Our Growth Story

remarkable seafood, responsible choice

CLEARWATER SEAFOODS INCORPORATED 2014 ANNUAL REPORT

About Clearwater

Clearwater is one of North America's largest vertically integrated seafood companies and the largest holder of shellfish licenses and quotas in Canada. It is recognized globally for its superior quality, food safety, diversity of species and reliable worldwide delivery of premium wild, eco-certified seafood, including scallops, lobster, clams, coldwater shrimp, crab and groundfish.

Since its founding in 1976, Clearwater has invested in science, people and technological innovation as well as resource ownership and management to sustain and grow its seafood resource. This commitment has allowed it to remain a leader in the global seafood market and in sustainable seafood excellence.

In 2014 Clearwater sold 81 million pounds of premium, wild, eco-labelled seafood, including scallops, lobster, clams, coldwater shrimp, crab and groundfish to over 30 different countries.

Clearwater head office

Bedford, NS, Canada

Clearwater sales offices

Shanghai, China
Beijing, China
Guangzhou, China
Tokyo, Japan
Windsor, United Kingdom
Leesburg, VA, USA
Toronto, ON, Canada

Clearwater divisions

Fleet operations – Lunenburg, NS
Grand Bank Seafoods – Grand Bank, NL
Highland Fisheries – Glace Bay, NS
Louisville – Louisville, Kentucky
Pierce Fisheries – Lockeport, NS
St. Anthony Seafood – St. Anthony, NL
Ushuaia, Argentina

Clearwater harvesting operations

Argentina
East coast of Canada

Clearwater Overview

Leading Global Provider of Wild-Caught Shellfish

Clearwater is North America's largest vertically integrated harvester, processor and distributor of premium shellfish. Clearwater is recognized for its consistent quality, wide diversity, and reliable delivery of premium, wild, eco-labelled seafood, including scallops, lobster, clams, coldwater shrimp, crab and groundfish, with more than 81 million pounds sold in 2014.

Powerful Industry Fundamentals

Global demand for premium wild-caught seafood among aging boomers and a rising middle class in the Asia-Pacific region is outpacing resource supply. This in combination with conservatively managing wild 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.

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

In addition, 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 6% 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.

More than
81
million pounds
of premium shellfish sold

Sold to more than
30
different countries
in 2014

CERTIFIED SUSTAINABLE SEAFOOD MSC www.msc.org

Seven MSC-Certified Species

Clearwater holds the widest selection of MSC-certified species of any shellfish harvester worldwide

Highlights in 2014

Record Sales and Adjusted EBITDA

Record sales of $445 million and adjusted EBITDA of $87 million, growth of 14% and 10%, respectively

Growth in **sales**
14%

Growth in adjusted EBITDA
10%

Growth in Innovation

Completed a record investment of $83 million in our vessels and other assets in 2014

$83 million

Strong Financial Position

Improved free cash flow by 18% to $31 million driven by improvements in adjusted EBITDA and working capital

$31 million

Growth for Investors

Increased the annual dividend by 60% to $0.16 per share, payable in quarterly installments of $0.04 per share

60% increase

Capital Expansion and Innovation

Began conversion of a third vessel for the clam business to expand access to supply by up to 60%; harvesting to begin in late 2015 with full operations in 2016

Progress on Strategic Operating Plan

The Company is on track to achieve its five year plan of $100 million in adjusted EBITDA at the end of the five years ending in 2016 or earlier

Diversified Products

Successfully began launch of a new clam species in Japan, China and North America

Recognition

Received 2014 Rabobank Innovation Award for dedication to innovation

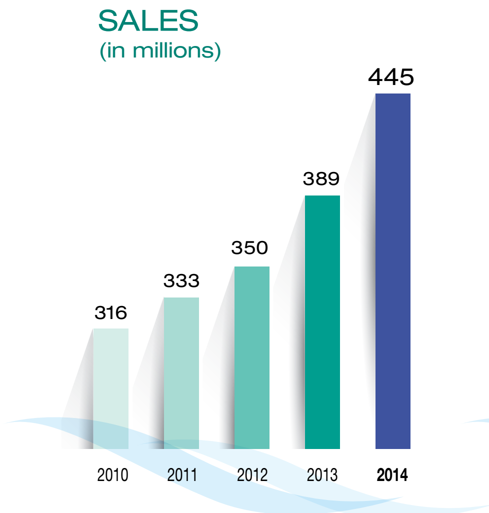
Improvements in Productivity and Efficiencies

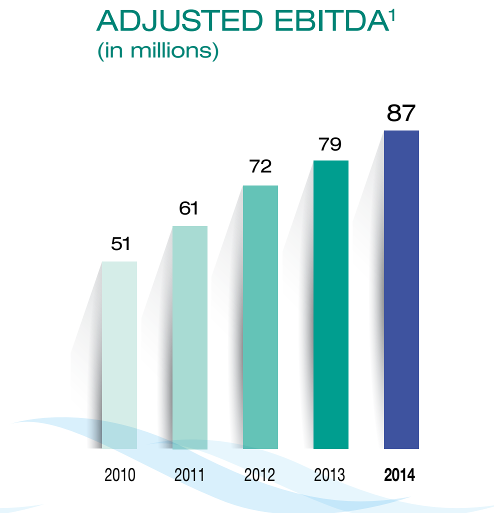
Launched a converted scallop vessel with harvesting to begin early in the first quarter of 2015 in Argentina. The vessel will modernize our operation, improving productivity and quality

Best New Products

Scallops & Sauce was named best new Deli, Egg, Meat & Seafood Product of the Year at the 21st Canadian Grand Prix New Product Awards

5
Years of Growth





Over the past five years, Clearwater's annual sales and adjusted EBITDA has grown at cumulative average growth rates of 9% and 15%, respectively, primarily as a result of stronger sales price and volumes.

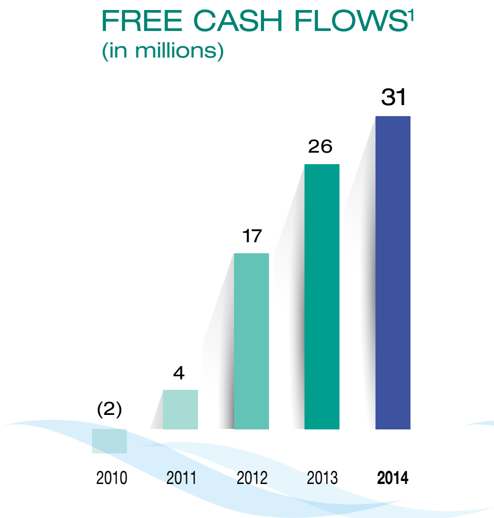
In 2014 Clearwater reported record sales of $445 million and adjusted EBITDA of $87 million versus 2013 comparative figures of $389 million and $79 million.

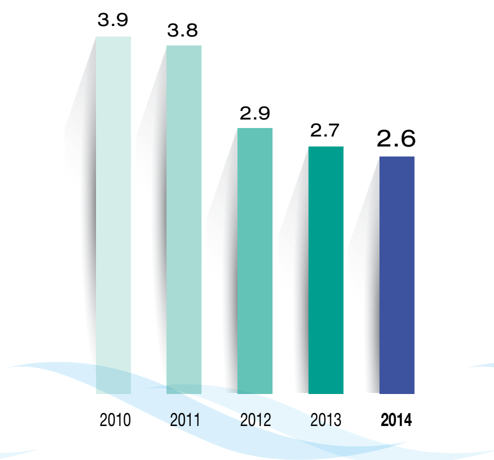
The growth of 14% in sales and 10% in adjusted EBITDA[1] was driven by strong market demand that provided higher sales prices for the majority of species, as well as strengthening foreign exchange rates which had a $20.7 million positive impact on sales and adjusted EBITDA.

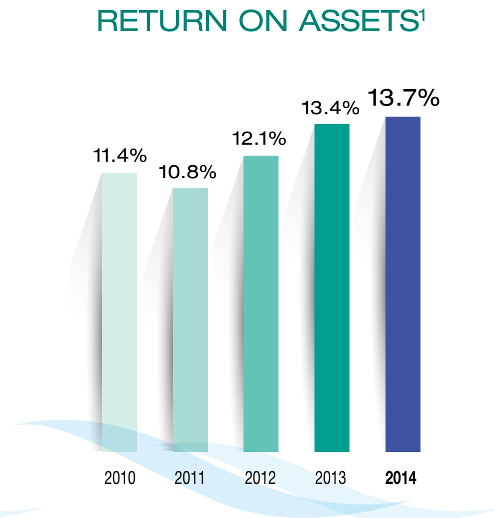
Free cash flow[1] improved by $5 million to $31 million due to higher adjusted EBITDA and a positive contribution from working capital partially offset by higher capital expenditures from scheduled refits and vessel conversions (net of designated borrowings), and payments to minority interest partners.

Over the past five years, Clearwater's annual sales and adjusted EBITDA have grown at cumulative average growth rates of 9% and 15%, respectively, primarily as a result of stronger sales prices and volumes. Sales prices increased for the majority of species and in particular for sea and bay scallops and shrimp. Growth in volumes for sea scallops, clams and shrimp have also contributed to the growth, while foreign exchange rates have had a $2 million net negative impact on sales and adjusted EBITDA over the same five year period.

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







Free cash flow has grown concurrently with the increase in adjusted EBITDA

Both leverage and return on assets have also improved over the last five years. Clearwater continues to have a long-term leverage target of 3.0x or lower of net debt to adjusted EBITDA and a target of over 12% for return on assets.

"Clearwater continued to make remarkable progress in 2014 achieving its fifth consecutive year of revenue growth and increased profits. Since 2009, we've increased sales revenue by over $138 million and adjusted EBITDA by over $48 million. Over the same period, with a disciplined and rigorous approach to capital allocation, we've invested over $150 million in our fleet, plants, information systems and people." Ian Smith, Chief Executive Officer

As a result of these operational improvements to sales and adjusted EBITDA, free cash flow has increased from a use in cash of $2 million in 2010 to positive free cash flow of $31 million in 2014, even with record capital expenditures of $83 million ($20 million net of designated borrowings) in the current year.

Both leverage[1] and return on assets[1] have also improved over the last five years. Clearwater continues to have 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 seasonality, but over time Clearwater intends to manage to this ratio (refer to non-IFRS measures, definitions and reconciliations for changes in the leverage calculation for 2014 and the 2013 comparative period).

The improvement to earnings, cash flows, leverage and return on assets over the past five years provides Clearwater with the capability to deliver and improve results through innovation and through opportunities to increase access to supply.

“We begin 2015 with the expectation that the five-year strategic goals that we set out to accomplish at the beginning of 2012 are now within our reach. 2015 will also be the year in which we lay the foundation for our next five-year strategic plan.”

Ian Smith,
Chief Executive Officer

In 2015 Clearwater will continue to realize on its investments in technology and innovation. The first of planned vessel innovations for 2015 will be the addition of a recently converted scallop vessel in Argentina, which will modernize operations and improve efficiency and quality. The replacement vessel will begin harvesting in the first quarter of 2015 setting a new standard for the Argentine operations moving forward.

In addition, Clearwater will add a third vessel to our clam fleet in the second half of 2015 and expand our clam harvest capacity by up to 60% with harvesting to begin late in 2015 with full operations in 2016.

Other initiatives will include increasing available supply of lobster and other procured species and the implementation of a new enterprise resource planning system (“ERP”) which is expected to be implemented in late 2015.

Clearwater will take advantage of the strengthening US economy and expanding global demand in 2015. The possibility of gains from lower input costs such as oil and a more positive foreign exchange environment will provide Clearwater with the ability to manage costs, improve gross margins and create growth. Finally, Clearwater is well positioned to benefit from the addition of new and future trade agreements such as the CETA trade initiative between Canada and the European Union and other agreements such as the agreement recently completed with the Republic of Korea.

"Over the span of our 20-year relationship, Ebisho has grown into the company it is today due in part to Clearwater's consistent and thorough approach to product quality, food safety and customer satisfaction. It is no exaggeration to say that the popularity of Canadian Lobster in Japan today can be attributed to Clearwater's commitment to the market and their forward-looking approach."

– Takashi Usami, President and Chief Executive Officer, EBISHO Corp

"Clearwater isn't just a supplier to The Keg – they're a partner. Be it through their support of The Keg Foundation or their ability to help us flawlessly execute our wildly popular and successful annual lobster promotion. Time and time again, we're able to rely on Clearwater's expertise and their high-quality and sustainably sourced products."

– Craig Davies, Director of Corporate Services, The Keg Steakhouse + Bar

"At Wannebo, we couldn't be more proud of our decade-long partnership in Scandinavia with Clearwater. Their consistently outstanding product quality, commitment to food safety and strong sustainability credentials have enabled us to build the Clearwater brand into the preferred brand by Chefs across Scandinavia. 2014 was a record year for Clearwater sales at Wannebo and we look forward to continued growth in the years to come."

– Edvard Tanche-Bergh, Managing Director, Wannebo International AS

Letter from the Chairman of Clearwater Seafoods Incorporated

Achieved record sales and adjusted EBITDA

To our shareholders,

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

The Board is very pleased with the record sales of $445 million and adjusted EBITDA of $87 million achieved in 2014. These equate to strong growth of 14% in sales and 10% in adjusted EBITDA. At the same time the company did not lose focus on the importance of cash flows and shareholder returns and delivered 18% growth in free cash flows and increased the dividend by 60% in 2014.

We believe this strong performance positions the company in the top quartile versus our seafood industry peers for the fourth year in a row.

As Chairman, I am also very pleased with the work of your Directors over the past year and how focused they were on the goal of creating sustainable long-term value for our shareholders. The following will give you a fuller appreciation of some of the areas our four Board Committees have worked on in 2014:

Governance

Chaired by Jim Dickson with members Larry Hood, Tom Traves and Stan Spavold. This committee was very active in 2014 and began the year early by conducting a survey of Board members so as to promote best practices in Board effectiveness. After that, it identified external and internal education opportunities for the Board, reviewed and reported on TSX rules on majority voting, reviewed the adequacy of director competencies and compensation, reviewed the mandates of the various Board committees, formalized the process by which the satisfaction of the mandates is evidenced, reviewed new rules regarding Disclosure of Corporate Governance Practices and finally it reviewed and updated the company's share ownership policy. All in all, a very busy year in which the committee focused on implementing the best practice governance policies that it put in place in 2013.

Finance

Chaired by Stan Spavold with members John Risley, Jim Dickson and Brendan Paddick. This committee had another busy year and spent a lot of its time reviewing the status of some significant investments, including a new clam vessel, a new information system and several other potential investments in plants and vessels as well as working with management in reviewing numerous external development opportunities. In addition, the committee members received and reviewed reports on foreign exchange management, interest rate management, liquidity targets, rating agencies, debriefs of the returns on capital projects as well as regular updates on debt and equity market conditions. It also worked with management to develop free cash flow targets, review and set dividend levels, review the cost of capital of the organization and finally early in 2014 it reviewed and recommended an equity offering. The work of this committee continues to be invaluable in ensuring Clearwater has a sound capital structure that helps to position the company for further growth.

Audit

Chaired by Larry Hood with members Tom Traves, Stan Spavold and Jim Dickson. In 2014 the committee's focus continued to be on investing time to understand and ensure the key risks and opportunities are clearly communicated to investors in disclosure documents. During the past year they used a self assessment tool, reviewed their mandate and reviewed the quality of the work of the external auditors so as to promote best practices. They also took the initiative in organizing Board education sessions that included business reviews, securities laws, certification and certain technical accounting issues. Finally, they received and reviewed regular reports on key estimates and areas of judgment and finance resources. In summary, the committee did a great job to ensure that our investors get a full and balanced view of the financial results, risks, opportunities and future prospects of the business in each and every disclosure document.

Human Resources Development and Compensation

Chaired by Harold Giles with members Tom Traves, Mickey MacDonald and Brendan Paddick. This committee spent a lot of time over the past year working with the CEO on proposed changes to the executive leadership team to ensure the company's growth and efficiency initiatives are adequately resourced, including the addition of a newly created position – President Global Supply Chain. The committee also continued to work to ensure there are well developed talent management and development plans for key positions. Finally, they have worked to ensure that our compensation practices are aligned with shareholder interests by linking annual and long-term incentive plans to the creation of shareholder value.

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

Looking forward, global demand for seafood is outpacing supply, creating favourable market dynamics for vertically integrated producers such as Clearwater which have strong resource access.

Clearwater, as a vertically integrated seafood company, 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 closing, we remain focused on our commitment and on 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

What an extraordinary year! I am very pleased to report that Clearwater continued to make remarkable progress in 2014 achieving its fifth consecutive year of revenue growth and increased profits.

To our shareholders,

Since 2009, we've increased sales revenue by over $138 million and adjusted EBITDA by over $48 million. Over the same period, with a disciplined and rigorous approach to capital allocation, we've invested over $150 million in our fleet, plants, information systems and people, increasing our return on assets from 7.5% to 13.7%.

We begin 2015 with the expectation that the five-year strategic plan goals we set out to accomplish at the beginning of 2012 are now within our reach – one full year ahead of our original timetable! 2015 will also be the year in which we lay the foundation for our next five-year strategic plan (2016–2020) which will continue to focus on executing with excellence against our six core strategies:

Expand Access to Supply

In 2015, we will welcome a third vessel to our clam fleet and expand our harvest capacity up to an incredible 60%. We will also continue to actively invest in access to supply, including acquisitions and joint ventures, as well as harvesting and royalty contracts.

Target Profitable & Growing Markets, Channels & Customers

We continue to benefit from strong and increasing global demand for sustainably harvested, safe, traceable and premium wild seafood. In 2015, we will continue to advance our go-to-market approach in both traditional and new markets. This two-pronged approach takes advantage of our "on trend" health, sustainability, traceability, quality and food safety credentials in developed markets as well as the rapid urbanization, rising incomes and increased seafood consumption of emerging markets to literally "supercharge" our growth.

Increase Margins by Improving Price Realization and Cost Management

In 2015, we will fully implement our first "ocean-to-shelf" global supply chain. We have ambitious expectations to drive top and bottom line growth, capturing savings in global supply chain efficiencies and improved productivity.

Pursue and Preserve the Long-term Sustainability of Resources on Land and Sea

As a leading global supplier of wild-harvested seafood – sustainability remains at the core of our business and our mission. Investing in the long-term health and responsible harvesting of the oceans and their bounty – is every harvester's responsibility and the only proven way to ensure access to a reliable, stable and long-term supply of seafood. Sustainability is not just good business; like innovation, it's in our DNA. That's why Clearwater has been recognized by the Marine Stewardship Council (MSC) and WWF as a leader in sustainable harvesting for wild fisheries and also how Clearwater can offer the widest selection of sustainably certified species of any seafood harvester worldwide.

