CLEARWATER SEAFOODS INCOME FUND

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared effective February 26, 2007.

The Audit Committee and the Board have reviewed and approved the contents of this MD&A as well as the related 2006 annual news release.

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

Clearwater has established and maintains disclosure controls and procedures, as defined under the rules adopted by the Ontario Securities Commission in multilateral instrument 52-109, over financial reporting. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of Clearwater's disclosure controls and procedures as of December 31, 2006, and have concluded that such procedures are adequate and effective to provide reasonable assurance that the material information relating to

Clearwater and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

Management is also responsible for the design of internal controls over financial reporting (ICFR) within Clearwater in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management's documentation and assessment of the design of Clearwater's ICFR was completed as of December 31, 2006 with a focus on processes and controls in areas identified as being "key risk areas". Management has evaluated the design of Clearwater's ICFR as of December 31, 2006 and believes the design to be sufficient to provide such reasonable assurance.

Management has evaluated whether there were any changes to Clearwater's ICFR during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect its ICFR. During 2006, Clearwater consolidated a number of its divisions into a single general ledger and converted a number of subsidiaries to a similar reporting platform. During this process Clearwater made a number of changes to its internal controls in order to reflect the new systems being used, particularly around purchases and payables and sales and receivables. Management believes these changes have improved what were already strong ICFRs.

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 and fuel and other input costs that could cause actual results to differ materially from those expressed in the forward-looking statements. The Fund does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

OVERVIEW OF THE FUND AND CLEARWATER

Clearwater Seafoods Income Fund (the "Fund") is a limited purpose, open-ended trust established under the laws of the Province of Ontario. The Fund was created to acquire and indirectly hold the securities of Clearwater Seafoods Limited Partnership ("Clearwater").

The Fund commenced operations in July 2002 when it completed an initial public offering. The following table illustrates the additions to capital from initiation to date, as well as the related investment in Clearwater.

Date	Number of units issued	Method and related investment in Clearwater	Ownership of Clearwater by the Fund
July 2002	21,170,435	IPO (acquired equal number of units)	45.36%
August 29, 2002	2,117,043	Over-allotment option granted to the underwriters – acquired equal number of units	49.9%
December 27, 2002	1,271,186	Private placement - acquired equal number of units	51.23%
May 1, 2003	4,000,000	Warrants converted to units - acquired equal number of units	54.98%
September 17, 2003	848,962	Private placement - acquired equal number of units	55.71%
No changes to December 31, 2006			

On June 15, 2004, the Fund completed an offering for $50 million of 7% convertible unsecured subordinated debentures, which are due December 31, 2010 and used the proceeds to purchase 4,081,633 Class C units issued by Clearwater. The convertible debentures pay interest semi-annually and are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The Clearwater Class C units are all held by the Fund and these units exist under an agreement whereby

they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund.

As part of its strategy to reduce leverage levels, the Fund filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period ending August 2007. This was accompanied by a similar agreement to repurchase Class C Partnership units by Clearwater. During 2006, $3 million of the Class C units were repurchased and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. Subsequent to year-end, an additional $1 million of Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of convertible debentures.

On January 24, 2007, the Fund received approval for a normal course issuer bid which will enable it to purchase, from time to time, up to 2.5 million outstanding trust units (the "Units"), which amount represents less than 10% of the public float. Any such purchases of Units would be made during the 12-month period commencing on January 24, 2007 and in accordance with the requirements of the TSX. The Units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater.

Clearwater's Partnership Agreement provides that as long as Clearwater Fine Foods Incorporated ("CFFI") owns greater than 45% of the units of the Fund on a fully diluted basis, they have the right to appoint 4 of the 7 directors of CS ManPar, the managing general partner. Since CFFI currently owns greater than 45% (including their ownership of units in the Fund), they have maintained this right. Therefore, the Fund does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the Fund's share of the earnings of Clearwater is reflected in the statement of earnings of the Fund as a one-line item entitled "Equity in the Earnings of Clearwater Seafoods Limited Partnership". Due to the limited amount of information that this provides on Clearwater, the financial statements of Clearwater are included whenever the Fund discloses its financial results.

OVERALL PERFORMANCE OF CLEARWATER SEAFOODS LIMITED PARTNERSHIP

In fiscal 2006, sales and gross profit were $315.7 million and $86.7 million versus $314.8 million and $72.2 million in 2005, an improvement in gross profit of $14.5 million or 20%. The most significant factor contributing to the improvement in gross profit percentage in 2006 has been the sales mix, as more sales were in our more profitable species, such as scallops and clams. Scallop volumes, prices and margins were particularly strong in 2006. These improvements in gross margin came despite the negative impact of foreign exchange, which reduced sales and margins for the year by approximately $19 million.

Fourth quarter 2006 sales and gross profit were $84.1 million and $19.6 million respectively, compared to $84.2 million and $18.7 million in 2005. This improvement in gross profit came despite foreign exchange reducing sales and margins in the quarter by $2.5 million.

Net earnings for 2006 were $1.5 million versus $19.9 million in 2005. Excluding the impact of $23 million of non-cash foreign exchange losses in 2006 and $3.6 million of non-cash gains in 2005, net earnings improved from $16.3 million to $24.5 million, an improvement of 50% and were in line with the 56% improvement in distributable cash levels realized in 2006.

It is important to understand that Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. In an environment where the Canadian dollar is weakening relative to currencies such as the U.S. dollar, European Euro, Pound Sterling and Japanese Yen, the exchange environment will serve to improve profits. In this environment with exchange rates moving in Clearwater's favor, the spot rate will be higher than the contracted rate in Clearwater's hedge agreements. As Clearwater records the change in the market value of these contracts as an adjustment to net earnings this can result in large non-cash losses or gains during periods of time when exchange rates are changing rapidly. During the fourth quarter of 2006, the Canadian dollar weakened significantly against the U.S. dollar, European Euro and Pound Sterling, the three currencies that account for the majority of Clearwater's sales and hedging activities.

The assumption implicit in marking foreign exchange option contracts to market is that the contracts will all be settled at a point in time in the future. However, for the majority of the options, the possibility of the option being exercised does not exist until certain trigger prices have been reached. Once triggered, whether or not a contract will be called depends on whether spot rates are in excess of contract rates at the time of maturity. Over the past three years Clearwater has had a large number of contracts that have never been exercised. However, to the extent that contracts are exercised, it will serve to mute or delay the positive impact of an improving exchange rate environment on Clearwater's financial results.

Over the longer term, should the weakening of the Canadian dollar persist, it may benefit Clearwater as approximately 80% of its sales are denominated in foreign currencies. For example, in the future, if Clearwater were to receive the spot rates in effect at the end of 2006, excluding the impact of any outstanding derivative contracts and assuming the same level of sales, it would realize approximately $5 million more in gross profit and net earnings in the future as compared to 2006.

Distributable cash generated in annual 2006 increased to $42.4 million, $15.2 million or 56% greater than 2005. This increase was largely due to an improvement in gross profit of $14 million. Distributable cash generated in the fourth quarter of 2006 was $7.2 million versus $8 million in 2005. During 2006, Clearwater reinstated distributions at the rate of 60 cents per annum and as a result distributed $15.8 million during the year.

Excluding the impact of non-cash foreign exchange in 2006 and 2005 on net earnings, leverage decreased to 2.9 times debt to earnings before interest, tax, depreciation and amortization (EBITDA) as at December 31, 2006, down from 3.5 times as of December 31, 2005. As part of this strategy to reduce leverage levels, Clearwater Seafoods Income Fund (the "Fund") filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period ending August 2007. During 2006, Clearwater repurchased and cancelled $3 million of the convertible debentures. An additional $1 million was repurchased in January 2007 bringing the total since August 2006 to $4 million.

On February 19, 2007, the Fund successfully entered into an agreement with a syndicate of underwriters to issue to the public on a bought-deal basis, convertible unsecured subordinated debentures for gross proceeds of $43,500,000 with attractive terms and conditions. In addition, the Fund has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase an additional $6,525,000 of debentures which, if exercised, would increase the gross proceeds of the offering to $50,025,000. The debentures will be convertible into units of the Fund (the "Units") at the option of the holder at a conversion price of $5.90 per Unit. Closing of the offering is expected to occur on or about March 9, 2007, subject to satisfaction of customary conditions including receipt of all necessary regulatory approvals. The net proceeds of the offering will be used to further enhance Clearwater's capital structure and more importantly to provide the flexibility to allow Clearwater to pursue potential accretive acquisitions that will be a strategic fit with its plan for growth.

Clearwater had an exceptional year in 2006 primarily due to higher gross profit margins on scallops and clams. These positive results more than offset the challenges faced including foreign exchange, high fuel costs and the continued reorganization of the clam business, all of which are expected to continue in 2007.

In 2007, Clearwater expects continued solid performance. However, there will be more variability in our earnings on a quarter by quarter basis, particularly in the first part of the year, as a result of changing our policy for refit expenses to one where we will expense refits as incurred rather than accruing them in advance. Despite these changes, the expense for the full year should be comparable to what has been expensed in the past.

The core business remains healthy and with the strength of our quota ownership, our significant investment in developing effective and efficient harvesting and production processes, and opportunities for acquisitions in a fragmented international seafood business, the outlook for 2007, as well as the longer-term, is positive. Our strategy continues to have a long-term focus, developing and maintaining the strong foundations Clearwater was built upon.

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. Key points for unitholders of the Fund to understand include:

- These proposals, if brought into legislation, would not be effective until the 2011 taxation year and therefore would not impact distributions from the Fund for another four years.

- Distributions from the Fund that are determined to be return of capital or dividends for tax purposes will not be impacted by this legislation. Remaining distributions will be taxed in the Fund in a manner similar to income earned by a corporation with the rate for 2011 set at 31.5%.

- Clearwater has a substantial tax base as a result of its investments . For example, over the past 5 years Clearwater has invested approximately $170 million in vessels, plants and licenses.

- Clearwater derives a portion of its earnings from foreign operating subsidiaries. These earnings are received in Canada as tax-paid earnings and typically would be only subject to taxation at the unitholder level as dividends.

- The breakdown for Canadian residents of taxable income, interest and return of capital relating to cash distributions declared in the 2006 calendar year was 32% return of capital, which is non-taxable, and 68% other income, which is taxable.

- The Fund estimates that the breakdown for Canadian residents of taxable income, interest and return of capital relating to cash distributions declared in the 2007 calendar year will be approximately 25% return of capital, which is non-taxable, and 75% dividends, which are taxable. The taxation of these distributions would not be impacted by the new trust legislation, had it been effective in fiscal 2007.

