**$ 19,762**	**$ (5,470)**	**$ 28,455**	**$ 107,527**

See accompanying notes to consolidated financial statements

CLEARWATER SEAFOODS INCORPORATED
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Year ended December 31		2013		2012
				(Restated) (Note 3(o))
Operating				
Earnings for the year	$	15,298	$	22,704
Adjustments for:				
Depreciation and amortization		24,167		22,475
Net finance costs		36,409		23,714
Income tax recovery		(8,101)		(5,462)
Share-based compensation		5,861		2,332
Gain on disposal of property, plant, and equipment, and other		(747)		(478)
Earnings in equity investee (Note 22)		(2,082)		(1,054)
Foreign exchange and other		6,239		42
		77,044		64,273
Change in operating working capital (Note 25)		(1,297)		2,728
Interest paid		(20,464)		(17,137)
Income tax paid		(621)		(3,924)
	$	54,662	$	45,940
Financing				
Repayment of long-term debt	$	(260,320)	$	(189,256)
Net proceeds from long-term debt		245,288		216,084
Repayment of revolving credit facility		-		(17,515)
Distributions to non-controlling interest		(11,414)		(9,491)
Dividends paid on common shares		(1,274)		-
Government assistance received (Note 10)		15		-
	$	(27,705)	$	(178)
Investing				
Purchase of property, plant, equipment, quota and other	$	(23,813)	$	(16,572)
Proceeds on disposal of property, plant, equipment, quota and other		978		509
Dividends received from joint venture		1,240		1,740
Purchase of other assets		(83)		-
Net (advances) receipts in long term receivables		(634)		849
	$	(22,312)	$	(13,474)
INCREASE IN CASH	$	4,645	$	32,288
CASH, BEGINNING OF YEAR		41,504		9,216
Effect of foreign exchange rate changes on cash		644		-
CASH, END OF YEAR	$	46,793	$	41,504

See accompanying notes to consolidated 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 units of Clearwater Seafoods Limited Partnership ("CSLP").

The consolidated financial statements of Clearwater as at and for the years ended December 31, 2013 and 2012 comprise the company, its subsidiaries and 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

The financial statements were authorized for issue by Clearwater's Board of Directors on February 26, 2014.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items measured at fair value through profit or loss:

- Derivative financial instruments
- Financial instruments
- Liabilities for cash settled share-based compensation arrangements

The fair value measurements have been described in the notes.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Clearwater's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand except as otherwise noted.

(d) Critical judgments and estimates in applying accounting policies

The preparation of financial statements requires management to make estimates, judgments and assumptions that materially affect the amounts reported in the consolidated financial statements and accompanying notes. Management bases assumptions, estimates and judgments on historical experience, current trends and events, and all available information that management believes is relevant at the time it prepares the financial statements. Actual results could ultimately differ materially from these estimates.

The following are the most important accounting policies subject to such judgment and sources of key estimation uncertainty that Clearwater believes could have the most significant impact on the reported results and financial position:

The information in this note is grouped by accounting policy to include:

- Key sources of estimation uncertainty
- Judgments management made in the process of applying Clearwater's accounting policies

i. Income taxes

Key sources of estimation uncertainty

Accounting for income taxes is based upon evaluation of income tax rules in all jurisdictions where Clearwater performs activities. In determining the provision for current and deferred income taxes, Clearwater makes assumptions about temporary and permanent differences between accounting and taxable income, and substantively enacted income tax rates. Changes in tax law and the level and geographical mix of earnings will impact the effective tax rate. With respect to deferred taxes, Clearwater makes assumptions about when deferred tax assets are likely to reverse, the extent to which it is probable that temporary differences will reverse and whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. Clearwater recognizes deferred tax assets only to the extent that it considers it probable that those assets will be recoverable.

Judgments made in relation to accounting policies applied

Clearwater makes judgments about whether to recognize the benefit of deferred tax assets. In making this judgment Clearwater continually evaluates all positive and negative evidence. Clearwater's evaluation includes the magnitude and duration of any past losses, current profitability and whether it is sustainable, and earnings forecasts.

For further discussion on deferred income taxes refer to note 18.

ii. Goodwill and intangible assets

Key sources of estimation uncertainty

Clearwater conducts impairment testing on its goodwill and intangible assets annually in the third quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Clearwater determines the fair value of each CGU to which goodwill and intangible assets are allocated using the value in use method, which estimates fair value using a discounted five-year forecasted cash flow estimate with a terminal value. The determination of the recoverable amount involves estimates and assumptions for future sales, product margins, market conditions, allowable catch rates, and appropriate discount rates.

Judgments made in relation to accounting policies applied

In performing its impairment testing, Clearwater makes judgments in determining its cash generating units, and the allocation of working capital assets and liabilities and corporate assets to the cash generating units.

For further discussion on goodwill and intangible assets, refer to note 11.

iii. Share-based compensation

Key sources of estimation uncertainty

Clearwater determines compensation expense for share-based compensation using market-based valuation techniques. Clearwater determines the fair value of the market-based and performance-based non-vested share awards at the date of grant using black-scholes and Monte Carlo simulation valuation models. Certain performance-based share awards require Clearwater to make estimates of the likelihood of achieving company and corporate peer group performance goals.

Clearwater makes assumptions in applying valuation techniques including estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee shared based plan option exercise behaviors and corporate performance. Such assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

For further discussion on share-based compensation, refer to note 24.

iv. Derivative financial instruments

Key sources of estimation uncertainty

Clearwater records the fair value of certain financial liabilities using valuation models where the fair value cannot be determined in active markets.

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

For further discussion on derivative financial instruments, refer to note 13.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

i) Business Combinations

Clearwater measures goodwill as the excess of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Clearwater elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that Clearwater incurs in connection with a business combination are expensed as incurred.

ii) Subsidiaries

Subsidiaries are entities controlled by Clearwater. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

iii) Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The results and assets and liabilities of the joint venture are incorporated into these consolidated financial statements using the equity method of accounting. Under the equity method a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize Clearwater's share of the profit or loss and other comprehensive income of the joint venture.

iv) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Inventories

Inventories consist primarily of finished goods and are stated at the lower of cost and net realizable value. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overheads, administration and depreciation, determined on a first-in, first-out basis. Net realizable value is estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

(c) Property, plant and equipment

Property, plant and equipment is measured at cost, less government assistance received, accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and location, and borrowing costs.

Additions are depreciated commencing in the month that they are available for use. Vessel refits are capitalized when incurred and amortized over the period between scheduled refits. Construction in progress assets are capitalized during the construction period and depreciation commences when the asset is available for use.

Depreciation is provided on a straight line basis to depreciate the cost of each of the components of an item of property, plant and equipment over their estimated useful lives. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Estimated useful lives are the following:

Asset Component	**Rate**
Buildings and wharves	10 to 40 years
Plant equipment	3 to 20 years
Vessels	15 to 30 years
Vessel equipment	1 to 7 years

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Clearwater and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between the proceeds from disposal and the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively if appropriate.

(d) Intangible assets

i) Goodwill

Goodwill is the residual amount that results when the purchase of a business exceeds the sum of the amounts allocated to the net assets acquired based on their fair values. Goodwill is allocated to Clearwater's cash generating units that are expected to benefit from the acquisition synergies.

Goodwill is measured at cost less impairment losses.

ii) Licenses and fishing rights

Licenses represent intangible assets acquired directly or in a business combination that meet the specified criteria for recognition apart from goodwill and are recorded at their fair value at the date of acquisition and are subsequently carried at cost.

Licenses that have indefinite lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Fishing rights arise from contractual rights to fish quotas, have definite lives and are amortized over the term of the related operating agreement.

(e) Revenue recognition

Clearwater sells seafood in a fresh or frozen state to customers. These sales are evidenced by purchase orders/invoices, which set out the terms of the sale, including pricing and shipping terms. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of allowance for returns and discounts.

(f) Government assistance

Government assistance received by Clearwater relates to items of property, plant and equipment.

Government assistance is deducted from the carrying amount of the related asset and amortized over the same estimated useful life of the particular asset to which it relates.

Clearwater does not have any government assistance that could potentially be required to be repaid, nor are there any forgivable loans.

(g) Financial instruments

Clearwater has the following non-derivative and derivative financial assets and liabilities that are classified into the following categories:

Financial instrument	Category	Measurement Method
Cash	Fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Initial: Fair value Subsequent: Amortized cost through profit or loss
Long term receivables	Loans and receivables	
Trade and other payables	Non-derivative financial liabilities	
Long-term debt	Non-derivative financial liabilities	
Derviative financial instruments	Derivative financial instruments	Fair value

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at their fair values plus any attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method, with gains and losses recognized in profit or loss in the period in which they arise.