Build Organizational Capability, Capacity & Engagement

This level of performance can only be achieved by a talented and engaged global workforce at sea and on land, employing well-communicated strategies and plans with measurable objectives. It also requires an enduring commitment to invest in our people.

In closing, there are two special groups I wish to thank. Our customers around the world who share our commitment to quality and sustainability and without whose loyalty and support we could never hope to succeed. Finally, our Clearwater employees, for their hard work, dedication and focus. They are truly our greatest asset, the reason why we are all excited about the future of our company and why we believe that the best is yet to come!

Sincerely,

IAN D. SMITH
Chief Executive Officer
Clearwater Seafoods Incorporated

2015 priorities

- Expand access to supply
- Implement our first ocean-to-shelf global supply chain organization and enterprise resource planning system
- Continue to invest in technology and innovation on land and at sea to drive sustainable profitable growth
- Continue to build our global workforce

Our Strategic Operating Plan

Innovation has been the cornerstone of our strategic operating plan and will provide us the opportunity to achieve $100 million in adjusted EBITDA by 2015. As we begin 2015, the five year strategic goals that we set out to accomplish at the beginning of 2012 are now within our reach.

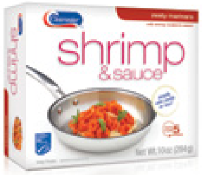
2015 will also be the year in which we lay the foundation for our next five-year strategic plan which will continue to focus on executing with excellence against our core strategies including expanding access to supply, targeting growing and profitable markets, channels and customers, increasing margins by improving price and cost management, pursing and preserving the long-term sustainability of resources on land and at sea, and building organizational capability and capacity.

Species Innovation

The introduction of a clam species that has improved catch rates and created new opportunities, primarily in the Asian market. The introduction of our new clam vessel in the second half of 2015 will provide a significant opportunity to increase harvest and sales volumes by up to 60%.

New Product Development

Continued growth of our value-added products achieved through expanded distribution to new geographies, like Australia, and through innovative new products, like Shrimp & Sauce, utilizing Clearwater's unique enrobing technology.



Modernizing Our Fleet

Our newest vessel, the *Capesante*, began sailing the seas in 2015. This vessel will modernize our operation and set a new standard for our Argentine scallop business moving forward.

Operational Efficiencies

For the 2014 season, Clearwater implemented a state-of-the-art cooking system for cooked and peeled shrimp that circulates a steam and air mixture through the product at controlled temperatures. The new process was successful in increasing yield and improving quality while reducing energy consumption.

Food Safety

Our Grand Bank facility was the third Clearwater plant to receive the industry-leading British Retail Consortium (BRC) certification – obtaining an A grade in the process.

GRADE

A

Growing Globally: China

Clearwater continues to see strong growth and success in China as their emergent middle class continues to fuel discretionary spending and demand for foreign brands.

Growth Report: Progress on

Our Strategic Operating Plan

Looking forward, in order to achieve our 2015 goals and set the course for the next five year strategic plan, we will embrace more change as we continue to innovate what we do and how we do it. As a result, 2015 will be another year of unprecedented investment in our people and innovation.

Procurement

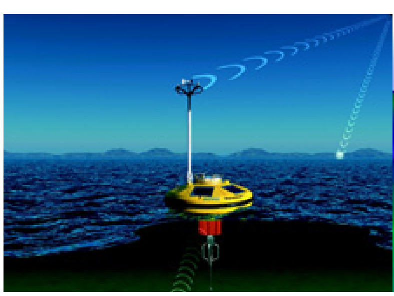
In 2015 Clearwater plans to continue to expand procurement including inshore lobster, crab and shrimp.

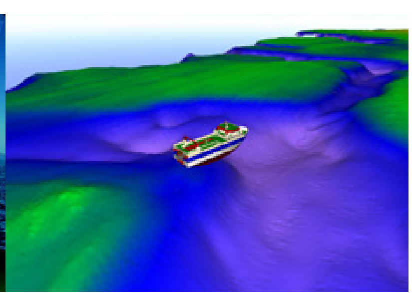
Launching Scallop Selects

Ready for the global market in 2015 is an exciting launch of formed scallops that serve as a platform to deliver taste and value to consumers as well as an incremental supply to customers seeking high-quality substitutes for regular sea scallops.

Investing in Science

Clearwater continues to be one of a few harvesters committed to maintaining a survey vessel for scientific purposes. In early 2015 we will renew this commitment with the conversion of a newly purchased vessel featuring a state-of-the-art survey platform.





Commitment to Sustainable Harvest and to MSC

In 2015 Clearwater will continue to research and develop new processes for the lobster fishery that are more environmentally sustainable as we continue to be conscious of our commitment to our MSC certification.

Culinary Achievements

Our industry-leading culinary team offered value to our foodservice partners globally through customer visits and custom ideation sessions in 2014. We also increased our trade show presence in Asia, Europe and North America helping to build awareness and develop relationships with customers around the world.

Channels & Consumers

We're readying expansion of more of our top-selling North American products to customers in Europe and continuing to partner with North American customers to create attractive private label offerings.

Growing Globally: Japan

Clearwater celebrated significant growth in the Japanese market with increased clam and lobster sales. Growth in both the Kaiten sushi and foodservice catering sectors, coupled with decades long relationships with key Japanese customers, contributed to Clearwater's success in this market.

Table of contents

This Management's Discussion and Analysis ("MD&A") was prepared effective February 25, 2015.

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 2014 fourth quarter news release. All figures within the MD&A are in thousands of Canadian dollars unless otherwise stated.

This MD&A should be read in conjunction with the 2014 annual financial statements and the 2014 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.

NON-IFRS MEASURES

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

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

These non-IFRS measures include gross margin, adjusted EBITDA, free cash flows, leverage, adjusted earnings and return on assets. Refer to non-IFRS measures, definitions and reconciliations for further information.

SELECTED ANNUAL INFORMATION

(In 000's except per share amounts) For the year ended December 31		2014		2013		2012
Sales	**$**	**444,742**	$	388,659	$	350,302
Gross margin		**102,834**		87,368		72,525
Net earnings		**9,797**		15,298		22,704
Basic and diluted earnings per share		**(0.05)**		0.12		0.29
Adjusted EBITDA[1]		**87,368**		79,103		72,243
Total assets		**464,397**		410,796		410,789
Long-term debt		**273,041**		257,325		253,791

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 27% since 2012 despite a challenging global economy. Gross margins have increased more than 2.4 percentage points from 20.7% in 2012 to 23.1% in 2014. Adjusted EBITDA[1] has grown at a 20.9% 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 2.6x adjusted EBITDA at December 31, 2014 versus 2.9x at December 31, 2012.

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 to ensure quality and safety from "ocean to plate".
- Marine Stewardship Council ("MSC") certification for sustainability of species to ensure 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 service even the largest global retail and food service customers.

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

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. 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 income 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 also well known in the industry for pioneering innovative harvesting technologies and processing practices that further 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 research and development, 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 the 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 will continue to attract, develop, recognize, reward and retain the best global talent.

CAPABILITY TO DELIVER RESULTS

Clearwater's revenues and earnings are dependent primarily on its ability to harvest, purchase, and market shellfish. Supply 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 as determined by the relevant government fishery management organizations. All stocks are managed sustainably providing assurance of the long term availability of the resource, however annual fluctuations in supply of a natural resource are normal. Short term impacts of such fluctuations can normally be offset within Clearwater's species portfolio and/or by making adjustments within each business unit.

The primary shellfish stocks that Clearwater harvests are Canadian 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 typically fluctuates within a stable range. Clearwater anticipates TACs within the normal range in upcoming years. Clearwater lands virtually all its sea scallop quota each year and may from time to time harvest quotas for other industry participants or purchase raw material supply from other industry participants.
- The **Arctic surf clam** resource is stable. Clearwater has quota allocations on both Banquereau Bank and the Grand Banks. Total annual landings are currently based upon the harvesting capacity of our two vessels. Clearwater's new vessel will enter the fleet in 2015 and will increase clam landing volumes.
- The **Argentine scallop** resource has stabilized after a period of growth and expansion of the fishery. Volumes in 2015 are expected to be down slightly from recent years. 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** – The Northern shrimp TAC has declined from historic highs over the last five years and is expected to continue to decline at a similar rate over the next five years. Clearwater holds access to quotas directly through licences and through long term harvesting agreements. Clearwater procures 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 healthy with a consistent offshore TAC and the inshore resource continues to support abundant catches. Clearwater harvests virtually all its lobster quota each year. During 2014, Clearwater purchased approximately 80% of its lobster 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 to complete research and development.

(In 000's) For the year ended December 31	**2014**	2013	2012	Total
Vessels	**$ 72,700**	$ 17,025	$ 11,780	$ 101,505
Plants and other	**10,609**	6,788	4,792	22,189
	$ 83,309	$ 23,813	$ 16,572	$ 123,694
Return on investments capital	**$ 60,417**	$ 6,346	$ 2,772	$ 69,535
Maintenance capital	**22,892**	17,467	13,800	54,159
	$ 83,309	$ 23,813	$ 16,572	$ 123,694
Maintenance capital	**$ 22,892**	$ 17,467	$ 13,800	$ 54,159
Repairs and maintenance	**14,149**	13,144	12,837	40,130
	$ 37,041	$ 30,611	$ 26,637	$ 94,289
Depreciation/amortization	**$ 23,753**	$ 24,167	$ 22,475	$ 70,395
Maintenance spending as a % of depreciation	**155.9%**	126.7%	118.5%	133.9%

In 2014 Clearwater had a record investment in capital expenditures of $83.3 million. Capital expenditures included $36.4 million related to the construction of the new clam harvesting vessel which will have a total cost of approximately $60 million and is expected to be operating late in 2015.

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.

In 2014 Clearwater invested $16.7 million to complete the conversion of an Argentine scallop vessel which will begin harvesting early in the first quarter of 2015. Additional investments in 2014 included $7.3 million for an enterprise resource planning system ("ERP") which is expected to be completed late 2015, $18.2 million on refits including $12.5 million for a life extending refit of a shrimp vessel and $4.7 million on other planned maintenance.

In 2013, Clearwater completed refits on its vessels of approximately $9.3 million. Additional vessel conversion costs included $2.7 million on a new clam vessel and $5.0 million related to a scallop vessel.

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

In addition to the annual amounts capitalized above, Clearwater historically has spent and expensed on average about $13.4 million a year over the past three years 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 eight factory vessels. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams.

Of the eight factory vessels:

- Two are used to harvest shrimp and are on average 21 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 Clearwater invested $12.5 million in a late-life refit, thereby extending its useful life.
- Four are used to harvest sea and bay scallops with the sea scallop vessels being on average 17 years old and the bay scallop vessels being on average 19 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. In 2014, one of the idle vessels was converted from harvesting sea scallops to harvesting bay scallops and will begin operations in early 2015.
- Two of Clearwater's vessels are used to harvest clams and are on average 21 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 2015 Clearwater expects to make significant growth investments of approximately $56 million in capital assets, of which $19 million relates to the construction of the third clam vessel, $6 million for the purchase and conversion of a research vessel. $13 million related to maintenance capital investments and $18 million to improve operational efficiencies in our plants and information systems.

EXPLANATION OF 2014 ANNUAL EARNINGS

Overview

The following statements reflect the results of Clearwater for the years ended December 31, 2014 and 2013:

In 000's of Canadian dollars Year ended December 31	**2014**	2013
Sales	**$ 444,742**	$ 388,659
Cost of goods sold	**341,908**	301,291
Gross margin	**102,834**	87,368
	23.1%	*22.5%*
Administrative and selling	**48,252**	39,005
Finance costs	**37,829**	33,935
Foreign exchange loss on forward contracts	**4,047**	8,812
Other income	**(5,031)**	(3,240)
Research and development	**1,991**	1,659
	87,088	80,171
Earnings before income taxes	**15,746**	7,197
Income tax expense (recovery)	**5,949**	(8,101)
Earnings	**$ 9,797**	$ 15,298
Earnings attributable to:		
Non-controlling interest	**$ 12,702**	$ 8,965
Shareholders of Clearwater	**(2,905)**	6,333
	$ 9,797	$ 15,298

2014 annual earnings

Clearwater reported strong sales for 2014 of $444.7 million and adjusted EBITDA[1] of $87.4 million, versus 2013 comparative figures of $388.7 million and $79.1 million, respectively.

The 14.4% and 10.4% growth in sales and adjusted EBITDA, respectively was driven by strong market demand that provided higher sales prices for the majority of species as well as strengthening foreign exchange rates for the US dollar and the Euro against the Canadian dollar. These higher foreign exchange rates had a $20.7 million positive impact on sales and gross margin in 2014.

In addition higher catch rates for clams and a higher total allowable catch ("TAC") for sea scallops increased supply which also contributed to the increase in gross margin.

This increase was partially offset by higher per pound harvesting and procurement costs as well as higher administrative and selling costs.

Harvesting and procurement costs were higher due to an increase in harvest costs for scallops and shrimp and higher purchase prices for procured scallops, inshore shrimp, lobster and snow crab.

Administrative and selling costs, increased $9.2 million as a result of an increase in non-cash adjustments of $3.1 million related to share-based incentive compensation and $1.4 million for a write down on goodwill related to non-core species. In addition, higher reorganizational costs associated with a senior executive as well as increases in salaries and benefits increased administrative costs.

Free cash flow[1] improved by $4.7 million to $30.9 million in 2014 due to higher adjusted EBITDA and a $8.9 million improvement in working capital, partially offset by higher capital expenditures from scheduled refits and vessel conversions (net of designated financing), and the timing of payments to minority interest partners.

Earnings for 2014 were $5.5 million lower than 2013 primarily as a result of an increase in deferred income tax expense and non-cash unrealized foreign exchange losses from the translation of the US dollar denominated debt as the US dollar strengthened against the Canadian dollar. These non-operational losses were partially offset by reductions in debt arrangement costs.

In 000's of Canadian dollars Year ended December 31	2014	2013	Change
Earnings (loss)	**$ 9,797**	$ 15,298	$ (5,501)
Changes due to operational items:			
Higher gross margin			15,466
Higher administrative and selling			(9,247)
Lower interest expense			1,594
Higher realized foreign exchange losses			(3,663)
			4,150
Changes due to non-operational items:			
Lower debt arrangement costs			9,216
Higher unrealized foreign exchange losses on debt and working capital			(5,795)
Higher deferred income tax expense			(13,277)
Fair value adjustments on convertible debentures and embedded derivative			(481)
			(10,337)
All other			686
			$ (5,501)

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

Sales by region

(In 000's of Canadian dollars) Year ended December 31	2014	2013	Change	%
Europe	$ 149,616	$ 131,771	$ 17,845	13.5%
United States	84,943	76,945	7,998	10.4%
Canada	61,668	55,838	5,830	10.4%
North America	146,611	132,783	13,828	10.4%
China	73,308	66,212	7,096	10.7%
Japan	57,496	41,639	15,857	38.1%
Other Asia	15,494	14,438	1,056	7.3%
Asia	146,298	122,289	24,009	19.6%
Other	2,217	1,816	401	22.1%
	$ 444,742	$ 388,659	$ 56,083	14.4%

Europe

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

European sales increased $17.8 million to $149.6 million for 2014 as compared to 2013, primarily as a result of strong market demand that increased sales volumes and prices for sea scallops as a higher total allowable catch increased available supply for sea scallops. Strengthening foreign exchange rates[1] against the Canadian dollar and higher sales prices for shrimp also contributed to the increase in sales.

This was partially offset by lower available supply of shrimp and Argentine scallops as available supply of shrimp was sold in higher yielding markets and we experienced lower catch rates for Argentine scallops.

Sales, which were primarily transacted in the Euro[1], GBP, the US dollar and DKK during 2014 were positively impacted by $8.9 million due to higher foreign exchange rates. The Euro improved 5.6% relative to the Canadian dollar from 1.383 in 2013 to 1.460 in 2014 and the UK pound improved 11.6% relative to the Canadian dollar from 1.627 in 2013 to 1.815 in 2014.

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 $8.0 million, or 10.4% to $84.9 million primarily as a result of stronger foreign exchange rates[1] and an increase in sales volumes and price for sea scallops.

Stronger market demand, which was partially impacted by a lower supply of scallops harvested by US based companies, resulted in increased sales prices.

This was partially offset by lower sales volumes for snow crab due to a shift in sales to higher yielding markets and lower catch rates for Argentine scallops that reduced available supply for 2014.

Sales were also positively impacted by $5.4 million in 2014 due to stronger 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 6.8% to 1.103 in 2014.

Canada

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

Sales in Canada increased $5.8 million, or 10.4% primarily as a result of higher sales volumes for snow crab, lobster and clams. Strong market demand for snow crab and lobster increased sales prices and changes in product mix for clams also contributed to the increase in sales.

Strong catch rates in 2014 increased available supply for clams. Sales were partially offset by a reduction in sales volumes for sea scallops as available supply was sold to higher yielding markets.

[1] Refer to discussion on risks and uncertainties

China

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

Sales to customers in China increased $7.1 million or 10.7%, to $73.3 million due to higher foreign exchange rates and strong market demand that increased both sales volumes and price for clams.

Higher catch rates for clams, an increase in total allowable catch for sea scallops and an increase in sales price for lobster and sea scallops also contributed to the increase in sales for the year.

Sales volumes for shrimp declined for the year partially offsetting the increase in sales as a result of timing in landings as one vessel was on refit in the second and third quarter of 2014.

Chinese sales are almost exclusively transacted in US dollars. The US dollar strengthened against the Canadian dollar in 2014 contributing to the increase in sales by $4.6 million as average foreign exchange rates[1] for the US dollar strengthened against the Canadian dollar by 6.8% to 1.103 in 2014.

Japan

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

Sales to customers in Japan increased $15.9 million or 38.1%, to $57.5 million in 2014 primarily as a result of strong market demand that increased sales volumes for shrimp, clams, turbot and lobster. Higher available supply from an increase in catch rates for clams and an increase in sales prices for shrimp contributed to the increase in sales for the year.

Changes in sales mix for clams and lobster partially offset the increase in sales.

Sales by species[1]

(In 000's of Canadian dollars) Year ended December 31	2014	2013	Change	%
Scallops	$ 163,705	$ 147,637	$ 16,068	10.9
Coldwater shrimp	93,742	81,592	12,150	14.9
Lobster	78,186	66,452	11,734	17.7
Clams	72,774	60,780	11,994	19.7
Crab	20,985	18,271	2,714	14.9
Ground fish and other	15,350	13,927	1,423	10.2
	$ 444,742	$ 388,659	$ 56,083	14.4

Sales increased $56.1 million, or 14.4%, for 2014 as a result of higher exchange rates and strong market demand that increased sales prices for the majority of species and in particular for sea scallops and shrimp. Higher total allowable catch for scallops and catch rates for clams also contributed to the increase in sales.