For a history of the taxation of distributions from the Fund please refer to the Distributable Cash section of the Management's Discussion and Analysis included in the fourth quarter report of 2006.

The Fund is considering this announcement and the possible impact of the proposed rules on the Fund. The proposed rules may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions and, at such time as the proposed rules apply to the Fund, the distributable cash of the Fund may be impacted. To the extent that it is possible to mitigate the impact of the rules, the Fund intends to explore all options available for doing so.

In December 2006, Clearwater's Argentine subsidiary company, Glaciar Pesquera SA, was awarded the privilege to display the blue eco-label from the Marine Stewardship Council (MSC) on its Argentinean scallop products. The Argentine scallop fishery is the first scallop fishery in the world to receive this rigorous independent certification. The MSC certification comes with the privilege to display the blue eco-label on scallop products from this fishery. MSC certified products have a growing audience in North America and European markets as a result of the increased interest in products from well-managed and sustainable fishery efforts. The logo is evidence that the fishery meets the strict environmental standards set by the MSC and the product originates from a sustainable and well-managed fishing resource.

SELECTED ANNUAL INFORMATION

The following financial data provides historical data for the three most recently completed financial years.

(In 000's except per unit amounts)	2006	2005	2004
Sales	$ 315,736	$ 314,839	$ 345,459
Net earnings	1,463	19,873	37,473
Basic net earnings per unit	0.03	0.38	0.71
Cash flow from operations before working capital investment			
Total assets	409,795	390,662	380,012
Long-term debt	190,260	194,445	169,198
Cash distributions on unsubordinated units	0.30	0.63	1.15
Cash distributions on subordinated units	-	-	0.46

During 2006, Clearwater continued to be challenged by the impact of a strengthening Canadian dollar. Approximately 82% of Clearwater's 2006 sales were denominated in U.S. dollars, European Euro, Japanese Yen and Pound Sterling. The stronger Canadian dollar, after taking into account hedging, has had the effect of reducing sales dollars by an estimated $19 million in 2006.

The increase in total assets reflects continued investment in the business with progress payments on the new clam vessel in 2006 and an increase in inventory levels.

Long-term debt has remained consistent with the prior year as management manages debt levels and leverage to obtain optimum cash management based on planned investment and debt maturity.

Distributable cash generated in 2006 was $42.4 million ($27.2 million in 2005), which resulted in a payout ratio of 37.4% in 2006 (101% in 2005). It is Clearwater's current intention to maintain current distribution levels. Foreign exchange, vessel disruptions and market pricing will have an impact on the ability of the business to sustain these distribution levels.

VISION, CORE BUSINESS AND STRATEGY

Clearwater's principal assets include unparalleled access to a wide range of premium shellfish, state-of-the-art vessels, and modern at-sea and shore-based processing capacity. Clearwater is well positioned to capitalize on the opportunities created by a growing international demand for premium shellfish, a diversified worldwide customer base, consistently high margins, and a fragmented industry comprised of many small enterprises.

Clearwater's vision is to be "dedicated to sustainable seafood excellence". Clearwater will realize this corporate vision through:

- Leading sustainable harvesting and resource management
- Creating value for its customers
- Developing its people
- Embracing a culture of innovation
- Encouraging the entrepreneurial spirit
- Continuing to seek opportunities for growth and global development

By adhering to the values and goals of each of these areas, Clearwater believes that it will realize its corporate vision and achieve strong sustainable financial results over the long-term.

Clearwater's underlying corporate strategy for growth rests on three key pillars of the business:

1. Innovation - Clearwater is a leader in developing and adopting technologies and practices that enhance both top and bottom line growth, while ensuring the sustainability of the resource base. Clearwater's efforts are directed at getting more from less.

2. Vertical Integration - By controlling the production process from harvesting to processing and from marketing to delivery Clearwater provides quality and unsurpassed cost efficiencies to our customers.

3. Diversity of Species and Markets - Diversity has always been key to Clearwater's success. The diversity of its product offering and market positioning creates a natural hedge against downturns in any one species or market while enabling Clearwater to capitalize on the growing demand for premium seafood.

The key attributes of this strategy include:

- Resource ownership and management - Quota ownership is the cornerstone of Clearwater's business. From the beginning Clearwater has invested in quota ownership to guarantee access to supply, as well as to create a defensible position in the market place. Clearwater's scale of resource ownership provides not only the security of supply, it also provides the scale needed to invest in leading edge science as well as innovative harvesting, processing and marketing efforts. Its strategy of resource ownership depends on ensuring sustainable harvesting through responsible resource management. Clearwater has been proactive in protecting key resources through investments in science and by actively co-managing these resources in partnership with the federal Department of Fisheries and Oceans.

- Market and customer focus - Clearwater prides itself on being a global company. As demand for premium shellfish has grown, Clearwater has developed a worldwide presence. Clearwater has three representative offices in China, two sales offices in the United States, one sales office in Canada, two sales offices in the United Kingdom and one representative office in Japan. In addition to Halifax, it maintains distribution facilities in London, England and Louisville, Kentucky. While continually seeking new business, Clearwater believes that its current customers represent its greatest growth prospects. Clearwater's success is based on relationships with leading retailers, food processors and restaurants that understand both the need and the demand for quality in today's increasingly sophisticated market. At the same time, Clearwater mitigates risk through diversification of its customer base.

- Skilled and dedicated employees - Accomplishing Clearwater's goals depends on the skill and dedication of its employees. Clearwater's decentralized decision-making and personal accountability enhance performance, foster innovation, improve quality, increase yields and lower costs. Clearwater emphasizes customer service, quality and efficiency and invests in its 1,300 employees to further their training and create new opportunities for them to excel.

In addition, Clearwater intends to leverage the approximately $170 million that has been invested in the past five years in modernized vessels, its shore-based processing plants and licences. This contributes to increased yields, improved product quality, reduced costs, improved environmental responsiveness, and strong stewardship of the resources that Clearwater harvests.

Clearwater will also continue to develop new businesses, through the use of technology and research and development, as well as pursuing acquisitions of complementary businesses and joint venture opportunities.

KEY PERFORMANCE DRIVERS

Clearwater's key performance drivers include:

- Quota ownership and the amounts harvested and procured;
- Markets for the various species of shellfish and the related customer relationships in those markets;
- Innovation and technology, including Clearwater's ability to leverage science and technology to create new products, increase quality and reduce costs.

CAPABILITY TO DELIVER RESULTS

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

The primary shellfish stocks that Clearwater relies upon are scallops (Canadian and Argentine), clams (including Arctic Surf clams, Greenland cockles and propeller clams), lobster and coldwater shrimp, which are harvested in offshore fisheries that have a limited number of participants. Clearwater harvests Canadian and Argentine scallops, clams and offshore coldwater shrimp 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 and landings have been strong over the last number of years. Clearwater believes that this is a very well managed fishery.

- The Arctic Surf clam resource is stable. In addition, Clearwater is now harvesting and marketing a significant amount of the by-catch (i.e., northern propeller clams and Greenland cockles) that is landed by the clam fleet.

- The Argentine scallop resource is strong due in part to rotational fishing efforts used to manage the resource, which ensure the resource has adequate time to regenerate.

- The coldwater shrimp resource remains strong and Clearwater expects that catch rates and landings will continue at or near recent levels.

- The lobster resource is considered strong and landings continue to be stable. In January 2007, Clearwater purchased an additional offshore lobster licence, which based on recent TAC levels, should provide a return on investment in the 15-20% range.

Clearwater maintains the largest fleet of factory freezer vessels in Canada. It also maintains a fleet of wet fish trawlers that harvest Clearwater's offshore lobster quota and a small portion of its sea scallop allocation.

The condition and operating capability of these vessels is paramount for Clearwater to successfully operate in its fisheries. In the past five years Clearwater has invested approximately $85 million on its fleet.

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

The following schedule sets out our historic capital expenditures and harvesting license investments for the past five years:

	2006	2005	2004	2003	2002	Total
Vessels	$18,700	$24,600	$ 19,700	$ 6,700	$ 15,600	$ 85,300
Plants and other	-	1,600	5,500	4,900	2,000	14,000
Licenses	-	-	-	53,500	2,100	55,600
Maintenance capital	1,900	2,400	2,700	2,700	5,100	14,800
	$20,600	$ 28,600	$ 27,900	$ 67,800	$ 24,800	$ 169,700

In addition to the amounts capitalized annually above, Clearwater historically has spent and expensed on average about $16.5 million a year on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition enabling it to harvest and process its allowable catch efficiently and allow for the processing of additional capacity for selective procurement when required.

The following table illustrates the amounts Clearwater has spent on an annual basis over the past five years on maintenance capital expenditures as well as repairs and maintenance andannual depreciation and amortization expense. As can be seen from this table, Clearwater is committed to ensuring that the assets are kept in top condition.

	2006	2005	2004	2003	2002	Total
Maintenance capital	$ 1,900	$ 2,400	$ 2,700	$ 2,700	$ 5,100	$ 14,800
Repairs & maintenance	18,000	17,300	14,600	15,400	17,200	82,500
	$ 19,900	$ 19,700	$ 17,300	$ 18,100	$ 22,300	$ 97,300
Depreciation/Amortization						
	$ 14,800	$ 15,400	$ 16,100	$ 15,500	$ 14,000	$ 75,800

Vessel investments significantly impact the amount spent annually on capital expenditures. In 2006, substantially all of Clearwater's expenditures related to the construction of a clam vessel, which it expects to take delivery of in 2007. In 2005, Clearwater completed two FAS scallop vessels that were started in 2004 and continued construction of the new clam vessel. In 2004, capital expenditures included progress payments on clam vessels, two FAS scallop vessels as well as the investment in a new processed lobster facility. In 2003, it acquired a significant amount of scallop and groundfish quotas and licences. In 2002, Clearwater completed expansions at several of its plants and accepted delivery of a FAS scallop vessel and a shrimp vessel.

The most costly of the vessels are the factory freezers of which Clearwater has eleven. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams. Other vessels typically do not cost as much to replace. For example, a lobster vessel would cost approximately $500,000 to $1 million dollars to replace, assuming replacement was with a used vessel.

The factory vessels typically have long lives of up to 25 to 30 years but Clearwater will typically replace them earlier if it sees an opportunity to upgrade the technology and improve return.

Of the eleven factory vessels:

- Two are used to harvest shrimp and are 6 years old or less. These vessels provide incremental returns compared to the technology previously used due to greater harvesting efficiencies and lower fuel costs.