Non-derivative liabilities

Non-derivative liabilities are debt securities and subordinated liabilities that are initially measured at fair value plus attributable transaction costs, and subsequently measured at amortized cost, with gains and losses recognized in profit or loss in the period in which they arise.

Derivative financial instruments

Clearwater enters into a variety of derivative financial instruments to manage its exposure to foreign exchange and interest rate risks, including foreign exchange forward contracts, interest rate swaps, caps, and floors.

Embedded derivatives are contained in non-derivative host contracts and are treated as separate derivatives when they meet the definition of a derivative, and their risks and characteristics are not closely related to those of the host contracts.

Derivative financial instruments and embedded derivatives are recorded at fair value with mark to market adjustments recorded in profit or loss.

(h) Impairment

i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to Clearwater on terms that Clearwater would not consider otherwise or indications that a debtor will enter bankruptcy.

Clearwater considers evidence of impairment for receivables on a specific customer basis.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

Clearwater reviews non-financial assets at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives an annual impairment test is performed.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). Goodwill and the intangible assets acquired in a business combination are allocated to the CGU, or the group of CGUs, that are expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that asset is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the unit on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates and assumptions used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Translation of foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to an entity's functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the entity's functional currency at the exchange rate at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) Foreign operations

The assets and liabilities for foreign operations with a functional currency different from Clearwater's presentation currency, including goodwill, other intangible assets and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at average exchange rates.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

When a foreign operation is disposed of, all relevant amounts in the cumulative translation account are transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that does not result in loss of control the relevant proportion of such cumulative translation account is reattributed to non-controlling interest and not recognized in profit or loss.

(j) Income taxes

Income tax expense is comprised of current and deferred income tax. Current tax and deferred income tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Taxable earnings differs from earnings as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in years other than the current reporting period or items that are never taxable or deductible.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: differences relating to investments in subsidiaries and joint venture to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Borrowing costs

Clearwater capitalizes borrowing costs attributable to the acquisition, or construction of its qualifying assets, which are assets that necessarily take a substantial period of time to ready for their intended use, as they are being constructed. Other borrowing costs are recognized as an expense of the period in which they are incurred.

(l) Finance costs

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets and liabilities measured at fair value through profit or loss, impairment losses recognized on derivative financial assets and liabilities and gains and losses on financial instruments that are recognized in profit or loss. Borrowing costs determined to be period costs, or the amortization of such costs are recorded through profit or loss.

Foreign currency gains and losses are reported on a net basis.

(m) Share-based compensation

Clearwater has share-based compensation plans, which are described below.

Share Appreciation Rights (“SARs”)

The share appreciation rights plan is a phantom share plan that provides the holder a cash payment equal to the fair market value of Clearwater’s shares less the grant price. SARs vest over a three year period and have no expiry.

Deferred Share Units ("DSUs")

There are two deferred share unit plans ("DSUs") that provide the holder a cash payment equal to the fair market value of Clearwater's shares on the date of settlement. The retention DSU plan awards vest once the holder reaches the age of 65 with continued employment by Clearwater, or death. The director DSU plan allows non-employee directors to receive, in the form of deferred share units, all or a percentage of director's fees, which would be otherwise payable in cash. Each director DSU vests at grant date.

Performance Share Units ("PSUs")

The performance share unit plan ("PSUs") provides the holder with the opportunity to receive a cash payment based upon the relative performance of Clearwater shares to its pre-defined peer group. Performance is based on the total return to shareholders over the defined period. Vested units will be settled in cash at the end of the performance period.

All plans are cash settled and are recorded as liabilities at fair market value at each reporting period with changes in fair value recorded to profit and loss. The fair value of the SAR and DSU plans are calculated using a black-scholes valuation model and the PSU plan is calculated using a Monte Carlo simulation model. Compensation expense is recognized based on the fair value of the awards that are expected to vest and remain outstanding at the end of the reporting period.

The share-based compensation liability is included in trade and other payables in the consolidated statement of financial position and the related compensation expense in administrative expense in the statement of earnings.

(n) Earnings per share

Basic earnings per share is calculated by dividing earnings for the year attributable to the shareholders of Clearwater by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing earnings for the year attributable to the shareholders of Clearwater by the weighted average number of common shares outstanding and the voting rights attributable to the convertible debentures outstanding during the year. The calculation of the potential dilutive common shares assumes the exercise of all convertible debentures outstanding.

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

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

IFRS 10 Consolidated Financial Statements

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

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

IFRS 11 Joint Arrangements

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

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

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

Impact of application of IFRS 11 to Consolidated Statements of Financial Position

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

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

Impact of application of IFRS 11 to Consolidated Statements of Earnings

In thousands of Canadian dollars	December 31, 2012 (Previously stated)	Elimination of entity proptionately consolidated	Presentation of entity using equity method	December 31, 2012 (Restated)
Sales	$ 350,447	(145)	-	$ 350,302
Cost of goods sold	276,190	1,587	-	277,777
	74,257	(1,732)	-	72,525
Administrative and selling	32,837	(301)	-	32,536
Net finance costs	24,388	(1)	-	24,387
Other income	(2,412)	67	(1,054)	(3,399)
Research and development	1,759	-	-	1,759
	56,572	(235)	(1,054)	55,283
Earnings before income taxes	17,685	(1,497)	-	17,242
Income tax expense	(5,019)	(443)	-	(5,462)
Earnings for the period	$ 22,704	$ (1,054)	$ -	$ 22,704

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 Disclosure of Interests in Other Entities provides a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). Clearwater has adopted IFRS 12 effective January 1, 2013. The adoption of IFRS 12 has resulted in incremental disclosures in Notes 21 and 22.

IFRS 13 Fair Value Measurement

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

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

(p) New accounting standards and interpretations

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Effective date (i)	Proposed standards	Description	Impact
2014			
January 1, 2014, applied retrospectively	Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.	Clearwater is reviewing the standard to determine the potential impact, if any; however no significant impact is anticipated.
January 1, 2014, applied retrospectively	Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets	Amendments were issued that clarify disclosure requirements for the recoverable amount of an asset or cash-generating unit	Clearwater is reviewing the standard to determine the potential impact, if any; however no significant impact is anticipated.
2015			
Pending IASB decision	IFRS 9 – Financial Instruments	Initially issued guidance on the classification and measurement of financial assets. Additional guidance was issued on the classification and measurement of financial liabilities. Further, amendments were issued which modify the requirements for transition from IAS 39 to IFRS 9. Further announced as part of the Limited Amendments to IFRS 9 project, the IASB tentatively decided to defer the mandatory effective date pending the finalization of the impairment and classification and measurement requirements.	Clearwater is reviewing the standard to determine the potential impact, if any.

(i) Effective for annual periods on or after the stated date

(In thousands of Canadian dollars)

4. EMPLOYEE COMPENSATION

Employee compensation is classified in the consolidated statement of earnings based on the related nature of the service performed. The following table reconciles Clearwater's compensation expense items to where the amounts are presented on the consolidated statement of earnings:

Year ended December 31	**2013**	**2012**
		(Restated) (Note 3(o))
Salaries and benefits	**$ 96,610**	$ 86,151
Share-based compensation	**5,861**	2,332
	$ 102,471	$ 88,483
Cost of goods sold	**$ 70,798**	$ 62,649
Administrative and selling	**31,673**	25,834
	$ 102,471	$ 88,483

5. TRADE AND OTHER RECEIVABLES

	December 31 2013	**December 31 2012**
		(Restated) (Note 3(o))
Trade receivables	**$ 37,187**	$ 35,453
Other receivables	**6,515**	7,715
	$ 43,702	$ 43,168

Included in other receivables is $4.3 million (December 31, 2012 - $5.5 million) of input tax receivables and $2.2 million (December 31, 2012 - $2.3 million) of other receivables.

(In thousands of Canadian dollars)

6. INVENTORIES

	December 31 2013	December 31 2012 (Restated) (Note 3(o))
Goods for resale	**$ 36,550**	$ 41,960
Supplies and other	**10,437**	9,833
	$ 46,987	$ 51,793

In 2013 inventory costs of $281.6 million (2012 - $255.4 million) were recognized in cost of goods sold. Clearwater incurred $1.7 million (2012 - $0.7 million) in inventory write-downs included in cost of goods sold. Refer to note 12 for assets pledged as security for long term debt.

7. PREPAIDS AND OTHER

	December 31 2013	December 31 2012 (Restated) (Note 3(o))
Prepaids	**$ 4,767**	$ 5,385
Due from related parties (Note 20)	**1,524**	1,596
	$ 6,291	$ 6,981

8. LONG TERM RECEIVABLES

	December 31 2013	December 31 2012
Notes receivable from non-controlling interest holder in subsidiary	**$ 5,893**	$ 4,630
Advances to non-controlling interest holder in subsidiary	**2,895**	3,022
Advances to fishermen	**1,654**	2,995
	$ 10,442	$ 10,647

Notes receivable and advances to non-controlling interest consists of funds that are advanced to a shareholder in an incorporated subsidiary. The advances are non interest bearing and unsecured and have a value of $2.9 million at December 31, 2013 (2012 - $3.0 million).