The increase in sales was partially offset by lower catch rates for Argentine scallops and lower landings for shrimp as one vessel was on refit.

Cost of goods sold

(In 000's of Canadian dollars) Year ended December 31	2014	2013	Change	%
Harvesting and procurement	$ 245,724	$ 207,057	$ 38,667	18.7
Manufacturing	36,690	35,275	1,415	4.0
Depreciation	24,139	23,733	406	1.7
Transportation	22,720	22,826	(106)	(0.5)
Administration	12,635	12,400	235	1.9
	$ 341,908	$ 301,291	$ 40,617	13.5

[1] Refer to discussion on risks and uncertainties

Cost of goods sold increased $40.6 million or 13.5% to $341.9 million primarily as a result of an increase in harvesting and procurement costs.

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 from higher sales volumes, harvesting and procurement costs were higher due to higher harvesting costs per pound for scallops and shrimp and higher procurement costs for lobster, sea scallops, shrimp and snow crab.

This was partially offset by changes in sales mix weighted towards products with lower harvesting costs such as clams.

Fuel costs for our vessels declined $0.3 million in 2014 to $25.1 million as a result of a reduction in litres consumed by the clam and shrimp vessels. Scheduled refits reduced our fishing effort for shrimp and improved catch rates for clams reduced the number of seadays in 2014. The decline in fuel volume was partially offset by an increase in average price per litre of fuel of $0.04 to an average of $0.88 per litre in 2014. Clearwater's vessels used approximately 28.4 million litres of fuel in 2014. Based on 2014 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $0.2 million.

Clearwater uses Marine Diesel in its harvesting operations, the price of which does not correlate closely to publically available measures such the price of a barrel of oil. This is due to a number of factors including but not limited to the nature of the fuel used, the geographic locations in which Clearwater purchases fuel and the currency in which Clearwater purchases fuel.

Manufacturing includes labour costs related to the production and selling of goods, plant utilities and supplies. Labour costs increased as a result of rising wages, salaries and benefits and increased production of certain species.

Depreciation costs increased in 2014 as a result of large investments made to our fleet.

Transportation costs include freight, customs and duties related to the transfer of goods to market.

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 section for further information.

Gross margin

Gross margin as a percentage of sales improved from 22.5% in 2013 to 23.1% for 2014, due to higher sales prices and favourable exchange[1] rates. Strong demand provided higher sales prices for the majority of species and strengthening foreign exchange[1] rates for the US dollar and the Euro against the Canadian dollar impacted positively on margins. Higher catch rates for clams and higher total allowable catch for sea scallops, increased available supply which also contributed to the increase in gross margin.

Higher harvesting costs per pound for scallops and shrimp and higher shore prices per pound for shrimp, sea scallops, lobster and snow crab partially offset the increase in margins. In addition lower catch rates for Argentine scallops and a reduction in landings for shrimp partially offset the improvement in gross margin.

The net impact on sales from foreign exchange volatility was an increase in sales of $20.7 million.

Year ended December 31	2014		2013		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	46.5%	1.103	49.1%	1.033	6.8%
Euros	20.5%	1.460	21.5%	1.383	5.6%
Japanese Yen	9.8%	0.010	8.0%	0.011	-9.1%
Danish Kroner	3.7%	0.196	3.5%	0.182	7.7%
UK pounds	4.4%	1.815	3.1%	1.627	11.6%
Canadian dollar and other	15.1%		14.8%		0.0%
	100.0%		100.0%		0.0%

[1] Refer to discussion on risks and uncertainties

Administrative and selling

In 000's of Canadian dollars Year ended December 31	2014	2013	Change	%
Salaries and benefits	$ 30,141	$ 28,708	$ 1,433	5.0
Share-based incentive compensation	8,948	5,861	3,087	52.7
Employee compensation	39,089	34,569	4,520	13.1
Consulting and professional fees	6,790	5,549	1,241	22.4
Reorganizational costs	3,818	74	3,744	5,059.5
Other	3,825	4,368	(543)	(12.4)
Selling costs	3,105	2,893	212	7.3
Travel	2,384	2,274	110	4.8
Occupancy	1,416	1,385	31	2.2
Allocation to cost of goods sold	(12,175)	(12,107)	(68)	0.6
	$ 48,252	$ 39,005	$ 9,247	23.7

Administrative and selling increased $9.2 million, or 23.7%, to $48.3 million for 2014 primarily as a result of increases in share-based incentive compensation and reorganizational costs.

Salaries and benefits increased $1.4 million primarily as a result of an increase in senior management staff as well as general inflation increases to salaries.

Share-based incentive compensation is primarily driven by changes in Clearwater's share price, performance against Clearwater's peer group and the number of outstanding share based awards outstanding. Compensation expense increased $ 3.1 million primarily as a result of an increase in Clearwater's share price during 2014 and to a lesser extent an increase in the number of share based compensation awards granted.

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. The increase of $1.2 million primarily relates to consulting fees for an Enterprise resource planning system conversion that is to be completed in late 2015.

Reorganizational costs include non-routine administrative expenses, gains and losses on write-down of assets, all of which will vary from year to year. The largest portion of the expenditures in 2014 relate to severance and a write down on goodwill related to a non-core species.

Other includes a variety of administrative expenses such as communication, other service fees and depreciation, 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	2014	2013
Interest and bank charges	$ 14,938	$ 16,317
Amortization of deferred financing charges and accretion	778	993
Interest	15,716	17,310
Fair value adjustment on convertible debentures and embedded derivative	(1,229)	(1,710)
Foreign exchange on debt and working capital	23,242	9,019
Debt settlement and refinancing fees	100	9,316
	$ 37,829	$ 33,935

Finance costs increased by $3.9 million due to higher non-cash losses on foreign exchange, offset partially by lower debt settlement and refinancing fees and lower interest costs.

Interest declined $1.6 million in 2014 due to lower average interest rates on Clearwater's debt facilities.

The **fair value adjustment on the convertible debentures and embedded derivatives** on the Term Loan B represents the change in the estimated fair values of these instruments. The convertible debentures were paid out in July 2013 and replaced with Term Loan B debt.

Foreign exchange on financing and working capital

In 000's of Canadian dollars Year ended December 31		2014		2013
Realized loss (gain)				
Working capital and other	$	1,172	$	3,586
		1,172		3,586
Unrealized loss (gain)				
Foreign exchange on long term debt and working capital		19,481		5,427
Mark-to-market on interest swaps and caps		2,589		6
		22,070		5,433
	$	23,242	$	9,019

Foreign exchange losses[1] **on financing and working capital** increased by $14.2 million to $23.2 million in 2014. The increase was a result of higher unrealized foreign exchange losses on the translation of the $196.8 million US dollar denominated debt as foreign exchange rates strengthened 9.0% against the Canadian dollar compared to 2013.

Mark-to-market losses on interest swaps and caps increased in 2014 as a result of non-cash mark to market losses on $100 million US dollar denominated interest rate swaps/caps that were entered into during the year. These arrangements are marked-to-market through profit and loss.

Losses on forward contracts

In 000's of Canadian dollars Year ended December 31		2014		2013
Losses (Gains) on forward contract derivatives				
Realized loss	$	8,829	$	2,752
Changes in unrealized (gain) loss		(4,782)		6,060
	$	4,047	$	8,812

Losses[1] **on forward contracts** declined $4.8 million to $4.0 million in 2014 due to higher unrealized foreign exchange gains offset partially by higher realized losses.

The increase in unrealized gains on forward contracts of $10.8 million to a gain of $4.8 million in 2014 relates primarily to forward contacts with the largest driver in 2014 being Euro contracts for which the contract rate was greater than the spot rate. This was partially offset by unrealized foreign exchange losses of $3.9 million on US dollar.

This increase in unrealized gains was offset by a $6.1 million increase in the realized loss on the settlement of forward contracts. This loss was a result of spot rates that were higher than contracted rates for the US dollar and Euro contracts that were closed out in 2014. The losses were more than offset by the positive impact of higher exchange rates on sales and margins.

[1] Refer to discussion on risks and uncertainties

Clearwater's hedging program is designed to enable Clearwater to remove uncertainty regarding exchange rates on sales receipts by locking in up to 75% of annual net foreign exchange exposure. Clearwater does this by entering into a series of foreign exchange contracts that mature throughout the fiscal year and that provide for a fixed exchange rate on a portion of sales receipts. In a rising exchange rate environment such as the one we are currently in where spot rates are higher than contract rates, Clearwater realizes higher exchange rates on sales but it is required to remit the excess of the spot rate received on sales receipts over the contract rate to the counterparty on the portion of sales that it has hedged.

Should the current environment of a stronger US dollar and Euro versus the Canadian dollar persist it would have a positive impact on 2015 sales but the hedging program would offset a portion of those gains and reduce the positive impact on adjusted EBITDA. However, looking forward to 2015, Clearwater would realize the benefit of such higher rates as hedging contracts that it is entering into now are at rates closer to current spot rates.

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 in 2013 included a $5.1 million non-cash charge related to a write-off of previously deferred financing charges as well as $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 its strategic plan.

Other income

In 000's of Canadian dollars Year ended December 31		**2014**		2013
Share of earnings of equity-accounted investee	**$**	**(2,987)**	$	(2,082)
Royalties, interest and other fees		**(844)**		92
Other fees		**(1,200)**		(1,250)
	$	**(5,031)**	$	(3,240)

The share of earnings from an equity accounted investee increased $0.9 million in 2014. This equity investee is involved in the Canadian scallop business and its' earnings increased as a result of an increase in market demand and price for scallops in 2014.

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.

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.

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

During 2013 substantial tax assets that had been previously unrecorded were recognized as an asset. In 2014 an expense was recorded to reflect the usage of a portion of that asset.

Earnings attributable to non-controlling interest

Non-controlling interest relates to minority share of earnings from Clearwater's majority investments in subsidiaries in Argentina, Nova Scotia and Newfoundland and Labrador.

The increase in earnings attributable to non-controlling interest of $3.7 million for 2014 relates primarily to strong market demand that increased sales prices for turbot and shrimp.

It is important to note that the earnings attributable to non-controlling interest relates to Clearwater's interest in a partnership and as such taxes are included in earnings attributable to shareholders, whereas the earnings attributable to non-controlling interest are not tax effected.

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

Earnings attributable to shareholders

Earnings attributable to shareholders of Clearwater declined $9.2 million from income of $6.3 million in 2013 to a loss of $2.9 million in 2014 primarily as a result of an increase in non-cash adjustments related to deferred income tax expense and unrealized foreign exchange expense. In 2013 Clearwater recorded an additional deferred tax asset of approximately $15.8 million related to the benefit of unrecognized tax losses. In 2014 Clearwater utilized a portion of the deferred tax asset.

Adjusted earnings attributable to shareholders

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

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

In 2014, adjusted earnings attributable to Clearwater's shareholders increased $6.9 million, or 44% to $22.6 million primarily as a result of improvements in gross margin of $15.5 million and lower interest expense of $1.6 million. The improvements in adjusted earnings were partially offset by an increase in selling and administrative expenses and realized foreign exchange losses on working capital and foreign exchange contracts.

In 2014, adjusted earnings per share increased to $0.41 per share from $0.31 per share in 2013. This increase was due to an improvement in adjusted earnings that was partially offset by an increase in the number of outstanding shares due to a share issue completed early in 2014.

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 adjusted EBITDA less net earnings attributable to minority interest. Adjusted EBITDA can be impacted by known and unknown risks, uncertainties, and other factors outside Clearwater's control including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates, fuel and other input costs.

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

Clearwater's capital structure was as follows as at December 31, 2014 and 2013:

In 000's of Canadian dollars As at December 31		2014		2013
Equity				
Common shares	$	97,267	$	64,780
Retained earnings		11,084		19,762
Cumulative translation account		(5,326)		(5,470)
		103,025		79,072
Non-controlling interest		24,962		24,669
		127,987		103,741
Long term debt				
Senior debt, non-amortizing				
Term loan, due in 2015		11,595		10,642
Term loan, due in 2091		3,500		3,500
		15,095		14,142
Senior debt, amortization				
Term Loan A, due 2018		28,950		29,700
Delayed Draw term Loan A, due 2018 (net of deferred financing charges of $0.6 million)		(608)		(608)
Term Loan B, due 2019 (including the embedded derivative)		228,211		211,901
Marine mortgage, due in 2017		1,030		1,785
Multi-currency revolving facility		21		—
Other loans		342		405
		257,946		243,183
Total long term debt		273,041		257,325
Total capital	$	401,028	$	361,066

There are 54,978,098 shares outstanding as of December 31, 2014 (December 31, 2013 – 50,948,698).

On February 4, 2014, Clearwater completed the issuance of 4,029,400 common shares. The shares were issued at a price of $8.50 per share, for gross proceeds to Clearwater of approximately $34 million.

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

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 December 31, 2014 (December 31, 2013 – $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%. 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 a US $10 million non-amortizing term loan and as such the availability as at December 31, 2014 was $63.4 million (December 31, 2013 – $64.4 million).

The term loan A has principal outstanding as at December 31, 2014 of CDN $29.0 million (December 31, 2013 – 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 December 31, 2014 this resulted in an effective rate of approximately 4.51%.

Clearwater has entered into interest rate swap arrangements whereby:

- CDN $12 million of this loan is effectively 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 6.25%.
- CDN $12 million of this loan is subject to a rate cap to December 31, 2015 of 4.5% and then after which the rate is fixed at 5.85% to June 2018.

Clearwater accounts for all interest rate swap arrangements and the related change in market value through profit and loss.

The delayed draw term loan A has a principal outstanding as at December 31, 2014 of CDN $nil (December 31, 2013 – $nil) and can be drawn upon any time up to June 30, 2015. 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%.

The term loan B has principal outstanding as at December 31, 2014 of USD $196.8 million (December 31, 2013 – 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. It bears interest payable monthly at US Libor plus 3.5% with a Libor interest rate floor of 1.25%. As of December 31, 2014 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 (or the equivalent amount in Canadian dollars). The Libor interest rate floor of 1.25% is accounted for separately as an embedded derivative and is recorded at the estimated fair market value. The change in fair market value of the embedded derivative is recorded through profit or loss. Clearwater has entered into swap arrangements whereby USD $50 million of the debt is capped to December 31, 2015 at an interest rate of 4.75% and then the rate is fixed at 6.15% to June 2019 and a further USD $50 million is capped to June 2016 at an interest rate of 4.75% and then the rate is fixed it at 6.49% to June 2019. Clearwater accounts for these swap arrangements and the change in market value through profit and 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. In 2014 this loan was renewed and as a result it bears interest at 7% per year with interest payable monthly and the principal is due at maturity in June 25, 2015.

On April 29, 2014, Clearwater entered into a multi-currency revolving facility agreement that allows Clearwater to borrow a maximum of DKK 53.0 million which can be denominated in either DKK, Canadian and US dollar equivalents. The principal availability reduces by the equivalent of DKK 10.6 million on June 30, 2015 and each anniversary thereafter until the loan is fully reduced. As at December 31, 2014 the balance of the revolving facility is DKK 0.1 million (Canadian equivalent is $0.02 million). The facility bears interest in the same currency as the currency in which the principal balance is denominated. The interest is payable on the last day of each fiscal quarter at the N-bor rate applicable to the currency of the facility plus 1.875%.

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 are subject to certain financial and 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

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

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

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

- **Liquidity** – As of December 31, 2014 Clearwater had $47.6 million in cash, and a $75 million revolving loan, of which $63.4 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. In addition, Clearwater can draw up to $39 million on its' delayed draw term loan A.

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 seasonality but over time Clearwater intends to manage to this ratio. As of December 31, 2014 leverage improved to 2.6x adjusted EBITDA from 2.7x as of December 31, 2013 due to higher cash flows from operations partially offset by substantial capital expenditures completed in the first three quarters of the year.

In 000's of Canadian dollars As at December 31	**2014**	2013	2012
Adjusted EBITDA[1]	**$ 87,368**	$ 79,103	$ 72,243
Debt (net of deferred financing charges of $0.6 million (December 31, 2013 – $0.6 million))	**273,041**	257,325	253,791
Less cash	**(47,598)**	(46,793)	(41,504)
Net debt	**$ 225,443**	$ 210,532	$ 212,287
Leverage	**2.6**	2.7	2.9

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.

We have provided leverage calculations in the past to assist readers in comparing our leverage levels to our peers. Given that our leverage levels are in-line or below our peers we do not feel this measure is as critical to disclose. However, we understand that readers may wish to have leverage measures to assist them in their assessment of our liquidity. As a result, we will include a revised leverage measure going forward that is more appropriate for this purpose – one that is based on Clearwater's share of adjusted EBITDA, debt and cash balances.

The revised calculation excludes the minority share of our cash and adjusted EBITDA and is calculated as follows:

In 000's of Canadian dollars As at December 31	**2014**	2013
Adjusted EBITDA[1]	**$ 71,073**	$ 65,082
Debt (net of deferred financing charges of $0.6 million (December 31, 2013 – $0.6 million))[2]	**272,554**	256,498
Less cash[3]	**(40,712)**	(38,510)
Net debt	**$ 231,842**	$ 217,988
Leverage	**3.3**	3.3

[2] Debt was reduced by the share attributable to non-controlling shareholders for which Clearwater does not provide a guarantee. This included $0.5 million in 2014 and $0.8 million in 2013.

[3] Cash was reduced by the share attributable to non-controlling shareholders of $6.9 million in 2014 and $8.3 million in 2013.

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

- **Foreign Exchange Management** –

Clearwater's plan to mitigate 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.

(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 from changes in exchange rates.

As of February 25, 2015 Clearwater had forward exchange contracts to be settled in 2015 of:

- US dollar $103.6 million at an average rate of 1.10;
- 3.2 billion Yen at an average rate of .010; and
- 47.6 million Euro at an average rate of 1.46.

The 2015 US dollar forwards include US dollars $35.6 million of participating forwards which provide that to the extent spot rates are higher than the contracted rates of approximately 1.10, the contract rate will be adjusted by approximately 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 a portion of our 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, scheduled loan payments and capital expenditures and in turn to use this free cash flow to invest in growth investments. Clearwater's goal is to grow free cash flows such that it can fund growth, maintain leverage of around 3x adjusted EBITDA and pay a sustainable dividend to its shareholders.