- Four are used to harvest Canadian sea scallops with two new in 2005 and two 4 years old or less. These vessels provide a return on investment well in excess of the cost of capital due to greater harvesting efficiencies

compared to the technology previously used, lower costs and a new higher quality product, frozen-at-sea scallops.

- Two are used to harvest Argentine scallops with one expected to be replaced over the next 5 years and the second to be replaced in the next 10 years. Management estimates a new vessel would cost approximately $10 - $15 million. Management believes that there is opportunity to improve efficiency in this fishery through the investment in new technology as well as additional research.

- Three are used to harvest clams. Clearwater will replace two vessels with the new vessel currently under construction when it is operational and the third vessel has an estimated useful life of another 10 to 15 years. Management estimates it may cost on average $30 - $50 million, depending on the size of the vessel to be built, to replace a clam vessel. Management believes the new clam vessel will generate incremental earnings by increasing the harvesting capacity and improving the processing efficiency to improve yields.

Clearwater will fund future investments in vessels with a combination of cash flow, debt and equity, as approved by the directors, similar to what it has done in the past with other large capital projects.

All segments of the food supply industry are highly competitive and highly fragmented. However, Clearwater is unique and well positioned to capitalize on the opportunities created by a growing international demand for premium shellfish with its vertically integrated structure, strong quota ownership positions, investments in leading technology and a diversified worldwide customer base.

EXPLANATION OF ANNUAL RESULTS

Consolidated Operating Results for the year ended December 31 in thousands of Canadian dollars.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statement of earnings reflects the audited annual earnings of Clearwater for the years ended December 31, 2006 and December 31, 2005.

	2006	2005
Sales	$ 315,736	$ 314,839
Cost of goods sold	229,064	242,601
Gross profit	86,672	72,238
	27.5%	22.9%
Administration and selling	38,245	33,594
Loss (gain) on disposal and other, net	2,143	(4,102)
Other income	(5,853)	(1,660)
Foreign exchange and *derivative* loss (income)		
Realized	(13,040)	(8,114)
Unrealized	23,030	(3,598)
Bank interest and charges	953	786
Interest on long-term debt	13,110	12,450
Depreciation and amortization	14,766	15,400
Reduction in foreign currency translation account	2,369	1,236
	75,723	45,992
Earnings before income taxes and minority interest	10,949	26,246
Income taxes	3,853	2,975
Earnings before minority interest	7,096	23,271
Minority interest	5,633	3,398
Net earnings	$1,463	$ 19,873

Net Earnings

Net earnings decreased by $18.4 million in 2006 due primarily to non-cash foreign exchange losses of $23 million, offset partially by higher gross profit.

	2006	2005	Change
Net earnings	$ 1,463	$ 19,873	$ (18,410)

Explanation of changes in earnings:	
Higher gross profit	14,434
Higher cash foreign exchange and derivative income	4,922
Higher other income	4,193
Higher non-cash foreign exchange and derivative losses	(26,628)
Lower gains on disposal and other	(6,245)
Higher administration and selling expense	(4,651)
Higher minority interest expense	(2,235)
Higher income tax expense	(878)
Higher interest expense	(827)
All other	(499)
	$ (18,410)

Net annual sales to customers by product category were as follows:

	2006	2005	Change	%
Scallops	$ 110,139	$ 98,571	$ 11,568	12%
Lobster	76,236	70,954	5,282	7%
Clams	62,268	49,242	13,026	26%
Coldwater shrimp	40,406	39,994	412	1%
Groundfish and other	12,633	29,934	(17,301)	(58%)
Crab	7,025	15,111	(8,086)	(54%)
Hedging program	7,029	11,033	(4,004)	(36%)
	$ 315,736	$ 314,839	$ 897	-%

Scallops, which represent one of the more profitable species, have grown to represent 35% of annual sales compared to 31% of the comparative 2005 sales. 2006 has been a strong year for the scallop business with sales increasing primarily due to 16% higher volumes. Despite the higher cost of fuel and vessel operational costs, strong catch rates driving higher volumes resulted in lower costs on a per pound basis.

Lobster sales increased compared to the prior year due to higher volumes. A combination of a new raw lobster product and the application of technology that provides an effective method to sort and grade live lobster, has allowed Clearwater to purchase live product on a more selective basis and utilize the product it has more efficiently. In January 2007, Clearwater purchased an

additional offshore lobster licence, which based on recent TAC levels, should provide a return on investment in the 15-20% range.

Clam sales increased primarily due to higher volumes with stable selling prices in Canadian dollars. In 2005, there were significant disruptions and refit costs incurred in the clam business, as well as the repositioning of the sales channels away from a single importer in the Chinese market affecting volumes and costs. In 2004, Clearwater began a process of reorganizing its clam business to respond to the challenges of currency and to take advantage of opportunities that will arise when the new vessel arrives and is operational in 2007. As a result, Clearwater may continue to see some short-term disruptions in this business. Clearwater is focused on increasing customer value to offset the impact of foreign exchange, reducing costs through harvesting and processing efficiencies and growing volumes. On December 5, 2006, one of Clearwater's clam vessels, the Atlantic Pursuit, ran into difficulties as she was riding out a winter storm on the Southeastern Grand Banks. The vessel was struck by a large wave that caused extensive damage. Clearwater's vessels are insured for such damage and the estimated amounts, as well as the estimated repair time to fix the vessel is currently being reviewed.

Coldwater shrimp sales are consistent with the prior year as lower selling prices were offset by increased volumes.

Both groundfish and crab sales are lower in 2006 as Clearwater's plant in Glace Bay, Nova Scotia has not operated since March 2006. In the first quarter of 2006, Clearwater began negotiations on a new collective agreement with the Union at this plant and these negotiations are currently at a standstill. The disruption has impacted groundfish and crab sales in 2006, but did not have a material impact on earnings.

In summary, annual sales levels were relatively consistent with 2005, but with a higher mix of our more profitable products such as scallops and clams. 2006 gross profit was higher than in 2005 by $14.5 million, despite the weaker exchange rates and higher average fuel costs as explained below.

Foreign exchange reduced sales and margins by approximately $19.1 million in 2006. Clearwater received approximately 12 cents less for each U.S. dollar in 2006, which resulted in receiving approximately $13.3 million less when converted to Canadian dollars. In addition, exchange rates on Euros, Pounds Sterling and Yen were lower in 2006, which impacted sales and resulted in receiving approximately $5.8 million less when converted to Canadian dollars.

	2006		2005	
Currency	% sales	Rate	% sales	Rate
US Dollars	41.5%	1.187	46.5%	1.307

Euros	24.7%	1.441	19.1%	1.478
Japanese Yen	9.6%	0.010	8.2%	0.011
UK pounds	5.9%	2.099	5.0%	2.188
Canadian dollar and other	18.3%		21.2%	
	100.0%		100.0%	

Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. As of December 31, 2006, the following economic hedges were in place:

Economic Hedge	Year scheduled to expire	Amount	Average rate	% of 2006 sales
US	2007	$41.5 million	1.13	38%
Euro	2007	€ 9.6 million	1.44	18%

Clearwater utilizes a number of financial instruments as part of its foreign exchange strategy. Please refer to the notes to the financial statements for a list of the contracts outstanding at year-end.

Due to the increasing complexity of applying the accounting standards, as well as the requirement to report the change in the mark to market as other comprehensive income once the Comprehensive Income accounting standard is adopted in 2007, as of April 1, 2006, Clearwater no longer designated contracts as hedges for accounting purposes. The hedge contracts in place at that point in time continue to be accounted for as hedges, but all contracts opened thereafter have been marked to market each reporting period and any gains or losses, both realized and unrealized, have been included in foreign exchange income. This has the impact of reducing sales and margins compared to the prior year, as gains or losses on derivative contracts are included below the gross profit line as opposed to being included in sales.

Administration and selling costs were $4.7 million higher in 2006 as Clearwater continued to invest in its people and developing markets for its products, particularly in Asia. It incurred higher professional and consulting fees and salary expense due to reinstating the annual management incentive plan.

Loss (gain) on disposal of licenses and other is an expense in 2006 versus income in 2005. The 2006 figure includes a non-cash write down of the plant and related assets in North Sydney of approximately $2.2 million and a provision for the related exit costs of approximately $0.9 million. This loss is partially offset by a gain of approximately $1.2 million on the sale of non-core fishing quotas. In 2005, a gain of approximately $3.2 million on the sale of non-core properties in Lunenburg, Nova Scotia was recorded and the gain on sale of non-core fishing quotas was approximately $2.5 million. Also included in 2005 was an impairment

loss of $1.6 million associated with the shrimp harvesting contracts in the Canadian FAS shrimp business unit.

	2006	2005
Write-down of plant and related exit costs	$ 3,056	$ -
Gain on sale of non-core fishing quotas	(1,254)	(2,468)
Provision for impairment of shrimp harvesting contract	-	1,636
Gain on sale of non-core properties	-	(3,158)
Other	341	(112)
	$ 2,143	$ (4,102)

Other income is $4.2 million higher in 2006 as it includes approximately $1.4 million in additional royalty income from rental of quota along with increased export rebates and investment income.

	2006	2005
Quota rental and royalties	$ 2,109	$ 705
Export rebate	1,687	1,009
Investment income	1,243	557
Other income (expense)	814	(611)
	$ 5,853	$ 1,660

Foreign exchange and derivative contracts resulted in a loss of $10 million in 2006 versus income of $11.7 million in 2005. In 2006, foreign exchange includes approximately $23 million of unrealized losses compared to $3.6 million of unrealized gains in 2005. From a cash perspective, the business generated $13 million of cash from foreign exchange management in 2006 versus $8.1 million in 2005. A significant portion of realized foreign exchange income relates to option income. Please refer to note 10 in the financial statements for a detailed listing of all derivatives and their fair values. As of December 31, 2006, if all derivative contracts were settled by Clearwater, for which there is no intention to do so, Clearwater would have made a payment of $21.8 million (At December 31, 2005, Clearwater would have received a payment of $7.5 million). Please refer to note 10, sections (a) and (c) in the financial statements for a detailed listing of outstanding contracts at period end.

It is important to understand Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. In an environment where the Canadian dollar is weakening relative to currencies such as the U.S. dollar, European Euro, Pound Sterling and Japanese Yen, the exchange environment will serve to improve profits. In this environment with exchange rates moving in Clearwater's favor,

the spot rate will be higher than the contracted rate in Clearwater's hedge agreements. As Clearwater records the change in the market value of these contracts as an adjustment to net earnings, this can result in large non-cash losses or gains during periods of time when exchange rates are changing rapidly. During the fourth quarter of 2006, the Canadian dollar weakened significantly against the U.S. dollar, European Euro and Pound Sterling, the three currencies that account for the majority of Clearwater's sales and hedging activities.