The notes bear interest at 0% - 12% (2012 – 10% - 12%) are unsecured and have no set terms of repayment.

Advances to fishermen are payable from proceeds of the related catches. Certain of the advances bear interest at prime plus 2% - 3% (2012- prime plus 2% - 3%), are due on demand, and are secured by an assignment of catch, a marine mortgage on the related vessels, equipment and licenses. They are presented as non-current as the entire balances are not expected to be repaid in the current year and it is not Clearwater's intention to demand payment unless the terms of the advance agreements are not met.

9. OTHER ASSETS

	December 31 2013	December 31 2012
Other	**$ 296**	$ 398
Income taxes receivable	**-**	847
	$ 296	$ 1,245

(In thousands of Canadian dollars)

10. PROPERTY, PLANT AND EQUIPMENT ("PPE")

	Land	Building and wharves	Equipment	Vessels	Construction in progress	Total PPE	Deferred Gov't Assistance	Total
Cost								
Balance at January 1, 2013	$ 2,790	$ 65,696	$ 77,303	$ 204,131	$ 5,831	$ 355,751	$ (9,667)	$346,084
Additions	-	22	211	2,837	20,743	23,813	(15)	$ 23,798
Disposals	-	(24)	(3,016)	(6,940)	(35)	(10,015)	-	$(10,015)
Reclassifications and other adjustments	-	351	2,686	(7,201)	(4,254)	(8,418)	720	$ (7,698)
Effect of movements in exchange rates	(7)	(23)	(114)	(1,751)	(430)	(2,325)	-	$ (2,325)
Balance at December 31, 2013	$ 2,783	$ 66,022	$ 77,070	$ 191,076	$ 21,855	$ 358,806	$ (8,962)	$349,844
Depreciation and impairment losses								
Balance at January 1, 2013	$ 995	$ 49,020	$ 68,769	$ 108,008	$ -	$ 226,792	$ (7,288)	$219,504
Depreciation for the year	11	1,592	2,143	18,819	-	22,565	(392)	22,173
Disposals	-	(24)	(3,015)	(6,854)	-	(9,893)	-	(9,893)
Reclassifications and other adjustments	-	-	-	(7,544)	-	(7,544)	399	(7,145)
Effect of movements in exchange rates	-	(10)	(105)	(1,131)	-	(1,246)	-	(1,246)
Balance at December 31, 2013	$ 1,006	$ 50,578	$ 67,792	$ 111,298	$ -	$ 230,674	$ (7,281)	$223,393
Carrying amounts								
At January 1, 2013	$ 1,795	$ 16,676	$ 8,534	$ 96,123	$ 5,831	$ 128,959	$ (2,379)	$126,580
At December 31, 2013	$ 1,777	$ 15,444	$ 9,278	$ 79,778	$ 21,855	$ 128,132	$ (1,681)	$126,451

	Land	Building and wharves	Equipment	Vessels	Construction in progress	Total PPE	Deferred Gov't Assistance	Total
Cost								
Balance at January 1, 2012 (Restated) (Note 3(o))	$ 2,772	$ 63,220	$ 74,594	$ 200,709	$ 4,129	$ 345,424	$ (9,667)	$335,757
Additions (Restated) (Note 3(o))	20	94	774	1,366	14,318	16,572	-	16,572
Disposals	-	-	(439)	(6,948)	(20)	(7,407)	-	(7,407)
Reclassifications and replacement assets	-	2,389	2,406	9,457	(12,391)	1,861	-	1,861
Effect of movements in exchange rates	(2)	(7)	(32)	(453)	(205)	(699)	-	(699)
Balance at December 31, 2012	$ 2,790	$ 65,696	$ 77,303	$ 204,131	$ 5,831	$ 355,751	$ (9,667)	$346,084
Depreciation and impairment losses								
Balance at January 1, 2012 (Restated) (Note 3(o))	$ 984	$ 47,482	$ 67,369	$ 97,579	$ -	$ 213,414	$ (6,882)	$206,532
Depreciation for the year (Restated) (Note 3(o))	11	1,541	1,846	17,631	-	21,029	(406)	20,623
Disposals	-	-	(439)	(6,948)	-	(7,387)	-	(7,387)
Effect of movements in exchange rates	-	(3)	(7)	(254)	-	(264)	-	(264)
Balance at December 31, 2012	$ 995	$ 49,020	$ 68,769	$ 108,008	$ -	$ 226,792	$ (7,288)	$219,504
Carrying amounts								
At January 1, 2012	$ 1,788	$ 15,738	$ 7,225	$ 103,130	$ 4,129	$ 132,010	$ (2,785)	$129,225
At December 31, 2012	$ 1,795	$ 16,676	$ 8,534	$ 96,123	$ 5,831	$ 128,959	$ (2,379)	$126,580

Total depreciation and amortization expense related to property, plant and equipment and definite-life intangible assets for 2013 was $24.2 million (2012 - $22.5 million). In 2013 $23.7 million (2012 - $21.8 million) of depreciation and amortization expense for assets used in the harvesting and production of goods was classified as cost of goods sold and $0.4 million (2012 – $0.7 million) was recorded in administrative and selling for assets used in administrative activities. Refer to note 12 for assets pledged as security for long term debt.

(In thousands of Canadian dollars)

11. INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Indefinite life licenses	Fishing rights	Total
Cost				
Balance at January 1, 2012 (Restated) (Note 3(o))	$ 7,043	$ 85,380	$ 24,094	$ 116,517
Disposal	-	(910)	-	(910)
Foreign currency exchange translation	-	(445)	-	(445)
Balance at December 31, 2012	7,043	84,025	24,094	115,162
Foreign currency exchange translation	-	(1,299)	-	(1,299)
Balance at December 31, 2013	$ 7,043	$ 82,726	$ 24,094	$ 113,863
Accumulated amortization				
Balance at January 1, 2012	$ -	$ -	$ 1,749	$ 1,749
Amortization expense	-	-	1,802	1,802
Balance at December 31, 2012	-	-	3,551	3,551
Amortization expense	-	-	1,802	1,802
Balance at December 31, 2013	$ -	$ -	$ 5,353	$ 5,353
Carrying amounts				
As at December 31, 2012	$ 7,043	$ 84,025	$ 20,543	$ 111,611
As at December 31, 2013	$ 7,043	$ 82,726	$ 18,741	$ 108,510

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

Indefinite life licenses and Goodwill

Annual impairment testing for each cash generating unit (“CGU”) was performed using a value in use approach as of September 28, 2013. The recoverable amounts for all CGU’s were determined to be higher than their carrying amounts and no impairments were recorded during 2013 or 2012. The value in use approach was determined by discounting the projected future cash flows generated from the continuing earnings from operations for the applicable CGU. Unless otherwise indicated in notes i – iii (below), the assumptions used in the value in use approach for 2013 were determined in a consistent manner to 2012.

(In thousands of Canadian dollars)

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

	December 31, 2013	December 31, 2012
Scallops		
Goodwill - $ nil (December 31, 2012 $ nil)		
Indefinite life licenses - $56.5 million (December 31, 2012 $57.8 million)	56,599	57,849
All other CGU's individually without significant carrying value		
Goodwill - $7.0 million (December 31, 2012 $7.0 million)		
Indefinite life licenses - $26.1 million (December 31, 2012 $26.2 million)	33,170	33,219
	89,769	91,068

The discounted cash flows used in determining the recoverable amounts for the Scallops and other CGU's were based on the following key assumptions:

i) Cash flows from operations were projected for a period of five years based on a combination of past experience, actual operating results and Board approved 2014 forecasted earnings. Terminal values and forecasts for future periods were extrapolated using inflation rates of 1.0% (2012: 1.0%). Gross margins for all future periods were determined using a combination of forecasted and historical margins.

ii) Pre-tax discount rates ranging from 13% - 18% (2012: 12% - 17%) were applied in determining the recoverable amount of the CGU's. The discount rates were estimated based upon weighted average cost of capital, and associated risk for the CGU.

iii) Cash flow adjustments for capital expenditures were based upon the Board approved capital expenditure forecast, and terminal year capital expenditures were based on required refits over the period of the fishing license.

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

The estimated recoverable amount of the cooked and peeled CGU exceeded its carrying amount by approximately $4.6 million (2012: $4.3 million). Clearwater has identified a key assumption for which a possible change could cause the carrying amount to exceed the recoverable amount. The forecasted gross margin percentage would need to decrease by 3% in order for the CGU's recoverable amount to approximate the carrying value.

Definite life fishing rights

Amortization relates to fishing rights. Amortization is allocated to the cost of inventory and is recognized in cost of goods sold as inventory is sold.