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

		13 weeks ended December 31				Year ended December 31				
		2014		2013		**2014**		2013		2012
Adjusted EBITDA[1]	**$**	**25,861**	$	22,347	**$**	**87,368**	$	79,103	$	72,243
Less:										
Cash Interest		**(4,288)**		(3,657)		**(14,938)**		(16,317)		(20,346)
Cash taxes		**(375)**		(270)		**(2,585)**		(1,812)		(1,693)
Other income and expense items		**(789)**		514		**(5,295)**		(863)		(12,448)
Operating cash flow before changes in working capital		**20,409**		18,934		**64,550**		60,111		37,756
Changes in working capital from operating activities		**27,571**		29,816		**3,476**		(5,448)		8,184
Cash flows from operating activities		**47,980**		**48,750**		**68,026**		**54,663**		**45,940**
Other sources (uses) of cash:										
Purchase of property, plant, equipment, quota and other assets		**(12,802)**		(11,182)		**(83,309)**		(23,813)		(16,572)
Proceeds on disposal of fixed assets		**—**		—		**5**		978		—
Designated borrowings[A]		**11,017**		6,231		**63,431**		7,700		2,056
Scheduled payments on long-term debt		**(6,205)**		(1,366)		**(8,360)**		(3,233)		(6,327)
Dividends received from joint venture		**—**		—		**1,490**		1,240		1,740
Distribution to non-controlling interests		**(2,780)**		(3,707)		**(10,427)**		(11,414)		(9,491)
Free cash flow[1]	**$**	**37,210**	**$**	**38,726**	**$**	**30,856**	**$**	**26,121**	**$**	**17,346**
Add/(less):										
Other debt borrowings (repayments) of debt, use of cash[B]		**(11,054)**		(7,505)		**(60,398)**		(20,759)		13,584
Issuance of equity		**—**		—		**32,487**		—		—
Other investing activities		**(482)**		(386)		**1,805**		(717)		1,358
Other financing activities		**(1,649)**		—		**(4,397)**		—		—
Change in cash flows for the period	**$**	**24,025**	$	30,835	**$**	**353**	$	4,645	$	32,288

[A] Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For 2014, this includes a conversion of a vessel for Argentina, the addition of a third clam vessel and a late life refit on a shrimp vessel. For the purpose of free cash flow calculations the amount invested (up to the total amount of the related financing) during the period on these projects is backed out of the calculation of free cash flows irrespective of the timing of the related borrowing.

[B] Other debt borrowings (repayments) of debt, use of cash for year to date 2014 includes $63.4 million of cash invested in designated capital projects.

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

Free cash flow for 2014 improved $4.7 million to $ $30.9 million due to the higher adjusted EBITDA and a positive contribution from working capital offset by higher capital expenditures (net of designated borrowings) from scheduled refits and vessel conversions, and the timing of payments to minority interest partners.

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

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

Changes in working capital

In 000's of Canadian dollars	13 weeks ended December 31		Year ended December 31	
	2014	2013	**2014**	2013
Decrease in inventory	**$ 13,016**	$ 18,056	**$ 6,237**	$ 2,745
(Decrease) increase in accounts payable	**(5,414)**	(3,550)	**2,557**	(8,342)
Decrease (increase) in accounts receivable	**21,933**	16,376	**(4,605)**	(470)
(Increase) decrease in prepaids	**(1,964)**	(1,066)	**(713)**	619
	$ 27,571	$ 29,816	**$ 3,476**	$ (5,448)

Working capital in 2014 improved $8.9 million from a use in working capital of $5.4 million in 2013 to proceeds of $3.5 million in 2014. The improvement in cash was primarily a result of an increase in sales volumes for sea scallops and timing of payments of accounts payable. Timing of accounts receivable collections partially offset the improvement.

In 2014 Clearwater had a record investment in capital expenditures of $83.3 million. Capital expenditures included $36.4 million related to the construction of the new clam harvesting vessel that is to have a total cost of approximately $60 million and is expected to be operating late in 2015.

In 2014 Clearwater invested $16.7 million to complete the conversion of an Argentine scallop vessel which will begin harvesting early in the first quarter of 2015. Additional investments in 2014 included $7.3 million for an enterprise resource planning system ("ERP") which is expected to be completed late 2015, $18.2 million on refits including $12.5 million for a life extending refit for a shrimp vessel and $4.7 million on other planned maintenance.

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 supply and production plans versus sales forecasts, and through continuous improvements in the integration of its fleet and sales plans.
- 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. Clearwater plans to invest up to $60 million (including interest) on the project. Management expects to complete conversion work and enter the new vessel into service in late 2015.

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.

In 2015 Clearwater expects significant growth investments of approximately $56 million in capital assets, of which $19 million relates to the construction of the third clam vessel, $6 million for the purchase and conversion of a research vessel. $13 million related to maintenance capital investments and $18 million to improve operational efficiencies in our plants and information systems.

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

  On February 25, 2014 the Board of Directors announced a 33% increase in the dividend and declared a quarterly dividend of CAD$0.04 per share, payable on March 24, 2015 to shareholders of record as of March 10, 2015.

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 reviews dividends quarterly with a view to revisiting the appropriate dividend amount on an annual basis.

The increase in February 2015 reflects the extraordinary results achieved in 2014. Going forward the Board will review the policy on a regular basis to ensure the dividend level remains consistent with Clearwater's long term dividend policy.

These dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the 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 2014 RESULTS

Overview

The following statements reflect the results of Clearwater for the 13 weeks ended December 31, 2014 and 2013:

In 000's of Canadian dollars 13 weeks ended December 31		2014		2013
Sales	$	119,498	$	111,012
Cost of goods sold		89,647		85,384
Gross margin		29,851		25,628
		25.0%		23.1%
Administrative and selling		13,004		13,295
Finance costs		14,149		8,298
Foreign exchange loss on forward contracts		2,174		4,380
Other income		(1,622)		(1,664)
Research and development		615		630
		28,320		24,939
Earnings before income taxes		1,531		689
Income tax expense		1,401		987
(Loss) earnings	$	130	$	(298)
(Loss) earnings attributable to:				
Non-controlling interest	$	4,117	$	2,804
Shareholders of Clearwater		(3,987)		(3,102)
	$	130	$	(298)

Fourth quarter 2014 results

Clearwater reported sales of $119.5 million and adjusted EBITDA[1] of $25.9 million for the fourth quarter of 2014 versus 2013 comparative figures of $111.0 million and $22.3 million, reflecting growth of 7.6% in sales and 15.7% in adjusted EBITDA.

For the fourth quarter of 2014, gross margin improved by $4.2 million. Gross margin as a percentage of sales improved from 23.1% in the fourth quarter of 2013 to 25.0% for the same period of 2014, due to higher sales prices and favourable exchange rates.

The growth in sales and adjusted EBITDA was driven by strong market demand that increased sales prices for the majority of species as well as a $2.9 million positive foreign exchange impact as the US dollar strengthened against the Canadian dollar in the fourth quarter of 2014.

Free cash flow[1] was $37.2 million for the fourth quarter of 2014 versus $38.7 million for the same period of 2013, a decline of $1.5 million, due primarily to the timing of scheduled debt repayments in 2014.

In 000's of Canadian dollars 13 weeks ended December 31		**2014**		2013		Change
(Loss) earnings	**$**	**130**	$	(298)	$	428
Higher gross margin						4,223
Higher administrative and selling						291
Higher interest expense						(639)
Higher realized foreign exchange losses						(2,778)
						1,097
Explanation of changes in earnings related to non-operational items:						
Higher unrealized foreign exchange losses on debt and working capital						330
Higher deferred income tax expense						(310)
Fair value adjustments on convertible debentures and embedded derivative						(558)
						(538)
All other						(131)
					$	428

Sales by region

(In 000's of Canadian dollars) 13 weeks ended December 31		**2014**		2013		Change	%
Europe	**$**	**45,217**		44,951	$	266	0.6
China		**21,202**		18,952		2,250	11.9
Japan		**15,712**		11,788		3,924	33.3
Other Asia		**5,100**		4,123		977	23.7
Asia		**42,014**		34,863		7,151	
United States		**19,247**		17,373		1,874	10.8
Canada		**12,595**		13,194		(599)	(4.5)
North America		**31,842**		30,567		1,275	
Other		**425**		631		(206)	(32.6)
	$	**119,498**	$	111,012	$	8,486	7.6

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

Europe

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

European sales remained consistent for the fourth quarter of 2014 in comparison to the same period of 2013.

Increases in sales prices for Argentine scallops and shrimp were offset by a decrease in catch rates for Argentine scallops that reduced available supply in the fourth quarter of 2014.

China

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

Sales in China increased $2.3 million to $21.2 million in 2014 as a result of an increase in sales price, sales volumes for clams and a $1.6 million positive impact from foreign exchange rates as the US dollar strengthened against the Canadian dollar.

This was partially offset by lower available supply for shrimp due to timing of landings.

Japan

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

Sales to customers in Japan increased $3.9 million to $15.7 million primarily as a result of an increase in sales volumes for clams from higher catch rates. Increases in sales volumes for lobster from an increase in procurement directed to this market also contributed to the increase in sales.

This was partially offset by lower available supply for shrimp due to timing of landings. In addition changes in sales mix for clams and lobster to products with lower average sales prices partially offset the increase in sales.

Average foreign exchange rates for the Yen for the fourth quarter of 2014 were 0.010 which were consistent in the same period 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 $1.9 million, or 10.8%, to $19.2 million in the fourth quarter of 2014 primarily as a result of an increase in sales volumes for sea scallops and higher foreign exchange rates for the US dollar. Increases in sales prices for clams, sea scallops and lobster contributed to the increase in sales.

Reductions in available supply for inshore shrimp partially offset the increase in sales.

Sales were positively impacted by $1.5 million in the fourth quarter of 2014 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 8.4% to 1.138 in the fourth quarter of 2014.

Canada

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

Sales within Canada decreased $0.6 million, or 4.5%, primarily as a result of reductions in available supply for scallops, as product was sold to other higher yielding markets. Lower catch rates for Argentine scallops also contributed to the decrease in sales.

Strong market demand increased sales volumes for clams and sales prices for scallops, clams and lobster partially offsetting the decline in sales.

[1] Refer to discussion on risks and uncertainties

Sales by species[1]

In 000's of Canadian dollars 13 weeks ended December 31	2014	2013	Change	%
Scallops	$ 41,285	$ 45,998	$ (4,713)	(10.2)
Coldwater shrimp	31,448	27,653	3,795	13.7
Clams	26,156	18,805	7,351	39.1
Lobster	20,169	18,102	2,067	11.4
Ground fish and other	440	436	4	0.9
Crab	—	18	(18)	(100.0)
	$ 119,498	$ 111,012	$ 8,486	7.6

Sales increased $8.5 million, or 7.6%, for the fourth quarter of 2014 as a result of strong market demand that increased sales prices for of the majority of species, in particular scallops, clams and shrimp. An increase in sales volumes for clams from higher catch rates also contributed to the increase in sales.

This was partially offset by lower volumes of Argentine scallops due to lower catch rates and changes in sales mix for clams to products with lower average sales prices.

Cost of goods sold

In 000's of Canadian dollars 13 weeks ended December 31	2014	2013	Change	%
Harvesting and procurement	$ 64,822	$ 60,419	$ 4,403	7.3
Manufacturing	9,118	8,267	851	10.3
Transportation	5,598	5,548	50	0.9
Depreciation	6,483	7,161	(678)	(9.5)
Administration	3,626	3,989	(363)	(9.1)
	$ 89,647	$ 85,384	$ 4,263	5.0

Cost of goods sold increased $4.3 million or 5.0% to $89.6 million primarily as a result of an increase in harvesting and procurements costs.

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, higher harvesting costs per pound for scallops and higher shore prices per pound for lobster and cooked and peeled shrimp increased the harvesting and procurement costs for the fourth quarter of 2014.

This was partially offset by lower harvesting costs for clams as a result of higher catch rates and changes in sales mix for products with lower costs.

Fuel costs for our vessels remained consistent for the fourth quarter of 2014. Average fuel prices for the fourth quarter of 2014 were $0.87 per litre. Clearwater's vessels used approximately 28.4 million litres of fuel in 2014. Based on 2014 fuel consumption, a one-cent per litre change in the price of fuel would impact harvesting costs by approximately $0.2 million.

Please note that Clearwater uses Marine Diesel in its harvesting operations, the price of which does not correlate closely to publically available measures such the price of a barrel of oil. This is due to a number of factors including but not limited to the nature of the fuel used, the geographic locations in which Clearwater purchases fuel and the currency in which Clearwater purchases fuel.

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 section for further information.

[1] Refer to discussion on risks and uncertainties

Gross margin

Gross margin as a percentage of sales improved from 23.1% in the fourth quarter of 2013 to 25.0% for the same period of 2014, primarily as a result of strong demand that provided higher sales prices for the majority of species and higher catch rates for clams also impacted margins positively.

Gross margin was also positively impacted by higher average foreign exchange primarily due to the strengthening of the US dollar against the Canadian dollar. The net impact on sales from all foreign exchange volatility was an increase in sales and gross margins of $2.9 million.

13 weeks ended December 31	2014		2013		
Currency	% sales	Average rate realized	% sales	Average rate realized	Change in rate
US dollars	39.1%	1.138	44.0%	1.050	8.4%
Euros	22.0%	1.419	25.8%	1.443	-1.7%
Japanese Yen	9.9%	0.010	8.3%	0.010	0.0%
Danish Kroner	4.5%	0.191	2.8%	0.192	-0.5%
UK pounds	5.3%	1.799	3.3%	1.710	5.2%
Canadian dollar and other	19.2%		15.8%		
	100.0%		100.0%		

Administrative and selling

In 000's of Canadian dollars 13 weeks ended December 31	2014	2013	Change	%
Salaries and benefits	$ 8,026	$ 8,151	$ (125)	(1.5)
Share-based incentive compensation	2,928	2,913	15	0.5
Employee compensation	10,954	11,064	(110)	(1.0)
Consulting and professional fees	2,089	1,526	563	36.9
Other	1,041	1,619	(578)	(35.7)
Selling costs	764	1,111	(347)	(31.2)
Travel	719	665	54	8.1
Reorganization costs	133	0	133	0.0
Occupancy	409	363	46	12.7
Allocation to cost of goods sold	(3,105)	(3,053)	(52)	1.7
	$ 13,004	$ 13,295	$ (291)	(2.2)

Administrative and selling remained consistent with the fourth quarter of 2013.

Share-based incentive compensation is primarily driven by changes in Clearwater's share price, performance against Clearwater's peer group and the number of share based grants outstanding. Although there were more grants outstanding in 2014, this was offset by a lower change in the share price in the fourth quarter of 2014 as compared to the fourth quarter of 2013.

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

Other includes a variety of administrative expenses such as communication, service fees, depreciation, gains or losses, all of which will vary from year to year. The largest portion of the expenditures in 2014 relates to a write down on goodwill related to non-core species.

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 13 weeks ended December 31		2014		2013
Interest and bank charges	$	4,288	$	3,657
Amortization of deferred financing charges and accretion		203		195
Interest		4,491		3,852
Fair value adjustment on convertible debentures and embedded derivative		(451)		(1,009)
Foreign exchange on debt and working capital		10,109		5,455
	$	14,149	$	8,298

Interest increased during the fourth quarter of 2014 due to higher average balances outstanding, in part due to higher exchange rates on U.S. denominated debt.

The **fair value adjustment on the convertible debentures and embedded derivatives** represents the change in the estimated fair values of these instruments.

Foreign exchange[1] on long term debt and working capital

In 000's of Canadian dollars 13 weeks ended December 31		2014		2013
Realized loss (gain)				
Working capital and other	$	(134)	$	(2,449)
		(134)		(2,449)
Unrealized loss (gain)				
Foreign exchange on long term debt and working capital		8,894		7,898
Mark-to-market on interest swaps and caps		1,349		6
		10,243		7,904
	$	10,109	$	5,455

Foreign exchange losses[1] increased by $4.7 million from a loss of $5.5 million in the fourth quarter of 2013 to a loss of $10.1 million for the same period in 2014. The increase was primarily a result of non-cash unrealized gains on the translation of the $196.8 million US dollar denominated debt as the US dollar strengthened against the Canadian dollar during the fourth quarter of 2014 and an increase in non-cash mark to market losses on $100 million US dollar of interest rate swaps/caps that were entered into during the year. These arrangements are marked-to-market through profit and loss.

Losses[1] on forward contracts

In 000's of Canadian dollars 13 weeks ended December 31		2014		2013
Losses (gains) on forward contract derivatives				
Realized loss	$	1,894	$	1,431
Unrealized (gain)		280		2,949
	$	2,174	$	4,380

Losses on forward contracts[1] declined $2.2 million to $2.2 million primarily as a result of a reduction in unrealized losses on forward exchange contracts outstanding at the end of the quarter.

Clearwater's hedging program is designed to enable Clearwater to remove uncertainty regarding exchange rates on sales receipts by locking in up to 75% of annual net foreign exchange exposure. Clearwater does this by entering into a series of foreign exchange contracts that mature throughout the fiscal year and that provide for a fixed exchange rate on a portion of sales

[1] Refer to discussion on risks and uncertainties

receipts. In a rising exchange rate environment such as the one we are currently in where spot rates are higher than contract rates, Clearwater realizes higher exchange rates on sales but it is required to remit the excess of the spot rate received on sales receipts over the contract rate to the counterparty on the portion of sales that it has hedged.

Should the current environment of a stronger US dollar and Euro versus the Canadian dollar persist it would have a positive impact on 2015 sales but the hedging program would offset a portion of those gains and reduce the positive impact on adjusted EBITDA. However, looking forward to 2015, Clearwater would realize the benefit of such higher rates as hedging contracts that it is entering now are at rates closer to current spot rates.

Other income

In 000's of Canadian dollars 13 weeks ended December 31		2014		2013
Share of earnings of equity-accounted investee	$	(615)	$	(528)
Royalties, interest and other fees		(166)		(226)
Other fees		(841)		(910)
	$	(1,622)	$	(1,664)

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.

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 the fourth quarter of 2014 Clearwater's utilized $0.8 million of its deferred tax asset by utilizing loss carryforwards to reduce income that would have otherwise been subject to tax.

Earnings attributable to non-controlling interest

Non-controlling interest relates to minority share of earnings from Clearwater's majority investments in subsidiaries in Argentina, Nova Scotia and Newfoundland and Labrador.

The increase in earnings attributable to non-controlling interest of $1.3 million for the fourth quarter of 2014 relates primarily to strong market demand that increased sales prices for turbot and shrimp.

It is important to note that the earnings attributable to non-controlling interest relates to Clearwater's interest in a partnership and as such taxes are included in earnings attributable to shareholders, whereas the earnings attributable to non-controlling interest are not tax effected.

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

Earnings attributable to shareholders

Earnings attributable to shareholders of Clearwater declined $0.9 million to a loss of $4.0 million for the fourth quarter of 2014 primarily as a result of an increase in non-cash losses from the translation of the US dollar denominated debt as the US dollar strengthened against the Canadian dollar and higher deferred tax expense.