The assumption implicit in marking foreign exchange option contracts to market is that the contracts will all be settled at a point in time in the future. However, for the majority of the options, the possibility of the option being exercised does not exist until certain trigger prices have been reached. Once triggered, whether or not a contract will be called depends on whether spot rates are in excess of contract rates at the time of maturity. Over the past number of years Clearwater has had a large number of contracts that have never been exercised. However, to the extent that contracts are exercised, it will serve to mute or delay the positive impact of an improving exchange rate environment on Clearwater's financial results.

Over the longer term, should the weakening of the Canadian dollar persist, it may benefit Clearwater as approximately 80% of its sales are denominated in foreign currencies. For example, in the future, if Clearwater were to receive the spot rates in effect at the end of 2006, excluding the impact of any outstanding hedge contracts and assuming the same level of sales, it would realize approximately $5 million more in gross profit and net earnings as compared to 2006.

Detailed schedule of foreign exchange and derivative contract income:

	2006	2005
Realized (gain) loss		
Foreign exchange cash option income	(14,834)	(7,796)
Other realized	1,794	(318)
	(13,040)	(8,114)
Unrealized loss (gain)		
Balance sheet translation	(4,886)	(737)
Mark to market on exchange option contracts	23,880	(2,881)
Mark to market on interest and currency swap contracts	4,036	20
	23,030	(3,598)
Total loss (gain)	$ 9,990	$ (11,712)

Bank interest and interest on long-term debt increased due to higher average interest charges on outstanding debt balances in 2006, in particular on the ISK denominated bonds. As explained in note 5 (c) of the financial statements these bonds have been swapped out, and as a result, foreign exchange and other derivative income includes offsetting expenses which effectively reduce the interest by 3-5 percentage points, depending on the currency. As of December 31, 2006, Clearwater has used economic hedges to term out and fix substantially all its interest rate exposures. Included in interest expense in 2006 is $5 million of interest related to the impact of interest and inflation risks on the Iceland bonds. Interest exposure on these bonds has been hedged and the cash payment on the related swaps was $3.8 million.

Until such time as construction is complete on the new clam vessel the related interest costs are being capitalized. In 2006, $2.6 million of interest was capitalized (2005 - $1.4 million).

The **reduction in foreign currency translation account** is a non-cash adjustment, which relates to the reduction of Clearwater's net investment in its subsidiary in Argentina.

Minority interest relates to earnings from Clearwater's investment in its subsidiaries in Argentina and Newfoundland and Labrador.

Income taxes have increased compared to the prior year due to higher earnings in taxable entities.

LIQUIDITY AND CAPITAL RESOURCES

Earnings before interest, tax, depreciation and amortization (EBITDA) and leverage are not recognized measures under Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes EBITDA and leverage to be useful terms when discussing liquidity. In addition, as EBITDA and leverage are measures frequently analysed for public companies we have calculated the amount in order to assist readers in facilitating this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings. Please refer to the section on definitions and reconciliations for calculation of the EBITDA and leverage referred to in this document.

CAPITAL STRUCTURE

Clearwater's capital structure includes a combination of equity and various types of long-term debt. Clearwater's objective when managing its capital structure is to obtain the lowest cost of capital available while maintaining flexibility and reducing exchange and refinancing risk as appropriate.

Clearwater lowers its cost of capital through the use of leverage, in particular lower cost revolving and term debt. Clearwater maintains some flexibility in its capital structure as the amount of capital available to Clearwater can be impacted by 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, as well as capital expenditures and distributions paid. Clearwater maintains flexibility in its capital structure by regularly reviewing forecasts of future results and making any required changes on a timely basis. These changes can include repaying debt early or repurchasing units, issuing new debt or equity, extending the term of existing debt, selling assets to repay debt and if required, limiting distributions paid. Clearwater borrows in a basket of currencies such that, when combined with other foreign currency denominated assets and liabilities, the balance sheet impact is neutral. Refinancing risk is reduced by staggering the maturities of debt instruments and a policy whereby maturing debt agreements are revisited and updated or replaced as required well in advance of maturity dates. Management believes the available credit will be sufficient to meet its cash requirements.

As at December 31, 2006, the Fund owns 55.71% (December 31, 2005 - 55.71%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated ("CFFI") has maintained the right to nominate the majority of the board of directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by CFFI.

As at December 31, 2006, the Fund and Clearwater had similar equity/convertible debt structures as illustrated in the table below:

	Fund	Clearwater
Units		
Publicly Listed Trust Units	29,407,626	
Class A Partnership Units		29,407,626
Units Held solely by Clearwater Fine Foods Incorporated		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	52,788,843	52,788,843

Convertible debentures/Class C Partnership Units

Convertible debentures	$ 46,430,000	
Class C Partnership Units		$ 46,430,000

Clearwater also has other debt and as a result its total capital structure is as follows:

	2006	2005
A. Equity – Partnership units	$ 173,079	$ 173,133
B. Convertible debt, Class C units, due in 2010	46,430	49,280
C. Non-amortizing debt		
Term notes due in 2008 - 2013	86,308	86,296
Bond payable, due in 2010	46,795	46,873
Term loan, due in 2091	3,500	3,500
	136,603	136,669
D. Amortizing debt		
Marine mortgage	5,584	6,133
Other loans	1,643	2,363
	7,227	8,496
Total capital	$ 363,339	$ 367,578

A. Equity consists of Class A Limited Partnership units, Class B General Partnership units and Class C Partnership units (which are discussed in the following paragraph). Both Class A and Class B units are equally eligible for any distributions that are declared by Clearwater. The Class B Partnership units were issued concurrent with **Special Trust Units** that were issued by the Fund solely to provide voting rights to Clearwater Class B Partnership units held by CFFI. The right of 9,352,487 Class B Partnership units to receive distributions was subordinated to the rights of the Class A units until December 31, 2005.

B. Convertible debt - In June 2004, 4,081,633 **Class C units** were issued by Clearwater (indirectly) to the Fund concurrently with the issue by the Fund of $50 million of convertible debentures. The Class C units are non-voting, redeemable and retractable at a price of $12.25 per unit. These units exist under an agreement whereby they will be converted, redeemed or retracted in a manner that corresponds to any conversion, redemption or repurchase of the convertible debentures of the Fund and in a manner that ensures that the distributions on the Class C units will be able to (indirectly) fund the ongoing

interest payments on the convertible debentures. The Class C units are classified in accordance with their component parts: the value ascribed to the holder's option to convert to units, $882,000, has been classified as equity and the remaining portion of the units has been classified as debt. As noted previously, Clearwater has repurchased some of this debt such that at December 31, 2006, the face value of the debt outstanding was $47 million. The **convertible debentures** issued by the Fund are unsecured and subordinated, bear interest at 7%, and are due on December 31, 2010. They are convertible at any time up to maturity at the option of the holder into trust units of the Fund at a conversion price of $12.25 per trust unit. The debentures pay interest semi-annually in arrears on June 30 and December 31. The debentures are not redeemable before December 31, 2007. Subject to regulatory approval, the Fund may satisfy its obligation to repay the principal amount of the debentures on redemption or at maturity, in whole or in part, by delivering that number of trust units equal to the amount due divided by 95% of the market price of the trust units at that time, plus accrued interest in cash.

C. Non-amortizing debt - In addition to the convertible debentures/Class C Partnership units, Clearwater has three additional primary debt facilities. These facilities include approximately $86 million in **five and ten year notes** in Canadian and U.S. dollars from a syndicate of five institutional lenders, 2,460 million ISK (approximately Canadian $47 million including accrued interest) in **five-year bonds** and a $60 million **revolving term debt facility** from a syndicate of banks (which was not drawn upon at December 31, 2006 or December 31, 2005).

In September 2005, Clearwater obtained 2,460 million ISK from the Icelandic bond market. The bonds yield 6.7%, are adjusted for changes in the Iceland consumer price index (CPI), have a face value of 2,460 million ISK, mature in 2010, and are unsecured. These bonds have been fully swapped into Canadian, U.S., Euro and Pound Sterling debt with floating interest rates. The bonds are measured at fair value for changes in foreign exchange, interest rates and CPI valued using the effective interest rate method. The non-cash accrual for the interest and inflation adjustment are recorded using the effective interest rate method with the expense being recorded as interest expense on long term debt on the income statement and as an increase to the value of the bond on the balance sheet. The cash interest paid along with the change in the mark-to-market value of the related swaps are classified as foreign exchange and derivative contracts on the income statement and as a net liability on the balance sheet. Please refer to note 5 of the financial statements on long-term debt and note 11 on financial instruments. The currency and inflation swap effectively hedge this liability from an economic perspective and move the liability from a fixed ISK debt to floating mixed currencies as mentioned above. As a result of these swap agreements; the

estimated value of the debt is approximately $47 million as at December 31, 2006 (see Definitions and Reconciliations section).

During the third quarter of 2005, Clearwater added an additional lender to its syndicate of five and ten year notes and added an additional US $25 million of available credit under the notes of which US $5 million has been drawn down. The proceeds from these new facilities were used to reduce the amount outstanding under the revolving term debt facility. The US $20 million is available to be drawn at market rates until late 2007.

The revolving term debt facility is available to Clearwater until May 2008. This facility is renewable on an annual basis. During the first quarter of 2006, Clearwater determined it did not require access to the full facility and therefore reduced the amount available under the facility from $115 million to $60 million. As a result, Clearwater expects to realize lower standby fees going forward. The facility is part of a master netting agreement and was in a cash position of $8.9 million as at December 31, 2006.

As part of its strategy to reduce leverage levels, the Fund filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period ending August 2007. This was accompanied by a similar agreement to repurchase Class C Partnership units by Clearwater. During 2006, $3 million of the Class C units were repurchased and cancelled with the proceeds used to repurchase and cancel an equivalent amount of convertible debentures. Subsequent to year-end an additional $1 million of Partnership units were repurchased and cancelled with proceeds used by the Fund to repurchase and cancel an equivalent amount of convertible debentures.

Clearwater's intentions are to continue to monitor debt levels and seek to reduce leverage levels in a measured manner over time. Excluding the impact of non-cash foreign exchange in 2006 and 2005 on net earnings, leverage decreased to 2.9 times debt to earnings before interest, tax, depreciation and amortization (EBITDA) as at December 31, 2006, down from 3.5 times as of December 31, 2005.