(In thousands of Canadian dollars)

In 2013 there have been no additions or disposals. In 2012 Clearwater disposed of non-core groundfish and snow crab fishing quotas with a net book value of $0.9 million for proceeds of $2.0 million resulting in a gain of $1.1 million.

Refer to note 12 for assets pledged as security for long term debt.

12. LONG-TERM DEBT

	December 31, 2013	December 31, 2012
Term loans (b)		
Term loan A, due June 2018	**$ 29,700**	$ -
Delayed draw term loan A, due June 2018	**(608)**	-
Term loan B, due June 2019	**207,197**	-
Term loan B, embedded derivative	**4,704**	-
Term loan, due in 2014 (c)	**10,642**	-
Marine mortgage, due in 2017 (d)	**1,785**	2,697
Term loan, due in 2091 (e)	**3,500**	3,500
Other loans	**405**	627
Term loan A, repaid in June 2013 (f)	**-**	72,259
Term loan B, repaid in June 2013 (f)	**-**	125,781
Term loan B, embedded derivative, extinguished in June 2013 (f)	**-**	4,205
2014 Convertible debentures - redeemed in July 2013 (g)	**-**	44,722
	257,325	253,791
Less: current portion	**(14,297)**	(15,527)
	$ 243,028	$ 238,264

(a) Clearwater has a CDN $75.0 million revolving facility that matures in June 2018. The facility can be denominated in Canadian and US dollars. As at December 31, 2013 the balances are CDN $ nil (December 31, 2012 - $ nil) and USD of $ nil (December 31, 2012 - $ nil). The CDN balances bear interest at the banker's acceptance rate plus 3.25%. The USD balances bear interest at the US Libor rate plus 3.25%. As of December 31, 2013 this results in effective rates of 4.45% for CDN balances and 3.50% for USD balances. The facility has a provision that, subject to certain conditions, allows Clearwater to expand the facility by a maximum of CDN $25.0 million. The availability of this facility is reduced by the term loan outstanding in note (c), as such the balance available as at December 31, 2013 is $64.4 million.

(b) Term loans consist of a CDN $30.0 million Term Loan A facility, a CDN $45.0 million Delayed Draw Term Loan A facility, and a USD $200.0 million Term Loan B facility.

Term Loan A - The principal outstanding as at December 31, 2013 is CDN $29.7 million. The loan is repayable in quarterly installments of $0.2 million to June 2015, $0.4 million from

September 2015 to June 2017, and $0.8 million from September 2017 to March 2018 with the balance due at maturity in June 2018. Bears interest payable monthly at the banker's acceptance rate plus 3.25%. As at December 31, 2013 this resulted in an effective rate of 4.45%.

Delayed Draw Term Loan A - The principal outstanding as at December 31, 2013 is CDN $ nil. The balance is shown net of deferred financing charges of CDN $0.6 million. The facility is repayable in quarterly installments of 1.25% of the principal amount drawn under the facility with repayment to begin in the first quarter after the final draw on the facility. The facility matures in June 2018 and bears interest payable monthly at the banker's acceptance rate plus 3.25%.

Term Loan B - The principal outstanding as at December 31, 2013 is USD $199.0 million. The loan is repayable in quarterly installments of USD $0.5 million with the balance due at maturity in June 2019 and bears interest payable monthly at the US Libor plus 3.50% with a Libor interest rate floor of 1.25%. As of December 31, 2013 this resulted in an effective rate of 4.75%. The facility has a provision that, subject to certain conditions allows Clearwater to expand the facility by a maximum of USD $100.0 million. The embedded derivative represents the fair market value of the Libor interest rate floor of 1.25%. The change in fair market value of the embedded derivative is recorded through profit or loss.

The revolving loan, term loan A, delayed draw term loan A, 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 have covenants that include, but are not limited to, a leverage ratio (for which debt, net of certain cash balances, is compared to EBITDA, excluding non controlling interests in EBITDA and most significant non-cash and non-recurring items) as well as a number of non-financial covenants.

In addition to the minimum principal payments for Term Loan A and B, the loan agreement requires between 25% and 50% of excess cash flow (defined in the loan agreement as EBITDA, excluding non controlling interest in EBITDA and most significant non-cash and non-recurring items less certain scheduled principal payments, certain capital expenditures and certain cash taxes) be repaid starting for the year ended December 31, 2014 based on the previous fiscal year's results upon approval of the annual financial statements. Payments are allocated amongst the term loans on a pro rata basis.

(c) Term Loan - The principal outstanding as at December 31, 2013 is USD $10.0 million. The loan is held through a Clearwater subsidiary. The loan is non amortizing, repayable at maturity in August 2014 and bears interest payable monthly at 6.0%. The loan is secured by a marine vessel. Clearwater provides a guarantee on the term loan.

(In thousands of Canadian dollars)

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

	December 31, 2013	December 31, 2012
YEN	**99,224**	128,991
DKK	**3,957**	6,044
CDN	**-**	154

The mortgage bears interest at UNIBOR plus 1.0% payable semi-annually. Principal payments are required annually as follows:

	2014	2015	2016	2017
YEN	29,767	29,767	29,767	9,923
DKK	2,087	1,870	-	-
CDN	-	-	-	-

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

(e) Term Loan - due in 2091. In connection with this loan, Clearwater makes a royalty payment of $0.3 million per annum in lieu of interest. This equates to an effective interest rate of approximately 8.0%.

(f) On June 26, 2013 Clearwater completed a refinancing of its debt facilities and used the proceeds to repay senior debt facilities that totaled CDN $69.7 million, USD $126.0 million, convertible debentures of CDN $44.4 million and reduce the balance owing on the revolving credit facility.

(g) The 2014 Convertible debentures accrued interest at 7.25% and were convertible at a price of $5.90 per share at the option of the holder. The debentures paid interest semi annually in arrears on March 31 and September 30. The outstanding principal balance of $44.4 million was repaid on July 29, 2013.

(In thousands of Canadian dollars)

13. FINANCIAL INSTRUMENTS

Summary of derivative financial instrument position

	December 31, 2013	December 31, 2012
Derivative financial assets		
Forward foreign exchange contracts	**$ 1,297**	$ 4,185
Interest rate cap contract	**169**	-
	$ 1,466	$ 4,185
Derivative financial liabilities		
Forward foreign exchange contracts	**(6,694)**	(3,439)
Interest rate swap contract	**(175)**	(200)
	$ (6,869)	$ (3,639)

(a) At December 31, 2013 Clearwater had outstanding forward contracts as follows:

Currency	Notional Amount (in 000's)	Average Contract Exchange Amount	Average months to maturity	Fair Value Asset (Liability)
Yen	2,670,000	0.011	1 - 12	$ 1,297
				$ 1,297
USD	113,000	1.046	1 - 12	$ (1,598)
Euro	52,000	1.372	1 - 12	(5,096)
				$ (6,694)

Certain of the USD (2013 - $39.5 million) and Euro (2013 - $2.0 million) forward contracts contain provisions that subject to the spot rate being greater than the contract rate adjust the contract rate by 50% of the excess of the spot rate over the contract rate at maturity.

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

Currency	Notional Amount (in 000's)	Average Contract Exchange Amount	Average months to maturity	Fair Value Asset (Liability)
Yen	2,705,000	0.013	1 - 12	$ 4,185
USD	82,500	0.988	1 - 12	$ (640)
Euro	56,100	1.270	1 - 12	(2,799)
				$ (3,439)

(In thousands of Canadian dollars)

(b) At December 31, 2013 Clearwater had an interest rate swap and interest rate cap contract outstanding as follows:

	Contracted fixed interest rate	Notional Amount (in 000's)	Fair Value Asset (Liability)
Term Loan A - Interest rate swap	5.38%	12,000	$ (175)

The interest rate swap expires December 2015.

	Contracted fixed interest rate	Notional Amount (in 000's)	Fair Value Asset (Liability)
Term Loan A - Interest rate cap	6.25%	12,000	$ 169

The interest rate cap is effective December 2015 and expires in June 2018. Refer to note (g) for additional detail.

(c) At December 31, 2012 Clearwater had an interest rate swap outstanding as follows:

	Contracted fixed interest rate	Notional Amount (in 000's)	Fair Value Asset (Liability)
Term Loan A - Interest rate swap	6.29%	30,000	$ (200)

On June 28, 2013 Clearwater settled the swap as part of its refinancing with gain recorded in profit or loss of $0.2 million.