Adjusted earnings attributable to shareholders

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

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

In 2014 adjusted earnings attributable to shareholders increased $0.1 million, to $9.6 million primarily as a result of improvements in gross margin of $4.2 million. The improvements in adjusted earnings were partially offset by an increase realized foreign exchange losses on working capital and foreign exchange contracts.

In 2014 adjusted earnings per share decreased from $0.19 per share in the fourth quarter of 2013 to $0.17 per share in the same period of 2014. The decrease in earnings per share was a result of an increase in the number of outstanding share due to a share issue completed early in 2014, partially offset by an improvement in adjusted earnings.

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 marketplace in which purchasers of seafood are increasingly willing to pay a premium to suppliers that can provide consistent quality and food safety, wide diversity and reliable delivery of premium, wild, sustainably harvested seafood.

Clearwater, 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.

We begin 2015 with the expectation that the five-year strategic plan goals we set out to accomplish at the beginning of 2012 are now within our reach – 1 full year ahead of our original timetable! 2015 will also be the year in which we lay the foundation for our next five year strategic plan (2016–2020) which will continue to focus on executing with excellence against our six core strategies.

Our six core strategies are:

- **Expanding Access to Supply** – In 2015, we will welcome a third vessel to our clam fleet and expand our harvest capacity by an incredible 60%. We will also continue to actively invest in access to supply including; acquisitions, joint ventures, as well as harvesting and royalty contracts.
- **Target Profitable and Growing Markets, Channels and Customers** – We continue to benefit from strong and increasing global demand for sustainably harvested, safe, traceable and premium wild seafood. In 2015, we will continue to advance our go-to-market approach in both traditional and new markets. This two—pronged approach takes advantage of our "on trend" health, sustainability, traceability, quality credentials in developed markets as well as the rapid urbanization, rising incomes and increased seafood consumption of emerging markets to literally "supercharge" our growth.
- **Increase Margins by Improving Price Realization and Cost Management** – In 2015 we will fully implement our first "ocean to shelf" global supply chain. We have ambitious expectations to drive top and bottom line growth, capturing savings in global supply chain efficiencies and improved productivity.
- **Pursue and Preserve the Long Term Sustainability of Resources on Land and Sea –** As a leading global supplier of wild-harvested seafood – sustainability remains at the core of our business and our mission. Investing in the long-term health and the responsible harvesting of the oceans and there bounty is every harvester's responsibility and the only proven way to ensure access to a reliable, stable and long-term supply of seafood. Sustainability is not just good business, like innovation it's in our DNA. That's why Clearwater has been recognized by the Marine Stewardship council (MSC) and WWF as a leader in sustainable harvesting for wild fisheries and how Clearwater can offer the widest selection of sustainably-certified species of any seafood harvester worldwide.
- **Build Organizational Capability, Capacity and Engagement** – This level of performance can only be achieved by a talented and engaged global workforce at sea and on land, employing well communicated strategies and plans with measurable objectives. It also requires an enduring commitment to invest in our people.

Looking forward, we will no longer disclose future targets for sales growth, free cash flow growth, return on assets and leverage as we believe the track record we have achieved on these measures over the past four years provides a reasonable base for users of our financial reports to form educated estimates of possible future performance.

RISKS AND UNCERTAINTIES

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

Foreign exchange risk

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 2014 approximately 46.5% of Clearwater's sales were denominated in US dollars.

Based on 2014 sales and excluding the impact of its' hedging program,

- a change of 0.01 in the U.S. dollar rate converted to Canadian dollars would result in a $1.9 million change in sales and gross profit.
- 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.
- A change of 0.001 in the Yen rate as converted to Canadian dollars would result in a change of $4.2 million in sales and gross profit.

As of February 25, 2015 Clearwater had forward exchange contracts to be settled in 2015 of:

- US dollar $103.6 million at an average rate of 1.10;
- 3.2 billion Yen at an average rate of .010; and
- 47.6 million Euro at an average rate of 1.46.

The 2015 US dollar forwards include US dollars $35.6 million of participating forwards which provide that to the extent spot rates are higher than the contracted rates of approximately 1.10, 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 a portion of our 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 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.

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 $12.0 million Canadian in 2013. Clearwater did not request for dividends to be paid in 2014 as it was in the process of converting a vessel for use in its' Argentine operations. 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 domestic loan 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.

Contingent liability

Clearwater has received a claim regarding alleged rights to certain intellectual property in the amount of $6 million. Clearwater has agreed to arbitration; however, Clearwater does not believe there to be a material liability relating to the dispute.

In addition, 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.

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 source of all Clearwater's supply of products comes from fisheries in Canada and Argentina. 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 positions on issues around resource management, including the establishment of TACs and other management measures potentially limiting our ability to grow, to fully capitalize on our investments in harvesting capacity, or to achieve targeted yields from the resource, which may adversely affect our financial condition and results of operations.

Resource supply risk is managed through adherence with government policies and regulations related to fishing in Canada 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.

Other risks

Clearwater is implementing 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, 2014 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, 2014. 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, 2014, 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 28, 2014 to December 31, 2014, 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: Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 and IFRIC 21 – Levies.

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities. These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement to qualify for offsetting. These *amendments had no impact on Clearwater*.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets. These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments have resulted in additional disclosures relating to an impairment loss recognized during the year ended December 31, 2014. Refer to Note 10 in the condensed consolidated interim financial statements for additional disclosure.

IFRIC 21 – Levies. This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. There was no impact on Clearwater.

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.

Annual Improvements to IFRS (2010–2012) and (2011–2013) cycles

On December 12, 2013 the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

Business combination accounting for interests in a joint operation (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 15 – Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 Financial Instruments

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets between an investor and its associate or joint venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Annual Improvements to IFRS (2012–2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure Initiative

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

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, 2014 and 2013:

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. These fees apportion the salaries and benefit costs of the individuals providing the services based on estimated time spent.

Clearwater had the following transactions and balances with CFFI, for the period ended December 31, 2014 and December 31, 2013:

	Year ended	
	December	December
	2014	2013
Opening balance due from CFFI	**$ 1,524**	$ 1,596
Management and other fees charged to CFFI	**—**	122
Rent and IT service fees charged to CFFI	**184**	184
Interest on intercompany account	**56**	78
Payments from CFFI	**(1,783)**	(466)
Other charges to (from) CFFI	**50**	10
	$ 31	$ 1,524

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%.

In addition, Clearwater expensed approximately $0.04 million for vehicle leases for the year ended December 31, 2014 (December 31, 2013 – $0.07 million) and approximately $0.13 million for other services for the year ended December 31, 2014 (December 31, 2013 – $0.11 million) by companies related to its parent. The transactions are recorded at the exchange amount and the balance due to these companies was $nil million as at December 31, 2014 (December 31, 2013 – $0.01 million).

Clearwater recorded sales, sales commissions and storage fees to a non-controlling interest holder in a consolidated partnership. These sales, sales commissions and storage fees are at negotiated prices and are settled on normal trade terms. Sales for the year ended December 31, 2014 are $6.7 million (December 31, 2013 – $1.2 million). Sales commissions for the year ended December 31, 2014 are $2.4 million (December 31, 2013 – $2.0 million). Storage fees for the year ended December 31, 2014 are $1.4 million (December 31, 2013 – $1.7 million).

At December 31, 2014 Clearwater had a balance of $1.0 million (December 31, 2013 – $5.0 million), included in long term receivables, for interest bearing loans made to a non-controlling interest shareholder in a subsidiary. In the first quarter of 2014, Clearwater changed its presentation of advances to a non-controlling interest shareholder in a subsidiary. Advances as at December 31, 2014 of $4.4 million (December 31, 2013 – $3.8 million) were reclassified from long term receivables to non-controlling interest. These advances are now recorded as distributions to and repayments from a non-controlling shareholder in a subsidiary.

During the year ended December 31, 2014, Clearwater incurred $0.02 million, in legal fees paid to a law firm in which a Director of Clearwater is a partner (year ended December 31, 2013 – $0.03 million).

Commitments

In the normal course of business, Clearwater is obligated to make future payments, including contractual obligations for non-derivative and derivative financial instruments, operating leases and other commitments. 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. Since December 31, 2014, there have been no material changes to amounts presented or expectations in the commitment schedule included in the 2014 annual MD&A.

December 31, 2014	Carrying Amount	Total Contractual Cash Flow	2015	2016	2017	2018	2019	>2020
Interest – long-term debt		75,465	13,097	12,585	12,449	11,776	5,758	19,800
Principal repayments – long-term debt		274,562	22,847	4,165	3,972	26,619	212,780	4,179
Total long-term debt	273,041	350,027	35,944	16,750	16,421	38,395	218,538	23,979
Trade and other payables	52,308	52,308	52,308	—	—	—	—	—
Operating leases and other	—	37,053	27,247	2,292	2,221	1,876	1,726	1,691
Derivative financial instruments – asset[1]	(5,312)	(5,312)	(5,312)	—	—	—	—	—
Derivative financial instruments – liability	8,691	8,691	8,691	—	—	—	—	—
	$ 328,728	$ 442,767	$ 118,878	$ 19,042	$ 18,642	$ 40,271	$ 220,264	$ 25,670

SUMMARY OF QUARTERLY RESULTS

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

In 000's of Canadian dollars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2014				
Sales	**$ 77,771**	**$ 113,403**	**$ 134,069**	**$ 119,498**
Earnings (loss)	**(12,144)**	**18,850**	**2,959**	**130**
Earnings (loss) per share ("EPS")	**(0.27)**	**0.30**	**(0.02)**	**(0.07)**
Diluted earnings (loss) per share[1]	**(0.27)**	**0.30**	**(0.02)**	**(0.07)**
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[1]	(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[1]	(0.09)	(0.08)	0.27	0.15

[1] Diluted earnings (loss) per share are anti-dilutive for all periods prior to 2014 except for September 28, 2013, September 29, 2012, and December 31, 2012. In the third quarter of 2013, the outstanding convertible debentures were redeemed.

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 highest revenues in the third quarter of each year.

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

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

NON-IFRS MEASURES, DEFINITIONS AND RECONCILIATIONS

Gross margin

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

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

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

Adjusted EBITDA is defined as EBITDA excluding 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), have been excluded from the calculation of adjusted EBITDA. Unrealized gains and losses on forward exchange contracts relate to economic hedging on future operational transactions and by adjusting for them, the results more closely reflect the economic effect of the hedging relationships in the period to which they relate. In addition adjustments to stock based compensation have been excluded from adjusted EBITDA as they do not relate to the general operations of the business.

Reconciliation of earnings to adjusted EBITDA for the 13 weeks ended, the years ended December 31, 2014 and 2013 is as follows:

	13 weeks ended December 31		Year ended December 31		
	2014	2013	**2014**	2013	2012
Earnings (loss)	**$ 130**	$ (298)	**$ 9,797**	$ 15,298	$ 22,704
Add (deduct):					
Income taxes	**1,401**	987	**5,949**	(8,101)	(5,019)
Taxes and depreciation for equity investment	**280**	237	**1,265**	951	—
Depreciation and amortization	**6,563**	7,261	**24,544**	24,171	22,976
Interest on long-term debt and bank charges	**4,491**	3,852	**15,716**	17,310	21,506
Earnings before interest, taxes, depreciation and amortization	**$ 12,865**	$ 12,039	**$ 57,271**	$ 49,629	$ 62,167
Add (deduct) other items:					
Unrealized foreign exchange and derivative loss (income)	**10,523**	10,853	**17,288**	11,493	(3,476)
Fair market value on long term debt	**(451)**	(1,009)	**(1,229)**	(1,710)	2,898
Realized foreign exchange loss (gain) on working capital	**(134)**	(2,449)	**1,172**	3,586	1,359
Restructuring and refinancing costs	**130**	—	**1,981**	10,642	6,964
Stock based compensation	**2,928**	2,913	**8,948**	5,861	2,331
Loss (gain) on disposal of assets and quota	**—**	—	**1,937**	(398)	—
Adjusted EBITDA	**$ 25,861**	**$ 22,347**	**$ 87,368**	**$ 79,103**	**$ 72,243**
Adjusted EBITDA attributed to:					
Non-controlling interests	**$ 4,763**	$ 3,847	**$ 16,295**	$ 14,021	12,848
Shareholders of Clearwater	**21,098**	18,500	**71,073**	65,082	59,395
	$ 25,861	**$ 22,347**	**$ 87,368**	**$ 79,103**	**$ 72,243**

Adjusted earnings attributable to shareholders

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

Reconciliation of earnings to adjusted earnings for the 13 weeks ended, the years ended December 31, 2014 and 2013 is as follows:

	13 weeks ended December 31		Year ended December 31	
	2014	2013	**2014**	2013
Reconciliation of earnings to adjusted earnings				
Earnings (loss)	**$ 130**	$ (298)	**$ 9,797**	$ 15,298
Deferred tax assets booked related to prior years	**—**	—	**(2,575)**	(15,800)
Restructuring and refinancing costs	**130**	—	**1,981**	10,642
Stock based compensation	**2,928**	2,913	**8,948**	5,861
Unrealized foreign exchange	**10,523**	10,853	**17,288**	11,493
Fair value on long term debt	**(451)**	(1,009)	**(1,229)**	(1,710)
	13,130	12,757	**24,413**	10,486
Adjusted earnings	**$ 13,260**	$ 12,459	**$ 34,210**	$ 25,784
Adjusted earnings attributable to:				
Non-controlling interests	**3,646**	2,965	**11,639**	10,086
Shareholders	**9,614**	9,494	**22,571**	15,698
	$ 13,260	$ 12,459	**$ 34,210**	$ 25,784
Adjusted earnings per share:				
Weighted average of shares outstanding	**54,978**	50,949	**54,787**	50,949
Earnings per share for shareholders	**0.17**	0.19	**0.41**	0.31
Reconciliation of adjusted earnings to adjusted EBITDA				
Adjusted earnings	**$ 13,260**	$ 12,459	**$ 34,210**	$ 25,784
Add (subtract)				
Cash and deferred taxes	**1,401**	987	**8,524**	7,699
Depreciation and amortization	**6,563**	7,261	**24,544**	24,171
Interest on long term debt and bank charges	**4,491**	3,852	**15,716**	17,310
Taxes and depreciation on equity investment	**280**	237	**1,265**	951
Realized foreign exchange on working capital	**(134)**	(2,449)	**1,172**	3,586
Gain on disposal of assets	**—**	—	**1,937**	(398)
	12,601	9,888	**53,158**	53,319
Adjusted EBITDA[1]	**$ 25,861**	$ 22,347	**$ 87,368**	$ 79,103

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

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.

Current leverage calculations are calculated by dividing the current and preceding annual adjusted EBITDA by the total debt on the balance sheet adjusted for cash reserves.

Reconciliation of adjusted EBITDA to debt (net of deferred financing charges) for the years ended December 31, 2014 and 2013 is as follows:

In 000's of Canadian dollars As at December 31	2014	2013	2012
Adjusted EBITDA[1]	$ 87,368	$ 79,103	$ 72,243
Debt (net of deferred financing charges of $0.6 million (December 31, 2013 – $0.6 million))	273,041	257,325	253,791
Less cash	(47,598)	(46,793)	(41,504)
Net debt	$ 225,443	$ 210,532	$ 212,287
Leverage	2.6	2.7	2.9

We have provided leverage calculations in the past to assist readers in comparing our leverage levels to our peers. Given that our leverage levels are in-line or below our peers we do not feel this measure is as critical to disclose. However, we understand that readers may wish to have leverage measures to assist them in their assessment of our liquidity. As a result, we will include a revised leverage measure going forward that is more appropriate for this purpose – one that is based on Clearwater's share of adjusted EBITDA, debt and cash balances.

The revised calculation excludes the minority share of our cash and adjusted EBITDA and is calculated as follows for the years ended December 31, 2014 and 2013:

In 000's of Canadian dollars As at December 31	2014	2013
Adjusted EBITDA[1]	$ 71,073	$ 65,082
Debt (net of deferred financing charges of $0.6 million (December 31, 2013 – $0.6 million))[2]	272,554	256,498
Less cash[3]	(40,712)	(38,510)
Net debt	$ 231,842	$ 217,988
Leverage	3.3	3.3

[2] Debt was reduced by the share attributable to non-controlling shareholders for which Clearwater does not provide a guarantee. This included $0.5 million in 2014 and $0.8 million in 2013.

[3] Cash was reduced by the share attributable to non-controlling shareholders of $6.9 million in 2014 and $8.3 million in 2013.

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

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 and year ended December 31, 2014 and 2013 is as follows:

	13 weeks ended December 31		Year ended December 31		
	2014	2013	**2014**	2013	2012
Adjusted EBITDA[1]	**$ 25,861**	$ 22,347	**$ 87,368**	$ 79,103	$ 72,243
Less:					
Cash Interest	**(4,288)**	(3,657)	**(14,938)**	(16,317)	(20,346)
Cash taxes	**(375)**	(270)	**(2,585)**	(1,812)	(1,693)
Other income and expense items	**(789)**	514	**(5,295)**	(863)	(12,448)
Operating cash flow before changes in working capital	**20,409**	18,934	**64,550**	60,111	37,756
Changes in working capital from operating activities	**27,571**	29,816	**3,476**	(5,448)	8,184
Cash flows from operating activities	**47,980**	**48,750**	**68,026**	**54,663**	**45,940**
Other sources (uses) of cash:					
Purchase of property, plant, equipment, quota and other assets	**(12,802)**	(11,182)	**(83,309)**	(23,813)	(16,572)
Proceeds on disposal of fixed assets	**—**	—	**5**	978	—
Designated borrowings[A]	**11,017**	6,231	**63,431**	7,700	2,056
Scheduled payments on long-term debt	**(6,205)**	(1,366)	**(8,360)**	(3,233)	(6,327)
Dividends received from joint venture	**—**	—	**1,490**	1,240	1,740
Distribution to non-controlling interests	**(2,780)**	(3,707)	**(10,427)**	(11,414)	(9,491)
Free cash flow[1]	**$ 37,210**	**$ 38,726**	**$ 30,856**	**$ 26,121**	**$ 17,346**
Add/(less):					
Other debt borrowings (repayments) of debt, use of cash[B]	**(11,054)**	(7,505)	**(60,398)**	(20,759)	13,584
Issuance of equity	**—**	—	**32,487**	—	—
Other investing activities	**(482)**	(386)	**1,805**	(717)	1,358
Other financing activities	**(1,649)**	—	**(4,397)**	—	—
Change in cash flows for the period	**$ 24,025**	$ 30,835	**$ 353**	$ 4,645	$ 32,288

[A] Designated borrowings relate to capital projects for which there is long-term financing and therefore they will not be financed with operating cash flows. For 2014, this includes a conversion of a vessel for Argentina, the addition of a third clam vessel and a late life refit on a shrimp vessel. For the purpose of free cash flow calculations the amount invested (up to the total amount of the related financing) during the period on these projects is backed out of the calculation of free cash flows irrespective of the timing of the related borrowing.