On January 24, 2007, the Fund received approval for a normal course issuer bid which will enable it to purchase, from time to time, up to 2.5 million outstanding trust units (the "Units"), which amount represents less than 10% of the public float. Any such purchases of Units would be made during the 12-month period commencing on January 24, 2007, and in accordance with the requirements of the TSX. The Units will be purchased by the Fund for cancellation and will be accompanied by a similar repurchase of units by Clearwater. No previous purchase of Units has been made by the Fund. Purchases will be made at market prices through the facilities of the TSX. Purchases will be funded out of the Fund's available cash and through borrowings under its existing credit facility (subject to receiving the approval of its lenders).

The Board of Trustees of the Fund believes that, in view of the recent announcements concerning the tax treatment of income trusts, the market price of the Units may not adequately reflect the current value of, and prospects for, the Fund's underlying business. As a result, the Board of Trustees believes that the Units, from time to time, may represent an attractive opportunity to realize additional unitholder value and that the purchase of Units would be an appropriate and desirable use of the Fund's available resources.

Clearwater's debt facilities contain various covenants and Clearwater is in compliance with these covenants.

On February 19, 2007, the Fund successfully entered into an agreement with a syndicate of underwriters to issue to the public on a bought-deal basis, convertible unsecured subordinated debentures for gross proceeds of $43,500,000 with attractive terms and conditions. In addition, the Fund has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase an additional $6,525,000 of debentures which, if exercised, would increase the gross proceeds of the offering to $50,025,000. The debentures will be convertible into units of the Fund (the "Units") at the option of the holder at a conversion price of $5.90 per Unit. Closing of the offering is expected to occur on or about March 9, 2007, subject to satisfaction of customary conditions including receipt of all necessary regulatory approvals. The net proceeds of the offering will be used to further enhance Clearwater's capital structure and more importantly to provide the flexibility to allow Clearwater to pursue potential accretive acquisitions that will be a strategic fit with its plan for growth.

CASH FLOWS

Summarized cash flow information

For the years ending December 31. See the financial statements for more detail.

Year ended	2006	2005
Cash flow from operations (before change in working capital)	$ 51,076	$34,585
Investing, Financing, and other activities		
Distributions to unitholders	(13,198)	(27,365)
Capital expenditures (net of proceeds on sale)	(18,748)	(19,184)
Investment (reduction) in working capital	(6,428)	1,557
Other investing activities	1,817	(1,492)
Distributions to minority partners	(6,125)	(3,092)
Payment on interest rate swaps	(4,043)	(1,437)
Other	1,263	1,597
	(45,462)	(49,416)

Decrease (increase) in long term debt, net of cash	$ 5,309	$ (14,831)

During the year, funded debt (net of cash balances) has decreased by approximately $5.3 million. Solid operating cash flow net of distributions paid and capital expenditures are the significant reasons for the decrease in net long-term debt. Year-to-date capital expenditures have been fully funded by cash flows and, in addition, debt levels have been reduced by $4 million. This has resulted in leverage levels, excluding the impact of non-cash foreign exchange, improving from 3.5 times EBITDA at December 31, 2005 to 2.9 times as at December 31, 2006.

Cash flow generated by Clearwater's operations along with its banking facilities are used to fund current operations, seasonal working capital demands, capital expenditures, other commitments and distributions to unitholders. Inventories typically reach a seasonal peak in the summer due to better weather for harvesting, resulting in seasonal demands on working capital. These primarily relate to the segments of the business that purchase product from independent fishermen. These purchases cannot be controlled as efficiently as raw materials harvested by Clearwater's own fleet of vessels.

CAPITAL EXPENDITURES

Capital expenditures were $20.6 million for the year (2005 - $28.6 million). Of this amount, $18.7 million (2005 - $26.2 million) was considered return on investment (ROI) capital and $1.9 million (2005 - $2.4 million) was maintenance capital. ROI and maintenance capital are tracked on a project-by-project basis with the only ROI project currently in process being the new clam vessel. Significant expenditures that are expected to have an average return in excess of average cost of capital are classified as ROI, and expenditures that have a return less than the cost of capital are classified as maintenance. Subsequent to year-end, Clearwater purchased some additional fishing licences and related vessels and property, which based on recent TAC levels, should provide a return on investment in the 15-20% range.

As previously reported, Clearwater is currently in the process of constructing a **new factory freezer clam vessel**. The total estimated cost of the vessel, including owner supplied materials and related costs, is expected to be approximately $50 million, of which $42.4 million has been spent to date. Clearwater expects the new vessel to be delivered and begin harvesting in the second half of 2007. Once operational, this new vessel is expected to reduce harvesting costs, greatly improve the quality and range of products offered, and increase its harvesting capacity. Two exciting and key innovations in this vessel, which support these goals, are its state of the art energy management system and its advanced on-board processing systems. The energy management system is expected to result in significantly reduced fuel consumption. The

advanced on-board processing systems are expected to improve product quality and yield as well as provide the flexibility to produce a greater variety of products. Clearwater is reviewing a replacement for one of the vessels in Argentina that will occur over the next several years.

COMMITMENTS AND OTHER LONG-TERM OBLIGATIONS

In addition to capital expenditures and derivative contracts previously disclosed, As at December 31, 2006, Clearwater had commitments for long-term debt, operating leases and other long-term obligations, as follows:

Payments due	Contractual obligations			
by year	Long term debt	Operating leases	Other obligations	Total
≤ 1 year	868	4,462	-	5,330
≤ 2 years	61,664	4,199	-	65,863
≤ 3 years	1,108	3,201	-	4,309
≤ 4 years	94,160	2,694	-	96,854
≤ 5 years	868	2,603	-	3,471
≥ 5 years	31,592	5,525	2,280	39,397
Total	190,260	22,684	2,280	215,224

Further details on these obligations are disclosed in the notes to the annual consolidated financial statements.. Amounts in years less than 2 and 4 are high as non-amortizing term credit facilities are scheduled for renegotiation.

In addition to the commitments noted above, Clearwater has commitments surrounding the construction of the new factory freezer clam vessel.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

Distributable cash is not a recognized measure under Canadian Generally Accepted Accounting Principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash can be a useful supplemental measure as it provides an indication of cash available for distribution. This provides guidance to readers seeking to assess the sustainability of distributions by comparing distributions paid to the amount of distributable cash. As distributable cash is a measure frequently analysed for income trusts, we have calculated the amount in order to assist readers in facilitating this review. Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings. There are a number of factors that can influence distributable cash levels as outlined in the commentary regarding forward-looking statements and Risks and Uncertainties sections of this document.

On December 31, 2005, subordination on 9,352,487 units expired and as a result all units (52,788,843 units) now participate in distributions.

In the fourth quarter of 2006, Clearwater generated $7.2 million of distributable cash (2005 - $8 million) and declared distributions of $7.9 million (2005 - $nil). In fiscal 2006, Clearwater generated $42.3 million of distributable cash compared to $27.2 million in 2005 and declared distributions of $15.8 million (2005 - $27.4 million). Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

The most significant factor contributing to the increase in distributable cash in 2006 was the improved gross profit margins.

In August 2006, Clearwater reinstated distributions to unitholders on record as of August 31, 2006 at a rate of $0.05 per month; $0.60 when annualized. In making this decision, Clearwater considered the financial results, on-going capital expenditure requirements, leverage, expectations regarding future earnings and cash on hand, which has been reserved to complete funding of the vessel under construction. Future earnings can be impacted by a number of factors including, but not limited to, total allowable catch levels, selling prices, weather, exchange rates and fuel costs.

- Current financial results – Earnings, excluding the impact of non-cash foreign exchange, have improved in 2006 compared to 2005 with the rolling four quarters EBITDA (excluding the impact of non-cash foreign exchange) and distributable cash as of the fourth quarter 2006 reaching $65 million and $42 million respectively as compared to $53 million and $27 million realized in 2005.

- Capital expenditures - Clearwater currently has two significant capital projects; the clam vessel it expects to have completed and operational in 2007 and an Argentine vessel it plans to construct for 2008. Clearwater has retained cash over the past quarters to reduce leverage and has sufficient cash to fully fund the balance to complete the new clam vessel. It intends to use some of the excess cash on its balance sheet going forward to complete the construction of the clam vessel. It plans to fully fund construction of a possible replacement for an Argentine vessel through cash reserves prior to delivery. The delivery of that vessel will result in a fleet of freezer processor vessels that has an average age of approximately 8 years with long remaining life spans. For greater details on Clearwater's strategy for capital replacement, a 5-year history of capital expenditures as well as information on Clearwater's strategy in maintaining its assets, please refer to the Capability to Deliver Results section of this document.

- Leverage - Leverage has decreased and now stands at 2.9 times EBITDA as compared to 3.5 times at December 31, 2005. Please see the Definitions and Reconciliations section at the end of this report for the calculation of leverage.

- Expectations regarding future earnings – Clearwater expects that despite the ongoing challenge of foreign exchange, the short-term negative impact of making continued improvements in the clam business and the potential for lower scallop volumes in 2007, a positive outlook for the business and fewer vessel disruptions should provide for stable distributions.

Clearwater has a large depreciable asset base and some of the business units are incorporated. The result has been that not all of our distributions are taxable to unitholders. The following table summarizes the history of the taxation of distributions.

Taxation year	Return of capital	Dividend income	Other income
2002	62%	4%	34%
2003	45%	20%	35%
2004	62%	3%	35%
2005	52%	-	48%
2006	32%	-	68%
2007 estimate	25%	75%	-

EXPLANATION OF FOURTH QUARTER RESULTS

Consolidated Operating Results for the thirteen weeks comprising the fourth quarter, in thousands of Canadian dollars.

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statements of earnings reflect the unaudited interim earnings of Clearwater for the 13 week periods ended December 31, 2006 and December 31, 2005.