(In thousands of Canadian dollars)

(d) Foreign exchange and derivative contract gains and losses:

Year ended December 31		2013		2012
Realized loss (gain)				
Foreign exchange contracts and interest rate swap	**$**	**2,752**	$	(3,991)
Working capital, long-term debt, and other		**3,586**		1,359
		6,338		(2,632)
Unrealized loss (gain)				
Foreign exchange on long term debt and other assets		**5,427**		(3,013)
Mark-to-market on foreign exchange contracts		**6,060**		(663)
Mark-to-market on interest rate swap and cap		**6**		200
		11,493		(3,476)
(Note 15)	**$**	**17,831**	$	(6,108)

(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, 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 utilizing 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. As a result Clearwater does not have any significant concentration of credit risk.

As at December 31, 2013, Clearwater's trade accounts receivable aging based on the invoice due date is as follows: 98.5% 0-30 days, 0.5% 31-60 days, and 1.0% over 60 days. As at December 31, 2012, Clearwater's trade accounts receivable aging based on the invoice due date is as follows: 99.0% 0-30 days, 0.2% 31-60 days, and 0.8% over 60 days.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $0.4 million (2012 - $0.5 million). Clearwater reviews accounts past due on a regular basis and provides an allowance on a specific account basis. Accounts are only 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:

(In thousands of Canadian dollars)

December 31	2013	2012
Balance at January 1	$ 459	$ 838
Allowance recognized	814	381
Amounts recovered	(808)	(728)
Amounts written off as uncollectible	(105)	(15)
Foreign exchange revaluation	7	(10)
Foreign exchange translation	26	(7)
Balance at December 31	$ 393	$ 459

(f) Foreign currency exchange rate risk

Foreign exchange risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. Approximately 80% of Clearwater's sales are in currencies other than Canadian dollars, whereas the majority of expenses are in Canadian dollars. As a result fluctuations in foreign exchange rates may have a material impact on Clearwater's financial results.

Risks associated with foreign exchange are partially mitigated by the fact that Clearwater (i) diversifies sales internationally which reduces the impact of any country-specific economic risks; (ii) executes on pricing strategies so as to offset the impact of exchange rates; (iii) limits the amount of long term sales contracts; (iv) regularly reviews economist estimates of future exchange rates; and (v) has implemented a foreign exchange program that focuses on using forward contracts to lock in exchange rates up to 18 months.

The carrying amounts of Clearwater's foreign currency denominated monetary assets and monetary liabilities (excluding derivative financial instruments) as at December 31, 2013 and December 31, 2012 was as follows (as converted to Canadian dollars):

December 31	2013	2012
Cash	$ 22,993	$ 17,596
Trade receivables	30,667	30,770
Other receivables	3,341	4,944
Long term receivables	8,704	7,577
Trade and other payables	(6,377)	(19,421)
Long-term debt	(224,328)	(132,529)
Net balance sheet exposure	$ (165,000)	$ (91,063)

The components of this net exposure by currency are as follows (in local currency '000's) at December 31, 2013:

(In thousands of Canadian dollars)

December 31, 2013	GBP	USD	Yen	Euros	RMB	NOK	DKK	Argentine Peso
Cash	628	10,727	15	2,247	495	-	35,810	180
Trade receivables	560	12,451	177,338	9,027	-	-	6,719	308
Other receivables	(5)	159	-	897	-	-	9	11,405
Long term receivables	-	5,482	-	-	-	-	-	17,589
Trade and other payables	(245)	(913)	-	(891)	1	(64)	(3,294)	(18,411)
Long-term debt	-	(209,157)	(99,224)	-	-	-	(3,957)	-
Net balance sheet exposure	938	(181,251)	78,129	11,280	496	(64)	35,287	11,071

The components of this net exposure by currency are as follows (in local currency ‘000’s) at December 31, 2012:

December 31, 2012	GBP	USD	Yen	Euros	RMB	NOK	DKK	Argentine Peso
Cash	86	11,058	48,445	157	343	-	31,958	92
Trade receivables	679	13,138	249,273	8,728	-	-	12,404	24
Other receivables	(76)	159	-	2,028	-	-	2,594	8,743
Long term receivables	-	4,606	-	-	-	-	-	14,798
Trade and other payables	(149)	(3,549)	(204)	(1,132)	-	(9)	(2,245)	(67,960)
Long-term debt	-	(130,652)	(128,991)	-	-	-	(6,044)	-
Net balance sheet exposure	540	(105,240)	168,523	9,781	343	(9)	38,667	(44,303)

The following table details Clearwater’s sensitivity to a 10% change in the exchange rates against the Canadian dollar. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The change below is calculated based on the net balance sheet exposure.

	2013	2012
GBP	165	87
USD	(19,285)	(10,470)
Yen	79	193
Euros	1,658	1,283
RMB	9	5
NOK	(1)	(0)
DKK	696	680
Argentine Peso	181	(897)

(g) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flow associated with the instrument fluctuate due to changes in market interest rates. Clearwater’s interest rate risk arises from long term borrowings issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk. Clearwater’s debt is carried at amortized cost with the exception of the embedded interest rate floor in Term Loan B. The interest rate floor is a derivative instrument and is recorded at fair value through profit and loss.

Clearwater manages its interest rate risk exposure by using a mix of fixed and variable rate debt. At December 31, 2013, excluding the interest rate swap, approximately 5.5% (2012 – 19.0%) of the $257.3 million (2012 - $253.8 million) of Clearwater's debt was fixed rate debt with a weighted average interest rate of 4.8% (2012 – 6.5%).

(In thousands of Canadian dollars)

A 1% change in interest rates for variable rate borrowings would result in $2.3 million increase (or decrease) in interest expense.

Clearwater has two arrangements to hedge interest rate risk. The first arrangement is an interest rate swap with a December 2015 expiration to effectively swap the variable interest rate for a fixed rate for 40% or $12 million of the outstanding Term Loan A debt facility. This interest rate swap effectively locks in the interest rate on $12.0 million of the Term Loan A facility at an effective interest rate of 5.38%. The second arrangement is an interest rate cap effective December 2015 with a June 2018 expiration to limit the variable interest rate for 40% or $12.0 million of the outstanding Term Loan A debt facility at 6.25%.

The fair value of interest rate swap and interest rate cap at the end of the reporting period is determined by discounting the future cash flows using the yield curves at the end of the reporting period.

(h) Liquidity risk

Liquidity risk is the risk that Clearwater will encounter difficulty in meeting obligations associated with financial liabilities. Clearwater manages liquidity risk by monitoring forecasted and actual cash flows, minimizing reliance on any single source of credit, maintaining sufficient undrawn committed credit facilities and matching the maturity profiles of financial assets and financial liabilities.

The following are the contractual maturities of non-derivative financial liabilities, derivative financial instruments, operating lease and other commitments. The table includes undiscounted cash flows of financial liabilities, operating lease and other commitments, interest and principal cash flows based on the earliest date on which Clearwater is required to pay.

December 31, 2013	Carrying Amount	Contractual Cash Flow	2014	2015	2016	2017	2018	>2019
Interest - long-term debt		79,519	11,899	11,132	10,963	10,788	10,072	24,665
Principal repayments - long-term debt		257,769	14,297	3,762	3,985	3,784	27,234	204,707
Total long-term debt	257,325	337,288	26,196	14,894	14,948	14,572	37,306	229,372
Trade and other payables	40,760	40,760	40,760	-	-	-	-	-
Operating leases and other	-	48,954	31,522	3,115	2,034	1,990	1,845	8,448
Derivative financial instruments - asset	(1,466)	(1,466)	(1,466)	-	-	-	-	-
Derivative financial instruments - liability	6,869	6,869	6,869	-	-	-	-	-
	$ 303,488	$ 432,405	$ 103,881	$ 18,009	$ 16,982	$ 16,562	$ 39,151	$ 237,820

Included in the above commitments for operating leases and other are amounts that Clearwater is committed directly and indirectly through its partnerships for various licenses and lease agreements, office, machinery and vehicle leases, and vessel and equipment commitments. These commitments require approximate minimum annual payments in each of the next five years as shown above.

(In thousands of Canadian dollars)

Also included in commitments for operating leases and other are amounts to be paid to a company controlled by a director of Clearwater over a period of years ending in 2016 for vehicle and office leases, which aggregate approximately $0.2 million (2012 - $0.04 million).