[B] Other debt borrowings (repayments) of debt, use of cash for year to date 2014 includes $63.4 million of cash invested in designated capital projects.

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

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 rolling twelve months ended December 31, 2014 and December 31, 2013 is as follows:

In 000's of Canadian dollars As at December 31		2014		2013		2012
Adjusted EBITDA[1]	$	87,368	$	79,103	$	72,243
Depreciation and amortization		23,753		24,167		22,475
Adjusted earnings before interest and taxes		63,615		54,936		49,768
Total Assets	$	464,397	$	410,796	$	410,789
		13.7%		13.4%		12.1%

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

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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, 2014 and December 31, 2013, the consolidated statements of earnings, other comprehensive income, shareholders' equity and cash flows for the years then ended, 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 audits 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, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
February 25, 2015
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 25, 2015

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) As at December 31		2014		2013
ASSETS				
Current assets				
Cash	$	**47,598**	$	46,793
Trade and other receivables (Note 5)		**49,812**		43,702
Inventories (Note 6)		**40,056**		46,987
Prepaids and other (Note 7)		**5,508**		6,291
Derivative financial instruments (Note 12)		**5,312**		1,466
		148,286		145,239
Non-current assets				
Long-term receivables (Note 8)		**3,872**		6,656
Other assets		**288**		296
Property, plant and equipment (Note 9)		**186,017**		126,451
Licenses and fishing rights (Note 10)		**98,742**		101,467
Investment in equity investee (Note 21)		**6,198**		4,701
Deferred tax assets (Note 17(c))		**15,356**		18,943
Goodwill (Note 10)		**5,638**		7,043
		316,111		265,557
TOTAL ASSETS	$	**464,397**	$	410,796
LIABILITIES				
Current liabilities				
Trade and other payables	$	**52,308**	$	40,760
Income tax payable (Note 17)		**1,367**		648
Current portion of long-term debt (Note 11)		**22,847**		14,297
Derivative financial instruments (Note 12)		**8,691**		6,869
		85,213		62,574
Non-current liabilities				
Long-term debt (Note 11)		**250,194**		243,028
Deferred tax liabilities (Note 17(c))		**1,003**		1,453
		251,197		244,481
SHAREHOLDERS' EQUITY				
Share capital (Note 13)	$	**97,267**	$	64,780
Retained earnings		**11,084**		19,762
Cumulative translation account		**(5,326)**		(5,470)
		103,025		79,072
Non-controlling interest (Note 20)		**24,962**		24,669
		127,987		103,741
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	$	**464,397**	$	410,796

See the accompanying notes to the consolidated financial statements

Subsequent event (Note 13)

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		2014		2013
Sales	$	**444,742**	$	388,659
Cost of goods sold		**341,908**		301,291
		102,834		87,368
Administrative and selling costs		**48,252**		39,005
Net finance costs (Note 14)		**37,829**		33,935
Losses on forward contracts (Note 12 (e))		**4,047**		8,812
Other income (Note 15)		**(5,031)**		(3,240)
Research and development		**1,991**		1,659
		87,088		80,171
Earnings before income taxes		**15,746**		7,197
Income tax expense (recovery) (Note 17)		**5,949**		(8,101)
Earnings for the year	$	**9,797**	$	15,298
Earnings (loss) attributable to:				
Non-controlling interest	$	**12,702**	$	8,965
Shareholders of Clearwater		**(2,905)**		6,333
	$	**9,797**	$	15,298
Basic and diluted (loss) earnings per share (Note 16)	$	**(0.05)**	$	0.12

See the accompanying notes to the consolidated financial statements

Clearwater Seafoods Incorporated
Consolidated Statements of Other Comprehensive Income

(In thousands of Canadian dollars) Year ended December 31		**2014**		2013
Earnings	**$**	**9,797**	$	15,298
Other comprehensive income (loss) –				
Items that may be reclassified subsequently to income (loss):				
Foreign currency translation differences of foreign operations		**(1,188)**		(1,604)
Total comprehensive income (loss)	**$**	**8,609**	$	13,694
Total comprehensive income (loss) attributable to:				
Non-controlling interest	**$**	**11,370**	$	8,965
Shareholders of Clearwater		**(2,761)**		4,729
	$	**8,609**	$	13,694

See the accompanying notes to the consolidated financial statements

Clearwater Seafoods Incorporated
Consolidated Statements of Shareholders' Equity

(In thousands of Canadian dollars)	Common shares	Retained earnings	Cumulative translation account	Non-controlling interest	Total
Balance at January 1, 2013	**$ 64,867**	**$ 14,616**	**$ (3,866)**	**$ 27,495**	**$ 103,112**
Total comprehensive income (loss) for the year	—	6,333	(1,604)	8,965	13,694
Transactions recorded directly in equity					
Distributions to non-controlling interest	—	—	—	(11,791)	(11,791)
Dividends declared on common shares	—	(1,274)	—	—	(1,274)
Redemption of 2014 convertible debentures (Note 13)	(87)	87	—	—	—
Total transactions with owners	(87)	(1,187)	—	(11,791)	(13,065)
Balance at December 31, 2013	**$ 64,780**	**$ 19,762**	**$ (5,470)**	**$ 24,669**	**$ 103,741**
Total comprehensive (loss) income for the year	—	(2,905)	144	11,370	8,609
Transactions recorded directly in equity					
Issuance of common shares	32,487	—	—	—	32,487
Distributions to non-controlling interest	—	—	—	(11,077)	(11,077)
Dividends declared on common shares	—	(5,773)	—	—	(5,773)
Total transactions with owners	32,487	(5,773)	—	(11,077)	15,637
Balance at December 31, 2014	**$ 97,267**	**$ 11,084**	**$ (5,326)**	**$ 24,962**	**$ 127,987**

See the accompanying notes to the consolidated financial statements

Clearwater Seafoods Incorporated
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars) Year ended December 31		**2014**		2013
Operating				
Earnings for the year	**$**	**9,797**	$	15,298
Adjustments for:				
Depreciation and amortization		**23,753**		24,167
Net finance costs and unrealized derivative and losses		**31,744**		36,409
Income tax expense (recovery)		**5,949**		(8,101)
Share-based compensation		**8,948**		5,861
Impairment of property, plant and equipment and goodwill (Note 9 & 10)		**1,934**		—
Loss (gain) on disposal of property, plant, and equipment		**76**		(747)
Earnings in equity investee (Note 21)		**(2,987)**		(2,082)
Foreign exchange and other		**2,250**		6,239
		81,464		77,044
Change in operating working capital (Note 25)		**3,604**		(1,297)
Interest paid		**(15,067)**		(20,464)
Income tax paid		**(1,975)**		(621)
	$	**68,026**	$	54,662
Financing				
Repayment of long-term debt		**(14,848)**		(260,320)
Net proceeds from long-term debt		**11,207**		245,288
Net proceeds from common share issue		**32,487**		—
Net repayments of revolving credit facility		**(31)**		—
Distributions paid to non-controlling interest		**(10,427)**		(11,414)
Advances to non-controlling interests		**(1,104)**		(957)
Dividends paid on common shares		**(5,773)**		(1,274)
Government assistance received (Note 9)		**—**		15
	$	**11,511**	$	(28,662)
Investing				
Purchase of property, plant and equipment, and other		**(83,309)**		(23,813)
Proceeds on disposal of property, plant and equipment		**5**		978
Dividends received from equity investee		**1,490**		1,240
Purchase of other assets		**(65)**		(83)
Net receipts in long term receivables		**2,695**		323
	$	**(79,184)**	$	(21,355)
Effect of foreign exchange rate changes on cash	**$**	**452**	$	644
INCREASE IN CASH		**805**		5,289
CASH, BEGINNING OF PERIOD		**46,793**		41,504
CASH, END OF PERIOD	**$**	**47,598**	$	46,793

See the accompanying notes to the 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 partnership units of Clearwater Seafoods Limited Partnership ("CSLP"), which holds the underlying investments in subsidiaries and joint ventures.

The consolidated financial statements of Clearwater as at and for the years ended December 31, 2014 and 2013 comprise the company, its subsidiaries and a joint venture. Clearwater's business includes the ownership and operation of assets and property in connection with the harvesting, processing, distribution and marketing of seafood.

2. BASIS OF PREPARATION

(a) Statement of compliance

These 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 25, 2015.

(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
- Embedded derivative liability within long-term debt
- 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 tabular 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 17.

ii. Goodwill, licenses and fishing rights

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 cash-generating unit 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 these cash generating units.

For further discussion on goodwill and intangible assets, refer to Note 10.

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 behaviours 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 23.

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 12.

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 the estimated selling price in the ordinary course of business, less the 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 its estimated useful life. 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 and equipment	3 to 20 years
Vessels	15 to 30 years
Vessels 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 administrative and selling 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; they 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 or 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 Long-term receivables Trade and other payables Long-term debt	Loans and receivables Loans and receivables Non-derivative financial liabilities Non-derivative financial liabilities	Initial: Fair Value Subsequent: Amortized cost through profit or loss
Derivative 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 are 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 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 of 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 into Canadian dollars at exchange rates at the reporting date. Foreign currency differences resulting from this translation are recognized in other comprehensive income in the cumulative translation account. The income and expenses of foreign operations are translated to Canadian dollars at average exchange rates.

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 they relate 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 it 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 in 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, gains and losses recognized on derivative financial assets and liabilities, gains and losses on financial instruments that are recognized in profit or loss, foreign exchange gains and losses, and refinancing and settlement fees. 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 ("DSU")

There are two deferred share unit plans 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 the grant date.

Performance share units ("PSU")

The performance share unit plan 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 awards under the SAR and DSU plans is calculated using a Black-Scholes valuation model and under 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. Clearwater estimates the expected forfeiture rate for each plan and adjusts for actual forfeitures in the 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. There were no dilutive instruments during the year ended December 31, 2014.

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

Clearwater has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Offsetting financial assets and financial liabilities – amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on Clearwater.

Recoverable amount disclosures for non-financial assets – amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts of the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments resulted in additional disclosures relating to an impairment loss recognized during the year ended December 31, 2014. Refer to Note 10 for additional disclosure.

IFRIC 21 – Levies

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payments, as identified by the relevant legislation, occurs. The interpretation had no impact on Clearwater.

(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.

Annual improvements to IFRS (2010–2012) and (2011–2013) cycles

On December 12, 2013 the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

Business combination accounting for interests in a joint operation (amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 15 – Revenue from contracts with customers

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

(Tabular amounts are in thousands of Canadian dollars)

IFRS 9 Financial Instruments

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets between an investor and its associate or joint venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Annual improvements to IFRS (2012–2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure initiative

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

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		2014		2013
Salaries and benefits	$	101,628	$	96,610
Share-based compensation		8,948		5,861
	$	110,576	$	102,471
Cost of goods sold	$	74,428	$	70,798
Administrative and selling		36,148		31,673
	$	110,576	$	102,471

5. TRADE AND OTHER RECEIVABLES

As at December 31		2014		2013
Trade receivables	$	**42,142**	$	37,187
Other receivables		**7,670**		6,515
	$	**49,812**	$	43,702

Included in other receivables is $5.0 million (December 31, 2013 – $4.3 million) of input tax credits receivable and $2.7 million (December 31, 2013 – $2.2 million) of other receivables.

6. INVENTORIES

As at December 31		2014		2013
Goods for resale	$	**30,010**	$	36,550
Supplies and other		**10,046**		10,437
	$	**40,056**	$	46,987

In 2014 inventory costs of $323.7 million (2013 – $281.6 million) were recognized in cost of goods sold. Clearwater incurred $3.2 million (2013 – $1.7 million) in inventory write-downs included in cost of goods sold. Refer to Note 11 for assets pledged as security for long term debt.

7. PREPAIDS AND OTHER

As at December 31		2014		2013
Prepaids	$	**5,479**	$	4,767
Due from related parties (Note 19)		**29**		1,524
	$	**5,508**	$	6,291

8. LONG-TERM RECEIVABLES

As at December 31		2014		2013
Notes receivable from non-controlling interest holder in subsidiary	$	**1,012**	$	5,002
Advances to fishermen		**2,860**		1,654
	$	**3,872**	$	6,656

Notes receivable from non-controlling interest consists of funds that are advanced to a shareholder in an incorporated subsidiary. The notes bear interest at rates ranging from 0%–12% (2013 – 0%–12%), and they are unsecured and have no set terms of repayment.

Advances to fishermen bear interest at prime plus 5%–7.5% (2013 – prime plus 2%–3%), and they 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.

(Tabular amounts are in thousands of Canadian dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and wharves	Equipment	Vessels	Construction in progress	Total PPE	Deferred gov't assistance	Total
Cost								
Balance at January 1, 2014	$ 2,783	$ 66,022	$ 77,070	$ 191,076	$ 21,855	$ 358,806	$ (8,962)	$ 349,844
Additions	60	24	167	678	82,381	83,310	—	83,310
Disposals	(43)	(5,869)	(1,476)	(11,787)	—	(19,175)	—	(19,175)
Reclassifications and other adjustments	—	2,532	(945)	47,960	(53,020)	(3,473)	—	(3,473)
Impairments	—	—	—	(590)	—	(590)	—	(590)
Effect of movements in exchange rates	(5)	(3)	(26)	(1,856)	(74)	(1,964)	—	(1,964)
Balance at December 31, 2014	**$ 2,795**	**$ 62,706**	**$ 74,790**	**$ 225,481**	**$ 51,142**	**$ 416,914**	**$ (8,962)**	**$ 407,952**
Depreciation and impairment losses								
Balance at January 1, 2014	$ 1,006	$ 50,578	$ 67,792	$ 111,298	$ —	$ 230,674	$ (7,281)	$ 223,393
Depreciation for the year	11	1,766	1,852	18,668	—	22,297	(387)	21,910
Disposals	(43)	(5,869)	(1,476)	(11,708)	—	(19,096)	—	(19,096)
Reclassifications and other adjustments	—	(502)	(2,971)	—	—	(3,473)	—	(3,473)
Impairments	—	—	—	(61)	—	(61)	—	(61)
Effect of movements in exchange rates	—	(4)	(20)	(714)	—	(738)	—	(738)
Balance at December 31, 2014	**$ 974**	**$ 45,969**	**$ 65,177**	**$ 117,483**	**$ —**	**$ 229,603**	**$ (7,668)**	**$ 221,935**
Carrying amounts								
At January 1, 2014	$ 1,777	$ 15,444	$ 9,278	$ 79,778	$ 21,855	$ 128,132	$ (1,681)	$ 126,451
At December 31, 2014	$ 1,821	$ 16,737	$ 9,613	$ 107,998	$ 51,142	$ 187,311	$ (1,294)	$ 186,017

	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 replacements assets	—	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

Total depreciation and amortization expense related to property, plant and equipment and definite-life intangible assets for 2014 was $23.8 million (2013 – $24.2 million). In 2014, $23.3 million (2013 – $23.7 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 (2013 – $0.4 million) was recorded in administrative and selling costs for assets used in administrative activities. Refer to Note 11 for assets pledged as security for long-term debt.

(Tabular amounts are in thousands of Canadian dollars)

10. LICENSES, FISHING RIGHTS AND GOODWILL

		Goodwill		Indefinite life licenses		Fishing rights		Total
Cost								
Balance at January 1, 2013	$	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
Foreign currency exchange translation		—		(922)		—		(922)
Impairment of non-core species		(1,405)		—		—		(1,405)
Balance at December 31, 2014	**$**	**5,638**	**$**	**81,804**	**$**	**24,094**	**$**	**111,536**
Accumulated amortization								
Balance at January 1, 2013	$	—	$	—	$	3,551	$	3,551
Amortization expense		—		—		1,802		1,802
Balance at December 31, 2013		—		—		5,353		5,353
Amortization expense		—		—		1,803		1,803
Balance at December 31, 2014	**$**	**—**	**$**	**—**	**$**	**7,156**	**$**	**7,156**
Carrying amounts								
As at December 31, 2013	$	7,043	$	82,726	$	18,741	$	108,510
As at December 31, 2014	$	5,638	$	81,804	$	16,938	$	104,380

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 stocks of the species are healthy. The licenses and goodwill are tested for impairment annually and when circumstances indicate the carrying value may be impaired.

As at December 31		**2014**		2013
Scallops				
Goodwill – $ nil (December 31, 2013 $ nil)				
Indefinite life licenses – $55.7 million (December 31, 2013 $56.6 million)	**$**	**55,719**	$	56,599
All other CGU's individually				
Goodwill – $5.6 million (December 31, 2013 $7.0 million)				
Indefinite life licenses – $26.1 million (December 31, 2013 $26.1 million)		**31,723**		33,170
	$	**87,442**	$	89,769

Indefinite life licenses and goodwill

Annual impairment testing for indefinite life assets and goodwill was performed using a value in use approach as of September 27, 2014. The recoverable amounts for all cash generating unit ("CGU") except for cooked and peeled shrimp were determined to be higher than their carrying amounts and therefore no impairments were recorded relating to these CGUs during 2014 and 2013. During the year ended December 31, 2014, Clearwater recorded a $1.4 million impairment loss to goodwill associated with a processing facility within the cooked and peeled shrimp CGU (a non-core species) and the Canadian reportable segment, that was the result of estimated other than temporary reductions in margins for the cooked and peeled shrimp business. The recoverable amount of the cooked and peeled shrimp CGU was $12.7 million which was determined through the value in use approach with a pre-tax discount rate of 13.2%. Impairment losses are recognized within administrative and selling costs in the condensed consolidated interim statements of earnings.

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, the assumptions used in the value in use approach for 2014 were determined similarly to those used in 2013.

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 2015 forecasted earnings. Terminal values and forecasts for future periods were extrapolated using inflation rates of 1% (2013: 1%). For some CGU's, this inflation rate is well below the actual current inflation for the country. Gross margins for all future periods were estimated using a combination of forecasted and historical margins.

ii) Pre-tax discount rates ranging from 13%–18% (2013: 13%–18%) 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 management approved capital expenditure forecast, and terminal year capital expenditures were based on required refits over the period of the fishing license.

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

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 2014 there have been no additions or disposals.

Refer to Note 11 for assets pledged as security for long term debt.