	2006	2005
Sales	$ 84,136	$ 84,220
Cost of goods sold	64,519	65,509
Gross profit	19,617	18,711
	23.3%	*22.2%*
Administration and selling	10,915	7,795
Loss (gain) on disposal and other, net	(55)	8
Other income	(1,093)	(711)
Foreign exchange and derivative expense (income)	20,799	(2,170)
Bank interest and charges	257	212
Interest on long-term debt	3,222	3,476

Depreciation and amortization	3,568	3,839
Reduction in foreign currency translation account	672	-
	38,285	12,449
Earnings (loss) before income taxes and minority interest	(18,668)	6,262
Income tax (recovery) expense	(442)	830
Earnings (loss) before minority interest	(18,226)	5,432
Minority interest	904	711
Net earnings (loss)	$(19,130)	$ 4,721

Net Earnings (Loss)

Net earnings decreased by $23.9 million in the fourth quarter of 2006 due primarily to lower non-cash foreign exchange adjustments, offset partially by factors as outlined below:

	2006	2005	Change
Net earnings	$ (19,130)	$ 4,721	$ (23,851)

Explanation of changes in earnings:

Higher gross profit	906
Lower income tax expense	1,272
Lower non-cash foreign exchange income	(22,969)
Higher administration and selling expense	(3,120)
All other	60
	$ (23,851)

Net sales to customers for the quarter by product category were as follows:

	2006	2005	Change	%
Scallops	$ 26,558	$ 28,097	$ (1,539)	(5%)
Lobster	22,441	19,621	2,820	15%
Clams	16,301	13,062	3,239	25%
Coldwater shrimp	14,360	9,800	4,560	47%
Groundfish and other	1,845	7,345	(5,500)	(75%)
Crab	1,348	2,582	(1,234)	(48%)
Hedging program	1,283	3,713	(2,430)	(65%)
	$ 84,136	$ 84,220	$ (84)	-%

Scallop sales, which represent one of the more profitable species, were relatively consistent with 2005.

Lobster sales were higher when compared to the fourth quarter of 2005 primarily due to increased volumes. The application of technology that provides an effective method to sort and grade live lobster has allowed Clearwater to purchase live product on a more selective basis and utilize the product it has more efficiently.

Clam sales increased in the quarter compared to the fourth quarter in 2005 as a result of increased volumes with prices in Canadian dollars consistent with the prior year. Clearwater has been able to increase selling prices in part due to improving product value to the customer, which has offset the negative impact of lower exchange rates for U.S. dollars and Japanese Yen against the Canadian dollar. Higher volumes over the past year related to the fact that in 2005 there were significant disruptions and refit costs incurred in the clam business as well as the repositioning of the sales channels away from a single importer in the Chinese market. The business operated without these disruptions in 2006. In 2005, Clearwater began a process of reorganizing its clam business to respond to the challenges of currency and to take advantage of opportunities that will arise when the new vessel arrives and is operational in 2007. As a result Clearwater may continue to see some short-term disruptions in this business.

Coldwater shrimp sales are up 47% as a result of higher volumes offset by lower selling prices.

Both groundfish and crab sales are lower in the fourth quarter of 2006 as Clearwater's plant in Glace Bay, Nova Scotia has not operated since March 2006. In the first quarter of 2006, it began negotiations on a new collective agreement with the Union at this plant and these negotiations are currently at a standstill. The disruption has impacted groundfish and crab sales in 2006 but did not have a material impact on earnings.

In summary, sales levels were relatively consistent with 2005. However, with a higher mix of more profitable products such as scallops and clams 2006 gross profit was greater than 2005 by $14.5 million, despite the weaker exchange rates and higher average fuel costs as explained below.

Foreign exchange reduced sales and margins by approximately $2.5 million in the fourth quarter of 2006.

	2006		2005	
Currency	% sales	Rate	% sales	Rate
US Dollars	42.7%	1.175	41.9%	1.309
Euros	22.1%	1.485	21.0%	1.389
Japanese Yen	8.8%	0.097	8.8%	0.010
UK pounds	6.6%	2.189	5.1%	2.044
Canadian dollar				

and other	19.8%	23.2%
	100.0%	100.0%

Clearwater maintains an active hedging program to provide a degree of certainty to future Canadian dollar cash flows. For additional detail please refer to the year-to-date analysis as well as note 10 in the financial statements.

Foreign exchange and derivative contracts produced $20.8 million of losses in the fourth quarter of 2006 versus $2.2 million of income in 2005. From a cash perspective, the business generated $2.8 million of cash from foreign exchange management in the fourth quarter of 2006 versus $1.4 million in 2005.

	2006	2005
Realized (gain) loss		
Foreign exchange cash option income	(2,247)	(2,678)
Other realized	(549)	1,319
	(2,796)	(1,359)
Unrealized loss (gain)		
Balance sheet translation	2,525	270
Mark to market on option contracts	19,407	(1,261)
Mark to market on interest and currency swap contracts	1,663	180
	23,595	(811)
Total loss (gain)	$ 20,799	$ (2,170)

OUTLOOK

Clearwater had an exceptional year in 2006 primarily due to higher gross profit margins on scallops and clams. These positive results more than offset the challenges faced including foreign exchange, high fuel costs and the continued reorganization of the clam business, all of which are expected to continue in 2007.

Distributable cash generated in 2006 has increased to $42.4 million, $15.2 million or 56% greater than 2005. This increase was largely due to an improvement in gross profit of $14 million. Clearwater is focused on maintaining stable distribution levels despite the ongoing challenge of foreign exchange, fuel costs and leverage and is looking forward to the arrival of the new clam vessel that will have been under construction for more than two years when it takes delivery in 2007.

It is important to understand that Clearwater maintains an active currency management program to provide a degree of certainty to future Canadian dollar cash flows with respect to sales. In an environment where the Canadian dollar is weakening relative to currencies such as the U.S. dollar, European Euro, Pound Sterling and Japanese Yen, the exchange environment will serve to improve profits. In this environment with exchange rates moving in Clearwater's favor, the spot rate will be higher than the contracted rate in Clearwater's hedge agreements. As Clearwater records the change in the market value of these contracts as an adjustment to net earnings this can result in large non-cash losses or gains during periods of time when exchange rates are changing rapidly. During 2006, the Canadian dollar weakened significantly against the U.S. dollar, European Euro and Pound Sterling, the three currencies that account for the majority of Clearwater's sales and hedging activities.

The assumption implicit in marking foreign exchange option contracts to market is that the contracts will all be settled at a point in time in the future. However, for the majority of the options, the possibility of the option being exercised does not exist until certain trigger prices have been reached. Once triggered, whether or not a contract will be called depends on whether spot rates are in excess of contract rates at the time of maturity. Over the past number of years, we have had a large number of contracts that have never been exercised. However, to the extent that contracts are exercised, it will serve to mute or delay the positive impact of an improving exchange rate environment on Clearwater's financial results.

Over the longer term, should the weakening of the Canadian dollar persist, it may benefit Clearwater as approximately 80% of its sales are denominated in foreign currencies. For example, in the future, if Clearwater were to receive the spot rates in effect at the end of 2006, excluding the impact of any outstanding hedge contracts and assuming the same level of sales, it would realize approximately $5 million more in gross profit and net earnings as compared to 2006.

Excluding the impact of non-cash foreign exchange in 2006 and 2005 on net earnings, leverage decreased to 2.9 times debt to earnings before interest, tax, depreciation and amortization (EBITDA) as at December 31, 2006, down from 3.5 times as of December 31, 2005. As part of this strategy to reduce leverage levels, Clearwater Seafoods Income Fund (the "Fund") filed a normal course issuer bid by which it can acquire up to $5 million principal amount of convertible debentures in the 12-month period ending August 2007. During 2006, Clearwater repurchased and cancelled $3 million of the convertible debentures. An additional $1 million were repurchased in January 2007 bringing the total repurchased and cancelled since August 2006 to $4 million.

On February 19, 2007, the Fund successfully entered into an agreement with a syndicate of underwriters to issue to the public on a bought-deal basis, convertible unsecured subordinated debentures for gross proceeds of

$43,500,000 with attractive terms and conditions. In addition, the Fund has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase an additional $6,525,000 of debentures which, if exercised, would increase the gross proceeds of the offering to $50,025,000. The debentures will be convertible into units of the Fund (the "Units") at the option of the holder at a conversion price of $5.90 per Unit. Closing of the offering is expected to occur on or about March 9, 2007, subject to satisfaction of customary conditions including receipt of all necessary regulatory approvals. The net proceeds of the offering will be used to further enhance Clearwater's capital structure and more importantly to provide the flexibility to allow Clearwater to pursue potential accretive acquisitions that will be a strategic fit with its plan for growth.

In 2007, Clearwater expects continued solid performance. However, there will be more variability in our earnings on a quarter by quarter basis, particularly in the first part of the year, as a result of changing our policy for refit expenses to one where we will expense refits as incurred rather than accruing them in advance. Despite these changes, the expense for the full year should be comparable to what has been expensed in the past.

The core business remains healthy and with the strength of Clearwater's quota ownership, its significant investment in developing effective and efficient harvesting and production processes, and opportunities for acquisitions in a fragmented international seafood business, the outlook for 2007, as well as the longer-term, is positive. Clearwater's strategy continues to have a long-term focus, developing and maintaining the strong foundations Clearwater was built upon.

RISKS AND UNCERTAINTIES

The Fund is a limited purpose trust, which is entirely dependent upon the operations and assets of Clearwater. Cash distributions to unitholders are not guaranteed and depend on the ability of Clearwater to pay distributions on its partnership units. Clearwater's income and cash flow are generated from, and fluctuate with, the performance of its business, which is susceptible to a number of risks, including risks related to resource supply, food processing and product liability, suppliers, customers, competition and foreign exchange exposure and lawsuits in the normal course of business. For further disclosure of additional risk factors please refer to the Annual Information Form.

Resource supply

Clearwater's business depends on a continuing supply of product that meets its quality and quantity requirements. Water temperatures, feed in the water and the

presence of predators all influence the level of the catch and harvesting locations are not necessarily consistently successful from year to year. The availability of seafood in Canadian and Argentinean waters is also dependent on the total allowable catch allocated to Clearwater in a given area. Although the total allowable catch in these areas and Clearwater's enterprise allocations have been largely stable, fishery regulators have the right to make changes in the total allowable catch based on their assessment of the resource from time to time. Any reduction of total allowable catches in the areas from which Clearwater sources seafood, or the reduction of stocks due to changes in the environment or the health of certain species, may have a material adverse effect on Clearwater's financial condition and results of operations.

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

Foreign exchange

In excess of 80% of Clearwater's sales are in United States dollars and other currencies, whereas the majority of expenses as well as all of the cash distributions payable by the Fund and Clearwater are in Canadian dollars. As a result, fluctuations may have a material impact on Clearwater's financial results and the amount of cash available for distribution to unitholders.

Risks associated with foreign exchange are partially mitigated by the fact Clearwater operates internationally, which reduces the impact of any country-specific economic risks on its business. Clearwater also uses forward exchange contracts to manage its foreign currency exposures.