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:

	Fair Value		Amortized cost		Total	
December 31, 2013	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount	Fair value
Asset :						
Cash	$ 46,793	$ -	$ -	$ -	**$ 46,793**	**$ 46,793**
Trade and other receivables	-	-	43,702	-	**43,702**	**43,702**
Long term receivables	-	-	10,442	-	**10,442**	**10,442**
Forward foreign exchange contracts	-	1,297	-	-	**1,297**	**1,297**
Interest rate cap	-	169	-	-	**169**	**169**
	$ 46,793	$ 1,466	$ 54,144	$ -	**$ 102,403**	**$ 102,403**
Liabilities:						
Trade and other payables (1)	$ -	$ -	$ -	$ (33,766)	**$ (33,766)**	**$ (33,766)**
Long-term debt	-	-	-	(252,621)	**(252,621)**	**(252,621)**
Forward foreign exchange contracts	-	(6,694)	-	-	**(6,694)**	**(6,694)**
Embedded derivative	-	(4,704)	-	-	**(4,704)**	**(4,704)**
Interest rate swap	-	(175)	-	-	**(175)**	**(175)**
	$ -	$ (11,573)	$ -	$ (286,387)	**$ (297,960)**	**$ (297,960)**

	Fair Value		Amortized cost		Total	
December 31, 2012	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount	Fair value
Asset :						
Cash	$ 41,504	$ -	$ -	$ -	**$ 41,504**	**$ 41,504**
Trade and other receivables	-	-	43,168	-	**43,168**	**43,168**
Long term receivables	-	-	10,647	-	**10,647**	**10,647**
Forward foreign exchange contracts	-	4,185	-	-	**4,185**	**4,185**
	$ 41,504	$ 4,185	$ 53,815	$ -	**$ 99,504**	**$ 99,504**
Liabilities:						
Trade and other payables (1)	$ -	$ -	$ -	$ (40,925)	**$ (40,925)**	**$ (40,925)**
Long-term debt	(44,722)	-	-	(204,864)	**(249,586)**	**(254,384)**
Forward foreign exchange contracts	-	(3,439)	-	-	**(3,439)**	**(3,439)**
Embedded derivative	-	(4,205)	-	-	**(4,205)**	**(4,205)**
Interest rate swap	-	(200)	-	-	**(200)**	**(200)**
	$ (44,722)	$ (7,844)	$ -	$ (245,789)	**$ (298,355)**	**$ (303,153)**

(1) Trade and other payables excludes the liability for share based compensation of $7.0 million at December 31 2013 (December 31, 2012 $3.6 million).

(In thousands of Canadian dollars)

(i) Fair Value Hierarchy

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

- Level 1: Fair value measurements 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 using the fair value hierarchy:

December 31, 2013	Level 1	Level 2	Level 3
Recurring measurements			
Financial Assets:			
Cash	46,793	-	-
Forward foreign exchange contracts	-	1,297	-
Interest rate cap	-	169	-
	$ 46,793	$ 1,466	$ -
Financial Liabilities:			
Forward foreign exchange contracts	-	(6,694)	-
Embedded derivative	-	(4,704)	-
Interest rate swap	-	(175)	-
	$ -	$ (11,573)	$ -

December 31, 2012	Level 1	Level 2	Level 3
Recurring measurements			
Financial Assets:			
Cash	41,504		
Forward foreign exchange contracts	-	4,185	-
	$ 41,504	$ 4,185	$ -
Financial Liabilities:			
Forward foreign exchange contracts	-	(3,439)	-
Convertible debentures	(44,722)	-	-
Embedded derivative	-	(4,205)	-
Interest rate swap	-	(200)	-
	$ (44,722)	$ (7,844)	$ -

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 the various counterparties.

- The embedded derivative, interest rate swap and interest rate cap are measured using present value techniques that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs.

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

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

Fair value of financial instruments carried at amortized cost:

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

The estimated fair value of Clearwater's long term debt whose carrying value does not approximate fair value at December 31, 2013 is $16.3 million (December 31, 2012 - $7.2 million) and the carrying value is $16.3 million (December 31, 2012 – $6.6 million). The fair value of long term debt has been classified as level 2 in the fair value hierarchy and was estimated based on discounted cash flows using current rates for similar financial instruments subject to similar risks and maturities.

(In thousands of Canadian dollars)

14. SHARE CAPITAL

Authorized:

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

Share capital movement:

	December 31, 2013		December 31, 2012	
Share capital:	#	$	#	$
Balance at January 1	**50,948,698**	**64,867**	50,948,698	65,309
Redemption of 2013 and 2014 convertible debentures	-	**(87)**	-	(442)
Balance at December 31	**50,948,698**	**64,780**	50,948,698	64,867

The conversion option on the 2013 and 2014 convertible debentures remained unexercised on redemption in July 2012 and 2013 and the balance of $0.09 million (2012 - $0.4 million) was transferred from share capital to retained earnings.

During 2013 a dividend of $0.025 cents per share (total dividend $1.3 million) was declared and paid.

Subsequent to December 31, 2013 Clearwater issued 4,029,400 common shares at $8.50 per common share for gross proceeds of approximately $34.2 million. On February 26, 2014, Clearwater declared a quarterly dividend of $0.025 per share, payment to be made on March 24, 2014 to shareholders of record as of March 10, 2014.

15. FINANCE COSTS

Year ended December 31		2013		2012
				(Restated) (Note 3(o))
Interest expense on financial liabilities	**$**	**16,317**	$	20,346
Amortization of deferred financing charges and accretion		**993**		1,158
		17,310		21,504
Fair value adjustment on convertible debentures and embedded derivative		**(1,710)**		2,898
Foreign exchange and derivative contracts (Note 13(d))		**17,831**		(6,108)
Debt settlement and refinancing fees		**9,316**		6,093
Finance costs	**$**	**42,747**	$	24,387

16. OTHER INCOME

Year ended December 31		2013		2012
				(Restated) (Note 3(o))
Royalties, interest, and other fees		**92**		(1,712)
Share of earnings of equity-accounted investee		**(2,082)**		(1,054)
Other fees		**(1,250)**		(633)
Other income	**$**	**(3,240)**	$	(3,399)

17. EARNINGS PER SHARE

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

		2013		2012
Basic				
Earnings for the year attributable to equity holders of Clearwater	**$**	**6,333**	$	15,009
Weighted average number of shares outstanding		**50,948,698**		50,948,698
Earnings per share	**$**	**0.12**	$	0.29
Diluted				
Earnings for the year attributable to equity holders of Clearwater	**$**	**6,333**	$	15,009
Weighted average number of shares oustanding		**50,948,698**		50,948,698
Earnings per share	**$**	**0.12**	$	0.29

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

Refer to Note 14 for details on common shares issued subsequent to December 31, 2013.

(In thousands of Canadian dollars)

18. INCOME TAXES

(a) Reconciliation of current income tax

The effective rate on Clearwater's earnings before income taxes differs from the expected amount that would arise using the combined Canadian federal and provincial statutory income tax rates.

A reconciliation of the difference is as follows:

Year ended December 31	**2013**	**2012**
		(Restated) (Note 3(o))
Earnings before income taxes	**7,197**	17,242
Combined tax rates	**30.5%**	30.5%
Income tax provision at statutory rates	**2,195**	5,259
Add (deduct):		
Recognition of previously unrecorded deferred tax assets	**(9,938)**	(8,498)
Permanent differences	**2,819**	766
Income of partnership distributed directly to partners	**(2,811)**	(2,085)
Other	**(357)**	875
Income of foreign subsidiary not subject to tax	**(9)**	(1,779)
Actual provision	**(8,101)**	(5,462)

(b) Income tax expense

The components of the income tax expense (recovery) for the year are as follows:

Year ended December 31		**2013**		**2012**
				(Restated) (Note 3(o))
Current	$	1,812	$	1,693
Deferred recovery		(9,913)		(7,155)
	$	(8,101)	$	(5,462)

(In thousands of Canadian dollars)

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31 2013	December 31 2012
		(Restated) (Note 3(o))
Deferred tax asset:		
Non-capital loss carry-forwards	$ 18,537	$ 8,010
Long-term debt	3,150	-
Reserve for unpaid share-based compensation	1,785	-
Foreign exchange	1,648	-
Inventory	625	1,193
Other	294	-
Deferred tax liability:		
Licenses	(5,316)	(1,442)
Property, plant and equipment	(3,233)	(403)
Other	-	(115)
	$ 17,490	$ 7,243

Classified in the consolidated statement of financial position as:

		(Restated) (Note 3(o))
Deferred tax asset - non-current	18,943	9,207
Deferred tax liability - non-current	(1,453)	(1,964)
	$ 17,490	$ 7,243

The net change in deferred income taxes is reflected in deferred income tax recovery of $9.9 million (2012 - $7.2 million) plus the foreign exchange effect of deferred taxes of foreign subsidiaries totaling $0.3 million (2012 - $0.1 million), the effect of which was recorded through foreign exchange.

Recognized deferred tax assets

Clearwater has recognized deferred tax assets of $17.5 million (December 31, 2012 - $7.2 million) relating primarily to its non capital loss carry-forward balances.

The deferred tax asset represents losses of $60.8 million (December 31, 2012 - $26.3 million). The total losses available for recognition as at December 31, 2013 were $67.0 million (December 31, 2012 - $67.2 million). These losses expire from 2026 – 2032.

These deferred tax assets are recognized based on Clearwater's estimate that it will earn sufficient taxable profits to utilize these losses before they expire.