11. LONG-TERM DEBT

As at December 31	2014	2013
Term loans (a)		
Term loan A, due June 2018	$ 28,950	$ 29,700
Delayed draw term loan A, due June 2018	(608)	(608)
Term loan B, due June 2019	224,366	207,197
Term loan B, embedded derivative	3,845	4,704
Term loan, due June 2015 (b)	11,595	10,642
Multi-currency revolving facility (c)	21	—
Marine mortgage, due in 2017 (d)	1,030	1,785
Term loan, due in 2091 (e)	3,500	3,500
Other loans	342	405
	273,041	257,325
Less: current portion	(22,847)	(14,297)
	$ 250,194	$ 243,028

(a) 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, 2014 was CDN $29.0 million (December 31, 2013 – $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. It bears interest at the applicable banker's acceptance rate plus 3.25%. As at December 31, 2014 this resulted in an effective rate of 4.51%.

Delayed Draw Term Loan A – The principal outstanding as at December 31, 2014 was $ nil (December 31, 2013 – $ nil) and can be drawn upon any time up to June 30, 2015. 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%.

(Tabular amounts are in thousands of Canadian dollars)

Term Loan B – The principal outstanding as at December 31, 2014 was USD $196.8 million (December 31, 2013 – $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, 2014 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 (or the equivalent amount in Canadian dollars). 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 as a component of net finance costs.

In addition, 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, 2014 the balances in Canadian dollars were $ nil (December 31, 2013 – $ nil) and in US dollars, $ nil (December 31, 2013 – $ nil). The Canadian dollar balances bear interest at the banker's acceptance rate plus 3.25%. The US dollar balances bear interest at the US Libor rate plus 3.25%. As of December 31, 2014 this results in effective rates of 4.51% for Canadian dollar balances and 3.51% for US dollar 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 (b); as such, the balance available as at December 31, 2014 was $63.4 million.

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

In addition to the minimum principal payments for Term Loan A and B, the loan agreement requires that between 0% and 50% of excess cash flow (defined in the loan agreement as EBITDA, excluding non controlling interest in EBITDA and the 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.

Refer to Note 12(b) for detail on interest rate caps and swaps that hedge interest rate risk on the term loans.

(b) Term Loan – The principal outstanding as at December 31, 2014 was USD $10.0 million (December 31, 2013 – $10.0 million). The loan is held through a Clearwater subsidiary. The loan is non amortizing, repayable at maturity in June 2015 and bears interest payable monthly at 7.0%. The loan is secured by a marine vessel. Clearwater provides a guarantee on the term loan.

(c) On April 29, 2014, Clearwater entered into a multi-currency revolving facility agreement that allows Clearwater to borrow a maximum of DKK 53.0 million, which can be denominated in either DKK or Canadian and US dollar equivalents. The principal availability reduces by the equivalent of DKK 10.6 million per year on June 30, 2015 and each anniversary thereafter until the loan is fully repaid. As at December 31, 2014 the balance of the revolving facility is DKK 0.1 million (Canadian equivalent $0.02 million). The facility bears interest in the same currency as the currency in which the principal balance is denominated. The interest is payable on the last day of each fiscal quarter at the N-bor rate applicable to the currency of the facility plus 1.875%. The N-bor rate is a variable interest rate as designated by the lender.

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

As at December 31	**2014**	2013
YEN	**69,457**	99,224
DKK	**1,870**	3,957

The mortgage bears interest at UNIBOR plus 1.0% payable semi-annually. UNIBOR is a variable interest rate component fixed on the basis of the average long-term borrowing interest rate of credit unions – members of the Lithuanian Central Credit Union. Principal payments are required annually as follows:

	2015	2016	2017	2018
YEN	29,767	29,767	9,923	—
DKK	1,870	—	—	—

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%.

12. FINANCIAL INSTRUMENTS

The Company periodically enters into derivatives as part of an active economic hedging program to manage financial risks. The Company has elected not to use hedge accounting for these instruments and consequently changes in fair value are recorded in earnings as they occur:

Summary of derivative financial instrument positions:

As at December 31	2014	2013
Derivative financial assets		
Forward foreign exchange contracts	$ 4,678	$ 1,297
Interest rate cap contracts	634	169
	$ 5,312	$ 1,466
Derivative financial liabilities		
Forward foreign exchange contracts	(5,469)	(6,694)
Interest rate swap contracts	(3,222)	(175)
	$ (8,691)	$ (6,869)

(a) Clearwater has forward contracts maturing each month until December 2015. At December 31, 2014 Clearwater had outstanding forward contracts as follows:

Currency	Foreign currency Notional amount (in 000's)	Average contract exchange rate	Weighted average months to maturity	Fair value asset (liability)
Sell:				
Euro	48,500	1.463	8	$ 2,892
Yen	3,155,000	0.01	8	1,786
				$ 4,678
Sell:				
USD	103,600	1.100	8	(5,469)
				$ (5,469)

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

Currency	Foreign currency Notional amount (in 000's)	Average contract exchange rate	Weighted average months to maturity	Fair value asset (liability)
Sell:				
Yen	2,670,000	0.011	7	$ 1,297
Sell:				
USD	113,000	1.046	7	$ (1,598)
Euro	52,000	1.372	7	(5,096)
				$ (6,694)

Certain USD and Euro forward contracts contain provisions that subject to the spot rate being greater than the contract rate, the contract rate is adjusted by 50% (December 31, 2013 – 50%) of the excess of the spot rate over the contract rate at maturity. The notional amount of the forward contracts subject to these provisions in USD at December 31, 2014 was $35.6 million (December 31, 2013 – $39.5 million) and in Euro at December 31, 2014 was $nil million (December 31, 2013 – $2.0 million).

(Tabular amounts are in thousands of Canadian dollars)

(b) At December 31, 2014 Clearwater had interest rate cap and swap contracts outstanding as follows:

	Effective date	Expiry date	Contracted capped interest rate	Currency	Notional amount (in 000's)	Fair value asset
Term Loan A – Interest rate cap	December 2015	June 2018	6.25%	CAD	12,000	$ 6
Term Loan A – Interest rate cap	March 2014	December 2015	4.50%	CAD	12,000	18
Term Loan B – Interest rate cap	March 2014	December 2015	4.75%	USD	50,000	16
Term Loan B – Interest rate cap	September 2014	June 2016	4.75%	USD	50,000	594
						$ 634

	Effective date	Expiry date	Contracted fixed interest rate	Currency	Notional amount (in 000's)	Fair value (liability)
Term Loan A – Interest rate swap	December 2013	December 2015	5.38%	CAD	12,000	$ (95)
Term Loan A – Interest rate swap	December 2015	June 2018	5.85%	CAD	12,000	(253)
Term Loan B – Interest rate swap	December 2015	June 2019	6.15%	USD	50,000	(1,231)
Term Loan B – Interest rate swap	June 2016	June 2019	6.49%	USD	50,000	(1,643)
						$ (3,222)

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

	Effective date	Expiry date	Contracted capped interest rate	Currency	Notional amount (in 000's)	Fair value asset
Term Loan A – Interest rate cap	December 2015	June 2018	6.25%	CAD	12,000	$ 169

	Effective date	Expiry date	Contracted fixed interest rate	Currency	Notional amount (in 000's)	Fair value (liability)
Term Loan A - Interest rate swap	December 2013	December 2015	5.38%	CAD	12,000	$ (175)

(d) Foreign exchange on debt and working capital per Note 14

Year ended December 31	2014	2013
Realized (gain) loss		
Working capital and other	$ 1,172	$ 3,586
	1,172	3,586
Unrealized loss (gain)		
Foreign exchange on debt and other assets	19,481	5,427
Mark-to-market on interest rate swaps and caps	2,589	6
	22,070	5,433
	$ 23,242	$ 9,019

(e) Losses on forward contracts

Year ended December 31	2014	2013
Losses (gains) on forward contract derivatives		
Realized loss	$ 8,829	$ 2,752
Unrealized (gain) loss	(4,782)	6,060
	$ 4,047	$ 8,812

(f) 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, 2014, Clearwater's trade accounts receivable aging based on the invoice due date was as follows: 98.9% 0–30 days, 0.1% 31–60 days, and 1.0% over 60 days. As at December 31, 2013, Clearwater's trade accounts receivable aging based on the invoice due date was as follows: 98.5% 0–30 days, 0.5% 31–60 days, and 1% over 60 days.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts of $0.3 million (2013 – $0.4 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:

As at December 31		2014		2013
Balance at January 1	$	393	$	459
Allowance recognized		549		814
Amounts recovered		(487)		(808)
Amounts written off as uncollectible		(117)		(105)
Foreign exchange		(60)		33
Balance at December 31	$	278	$	393

(g) Foreign currency exchange rate risk

Foreign currency exchange rate 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 for 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, 2014 and December 31, 2013 were as follows (as converted to Canadian dollars):

As at December 31		2014		2013
Cash	$	13,031	$	22,993
Trade receivables		34,685		30,667
Other receivables		3,481		3,341
Long-term receivables		5,356		8,704
Trade and other payables		(6,759)		(6,377)
Long-term debt		(241,440)		(224,328)
Net exposure to consolidated statements of financial position	$	(191,646)	$	(165,000)

(Tabular amounts are in thousands of Canadian dollars)

The components of this net exposure by currency are as follows (in foreign currency '000's) at December 31, 2014:

December 31, 2014	GBP	USD	Yen	Euros	RMB	NOK	DKK	Argentine Peso
Cash	101	8,602	32	313	681	—	12,068	103
Trade receivables	1,463	12,243	333,748	9,284	—	—	7,737	178
Other receivables	22	159	—	897	—	—	3	14,685
Long term receivables	—	2,151	—	—	—	—	—	21,102
Trade and other payables	(227)	(534)	—	(1,227)	608	—	(2,352)	(27,030)
Long-term debt	—	(207,252)	(69,457)	—	—	—	(1,989)	—
Net exposure to consolidated statements of financial position	1,359	(184,631)	264,323	9,267	1,289	—	15,467	9,038

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

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 exposure to consolidated statements of financial position	938	(181,251)	78,129	11,280	496	(64)	35,287	11,071

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 exchange rates. The change below is calculated based on the net exposure to the consolidated statements of financial position.

	2014	2013
GBP	**245**	165
USD	**(21,415)**	(19,285)
Yen	**257**	79
Euros	**1,309**	1,658
RMB	**24**	9
NOK	**—**	(1)
DKK	**293**	696
Argentine Peso	**123**	181

(h) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flow associated with the instrument will 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 from 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 or loss.

Clearwater manages its interest rate risk exposure by using a mix of fixed and variable rate debt. At December 31, 2014, excluding the interest rate swap, approximately 5.5% (2013 – 5.5%) of Clearwater's debt of $273.0 million (2013 – $257.3 million) was fixed rate debt with a weighted average interest rate of 4.8% (2013 – 4.8%). A 1% change in interest rates for variable rate borrowings would result in a $2.8 million increase (or decrease) in interest expense.

Clearwater enters into interest rate swap, cap and floor arrangements to hedge interest rate risk on its variable rate debt. As at December 31, 2014, Clearwater has entered into interest rate swap arrangements on its CDN $30 million Term Loan A facility and its USD $500 million Term loan B facility whereby:

- CDN $12 million of Term Loan A is effectively 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 6.25%.
- CDN $12 million of Term Loan A is subject to a rate cap to December 31, 2015 of 4.5% and then after which the rate is fixed at 5.85% to June 2018.
- USD $50 million of the debt is capped to December 31, 2015 at an interest rate of 4.75% and then the rate is fixed at 6.15% to June 2019.
- USD $50 million of the debt is capped to June 30, 2016 at an interest rate of 4.75% and then the rate is fixed at 6.49% to June 2019.

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. For the year ended December 31, 2014, this resulted in a $2.6 million unrealized loss. Clearwater accounts for these swap arrangements and the change in market value through profit and loss.

(i) 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, 2014	Carrying Amount	Total Contractual Cash Flow	2015	2016	2017	2018	2019	>2020
Interest – long-term debt		75,465	13,097	12,585	12,449	11,776	5,758	19,800
Principal repayments – long-term debt		274,562	22,847	4,165	3,972	26,619	212,780	4,179
Total long-term debt	273,041	350,027	35,944	16,750	16,421	38,395	218,538	23,979
Trade and other payables	52,308	52,308	52,308	—	—	—	—	—
Operating leases and other	—	37,053	27,247	2,292	2,221	1,876	1,726	1,691
Derivative financial instruments – asset[1]	(5,312)	(5,312)	(5,312)	—	—	—	—	—
Derivative financial instruments – liability	8,691	8,691	8,691	—	—	—	—	—
	$ 328,728	$ 442,767	$ 118,878	$ 19,042	$ 18,642	$ 40,271	$ 220,264	$ 25,670

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.

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 $0.1 million (2013 – $0.02 million).

[1] Operating leases and other includes capital commitments of 22.9 million.

(Tabular amounts are in thousands of Canadian dollars)

(j) 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, 2014	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount	Fair value
Assets:						
Cash	$ 47,598	$ —	$ —	$ —	**$ 47,598**	**$ 47,598**
Trade and other receivables	—	—	49,812	—	**49,812**	**49,812**
Long-term receivables	—	—	3,872	—	**3,872**	**3,872**
Forward foreign exchange contracts	—	4,678	—	—	**4,678**	**4,678**
Interest rate caps	—	634	—	—	**634**	**634**
	$ 47,598	$ 5,312	$ 53,684	$ —	**$ 106,594**	**$ 106,594**
Liabilities:						
Trade and other payables[1]	$ —	$ —	$ —	$ (36,366)	**$ (36,366)**	**$ (36,366)**
Long-term debt	—	—	—	(269,196)	**(269,196)**	**(269,058)**
Forward foreign exchange contracts	—	(5,469)	—	—	**(5,469)**	**(5,469)**
Embedded derivative	—	(3,845)	—	—	**(3,845)**	**(3,845)**
Interest rate swaps	—	(3,222)	—	—	**(3,222)**	**(3,222)**
	$ —	$ (12,536)	$ —	$ (305,562)	**$ (318,098)**	**$ (317,960)**

	Fair Value		Amortized cost		Total	
December 31, 2013	Through profit or loss	Derivatives	Loans and receivables	Non-derivative financial liabilities	Carrying amount	Fair value
Assets:						
Cash	$ 46,793	$ —	$ —	$ —	**$ 46,793**	**$ 46,793**
Trade and other receivables	—	—	43,702	—	**43,702**	**43,702**
Long-term receivables	—	—	6,656	—	**6,656**	**6,656**
Forward foreign exchange contracts	—	1,297	—	—	**1,297**	**1,297**
Interest rate caps	—	169	—	—	**169**	**169**
	$ 46,793	$ 1,466	$ 50,358	$ —	**$ 98,617**	**$ 98,617**
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 swaps	—	(175)	—	—	**(175)**	**(175)**
	$ —	$ (11,573)	$ —	$ (286,387)	**$ (297,960)**	**$ (297,960)**

[1] Trade and other payables excludes the liability for share based compensation of $15.9 million at December 31, 2014 (December 31, 2013 – $7.0 million).

k) 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 carried at fair value through profit and loss using the fair value hierarchy:

December 31, 2014		**Level 1**		**Level 2**		**Level 3**
Recurring measurements						
Financial Assets:						
Cash	**$**	**47,598**	**$**	**—**	**$**	**—**
Forward foreign exchange contracts		**—**		**4,678**		**—**
Interest rate caps		**—**		**634**		**—**
	$	**47,598**	**$**	**5,312**	**$**	**—**
Financial Liabilities:						
Forward foreign exchange contracts	**$**	**—**	**$**	**(5,469)**	**$**	**—**
Embedded derivative		**—**		**(3,845)**		**—**
Interest rate swaps		**—**		**(3,222)**		**—**
	$	**—**	**$**	**(12,536)**	**$**	**—**

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

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

- Forward foreign exchange contracts are measured using present value techniques. Future cash flows are estimated based on forward exchange rates (from observable exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of Clearwater and the various counterparties and the risk free yield curves of the respective currencies.
- The embedded derivative, interest rate swaps and caps 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 years ended December 31, 2014 and December 31, 2013.

(Tabular amounts are in thousands of Canadian dollars)

For cash, trade and other receivables, and trade and other payables, the carrying value approximates their fair value due to the short-term maturity of these instruments. The fair value of the long term receivables is not materially different from their carrying value.

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 for which carrying value did not approximate fair value at December 31, 2014 was $16.3 million (December 31, 2013 – $16.3 million) and the carrying value was $16.5 million (December 31, 2013 – $16.3 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.

13. SHARE CAPITAL

Authorized:

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

Share capital movement:

As at	**December 31, 2014**		December 31, 2013	
	#	**$**	#	$
Share capital:				
Balance at January 1	**50,948,698**	**64,780**	50,948,698	64,867
Issuance of common shares	**4,029,400**	**32,487**	—	—
Redemption of 2013 and 2014 convertible debentures	**—**	**—**	—	(87)
Balance at December 31	**54,978,098**	**97,267**	50,948,698	64,780

On February 4, 2014 Clearwater completed the issuance of 4,029,400 common shares at $8.50 per common share for gross proceeds of $34.2 million. Transaction costs associated with the equity issue were $1.8 million and deducted from the recorded amount for the common shares.

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

During the year ended 2014, dividends of $5.8 million were declared and paid as follows:

Payment Date	# of shares Outstanding		Dividends per share
March 24, 2014	54,978,098	$	0.025
May 28, 2014	54,978,098	$	0.025
September 2, 2014	54,978,098	$	0.025
December 15, 2014	54,978,098	$	0.030

On February 25, 2015, Clearwater declared a quarterly dividend of $0.04 per share, payment to be made on March 24, 2015 to shareholders of record on March 10, 2015.

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

14. NET FINANCE COSTS

Year ended December 31		2014		2013
Interest expense on financial liabilities	$	14,938	$	16,317
Amortization of deferred financing charges and accretion		778		993
		15,716		17,310
Fair value adjustment on convertible debentures and embedded derivative		(1,229)		(1,710)
Foreign exchange on debt and other assets (gain) loss (Note 12 (d))		23,242		9,019
Debt settlement and refinancing fees		100		9,316
	$	37,829	$	33,935

15. OTHER INCOME

Year ended December 31		2014		2013
Royalties, interest, and other fees	$	(844)	$	92
Share of earnings of equity-accounted investee		(2,987)		(2,082)
Other fees		(1,200)		(1,250)
Other income	$	(5,031)	$	(3,240)

16. 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):

		2014		2013
Basic and diluted				
Earnings (loss) for the period	$	(2,905)	$	6,333
Weighted average number of shares outstanding		54,786,510		50,948,698
Earnings (loss) per share	$	(0.05)	$	0.12

The interest on the convertible debentures (redeemed in July 2013) resulted in an anti-dilutive loss per share for December 31, 2013. As a result, for the period ended December 31, 2013, 7,523,559 potential ordinary shares were not included in the calculation of the weighted average number of ordinary shares for the purpose of diluted loss per share.