Clearwater's sales denominated in U.S. dollars were approximately 42% of annual sales in 2006. Based on 2006 sales and economic hedges in place on December 31, 2006, a one-cent change in the U.S. dollar as converted to Canadian dollars would result in a $1.1 million change in sales and gross profit. In addition, approximately 25% of 2006 annual sales were denominated in Euros. Based on 2006 sales and hedges in place on December 31, 2006, a one-cent change in the Euro as converted to Canadian dollars would result in a $0.5 million change in sales and gross profit. Also, 10% of 2006 annual sales were denominated in Japanese Yen. Based on 2006 annual sales, every one-twentieth of a cent change in the Yen as converted to Canadian dollars would result in a change of $1.5 million in sales and gross profit.

Food processing risks

Clearwater's food processing operations are subject to federal, provincial and local food processing controls, and may be impacted by consumer product liability claims, product tampering, and the possible unavailability and/or expense of liability insurance. A determination by applicable regulatory authorities that any of Clearwater's plants are not in compliance with any such controls in any material respect may allow regulators to shut down plant operations and may have a material adverse effect on Clearwater's financial condition and results of operations. In addition, negative publicity, significant decreases in demand, or increased costs associated with any of these circumstances may have a material adverse effect on Clearwater's financial condition and results of operations. Clearwater's operation of its facilities involves some risks, including the failure or substandard performance of equipment, natural disasters, suspension of operations and new governmental statutes, regulations, guidelines and policies. There can be no assurance that as a result of past or future operations, there will be no claims of injury by employees or members of the public.

Food processing and product liability risks are reduced through Clearwater's satisfaction of all Canadian Food Inspection Agency guidelines and through the strict implementation of quality control programs. These include HACCP (Hazard Analysis Critical Control Point) programs on Clearwater's sea- and land -based facilities. Clearwater's plants have been approved by some of the largest seafood purchasers in the world, including Sysco Corporation in the United States and Marks & Spencer in the United Kingdom. Clearwater processes a large portion of its products using frozen-at-sea technology, which also mitigates food processing and product liability risks because many of these products undergo minimal handling and are shipped directly from the vessel.

Suppliers, Customers and Competition

Consolidation among food distributors results in increased pressure on pricing and trade terms for food processors. Clearwater's operating costs may be negatively affected by increases in inputs, such as energy costs, raw material and commodity prices.

Clearwater uses fuel, electricity, air and ocean freight and other materials in the production, packaging and distribution of its products. Fuel and freight are two significant components of the costs of Clearwater's products and the distribution thereof. The inability of any of Clearwater's suppliers to satisfy its requirements or a material increase in the cost of these inputs may have an adverse effect on Clearwater's financial condition and results of operations.

The seafood industry is highly competitive in all of the markets in which Clearwater participates. Some of Clearwater's competitors have more significant operations within the marketplace, a greater diversification of product lines and

greater economic resources than Clearwater and are well established as suppliers to the markets that Clearwater serves. Such competitors may be better able to withstand volatility within the seafood industry and throughout the economy as a whole while retaining greater operating and financial flexibility than Clearwater. There can be no assurance that Clearwater will be able to compete successfully against its current or future competitors or that competition will not affect Clearwater's financial condition and results of operations. In addition, Clearwater typically does not have written agreements with its customers. Accordingly, a customer may decide to terminate its relationship with Clearwater on relatively short notice. The loss of significant customers may have a material adverse effect on Clearwater's financial condition and results of operations.

Risk associated with suppliers is mitigated through diversification of suppliers. Risk associated with customers is mitigated through diversification of the customer base. Clearwater has over 1,300 customers worldwide with no individual customer representing more than 5% of sales. Clearwater uses a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate credit risk associated with its customers.

Input costs

Clearwater used approximately 35 million litres of marine fuel oil in 2006. A change of one cent in the price of marine fuel oil would result in a change of approximately $350,000 to annual harvesting expenses.

TRANSACTIONS WITH RELATED PARTIES

Clearwater has transactions with related parties with which it has entered into joint venture agreements for the purpose of extending its harvesting and processing capacity.

The following is a summary of the transactions included in the financial statements for the year:

	2006	2005
Commissions charged to joint ventures	$ 1,625	$ 1,959
Interest charged to joint ventures (paid to)	(47)	(16)

The following is a summary of the balances due to and from joint venture partners as at December 31:

	2006	2005
Accounts receivable from joint venture partner	$151	$ 244
Accounts payable to joint venture partner	438	64

Due to joint venture partner	2,280	2,023

As at December 31, 2006, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of $5.6 million (2005 - $6.1 million). However, the joint venture partner's share of the assets is available for the purpose of satisfying such obligations. The book value of these assets is $15.7 million (2005 - $15.5 million).

In addition to the transactions and balances associated with related parties disclosed above, Clearwater had the following transactions and balances with Clearwater Fine Foods Incorporated ("CFFI") during 2006 and 2005:

	2006	2005
Transactions		
Charged by CFFI for use of a corporate airplane	252	65
Charged to CFFI for rent and other services	234	280
Charged by CFFI for management fees	200	90
Balances		
Receivable from CFFI (payable to)	(8)	639
Distribution payable to CFFI	1,169	-

In addition, Clearwater was charged approximately $139,000 for vehicle leases in 2006 (2005 - $ 175,000) and approximately $81,000 for other services (2005 - $51,000) by companies controlled by a relative of an officer of Clearwater. The receivable balance in 2005 relates to payments Clearwater remitted on behalf of CFFI and subsequently recharged the amounts to CFFI for certain professional services.

These transactions are in the normal course of operations and have been recorded at fair market value.

CRITICAL ACCOUNTING POLICIES

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and require management to make judgments based on underlying estimates and assumptions about future events and their effects. 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. Management believes the following are the most critical accounting policies and estimates used in the preparation of the consolidated financial statements. For information on other significant accounting policies see

the Accounting Policy notes to both Clearwater and the Fund's consolidated financial statements.

Impact of recently adopted accounting policies

Due to the increasing complexity of applying the accounting standards, as well as the requirement to adopt the Comprehensive Income accounting standard in the future, beginning the second quarter of 2006, Clearwater no longer designated contracts as hedges for accounting purposes. As a result, it recorded the fair value of these contracts as an asset ($1.9 million at April 1, 2006) with the offsetting gain deferred and amortized at that time. From that point forward these contracts were marked to market each reporting period and any gains or losses, both realized and unrealized, were included in foreign exchange income.

There have not been any other substantial changes to any of Clearwater's significant accounting policies in the past two years. During the course of the year, Clearwater reviewed all new accounting standards issued by the Canadian Institute of Chartered Accountants in order to determine the impact of the new standards, if any.

Impact of accounting policies to be adopted in the future

Financial instruments and comprehensive income

New standards will become effective for fiscal years beginning after October 1, 2006, or in Clearwater's case fiscal 2007, with respect to financial instruments and comprehensive income. As a result, Clearwater expects the following areas to be impacted in 2007:

- a "Statement of Comprehensive Income" will be included with the financial statements. This statement will include unrealized foreign exchange gains and losses related to a subsidiary company, which is a self-sustaining operation, and has been translated to Canadian dollars using the current rate method.

- Deferred financing costs, which approximated $2.8 million at December 31, 2006, will be netted against the related debt agreement and amortized using the effective interest method. This should not materially change reported earnings as these charges were previously amortized over the term of the related debt.

- There will be some additional disclosures required relating to the comprehensive income and financial instruments as a result of the above changes.

Refit accruals

In September 2006, the Financial Accounting Standards Board in the United States issued FASB AUG AIR-1, Accounting for Planned Major Maintenance Activities. This standard, which is effective January 1, 2007, amends the guidance for planned major maintenance activities; specifically it precludes the use of the previously acceptable "accrue in advance" method, the method currently used by Clearwater.

In the absence of specific guidance in Canada on this topic, we believe it appropriate to follow FASB AUG AIR-1 and therefore will adopt this standard on January 1, 2007. As a result of adopting this standard, we will reduce refit accruals by $4.9 million, reduce future tax assets by $295,000 and reduce the deficit by $4.6 million.

As a result of changing this policy, there will be more variability in our earnings on a quarter by quarter basis, particularly in the first part of the year.

Income taxes at the trust level

Pursuant to the draft legislation announced on October 31, 2006, and issued on December 15, 2006, specified investment flow-throughs ("SIFTS") will be taxed, beginning in 2011, on distributions paid to unitholders. This tax will be at a total combined rate of 31.5%. In light of this new tax on income trusts, the Fund will be required to record any future income tax asset or liability on the temporary differences related to its investment in Clearwater. As the new legislation has not been substantively enacted as of the financial statement date, this future income tax has not been recorded by the Fund. Assuming the new law relating to SIFTS is passed and the Fund is required to pay tax on a portion of its distributions in 2011, the following temporary differences and future income tax liability exists within the Fund as of December 31, 2006.

	Taxable temporary differences
Investment in Clearwater	10,445
Convertible debentures	570
Loss carry forwards	(7,746)
Total	3,269

Licenses

One of the key pillars of Clearwater's business is resource ownership. Ownership of licenses and quota (hereafter referred to as licenses) ensure continued access to the underlying resource. Clearwater owns underlying

licenses for a significant portion of the products that it sells. The net book value of the licenses as of December 31, 2006 was $102.7 million.

These licenses have indefinite lives and accordingly are not amortized but instead are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Clearwater believes the term of these licenses to be indefinite as they have nominal annual renewal fees, there is a low risk of non-renewal and the underlying species are healthy. The impairment test compares the carrying amount of the licenses with their fair value and license agreements with their net recoverable amount. An impairment loss would be recognized in income for any excess of the carrying value over fair value, which is based on estimated future cash flow multiples.

Estimating the net recoverable amount requires estimates of future cash flows, which are subject to management judgments concerning the health of the underlying resource, selling prices and operating costs. Should management determine that a license for a specific species was either fully or partially impaired, the underlying book value of the license would be written down or written off where appropriate. During 2005, a write down of $1.6 million for the impairment of shrimp harvesting contracts has been included in "gain on disposal and other, net" on the income statement for Clearwater Seafoods Partnership Limited. The value was adjusted based on declining margins associated with the shrimp harvesting contracts in the Canadian FAS shrimp business unit. A write down of $3.2 million was recorded in the Clearwater Seafoods Income Fund statements in 2005, also related to the shrimp harvesting contracts.