(In thousands of Canadian dollars)

Unrecognized deferred tax assets

Clearwater has the following investment tax credits and loss carryforwards for which no deferred tax asset is recognized in the statements of financial position.

	Clearwater Seafoods Inc	Subsidiary Corporations	Total	Expiry
Non-capital losses	$ 6,249	$ 6,659	$ 12,908	2014 - 2033
Investment tax credits	5,885	113	$ 5,998	2023 - 2033
Capital losses	12,087	380	$ 12,467	No expiry

Unrecognized deferred tax liabilities

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2013 for the Company's subsidiaries was $72.2 million (December 31, 2012 - $68.0 million).

(In thousands of Canadian dollars)

19. SEGMENTED INFORMATION

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

(a) Sales by Species

Year ended December 31		**2013**		**2012**
				(Restated) (Note 3(o))
Scallops	**$**	**147,637**	$	109,754
Coldwater shrimp		**81,592**		77,497
Lobster		**66,452**		61,458
Clams		**60,780**		71,894
Crab		**18,271**		15,628
Ground fish and other		**13,927**		14,071
	$	**388,659**	$	350,302

(b) Sales by Geographic Region

Year ended December 31		**2013**		**2012**
				(Restated) (Note 3(o))
France	**$**	**50,969**	$	41,363
UK		**15,839**		16,631
Russia		**15,777**		11,759
Other		**51,167**		53,131
Europe		**133,752**		122,884
United States		**76,945**		54,157
Canada		**55,923**		47,408
North America		**132,868**		101,565
China		**61,622**		59,624
Japan		**38,712**		46,366
Other		**18,711**		17,693
Asia		**119,045**		123,683
Other		**2,994**		2,170
	$	**388,659**	$	350,302

(In thousands of Canadian dollars)

(c) Property, plant and equipment, licenses, fishing rights and goodwill by geographic region

		December 31, 2013		December 31, 2012
				(Restated) (Note 3(o))
Property, plant and equipment, licences, fishing rights and goodwill				
Canada	**$**	**212,625**	$	225,048
Argentina		**22,115**		12,886
Other		**221**		257
	$	**234,961**	$	238,191

(In thousands of Canadian dollars)

20. RELATED PARTY TRANSACTIONS

(a) Subsidiaries, partnerships, and joint venture

Clearwater's consolidated financial statements include the accounts of the Corporation and its material subsidiaries, partnerships and joint venture, as follows:

Entity	Accounts
Clearwater Seafoods Limited Partnership	Consolidated
Clearwater Ocean Prawns Venture	Consolidated
St. Anthony Seafoods Limited Partnership	Consolidated
Adams and Knickle Limited	Equity method
Clearwater Seafoods Holdings Incorporated	Consolidated
Clearwater Fine Foods Europe Limited	Consolidated
Clearwater Fine Foods USA Incorporated	Consolidated
Glaciar Pesquera S.A.	Consolidated

(b) Key management personnel

Clearwater has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2013 and 2012.

Year ended December 31		2013		2012
Wages and salaries	$	**3,792**	$	3,023
Share-based compensation		**5,861**		2,332
Bonuses		**1,290**		1,380
Other benefits		**606**		371
	$	**11,549**	$	7,106

(c) Transactions with other related parties

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

(In thousands of Canadian dollars)

Clearwater had the following transactions and balances with CFFI, for the year ended December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Opening balance due from CFFI	**$ 1,596**	$ 2,111
Management and other fees charged to (from) CFFI	**122**	(198)
Rent and IT service fees charged to CFFI	**184**	184
Interest on intercompany account	**78**	103
Guarantee fee charged from CFFI	**-**	(62)
Aircraft charges from CFFI	**-**	(38)
Payments from CFFI	**(466)**	(925)
Advances to CFFI	**-**	166
Other charges to CFFI	**10**	255
	$ 1,524	$ 1,596

The amount due from CFFI is unsecured and due on demand. As such the account has been classified as a current asset included in prepaids and other. The balance bears interest at a rate of 5%. Fees amounting to 1% of the guarantees were charged to Clearwater. With the debt refinancing in 2012 and 2013 CFFI no longer provides a guarantee on the senior debt facilities for Clearwater.

In addition, Clearwater expensed approximately $0.07 million for vehicle leases in 2013 (2012 - $0.11 million) and approximately $0.11 million for other services in 2013 (2012 - $0.17 million) by companies related to its parent. The transactions are recorded at the exchange amount and the balance due to these companies was $0.01 million as at December 31, 2013 (December 31, 2012 - $0.02 million)

Clearwater recorded sales, sales commissions and storage fees to a non-controlling interest in a consolidated partnership. These sales, sales commissions, and storage fees are at prevailing market prices and are settled on normal trade terms. Sales to the non-controlling interest for 2013 are $1.2 million (2012 - $1.0 million). Sales commissions in 2013 are $2.0 million (2012 - $1.9 million). Storage fees for 2013 are $1.7 million (2012 - $2.1 million).

Clearwater recorded legal expense for services provided by a law firm in which a Director of the corporation is a partner for 2013 of $0.03 million (2012 - $ nil).

At December 31, 2013 Clearwater had a balance of $8.8 million (December 31, 2012 - $7.7 million), included in long term receivables, for interest and non interest bearing advances and loans made to a non-controlling interest shareholder in a subsidiary (refer to Note 8).

(In thousands of Canadian dollars)

21. INTERESTS IN OTHER ENTITIES

Summarized financial information in respect of Clearwater's subsidiary and partnership that have non controlling interests ("NCI") is set out below.

(a) Summarized statements of financial position

	Coldwater shrimp	
Year ended December 31	**2013**	**2012**
NCI Percentage	**46.34%**	46.34%
Current assets	**$ 30,872**	$ 28,275
Current liabilities	**(8,194)**	(8,731)
	22,678	19,544
Non-current assets	**36,475**	44,865
Non-current liabilities	**(1,072)**	(1,835)
	35,403	43,030
Net assets	**58,081**	62,574
Accumulated non-controlling interests	**24,630**	27,541

	Scallops	
Year ended December 31	**2013**	**2012**
NCI Percentage	**20%**	20%
Current assets	**$ 5,629**	$ 5,075
Current liabilities	**(27,112)**	(15,545)
	(21,483)	(10,470)
Non-current assets	**23,972**	13,001
Non-current liabilities	**(186)**	(403)
	23,786	12,598
Net assets	**2,303**	2,128
Accumulated non-controlling interests	**(78)**	(582)

(In thousands of Canadian dollars)

(b) Summarized statements of earnings

Year ended December 31		Coldwater shrimp 2013		2012
Sales	**$**	**77,866**	$	70,186
Earnings		**19,998**		15,047
Total comprehensive income		**19,998**		15,047
Earnings allocated to non-controlling interest		**8,438**		6,471
Dividends paid to non-controlling interest		**11,349**		6,488

Year ended December 31		Scallops 2013		2012
Sales	**$**	**30,916**	$	32,876
Earnings		**1,138**		6,966
Other comprehensive income		**634**		437
Total comprehensive income		**1,772**		7,403
Earnings allocated to non-controlling interest		**569**		1,459
Dividends paid to non-controlling interest		**66**		3,004

(c) Summarized statements of cash flows

Year ended December 31		Coldwater shrimp 2013		2012
Cash flow from operating activities	**$**	**27,403**	$	25,383
Cash flow used in financing activities		**(25,342)**		(15,524)
Cash flow used in investing activities		**(13)**		(2,920)

Year ended December 31		Scallops 2013		2012
Cash flow from operating activities	**$**	**3,534**	$	16,624
Cash flow from (used in) financing activities		**10,339**		(15,018)
Cash flow used in investing activities		**(13,863)**		(1,597)

(In thousands of Canadian dollars)

22. JOINT VENTURE

The following table summarizes the financial information of Clearwater's joint venture accounted for using the equity method:

Year ended December 31	2013	2012
Carrying amount of interest in joint venture	**4,701**	3,868
Share of:		
Earnings for the year	**2,082**	1,054
Dividends from joint venture	**1,240**	1,740
Commissions paid to joint venture	**6,905**	4,311

23. CAPITAL MANAGEMENT

Clearwater's objectives when managing capital are as follows:

- Ensure liquidity
- Minimize cost of capital
- Support business functions and corporate strategy

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

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

The amount of debt available to Clearwater is a function of earnings that can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, 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 or equity, utilizing surplus cash, extending the term of existing debt facilities, selling assets to repay debt and if required, limiting debt paid.