The convertible debentures were redeemed in July 2013 and had no impact on 2014 results.

(Tabular amounts are in thousands of Canadian dollars)

17. INCOME TAXES

(a) Reconciliation of income tax expense

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	2014	2013
Earnings before income taxes	$ 15,745	$ 7,197
Combined tax rates	30.5%	30.5%
Income tax provision at statutory rates	$ 4,802	$ 2,195
Add (deduct):		
Income of partnerships taxed in the hands of partners	$ (3,064)	$ (2,811)
Permanent differences	3,047	2,819
Benefit of capital loss not recognized	2,807	—
Recognition of previously unrecorded deferred tax assets	—	(9,938)
Income of foreign subsidiary not subject to tax	(1,257)	(9)
Other	(386)	(357)
Actual provision	$ 5,949	$ (8,101)

(b) Income tax expense

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

Year ended December 31	2014	2013
Current	$ 2,585	$ 1,812
Deferred recovery	3,364	(9,913)
	$ 5,949	$ (8,101)

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31 2014	December 31 2013
Deferred tax asset:		
Non-capital loss carry-forwards	$ 13,898	$ 14,740
Long-term debt	2,460	3,150
Reserve for unpaid share-based compensation	4,356	1,785
Unrealized foreign exchange	1,031	1,648
Inventory	—	625
Other	—	294
Licenses	(3,199)	(1,519)
Property, plant and equipment	(4,152)	(3,233)
Other	(41)	—
	$ 14,353	$ 17,490
Classified in the consolidated statement of financial position as:		
Deferred tax asset – non-current	15,356	18,943
Deferred tax liability – non-current	(1,003)	(1,453)
	$ 14,353	$ 17,490

The net change in deferred income taxes reflected in deferred income tax expense of $3.1 million (2013 – $9.9 million) plus the foreign exchange effect of deferred taxes of foreign subsidiaries totaling $0.2 million (2013 – $0.3 million), the effect of which was recorded through foreign exchange.

These deferred tax assets are recognized based on Clearwater's estimate that it is more likely than not it will earn sufficient taxable profits to utilize these losses before they expire.

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	$ 14,429	$ 6,684	$ 21,113	2014–2033
Investment tax credits	5,022	274	$ 5,296	2023–2034
Capital losses	12,229	380	$ 12,609	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, 2014 for the Company's subsidiaries was $87.3 million (December 31, 2013 – $72.2 million).

18. 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	2014	2013
Scallops	$ 163,705	$ 147,637
Coldwater shrimp	93,742	81,592
Lobster	78,186	66,452
Clams	72,774	60,780
Crab	20,985	18,271
Ground fish and other	15,350	13,927
	$ 444,742	$ 388,659

(Tabular amounts are in thousands of Canadian dollars)

(b) Sales by geographic region of the customer

Year ended December 31	2014	2013
France	$ 54,418	$ 51,830
Russia	8,976	15,777
UK	19,639	12,272
Scandinavia	30,442	21,919
Other	36,141	29,973
Europe	149,616	131,771
United States	84,943	76,945
Canada	61,668	55,838
North America	146,611	132,783
Japan	57,496	41,639
China	73,308	66,212
Other	15,494	14,438
Asia	146,298	122,289
Other	2,217	1,816
	$ 444,742	$ 388,659

(c) Non-current assets by geographic region

As at December 31	2014	2013
Property, plant and equipment, licences, fishing rights and goodwill		
Canada	$ 255,398	$ 212,625
Argentina	34,807	22,115
Other	192	221
	$ 290,397	$ 234,961

19. 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	Ownership %	Accounts
Clearwater Seafoods Limited Partnership	100%	Consolidated
Clearwater Ocean Prawns Venture	53.66%	Consolidated
St. Anthony Seafoods Limited Partnership	75%	Consolidated
Adams and Knickle Limited	50%	Equity method
Clearwater Seafoods Holdings Incorporated	100%	Consolidated
Clearwater Fine Foods Europe Limited	100%	Consolidated
Clearwater Fine Foods USA Incorporated	100%	Consolidated
Glaciar Pesquera S.A.	80%	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, 2014 and 2013.

Year ended December 31	2014	2013
Wages and salaries	$ 3,408	$ 3,792
Share-based compensation	8,740	5,861
Bonuses	1,539	1,290
Other benefits	1,829	606
	$ 15,516	$ 11,549

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. These fees apportion the salaries and benefit costs of the individuals providing the services based on estimated time spent.

Clearwater had the following transactions and balances with CFFI:

	December 31, 2014	December 31, 2013
Opening balance due from CFFI	$ 1,524	$ 1,596
Management and other fees charged to CFFI	—	122
Rent and IT service fees charged to CFFI	184	184
Interest on intercompany account	56	78
Payments from CFFI	(1,783)	(466)
Other charges to (from) CFFI	50	10
	$ 31	$ 1,524

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%.

In addition, Clearwater expensed approximately $0.04 million for vehicle leases for the year ended December 31, 2014 (December 31, 2013 – $0.07 million) and approximately $0.13 million for other services for the year ended December 31, 2014 (December 31, 2013 – $0.11 million) by companies related to its parent. The transactions are recorded at the exchange amount and the balance due to these companies was $nil million as at December 31, 2014 (December 31, 2013 – $0.01 million).

Clearwater recorded sales, sales commissions and storage fees to a non-controlling interest holder in a consolidated partnership. These sales, sales commissions and storage fees are at negotiated prices and are settled on normal trade terms. Sales for the year ended December 31, 2014 are $6.7 million (December 31, 2013 – $1.2 million). Sales commissions for the year ended December 31, 2014 are $2.4 million (December 31, 2013 – $2.0 million). Storage fees for the year ended December 31, 2014 are $1.4 million (December 31, 2013 – $1.7 million).

At December 31, 2014 Clearwater had a balance of $1.0 million (December 31, 2013 – $5.0 million), included in long term receivables, for interest bearing loans made to a non-controlling interest shareholder in a subsidiary. In the first quarter of 2014, Clearwater changed its presentation of advances to a non-controlling interest shareholder in a subsidiary. Advances as at December 31, 2014 of $4.4 million (December 31, 2013 – $3.8 million) were reclassified from long term receivables to non-controlling interest. These advances are now recorded as distributions to and repayments from a non-controlling shareholder in a subsidiary.

During the year ended December 31, 2014, Clearwater incurred $0.02 million, in legal fees paid to a law firm in which a Director of Clearwater is a partner (year ended December 31, 2013 – $0.03 million).

(Tabular amounts are in thousands of Canadian dollars)

20. NON-CONTROLLING INTEREST

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

(a) Summarized statements of financial position

	Coldwater shrimp	
Year ended December 31	**2014**	2013
NCI Percentage	**46.34%**	46.34%
Current assets	**$ 28,881**	$ 30,872
Current liabilities	**(10,684)**	(8,194)
	18,197	22,678
Non-current assets	**39,312**	36,475
Non-current liabilities	**(386)**	(1,072)
	38,926	35,403
Net assets	**57,123**	58,081
Accumulated non-controlling interests	**$ 25,737**	$ 24,630

	Scallops	
Year ended December 31	**2014**	2013
NCI Percentage	**20.0%**	20.0%
Current assets	**$ 5,428**	$ 5,629
Current liabilities	**(28,753)**	(27,112)
	(23,325)	(21,483)
Non-current assets	**33,345**	23,972
Non-current liabilities	**—**	(186)
	33,345	23,786
Net assets	**10,020**	2,303
Accumulated non-controlling interests	**$ 1,019**	$ (78)

(b) Summarized statements of earnings

	Coldwater shrimp	
Year ended December 31	**2014**	2013
Sales	**$ 89,792**	$ 77,866
Earnings	**21,558**	19,998
Total comprehensive income	**21,558**	19,998
Earnings allocated to non-controlling interest	**11,533**	8,438
Dividends paid to non-controlling interest	**10,427**	11,349

	Scallops	
Year ended December 31	**2014**	2013
Sales	**$ 38,407**	$ 30,916
Earnings	**5,272**	1,138
Other comprehensive income	**505**	634
Total comprehensive income	**5,777**	1,772
Earnings allocated to non-controlling interest	**1,097**	569
Dividends paid to non-controlling interest	**—**	66

(c) Summarized statements of cash flows

	Coldwater shrimp	
Year ended December 31	**2014**	2013
Cash flow from operating activities	**$ 32,387**	$ 27,403
Cash flow used in financing activities	**(23,331)**	(25,342)
Cash flow used in investing activities	**(12,482)**	(13)
Net (decrease) increase in cash	**(3,426)**	2,048

	Scallops	
Year ended December 31	**2014**	2013
Cash flow from operating activities	**$ 8,626**	$ 3,534
Cash flow from (used in) financing activities	**—**	10,339
Cash flow used in investing activities	**(8,641)**	(13,863)
Net (decrease) increase in cash	**(15)**	10

21. INVESTMENT IN EQUITY INVESTEE

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

Year ended December 31	**2014**	2013
Carrying amount of interest in joint venture	**$ 6,198**	$ 4,701
Share of:		
Earnings for the year	**2,987**	2,082
Dividends from joint venture	**1,490**	1,240
Commissions paid to joint venture	**9,524**	6,905

22. 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.

23. SHARE-BASED COMPENSATION

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

The number of share-based awards outstanding and vested as of December 31, 2014 and 2013 were as follows:

As at December 31, 2014			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	424	424	May 2012
PSU – Tranche 2		N/A	219	—	March 2013
PSU – Tranche 3		N/A	208	—	March 2014
DSU		N/A	398	220	June 2012 – December 2014
Total			1,399	794	

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	424	—	May 2012
PSU – Tranche 2		N/A	214	—	March 2013
DSU		N/A	443	167	June 2012 – December 2013
Total			1,231	317	

The following reconciles the share based awards outstanding for the year ended December 31, 2014:

In thousands of awards	PSU – Tranche 1	PSU – Tranche 2	PSU – Tranche 3	DSU	SARS	Total
Outstanding at January 1, 2014	424	214	—	443	150	1,231
Granted	37	18	206	51	—	312
Granted from dividends	5	3	2	5	—	15
Forfeited	(42)	(16)	—	(101)	—	(159)
Exercised	—	—	—	—	—	—
Outstanding at December 31, 2014	424	219	208	398	150	1,399
Vested at January 1, 2014	—	—	—	167	150	317
Vested	424	—	—	53	—	477
Vested at December 31, 2014	424	—	—	220	150	794

The following reconciles the share based awards outstanding for the year ended December 31, 2013:

In thousands	PSU – Tranche 1	PSU – Tranche 2	DSU	SARS	Total
Outstanding at January 1, 2013	423	—	401	705	1,529
Granted	—	213	41	—	254
Granted from dividends	1	1	1	—	3
Exercised	—	—	—	(555)	(555)
Outstanding at December 31, 2013	424	214	443	150	1,231
Vested at January 1, 2013	—	—	126	555	681
Vested	—	—	41	150	191
Exercised	—	—	—	(555)	(555)
Vested at December 31, 2013	—	—	167	150	317

For the year ended December 31, 2014, there were nil share based awards exercised during the year. The following share based awards were exercised during the year ended December 31, 2013:

As at December 31, 2013

		Grant price	Number exercised in thousands	Exercise date	Share price at exercise date
SARs	$	0.01	255	March 2013	$5.00
		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 $nil (December 31, 2013 – $ 2.5 million).

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

When cash dividends are paid to shareholders of Clearwater, dividend equivalent PSUs and DSUs are granted to the Participants which are equal to the greatest number of whole share units having a market value, as of the payment date of the dividend, equal to the product of the cash dividend paid per share multiplied by the number of PSUs and DSUs subject to the Grant. The additional PSUs and DSUs granted are subject to the same terms and conditions as the corresponding PSU or DSU Grant.

(Tabular amounts are in thousands of Canadian dollars)

Fair value of share based plans

The SARS issued and outstanding are fully vested and are expected to be cash settled on the exercise date; therefore, the fair value of the SARS is based on the intrinsic value.

The PSU Tranche 1 are fully vested as of December 31, 2014 with a liability of $7.6 million. This is expected to be cash settled in the first quarter of 2015.

Measurement inputs for the remaining plans include the fair value of the company's shares, 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 remaining 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), as follows:

		2014	
Number of awards	PSU Tranche 2	PSU Tranche 3	DSU
Weighted average fair value per award	$ 17.11	$ 17.47	$ 11.86
Weighted average risk-free interest rate	1.19% – 3.69%	0.75% – 3.69%	1.01% – 1.35%
Weighted average expected volatility	17.81% – 44.88%	17.8% – 44.88 %	52.33% – 52.89%
Expected life of awards (years)	1	2	4.5 – 5.25

		2013	
Number of awards	PSU Tranche 1	PSU Tranche 2	DSU
Weighted average fair value per award	$ 12.09	$ 11.41	$ 8.22
Weighted average risk-free interest rate	1.49% – 3.38%	1.39% – 3.82%	1.13% – 2.12%
Weighted average expected volatility	22.65% – 64.39%	21.62% – 58.90%	58.60% – 77.22%
Expected life of awards (years)	1	2	5.5 –12.3

Share-based compensation expense included in the income statement for the year ended December 31, 2014 is $8.9 million (December 31, 2013 – $5.9 million).

The liability for share based compensation is $15.9 million at December 31, 2014 (December 31, 2013 – $7.0 million). The vested portion of the liability for share based compensation is $11.8 million at December 31, 2014 (December 31, 2013 – $2.5 million).

24. CONTINGENT LIABILITIES

Clearwater has received a claim regarding alleged rights to certain intellectual property in the amount of $6 million. Clearwater has agreed to arbitration; however, Clearwater does not believe there to be a material liability relating to the dispute.

In addition, 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.

25. ADDITIONAL CASH FLOW INFORMATION

Changes in operating working capital (excludes change in accrued interest)	December 31. 2014	December 31. 2013
Decrease in inventory	**$ 6,237**	$ 2,745
Increase (decrease) in accounts payable	**2,685**	(4,191)
(Increase) in accounts receivable	**(4,605)**	(470)
Increase) decrease in prepaids	**(713)**	619
	$ 3,604	$ (1,297)

Clearwater Seafoods Incorporated
Quarterly and share information

($000's except per share amounts)

	2014				2013			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales	**119,498**	**134,069**	**113,403**	**77,771**	111,012	113,982	95,368	68,297
Net (loss) earnings	**130**	**2,959**	**18,850**	**(12,144)**	(298)	27,224	(9,866)	(1,762)
Per share data								
Basic net (loss) earnings	**(0.07)**	**(0.02)**	**0.30**	**(0.27)**	(0.06)	0.48	(0.24)	(0.06)
Diluted net (loss) earnings	**(0.07)**	**(0.02)**	**0.30**	**(0.27)**	(0.06)	0.47	(0.24)	(0.06)

Clearwater Seafoods Incorporated
Trading information
symbol CLR

	2014				2013			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Trading price range of shares (board lots)								
High	**12.23**	**10.80**	**8.70**	**9.21**	8.50	5.82	4.98	5.30
Low	**9.30**	**7.75**	**6.90**	**7.27**	5.37	4.86	4.10	4.00
Close	**11.86**	**10.56**	**8.69**	**7.55**	8.22	5.68	4.92	4.85
Trading volumes (000's)								
Total	**5,907**	**3,793**	**2,974**	**3,370**	2,635	2,416	1,930	6,709
Average daily	**91**	**67**	**47**	**55**	41	39	30	110
Shares outstanding at end of quarter	**54,978,098**	**54,978,098**	**54,978,098**	**54,978,098**	50,948,698	50,948,698	50,948,698	50,948,698

Selected Annual Information

	2014	2013	2012	2011	2010
	(Audited)	(Audited)	(Audited)	(Audited)*	(Audited)
Sales	$ 444,742	$ 388,659	$ 350,302	$ 332,785	$ 291,116
Costs of goods sold	341,908	301,291	277,777	263,220	234,854
Gross margin	102,834	87,368	72,525	69,565	56,262
Administrative and selling	48,252	39,005	32,536	33,345	28,557
Net finance costs	37,829	33,935	29,041	36,313	41,225
(Gains) losses on forward contracts	4,047	8,812	(4,654)	2,291	1,257
Other income	(5,031)	(3,240)	(3,399)	(5,893)	(2,477)
Research and development	1,991	1,659	1,759	707	1,623
Gain on settlement of Glitnir transaction				(12,445)	
Gain on change of control of joint venture				(11,571)	
Earnings before income taxes	15,746	7,197	17,242	26,818	(13,923)
Income taxes expense (recovery)	5,949	(8,101)	(5,462)	3,863	3,564
Earnings before non-controlling interest	9,797	15,298	22,704	22,955	(17,487)
Non-controlling interest	12,702	8,965	7,695	6,619	1,704
Earnings attributable to shareholders	$ (2,905)	$ 6,333	$ 15,009	$ 16,336	$ (19,191)

Corporate Information

Head office of Clearwater Seafoods Incorporated

757 Bedford Highway
Bedford, Nova Scotia B4A 3Z7
902-443-0550

Directors of Clearwater Seafoods Incorporated

Colin E. MacDonald
Chairman of the Board

John C. Risley
President, Clearwater Fine Foods Inc.

Harold Giles
Chair of Human Resource Development and Compensation ('HRDCC") 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
Chair of Finance Committee
Executive Vice President, Clearwater Fine Foods Inc.

Jim Dickson
Chair of Governance Committee
Partner, Stewart McKelvey

Executive of Clearwater Seafoods Incorporated

Ian Smith
Chief Executive Officer

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

Ronald van der Giesen
President, Global Supply Chain

Michael D. Pittman
Vice-President, Fleet

Greg Morency
President and Chief Commercial Officer

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

Investor relations

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Auditors

KPMG LLP
Halifax, Nova Scotia

Shares listed

Toronto Stock Exchange
SHARE Symbol: CLR

Transfer agent

Computershare Investor Services Inc.

Why Invest in Clearwater?

- North America's largest vertically integrated harvester, processor and distributor of premium, wild, eco-labelled shellfish with more than 81 million pounds sold in 2014
- Global demand for premium wild-caught seafood among aging boomers and a rising middle class in the Asia-Pacific region is outpacing resource supply. This in combination with conservatively managing wild seafood fisheries to protect the long-term health of the industry is creating new opportunities from the rising demand for high-quality sustainable seafood.
- Largest holder of shellfish quotas and licenses within Canada and maintains the widest selection of MSC-certified species of any shellfish harvester worldwide
- Diverse channel and customer mix in foodservice, retail and other food industries with no single customer representing more than 6% of total sales
- Five consecutive years of sales and adjusted EBITDA growth

Clearwater

remarkable seafood, responsible choice