Property, plant and equipment

Clearwater's property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Clearwater believes the straight-line method is the most appropriate as Clearwater has historically spent significant amounts on the maintenance of its fleet and processing plants. Management determines the useful life based on prior experience with similar assets. However, the actual useful life of the assets may differ from management's original estimate due to factors such as technological obsolescence and maintenance activity. Clearwater reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. No impairments have been recorded for the current year.

Derivative financial instruments

Forward exchange contracts, interest rate swaps and cross currency swaps are used by Clearwater in the management of its foreign currency and interest rate

exposures. These securities are not accounted for as hedges and are recorded at estimated quoted market prices. For further information on these contracts please refer to the financial instruments section of this MD&A.

FINANCIAL INSTRUMENTS

As noted previously, forward exchange contracts, interest rate swaps and cross currency swaps are used by Clearwater in the management of its foreign currency and interest rate exposures.

Due to the increasing complexity of applying the accounting standards, as well as the requirement to adopt the Comprehensive Income accounting standard in 2007, beginning the second quarter of 2006, Clearwater no longer designated contracts as hedges for accounting purposes. As a result, it recorded the fair value of these contracts as an asset ($1.9 million at April 1, 2006) with the offsetting gain deferred and amortized. Since April 1, 2006, these contracts have been marked to market each reporting period and any gains or losses, both realized and unrealized, included in foreign exchange income.

Realized and unrealized foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to economically hedge anticipated U.S. dollar, European Euro, Pound Sterling and Japanese Yen denominated sales are recognized in the consolidated financial statements. At December 31, 2006, Clearwater had outstanding contracts for US $41.5 million (2005 – US $62 million), which expire in 2007. This represents approximately 38% of average 2006 annual sales as denominated in U.S. dollars. In addition, Clearwater has outstanding contracts for Euros € 9.6 million (2005 – € 12 million) that expire in 2007. Although Clearwater has no intention of settling these contracts, at December 31, 2006, Clearwater would have, if it settled these contracts, made a payment of $1.9 million (December 31, 2005 – received a payment of $ 7.9 million).

Clearwater also writes foreign currency options. Realized and unrealized gains and losses on these securities are included in earnings. At expiry of these contracts, Clearwater will either have no obligation or will be called to deliver foreign currency at a rate management deemed acceptable upon entering into these contracts. At December 31, 2006, Clearwater had outstanding contracts for U.S. $180 million (2005 - $230 million), 2,000,000,000 Yen (2005 – 1,000,000,000), Euros € 55 million (2005 – € 29 million) and Sterling 25.7 million (2005 – 5 million). The market value of these contracts at December 31, 2006 was a liability of $19.9 million (2005 – an asset of $0.3 million). This represents the potential net liability/asset in the event the contracts were closed. The liability recorded in 2006 is included in accounts payable and accrued liabilities and the asset recorded in 2005 is included in prepaids and other. For further details on these contracts please refer the note to the Annual Financial Statements entitled "Financial Instruments".

Clearwater uses interest rate swaps to hedge its exposures to changes in interest rates. The interest rate swaps and the cross currency swaps are not accounted for as hedges and realized and unrealized gains and losses are included in earnings. While Clearwater has no intention of settling these contracts at December 31, 2006, if Clearwater had settled these contracts it would have been required to pay $4.6 million (2005 - $563,000). Prior to the third quarter, the interest rate swaps were accounted for as hedges.

Clearwater is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties as Clearwater only deals with highly rated financial institutions.

SUMMARY OF QUARTERLY RESULTS

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

(In 000's except per unit amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2006				
Sales	$ 70,349	$81,312	$79,939	$84,136
Net earnings (loss)	979	11,507	8,106	(19,130)
Basic earnings per unit	0.02	0.22	0.15	0.03
Fiscal 2005				
Sales	$ 67,359	$ 69,712	$ 93,548	$ 84,220
Net earnings	1,645	1,371	12,136	4,721
Basic earnings per unit	0.03	0.03	0.23	0.09
Fiscal 2004				
Sales	$ 72,741	$ 85,038	$ 88,835	$ 98,845
Net earnings (loss)	(2,978)	8,760	15,138	16,553
Basic earnings (loss) per unit	(0.06)	0.17	0.29	0.31

Clearwater's business is seasonal in nature with sales typically higher in the second half of the calendar year than the first half of the year, a trend illustrated in the results above.

Net earnings also reflect some growth in 2003, 2004, 2005 and 2006 but have been impacted by changes in foreign exchange rates. The impact of the foreign exchange rates is clearly seen in the volatility of earnings in the quarterly results and in particular in the fourth quarter of 2006 which included large non-cash losses.

For a more detailed analysis of each quarter results please refer to our quarterly reports and our annual reports, which contains an analysis of the fourth quarter.

DEFINITIONS AND RECONCILIATIONS

Distributable Cash

Distributable cash is not a recognized measure under Canadian Generally Accepted Accounting Principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash is a useful supplemental measure as it provides an indication of cash available for distribution to readers seeking to assess the sustainability of distributions by comparing distributions paid to the amount of distributable cash. In addition, as distributable cash is a measure frequently analyzed for income trusts we have calculated the amount in order to assist readers in facilitating this review. Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation of distributable cash

($000's except per unit amounts)	13 weeks ended December 31, 2006	13 weeks ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Cash flow from operating activities	$ 4,891	$ 7,983	$ 44,648	$ 36,142
Add (deduct):				
Change in non-cash working capital [A]	4,655	1,466	6,428	(1,557)
Minority share EBITDA, int., taxes [B]	(1,707)	(706)	(7,625)	(3,680)
Proportionate maint. capital [C]	(678)	(227)	(1,950)	(2,454)
Gain (loss) on disposal P,P,E /licenses [D]	76	(546)	850	(1,246)
Distributable cash	$ 7,237	$ 7,970	$ 42,351	$ 27,205
Distributions [E]	$ 7,919	$ -	$ 15,837	$ 27,367
Payout ratio	*109%*	*-%*	*37%*	*101%*

A. Change in non-cash working capital is excluded as changes in working capital are financed using Clearwater's debt facilities.

B. Minority share in EBITDA, interest and taxes represents cash flows attributable to the minority interest in certain non-wholly owned subsidiaries. It is the minority partner's interest in the earnings before interest, taxes, depreciation and amortization of the subsidiaries less their proportionate share of the interest and taxes.

C. Proportionate maintenance capital represents capital expenditures that are related to sustaining existing assets rather than expansion or productivity improvement.

D. Gains and losses on property, plant and equipment are added back (deducted) unless they are unusual, non-recurring transactions. During the course of operating the business Clearwater will typically realize gains and losses from the turnover of assets, which occurs frequently due to Clearwater's focus on innovation. During the second and third quarters of 2006 gains of $1.2 million and $3.1 million of losses associated with exiting of a plant (2005 gains of $5.6 million) were excluded from the calculation of distributable cash as they pertained to the sale of assets that did not relate to the typical turnover of assets.

E. There were no distributions for the first or second quarter of 2006. Distributions paid in the first three quarters of 2005 consisted of payment of 21 cents/unit on 43,436,356 unsubordinated units (no payments were made on 9,352,487 subordinated units).

Clearwater's business is seasonal in nature with the result being lower amounts of distributable cash typically generated in the first half of the year.

Gross Profit

Gross profit consists of sales less harvesting, production, distribution, and manufacturing costs.

Earnings before interest, tax, depreciation and amortization (EBITDA)

Note: During the current quarter non-cash foreign exchange losses and gains have been backed out of the calculation of EBITDA due to the significant unrealized loss in 2006.

Earnings before interest, tax, depreciation and amortization (EBITDA) is not a recognized measure under Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes EBITDA to be a useful term when discussing liquidity. In addition, as EBITDA is a measure frequently analysed for public companies we have calculated the amount in order to assist readers in facilitating this review. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Reconciliation of the current quarter and preceding three quarters EBITDA

($000's)	December 31 2006	December 31, 2005
Net earnings	$ 1,463	$ 19,873

Add:		
Minority interest	5,633	3,398
Income taxes	3,853	2,975
Reduction in foreign currency translation	2,369	1,236
Foreign exchange and derivative loss (income) unrealized	23,030	(3,598)
Depreciation and amortization	14,766	15,400
Interest on long term debt	13,110	12,450
Bank interest and charges	953	786
EBITDA	$ 65,177	$ 52,520

Leverage

Leverage is not a recognized measure under Canadian GAAP 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. In addition, as leverage is a measure frequently analysed for public companies we have calculated the amount in order to assist readers in facilitating this review. Leverage should not be construed as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

Leverage is calculated by dividing the current and preceding three quarters EBITDA by the total debt on the balance sheet adjusted for cash reserves, cash and currency hedges for the Iceland debt for the period.

($000's)	December 31, 2006		December 31, 2005	
EBITDA		$ 65,177		$ 52,520
Total debt (per below)		187,619		183,601
Leverage		2.9		3.5
Debt per balance sheet		190,260		194,445
Adjust ISK denominated bond to swapped value:				
Less Iceland bond	(46,795)		(46,873)	
Estimated payment for Iceland bond	47,004	209	45,755	(1,118)
Reduce cash by unreserved cash				
Less cash balance	(10,850)		(9,726)	
Add cash reserve for new vessel	8,000	(2,850)	-	(9,726)
Net debt for leverage		187,619		183,601

Estimated payment for Iceland bond when considering currency swaps
December 31, 2006 and December 31, 2005

December 31, 2006

Currency	Amount	Current rate	Canadian $
Canadian	$25,000	1.000	$25,000
US	$9,708	1.1653	11,313
Euro	2,500	1.5377	3,844
Sterling	3,000	2.2824	6,847
			$47,004

December 31, 2005

Currency	Amount	Current rate	Canadian $
Canadian	$25,000	1.000	$25,000
US	$9,708	1.163	11,290
Euro	2,500	1.381	3,453
Sterling	3,000	2.004	6,012
			$45,755

Earnings before non-cash foreign exchange

Earnings before non-cash foreign exchange is not a recognized measure under Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that earnings before non-cash foreign exchange is a useful supplemental measure as it provides an calculation of earnings in the absence of significant non-cash foreign exchange adjustments. Earnings before non-cash foreign exchange should not be construed as an indicator of performance, as a measure of liquidity or as a measure of cash flows and management does not use this measure as a performance measure of earnings.

($000's)	December 31, 2006	December 31, 2005
Net earnings	$ 1,463	$ 19,873
Add:		
Foreign exchange and derivative loss (income) unrealized	23,030	(3,598)
Net earnings before non-cash foreign exchange	$ 24,493	$ 16,275