(In thousands of Canadian dollars)

The capital structure is as follows:

In 000's of Canadian dollars As at December 31	2013	2012
Equity		
Common shares	$ 64,780	$ 64,867
Retained earnings	19,762	14,616
Cumulative translation account	(5,470)	(3,866)
	79,072	75,617
Non-controlling interest	28,455	30,904
	107,527	106,521
Long term debt		
Subordinated debt		
2014 convertible debentures, redeemed in July 2013	-	44,722
	-	44,722
Senior debt, non-amortizing		
Revolving debt, due in 2018	-	-
Term loan, due in 2014	10,642	-
Term loan, due in 2091	3,500	3,500
	14,142	3,500
Senior debt, amortizing		
Term Loan A, due 2018	29,700	-
Delayed Draw term Loan A, due 2018 (net of deferred financing charges of $0.6 million)	(608)	-
Term Loan B, due 2019 (including embedded derivative)	211,901	-
Marine mortgage, due in 2017	1,785	2,697
Other loans	405	627
Term Loan A, repaid in June 2013	-	72,259
Term Loan B, (including embedded derivative), repaid in June 2013	-	129,986
	243,183	205,569
Total long term debt	257,325	253,791
Total capital	$ 364,852	$ 360,312

See Note 14 for details on common shares issued subsequent to December 31, 2013.

24. SHARE-BASED COMPENSATION

Clearwater's share-based compensation plans are detailed in Note 3(m).

The number of share-based awards outstanding and vested as of December 31, 2013 and December 31, 2012 were as follows:

		As at December 31, 2013 In thousands		
	Grant price	Number outstanding	Number vested	Grant Date
SARS	0.80	83	83	May 2010
	1.00	67	67	May 2010
PSU - Tranche 1	N/A	434	-	May 2012
PSU - Tranche 2	N/A	218	-	March 2013
DSU	N/A	375	100	September 2012
	N/A	67	67	June 2012 - December 2013
Total		1,244	317	

		As at December 31, 2012 In thousands		
	Grant price	Number outstanding	Number vested	Grant Date
	0.01	255	255	May 2010
SARS	0.80	250	167	May 2010
	1.00	200	133	May 2010
PSU - Tranche 1	N/A	423	-	May 2012
DSU	N/A	375	100	September 2012
	N/A	26	26	June - December 2012
Total		1,529	681	

There is no limit to the number of awards that can be issued as awards are expected to be cash settled.

Fair value of share based plans

Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

2013

	SARS	PSU Tranche 1	PSU Tranche 2	DSU
Weighted average fair value per option	$ 7.83	$ 12.09	$ 11.41	$ 8.22
Weighted average risk-free interest rate	2.15%	1.49% - 3.38%	1.39% - 3.82%	1.13% - 2.12%
Weighted average expected volatility	72.47%	22.65% - 64.39%	21.62% - 58.90%	58.60% - 77.22%
Expected life of options (years)	0	1	2	5.5 - 12.3
Weighted average dividend yield	Nil	Nil	Nil	Nil
Weighted average share price	$ 8.22	$ 12.09	$ 11.41	$ 8.22

2012

	SARS	PSU Tranche 1	DSU
Weighted average fair value per option	$ 3.68	$ 5.22	$ 4.00
Weighted average risk-free interest rate	1.59%	0.37% - 2.65%	1.32% - 1.50%
Weighted average expected volatility	69.99%	31.5% - 67.9%	50.79% - 83.70%
Expected life of options (years)	0.5	2	4.3 - 6.8
Weighted average dividend yield	Nil	Nil	Nil
Weighted average share price	$ 4.00	$ 5.22	$ 4.00

The following reconciles the share based awards outstanding at the beginning and end of the year:

In thousands	2013	2012
Balance at January 1	**1,529**	705
Granted	**270**	824
Exercised	**(555)**	-
Balance at December 31	**1,244**	1,529
Vested at January 1	**681**	405
Vested	**191**	276
Exercised	**(555)**	-
Vested at December 31	**317**	681

The following share based awards were exercised during the year:

	Grant price	Number exercised	Exercise date	Share price at exercise date
		As at December 31, 2013 In thousands		
	0.01	255	March 2013	$ 5.00
SARS	0.80	167	March 2013	$ 5.00
	1.00	133	March 2013	$ 5.00
Total		555		

The total cash payment for share based awards exercised during the year were $2.5 million (December 31, 2012 - $ nil)

Share-based compensation expense included in the income statement for the year ended December 31, 2013 is $5.9 million (December 31, 2012 - $2.3 million).

The liability for share based compensation is $7.0 million at December 31, 2013 (December 31, 2012 - $3.6 million). The vested portion of the liability for share based compensation is $2.5 million at December 31, 2013 (December 31, 2012 – $2.5 million)

25. ADDITIONAL CASH FLOW INFORMATION

Changes in operating working capital *(excludes change in accrued interest)*	**December 31, 2013**	December 31, 2012
		(Restated) (Note 3(o))
Decreases in inventories	**2,745**	9,657
Decreases in trade and other payables	**(4,191)**	(2,464)
Increases in trade and other receivables	**(470)**	(2,188)
Decrease (increase) in prepaids	**619**	(2,277)
	$ (1,297)	$ 2,728

26. CONTINGENT LIABILITIES

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

Quarterly and share information

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

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	111,012	113,982	95,368	68,297	92,945	101,553	84,926	70,878
Net earnings (loss)	(298)	27,224	(9,866)	(1,762)	10,518	17,618	(2,505)	(2,927)
Per share data								
Basic net earnings (loss)	(0.06)	0.48	(0.24)	(0.06)	0.17	0.30	(0.08)	(0.09)
Diluted net earnings (loss)	(0.06)	0.47	(0.24)	(0.06)	0.15	0.27	(0.08)	(0.09)

Trading information, Clearwater Seafoods Incorporated, symbol CLR

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of shares (board lots)								
High	8.50	5.82	4.98	5.30	4.15	2.90	2.70	2.40
Low	5.37	4.86	4.10	4.00	2.50	2.36	2.02	1.85
Close	8.22	5.68	4.92	4.85	4.00	2.50	2.48	2.27
Tranding volumes (000's)								
Total	2,635	2,416	1,930	6,709	1,906	1,265	1,350	1,089
Average daily	41	39	30	110	31	21	22	18
Shares outstanding at end of quarter	50,948,698	50,948,698	50,948,698	50,948,698	50,948,698	50,948,698	50,948,698	50,948,698

Selected Annual Information

	2013 (Audited)	2012 (Audited)	2011 (Audited)*	2010 (Audited)	2009 (Audited)
Sales	$ 388,659	$ 350,302	$ 332,785	$ 291,116	$ 284,066
Cost of goods sold	301,291	277,777	263,220	234,854	240,215
Gross margin	87,368	72,525	69,565	56,262	43,851
Administrative and selling	39,005	32,536	33,345	28,557	25,724
Net finance costs	42,747	24,387	38,604	42,482	-
Other income	(3,240)	(3,399)	(5,893)	(2,477)	(6,567)
Research and development	1,659	1,759	707	1,623	-
Gain on settlement of Glitnir transaction	-	-	(12,445)	-	-
Gain on change in control of joint venture	-	-	(11,571)	-	-
Foreign exchange income	-	-	-	-	(30,642)
Interest on long-term debt and bank charges	-	-	-	-	25,342
Depreciation and amortization	-	-	-	-	236
Reduction in foreign currency translation account	-	-	-	-	703
	80,171	55,283	42,747	70,185	14,796
Earnings before income taxes	7,197	17,242	26,818	(13,923)	29,055
Income taxes (recovery) expense	(8,101)	(5,462)	3,863	3,564	1,868
Earnings before non-controlling interest	15,298	22,704	22,955	(17,487)	27,187
Non-controlling interest	8,965	7,695	6,619	1,704	1,039
Earnings attributable to shareholders	$ 6,333	$ 15,009	$ 16,336	$ (19,191)	$ 26,148

* 2011 results have been adjusted to reflect International Financial Reporting Standards ("IFRS") and the conversion to a Corporation.

CORPORATE INFORMATION

DIRECTORS OF CLEARWATER SEAFOODS INCORPORATED

Colin E. MacDonald, Chairman of the Board

John C. Risley
President, Clearwater Fine Foods Inc.

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

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

Thomas D. Traves
President Emeritus, Dalhousie University

Mickey MacDonald
President, Micco Companies

Brendan Paddick
Chief Executive Officer, Columbus International Inc.

Stan Spavold
Executive Vice President, Clearwater Fine Foods Inc.

Jim Dickson
Partner, Stewart McKelvey

EXECUTIVE OF CLEARWATER SEAFODS INCORPORATED

Ian Smith
Chief Executive Officer

Eric R. Roe
Vice-President, Chief Operating Officer

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

Michael D. Pittman
Vice-President, Fleet

Greg Morency
Chief Commercial Officer & Executive Vice-President

David Rathbun
Vice-President, Chief Talent Officer

Christine Penney
Vice-President, Sustainability & Public Affairs

Paul Broderick
Vice-President of International Sales

David Kavanagh
Vice-President and General Counsel

John Burwash
Vice-President, Chief Information Officer

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Halifax, Nova Scotia

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